Analysis of U.S. International Economic Policies and its Implications

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I. Introduction

The former President Trump put "America First" as the slogan of U.S. economic policies and imposed import restrictions and tariffs on trading partners based on Sections 201, 232, and 301 of the U.S. trade acts. The Trump administration's trade policies using various trade remedies not only aroused great antipathy from countries affected by those measures, but also led to retaliatory tariffs on U.S. exports of goods and services to other countries. In addition, the Trump administration strongly promoted renegotiation, claiming that some existing trade agreements had been concluded unfavorably to the U.S., and also actively conducted new trade negotiations in the perspective of bilateralism.

The new Biden administration has also implemented protectionist international economic policies similar to the former administration. The U.S. administration put pressure on China to carry out import commitments included in the Phase I trade agreement between the U.S. and China in 2020. To this end, the Biden administration continues to impose tariffs on about $270 billion of the U.S. imports from China. Moreover, President Biden has made efforts to reestablish the U.S.-centered supply chains for critical products (semiconductors, high-capacity batteries, critical minerals, and pharmaceuticals) and industries including defense, health, ICT, energy, transportation, and agriculture. This policy tool is also intended to exclude China from global supply chains and to strengthen the U.S. capability of manufacturing those critical products.

II. The International Economic Policy of the Trump Administration

There were broadly four types of international economic policies implemented by the Trump administration: 1) import control based

on the provisions of the national trade acts, 2) renegotiation of existing trade agreements, 3) standardization of digital trade rules, and 4) FDI and reshoring. First of all, policies of import control based on Sections 201, 232, and 301 of the U.S. trade acts had diverse impacts on both the U.S. and its trading partners. Safeguard measures (Section 201) were applied to the U.S. imports of solar panels and washing machines in February 2018 in order to protect the U.S. firms from economic harm. As a result, the U.S. imports of solar panels and washing machines, especially from Vietnam (solar panels relative to 2017: -52%) and Korea (washing machines relative to 2017: -48%), significantly decreased compared to the imports before the implementation of those measures. Another policy of import control is tariff implementation based on Sections 232 and 301. Section 232 is related to national security and applied to the U.S. imports of steel and aluminum. On the grounds that the U.S. imports of those products have become significant threats to the national security, the Trump administration implemented policies of tariffs on steel and aluminum imports by 25% and 10%, respectively. As a result, the U.S. imports of steel and aluminum from other countries such as Russia and China significantly decreased after the implementation of those tariffs. Finally, Section 301 tariffs on Chinese imports were intended to correct China's unfair trade practices. While total Chinese imports for tariffs target were about $370 billon, some of the tariffs were suspended after the Phase I trade agreement between the U.S. and China in 2020.

The Trump administration pushed for renegotiation of existing trade agreements, raising the issues of trade imbalance and the need to modernize some provisions. After taking office, President Trump demanded renegotiation of the North American Free Trade Agreement (NAFTA) between the United States, Mexico and Canada, insisting on the need to modernize the provisions and resolve the trade imbalance. Following this, the USMCA replaced the NAFTA and came into force on July 1st in 2020. In addition, President Trump demanded renegotiation of the KORUS FTA, arguing that the trade imbalance between the U.S. and Korea had worsened due to the FTA since his presidential campaign in 2016. Through the revised KORUS FTA, Korea achieved the results of improving the investor-state dispute settlement system (ISDS) and revising the textile origin standards, while the U.S. realized improvements in the areas of automobile safety and environmental standards, global innovative drug price priority system, and country of origin evaluation.

Furthermore, the Trump administration promoted the standardization of digital trade rules and the strengthening of digital taxation in order to support the expansion of digital trade by the U.S. multinational big tech companies and reduce their tax burden. Evaluated to contain the highest level of digital trade rules among the trade agreements signed by the U.S., the USMCA serves as a representative example of promoting the standardization of digital trade rules, together with the trade agreements be-

tween the U.S. and Japan including the liberalization of cross-border data movement and prohibition of data localization measures. Moreover, the Trump administration argued that manufacturing companies for consumer goods should be included in the taxation target, contrary to the stance of the EU and the UK, which only considered imposing a digital tax on multinational digital companies.

