US TRADE POLICY

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HISTORY

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- In the wake of the global financial and economic crisis, there has been a steady pattern of introducing trade-restrictive measures by the world’s leading economies.
- According to the WTO, an average of six new trade-restrictive measures were rolled out by G20 countries each month between October 2016 and May 2017.
- A final deal of the WTO - The Doha Development Round – has been in progress since 2001 with agriculture being a major sticking point. It has still not reached a conclusion. In light of the stalled progress to liberalize trade multilaterally under the umbrella of the WTO, bilateral or regional free-trade agreements have proliferated.

CURRENT SITUATION

Within the first few months of 2018, the Trump administration enacted tariffs on imported solar panels, washing machines, steel, and aluminum. The administration plans to soon impose a 25 percent tariff on $50 billion worth of Chinese imports. In addition to these planned tariffs, pending investigations regarding further tariffs on up to $100 billion more worth of Chinese imports as well as automobile imports mean more tariffs could be imposed going forward.

HISTORY

- Although the US is not one of the leading countries introducing trade-restrictive measures, it is one of the main initiators of trade-remedy investigations, which are not formally classified as restricting or facilitating trade, such as anti-dumping and countervailing measures.
- China has been by far the most frequent subject of these US investigations.

TARIFFS

REASONS

- The rationale for these various tariffs range from national security to misconceptions about trade balances to alleged intellectual property theft by China.
- The rise of China in the global economy, and its admission to the WTO in 2001, contributed to job losses in the US. A recent study, published in 2016, found that the growth in imports from China between 1999 and 2011 cost the US up to 2.4 million jobs. About 985,000 of those lost jobs were in manufacturing, accounting for some 17 per cent of the 5.8 million manufacturing jobs lost during that period.
- According to Forbes, these newly announced tariffs are market corrections within the scope of the efficient market hypothesis in the context of the trade.

REASONS

- China’s overproduction and refining of industrial base commodities in 1990s depreciated the prices of industrial commodities, which over time produced ample market share for the Chinese industries, with the advantage of pricing benchmarks in the secondary production markets.
- So-called unfair trade practices by other countries – such as dumping, subsidies, the use of state-owned enterprises and currency manipulation – distort competitiveness, thus contributing to job losses and lower wages in adversely affected domestic industries. A study published in 2012 estimated that at least 1 million US jobs were lost in 2011 due to currency manipulation by more than 20 countries (including China, South Korea and Taiwan).
- The use (and often even the perceived use) of unfair trade practices by other countries undermines US public trust that the playing field is level.

REASONS

- China has built up excess capacity in industries such as steel through government measures including subsidies and state ownership.
- Under WTO rules and US law, countermeasures can be taken to address subsidies and dumping.
- The TPP would have incorporated rules on state-owned enterprises, but no enforceable provisions on currency manipulation. The current systems for defining and countering unfair trade practices are in need of reform.

BENEFITS OF TARIFFS

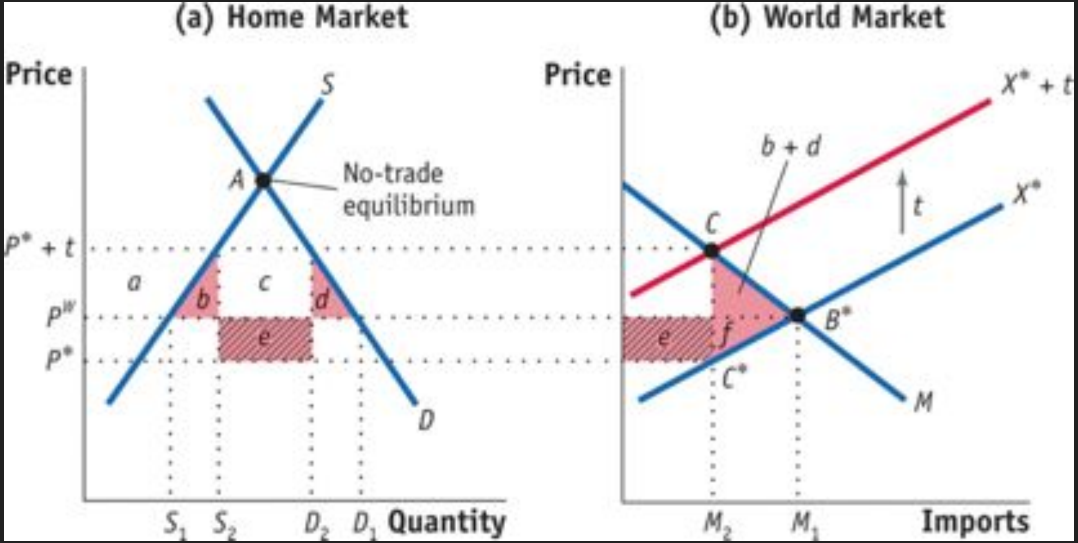
- The tariffs announced by the Administration are correcting tools with the impact on multimarket paradigms: commodities market, manufacturing market, labor and job market; and corporate valuations in respect to the listed equities.
- Furthermore Forbes says that the tariffs are addressing monopolization of the commodities market as a whole and are creating a greater self-sufficiency for the United States with positive impact on the overall American economy.

