An Inquiry into the Competitiveness of the Trump Administration's Protectionist Trade Policies: Towards Inbound Investment

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The purpose of this paper is to systematically analyze the competitiveness of the Trump administration's protectionist trade policies. The competitiveness of these policies cannot be fully understood by only focusing on the trade aspect, as it overlooks the crucial nexus between trade and investment, that is, how trade policies affect investment and how investment policies affect trade. Therefore, the paper adopts a framework referred to as the "ABCD model," which comprehensively combines how the factors of Agility (speed and precision), Benchmarking (learning and best practices), Convergence (mixing and synergy-creation), and Dedication (diligence and goal-orientation) synergistically contribute to the competitiveness of the Trump administration's trade policy. In doing so, understanding the fundamental motives of President Trump – re-election through job creation – has been deemed essential to gain insight into the rationale behind his more protectionist inclinations. Consequently, the paper reveals that the trade policy of protectionism is not an end, but rather a means (together with favorable corporate tax rates), to foster a domestic environment conducive to attracting inward investment and job growth.

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List of Abbreviations

EU – European Union
FDI – Foreign Direct Investment
GILTI – Global Intangible Low Taxed Income
GVC – Global Value Chain
FTA - Free Trade Agreement
IP – Intellectual Property
NAFTA – North America Free Trade Agreement
NTT – New Trade Theory
TPP – Trans Pacific Partnership
UNCTAD – United Nations Conference on Trade and Development
US – United States
WTO – World Trade Organization

Introduction

Since 1975, the United States (U.S.) has incurred the world's largest chronic trade deficits, estimated at $535 billion USD annually since 2000.[2] It is widely understood that the Trump administration seeks to reduce these deficits through the adoption of protectionist measures in a bid to restore the U.S. balance of payments to a more sustainable rate. Certainly, the Trump administration departs from previous administrations in a significant way due to an unprecedented level of trade protectionism not seen since the end of the Second World War. These policies are deemed radical not only because of their unilateralism, but also the systemic nature of their ambition. From renegotiating the terms of North American Free Trade Agreement (NAFTA), withdrawing from Trans-Pacific Partnership (TPP), forging new bilateral Free Trade Agreements (FTA), invoking unilateral trade measures under Section 301 and 201 of the U.S. Trade Act of 1974, and Section 232 of the Trade Expansion Act of 1962, the administration's trade policies are broad and bold.[3] Coming out against these measures, the administration has received severe criticism from major trading partners, provoking backlash from Canada, China, and the European Union, to name a few.

The significance of this trade protectionism lies in its impact on major U.S. trading partners as well as the rest of the world. At the international level, the predictability and stability of global economic cooperation, which has taken the better part of a century to construct and consolidate, could be permanently undermined. At the firm level, protectionism could negatively affect firms which depend on intermediary goods for production. Finally, at the individual level, the inefficiencies created by broader market distortions could ultimately hurt both domestic and international consumers.

Nonetheless, to simply criticize the Trump administration's "obliviousness" toward the potential ramifications of pursuing economic

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[2] U.S. Census Bureau, "Foreign Trade – U.S. Trade with World, Seasonally Adjusted," *Census.Gov*., 2018, accessed February 1, 2019, https://www.census.gov/foreign-trade/balance/c0004.html.

[3] The new trade agreements under the Trump administration includes the U.S.-Mexico-Canada Agreement (USMCA) signed on November 30, 2018. New bilateral trade agreements include South Korean free trade agreement signed on September 24, 2019, and intentions for bilateral negotiations for a U.S.- Japan Trade Agreement was initiated on September 26, 2018.

The Section 301 of the U.S. Trade Act of 1974 authorizes the President to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement of is unjustified, unreasonable, or discriminatory and that burdens or restricts U.S. commerce. The Section 201 of the U.S. Trade Act of 1974 permits the President to grant temporary import relief, by raising import duties or imposing nontariff barriers on goods entering the U.S. that injure or threaten to injure domestic industries producing like goods. The Section 232 of the Trade Expansion Act of 1962, authorizes the President of the U.S., through tariffs or other means, to adjust the imports of goods or materials from other countries if it deems the quantity or circumstances surrounding those imports to threaten national security (see: Antonio Graceffo, "US-China Trade Relations in the wake of the US Section 301 IP Investigation," *Foreign Policy Journal*, November 9, 2017, accessed February 5, 2019, https://www.foreignpolicyjournal.com/2017/11/09/us-china-trade-relations-in-the-wake-of-the-us-section-301-ip-investigation/).

nationalism would not only disrespect many Americans who have entrusted their votes in him, but also to fail to acknowledge the administration's core intentions. To better grasp the administration's path toward economic nationalism, understanding the more fundamental and "rational" motives of President Trump, as an individual, is essential to gaining insight into the rationale behind seemingly "irrational" policy choices.

President Trump's personal motives appear to lie in his political ambitions: re-election. Therefore, his personal goals lie not in maximizing global welfare or raising the long-term economic competitiveness of the U.S., but in immediately serving his domestic constituents, particularly the Midwestern manufacturing sector workers, which represent critical swing-voter states.[4] Accordingly, to secure their votes for the next election in 2020, President Trump must live up to his promise of making "America Great Again" through the creation of American jobs. This implies that the Trump administration's protectionist trade policies do not simply aim to rectify unfair trade practices or protect domestic industries and jobs, but to alter the direction of trade import toward inward investment in order to stimulate job growth for Americans, and ultimately strengthen the President's chances of re-election.