When it comes to policies related to FDI and reshoring, the Trump administration introduced the Foreign Investment Risk Review Modernization Act (FIRRMA) to prevent China from expanding direct investment in the U.S. In fact, China's direct investment to the U.S. has risen since the early to mid-2010s, mainly in the form of mergers and acquisitions (M&A) by Chinese companies with U.S. firms. China's direct investment to the U.S. increased from only $4.57 billion in 2010 to $60.3 billion in 2016. Furthermore, among China's FDI to the U.S. from 1990 to 2017, 93% was made in the form of M&A. In response to this trend, the Trump administration introduced the FIRRMA, which includes provisions on strengthening the review authority of the Committee on Foreign Investment (CFIUS). In the case of reshoring policies, the Trump administration reformed the tax system in 2018. The administration tried to induce reshoring of domestic companies by implementing measures to significantly reduce corporate tax and prevent the U.S. multinational corporations from transferring their overseas income through the tax reform in 2018. For in-

stance, the reform contained a decrease of corporate tax rate from 35% to 21%. It also introduced a special tax rate (cash: 15.5%, asset: 8%) when the U.S. multinational firms remit their overseas retained earnings to the U.S. to lessen the tax burden.

III. Analysis for the Impacts of International Economic Policies of the Trump Administration

We empirically analyze the impacts of international economic policies of the Trump administration on the U.S. economy. Specifically, this study firstly examines the effects of import control policies on the U.S. industrial employment and production. We refer to Flaaen & Pierce (2020) to construct three main paths (protection of domestic enterprises, rising production costs, and retaliatory tariffs) of the Trump administration's import tariff measures that affect our dependent variables (the U.S. industrial employment and production). By using those three paths as explanatory variables, we estimate the impacts via the difference generalized method of moments (GMM) model. The baseline model of estimation is as follows.

$$\log(y_{i,t}) = \zeta + \delta y_{i,t-1} + \gamma_1 ip_{i,t-1} + \gamma_2 rc_{i,t-1}$$
$$+\gamma_3 fr_{i,t-1} + \gamma_4 ExportShare_{i,t}$$
$$+\gamma_5 ImportShare_{i,t} + \lambda_i + v_{i,t}$$

where ip_i, rc_i, and fr_i represent paths of an industry i's protection of domestic enterprises,

rising production costs, and retaliatory tariffs, respectively. Moreover, $ExportShare_{i,t}$ and $ImportpShare_{i,t}$ indicate the industry i's share of exports and imports in year t, respectively. $v_{i,t}$ is an idiosyncratic error.

According to the empirical results, we find that the path of domestic industry protection had a positive effect on employment at the 5% statistical significance level in the first column of Table 1. This can be interpreted as an 89.5% increase in the U.S. industrial employment wh-

en the path increases by one unit. The fourth column of the same table shows that statistical significance of all the estimation coefficients for each path disappears, but the signs are positive (+), negative (-), and negative (-) when the three paths of the domestic industry protection, production cost increase, and retaliatory tariff are included in a single regression model. These results are consistent with the initial expectation in the direction that each path affects the U.S. industrial employment.

Table 1. Impacts of Tariffs of the Trump Administration on the U.S. Industrial Employment

	(1) log(employment)	(2) log(employment)	(3) log(employment)	(4) log(employment)
ip	0.895* (0.406)			2.519 (7.149)
rc		0.001* (0.001)		-0.003 (0.012)
fr			-0.262 (1.066)	-0.269 (1.066)
Export Share	15.698* (7.406)	15.704* (7.408)	15.696* (7.414)	15.678* (7.409)
Import Share	0.535 (1.205)	0.536 (1.205)	0.594 (1.170)	0.600 (1.168)
L.log (employment)	0.309* (0.142)	0.309* (0.142)	0.309* (0.142)	0.308* (0.142)
Time Dummy	included	included	included	included
No. of Industries	79	79	79	79
Observation	2,686	2,686	2,686	2,686

