



## Protectionism in U.S. Trade Policy

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*The U.S. administration under President Donald Trump has completed the renegotiation of the trade agreement with Mexico and Canada. At the same time, it has escalated the tariffs battle with another important partner—China. The strategy of concluding new deals under the pressure of protectionist measures is meant to maximise the benefits for the U.S. at the expense of its partners. The Trump administration has been successfully implementing this policy, but in the long term, the trade conflict may hinder American enterprises, including those in the agricultural sector, and increase the trade deficit, in effect contributing to the decline of support for the Republicans and the president.*

The most significant recent protectionist actions taken by the U.S. administration are aimed at [China](#). In June, the U.S. announced it will impose duties on \$50 billion worth of Chinese products in connection with accusations of theft of intellectual property. The second round of the trade war took place in September when the U.S. levied tariffs on \$200 billion worth of goods imported from China, which responded with tariffs on products worth \$110 billion. There is a high risk of further escalation: Trump's latest threats concern tariffs on the remainder of U.S. imports from China, totalling \$267 billion.

In addition, the U.S. administration in March imposed duties on all steel and aluminium imports, including from its closest economic partners Canada, Mexico, and the EU. It also threatens to impose duties in the automotive sector, which would be felt most strongly by the EU and Japanese economies. In view of these threats, [the EU](#) and Japan want to negotiate free-trade agreements with the U.S., which in turn suggested they refrain from imposing car tariffs. The effectiveness of the American strategy may be demonstrated by [the conclusion of the renegotiation of the free-trade agreement with Canada and Mexico](#) and with South Korea.

**Assumptions of U.S. trade policy.** Although the United States is the world's second-largest economy after the EU and the third-largest exporter, it is the least dependent on trade among the developed countries (it accounted for 27% of GDP in 2016). The problem, however, is it has the world's highest negative balance of trade in goods and services—\$566 billion in 2017—and reducing it has become the main objective of the current administration's trade policy. Through protectionist measures, Trump wants to achieve internal political goals of increasing the number of jobs in traditional industrial sectors, such as steel production.

At the same time, the U.S. benefits from international trade. Thanks to imports, consumers have access to cheaper products and producers focus on the export of high-tech goods and services. Therefore, the long-term goal of U.S. trade policy is to remove barriers in global markets, thereby gaining favourable conditions for American companies and strengthening the protection of their intellectual property. The current administration views the path to further liberalisation leading [through pressure from protectionist measures](#).

**Threats to the U.S.** This strategy is risky because tariffs negatively affect the U.S. economy. They include goods worth \$282 billion as a result of the decline in the competitiveness of U.S. companies participating in global value chains. The negative consequences for American companies are reinforced by retaliatory

duties imposed by U.S. partners on goods worth over \$125 billion (of which \$110 billion are duties imposed by China). Because of that, farmers suffer (e.g., soybean producers who lose the Chinese market to the advantage of exporters from South America) and some industrial sectors. In addition, companies face non-tariff barriers, such as complications with registering their activities in China. The competitiveness of some American entities also is reduced by free-trade agreements (CPTPP, EU-Japan), liberalising trade in goods and services but to which the U.S. is not a party.

The long-term negative effects to the U.S. economy resulting from the decline in the competitiveness of its domestic companies may have serious structural ramifications, such as limiting investment and employment or even moving production abroad. As a result, protectionism, instead of helping American businesses, along with the tax cuts and deregulation introduced by Trump's administration, can harm it.

Customs may also translate into higher prices for U.S. consumers, lowering their purchasing power. An increase in inflation could, in turn, induce the Federal Reserve (the Fed) to speed up the pace of interest-rate hikes, which would increase the cost of loans to U.S. companies. The Fed's actions may also influence the further appreciation of the dollar, carrying with it a further drop in the competitiveness of U.S. production and reducing import costs, watering down the impact of the tariffs. These potential economic consequences could lead to effects opposite of what Trump assumes—instead of reducing the U.S. trade deficit, it might increase.

**Opportunities for the U.S.** The aggressive trade policy of the administration may incline some partners towards making concessions, e.g., to guarantee American businesses wider access to their markets. This strategy has brought the expected results in relations with countries strongly associated with the U.S. economically, i.e., Mexico and Canada, which have granted some concessions to the U.S. in the renegotiation of NAFTA, or in the security sphere as seen in South Korea's amendment of its free-trade agreement.

The U.S. actions can also benefit relations between its two main economic partners—the EU and China. As part of smoothing the trade dispute with the U.S., it would be possible to conclude sectoral agreements on the reduction of tariffs and non-tariff barriers, mainly concerning industrial products sold to the EU and a partial market opening in China. The U.S. can also use trade disputes to push for favourable changes in the WTO, i.e., to strengthen this institution in the fight against unfair trade practices, of common interest to the U.S.-EU-Japan coalition.

Improving conditions for U.S. businesses through import duties can also be an incentive to increase the demand for American goods on the domestic market. Some selected industries, such as heavy industry or furniture makers, are already benefiting because foreign firms are their main competitors. In addition, in September President Trump signed a law reducing customs duties on 1,700 imported raw materials and semi-finished products to support American firms that use them. The stronger dollar would also be beneficial for U.S. importers because it lowers the costs of the tariffs.

**Perspective.** Trump's trade disputes are a tool of pressure on partners. His administration's intent is not to shut down the global economy but to gain additional benefits for the U.S. through renegotiated or new trade agreements. The success of these activities depends, above all, on whether other countries will decide to make concessions and conclude trade agreements with the U.S. The U.S.-Mexico-Canada Agreement and renewed deal with South Korea indicate the potential of this strategy. The next two agreements to be negotiated are with the EU and with Japan. This de-escalation of trade tensions may temporarily improve the Republican Party's standing before the November mid-term elections, and in the long run, might help achieve another main objective of Trump's cabinet—reducing the trade deficit.

The most serious potential consequences, both positive and negative, are the tariffs battles with China. The protectionist measures applied will benefit only a limited group of U.S. enterprises and their profits less than the losses of companies from industries affected by both the U.S. tariffs and retaliatory actions. In connection with these fears, in July, the U.S. Senate adopted a non-binding resolution demanding Congressional verification of potential tariffs imposed by the president in connection with national security. Also, stronger pressure from lobbying groups representing certain industries and from farmers should be expected. If the trade disputes escalate, they may overshadow the success of the revised agreement with Mexico and Canada, both in the short term in the context of the Congressional elections in November and in the longer term in the presidential election in 2020, thus reducing the chances of a Republican candidate.