



Trade Policy Debate:

Did US benefit from its trade policy?

Nope!

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What is a trade policy?

- A government action meant to influence international trade flows
 - Import quotas (quantity limits on imports)
 - Import tariffs (taxes on imports)
 - Export subsidies



Brief History of the World Trade Organization

The General Agreement on Tariffs and Trade (GATT) → renamed in 1995

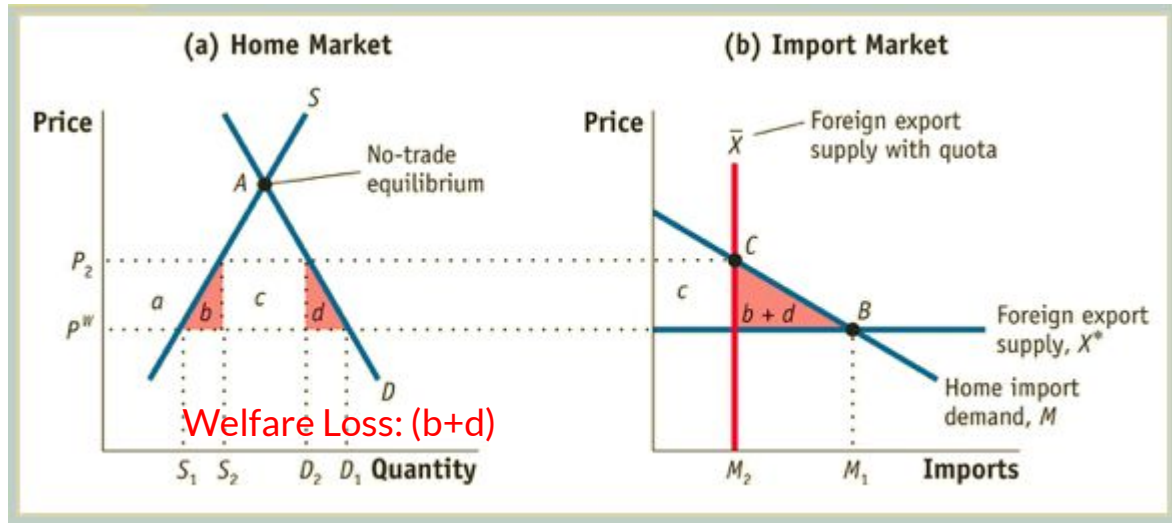
- Established after WWII when the Allied countries met to discuss issues such as high trade barriers and unstable exchange rates.
 - Main (some) provisions:
 - Tariffs may be imposed in response to unfair trade practices such as **dumping**
 - Countries can temporarily raise tariffs for certain products. Article XIX, called the **safeguard provision** or **escape clause**
 - **Regional trade provisions**, etc.



Why US did not benefit from its trade policy? (examples)

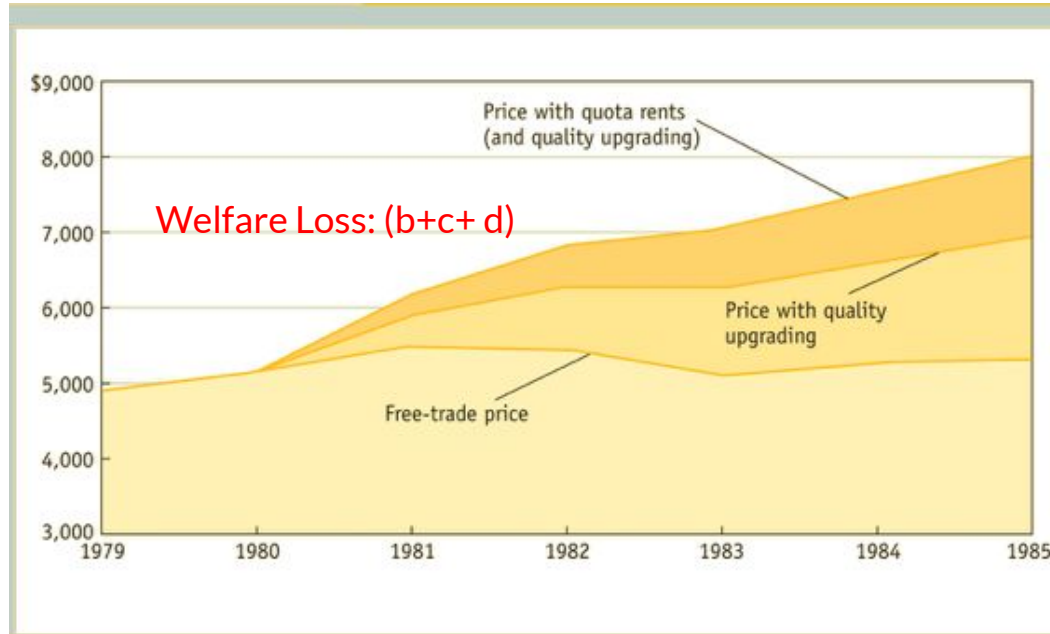
- Import quotas
 - US sugar quotas in 2005
- Voluntary Export Restraint (VER)
 - Japanese autos VER in 1980s
- Tariff
 - US tariff on steel and tires → Tariff war and tariff discrimination!
 - US tariff on steel and metal products in 2018 → Trade War!
- NAFTA

