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ANALYSIS

How Washington Learned to Stop Worrying and Embrace Protectionism

Biden's embrace of Trump-era tariffs is emblematic of a broader change in U.S. thinking on trade—and toward China.

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Shortly before the U.S. presidential race turned upside down (the attempted assassination of Republican nominee Donald Trump) and upside down again (President Joe Biden dropping out) and upside down again (Vice President Kamala Harris surging in polls compared to Biden), the president made a decision that upended decades of Democratic White House rule. He ordered heavy new tariffs on Chinese imports of high-tech items and continued the massive tariffs he inherited from his Republican predecessor.

The significance of the moves—and the challenge that it presents to Biden's successor—was obscured by the roller-coaster news cycle. But it bears noting: The Biden administration is the first since at least President John F. Kennedy's time to fail to negotiate a major free trade deal, instead embracing tariffs. Even Trump, the self-proclaimed "Tariff Man," concluded a significant free trade pact when he replaced the North American Free Trade Agreement with a U.S.-Mexico-Canada deal (USMCA), which toughened rules on auto imports but established liberal rules on digital trade. He also negotiated a smaller digital agreement with Japan.

To get a sense of the change in policy approach under Biden, look back at the tenure of Kennedy, who Biden idolized as a young man. Seeking to contain the threat from the United States' greatest rival at the time, the Soviet Union, JFK turned to free trade. He pushed the Trade Expansion Act of 1962 through Congress, which gave him the tariff-slashing authority to negotiate trade deals with countries that might be tempted to line up with Moscow.

"A vital expanding economy in the free world is a strong counter to the threat of the world Communist movement," Kennedy said when he signed the bill into law.

Sixty-two years later and facing this century's existential challenger, China, Biden has also cited foreign-policy concerns as central to his view on trade. But Biden flipped Kennedy's reasoning on its head, arguing that trade protection—not liberalization—is essential to competing with the United States' top rival, China.

"My administration is combining investments in America with tariffs that are strategic and targeted," Biden said in May, explaining why he sought to block Chinese imports of electric vehicles, semiconductors, and other products deemed crucial to American security.

The turnabout is emblematic of a broader change in the U.S. economic and political thinking that is unlikely to be reversed under either a President Trump or Harris. The era of hyperglobalization, which began around 1990 and saw global trade jump by 60 percent in 20 years as supply chains spread across the earth like spiderwebs, has come to an end. We are now in an era of growing protectionism, and as trade growth has stalled, the United States and many other advanced economies have hiked tariffs and begun subsidizing industries that they view as critical to their well-being.

The primary reason for the U.S. turn to protectionism is the growing economic and military challenge from China. But it also reflects a profound change in ideology: The gains from trade—lower prices, overall improvements in living standards, greater competition—are no longer seen by many political leaders as worth the downsides in the loss of manufacturing jobs, dependence on imports from adversaries such as China and Russia, and political polarization. The Trump administration, packed with anti-free traders, gave a big push to this neo-protectionism; the Biden administration has confirmed and deepened the shift.

Biden's team includes people who spent decades campaigning for free trade and have now embraced protection, including Treasury Secretary Janet Yellen, National Security Advisor Jake Sullivan, and Biden himself.

How did the dramatic turnaround in perspective happen—and so quickly, too?

Before Biden took office, his advisors were already rethinking trade policy. Sullivan was a senior official in the Obama White House that made the Trans-Pacific Partnership (TPP), a proposed trade deal with a dozen Asia-Pacific nations, the heart of its economic policy in Asia. Sullivan later served as then-Vice President Biden's top security aide and, his colleagues say, shared Biden's view that the TPP was important strategically to strengthen ties with Asia.

After a stint as then-Democratic presidential candidate Hillary Clinton's chief foreign policy advisor during the 2016 campaign, in which she renounced her support for TPP, Sullivan also broke with the free trade model. In a 2020 *Foreign Policy* article co-written with Jennifer Harris, a former Clinton aide who unsuccessfully lobbied for tougher anti-China provisions in the TPP, the pair argued that trade deals too often had helped mainly big business, not workers.

"Why, for example, should it be a U.S. negotiating priority to open China's financial system for Goldman Sachs?" they wrote.

"The 2016 election had a big impact" on Sullivan, said Sarah Bianchi, a former Biden vice presidential aide who more recently served as the deputy U.S. trade representative. "There's no question he thought our party was missing something about the Midwest and its economy."

Translating free trade skepticism into policies, though, proved difficult and led to battles within the administration. Biden had inherited from Trump, who withdrew from the TPP in 2017, a "phase one" trade deal with China where Beijing committed to making huge purchases of U.S. goods but didn't follow through. To keep pressure on China, Trump had slapped steep tariffs on some three-quarters of everything that China sold to the United States.

