International Trade Policy under Biden: The “New” Washington Consensus and Its Discontents

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The Biden administration is abandoning the rules-based international trading system in favor of a self-proclaimed New Washington Consensus that redefines trade policy. Can it work?

After four years of President Trump’s slash-and-burn trade policy, the bar for the incoming Biden administration could hardly have been lower. Trump’s “America First” bravado was an ungainly amalgam of tax hikes (against foes and friends alike), bilateral power plays (for example, Trump ordered the “renegotiation” of the Korea-US Free Trade Agreement [KORUS], otherwise threatening termination of what he termed “a horrible deal”),¹ and a retreat from international trade cooperation (among others, spurning the megaregional Trans-Pacific Partnership [TPP] and undermining the World Trade Organization [WTO]). Trump’s trade policies not only ruffled the feathers of many of America’s closest trade partners, but they were also economically ineffective. Notably, they failed to benefit even those sectors and locations that his tariffs were supposed to protect.² Ironically, the Trump tariffs did not change China’s behavior one bit.³

A “New” Washington Consensus

It came as no small surprise when President Biden, despite calling Trump’s trade actions “disastrous” and “reckless,”⁴ not only failed to repudiate those policies, but actually amplified them.⁵ This is not to say that Trump’s and Biden’s versions of economic nationalism are equivalent. Trump’s style was all sticks and no carrots—belligerent, scattershot, and ad hoc. Biden’s version, albeit no less fervent, is soft-footed and polite—more carrots than sticks; commentators have called it “polite protectionism”⁶ or “pragmatic unilateralism.”⁷ Most notably, Biden provides a coherent intellectual superstructure that ties his administration’s trade policy to its overall international economic strategy.
In a scarcely noticed but consequential speech in July 2023, National Security Advisor Jake Sullivan outlined the Biden administration’s economic ideology. Sullivan blamed the United States’ most pressing challenges—namely, a hollowed-out industrial manufacturing base, dramatic economic inequality between rich and poor and between coast and heartland, the economic and military rise of China, and the climate crisis—on a number of factors including hyperglobalization, unfettered deregulation, naive beliefs in trickle-down economics and market efficiency, and trade liberalization as an end in itself. Drawing a sharp contrast to the 1990s-era policy package known as the “Washington Consensus”—championed by the US Treasury, IMF, and World Bank—that according to Sullivan encapsulates the idolatry of free markets and liberalized trade, he declared that the Biden administration stood for a “New Washington Consensus.” To address the aforementioned challenges, the administration’s novel paradigm is aimed at achieving supply-chain resilience in strategically important sectors, a return to former manufacturing grandeur, more equitable growth that benefits American workers, rapid decarbonization and a successful transition to green technologies, and a containment of China’s military and economic might.

Few Americans would disagree that these are worthy goals. It is, however, the implementation of these goals that warrants scrutiny: Sullivan stated that this “New” Washington Consensus was to be effectuated by a policy bundle including (1) a “modern American industrial strategy,” (2) selective partnerships with economic allies, and (3) various policies aimed at curbing the ascent of China. In the following, I argue that each of these three strategies is fraught with peril. In addition, I show that this alleged new “consensus” does not reflect unanimity between the United States on the one hand and its trade allies on the other, but rather constitutes a unilateral move to undo over six decades of trade liberalization. In the final section, I propose an alternative to the so-called “New” Washington Consensus—an alternative set of policies that achieves better results for the United States and remains in the four corners of a rules-based global trading order.

