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TRUMP'S PROTECTIONISM AND ITS IMPACT ON THE INTERNATIONAL ECONOMY

ТРАМПОВ ПРОТЕКЦИОНИЗАМ И ЊЕГОВ УТИЦАЈ НА МЕЂУНАРОДНУ ЕКОНОМИЈУ

Summary: *This article investigates to what extent Trump's protectionism influences the American steel industry and trade relationship with China. The investigation first looks at historical events, with the insight into one of the most controversial laws in the United States foreign trade policy - The Smoot-Hawley Tariff Act - which exacerbated the Great Depression on the global scale. Further analysed are current American actions in a foreign trade relationship, with a particular reference to the relationship between the United States and China. This paper analyses the influence of the United States protectionist politics on production, imports, exports and employment rate in the United States steel industry.*

Keywords: *protectionism, Smoot-Hawley Tariff Act, voluntary restriction of export, correlation coefficients, regression models*

JEL classification: *F00, F1*

Резиме: Овај рад истражује у којој мјери Трампов протекционизам утиче на америчку индустрију челика и трговинске односе с Кином. Истраживање се прво осврће на историјске догађаје, а најприје на један од најконтраверзнијих закона у спољнотрговинској политици Сједињених Држава - *Смоот-Хавлеујев* закон о тарифи - који је погоршао Велику депресију на глобалном нивоу. Надаље се анализирају актуелни амерички поступци у спољнотрговинским односима, с посебним освртом на однос Сједињених Држава и Кине. Овај рад анализира утицај протекционистичке политике Сједињених Држава на производњу, увоз, извоз и стопу запослености у индустрији челика Сједињених Држава.

Кључне ријечи: протекционизам, Смоот-Хавлеујев закон о тарифи, добровољно ограничење извоза, коефицијенти корелације, регресијски модели

ЈЕЛ класификација: *F00, F1*

INTRODUCTION

A major economic shock occurred when Donald Trump decided to raise customs duties on steel and aluminium. Those customs are specifically related to China, as the United States recorded large trade deficits with China. The United States President applied Section 232 of the Trade Expansion Act of 1962 to involve: tariffs on steel 25% and 10%. Section 232 of the Trade Expansion Act of 1962 allows the introduction of a new import restriction because the imports of steel and aluminium threaten America's national security. Before this decision, the United States introduced trade remedies in 2016, due to which the Chinese export fell by 57% compared to the previous year.

Now many economists around the world discuss whether that was a clever thing to do or, better saying, whether it is more reasonable in this case to follow the protectionist or liberal path. So far, several studies have clearly shown that liberal trade is the only option for global economic growth. Globalisation is necessary for further development (Bhagwati 2004). Liberalism in foreign trade is the only possible solution in conditions of either the big economic crisis or the regular economic activity (Baraković 2010).

However, nowadays, shocks on the global scene are beginning to take place, indicating a new global economic protectionism. And how do we find ourselves embarking upon what looks like a new era of global protectionism and isolationism, led ironically, by our two 'great and powerful friends' - Britain with its Brexit vote and America with the election of President Trump?

And how do we find ourselves embarking upon what looks like a new era of global protectionism and isolationism, led ironically, by our two 'great and powerful friends' - Britain with its Brexit vote and America with the election of President Trump? Will the world economy - against all past lessons - fall back into the era of 'tit for tat' protectionism, global Depression and world wars consequent on the

emerging neo-protectionism, isolationism, and xenophobia? (Lester Dela Rama 2018). Which way to go?

If we consider the fact that China, the world's leading steel producer, had the share in American steel import of only 1% in 2016, this poses several questions: Will China really have problems due to reduced steel export or this issue is much bigger, given the fact that other countries also start to raise their voices against Trump's policy? In short, is this the beginning of a new trade war?

This paper shows the protectionism measures brought to the United States when the Smoot–Hawley Tariff was passed in 1930. This case is helpful for demonstrating that history is an excellent teacher. The central part of the paper displays the present-day United States foreign trade policy, where the stress on the commercial relations between the United States and China in steel and copper trade.