Import Quotas: US Sugars Case in 2005



Source: Robert Feenstra and Alan Taylor, 2017, International Trade, 4th Edition

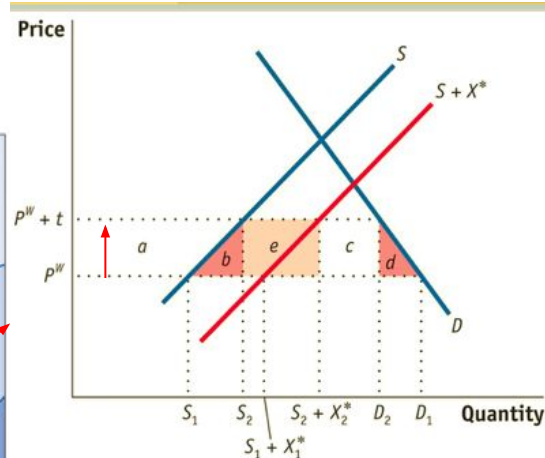
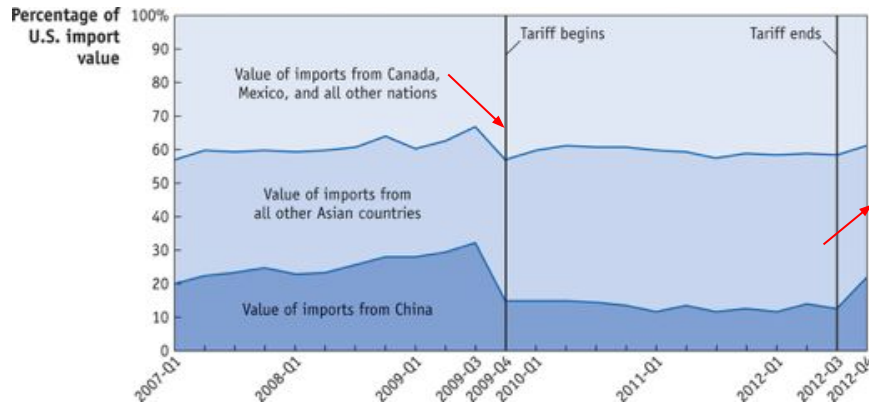
Voluntary Export Restraint: Japanese Autos



Under the “voluntary” export restraint (VER) on Japanese car imports, the average price rose from \$5,150 to \$8,050 between 1980 and 1985. Of that \$2,900 increase, \$1,100 was the result of quota rent increases earned by Japanese producers.

U.S. Tariffs on Tires 2009-2012

Case: Discriminatory Tariff



Effect of the Tariff on Tires The tariff on tires increases the price of tires from P^W to $P^W + t$. The supply from the United States is shown by S , and the supply from other exporting countries by X^* .

As a result of the tariff, these two sources of supply increase from $S_1 + X_1^*$ to $S_2 + X_2^*$; China supplies the rest of the market up to demand D_1 .

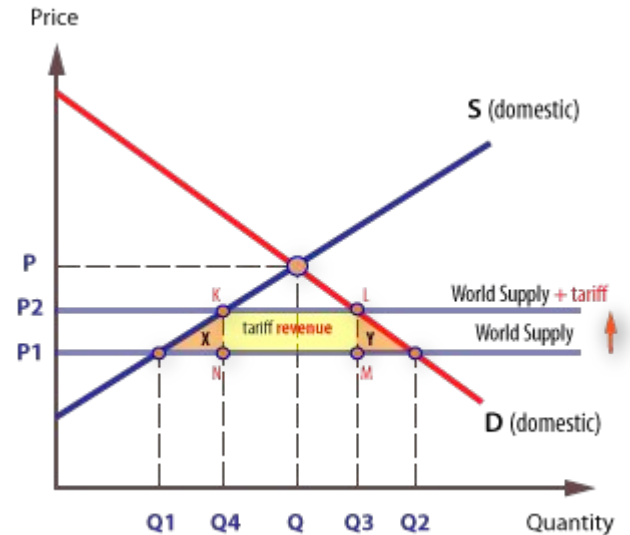
Because the other exporting countries do not face the tariff, they collect area e from the higher prices charged in the U.S. market. Therefore, the deadweight loss from the tariff is $(b + d + e)$.

