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ONE YEAR OF 'AMERICA FIRST' TRADE POLICY: WHAT DID WE LEARN, AND WHAT COMES NEXT?

WEBINAR

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WELCOME REMARKS

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Ben Harris Good afternoon, everyone. My name is Ben Harris. I'm the Vice President and Director of Economic Studies here at the Brookings Institution. Thank you all for joining us in person. Well, actually, not in person, just only online for today's event, one year of America First trade policy. What do we learn and what comes next? I would like to start by thanking Kari Herman, Brookings Director of Trade and Economic Statecraft for organizing this timely event. Today we'll hear from policymakers, economists, and private sector experts who will examine the impacts of the Trump administration's dramatic shift in trade policy. I'll note too that we invited multiple Trump administration officials to join us and share the administration's perspective. Regrettably, none were able to accept the invitation. The focus of my remarks today, which are intended to help frame the panel discussion, is to address the question, why is the U.S. Economy continuing on a path of slow but sustained expansion. When the White House and Congress are embracing an agenda contrary to the conventional wisdom of mainstream economists. Put differently, over the course of the past year, we have seen a series of sweeping, unprecedented policy shocks that many would have expected to slow the economy, if not crash it. And yet the unemployment rate is below 5%. GDP is expanding at a moderate pace. Stock prices continue to rise and inflation, while above the Fed's 2% target, is far from the generational highs we saw in the wake of the pandemic. What exactly explains this conundrum of 2025? Before explaining, before exploring potential answers, let me precisely define what has happened. I see four distinct policy shocks. The first, and the topic of today's event, is an unprecedented assault on free trade. The first Trump administration, in what at the time felt like an extremely aggressive trade posture, raised the average trade-weighted tariff from 1.5% to 2.8%. This included the use of traditional trade actions in untraditional ways, like applying steel tariffs in the name of national security on our closest allies. In the second Trump administration we saw a sharp escalation in the level of tariffs alongside a dramatic expansion in their scope and unpredictability. Touching allies and adversaries alike, while creating significant uncertainty for firms, including legal challenges to the president's use of these authorities. President Trump's second term has looked nothing like the first, as the average tariff rate jumped from 2.4% on inauguration day to a high of 28% in April. This escalation in tariffs has been accompanied by increasingly antagonistic geopolitical actions, including the threatened invasion of Greenland just weeks ago. The second shock is that the US has sharply curtailed net immigration unlike anything we have seen in recent memory. Prior to the second Trump administration, the US immigration system roughly met the needs of domestic labor demand through both legal and illegal immigration. In most years, net immigration totaled between 500,000 and 1.5 million. In 2025, however, net migration fell off a cliff. Newly published research by Brookings scholars Wendy Edelberg, who's joining us today, and Tara Watson. In collaboration with AI scholars estimates that net immigration last year amounted to between positive 10,000, effectively zero, and negative 295,000 people, far below the 25-year median of 1.2 million. The third major shock is the U.S. Taking on trillions of debt outside of recessionary or wartime periods. According to calculations by the Urban Brookings Tax Policy Center, the president's one big beautiful bill will raise the public debt by 4.2 trillion or 9% of GDP over the next decade. This legislation has been a key driver of rising primary deficits, which CBO now projects so will average 2.1% over the 10-year budget window. The final major shock has been the dismantling of Federal Reserve independence. This includes continued pressure from the White House to lower interest rates, the attempted firing of Governor Lisa Cook under dubious pretenses, the appointment of a Fed governor who remains the sitting chair of the Council of Economic Advisors, and perhaps most egregious, the criminal inquiry of Chair Jay Powell, which former treasury secretary and current Brookings Distinguished Scholar, Janet Yellen, called an unprecedented attempt to use prosecutorial attacks to undermine the Fed's independence. Any one of these shocks is significant, and collectively, they are extraordinary. If you locked 100 economists in a room one year ago, and inform them of these developments today, I suspect virtually all would project the U.S. Economy would be stagnant at best and cratering at worst. So what explains this conundrum? I see four possible explanations, which I'll address in turn. One possible explanation is that these shocks are not as large as we initially thought. On trade, a combination of evasion, transshipments, and delayed implementation could mean that the sharp rise in the average trade-weighted tariff, the one I cited earlier, is overstated. Similarly, net immigration may be closer to zero than negative 300,000, with a muted impact on the labor market as the labor markets continue to soften. On Fed independence, perhaps markets see the attacks on Powell and Cook as constrained by the composition of the FOMC. I do see some merit to this explanation. Tariff collections have increased by less than $200 billion on the year, painful for U.S. Consumers and businesses, but insufficient to upset a $30 trillion economy. To date, our trading partners have barely retaliated against our tariffs, which dampens their expected impact. And attacks on Fed independence have not yet translated into a monetary policy stance that markedly deviates from traditional frameworks. A second possible explanation is that there are offsetting stimuli that counteract these negative shocks. The flip side to the $4 trillion in new debt owing to OBA is a meaningful rise in disposable income with Goldman Sachs estimating a 0.4 percentage point bump disposable income over the first half of 2026. Looser capital restrictions are likely to be driving investment to a certain extent and the AI boom added 2.5 percentage points to GDP growth according to the St. Louis Fed. At the same time, the president's trade frameworks have embedded large investment promises coupled with commitments to purchase more American products. As with the first explanation, I see a hint of merit. The AI investment boom is real and has sustain growth. But on the flip side, the tax refunds will benefit US households in 2026 and probably do less to explain 2025 growth. The same is true for expanded access to capital. The third candidate explanation is that our economic models are simply wrong. Is it possible that the economics profession overstated the value of immigration, free trade, Fed independence, and a sustainable fiscal outlook? I sincerely want to come to this possibility with humility. Indeed. Believe that this volatile period in American policymaking will lead to greater understanding of the US economy. I suspect one enduring lesson learned both over the course of 2025, as well as during the pandemic, is that the size and diversity of the U.S. Economy usually protects it from sharp downturns. I also believe this episode will help reinforce these policy decisions are not necessarily good or bad in absolute terms, but rather a series trade-offs to be precisely measured and identified. In terms of open trade, the practical decision over trade liberalization was to grant millions of American households access to cheap goods, open up massive new markets for US investment and exports, provide access to cheat capital for US debt and entrepreneurs and strengthen geopolitical alliances. But these benefits came at a cost, namely sacrificing economic autonomy, hurting select industries and communities through sharply increased competition. And foregoing and imperfect, but still significant, source of revenue in the form of tariff collections. On the narrower question of whether economists were wrong about the near-term impacts of various shocks, it is simply too early to tell. After all, it has been just a few weeks since the DOJ announced its investigation of Chair Powell. It is also important to note that we have indeed seen a deterioration in the near term economy. Since Inauguration Day, the headline unemployment rate has risen by 40 basis points, and a broader measure of labor demand known as the U6 has jumped by 90 bips. Non-housing inflation has crept up by five points. Risk premium on treasuries has risen by 30 basis points. By many metrics, we are a bit worse off now than we were a year ago. That brings me to the final explanation for why the 2025 economy has not stagnated, that it simply takes some time for these shocks to move through the system. This explanation is consistent with economic theory and evidence. The positive economic impact of immigration can take years to materialize, like the link between higher legal immigration and increased innovation. CBO has established a causal link between government debt and crowd out of private capital, but also found its relationship often plays out over the long run. And Fed independence is not a goal for its own sake, but rather how it translates into monetary policy decisions. The complexity of the FOMC's composition means it may take years until we see the full impact of political influence. And on tariffs, as we have heard from our Western trading partners last week in Davos, only now have they begun to explore alternatives to the U.S. In terms of trade and investment decisions. To sum up, 2025 was a year like no other. One measure of policy uncertainty, the St. Louis Fed's Economic Policy Uncertainty Index peaked at a reading of 460 after having never surpassed 250 outside of COVID. If nothing else, this year has tested the limits of our understanding of the potential impacts of policymaking on the economy. I outlined four possible explanations to the 2025 conundrum. Why haven't simultaneous shocks, previously thought to be catastrophic, derailed the economy? I see four possible explanation. The shocks are not as large as some may think, offsetting stimuli compensate for the negative impact, prior understanding the economy is misguided, it will take time to realize the full impact of recent policy decisions. Ultimately, my conclusion is more pessimistic than I would hope for. If these policy shocks persist, their impact will likely be more damaging than what we have observed so far. I sincerely hope I'm wrong. As we transition to the panel, I'll conclude by noting that this question deserves far more study. And here at the Brookings Institution, we will continue to do what we've always done. To tackle the most pressing policy questions from a position of curiosity, integrity, and independence. And with that, I turn it over to Connor.

