



## ECONOMIC POLICY NOTE 12/5/2017

# Free and fair US trade?

AGNIESZKA GEHRINGER

- According to the new US administration, the US has the lowest trade barriers and the largest trade deficit in the world. Based on this, it aims at redefining the US trade relationships with the rest of the world to make trade “free and fair” again.
- In particular, “serial trade offenders”, “currency misalignments” and other “unfair trade practices” of the US trade partners should be identified and countervailing measures be taken.
- This note shows that, although the average tariff level on US imports of 3.8% is indeed among the lowest worldwide, the US is highly protectionist through the back-door of non-tariff trade barriers.

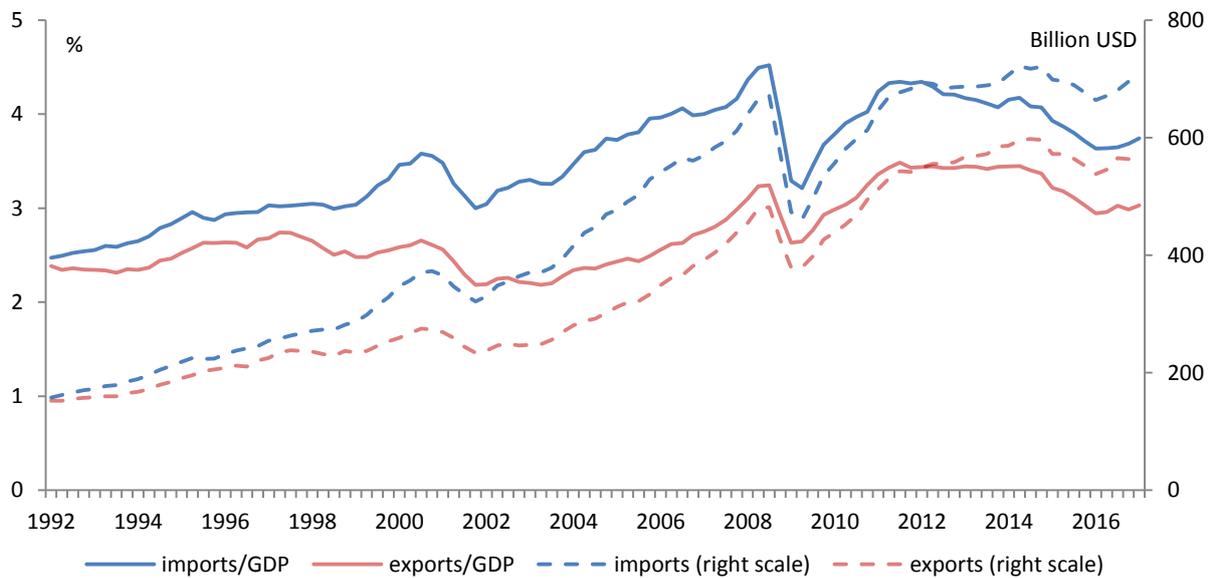
### Introduction

Ever since the foundation of the World Trade Organization (WTO) in January 1995, the US has played a crucial role in establishing and maintaining a rule-based multilateral trade system, and which has induced new economic opportunities for the US and its trading partners. The ongoing trade liberalization worldwide brought significant expansion of US trade volumes: imports and exports grew, respectively, from USD 158 billion and USD 152 billion in the first quarter of 1992 to USD 712 billion and USD 576 billion in the first quarter of 2017 (Fig. 1).

Along this line, in the policy statement to the WTO by the US government from November 2016, it was stated that “trade liberalization has benefited both the United States and the rest of the world by providing more affordable goods and services, raising living standards, fueling economic growth, and supporting good jobs.” And going further “in 2015, US goods and services exports supported an estimated 11.5 million jobs in the United States alone, including more than one in four jobs in the manufacturing sector.”



