



International Trade Conflicts, Past and Present

Alan V. Deardorff

For presentation to
Federal Reserve Bank Chicago
Detroit Board Director Luncheon
April 16, 2018

- Outline
 - Smoot-Hawley Tariffs, 1930s
 - US-Japan trade frictions, 1980s
 - Trade disputes under WTO
 - Trade policy under Trump

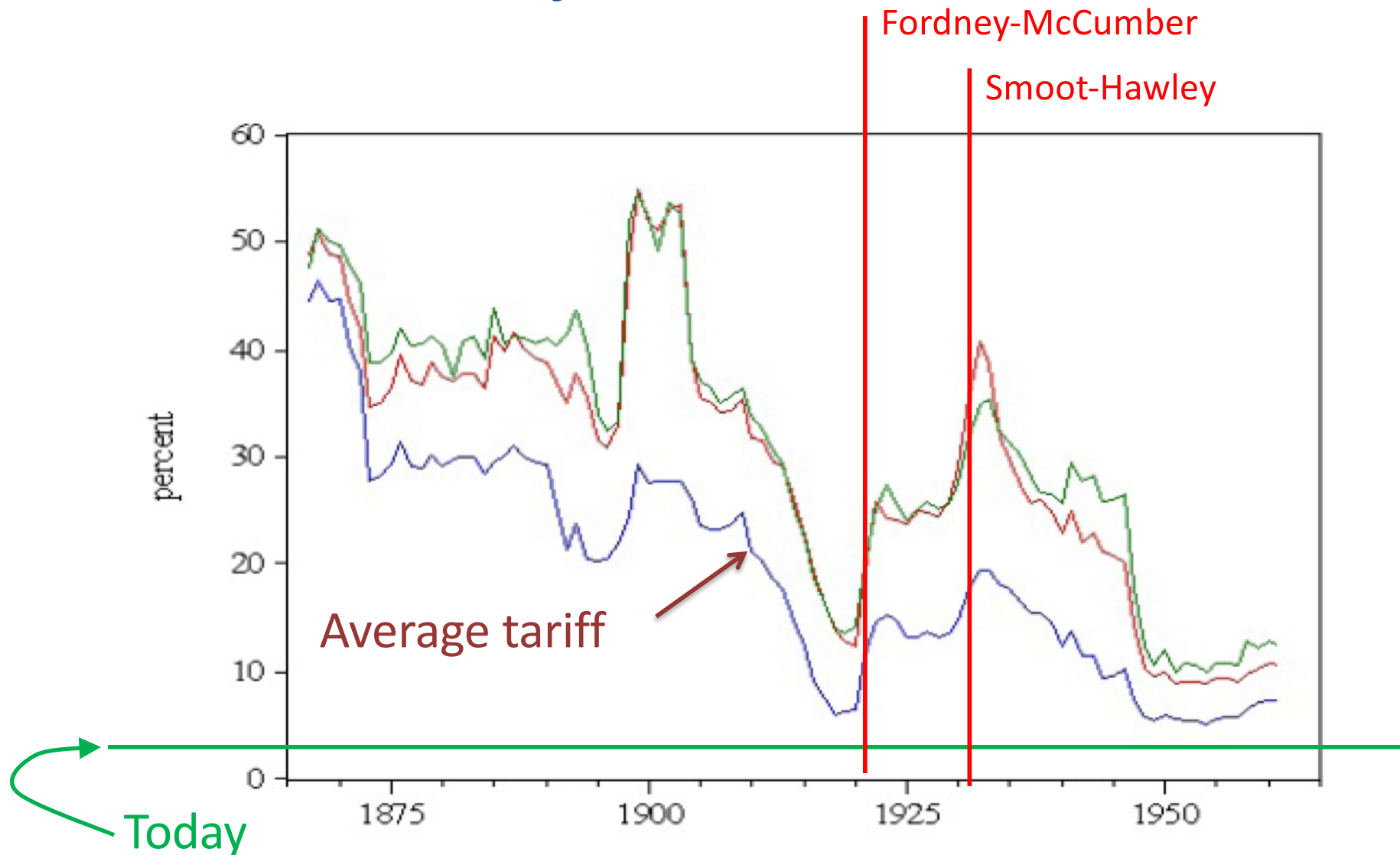
Smoot-Hawley Tariffs

- 1920s: US already had high tariffs
 - 1922: Fordney-McCumber Act raised tariffs to average 40%
 - Prompted retaliation by European governments
 - Prosperity continued until 1929
 - 1928: Hoover promised higher tariffs but was blocked in the Senate

