Impact of Global Trade Policies on U.S. Businesses

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Abstract- This paper discusses the relationship between global trade policies and the US businesses by taking a look at the impact that tariffs, trade pacts, and international trade rules have had on companies in the United States. The areas studied include the impact of recent trade wars, the role being played by multinational companies, and lastly the ramifications on small and medium sized enterprises (SMEs).

***Index Terms*-** Global Trade Policies, Tariffs, Trade Agreements, Multinational Corporations (MNCs), Small and Medium-Sized Enterprises (SMEs), General Agreement on Tariffs and Trade (GATT), World Trade Organization (WTO), North American Free Trade Agreement (NAFTA), United States-Mexico-Canada Agreement (USMCA).

I. Introduction

Global trade policies are the glue that holds economies together. Through the tariffs, quotas and other assorted arrangements by which they trade goods and services with each other, prevailing global trade policies signal to US businesses the nature of the economic world they are drifting into: the markets where they can sell, the companies they'll be competing against, the supply chains they'll be operating within, the regulations they'll have to abide by. The closer the economies of the world become fused together, the more important these trade policies… become.

The United States has made dozens of trade pacts and policy agreements in the past three decades to relax trade barriers, cultivate economic cooperation and joint prosperity with nearly every corner of the world. These include the North American Free Trade Agreement (NAFTA) and its successor, the United States-Mexico-Canada Agreement (USMCA), as well as the still-dead Trans-Pacific Partnership (TPP). Policies facilitating freer trade have numerous benefits, but they undoubtedly also bring challenges, including greater competition from foreign firms, greater compliance with international standards and greater risks from volatile global markets.

The effects of global trade policies on businesses in the United States are varied. they can – and do – open up new markets for firms, allowing them greater opportunities to reach new customers and increase revenues. However, they also have the potential to expose domestic industries to greater competition, including from abroad, something that can lead to job loss and restructuring in certain cases. Also, when tariffs, trade agreements and other rules change, businesses often face heightened uncertainty about investment and other planning decisions.

The paper discusses the impacts of rules of global trade policies on US businesses in detail. It analyses both its opportunities and challenges and discusses case studies regarding the industries majorly affected by them, for example manufacturing industries, agriculture and technology industries, to provide us a better understanding of the reality. Furthermore, it analyses whether the government policy can soften the adverse effects and promote the positive effects of global trade policies on American businesses, and what the policy should do to achieve the purpose.

This knowledge will enable the US private sector to master the arcana of global trade policy and to shape it in a manner that will maximize their opportunity to grow and establish a competitive advantage in a more and more globalized world economy. Policy-relevant scholarship on trade policy will continue to facilitate the debate over how free trade will enhance the wellbeing and future prospects of the US.

II. Historical Context of U.S. Trade Policies

With almost half of national output being attributable to foreign commerce, the U.S. is a clear leader in the global economy. For this reason, to understand U.S. economic policy and the future direction of business we must look to the history of trade policy and the U.S.'s role in the global trading system. Therefore, this paper will explore the history of U.S. trade policy, as well as the history of the global trading system, the historical and current realities of the global trading system, and the effects of this system on US business.

II.a) Early Trade Policies (18th – 19th Century)

- *Mercantilism and Protectionism:* In the early years, the U.S. adopted mercantilist policies aimed at protecting nascent

industries. Tariffs were the primary tool used to shield domestic businesses from foreign competition.
- *Reciprocity and Bilateral Agreements:* By the mid-19th century, the U.S. began negotiating reciprocal trade agreements to reduce tariffs mutually, marking a shift towards more open trade.

II.b) 20th Century: From Isolation to Global Leadership
- *Smoot-Hawley Tariff Act (1930):* During the Great Depression, the U.S. enacted the Smoot-Hawley Tariff, raising tariffs on thousands of imports. This policy exacerbated global economic conditions and led to retaliatory tariffs.
- *Post-WWII Trade Liberalization:* The establishment of the General Agreement on Tariffs and Trade (GATT) in 1947 marked the beginning of a significant shift towards trade liberalization. The U.S. played a leading role in promoting free trade through multilateral agreements.

