Before the Office of the United States Trade Representative (USTR)

Docket Number USTR-2025-0001

"Request for Comments to Assist in Reviewing and Identifying Unfair Trade Practices and Initiating All Necessary Actions to Investigate Harm from Non-Reciprocal Trade Arrangements"

Written Comments from Rethink Trade

March 11, 2025

Rethink Trade thanks the U.S. Trade Representative Office (USTR) for the opportunity to submit comments with regard to the Trump administration's review of unfair trade practices and investigation of harm from non-reciprocal trade arrangements.

Rethink Trade is a program of the American Economic Liberties Project (AELP). AELP, a non-profit research and advocacy organization, is a thought leader in the anti-monopoly movement and promotes policy changes to address today's crisis of concentrated economic power. Rethink Trade's mission is to replace decades of trade policies captured by the largest multinational corporations with those that can deliver broader public interest outcomes that benefit American workers, farmers, consumers, and smaller businesses. This includes creation and support of good union jobs with workers empowered to earn decent wages, the public health and safety delivered by strong consumer and environmental standards, the security of resilient supply chains, the innovation and competition provided by fair markets, and the ability for those who will live with the results to decide the policies affecting their lives.

We commend the Trump administration's interest in a radical rethink of the existing international trading system. The current model of international trade, as implemented through the creation of the World Trade Organization (WTO) and adoption of various free trade agreements (FTAs) approved by Congress, has left the United States with a chronic and growing trade deficit in goods,[1] significantly lower and stagnant employment in manufacturing,[2] and a

---

[1] "Trade Balance: Goods and Services, Balance of Payments Basis," Federal Reserve Bank of St. Louis, accessed March 6, 2025, https://fred.stlouisfed.org/series/BOPGSTB.

[2] "All Employees, Manufacturing/All Employees, Total Nonfarm," Federal Reserve Bank of St. Louis, accessed March 6, 2025, https://fred.stlouisfed.org/graph/?g=1Gor.

loss of manufacturing capacity to mercantilist countries around the globe, most prominently China.[3]

Since the U.S. Congress refused to enact the Trans-Pacific Partnership Agreement in 2015, the Trump and Biden administrations have in some respects departed from the neoliberal hyperglobalization model that has come to define U.S. trade policy. President Trump's first-term efforts included reducing the WTO's enforcement capabilities by blocking appeals judge appointments;[4] imposing tariffs on two-thirds of all imports from China to the United States and on steel and aluminum imports;[5] and negotiating the United States-Mexico-Canada Agreement (USMCA) to include the world's strongest mechanism to enforce labor rights and remove foreign investor protections that could facilitate job offshoring.[6] The Biden administration maintained many of these tariffs and raised some of the rates, while adding new tariffs on solar equipment and medical supplies as it promoted an industrial policy agenda of tax incentives for manufacturing investment and consumer demand for domestic goods. It sustained the freeze on WTO enforcement and eliminated certain "digital trade" rules proposals that could have undermined U.S. sovereignty, consumers' right to repair and their privacy, data security, and the competitive market conditions that allow innovative U.S. firms to thrive.

Despite these efforts, the majority of U.S. and global trade still takes place under a system made to protect multinational capital from democratic accountability. Moreover, this system—developed by and for multinational corporations—has been unable or unwilling to address the mercantilist practices employed by several countries to give artificial export advantages, such as widespread industrial subsidies, currency manipulation to gain trade advantages, and policies that weaken domestic demand including the suppression of wages.

In designing an approach that can remedy these problems, it is imperative that the Trump administration:

---

[3] David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," *National Bureau of Economic Research*, January 2016, https://www.nber.org/papers/w21906.
[4] Tom Miles, "U.S. Blocks WTO Judge Reappointment as Dispute Settlement Crisis Looms," *Reuters*, August 27, 2018, https://www.reuters.com/article/world/us-blocks-wto-judge-reappointment-as-dispute-settlement-crisis-looms-idUSKCN1LC19N/.
[5] "USTR Finalizes Tariffs on $200 Billion of Chinese Imports in Response to China's Unfair Trade Practices," Office of the United States Trade Representative, September 18, 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200.
[6] "Labor Rights and the United States-Mexico-Canada Agreement (USMCA)," U.S. Department of Labor, accessed March 6, 2025, https://www.dol.gov/agencies/ilab/our-work/trade/labor-rights-usmca; Christopher A. Casey and M. Angeles Villarreal, "USMCA: Investment Provisions," *Congressional Research Service*, January 8, 2020, https://crsreports.congress.gov/product/pdf/IF/IF11167.

