

**International Economics**

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**THE EU FOREIGN TRADE  
IN GOODS AND SERVICES  
AND THE NEW PROTECTIONIST POLICY  
OF THE US**

**Abstract**

About 2/3 of the EU trade is the intra-EU trade, but the extra-EU trade provides additional demand for the European products and is a source of necessary supplies. It is especially important for some products and services. Despite a decreasing trend, the US continues to be an important trade partner for the EU. But prospects for transatlantic integration turned into rise of protectionism, which worries the EU politicians. In the paper we assess the fiscal and protectionist role of tariffs for the EU-US bilateral trade and the determinants of the US imports.

**Key words:**

Foreign trade, bilateral economic relations, protectionism, tariffs, EU, USA, NAFTA.

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## **Introduction**

European integration boosted the intra-EU growth, while the WTO and regional trade agreements with other countries helped to support the extra-EU trade. Despite importance of economic links between the EU and US, transatlantic economic integration lagged behind. The US policy is switching into a protectionist stance, which can affect both the US and EU economies, and the rest of the world. In this paper we aim at analyzing the importance of extra-EU merchandise and services trade and the EU-US bilateral trade in particular, and at assessing the reasons and prospects of the US protectionist policy.

## **Analysis of recent research and publications**

### **Intra-EU and extra-EU trade**

Leitner et al. (2016) provided an extensive analysis of the intra-EU trade structure. The intra-EU trade developed faster before the crisis of 2009, but later the extra-EU trade had better dynamics. In 2014 the intra-EU trade accounted for 53% of the global trade in printing and reproduction of recorded media, 42% in tobacco products, 36% in paper and paper products, 35% in financial services, 34% in pharmaceutical products, travel services, 32% in beverages, 31% in passenger cars, but only 11% of the global trade in computer, electronic and optical products, 12% of royalties and license fees, 8% in construction services. The intra-EU exports accounted for 75% of the total EU's exports in food products, 73% in wearing apparel, 72% in printing and reproduction of recorded media, rubber and plastic products, paper and paper products. They marked concentration and clustering of exporting activities of goods and services in subsets of countries. The largest specialization index was in Ireland. The high-quality exports were the most concentrated. Countries like Germany, Ireland, Sweden specialized mostly in products with high unit value, while Croatia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia specialized in low unit value products. The

intra-firm trade turned out to be more resilient to the crisis. The intra-firm trade is especially widespread in Germany and the UK, which are active FDI investors.

Egger and Pfaffernmayr (2002) concluded that the EU enlargements resulted in faster growth of the core-periphery and intra-periphery trade than intra-core trade. Oehler-Sincai (2009) marked the growing share of the new Member-States in the EU trade flows, although their share remained at a low level. In 2004-2008 the EU had a manufactures trade surplus and a commodities trade deficit. Ghazalian (2015) estimated that the EU preferential treatment increased trade in processed food between Greece (especially it imports) and the rest of the EU countries more than an average increase in the intra-EU trade.

As for determinants, Ketenci (2014) studied bilateral trade flows of the EU with its main trade partners and found that income was a more important factor than real exchange rate. But they questioned the effect of these two factors for export or import values in case of trade with China, Norway and Japan. Hornok (2011) analyzed the effect of time for border controls and their elimination for EU trade between the old and new Member-States. Timeliness turned out to be more important for industries with vast international production fragmentation. The positive cost reducing effect was found for road transportation, but not for shipments by sea between the ports of the European Union as the latter still involved various types of control. Baran (2015) wrote that antidumping measures in the EU are used against exporters with increasing share on the European market. These measures decrease the targeted imports (the trade destruction effect) especially in the steel market, increase imports from other countries (the trade diversion effect) and do not affect the EU exports. The targeted imports decrease already during the investigation stage to lower the risk of antidumping duties.

