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*International Relations in
Historical Perspective*

TRUMP-TRADE IN HISTORICAL PERSPECTIVE

Three Lessons from the History of US Trade Policy

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I. INTRODUCTION

Trade between different peoples has existed since the dawn of humanity. As early as in the prehistoric age, different tribes already traded volcanic glass and quartz between them. By the year 3000 BC, long-distance trade routes began to emerge between Mesopotamia and India. In the classical antiquity, trade was an integral component of economic and cultural life: The vast Roman empire had in it an extensive and stable network of trade routes over which goods from all the known world were transported.

But trade has always been a contested form of economic life. Roman commerce was tightly monitored by the state and import duties were raised when goods crossed borders. By the 16th century, an economic doctrine known as mercantilism argued that a positive balance of trade was a form exerting economic power.¹ As such, mercantilism was closely associated with the emergence of the nation state. By the 18th century, economists began to criticise mercantilism and argued that trade was mutually beneficial for all countries involved. These economists advocated free trade and denounced protectionist policies, such as import tariffs, quotas and other forms of regulations that impeded or prohibited the free flow of goods across borders.

Despite this economic insight, all now developed nations followed at times strongly protectionist policies.² The United Kingdom, the intellectual home of free trade thought, had one of the most strongly protected economies of the world well into the 19th century. Only after it had gained a technological lead over its competitors, the country lowered its tariffs and non-tariff barriers to trade.³ All other European nations retained their protectionist policies throughout most of the 19th century. “Historically, free trade is the exception and protectionism the rule,” wrote the economic historian Paul Bairoch.⁴

This work addresses the history of protectionism in the United States. In 2016, Donald Trump was elected to serve as the 45th American president. In his campaign, Trump harshly criticised the current system of open trade, claiming that it was unfair to the United States. Many interpreted this as a sharp deviation from the American consensus on trade in the previous decade. Indeed, the United States was the primary architect of the free trade system that has existed since World War II. Institutions such as the World Trade Organisation (WTO) have been created to resolve disputes between countries through other means than tariffs and quotas. Multilateral negotiations brought down tariffs to historically low levels. But the United States are no strangers to the notion of protectionism. Already protected by oceans on both sides, the United States pursued strongly protectionist policies throughout its emergence as a world power. Much like Great Britain, it reverted to free trade at a time of little foreign competition.

Can history help to understand Donald Trump’s political agenda on trade? This work argues that it can. History provides useful patterns which help to make sense of the complexity of US trade policy. One of the persistent features of political commentary was the expression of uncertainty over the actual policies Trump will implement on trade. This work attempts to place his agenda in historical context. If nothing else, the reader should gain an appreciation of the fact that American protectionism is anything but extraordinary. Trump’s confrontational rhetoric may alienate, but a clear analysis of his political agenda in historical context reveals just how deeply embedded he is in developments that have shaped the United States since its earliest days.

¹ John J. McCusker, *History of World Trade since 1450* (Thomson Gale, 2006), 485.

² Ha-Joon Chang, *Kicking Away the Ladder - Development Strategy in Historical Perspective* (London: Anthem Press, 2002), 17.

³ *Ibidem*, 23.

⁴ Paul Bairoch, *Economics and World History – Myths and Paradoxes* (Chicago: The University of Chicago Press, 1993), 16.

In a first step, the reader will be led through a concise history of US trade policy. Beginning with the Tariff Act of 1789, the first piece of legislation passed under the US Constitution, the reader will be made familiar with the thoughts of James Madison, the Tariff of Abominations and the Nullification Crisis, the effects on trade of the American Civil War and of the two World Wars and the 1934 Reciprocal Trade Agreements Act (RTAA).

In a second step, three dichotomies of US trade policy will be distilled from the previous remarks. Although the United States first pursued a distinctly protectionist and later a distinctly liberalising course, it will be found that the opposition to the current political agenda remained strong in each phase. The analysis will demonstrate how first the protectionists and later the free traders could pursue their agendas with such success by giving insight into the dichotomies between the export-orientated and import-competing parts of the economy, between the two major political parties and lastly between and within the political institutions.

In a third step, the three dichotomies will be employed to shed light on the trade agenda of Donald Trump. First, Trump's ideology on trade will be contrasted with both historic and contemporary economic theories. How does Trump's worldview correlate with the tension between import-competitors and export-orientated businesses? Second, the North American Free Trade Agreement (NAFTA) will be a case study for party division on trade. Is trade still a partisan issue? Third, the internal structure of the administration will be scrutinised. Are there two distinct group of advisors and politicians representing different agendas?

Unpredictability may be Donald Trump's most profound trait. This work shows that Trump and his administration stand within a set of historical developments and that they can, as such, be understood in historical perspective.

II. THREE LESSONS FROM US TRADE HISTORY

A. From the Thirteen Colonies to Modern Trade Agreements

1. The Practical and Theoretical Foundations of American Protectionism

In the period after the year 1776, in which the thirteen American colonies gained independence from Great Britain, the infant country was little more than "a league of friendship".⁵ Under its constitution, the Articles of Confederation, each of the thirteen states retained its full sovereignty. Congress, the common legislature, was vested with little powers. In particular, the newly independent Americans refused Congress the authority to levy taxes, out of fear that independent funds for Congress would lead to the establishment of "an arbitrary government."⁶ The Articles of Confederation did not last: Only eleven years after their implementation, work to replace them began. The new United States Constitution entered into force in 1788.

Under the new Constitution of the United States, Congress could raise import duties. The framers around James Madison recognised that a steady stream of revenue was the basis of an effective federal government. It was also Madison who convinced the early Congressmen to make tariffs their top priority. In 1789, as its first bill, Congress passed the Tariff Act, which levied a 5 percent duty on most imported goods.⁷ The tariff remained the only major source of federal funding, providing 88 percent

⁵ Articles of Confederation, Article III, March 1, 1781, *The Avalon Project*, http://avalon.law.yale.edu/18th_century/artconf.asp (accessed 29.08.2017).

⁶ Mary Beth Norton et. al., *A People, A Nation - A History of the United States* (Boston: Wadsworth, 2012), 178.

⁷ *Ibidem*, 195.

of federal revenue until 1800.⁸ But the bill had a second purpose: “The encouragement and protection of manufactures.” Thus, the first piece of legislation in the newfound United States was an act of protectionism.

Two years later, the first Treasury Secretary Alexander Hamilton published his *Report on Manufacturers*, in which he first put forward the so-called infant industries argument. This idea was later adopted by the German economic historian Friedrich List, who is considered the “major international figure in protectionist theory.”⁹ List, who initially adhered to a belief in the forces of a free market, changed his mind upon meeting Hamilton in the United States and later used the theory of infant industry protection to analyse the economic policies of the United Kingdom and many other countries. Hamilton’s influential work advocated protective duties to allow “national manufacturers to undersell all their foreign competitors.”¹⁰ According to the doctrine, this policy was to be continued until the country’s nascent industry was sufficiently strong to withstand foreign competition.

Early empirical support for the infant industry argument came from the 1807 Embargo Act and the War of 1812. In response to British violations against American ships, President Thomas Jefferson stopped all trade with foreign nations. Trade remained mostly closed until the end of the war in 1815. Although the American economy as a whole suffered, the number of cotton and woollen mills increased tenfold until 1813.¹¹

The 1789 Tariff Act and Madison’s *Report on Manufacturers* are the practical and theoretical foundations for the following 140 years of American protectionism. During that time, tariffs and trade embargos were an integral and highly contested part of American politics and the frequent changes in American trade policy often reflected the conflicting preferences of the different economic sectors and the corresponding agendas of the two principle parties.

2. Protectionism in the Early 19th Century: Exporters Clash with Import Competing Industries

The course of US tariffs in the first half of the 19th century provides excellent illustration how trade policy is shaped by the conflicting interests of export orientated industries and import competing industries and how shifts in certain sectors or regions regarding their export orientation may tip the previous balance and lead to significant changes in tariff levels. Douglas Irwin provides an overview over America’s economic landscape during that time.¹² The Northern states, site of cotton textile factories (Massachusetts) and iron works (Pennsylvania) strongly supported protective tariffs, although there were some exceptions in regions where shipping and mercantile interests were high. These states were threatened by foreign imports, in particular from Britain, which initially sold her goods under value in an effort to harm American industries.¹³ The Southern states, by contrast, full of cotton, tobacco and rice plantations, were strongly export orientated. They opposed protective tariffs, arguing that they would increase the price of imported manufactured goods and risk retaliation from foreign countries. Lastly, the Midwestern states formed a separate group. Although they produced export orientated goods, high transportation costs initially excluded them from the export market. However, their gradual shift towards exporting finally led to changes in tariff policy.

⁸ Nitsan Chorev, *Remaking U.S. Trade Policy – From Protectionism to Globalisation* (Ithaca and London: Cornell University Press, 2007), 42.

⁹ Bairoch, *Economics and World History*, 17.

¹⁰ James Madison, “Report on Manufacturers”, *The University of Chicago*, 1987, <http://press-pubs.uchicago.edu/founders/documents/v1ch4s31.html> (accessed 29.08.2017).

¹¹ Norton et. al., *A People, A Nation*, 227f.

¹² Douglas A. Irwin, “Antebellum Tariff Politics: Coalition Formation and Shifting Regional Interests”, *Dartmouth College*, Hannover, 2006, <http://www.dartmouth.edu/~dirwin/docs/internal2.pdf> (accessed 29.08.2017).

¹³ Norris W. Preyer, “Southern Support of the Tariff of 1816 - A Reappraisal”, *The Journal of Southern History* 25, no. 3 (1959), 317.

In 1816, less than a year after the war with Britain had ended and trade had resumed, Congress debated a strong increase in tariffs to help industries which had expanded during the war and which were now threatened by resurging foreign competition. The bill, which subjected almost all manufactured goods to a 35 percent tariff,¹⁴ drew support from both the Northern and Southern states.¹⁵ Although the Southern states realised that they would almost exclusively bear the costs of the tariffs, they were persuaded by the need for federal revenue and national security concerns, which made the protection of the relevant industrial sectors necessary. By the year 1820, however, “the South realized that the earlier arguments and appeals of protectionists were no longer valid.”¹⁶ It was at this point that the South turned almost uniformly against protectionist tariffs, a position they continued to uphold well into the 20th century.