- differentiates actual unfair trade practices employed by other countries, including discriminatory policies, from legitimate regulatory actions implemented in other countries, especially those that resemble U.S. domestic policies with broad bipartisan support;

- focuses on countering the mercantilist economic and trade models that have prevailed during the past decades, generating harm for workers, farmers, and small businesses both in the United States and the rest of the world instead of singling out various specific regulatory actions in numerous other countries that some U.S. business interests may not like; and

- prioritizes the products and economic sectors of greatest importance to our national well-being and security and the countries and companies for which use of unfair trade practices poses the greatest harm to the U.S. national interest.

We will never export our way out of the huge trade imbalance that has done considerable harm across the United States by targeting specific regulations or even tariffs in other countries. Nor will we enhance the national interest by attacking non-discriminatory domestic regulatory policies in other countries that are disfavored by specific U.S. economic interests. Rather, we urge the USTR to focus on promoting the broad national interest by targeting the mercantilist practices of the chronic global trade-surplus countries that have flooded not only the United States but numerous other countries with unfair imports.

This submission includes:

- A reflection on the proper standard to identify unfair trade practices and trade barriers, which should focus on identifying policies premised on nationality-based discriminatory intent rather than policies that may have disparate effects on the goods or firms of different countries. This is the standard that the administration should use when assessing other countries' digital policies.

- A vision of how to tackle the most problematic elements of the existing multilateral trading system, i.e., the mercantilist economic model of a handful of countries that leverage access to international markets to artificially boost exports to the detriment of workers both in the United States and abroad.

1. **In Conducting Its Reciprocal Trade Analyses of Countries' Non-Tariff Policies, USTR Should Focus on Discriminatory Policies, Not Nationality-Neutral Policies that May Be Different than U.S. Policy or that May Have Disparate Impacts.**

Non-discrimination is a longstanding fundamental principle of trade that must guide the U.S. reciprocal trade analysis and reports. In their most basic form, non-discrimination standards

require countries to treat products the same regardless of their national origin. When applied to trade in goods, that means a country must provide an imported good with the same treatment it gives to its own producers' "like" goods and also not treat the imported goods from one country differently than from another country. For instance, if a country requires driver and passenger dashboard airbags in domestic automobiles, it can do the same for imported cars, but cannot only require that imported cars also have side impact airbags, or that imports from Japan get the domestic standard but imports from Korea get a tougher one. The idea is that "like" goods—that is, very similar but not necessarily identical products—should be allowed to compete on equal terms, regardless of where they were made.

As part of restoring balanced trade, it is critical that the reciprocal trade analysis and reports utilize the originalist interpretation of non-discrimination. Namely, the non-discrimination standard initially targeted facially discriminatory policies: those that clearly had a discriminatory intent. This is the standard we urge the administration to apply in this process.

With the advent of trade agreements rightly criticized by this administration, such as the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) that established the World Trade Organization and the North American Free Trade Agreement (NAFTA), signatory governments' sovereignty over their domestic affairs were increasingly encroached by trade-pact rules that expanded into imposing limits and obligations with respect to "behind the border" domestic policies that apply to the service sector and other areas of regulation that had previously been the sole bailiwick of domestic policymakers. As part of this encroachment, various commercial interests pushed to expand the non-discrimination standard as a means to enact a form of international preemption via trade agreement. Most free trade agreements signed since the 1990s include language that can be used to attack origin-neutral policies that may have a disproportionate effect on a set of products of foreign origin. During the first Trump administration, USTR issued a scathing report on the WTO's Appellate Body that documented how the U.S. mandatory country of origin labeling law for meat was ruled an illegal trade barrier by the WTO under such an expansive notion of non-discrimination.[7] And even before trade pacts included broader language, trade enforcement panels contributed to the perilous expansion of the non-discrimination standard by judging facially neutral policies with inadvertent differential impacts as illegal trade barriers. The United States has been on the losing end of this ever-expanding interpretation, as noted in the cases described below.