Several studies were particularly devoted to the trade in services. Kox, Lejour and Montizaan (2004) considered the negative effects of the barriers for trade in services in the EU as a result of heterogeneity of national, regional or local regulation. They noted a deregulation trend, although the progress was different among the Member States. Kox and Lejour (2006) further estimated the effects of the Services Directive proposal. They focused on other commercial services (i.e. without transport, tourism and government services). The intra-EU services trade would increase by 30-62% and the direct investment in services would increase by 18-36%. They also claimed that the size of exporting economy is a more important determinant for the volume of trade than the size of the importing economy. Geographical distance and language distance are equally important barriers for trade in services because face-to-face communication is often necessary unlike in case of trade in goods. Language distance is also related to cultural difference as a trade barrier. Regulation level in the origin country is more a barrier than regulation level in the destination country. It is regulation heterogeneity that matters, not the regulation level in a destination country.

Francois, Pindyuk and Woerz (2008) assessed possible effects of liberalization of trade in services in the EU. The liberalization could lead to growing spe-

cialization of the new Member States in manufacturing and specialization of the old Member States in services. But Germany and France would increase their exports of durables. Most Member States could experience deterioration of trade balances, but positive changes in welfare. Trade partners outside the EU (especially Switzerland) also would increase their exports.

### **EU-US trade**

Lakatos and Fukui (2013) analyzed the EU-US trade between related parties and arm's length trade (between unrelated parties). In 2012 the trade between related parties accounted for 50% of the total EU-US trade in goods (the share was higher for the EU exports than for the US exports). Ireland and Slovakia were the most involved countries in related party trade. The sales of the US affiliates in the EU were equivalent to 13% of the EU GDP (the EU affiliates accounted for 11% of the US GDP). They concluded that the related party trade is more intensive in intermediates and capital goods. The US trade deficit was larger in case of related party trade. The trade between related parties is relatively more demand driven than the trade between unrelated parties. The trade between related parties also turned out to be more sensitive to tariffs and distance.

Görg (2000) analyzed inward processing trade, i.e. exports of the US goods to the EU, which are re-exported from the EU after processing. The choice of EU partner country depends on its comparative advantages. Also a country is more likely to become an inward processing trade partner if there is a large stock of foreign direct investments from the US (at least in the EU periphery Member States) and if the wages are high enough. Thus such type of trade is more common for related party trade. High wages mean priority to involvement of skilled labor in processing American intermediate goods in the EU instead of priority to cheap labor. Sectoral approach showed that some industries especially high-tech sectors (for example electronics production) are more involved in inward processing trade, so their production can be easily fragmented, whereas production involving bulky inputs (like furniture) and low-tech sectors are less likely to be fragmented.

Ferreira-Lopes (2013) analyzed the difference in the tariff patterns of the EU and the US. The US practiced less protectionism, especially in case of intra-industry trade.

European Commission (2013) noted a relative decline in trade between the EU and the US and several reasons for it. The enlargements of 2004 and 2007 and the EU's Neighborhood Policy boosted trade with the neighboring countries, including Russia and Turkey. NAFTA strengthened trade links between the US, Canada and Mexico. But the major reason was the fast growth of

emerging market economies especially China. Despite the transatlantic tariff barriers are relatively low, they still impose costs for business. But regulatory differences matter more. The EU experienced difficulties in access to the US public procurement market and with protection of geographical indications against the US businesses.

ECORYS (2009) assessed the non-tariff barriers for the EU-US trade and potential effects of their reduction and harmonization of regulation. They claimed that non-tariff barriers are more important than tariff barriers. Elimination of 50% of the non-tariff trade barriers could increase the GDP in the EU by 0.7% and in the US by 0.3%. The effects would include benefits for consumers because of lower import prices, growing exports, lower production costs and more intensive investment flows as a result of regulation harmonization. An average household would receive additional €12300 over a working lifetime in the EU and €6400 in the US. The absolute increase in exports would be similar in both the EU and the US, although the percentage increase in exports would be three times higher in the US (6.1%) than in the EU (2.1%). Both the EU and the US would improve their trade balances. In the EU the largest winners would be production of motor vehicles, chemicals, cosmetics and pharmaceuticals, food and beverages, and electric machinery. The largest gains in the US would be for production of electrical machinery, insurance services, financial services, and production of chemicals, cosmetics and pharmaceuticals.