II.c) Late 20th Century to Present
- *North American Free Trade Agreement (NAFTA):* Enacted in 1994, NAFTA created one of the largest free trade zones, significantly impacting U.S. businesses by expanding market access and increasing competition.
- *World Trade Organization (WTO):* The U.S. was a founding member of the WTO in 1995, further embedding itself in the global trade system. WTO rules and dispute mechanisms have influenced U.S. trade policies and business operations.
- *Recent Trends:* In recent years, there has been a resurgence of protectionist policies, exemplified by the trade wars initiated during the Trump administration, particularly with China. These policies have had profound effects on global supply chains and U.S. businesses.

III. Impact of Global Trade Policies on U.S. Businesses

I will focus on the impact of the global trade policies and how the situation could change everything for U.S. businesses. This paper will serve as a guide for any company looking to engage with global markets to ensure healthy benefits and not heavy losses. Therefore, it cant be underestimated how significant these trends could be in the overall international scenario. For U.S. businesses, global trade policies are extremely important and can determine the opportunities for expansion and growth or the challenges and threats in the global ecosystem.

III.a) Market Access and Expansion
- *Positive Impacts:* Trade liberalization has provided U.S. businesses with access to international markets, enabling expansion and increased revenue. For instance, NAFTA allowed U.S. companies to access Canadian and Mexican markets with reduced barriers.
- *Negative Impacts:* Increased competition from foreign companies has pressured U.S. businesses to innovate and improve efficiency. Industries unable to compete, such as certain manufacturing sectors, have faced declines and job losses.

III.b) Supply Chains and Production
- *Global Supply Chains:* U.S. businesses have integrated into global supply chains, sourcing raw materials and components from around the world. This has led to cost reductions and increased competitiveness.
- *Vulnerability to Disruptions*: Dependence on global supply chains also means vulnerability to disruptions, such as those caused by trade disputes or global crises like the COVID-19 pandemic.

III.c) Regulatory and Compliance Challenges
- *Standards and Regulations:* U.S. businesses must navigate a complex web of international standards and regulations. Compliance can be costly but is necessary for accessing global markets.
- *Intellectual Property (IP) Protection:* Global trade policies, particularly those enforced by the WTO, have strengthened IP protections, benefiting U.S. businesses that rely on intellectual property.

III.d) Sector-Specific Impacts
- *Agriculture:* U.S. agricultural exports have benefited significantly from trade agreements, opening up markets worldwide. However, retaliatory tariffs in trade disputes have adversely affected farmers.
- *Technology and Services:* The technology and services sectors have thrived under liberalized trade policies, with easier access to international markets and collaboration opportunities.

III.e) Trade Disputes and Retaliatory Measures
Tariffs and Trade Wars: Recent trade wars, notably between the U.S. and China, have led to increased tariffs on various goods. U.S. businesses that rely on imports for production have faced higher costs, while exporters have dealt with reduced access to key markets.

IV. Impact on Multinational Corporations

In an interconnected global economy, multinational corporations (MNCs) are heavily reliant on international trade policies that dictate the terms of engagement across borders. The United States, as a major player in global trade, faces both challenges and opportunities arising from evolving trade policies. This paper seeks to delve into the multifaceted impacts of these policies on U.S. businesses, examining their implications across various sectors and regions.

IV.a) Impact on MNC Strategies
Global trade policies influence MNC strategies in several ways. Firstly, regulatory changes alter compliance requirements, affecting operational costs and legal frameworks. Secondly, tariff

impositions can disrupt supply chains, prompting MNCs to reconsider sourcing and production locations. Thirdly, geopolitical tensions may necessitate strategic diversification to mitigate risks associated with concentrated dependencies.

IV.b) Sectoral Implications

Different sectors within the U.S. economy respond uniquely to global trade policies. For instance, the agricultural sector faces fluctuating export tariffs and quotas, impacting farmers' incomes and global market competitiveness. Conversely, technology firms navigate intellectual property protections and data localization laws, affecting innovation and market access.