Kari Heerman Thank you, Ben. We're going to turn now to the panel. My name is Kari Hearman. I'm a senior fellow in economic studies and director of trade and economic statecraft at the Brookings Institution. Joining me are Kelly Ann Shaw, Nora Todd, Wendy Edelberg, and Dan Rosen. For those of you who are joining us online, you can submit questions to our panelists at any time by emailing events@brookings.edu, and we'll try to get to a few of your questions toward the end. Kelly Ann, I'd like to start with a question for you. You worked on trade policy at the White House during the first Trump administration, and before that at the Office of the US Trade Representative and on the Hill. The 2025 trade policy involved a layered set of tools and design choices. From your perspective, what were the core purposes of those tools and how do the design choices help us understand what policymakers are trying to achieve?

Kelly Ann Shaw Well, first of all, thank you so much for hosting this panel. I think it's a very timely topic, really enjoyed Ben's remarks and pointed question as well. And I think the fact that we're even asking the question of why the economic data doesn't seem to match with what we would have assumed a year ago, these policy choices would have led to, is exactly what the administration points to in terms of believing that it's terror policy has been a success. And so we can go through those numbers and statistics has been. Mentioned. But maybe I'll take a step back and just talk about the point of these tariffs, because I do think, Kari, your question is apt in that the different tariffs match the different policy objectives. And so you hear the administration talking about a bunch of different things, about reciprocity, about national security, about manufacturing, about the trade deficit, about foreign policy. Like, what's the point of this. And I tend to think of this in three different buckets. So the first is the one that I heard the president talk a lot about during the first administration, which is this concept of reciprocity. Why does Europe have a higher tariff rate on autos than the United States? Why do other countries have barriers to our agricultural products that we don't? This sense of unfairness, lack of balance. And the administration here has used what they call the reciprocal tariffs to try to level up for that.