Despite the opposition of the South, tariff levels steadily rose in the 1820s, reaching over 60 percent by the end of the decade, the highest level in US history.¹⁷ A expedient political coalition made this possible: Congressmen from the Midwest, desperate for better transportation access, supported the tariffs demanded by the North if the acquired revenues were used for infrastructure improvements, a scheme called the “American System” by its creator Henry Clay.

During the 1820s, the conflict between export orientated segments of American business and their protectionist counterparts was apparent: The Southerners were able to prevent tariff increases in 1820, 1821, and 1823.¹⁸ Tariffs were raised in response to Northern demands in 1824 and especially in 1828, an act which sparked severe opposition from the Southern states, who called it the Tariff of Abdominations. The state of South Carolina declared the tariff void and threatened to secede from the Union. This so-called Nullification Crisis was arguably the most divisive event in US history until the Civil War. It was finally resolved through the Compromise Tariff of 1833, which foresaw a gradual reduction of US tariffs.

This compromise was made possible because President Andrew Jackson broke up the coalition between the industrial North and the Midwest in 1830, when he vetoed two internal improvement bills that Congress had passed.¹⁹ By that point, a more structural change had already eroded the basis of the North-Midwest coalition. While the Midwest had always produced export orientated goods such as wheat, corn, flour, and animal products, reduced transportation costs gradually drew these states away from seeking internal improvements and instead led them to pursue a more free-trading agenda. Thus, in realising their export potential under reduced transportation costs, these states joined the South in support of the Compromise Tariff. The North overwhelmingly voted against it.

3. Emerging Partisanship and the Trade Issue: A Fierce Battle

Under the Compromise Tariff of 1833 tariff rates gradually fell during the next ten years until they reached a level of 25 percent, while more goods were being exempt from import duties altogether. At the same time, trade became one of the defining issues of the emerging second party system, as increased partisanship begun to reflect the competing economic and regional preferences. Soon, a persistent pattern emerged, under which the Democratic Party implemented lower tariffs, while the opposing Whig Party and later the Republican Party reinstated higher tariffs when power shifted. This partisan divide of US trade policy making remained intact until 1934.

Although growing partisanship on trade emerged already in the Jeffersonian Era, concerns over national sovereignty and federal revenue still dominated the discussion, as reflected in the bipartisan Tariff Act of 1816. By the 1830s, however, these concerns lost traction and trade policy increasingly

¹⁴ Bairoch, *Economics and World History*, 33.

¹⁵ Preyer, “Southern Support of the Tariff of 1816”, 306.

¹⁶ *Ibidem*, 322.

¹⁷ Irwin, “Antebellum Tariff Politics”, 1.

¹⁸ Chang, *Kicking Away the Ladder*, 26.

¹⁹ Irwin, “Antebellum Tariff Politics”, 13.

became a matter of fierce contest between the Democratic Party under Andrew Jackson and the newly emerged Whig Party under Henry Clay.

The Democrats controlled the presidency and both houses of Congress until 1841, allowing them to implement the tariff reduction provisioned by the Compromise Tariff. After the Whig Party won the presidential election of 1840 and federal funding became problematic again, tariff levels were raised once more, much to the outrage of Southern representatives, who decried what they perceived to be a submission to “manufacturing interests.”²⁰ Yet, when the Democratic Party won the presidential election of 1844, they immediately responded with the Walker Tariff of 1846. Although the Whig Party won another presidential election, they failed to capture Congress, depriving them of the means to reinstate higher tariffs. Duties continued to fall until the outbreak of the American Civil War.

The North’s victory over the South brought with it increased tariff protection. Lincoln’s Republican Party, the successor of the defunct Whig Party, remained in power until 1885. During this time, duties on manufactured goods averaged around 43 percent.²¹ In total, more than 4000 items were taxed upon import.²² The Republican Party had made a protective trade policy the heart of its political agenda, while Democrats stood firmly opposed. The 1888 presidential election was fought primarily over tariff policy. By that time, the significant debt the government had incurred during the Civil War had been paid off and the government was running a surplus. In a feat reminiscent of contemporary events, the Republican nominee Benjamin Harrison, running on a protectionist platform, edged out his Democratic rival despite losing the popular vote. This Republican victory led to the protectionist 1890 McKinley Tariff.

By this time, Alexander Hamilton’s infant industry argument had been rendered obsolete by the prosperity of American industry. Proponents of protective tariffs could no longer support their agenda with claims about temporary measures designed to enable American industrialisation. Instead, they diverted to a more general line of argumentation about the benefits of industrial expansion through higher employment and wages. As Irwin illustrates, the benefits of protective tariffs did exist, but they were not equally distributed among the different economic sectors. Tariffs effectively provided a subsidy for import competing business at the cost of export orientated business. Irwin estimates that this redistribution of national income amounted to 8 percent of American GDP in the 1880s,²³ echoing the persistent Southern complaints about bearing the cost of protective tariffs.

Nevertheless, tariff levels remained high until World War I, with only minor adjustments taking place after the 1890 McKinley Tariff.²⁴ When the Democratic party won the presidential election of 1912, it significantly reduced duties in the Underwood Tariff of 1913, although this failed to have the desired effect given the serious trade interruptions caused by World War I. In 1922, the Republican Party reinstated higher tariffs following its electoral victory.

Thus, a clear partisan divide on tariff policy is evident throughout the 19th century and until the 1920s. Beginning in the Jeffersonian Era, and becoming firmly entrenched with the emergence of the second American party system, the two major political parties represented different sectors of the American economy. First the Whig Party and later the Republican Party, representing the industrial states of the North, aimed to keep tariff levels high to award protection to their constituency. American Civil War and finally World War I greatly facilitated this effort. By contrast, the Democratic Party, representing agricultural interests in the South, found it difficult to provide their constituents with meaningful relief against protectionism even when intermittently winning the presidential election.

A striking observation from the first 200 years of American trade policy is the persistently high level of tariff protection, even in times when the more free-trading Democrats were in power. As Bairoch

²⁰ Ibidem, 22.

²¹ Bairoch, *Economics and World History*, 35.

²² Norton et. al., *A People, A Nation*, 549.

²³ Douglas A. Irwin, “Tariff Incidence in America’s Gilded Age”, *The Journal of Economic History* 67, no. 3 (2007).

²⁴ Bairoch, *Economics and World History*, 36.

points out, the difference between the United States in Europe is particularly marked in the years 1860 to 1890, when Continental Europe implemented relatively liberal trade policies, following the previous British trade liberalisation in the 1850s.²⁵ American tariffs during this period came in addition to the natural protection provided by the expensive oversea carriage of the goods. Thus, during its protracted ascent as a major power, the United States adhered to highly protective trade policies, despite these policies being consistently challenged by dissenting domestic forces.

Placing US trade policy in historical context also provides a new perspective on the 1930 Smoot–Hawley Tariff, which is often mentioned as a contributing if not responsible factor for the Great Depression of the 1930s. Underlying this notion is the assumption that the United States had previously been pursuing liberal trade policies, the sudden reversal of which caused the undesired economic contraction. In reality, the economic downturn already began in 1929, and the tariff act must be seen as a result of this event rather than as its cause, as many economists point out, while maintaining that the tariff might have slowed down economic recovery.²⁶ Irrespective of this more nuanced perception of the 1930 Smoot–Hawley Tariff, the protectionist legislation during the Great Depression was a turning point in US trade policy formation.

4. The RTAA of 1934: The Institutional Determinant for American Trade Policy in the 20th Century

In 1932, the Democrats won large majorities in both houses of Congress as well as the presidency. Although trade policy was not at the forefront of the new administration's agenda, president Roosevelt appointed Cordell Hull as his Secretary of State, a politician who saw free trade as a means of ensuring lasting world peace. Upon realising that unilateral reductions of tariffs in a time of economic crisis would encounter fierce protectionist opposition, Hull turned his attention to bilateral trade deals with the US' foreign trade partners. Hull's resulting legislative proposal, the Reciprocal Trade Agreements Act (RTAA) of 1934, gave the president the power to negotiate bilateral, reciprocal trade agreements with foreign nations, which could provide for a reduction in tariffs of up to 50 percent on both sides. Importantly, these bilateral trade agreements would be treated by Congress as executive orders, thereby not requiring ratification.²⁷

The proposed RTAA was debated in Congress for a period of four months. One of the primary concerns was whether the proposed bill violated the Constitution, which explicitly grants Congress the authority to determine the level of import duties.²⁸ Others put forward the opinion that bilateral trade agreements were in fact treaties and as such required Congressional approval with a two-thirds majority. Outside of Congress, industries which had been granted protection voiced their opposition, among them the textile and shoe producers, toy makers, and the steel industry.²⁹ Reflecting this position, the Republican Party criticised the bill for placing "in the hands of the President and those to whom he may delegate authority the absolute power of life and death over every industry dependent on tariff protection."³⁰

In response to these objections, the administration made compromises, the most important of which placed a three-year time limit on the president's authority to negotiate bilateral trade agreements. The RTAA thus required regular Congressional renewal. The act was also supplemented by a so-called escape clause, which allowed temporary exemptions from trade liberalisation for negatively affected

²⁵ Bairoch, *Economics and World History*, 35.

²⁶ Bairoch, *Economics and World History*, 5.

²⁷ Chorev, *Remaking U.S. Trade Policy*, 47.

²⁸ Susan Ariel Aaronson, "Who Decides? Congress and the Debate Over Trade Policy in 1934 and 1974", *Council on Foreign Relations*, November 17, 1999, <https://www.cfr.org/report/who-decides-congress-and-debate-over-trade-policy-1934-and-1974> (accessed 29.08.2017).

²⁹ Chorev, *Remaking U.S. Trade Policy*, 48.

³⁰ *Ibidem*, 48.

industries. The modified bill eventually passed both houses against the vote of most Republican congressmen.³¹

For contemporary observers, the RTAA must have seemed little more than the continuation of a by now well-established historical pattern. The Democratic Party, upon winning both the congressional and presidential election, turned against the high tariff levels instituted by their Republican predecessors. In retrospective, however, the RTAA constitutes a turning point in American trade policy formation. It marks the starting point of a continued fall in tariff rates: By the year 1946, the United States had concluded 28 trade agreements, which led to a decline of US tariffs from over 50 percent in 1930 to just around 25 percent in 1946.³² The RTAA continued to shape US trade policy formation in the rest of the century, as the United States set up a multilateral system which led to significant tariff reductions in the 1960s.