Welfare Loss: $(b+e+d)$

Trump's tariff on imported steel from China

Negative consequences:

- US domestic steel prices were already at a 7-year high as of **July, 2018**
- Builders and developers will endure higher material cost
- Cost of construction and properties increases, home buyers worse off



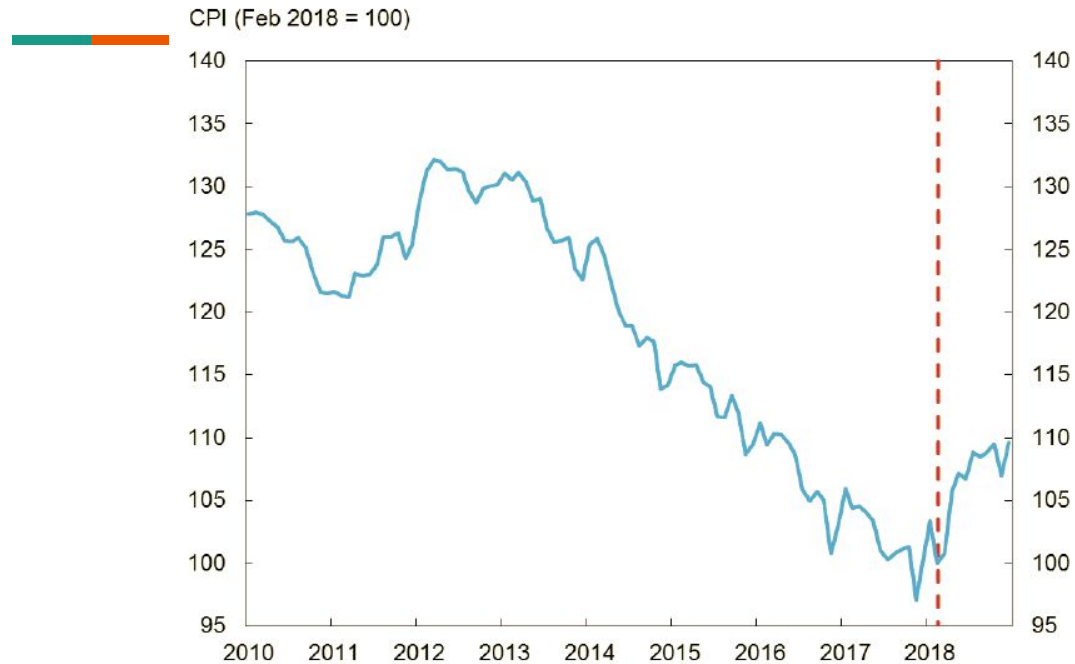


Impacts of Trump's 2018 trade policy on prices and welfare

- A reduction in US real income of \$1.4 billion per month by the end of 2018
 - Foreign countries retaliated against the US also reduced the real income for other countries
 - Trade wars could potentially lead to lower global real income-- global recession!!!
- Insufficient tariff revenue to compensate the losses being born by its consumers
- Cost to U.S. consumers and firms additional \$3 billion per month in added tax costs and another \$1.4 billion dollar in deadweight welfare (efficiency) losses
- Supply value chain costs
 - Impose large costs on firms that have made investments in the the US and China needed to move their facilitates to other locations or find alternative sources of import/export destinations.

Source: *Mary Amitiza, Stephen J. Redding, and David E. Weinstein*, "The Impact of the 2018 Trade War on U.S. Prices and Welfare,"

Figure 2: Major Appliance CPI



Source: BLS.

Notes: Monthly CPI of ELI HK01 – Major Appliances. Series indexed to 100 in February 2018. The red dashed line indicates the implementation of the January 22nd tariffs on washing machines.