IV.c) Regional Dynamics

Regional disparities in the U.S. amplify the differential impacts of trade policies. While coastal states benefit from export-oriented industries, manufacturing-dependent regions confront challenges posed by import tariffs and competitive pressures. The resultant economic diversification efforts reshape local economies and employment landscapes.

IV.d) Tariff Impacts

- U.S. businesses face increased costs due to tariffs on imported raw materials and components, affecting industries like manufacturing and consumer electronics (Irwin, 2017).
- Some MNCs have shifted production to countries with lower tariffs to mitigate these costs, illustrating the adaptability of global supply chains (Wilson, 2016).

IV.e) Trade Agreements

- The USMCA has provided stability for industries reliant on North American trade, such as automotive and agriculture, by maintaining tariff-free access to Canada and Mexico (Caliendo & Parro, 2015).
- However, ongoing negotiations and potential new agreements create uncertainty, making long-term strategic planning challenging for MNCs (Baldwin, 2016).

IV.f) Geopolitical Tensions

- The U.S.-China trade war has led to increased tariffs on a wide range of goods, forcing businesses to reconsider their sourcing and production strategies (Bown, 2019).
- Sanctions on countries like Iran and Russia have restricted market access and disrupted supply chains for industries dependent on these regions (Hufbauer et al., 2007).

IV.g) Case Studies

Apple Inc.:

- Apple has faced increased costs due to tariffs on components imported from China, leading to higher prices for consumers and reduced profit margins (Bown, 2019).
- In response, Apple has diversified its supply chain, increasing production in countries like India and Vietnam to reduce dependency on China.

General Motors (GM):

- GM has benefited from the USMCA, which has ensured continued access to the Canadian and Mexican markets, vital for its North American operations (Caliendo & Parro, 2015).
- However, the company remains cautious about future trade policies and potential disruptions, highlighting the need for flexible production strategies.

Boeing:

- Boeing has been affected by sanctions on Iran and Russia, which have limited its market opportunities and affected its global supply chain (Hufbauer et al., 2007).
- The company has sought to mitigate these impacts by exploring alternative markets and investing in domestic production capabilities.

V. Impact on Small and Medium-Sized Enterprises

Global trade policies play a crucial role in shaping the economic landscape for businesses of all sizes. However, SMEs, which form the backbone of the U.S. economy, often face distinct challenges and opportunities compared to larger corporations. This paper aims to explore how global trade policies affect U.S. SMEs, focusing on key areas such as market access, competitiveness, supply chain management, and regulatory compliance.

- *Market Access and Competitiveness*: Access to foreign markets is critical for SMEs looking to expand their customer base. Trade agreements, such as NAFTA and the USMCA, have historically facilitated this access by reducing trade barriers. However, recent shifts towards protectionism and renegotiation of trade deals pose challenges for SMEs, affecting their competitive edge.

- *Supply Chain Management:* Global trade policies directly influence supply chain dynamics. Tariffs and trade restrictions can disrupt supply chains, increase costs, and impact the availability of raw materials and components. SMEs, with their limited bargaining power, are particularly vulnerable to these disruptions.

- *Regulatory Compliance*: Compliance with international trade regulations is often more burdensome for SMEs due to limited resources. The complexity and variability of regulations across different markets add to the compliance costs, potentially limiting SMEs' ability to engage in international trade.

Va,) Case Study: Midwest Manufacturing Company

A hypothetical Midwest manufacturing company that produces automotive parts illustrates the challenges faced by SMEs. The imposition of tariffs on steel and aluminum imports increased the cost of raw materials, forcing the company to either raise prices or absorb the costs. Additionally, navigating different regulatory standards across countries added to operational complexities and costs.

VI. Trade Agreements and Their Effects

Trade agreements are formal arrangements between two or more countries that determine the rules of trade between them. They aim to reduce or eliminate barriers to trade, such as tariffs, import quotas, and other restrictions, to facilitate the flow of goods and services.