Figure 1. US trade development



Source: Haver Analytics

The music changed substantially after November 2016 with the incoming Trump administration. In a recent article for the Financial Times, US secretary of commerce Wilbur Ross claimed that “the US has the lowest trade barriers and the largest trade deficit in the world”.<sup>1</sup> By the end of June 2017 his department is expected to send to president Trump an analysis showing which unfair trade and trade-related practices, and flawed trade agreements contributed to these huge trade deficits.

It is clear that, due to a combination of both cyclical factors and a growing structural gap between imports and exports, the US trade deficit widened substantially from USD 39.2 billion in 1992 to USD 501 billion in 2016. However, to argue that these slowly but steadily increasing trade deficits arose mostly because of the lowest worldwide trade barriers in the US, on the one hand, and through “serial trade offenders”, “currency misalignments”, and “the

lack of reciprocity”<sup>2</sup> in the international trade rules, on the other hand, misses not only standard economic reasoning, but also the basic facts about US trade policy. This note shows that the US indeed has one of the lowest average tariffs on imports, but at the same time it is the most active user of non-tariff trade barriers worldwide.

### How free and fair is the US trade really?

As one of the founding members of the WTO the US has so far been a leading player in establishing and improving the global trade order.<sup>3</sup> Looking at data, this seems to be reflected in its relatively low 3.5% average level of applied import tariffs – the lowest among its main trading partners (first column in Table 1), although not the lowest worldwide, which is in contrast with the recent claims by Wilbur Ross.<sup>4</sup>

<sup>2</sup> Ibid.

<sup>3</sup> For a more in depth description of the WTO and trade barriers, see the Appendix.

<sup>4</sup> There are other countries not included in Table 1 which report lower average tariffs: Hong Kong and Macao have a zero rate, Singapore 0.2% and New Zealand 2%.

<sup>1</sup> See Wilbur Ross “Donald Trump will make trade fair again”, Financial Times, April 4, 2017.



**Table 1.** Tariff profiles of the US and its main trading partners in 2015

	Ad-valorem average duty	Non-ad-valorem average duty	Maximum duty	Duty-free*	Duties > 15%*	Number of distinct duty rates	Number of applied tariff lines
Canada	4.2	1.7	453	<b>75.8</b>	6.7	203	7,128
China	<b>9.9</b>	<b>0.3</b>	<b>65</b>	<b>6.9</b>	<b>15.6</b>	83	8,284
EU	5.1	5.1	146	27.2	4.5	883	9,385
Japan	4.0	3.3	<b>595</b>	53.0	3.5	444	9,623
Mexico	<b>7.1</b>	0.7	125	50.1	<b>15.6</b>	77	12,274
USA	<b>3.5</b>	<b>8.7</b>	350	45.9	<b>2.7</b>	1,106	11,222

\*% share of 6-digit sectors of the World Customs Organization’s Harmonized System (HS). This is the most detailed internationally standardized level of classification (it corresponds, for instance to the sub-heading 0403.10 for yoghurt).

Source: World Tariff Profiles 2016, WTO ITC UNCTAD

Also in some other tariff-related aspects shown in Table 1, the US attitude to trade is less free and fair than one would expect based on the policy pledges of the new US administration. The US has the highest non-ad-valorem average duty rate of 8.7%<sup>5</sup>, the third highest maximum duty rate of 350% and offers a duty-free rate only to a moderate share of its imports (45.9%, compared with 75.8% in Canada, 53% in Japan and 50.1% in Mexico).

But the most striking, although the least discussed issue so far, is that the US has been the most intensive user of non-tariff measures. The economy is thus highly protectionist not based on standard tariff trade barriers, but rather through the back-door of non-tariff trade restraints.