**Biden’s Industrial Policy: Subsidies on Steroids**

Let us start with the first pillar of the “New” Washington Consensus, Biden’s industrial policy. It is a mix of muscular government interventions that consist of the following:

- direct subsidies and tax credits, enacted through the Inflation Reduction Act (IRA), the Creating Helpful Incentives to Produce Semiconductors Act (CHIPS Act), and the Research and Development, Competition, and Innovation Act—all targeted at industries deemed especially critical or strategic, mainly semiconductors and green technologies;
- “Buy America” provisions for government procurement;
- favorable loan terms; and
- protectionist trade policies, including continuation of many Trump-era tariffs, domestic content requirements, and so-called trade defense measures (intended to punish alleged foreign dumping and—irony of ironies—to counter foreign subsidies that affect exports to the United States).
True to its promise, in mid-May of this year the administration slapped new tariffs up to 100 percent on Chinese electric vehicles, advanced batteries, solar cells, semiconductors, steel, aluminum, and medical equipment, thus affecting imports of green and clean tech goods in excess of $18 billion. These new tariffs, notably, are imposed on top of the still active across-the-board import tariffs on some $350 billion in Chinese goods originally imposed by the Trump administration, which cost US consumers and downstream industries $48 billion annually, and that entail welfare losses of at least $1.4 billion per month caused by reconfigurations of US supply chains and an overall reduction in the availability of imported varieties.

While industrial policy done right can be useful, all indications are that Biden’s version is poised to cause significant domestic and international damage. This is not the place to offer a fulsome critique of the risks that Biden’s industrial-policy package poses for the domestic economy. Suffice it to say that the package is costly (experts expect IRA subsidies to be $1.2 trillion over the next decade—three times more than initially forecast), which in and of itself is not fatal if the returns are adequate. However, the returns may not be adequate.

First, there is the challenge of getting industrial policy right. It is difficult for any administration, let alone that of the world’s biggest economy, to pinpoint the precise industry targets and provide the appropriate amount of incentives. The range and depth of knowledge that the Biden administration must possess in order to implement successful industrial policy is extraordinary. It not only must know and understand the relevance of broad-ranging and complex questions, but it also must undertake weighing alternatives and prescribing an adequately supported policy mix. These are skills rarely found in the private sector, let alone in the civil servantry. Even highly trained (and remunerated) portfolio managers who specialize in single industry stocks, as well as industrial conglomerates themselves, oftentimes founder at even a fraction of the tasks required to design successful industrial policy.

Second, there is the difficulty of achieving the objectives of the industrial package. It is not at all clear how Biden’s policies will undo 30 years of lost manufacturing edge, out-subsidize Chinese production of semiconductors and green technologies, and re-shore entire value chains for these sophisticated technologies. In fact, it appears that even evaluating applications and distributing approved funds already strain the system. For example, well over a year after passage of the CHIPS Act, many recipients are still awaiting funds. (Worse still, a significant chunk of the promised funds are unavailable: the Federation of American Scientists reports an appropriations gap of $8 billion for the R&D portion of the CHIPS Act, thus leaving core national and regional science, research, and education projects underfunded.)

Third, even if Biden were to overcome these nontrivial roadblocks, it is the unintended consequences of industrial policy that are the most troubling aspect of the administration’s industrial policy package: For one, industrial policy creates numerous distortions in those industries that receive subsidies and trade protections. These distortions include anything from monopoliza-
tion (or oligopolization) in protected markets to favoritism and political horse-trading, inadequate supervision of policy implementation, entitlements (once granted, subsidies tend to stick around long after the policy objectives have been achieved\(^9\)), and cascading protectionism. These unintended consequences more often than not result in growing complacency, reduced productivity, and less innovation in subsidized sectors.\(^{20}\)

More critically, strategic support of some industries and not others crowds out resources otherwise allocated to export-oriented firms and industries in which the United States has an international comparative advantage (i.e., lower costs or superior quality).\(^{21}\) Apart from not getting handouts, unsubsidized industries also face higher relative costs—for employees, capital, and raw and intermediate materials. Notably, the unsubsidized export-oriented firms are the ones that are most agile, productive, and innovative, and thus most able to bring about decarbonization, supply chain resilience, national security, and better wages.

