



PURDUE

AGRICULTURAL ECONOMICS REPORT

Title: 2021 Trade Policy Outlook: What should we expect from a Biden Administration?
Author: Russell Hillberry
Series/Article ID: *Ag Outlook for 2021; PAER-2020-20*
Date: December 3, 2020
Tags: Trade, policy, international trade
Summary: U.S. international trade policy played a surprisingly small role in the presidential election campaign. What changes to trade policy should we expect from President-elect Biden?

2021 Trade Policy Outlook: What should we expect from a Biden Administration?

The near absence of a debate over U.S. international trade policy in the recently concluded Presidential election campaign was surprising. President Trump, the self-proclaimed “Tariff Man,” broke sharply with a decades-long, bipartisan approach to U.S. international trade policy. By contrast, President-elect Biden has a long history of support for this broad consensus, which has favored US leadership of allied countries in the creation of a mutually interdependent and more prosperous world. Given their sharp differences over trade policy - both in style and in substance - one might therefore have expected trade policy to play a bigger role in the election campaign.

In the trade policy outlook for 2021, the primary question is, “what should we expect President Biden’s trade policy to look like?” This question is not all that easy to answer. As a candidate, Biden made some commitments on trade policy, but these specific promises may be difficult to implement without unified Democratic control of Congress. On the more pressing issues of how to manage the trade policy situation left by President Trump, Joe Biden the candidate offered some generalities, but avoided specifics. This review is therefore somewhat speculative, and based on my own reading of the situation.

Perhaps the key thing to understand about President Trump’s trade policies is that most were implemented without the participation of Congress. This means that these policies should be rather easy for President Biden to reverse, at least from a legal point of view. Although President Biden should be expected to reverse many of President Trump’s policies over the course of his administration, it is unlikely that he will undertake the whole of this task immediately. He has other priorities that will take precedence over trade policy. He also has an opportunity to exploit the flexibility that President Trump has left him in this area.

U.S. tariffs on goods from Europe and other traditional allies

International trade policy is not only an economic policy, it is also an important component of U.S. Presidents' foreign policy toolbox. One of the sharpest departures President Trump took from the pre-existing U.S. trade policy consensus was the 2018 decision to use a national security exception in US trade law to impose taxes on imports of aluminum and steel.

Controversially, traditional U.S. allies were included in the list of countries whose exports would be taxed. The European Union, among others, responded to these tariffs by placing retaliatory tariffs on US exports, including exports of agricultural products. While longstanding trade frictions between the US and EU will remain (e.g. the appropriateness of subsidies paid to Boeing and Airbus), President Biden has made it clear that he plans to seek a rapprochement with the EU and other allied countries. It is likely that negotiations to reduce the tariffs imposed during the Trump administration – in both directions – will be one of the earliest significant trade policy changes undertaken by the Biden Administration. Reducing frictions with traditional US allies would also facilitate other trade policy actions that President Biden hopes to undertake.

Rebuilding US influence at the World Trade Organization (WTO)

In the case of international trade policy, President Trump's general hostility towards international institutions manifested itself as a unilateral US effort to hamstring the WTO's mechanism for resolving trade disputes among its members. More recently, the administration has delayed the selection of a new Director General for the WTO, despite the leading candidate's widespread support from countries that are often aligned with the U.S. Traditional American thinking on the subject sees the multilateral trading system, now represented by the WTO, as an important achievement of both US foreign and economic policy. In his long Senate career, President-elect Biden showed a keen interest in US foreign policy issues, and was typically a backer of the broad bipartisan consensus on US international trade policy. It is likely that he will take a much more cooperative approach than President Trump did at the WTO. That said, there are a number of issues regarding WTO operations that US policymakers had sought to address even before President Trump took office. Expect President Biden to pursue similar WTO reforms as President Trump did on these issues, but to use a much more cooperative approach in his pursuit of these changes.

Trans-Pacific Partnership

The most substantial trade policy goal of the Obama administration was the negotiation of the "Trans-Pacific Partnership (TPP)," a preferential trade agreement involving the United States and 11 other countries from North and South America and Asia. The economic objectives of the agreement included increased access of US ag products to large markets in Asia, among other things. The agreement also provided a strategy for reducing the influence of China, and/or encouraging China to change its trade policy stance (if it wanted to accede some day). Despite these benefits, President Trump decided not to submit the negotiated agreement to Congress. The other 11 members of the agreement went ahead with a slightly modified agreement, and remain open to US accession to this group.

