

CHAPTER II PROTECTIONISM POLICY UNDER TRUMP ADMINISTRATION

In this chapter researcher will be explain about Trump protectionism such as withdrawal from TPP (Trans-Pacific Partnership), the limitation of immigrants who it entered the United States and also applying Border tax. The United States is one of the countries that practices this protectionist policy. When the policy begins to be implemented after the end of world war II until 1974, the United States forced the liberal trade by adopting protection for factories. Furthermore, at that time they were more focused on agricultural, steel carbon, and fuel imports in 1974 (World bank, 1987). Furthermore, in 2008 the United States carried out protectionist policies again after the economic crisis. Protection in various forms is applied such as protection to China in increasing panel and tire import duties. As well as the enactment of non-tariff protection, the majority of products entering the United States must be in accordance with the standards determined by the government of United states such as imported products in the form of food and cigarettes. Furthermore, the United States conducts protectionism in several financial and trade fields such as in the financial sector to protect automotive companies by providing financial assistance to automotive industries affected by the crisis, emphasizing unemployment rates, triggering economic activities and long-term investment. Whereas in the trade sector United States requires the use of local materials and materials for every expenditure of projects in United States (Kartika, 2013). In addition, it is applied to encourage people to use and buy domestic products. Such policy is a quick way to restore the short term post-crisis economy but only and is influenced by the macro economy.

The United States protectionism policy is getting stronger when Donald Trump becomes the new president in US. Since the beginning of the Trump campaign, he has been leading the United States' economic policy towards protectionism. All night has learned, the 'America first' that made by Trump will create multilateral-based partnerships with other countries where bilateral cooperation will be difficult to be realized. The protectionist policies carried out by Trump includes the withdrawal from TPP (Trans-Pacific Partnership), the limitation of immigrants who it entered the United States and also applying border tax.

A. Withdrawal from TPP

One form of the cooperation's between Japan and the United States is the TPP (Trans-Pacific Partnership) where the member are several countries. TPP is one of the joint efforts between Japan and the United States to instill its influence in the Asian region especially Asia Pacific which was mobilized by the United States in the era of President Barack Obama. TPP was developed from a previous agreement known as the Pacific 4 or P4 which was negotiated by members of APEC (Asia-Pacific Economic Cooperation) whose members were United States, Australia, Singapore, Chile and New Zealand who held discussions to create new trade agreements until the creation of TPSEP (Trans-Pacific Strategic Economic Partnership Agreement) as a result of the negotiations but at that time United States and Australia had not yet joined (Deborah E., and C.L. Lim, 2012). TPSEP is the result of a discussion of the design of free trade agreements in the Asian region, especially the Asia Pacific where marked by easy market access, as well as the sharing of information and innovation in terms of economic development, technology among member countries.

United States started to join TPSEP in 2007. The reason of the US joining TPSEP was because at that time the US experienced an economic crisis. That changed the name of the TPSEP to TPP. Furthermore, according to through the USTR (United States Trade Representative) President Bush wanted to join P4. However, the US successfully joined TPP after President Obama's first statement in 2009 at a TPP meeting (Deborah E., and C.L. Lim, 2012). In the era of President Obama, the United States was committed to engage with member countries with the aim of forming a regional agreement that made TPP have a broad and high standard membership. In addition, the United States sees the TPP as an economic partnership that has a major concentration in terms of trade liberalization in the Asia Pacific region. In which, the United States makes TPP a place to expand its international trade. In addition, there are four interests of the United States in the TPP. First, the TPP can create a comprehensive economy and form a modern economic agreement in the Asia Pacific region. Second, the TPP can promote deeper integration in the Asia-Pacific region where integration will provide many benefits to the United States and several major economies. Third, TPP provides a model to consolidate too many disorganized agreements in the Asia Pacific region by mapping out solutions. Fourth, TPP can increase exports of the United States by expanding the market to Asia (Peter A. P., et al, 2011).