Against this backdrop, the core purpose of this paper is to systematically analyze the competitiveness of Trump administration's trade policies. Underpinning assumptions are based on Adam Smith's laissez-faire logic, whereby the collection of every individual's self-interested pursuits will eventually contribute to broader welfare maximization.[5] In addition, the pursuit of competitiveness will be focused on short-term immediate strategies over ambiguous long-term strategies, as famously stated by John Keynes (1971): "in the long run we are all dead".[6] In defining competitiveness, the paper adopts OECD's definition: "a country's ability to sell goods under free and fair conditions in international markets…while simultaneously maintaining and expanding the real incomes of its people over the long term."[7]

The theoretical approach employed in this study is built upon a new theory supported by empirical data, referred to as the ABCD model. Developed by Hwy-Chang Moon (2016), the ABCD model allows for a deeper and more systematic analysis of President Trump's protectionist

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[4] Thomas Hanley, "Ovation Diplomacy: The Short-sightedness of President Trump's Foreign Policy," *Global Public Policy Institute*, December 21, 2018, accessed January 8, 2019, https://www.gppi.net/2018/12/21/ovation-diplomacy-the-shortsightedness-of-president-trumps-foreign-policy.

[5] Adam Smith. *An Inquiry into the Nature and Causes of the Wealth of Nations*. (London: W. Strahan and T. Cadell, 1776).

[6] John Maynard Keynes. *A Tract on Monetary Reform*. (London: Macmillan, 1971).

[7] OECD, "OECD Glossary of Statistical Terms," (2005), http://stats.oecd.org/glossary/detail.asp?ID=399.

policy and strategy. Moon's ABCD Model provides the analytical framework necessary to understand the procedural aspect of "how" and "why." The four specific factors, Agility, Benchmarking, Convergence and Dedication, are further divided into two sub-factors each: speed with precision, learning with best practices, mixing with synergy-creation, and diligence with goal-orientation, combined synergistically contributes to competitiveness, respectively.[8]

　　　　The structure of the paper begins with a literature review, which is divided into two themes. The first theme aims to grasp how existing literature describes the historical development of U.S. trade policy, whereas the second theme reviews the theoretical underpinnings of "rational" trade policy. Following the literature review, the methodology used in this research will be explained by elaborating upon why the ABCD model is the most appropriate theoretical framework for this paper. Next, a comprehensive account on the competitiveness of Trump administration's trade policies will be analyzed using the ABCD model. A final summary of the research findings and implications, including suggestions on unexplored areas for further research, is presented in conclusion.

Literature Review

This literature review is divided into three sections: historical development of trade policies, theoretical underpinnings of trade policies, and the definition of "competitiveness." Existing literature on the historical development and the theoretical underpinnings of trade tend to either disregard the nature of domestic politics in the formation of trade policies or treat domestic politics and trade polices as two completely separate entities. However, the economic pursuit of international trade policies cannot be disentangled from the dynamics of domestic politics, as the two are inextricably intertwined. Therefore, this research aims to analyze international trade policies on the foundation of domestic politics.

Historical Development of the U.S. Trade Policies

The timeframe for this literature review begins from World War II (WWII) and extends to the completion of President Trump's first year in office, 2017. In the wake of WWII, U.S. trade policy was characterized by lowering levels of protectionism and strong support for liberal trade. This lead to the establishment of General Agreement on Tariffs and Trade (GATT) in 1982, which was designed to foster international trade by significantly lowering or eliminating trade barriers such as tariffs and quotas. However, since the Nixon administration, scholars Bhagwati and Patrick argue that the U.S. retreated from the world trading system by

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[8] Hwy-Chang Moon. *The Strategy for Korea's Economic Success*. (Oxford: Oxford University Press, 2016).

threatening to invoke aggressive unilateral trade measures, likely as a form of retaliation because the GATT system proved ineffective both because of its lack of legal status as well as its lack of efficiency in settling trade disputes.[9] Despite this temporary withdrawal, Lovet et, al. observe that the U.S. embraced liberal trade system once again during the post-Cold War era when GATT was replaced by the World Trade Organization (WTO), complete with a stronger legal mechanism for solving trade dispute settlements.[10] Since then, the U.S. has maintained staunch support for a liberal trade regime, encouraging other countries to liberalize their markets as much as possible and to adopt specific trade measures delineated in WTO agreements.

         Conversely, trade policy since the inauguration of President Trump has been characterized by a retreat from globalization in the form of exorbitant or seemingly unreasonable tariff levels. Schneider-Pestinger evaluates that the economic implications of trade protectionism pursued under the Trump administration will, on the whole, hamper the nation's competitive edge, but concludes that a trade war is unlikely to take place.[11] Li et, al. conducted a numerical simulation on the potential economic impacts of a potential U.S.-China trade war, concluding that a majority of countries across the globe would be negatively impacted, especially those in the manufacturing sector.[12]

Theoretical Underpinnings of Trade Policies

Classical trade theory, which characterizes trade conditions as "perfect competition," advocates the merits of free trade. In particular, the theory of comparative advantage, developed by the famous economist David Ricardo, posits that a country with superior advantage in producing all goods can benefit from international trade.[13] Nevertheless, the Ricardian model fails to address the source of comparative advantage, such as how some countries can produce certain goods at a lower price than other countries. Here, Hecksher and Ohlin discussed the benefits of trade in terms of a reduction in the price of traded goods due to the heterogeneity of factor endowments present in a particular country. The Hecksher-Ohlin theorem suggests that a country should export goods whose production is intensive in the country's relatively abundant factor and

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[9] Jagdish Bhagwati and Patrick Hugh. *Aggressive Unilateralism: America's 301 Trade Policy and the World Trading System*. (Michigan: University of Michigan Press, 1990).

[10] William Lovet, Alfred Eckes, and Richard L Brinkman. *U.S. Trade Policy: History, Theory, and the WTO*. (New York: Routledge, 2004).

[11] Marianne Schneider-Pestinger, "Trade Policy Under President Trump: Implications for the US And the World," *Chatham House: The Royal Institute of International Affairs*, (2017): 2, https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-11-03-trade-policy-trump-schneider-petsinger-final.pdf.