Boeing lost \$35B deal from US-China Trade War

- March 25, 2019: China ordered 300 planes from Airbus
- China will exceed the US as the largest aviation market in 2022



Emmanuel Macron and wife Brigitte Macron with Xi Jinping and his wife Peng Liyuan in Paris on March 25. Photographer: Marlene Awaad/Bloomberg

NAFTA

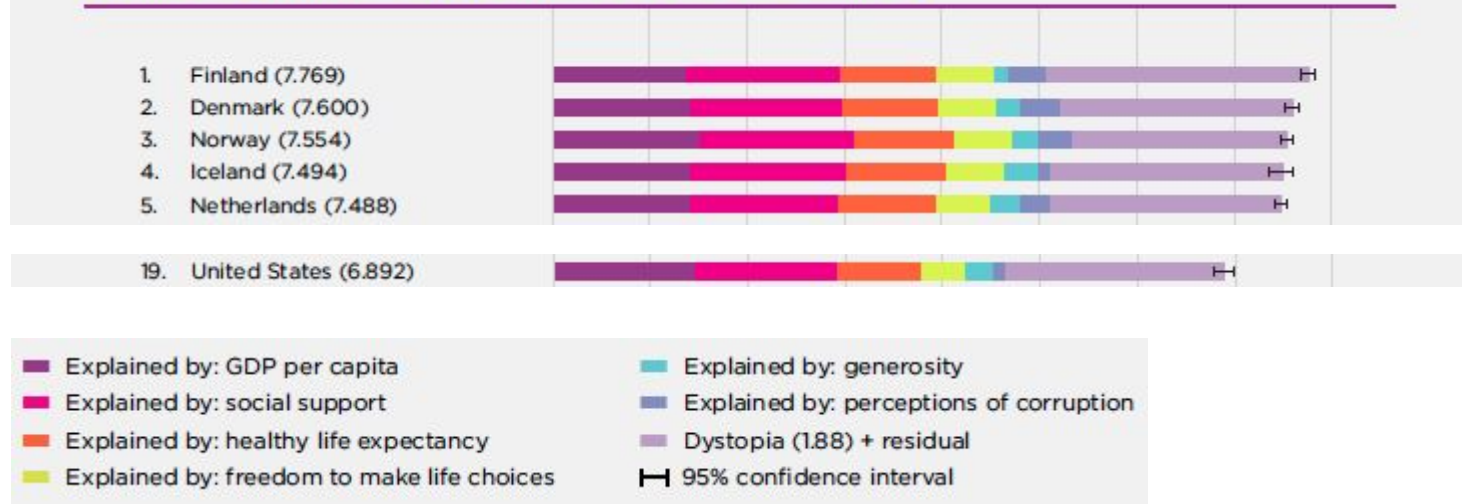


- Since the North American Free Trade Agreement (NAFTA) was signed in 1993, the rise in the U.S. trade deficit with Canada and Mexico through 2002 has caused the displacement of production that supported 879,280 U.S. jobs.
- Most of those lost jobs were high-wage positions in manufacturing industries.
- NAFTA has also contributed to rising income inequality, suppressed real wages for production workers, weakened workers' collective bargaining powers and ability to organize unions, and reduced fringe benefits.
- NAFTA is a free trade and investment agreement designed to stimulate foreign direct investment and the movement of factories within the hemisphere, especially from the United States to Canada and Mexico.
- No protections were agreed upon to maintain labor or environmental standards.
- NAFTA tilted the economic playing field in favor of investors, against workers and the environment, resulting in a hemispheric “race to the bottom” in wages and environmental quality.