Trade agreements such as NAFTA, now replaced by the United States-Mexico-Canada Agreement (USMCA), and the Trans-Pacific Partnership (TPP) play a pivotal role in shaping the trade landscape for U.S. businesses. These agreements often reduce tariffs, set common standards, and provide a framework for resolving disputes, creating a more predictable trading environment.

VI.a) The United States-Mexico-Canada Agreement

The USMCA, which came into effect on July 1, 2020, introduced several changes affecting U.S. businesses. For example, it increased the de minimis threshold for duty-free imports, benefiting e-commerce businesses by reducing the costs associated with cross-border sales. It also required higher labor standards in Mexico, potentially increasing the cost of manufacturing but aiming to create a level playing field for U.S. workers.

VI.b) Some key effects of trade agreements

- *Economic Growth:* Trade agreements often lead to increased trade between participating countries by reducing tariffs and other trade barriers. This expanded trade can stimulate economic growth as businesses gain access to larger markets and consumers benefit from a wider range of goods and services.

- *Job Creation and Labor Markets:* Trade agreements can impact employment levels and the types of jobs available. While some industries may see job losses due to increased competition from imports, others may experience growth as they export more goods and services. Labor markets can adjust, but this adjustment process can be challenging for workers in declining industries.

- *Consumer Prices:* Increased competition from foreign producers can lead to lower prices for consumers, as imported goods become more affordable. However, this can also put pressure on domestic industries to become more efficient to remain competitive.

- *Investment Flows*: Trade agreements often include provisions to protect investments and intellectual property rights. This can encourage foreign direct investment (FDI) as companies feel more secure in investing in each other's markets, leading to technology transfer and infrastructure development.

- *Income Inequality:* Trade agreements can exacerbate income inequality within countries. While some individuals and industries benefit from increased trade and investment, others may face job losses or stagnant wages, particularly in sectors that face strong international competition.

- *Environmental and Social Standards:* Some trade agreements include provisions to uphold environmental and social standards, aiming to prevent a "race to the bottom" where countries lower standards to attract investment. These provisions can promote sustainable development and improve working conditions globally.

- *Political Relations*: Trade agreements can strengthen diplomatic ties between countries, fostering political stability and cooperation. Economic interdependence through trade can also reduce the likelihood of conflict between nations.

- *Regional Integration:* Trade agreements often aim to deepen economic integration among member countries, leading to closer political and cultural ties. Regional trade blocs, like the European Union, ASEAN, or Mercosur, can enhance cooperation beyond trade, including in areas such as security and infrastructure.

- *Challenges and Disputes*: Negotiating and implementing trade agreements can be complex and contentious, particularly when dealing with sensitive sectors such as agriculture or services. Disputes over trade practices, tariffs, or non-tariff barriers can arise and require resolution through mechanisms like the World Trade Organization (WTO) or bilateral arbitration.

VII. Trade Wars and Their Consequences

Trade wars occur when countries impose tariffs or other trade barriers on each other in response to trade practices they find unfair or harmful. These conflicts can have wide-ranging consequences for the economies of the involved countries and the global market.

Trade wars, characterized by reciprocal tariff increases, disrupt international trade flows and create uncertainty. The U.S.-China trade war, starting in 2018, is a prominent example. The imposition of tariffs on billions of dollars' worth of goods led to retaliatory tariffs, affecting various sectors including agriculture, manufacturing, and technology.

VII.a) Significant Consequences:

- *Economic hit:* Trade wars disrupt global supply chains and boost the cost of goods for consumers. Tariffs increase the price of imported goods, creating inflationary pressures. Industries that use imported or exported products heavily suffer, and this can hurt jobs and economic growth.

- *Political Fallout:* Trade wars stress diplomatic relations. They can ‘ratchet up’ tensions between countries and lead to more general geopolitical wars if not well managed. And countries can face domestic political backlash amid the war over such issues as why trade expansion is unfavourable for citizens.