The revolutionary nature of the RTAA was that it changed the institutional parameters for trade policy formation in the United States, rather than simply amending tariff levels. Throughout its history, Congress had swayed between protectionist and more liberal tariff regimes depending on the party in power, while on average protection remained high. Congressmen often supported protectionist bills that others brought forward in exchange for a favourable vote on their own proposals, a practice known as logrolling. By moving the authority over trade policy to the administration, the RTAA suspended the practice of logrolling. Rather than elected representatives, vulnerable to pressure from import competing businesses, civil servants situated in a bureaucratic structure determined trade policy under the RTAA.

However, the shift towards the administration itself does not sufficiently explain the remarkable turn towards free trade that followed the RTAA. As Hiscox points out, US administrations had a long history of supporting protectionist measures and could not *prima facie* be expected to pursue a more liberal agenda. Rather, the liberalising effect of the RTAA was based on four reasons:

1. **The Role of the Department of State:** Much like Congress, the United States government cannot be understood as having a unified voice on trade. One of the decisive factors of the RTAA was that it assigned the authority over trade policy formation to the Department of State, "which was chief among those promoting the idea of using trade liberalisation as a tool in achieving geopolitical goals and was hence a committed promoter of free trade."³³ The Department of State remained the responsible body in trade policy until 1962. Other agencies, such as the Department of Commerce and Labour, which were more sensitive to domestic issues, were effectively side-lined.³⁴
2. **The Engagement of the Export Industry:** Throughout its history, the United States trade policy was a highly contested issue between industries that were threatened by foreign competition and those that were itself orientated towards the international market. The RTAA fundamentally altered the logic of this political struggle.³⁵ Before, as tariffs were unilaterally set by Congress, export orientated parts of the American economy rejected higher tariffs primarily on the basis that it increased the price of imports. Given that these economic costs from tariff increases were spread among a wide range of industries and consumers, while the benefits of protectionism were much more densely concentrated, the beneficiaries of protectionism could more easily overcome collective action problems and convince members of Congress to follow their requests. Under the RTAA and its principle of reciprocity, however, export orientated industries stood to gain directly from trade agreements: Rather than

³¹ Ibidem, 49.

³² Ibidem, 49.

³³ Ibidem, 58.

³⁴ Ibidem, 58

³⁵ Michael J. Hiscox, "The Magic Bullet? The RTAA, Institutional Reform, and Trade Liberalization", *International Organization* 53, no. 4 (1999), 678.

unilaterally lowering tariffs, the United States government was now actively attempting to open foreign markets. Thus, through the principle of reciprocity, the lowering of domestic tariffs became intrinsically connected to the lowering of foreign tariffs. Consequently, the export industry became increasingly involved in trade policy making. In fact, as Chorev points out, these industries played an integral part in the formulation of the RTAA.³⁶

3. **Post War Domination of US Industry:** Two more fundamental changes affected US economic policy during that time. The first was the dominant position of many US industries after the destruction of their main competitors in Europe and Japan during World War II. All US based industries, even the most ardently protectionist ones such as the textile, clothing, and footwear industries, experienced an export boom, while the competition on the domestic market went away.³⁷ Therefore, not only did the export industry have more incentive to become involved in trade policy making and call for lower tariffs, but the relative importance of the export industry vis-à-vis the import-competing industry grew vastly, even to the point that almost all industries were focused on exports. This environment allowed the RTAA to continue beyond the 1930s.
4. **Changing Party Constituencies:** The second more fundamental change affecting US economic policy at the time is in some ways another aspect of the previous change. In its 140-year history up to the RTAA, the United States saw many shifts in tariff levels in accordance with which party was leading the country. As Hiscox argues, the previous points alone did not suffice to explain the continuation of the RTAA and its long-lasting effects. Rather, he contests, one must add a fourth component, again closely connected to the previous ones, namely the change in party constituencies.³⁸ Drawing on geographical and economic parameters, Hiscox demonstrates that in the late 19th century and early 20th century, export orientated industries were much more relevant for Democratic constituencies, whereas import competing industries were much more important for Republican constituencies. This explains the persisting partisanship on the trade issue throughout US history. By the 1920s, however, the constituencies of both parties were becoming increasingly diversified, until by the 1930s there could be no discernible difference between the relative strength of each industry sector in the two parties' constituencies.³⁹ While the official party platforms did continue for some more years, these internal divisions in the two parties – and especially in the traditionally protectionist Republican party – allowed the RTAA to persist. Importantly, when the Republican Party under Dwight D. Eisenhower came back to power in 1945, they did not revert back to their traditional protectionist course.

5. US Trade Policy in the Later 20th Century

The RTAA and its successors continued to shape US trade policy for the remainder of the 20th century. In the immediate post war period, the United States began its continued multilateral approach to trade liberalisation, first through the failed International Trade Organisation (ITO), then through the General Agreement on Tariffs and Trade (GATT). GATT was carefully worded in such a way to make it fall under the RTAA.⁴⁰ At the same time, the fragmentation of party constituencies continued.⁴¹

In the 1970s, the post war success of American industry on the global market was halted by a resurgence of its European and Japanese competitors. The growth rate of the US economy decreased sharply in 1969 and even became negative in 1970, while at the same time imports in manufactured

³⁶ Chorev, *Remaking U.S. Trade Policy*, 46.

³⁷ Hiscox, "The Magic Bullet?", 685.

³⁸ *Ibidem*, 680.

³⁹ *Ibidem*, 684.

⁴⁰ Chorev, *Remaking U.S. Trade Policy*, 53.

⁴¹ *Ibidem*, 59.

goods surged. In 1971, the United States recorded its first absolute trade deficit.⁴² This increased pressure on American industries reinvigorated the previous clash between export orientated and import competing industries. The disruption of the equilibrium under the RTAA motivated the free trading parts of the American political landscape to pursue another institutional change, in order to curb the increasing influence of protectionist demands.

The resulting 1974 Trade Act again came from an administration which was internally divide on the issue of trade. While the departments of Commerce and Labour remained staunchly protectionist, they found themselves with very little influence on the formation of the bill. Rather, the more internationalist elements of the administration, chiefly the Department of State and the National Security Council, dominated the drafting of the act. In essence, the 1974 Trade Act shifted further authority to the administration, namely authority over non-tariff measures. At the same time, the bill introduced four clauses under which businesses could be granted protection, such as an anti-dumping-clause and a clause for countervailing duties (i.e. duties that are imposed on imports which have profited from foreign subsidies). From the view point of free-trade proponents, the introduction of these clauses allowed the administration highly technical ways of responding to protectionist demands, while retaining the right to deny the invocation of the clauses if it was seen as unhelpful. Thus, "by providing the administration means, independent of Congress, to deal with protectionist demands, these arrangements were meant to minimize potential interruptions to the process of trade liberalisation."⁴³

B. Three Lessons from US Trade History

A walk through the history of the United States and their policy on foreign trade can help to structure our understanding of contemporary proposals, discussions, and actions in Washington. One highly relevant insight from the previous remarks is that the United States had a highly ambivalent relationship with the notion of free trade and that narratives of the United States as an inherently open economy need qualification. The United States has certainly been the initiator in the creation of a multilateral trade system after World War II. The General Agreement on Tariffs and Trade (GATT) and later the World Trade Organisation (WTO) constitute the framework in which countries agreed to lower their tariffs and open their economies to international trade. The United States can therefore rightly be understood as the driving force behind the global reduction in tariffs and the corresponding increase in international trade in the second half of the 20th century. However, these free trade policies stand in sharp contrast to over 150 years of often staunch protectionist measures in the United States. Much like Britain had decades earlier, the United States actively protected their infant industries from foreign competition in the first half of the 19th century. When those industries began to be competitive internationally, the tensions between the North and the South of the country led to a destructive civil war from which the more protectionist North emerged victorious. This led to continued strong protectionism in the second half of the century, just as many European countries were opening their economies. In the early 20th century, World War I and the Great Depression prolonged the American protectionist regime, which only ended with the Reciprocal Trade Agreements Act (RTAA) of 1934.

Understanding the complex American relationship with free trade allows an unobstructed view on the current situation. Instead of regarding any apparently protectionist proposals or policy choices as an unprecedented deviation from the established political course, a more helpful approach would view them in the context of a long history of American protectionism. The basic insight from the previous remarks is that protectionist sentiment in the United States has always been strong, although the degree to which this demand has led to protectionist policies varied greatly. While the Northern demand for protectionist won out over Southern opposition in the 19th and early 20th century due to the Northern alliance with the Midwestern states, the outcome of the American Civil War and lastly

⁴² Ibidem, 71ff.

⁴³ Ibidem, 87.

World War I, demands for free trade have dominated the policy choices in the later 20th century first due to the global post war situation and later because of the institutional arrangement as provisioned by the RTAA.

The unfounded believe in unconditional American liberalism in trade having given way to a more nuanced understanding of the complex nature of US trade policy, the analysis of the contemporary situation will follow the three fundamental dichotomies in US trade policy.

First Dichotomy: Import competing vs. export orientated sectors of the American economy

US trade policy was shaped, firstly, by the tension between those sectors of the economy which stand to lose from an increase in imports versus those sectors who benefit from increased exports. From the earliest days of the Republic, exporters and import competitors have contested the level of adequate tariffs. At first, exporters were only concerned about increased import prices due to tariffs. Later, they were incentivised to advocate free trade agreements to bring down tariffs of other countries.

The analysis of the contemporary debate on trade policy in the United States will utilise the division between exporting and import competing businesses as a first theoretical framework. First, economic theory will be applied to gain a better grasp over how trade may affect different parts of the economy. In particular, the Ricardian model and its concept of comparative advantage will be contrasted with the economic theory known as mercantilism. This will help to analyse and judge the underlying logic of Trump's positions on trade. Second, two economic models – the Heckscher-Ohlin-Model (HO) and the Specific-Factors-Model – will be presented to shed light on the redistributive effects of trade. This will provide an economic perspective on the divide between free trading and protectionist parts of the American economy. Third, the analysis will focus on the details of Trump's agenda on trade using both the insight from the history of US trade policy as well as the economic theory, to address the possible beneficiaries of the suggested policies. Given the vast geographical scope of the United States and the state-based electoral system, particular attention will have to be given to the geographical distribution of those industries that are either negatively or positively affected by trade and to the question how this distribution has influenced the voting behaviour in the 2016 presidential election.