[12] Chungding Li, Chuantian He, and Chuangwei Wi, "Economic Impacts of the Possible China–US Trade War," *Emerging Markets Finance and Trade* 54 no.7 (2018): 1563.

[13] David Ricardo. *The Principles of Political Economy and Taxation*. (London: Dover Publications, 2004).

import goods that use intensively the country's scarce factor. [14] Nonetheless, the Pareto optimal results can only be achieved under theoretically plausible and perfect market conditions.[15]

Accordingly, Krugman examined the consequences of international trade in markets characterized by imperfections such as monopoly, tech spillovers, and more, and argued that protectionist trade policies can be justified if it captures rents produced through imperfect competition. [16] The neoclassical trade theory incorporates New Trade Theory (NTT), which is a strategic trade policy where governments can deliberately alter the terms of competition to favor domestic firms over foreign ones. However, the political-economic conditions under which the NNT can be applied is very limited, and it is deemed near impossible for states to formulate reliable interventionist policies as there are empirical difficulties involved in modeling markets with imperfect competition.

Later, Paul Krugman suggested that the costs associated with protectionist trade policies far exceed their benefits. In the long run, he argues, losses suffered by consumers far exceed the gains by domestic producers and the government. [17] However, when Sonali and Fine compared NNT against traditional trade policy, they identified a "continuing enigma." [18] Closer scrutiny of theoretical and empirical grounds in support of trade liberalization reveal that conventional arguments are based on fragile theoretical grounds, as they generally neglect the complex and ambiguous effects of trade liberalization.

Common Limitations of Existing Literatures
In assessing both the existing studies on the historical development and theoretical underpinnings of trade policy, difficulties arise in the proper assessment of the Trump administration's trade policies due to fundamental differences in the following factors outlined in the ABCD model: benchmarking (learning the best practice), convergence (mixing the appropriate resources to maximize synergies), and goal-orientation (intended outcome).

First, the goal-orientation of existing literature on both trade policy theories and the U.S. historical development of trade policies focus on enhancing the aggregate public welfare of a country, or the

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[14] Eli Hecksher and Bertil Ohlin. *Hecksher-Ohlin Trade Theory*. (Massachusetts: MIT Press, 1991).
[15] Pareto optimality or Pareto efficiency refers to a state of allocation of resources from which it is impossible to reallocate to make any one individual or preference criterion better off without making at least one individual or preference criterion worse off.
[16] Paul Krugman. *Strategic Trade Policy and the New International Economics*. (Cambridge [MA]: MIT Press, 1998).
[17] Paul Krugman, "The Narrow and Broad Arguments for Free Trade," *The American Economic Review* 83, no. 2 (1993): 365.
[18] Sonali Deraniyagala and Ben Fine, "New Trade Theory versus Old Trade Policy: A Continuing Enigma," *Cambridge Journal of Economics* 25, no. 6 (2001): 809, doi: 10.1093/cje/25.6.809.

global welfare. This discourages protectionism and beggar-thy-neighbor trade policies which lead to greater losses for both consumers and producers in the long-run. However, the Trump administration possesses a markedly different goal-orientation: to prioritize American national interests through the creation of American jobs, irregardless of global welfare.

Second, in the aspect of benchmarking, Hecksher-Ohlin trade theory suggests that since the United States is a capital-intensive country, it must export more capital-intensive goods by specializing in high-tech related growth whilst importing more labor-intensive goods or declining-industries such as automobiles.[19] Therefore, existing studies based on the Hecksher-Ohlin model primarily focus on promoting high-tech Silicon Valley-related growth, while also largely neglecting the declining manufacturing industries of the Midwestern Rust Belt region. For the Trump administration, the Rust Belt region is a strategic area key to capturing swing-voter states secured through American job growth.

Third, the factor of convergence is found lacking in existing literature on trade policy because they tend to focus solely on trade, especially in Krugman's NTT, whereby the protection of domestic goods and services are pursued through the imposition of tariffs, quotas or other non-tariff barriers to trade.[20] Yet, it is important to note that there exists an intricate nexus between trade and investment. In the case of the Trump administration's trade policies, the effective combination of trade protectionist measures and lower corporate taxes is designed to foster a domestic environment conducive to inward foreign investment American job creation.

Taken together, the limits to existing literature on trade policy and theory reveals their inability to understand the true intentions and competitiveness of the Trump administration's trade policies. Sorely needed is a comprehensive and systematic analysis of the Trump administration's trade policies, one that emanates from the perspective of the administration.

Research Methodology

The previous section revealed critical limitations on existing trade theories in understanding and analyzing the Trump administration's trade policies, primarily due to the fundamental differences in goal-orientation, benchmarking, and convergence between trade scholars and the Trump administration. More importantly, existing studies examine trade in isolation from domestic politics, inevitably drawing partial and superficial analysis of the Trump administration's trade behavior. To overcome these challenges, this paper employs the ABCD model,

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[19] Hecksher and Ohlin. *Hecksher-Ohlin Trade Theory.*
[20] Krugman, "The Narrow and Broad Arguments for Free Trade."

developed by Hwy-Chang Moon, to identify specific factors that have together contributed to South Korea's rapid economic development.[21]

In the context of this research topic, the ABCD model provides a comprehensive and systematic framework for analyzing the competitiveness of the Trump administration's trade policies. More specifically, unlike the aforementioned trade theories which only reveal a parochial view of the broader context, the ABCD model reveals "how" the specific factors of Agility (speed and agility), Benchmarking (learning and best practices), Convergence (mixing and synergy-creation), and Dedication (diligence and goal-orientation) comprehensively combined, synergistically contribute to overall competitiveness. The power of this model lies in explaining the combinative capabilities and the creation of shared values that maximize synergy creation; each of the A, B, C, D factors and the sub-factors must create synergy to sustain competitiveness. Accordingly, the application of the ABCD model serves as an integrative guideline to yield a more impartial and holistic picture of the Trump administration's trade policies. The model helps reveal the competitiveness of the Trump administration's trade policies in both domestic and international contexts, while also revealing the intention and direction of the policies.