So they've basketed countries in different regions in Southeast Asia. They have something like a 19 to 20% average tariff rate. Our friends and allies with whom we have a trade deficit have something more like a 15% average tear off rate. And then you've got countries with whom we have trade surplus, which have a 10% tariff, you may ask, why do we have that? That's about the fact that the dollar is the world's reserve currency. And because our currency doesn't devalue, although it's certainly been topical in the news over the past few days, the way that other middle-sized economies would, we need to erect this tariff barrier to fix the trade deficit, to level out the playing field, to create this concept of reciprocity and balanced trade. That's the bulk of the tariffs. The next category is all about national security. And so this is a focus on strategic supply chains like steel, aluminum, the administration puts automotive in there, pharmaceutical products, semiconductors, and all of those things that are subject to what are called Section 232 investigations. And that's about putting on really, really high tariffs or really, tough incentives or disincentives to source from other countries and instead try to get companies to manufacture more in the United States. And these are things that we need at the time of a pandemic, some sort of military incident force majeure that we just need to be able to produce semiconductor steel aluminum in the United States for defense purposes and otherwise. And then the last bucket is sort of the catchall. And I call this the foreign policy bucket. And so these are things like the Greenland tariffs or the tariffs on India for its purchases of Russian oil. These are tariffs that are used for pure foreign policy objectives that have absolutely nothing to do with commerce, with economics, with manufacturing. It's about economic statecraft and using the full toolkit of the US government to try to get another country to do something non-economic. And so you've got sort of these three buckets of tariffs. And if you look at the measures themselves, The reciprocal tariffs are based on this theory of the trade deficit under IEPA, this national security theory. The 232 tariffs are about the threat of imports and the fact that we need more of the stuff here. We shouldn't be so reliant on foreign imports. It's a national security a theory as well. And then the foreign policy tariffs are all about IEPa, national emergency, and we've got some China tariffs based on 301 authority. On top of that, we can talk about... But there are a lot of different tariffs happening, and they are for a lot of different reasons, which is why you hear the administration naming so many different causes for its tariff policy.

Kari Heerman So much Kelly Ann for laying out an alignment between the tools that are being used and the objectives they're intended to achieve. Nora, I'd like to turn to you next. You worked on trade policy in the Biden administration and on the Hill for many years before that. Drawing on your experience, how do you think policymakers should interpret the outcomes of the past year when deciding what tools to reach for in response to a domestic or foreign policy challenge. And importantly, how do you see political, institutional, and legislative reality shaping those choices?

Nora Todd Thanks, Kari, and thanks to Brookings for hosting today's event. I'm really pleased to be here with such thoughtful panelists. I think I'll interpret your question in a couple of different ways. I want to touch on Congress's role. I want touch on public sentiment, the role of corporations in trade, and the room for innovation here. And I acknowledge that that's a lot to fit in, in a few minutes. Let me try. So first, I think one of the main takeaways and building off of the objectives that Kelly Ann just mentioned. Is that Congress's role in defining those objectives and developing the toolkit to achieve those objectives has been really diminished. I think Congress stepping back from a role of leading on trade policy has created a vacuum and has allowed President Trump to come in and really interpret U.S. Trade policy objectives, how he sees fit, some of which are related to trade, some of, which as Kelly Ann just pointed, are not, and really designed a toolkit to fit those objectives. As a result, because of Congress stepping back, our toolkit is really outdated. I think our objectives are not based on a fully national conversation or a fully deliberative policy process. And I think Congress should reassert itself. It's one of the takeaways for policymakers in 2025. Congress should re-assert itself in 2026 and beyond to help shape those objectives, to help craft a toolkit that meets those objectives and to do the appropriate oversight. We do this in defense policy with the National Defense Authorization Act each year. We should do this for our trade policy and our economic security policy. I think it is suffering because of Congress's lack of role. The second thing I wanna say is about public sentiment. And how President Trump has used public sentiment and the concerns about left behind communities and left behind workers to motivate some of his trade policies and the imposition of tariffs. And I guess I would say for policy makers, as I'm looking to reacting to President Trump's trade policy in 26, as I am looking to craft a long-term trade policy going forward, I think public sentiment is actually much more nuanced and allows for something beyond the binary conversation that we tend to have in DC. Are we for tariffs or are we against tariffs? Public sentiment around tariffs has been pretty negative, but public sentiment around the global trading system and its ability to deliver high paying, good quality jobs is also negative. I think policymakers need to build a suite of policy objectives on US trade policy that reflects that nuance instead of choosing just tariffs or no tariffs. The last thing I wanna mention or the last two things I wanna mentioned is about something that's really unique on trade policy and that I really took note of in 25. And that is the role that corporations have in interpreting trade policy and determining how it impacts individuals' lives. So unlike in tax policy, if I get a tax cut passed by Congress, I get the tax cut. But in trade policy, we saw corporations. Choose not to pass along tariffs to consumers, choose to stockpile goods in advance of the tariffs being put into place, choose the shift production so that they could avoid tariffs. And maybe some of these are the contributing factors Ben was speaking to about the muted economic response to the very sweeping changes that Trump has enacted in trade policy. I think we need to make sure that our U.S. Trade policy objectives and our toolkit account for the role that corporations play in interpreting toolkit and kind of help us get outside of this box or for tariffs or against tariffs. Corporations play a really large role in the quality of trade throughout the global economy, and I think our toolkit should reflect that, should accommodate corporations' role, and should push them to play a really constructive role in how we shape global trade. And the last thing I'll say is, and again, Ben really spoke to this, put it more eloquently than I did, but just from a pure policymaker's perspective, we did see room in 2025 for change, for innovation. I don't personally think Trump's trade policy is structured appropriately to actually drive the sustainable economic growth and good wage jobs in the United States, but we did show that there is a tolerance for change that has previously been denied or dismissed. And I think policy makers, especially if Congress takes a more muscular role in devising trade policy should take that as a signal that they can really innovate here. Rather than thinking about tariffs or no tariffs or more trade or less trade, if we're thinking about the quality of trade going forward, how can we think of new tools to help us achieve that quality of trade? What kind of guardrails should we think about developing as part of our toolkit to help us achieve those objectives? I think Congress is best suited to really take all of this into count and really help shape the path going forward. Thanks, Kari.