1. LITERATURE REVIEW AND HYPOTHESES

What are the right decision and the 'right measure' of all protectionism measures without damaging good international commercial relations?

Can we learn something from the past, when the global economic system collapsed due to the Smoot–Hawley Tariff (Irwin 2017a)? To which extent does democracy influence protectionism (Peterson and Thies 2014)? These are all essential questions we are trying to answer to understand what is right in implementing protectionism measures.

Protectionism

Protectionism can be defined as "any policy that is intended to shield domestic industries from import competition" (Korneliusson and Blasius, 2008).

Others give the following definition of protectionism: "government regulation of product markets can increase the cost of production for firms outside the regulating jurisdiction ("foreign firms") more than it increases costs for firms inside the regulating jurisdiction ("domestic firms") and thereby confer a competitive advantage on domestic firms (Sykes 1999).

There are many forms of protectionism. If we take a book of Domenico Salvatore we can find an explanation of existing tariff and non-tariff barriers (Salvatore 2012). Both types of protectionism measures are somehow defined and regulated by World Trade Organisation regulations. This organisation supervises foreign trade relations to liberalise economic relations since free trade contributes to an increase in national welfare.

It has been quite difficult lately to achieve global free trade because even the last example of enactment of the Trade Expansion Act, section 232 is disputable. It is the fact that the establishment of the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) later on reduced the number of customs duties and non-customs barriers, but it is also the fact that large exporters always work out a new way to establish non-tariff barriers to trade which are definitely the so-called the New Protectionism, on which many studies exist (Greenaway 1983; Krauss 1978; Balassa 1978).

Is the use of section 232 of the Trade Expansion Act some sort of combination of trade and non-tariff barriers to trade? I definitely think it is. Namely, the United States of America, as an example of the global democratic state, are more and more beginning to look like an autocratic state on the international trade scene. Some authors were earlier analysing the influence of democracy on foreign trade relations. Many studies show a positive link between democracy and lower trade barriers (Bliss and Russett 1998; Mansfield, Milner and Rosendorf 2002; Milner and Kubota 2005).

The following analysis is interesting: We find that democracies are more likely to have lower trade barriers than autocracies when demand for a given commodity is inelastic. However, as import demand becomes more elastic, this effect diminishes. When import demand for a given commodity is very flexible, democracies actually tend to employ higher levels of protectionism than autocracies, particularly concerning non-tariff barriers (Peterson and Thies 2014).

This analysis is a good illustration of democratic systems that are considered 'more likely to have lower trade barriers' quickly transforming into autocratic systems with protectionism policies.

There are analyses of protectionism in democratic systems, and we highlight the one of protectionism in the United States (Milner and Yoffie 1989; Nivola 1986; Salvatore 1993).

Out of a large number of analyses mentioned in this paper, the stress is on an analysis of one of the most controversial laws in the United States foreign trade history - the Smoot–Hawley Tariff, analysed in numerous studies (Eichengreen 2002; Irwin 1998; Irwin and Kroszner 1999).

The Smoot–Hawley Tariff

After the great economic Depression that happened in 1929 in the United States of America, the politicians explored ways to improve the economic situation in the country. Although imports from foreign countries did not pose a severe problem, the Congressmen decided to pass a law on tariffs, known as the Smoot–Hawley Tariff, to reduce imports from foreign countries, thinking they would increase the chance of economic recovery. Although imports were not surging into the country or causing any significant issue for the economy, Congress raised tariffs on imported goods, intending to protect farmers and manufacturers from what little foreign competition they faced (Irwin 2017a).

1932 marked a peak of tariff rate. The United States of America average tariff on dutiable imports alone in 1947 was 20.1 per cent, and this measure of tariffs for the United States peaked at 59.1 per cent in 1932 (Bown and Irwin 2016).

Other European countries responded to the American increase of tariffs by increasing theirs, thus deepening the Great economic crisis.