Understanding the Competitiveness of Trump Administration's Trade Policies through the ABCD Framework

Agility – Expediting the Creation of American Jobs
Speed
Generally, economic protectionism is discouraged and countless studies indicate that trade protectionism leads to greater net loss for all parties concerned in the long run.[22] Just as "there is no instance of a nation benefitting from prolonged warfare," lengthened trade protectionism imparts great loss to all parties.[23] Rather, a 'smarter' way of utilizing protectionism is to strategize and prioritize a quick victory. Temporary trade protectionism serves that purpose for the Trump administration.

As the 59th quadrennial U.S. presidential elections draw closer, President Trump must be swift in creating American jobs, particularly in key Midwestern swing-voter states; these swing states played a pivotal role in President Trump's presidential electoral victory over his competitor, Hilary Clinton. In doing so, the fastest and most effective method to create manufacturing jobs in the Midwestern states is through the imposition of tariffs on steel-related manufactured goods, in

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[21] Moon. *The Strategy for Korea's Economic Success.*
[22] David Fidler, "President Trump, Trade Policy, and American Grand Strategy: From Common Advantage to Collective Carnage," *Asian Journal of WTO and International Law and Health Policy* 12, no.1 (2017): 7.
[23] Sun Tzu. *The Art of War*. (La Vergne: Dreamscape Media, 2018).

combination with corporate tax reductions to change the direction of trade import. These policies aim to attract multinational firms to relocate their manufacturing facilities to the U.S.

The abovementioned strategy has led to Apple Inc., the world's largest company by market valuation, to accelerate investment in the U.S., and in 2017, had committed to build three large manufacturing plants.[24] Moreover, over the next five years, Apple's direct contribution to the U.S. economy is estimated to be more than $350 billion. The implications of attracting Apple's investment back into the U.S. for job creation are threefold: 1.) direct employment by Apple (20,000 over the next five years); 2.) spending and investment with Apple's domestic suppliers and manufacturers for the company's app ecosystem ($55 billion estimated to be spent with in 2018 with 9000 American suppliers); and 3.) fostering the rapidly growing IOS app economy (created 1.6 million jobs in the U.S.).[25]

To avoid tariffs by relocating production to the U.S., Taiwanese electronics manufacturer Foxconn Technology Group, a major supplier to Apple, also followed suit. In 2017, Foxconn committed to invest $10 billion to build an LCD manufacturing plant in the state of Wisconsin in return for $3 billion subsidies in tax credits. Foxconn's investment is estimated to create up to 13,000 American jobs over the next six years, and 22,000 jobs could be indirectly created by suppliers and businesses who seek to position themselves close to Foxconn.[26]

Likewise, the level of speed in attracting investment into the U.S. for rapid job creation would have been challenging were it not for the imposition of tariffs, lowering of corporate taxes, and provision of government subsidies. Nonetheless, it is imperative to note that the pursuit of speed alone is perilous in the absence of precision.

Precision

In addition to speed, the Trump administration has been precise in targeting specific objectives by hiring trade professionals who share similar views with the administration, both to expedite trade policy execution as well as to extract favorable concessions during bilateral trade negotiations. Furthermore, the trade specialists in the incumbent

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[24] Trip Mickle, "Trump Presses Apple to Shift Production to U.S.," *Wall Street Journal*, September 9, 2018, accessed January 5, 2019, https://www.wsj.com/articles/trump-presses-apple-to-shift-production-to-u-s-1536432033.

[25] Stephen Nellis, "Apple plans new US campus, to pay $38b in foreign cash taxes," *Reuters*, January 17, 2018, accessed February 1, 2019, https://www.reuters.com/article/us-apple-tax/apple-plans-new-u-s-campus-to-pay-38-billion-in-foreign-cash-taxes-idUSKBN1F62FJ.

[26] Justin Sink, "Trump Announces Apple Supplier Foxconn Opening U.S. Factory," *Bloomberg*, July 26, 2017, accessed January 9, 2019, https://www.bloomberg.com/news/articles/2017-07-26/trump-to-announce-apple-supplier-foxconn-opening-wisconsin-plant.

administration consist of hardline protectionists who display a level of commitment to protectionism rare in previous administrations.[27]

Prior to President Trump assuming office in 2016, he established a new National Trade Council to spearhead trade negotiations, which was later renamed the Office of Trade and Manufacturing Policy in 2017 and moved into the National Economic Council. Peter Navarro, an economic advisor to President Trump during his campaign and who shares many of the President's views on trade, including strong nationalistic views and a hardline approach toward China, was appointed National Trade Council Director.[28]

Additionally, of the seven trade-related promises made during President Trump's campaign, his second promise was to hire the "toughest and the smartest" trade professionals capable of effectively implement his agenda. In line with this promise, Robert Lighthizer, who also shares many of President Trump's views on trade matters, was appointed to lead the United States Trade Representative (USTR). The appointment of these individuals to official positions, along with the establishment of a New Trade Council, streamlines and reinforces President Trump's vision and demonstrates precision.[29]

Precision is also pertinent to trade negotiations. The administration particularly favors bilateral over multilateral negotiations, as large agreements tend to be characterized by inefficiency in reaching consensus, difficulty in ensuring meaningful enforcement as well as drawing fair trade terms. Bilateral trade negotiations on the other hand provide a distinctive advantage over multilateral ones: more precision in targeting specific terms of trade favorable to the U.S. with relative flexibility and greater speed. [30] The administration's preference for bilateral negotiations led to a quick withdrawal from the twelve-nation pact TPP, which was originally intended to reduce or eliminate 18,000 tariffs on agricultural and manufactured products to enhance trade and economic growth between the countries party to the agreement. Nonetheless, as the deal implied outsourcing to developing countries with significantly lower labor costs and lax labor laws, American jobs

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[27] Steve Hanke, "I've Seen The Horror Of Trump's Tariffs Before, With Reagan's Terrible Trade Policies," *Forbes*, March 2, 2018, accessed February 20ᐟ 2019, https://www.forbes.com/sites/stevehanke/2018/03/02/trumps-tariffs-ive-seen-this-horror-show-before-reagans-terrible-trade-policies/#1cacc5687329.