Wealth, Happiness, and Benefits



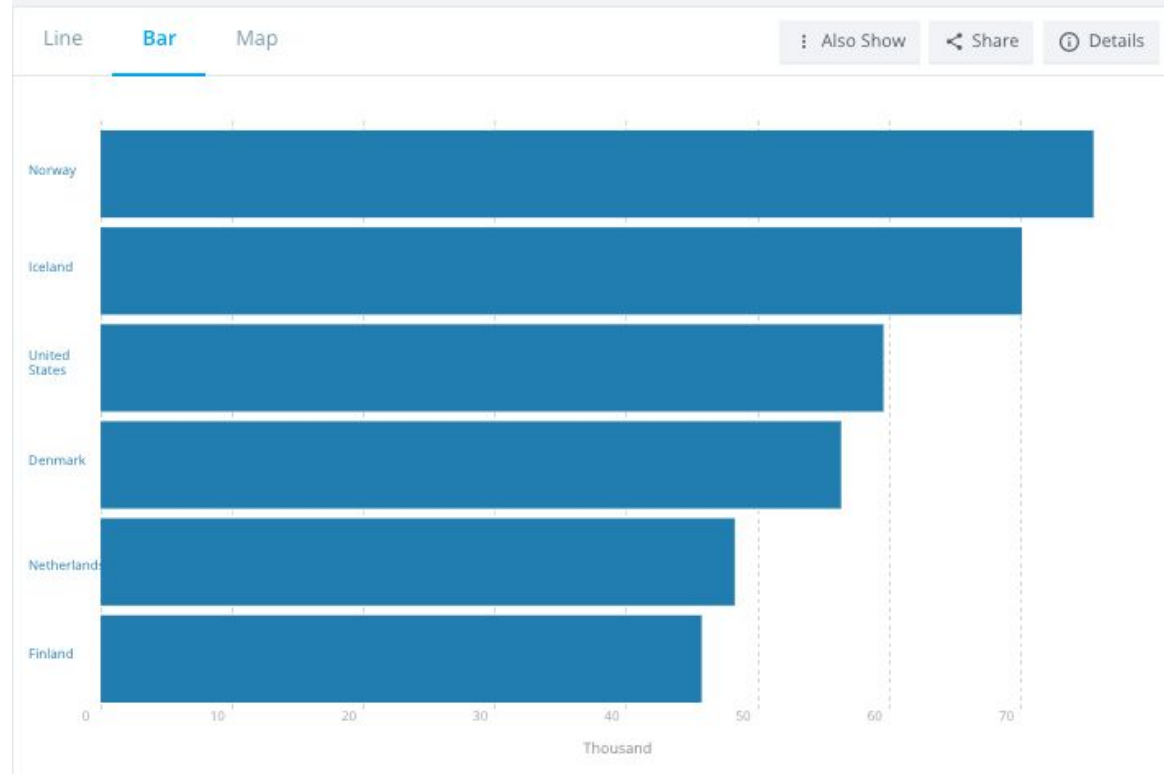
Figure 2.7: Ranking of Happiness 2016-2018 (Part 1)



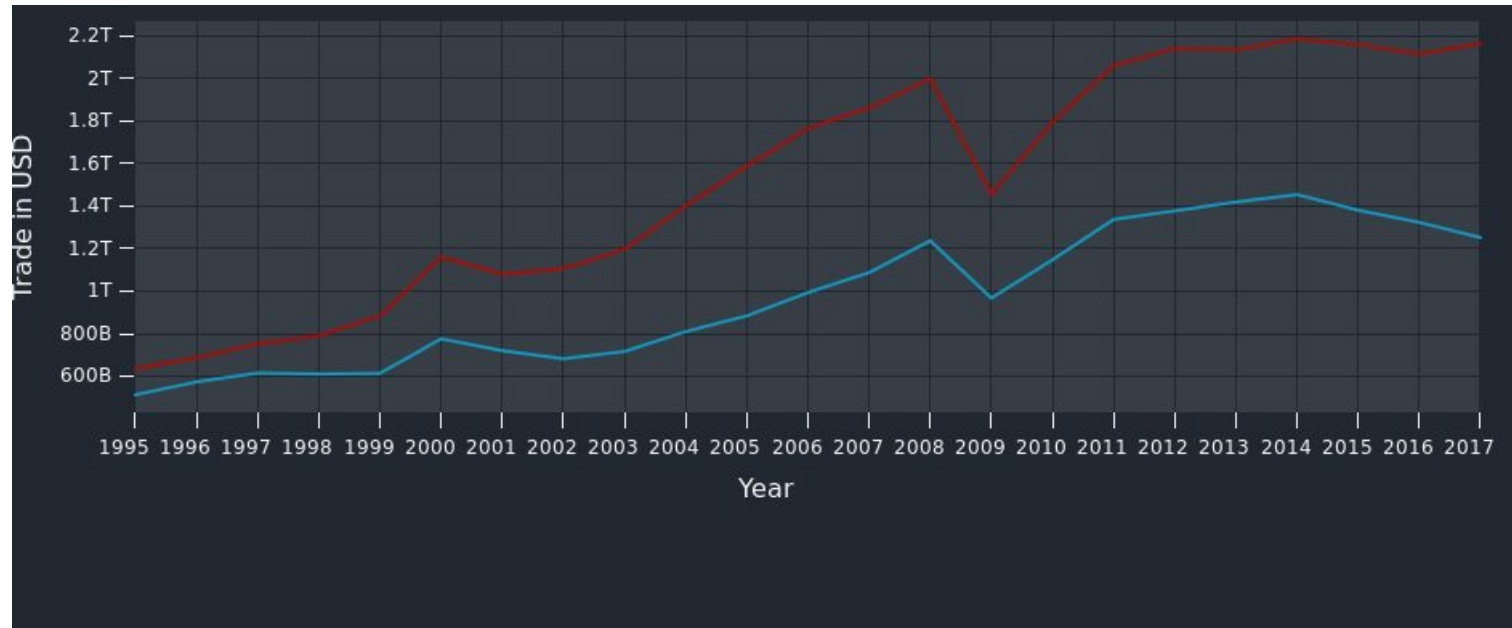
GDP per capita (current US\$)

