

## Aurora Macro Strategies – Ten Lessons on Trump’s Trade Policy February 4, 2025

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### The Tearsheet

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- The opening days of the Trump administration saw trade policy thrust into the headlines—but what have we actually learned?

Feb 04	Jan Payrolls
Feb 12	Jan CPI
Feb 27	US 4Q24 GDP – 2 <sup>nd</sup> Estimate
Feb 28	Jan PCE
Mar 05	Canada & Mexico Tariffs Suspension Expires
<b>Mar 19</b>	<b>FOMC Meeting</b>
Dec 31	TCJA Individual Tax Cuts Expire
<b>2026</b>	<b>USMCA Renewal</b>
- Thus far President Trump has threatened and ultimately demurred on applying tariffs toward Colombia, Canada, and Mexico. There will certainly be more of that to come.
- In this report, we outline the ten most important lessons for trade from Trump’s first two weeks in office—and what investors and corporates can do to prepare for the remaining two hundred and six weeks.

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### 1. Lesson 1: Wait and See

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- Thus far President Trump has threatened and ultimately demurred on applying tariffs toward Colombia, Canada, and Mexico. There will certainly be more of that to come.
- While it’s theoretically possible that at some point President Trump will have made and then failed to execute, or execute in their totality, so many threats that people stop taking him seriously – that day is very far away. Leaders and CEOs believe he’s capable of following through, and react accordingly, so there’s few disincentives for the president to stop making wild threats.
- The rewards of correctly anticipating which of his threats materialize are outweighed by the costs of overreacting to what is likely to be a barrage of very publicly lit fuses that end up disarmed or fizzling out.

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### 2. Lesson 2: They Won’t Look, Leap, then Retreat

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- The administration’s modus operandi appears to be leap and retreat: sweeping decisions followed by an outcry and rapid retreats in damaging areas.
- We’ve already seen this pattern play out at the OMB as the new government announced freezes on all grants, and then in the face of vast outcries started rapidly adding exemptions.
- In trade this is likely to play out in the form of something like an across-the-board tariff announcement followed by a series of “clarifications” waiving them on goods with significant inflationary implications, political salience, little chance of being replaced with domestically produced alternatives, or simply friends in high places.
- Unfortunately, this suggests a somewhat exhausting pattern whereby we are constantly in the midst of a market panic about something that ultimately doesn’t materialize in the form it was threatened to – but only because the market panicked.
- This also means that economics won’t necessarily save us. The U.S. is a huge, primarily domestic economy and the administration has the tools to retroactively polish their announcements to sand off any impacts that gain political salience and public resonance.

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### **3. Lesson 3: Anyone, Anywhere, Any Time**

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- Not many trade experts predicted that the first near-trade war of the second Trump administration would be with Colombia over landing clearances for a C-130 Hercules.
- Whereas in the Biden administration one could count on trade measures largely being used for the traditional trade bugbears (steel, cars, timber and so on) or against global villains of the caliber of Russia and Iran, the Trump administration does not feel similarly confined.

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### **4. Lesson 4: Legally, He Can Do It**

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- In the first Trump administration, there was a recurring phenomenon whereby grand designs would run headlong into legal and institutional roadblocks. Sometimes this was by design, to pick a fight over a base-rallying issue, and at other times was a function of inexperience and a lack of curiosity from those entrusted to put the president's designs into action.
- While there have been hints of this in the second term already (e.g. the attempt to ban birthright citizenship), on trade Trump appears to both have the authority and know how to wield it.
- The International Economic Emergency Powers Act (IEEPA) he specifically name-checked in his post threatening Colombia really does provide vast authority to the Executive to do everything from tariffs to financial measures, up to and including asset seizure and the cessation of transaction processing. This is not going to be one of those situations where the Supreme Court is likely to ride to the rescue with an injunction.

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### **5. Lesson 5: It's Not Just Tariffs**

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- Trump's willingness to raise the spectre of financial sanctions raises the stakes of the game considerably – and not just for foreigners.
- If the US starts deploying meaningful financial sanctions against “normal” countries over minor diplomatic spats with the president, markets are going to wake up and take notice.
- For all the talk about BRICS Currencies challenging the supremacy of the US dollar, the only real threat has always been from self-inflicted wounds. We can only hope someone in the administration is pointing that out and doing so persuasively.
- With that said, we would go back to Lesson 1 above to caution that Trump hasn't done anything of the sort yet, and the rather vague language in his messaging about financial measures left plenty of room to do something like sanctions on individuals, well short of the types of measures that would spook markets.