Arellano-Bond Test	Lag	z	P>z	z	P>z	z	P>z	z	P>z
	1	-2.63	0.01	-2.63	0.01	-2.63	0.01	-2.63	0.01
	2	0.71	0.48	0.71	0.48	0.72	0.47	0.71	0.48

Notes: 1) Standard errors are in parentheses.
2) Significance level: † $p<0.1$, * $p<0.05$, ** $p<0.01$, *** $p<0.001$.
Source: Author's estimation

We also find that the tariffs on imports implemented by the Trump administration affect industrial production through all three channels. According to the fourth column of Table 2, the path of the domestic industry protection shows a negative effect on industrial production. Moreover, the path of production cost increase shows a positive effect, whereas the path of retaliatory tariff shows a negative effect. Regarding these results, it can be inferred that the U.S. firms try to increase margins by producing less than before the time of tariffs, and at the same time by setting a lower domestic price than imported goods on which high tariffs were imposed.

Table 2. Impacts of Tariffs of the Trump Administration on the U.S. Industrial Production

	(1) log(industrial production)	(2) log(industrial production)	(3) log(industrial production)	(4) log(industrial production)
ip	-0.221 (0.239)			-5.837* (2.940)
rc		-0.0001 (0.0001)		0.009* (0.005)
fr			-0.861** (0.306)	-0.807** (0.310)
Export Share	1.077* (0.484)	1.080* (0.485)	0.962* (0.479)	0.915* (0.461)
Import Share	0.869 (0.942)	0.869 (0.942)	1.006 (0.964)	1.001 (0.968)
L.log(industrial production)	0.753*** (0.040)	0.753*** (0.040)	0.739*** (0.041)	0.736*** (0.042)
Time Dummy	included	included	included	included
No. of Industries	79	79	79	79
Observation	2,660	2,660	2,660	2,660

	Lag	Z	P>z	z	P>z	z	P>z	z	P>z
Arellano-Bond Test	1	-5.44	0.00	-5.44	0.00	-5.38	0.00	-5.32	0.00
	2	0.36	0.72	0.36	0.72	0.33	0.74	0.33	0.74

Notes: 1) Standard errors are in parentheses.
2) Significance level: † $p<0.1$, * $p<0.05$, ** $p<0.01$, *** $p<0.001$.
Source: Author's estimation

Next, we estimate the impact of the Tax Cuts and Jobs Act (TCJA) introduced by the Trump administration in 2017 on the U.S. direct investment to foreign countries. By analyzing these impacts, we would like to examine whether there were positive effects on corporation reshoring and expansion of domestic investment. Using the country-year panel data, the effects of the tax reform on changes in the amount of the U.S. direct investment to other countries were analyzed. The number of countries in our sample is 56, and the sample period is from 2010 to 2019. The baseline model of estimation is as follows.

$$DI_{i,t} = \alpha + \beta \times TCJA_t + X_{i,t}'\gamma + u_i + \theta_t + \epsilon_{i,t}$$

where $DI_{i,t}$ represent the direct investment of the U.S. to a country i and year t. $TCJA_t$ indicates a dummy variable for the tax reform in 2018. $X_{i,t}$ are other control variables that affect the U.S. direct investment including corporate tax rate, GDP per capita, real GDP growth rate, real exchange rate, and governance indicators by country. u_i and θ_t represent country and year fixed effects. $\varepsilon_{i,t}$ is an idiosyncratic error term.