Smoot-Hawley Tariffs

- 1930: Tariff Act raised tariffs
 - Smoot and Hawley authored Tariff Act of 1930
 - Raised tariffs
 - Average rose by about 20%
 - Levied on many goods (900-20,000)
 - More than 1,000 economists signed letter opposing it
 - President Hoover signed it June 17, 1930
 - Many countries retaliated with higher tariffs

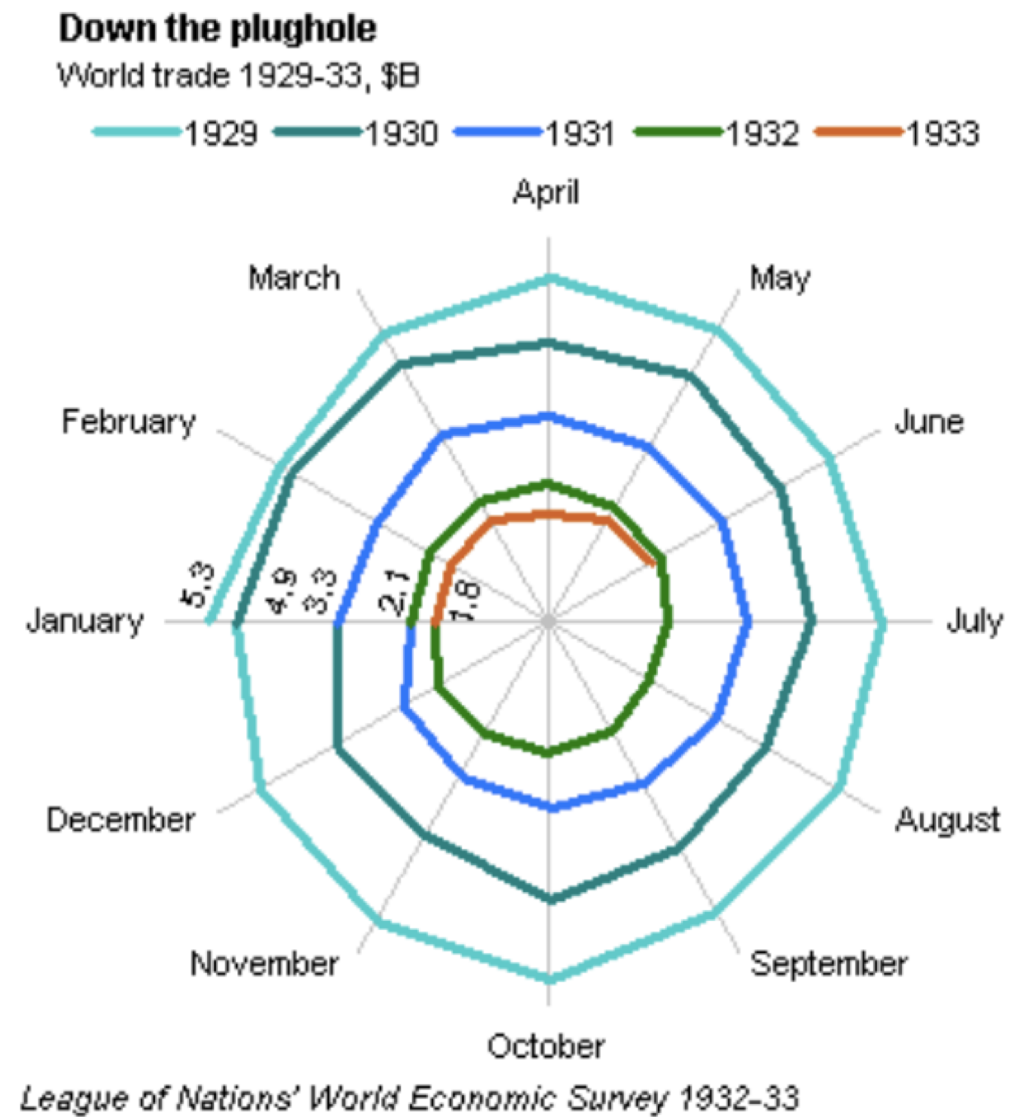
- US tariff history: 1865-1960