During early virtual conversations held by Yellen and U.S. Trade Representative Katherine Tai—in-person meetings were still off-limits because of the COVID-19 pandemic—the Chinese said they were ready to make the purchases, but only if the United States scrapped nearly all the tariffs. Though Biden had derided the tariffs during his 2020 presidential campaign for harming consumers, his team wasn't ready to drop them without a political payoff.

"It was a nonstarter," said a former Biden official. "They were demanding more from us than we were willing to pay."

Still, plenty of Biden advisors, especially at the Treasury Department, wanted to dump the tariffs when inflation rocketed to 9 percent in 2022 and the administration was in "super inflation freakout mode," in the words of one former official. Yellen, who has bristled at times at being ignored by Biden's inner circle, led the charge on tariff cutting and could count on ammunition provided by the pro-free trade Peterson Institute for International Economics, which calculated that canceling the Trump tariffs would reduce inflation by as much as 1.3 percentage points.

Explaining her views, Yellen would tell colleagues that economists like her were brought up to believe that if a company wanted to export to the United States at below-market prices, "we should buy the goods and send a thank-you note," according to those with whom she met, although she was rethinking that view.

Yellen made sure that her views got a public hearing, telling reporters that cutting tariffs would help fight inflation. Daleep Singh—then a deputy national security advisor for international economics—joined in, complaining the tariffs served "no strategic purpose." In May 2022, the president confirmed that the administration was debating tariff cuts in an attempt to determine "what would have the most positive impact."

But Yellen's free trade push fizzled over the following six months. Administration economists tore into the Peterson numbers, concluding that cutting tariffs would have at most an impact of 0.25 percentage points. Importers had already found alternative suppliers outside of China, even if they were sometimes Chinese-owned factories in Vietnam and Mexico. Those suppliers didn't need to pay the levies.

Before the administration would cut any tariffs, though, it also wanted China to eliminate retaliatory tariffs that it had imposed during the Trump trade war. As then-U.S. House Speaker Nancy Pelosi readied a trip to Taiwan and the two countries clashed over other issues, Beijing wouldn't reciprocate. "It was a timing mismatch," Bianchi said.

Politically, cutting tariffs was a losing strategy. Republicans were bound to attack the administration as weak on China, but according to former administration officials, conversations with retailers made clear that Biden wouldn't get credit for cuts.

By the end of 2022, the administration was making a very different push: fight China by blocking exports of advanced manufacturing equipment and semiconductors to Beijing while revving up U.S. manufacturing. In many ways, that was a continuation of the Trump policy of seeking to deny advanced chips to Chinese companies; blocking Huawei Technologies Co. from cornering the global market for 5G telecommunications; and wooing Taiwan Semiconductor Manufacturing Co., a global leader in the technology industry, to build semiconductor factories in the United States.

"China has not been a responsible stakeholder in the sense of abiding by the rules of the road on trade," said a Biden White House official.

Biden won congressional approval to spend as much as $600 billion in the coming years to subsidize companies that build factories domestically to make semiconductors, electric vehicles, electric batteries, and other green technologies.

In an April 2023 talk at the Brookings Institution, Sullivan, working again with his *Foreign Policy* co-author Jennifer Harris, made clear the shift away from traditional free trade thinking. "In today's world, trade policy needs to be about more than tariff reduction," he said. "Trade policy needs to be fully integrated into our economic strategy, at home and abroad."

Peter Harrell, the White House's former senior director for international economics, said the change marks a fundamental rethinking of U.S. trade policy. "We are in an era of geopolitical competition with China," he said. "That means we aren't going to accord China the same trading privileges and rights" accorded to allies—despite World Trade Organization requirements to treat members equally.

The director of the White House's National Economic Council, Lael Brainard, pushed for a 100 percent tariff on Chinese electric vehicles, fearing that the current 25% levy, wasn't enough to block low-cost Chinese cars. The idea was to send a signal to Beijing that the U.S. was serious about its subsidy program and wouldn't let Chinese EVs undermine the U.S. auto sector, said a senior administration official.

The shift presented Yellen with a very different challenge to tariff cutting. The U.S. Treasury was responsible for writing many of the subsidy regulations and figuring out how to deal with Chinese imports that could still undersell U.S.-made semiconductors, solar panels, and other goods while hundreds of billions of dollars were spent on subsidies. As a percentage of GDP, China spent 12 times as much as the U.S. on subsidies in 2019, according to estimates made by Scott Kennedy, a China scholar at the Center for Strategic and International Studies. On EV subsidies alone, he calculated, China has spent $231 billion in the past 15 years. Based on his figures, the Biden subsidy plan will do little to close that gap.

As the administration considered raising tariffs, Yellen dove into the numbers again, but this time with a different issue in mind—determining how China was using subsidies, low-cost loans, and other policies to dominate the markets for semiconductors, solar energy, critical minerals, and other industries that Washington considered crucial for its economic and national security.