Figure 1. The U.S. Direct Investment to Foreign Countries by Year

(Unit: $ million)
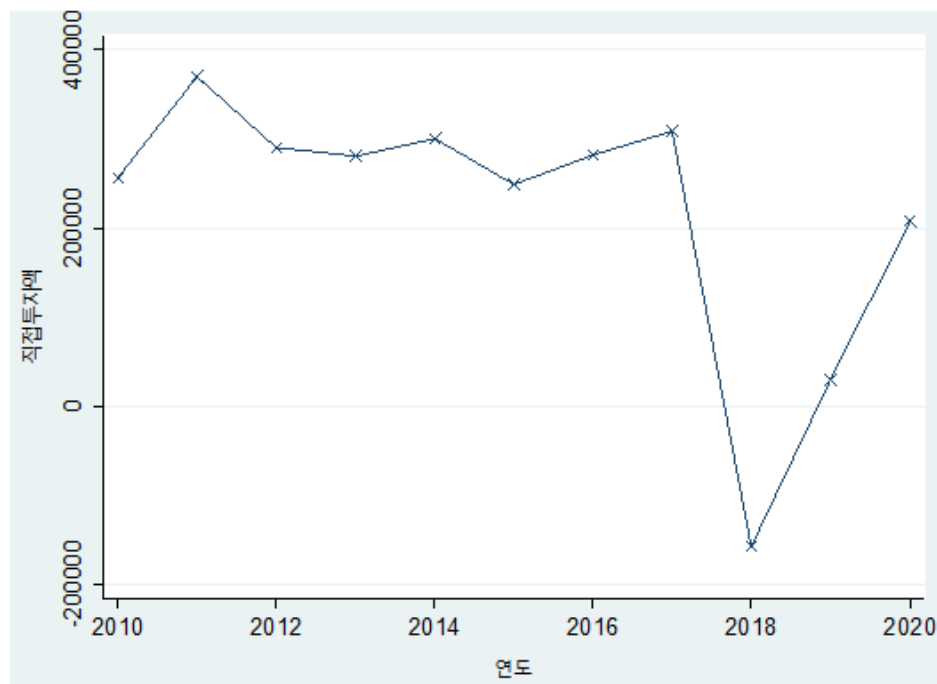
Note: Direct investment is a concept of flow, and a positive value indicates an outflow of funds, while a negative value indicates an inflow of funds into the U.S.
Source: U.S. Bureau of Economic Analysis (BEA)

Table 3. Impacts of 2018 TCJA on the U.S. Direct Investment to Foreign Countries

	(1) log(USDI)	(2) log(USDI)	(3) log(USDI)
TCJA	-0.037*** (0.002)		-0.037*** (0.002)
Corporate Tax Rate		-0.009 (0.180)	-0.009 (0.180)
GDP Per Capita	0.029 (0.023)	0.029 (0.025)	0.029 (0.025)
Real GDP Growth Rate	0.434 (0.350)	0.432 (0.322)	0.432 (0.322)
Real Exchange Rate	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Voice and Accountability	0.003 (0.013)	0.003 (0.021)	0.003 (0.021)
Political Stability	-0.010* (0.005)	-0.010 (0.007)	-0.010 (0.007)
Government Effectiveness	-0.033† (0.019)	-0.032** (0.012)	-0.032** (0.012)
Regulatory Quality	0.038 (0.031)	0.037 (0.033)	0.037 (0.033)
Rule of Law	-0.000 (0.026)	-0.001 (0.037)	-0.001 (0.037)
Control of Corruption	0.010 (0.018)	0.010 (0.024)	0.010 (0.024)
Year Fixed Effect	Included	Included	Included
Country Fixed Effect	Included	Included	Included
Observation	360	360	360

Notes: 1) Standard errors are in parentheses.
    2) Significance level: † $p<0.1$, * $p<0.05$, ** $p<0.01$, *** $p<0.001$.
Source: Author's estimation

As a result of the analysis, we find that the Trump administration's implementation of the TCJA in 2018 had a negative impact on the U.S. direct investment to other countries. However, the sustainability of the tax reform effect seems to be low. According to the third column in Table 3, the U.S. direct investment decreased by 3.6% (=$\{e^{-0.0369658}-1\}*100$) due to the implementation of the TCJA in 2018. Note that the government efficiency index was found to have a statistically significant negative effect on the U.S. direct investment, which is contrary to the results in the existing literature. This result is likely to be due to the high correlation between each governance index by country. Thus, we utilize the average of those indices as a control variable instead of including all the individual governance indices in a single regression model. Then, we also find that the 2018 TCJA had a negative impact on the U.S. direct investment to foreign countries. Furthermore, the average of each country's governance indices appears to have a positive effect on the dependent variable.