Smoot-Hawley Tariffs

- 1930's
 - World trade shrank dramatically

Kindleberger Spiral



Smoot-Hawley Tariffs

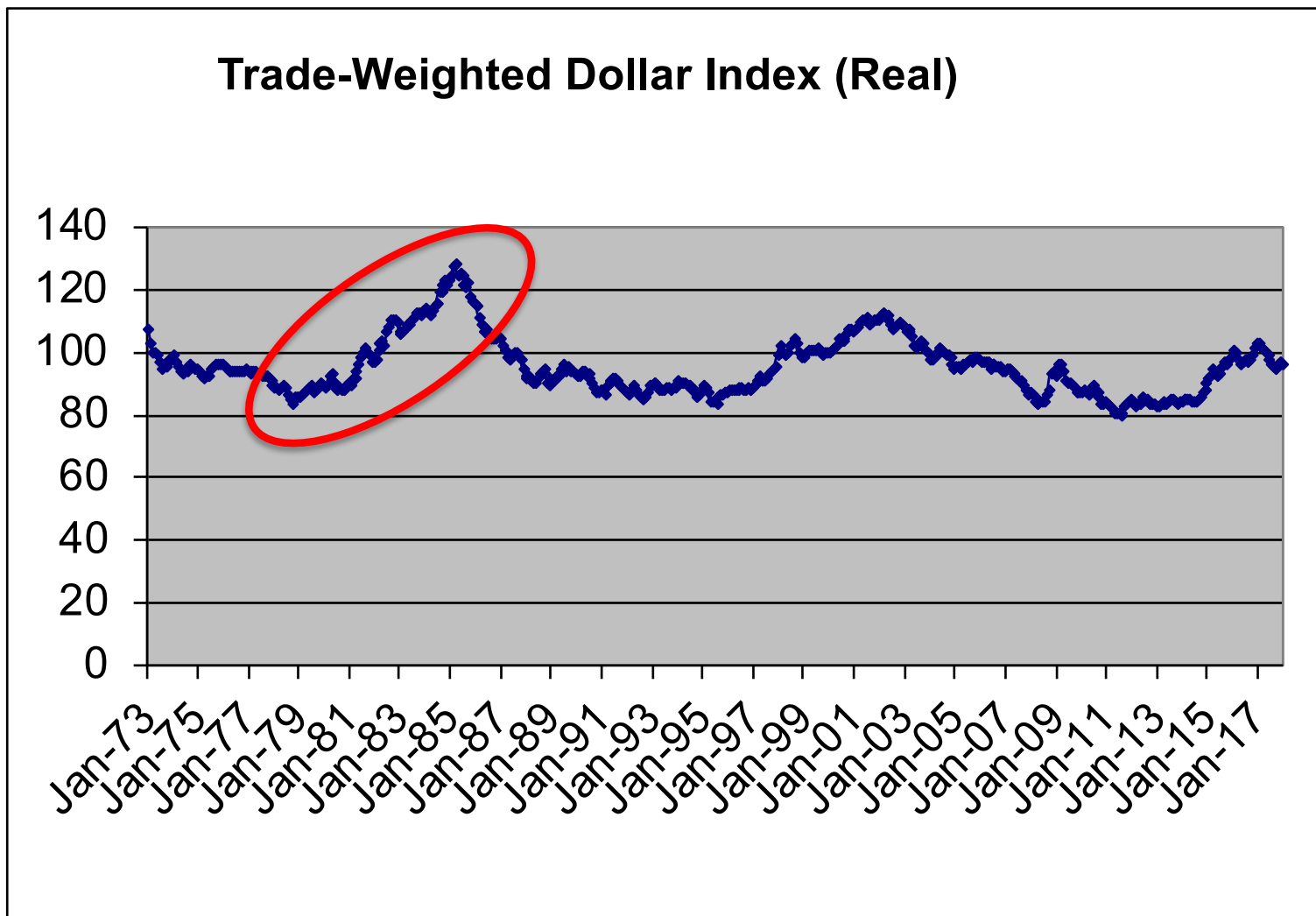
- 1930's
 - World trade shrank dramatically
 - 1934: Roosevelt signed Reciprocal Trade Agreements Act
 - Reduced tariffs
 - Allowed president to negotiate bilateral tariff reductions
 - Subject to MFN (Most Favored Nation) requirement
 - Tariffs of US and others fell

