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Article

Evaluating the impact of U.S. protectionist trade policies

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Abstract: The electoral campaign that led Trump to win the presidential election focused on attacking the elites and using nationalist rhetoric, highlighting issues such as illegal immigration and economic globalization. Once in power, his trade policies, based on perceptions of unfair competition with countries like China, resulted in the imposition of high tariffs on key products. These measures were justified as necessary to protect domestic industries and jobs, although they triggered trade wars at the international level. This article examines the economic consequences of the protectionist policies implemented by the United States under the Trump administration. The protection of less competitive sectors aims to reduce imports, negatively affecting production and income in exporting countries, and limiting U.S. exports to these markets. Although some countries have experienced an increase in real income due to trade diversion, overall, income fluctuations have been negative.

Keywords: protectionist policies; trade agreements; trade barriers; global trade; USA

1. Introduction

In recent decades, there has been a resurgence of interest in economic geography, driven by globalization and the emergence of regional blocs, which has intensified concerns about the radical changes in the location of economic activities. The New Economic Geography seeks to explain which locations attract most businesses and the mechanisms that make these locations attractive (Krugman, 1991). A significant mechanism identified is the market access effect, which predicts the concentration of economic activity in regions with greater market potential (Behrens et al., 2006; de Castro, 2005; Krugman and Livas, 1996; Monfort and Nicolini, 2000). Trade liberalization, by altering the market potential of regions, impacts the location of economic activities within countries, although there is no consensus on whether it leads to greater concentration or dispersion of economic activities (Behrens et al., 2007).

This study focuses on evaluating the impact of U.S. protectionist trade policies, particularly under the Trump administration, on the location of economic activities and regional wage inequalities. Trade liberalization has two opposing effects on domestic industrial location: greater market access that favors production for export and increased import competition that is detrimental to domestic firms competing with foreign producers (Dmitriev, 2020; Junguito, 2006). U.S. trade policies during the Trump era, characterized by tariff increases and renegotiations of free trade agreements (Fidler, 2017; Guo, 2021), provide a natural experiment to analyze these dynamics.

Previous studies have shown that trade policies can significantly influence regional economic disparities. For example, Hanson (1997) analyzed trade liberalization in Mexico and found that distance from industrial centers negatively influenced regional wages, with no significant structural changes observed after liberalization. Similarly, this study examines the structural estimation of the wage equation present in economic geography models (Hanson, 2005) to understand how U.S. protectionist policies have affected regional wages and foreign investment decisions, particularly in publicly traded companies in Korea.

By analyzing the period from 2017 to 2020, this study hypothesizes that U.S. protectionist trade policies have led to significant changes in foreign ownership ratios and regional wage gradients, drawing parallels and contrasts with the Spanish interwar experience, where a shift from an open to a closed economy influenced regional wage disparities (Orozco Soto, 2019). The findings aim to contribute to the ongoing debate on the effects of trade policies on regional economic inequalities and the location of economic activities.

2. Agreements and negotiations

2.1. Agreements under negotiation

In 1993, President Bill Clinton promoted NAFTA, arguing that it had reversed a \$5.7 billion trade deficit with Mexico in 1987 to a \$5.4 billion surplus in 1992, promising that the agreement would generate "hundreds of thousands of jobs" in the United States (Clinton Presidential Papers, 1993). However, the results were different; since its implementation in 1994, the United States has maintained a trade deficit in goods with Mexico and Canada, although it has had a surplus in services since 1999. In 2017, the United States had a trade deficit of \$71.1 billion with Mexico and \$17.5 billion with Canada.

Moreover, many aspects of NAFTA facilitated outsourcing, which increased the exposure of American workers to Mexican export subsidies and accelerated the decline of manufacturing in the United States, especially in the automotive sector (Tirado et al., 2013). In response to these shortcomings, President Trump notified Congress in 2017 of his intention to renegotiate NAFTA to modernize and rebalance the agreement, seeking to reduce the U.S. trade deficit and secure greater benefits for American workers and businesses.

The KORUS FTA, implemented in 2012, has also been problematic. Although significant increases in U.S. goods exports were initially expected, the U.S. trade deficit with Korea increased by 73% since the agreement came into effect. Service exports, which initially showed growth, have stagnated since 2013. Additionally, Korea has introduced non-tariff barriers and measures that favor domestic companies, undermining the expected benefits for U.S. businesses.

To address these issues, the USTR has renegotiated the KORUS FTA in 2018 in order to achieve more reciprocal benefits. These negotiations include efforts to improve regulatory transparency and eliminate non-tariff barriers affecting U.S. companies.

Both treaties, NAFTA and the KORUS FTA, have had mixed results and have not fully met the initial promises. The ongoing renegotiations aim to correct these imbalances and ensure that trade agreements benefit all parties involved more equitably. Current initiatives, led by the Trump administration, focus on updating the provisions of the agreements and rebalancing the terms to favor American workers and businesses.

