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Trump's Protectionism: What Future for US Trade Policy?

By Su-Hyun Lee

Synopsis

Trump's protectionism has isolated the United States from its longstanding allies, adding uncertainty and instability to the global trading system. If a full-blown trade war erupts, the root cause can be traced back to Trump's protectionist policy.

Commentary

DESPITE THREATS of retaliation from its longstanding allies and trading partners, the Trump administration has not only maintained its protectionist stance but has in effect triggered an incipient trade war. Trump's protectionism is clearly becoming the axis of conflicts in the current global trading system and generating fears of a full-blown trade war across countries.

On 6 July 2018, the European Union (EU) announced that it may respond to Trump's steel tariffs with a provisional safeguard on steel imports in July. Once formally adopted, such measure could adversely hit major steel exporters, such as China, India, Korea, Russia, and Turkey. Trump will not change his stance easily until he clearly recognises the political and economic costs of his protectionism. Unfortunately, this will destabilise the global trading system.

Trump's Tariffs

Over the past few months, Trump has kept imposing a series of tariffs on a wide scope of US imports, such as solar panels, washing machines, steel and aluminium, relying on rarely-used provision of U.S. trade laws.

One major conflict comes from his decision to impose 25% tariffs on steel and 10% on aluminium from the EU, Canada, and Mexico as of 1 June. After first announcing

sweeping tariffs on metal imports last March, the Trump administration granted temporary exemptions to some of its allies with an expectation that the tariffs would help the US get concessions in other trade deals.

Argentina, Australia, Brazil, and South Korea got permanent exemptions only after setting some quantitative restrictions. Exemptions for Canada, Mexico, and European countries, however, were not extended, as the Trump administration did not achieve that much from its negotiations.

The most recent and notable conflict was sparked as the Trump administration announced that 25% of tariffs on \$34 billion worth of Chinese goods would go into effect as of 6 July. Trump earlier warned that if China keeps hitting back, another set of tariffs would be imposed on \$16 billion of Chinese goods.

Tit-for-Tat Trade Disputes

Not surprisingly, Trump's tariffs are dragging America's major trading partners into a spiral of tit-for-tat protectionism.

The EU immediately launched its counterattack through its "three-pronged-response". The European Commission confirmed that "rebalancing duties" on about €2.8 billion of American goods came into effect as of 22 June, to compensate the damage that Trump's protectionist measure yield to European exporters.

As they notified the World Trade Organisation (WTO) last month, the EU's retaliatory tariffs are precisely targeting symbolic American goods, such as oranges, Levi's jeans, Harley-Davidson motorcycles, and Kentucky Bourbon. All of which are mainly produced by constituencies represented by Republican party leaders.

The EU's response also includes the launch of a WTO case against the US and the potential implementation of safeguard action to protect the European producers from the US' trade measures. If the WTO rules that Trump's tariffs are illegal, the EU will impose 10-50% of additional tariffs on €3.6 billion of American goods in 2021.

Widening Response

In response to Trump's tariffs on steel and aluminium imports, many other countries have enacted similar counteractive measures. Canada imposed "dollar-for-dollar" retaliatory tariffs on CA\$16.6 billion of American steel, aluminium and other items on 1 July, which Canada's Foreign Minister Chrystia Freeland had called "the strongest action that Canada has taken in the postwar era".

Mexico took equivalent retaliatory actions with 20-25% tariffs on \$3 billion of American exports, such as pork, bourbon and cheese. Russia has also recently imposed 25-40% tariffs on US construction, metal, oil and gas equipment.

While criticising Trump's tariffs on Chinese products as "trade bullying," China warned that they would strike back with countermeasure tariffs on \$34 billion worth of American auto parts, agricultural and fish products. Like the EU, China's retaliatory

tariffs cover products from Republican strongholds, including Iowa, Nebraska, Kentucky, and a swing-state, like Florida.

New Cracks in Global Trading System

Several important questions arise. Will the growing trade war with its allies and trading partners ever affect the Trump administration's trade policy? Will Trump's protectionism lead us to a 1930's style tit-for-tat trade war?

The G7 summit held in Quebec last month gives us some clue. The summit evidently shows that most of G7 countries are strongly committed to free, fair, and beneficial trade. While the tensions from Trump's tariffs already reached a high point, Canadian Prime Minister Justin Trudeau and French President Emmanuel Macron pledged their support for a "strong, responsible, transparent multilateralism" ahead of the summit. The G7 joint communique also indicated G7 leaders' strong resolve and willingness to fight against protectionist and to build a rules-based international trading system.

At the summit, however, Trump isolated himself from other leaders and the US from its allies. He criticised that the US has been treated like a "piggy bank that everybody keeps robbing," taking aim at the EU's retaliatory tariffs. Later he confirmed via twitter that the US would not endorse the G7 communique, as it is just a false statement made by Trudeau.

On the diplomatic front, Trump's tariffs have also been drawing strong criticisms and disappointment from its close allies since Commerce Secretary Wilbur Ross justified the reduction of metal imports on grounds of American national security.

The irony is that the top 10 steel exporters to the US subject to Trump's tariffs are its close allies, not China. Of course, the EU and Canada were almost infuriated by the fact that Trump's metal tariffs were justified on the grounds of national security.

Future of American Trade Policy

Despite ongoing criticisms and concerns from its allies and trading partners, the Trump administration has doggedly stuck to its protectionist stance. The salience of trade in US elections has been greater than ever. That means the electoral benefits of offering targeted protection has increased and that how voters feel about trade, regardless of the accuracy of their knowledge, might affect election outcomes.

Secondly, the WTO has limited influence on the Trump administration. Despite its lack of enforcement power, the WTO has been successful in promoting international cooperation over trade, because it is a multilateral framework where member countries care about their reputations for future benefits.

Here Trump completely defies all of these principles. He sees trade as a zero-sum game where one party gains from the other's loss. Ironically, the current institutional setting that drove the liberalisation of US trade allows Trump to adjust tariff rates and bilateral trade negotiations or his own goals.

Will it take a full-blown global trade war to push the Trump administration to realise that its current strategy does not pay?

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