Smoot-Hawley Tariffs

- Did Smoot-Hawley tariffs cause the Great Depression?
 - No. It was already starting
- Did Great Depression cause Smoot-Hawley?
 - No. Protectionist forces were strong before
- Did Smoot-Hawley make Depression Worse?
 - Yes

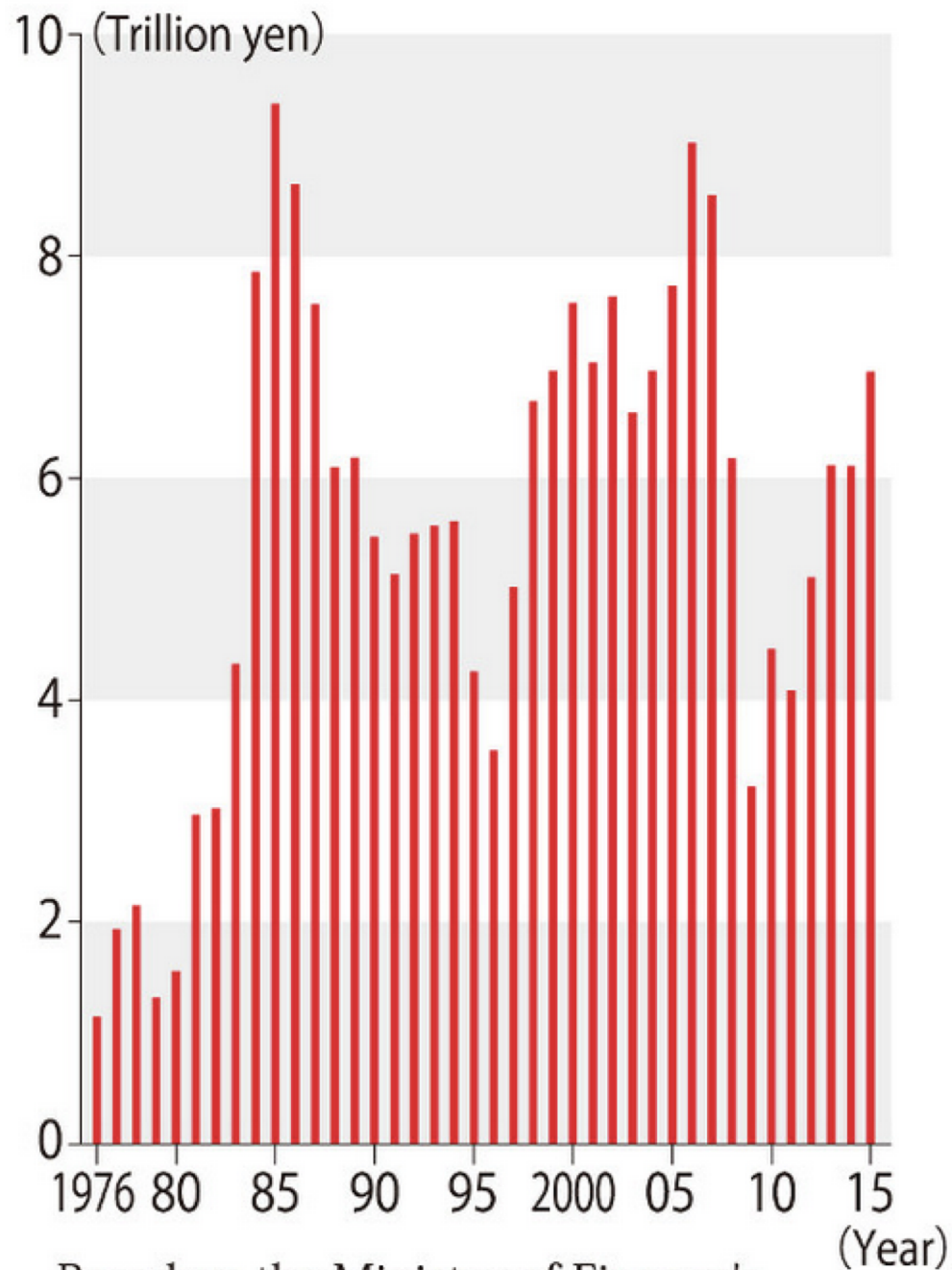
US-Japan trade frictions

- Starting around 1980, the US had
 - Tight money to fight inflation
 - Recession
 - Appreciating US dollar, by about 50%
- Japan's exports to the US rose
 - Especially autos
 - Also steel



Source: Federal Reserve, “Broad Index” based on a large group of currencies, monthly data

United States trade deficit with Japan



Based on the Ministry of Finance's
"Trade Statistics of Japan."