2.2. Free trade agreements

After Israel (1985) and NAFTA (1993), the US has followed a strategy of 'competitive liberalisation' pursuing new Free Trade Agreements (FTAs) with many countries around the world, presenting both benefits and challenges (see **Table 1**). This is the complete list of FTA's signed by the US:

Table 1. Free Trade Agreements (FTAs) signed by the U.S.

Agreement	Date of Signing	Entry into force
USA-Israel	22/Apr/1985	19/Aug/1985
NAFTA	17/Dec/1992	01/Jan/1994
US-Australia	18/May/2004	01/Jan/2005
US-Bahrein	14/Set/2004	01/Jan/2006
US-Korea	30/Jun/2007	15/Mar/2012
US-Jordan	24/Oct/2000	17/Dec/2001
US-Morocco	15/Jun/2004	01/Jan/2006
US-Oman	19/Jan/2006	01/Jan/2009
US-Panama	28/Jun/2007	31/Oct/2012
US-Singapore	06/May/2004	01/Ene/2004
US-Peru	12/Apr/2006	01/Feb/2009
US-CAFTA-Dominican Republic	05/Aug/2004	05/Aug/2004
US-Chile	06/Jun/2003	01/Jan/2004
US-Colombia	22/Nov/2006	15/May/2012
USMCA	30/Nov/2018	01/Jul/2020

The United States-Australia Free Trade Agreement, in effect since 2005, has been considered a success model, with significant increases in trade of goods and services and a trade surplus for the United States. However, in agricultural trade, the United States maintained a deficit with Australia in 2017. The agreement with Bahrain, in force since 2006, has created export opportunities and opened Bahrain's services market to U.S. companies, although challenges remain in implementing labor rights and environmental protection.

The CAFTA-DR, signed in 2004, has eliminated tariffs and opened markets in Central America and the Dominican Republic, resulting in a trade surplus for the United States in 2017. However, the effective implementation of labor laws and violence against union activists remain significant concerns, particularly in Guatemala. The agreement with Chile, in effect since 2004, has significantly liberalized trade and maintained a trade surplus for the United States. Nonetheless, issues persist in the implementation of commitments related to intellectual property and technical barriers to trade. Similarly, the CTPA with Colombia, in force since 2012, has opened markets but faces challenges in the effective application of labor laws and the protection of workers' rights.

Other agreements, such as the FTA with Jordan (2001) and Morocco (2006), have improved U.S. exports but still face problems in the implementation of labor standards and workers' rights. The FTA with Oman (2009) has promoted economic growth in the region, although challenges in labor rights and environmental cooperation persist. The TPA with Panama (2012) and the PTPA with Peru (2009) have liberalized trade, but the implementation of labor laws remains an important focus area. Finally, the FTA with Singapore (2004) has maintained consistent trade surpluses for the United States, standing out as one of the most successful agreements in terms of trade balance.

2.3. Other negotiating initiatives

In 2017, the United States Trade Representative (USTR) maintained a series of negotiation initiatives with various countries in the Americas, Europe, the Middle East, and Asia, aimed at strengthening trade relations and addressing specific trade issues. With Argentina, the United States signed a Trade and Investment Framework Agreement (TIFA) in 2016, establishing a Trade and Investment Council to address issues such as market access and intellectual property protection. In 2017, meetings were held in Buenos Aires and Washington to advance these topics. In Brazil, bilateral dialogue took place through the Economic and Trade Relations Commission under the Trade and Economic Cooperation Agreement signed in 2011, with meetings scheduled for 2018 to address trade facilitation and technical barriers (Jung and Mun, 2019).

In Europe and the Middle East, USTR focused its efforts on reducing regulatory barriers and strengthening cooperation with the European Union, particularly in the face of common challenges such as China. In 2017, a United States-United Kingdom Trade and Investment Working Group was established to prepare for the post-Brexit trade relationship and explore the possibility of a bilateral agreement (USTR, 2017). Additionally, discussions with Turkey resumed under the TIFA process, focusing on the digital economy and intellectual property protection. In the Middle East and North Africa, USTR continued to oversee and implement free trade agreements with Bahrain, Israel, Jordan, Morocco, and Oman, and held TIFA consultations with countries such as Algeria and Tunisia (USTR, 2017).

In Asia and the Pacific, USTR committed to strengthening trade relations, highlighting the creation of a Trade and Investment Working Group with Japan and close collaboration with South Korea through the KORUS FTA. Within the framework of the Asia-Pacific Economic Cooperation (APEC), the United States led initiatives to facilitate digital trade and improve competitiveness in services, as well as to eliminate non-tariff barriers for agricultural products. Additionally, USTR promoted the economic empowerment of women in Central and South Asia through trade agreements and investment initiatives, emphasizing the importance of integrating women entrepreneurs into international trade (USTR, 2017).

3. Trump's protectionist trade policy

Bonikowski and DiMaggio (2016), in their analysis of the varieties of American nationalism, revealed that 17% of respondents identify as "ardent" American nationalists, characterized by a strong sense of citizenship, devotion to U.S. institutions and laws, and adherence to the Protestant ethic. Additionally, 38% of respondents exhibit an even more restrictive perception of American identity, coupled with a strong pride in American exceptionalism. This group predominantly includes individuals with lower-middle incomes, lower-middle education, middle-aged, and whites from the Midwest and the South. According to Bonikowski and DiMaggio, this ethnocultural sentiment has increased due to the perception that the American Dream has not been realized, in contrast to other lesser forms of nationalism, such as "disengaged" and "creedal nationalism", which believe they have achieved the American Dream.