Table 4. Impacts of 2018 TCJA on the U.S. Direct Investment to Foreign Countries
(Average of Governance Indicators)

	(1) log(USDI)	(2) log(USDI)	(3) log(USDI)
TCJA	-0.001** (0.001)		-0.001* (0.001)
Corporate Tax Rate		0.078* (0.033)	0.078* (0.033)
GDP Per Capita	0.026*** (0.005)	0.028*** (0.005)	0.028*** (0.005)
Real GDP Growth Rate	0.271* (0.120)	0.296* (0.120)	0.296* (0.120)
Real Exchange Rate	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Average of Governance indicators	0.006* (0.003)	0.005* (0.003)	0.005* (0.003)
Year Fixed Effect	Included	Included	Included
Country Fixed Effect	Included	Included	Included
Observation	310	310	310

Notes: 1) Standard errors are in parentheses.
    2) Significance level: † $p<0.1$, * $p<0.05$, ** $p<0.01$, *** $p<0.001$.
Source: Author's estimation

IV. The International Economic Policy of the New Biden Administration

Unlike the previous Trump administration, the Biden administration has been emphasizing the importance of a multilateral trade system and cooperation with allies. Specifically, the Biden administration places great value on a multilateral trading system centered on the WTO and a rule-based system. Moreover, the administration is trying to strengthen cooperation with the EU to keep China in check. As a cornerstone for WTO structural reform, the Biden administration nominated those who were in charge of professional trade negotiations at the USTR to key positions in the WTO and prepared plans of cooperation with EU in response to China's unfair trade practices. The administration has been preparing for the decoupling between the U.S. and China in the high-tech field, and the Trade and Technology Committee (TTC) has been formed to strengthen the anti-China technical alliance with the EU and conducting periodic discussions.

The Biden administration has been holding China in check by maintaining tariffs on imports from China and strengthening cooperation with its allies. In addition, the administration has implemented a strategy to link universal values of mankind such as human rights and the environment to the U.S. international economic policy stance. The Biden administration has not withdrawn the tariffs imposed by the previous Trump administration on imports from China, criticizing that the Chinese side of the Phase I trade agreement between the U.S. and China is not being properly implemented. President Biden also requested allies to jointly keep China in check through summits with Korea, Japan, and G7. Furthermore, the Biden administration has considered introducing a ban on imports of products made through forced labor by the Chinese government in Xinjiang Uyghur Autonomous Region, or the introduction of measures to impose a carbon border adjustment tax or quota on products manufactured in countries with excessive carbon emissions such as China.

When it comes to other international economic policies of the Biden administration, representative examples are strengthening application of the Buy American Act and deploying the U.S.-centered supply chain. The Buy American Act was first enacted in 1933, and President Biden criticized federal government departments and related agencies for neglecting the use of domestic products by taking advantage of the gaps in the law. In this regard, President Biden signed the "Made in America" executive order on January 25 in 2021, containing the strongest measures on the preferential purchase of products made in the U.S. Moreover, President Biden ordered the establishment of a stable U.S.-centered supply chain that excludes China from key items (semiconductors, high-capacity batteries, important minerals including rare earths, pharmaceuticals) and major industries (defense, health, ICT, energy, transportation, agriculture)

by signing an executive order on "America's Supply Chains" on February 24, 2021. In particular, President Biden ordered a review of supply chain risks and to devise a strategy to solve them in the field of the four key items and six major industries. According to the White House 100-Day Supply Chain Review Report released on June 8 in 2021 as a follow-up measure, the U.S has been significantly dependent on China in terms of rare earths, batteries for electric vehicles, and pharmaceuticals. Furthermore, it has been confirmed that China's influence has been expanding at various stages of the supply chain for semiconductors such as manufacturing, assembly, testing and packaging. In response, the Biden administration recognized that building a stable and resilient supply chain centered on the U.S. would be essential to national security for those critical items. Thus, it is likely that the Biden administration will strengthen domestic manufacturing capabilities and take specific actions to resolve vulnerabilities in its supply chain through cooperation with allies.