Centre for Economic Policy Research (2013) provided an assessment of potential effects of transatlantic trade and investment agreement. The estimated effect would be €119 billion a year for the EU and €95 billion a year for the US or €545 of extra disposable income for an average EU family and €655 in the US. The agreement would also positively affect global trade and would increase the global income by €100 billion. The EU would increase its exports to the US by 28%. The increase of total exports would be 6% in the EU and 8% in the US.

Andreescu and Radu (2013) considered the history of trade disputes between the EU and US including the banana dispute, the meat hormone dispute, the foreign sales corporations' case etc. Existence of the disputes is explained by the fact that both economies are economic giants and competitors.

Despite novelty of the issue, rise of American protectionism under the presidency of D. Trump has already been analyzed in several research publications. Vandebussche et al. (2017) assessed the effect of «America First» or «Trumpit» policy for the EU. The US President is empowered by the Trade Act of 1974 to increase tariffs up to 15% for a period of 150 days for the imports from countries with large surpluses of balance of payments. The researchers assume scenarios of rising tariffs by 5% or by 15% in all sectors. The EU exports could drop by 5-24% under various scenarios and the GDP would decrease by 0.1-0.4%. The job losses in the EU would be between 50,000 and 240,000 jobs. Germany and Ireland could become the most affected countries. They also assume that the EU services exports to the US would suffer only if they are em-

bedded in goods as the US expressed intention to raise barriers only for merchandise trade.

Adarov et al. (2017) pointed out that the US measures affecting Germany could negatively influence economy of Central and Eastern Europe. The first reason is that German industry (including automotive and related industrial sectors) has intensive supply chains in the region. The second reason is the openness of the economies of the region.

Yoon et al. (2018) focused on a possible scenario of trade conflict between the US and China and its effect on Korea. D. Trump's accusations of China for «unfair trade» and protectionism are considered to be another episode of complaints by the US about China's currency manipulation, subsidies, violation of intellectual property rights etc. Rosyadi and Widodo (2018) estimated possible effects of rising protectionism in the US against Chinese exports and possible retaliation measures in China. Both countries would have losses in GDP, terms-of-trade and welfare, although the trade balance of the US would improve. The bilateral trade would decrease, but exports to the third countries would grow.

Scherrer and Abernathy (2017) questioned whether «America First» means protectionism. They claim that D. Trump will prefer to force trade partners to open their markets. Foreign companies exporting to the US would worry about declared protectionism policy in the US and therefore would force their governments to yield to the US demands.

Dadush (2018) noted that the trade policy doctrine of D. Trump is «compliant protectionism». This means that despite extensive promises of D. Trump to protect American industry against imports during his election campaign by increasing tariffs or exiting NAFTA and WTO, he uses measures within the bounds of the national law and has not applied many protective measures that he had promised. Dadush (2018) summarized the declared and undeclared principles of D. Trump's trade policy:

- to focus on bilateral negotiations in order to avoid confronting coalitions of other countries;
- to reduce bilateral trade deficits with China, Mexico, Germany, Korea and some other countries and to claim that these deficits are mostly a result of unfair trade practices of the US trade partners;
- to use all types of trade remedies allowed by the American law (for example the number of antidumping and countervailing investigations grew by 50%; investigation of China's practices in intellectual property and technology transfer was initiated, which can result in increase in tariffs for imports from China) and to force partners to lower their trade barriers, even by threats to withdraw from international agreements (for example Trans-Pacific Partnership);

- to negotiate from a maximalist position and to raise the stakes if the negotiations fail;
- to be unpredictable in order to receive maximum concessions and to force American and foreign companies to avoid investing abroad to export to the US as these investments would become riskier.

Dadush (2018) also suggest that D. Trump's trade policy can hurt the American consumers and American companies when they face retaliation by the US trade partners and become deprived of the opportunities to optimize value chains by investing abroad. Also the policy can negatively affect the main partner countries with large trade surpluses including China, Japan, Germany, Mexico, Ireland, Vietnam, Italy, Korea, Malaysia, India etc., and later the most trade depended countries including Luxemburg, Singapore, Ireland etc. New trade agreements between other countries to offset absence of progress in negotiations with the US can be another possible outcome of growing protectionism in the US. China also may become the new leading advocate of free trade instead of the US, but in this case China should start practicing free trade at home.