President Donald Trump, who was elected as a new leader in the United States in 2017, had a different view of the TPP. In which, President Trump makes an "American first" policy that applies to all types of partnerships by considering the interests and prosperity of the local workers of the United States. The policy according to President Trump is more appropriate to prepare new jobs for citizens of the United States compared to joining the TPP. According to Trump, TPP brought disadvantages to manufacturers in the United States because TPP caused a large number of workers from the United States to lose their jobs because companies were looking for more

affordable labors in other countries where in the United States were more expensive compared to other states like developing countries (Angga Rizky A., 2018). President Trump prefers foreign trade agreements on bilateral relation due to distrust of negotiations and arrangements for multilateral trade. President Trump argues that the United States trade in Asia is wrong and the influence of the United States in the Asia-Pacific is not greatly increased by joining TPP (Malik, 22-24). President Trump wants the industry and the wages of workers in the United States can be more profitable by carrying out this policy.

B. Limitation of Immigrant

Limiting immigrant is not only done by the United States, but the issue of immigrants is indeed a problem that must be faced by some developed countries where the problem arises because of the desire to improve a social and economic condition, in the sense that immigrant can occur if economic and political interest arises in the destination country. Furthermore, the flow of immigrants is created through the existence of relations between the two countries such as the demand and delivery of foreign labor that usually occurs.

The United States has a problem with some immigrants from Mexico. The arrival of Mexican immigrants to the United States is due to the support of large demand for the original workforce. Until finally a problem arose between the United States and Mexico. The United States paid attention to the problem of transnational activity from Mexico where the problem with Immigrant was illegal. The entry of Illegal immigrants from Mexico led to violence between individuals and communities, the existence of human intrusion, and drug trafficking. This makes President Trump want a restriction on immigrants. With Mexico, Trump repatriated illegal immigrants who had criminal records and said he would impose a biometric system, in addition to electronic monitoring of arrivals in the United States (VOA, 2016). The difference

between President Obama and Trump is that during Obama administration, the immigrants were often given release to enter the United States, even though the asylum was in the process. At that time the United States faced data about 600,000 cases and at that time the immigrant had lived somewhere in the United States so it would be difficult to find and deport them. Whereas in the era of Trump administration, who announced the capture and release policy by building new detention facilities and limiting immigrant because the immigrants is considered by the President Trump as a national security threat and reduces the employment opportunities of the United States (Meier, 2018). Furthermore, he claimed that immigrants from Mexico were carrying drugs, criminals and prostitutes. According to him, crime and drug practices in the United States are increasing because of the many Mexican immigrants who come to seek better livelihoods in the United States.

Donald Trump also made a policy of limiting Mexican immigrants by building a wall on the border to prevent illegal immigrants and made Mexico finance the construction of the wall. According to Trump the tightening of regulations regarding national security is through tightening regulations on illegal immigrants through the construction of walls around the border with Mexico. The aim is to reduce the level of crime in the United States and considering that employment has been dominated by workers who have immigrant backgrounds so that the tightening of the immigration system will reduce unemployment in the United States (Adityo Darwan S., et al, 2017). The construction of the wall is intended to limit the smuggling of illegal goods that enter the United States from Mexico by elevating the dividing walls. In addition, the Trump administration will hold a rigorous selection on the border by conducting an in-depth examination to decide who has the right to enter the United States from the border. The construction of a 3,200 km border section will be carried out in the near future. In addition, in terms of the budget of President Trump will negotiate with Mexico and will implement a reimbursement

system, which means the US government will use its interests first, while Mexico will replace 100 percent after the wall is finished (Republika, 2017).

In addition to building a barrier between US and Mexico, President Trump also limits Muslim immigrant's entry into the US. President Trump issued an executive order entitled "the protection of the Nation from foreign terrorists into the United States". Where the order contained an entry ban for citizens from seven countries whose majority were Muslims. The seven countries are Syria, Iran, Iraq, Yemen, Sudan, Somalia and Libya for 90 days and postponed the tracing of refugees for 120 days (Pujayanti A. , 2017). The policy was taken to prevent acts of terrorism in the US. The Trump Government asserted that this policy was not discriminatory against Muslims but to prevent the development of terrorism in the US and the focus of this policy was a country that became a place of terrorism where the majority of citizens were Muslim.