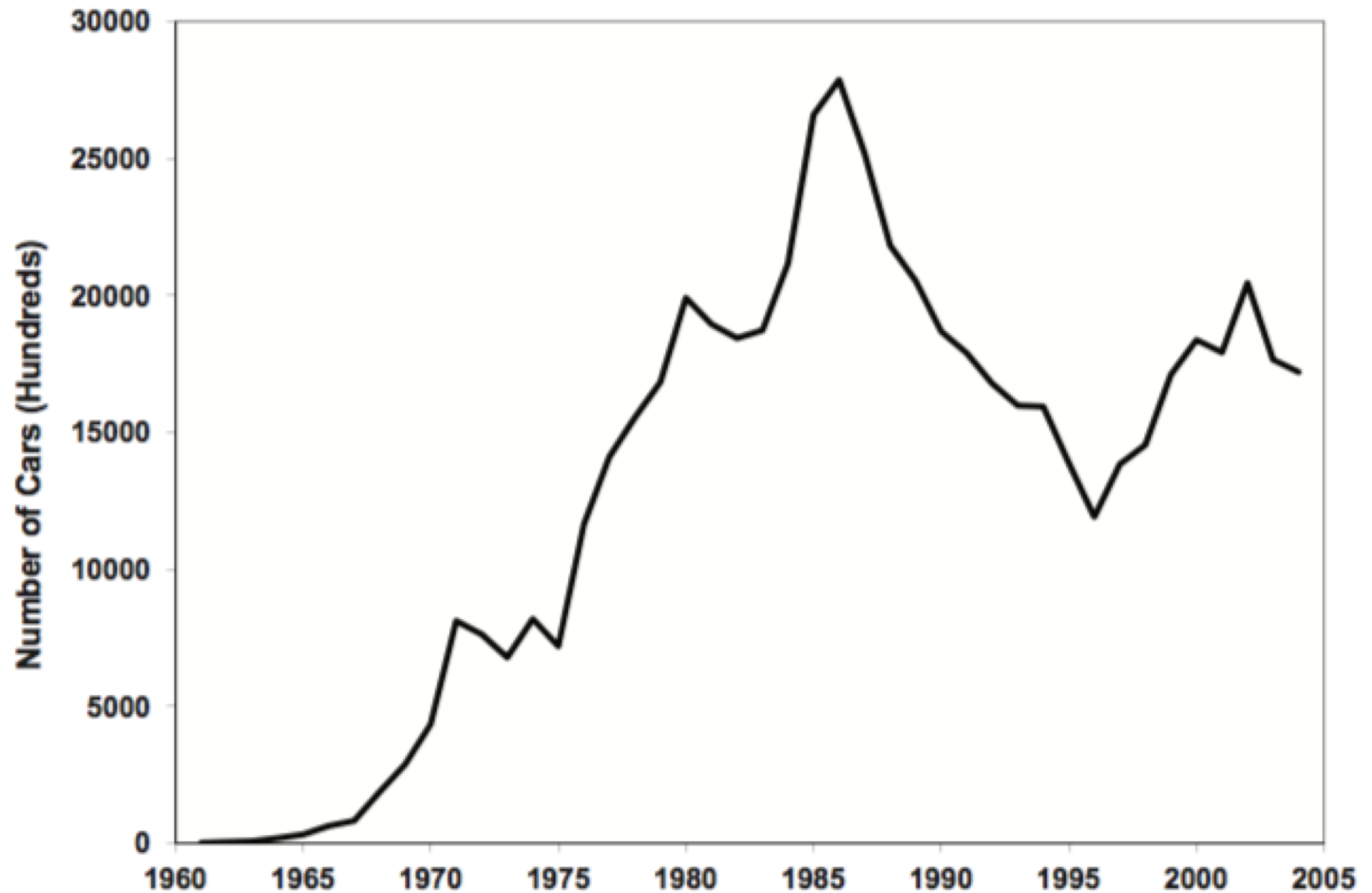


Figure 2:
U.S. Imports of Japanese Passenger Cars

US-Japan trade frictions

- Auto sector asked for Safeguard protection
 - USITC declined, saying larger cause of injury was recession, not imports
- Reagan administration then negotiated Voluntary Export Restraints (VERs)
 - Active in negotiations: today's USTR Robert Lighthizer

US-Japan trade frictions

- Effects of VERs
 - Like tariffs
 - Helps domestic producers
 - Raises prices to domestic consumers
 - Prompts foreign investment to produce here
 - Unlike tariffs
 - Government gets no tariff revenue
 - Foreign firms get rents (from higher prices)
 - Quality upgrading

Trade Disputes under WTO

- Under WTO rules
 - Countries may not increase tariffs above “bound levels” except under specific circumstances such as