Kari Heerman Thanks very much Nora I hope you don't mind Kelly Ann but if you don't mind I'd love to have you come back briefly on that what Nora just said. She called for Congress to become more involved for there to be a broader conversation about how to change things and that she perceives an opening in public sentiment for that. From your vantage point what resonates with you about what Nora just said or doesn't, if you wouldn't mind.

Kelly Ann Shaw Sure. And I have to say, I'm a huge Nora Todd fan. So very happy to be sharing a panel with her. Look, I think that the way that the Constitution set up the branches of government, clearly Congress should have more of a driver's seat when it comes to setting trade and tariff policy. Part of the challenge has been that historically Congress did. Congress did set our tariff schedules until 1934, when they passed the Reciprocal Trade Agreements Act and delegated to the president at that time the authority to go forth and negotiate reciprocal tariff reductions on a whole host of products. And that really set in motion the post-World War I and then II trading system that we are now dismantling today. So, you know, there is historical precedent for it. But I do think over the nearly 80-year history of this last era, Congress has delegated a tremendous amount to the executive for various reasons. I mean, one, there's a lot of horse trading going on with those tariff schedules. They weren't necessarily set for purposes of efficiency. They were set for political reasons in many cases. Um, and, um, there was a view that the executive was better equipped to assess specific challenges from our trading partners and to address those in a much more expedient fashion. And so I think, you know, where you stand is where you sit. In some instances, you may want the executive to have more authority to address certain threats in certain situations and others you may want Congress to pass the law and to, um do that through legislation. And that is. Much more difficult to upend, it's not as nimble, and there are pros and cons to that. So it really does depend on the challenge and the issue that we're facing. I do think in the president's foreign policy capacity, when we're addressing a challenge like China, for example, it is very handy for the president to be able to react to that and serve as a negotiator, where Congress has a lot harder of a time actually negotiating with foreign governments because of all the political interests. But. You know, where this goes, I'm not quite sure because I do think that both Republicans and Democrats have had their trade orthodoxy stood up on its head, meaning, you know, over the last couple of decades, it was Republicans who were more free trade, Democrats were more protectionist. And obviously, since 2016, there's been at crosswires in terms of which party believes what. And I don't think the ground has really firmed up yet. I think we have a few more years. Before the American public comes around to where they want this trade policy to go. But I totally agree with Nora that right before the election, you had 60% of Americans believing that trade policy was better for other governments and other countries than it had been for the United States, which is why the president ran on this very high tariff policy and won. So as a country, I think we're finding our footing and we'll have to see where this all shakes out.

Kari Heerman Thanks, Kelly Ann, that's really helpful to think through. Now I'd like to turn the page a little bit. And Wendy, I wanna bring you in on how all of this looks from an economist's point of view. You've spent many years analyzing the U.S. Economy across a range of issues as a macro economist, including as chief economist in the Congressional Budget Office. In his opening remarks as Nora and Kelly Ann have both referenced Ben raised questions about why the economic effects of trade policy in twenty twenty five or more muted than a number of people expected. How do you assess the effects of this trade policy on the overall health of the U.S. Economy and what trade offs should policymakers keep in mind as they decide how to use trade policy going forward in this evolution Kelly Ann just described we need to be going through.