Economic histories view the Great Depression and the Smoot-Hawley Tariff as inextricably bound up. They assign a central role to the Depression in explaining the passage of the 1930 Tariff Act and, at the same time, emphasise the position of the tariff in the singular depth and long duration of the slump (Eichengreen 1999).

During the Depression, countries restricted imports in a desperate attempt to insulate their economies from the downturn. Such policies contributed to a considerable decline in world trade: about half of the 25 per cent drop between 1929 and 1932 was attributed to higher trade barriers. In the end, these restrictions dragged down the world economy and became a trade-policy disaster (Irwin 2011).

The end of tariffs came with the Reciprocal Trade Agreements Act (RTAA) of 1934. American duties on foreign products have dropped from an average of 46% in 1934 to 12% by 1962 (Bailey, Goldstein, and Weingast 1997).

The RTAA radically altered United States trade policymaking, but it had relatively minor effects on the United States tariff itself. The United States actually had experienced significant swings in the average ad valorem tariff (tariff revenue as a share of dutiable imports) during this period - from 40 per cent in 1929 to 59 per cent in 1932 to 14 per cent in 1948 (Irwin 1997).

In short, the Smoot-Hawley tariff is a real example of protectionism that shows what should not be done in the period of coming out of the crisis.

Trump's protectionism

Now we need to pay attention to the present situation regarding Trump's protectionism. Namely, in 2018, President Trump, according to 'Section 232', introduced 10 and 20 per cent tariffs on imports of steel and aluminium respectively. The tariffs were primarily introduced on imports from China, with the exemption of Canada and Mexico for a while. The goal was to eliminate the trade deficit with China. Is this going to work? We take two hypotheses in this paper:

Hypothesis 1: Protectionist economic measures in the United States steel industry harm the United States industry.

Hypothesis 2: Higher prices of exports than imports in the steel industry result in increased steel imports to the United States market.

Many economists are already addressing the measures introduced by President Trump (Bernal 2017; Fidler 2017; Irwin 2017b; Lim 2018; Ojo 2016). They mostly claim that protectionist measures are a poor alternative.

For example, Irwin says: "The President Claim protection will lead to the great prosperity and strength. Yet, the opposite is true" (Irwin 2017b).

Many agree that Trump's administration can lead to "political and economic damage on a global scale and this collective damage will forever be remembered as 'Made in America'" (Fidler, 2017).

The studies try to explain the protectionism issue (Eichengreen 2016). Within the analysis to be carried out, three relations are investigated to show that the import of steel, especially from China, has no significant influence on both production and employment rate in the United States steel industry. The biggest problem with the American steel imports is the high price of production and therefore the higher price of imports or, in short, the loss of competitiveness.

Furthermore, many earlier studies also dealt with the facts and calculations on the price of one working place that is protected. The study from 1983 shows that consumer cost per job-protected was 252 405.12 US dollars (in 2017 US dollars) (Weidenbaum and Munger 1983).

The very problem is that increased price for aluminium and steel leads to a prices increase in all other industries using the two metals as raw materials. It is the multiplication effect on the car industry, washing machine and refrigerator manufacture, railways and many other industries.

Two prominent economists claim: "consumers are not the only group bearing the costs of United States trade policy. Among the other victims are United States producers of unprotected goods, especially producers of goods exported to other nations. They are hurt directly when foreign countries retaliate against United States trade barriers" (Weidenbaum and Munger 1983).

Yes, the United States will profit on tariffs, workers in the steel industry will be maintained, but the country will suffer a loss because of higher prices of all other products - much the same as it will suffer losses in exports, since China, as well as other countries, will retaliate by introducing higher tariffs on American products.

Economist Lee writes: "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 United States 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 European Union, China's retaliatory tariffs cover products from Republican strongholds, including Iowa, Nebraska, Kentucky, and a swing state, like Florida (Lee 2018).

If we know that exports have a multiplicative effect on economic growth, we can conclude that America, having made this move, is certainly going down.