Second Dichotomy: The Democratic vs. the Republican party

US trade policy was shaped, secondly, by the tension between the Republican party and the Democratic party. One of the interesting observations from the previous remarks on US trade policy history is the way party constituencies have remained stable for more than 100 years until the 1920s, at which time they began to undergo stark changes. This diffusion of party positions has had immediate ramifications on the policy outcomes: During the time of intense partisanship on the trade issue, tariff levels fluctuated according to which party was in government, although it can be said that the Republican party found it easier to pursue their protectionist agenda given events such as the American Civil War. As party constituencies became increasingly similar, free trading actors found it easier to pursue their agenda, irrespective of which party was in control of government.

The analysis of the contemporary debate on trade policy in the United States will employ the tension between the two parties on the North American Free Trade Agreement (NAFTA). This agreement has a history closely associated with both parties, having been initiated by a Republican president and ultimately coming to effect under the leadership of a Democratic president. First, an overview will be given on the history of NAFTA. Second, the analysis will focus on the positions of the individual candidates of both parties on the issue of NAFTA. The question will be whether the partisanship that has constituted much of early US trade history is present in NAFTA. Furthermore, the relevance of other factors in influencing the voting behaviour during the 2016 presidential election will be addressed.

Third Dichotomy: Within the Institutions

US trade policy was shaped, thirdly, by the tension within the institutions. As the remarks illustrate, the institutional arrangement has changed significantly with the Reciprocal Trade Agreements Act (RTAA) of 1934 and subsequent trade acts. This has had fundamental ramifications for the way decisions about trade policy are made. Not only did the RTAA shift the decision-making power away from Congress to the administration, but it was specifically engineered to accommodate the internationalist views within the administration by assigning the decisive role to the Department of State. Other more protectionist leaning actors in the administration were given little say over the political course on trade. As a result, all administration after the 1934 RTAA pursued a strong liberalising agenda. Protectionist sentiments did not disappear, but the institutional arrangement prohibited them from becoming effective.

The analysis of the contemporary debate on trade policy in the United States will look specifically at the struggle within the Trump administration. During his campaign and after his election Trump has decided to surround himself with two groups of advisors who represent strongly divergent worldviews and policy goals on trade. Many of these people have taken up influential roles in the Trump administration and are now responsible for enacting the administration's trade policy. Perhaps even more than previous ones, the new administration seems divided on the issue of trade. One goal of the analysis will be to single out the key actors involved in the internal debate, to provide an overview over their goals and finally to offer an interpretation on which of the two groups is currently gaining the upper hand.

III. TRUMP-TRADE IN HISTORICAL PERSPECTIVE

A. Trump's Mercantilism and the Two Parts of the American Economy

1. Overview Over Donald Trump's Position on Trade

Donald Trump was elected as US President on November 08, 2016. His campaign began in June 2015 and, after beating his co-contestants in the primary race, he won the Republican nominee in July 2016. A businessman with no relevant previous experience in politics, Trump caused severe political disruptions due to his highly divisive, often controversial rhetoric. Trump's political agenda was particularly distinct on the issues of trade and migration. Trump himself later stated that trade was one of the two fundamental reasons for his electoral victory.⁴⁴ Both on trade and on migration, Trump advocated sharp reversals of the internationalist policies of previous administrations. Mexico, one of Trump's favourite targets, was singled out repeatedly on both issues, with Trump proposing to build a wall on the US-Mexican border as well as to renegotiate or withdraw from the North American Free Trade Agreement (NAFTA).

Due to the unbridled nature of Trump's rhetoric, discerning a coherent strategy on trade has been a difficult task, and many commentators expressed their uncertainty over the policies Trump would implement if elected. Among his pre-electoral statements, Trump declared he would "rip up those trade deals",⁴⁵ in particular NAFTA which he said he sought to renegotiate and – if renegotiations failed

⁴⁴ "Remarks by President Trump et al. at Signing of Trade Executive Orders", *The White House, Office of the Press Secretary*, March 31, 2017, <https://www.whitehouse.gov/the-press-office/2017/03/31/remarks-president-trump-et-al-signing-trade-executive-orders> (accessed 29.08.2017).

⁴⁵ Vicki Needham, "Trump vows to 'rip up' all trade agreements," *The Hill*, March 03, 2016, <http://thehill.com/policy/finance/271723-trump-vows-to-rip-up-all-trade-agreements> (accessed 29.08.2017).

to bring about the desired result – to withdraw from the treaty.⁴⁶ Trump said NAFTA, which went into force in 1994 and binds together the United States, Canada, and Mexico, was responsible for extensive job losses in manufacturing, calling it “the worst trade deal maybe ever signed anywhere but certainly ever signed in this country.”⁴⁷ Trump also threatened to levy a 45 percent tariff on imports from China and a 35 percent tariff on imports from Mexico (the revenue of which would be used to pay for the border wall).⁴⁸ In perhaps the most stunning remarks, Trump labelled the World Trade Organisation (WTO) a “disaster” and suggested that he was ready to withdraw the United States from it if the WTO would reject a more protectionist course from the United States under his leadership.

The criticism of US trade deficits has been one of the persistent features of Trump’s political career. Trump entered the political stage in 1987 with a full page political add which already contained an attack on Japan for their trade surpluses.⁴⁹ In 1988, Trump appeared on a headline television programme to state: “We let Japan come and dump everything in our markets. It’s not free trade. If you go ever to Japan and try to sell something, forget about it, it’s almost impossible. They don’t have laws against it, they just make it impossible. They come over here they sell their cars, their VCRs, they knock the hell out of our companies.” In 1988, the trade deficit of the United States towards Japan amounted to \$51.8 billion.⁵⁰ By the 2016 election campaign, Donald Trump had retained his outspoken criticism of US foreign trade relationships, which he found to be “serious trouble”, saying: “We don’t beat China in trade. We don’t beat Japan, with their millions and millions of cars coming into this country, in trade. We can’t beat Mexico, at the border or in trade.”⁵¹

Trump’s rhetoric implied that other nations used trade to exploit the United States. On the European Union, Trump remarked: “Why did [Europe] primarily get together? ... Europe got together so they could beat the United States when it comes to making money. In other words, on trade.”⁵² On China, Trump said that the country was “ripping off” the United States, calling them an “economic enemy” who was involved in the “greatest theft in the history of the world”. Trump has been particularly outspoken about the loss of manufacturing jobs due to trade, saying that China had “destroyed entire industries by utilizing low-wage workers, cost us tens of thousands of jobs”.⁵³

2. Mercantilism Overcome? Economic Insights on Trade

Many commentators have interpreted Trump’s statements on trade as an expression of a mercantilist worldview. Mercantilism originally refers to an economic doctrine of 18th century France, which was marked by heavy government intervention and which had at its core the belief that a country’s economic strength was determined by a positive balance of trade.⁵⁴ Authors such as Thomas Mun,

⁴⁶ Vicki Needham, “Trump says he will renegotiate or withdraw from NAFTA”, *The Hill*, June 28, 2016, <http://thehill.com/policy/finance/285189-trump-says-he-will-renegotiate-or-withdraw-from-nafta-without-changes> (accessed 29.08.2017).

⁴⁷ Donald Trump, “Donald Trump on Free Trade”, *On the Issue*, March 10, 2017, http://www.ontheissues.org/2016/Donald_Trump_Free_Trade.htm (accessed 29.08.2017).

⁴⁸ Simon Johnson, “Trump’s tariff proposal would gut US export jobs”, *Boston Globe*, June 27, 2016, <https://www.bostonglobe.com/opinion/2016/06/26/johnson/ZE8JbSqqJb4pP2hE6rohM/story.html> (accessed 29.08.2017).

⁴⁹ Edward Alden, “The Roots of Trump’s Trade Rage”, *Politico*, January 16, 2017, <http://www.politico.com/magazine/story/2017/01/the-roots-of-trumps-trade-rage-214639> (accessed 29.08.2017).

⁵⁰ United States Census Bureau, “Trade in Goods with Japan”, <https://www.census.gov/foreign-trade/balance/c5880.html> (accessed 29.08.2017).

⁵¹ Trump, “Donald Trump on Free Trade”, *On the Issue*.

⁵² Ian Mount, “Donald Trump Says It Might Be Time for the U.S. To Quit the WTO”, *Fortune*, July 25, 2016, <http://fortune.com/2016/07/25/donald-trump-free-trade-wto> (accessed 29.08.2017).

⁵³ Veronica Stracqualursi, “10 times Trump attacked China and its trade relations with the US,” *ABC News*, April 06, 2017, <http://abcnews.go.com/Politics/10-times-trump-attacked-china-trade-relations-us/story?id=46572567> (accessed 29.08.2017).

⁵⁴ McCusker, *History of World Trade since 1450*, 485ff.

Edward Misselden, and Josuah Child put forward the principle that a country should seek to export as much as possible compared to its imports. The underlying assumption of mercantilist thought is that trade is essentially a zero-sum game, in which benefits for some countries are matched by detriments in other countries.

Today, mainstream economics considers mercantilism an outdated theory. In the early 19th century, the British economist David Ricardo pioneered the principle of comparative advantage in response to mercantilism. The concept of comparative advantage rests on a comparison between opportunity costs between countries, that is the cost of producing a product not in absolute terms, but relative to other goods that the country could produce with the same resources.⁵⁵ A country holds an absolute advantage if it can produce a good more cheaply than the other country. A common misconception in trade theory is to assume that a country which has no absolute advantage in any good cannot play the role of an exporter, as all its goods are produced more cheaply elsewhere. Ricardo demonstrated that in such a case the country may still hold a comparative advantage in a good. The essential insight is that trade will be beneficial for all involved countries if each country exports the goods in which it holds the comparative advantage.⁵⁶

The relevant take away is that trade is not a zero-sum game. If countries engage in trade the overall welfare increases and both countries will be made better off. This is true both for trade between countries which are economically similar and between countries which differ in size, industrialisation, wage level and other factors.