This description of the varieties of American nationalism is reflected in Donald Trump's voter base during the 2016 presidential election, composed mainly of white, religious Protestants with lower-middle education, residing in the Midwest and the South (CNN Exit Polls, 2016). However, a notable difference is that Trump's voters include individuals with upper-middle incomes. Trump's campaign focused on attacking political and business elites, presenting himself as a defender of the people, which, according to Friedman (2018), was a tactic to garner support from his followers. Trump used nationalist rhetoric to mobilize his supporters, highlighting issues such as illegal immigration, Islamic terrorism, and economic globalization, aiming to expand his conservative base.

Trump's campaign was also characterized by statements that did not correspond to reality. Curtis (2016) notes that Trump made numerous false statements during his campaign, such as claiming that undocumented immigrants were responsible for high crime rates, which was debunked by studies from the Cato Institute and the Marshall Project showing that undocumented immigrants have lower incarceration rates than native-born Americans. Despite this, many voters accepted his claims and granted him the electoral victory. Trump's presidency and nationalist rhetoric have triggered an increase in racial hate crimes, according to the FBI, and have been endorsed by far-right movements with xenophobic interests, representing a betrayal of American exceptionalism (Müller and Schwarz, 2018; Williams and Hauslohner, 2018).

During his campaign and presidency, Donald Trump aligned closely with his political supporters, who significantly influenced the rationalization of his policies. According to Carnes and Lupu (2017), Trump's voters were predominantly economically well-off individuals, though with little formal education, and belonged to key industrial sectors such as manufacturing, heavy machinery, electronics, and automobiles. These sectors, affected by industrial decline since the 1973 oil crisis, found in Trump a champion of American industrial revitalization, promoting protectionist policies and economic federalism to attract multinational industries and reduce imports (Hackett, 2016).

Trump's trade policy was based on the perception of a competitive and unbalanced trade structure with countries like China. For instance, the price of solar panels has drastically decreased due to mass production in China, affecting the competitiveness of U.S. solar industries (IEA, 2016). Similarly, the U.S. washing machine industry is threatened by imports, leading to the imposition of high tariffs by the USITC (2017). Steel and aluminum production also face significant challenges due to global overcapacity and high domestic production costs, with China again being a key player in this imbalance (U.S. Department of Commerce, 2018). These protectionist measures, justified by Trump as necessary to protect domestic industries and jobs, have resulted in aggressive international trade wars (Shan, 2010).

Moreover, Trump adopted a restrictive immigration policy, limiting the entry of immigrant workers to preserve jobs for native-born Americans. However, this policy could have negative consequences for the U.S. labor market, as Holzer (2018) points out, since the lack of labor could increase wages and, consequently, the prices of consumer goods, reducing the real income of workers. In summary, Trump's economic and trade policies reflect his populist and nationalist aspirations, seeking to protect the national economy through protectionist measures and reindustrialization, though this entails risks and challenges in the context of the global economy (Kamarck et al., 2017). The new protectionist trade strategy of the Trump administration on international trade took the form of tariffs.

Relying on legislation that allows the president to take action on imports that threaten national security, he imposed or increased tariffs on a wide range of goods, from solar panels and washing machines to steel and aluminum, and a broad range of Chinese products. In total, the tariffs affected $380 billion worth of imports, based on trade flow data prior to the escalation. Most of the tariffs were related to trade with China and were intended to combat intellectual property theft and other unfair practices. Secondary political objectives of stimulating U.S. manufacturing and improving the current account balance were clearly factors influencing the imposition of new tariffs. However, the choice to act alone in the confrontation, largely outside the multilateral dispute system, marked a clear departure from previous U.S. efforts to collaborate with Europe to maintain and shape a global trading system to its benefit.

The immediate economic consequences of the new U.S. trade barriers were as predicted by economic theory and many economists.

The increase in tariffs led to higher input prices for U.S. companies—particularly in manufacturing industries—and higher retail prices for U.S. consumers, as well as a loss of sales for U.S. exporters. Several academic studies have shown that the tariffs almost fully passed through to the prices of U.S. imports. As a result, Americans experienced higher costs, lower incomes, reduced employment (even in the manufacturing sector), and a decline in net production, even after accounting for the benefits granted to protected producers.

In the context of this 'trade war', much attention has been paid to the relations between China and the United States. Since the tariffs were imposed, U.S. imports of goods produced in China have decreased overall, but the decline has been concentrated in tariffed products, while imports of certain categories of non-tariffed products have increased. Notably, this has not resulted in a significant change in the U.S. trade balance: Sino-U.S. trade has taken convoluted routes and direct trade has been replaced by increased trade with other countries, particularly Mexico. The trade war has also not led to the adoption of better trade practices or a reduction in China's state subsidies.

