

# Chapter 11: Further Challenges to the Free Trade System: A Chain Reaction of Protectionism as the Greatest Concern

## ◆ The increasingly protectionist trade policy of Trump Administration 2.0

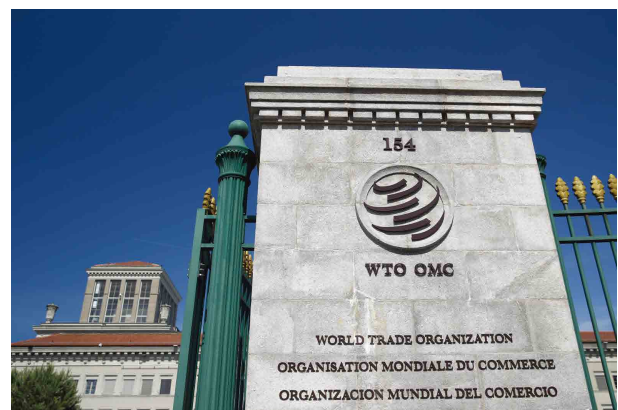
During his presidential campaign, Trump proposed measures such as revoking China's most-favored-nation status under the WTO, imposing a 60% additional tariff on imports from China, and levying a uniform 10-20% additional tariff on imports from all countries. A 100% additional tariff on Chinese EVs imposed by the Biden administration is expected to remain in place, as Trump has insisted that it would eventually eliminate dependency on China for steel, aluminum, semiconductors, and batteries. The additional tariffs on China could be swiftly implemented via executive order under Section 301 of the 1974 Trade Act (unfair trade practices). While the revocation of most-favored-nation status and uniform tariffs require Congressional approval, the Republican majority in both the House and Senate increases the feasibility of these policies. However, estimates suggest that introducing such tariffs would negatively impact US GDP by 0.8%. Moreover, the US economic landscape differs significantly from Trump's first term, with high inflation, high interest rates, and a strong dollar. Trump may approach policies that are likely to exacerbate inflation with caution.

Regarding EVs, Trump commented on plans by Chinese EV manufacturers to build factories in Mexico, proposing 100–200% tariffs on imports from Mexico. While the Biden administration also considered blocking EV inflows via third countries, Trump once mentioned that production should occur domestically, implying potential acceptance of Chinese manufacturers investing in the US. However, Republican lawmakers with a hardline stance against China strongly criticized domestic investments by Chinese battery manufacturer CATL, suggesting a stringent approach would prevail. Elon Musk, a strong supporter of Trump during the presidential campaign and CEO of Tesla, likely expects policies favorable to his business interests.

During Trump's first term, the additional tariffs on steel and aluminum under Section 232 of the 1962 Trade Act (national security) targeted a wide range of countries, prompting retaliatory measures from the EU, Canada, and Mexico. Tariffs or quotas on automobile and parts imports from the EU and Japan were also considered, raising concerns about potential trade friction.

## ◆ Concerns over retaliatory measures

If the trade policies of Trump Administration 2.0 are implemented, China may respond with retaliatory tariffs and potential export restrictions on critical minerals, for example, gallium, graphite, and antimony. Decoupling between the US and China is expected to progress, particularly in areas seen as vital to economic security, making it increasingly difficult to predict the scope of future tariffs and regulatory measures. The introduction of a uniform 10% tariff could spark reciprocal retaliation from a wide range of countries and regions, with severe implications for the global economy. Tariffs on automobiles, including EVs, could disrupt supply chains by broadly taxing imports not only from bilateral sources but also from third countries.



(Photo: REUTERS/Aflo)

### ◆ Weakening of the WTO and declining US engagement in multilateral efforts

Under Trump Administration 2.0, the WTO's functions could further weaken. Dispute settlement mechanisms are unlikely to address unilateral actions or protectionism effectively. Moreover, the US distancing itself from multilateral frameworks would hinder reforms aimed at promoting rules-making and enhancing monitoring functions.

Nevertheless, there was some international cooperation during Trump's first term. In 2017, Japan initiated a trilateral trade ministers' meeting with the US and the EU to address issues such as industrial subsidies leading to overproduction, forced technology transfers, and e-commerce rules under the WTO. With the US-EU Trade and Technology Council (TTC) and the Japan-US Economic Policy Consultative Committee (Economic 2+2) facilitating international cooperation today, Japan could play a mediating role, promoting policy coordination among Japan, the US, and the EU.

While US involvement in multilateral efforts is likely to decline, bilateral approaches may increase. During the first Trump administration, the US signed the Japan-US Trade Agreement (mainly on tariffs) and the Digital Trade Agreement with Japan. Through the US-China Economic and Trade Agreement, the US demanded China expand imports of US agricultural products, address forced technology transfers, subsidies, and overproduction. Negotiations with China could resume as soon as Trump comes back into office. Similarly, trade negotiations with India were undertaken, suggesting continued engagement with the Global South. Bilateral approaches could address shared concerns on market access, investment, intellectual property, and e-commerce (data flows) with trade partners such as the EU and Japan.

The Biden administration's Indo-Pacific Economic Framework (IPEF) will likely fade away. However, economic engagement in the Indo-Pacific region, including quality infrastructure investment to counter China's Belt and Road Initiative, could be revisited. Sector-specific cooperation through frameworks like the Quad is expected to continue.

### ◆ Recommendations

- Japan should strengthen trade and investment with the US through a bilateral framework (Japan-US Economic Dialogue 2.0). In doing so, Japan must emphasize with concrete evidence the adverse effects of uniform tariffs on US inflation and the global repercussions of reciprocal retaliation.
- In conjunction with the US's bilateral approach, Japan should address China's industrial subsidies, overproduction, and forced technology transfers by utilizing frameworks such as the RCEP, the Japan-China-ROK FTA, and the CPTPP, as well as advancing WTO reforms. Improving trilateral collaboration among Japan, the US, and the EU through the TTC and Economic 2+2 frameworks is recommended, including potential networking of these mechanisms. Bilateral and WTO plurilateral negotiations should also aim to establish rules for digital trade.
- With India and the rest of the Global South, Japan should pragmatically address market access, investment, and intellectual property regulations. In the Indo-Pacific region, Japan should leverage its strengths, such as infrastructure investment, to promote collaboration through the Quad and similar frameworks, involving the US in cooperative efforts.

(December 4, 2024, Kensuke Yanagida,

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