

Prospects for U.S. International Economic Policy under the New Protectionism



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The world trade system has been experiencing some extent of instability due to the weakening prestige of the WTO along with a rising trend of protectionism in the world. Specifically, the multilateral trading system represented by the WTO has gradually lost its power to arbitrate trade disputes among members. Moreover, this relatively old system had crucial drawbacks in the sense that it only focused on the adjustment of trade policies among nations. In other words, it has not properly tackled issues of illegal subsidies, labor, environment, and digital trade which have become major topics under the changing international trade circumstances. This made advanced economies such as the U.S. and EU consider another type of mechanisms reflecting their own interests.

Mega-FTAs were introduced as an alternative way not only to overcome the limitations of the WTO system but also to expand market opportunities for both developed and developing countries. As a representative example, the U.S. Obama administration led negotiation processes for the Trans-Pacific Strategic Economic Partnership (TPP), a multinational free

trade agreement among 12 countries in Asia-Pacific regions. It required member nations to ensure a significantly higher level of market openness compared to other free trade agreements established to date. It also contained mandatory provisions related to digital trade, such as the protection of private information and prohibitions against requesting localization of computing equipment. It seemed that the TPP could bring large economic benefits to its member countries and provide guidance about how free trade agreements can respond to changes in the global trade environment including digital trade.

However, Donald Trump, the 45th President of the U.S., shook the world trade system while emphasizing “America First” as the basic theme of his administration’s economic policy. He firstly withdrew from the TPP at the time of his presidential inauguration. He also argued even before the presidential election that globalization and free trade have harmed the U.S. people and industries by providing gains only to its trade partners and worsening U.S. competitiveness. In this regard, he mainly focused on the issue of the U.S. trade deficit with China. The Trump administration started to impose a significantly high rate of tariffs (up to 25%) on most of the Chinese imports in 2018 in order to resolve the trade deficit problem. President Trump also imposed higher tariffs on U.S. imports of steel and aluminum, hiking these to 25% and 10%, respectively. As the grounds of these tariff policies, he insisted that the world had experienced an oversupply of those products and that the U.S. workers and related industries had suffered significant loss of jobs and profits due to the U.S.’ excessive imports of these items.

According to the classic theory of terms of trade externality, an import tariff makes products of foreign exporters cheaper by shifting some cost of the tariff policy to those exporters (Johnson 1953). Based on the theory, the level of protectionism implemented by each country depends on its ability to affect terms of trade through the country’s trade policies. For example, if a country has a monopsony power for a product all over the world, then the country can utilize a higher level of trade policies reflecting protectionism. This argument has been used to refute another viewpoint that every country’s level of protectionism is only determined by political considerations rather than consideration of terms of trade.

The trade policies of the Trump administration run against the theoretical implication of terms of trade externality in terms of the following reasons. First, President Trump used the U.S. tariff policies for political objectives rather than economic interests. This can be verified in the sense that the U.S. trade deficit with China did not significantly decrease even though high tariffs were imposed on extensive Chinese imports. Second, the criteria of selecting products for import tariffs were not based on consideration of terms of trade. For instance, target products for the third round of China tariffs were chosen because they had been related to Chinese

Manufacturing 2025 strategy, by which China intended to strengthen its capabilities to self-produce cutting-edge products such as semiconductors and telecommunication equipment.

Based on the empirical analysis conducted in our research in 2021, the tariff policies of the Trump administration have the effect of increasing employment through the protection of domestic industries. However, looking at the effect of tariff imposition on industrial production, we find that it has the effect of reducing industrial production through both protecting domestic industries and imposing retaliatory tariffs. Summarizing the above results, we argue that the Trump administration's tariff measures had a somewhat positive effect on U.S. industrial employment, but it is difficult to say that the policy effect that President Trump initially expected was achieved as the measures also had a negative effect on industrial production.

How about the approaches of the Biden administration? The policy actions of the Biden administration so far are not likely to be significantly different from those of the Trump administration. Although the Biden administration reached an agreement with the EU on the withdrawal of tariffs on steel, those tariffs on other trading partners and the Section 301 tariffs on Chinese imports are still in place. The Biden administration, however, has been putting pressure on China in many ways continued from the Trump administration. For example, the Biden administration has continued to demand the implementation of China's commitments to the Phase One trade agreement reached by the former Trump administration with China. Moreover, the administration has linked human rights and environmental issues to trade measures to apply more pressure on China.

Like the Trump administration, other foreign economic policy directions taken by the Biden administration are showing strong protectionist perspectives. President Biden witnessed the shortage of essential medical supplies such as masks, respirators, and protective suits, as well as semi-conductors for vehicles, during the global COVID-19 pandemic. Accordingly, the Biden administration has been shaping policies to address these kinds of supply chain risks due to the pandemic. For example, President Biden has decided to strengthen the application of the "Buy American Act," which stipulates that domestic products can be used preferentially in the federal government procurement sector. Moreover, he has implemented policies to reorganize the global supply chain around the U.S. in key products (semiconductors, high-capacity batteries, critical minerals, and pharmaceuticals & active pharmaceutical ingredients) and industries (defense, health, ICT, energy, transportation, agriculture) excluding China.

The world trade system has been facing great challenges due to many changes in international

trade circumstances. Large economies such as the U.S., EU, and China have been strengthening protectionism in order to compete with their rivals. Given this type of trend, it is likely that the WTO will neither be able to play an effective role in resolving trade disputes among its members, nor lead the world trade system through updated rules. The situation requires us to think about how to prepare our strategies under these severe circumstances in order to secure our interests.

First, in the process of reorganizing the global supply chain centered on the U.S., Korea needs to take advantage of the benefits provided by the U.S. federal government and strengthen its cooperation with the U.S. in the supply chain based on norms. Through the ROK-U.S. summit in May 2021, Korea is planning to make large-scale investments in the U.S. in the semiconductor and electric vehicle battery fields, and the U.S. also wants to make up for weak points in its supply chain in these fields. Second, Korea needs to reach an amicable agreement with the U.S. on trade remedies that have already been applied. As seen in the results of the previous empirical analysis, it is difficult to view the tariffs imposed by the former Trump administration as having the expected positive impact on U.S. industries. In this regard, Korea should also strive to persuade the U.S. to replace existing relief measures, such as the Section 232 steel quotas, by raising the need to strengthen its supply chain with the U.S. **KIEP**

References

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