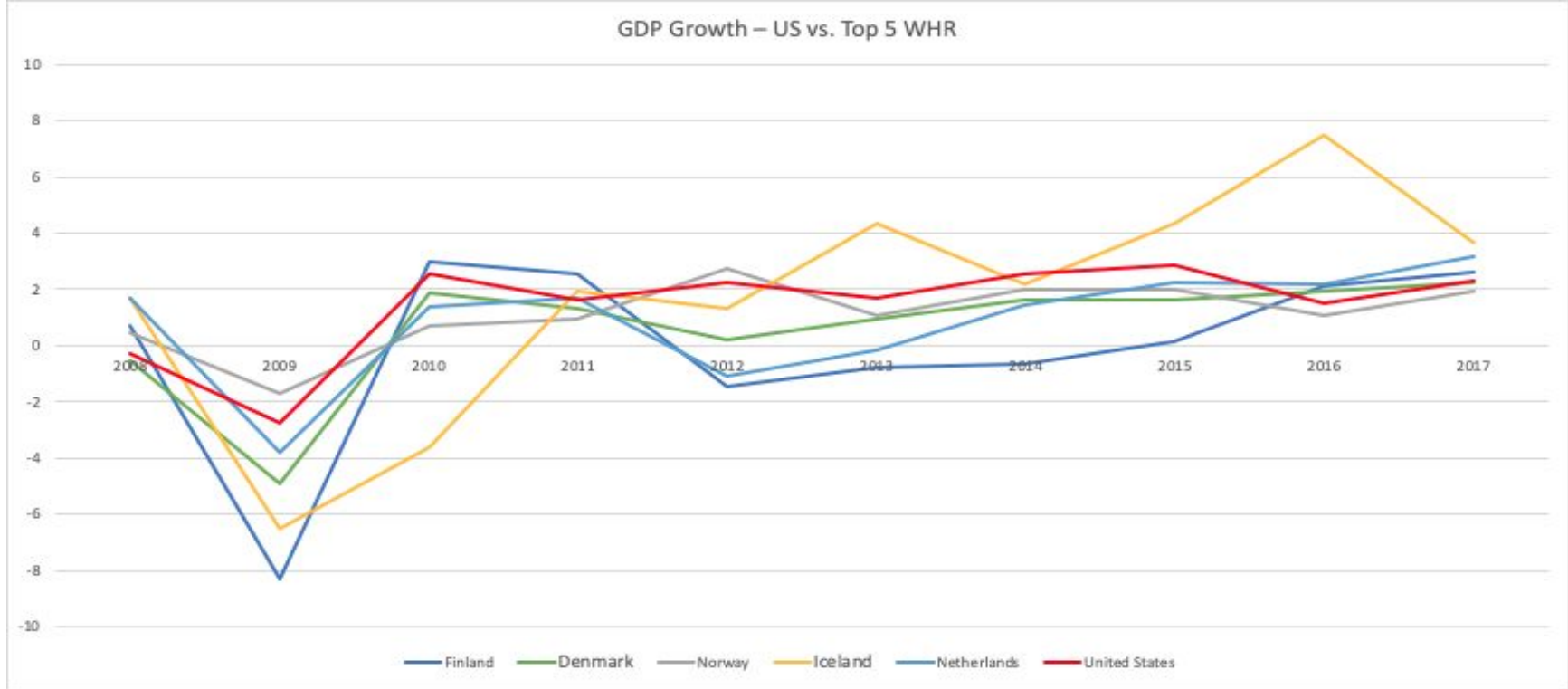
World Bank national accounts data, and OECD National Accounts data files.

