

Article 3

Read the article and answer the questions.

This article was published in 2018 during the first tenure of US President Trump.

U.S. import restrictions are accelerating. On March 23, the Trump administration imposed tariffs of 25% on steel and 10% on aluminum. On the same day, it also announced a policy of imposing 25% tariffs on approximately 1,300 Chinese products in response to Chinese intellectual property rights infringement and extortion of technology transfers.

The restrictions on steel and aluminum imports are based on Article 232 of the Trade Expansion Act. The law limits imports because the decline of the steel and aluminum industries due to increased imports would threaten the security of the United States.

Initially, it was announced that imports from all countries would be subject to the restrictions, but in the end Canada, Mexico, South Korea, the European Union, Brazil, Australia, and Argentina were temporarily exempted from the import restrictions. The share of U.S. imports from these countries and regions is more than 60% for steel and about 50% for aluminum, which raises **the question of consistency with the reason for import restrictions for security reasons.**

It is assumed that Canada, Mexico, and South Korea were given a deferral on the grounds that their Free Trade Agreements (FTAs) are being renegotiated, while the EU was given a deferral on the grounds that its FTA negotiations are being resumed. The EU is also expected to use this as a card for the U.S. to extract favorable terms in the negotiations. In fact, South Korea was subsequently excluded from the tariffs by setting a quota on steel exports to the US and making concessions on imports of US-made automobiles and exports of South Korean-made pickup trucks.

President Trump has also viewed the bilateral trade deficit

between the two countries as problematic from the outset. It is pointed out that Brazil, Australia, and Argentina have escaped import restrictions because the U.S. runs a trade surplus.

In the first place, while it may make sense to discuss the trade balance or current account surplus/deficit of a country as a whole, **it is economically nonsensical to discuss it with respect to the two countries.** It seems that President Trump is trying to arouse false public opinion that “surpluses are good, deficits are bad” in order to gain an advantage in the negotiations.

Import restrictions on Chinese IP infringement and extortion of technology transfer are based on Section 301 of the Trade Act. If it is determined that there is unfair trade, the president can unilaterally impose sanctions such as higher tariffs under his authority. The president is apparently hoping to use this opportunity to draw China into bilateral negotiations to reduce the trade deficit with China and increase exports of U.S.-made automobiles and semiconductors to China.

Import tariffs are said to have a negative impact on the economy. The following is a discussion of the effects of import tariffs.

When tariffs are imposed, imports of goods decrease and domestic prices increase, resulting in an increase in domestic production and a decrease in domestic consumption. As a result, **domestic producers gain while domestic consumers lose.** The government, on the other hand, gains tariff revenue.

Ultimately, the impact of tariffs on the economic welfare of the country imposing the tariffs, i.e., the overall loss or gain for the country due to tariffs, differs between countries with small economies (small countries) and countries with large economies (large countries). In the case of small countries, the country as a whole will always suffer losses because the losses to consumers exceed the gains to producers and the government. **In the case of large countries, the country as a whole gains if tariffs are not too large.**

The difference depends on whether tariffs affect the international price of imported goods. In the case of a small country, even if tariffs reduce the volume of imports, the reduction will not affect international prices because the reduction is negligible in relation to overall world demand. In the case of a large country, the reduction in imports due to tariffs will also considerably lower the world's total demand, thus lowering the international price of the imported goods. This means improved terms of trade for the importing country, which is a benefit. Thus, for a large country, there is a positive tariff that maximizes its profits, which we call the optimal tariff. For a small country, the optimal tariff is zero.

So what is the optimal tariff level for steel in the case of the U.S.? According to Professors Robert Feenstra and Alan Taylor of the University of California, Davis, there are various types of steel products, and the size of the optimal tariff varies considerably. **25% tariffs may increase the economic welfare of the US for some products, but the overall effect is unclear.**

Also, an improvement in the U.S. terms of trade implies a worsening of the terms of trade of the exporting country, which in turn worsens the economic welfare of the exporting country. If the exporting country takes retaliatory measures and a trade war breaks out, both countries will eventually suffer losses.

Questions

1. Why are the trade restrictions imposed by the first Trump administration inconsistent?
2. What is it nonsensical to discuss the trade imbalance between two countries?
3. Why does tariff increase create gains for domestic producers and losses for domestic consumers?
4. Why is the welfare effect of a tariff increase different

between a small country and a large country?

5. Criticize and defend the proposed tariff reform by the second Trump administration.