Today, the Ricardian model is an economic orthodoxy and consequently most contemporary economists support free trade between nations.⁵⁷ However, in the 1930s economists began to develop theories about the distributional effects of trade. The fact that Ricardo's principle of comparative advantage postulates that free trade between nations raises the welfare for both sides does not imply that trade is neutral for the internal distribution of welfare in each country. On the contrary, trade has repeatedly been found to cause severe disruptions to the national equilibrium, allowing some parts of the economy to profit much more than the average while other parts are made significantly worse off. The two principle theories to describe these distributional effects are the Heckscher-Ohlin-Model (HO) and the Specific-Factors-Model.⁵⁸

The HO-Model assumes that production factors are mobile between sectors, that is that capital and labour can move costlessly between different segments of the economy (e.g. between the apparel and the computer industry). If a country opens itself to international trade, the HO-Model assumes that the owners of scarce resources are harmed while the owners of abundant resources gain, irrespective which sector of the economy the resources are employed in. In the United States evidence suggests that low-skilled labour is scarce while high-skilled labour is abundant.⁵⁹ As a consequence, the HO-Model predicts that in the United States low-skilled workers are harmed by free trade, irrespective of the specific industry which they are employed in, whereas high-skilled workers benefit.

The Specific-Factors-Model, by contrast, does not assume costless mobility between sectors. Rather, certain factors are assumed to be specific to certain industries. In practice, this specificity is a question of time rather than one of principle.⁶⁰ It is obvious that neither labour nor capital can costlessly move from the apparel to the computer industry in the short run. In the long run, however, workers can re-

⁵⁵ Paul R. Krugman, Maurice Obstfeld, Marc J. Melitz, *International Economics – Theory and Policy* (Boston: Alison-Wesley, 2012), 25ff.

⁵⁶ *Ibidem*, 26.

⁵⁷ Binyamin Appelbaum, "On Trade, Donald Trump Breaks With 200 Years of Economic Orthodoxy," *New York Times*, March 10, 2016, <https://www.nytimes.com/2016/03/11/us/politics/-trade-donald-trump-breaks-200-years-economic-orthodoxy-mercantilism.html> (accessed 29.08.2017).

⁵⁸ Ronald Rogowski, "Trade, Immigration, And Cross-Border Investment", in *Oxford Handbook of Political Economy*, ed. Barry R. Weingast and Donald A. Wittman (Oxford: Oxford University Press, 2006).

⁵⁹ Krugman et. al., *International Economics*, 92.

⁶⁰ *Ibidem*, 52.

train and capital can be re-employed to work in a different sector of the economy as originally. However, factor mobility can be slow and in the meantime the Specific-Factors-Model does apply. It states that when a country opens to trade, the harm will fall upon the owner of those resources that are specific to import-competing industries, while the benefit will be enjoyed by the owner of those resources that are specific to export orientated industries.

3. Trump, the First Dichotomy of American Trade Policy, and Economic Theory

Where does Donald Trump clash with economic theory and where may he find its support? As demonstrated, Trump's continuous portrayal of foreign trade as a threat to the United States or even as a form of economic attack finds no corroboration in contemporary economic theory. Today, economics know that trade is beneficial for all countries involved. Trump would deal significant harm to both the US economy as well as the economies of its trading partners if he were to revert to protectionist policies which have dominated US history until the 1930s. Understanding the Ricardian model and its principle of comparative advantage could lead the president and his advisors to embrace the multilateral system of free trade, which was itself initiated and shaped by the United States after World War II. Indeed, most commentators have voiced this view during the presidential campaign and thereafter.⁶¹

However, Trump's protectionist agenda may gain a certain economic legitimacy when considered not in terms of its effects on the American economy as a whole, but when viewed specifically from the perspective of low-skilled workers and the import competing industries. Although contemporary economic theory does state that the American economy would benefit from free trade vis-à-vis protectionism, this does not imply that trade is neutral regarding the distribution of welfare within the system. Indeed, as the HO-Model and the Specific-Factors-Model state, trade does have strong distributional effects. These theories predict that a free trade system harms low-skilled workers and import competing industries. As a consequence, the benefits of free trade are concentrated in the other sectors of the economy, particularly the export orientated industries and high-skilled workers. It is important to note that governmental programmes could in principle allow for a redistribution of the overall welfare gains in such a way that negatively affected sectors are compensated while the initial beneficiaries still profit. Trump's political agenda does not account for this insight. Rather, Trump has decided to subscribe himself to an agenda which, if implemented, would harm the American economy as a whole for to protect low-skilled labour and the import-competing industries.

As demonstrated, the clash between those parts of the economy which stand to gain from foreign trade versus those parts that are directly threatened by it has been a persistent motif in the history of US trade policy. The dichotomy of the overall welfare gained from free trade and the harm inflicted on import-competing sectors and low-skilled workers is at the forefront of the US consciousness and has greatly influenced the 2016 presidential election.

Modern economic theory holds that whenever countries trade goods in which they have a comparative advantage, the overall welfare increases and all involved countries are made better off. Indeed, the lengthy process of trade liberalisation in the second half of the 20th century has brought about significant increase in the aggregate welfare of the states which were engaged in this process. A 2017 report from the World Bank, the International Monetary Fund and the World Bank states: "Trade

⁶¹ Charles Lane, "Donald Trump's contempt for the free market", *Washington Post*, October 21, 2015, https://www.washingtonpost.com/opinions/trumps-contempt-for-the-free-market/2015/10/21/2f61d87c-7815-11e5-bc80-9091021aeb69_story.html (accessed 29.08.2017). Everett Rosenfeld, "Trump trade plans could cause global recession: Experts", *CNBC*, March 10, 2016, <https://www.cnbc.com/2016/03/10/trump-trade-plans-could-cause-global-recession-experts.html> (accessed 29.08.2017).

openness, underpinned by the expansion of the multilateral trading system, has brought about higher productivity, greater competition, lower prices, and improved living standards.”⁶²

This economic orthodoxy is at least partly reflected in US public opinion on trade. A 2017 Gallup poll found that a record-high 72 percent of Americans saw trade as an opportunity, while only 23 percent regarded it as a threat.⁶³ It is particularly noteworthy that this reflected a sharp increase from the previous the year, where 58 percent described trade as an opportunity. The poll found a difference between voters of the Democratic Party and the Republican Party. While 80 percent of Democrats saw the merits of trade, only 66 percent of Republicans did so, although the surge in support for trade was equal among both groups.

These polls demonstrate a strong understanding of the benefits of free trade on the overall economy. At the same time, the American public has an equal understanding of the adverse effects trade may inflict on certain parts of the economy as explained by the HO-Model and the Specific-Factors-Model. The fear of strong distributional effects of trade is revealed when the public is asked specifically about the threat of imports without mentioning the economic opportunities connected to exports. In a recent poll with such a question, 65 percent of respondents said they favoured restrictions on imports stating fears of job losses and declines in wages.⁶⁴

Indeed, manufacturing jobs in the United States have seen a strong decline from their highpoint of 19.5 million in 1979. After a small decline, the United States maintained between 17 and 18 million manufacturing jobs throughout the 1980s and 1990s. The number began to go down sharply in the 2000s, a development which was exacerbated by the economic crisis of 2008.⁶⁵ However, this development was not unique to the United States. In fact, all advanced economies experienced long-term declines in the number of manufacturing jobs in the same time period.⁶⁶ This decline in manufacturing jobs is directly related to significantly improved productivity in the manufacturing sectors. Between 2002 and 2015, productivity in manufacturing in the United States has increased by 47%, with those sectors who experienced the strongest increase in productivity also losing the most jobs.⁶⁷ This reflects stark technological changes and higher investments in automation.

Nevertheless, the surge of manufacturing taking place in China, which entered the World Trade Organisation (WTO) in 2001, is one important factor in this development. One study estimates that import competition from China is the cause for around one quarter of job losses in manufacturing.⁶⁸ Donald Trump has repeatedly voiced his opinion that China’s ascent as a manufacturing powerhouse has been and continues to be fuelled by currency manipulation. On this claim, he is right insofar as China has been engaged in significant currency manipulation schemes in the early 2000s, keeping their currency artificially undervalued to aid their expanding manufacturing industry. At the present time,

⁶² International Monetary Fund, World Bank, World Trade Organisation, *Making Trade an Engine of Growth for All*, March 23, 2017, <http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/08/making-trade-an-engine-of-growth-for-all> (accessed 29.08.2017).

⁶³ Gallup, “In US, Record-High 72% See Foreign Trade as Opportunity”, *Gallup*, February 16, 2017, <http://www.gallup.com/poll/204044/record-high-foreign-trade-opportunity.aspx> (accessed 29.08.2017).

⁶⁴ Gallup, “American Public Opinion on Foreign Trade”, *Gallup*, April 01, 2016, http://www.gallup.com/opinion/polling-matters/190427/american-public-opinion-foreign-trade.aspx?g_source=TRADE&g_medium=topic&g_campaign=tiles (accessed 29.08.2017).

⁶⁵ The Economist, “The manufacturing jobs delusion”, *The Economist*, January 04, 2017, <https://www.economist.com/blogs/buttonwood/2017/01/economics-and-finance> (accessed 29.08.2017).

⁶⁶ Marc Levinson, “U.S. Manufacturing in International Perspective,” *Congressional Research Service*, January 18, 2017, <https://fas.org/spp/crs/misc/R42135.pdf> (accessed 29.08.2017), 9.

⁶⁷ Ibidem, 11.

⁶⁸ David H. Autor, David Dorn, and Gordon H. Hanson, “The China Syndrome: Local Labor Market Effects of Import Competition in the United States,” *American Economic Review* 103, no. 6 (2013), 2121.

however, this practice is no longer followed by China, whose currency has strongly appreciated.⁶⁹ Indeed, Donald Trump appeared to backtrack on his promise to officially label China a currency manipulator, a declaration which would have allowed him to raise punitive tariffs against Chinese imports.⁷⁰ Despite these caveats, the American public's concern about potential job losses due to trade and in particular due to trade with China are justified. And evidence suggests that these fears have determined the result of the 2016 election.