In the end, Biden’s industrial policy tied to specific industries and localities is unlikely to create jobs\(^{22}\) (instead, it merely shifts them from export industries to protected industries), let alone unionized jobs in the heartland (a region that already suffers from a crippling dearth of skilled labor).\(^{23}\) It is furthermore unlikely to boost overall US economic growth beyond the initial spending bump.\(^{24}\) It is, however, likely that the real results of Biden’s industrial policy are higher consumer prices, accelerating inflation, and an overall loss of US competitiveness.\(^{25}\)

Domestic effects aside, Biden’s industrial policy also has negative international repercussions. First, many of the industrial policies violate the very trade principles the United States championed when it helped form the WTO. In a way, the United States therewith forgoes its privileged position in promoting and developing trade rules abroad (and legitimately enforcing those rules). It certainly forgoes any legitimacy in disciplining behavior abroad that the United States itself has implemented at home.

Second, Biden’s industrial policy is essentially self-dealing. It is designed to draw investment, production, and raw materials away from other countries. This zero-sum logic will almost definitely provoke an international backlash.\(^{26}\) Let us start with those countries that can afford to pay subsidies to domestic industries. Powerful countries will retaliate, emulate, or, in rare instances, negotiate. None of these responses are good news for the US economy, as is obvious in situations where countries retaliate against US exports of goods and services (recall, for example, China’s reaction to the Trump tariffs). When other countries emulate our discriminatory industrial policies, the harm to the US economy may be particularly pronounced, because it again shuts out US exports and may easily trigger lose–lose subsidy wars in which too-big-to-fail national champions compete on the world stage.\(^{27}\) In addition to being costly to the supporting countries, subsidy wars also tend to stifle innovation and technological diffusion, which would be particularly bad for accelerating a green energy transition. Losses to the US economy are smallest in cases in which powerful trade partners manage to negotiate preferential access to the US market (for example,
the European Union [EU] managed to extract concessions for its electric vehicles to benefit from certain IRA subsidies). Yet, imports still risk being more expensive, and potentially of lower quality compared to imports entering under a nondiscriminatory policy alternative.

Next, consider the reaction of poorer countries that cannot afford costly subsidy programs. These countries will see shrinking export markets and inward investment, and thus less developmental progress. They will find themselves hat in hand, begging for access to the US market, to become part of US supply chains, or at least to be able to export raw or processed materials. This is guaranteed to breed mistrust and resentment against the United States and may draw these poorer countries toward other trade alliances.

**Biden’s Strategy for International Cooperation: Milquetoast**

Let us now turn to the second policy prescription of the “New” Washington Consensus: Biden’s strategy for cooperating with trade partners and allies. The good news is that the Biden administration, as opposed to its predecessor, actually sees virtue in international cooperation. That said, it is instructive to note what Biden’s trade cooperation strategy does not include: it entails no aspirations to pursue either traditional trade agreements (such as rejoining the TPP or finalizing the Transatlantic Trade and Investment Partnership [T-TIP] with the European Union). It entails no ambition for a revitalization of the multilateral trading order. On the contrary, Biden has continued Trump’s expansive assertion of national security exceptions to justify trade restrictions and has dialed back US ambitions for ongoing trade negotiations in key areas such as digital trade.

The United States under Biden has championed sectoral partnerships (such as the critical minerals agreement negotiations initiated with allies Japan and the EU) and so-called framework agreements (such as the Indo-Pacific Economic Framework for Prosperity [IPEF]). What is common to these types of agreements is that the United States is not willing to make concessions, particularly market access concessions, to foreign goods and services. Rather, the sectoral partnerships championed by the United States are solely based on areas of common interest. Some sectoral partnerships deal with financing infrastructure projects in the region, others with developing secure supplies of minerals needed to make advanced electronics, or writing agreements to facilitate digital commerce. Some are mutual accords to exclude, or induce behavior changes of, third parties (as with the planned Global Arrangement on Sustainable Steel and Aluminum [GASSA] with the EU that limits access to US and EU markets for “dirty” Chinese and Indian steel). While these sectoral agreements can be quite effective, they may not always be WTO compliant.