Muslim immigrant restriction policies are certainly considered to be cornering Muslims and seem radical to Muslims. Trump seems to push and blame Muslims as the cause of terrorism cases in the world. In addition, Trump also bans global citizens or Muslim citizens from entering the United States under the pretext of securing the United States from Terrorist attacks. This policy resulted in residents stranded at the airport for several days until finally allowed to enter the United States. Furthermore, the rejection of Muslim immigrants who entered to US because of threat and the peace disruption. The rejection emerged after several families of Muslims immigrants had been indicated as ISIS members (Islamic States of Iraq and Syria) group which infiltrated the US as seekers of political asylum or international refugee.

The high of existence Islamophobia in the United States made government in Trump administrations emerged the policy of limiting Muslim entered in the United States. Where since

the campaign Trump planned to carry out Muslim supervision in the United States and Muslim immigrant restrictions. Islamophobia itself is fear or hatred towards Islam. This feeling arises when there is an assumption that Islam is a source of chaos and war that occurs in the world especially attacks of terrorism that always discredited Muslims as the culprits (Rananta, 2016). As a result, many members of the Muslim families from the Middle East in the United States were suddenly rejected by citizens of the United States even though violence and war in the world were not always caused by Muslims, for example World War I and II emerged from European countries, for example the both genocide in German, Communism and Fascism were real evidences that the culprits were not Muslims.

C. Applying Border Tax

Border tax is a tax that applies when payment for goods and services crosses international boundaries, where collected taxes are returned through border adjustments when goods and services from that country are exported and when the goods and services imported will be subject to border adjustments to the import value. Border tax functions as a consumption tax or value added tax, namely goods and services produced in the country which are consumed by other countries free of taxation, but goods and services produced from other countries and consumed or used in the country are taxed. The statement is supported by the OECD because according to OECD, the border tax is considered as an act which allows exported products to be exempt from part or all of the taxes imposed on exporting countries in connection with similar domestic products sold to consumers on the market while imported products sold to consumers are subject to part or all of the tax charged to the importing country in relation to similar domestic products (Worldtradelaw, 1970).

Broder tax's work is that domestic producers collect taxes on additional value, income, and production between sellers. On the other hand, because the import value is included in the production chain that has not been taxed domestically at the production level, the adjustment of the border tax is in accordance with the level of VAT applied to imports. Furthermore, the value added of goods and services will be taxed when the goods and services are at the last sale stage where the result is a tax on domestic consumption. Border tax exists because there is an international trade in which to maintain free competition, ensuring that goods exported from one country to another are not subject to the same tax in both countries and the goods are not free from taxation. A border tax applies due to a balance of payment deficit which has the right to enforce or use a border tax adjustment. Because a border tax can basically be used by a country when the country's balance of payment is in a deficit position so that the use of the border tax is the solution (Phillips, 2019).

With the border tax, it is considered to be a source of additional tax revenue, increasing the company's tax base, and domestic companies get subsidies from the government while imported goods are taxed (Jason, 2017). In addition, the existence of border tax will simplify the tax code, grow the economy, create jobs, and increase income to pay lower tax rates. However, with the aforementioned advantages, the border tax is still affected by pros and cons, where the pro arguments are:

- The Border tax can reduce tax incentives multinational corporations (MNCs) to reverse like moving their head into abroad, did outsource and engage in transfer pricing
- The Border tax for the cash flow tax would able fix the seeming unfairness inherent in WTO rules that allow value-added taxes to be adjusted at the border whereas BTAs for the corporate income tax do not allowed

- Make export become larger than import and if some countries still a substantial trade deficit, BTAs would generate revenue for the Treasury department, where revenue gained from the denial of business deductions for imports would exceed revenue loss from the exemption of exports.
- With changing some country business taxation from a system that taxes production to one that taxes consumption, household saving would be encouraged, to the benefit of future old-age pensioners.

Whereas contra arguments regarding Border tax are:

- the situation that persuasive politic make the strident opposition of companies that did import significantly more than they export especially big box retailers, oil refiners, and some auto companies.
- Relatable with predictable opposition of politicians who represent medium- and low-income, fearing if the cash flow tax will be largely reflected in higher prices at the checkout counter. These government spend a much larger portion of their earnings on traded goods than high-income (which spend a larger fraction of earnings on services).
- Border tax for the cash flow tax would infringe from WTO rules.
- There is the argument that border tax is a waste of much time, because they will be offset percent for percent by appreciation of the money in foreign exchange markets and also legislators when they enacted their own value-added taxes. (Garry Clyade H., and Zhiyao Lu, 2017).