BENEFITS OF TARIFFS

- Additionally, tariffs protect infant industries from foreign competitors. They give the new industry's companies time to develop their own competitive advantages.
- Moreover, protectionism also temporarily creates jobs for domestic workers and increases their revenues of the subsidies that they receive. For example, in response to China's retaliatory tariffs on agricultural products, the U.S. government gave farmers subsidies worth $12 billion.
- The protection of tariffs, quotas, or subsidies allows domestic companies to hire locally, although these are all short term benefits only.

ECONOMIC REASONING

In a large country-case, the decrease in imports demanded due to tariffs causes foreign exporters to lower their prices. Of course consumer and producer prices in the importing country still go up since these prices include the tariff, but they rise by less than the full amount of the tariff. Adding up the consumer surplus, producer surplus and government revenue collected, it is possible for a small tariff to generate welfare gains for the importing country. Still, any gain comes at the cost to foreign exporters, thus it is sometimes called the “beggar thy neighbor” policy. The drop in the foreign exporters welfare is more than the rise in the importers welfare.



Tariff for a Large Country:

The tariff shifts up the export supply curve from X^* to X^*+t.

As a result, the Home price increases from P^W to P^*+t, and the Foreign price falls from P^W to P^*.

The deadweight loss at Home is the area of the triangle ($b+d$), and Home also has a **terms-of-trade gain** of area e.

Foreign loses the area ($e+f$), so the net loss in world welfare is the triangle ($b+d+f$). Area e is a measure of the terms-of-trade gain for the importer.

EMPIRICAL EVIDENCE

The US Steel Industry - benefits from tariff can be seen in the following table.

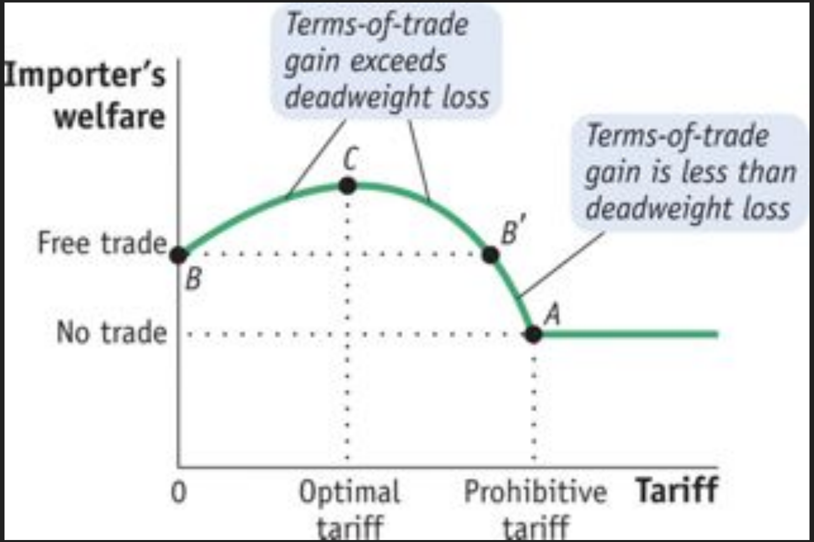
TABLE 8-2

Optimal Tariffs for Steel Products This table shows optimal tariffs for steel products, calculated with the elasticity formula.

