Politics

Trump Wants Huge Tariff for Dollar Defectors, Fewer US Sanctions

- GOP candidate promises a revamp of American economic arsenal
- US sanctions onslaught led countries to seek dollar workaround

Donald Trump *Photographer: Hannah Beier/Bloomberg*

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Donald Trump pioneered new ways to use tariffs as a weapon of statecraft in his first presidency. He's promising to go full-bore next time – and even deploy a jumbo version to protect the US dollar.

Here's Why Dollar Dominance Is In Question

7:52

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The GOP candidate is signaling he'll ramp up America's economic arsenal if he beats Kamala Harris in November. Trump has talked down the utility of sanctions – even though he applied plenty himself – after a record-busting barrage of them failed to halt Russia's war in Ukraine. Sanctions, he's said, should be used "very judiciously" – but tariffs are "phenomenal."

Tariffs will deliver all kinds of domestic gains, according to Trump, like stocking a new sovereign wealth fund or offsetting revenue loss from income-tax cuts. Economists are skeptical, saying the trade barriers will slow growth, dent profits, raise prices and squeeze consumers - though that didn't stop Trump hitting the theme in response to the very first question in Tuesday's debate: "I had tariffs and you had no inflation," he said.

But it's on the international scene that the tariff threats will resonate most. As a new Cold War looms and the world economy splinters, recent presidents have kept finding new ways to weaponize America's economic and financial clout. Trump says he'll dial back some of them – but only because he's eyeing some new and perhaps more disruptive ones.

"We're going into the unknown," said Heather Conley of the German Marshall Fund of the United States. "Not just tariffs and sanctions, but the use of industrial policy and protectionism to help shelter future economies and competitiveness."

Trump's first-term agenda largely focused on rewiring trade with China, and he's vowed to continue by raising import duties as high as 60%. But there were also signs back then that he saw tariffs as a way to tackle problems that didn't have much to do with trade at all.

For example, in 2019 he threatened to impose a 5% charge on Mexican exports and then jack it up steadily until the flow of illegal migrants across the border was stemmed. The countries swiftly reached an immigration deal, and the tariffs were never imposed. That's the kind of stick Trump apparently envisages wielding more often in a second term.

'Major Siege'

One dramatic new proposal is aimed at foreign countries that seek ways to trade outside the dollar-based financial system - often in response to US sanctions. Trump says he'll slap on 100% tariffs to deter them.

"We will keep the US dollar as the world's reserve currency, and it is currently under major siege," Trump said at a rally Saturday in Wisconsin, when he first outlined the plan. "You're not going to leave the dollar with me."

Essentially, the idea is to leverage access to the lucrative US consumer market in order to maintain the dollar's hold over the world economy – instead of aggravating sanctions fatigue that's putting it at risk.

The appeal to a deal-maker like Trump is clear. Tariffs are relatively easy to turn on and off, making them an effective carrot-and-stick bargaining tool. And presidents have been able to tweak them without Congressional involvement, though some analysts expect legal hurdles to arise if Trump tries to push this much further.

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Among the downsides: Targeted countries can reply tit-for-tat – and if they're big economies like China, that hurts US exporters. What's more, some adversaries like Iran don't sell much stuff on American markets anyway.

Sanctions, on the other hand, are sticky - and even when they're lifted, it can be difficult to convince businesses that it's safe to invest in a country once it fell foul of Washington. But there's less room for retaliation in kind, because the world runs on greenbacks, so nobody else has that kind of financial leverage.

"There are probably more alternatives to the US consumer market than there are to the dollar as a currency that you can settle international transactions in," said David Loevinger, a former Treasury official who coordinated US-China policies.

'A Bizarre Use'

A global backlash against US sanctions has gathered pace after Washington and its allies unleashed a raft of penalties against Russia, freezing its central bank reserves and targeting thousands of officials and businesses.

The aim was to weaken the Kremlin's war effort. But with Russia's economy growing on the back of military spending, its currency stable and its army on the advance, the Biden administration has struggled to convince anyone that the tool has been effective.

Meanwhile, and partly in response, the BRICS club of major emerging economies has made trading outside the dollar an explicit goal. The bloc includes China and India as well as Russia — and it's steadily adding members, with oil powerhouse Saudi Arabia weighing an invitation to join and NATO member Turkey among recent applicants.

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Even though BRICS countries haven't abandoned the dollar, or figured out a coherent alternative, their effort has triggered a consternation about the greenback's status, as well as catching Trump's attention.

His proposed fix – the threat of a 100% tariff – is being widely panned.

“This would be a bizarre use of tariffs that could have the opposite effect of encouraging countries to reduce their use of the dollar and their consequent exposure to the vagaries of US policies,” said Eswar Prasad, a senior fellow at the Brookings Institution and author of *The Dollar Trap: How the US Dollar Tightened Its Grip on Global Finance*.

In a note to clients, Commerzbank AG strategist Ulrich Leuchtmann said the move “would cause massive disruption to the global economic system.”

Trump’s first-term tariffs caused some disruption, too - but since then the US has shifted toward a bipartisan appreciation for what they can accomplish. Biden largely kept them in place, adding a few of his own, and Harris hasn’t given any indication that she’d change course if she becomes president.

Financial sanctions are also a consensus tool among both Republicans and Democrats. Their use has skyrocketed since the start of this century – causing adversaries and even some allies to wonder if dollar-dependence leaves them too beholden to American foreign policy goals.

It’s not just Trump who has expressed concern that the US risks undermining a powerful weapon through over-use.

In a July Congressional hearing, Janet Yellen spent hours parrying questions from lawmakers. More than a dozen of them called for stepped-up sanctions on some country or other. As the session wound down, the Treasury secretary was asked what was her biggest concern on the international financial scene.

“We have very powerful sanctions that are available because of the important role of the dollar,” Yellen replied. “And the more we have used sanctions, the more countries look for ways to engage in financial transactions that don’t involve the dollar.”
(Updates with approval of new Biden tariffs five paragraphs from end)