As it evaluates potential unfair foreign trade practices, the Trump administration must recognize the true scope of non-discrimination rules and focus on policies that explicitly discriminate against American products and firms. There are many reasons why this must be the standard

---

[7] "Report on the Appellate Body of the World Trade Organization," Office of the United States Trade Representative, February 2020,
https://ustr.gov/sites/default/files/Report_on_the_Appellate_Body_of_the_World_Trade_Organization.pdf.

applied in the reciprocal trade analysis; however, the most compelling reason is U.S. national interest: Failing to do so risks undermining widely supported U.S. domestic policies, particularly in digital regulation.

   a. <u>The use of the trade "non-discrimination" concept in the reciprocal trade analysis and reports must focus on discriminatory *intent*, not disparate effects, so as to protect governments' right to regulate markets and level the playing field.</u>

Non-discrimination rules in trade agreements often involve both most favored nation treatment (MFN) and national treatment (NT) standards. MFN is an older concept, and its main goal has been to prevent the erosion of concessions won through trade negotiations. This occurs when a country grants better trade terms to one partner than those previously granted to another under an existing trade agreement. In such cases, the first trading partner could invoke the MFN principle to demand equal treatment. Similarly, NT standards guarantee that tariff or other liberalizing concessions are not eroded through internal taxes or regulations that are designed to privilege domestic goods and products.

Non-discrimination rules in trade agreements have a single purpose: To prevent countries from walking away from their commitments through nationality-based discrimination, internal taxes, or regulations designed with the objective of favoring domestic products. Accordingly, non-discrimination is not supposed to be a tool to hammer policies that simply are different or could incidentally generate disparate effects for a group of products or firms that happen to share their national origin. Notably, this interpretation of the non-discrimination standard is supported by the fact that the objective of the core non-discrimination rules that worked well for the United States under the original GATT was clarified by the original negotiators: The purpose of Article III of the GATT, which includes NT obligations, is to ensure that internal measures "*not be applied to imported or domestic products so as to afford protection to domestic production.*"[8]

Unfortunately, since the 1990s, trade enforcement panels have disregarded the intent of the sovereign nations that negotiated and signed the GATT and increasingly took it upon their own responsibility to determine that facially neutral policies could be considered in violation of NT rules if they had inadvertent differential impacts on foreign products. For instance, in 1992, a GATT panel determined that certain tax benefits provided to microbreweries in the United States were inconsistent with GATT Article III because larger Canadian beer producers could not access them, even though large U.S. breweries were also ineligible.[9] Later, in 1996, the WTO Appellate Body ruled that, in order to determine if an internal tax affords protection to domestic

---

[8] General Agreement on Tariffs and Trade, Article III-1, adopted 1947, https://www.wto.org/english/docs_e/legal_e/gatt47_e.htm#art3.
[9] Panel Report, United States – Measures Affecting Alcoholic and Malt Beverages, DS23/R, BISD 39S/206, adopted June 19, 1992, https://www.wto.org/english/tratop_e/dispu_e/gatt_e/91alcohm.pdf.

products with respect to directly competitive foreign goods, assessing the intent of the legislators is irrelevant. Indeed, the Appellate Body asserted: "*This is not an issue of intent. It is not necessary for a panel to sort through the many reasons legislators and regulators often have for what they do and weigh the relative significance of those reasons to establish legislative or regulatory intent.*"[10]

The problematic WTO jurisprudence means that the overdue radical rethink of the existing international trading system of which we understand the reciprocal trade analysis and reports to be a part must include adherence to the original interpretation of non-discrimination rules. This is particularly important in the context of the digital economy where predatory behavior and lax antitrust enforcement, along with network effects and "winner-takes-all" dynamics in digital markets,[11] have led to monopolies in the digital services that the vast majority of people use daily. In this context, policies that aim at regulating digital markets and apply equally to all countries and firms must not be deemed discriminatory, even if they predominantly affect the largest U.S. digital firms, given this is due to these firms' size and monopolistic practices not that they are American.

b. <u>Digital policies that affect Big Tech interests due to their distortionary dominance should not be labelled discriminatory trade practices.</u>