To be clear, some of these non-tariff measures actually constitute safeguard provisions under the WTO rules, permitting governments under certain circumstances to withdraw their usual obligations in order to protect – temporarily or permanently – certain overriding interests (eg.

stemming from unfair trading practices or health protection and national safety concerns). However, many of these provisions are actually not used in response to ‘unfair’ trade, but to protect national industries from foreign competitors. This is because 1) of the lack of consensus regarding the precise definitions of such measures and thus a high degree of discretion in their application, and 2) it is difficult to prove the opposite in case a non-tariff measure is invoked as a safeguard instrument. Indeed, there is an established body of the literature showing that non-tariff measures are a new form of trade protectionism, often generating even greater distortions than tariffs.<sup>6</sup>

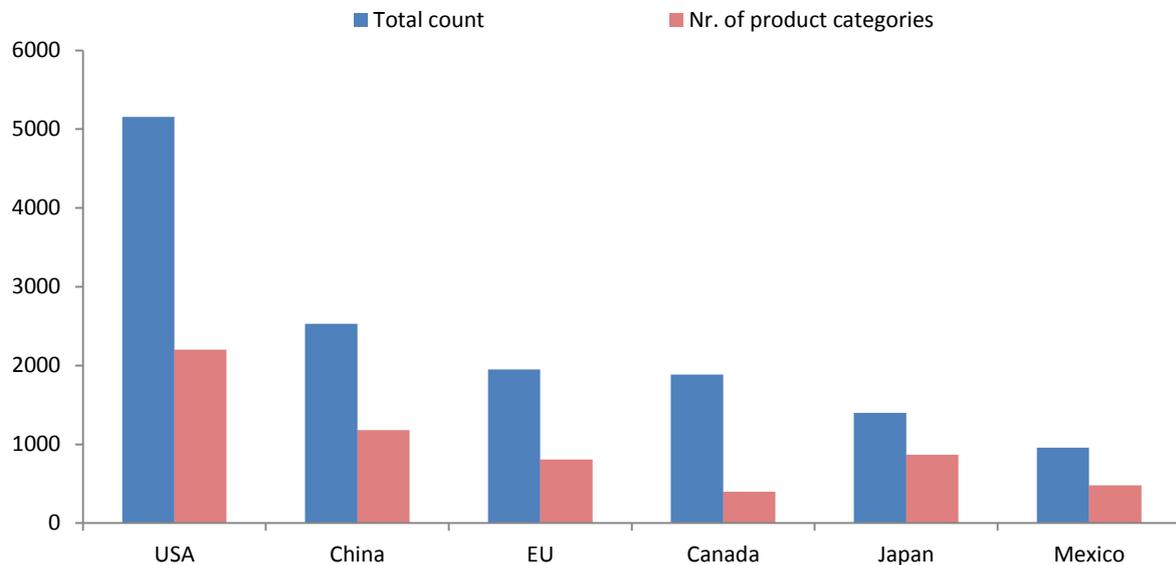
Figure 2 and Table 2 offer an overview of non-tariff barriers in place at the end of 2016 in the US and other selected countries. The US appears to be the most intensive user of non-tariff barriers in general and in their main categories, sanitary and phytosanitary measures, anti-dumping, and countervailing duties. This is true when looking at the total count of measures applied and at the number of product lines (as measured at the 6-digit classification level) to

<sup>5</sup> According to the WTO definition, non-ad-valorem duty/tariff is a tariff that is not expressed as a percentage of the price or value. It encompasses different categories of tariffs, such as specific, compound and mixed.

<sup>6</sup> See Mohini Datt, Bernard Hoekman and Mariem Malouche (2011), “Taking stock of trade protectionism since 2008”, The World Bank Economic Premise Nr. 72.



**Figure 2.** Total count and number of product categories of non-tariff barriers in place at the end of December 2016



Note: Total encompasses the following categories of measures: antidumping [AD], countervailing [CV], quantitative restrictions [QR], safeguards [SG], sanitary and phytosanitary [SPS], special safeguards [SSG], technical barriers to trade [TBT], tariff-rate quotas [TRQ], export subsidies [XS]. Number of product categories is measured at the 6-digit of the World Customs Organization's Harmonized System (HS).