## **Results**

### **Intra-EU and extra-EU trade**

The Eurostat (2011) provided a historical data on the EU trade. The share of the evolutive EU (changing membership approach) trade with the rest of the world in the global trade flows was decreasing despite enlargements. Nevertheless accession of new Member States helped to slow down this trend. In most periods the EU had trade deficit, except a prolonged period of trade surplus in the middle of 1990s.

The importance of the US as a trade partner had increased before 2001 and then started to decrease. The share of Switzerland peaked in 1970-1980s and the share of Japan was the highest in 1990s. China and Russia became important trade partners in the XXI century. As for the bilateral trade balances, the EU had long periods of trade surplus with US, Switzerland, Turkey, Mexico, Canada, Australia, United Arab Emirates, and trade deficits with China, Russia, Japan, Norway, Brazil and South Korea. These trade imbalances turned out to be persistent in time.

Table 1

**The share of the trade between the EU and the rest of the world in the global trade, %**

Year	Share in exports	Share in imports
1960	24.5	23.5
1970	22.3	21.6
1990	21.8	22.9
2000	18.5	19.2
2010	16.0	17.3

Source: Eurostat (2011).

Table 2

**The share of the main partners in the evolutive EU's trade with the rest of the world, %**

Year	Exports					Imports				
	US	China	Switzerland	Russia	Japan	US	China	Switzerland	Russia	Japan
1960	11.6	1.2	7.6	2.1	1.1	19.8	0.8	4.0	2.2	0.8
1970	14.8	0.8	9.0	2.5	2.2	19.8	0.6	4.2	2.1	2.7
1980	12.0	0.8	10.1	3.4	2.1	16.1	0.7	5.6	4.0	4.6
1992	16.9	1.6	8.9	2.7	4.7	17.8	3.4	7.2	3.2	10.6
2001	24.3	3.1	7.6	2.8	4.6	19.0	7.4	5.9	4.6	7.4
2010	18.0	8.4	7.8	6.4	3.2	11.3	18.7	5.5	10.6	4.4

Source: Eurostat (2011).

Then we should consider more recent and detailed data. According to the data of European Commission (2018f) the US is the 1st trade partner of the EU with the bilateral trade accounting for 16,9% of the EU trade, followed by China, Switzerland, Russia and Turkey. The EU is the 1st trade partner of the US with the bilateral trade accounting for 18,6% of the US trade, followed by China, Canada and Mexico.

The data about extra- EU-28 and intra-EU-28 (current membership approach) trade is provided by Eurostat (2018). Roughly 2/3 of the EU trade is the intra-EU trade and the share has not changed much since 2000, although it reached the lowest level in 2012-13. The importance of the US as a merchandise



trade partner of the EU is decreasing, although it reached the lowest level in 2011-13 and there is a slight revival of bilateral relations after 2013. The US continues to be rather a market for the EU goods than a source of supply. As for services trade it is less regionalized than trade in goods. The share of the US as a services trade partner is more stable.

Table 3

**The shares of extra-EU and the EU-US trade, %**

Year	Merchandise trade, 2000	Merchandise trade, 2017	Services trade, 2010	Services trade, 2017
Share of extra-EU trade in the total EU exports	32	36	44	44
Share of extra-EU trade in the total EU imports	36	36	40	40
Share of EU-US trade in extra-EU exports	28	20	24	27
Share of EU-US trade in extra-EU imports	21	14	31	31

Source: Authors' calculations based on Eurostat (2018).

**Sectoral structure of extra-EU and the EU-US trade**

Let us consider sectoral aspects of the merchandise trade. According to Eurostat (2018) the extra-EU trade is especially important for the EU exports of beverages and tobacco (in 2017 44% of their exports were exported outside the EU), chemicals, machinery and transport equipment (39%) and for the EU imports of mineral fuels and lubricants (65%). The EU relies more on intra-EU markets in exports food and live animals (23%), animal and vegetable oils, fats and waxes (25%) and on intra-EU sources of supply of beverages and tobacco (17%), food and live animals (26%) and chemicals (27%). The EU restored its trade surplus in merchandise trade with the rest of the world in 2013 (€20 billion in 2017). Trade in mineral fuels is the largest source of sectoral trade deficit

(€-240 billion), which is offset by exports of machinery and transport equipment (€199 billion) and chemicals (€138 billion).