Wendy Edelberg Hi, and I, too, am thrilled to be here, and I'm learning a lot already. First, let me say, I found Ben's comments were super useful in framing the issues. I think he lays out a very compelling case. I have a, I'm going to take a different point of view for, if nothing else, to keep the conversation interesting and lively. Uh, I, I never... Quite expected the president's policies that he was enumerating that I really thought would get put into place. And indeed, we've seen get put in place. I never thought that those would lead to the kinds of inflation numbers that we saw in 2022, 2023. I never though that my baseline was never a recession. And so we can walk through, on a bunch of different fronts. What he's doing on immigration, what he is doing with regards to the Fed, actually there I'm a little more surprised that the markets are so sanguine. But when it comes to trade, of course the subject of our conversation today, trade is just not big enough as a share of the US economy to have had for tariffs, even the very large share of set the president has put into place for those to have seismic effects on the US. Very careful analysis when, you know, leading up to the campaign, and even after Trump was elected, very careful, analysis suggested that if Trump put in place, what would effectively be a 20% tariff on, on average on us imported goods, that that would raise the price level in the US by, you now, maybe 1.8% I'm painting with a broad brush, but, but I'm, you Thereabouts, that is where very careful analysis landed. And that was never, in my mind, reasonably thought to happen instantaneously. We weren't going to raise the price level in the month after the tariffs were gonna put in place. And so we should always have thought that that effect on the price-level was going to lead to higher inflation over a period of time. And indeed, if you look at the analysis that's now being done as the economy absorbs the tariffs that Trump has implemented. Looking even like down to the very careful level of scanner data, it is clear that imported goods that are subject to these tariffs are indeed showing higher prices for consumers and in fact the domestically manufactured goods that compete with those imported goods are also showing higher prices, which makes perfect sense. If, you know, if Brazilian coffee makers are to some degree, well, I shouldn't say the coffee makers themselves, they're not subject to the tariffs. If the importers of Brazilian coffee are raising their prices and to some degree that's getting passed through to higher prices for consumers at the store buying Brazilian coffee beans. Manufacturers and the sellers of Hawaiian coffee beans are going to recognize that they now have a little bit more pricing power because their competition has raised their prices and so those Hawaiian bean sellers are also going to raise their prices. And very careful scanner data has suggested that this has happened and you know then it's harder to know what what this as meant in aggregate, but maybe. Tariffs so far have raised the level of consumer prices by maybe a half a percentage point. By my lights, that's actually pretty reasonable given that initial analysis that suggested that maybe the effective tariff rate that we're facing right now should raise the level of prices maybe by one and a third, one and half percent, all right, so we've already gotten a half a percentage point of that, and now more is in train over 2026, and even I think early 2027. Which is to say, I think we're in the ballpark of seeing the effects on inflation from higher tariffs that actually were somewhat predictable. Now, I grant you, they have been smaller than I would have expected given the statutory tariff rates. That is partly I think, because it turns out those statutory effect of tariff rate are actually not what we're seeing get paid. On average, the effective tariff rate, the overall amount of revenue that the US government is collecting as a share of all imports, is a fair bit lower than the statutory effective rate than you might think would be in place given all of the tariffs that have been implemented. So let me put some actual numbers on this. So the current effect of sheriff, right, like if I really look at what's happening with how much revenue we are collecting as a share of imports is about 15%. The statutory rate, like what we just would have thought might be that that effective tariff rate if things were kind of getting paid as we thought they'd get paid, is more like 18%. So 18%, 15%, not a massive difference, but there is definitely daylight there. And so that should mean we should have less of an economic effect. Why are people paying, why are importers paying less in revenue than you might expect? Well, it could well be that more of the goods that, for example, were importing from Canada have become USMCA compliant, and those are not subject to the tariffs that Trump has put in place on Canada. It could be that there's outright fraud. And indeed, the Customs and Border Patrol is trying very hard to run that fraud to ground and get importers to pay all of the tariffs that they're supposed to be paying. It could, and I think we have evidence suggesting this is true, that some of the exporters, you know, the exporter's in the European Union, the exporters in Japan. Are actually lowering their prices or did lower their prices somewhat in 2025 to maintain market share. That was Trump's argument all along that the U.S. Importers were never going to pay these tariffs, that consumers were never gonna see higher prices because the exporters were going to have to lower their price to maintain the market share and effectively, by lowering the prices, they were implicitly paying the tariff. Well, to some degree, It looks like that happened in 2025. But that effect also looks like it's going away. And surely, as tariff policy settles down and everybody gets a sense of the lay of the land, exporters are going to raise their prices back up to where they were before. They're going to accept that they're going to have lower market share in the United States. Importers are gonna have to pay higher prices. The importers, they too looked like they weren't passing some of these prices along. They will have to pass some of these prices along. Which is why I think we are in train for more inflation from these tariffs through 2026 and even in early 2027. Let me end with one thing, which is even though my baseline scenario was that Trump's trade policy would create a mess, create some chaos, certainly create higher inflation, but wouldn't necessarily lead to a recession or cataclysmic effects, is because I thought that the effect that I was always worried about was not the tariffs themselves. It was tariff policy uncertainty. It was the uncertainty and the paralyzing effect of tariff-policy uncertainty that I thought had the potential to really create bad economic effects. We saw that for a second and a half there in April, 2025. It did indeed look like tariff, policy uncertainty had the, had the potentially to derail the economy. Trump pulled back from that. And in fact, tariffs, as much as they kind of lurched around a little bit, and they certainly have stayed in the news, he just, you know, threatened tariffs on South Korea. You know, overall, effective tariff policy has remarkably settled down since spring of 2025. And I think, you now, I am now a lot less worried about tariff policy, uncertainty, derailing the economy.

Kari Heerman Thanks, Wendy. You've done a great job walking us through, as did Ben, the impacts on the U.S. Economy, and Nora and Kelly Ann have talked a lot about the political effects. I want to now widen the lens a little bit and capture some of the international dimension as well, and in particular China. Dan, you're the co-founder of the Rhodium Group, where you spend many years as an analyst of China's economy. And its interaction with global trade. And earlier in your career, you worked as an international economic advisor in the White House as well. How do you read the administration's trade approach toward China and how does that approach appear to be affecting or not China's economy and the broader US-China economic relationship?