Source: Own elaboration (Flossbach von Storch Research Institute) based on WTO data, available at <https://i-tip.wto.org/goods/default.aspx?language=en>

**Table 2.** Total count of non-tariff barriers by main categories in place at the end of December 2016

	Sanitary & Phytosanitary	Technical Barriers to Trade	Antidumping	Countervailing	Tariff-rate Quotas	Other	Total
USA	<b>2984</b>	<b>1455</b>	<b>325</b>	<b>121</b>	52	<b>217</b>	<b>5154</b>
China	1192	1179	99	5	<b>10</b>	44	2529
EU	603	1047	131	23	<b>87</b>	58	1949
Canada	1092	640	66	31	21	37	1887
Japan	502	775	<b>6</b>	--	18	99	1400
Mexico	<b>350</b>	<b>521</b>	69	3	11	<b>5</b>	<b>959</b>

Source: Own elaboration (Flossbach von Storch Research Institute) based on WTO data, available at <https://i-tip.wto.org/goods/default.aspx?language=en>



which such measures apply.<sup>7</sup> Both the total count of measures applied and the number of product lines double the numbers recorded in China and exceed by two thirds the number of non-tariff measures applied by the EU. This is not commensurate with comparable volumes of imports of goods and services by the US, China and the EU (amounting in the last quarter of 2016 to USD 696 billion in the US, USD 546 billion in China and USD 659 billion in the EU). They also exceed by a large margin measures applied by the other main trading partners of the US.

The latest numbers are likely to be higher than that, given that they do not cover the most recent rise of protectionism in the US. Among them is the security announcement from March 21, 2017, banning large electronic devices on flights to the US from ten airports in the Middle East.<sup>8</sup> This ban does not affect US airlines and offers a way to protect the US aviation industry, given that it would encourage passengers to fly with US airlines excluded from the ban. Recently, it has been announced that such a ban could be extended to include other airports. Similarly, the investigations of imports of steel and aluminum launched in mid-April are aimed at reviving the production of high-purity aluminum by the Century Aluminum smelter in Kentucky that is used in the production of the US combat aircrafts, such as Boeing F/A-18 Super Hornet. Both measures were launched in the name of “national security”, and could trigger not only retaliation from the EU, China and elsewhere, but also spark a global flood of countries justifying anything with national security concerns.

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<sup>7</sup> Ideally, one would use the total value of goods and services affected by trade barriers. As these data are not available, we jointly use the number of product lines and the total count of measures applied to proxy for the overall trade incidence of non-tariff barriers.

<sup>8</sup> This measure falls under the category of technical barriers to trade, as they may be established for reasons related, among others, to national security requirements or can aim at protecting human health or safety.

## **Trump’s protectionism on the rise**

President Trump perceives anyone outperforming the US as a threat. Thus, the likely outcome of Wilbur Ross’ report in coming June will be a long list of measures “to correct any [trade] anomalies” and protect the US industry. This is just logical under the slogan “America First”. But what follows is less, not more free and fair US and global trade.

The origins of this Trump-led US protectionism lie in the asymmetric perception of trade liberalization. Whereas the benefits from higher trade openness are broadly spread among consumers, exporters and workers alike and thus hard to capture and quantify, its costs are highly concentrated within an industry, or a region, or a group of workers. Accordingly, whereas trade has most probably been good for most of the US workers so far, it could have squeezed the pay of particular interest groups, like low-skilled workers in Ohio, North Carolina, Michigan or Pennsylvania.