2. METHODOLOGY AND RESULTS

The question is what Trump sees as the basis for introducing protectionist measures such as high tariffs, despite historical facts and The Smoot–Hawley Tariff Act.

To understand the protectionist measures, it is necessary to conduct a few analyses demonstrating the interdependence of particular values in the steel industry.

The justification of Trump's administration for introducing these measures is the assertion that the steel imports, especially from China, cause reductions in production and employment. We will examine these claims by correlation coefficient and regression analysis. The analysis will be conducted in three stages:

- a) Analysis of correlation between imports of steel from China and steel production in the United States
- b) Analysis of correlation between the imports into the United States of America and the employment rate in the United States steel industry
- c) Analysis of correlation between prices and total imports of steel in the American industry

In the first stage of the analysis of the correlation between imports of steel from China and steel production in the United States, we observed the influence of total imports in the American steel industry on the total production in the American steel industry during the period 2007-2016. (Data are in Table 4 in Appendix). The Pearson correlation coefficient of 0.56 demonstrates a medium-strong correlation between the two values.

TABLE 1 The Influence of Total Imports in the United States of America Steel Industry on The Total Production in the United States of America Steel Industry, Linear, exponential model, Logarithmic and Log-log model

Linear model	$y = 5,5175x + 73,355$ $R^2 = 0,3111$
Exponential model	$y = 73,42e^{0,0657x}$ $R^2 = 0,258$
Logarithmic model	$y = 78,166x^{0,1211}$ $R^2 = 0,2196$
Log-log model	$y = 10,195\ln(x) + 78,602$ $R^2 = 0,2662$

We take the linear model because the representatively coefficient is highest and shows there is a **moderate correlation between** the imports of steel from China and the production of steel in the United States. The linear model is used due to its highest representatively coefficient.

b) In second stage, in the analysis of correlation between the imports and employment rate in the United States steel industry, we observed the influence of total imports in the American steel industry on the total production in the American steel industry. (Data are in Table 5 and Table 6 in Appendix)

The Pearson correlation coefficient is 0.483 - which means it is relatively weak. The analysis to follow was the influence of imports from China on the employment rate in the American steel industry. The Pearson correlation coefficient 0.38 - shows a NEGLIGIBLE correlation between the imports from China and the employment rate in the American steel industry. Four regression models were analysed.

TABLE 2 Linear model, Exponential, Logarithmic and Log-log model in Case of Measuring Impact of Total Steel Imports to The United States and Impacts of Total Steel Import from China on The Employments in the United States

Impact analysis	Impact of Total Steel Imports on Global Level to the USA on the USA Employment Rate (Import-in Millions of Tons)	Impact of Total Steel Imports from China on the USA Employment Rate (Import in Millions of Tons)
Linear model	$y = 526,62x + 132889$ $R^2 = 0,2336$	$y = 4904,9x + 139238$ $R^2 = 0,1446$
Exponential model	$y = 132841e^{0,0037x}$ $R^2 = 0,249$	$y = 139117e^{0,0338x}$ $R^2 = 0,1472$
Logarithmic model	$y = 102410x^{0,1106}$ $R^2 = 0,3371$	$y = 143189x^{0,062}$ $R^2 = 0,1809$
Log-log model	$y = 15720\ln(x) + 95863$ $R^2 = 0,3184$	$y = 9030\ln(x) + 143401$ $R^2 = 0,1794$

We take the linear model because the representatively coefficient is highest and shows that there is a moderate correlation. The representatively coefficient between the steel imports from China and employment rate in the United States demonstrates a weak correlation.

c) Analysis of correlation between prices and total imports of steel in the American industry This analysis shows how the difference in prices, specifically, how more expensive US imports - from the aspect of difference in prices, impacts an increase in American imports of less expensive products

from other countries (Data are in Table 7 in Appendix). The Pearson correlation coefficient 0.81 indicates a strong correlation between the two values.

