

US Economic Policy in the Trump Administration

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The election of Donald Trump marks a dramatic shift in U.S. foreign policy and economic relations with the rest of the world. In his inaugural address, President Trump articulated a foreign policy perspective centered on putting American interests first. It is an extreme version of economic nationalism that makes virtues of protectionism and mercantilism. He has expressed opposition to multilateral negotiations and institutions in favor of bilateral negotiations that he believes will maximize the U.S. advantage.

Based on exit polls, Trump's political support is strongest among those who are most opposed to immigration, identify terrorism with Muslims, and fear the economic consequences of globalization. He also obtained a strong majority of white voters in rural and small urban areas with less than a college education.

The new administration has articulated a major shift in US economic policy. On the macroeconomic front, the Administration will seek a substantial reduction in individual and corporate taxes and the President has articulated his support for a large expansion of infrastructure investment. Since the Republican Party controls the Congress, the overall program should be approved, but there are major uncertainties about the nature of the corporate tax changes and the extent of offsetting changes on the expenditure side of the budget. If enacted in 2017, the macroeconomic stimulus should raise U.S. growth, interest rates and the exchange rate.

The United States has withdrawn from TPP, and Trump has opposed other multilateral trade pacts. He expresses very mercantilist views and focuses on bilateral trade balances. His business supporters may moderate his views, but policies are a huge part of his appeal to his core constituency. Thus, the Administration will place major pressures on trade with countries that have large bilateral trade surpluses with the United States (ie China and Mexico)

The administration has also adopted a strongly populist stance on immigration. Its initial actions adhere closely to Trump's campaign themes. They instituted a ban on visitors from seven Muslim-majority countries and all refugees. While the program has been temporarily blocked by the court action, the government is likely to prevail on grounds of national security. In addition, the administration has expanded the deportation program for undocumented workers and directed the construction of a wall on the border with Mexico.

The change in U.S economic policy raises many challenges for Asia. The U.S. has withdrawn its support for economic integration in the region, and there will be heightened conflict over trade issues—particularly with China. How should Asia respond? Will countries seek bilateral agreements with the United States? Or will they counter U.S. pressure by accelerating their own integration plans?