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Reprise: Trade Growth of US over Time

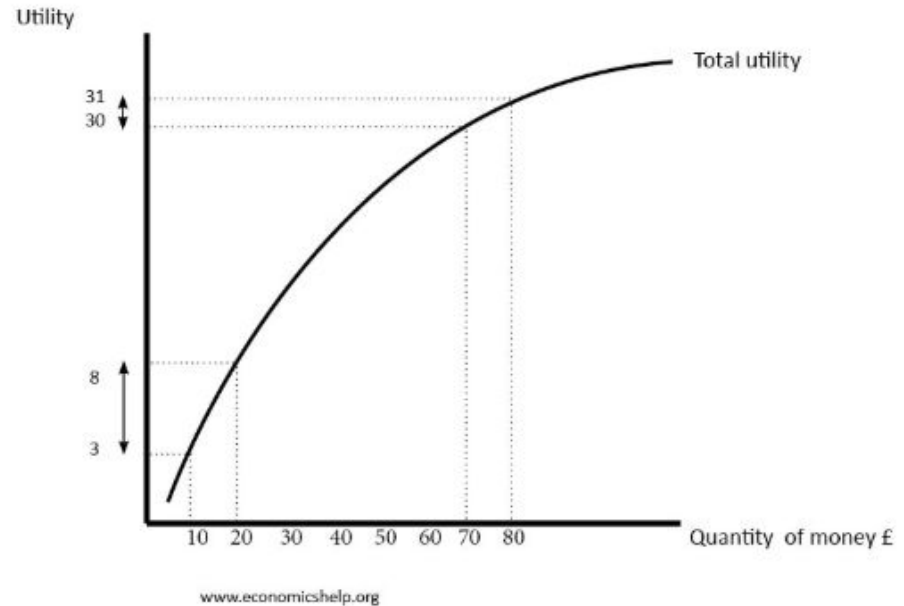







2019 WHR Rank	Country	Index	2016-2018 Score	2005-2008 Score	Absolute Change	Percentage Change
1	Finland	100	7.769	7.672	0.097	1.26%
2	Denmark	97.8246879	7.600	7.566	0.0341	0.45%
3	Norway	97.2325911	7.554	7.524	0.03	0.40%
4	Iceland	96.4602909	7.494	6.889	0.605	8.78%
5	Netherlands	96.3830609	7.488	7.516	-0.028	-0.37%
19	United States	88.7115459	6.892	7.338	-0.446	-6.08%

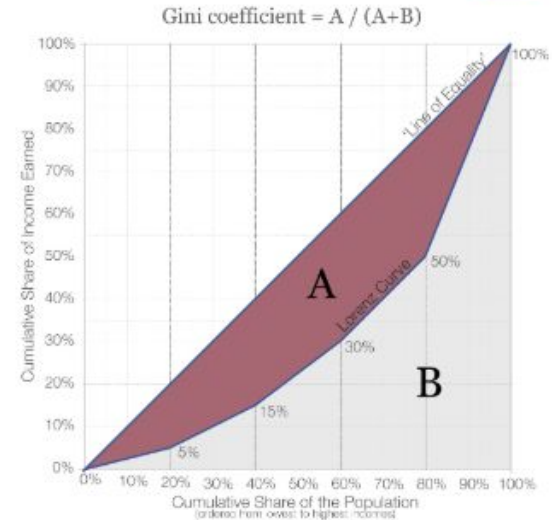
Increasing but *Diminishing*: The Marginal Utility of Income