Although Beijing remains the primary target of the tariffs, transatlantic relations have not been spared from the trade war. The tariffs on steel and aluminum for national security reasons were applied to metal imports from the European Union and other allied countries, particularly Japan, the United Kingdom, Canada, and Mexico. The U.S. decision to unilaterally confront China has increased transatlantic tensions. U.S. trading partners have reacted to each round of U.S. tariffs. In retaliation, U.S. exports worth about $100 billion faced higher tariff barriers. American agricultural producers, in particular, have been significantly affected by the retaliatory measures, suffering direct export losses amounting to billions.

4. Impact of Trump's protectionist trade policy

4.1. From NAFTA to USMCA

The hypothetical scenario of the United States reinstating trade barriers within the North American Free Trade Agreement (NAFTA) zone highlights significant shifts in trade flows and their economic repercussions. According to the analysis, the imposition of import duties and non-tariff trade barriers akin to those mandated by the World Trade Organization (WTO) would predominantly alter trade dynamics within the NAFTA region. U.S. imports from Canada would decline by approximately $74 billion (21%), and from Mexico by $36 billion (13.6%). In contrast, U.S. imports from non-NAFTA countries would increase by about $29 billion, with notable rises from China, Japan, and Germany (approximately $5.4 billion, $5.0 billion, and $4.4 billion, respectively). Despite this, the deep-rooted trade relationships with Canada and Mexico would be difficult to replace, highlighting the entrenched economic interdependencies within NAFTA.

The shifts in trade flows would consequentially impact the real income of citizens in the NAFTA countries. The simulation results suggest that solely increasing customs duties would minimally affect well-being. However, combining customs duties with non-tariff trade barriers would lead to a substantial income decline in Canada (about 1.5% in the long term) and a moderate decline in the United States (around 0.2%). Notably, this scenario does not account for potential retaliatory measures from Canada and Mexico, which could exacerbate income declines in the United States. Other countries would experience negligible direct impacts on income due to their indirect economic links with NAFTA. External countries, such as Germany, Japan, and South Korea, might benefit initially from increased exports to the U.S., potentially boosting their real incomes. However, higher trade costs within NAFTA would also negatively affect these countries by increasing production costs for intermediate goods and services imported from NAFTA, thereby reducing their international competitiveness and potentially leading to lower exports and income.

The analysis underscores that the reintroduction of trade barriers would disproportionately impact Canada. If the changes in income are considered on a per capita basis using 2014 as the reference year, Canada's real per capita annual income would decrease by nearly $730. This significant decline reflects the country's heavy reliance on trade with the United States and the integral role of NAFTA in its economy. Consequently, reimposing trade barriers would not only disrupt established trade relationships but also pose considerable economic challenges for Canada, the U.S., and Mexico, with ripple effects felt globally.

The USMCA is the new trade agreement that replaces NAFTA. On 30 November 2018, the three nations signed a new agreement to begin the process of updating the treaty during the G-20 summit held in Buenos Aires. These negotiations retained key elements of this trade relationship while incorporating new and updated provisions aimed at addressing the so-called 21st-century trade challenges and promoting benefits for people living in North America. By strengthening the rules and procedures governing trade and investment, this agreement has proven to be a solid foundation for strengthening the already strong economic ties between the three nations.

Despite NAFTA renegotiation was a campaign promise started by Trump, the final result had the acceptation of both US trade partners. The Mexican government, led by President Andrés Manuel López Obrador, has stated that the entry into force of the USMCA will help the Mexican economy after suffering a decline due to the Covid-19 pandemic.

According to the USMCA text, the USMCA will have three fundamental changes compared to NAFTA. The main difference between NAFTA and the USMCA is the number of chapters each treaty has; it is expected that with this update, trade will be promoted to be beneficial for all parties and enable greater market freedom, fairer trade, and robust economic growth in North America. NAFTA has 22 chapters, while the USMCA consists of 34 chapters, with additions and modifications to the chapters that constitute the USMCA implying significant changes compared to NAFTA, particularly in topics such as regional content (which has a major impact on the supply chain and process registration), combating corruption, wages, environment, and e-commerce. Also, The United States proposed that up to 45% of car manufacturing must be the result of labor earning at least $16 an hour, which implies less factory mobility due to lower labor costs in Mexico. Finally, the agreement will have a duration of 16 years but will be reviewed every 6 years.

Some of the reforms included by USMCA include the following:

- Reduce costs from customs operations to facilitate trade exchanges, through rapid movement of goods at borders and facilitating control of the logistics chain.
- Modernize disciplines in agricultural trade, eliminating outdated provisions and incorporating new disciplines part of recently signed Free Trade Agreements by Mexico and international forum work.
- Establish clear rules to ensure transparency in the inclusion of pharmaceutical products and medical devices in health care programs under reimbursement schemes and protect health programs applied by the Federal Government.
- Reinforce the commitment to combat corruption.
- Contribute to strengthening and consolidating the National Anti-corruption System.
- Maintain the legal structure of NAFTA 1994.
- Improve communication between the authorities of the NAFTA parties.
- Update NAFTA 1994 provisions.
- Include a treaty review mechanism to avoid the current situation where the treaty lost its capacity to respond and adapt to new economic circumstances.
- Include an ambitious chapter regulating regulatory processes to promote transparency and accountability when developing and implementing regulations.
- Support the development of compatible regulatory approaches among the parties and reduce or eliminate burdensome, duplicative, or divergent regulatory requirements.
- Strengthen and promote the development of digital trade through a legal framework that fosters electronic operations and provides security for electronic media users.
- Promote a digital environment that encourages secure electronic transactions.