Lack of anti-monopoly enforcement here and worldwide has allowed a few rapacious collectors and exploiters of people's personal data to crush or buy out competitors and use algorithms designed to preference their own products and services, as well as rules designed to squeeze out prospective competitors, to develop globally dominant online platforms. These firms' unprincipled conduct is limitless, as a recent whistleblower revealed in exposing a Facebook scheme to operate the platform in China in exchange for providing the Chinese government user information, developing plans for content censorship, and restricting the account of a Chinese dissident living in the United States.[12] As President Trump noted when nominating Gail Slater to lead the Department of Justice Antitrust Division: "Big Tech has run wild for years, stifling competition in our most innovative sector and, as we all know, using its market power to crack

---

[10] Appellate Body Report, Japan – Taxes on Alcoholic Beverages, AB-1996-2, adopted October 4, 1996, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds8_e.htm.
[11] Matt Stoller, Sarah Miller, and Zephyr Teachout, "Addressing Facebook and Google's Harms Through a Regulated Competition Approach," American Economic Liberties Project, April 10, 2020, https://www.economicliberties.us/our-work/addressing-facebook-and-googles-harms-through-a-regulated-competition-approach/; Matt Stoller, Pat Garofalo, and Olivia Webb, "Understanding Amazon: Making the 21st-Century Gatekeeper Safe for Democracy," American Economic Liberties Project, July 24, 2020, https://www.economicliberties.us/our-work/understanding-amazon-making-the-21st-century-gatekeeper-safe-for-democracy/.
[12] Naomi Nix, "Zuckerberg's Meta Considered Sharing User Data with China, Whistleblower Alleges," *Washington Post*, March 9, 2025, https://www.washingtonpost.com/technology/2025/03/09/meta-china-censorship-facebook-mark-zuckerberg/.

down on the rights of so many Americans, as well as those of Little Tech!"[13] In response, scores of countries, including the United States, are implementing or considering changes to their competition policies to redress the anticompetitive harm done and intervene in digital markets' structure to further competition. Online platforms are fighting back by claiming that these policies are illegal "discriminatory trade barriers." USTR must avoid defining such policies as unfair trade practices.

The Big Tech lobby has utilized the "digital trade" framework to undermine policies that could affect their entrenched monopoly power by establishing guardrails on digital firms with market dominance.

The U.S. government must ensure that any "non-discrimination" standard used in its internal review of potential unfair trade practices does not lead to undermining domestic digital policies that may have a "discriminatory" effect due to the market dominance that certain firms might have over a market—dominance, which is precisely the reason behind such policies.

An example is the Korean law to end anti-competitive app store practices. It is similar to U.S. House and Senate proposals with bipartisan support that have been introduced in Congress repeatedly. Notably, the Senate version, the Open App Markets Act, was approved by the Judiciary Committee on February 3, 2021.[14] Senior Republican members of Congress have prioritized app store legislation in recent years,[15] showing that the enactment of U.S. legislation similar to the Korean law is a real possibility. In spite of this, Apple and Google pushed U.S. trade officials to attack the Korean legislation as "discriminatory" while it was being considered by South Korea's parliament because it would affect them more than other businesses based on their monopolistic practices.[16]

Similarly, Big-Tech-backed groups have furiously attacked the Australian law that enables media outlets to negotiate collectively with digital platforms given the evident power imbalances between news media businesses and the few online platforms that draw most of the online traffic

---

[13] Donald J. Trump (@realDonaldTrump), "I am pleased to nominate Gail Slater as Assistant Attorney General for the Antitrust Division at the Department of Justice. Big Tech has run wild for years,…" Truth Social, December 4, 2024, 12:21pm, https://truthsocial.com/@realDonaldTrump/posts/113595703893773894.

[14] Lauren Feiner, "Senate Committee Advances Bill Targeting Google and Apple's App Store Profitability," *CNBC*, February 3, 2022, https://www.cnbc.com/2022/02/03/senate-committee-advances-open-app-markets-act.html.