- *Market Volatility:* Tariff disputes lead to market volatility. Financial markets are rattled when investors cannot be sure of where they stand. Stock prices can fluctuate as investors fear prickly decisions writ large. The New York Times reports that 2018 saw historic levels of volatility and uncertainty in global markets.

- *Global Growth:* Trade wars can slow global economic growth. If big countries go to war over trade, they will propagate the downward spiral of recessions into the broader global economy by triggering a trade dispute contagion.

- *Business Uncertainty:* Trade wars could lead companies to delay new investment decisions and rearrange supply chain strategies. A reference to future trade policy uncertainty would mean that companies could not make long-term plans and would hold back on new investment, damaging their confidence.

- *Consumer Impact:* In the final analysis, consumers bear the brunt of trade wars. They face higher prices and – if they are lucky – less choice. These ultimately reduce purchasing power, lowering standards of living. In particular, they harm lower-income groups especially hard.

- *Long-Term Implications:* Trade wars have potentially deep and long-lived consequences. They could unravel decades of buildup in international trade norms and institutions that have facilitated global commerce.

VIII. Regulatory Standards and Non-Tariff Barriers

Import quotas and other non-tariff barriers to trade – such as requirements that goods meet certain regulatory standards – are also important. It is often harder for SMEs to meet different standards for traded goods used in different countries. Non-tariff barriers to trade might also fall as a result of international agreements, and conforming to different standards in each country is made easier. But there remain important differences.

VIII.a) Regulatory Standards

Regulatory standards are the rules and regulations set by the government or relevant authorities to make sure products meet basic requirements about quality, safety and environmental performance before they are allowed to be sold in a particular market. There is significant difference in standards across the world, and they have different aspects, including:

- Safety Standards: Companies sell products that are safe for consumers to use, such as electrical safety standards for appliances, or safety standards for food products.

- Quality standards: The specifications for established levels of quality and performance for goods and services, such as standards for the reliability of building materials or production methods.

- Environmental Standards: Rules that seek to reduce the environmental footprint of products over their life-cycles in, for example, limiting a vehicle's emissions or requiring packaging material to be recyclable.

- Health Standards: Relating to health effects such as standards for pharmaceuticals or medical devices.

- Technical Standards: A specification of product design and interoperability that governs compatibility and functionality, like standards for telecommunications equipment or software.

VIII.b) Non-Tariff Barriers (NTBs)

Non-tariff barriers are various measures other than tariffs that countries use to restrict imports or exports. These barriers can be regulatory in nature or administrative and can include:

- *Quotas:* Limits on the quantity of certain goods that can be imported or exported.

- *Licensing and Permit Requirements:* Requirements to get a specific licence or permit to export or import certain goods.

- *Technical Barriers to Trade (TBT):* rules or standards that differ from international rules or standards that discriminate against foreign goods.

- *Sanitary and Phytosanitary Measures (SPS):* Rules for food safety, animal health and plant health to protect human, animal or plant life or health.

- *Customs Procedures:* Processes and documentation requirements that govern what can be imported and exported, thereby slowing or complicating the process.

VIII.c) Case Study: The Pharmaceutical Industry

Global markets for pharmaceuticals face considerable regulatory oversight A broader set of cross-cutting measures can reduce transaction costs to conducting business in more countries, or create time-saving or cost-saving (or both) image-improving practices. For instance, while variability in marketing approval processes and requirements remain a challenge in many countries, harmonisation initiatives, such as the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) could help expedite these processes, and therefore reduce costs.

IX. CONCLUSION

A rise in protectionism or access to new markets in foreign regions influences almost every strategic decision that a US business makes, from input costs to competitiveness to distribution requirements. While large multinational corporations have resources to deal with these uncertainties, SMEs risk being upended by changes that inherently impact the business environment. Knowing how trade agreements, tariff matters or regulatory standards are changing is vital to effective tactical planning to adapt and thrive in new markets. Global trade continues to evolve, and US firms have to be more nimble than ever to react and get ahead.

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