[28] Peter Coy, "After Defeating Cohn, Trump's Trade Warrior Is on the Rise Again," *Bloomberg*, March 8, 2018, accessed February 1, 2019, https://www.bloomberg.com/news/articles/2018-03-08/after-defeating-cohn-trump-s-trade-warrior-is-on-the-rise-again.

[29] Peter Gibbon and Jakob Vestergaard, "US Trade Policy under Trump: Assessing the Unilateralist Turn," *Danish Institute for International Studies* 08, (2017): 24.

[30] Geoffrey Gertz, "What will Trump's embrace of bilateralism mean for America's trade partners," *Brookings*, February 8, 2017, accessed February 9, 2019, https://www.brookings.edu/blog/future-development/2017/02/08/what-will-trumps-embrace-of-bilateralism-mean-for-americas-trade-partners/.

would likely have been negatively affected. [31] Appointing trade specialists with similar trade policy views to President Trump and opting for bilateral trade negotiations contributes to precision, expedites decision-making and policy implementation, and ultimately levels the playing field for American workers and job creators.

Benchmarking - Revitalizing the Midwestern Manufacturing Sector
Learning

Historically, trade protectionist measures are nothing new for the U.S. Indeed, there have been several noteworthy occasions of economic protectionism designed to shield domestic industries and jobs from unfair or unfavorable foreign competitions. Those with which the Trump administration draws similar experiences from are the steel tariffs imposed during the Bush and Reagan administrations. Despite some similarities, the Trump administration differs in terms of its immediate goal of re-election and specific strategies used for rapid creation of American jobs. Despite presidential candidate Hilary Clinton winning the popular vote by roughly 400,000 votes, President Trump's campaign strategy pivoted around capturing the razor-thin margins in swing-voter states through a strategic appeal to blue-collar workers. Throughout U.S. history, there has only been three instances prior to the Trump administration where a candidate had lost the election despite winning the popular vote. [32]

During the Bush administration, tariffs ranging from 15% to 30% were imposed on imported steel between March 2002 and December 2003, setting the precedent for the Trump administration's 25% tariffs on steel imports. The previous measure pursued by the Bush administration was pursued under Section 201 of the Trade Expansion Act, which grants unilateral safeguard measures to protect certain domestic industry from the heavy inflow of foreign goods. [33] This type of protectionist behavior has had negative outcomes in the past; net employment gains in raw steel factories were lower than job losses in other sectors of industries, especially companies that rely on steel for producing parts and

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[31] John Wagner and David Lynch, "Trump said he would strike one-on-one trade deals," *The Washington Post*, November 11, 2017, accessed January 9, 2019, https://www.washingtonpost.com/politics/trump-said-he-would-strike-one-on-one-trade-deals-thats-not-happening/2017/11/14/eced8a4e-c949-11e7-b0cf-7689a9f2d84e_story.html?utm_term=.1be8b9f88660.

[32] Tim Meko, Denise Lu, and Lazaro Gamio, "How Trump won the presidency with razor-thin margins in swing states," *The Washington Post*, November 11, 2016, accessed February 21, 2019, https://www.washingtonpost.com/graphics/politics/2016-election/swing-state-margins/?noredirect=on.

[33] Heather Long, "Remember Bush's 2002 steel tariffs? His chief of staff warns Trump not to do the same," *The Washington Post,* March 6, 2018, accessed January 27, 2019, https://www.washingtonpost.com/news/wonk/wp/2018/03/06/remember-bushs-2002-steel-tariffs-his-chief-of-staff-warns-trump-not-to-do-the-same/?noredirect=on&utm_term=.0c9910f8e1e0.

components. [34] Notwithstanding the adverse economic effects, the broader effects are deemed insignificant, and were hardly the cause of larger economic difficulties. [35] Likewise, the large and dynamic U.S. economy has proven resilient throughout the course of its history, and the targeted imposition of tariffs during the Trump administration is unlikely to drastically alter that.

Similarly, in the 1980s, the Reagan administration took unilateral import restrictions on various goods such as cars, motorcycles, forklifts, memory chips, color televisions, machine tools, textiles, steel, etc. Despite the failure of Voluntary Export Restraint on Japanese semiconductors and automobiles in early 1980s, the U.S. economy did not suffer from market meltdown. In fact, the Reagan administration's protectionism is described as a temporary "strategic retreat", and was intended to liberalize trade, consistent with the economic mainstream opinions of the time. Ultimately, the administration laid the groundwork for a global liberal trade regime, including the conclusion of NAFTA and launching the Uruguay Round, which would established the WTO. [36] Although the contemporary economic context exhibits some differences, one of the Trump administration's protectionist intentions is to level the playing field to restore fair liberal trade, not to undermine it. More crucially, it can logically be inferred that protectionist measures under the Trump administration are intended to be temporary, as the core intention is not in imposing the tariff itself, but rather to redirect investment into the U.S. by incentivizing firms with corporate tax cuts.