A detailed analysis of the voting pattern in the 2016 presidential election found that a county's shift towards the Republican party was directly correlated with the industry composition in it.⁷¹ Industries that are particularly vulnerable to foreign imports are the electronics and textile industries, which are negatively affected by Chinese imports, and the machinery and crude petroleum industries, which are negatively affected by Mexican imports. The study analysed the composition of all county's industry, finding a particular concentration of import competing businesses in the Midwest (Indiana, Michigan, Wisconsin) and the Southeast (Alabama, Georgia). The study found that increased import competition, especially due to Chinese imports, had strong effects on the voting pattern of the individual counties. Trump won some of the aforementioned states by close margins, such as the state of Michigan (won by 0,23 percent) and Wisconsin (won by 0,77 percent).⁷² Thus, the clash between the import competing industries with the other sectors of the economy had significant, potentially decisive effects on the 2016 presidential election.

4. Summary and Outlook

Throughout US history, a dichotomy has existed between those parts of the economy which may be negatively affected by trade and which therefore advocate protectionism; and those parts, which would benefit from the merits of free trade and therefore advocate a reduction of tariffs at home and abroad. As the discussion has shown, the overall benefits of trade far exceed its negative effects, although the concentration of the effects both in terms of industrial sector and geographically provide ample reason for individuals and their elected representatives to follow a protectionist agenda. While governmental programmes could lessen and perhaps even eliminate this asymmetrical distribution of the benefits and detriments of free trade, Trump has instead proposed an agenda which attempts to curb free trade to protect the negatively affected sectors at the expense of the average participant in the American economy.

As demonstrated, this agenda has resonated well with the targeted communities. Rather than relying on governmental efforts to alleviate the harm inflicted upon them, industrial areas in the Midwest and Southeast of the United States have taken a liking to Trump's staunch criticism of imports and his emphasis on the loss of US manufacturing jobs and Trump's campaign has been tremendously effective in mobilising these sentiments. Thus, the first tension has played a major, perhaps a decisive role in the 2016 presidential election.

⁶⁹ Nyshka Chandran, „Evidence that China is no currency manipulator“, *CNBC*, March 15, 2017, <https://www.cnbc.com/2017/03/15/china-currency-manipulator-claims-are-false-sp-global-ratings.html> (accessed 29.08.2017).

⁷⁰ BBC News, „Donald Trump: China 'not a currency manipulator'“, *BBC News*, April 12, 2017, <http://www.bbc.com/news/business-39583571> (accessed 29.08.2017).

⁷¹ Andrea Cerrato, Francesco Ruggieri and Federico Maria Ferrara, „Trump won in counties that lost jobs to China and Mexico“, *Washington Post*, December 02, 2016, https://www.washingtonpost.com/news/monkey-cage/wp/2016/12/02/trump-won-where-import-shocks-from-china-and-mexico-were-strongest/?utm_term=.2ab4f21e2c11 (accessed 29.08.2017).

⁷² BBC News, „US Election 2016 Results“, *BBC News*, <http://www.bbc.com/news/election/us2016/results> (accessed 29.08.2017).

C. The North American Free Trade Agreement (NAFTA)

1. Overview

The North American Free Trade Agreement (NAFTA) took effect on January 1, 1994. It was signed by President H.W. Bush on December 17, 1992, and approved by Congress on November 20, 1993.⁷³ By the time NAFTA was implemented, market opening in North America was nothing new. As early as 1911, the United States and Canada signed a reciprocal tariff agreement, which was however rejected by the Canadians. The first successful step came in 1965, when Canada and the United States signed the so-called Auto Pact. But the furthest reaching agreement prior to NAFTA was the Canadian Free Trade Agreement (CFTA), a free trade agreement between the United States and Canada which already foreshadowed most of the features eventually displayed in NAFTA. The CFTA, signed in 1987, eliminated all tariffs by 1998, with many being eliminated immediately. It furthermore provided for national treatment for service providers and investors. At the time, CFTA was the most comprehensive free trade agreement of the world.⁷⁴

Therefore, by the time NAFTA was negotiated, signed and implemented, Canada and the United States had already embarked on a path towards economic integration and many trade barriers had fallen. By contrast, Mexico was continuing the highly protectionist policies of the previous decades. Although trade liberalisation began as early as 1986, trade barriers remained high. Mexico required import duties to be paid on 230 products from the United States, which came in addition to multiple non-tariff barriers.⁷⁵ In 1993, Mexico's average duty on imports from the United States was 10 percent (compared to Canada's 0,37 percent). The United States applied average duties of 2,07 percent on Mexican imports.

Given this constellation, the primary effect of NAFTA was the opening of the Mexican market to imports from the North. US exports to Mexico increased from \$41,6 billion in 1993 to \$231,0 billion in 2016 (an increase of 455 percent).⁷⁶ Imports from Mexico to the United States increased from \$39,9 billion in 1993 to \$294,2 billion in 2016 (an increase of 637%). The balance of trade has changed significantly: From a \$1,7 billion surplus for the United States in 1993 to a \$63.2 billion deficit in 2016.

According to the Congressional Research Service, the overall effect of NAFTA on the US economy was positive, but only slightly so. This is partly due to the fact that US-Canadian trade had already been liberalised before NAFTA, and Mexico had also begun to change their protectionist stance. One of the difficulties in assessing the impact of NAFTA is to distinguish its effects from other contributing factors, such as an overall growth of trade and technological changes. A review of the literature in 2016 found that NAFTA has been the cause of "a substantial increase in trade volumes for all three countries; a small increase in U.S. welfare; and little to no change in U.S. aggregate employment."⁷⁷

2. Candidates' Position on NAFTA

Donald Trump's vehement opposition to NAFTA has been widely perceived. He has described NAFTA as "the worst trade deal maybe ever signed anywhere, but certainly ever signed in this country", as a deal which has caused "carnage" and "economy un-development", as a "disaster", and as a "catastrophic deal".⁷⁸ Bearing in mind the second dichotomy of American trade policy formation

⁷³ Angeles Villarreal, Ian F. Fergusson, "The North American Free Trade Agreement (NAFTA)," Congressional Research Service, May 24, 2017, <https://fas.org/sgp/crs/row/R42965.pdf> (accessed 29.08.2017), 1f.

⁷⁴ Ibidem, 2.

⁷⁵ Ibidem, 4.

⁷⁶ Ibidem, 15.

⁷⁷ Ibidem, 16.

⁷⁸ Meera Jagannathan, "Here are all the terrible things President Trump has said about NAFTA — before deciding to stick with it", *New York Daily News*, April 27, 2017,

throughout the history of the country, it is particularly noteworthy how consistently Trump has blamed former Democratic president Bill Clinton for the implementation of NAFTA.

In fact, NAFTA must be regarded as a bipartisan agreement. Contrary to Trump's allusions, it was former Republican president George W.H. Bush who both negotiated and signed NAFTA.⁷⁹ Bush saw the agreement as a valuable achievement which would help him get re-elected. Clinton supported the agreement, although he sought to include labour and environmental provisions absent from the original version. After negotiations with labour and environmental groups failed, Clinton nevertheless pursued Congressional ratification. When Congress finally ratified NAFTA, this was done largely through Republican votes. In fact, Democrats voted against NAFTA by 102-156 in the House and 27-28 in the Senate, while Republicans voted in favour of NAFTA by 132-43 in the House and 34-10 in the Senate.⁸⁰

That Trump chose to omit these circumstances in favour of assigning a greater role to Bill Clinton was clearly motivated by his attempt to discredit his rival in the 2016 presidential campaign, former president Bill Clinton's wife Hillary Clinton. Mrs Clinton, the Democratic nominee for president, had previously supported NAFTA as first lady, but her opinion on NAFTA changed when she first attempted to become the Democratic presidential nominee in 2007, at which time she said that NAFTA was a "mistake" which had "hurt a lot of American workers."⁸¹ During the 2016 presidential campaign, Clinton came under pressure when the United Auto Workers President stated that Clinton had assured him she would renegotiate NAFTA when elected. The Clinton campaign refused to confirm or denounce the statement, leaving Clinton's position unclear.⁸²

The position of Clinton's main rival in the Democratic Party, Bernie Sanders, was much clearer. Sanders had already spoken out against NAFTA by the time the deal was being negotiated and implemented.⁸³ In the 2016 presidential campaign, Sanders stated that NAFTA had hurt American workers and he promised to renegotiate the agreement if elected. Like Trump, Sanders used the word "disaster" to describe NAFTA.⁸⁴ Unlike Trump, Sanders renounced the idea of violating NAFTA before new negotiations could take place.

3. NAFTA and the Second Dichotomy of US Trade History

The history of US trade policy making has been marked by a fundamental conflict between the Republican Party and the Democratic Party. In the 19th and early 20th century, each party represented an industrial and geographical part of the US economy. As described earlier, this strong alignment disappeared around the 1920s, which eventually led to the RTAA of 1934. Although differences between both parties remained and protectionist demands continued, the institutional arrangement of the

<http://www.nydailynews.com/news/politics/terrible-president-trump-nafta-article-1.3107104> (accessed 29.08.2017).

⁷⁹ Glenn Kessler, "History lesson: More Republicans than Democrats supported NAFTA," *Washington Post*, May 09, 2016, <https://www.washingtonpost.com/news/fact-checker/wp/2016/05/09/history-lesson-more-republicans-than-democrats-supported-nafta/> (accessed 29.08.2017).

⁸⁰ Ibidem.

⁸¹ Linda Qiu, "Donald Trump's largely accurate about Clinton's past support for NAFTA, TPP", *Politifact*, July 21, 2016, <http://www.politifact.com/truth-o-meter/statements/2016/jul/21/donald-trump/donald-trumps-largely-accurate-about-clintons-past/> (accessed 29.08.2017).

⁸² Newsweek, "Hillary Clinton: Would She Renegotiate NAFTA?", *Newsweek*, July 26, 2017, <http://www.newsweek.com/nafta-hillary-clinton-tpm-mexico-canada-united-auto-workers-dennis-william-484289> (accessed 29.08.2017).

⁸³ Bernie Sanders, "Sanders: Why I Oppose NAFTA", *Seven Days*, October 28, 1993, <https://www.sevendaysvt.com/vermont/sanders-why-i-oppose-nafta/Content?oid=2435080> (accessed 29.08.2017).

⁸⁴ Will Doran, "Donald Trump says he and Bernie Sanders are 'very similar' on trade", *Politifact*, July 27, 2016, <http://www.politifact.com/north-carolina/statements/2016/jul/27/donald-trump/donald-trump-says-he-and-bernie-sanders-are-very-s/> (accessed 29.08.2017).