As for the negotiations of framework agreements, the US strategy largely involves the attempt to extract commitments on environmental or labor standards from trade partners. In addition, the Biden administration aims at negotiating mutual recognition of existing procedures or standards.
All of this is weak tea, because the United States is not willing to give something to get something. There is no incentive for other countries to adopt proposed principles (besides those that are in their interest anyway). The last IPEF summit in November of 2023 predictably collapsed because the United States asked developing countries to give up comparative advantages (cheaper labor and laxer environmental rules) for nothing in return. Under the current mindset, one may reasonably expect that future “trade” agreements will be less about trade and more about forging political and security relations and thus may easily become subject to political whims and maneuvers. Trade agreements motivated by politics, rather than economics, may jeopardize, rather than strengthen, supply-chain efficiency and resilience. Moreover, they risk being fair-weather accords—purely transactional bargains that can be violated or revoked at no cost at any time. While those weak accords help further Biden’s domestic agenda that shields US industries from global competition, it is anyone’s guess how such trade deals will ultimately benefit US workers, make supply chains more resilient, or result in decarbonization.

Moreover, the US disinterest in reciprocal trade liberalization drives countries that still believe in liberalized trade and the efficiencies it entails into the arms of US rivals. Case in point, while the United States is sitting on the sidelines, the EU is in the process of finalizing a trade deal with Mercosur, while the United Kingdom is engaged in negotiations with eight countries in parallel. China is also aggressively pursuing new trade agreements, such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), TPP’s new name after the United States’ exit.

**Biden’s China Strategy: Go It Alone**

Finally, arguing that China pursues aggressive economic policies and has flouted international trade rules, either in letter or in spirit, the Biden team has set an objective of slowing down China’s economic and military ascent. Yet the United States cannot single-handedly take on China, even if the US objective is not decoupling but derisking, as Sullivan claims (although some commentators have questioned Washington’s derisking stance in light of the administration’s latest tariff escalation affecting Chinese clean tech). If the United States acts alone, China itself may decide to decouple, racing to find different markets for its exports, to develop different sources for critical imports, and to push technological advances at home to reduce dependency on the United States. Needless to say, a decoupling that goes too far too soon would be to the detriment of US companies, could jeopardize Biden’s green revolution, and could potentially even affect US military and intelligence capabilities. Focusing on export controls against China (only one policy in the US trade toolkit), a recent paper by the New York Federal Reserve estimates that US firms affected by export controls face declines of revenues by 8.6 percent, profitability by 25 percent, and employment by 7.1 percent (while, unsurprisingly, China substitutes US imports for non-US suppliers and domestic firms).

To be effective in pursuing its objectives vis-à-vis China, the United States needs to deepen relations with key allies and present a united front against violations of the international trading sys-
tem. It is then all the more puzzling that the Biden administration continues to weaken, rather than strengthen, important alliances it relies on to effectively pursue its China objectives with minimal economic blowback. Examples abound: the “pause” on US liquefied natural gas exports that sent shockwaves through the EU;\(^45\) the quiet shelving of a US–UK trade agreement;\(^46\) or President Biden’s opposition to the nonhostile acquisition of US Steel by Japanese market leader Nippon Steel,\(^47\) stating that “it is vital for [US Steel] to remain an American steel company that is domestically owned and operated.”\(^48\)

**“New” Washington Consensus, or “Washington Consensus 2.0”?**

It is not clear whether President Biden’s trade stance is owed to political exigencies or personal conviction.\(^49\) It may also be that Biden is simply unable to stave off a seismic shift toward economic populism and nationalism in US economic policy that is bigger than either Trump or Biden.\(^50\) Be that as it may, it is not an exaggeration to note that the Biden administration’s “New” Washington Consensus is nothing short of a challenge to at least five decades of economic orthodoxy.\(^51\) It is exclusionary and anti-export. It weaponizes trade to achieve domestic and security goals. It is also a rejection of a rules-based international economic order in which the United States used to have a leading role and that served it well for decades. The “New” Washington Consensus no longer represents the belief that international trade is a win-win for all countries. Instead, it espouses a zero-sum logic whereby one country’s gain is the other’s loss and cooperation is ad hoc and transactional—cooperation is pursued if and when it suits US interests. This new strategy is myopic short-term thinking—it risks precipitating the disintegration of global trade into rivaling blocs, with the United States and China in opposing camps and other countries in the uncomfortable position of having to pick sides. And given the US protectionist stance, what is the incentive for third countries to join the United States?\(^52\)