Best Practices

While the Trump administration emulated the previous administration's temporary trade protectionism in addressing impending short-term objectives and pursuing fair trade practices, the administration also enhanced previous practices with its own unique strategy of creating a U.S. an investor-friendly environment. The added factor to previous best practices is referred to as "benchmarking (learning) + alpha" strategy, whereby unique improvements can lead to outperformance of the original benchmark. [37]

Notwithstanding the many similarities drawn between the Trump administration's trade protectionism and those of previous administrations, the Trump administration differs and ultimately

[34] Marcus Nolan, "Assessing Trade Agendas in the US Presidential Campaign: Impact of Clinton's and Trump's Trade Proposals," *Peterson Institute for International Economics*, (2018): 19.

[35] Jeanna Simialek, "Lessons from 2002 Show Economic Bang From Steel Tariffs Was Tiny," *Bloomberg*, March 6 2018, accessed January 10, 2019, https://www.washingtonpost.com/news/wonk/wp/2018/03/06/remember-bushs-2002-steel-tariffs-his-chief-of-staff-warns-trump-not-to-do-the-same/?noredirect=on&utm_term=.0c9910f8e1e0.

[36] Bill Niskanen. *Reaganomics: An Insider's Account of the Policies and the People*. (Oxford: Oxford University Press, 1988).

[37] Moon. *The Strategy for Korea's Economic Success*.

transcends the previous administration's practices through the addition of its own alpha. The administration's alpha consists of the following: strategic appeal to the manufacturing sector workers of the key swing-voter states and creating U.S. environment conducive to foreign investment and American job growth.

During his campaign, President Trump appealed to predominately white, blue-collar voters – voters who felt marginalized by the adverse effects of globalization – by promising to bring jobs back to the U.S. More specifically, since America enjoys a bipartisan political system, where an average 32% of the population identified themselves as Democrats, 23% as Republicans, and the remaining 39% as independent between 1992-2014, the strategic point for President Trump's election was to capture the swing-voter states, primarily located in Midwestern Rust Belt states.[38] Once key to propelling America to her economic might, the Rust Belt no longer serves the same crucial purpose. The economic focus has shifted away from labor-intensive manufacturing to capital-intensive Silicon Valley technologies. Negatively affected by these changes, the declining manufacturing industry workers of the swing states expressed discontent with the loss of jobs, and President Trump targeted the protection of these workers with slogans like "Made in America."[39] Therefore, nearly all of the administration's protectionist trade policies are targeted towards protecting Rust Belt manufactured goods such as steel and aluminum.

In line with the abovementioned strategy, the Trump administration also differentiates itself from previous administrations' protectionist policies, as these protectionist measures are combined with lowered corporate taxes designed bring investment back to the U.S. for generating American job creation. This adds value to the administration by enhancing sustainability of competitiveness resulting in a synergistic effect to be further dissected in the next section.

Convergence – Synergistic Effect of Trade Protectionism and Corporate Tax Reduction
Mixing
Mixing the advantages of various rules simultaneously under the international law as well as utilizing every possible domestic rule, along with major tax reform, contributes greatly to the Trump administration's competitiveness. In August 2017, the United States Trade Representative self-initiated an investigation into China's intellectual property practices

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[38] Tim Meko, Lazaro Gamio, and Denise Lu, "How Trump won the presidency with razor-thin margins in swing states," *The Washington Post*, November 11, 2016, accessed February 10, 2019, https://www.washingtonpost.com/graphics/politics/2016-election/swing-state-margins/.

[39] Richard Longworth, "Disaffected rust belt voters embraced Trump. They had no other hope," *The Guardian*, November 21, 2016, accessed January 29, 2019, https://www.theguardian.com/commentisfree/2016/nov/21/disaffected-rust-belt-voters-embraced-donald-trump-midwestern-obama.

to identify and rectify harmful "coercive transfer" of U.S. technology. The investigation was pursued under Section 301 of the Trade Act of 1974, which grants presidential power to retaliate against certain unfair trade practices. Under the same trade act, Section 201 was subsequently invoked in January 2018, raising substantial tariffs on the import of solar panels and residential washers to safeguard against foreign rivals. The restriction aimed to boost American manufacturing by incentivizing manufacturing operations to relocate to the U.S., which resultantly drew in flood of new investments into the country.[40] Protectionist measures also came under the rarely utilized Section 232 of the Trade Expansion Act of 1962, empowering the President to resort to protectionist measures, should reliance on certain imported goods pose a security threat. The measure subsequently led to the imposition of tariffs on steels and aluminum at 25% and 10% respectively.[41]

The mixing of abovementioned protectionist measures does not merely pertain to targeting trade, however. Rather, the real purpose, in addition to promoting fair and reciprocal trade, is to incentivize the shift of some foreign-based manufacturing facilities into the U.S. This desire has been further reinforced with changes in U.S. federal tax law. Since 2001, the U.S. has been experienced an "investment drought" due to its relatively high corporate taxes compared to the rest of the world, which strove to lower them in order to attract investment into their countries.[42] To redraw foregone investment opportunities, in 2017 the Trump administration introduced a new law titled "Tax cuts and Jobs Act" (P.L,115-97), effectively slashing corporate tax rates from 35% to 21%. In absolute terms, it is the largest corporate tax cut in U.S. history. The Republican-led Congress has also passed laws to overturn fifteen rules placed during the former Obama administration, while postponing other regulations which may hamper investment attractiveness.[43] These are all intended improve the U.S. business climate to attract greater inward Foreign Direct investment (FDI) or expand existing opportunities for American job creation. However, any random mixture of different policies lacks sustainable competitive value if each of the components fail to mutually support each other.

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[40] Ayesha Rascoe and Nichola Groom, "Job creator, or job killer? Trump angers solar installers," *Reuters*, January 22, 2018, accessed January 15, 2019, https://www.reuters.com/article/us-usa-trade-tariffs/job-creator-or-job-killer-trump-angers-solar-installers-with-panel-tariff-idUSKBN1FB30B.