According to the data of (European Commission (2018f)) the top 3 products in the bilateral trade are machinery and appliances, products of chemical or allied industries, and transport equipment, which accounted for more than 2/3 of the bilateral trade. The EU bought 40% of imported pharmaceuticals, 62% power generating machinery from the US, and sold 31% of exports of pharmaceuticals, beverages and tobacco to the US. According to Eurostat (2018) the US is a relatively more important market for beverages and tobacco originating in the EU (31% of the extra-EU exports are directed to the US) and chemicals (25%). In 2000 the same was relevant for mineral fuels and lubricants (38%), but the share of exports to the US dropped to 11% in 2017. The US is a relatively more important source of supplies to the EU in case of chemicals (29%), beverages and tobacco (20%), machinery and transports equipment (19%). Thus there is high intensiveness of the EU-US intra-industry trade in chemicals, beverages and tobacco, machinery and transports equipment.

In 2017 the EU exports in goods to the US were €376 bln., the imports were €257 bln. The EU had €119 bln. of trade surplus with the US including surplus in machinery and transport equipment (€55 bln.) and chemicals (€28 bln.). There are only minor sectoral trade deficits in crude materials and mineral fuels (€-9 bln.). Therefore despite the decreasing share of the US in the EU trade the bilateral trade is an important source of the EU merchandise trade surplus.

As for the structure of trade in services the extra-EU trade is especially important for the EU's trade in intellectual property (in 2017 56% of these exports were exported outside the EU and 61% of the imports originated in the rest of the world) and research and development services (57% and 59%). The EU relies more on intra-EU markets when in exports travels services (35%) and on intra-EU sources of supply of travels services (31%) and construction services (27%). The EU increased its trade surplus in services trade with the rest of the world in 2010-17 (€188 billion in 2017). The largest source of the surplus was the trade in telecommunications, computer, information (€73 billion) and financial services (€38 billion). The largest sectoral trade deficit was in trade of intellectual property (€-40 billion).

The US is a relatively more important market for personal, cultural and recreational services (37% of the extra-EU exports are directed to the US), other business services (34%) and financial services. The US is a relatively more important source of supplies to the EU in case of other business services (41%), telecommunications, computer and information services (39%), and financial services (37%). Thus there is high intensiveness of the EU-US intra-industry trade in financial and other business services.

In 2017 the EU exports in services to the US were €236 billion, the imports were €213 billion. The EU had €23 billion of trade surplus with the US including

surplus in transport (€12 billion) telecommunications, computer and information (€11 billion) and financial services (€10 billion). The surplus of the EU in services trade with the US was not stable in 2010-2017 and switched into a deficit in 2010 and 2016. As we see the trade imbalance takes place mainly in case of trade in goods. The largest sectoral trade deficit was in other business services (€-9 billion) and in use of intellectual property (€-6 billion).

### **Prospects of transatlantic integration and rise of protectionism**

The EU and the US established the Transatlantic Economic Council in 2007 with three advisory groups: Transatlantic Legislator's Dialogue, Transatlantic Consumer Dialogue and Transatlantic Business Dialogue. In 2011 the EU and the US decided to establish a High-Level Working Group on Jobs and Growth headed by the EU Trade Commissioner and the US Trade Representative.

In 2013 they launched negotiations about establishment of the Transatlantic Trade and Investment Partnership (TTIP). But the negotiations stopped when D. Trump became a President (European Commission (2018c)). The transatlantic economic integration was stalled and the US started to prioritize protectionism.

Meanwhile the US initiated a number of investigations against the EU exports to apply anti-dumping, countervailing or safeguard measures. For example in 2018 an anti-dumping investigation was initiated for imports of large welded pipes from Greece. The iron and steel industry of the EU is the most affected by the recent investigations (European Commission (2018a)).

