

Tariffs, Trade Wars, and Protective Barriers: Should Louisianans be Worried?

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Abstract: This paper is designed to give an overview as to how Tariffs as proposed and enacted by our current Federal Government came about and why citizens both in the U.S. and in the State of Louisiana might be affected.

## **Introduction**

The short answer to the question is Yes, both in the short and long term. During the recent 2018 G7 Summit held in Quebec, U.S. President Donald Trump held a news conference in which he gave his views on American Foreign Policy as it relates to tariffs, protective barriers, and subsidies. The purpose of the G7 summit was to bring together the G7 countries which include, The United States, Canada, Britain, Germany, France, Italy and Japan. The G7 partners were to discuss mutual ways in which these countries, as allies and trade partners, could benefit each other through good trade practices. Canada, Mexico, and the United States, as part of NAFTA (North American Free Trade Agreement), would also be considered in any trade negotiations. President Trump considers current global trade practices to be imbalanced and totally unfair to the U.S. This imbalance has been stacked against U.S. farmers, businesses, and corporations for decades. Agriculture and mid-west farmers are starting to feel the burn and fear that retaliatory tariffs by other countries against them and their products will have an immediate negative impact on their bottom lines. President Trump in his election campaign promised to take up the banner and make trade a central part of his presidency. According to President Trump, the U.S. has been treated so unfairly in trade that it has lost some \$217 billion.<sup>1</sup>

## **The U.S. Trade Deficit**

The United States trade deficit is very real. It is the largest in the world and has been that way since 1975. Some sources listed the deficit as \$566 billion in 2017. China has the largest imbalance, with \$636 billion traded and a \$375 billion trade deficit. China is followed by Mexico with a \$71 billion deficit and Canada with an \$18 billion deficit. President Trump has decided that tariffs would be the best answer to off-set this country's trade deficit problem. He has imposed a 25 percent tariff on steel and a 10 percent tariff on aluminum. Earlier, he had imposed quotas on some imported goods such as washing machines and solar panels. He has said that these protectionist measures are necessary.<sup>2</sup> Once these announcements were made by the U.S. Government, there was an immediate drop in the U.S. Stock Market, along with talk of an impending trade war. It has been reported that President Trump recently told French President Emmanuel Macron that there are too many German cars in America, while there are no Chevrolets in Germany. He told the EU officials "The Germans are bad, very bad". He threatens to tax the German car imports at 35%. Yet such rhetoric is a misnomer. It should be noted is that the Big Three German Automakers, Mercedes, BMW, and Volkswagen have moved assembly plants to America and employ some 50,000 American workers. BMW CEO Harald Krueger points out that its biggest BMW plant and worldwide leader in exports is in Spartanburg, South Carolina. Mercedes has plants in Alabama, and South Carolina while Volkswagen has a plant in Chattanooga, Tennessee. With a trade war, the cost of your next foreign automobile is likely to increase.<sup>3</sup>

## **Tariffs and U.S. History**

The first tariff passed in the U.S was the Hamilton Tariff of 1789 which authorized the collection of duties on imported goods. It was passed by the first Congress and signed by President George Washington. Custom duties as set by tariff rates accounted for 80 to 95% of all federal revenues until 1860. As there was no Federal Income Tax until 1913, the main goal of the tariff was to collect money to finance the Federal Government. Treasury agents collected the tariff on goods before they could be landed on to docks. Tariffs amounted to 20% on U.S imports. Since the 1940's, there has been a shift in policy. Instead of using tariffs as a significant source of federal revenue, tariffs have become more reciprocal with lower rates. They are used to protect struggling farmers and businesses and to keep them from being swept under by foreign competitors. As such, an age of protectionism and trade barriers was born. When the average person hears the word tariff, they know they had better hold on to their wallets.<sup>4</sup>

A tariff is simply a tax. It adds to the cost of imported goods. Consumers ultimately end up paying more as price increases are passed on to them. Why do countries impose tariffs? There are 5 basic reasons a country would impose Tariffs and Trade Barriers. First, they protect domestic employment from the threat of cheap foreign labor. Second, they protect consumers from defective, faulty, or contaminated products. Third, they can protect infant industries or keep markets from being flooded when supply overreaches demand. Governments can also issue subsidies to stave off potential economic loss. Some governments will pay producers to aid or stop production if it helps control the market. Fourth, for National Security purposes where Developed Countries set up tariffs as a trade barrier to protect industries, they deem important to their own National Interest. Finally, fifth, as a means of retaliation. This would serve as justification or payback against a country which had initially imposed a tariff on them.