 - Safeguard tariffs
 - Anti-dumping duties
 - Countervailing duties (against subsidies)
 - Violations are taken to the Dispute Settlement Mechanism
 - VERs are prohibited

Trade Disputes under WTO

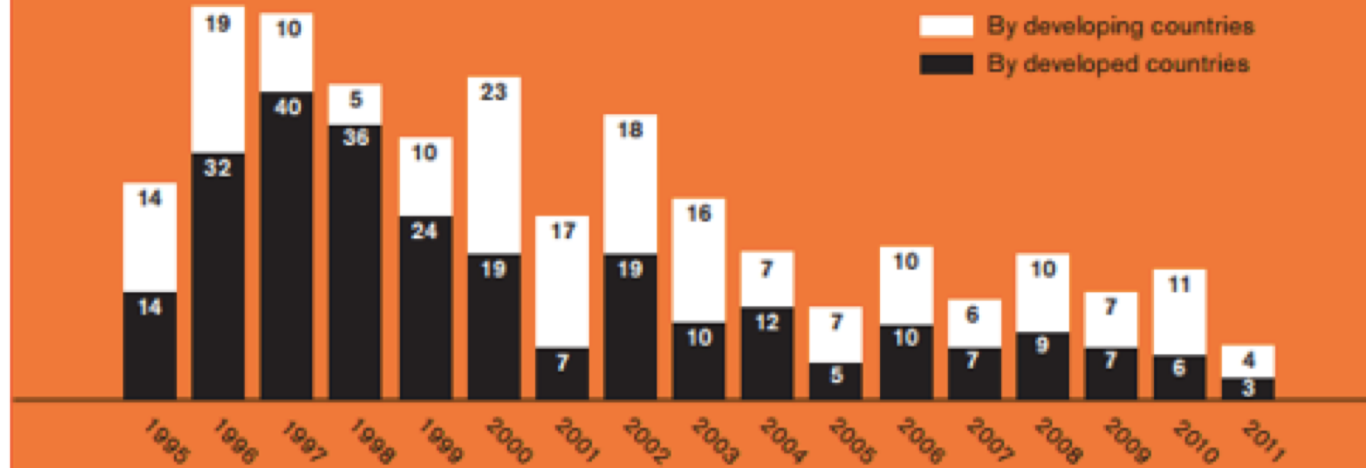
- WTO Dispute Settlement Mechanism
 - Countries complain to WTO
 - 3-Person Panel evaluates evidence and reports
 - Appellate Body reviews decision
 - Offending party, if any
 - Changes policy, or
 - Is retaliated against with tariffs

Developing countries are more active in WTO disputes

The annual number of disputes has declined overall. Developing countries are active, reflecting their increasing participation in trade. However, their share of disputes – either in initiating complaints or being complained against – has fluctuated over the years.