The trade disputes between the EU and the US are addressed by the dispute settlement mechanism of the WTO. Nevertheless these disputes affect only 2% of the bilateral trade (European Commission (2018c)).

The EU is worried about several protectionist measures applied by the US (see European Commission (2018e) for details). For example they include a number of sanitary and phytosanitary measures, sabotage restrictions (domestic transportation must be provided with vessels which are US built, US owned/controlled, US crewed and US maintained), Tax Cuts and Jobs Act, Foreign Account Tax Compliance Act etc. But the most famous recent measure, which took effect in 2018, is additional duties of 10% and 25% for certain aluminum and steel products imported into the United States. The US claims that it was necessary for national security reasons.

The EU objected that the overcapacity in the steel and aluminum industries does not originate in the EU (European Commission (2018d)). There also

would be a risk of redirecting steel exports from the rest of the world to the EU instead of supplying the US market. The reaction of the EU was launching a safeguard investigation to prevent trade diversion into the EU caused by the additional duties for steel and aluminum products in the US (European Commission (2018b)). The EU also notified the WTO about its objections. It claimed that the US security measures were actually safeguard measures. The EU worried that the measures of the US would affect the EU steel and aluminum exports worth \$ 7.2 billion and would lead to additional duties collected worth \$ 1.6 billion. The EU suggested suspension obligations under GATT 1994 to the US in a form of import duties increases for several products of the US origin: mainly agricultural products, clothes, metals, vehicles etc. (WTO (2018a)).

D. Trump threatened imposing tariffs on cars produced in the EU as a retaliation for taxation of some American goods which is a remedy measure considered by the EU. Nevertheless he promised not to do so afterwards. The EU also promised to import more liquefied natural gas from the US, which can help to diversify its energy supply. The joint statement was about continuing work towards elimination of tariff barriers, non-tariff barriers and subsidies on non-auto industrial goods (Al Jazeera (2018)).

### **Tariff barriers for the EU-US trade**

The WTO (2018b) provides data for tariffs in 2015-2016. In 2016 the weighted average most favored nation (MFN) tariffs in the EU for the US exports were 4.8% for agricultural and 1.4% for industrial products, while the exports were \$12 billion and \$214 billion. In 2015 the weighted MFN tariffs in the US for the EU exports were 2.2% for agricultural and 1.6% for industrial products, while the exports were \$23 billion and \$372 billion. Thus, the EU protects its agricultural sector more than the US, while the latter protects its industrial sector slightly more.

The difference in tariffs by product groups is shown in Table 4. The EU has higher imports tariffs for almost all the products especially for food products. The exceptions are oilseeds and oils, cotton, textiles and clothing where the US charges higher tariffs. The difference in tariffs for minerals and metals is minor (to remind about the aluminum and steel issue).

Table 4

**Average most favored nation tariffs**

Products	US	EU
Animal products	2.2	15.7
Dairy products	18.3	35.4
Fruit, vegetables, plants	4.8	10.5
Coffee, tea	3.2	6.1
Cereals and preparations	3.1	12.8
Oilseeds, fats and oils	7.4	5.6
Sugars and confectionery	15.7	23.6
Beverages and tobacco	18.6	19.6
Cotton	4.8	0.0
Other agricultural products	1.1	3.6
Fish and fish products	0.7	12.0
Minerals & metals	1.7	2.0
Petroleum	1.8	2.5
Chemicals	2.8	4.5
Wood, paper, etc.	0.5	0.9
Textiles	7.9	6.5
Clothing	11.6	11.5
Leather, footwear, etc.	3.9	4.1
Non-electrical machinery	1.2	1.9
Electrical machinery	1.5	2.8
Transport equipment	2.9	4.3
Manufactures, n.e.s.	2.2	2.6

Source: WTO (2018b).

Higher tariffs in the EU for American exports than vice versa and the trade surplus of the EU with the US are reasons for rising support for protectionism policy in the US. But we should consider another aspect of the trade and tariff imbalances. The absolute value of tariff revenue from the EU's exports to the US is \$6.5 billion, while the value of tariff revenue from the US's exports to the EU is \$3.6 billion (author's calculations based on WTO (2018b)). Therefore import tariffs in the EU are used mainly for protection (agriculture, fishing and food industry). But the main effect of the US tariffs for the EU's exports is a fiscal one.