## **Canada Balks**

Surprisingly it was Canadian Prime Minister Justin Trudeau a G-7 leader, along with the European Union who first took exception to what appears to be a new direction in American Trade Policy. They were joined by many Democrats and several Republicans. This is largely because America's new direction presents a couple of problems in how international trade is viewed. Prime Minister Trudeau took issue with the original assertion that Canada is in a trade deficit with the U.S. He argues that when you look at both goods and services, the U.S instead has a trade surplus with Canada.<sup>5</sup> There is no need for the U.S. to treat Canada in this fashion with tariffs. President Trump claims that Trudeau is "very dishonest and weak" in his dealings with the U.S. His comments about the Canadian Prime Minister has been condemned by the Canadian Parliament. Mexico took a similar stance. Meanwhile, U.S. Senator and Viet Nam war hero John McCain chimed in right before his death. He tweeted, "To our allies: bipartisan majorities of Americans remain pro-free trade, pro-globalization & supportive of alliances based on 70 years of shared values. Americans stand with you, even if our president doesn't".<sup>7</sup>

## **The Trump Trade Doctrine – A New U.S Trade Policy**

Why are so many former U.S allies in an uproar over U.S. tariffs and trade? The G-7 Allies have taken an affront to the fact that President Trump has used National Security as the justification for imposing new tariffs on them. They can't understand how their countries, longtime U.S allies, could possibly be viewed now as a threat to U.S. National Security. It is simply not how friends are supposed to treat friends. President Trump refused to sign the G-7 statement at the end of the summit, which would have shown a sign of unity. How could President Trump do this? How is this new Trade Policy going to be implemented? Exactly, what is going on? The answer starts with an understanding that the president doesn't need the approval of Congress to impose a tariff. "A president who wants to restrict trade enjoys almost carte blanche authority", says Gary Clyde Hufbauer, a trade expert at Peterson. There are three U.S. Acts that give the president this kind of power. President Trump could invoke the "Trading with the Enemy Act of 1917. Under that Act, a president has the power to restrict all types of trade "during time of war," any war. The U.S. always has soldiers fighting somewhere around the world, such as Syria or Afghanistan. He could also use the International Emergency Economics Powers Act of 1977. It gives the president the authority to use tariffs on another country during a "national emergency. Losing manufacturing jobs to foreign countries such as China or Mexico would suffice as an emergency. President Trump's current choice appears to be the Trade Act of 1974, Section 122. It gives authority to impose across the board tariffs when there is "an adverse impact on national security". According to president, it's all about the 'balance sheet'. Unfair trade practices by foreign countries impact the U.S. bottom line, which in turn affects financing for the U.S. Military and money that could be used to help build the Border Wall. This in turn fights illegal immigration, which is perceived as a national threat. President Trump has made it a priority that if trade partners don't play fair, he will either cut individual trade deals with separate countries or impose more tariffs. He has also stated that he is fulfilling promises under his "Make American Great Again" campaign. If a trade war is started because of his actions, he feels that the American economy is so vast and strong that any tit-for-tat retaliatory tariffs by a foreign country would be a losing proposition for that country in the long run.<sup>8</sup>

The bases of new U.S Trade Policies might be found in a quote attributed to Henry Kissinger, "America has no permanent friends or enemies, only interest". Kissinger was Secretary of State under former president Richard Nixon. It is not a new concept and can be traced back to British Foreign Policy of the 1700's. One message sent is that the U.S. will forsake loyalty to allies and instead go with what is in the best interest of the U.S. Supporters praise the President for doing a great job and looking out for the American people, Critics say the president is taking a huge risk, one likely to cause a

great deal of backlash, with a fair possibility of failure. It's a new era in politics and trade.