[15] John Hendel, "Tech Antitrust Optimism to Kick Off April," *POLITICO*, April 1, 2022, https://www.politico.com/newsletters/morning-tech/2022/04/01/tech-antitrust-optimism-to-kick-off-april-00022252; David O. Williams, "Ken Buck Battles Big Tech with Bill to Unlock App Stores' Rules," *Colorado Times Recorder*, September 24, 2021, https://coloradotimesrecorder.com/2021/09/ken-buck-battles-big-tech-with-bill-tounlock-app-store-rules/39899/.

[16] David McCabe and Jin Yu Young, "Apple and Google's Fight in Seoul Tests Biden in Washington," *The New York Times*, August 23, 2021, https://www.nytimes.com/2021/08/23/technology/apple-google-south-korea-app-store.html.

searching for news.[17] Industry groups have relied on the Australia-United States Free Trade Agreement's non-discrimination rules to argue that the novel News Media and Digital Platforms Mandatory Bargaining Code is inconsistent with Australia's trade obligations.[18] However, the law resembles the U.S. Journalism Competition and Preservation Act (JCPA) bill, a legislative proposal that has bipartisan support and was introduced in the last congressional session by a group of 11 Democratic and 10 Republican senators.[19]

Big Tech lobbyists have fiercely attacked the European Union's Digital Markets Act (DMA),[20] which passed in 2022 and includes rules that resemble popular U.S. proposals that Big Tech fought to derail in Congress. The DMA, for instance, prohibits platforms from self-preferencing their own products via their platform, as the American Innovation and Choice Online Act bill proposed in 2022 and 2023 did. Since its adoption, the DMA has been the subject of several Big Tech complains that focus on trying to derail the DMA so as to avoid domestic policies to counter Big Tech firms' predatory conduct at home.[21] In one public submission, the U.S. Chamber of Commerce argued that "*the White House needs to read its own talking points [regarding the DMA], before it takes a final position on the legislation [the American Innovation and Choice Online Act]. Providing support for similarly misguided domestic bills, the administration could transform the world's most innovative economy into one that reeks of stagnation.*"[22] This excerpt clearly elucidates the Chamber's intentions: By opposing regulatory efforts elsewhere, the ultimate goal is to stymie regulatory action at home.

Finally, USTR must also ignore the Big Tech lobby's ploy of deeming data transfer regulations unfair or unreasonable trade practices. Since the first Trump administration, Congress and state legislatures have enacted laws and many more remain pending today that directly conflict with the Big Tech-favored approach of calling policies on data security or privacy unfair trade practices.[23] This includes the Protecting Americans' Data from Foreign Adversaries Act of 2024,

---

[17] See Australia Communications and Media Authority's "News Media Bargaining Code," https://www.acma.gov.au/news-media-bargaining-code.

[18] "The Dangers of Australia's Discriminatory Media Code," Disruptive Competition Project, February 19, 2021, https://www.project-disco.org/21st-century-trade/021921-the-dangers-of-australias-discriminatory-media-code/.

[19] U.S. Senate, Journalism Competition and Preservation Act of 2023, SB 1094, 118th Congress, 1st sess., introduced in Senate March 30, 2023, https://www.congress.gov/bill/118th-congress/senate-bill/1094/all-info#cosponsors-content.

[20] Ramsha Jahangir, "Tracking Recent Statements on the Enforcement of EU Tech Laws," *Tech Policy Press*, March 7, 2025, https://www.techpolicy.press/tracking-recent-statements-on-the-enforcement-of-eu-tech-laws/.

[21] Daniel Rangel, Taylor Buck, Erik Peinert, and Lori Wallach, "'Digital Trade' Doublespeak: Big Tech's Hijack of Trade Lingo to Attack Anti-Monopoly and Competition Policies," Rethink Trade, November 2022, https://rethinktrade.org/wp-content/uploads/2022/11/20221101-AELP-DocLayout-v7.pdf.

[22] Sean Heather, "Striking Similarities: Comparing Europe's Digital Markets Act to the American Innovation and Choice Online Act," U.S. Chamber of Commerce, June 17, 2022, https://www.uschamber.com/finance/antitrust/striking-similarities-dma-american-innovation-act.