- Generate and drive innovation in high-quality digital content, products, and services, transforming how people and businesses interact.
- Achieve a highly ambitious agreement to increase service trade among the parties and particularly favor Mexican service providers' access to the U.S. market, free from discriminatory requirements.
- Reaffirm applicable principles to service trade and incorporate disciplines responding to the sector's current regional environment.
- Create an adequate legal framework to enhance Mexican service providers' competitiveness and their insertion into global value chains.
- Reflect the economic competition reform and international best practices in the field.
- Strengthen cooperation and coordination among the parties' competition policy authorities.
- Establish a mechanism for information exchange and actions to favor North American competitiveness.
- Maintain access to public procurement markets for Mexican suppliers.
- Maintain reserves in Mexico's public procurement market to continue promoting national supplier development.
- Foster competition and transparency between SOEs and private enterprises in international trade and investment.
- Ensure SOEs act under competitive conditions, eliminating subsidies and supports that may cause trade distortions.
- Provide legal certainty for private Mexican enterprises, ensuring SOEs operate under the same market conditions while protecting public interest sectors such as energy and Development Banking.
- Establish mechanisms to provide legal certainty to service providers, exporters, importers, and investors currently participating in the energy sector.
- Increase facilitation for Mexicans interested in doing business in the U.S., including transparency on access conditions in North America.
- Update the institutional framework for investment protection and its dispute resolution mechanism.
- Promote the application of fundamental labor rights in labor legislation; ensure migrant workers' protection.
- Promote a cooperation agenda to apply fundamental labor rights and foster dialogue to address differences related to the chapter's commitments.
- Maintain Mexican sanitary authorities' right to set an adequate level of sanitary and phytosanitary protection while facilitating Mexican agricultural products' access to the U.S. and Canada through specific risk analysis, regionalization, equivalence, audits, import reviews, and certifications.
- Promote partners environmental interests, such as sustainable use of biodiversity, combating wildlife trafficking, and air quality; ensure the continuity of institutional schemes, public participation mechanisms, and regional cooperation developed within the North American Commission for Environmental Cooperation.
- Promote transparency, good practices, and regulatory cooperation related to the development, adoption, and application of standards and technical regulations

and their conformity assessment procedures.

- Ensure the parties comply with the commitments assumed under the WTO Agreement on Technical Barriers to Trade.
- Strengthen Mexico's international commitments on currency manipulation without risking fiscal or monetary regulatory or supervisory activities by the parties' authorities.
- Ensure the chapter does not apply to regulatory or supervisory activities or monetary and credit policy related to Mexico's fiscal or monetary authority.
- Modernize origin certification and verification schemes according to 21st-century needs and promote their effective application in the new agreement.
- Promote an effective and equitable intellectual property system that contributes to economic development and social and cultural well-being, balancing innovator interests and public interest.
- Promote fair trade practices that contribute to economic and social development.
- Consolidate an institutional framework that promotes the publication of laws, regulations, procedures, and administrative resolutions of general application among the parties, ensuring economic operators and the general public are informed.
- Promote more opportunities for Mexican SMEs and entrepreneurs to increase exports and participation in global and North American value chains.
- Establish new WTO-compatible provisions on trade remedies and maintain the dispute resolution mechanism for antidumping and countervailing duties.
- Incorporate disciplines and new provisions aligned with this sector's needs and leverage new technological tools.
- Preserve the State-to-State dispute resolution mechanism, providing coherence to the agreement by allowing parties to resolve disputes arising from the treaty's interpretation, application, and scope.
- Adapt the agreement to the telecommunications sector's evolution, optimizing the infrastructure and free-market conditions necessary to incentivize its future development.
- Define clear, effective rules of origin and verification provisions to ensure the proper application of tariff preferences, contributing to developing USMCA partners textile and apparel chain.
- Update and include new trade provisions ensuring greater transparency and certainty in applying non-tariff measures to avoid trade restrictions.

4.2. Effects of U.S. protectionist measures on global trade

The reintroduction of trade barriers within the North American Free Trade Agreement (NAFTA) zone would significantly impact trade flows and corresponding economic repercussions. U.S. imports from Canada and Mexico would decrease by $74 billion (21%) and $36 billion (13.6%), respectively, while imports from non-NAFTA countries would increase by approximately $29 billion, particularly from China, Japan, and Germany. This shift in trade flows would negatively affect the real incomes of NAFTA countries' citizens, with Canada being the most affected, experiencing an annual per capita income decrease of nearly $730. This disruption in established trade relations poses considerable economic challenges for Canada, the U.S., and Mexico, in addition to having adverse global effects due to higher production costs and reduced international competitiveness (Betz et al., 2023).