We also should consider that despite the EU and US are the major trade partners for each other, it is not them who impose the largest tariffs on their exports. Both the EU and the US face higher tariffs when they export to China. In

2016 the weighted MFN tariffs in the China for the US exports were 7.1% for agricultural and 6.5% for industrial products, while the exports were \$23 billion and \$110 billion. In 2015 the weighted MFN tariffs in the China for the EU exports were 9.2% for agricultural and 7.5% for industrial products, while the exports were \$13 billion and \$196 billion. The American and European exporters face import tariff charges in China worth \$8.7 and \$15.9 billion (the values of tariff charges in Japan are about \$2 billion and \$2billion), while the China's exporters face import tariff charges in the US and the EU worth \$13.3 and \$12.2 billion.

We also should note that tariffs are not the only reasons for trade deficit in the US. The other reasons could be the exchange rate of the dollar, difference in income per capita which affect labor costs, growth of demand and foreign production capacities.

Following the conclusions of Lakatos and Fukui (2013), we assume that related party trade can suffer more under the rising protectionism in the US. This means that either European multinational companies with subsidiaries in the US or American multinational companies with subsidiaries in the EU may suffer more than independent exporters.

### Modelling the US imports

We use the data from World Bank (2018) to assess the determinants of the US imports. Growth of the US merchandise imports (MI) is used as the measure of imports. The GDP growth in the US (USGDP) and in the rest of the world (ROWGDP), and change in the US weighted mean applied tariff rate for all products (TR) are considered as factors. All the variables are in %. Various measures of real effective exchange rate of the dollar have either insignificant correlation with imports or small negative correlation, which is contrary to the theoretical assumptions. The data in 1961-2016 was used to get the first model:

$$MI = -2.6 + 4.8 USGDP + 3.1 ROWGDP$$

As we see the imports of the US are more demand driven than supplied driven. 1% of the US GDP growth results in almost 5% growth of imports. The data in 1990-2016 was used to get the second model:

$$MI = -3.0 + 4.7 USGDP - 0.26 TR$$

In both models all the regression coefficients are significant, except for TR. Therefore despite the correlation between imports and tariffs is significant and negative -0.34, the effect of tariffs cannot be separated from the effect of growth of demand in the US. The effect of tariffs is probably a minor one, although we do not consider separate groups of products. Therefore we assume that tariffs are an important determinant of imports for only some products with high elasticity of demand.

## Conclusion

Despite enlargements the share of the EU's trade in global trade decreased. The proportions between the extra- and intra-EU trades are quite stable. The EU's trade in agricultural products, food, and travel services is more intra-regional. Exports of machinery, transport equipment and chemicals, telecommunications, computer, information and financial services to the rest of the world help the EU to cover its trade deficit in fuels and intellectual property. Its trade in intellectual property, research and development services is also more intensive with the rest of the world.

The US and the EU continue to be important trade partners for each other especially in the trade in chemicals, beverages and tobacco, machinery and transports equipment, financial and other business services. The US is an important source of trade surplus for the EU especially in machinery and transport equipment, chemicals, transport, telecommunications, computer, information and financial services.

Following the bilateral integration negotiations under the B. Obama's Presidency, the US switched into protectionism trend under the presidency of D. Trump. Besides China and NAFTA partners, the EU turned out to be one of the main targets for the US actions to balance its trade. But we should make several notes.

Tariff barriers do not differ much in the EU and US except for higher tariffs for agricultural and food products in the EU. The metal industry of the EU is charged with new high tariffs in the US, although this industry was almost equally protected with regular tariffs in both economies. Therefore the EU metal industry can hardly be a source of unfair trade. Unlike China the EU is not the main source of tariff imbalances with the US. Also the import tariffs in the EU have mainly protectionist effect, while in the US the tariffs are rather a source of budget revenues. Growth of the US imports was mainly caused by increase in income of Americans and production abroad. Neither tariffs nor exchange rate influenced significantly the overall US imports in recent years, although the impact on specific industries was possible.

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