RTAA and the disappearance of the clear division between the two parties on trade ensured the success of a liberalising agenda throughout the latter 20th century. The complex political circumstances are perhaps best seen in the vote on NAFTA: Supported by a democratic and a republican president, but highly controversial among members of Congress of both parties as well as the wider public, NAFTA eventually passed and came into effect.

In a macroscopic view, the NAFTA case demonstrates how the original partisan divide, which has marked US trade history throughout the 19th century and well into the 20th century, has almost fully subsided. Instead, it appears to have been replaced by growing division within both parties.

The growing disparity within the two parties on economic issues is the result of a strong shift in voter behaviour. Studies have found that social issues play an increasingly strong role in voter preference.⁸⁵ This has meant that the traditional alignment of the two parties with certain economic interests is no longer in place, as issues such as health care, abortion, education and minority rights have overridden the traditional voting patterns. But even in economic terms, an increased polarisation can be observed: Districts which are more strongly affected by imports and suffer negative consequences from it are more likely to elect an economic outlier as their representative, either a conservative Republican or a liberal Democrat.⁸⁶ This effect has been particularly marked with Republican representatives: "Growing import competition from China has contributed to the disappearance of moderate legislators in Congress, a shift in congressional voting toward ideological extremes, and net gains in the number of conservative Republican representatives, including those affiliated with the Tea Party movement. During the two most recent non-incumbent presidential elections, 2008 and 2016, trade shocks also differentially increased the vote share of the Republican candidate."⁸⁷

Given this development, a more accurate understanding of the dichotomy between the Democratic and the Republican parties would see this partisanship as a reflection previous. In other words, as long as there was at least a broad consensus on non-economic issues among the electorate, the two major parties found their identity mainly through their economic policies, which spoke to different parts of the American population. At this time, one party represented the export orientated and the other party represented the import competing parts of the American economy. Today, as social issues polarise the American people much more than in the previous decades, the profile of both parties is shaped more by non-economic themes. Consequently, in economic questions internal divisions in both parties appear more profoundly than before. This division seems especially apparent on trade, which has always affected public consciousness to a high degree.

D. Decision Making Within the Trump Administration

Throughout the history of the United States, its trade policy has been shaped not only by the dichotomies between import competing and export orientated industries and between the two major political parties, but also by the tension between the political institutions and even within the administration. As described, the Reciprocal Trade Agreements Act (RTAA) of 1934 allows the president and his administration to negotiate tariff reductions through a system of reciprocity. This system has been continued through various trade acts until today.

As the overview over trade policy making in the United States showed, the administration must not be regarded as a homogeneous actor. Rather, trade policy is formed within the administration by various departments, with often conflicting outlooks and policy goals.

⁸⁵ Gary Miller and Norman Schofield, "The Transformation of the Republican and Democratic Party Coalitions in the U.S.", *Perspectives on Politics* 6, no. 3 (2008), 433.

⁸⁶ David Autor, "Importing Political Polarization - The Electoral Consequences of Rising Trade Exposure", *National Bureau of Economic Research*, December 2016, <http://www.ddorn.net/papers/ADHM-PoliticalPolarization.pdf> (accessed 29.08.2017).

⁸⁷ *Ibidem*, 46.

1. The Divisions of the Trump Administration

Much like in previous situations of US history, the Trump administration seems to be divided between economic nationalists and free-trading business interests. This dichotomy marked both Trump's campaign as well as the first months of his presidency. On trade, the conflict of interest was most pronounced, with some labelling the tensions a "civil war" in the White House.⁸⁸

At the centre of the controversy is economist Peter Navarro. Navarro was a policy advisor of the Trump campaign and co-authored Trump's economic strategy. Trump has praised Navarro for having "presciently documented the harms inflicted by globalism on American workers".⁸⁹ Indeed, Trump's positions reflect those of Navarro. Media reports have described him as "perhaps the most extreme advocate in Washington, and maybe in all of economics, for an aggressive stance toward China".⁹⁰ Navarro has also attacked Germany for exploiting a "grossly undervalued" euro and spoke in favour of leaving NAFTA. Few economists agree with Navarro's ideas on trade, which have been described as "fringe even by the confrontational standards of the field."⁹¹

Within the administration, Navarro found support by one of Trump's most influential advisors, former journalist Steve Bannon, who said: "We've come to the conclusion that we're in an economic war and they're crushing us."⁹² Bannon is widely seen as the architect of Trump's "America First" strategy. On trade, Bannon said the administration would have to be "maniacally focused" on the alleged trade war with China.

After the election, the incoming Trump administration created the White House National Trade Council, which usurped competencies from the National Security Council and the National Economic Council. Navarro was named the Director of the newfound agency. Bannon himself was named Chief White House Strategist. Thus, the economic-nationalist wing of the campaign was given an equally prominent role in the newfound administration.

In stark contrast to these developments stand the many appointments of Wall Street figures by the administration.⁹³ This group represents the free-trading part of the administration. The most prominent figure of this circle is perhaps Gary Cohn, who was appointed as the Director of the National Economic Council. Cohn supports a free trading agenda, and he himself has appointed figures such as Andrew Quinn, who was a senior trade negotiator for the Obama administration during its push for the Trans-Pacific Partnership (TPP). This appointment was sharply criticised by right-wing media associated with Steve Bannon, which called Quinn an "enemy within" and said that his multilateral approach was "diametrically opposed" to the Trump approach to trade.⁹⁴

⁸⁸ Shawn Donnan, Demetri Sevastopulo, "White House civil war breaks out over trade", *Financial Times*, March 10, 2017, <https://www.ft.com/content/badd42ce-05b8-11e7-ace0-1ce02ef0def9> (accessed 29.08.2017).

⁸⁹ The Transition Team, "President-Elect Donald J. Trump Appoints Dr. Peter Navarro to Head the White House National Trade Council," *Great Again*, December 21, 2016, <https://greatagain.gov/navarro-national-trade-council-c2d90c10eacb#.7ri8g5sa3> (accessed 29.08.2017).

⁹⁰ Megan Cassella, "Trump's attack dog on trade," *Politico*, March 11, 2017, <http://www.politico.com/agenda/story/2017/03/trump-trade-attack-dog-peter-navarro-000353> (accessed 29.08.2017).

⁹¹ *Ibidem*.

⁹² Bryan Logan, "'We're at economic war with China': Steve Bannon lays out China trade plans in wide-ranging interview", *Business Insider*, August 17, 2017, <http://www.businessinsider.de/we-are-at-economic-war-with-china-steve-bannon-on-us-china-trade-2017-8?r=US&IR=T> (accessed 29.08.2017).

⁹³ Matt Egan, "Trump hires yet another Goldman Sachs banker", *CNN Money*, March 16, 2017, <http://money.cnn.com/2017/03/15/investing/goldman-sachs-jim-donovan-trump-treasury-deputy-secretary/index.html> (accessed 29.08.2017).

⁹⁴ Donnan and Sevastopulo, "White House civil war breaks out over trade", *Financial Times*.

2. The Two Groups of the Administration on China and NAFTA

While the economic-nationalist wing in the administration has had tremendous influence over Trump's presidential campaign, evidence suggests that their influence in the administration is waning. While Trump has made true on his promise to withdraw the United States from the TPP already in his first days in office, his agenda has been markedly more cautious than the campaign rhetoric had indicated.

On China Trump had initially promised to label the country a currency manipulator. The first signs of a change of course came in April when U.S. Commerce Secretary Wilbur Ross declined to repeat this claim during a US-Chinese summit.⁹⁵ Trump himself announced that China would not be labelled a currency manipulator shortly after.⁹⁶ This move was a clear victory of the free trading group in the administration over the Navarro-Bannon camp.⁹⁷

On NAFTA Trump had consistently threatened to withdraw the US from the agreement as described above. In April, an executive order was being prepared by Peter Navarro and Steve Bannon which would withdraw the United States from NAFTA upon the president's signature. This move was quickly condemned not only by influential free traders in the administration, but equally by influential Republicans in Congress. Senator John McCain said a withdrawal from NAFTA would "be disgraceful and a disaster".⁹⁸ Other influential Republicans have explicitly addressed the Trump's administration apparent ideology. "It's not a zero-sum game," said Senator Jeff Flake.

Despite these pressures, Trump had apparently decided to withdraw the United States from NAFTA on April 22, 2017, the 100th day of his presidency.⁹⁹ In the last minute, the free trading group in the administration intervened: Commerce Secretary Wilbur Ross and Agriculture Secretary Sonny Perdue held a special meeting with Trump. They're most convincing argument was a prop map, which revealed that areas most negatively affected by a withdrawal were the same ones that had voted for Trump. Trump backed down and stated he would seek to renegotiate NAFTA instead. Trump was also under the lobbying efforts of the American Chamber of Commerce, which opposed a withdrawal.¹⁰⁰

In July, the United States Trade Representative issued the administration's objectives for re-negotiating NAFTA. These negotiating objectives marked a clear triumph of the internationalist faction in the administration: "Although the NAFTA proposal was circulated by the office of the U.S. Trade Representative, Robert Lighthizer, it also appeared to reflect the thinking of Cohn and Steven Mnuchin, the Treasury Secretary, both of whom are former Goldman Sachs executives."¹⁰¹

⁹⁵ CNBC, "At US-China summit, Trump presses Xi on trade, N. Korea; progress cited", *CNBC*, April 09, 2017, <https://www.cnbc.com/2017/04/09/at-us-china-summit-trump-presses-xi-on-trade-n-korea-progress-cited.html> (accessed 29.08.2017).

⁹⁶ BBC News, "Donald Trump: China 'not a currency manipulator'", *BBC News*, April 12, 2017, <http://www.bbc.com/news/business-39583571> (accessed 29.08.2017).

⁹⁷ David Lawder, "Bannon departure tips trade scales in favor of White House 'globalists'", *Reuters*, August 19, 2017, <https://www.reuters.com/article/us-usa-trump-trade-analysis-idUSKCN1AY2IG> (accessed 29.08.2017).

⁹⁸ Tara Palmeri, Adam Behsudi, Seung Min Kim, "Republicans tell Trump to hold up on NAFTA withdrawal", *Politico*, April 26, 2017, <http://www.politico.com/story/2017/04/26/white-house-nafta-withdraw-trump-237632> (accessed 29.08.2017).