International trade currently is unpopular with Americans from the nationalist right to the progressive left (35 percent of Americans see international trade as a threat to the economy, while only 61 percent see it as an opportunity).\(^53\) Advocates for international trade certainly are not blameless\(^54\) here: In the past, they have overhyped the gains from trade agreements while underestimating distributitional costs on lower-skilled labor, and they failed to anticipate localized recessions resulting from international competition.\(^55\) However, instead of yanking the pendulum toward neo-protectionism and techno-nationalism, one may consider updating and improving the existing rules-based order—call it Washington Consensus 2.0.

What would a Washington Consensus 2.0 look like? Domestically, it would capture the gains of liberalized trade, while offering effective protection from the downsides of globalization. The focus thereby would be on workers, not jobs.\(^56\) Rather than trying to save uncompetitive facilities and declining industries, the Washington Consensus 2.0 would promote job creation in distressed areas and improve transition assistance for those who have lost their jobs to international competition and technological advance. The Nordic countries and New Zealand teach us that an economy
can be open and egalitarian at the same time. A Washington Consensus 2.0 would foster (WTO-compliant) investment in infrastructure, R&D, education, and talent attraction, rather than bet on handpicked industries (one step in the right direction is the Bipartisan Infrastructure Law, passed under Biden’s watch in late 2021, though it remains diffuse and incongruous). Comparative advantage cannot be compelled with handouts and protection, but it can grow organically given the intellectual and infrastructural fertilizer. A Washington Consensus 2.0 would mean focusing on technology adoption, not technology production: Diffusion and adoption of the best available technologies (even if imported) is more likely to create long-lasting economic benefits and larger innovative breakthroughs than a government trying to pick winning technologies (on that issue, recall France’s irrational, and costly, attachment to the telex at a time when the rest of the world was already using the internet).

Internationally, a Washington Consensus 2.0 would mean more and deeper trade agreements since it is better to coordinate, not compete, with allies on public investments in complex areas such as high tech and decarbonization. This cooperation would remove commercial conflict and facilitate the spread of the best technologies. The United States should seek out comprehensive and enforceable trade agreements with a large membership, such as the TPP and T-TIP, not only to provide a veritable counterbalance to China’s heft—as originally intended by the Obama administration—but also to help promote technological diffusion and adoption of common international technical standards (including on labor, the environment, and AI). A Washington Consensus 2.0 would mean an immediate deblocking of WTO dispute settlement and a redoubling of efforts to engage in (an, admittedly, overdue) WTO reform that takes on rule flaunting by developed and developing countries alike. And if any WTO member were to block meaningful WTO reform, the United States should assemble the largest possible coalition in a future-oriented club of the willing (e.g., climate club).

International trade is here to stay. The question is to what degree the United States will participate in it and whether the US will resume its leading role in defending the ground rules of global trade. Historical evidence shows that expanding trade has delivered tremendous value to the US economy. A Washington Consensus 2.0 could convince Americans that being protrade is neither unpatriotic, nor antiworker, anticlimate, or hypercapitalist. Being protrade means being in favor of a system that rewards innovation, efficiency, and dynamic growth; that makes the distributable pie larger; that actually attempts a fairer distribution of the spoils of trade; and that advances US diplomatic, security, and economic interests in the long term.

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Notes


44. Crosignani et al., “Geopolitical Risk and Decoupling.”
49. Capretta and Veugel, “The New Washington Consensus on Trade Is Wrong.”
50. Hirsh, “Trump’s Most Enduring Legacy.”
56. Hanson, “Can Trade Work for Workers?”