The U.S. corporate tax reform, which entails a 20% tax on imports and a 20% subsidy on exports, would result in a long-term reduction in real income in the U.S. It is expected that exchange rate changes will neutralize this fiscal policy in the long term, but it will also trigger sectoral trade adjustments. The measure would protect less competitive sectors in the U.S. by reducing imports and lowering production in exporting countries, which would, in turn, limit the demand for U.S. goods in those markets (Peterson et al., 2018). Despite the temporary protection for some sectors in the U.S., the policy would result in a long-term decrease of 0.7% in real income. Some countries could experience increases in real income due to trade diversion effects, but most would face negative income fluctuations due to reduced competitiveness and structural production changes.

U.S. protectionist measures against all WTO member countries, with a 20% increase in tariffs and non-tariff barriers, would lead to a significant decrease in U.S. exports and imports. In the most benign scenario, where only the U.S. increases its tariffs, U.S. exports would fall by between 20% and 30%. In the most extreme sub-scenario, with simultaneous increases in tariffs and non-tariff barriers, U.S. exports would fall by more than 70%, and imports by more than 50%. These measures would result in a decrease in gross real income, with the U.S. suffering the fourth largest percentage drop in income. Countries with close economic ties to the U.S., such as Canada and Mexico, would face even greater income losses due to their high dependence on the U.S. market. Protectionist countermeasures in other countries would not achieve income increases and could, instead, limit potential losses without generating a net income increase (Hernandez, 2017).

Trump's protectionist trade policies, while aiming to protect domestic industry and increase income through tariffs and non-tariff barriers, present a mixed picture regarding their economic effects. The reintroduction of barriers in NAFTA and corporate tax reform would tend to protect certain domestic sectors at the expense of reduced imports, but would also reduce real incomes in the long term for both the U.S. and its trading partners. In the broader scenario of protectionist measures against all WTO countries, the consequences would be even more drastic, with a significant decline in cross-border trade and notable decreases in incomes in the U.S., Canada, and Mexico. In summary, protectionist policies may not achieve the desired objectives of improving the domestic economic situation and could instead trigger a series of negative effects both nationally and globally.

This text suggests conducting additional studies to assess how protectionist policies affect innovation and efficiency in the protected sectors in the long term. This is crucial to understand whether these measures foster a more robust economy or perpetuate dependence on government protection. Moreover, it recommends further exploring the diplomatic and cooperative repercussions resulting from trade barriers with Canada and Mexico. It is necessary to investigate potential countermeasures by these countries and how they could impact long-term trade and political relations.

Additionally, it is important to thoroughly examine the impact of corporate tax reform, specifically how companies will adapt their supply chains to the inability to deduct imported intermediate goods. Research on the impact on foreign direct investment and the global competitiveness of U.S. companies is required (Metiu, 2021). Furthermore, a detailed analysis of how protectionist measures alter global supply chains and affect various economic sectors in different countries is essential. Understanding the implications for multilateral trade relations and the functioning of the WTO is crucial.

Finally, another aspect that deserves attention is the evaluation of the impact on domestic income and employment. Empirical studies should be conducted to assess the effects of protectionist policies on different demographic groups and regions within the U.S. It is essential to examine how these measures influence domestic employment and income, as well as the purchasing power of consumers. Additionally, research is recommended on how trade barriers and tax reforms affect the environment, particularly in terms of carbon emissions and sustainability. Evaluating the potential indirect effects on production and consumption patterns and their impact on environmental sustainability is equally important.

5. Forecasting protectionist tendencies after Trump

The majority of tariffs imposed under the Trump administration have been consolidated under Joe Biden's administration. In total, the tariffs imposed by Trump represented nearly $80 billion in new taxes on Americans. Almost $74 billion of these tariffs remain in place today under the Biden administration, largely reflecting measures directed at imports from China. The reduction of approximately $6 billion in tariffs under Biden includes exemptions or minimal modifications to certain tariffs on steel and aluminum, tariffs on washing machines and solar panels, and tariffs on aircraft. On the transatlantic front, the Biden administration negotiated an agreement to replace tariffs on steel and aluminum with tariff-rate quotas. The agreement also resulted in a temporary pause in the European Union's retaliatory tariff measures. However, the Biden administration was unable to conclude a permanent agreement, and the issue remains unresolved pending a decision by the next administration. Furthermore, Biden has actually accelerated the protectionist shift by other means: increasing non-tariff barriers and mimicking China's industrial policies. A constant trend towards protectionism under both administrations has gone somewhat unnoticed: the failure of American leadership in the World Trade Organization. By blocking the appointment of judges to the appellate bodies, the Trump administration effectively nullified the dispute resolution process, which is the foundation of the international trading system. Since then, the Biden administration has not been able to restore the functioning of the WTO. It has not decided to negotiate new trade agreements. The Trade Promotion Authority, a U.S. law passed by Congress that allows a president to negotiate trade agreements, was last enacted in 2015 and expired in July 2021. To date, the Biden administration has not requested new authorization.