As being known about the weaknesses and strengths of the border tax through this explanation, it is known that a country can carry out a border tax policy when the country is exposed to a deficit due to unbalanced balance of payments. It is based on the United States, because the United States is one of the

countries that has the tax on the worldwide income of domestic corporations. Moving to a territorial system where foreign-sourced income is exempt from United States taxation would increase economic growth and improve tax simplicity and efficiency. Much like the border adjustment, taxation income wherein the operations in one jurisdiction are taxed at the same rate, regardless of the parent ownership.

The United States adopts the policy such as export subsidy because it would make domestic exporters become more competitive internationally. Increasing foreign demand for their products would also strengthen the dollar as a result of the surge in demand for exports. Besides that, this policy would partially reduce this demand surge by raising the cost of The United States goods abroad. With the purpose to make the exchange rate rise, there would also be a rise in the United States imports because it makes foreign goods cheaper as a consequence of the stronger dollar. Therefore as any resulting exchange rate revaluation would uniformly adjust across the world it makes exchange rates doesn't immediately fully adjust, then exchange rate make at corporate tax rate become 20 percent and the United States could be creating a 25 percent tax wedge between domestic and foreign prices and created increasing the prices of United States consumer good (Jason, 2017). On other hand, the existence of tax import would raise the US price of imports and reduce demand for them, because weaker US demand for imports would also impact to dollar appreciation and if not enough to counterbalance between the increase of in import prices and the reduction in import demand. Furthermore, if the dollar becomes higher and no decline in imports it means there will be a fall in exports, and make of the trade balance.

As the new president of The United States, Trump introduced high tariffs against countries recording a surplus in their trade with the United States and introducing a border tax. Trump wants the U.S factory recover by doing tax deductions and regulations that will provide incentives for domestic

companies. otherwise if they want to move the factory overseas they will be charged a border tax according to the goods they want to bring back to America for sale. by pushing forward a border adjustment tax from Republicans. This tax would exclude revenue from exported items and prevent imported items from being deducted from taxes as costs with the purpose could lead to a lot more jobs in the United States. But this plan had been rejected by Trump, because he not fully supportive on this plan, and instead had own proposed a simpler 35 percent tax on products produced outside of the United States. the emerge of border tax would cause the increase cost of sell goods to the consumer because the companies producing and importing from abroad, it will pass down the tax cost to the consumers (Law, 2017). The increases of the border tax make the value of the dollar, but decreases the value of other foreign assets.

President Trump wants to apply the border tax to the countries partner that deficit with the U.S. Where, Trump wants to lift the domestic industries and attempts to avoid the fall of industries from foreign competitors by imposing import restrictions or providing export subsidies with the aim of increasing competitiveness in the international market. Trump supports to apply an import tax that could be adjusted to reflect the country of origin's tax rate for U.S. products. Trump wanted to do approach which take the form of trade policy rather than tax policy. Therefore, this policy wanted to apply to countries such as Mexico, Canada and China.

1. The United States with Mexico

One of the partners of United States is Mexico. Both states are doing partnership since 25 years ago with unthinkable way. The trade relationship between the states is worth more than \$500 billions. In Trump era, he wants to offer polices such as whether it is to propose trade agreements, cut taxes, spend federal money on housing, create a national health care system,

or, indeed, to build a wall on the border. Trump administration raised of imposing of a 20% tax or fee on imports from Mexico, as m such as including imports of crude oil, to provide funding for the construction of a wall along reach as 20% U.S.-Mexican border. The policy of 20% import tax were applied to Mexican crude oil, it could increase the price of Mexican crude oil by up to 20% from the perspective of The U.S. refiners. If this adjustment took place, the burden of the tax would be borne by Mexico as reduced income from oil sales, but relative quantities sold to the United States would remain the same (Import Taxes on Mexican Crude Oil, 2017). Besides that, U.S trade deficit with Mexico is around \$71 billion and exports are \$243 billion. The deficit are in auto parts and petroleum products. Imports amount to \$314 billion, with cars, trucks, and auto parts being the largest components (Amadeo, 2019).