### **Louisiana imports and exports**

Louisiana's primary import is crude oil. Other lesser imports are coffee, pine oil, and anhydrous ammonia. The state's primary exports are petroleum and coal products. Agricultural products such as soybeans, chemicals, oil and gas, and processed foods are also Louisiana exports. These exports go to such countries as China, Mexico, Netherlands, Brazil and Canada. Pricing structures and strategies will have to change immediately in Louisiana. The U.S. currently has 14 free trade agreements in force with 20 countries. Tariffs could cause serious problems with Louisiana's economy. Louisiana's exports to U.S. FTA partners totaled \$22.1 billion in 2017. Exports sustain thousands of Louisiana businesses. A total of 3,732 companies exported from Louisiana locations in 2015.<sup>8</sup> Louisiana exported \$48.0 billion in goods and \$9.8 billion in services in 2013. In 2013, \$19.9 billion of Louisiana's goods and exports, or 42 percent, went to FTA partners.<sup>9</sup>

### **Conclusion**

A global trade war is a scary proposition.<sup>10</sup> Currently in late 2019 some progress has been made with trade negotiations between the U.S., Canada, and Mexico. The emphasis has shifted to China. In 2018, by one new calculation Chinese Imports are now at \$540 billion. President Trump's latest round of tariffs on Chinese goods and services is now up to \$550 billion. China is still being accused of manipulating its currency, making its products extremely cheap while continuing to steal intellectual property, technology and trade secrets. Meanwhile, consumer prices continue to rise at a steady rate. There are rarely true winners or losers in a trade war, but it may be necessary in our current political climate? President Trump's idea of a Free Trade global policy is not bad ideas. Imagine a world where there is a level playing field in trade. There would be no tariffs, no barriers, no retaliation, and no protectionism. Every country would get a fair deal. Put "America First" is also great idea. However, every country takes the same basic approach and has the exact same concepts when it comes to its own trade interest. They would say put their country first.

Let's be clear, the U.S. is in a trade war. It is not some game. More tariffs on China are expected to come. China which is part of the World Trade Organization has retaliated and will continue to do so. They have begun to retaliate by imposing more tariffs on U.S. goods. "The threat of a global trade war is has moved to DEFCON 4," Viraj Patel, foreign exchange strategist at ING, begin writing to clients.

The President assumes that the U.S. can act unilaterally on the world stage without consequences. History has proven otherwise. One example goes back to The Great Depression when American Lawmakers passed the infamous Smoot-Hawley Tariff Act of 1930. The intent was to protect the American economy. Instead it caused a retaliation, which helped prolong The Great Depression. Today the world's economies are far more interdependent. They revolve around each other. Isolationist policies don't bode well in a trade war. It is always the little guys who must make the most sacrifices and bear the burden while waiting for the Trade War to be won.

Although, the President firmly believes the sheer size and vastness of the U.S. economy will enable the U.S. to survive any trade war. Some economist are predicting that the U.S. needs to be wary of its new trade policy because it is on the verge of a Recession. There is no indication or concrete timeline as to how long this trade war is supposed to last. What happens if President Trump trade plan fails? That has never been explained. There is one proposal that those hurt by the trade war should be subsidized by the U.S. government. This of course might cause even more problems. The Reports are that some 2.6 million American jobs could be threatened. If President Trump is successful, he might have the last laugh and be take the biggest trade victory lap in history.

The issue that Louisianans as well as many others around the nation face are these; What are they supposed to do, as the new higher tariff and consumer prices kick in? The same policies enacted to bring about fair trade for the U.S. might economically destroy us while we wait years for the negotiations to go through. What impact will a trade war have on you, your family, or your business? This trade war is starting to hit home. The higher prices are coming if this war does not end soon. The obvious solution to a trade war is some type of compromise. Meanwhile, we wait, and the clock is ticking.

If President's Trumps new trade policy is successfully implemented and a deal is reached the U.S. would be treated fairly in world trade and American and Louisiana lives will improve. If not, disaster and possible financial ruin may await around the corner. Louisianans should be worried.