Is protectionism going to be the winning card? There are four strong arguments against this. First, some of the loss to US workers allegedly from trade is better explained by fast technological progress, which led to lower labor intensity in manufacturing production. Second, gains from trade, whatever dispersed, were always there. Although some income-groups might have lost, the gains from “made abroad” disproportionately accrued to the less wealthy, as these are the people who tend to spend a higher share of their purchasing power on these kinds of things than richer people do. Third, as long as the monetary-policy-made interest rate differential between the US and elsewhere persists and drives excess capital inflows to the US, there is no reason for US trade deficits to cease. Consequently, protectionist policies to curb imports will likely be offset by the appreciation



of the US dollar, neutralizing the effect on the trade balance.<sup>9</sup> Finally, many gains from trade still remain on the US table. Today's trade negotiations are not mainly about cutting tariffs, but rather turn around intellectual property protection, service trade liberalization and setting higher environmental and social standards – all this should help rather than hurt US workers and the economy at large. Thus, free-trade

agreements could bring about gains able to offset possible and inevitable losses.

None of these arguments play a role for now. Chances that the US trade protectionism will be on the rise are high. But I still believe in a freer and fairer US trade policy – alas not any time soon.

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<sup>9</sup> See Thomas Mayer "Der Irrtum der Protektionisten", Frankfurter Allgemeine Sonntagszeitung, May 14, 2017.



## Appendix

The WTO is based on a rule-oriented, rather than results-oriented or managed-trade approach. As such, it establishes a framework for trade, which is guided by four principles of conduct: 1) nondiscrimination or the so called most favored nation (MFN) treatment, 2) transparency, 3) accountability, and 4) flexibility.

Although a substantial effort to reduce applied tariffs and eliminate import quotas has been made over the last decades, other “new” trade measures have been extensively adopted. Thus, trade protectionism is still in place (often referred to as “new” protectionism) and takes the form of non-tariff measures (NTM). As a consequence, the negotiating agenda turned over time from tariff barriers more and more towards non-tariff policies, given their growing importance and usage.<sup>10</sup>

However, whereas tariff measures are relatively easy to define and to measure, the same does not apply to non-tariff measures. They are generally defined as measures having an economic effect on international trade in goods, changing quantities traded, or prices or both.<sup>11</sup> But since this definition is broad, a better understanding of various forms of these measures is warranted by their comprehensive classification.

A commonly used taxonomy is the one based on the coding system adopted by the United Nations Conference on Trade and Development (UNCTAD) and developed by the MAST group (Multi-Agency Support Team). This classification comprises 16 broad categories, as listed in Table 3. However, mainly due to methodological and other practical difficulties, data reported by the WTO is only limitedly available so far and is provided only for selected categories of measures.

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<sup>10</sup> Although there is still need for a tariff negotiating agenda, NTM account for a major share of the overall level of trade restrictiveness. See, for instance, Bernard M. Hoekman and Michel M. Kostecki (2009) “The Political Economy of the World Trading System”, Oxford, Oxford University Press.

<sup>11</sup> See, UNCTAD (2009), “Non-tariff measures: Evidence from selected developing countries and future research agenda.” UNCTAD/DITC/TAB/2009/3, available at: [http://unctad.org/en/Docs/ditctab20093\\_en.pdf](http://unctad.org/en/Docs/ditctab20093_en.pdf).



**Table 3.** International classification of non-tariff measures

Target	Category	Measure
Imports	Technical	Sanitary and phytosanitary measures (SPS) Technical barriers to trade (TBT) Pre-shipment inspection and other formalities
	Non-technical	Contingent trade protective measures (anti-dumping and countervailing duties) Non-automatic licensing, quotas, prohibitions and quantity-control measures other than for SPS and TBT reasons Price control measures, including additional taxes and charges Finance measures Measures affecting competition Trade-related investment measures Distribution restrictions Restrictions on post-sales services Production subsidies and subsidies different from export subsidies Government procurement restrictions Intellectual property Rules of origins
Exports		Export-related measures

Source: UNCTAD (2012), "International classification of non-tariff measures", United Nations, New York, available at [http://unctad.org/en/PublicationsLibrary/ditctab20122\\_en.pdf](http://unctad.org/en/PublicationsLibrary/ditctab20122_en.pdf)



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