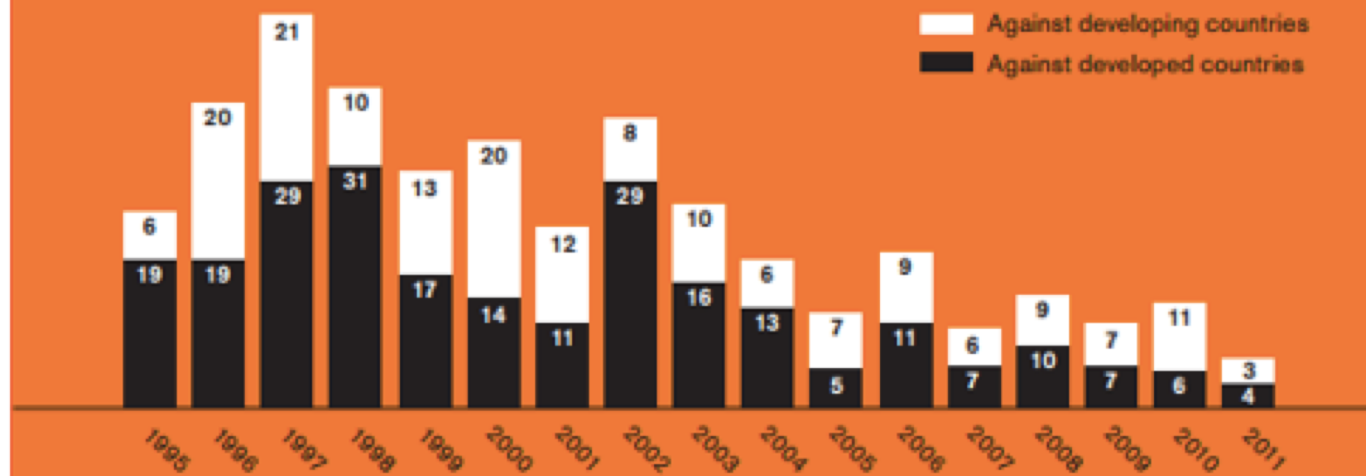
Complaints by developing / developed countries

Annual number of cases



Complaints against developing / developed countries

Annual number of cases



Source:
World
Economic
Forum
2016

Trade Disputes under WTO

- The record of findings
 - Country bringing complaint wins about 90%
 - As complainant (522 cases as of 2017), US had won 91%
 - As respondent (129 cases), US had lost 89%.

Trade Disputes under WTO

- Major Disputes
 - Asia-US shrimp-turtle dispute 1996-2001
 - US-EU beef hormone dispute 1996-present
 - US steel tariff dispute 2002-2004
 - Boeing-Airbus dispute 2004-2017?
 - US-China tire safeguards 2009-2012
- Some cases drag on or are repeated, but so far disputes have gone through the WTO

Trade Policy under Trump

- Actions taken 2017
 - Jan 23: Trump pulls out of TPP
 - Apr 3: Trump signs 2 executive orders on trade
 - Apr 24: 20% tariff on Canada softwood lumber*
 - May 18: US launches NAFTA renegotiation
 - Oct 5: Negotiation began to amend US-Korea FTA

CVD case begun
under Obama

Trade Policy under Trump

- Actions taken 2018
 - Jan 21: Safeguard tariffs on solar panels and washing machines
 - Mar 1: Announces 25% tariff on steel; 10% on aluminum on all countries
 - Mar 23: Steel and aluminum tariffs begin, exempting: Canada, Mexico, EU, Australia, S. Korea, Brazil, Argentina (not Japan)



Trade Policy under Trump

- More actions in 2018
 - Mar 22: Trump announces tariffs on \$50-60 billion of China exports (details announced Apr 2)
 - Mar 22: China threatens tariffs on \$3 billion of US exports
 - Mar 27: Amended KORUS signed (extends tariffs and reduces trade)
 - Apr 1: China announces tariffs on 128 US exports
 - Apr 6: Trump threatens tariffs on another \$100 billion of China exports. China threatens to hit back.



Ingram Pinn, Financial Times, April 6, 2018

www.fordschool.umich.edu