[23] "Big Tech's 'Digital Trade' Agenda Threatens States' Tech Policy Goals: Interactive State Policy Tracker," Rethink Trade, September 17, 2024, https://rethinktrade.org/big-techs-digital-trade-agenda-threats-states-tech-policy-goals/.

which passed unanimously in the U.S. House and was signed into law as part of a national security and foreign aid package in April 2024;[24] Montana's Genetic Information Privacy Act, which bans Montanans' genetic data from being stored in foreign adversaries' territories;[25] and Texas's Securing Children Online through Parental Empowerment (SCOPE) Act, which requires digital service providers to disclose algorithmic information to third-party researchers, with an exemption for small businesses.[26] The enactment of these laws demonstrates that regulating data is essential in the 21st century and the Big tech lobby's desire for the Trump administration to do their bidding to attack facially neutral, non-discriminatory policy proposals as part of the Reciprocal Trade analysis must be ignored.

2. The U.S. Government Should Seek to Counter Mercantilist Economic Models, Instead of Using Tariff Threats to Try to Force Reciprocal Trade Liberalization.

We urge the administration to focus on reciprocal trade, as in a more balanced trade regime, not on reciprocal tariffs. The damage to the United States being wrought by decades of large chronic trade deficits is precisely what macroeconomic theory predicts: We have become deindustrialized, which undermines both our resilience and security and contributes to rising income inequality. Our massive trade imbalance is not the only cause of these problems, but closing the deficit is part of the cure. Tariffs are one of the tools that could be employed to force a global rebalance, as we describe below. Also, sector-targeted tariffs can be an appropriate tool, when accompanied by other industrial policies, to promote the rebuilding of specific key manufacturing sectors on which our country's health, security, and well-being rely.

However, the decades-old U.S. trade deficit will not be balanced by pursuing the same neoliberal, low-tariff, free-trade frameworks that turned the United States into a chronic net importer in the first place. A radical rethink of the rules and institutions underpinning the current system is required. Above all, we must not replicate old tried and failed strategies.

We will never export our way out of the huge trade imbalance that has done considerable harm across the United States by targeting specific regulations or even tariffs in other countries so as to increase U.S. sales there. Comments to that effect made by Commerce Secretary Lutnick and others seem detached from the facts. We do not sell only $3 billion in vehicles to Japan and they sell us $54 billion because, as Secretary Lutnick has said, Japan has 100% tariffs on U.S. cars and we have low tariffs. Japan has no tariffs on vehicles, so tariff reciprocity would require the United States to eliminate its 2.5% tariff on passenger vehicles and its 25% tariff on trucks rather than increasing them. Tariff reciprocity would likely result in an even greater imbalance.

---

[24] U.S. House, Protecting Americans' Data from Foreign Adversaries Act of 2024, HR 7520, 118th Congress, 2nd sess., introduced in House March 5, 2024, https://www.congress.gov/bill/118th-congress/house-bill/7520/.

[25] Legislature of the State of Montana, Genetic Information Privacy Act, SB 351, introduced in Assembly February 15, 2023, https://bills.legmt.gov/#/bill/20231/LC1085?open_tab=sum.

[26] Legislature of the State of Texas, Securing Children Online through Parental Empowerment Act, HB 18, introduced in House February 23, 2023, https://capitol.texas.gov/BillLookup/History.aspx?LegSess=88R&Bill=HB18.

Pulling back from any specific example, even if the Trump administration exerted pressure on all of the countries that contribute the most to the trade deficit, it would be nearly impossible to achieve balance just by trying to force other countries to take more U.S. exports. A rough simulation helps to illustrate this point. If the U.S. government attempted to force the top five contributors to the U.S. trade deficit in 2024—excluding Mexico, since the USMCA guarantees virtually no tariffs on U.S. exports—to double the value of U.S. imports into their markets, the goods trade deficit would likely remain close to $1 trillion.[27]

Conversely, just imposing bilateral tariffs would be equally ineffective at rebalancing U.S. trade. Since President Trump imposed Section 301 tariffs on China in his first term (which were maintained and increased by the Biden administration), the U.S. trade deficit with China fell from $418 billion in 2018 to $295 billion in 2024.[28] However, in the same period, the U.S. trade deficit with Mexico grew from $77.7 billion in 2018 to $171.8 billion in 2024[29] and the deficit with Vietnam grew from $39 billion in 2018 to $123 billion in 2024.[30] Chinese investment in these and other countries has created a workaround with Chinese firms able to reach U.S. markets and benefit from the trade terms these countries have with the United States.[31]