[41] Jasmine Ng, "Steel Has Worst Week in a Year as Trump's Tariffs Deepen Gloom," *Bloomberg*, March 9, 2018, accessed February 15, 2019, https://www.bloomberg.com/news/articles/2018-03-09/steel-heads-for-worst-week-in-year-as-trump-tariffs-add-to-gloom.

[42] UBS, "The investment drought: How can the problem of weak investment be fixed?" *Union Bank of Switzerland White Paper*, no. 1 (2015): 10.

[43] Congressional Budget Office, "International Comparisons of Corporate Tax Rates," Washington D.C.: Congress of the United States, (2017).

Synergy-Creation

Hwy-Chang Moon explains that "there [is] additional value creation flowing from synergies among the collection of separate components."[44] The additional value creation of the Trump administration derives from the synergies created between the corporate tax rate reductions and trade protectionist measures, which foster an attractive environment for inward investment in the U.S. Specifically, the protectionist trade measures compel foreign firms to internalize due to high tariffs. Subsequently, the greater inflow of foreign investment into the U.S. increases productivity due to greater value added in production. This large inflow of investment enhances America's overall competitiveness and creates more jobs.

Despite UNCTAD's strong caution against trade protectionism, it is worth noting that investors tend to focus on long-term competitiveness and economic prospects of a market rather than on short-term political volatility when making FDI choices, as "trade volatility heightens investment uncertainty." [45] More crucially, this implies that, in attracting investment, the risk of short-term political volatility arising from trade protectionism can be absorbed through favorable corporate tax rates. The new tax code under the Trump administration is significant not only in its dramatic reduction in corporate taxes rates, but also in its shift from a global to a quasi-territorial system for domestic companies. Moreover, a new category of foreign income called Global Intangible Low Taxed Income (GILTI) was introduced.

The adoption of quasi-territorial system implies that companies based in the U.S. will not be subject to domestic income tax on revenues accumulated from foreign countries. The intended purpose of this provision is to repatriate offshore profits back into the U.S. to boost the economy and promote job creation. This led Apple Inc., holding 94% of its total cash of $269 billion in foreign countries to make a one-time tax payment of $38 billion on repatriated cash, of which Apple intends to spend some of the money toward 20,000 new jobs. Other multinational firms such as Microsoft, Alphabet and Cisco possessing offshore profits are also to follow suit, as they have incentive to bring cash back. [46] Furthermore, the GILTI subjected American companies, which hold any foreign income that is above 10% of a foreign subsidiary's fixed assets, to pay U.S. tax on those low taxed incomes. This takes away the

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[44] Moon. *The Strategy for Korea's Economic Success*.

[45] A.T. Kearney, "The 2017 A.T. Kearney Foreign Direct Confidence Index," *A.T. Kearney*, 18, (2017). https://www.atkearney.com/documents/10192/12116059/2017+FDI+Confidence+Index+-+Glass+Half+Full.pdf/5dced533-c150-4984-acc9-da561b4d96b4.

[46] Daisuke Wakabayashi and Brian Chen, "Apple, Capitalizing on New Tax Law, Plans to Bring Billions in Cash Back to U.S.," *New York Times*, January 17, 2018, accessed January 19, 2019, https://www.nytimes.com/2018/01/17/technology/apple-tax-bill-repatriate-cash.html.

incentive for American companies to shift their intangible assets offshore, and signals investment to stay in America.[47]

Overall, the tax reform package significantly enhances America's desirability for investment, and when trade protectionism is combined synergistically with reform, they contribute to expediting the speed of investment drawn into the U.S. for fast and sustainable American job creation.

Dedication – "America First" Through American Jobs
Diligence

Wielding the slogan "Make America Great Again," President Trump has been staunchly committed to the creation of American jobs and strengthening of the economy since the early days of his campaign. When President Trump assumed office in 2017, he has been consistent in his economic goals despite far-reaching criticism and provocative trade retaliations from major trading partners.

President Trump made seven promises during his campaign to restore the health of the American economy by promoting fair and reciprocal trade. The pursuit of these trade policies is intended to level out the playing field between the U.S. and its trading partners "through the use of every lawful presidential power," and to ultimately rectify the unfairly lost American job opportunities. Of the seven promises (see below), only the fifth promise of citing China as a currency manipulator was dismissed, as China was no longer engaging in forceful devaluation of the Renminbi in foreign exchange markets.[48] Upholding all but one of the seven-point plan promises illustrates the administration's dedication to protecting American jobs.

However, protection of American jobs does not necessarily lead to the creation of American jobs. Therefore, the administration has undertaken significant tax reforms. Of the multi-faceted tax reforms, cutting steep corporate taxes is particularly noteworthy. The new tax code reinforces the seven-point promises, as it intends to attract investment into the country for job creation. Accordingly, the diligence of the Trump administration has been identified as not only the consistent protection of American jobs, but also in their creation. Yet, diligence alone cannot yield results without proper goal-orientation.

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[47] Rochelle Toplensky, Patrick Mathurin, and Andrew Johnson, "US companies count costs and benefits of Trump tax law," *Financial Times,* April 22, 2018, accessed February 19, 2019, https://www.ft.com/content/01a3d5b8-4417-11e8-803a-295c97e6fd0b.
[48] Gibbon and Vestergarrd, "US Trade Policy under Trump: Assessing the Unilateralist Turn."