Economists at the Treasury Department, the National Economic Council, and other agencies examined the Chinese economy sector by sector to understand how Beijing's policies spurred massive overproduction and rock-bottom prices that drove foreign competitors out of business. For instance, loans from state-owned banks that had once gone to support Chinese real estate developers and created a property bubble were now being directed to manufacturers. As a result, the U.S. Treasury calculated that China's factories could produce two or three times the global demand for lithium-ion batteries and solar modules necessary to achieve net-zero emissions by 2050. The share of Chinese firms losing money, meanwhile, had risen to its highest level since 2001, the Treasury found.

"If Chinese firms are subsidized heavily enough, and China is supporting its firms even when they are losing money and there's a global crash in prices, the question is who can survive it longer," said a senior Treasury Department official who fed data to Yellen. "The answer is China."

Yellen, the onetime free trader, became the administration's point person in trying to ease tensions with China on economic issues, although the push for tariffs, driven by the White House, complicated her China work. Part of her message to Beijing was a warning that if China didn't change its policies, it was bound to lead to a reaction from Washington. After huddling with Chinese Vice Premier He Lifeng in Beijing this past April, she told reporters, "When the markets weaken, prices fall, [and] it's our firms that go out of business. ... Chinese firms continue to receive support so that they remain in."

Around the same time, she told the *Wall Street Journal* that she no longer says "thank you" for cheap imports.

From that conclusion, it was a short leap to supporting tariffs. "Once you give money, you have to protect the investment," because the subsidies alone aren't sufficient to compete with low-cost Chinese imports, said Mary Lovely, a Peterson Institute economist. Lovely added that the bill to consumers will continue to climb.

Still, the White House was determined to move ahead. Two weeks after Senate Majority Leader Chuck Schumer and six other Democratic senators sent a letter to the White House on May 1 arguing to keep China tariffs in place, the administration pulled the trigger on them.

The tariff decision had two parts. First, the administration decided not to drop any of the existing Trump tariffs, a decision that Yellen signed on to despite months of pushing for cuts early in Biden's tenure. China's behavior hadn't changed over that tenure, said a senior Treasury official, so why make any concessions—especially one that was bound to be criticized by Republicans and even some Democrats? There was little push to cut tariffs simply to save consumers some money, a long-standing rationale for free trade.

"It boils down to the fact that the economic juice [from cutting tariffs] was not worth the political squeeze," said Evan Medeiros, a Georgetown University China expert who had been an official on Obama's National Security Council.

In the second part of its decision, the administration ramped up some tariffs to block Chinese imports in areas where the United States was spending billions of dollars on subsidies to create or strengthen a domestic industry. Tariffs were quadrupled to 100 percent on Chinese electric vehicles this year, as Brainard had advocated, doubled to 50 percent on Chinese semiconductors and solar cells, either this year or next, and tripled to 25 percent on EV batteries this year. Even low-tech Chinese syringes, which had previously been shipped duty-free, now face 50 percent tariffs as a spur to boost domestic production.

The estimated $18 billion in trade affected by the Biden tariffs came on top of hundreds of billions of dollars of Chinese goods that had already been targeted. While Trump sought to block goods already being imported from China, Biden is aiming to head off a future surge of Chinese EVs, batteries, and semiconductors. Tariffs can give domestic suppliers fatter margins and more incentive to invest at home, many economists argue, but they also stymie competition and boost ptrrices for consumers.

Should Donald Trump retake the presidency, he is pledging to go a big step further. He will impose tariffs steeper than they have been since the Smoot-Hawley era of the 1930s—that's according to calculations made by political analysis group Evercore ISI.

While Kamala Harris hasn't focused on trade during her political career and has criticized Trump's plans for a 10 percent or 20 percent across-the-board tariff as a "national sales tax," she has shown sympathy for a trade restriction.

"Vice President Harris will employ targeted and strategic tariffs to support American workers, strengthen our economy, and hold our adversaries accountable," said a Harris campaign spokesman.

As a Senate candidate, she opposed the TPP. In Washington, she was one of only 10 senators to vote against the USMCA, arguing that it lacked sufficient environmental enforcement. "By not addressing climate change, the USMCA fails to meet the crises of this moment," Harris said at the time.

Her personnel choices are also significant, said Todd Tucker, an industrial policy expert at the liberal Roosevelt Institute. One of her chief economic aides as vice president, Mike Pyle, played an important role crafting trade and subsidy policy toward China. After Pyle got a senior position at the National Security Council, she later hired Carolina Ferrerosa Young—a former aide to Ohio Sen. Sherrod Brown, a longtime proponent of protection.

Tariffs are necessary, Tucker said, to make sure investments in the green technology that Harris supports aren't "wiped out by Chinese imports."

“In the early 2000s, the idea was that to succeed in the world economy, you had to converge to an idealized version of the U.S. market,” said Brad Setser, a former senior advisor to Biden’s U.S. trade representative. “That clearly wasn’t accepted in China. Now everyone is trying to adjust to a world where China’s state capitalism isn’t fading away.”

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