Looking ahead, it is unlikely that the international trade order will prosper under either of the two main candidates in the November 2024 elections. However, the situation would probably be worse under a new Trump administration than under a Biden one. So far, Trump has campaigned to create new trade barriers, including a global tariff of 10%, a tariff of 60% or more on all imports from China, and the complete decoupling from Beijing. So far, Trump has campaigned to create new trade barriers.

The trade war has increased the average tariff rate on imports of Chinese products from 3% to 12%. Quintuple the tax to 60% would cause a significant negative shock to companies' supply chains and would impact consumer prices, business production, and overall well-being. It would disrupt companies' relationships with their suppliers, further divert trade flows to avoid tariffs, impose immense costs on the populations of both countries, and likely close crucial export markets for key U.S. products, especially agriculture. In all likelihood, trade partners' retaliations would quickly follow and exacerbate the damages. Uncertainty, which itself acts as a tax on business investment, would multiply, and trade relationships would deteriorate.

Some observers wonder if potential economic obstacles or political pressures might lead Trump to show restraint in imposing new tariffs. This seems very unlikely. Trump remains optimistic about tariffs and mistakenly believes they benefit American companies at the expense of foreign ones. In a recent interview with CNBC, he said: "I strongly believe in tariffs... The thing about tariffs is very simple: it's great economically for us, and it brings back our companies..." The plan to impose more tariffs is not a casual comment made lightly by the former president on national television and at campaign rallies: it is the cornerstone of his policy, as outlined on his campaign website Agenda47 and described as "a radical, pro-American overhaul of the tax and trade policy":

> "President Trump will impose tariffs on foreign producers through a system of universal baseline tariffs on most imported goods. Higher tariffs will gradually increase if other countries manipulate their currencies or engage in unfair trading practices. [...] President Trump's tariff plans will be the centerpiece of a new strategic national manufacturing initiative that will rebalance the global trade system and significantly strengthen the United States. Increasing tariffs on foreign producers while reducing taxes on domestic producers will help keep jobs and wealth in the United States. [...] We will gradually introduce a system of universal baseline tariffs on most foreign products. [...] We will also quickly end other unfair trade agreements."

The advisors Trump remains closest to and would likely rely on in a second administration are almost all in favor of tariffs. To explain the proposal of a universal baseline tariff to the New York Times, Trump's campaign team sent the former president's chief trade negotiator and former U.S. Trade Representative, Robert Lighthizer. In the pages of the New York daily, Lighthizer described Trump's proposal as applying a 10% levy in addition to existing tariffs, rejected arguments that the first trade war had harmed the U.S. economy, and asserted that the president would have "clear authority" to impose unilateral tariffs.

While the authority to permanently impose unilateral tariffs on all trade partners remains unclear and may ultimately require congressional approval depending on the invoked executive authority, Congress did little during Trump's first term to curb his tariff policy. Lawmakers in the 116th Congress introduced the bicameral Congressional Trade Authority Act to amend the Section 232 tariff process and require congressional approval before imposing national security tariffs. Although the bill garnered bipartisan support, its 19 Senate co-sponsors and 32 in the House were insufficient to ensure its passage. Lawmakers reintroduced the bill in the 117th Congress, indicating a moderate level of congressional reassertion over certain tariff decisions under the Biden administration. Once again, this was not enough to allow its passage.

When asked about Trump's universal tariff proposal in early 2024, two Republican senators downplayed the proposal and indicated they did not support the approach. Currently, in the 118th Congress, the bill to amend Section 232 only has 5 co-sponsors in the House of Representatives and no accompanying bill in the Senate. The question of which parties will control both chambers after the elections and whether Congress will accept Trump's proposals, enact legislation, or intervene to revoke executive authority over tariffs remains highly uncertain.

It is unlikely that the European Union will escape retaliatory measures against its digital services taxes, the universal 10% tariff, or growing pressure to choose sides in the U.S. China conflict.

While much of Trump's rhetoric focuses on trade relations with China, it is unlikely that the European Union will escape retaliation against its digital services taxes, the universal 10% tariff, or growing pressure to choose sides in the U.S. China conflict. In fact, most of Europe's trading partners predict that if Trump wins the 2024 election, transatlantic relations will be disrupted on many fronts, such as the U.S. adopting a hard line on trade and the outbreak of new trade wars.

In 2019 and 2020, Trump administration investigations into Section 301 regarding digital services taxes found that the levies discriminated against U.S. companies and recommended imposing 25% tariffs on $1.3 billion of imports from France and another $2.1 billion from the European Union. Although these tariffs are suspended under an agreement with the Biden administration while negotiations continue at the OECD, a Trump administration is less likely to show patience with European policies that negatively affect U.S. multinationals.

Similarly, while the Biden administration at least took steps to partially reduce Section 232 tariffs on EU steel and aluminum, a Trump government is more likely to reinstate those levies and highly unlikely to negotiate an agreement against carbon-intensive production. Additionally, U.S. tariffs on imports from the European Union would increase under the proposed universal baseline tariff, prompting further retaliation against U.S. exports.