Donald J Trump's 7 Point Plan to Rebuild the American Economy by Fighting for Free Trade

1. Withdraw from the TPP
2. Appoint tough and smart trade negotiators to fight on behalf of American workers.
3. Direct the Secretary of Commerce to identify every violation of trade agreements a foreign country is currently using to harm our workers, <u>and also</u> direct all appropriate agencies to use every tool under American and international law to end these abuses.
4. Tell NAFTA partners that we intend to immediately renegotiate the terms of that agreement to get a better deal for our workers. If they don't agree to a renegotiation, we will submit notice that the U.S. intends to withdraw from the deal. Eliminate Mexico's one-side backdoor tariff through the VAT and end sweatshops in Mexico that undercut U.S. workers.
5. Instruct the Treasury Secretary to label China a currency manipulator.
6. Instruct the U.S. Trade Representative to bring trade cases against China, both in this country and at the WTO. China's unfair subsidy behaviour is prohibited by the terms of its entrance to the WTO.
7. Use every lawful presidential power to remedy trade disputes if china does not stop its illegal activities, including its theft of American trade secrets – including the application of tariffs consistent with Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.

Figure 1. Donald J. Trump's 7 Point Plan to Rebuild the American Economy by Fighting for Free Trade[49]

Goal-Orientation

Goal-orientation guides diligence on the right track. The Trump administration promotes a strong national economy backed by American workers. Prior to dissecting the administration's goal-orientation, acknowledging President Trump's individual goal-orientation of re-election has been demonstrated as an important factor throughout the paper because it reflects the administration's national goal of "Making America Great Again." [50] This has been highlighted in the many economic and foreign policies pursued by the administration and is critical to securing President Trump's election in 2020.[51] The path to victory in the next election lies in effectively serving the Midwestern swing-voter states, where President Trump in his previous election successfully won the support of manufacturing sector workers negatively affected by globalization. Therefore, the creation of manufacturing-related jobs in America is of utmost importance.

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[49] "Donald J. Trump's 7 Point Plan to Rebuild the American Economy by Fighting for Free Trade," 2017, *Donaldjtrump.Com*, accessed February 1, 2019, https://www.donaldjtrump.com/.
[50] Bruce Cain, "Trump's Re-Election Strategy," *The American Interest*, October 18, 2017, accessed January 19, 2019, https://www.the-american-interest.com/2017/10/18/trumps-re-election-strategy/.
[51] Hanley, "Ovation Diplomacy: The Short-sightedness of President Trump's Foreign Policy."

To this end, trade protectionism serves a dual purpose: shield the negatively impacted industries and workers from unfair trade practices, and more importantly, incentivize multinational firms to operate on the U.S. soil to avoid exorbitant tariffs. When the latter purpose is combined with favorable corporate tax rates, the administration's American job goal-orientation becomes more sustainable.

Conclusion

Implications

Paintings are often difficult to genuinely understand and appreciate when devoid of their intention and contextual background. Indeed, the true value of a painting lie not in the individual art piece itself, but in connecting the supporting contextual background to reveal its value. Likewise, the Trump administration's trade protectionist policies cannot be fully understood in isolation from the supporting contextual background. Rather, the incorporation of President Trump's individual goals with other supporting government policies is necessary to fully grasp the competitiveness of the administration's protectionist trade policy.

To this end, the paper sought to systematically analyze how the comprehensive combination of the Agility (speed and precision), Benchmarking (learning and best practices), Convergence (mixing and synergy-creation), and Dedication (diligence and goal-orientation) factors articulated in Hwy-Chang Moon's ABCD model synergistically contribute to understanding the competitiveness of the Trump administration's trade policy. Concerning agility, trade protectionism together with lower corporate tax is deemed fastest way to bring investment back to the U.S. For benchmarking, the temporary protectionist measures of previous administrations have been emulated as well as enhanced with a new tax code. The convergence factor encapsulates the synergistic effect of trade protectionism and favorable corporate tax rates. Finally, the administration has demonstrated strong resolve in its pursuit to uphold trade-related promises and to protect and create American jobs. The ABCD framework has contributed greatly in piecing together the Trump administration's seemingly unrelated individual policies by identifying the intentions of its trade policies and connecting them to the broader context of other policies pursued.

This paper provided insight into the Trump administration's seemingly "irrational" protectionist trade policies by shifting the focus toward first understanding President Trump's individual motives, revealed to be re-election in 2020. The most effective way for President Trump to win the next election is by capturing critical Midwestern swing-voter states, where the majority of manufacturing industry workers are located. Accordingly, through the application of the ABCD framework, the paper has revealed that the trade policy of protectionism

is not an end, but rather a means (and perhaps even a necessary evil), together with favorable corporate tax rates to foster a domestic environment conducive to attracting inward investment into the U.S. for rapid American job creation. Certainly, the pursuit of trade protectionism by the Trump administration is not to undermine the future stability of global economic governance. Rather, the focus of this paper has been on the Trump administration's short-term immediate efforts to revitalize the American economy through strategic targeting of American employment.

Further Avenues of Research

Important future avenues of research can be derived from the comprehensive understanding of the competitiveness of the Trump administration's trade policy. A firm understanding of President Trump's individual goal-orientation (i.e. winning the next election cycle through the creation of American jobs) indicates that the administration is highly unlikely to alter its protectionist measures. This implies that the viable options for countries which are detrimentally affected by the U.S. protectionist measures are twofold: trade retaliation or relocating investment to the U.S. Whereas the former option is available to countries with large economies such as China and Canada, smaller economies face significant economic challenges in this regard. Nevertheless, with strategic positioning, smaller economies can form efficient strategies to overcome their relatively inferior power. Accordingly, future studies should explore how economic threats faced by smaller economies can strategically be transformed into opportunity, as opposed to simply denouncing the Trump administration's behavior.

Another logical extension to this investigation is to seek to understand how the future direction of U.S. trade policies can be harmonized with President Trump's individual goal of re-election. This would likely include examining the potential impact of FDI in the creation of American jobs. Additionally,, should President Trump be successfully re-elected in 2020, an examination of what sustainable trade policies can be pursued should be investigated.

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