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### **6. Lesson 6: He Can Be Bought — and the Price is Optics**

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- Though there's room to debate the exact scorecard, it seems clear that what defused the Colombia, Canada and Mexico situations, at least for the moment, was a set of “concessions” largely without substance.
- This offers some hope that future spats might likewise be resolved by offering the Trump administration some performative supplication and tokenistic gifts of earth and water.
- Smart players will be quietly compiling lists of U.S. grievances and brainstorming ways they could, if pushed, demonstrate that they were taking action on them – even if that action is purely performative.

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## **7. Lesson 7: Everyone's Got a Base**

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- That said, there's no such thing as a quiet confrontation with the United States, especially under the current president. Any threat is going to dominate headlines in the country on the receiving end, meaning that any response will be taking place under a political microscope.
- What that means in practice is that the extent to which other governments can make real or even tokenistic concessions to Trump will vary wildly depending on their political context.
- Some politicians may not be able to be seen to give in, and others might actively benefit from picking a fight – even when making a few token concessions and doing some groveling might be the Pareto-optimal choice.
- Mexico and Canada both drew up retaliation lists targeting what they perceived to be U.S. weak spots, and China has punched back on the 10% tariffs against it with a mix of energy tariffs, critical minerals export restrictions and domestic investigations of a big U.S. firm (Google).

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## **8. Lesson 8: Tariffs are Definitely Coming on Someone**

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- There's a scene in one of the latter seasons of *The West Wing* where during a presidential debate the Republican candidate (played by Alan Alda) is challenged on how he appears to believe that tax cuts are the solution to literally every problem. Trump appears to unironically hold to this view when it comes to tariffs.
- During remarks on the Ukraine-Russia war, the president floated tariffs as the “stick” to drive his Russian counterpart to the negotiating table in a conciliatory mood. Given Russia sells virtually nothing to the US, and is already sanctioned to the hilt, it's hard to see where he got the idea this would be effective leverage – but it offers an insight into his thinking: tariffs are a hammer, and absolutely every problem is actively auditioning for the role of “nail.”
- It seems therefore virtually inevitable that at some point in the next six to twelve months, a situation arises in which no last-minute compromise emerges and the US actually imposes tariffs – if for no other reason than to demonstrate that it's willing and able to. The implementation of additional tariffs on China is an example of this.

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## **9. Lesson 9: Rules are for Other People**

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- This is hardly revelatory, but there should no longer be any lingering doubt that the Trump administration would not feel constrained by U.S. treaty obligations or commitments, whether at the World Trade Organization, USMCA/NAFTA, KORUS or anything else.
- Unlike in his first term and campaign, the WTO hasn't been a prime punching bag in either his campaign or his post-election rhetoric, but the president also clearly believes the rules it and other U.S. agreements represent do not serve the U.S. interest and that there are few consequences for their violation.
- He can and will violate U.S. treaty commitments.

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## **10. Lesson 10: China is a Special Case**

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- While a lot of U.S. trade policy looks set to be made somewhat on the fly, by people with questionable credentials and without a great deal of initial thought given to the details, we believe China will be the exception.

- There is strong bipartisan consensus that the strength of China is an epoch defining threat to U.S. hegemony and national security. There is also a broad acceptance that existing measures to contain China have not succeeded as hoped – a perception that was significantly strengthened by recent Chinese successes in obviating technology export restrictions in the race to build the LLMs and AI models of the future.
- It seems virtually inevitable that the U.S. will deploy trade measures more intensively against China, motivated by overlapping objectives of decreasing the trade deficit, strengthening US self-reliance, slowing Chinese advancement in key sectors, and appearing to take the threat seriously.
- Moreover, while we can expect the president to focus on big picture details, large round numbers and big performative announcements – there are very smart details-guys working within the relevant U.S. government departments and they’re going to be given a lot of leeway.
- Businesses operating globally but with customers in the U.S. may soon find themselves facing additional restrictions and considerable compliance burdens as the administration tightens the screws and starts demanding increasingly onerous proof that one’s supply chain has minimized Chinese participation.

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## **11. Final Thoughts**

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- There are very few certainties about what’s coming down the pipe in the next four years. The entire edifice of the international rules-based trading system created since World War II was built on the premise that the benefits of providing certainty and predictability outweigh those of everyone being able to change their trade policy settings constantly, as a cudgel, on a whim, or simply as a tool of diplomacy.
- The current U.S. administration has completed the journey begun by its predecessors toward rejecting this notion. Trade policy is therefore likely to be chaotic, loud, and full of ominous threats that amount to nothing. The key to surviving and thriving in that context will be understanding the gap between what announcements or threats could mean and how they are actually implemented—and looking for countries and corporates that will benefit in either case.

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