V. Conclusion

In conclusion, there are three policy implications based on the above analysis. First of all, it is necessary to strengthen digital trade cooperation with middle power countries along with a detailed analysis and review of the economic impacts in preparation for the modernization of digital trade rules. Currently, the U.S. and the EU are in fierce competition to secure the lead in standardization of digital trade rules, and in particular, the U.S. has strongly advocated for digital trade liberalization in favor of its big tech companies Google, Apple, Facebook, and Amazon (GAFA). To achieve this objective, the U.S. has been leading the WTO e-commerce negotiations initiated in 1998, demanding a fairly high level of digital trade norms during the discussions. In the case of the KORUS FTA, the guarantee of cross-border data movement is the only one that is stipulated as an effort clause, and there is no provision for other clauses. There is a possibility that it will have a negative impact on the domestic digital industry if it is applied prematurely without sufficient analysis. Accordingly, it is necessary to closely analyze the impact of the modernization of digital trade rules on related industries in Korea, and listen to the opinions of related experts and difficulties of companies through public hearings at the government level.

In addition, it is necessary to utilize the middle power countries to respond to the U.S. or EU leading the international discussion process to set digital trade norms standards. As can be seen from the fact that the U.S. is leading the WTO e-commerce negotiations, international standards related to digital trade rules are inevitably focused on large advanced economies such as the U.S. and the EU. Korea officially declared the start of negotiations for the Digital Partnership Agreement (KSDPA) with Singapore on June 22 in 2020, and promoted a digital trade alliance with Australia, New Zealand and Philippines. As such, it is necessary to actively respond to the establishment of international digital norms through

cooperation with middle power countries, while seeking ways to promote digital trade in various fields.

Second, Korea needs to take advantage of the benefits provided by the U.S. federal government, while strengthening norms-based supply chain cooperation with the U.S. in the process of reorganizing the global supply chain centered on the U.S. The Biden administration has been expanding support for the U.S. semiconductor production and R&D, strengthening the semiconductor alliance, and providing subsidies and tax benefits to foreign companies. Accordingly, the Korean government should strengthen support through high-level economic dialogue channels so that Korean companies can use the support provided by the U.S. federal government to strengthen their semiconductor supply chain investment and technological cooperation with the U.S. We also need to ask the U.S. side for normative supply chain cooperation based on rules. The Biden administration has requested that related companies submit data to investigate the semiconductor supply chain, and warned that if they do not comply, the Defense Production Act may apply. Korea needs to review the possibility of leakage of company core business information due to the request of the U.S. government to provide data, as well as overseas cases such as Taiwan's TSMC's response, to establish a strategy favorable to its interests. Korea will also need to ask the U.S. for norm-

based supply chain cooperation while avoiding conflicts between the measures and WTO regulations.

Finally, it is necessary to reach an amicable agreement with the U.S. on trade remedies that have already been applied by the U.S. government. The former Trump administration applied an import quota at 70% of the average three-year import volume from 2015 to 2017, instead of imposing a 25% tariff on Korea's steel imports based on Section 232 of the U.S. Trade Expansion Act. The measures have continued even after the Biden administration took office. As the Trump administration continued to impose tariffs on steel and aluminum and import quotas, the issue of global steel oversupply, which President Trump presented as the basis for implementing the policy, has also been largely resolved recently. Furthermore, as seen in the results of the previous empirical analysis, it is difficult to see that the previous Trump administration's import tariffs had a positive effect on the U.S. industry as originally expected. Therefore, Korea needs to persuade the Biden administration to withdraw the Section 232 measures of the steel quota system by utilizing the above-mentioned grounds and at the same time raise the need to strengthen supply chain cooperation with the U.S., as seen by the Biden administration's recent measure to abolish Section 232 steel tariffs on EU member states. KIEP

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