As a member of the Obama Administration, then Vice-President Biden supported the TPP. As a Presidential candidate, he said that he supported the overall concept, while also saying that he would want to renegotiate specifics. Accession to the TPP is perhaps the most straightforward way that President Biden could significantly expand US agricultural exports. But the domestic politics of joining the TPP are likely to be quite tricky. It is unlikely that there will be much

support for such a move on the Democratic side of the aisle; and President Trump's fierce hostility to the deal may also make it difficult to assemble Republican votes. It is therefore unlikely that US accession will happen early in Biden's term, if it happens at all.

China

For the foreseeable future, the most difficult trade policy issue facing US Presidents will be China. Officials in the Trump Administration shared many of the same concerns about China as earlier administrations. These concerns included China's failure to abide by commitments it had made to protect intellectual property rights, and the significant ongoing role of state-owned enterprises in the Chinese economy. The concerns are shared by leaders of many countries, especially leaders of other prosperous countries. President Trump decided to try to change China's behavior without the help of those allies, unilaterally imposing U.S. tariffs on Chinese goods. Those tariffs generated retaliation from China, including tariffs on US exports of soybeans and other agricultural goods. President Trump's "phase-one" agreement with China was mostly a face-saving exercise that offered China a cease-fire in exchange for purchase commitments that went unmet.

Expect President Biden to eventually refocus attention on the issues that initially motivated the dispute: intellectual property rights, state owned enterprises, etc. While President-elect Biden's goals might be quite similar to President Trump's initial rationale for the trade war, the strategic approach to addressing these issues will be very different. Biden will almost certainly abandon Trump's go-it-alone strategy; seeking instead to coordinate an international response, possibly through the WTO. But it is also likely that a President Biden will use the existing tariffs as leverage to pursue his agenda. The key change in this regard might be that a President Biden will be less focused than President Trump was on using this leverage to increase sales of agricultural products. He is more likely to focus on the initial sources of friction: intellectual property protection and state-owned enterprises.

Market Facilitation Program payments

Exporters of agricultural products to China suffered collateral damage as a result of the trade war. A key way that President Trump sought to mitigate this damage was to use discretionary powers to channel funds from the U.S. government's Commodity Credit Corporation to make payments to farmers of crops that faced increased Chinese tariffs. Although these payments are not a trade policy, *per se*, President Trump clearly linked this policy to the trade war and so we include it here. These payments were made under the President's discretion, which would seem to leave the decision to reduce or eliminate these payments in the hands of President Biden. It seems likely that a President Biden will reduce or eliminate these payments, relative to their current levels. Reduced payments under the program, together with a reorientation away from domestic ag exports as the focus of short-term policy toward China, will be a double-edged sword for producers of the affected commodities.

Buy American

The most prominent of Presidential candidate Biden's trade policy proposals was a plan to increase the share of US-produced content in US government purchases. The proposal is likely to conflict with existing US commitments, at the WTO and in other US trade agreements. If implemented on a significant scale, the Buy America plan may complicate Biden administration objectives mentioned earlier, especially the more collaborative approach he plans to take with US allies. It is unclear whether such a proposal would have significant direct effects on US

agriculture; it is likely to have its biggest impact on US infrastructure investments. If implemented, and found to be inconsistent with WTO rules, a change to the Buy America program might draw retaliatory tariffs that once again hit US agriculture. It does seem, however that this plan is a Biden priority; he mentioned it prominently in the first presidential debate. Expect the Biden administration to pursue this policy almost immediately, but significant changes will likely require Congressional approval.

Carbon tariffs

Another trade policy area that was prominent in the Biden campaign was a plan to impose tariffs on exports of countries that lack carbon taxes or other limits on carbon emissions. This kind of plan would make most sense only after the US put in place a comprehensive plan to address climate change; something that may be unlikely to happen if Republicans control the Senate. An interesting aspect of the issue surrounding carbon tariffs is that the same “national security” clause that President Trump used to implement tariffs on Aluminum and Steel might offer President Biden the authority to impose carbon tariffs without Congressional approval. It does seem that addressing climate change is a high priority for the Biden administration. He may seek to use this authority as part of those efforts, though carbon tariffs would be most effective as part of a comprehensive plan to “price” carbon emissions, which would require action by Congress.