Product Category	Elasticity of Export Supply	Optimal Tariff (%)	Actual Tariff (%)
Alloy steel flat-rolled products	0.27	370	30
Iron and steel rails and railway track	0.80	125	0
Iron and steel bars, rods, angles, shapes	0.80	125	15–30
Ferrous waste and scrap	17	6	0
Iron and steel tubes, pipes, and fittings	90	1	13–15
Iron and nonalloy steel flat-rolled products	750	0	0

Data from: Elasticities of export supply provided by Christian Broda and David Weinstein, May 2006, "Globalization and the Gains from Variety," Quarterly Journal of Economics, 121(2), 541–585.

EMPIRICAL EVIDENCE



Tariffs and Welfare for a Large Country For a large importing country, a tariff initially increases the importer's welfare because the terms-of-trade gain exceeds the deadweight loss. So the importer's welfare rises from point *B*. Welfare continues to rise until the tariff is at its optimal level (point *C*). After that, welfare falls. If the tariff is too large (greater than at *B'*), then welfare will fall below the free-trade level. For a prohibitive tariff, with no imports at all, the importer's welfare will be at the no-trade level, at point *A*.

TRADE AGREEMENTS

What is the TPP?

The **Trans-Pacific Partnership (TPP)** writes the rules for global trade—rules that will help increase Made-in-America exports, grow the American economy, support well-paying American jobs, and strengthen the American middle class.

- Australia
- Canada
- Japan
- Malaysia
- Mexico
- Peru
- United States
- Vietnam
- Chile
- Brunei
- Singapore
- New Zealand

EXPLORE THE OVERALL U.S. BENEFITS

NATFTA to USMCA

Chapters with Key Achievements include:

- **Intellectual Property**
- **Digital Trade**
- **De minimis**
- **Financial Services**
- **Environment**

Universal Postal Union

The UPU established that:

1. There should be a uniform flat rate to mail a letter anywhere in the world

2. Postal authorities should give equal treatment to foreign and domestic mail

3. Each country should retain all money it has collected for international postage.

CURRENT SITUATION

- Withdrawal from Trans-Pacific Partnership(TTP): On 21 November 2016,Trump introduced an economic strategy of "putting America first", stating that he would negotiate "fair, bilateral trade deals that bring jobs and industry back onto American shores." As part of this plan, Trump confirmed his intent for the United States to withdraw from the Trans-Pacific Partnership on his first day in office. Now TTP is no longer effective.
- North American Free Trade Agreement(NAFTA) to United States-Mexico-Canada Agreement (USMCA): On September 30, 2018, it was announced that the United States, Mexico, and Canada had come to an agreement to replace NAFTA with the United States–Mexico–Canada Agreement (USMCA). The USMCA is the result of the renegotiation of NAFTA that the member states undertook from 2017 to 2018, though NAFTA will remain in force until the USMCA is ratified by its members.
- Withdrawal from Universal Postal Union(UPU): On October 17, 2018, President Trump announced that the United States will withdraw from the Universal Postal Union (UPU), an intergovernmental organization that sets the rules and rates for international mail delivery. The decision to withdraw has been widely seen as another salvo in the Trump administration’s campaign against what it deems as unfair trade practices benefitting China.

ECONOMIC REASONING

- Trade Agreements resulted in US losing 60,000 factories in the last 30 years due to the minimum wage difference. In Vietnam, the minimum wage is 28 cents per hour compared to 15 to 20 dollars per hour in the United States.

- NAFTA has adversely impacted middle class families in Pennsylvania and the TPP would have cost jobs and hurt income growth. In terms of manufacturing, wages have gone down. People used to earn money from this. Economists at the liberal-leaning Economic Policy Institute have long pointed to the negative effects of free trade, with massive loss of jobs to Mexico and China.

ECONOMIC REASONING

- The first concern is the UPU's terminal dues system, which provides deep discounts for businesses in China and other nations shipping products into the United States. According to the memo, terminal dues have a distortive effect of "incentivizing the shipping of goods from foreign countries that benefit from artificially low reimbursement rates."
- The second concern is the lack of advance electronic customs data from foreign postal operators. This information, according to the memo, is "needed to enhance targeting and risk management for national security and to facilitate importation and customs clearance."

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THANK YOU!