The purpose of applying border tax is to force Mexico to pay the budget of wall. Which is in line to Trump policy to build a wall along the border with Mexico to decrease immigrants and crime rate in U.S. Therefore, the tax would raise revenue overall for the U.S government from imports and make the price of consumer products that are imported from Mexico would rise, but so might the price of products that are made in America using inputs from Mexico such as motor vehicles, consumer electronics and other products follow it. So, congress and the administration could simply choose to direct some of it toward paying for the wall.

2. United States with Canada

The total of the U.S goods and services export which is going to Canada is 18 percent Trade between Canada and U.S is important. Between these country enjoy the trading relationship, which support millions of jobs since the implementation of the North America Free Trade (NAFTA) agreement. Since 1994 between the United States export to Canada reaches \$375 billion and majority of good is oil, natural

gas, and electricity in 2014-2016 (The Embassy of the USA, 2016). But, after Trump was chosen as new President of U.S, he wanted to renegotiate with NAFTA because between U.S and NAFTA there were deficit.

Moreover, between U.S and Canada are partners in NAFTA, and the deficit with Canada is around 18 billion. that is only 3 percent of Canadian trade of \$582 billion. The United States exports \$282 billion to Canada, more than it does to any other countries. The United States imports \$300 billion. The largest export by far are automobiles and parts. Other large categories include petroleum products and industrial machinery and equipment. Therefore, Trump administration announce plan for tax reform as the top priorities of President Trump. The Trump administration has proposed a reduction of federal corporate tax rates from 35% to 15%. This differs from the House of Representatives Republican Tax Reform Blueprint released in June 2016 where a corporate rate of 20% was presented. Canada's exports are to the U.S. A Border tax would provide a clear incentive for U.S. businesses to decrease the import of goods from Canada. However, this type of tax system would require a complete overhaul of the U.S tax code from the current worldwide system to a territorial system. Other economic consequences such as the effect on currency value and trade also pose a concern (Scoot Dupuins and Cathrine Rau, 2017).

3. United States with China

U.S and China are the powerful countries good economic power. It cannot be denied that between U.S and China there is a competition to be better in the world and leader in all sectors. This condition makes both countries always compete in all sector. Trump makes China infurted by communicating with president of Taiwan, Trump tried to suggest to not uphold the "one China" policy followed by the United States since early 1970s. The relations of the U.S and China was more in tension

after Trump made policy to increase the tax revenue to China. He wants to apply border tax to China because the U.S got deficit. So Trump planned to push for additional tariffs on \$200 billion worth of U.S. imports from China. The president is increasing border tax without asking for input from Congress, thus raising the cost for American consumer. Trump announced that he has plan to impose to increase a 25 present tariff on steel and aluminum imports in order to save American job in industries. Besides that, Trump threatened China if China would cost the Chinese as much as \$150 billion in case of export sales to the United States if China is proven doing unfair trade (Powaski, 2019).

Trump wants to increase the US market in China by imposing tariffs on Border tax. Which this results in the consideration that conducting unilateral trade restrictions carried out by the The U.S can cause retaliation by the countries affected. As China did when it accepted the policy of increasing import tariffs. the Trump policy raised import tariffs for China because it was triggered by trading losses because after seven months of investigation some losses were found. Therefore, president Trump sets a tariff of around US \$ 50-60 on Chinese products and raises around 25% of the import tariff for steel and aluminum from China (Pujayanti A. , 2018). On this policy, China not did want to be silent, China also implemented a retaliatory policy of imposing a tariff of U.S \$ 2.4 billion on American products such as fruits, nuts, pork, and aluminum waste in 2017 (Chad P. Bown and Meliana Kolb, 2018). If this phenomenon is not controlled by international institution can be emerged a trade war.

President Trump did several action in protectionism such us withdrawal from TPP because he saw in this organization made disadvantages to manufacturers in the United States because TPP caused a large number of workers from the United States to lose their jobs because companies

were looking for more affordable labors in other countries. The next, is Trump want limitation immigrant to protect U.S, a lot of immigrant blamed by Trump as the cause of criminal and threat to U.S national security. Furthermore, several countries has been the target of border tax by Trump, for instance Canada, Mexico and China. The reason of Trump want to applying border tax in those countries because U.S get deficit in trade sector