Daniel Rosen Kari, thank you so much. I'm so glad to be part of this conversation. Great to be here with such terrific folks. So China started 2025. That's the year we're here to assess. Doing everything it could think to do to support its domestic economy with fiscal policy, with household consumption subsidy programs. With programs to bail out some of the property sector distress that it had been grappling with since 2021, all because it was really nervous about the international trade environment and the pressure that was gonna come to bear on China. In other words, they were sort of on the brink of finally doing what it would take to kind of rebalance, to depend more on their own domestic growth rather than taking advantage of net exports. As a way to get through all of their problems. By mid-2025, all of those domestic Chinese policies had been turned off. They stopped flowing additional consumption subsidies to the household for buying cars and appliances and things like that. They started to turn down fiscal support for building infrastructure and whatnot. And they also started to wind down the property bailouts that they had been doing through the first half of the year. So the second half of 2025, China's domestic economy went into complete stagnation, almost zero growth in China in the second of 2025. All of China's 2025 growth, taking the full year, such as it was, came from growing their net exports. So they had come into the year thinking that there was a limit to their ability to export their way out of their growth problems. And they finished the year going right back to that. What made Beijing able to make that pivot away from finally starting to deal with their structural policy reform obligations at home to going back to taking advantage of a soft environment externally was that by May, they had tested and confirmed that they would be able to transship around the Liberation Day campaign and keep their net export surplus growing. To a record $1.2 trillion on the year. Coincidentally, the same as the US trade deficit, though there is the intermediate factor of transshipment to explain how those two relate to one another. And also by mid-year, demonstrating to themselves, to us, and to the rest of the world that any notion of a G7 combined effort to limit China's ability to export its way out of its problems was going to be held back. By their leverage over critical minerals. And China's ability to bring that new tool to bear to just in the same way that Kelly Ann noted that Trump administration is using one tool, tariffs, to try to solve all of its objectives, whether it's national security, reshoring, all sorts of stuff. So too, China has been able to use its rare earth dominant position, which we did not seem to have considered. How effective a tool that could be in holding us at bay to solve both their trade policy anxiety, their disinclination to continue doing reforms at home that ultimately will need to be done. And also get a bonus out of it that they got us to basically pull down our high technology denial policies that we'd started much stronger on in the year dated back to Trump one, as Kelly Ann might have been involved with. Made more powerful through Nora's work and other work during Biden. But basically what started the year back in Q1 as a very full-throated hardball on China Trump two policy agenda, by Q4 it has become a full charm offensive to set the stage for what President Hopes will be a very friendly summit in Beijing in April. So, I think when we look at the external side, of course, China is not at all the totality of the objective, you know, the target of America first trade policy, but really looking back even to 2015 in the beginning of the sort of MAGA movement, America first movement, it really was centered very much on what China was doing to exploit and take advantage of a rules based international order, which had ceased to keep up with the times and China's systemic ability to kind of get around the system to look after its own interest. Now, here we are. I think my great concern on the external side is that we're playing full court press hardball with all of our friends and allies, and almost everybody except China, where we're really not pursuing the same kind of strategic competitive policy as we even started last year with. And that just begs all sorts of questions, which we should maybe come back to in the next round, area to talk about, but... You know what, how does China behave differently if there's not a clear and present coalition led by the US to deny them the chance to continue growing their net exports, to avoid dealing with the things that are causing them not to be able to absorb any of our products. Germans are finally waking up to this that they're not gonna be selling parts of China. You know, we can sell some bowings and some agricultural crops. Agricultural crops will come at the expense of Australians and other friends of ours, right? But really beyond that, is there the making of a real bargain here to be had with China? The answer is no, not unless they deal with the structural problems in their economy, which over the course of 2025, they went from starting to deal with to putting back on the back burner because they had an easier option for the short and medium term. That is just keep exporting until somebody actually tells them they can't do it any further. Let me stop there for now, Kari.

Kari Heerman Thanks so much, Dan, for bringing that excellent insight into this conversation. I think what you sort of underlined is that U.S. Domestic policies, whether they be trade or other economic policies, do tend to reverberate around the world. And they come back to us with both strategic and economic implications for our own country's health. I wonder if I might just take a moment to offer Nora or Kelly Ann an opportunity to reflect on what you've said, especially in tying it back to that broader conversation that Nora said Congress ought to be having, the interested parties ought to having about what the direction of U.S. Trade policy should be and broadening it out beyond just the domestic interest to the sort of global strategic interest at all. I don't know if either of you want to come in.

Nora Todd I'm happy to come in briefly on this, Kari. I think Dan put it really, really well, and I think that's one of the reasons why congressional involvement in crafting U.S. Trade and economic security policy is so important. Because we are seeing such disparate treatment between China and our allies and partners, I think there is real risk to our ability to achieve our economic security goals and supply chain resilience. I think we are creating real distrust among some of our allies and partners about the United States' ability to support them when China weaponizes some of the dependencies that Dan spoke about, including critical minerals. We understood from Congress, who made it very clear that one of their priorities was minimizing U.S. Vulnerabilities to economic coercion, really promoting economic security and staying tough against China when they weren't playing by the rules, when they weren't competing fairly, when we're seeking to undermine U. S. Producers and workers in the global marketplace. I think a stronger role by Congress and a more nuanced sophisticated US trade policy that's crafted in partnership between the legislative and the executive branch would help to prevent those disparities, those kind of inconsistencies that I see and would help to make sure that we've got better tools to achieve those goals. I think right now, because President Trump has really taken the vacuum, filled the vacuum that Congress has created, we're going to be left to some of the personal whims by the president, and I think long-term that's really unhealthy for us, it's unhealthy for the global economy as well.