⁹⁹ Ashley Parker, Philip Rucker, Damian Paletta and Karen DeYoung, "'I was all set to terminate': Inside Trump's sudden shift on NAFTA", *Washington Post*, April 27, 2017, https://www.washingtonpost.com/politics/i-was-all-set-to-terminate-inside-trumps-sudden-shift-on-nafta/2017/04/27/0452a3fa-2b65-11e7-b605-33413c691853_story.html (accessed 29.08.2017).

¹⁰⁰ Mitra Taj, "Trump admin taking 'constructive' stance on NAFTA-U.S. Chamber of Commerce", *Reuters*, April 24, 2017, <http://www.reuters.com/article/us-usa-mexico-nafta-donohue-idUSKBN17Q10Q> (accessed 29.08.2017).

¹⁰¹ <http://www.newyorker.com/news/john-cassidy/steve-bannon-is-losing-to-the-globalists>

3. The Firing of Steve Bannon – The End of the Economic Nationalist Administration?

In August 2017, the Trump administration was badly shaken up due to Trump's controversial remarks over the death of an anti-racism protestor in Charlottesville, Virginia. Trump's failure to clearly denounce far-right violence reportedly led Gary Cohn to consider resignation. After some internal deliberations, Cohn decided to stay.¹⁰² In a remarkable development, Trump instead removed Steve Bannon from his advisory position. This was immediately recognised as a severe loss for the protectionist faction in the administration, in which Bannon was one of the two leading figures.¹⁰³ One official said that there was no replacement for Bannon's voice in the debates on trade. They went on to say that "without Steve constantly pushing back on every policy idea coming from the so-called globalists, it's easy to see how they could have a chance to start winning more policy battles."¹⁰⁴

Analysist predict that it would take a while until the effects of Bannon's departure become visible. An investigation into alleged intellectual property rights violations by China will proceed, according to the administration.¹⁰⁵ The effects of Bannon's departure will likely be seen in the results of this investigation.

E. Research Findings

Trade policy has been a topic of intense debate throughout the history of the United States. From its earliest days, American politicians debated the merits and threats of a free influx of imports to the countries. In 1789, James Madison argued that the infant industries of the Northern states could not grow and become internationally competitive if import tariffs were not raised to protect them. Thomas Jefferson and other representatives from the Southern states, where agriculture was strong and looking for foreign markets, feared that import tariffs would increase the price of their consumer goods and trigger repercussions abroad.

The clash between the import-competing North and the export-orientated South shaped the economic policy of the United States throughout the 19th century as the country grew into a major economic power. Despite the continued Southern protests and objections, which in the case of South Carolina one time went far as threatening to secede from the union, average tariffs levels in the United States were high. This was due, firstly, to a political coalition between the industrialist North and the Midwestern states, which looked for tariff revenue to improve their infrastructure; secondly to the external conflicts, such as the war of 1812 against Great Britain, which led to a full closure of American ports to international trade, and later World War I; and thirdly to the American Civil War, in which the protectionist North defeated the South, allowing them to raise tariff levels to unprecedented heights in the late 1860s.

The agendas of the two major parties reflected the contest over trade policy. The Whig Party and later the Republican Party represented the industrialist North. They aimed at and, as illustrated, succeeded in keeping tariff levels high. The Democratic Party, by contrast, representing the agricultural South, opposed the protectionist regime that continued throughout the 19th century. Yet whenever the

¹⁰² Damian Paletta, Renae Merle, "Gary Cohn stays put — for now — following Trump's comments on Charlottesville", *Washington Post*, August 17, 2017, https://www.washingtonpost.com/business/economy/gary-cohn-stays-put--for-now--following-trumps-comments-on-charlottesville/2017/08/17/fb4ecc80-836f-11e7-902a-2a9f2d808496_story.html (accessed 29.08.2017).

¹⁰³ Lawder, "Bannon departure tips trade scales in favor of White House 'globalists'", *Reuters*.

¹⁰⁴ *Ibidem*.

¹⁰⁵ *Ibidem*.

Democrats reached power, they struggled to reverse the high tariffs instated by their predecessors due to external events such as World War I.

The close association of the two major parties with the two opposing parts of the American economy continued well into the 20th century. When party constituencies began to change, the internationalist Roosevelt administration and export-orientated businesses altered the institutional arrangements on trade: The Reciprocal Trade Agreements Act (RTAA) of 1934 and following tariff acts shifted the authority of trade policy from Congress to the executive, which was granted the right to negotiate reciprocal free trade agreements. This incentivised the export-orientated businesses to take a much stronger stance on free trade, while the effects of World War II put the United States in a dominant position and momentarily subdued the protectionist demands from other industries. This constellation led the United States on an unparalleled free trading path. It was instrumental in the installation of the General Agreement on Tariffs and Trade (GATT), the framework of negotiations which in the 1960s brought about a strong decline in protective tariffs around the world.

The opposition of import-competing and export-orientated segments of the American economy; the contest between the Republican Party and the Democratic Party; and the internal contests within the political institutions of the United States and in particular within the administration, which since the 1930s has played the leading role in American economic policy: These three dichotomies have been motifs in the history of US trade policy. They provide a useful framework to better understand the advances of a present US administration which has been unusually explicit, perhaps even aggressive in their invocation of protectionism.

Trump's political agenda suggests a deeply rooted adherence to mercantilist thought in its belief that trade is a zero-sum game in which some countries win and others lose. Today, mercantilist theory is considered outdated by economists, who since David Ricardo have understood that trade is mutually beneficial for all countries involved. Trump is less of an economic outlier when he criticises trade for the loss of manufacturing jobs and welfare distribution: Economic models such as the HO-Model and the Specific-Factors-Model show how certain segments of the economy may be negatively affected by trade. Empiric studies show that trade with China may have led to significant loss of US manufacturing jobs, although this phenomenon is not confined to the United States and has many other reasons. With his protectionist agenda, Trump has successfully exploited the dichotomy between the beneficiaries and the payers *within* the US economy. Voter behaviour analysis suggests that Trump gained considerable support in areas which are most negatively affected by trade. Given the state-based electoral system of the United States, the influence of Trump's trade agenda in the election campaign has been significant if not decisive.

The North American Free Trade Agreement (NAFTA) has been one of Trump's favourite targets. Yet Trump's continued attempt to associate NAFTA exclusively with former Democratic president Bill Clinton is misleading: NAFTA was initiated and by Republican president George H.W. Bush, and while it came into effect under Bill Clinton, it was passed in Congress over substantial opposition coming from both parties, but particularly from the Democratic party. In the 2016 presidential campaign, Democratic candidate Bernie Sanders took up similar positions to those of Trump, while Hillary Clinton was more modest in her remarks on NAFTA. In a macroscopic view, this suggests that the traditional partisan divide on trade has been replaced by internal divisions within both parties. Research finds that social issues have started to dominate the voting behaviour of citizens. Yet even when concentrating on the trade issue alone, it has been found that a high exposure to trade increases the support for outliers such as Trump and Sanders.

Within the Trump campaign and his administration, two distinct groups of advisors are present: Economic nationalists such as Peter Navarro and Steve Bannon and former Wall Street bankers such

as Gary Cohn. Ever since the authority over tariff policy has shifted from Congress to the administration with the 1934 RTAA, the question which departments and which actors within the administration take the lead on tariff policy has become crucially important. Throughout modern US history, this responsibility usually fell to internationalist orientated agencies and actors such as the Department of State. As a result, the United States pursued a strongly liberalising agenda, often over the opposition of more protectionist leaning forces within the administration. In the Trump administration, this rift is particularly pronounced, as both groups follow almost diametrically opposed agendas on trade. Given the presidents inconstant nature and apparent susceptibility to external advice, US trade policy will largely be determined by which group is able to dominate the internal deliberations. In April 2017, the internationalist group won an important victory when they succeeded in convincing Trump not to withdraw from NAFTA, a move which had been carefully prepared by the economic nationalist group. The departure of Steve Bannon in August 2017 marks another important step away from protectionist ideology within the administration. Despite these developments, Trump's main political advisor on trade Navarro remains in place. It remains to be seen whether he can successfully advocate a protectionist agenda without Steve Bannon.

IV. CONCLUDING REMARKS: THE CASE FOR FREE TRADE

The year 2016 will perhaps be remembered as the year of the anti-establishment movement. In Europe, the rise of right-wing populist parties has been fuelled by a disdain for the political principles of multiculturalism and inclusiveness. In the United Kingdom, a majority voted to move away from a multiple decade-long process of European political integration. In the United States, Donald Trump's confrontational rhetoric broke with a tradition of respectful political discourse and his apparent bragging about sexual assault drastically altered the boundaries of disqualification in the political system.

It appeared that principles, which seemed irrevocable not long ago, were being questioned as disaffected and previously sidelined communities made their voices heard. Social scientists and political commentators began to realise that what had long appeared as political consensus really only reflected the view of some – and that the unheard voices had perhaps silently become the majority.

This work has addressed the long-standing opposition of free trading and protectionist positions in the United States. Controversy over trade has always been one of the defining features of American political life. At no point was there a consensus on this issue. Neither in the long period of high protectionism of the during the 19th and early 20th century, nor in the equally profound period of trade liberalisation after World War II. In both cases it was a combination of political coalitions, institutional arrangements and exogenous events which allowed one side to dominate the other.

Have we reached another tipping point? As groups with fundamentally diverging values, political agendas and outlooks battle over the political future of their countries – in the United States, in the United Kingdom, in Europe – the way forward looks ever more uncertain.

In trade, we should heed the insight of economics that trade is beneficial and denounce any reversion to mercantilist thought patterns. But we must equally understand the severe disruptive effects trade can bring upon communities. As income inequality in the United States and elsewhere has caught up to the previous highpoint of the 1910s, we need to make sure that trade is an alleviation, not an exacerbation of this development. As illustrated in this work, the distributional effects of trade have been well understood in theory. It is time that they are addressed in practice. Not through protectionism and economic nationalism, but through functioning social systems which eliminate exclusion and economic hardships. Then the case for free trade is warranted.

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VI. STATEMENT OF ORIGINALITY

This is to certify that to the best of my knowledge, the content of this thesis is my own work. This thesis has not been submitted for any degree or other purposes.

I certify that the intellectual content of this thesis is the product of my own work and that all the assistance received in preparing this thesis and sources have been acknowledged.