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The Trade Tug-of-War: The Impact of Free Trade and Protectionism in the United States

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As we begin 2025 with a new Chief-In-Command, we potentially enter an era of increased protectionism, and it can greatly affect the American supply chain. President Trump's plan is to implement tariffs on countries like Mexico, Canada, and China, which have been trade agreement partners of the United States for much of the 21st century. A plan like this is intended to promote the use of American products and services to lead the United States to economic success. As we enter a new era with more protectionist policies, we are subject to transforming the relationships with countries that once participated in a free trade agreement with the nation. Widely considered a consumer economy, the United States can guide the global supply chain, and any implementation of free trade or protectionism can have a huge impact on the economy.

The economic state of the modern world arose from what we now refer to as mercantilism, which dominated the European economy between the 16th and 18th centuries. Mercantilism is the practice in which the state aims for a favorable balance of trade, resulting in the exports of larger amounts of goods rather than imports. Back in the 16th century, it was believed that financial wealth was limited to a certain amount of gold and silver. The limitations of wealth led to the rise of mercantilist actions, creating an intense rivalry between European countries; if a state were to export goods, they would receive more of the “limited gold and silver”, rather than giving up what they already had. England was a major player in the mercantilist era, as they encouraged their colonists to only purchase British goods by creating incentives and implementing tariffs to deem foreign companies unattractive to their colonists. At the time, England thrived through this economic practice, as they would keep the gold and silver in their possession. Eventually, British colonies were often left with insufficient bullion, which led to the creation of paper currency. Such mismanagement of the British currency caused great inflation and was the beginning of the downfall of mercantilism.

During the 18th century, British colonies, including the United States, grew discontent with their parent country, resulting in the Revolutionary War. International trade started becoming more common and colonists of the British Empire soon questioned the realities that government interventions imposed on the economic wealth of the people. Philosopher Adam Smith, also known as the father of economics, believed that a nation’s true wealth came from the productive capacity of individuals rather than the manipulation of markets by the government. Based on his ideals, states should focus on producing goods they specialized in and purchasing goods they did not specialize in. This idea would, in turn, help grow the wealth of nations, hence the name of his well-known book.

Mercantilism has been seen as “outdated” in the modern economic world. However, some ideologies from it are still currently used by various countries. Often deemed a domestic shield, protectionist laws are regulations that are designed to protect a nation’s domestic industries from foreign competition. Governments implement these laws in various ways including tariffs, quotas, and subsidies. Tariffs, the most common way to implement protectionism, are taxes imposed by a government on the import of foreign goods. A quota, on the other hand, is a government-imposed limit on the quantity of a certain good that can be imported into a country. This economic theory comes with its set of advantages and disadvantages. Like mercantilist ideals, the intention behind placing protectionist measures is to protect existing jobs as well as create them, and promote trade balance, economic growth, and national security. While it all sounds helpful to the protectionist nation, the disadvantages and drawbacks that it can bring include the stagnation of technological advancements, reduced choices of goods, increases in prices for consumers, and the risk of trade wars by retaliation. This brings up the question of why countries keep using these methods to better their people’s economy.

The United States has been a protectionist country for much of its history, with the subtle promotion of free trade measures. In recent years, protectionist measures have benefitted a few industries within the United States. The tariffs on steel products in President Trump’s first term seemed to help that respective industry, as several thousand jobs were created. In addition, the tariffs on washing machines and solar panels made in China had the same effect. Evidently, protectionist measures intentionally helped the import-competing industries here in the United States. However, what may have helped one sector of the American population hindered the rest. Those companies that used imported goods for their products were forced to increase their prices, often leading to job loss and discontent among consumers. In addition, the countries that the United States placed tariffs on often retaliated with their protectionist measures, harming the workers who rely on exporting goods to the foreign market. The United States has always been heavily criticized for using such policies, as these protectionist measures have unquestionably disrupted the economy negatively. Full implementation of protectionism can have damaging consequences for the United States, which is the reason that the American government has existing free trade agreements globally.

Free trade is a trade policy that allows the unrestricted exchange of goods and services between countries with a reduction or elimination of tariffs, duties, or quotas. Historically, free trade has helped the countries involved with their business efforts. Many times, companies get more business exposure in foreign countries, in addition to their own. For instance, in Japan, the demand for smaller and fuel-efficient vehicles is vast as opposed to larger vehicles. However, Japanese companies like Nissan and Toyota ventured into the American market in the early 90’s, as they noticed an increased demand for pickup trucks. With larger roads and infrastructure, it is much easier for the American consumer to drive a larger vehicle. With the well-negotiated United States-Japan Trade Agreement (USJTA), consumers and companies in the United States have seen a positive economic trend in their respective industries. Free trade agreements like USJTA facilitate stronger trade and commercial ties between the participating countries. In addition, United States exporters can participate in the product standards of partner countries. This in turn helps the three Ps of the supply chain: people, price, and planet.

It is important to note that there are also certain disadvantages when fully implementing a free trade system. As mentioned earlier, import-competing industries can see a negative impact from such eliminations of trade barriers. With little to no trade barriers, consumers are exposed to lower prices of certain goods from FTA partner countries, which hinders the American companies that produce such goods. For example, Japan has had a long history of protecting its agricultural sector due to its limited farmland. With rice-producing neighbors such as China and Vietnam, the elimination of trade barriers for agriculture in Japan would hinder its domestic production as its consumers would potentially be exposed to better and cheaper rice. As a country amongst the few with the most FTAs globally, Japan has still taken protectionist measures in the most needed sectors.

In the United States, the manufacturing industry has taken the largest hit. Undoubtedly, firms are in constant pursuit of lower costs and higher profits. The company best known for the iPhone, Apple, has taken advantage of FTAs; founded in the United States, they now have 90% of their manufacturing outside the nation, largely due to cheaper labor. If extreme protectionist measures by the United States are placed, it is more than likely that retaliatory tariffs could hinder the production of Apple. If Apple were to bring its manufacturing back to the United States, we are guaranteed two major setbacks. Firstly, labor workers in the United States have largely lost their skill in producing certain technology products, because of outsourcing. Having to catch up to the skill and efficiency that outsourcing countries provide us with would not be a simple process, as it will take us years. In addition, Apple would expect workers to produce their technology whilst paying low wages. A national minimum hourly wage of $7.25 would impact Apple’s cost to manufacture, which would result in a large spike in product prices, disturbing the technology sector in the economy. In the modern world, the United States greatly depends on free trade as most of its manufacturing sectors have been outsourced.

It is important to use both free trade and protectionism strategically, as many leaders around the world have successfully done so. The effects of certain protectionist measures are conditional to the specific industries involved. With increasing globalization, the United States must recognize the comparative advantage they have in different sectors is crucial in the modern world, as it can help us specialize in the products and services that we are best at providing, such as innovation and financial services. While protecting those industries, the United States could also recognize the strengths FTA partner countries have and build a better relationship with them. A well-balanced system between free trade and protectionism has the potential for great economic growth in the Land of Opportunity.

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