Kelly Ann Shaw I may just jump into, I thought Dan had a lot of really interesting remarks and I like sort of equating like, you know, the president's tariff is the equivalent of rare earths and critical minerals for China in terms of it being wielded for all sorts of purposes, whether related to economics or not. And certainly Japan is getting the brunt of a lot that from China at the moment, a lot of our trading partners. I do. Sort of take a different view though with Dan when he said that China wasn't the focus of America first trade policy. I actually think China plays a much more outsized role in America first trade policy and the development of that and even going back to China's entry into the WTO which is viewed as the original sin that brought down the global trading system from the perspective of many voters and frankly the administration. I think that China's unfair trade practices, its subsidization, its economic coercion, its excess capacity, all these things have distorted global markets and most pointedly for critical supply chains, which are a lot of them the focus of these 232 investigations. They're not all related to China, but a good chunk of them are and are over-dependence and over-reliance on China. So I think a lot of this does go back to that relationship, which makes those negotiations between President Trump and President Xi all the more important for the broader set of U.S. Trade policy and the direction that that goes over the next three years. And I don't think it'll stay in the posture it's in right now, which is this detente that we have. But that's going to play out not just bilaterally between the United States and China, but in our relationships with Canada, Mexico, Europe, and all sorts of other major trading partners for the United States.

Kari Heerman Thanks very much. Just a quick reminder for those watching um you can submit questions by emailing events@brookings.edu um I think our panel has done an excellent job of really looking at uh this issue from a number of different dimensions both economic and strategic domestic and international and I'm seeing questions come in that are hitting all those points so. I would like to just start to turn to some of the questions that we're getting in from the audience- and I'll direct them to specific panels but again panelists just let me know if you want to come in- staying on this topic we had a number of questions come in about how trade policy fits into the bigger geopolitical picture- I'll start first with a question for Nora. The administration's twenty twenty five trade policy marked a move away from the post war rules based rules based global order. How widely was that understood and supported among policymakers and how should policymakers think about building public understanding and consensus around that shift going forward I think this is a bit of an extension on some of the themes that you've already talked about but how do we move forward in building consensus on where we are and where we should be.

Nora Todd Thanks, Kari. I mean, I think there were in Congress, on both sides of the aisle, growing distrust in the global trading system for achieving that level playing field and promoting fair competition. Kelly and Dan and others have really talked about some of the global market distortions largely crafted by China and the critical minerals and other supply and the global trading system was really incapable of responding to that. And creating that fair competition, notwithstanding China's extensive non-market policies and practices. So growing sentiment in Congress that the World Trade Organization and the rules there were not living up to their objectives. I think that there was also growing sentiment that some of the policies that have been locked in in the global trading system and the rule-based order were outdated. And the way that the world trade organization agreements were crafted made it really hard modify or revise them going forward. With China's admission to the WTO, getting changes to that rules-based order through the WTO became basically impossible, especially if the target of those actions was to try and shape or respond to China's behavior. So I think that before the second Trump administration, there were these growing sentiments. I think one of the questions that I would have, I guess, for this administration and for policymakers going forward is just because this rules- based system did not address those main objectives. And do you think that that means that we should not have a rules-based system whatsoever? And my response to that would be no, it's just that the rules were insufficient. I don't know that the World Trade Organization is capable of modifying or updating itself to meet the moment, but that doesn't mean that we shouldn't go back to a free-for-all-for trade where we have low labor standards or low environmental standards. And so I think the question for policymakers is what rules are best suited for this phase of globalization? How do we make sure we're addressing the global market distortions? How do we make sure that we're achieving the quality of trade that we want to achieve so that it is delivering benefits to Americans and others around the world? And I think that's really why I'm pushing for a stronger rule for Congress, for a re-imagination of what our trade policy objective should be and the tool kit to achieve those.

Kari Heerman Thanks, Nora. That's helpful framing- we just had a question come in for Dan. Ambassador Greer has said that changing China is not a realistic goal and that therefore we should aim for a type of managed trade that results in balance and does not include sensitive goods. Does that seem like the best path and what do you think it would look like?

Daniel Rosen I think that's a very promising element of what our trade policy needs to be solving for and what our China policy needs to be, solving for. I think in 2018, Rhodium did a study asking the question on the test case of European China to a trade and investment. And we asked, what are the whole set of strategic reasons why you shouldn't be trading you're investing with each other. To see if there was anything left over. And it turns out that anywhere from 60 to 90% of what large economies like ours trade with each other really doesn't present an economic security or a national security problem. So if we wanted to do this rationally, rather than sort of spread tariffs kind of across the whole planet, according to one scheme or another, we would focus on, as Kelly Ann noted also, the national security things come first. I think if you don't have national security, than you don't have. Bupkis, as we say in New York, you really need that's really what's got to come first. So, but after you take the national security problematic things off the table, of course, you shouldn't be, we should not be building China's capacity to do dual use, militarily relevant things that can be used in an adversarial way, any more than they're going to ever share with us technologies that we can use to enhance our defense industrial complex at this point, because there's just no trust with one another. But even if there's no trust, there's still a lot of economic welfare that we can leave in place. Because when we de-risk, we need to be honest with our people about this. When we de risk, we are going to either reduce the consumption basket for our people. They won't even have three dolls instead of 25. It'll be one doll or down to half a doll that two kids have to share, or the prices will go up. And we need be adult and recognize that those are the hard choices that policy makers are going to need to. Work out. And so when Ambassador Greer, I think looking ahead to April, is probably, I think he said this at Atlanta Council last month, that he's very much trying to find the sweet spot list of goods, services that are not security problematic, don't present an economic or security concern for us, that we can agree with one another to leave open in both directions. Having set that set of things aside. That don't really require the best and brightest minds of our time to figure out how we're gonna deal with security, we've preserved more time to focus on those things much harder to de-risk, like China's 90% plus dominance of rare earth that administration after administration, Republican and Democrat have failed to solve, even though a small part of the analytic community kept saying, this is gonna be a nightmare pretty soon. Now we've woken up to that by mid 2025, even if we didn't know at the beginning of the year. But as much as we've got rare earth problems, we also have a lot of what I call socks and underwear things, which we don't really need to be ringing alarm bells about and we can stay engaged with each other in a pretty significant way.