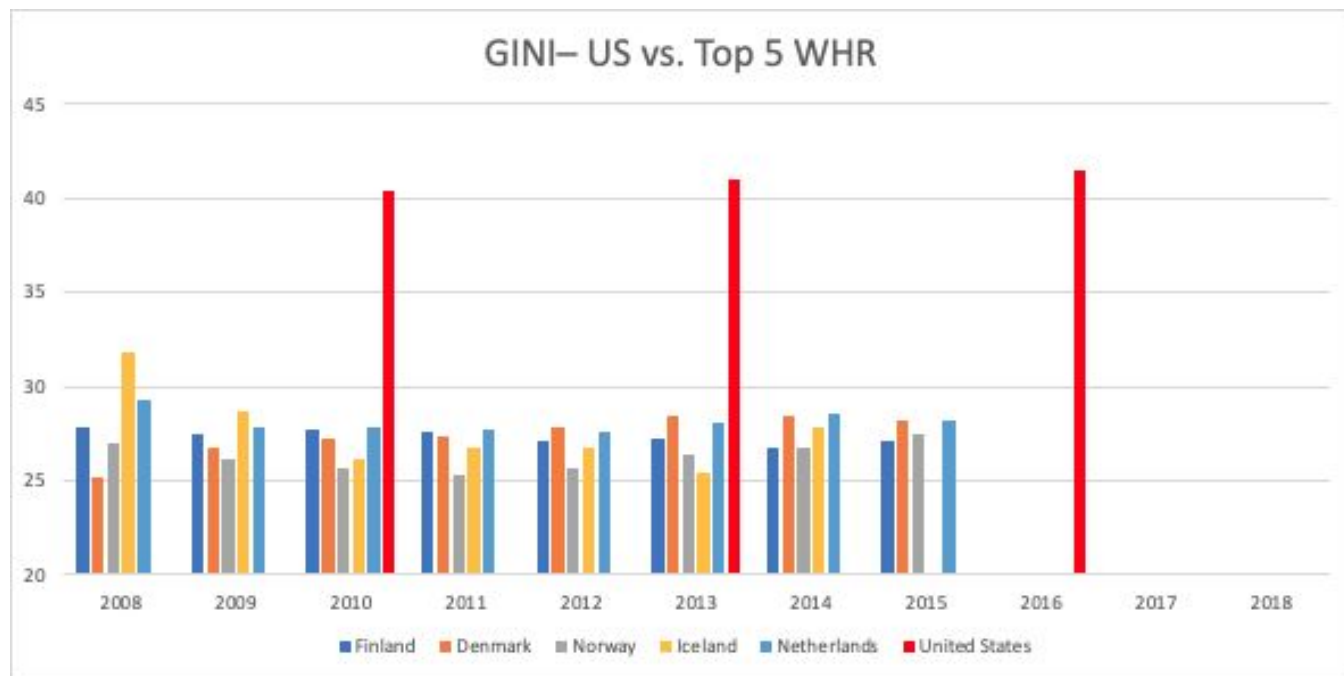


GINI Coefficient: How we measure inequality

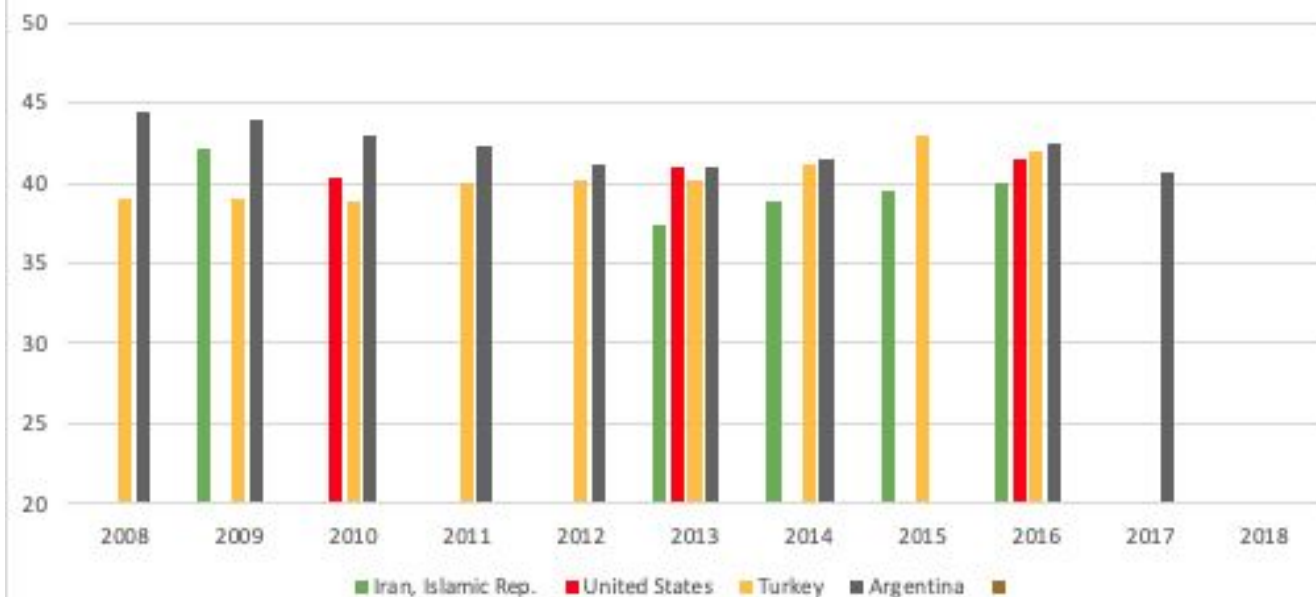
$$G = A / (A + B)$$

Visual Explanation of the Gini Coefficient 





GINI – US and Its Closest Neighbors





Thank you!