TABLE 3 Correlation between prices and total imports of steel in the American industry, Linear, Exponential, Logarithmic and Log-log model

Linear model	$y = 0,036x + 16,361$ $R^2 = 0,6604$
Exponential model	$y = 17,109e^{0,0014x}$ $R^2 = 0,6412$
Logarithmic model	$y = 2,3839x^{0,4309}$ $R^2 = 0,7569$
Log-log model	$y = 10,741\ln(x) - 32,383$ $R^2 = 0,7315$

The analyses show that Trump's protectionist measures have no scientific basis whatsoever, because there is a moderate correlation between imports from China and steel production in the United States. When it comes to the impact of imports from China on the employment rate in the American steel industry, the correlation between the two values is weak. The data come as no surprise since the share of steel imports from China was only 2.20% in 2015 and 0.83% in 2016. Therefore, Trump's measures against China make no sense unless the real goal is to reach an agreement in other fields, such as a voluntary restriction on imports from China into the United States market for different categories of products in compensation for lower tariffs! These statistical linear models confirm Hypotheses 1 and 2.

3. CONCLUSION

All presented analyses lead to a conclusion that the principal impact on steel imports is definitely **the difference in prices**. More precisely, owing to more expensive exports and less expensive imports, the American steel industry is in a problem, and the solution is sought through an increase in tariffs. However, this is about the total imports rather than partial imports from China. More precisely, America has a simple problem of a higher price of production, where the country has lost a comparative advantage.

The problem is that America has lost a comparative advantage. Where have the advantages disappeared? Through a devalued Yuan? Or through a lower labour cost of Chinese workers? Certainly, a combination of several mentioned factors influences the loss of comparative advantage. That is why there is no unique, universal recipe. However, it is for sure that one solution would be to retrain workers for other industries and to introduce new technologies and thereby lower the prices in the steel industry. By that time, the labour cost of Chinese workers will have risen, which may lead to a more balanced economy by the principles of the Heckscher – Ohlin – Samuelson model.

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APPENDIX

TABLE 4 Data for Research in First Stage, Section a

Year	US Steel Import from China in Million Tones ¹	US Steel Production in Metric Tones Y ²
2007	4,24	98,1
2008	1,94	91, ³
2009	1,35	59,4
2010	0,8	80, ⁴
2011	1,15	86,4
2012	1,53	88,7
2013	1,77	86,9
2014	2,94	88,2
2015	2,2	78,8
2016	0,83	78,6

TABLE 5 Data for Research in Second Stage, Section b

Year	United States Steel Import in Million of Tones ⁴	Number of Employees in United States Steel Industry Y ⁵
2007	30,37	161000
2008	25,82	160000
2009	14,79	134000
2010	21,78	139000
2011	26	151000
2012	30,48	154000
2013	29,27	149000
2014	40,32	152000
2015	35,4	142000

TABLE 6 Additional Data for Research in Second Stage, Section b

Year	United States Steel Import from China in Million Tones ⁵	Number of employees in United States Steel Industry Y ⁶
2007	4,24	161000
2008	1,94	160000
2009	1,35	134000
2010	0,8	139000
2011	1,15	151000
2012	1,53	154000
2013	1,77	149000
2014	2,94	152000
2015	2,2	142000

¹ Source: Bureau of Industry and Security (n.d.).

² Source: Peterson Institute for International Economics (n.d.).

³ Source: International Trade Administration (n.d.).

⁴ Source: Bureau of Labor Statistics (n.d.).

⁵ Source: Bureau of Industry and Security (n.d.).

⁶ Source: Bureau of Labor Statistics (n.d.).

TABLE 7 Data for Research in Third Stage, Section c

Year	Price differences= Export Average Unit Price- Import Average Unit Price (Dollar/ Tones) X^7	US Import, Millions in Metric of Tones Y^8
2009	96,9	14,8
2010	224,52	21,8
2011	173,91	26
2012	229,09	30,5
2013	391,55	29,2
2014	502,75	40,3
2015	539,39	35,4
2016	536,96	30

⁷ Source: United States Department of Commerce (n.d.a)

⁸ Source: United States Department of Commerce (n.d.b)