Kari Heerman Thanks Dan. I'm gonna ask one more audience question in this sort of geostrategic realm before moving back to some domestic questions. One I'll address to Kelly Ann to get started with. To what extent will the impact of the America first trade policy play out over the longer term as trading partners and allies pivot away from the U.S. To reduce liaton slash exposure to the United States.

Kelly Ann Shaw Yeah, I think it's a great question and one we're watching play out in real time. So, you know, there's a little bit of the boy crying wolf to some of this, which we saw in the first administration where our trading partner said, if you, you know, impose steel and aluminum tariffs, we're going to go trade with China. And, and, you, it's going to be the end of our Alliance and all of this. And I think, you now, so much of that was overblown. In fact, our trading relationships improved and strengthened in terms of value versus going the other way. And we didn't, in fact, lose the alliance. I think our trading partners were catching up to us, particularly on China, where the US very clearly saw some of the risks and Europe and others were further behind in their willingness to cut some of those dependencies on Russia and China and other competitors and potential adversaries in the way the United States was. And we're seeing some of that now too, right? We saw Carney go to China, Starmer is in China. We're seeing the Finnish president going to China. Our allies are sort of lining up to find alternative markets. But I do think that they're gonna run into the same brick wall that we did to Dan's point. And those goods that are not coming to the United States are gonna flood other markets. And they all of a sudden are gonna have some of the same, not just economic challenges that the U.S. Had, but also more significantly the political challenges because if you have a majority of your voters and you're a democracy who believe that the economic policies of the political elite on both sides are not serving them or leading to a loss of manufacturing jobs or not sensitive to the needs of workers, you're gonna have a real political problem on your hand. So it's not just an economic one. Um, you know, we'll see what happens. We'll see how all of this plays out. I think the United States is also interested in changing some of its supply chains. There's a real focus on the Western hemisphere. You're seeing CAFTA countries get priority on textiles over Southeast Asia. That's intentional. The administration wants to see those supply chains shift. So that means that Southeast Asian countries do more business with other trading partners. That's just what's going to happen. But this is a generational move. The administration's taking a generational swing at the trade and financial systems. And I think that they're going to look very different five years from now than they did five years ago.

Kari Heerman Thanks, Kelly Ann. Now I just want to move to a couple of questions about domestic implications. We've had a couple questions come in about distributional impacts of the tariffs imposed in this administration. And they really boil down to two dimensions. First, how do tariffs in 2025 affect different industries? Which industries benefit? Which industry tend to be harmed? And secondly, how do we expect the 2025 tariff to affect- different- throughout the income distribution how to high income households. Affected versus low income households. When you let me start with you because you're the economist you've got this- squarely in your- sites- what do you think- how do you how do we think about those things how do we unpack them.

Wendy Edelberg So let me start with households, because that's a little easier. And I think Dan framed this really well, which is we can have this policy, we just have to appreciate the trade-offs. And the way households are going to experience this is higher prices. And to a large degree, when all is said and done, and certainly all was not said and all done, in 2025, but it will be eventually, consumers will pay the bulk of these tariffs. And so, you know, that's just a tax increase. We all pay lots of taxes through lots of different channels. And this will just be one of the channels that consumers pay taxes through. And then we have to decide as a country, do we think that this is an efficient way to do it. And there are both economic questions about that and political ones. Tariffs are a good way to pay taxes in a political sense and that they're not particularly salient. It's hard for someone to say, I am paying this increase in prices because that politician implemented that policy. There's so many steps to get from point A to point B that is actually a pretty attractive way to raise revenue, which gets to distribution of who's paying more. I mean, it's just going to be people who, you know, spend more on imported goods and more importantly, and now I'm going to come to businesses, more on both goods and services that use imported inputs. And, you know, as all negative things, of course this will be, you the brunt will be felt more by low-income households who even if they're not spending more in dollar terms are no doubt spending more of the share of their income on those sorts of goods and services. So let's come very quickly to which kinds of businesses are feeling the brunts of this. So I'll mention two things because I know we're running out of time. Sorry. Let me mention two things quickly. One, big businesses have departments of lawyers. And departments of accountants who are thinking carefully about this or are hiring lawyers and accountants to help them think carefully about this and they have access to the Trump administration perhaps to get exceptions. So it's the small and medium businesses that are way more hurt by current tariff policy because they just don't have the capacity to deal with this on a day-to-day basis. So that's number one. Number two. Certainly one of the stated goals of the Trump administration has been to improve the manufacturing sector, increase manufacturing employment, increase manufacturing output. We can talk for a whole nother hour about whether or not that's a useful goal in and of itself. I would say largely not, but certainly a stated goal of the Trump administration that has not come to pass even remotely and in fact, manufacturing employment has shrunk. That's not a surprise to any economists who looked at this issue. Manufacturers use imported inputs so you have actually made it harder not easier to manufacture domestically.

Kari Heerman Thanks, Wendy. That's very useful breakdown. And we're at time. So I just want to thank our panelists for a terrific discussion. Thank the audience for their patience with the venue change and for the great questions they've submitted. I have about 10 more than I'm going to ask as soon as I can get the rest of these people in a room again. I'm looking forward to continuing this conversation at Brookings going forward. Thanks very much.