Perhaps more importantly, currency offsets affect the efficacy of tariffs as a balancing tool. There is a currency offset when other countries devalue their currencies to absorb the cost of the tariff and remain competitive. There is evidence that this happened when the first Trump administration raised tariffs on Chinese goods in 2018 and 2019. The Chinese government's renminbi appreciation in response to the tariffs meant that the currency move offset more than three-fourths of the tariff applied by the first Trump administration.[32]

---

[27] Excluding FTA countries, the top five contributors to the U.S. trade deficit in 2024 were China, Vietnam, Ireland, Germany, and Taiwan. If U.S. exports to these countries doubled from 2024 numbers, exports would increase by $288.1 billion. The U.S. trade deficit in goods in 2024 was $1.2 trillion. Even if exports to these top deficit countries doubled, the total U.S. trade deficit in goods would still be $923.6 billion. Calculations made using data from "DataWeb: U.S. Trade & Tariff Data," United States International Trade Commission, Exports: Domestic and Imports: For Consumption, accessed March 11, 2025, https://dataweb.usitc.gov/.

[28] "Trade in Goods with China," United States Census Bureau, accessed March 11, 2025, https://www.census.gov/foreign-trade/balance/c5700.html.

[29] "Trade in Goods with Mexico," United States Census Bureau, accessed March 11, 2025, https://www.census.gov/foreign-trade/balance/c2010.html.

[30] "Trade in Goods with Vietnam," United States Census Bureau, accessed March 11, 2025, https://www.census.gov/foreign-trade/balance/c5520.html.

[31] James Kynge, Jude Webber, and Christine Murray, "China's New Back Doors into Western Markets," *Financial Times*, September 5, 2024, https://www.ft.com/content/5583db36-5141-413f-9687-2c3f4968ff07; Ralph Jennings, "Chinese Investors Still Moving to Vietnam, Free of US Tariffs for Now, as Trump 2.0 Looms," *South China Morning Post*, November 29, 2024, https://www.scmp.com/economy/global-economy/article/3288538/chinese-investors-still-moving-vietnam-free-us-tariffs-now-trump-20-looms; Christine Murray, Nassos Stylianou, Irene de la Torre Arenas, and Dan Clark, "How China is Setting Up Shop in Mexico," *Financial Times*, December 16, 2024 https://ig.ft.com/china-mexico-tariffs/.

[32] Stephen Miran, "A User's Guide to Restructuring the Global Trading System," Hudson Bay Capital, November 2024, https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf.

To put it briefly, trying to achieve balance trade either by forcing more liberalization via tariff threats or by effectively hiking bilateral tariffs has not worked and is unlikely to achieve the desired objective of having balanced U.S. trade and a fair trading system. That said, we believe that tariffs can be an important tool to rebalance global trade, if tariffs are applied to chronic surplus countries broadly and to avoid circumvention in tandem with the many other countries that also have a chronic trade deficits thanks to the Beggar-Thy-Neighbor policies employed by the chronic surplus countries. Effectively, we envision a two-tier global trading system with more favorable terms among countries agreeing not to employ various mercantilist tools; committing to maintain balanced trade; and adopting mechanisms to correct imbalances, such as temporary tariffs, capital controls, and/or currency value corrections. The provision of such favorable terms would be conditioned on meeting core labor and other standards that can establish a more level playing field for global trade designed to benefit working people, small businesses, and farmers and their communities, not only the largest multinational corporations.

Rather than enacting a piecemeal tariff strategy, the United States should lead the charge to replace the existing trading system. Strict and enforceable rules against currency manipulation, required adherence to international standards for labor, competition and environmental practices, and a commitment to balanced trade would restore fairness in the trading system and benefit American workers, small businesses, and farmers.

3. Conclusion

The Trump administration has made clear its ambition to reshape the global trading system—an objective we support. To achieve this, the most harmful aspects of the hyperglobalized order must be repealed, including the undue expansion of non-discrimination terms in trade agreements. Furthermore, a new international trade system must prioritize fair and balanced trade to restore prosperity for American workers, small businesses, and farmers.