The continuation of the trade war under Biden—or its escalation under Trump—will also increase pressure on the European Union, forcing it in many areas to choose sides between China and the United States. The dilemma is not only external. Internally, the Union must choose between maintaining internal free trade and preserving external protection, for example, by restricting state aid but imposing the carbon border adjustment mechanism, or relaxing internal state aid rules to follow the Chinese and U.S. examples with protectionist policies to create "national champions", which threatens to leave behind member states without the budgetary flexibility to afford protectionism.

It would be better for everyone if the United States abandoned the trade war, restored the functioning of the WTO, and worked multilaterally to combat unfair and discriminatory practices wherever they occur, and if all countries renounced a return to protectionism. But this is not the international vision on taxation or trade proposed by any of the main U.S. presidential candidates. Without U.S. leadership, such an outcome is unlikely. On the contrary, the continuation or escalation of the trade war and protectionist policies will harm all affected economies and place Europe in an increasingly difficult position.

The first trade war had two goals: to stimulate U.S. manufacturing and reduce the trade imbalance. Both failed. Americans paid almost exclusively for the tariffs imposed by the United States on nearly $380 billion of imports. Companies faced higher costs, further eroding their international competitiveness. Foreign governments retaliated by imposing tariffs on U.S. exports, and for a time, China even completely halted its purchases of agricultural products. The Biden administration has not ended the trade war but has chosen to maintain most of Trump's tariffs, whose costs continue to rise. The path forward should reconnect with the well-established consensus that free trade, while costly, brings much more prosperity and cooperation to the world than the proposed alternative. Unfortunately, the transition from cooperation and multilateralism to protectionism and unilateralism is likely to continue apace. If Trump returns to power, there is little doubt that it could even accelerate.

6. Conclusions

The evaluation of U.S. protectionist trade policies under the Trump and Biden administrations provides critical insights into their significant economic and geopolitical implications. These policies, primarily characterized by high tariffs and increased trade barriers, have had a profound impact on the U.S. economy, global trade dynamics, and international relations.

The tariffs imposed during Trump's administration, targeting a broad range of goods including solar panels, washing machines, steel, aluminum, and various Chinese products, aimed to protect domestic industries and address perceived unfair trade practices. However, these measures led to substantial economic disruptions. The immediate economic consequences were predictable: higher input prices for U.S. companies, increased retail prices for consumers, and reduced export opportunities for American producers. Various academic studies confirmed that these tariffs were largely passed on to U.S. import prices, resulting in higher costs, lower incomes, reduced employment, and a decline in net production.

Under Biden's administration, the majority of these tariffs have been retained, with minor adjustments. This continuity highlights a persistent trend toward protectionism. The Biden administration negotiated an agreement to replace some tariffs with tariff-rate quotas, temporarily pausing retaliatory measures from the European Union. However, a permanent solution remains elusive, and Biden has also increased non-tariff barriers and adopted policies mimicking China's industrial strategies. The failure to restore the World Trade Organization's (WTO) dispute resolution mechanism further underscores the challenges in managing international trade disputes.

The trade policies have strained U.S. relations with both China and traditional allies. The tariffs on Chinese goods led to a significant decline in U.S. imports of tariffed products from China, though this did not substantially alter the overall trade balance due to trade diversions to other countries like Mexico. The transatlantic trade tensions have also been exacerbated by tariffs on steel and aluminum, impacting imports from the European Union, Japan, the United Kingdom, Canada, and Mexico. Retaliatory tariffs from these trading partners have further complicated the economic landscape, particularly affecting American agricultural producers.

Looking ahead to the 2024 elections, the prospects for the international trade order under either a Biden or Trump administration appear bleak. Both candidates have shown tendencies towards protectionism, albeit through different approaches. Trump has advocated for new trade barriers, including a global tariff and substantial tariffs on Chinese imports, potentially leading to severe disruptions in supply chains, increased consumer prices, and deteriorated trade relations.

The protectionist stance under Trump is likely to intensify, with potential new tariffs causing significant negative impacts on the economy. The universal baseline tariff proposal and continued trade wars would further strain international relations and economic stability. Conversely, while Biden has not aggressively pursued new tariffs, his administration's failure to restore multilateral trade mechanisms and address existing trade issues leaves much to be desired.

For a more stable and prosperous global trade environment, it is crucial for the U.S. to abandon its protectionist policies, restore the WTO's functionality, and engage in multilateral efforts to address unfair trade practices. This approach would foster greater economic cooperation and reduce the negative impacts of unilateral trade barriers. Additionally, further research is needed to assess the long-term effects of protectionist policies on innovation and efficiency within protected sectors, the diplomatic and cooperative repercussions with trade partners, and the broader implications for global supply chains and environmental sustainability.

In summary, the continuation or escalation of protectionist policies under either administration is likely to harm both the U.S. and global economies. A shift towards renewed multilateralism and cooperative trade policies is essential for sustainable economic growth and international stability.

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