

# PubPol/Econ 541

Class 9

## **Policies and Institutions: National, United States**

by

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# Announcements

- More on Papers
  - Linear supply and demand are fine
  - Results in table, with just discussion in text and conclusion
  - Agriculture, alternative crops: just say a little
  - Ratio of output to employment: use data on production and employment
  - Always: be careful and explicit of units of measurement

# Pause for Discussion

# Questions

- Should (according to Jackson), and do, international institutions like the WTO interfere with the sovereignty of its member states?

# Outline

- Parts of the US Government that Handle Trade
- Main Features of US Trade Policies
  - Tariffs, Quotas, VERs
  - Escape Clause
  - Unfair Trade Laws
  - Section 301
  - Trade Adjustment Assistance
  - Fast Track
  - GSP
- US Trade Policy under Trump

# US Trade Institutions

- US does NOT have a “ministry” or “department” of international trade
- Most other countries do; e.g. ...
  - Canada: Department of International Trade
  - Japan: Ministry of Economy, Trade and Industry (METI) (Used to be MITI)
  - EU: Directorate General Trade
    - Trade Commissioner:  
Phil Hogan  
until Aug 26, 2020
    - Now Valdis Dombrovskis



# US Trade Institutions

- In US, responsibility for trade issues is spread over many entities
  - Congress
  - USTR
  - Commerce Department
  - US International Trade Commission
  - Export-Import Bank
  - and several others
- Obama said several years ago that he sought to consolidate many of these in a single agency
  - He never did

# US Trade Institutions

- USTR = United States Trade Representative
  - Handles negotiations on trade issues with
    - Other governments
    - WTO
  - Drafts trade legislation for Congress
  - Does NOT set or implement trade policies



# US Trade Institutions

- Trump's USTR is Robert Lighthizer
- Cabinet-level official of US government



# US Trade Institutions

- Congress
  - Sets tariffs and other trade policies (thus approves trade agreements)
  - Two committees are responsible
    - House: Ways and Means
    - Senate: Finance
  - Why these?
    - Because trade policy was originally about collecting revenue

# US Trade Institutions

- Administrative Agencies
  - ITA = International Trade Administration
    - Part of Department of Commerce
    - Main Function: Determines “fairness” in unfair trade cases
      - Are imports “dumped”?
      - Are they “subsidized”?
    - Orientation of ITA: very much favors US businesses

# US Trade Institutions

- Administrative Agencies
  - ITC = USITC = United States International Trade Commission
    - Independent agency
      - Commissioners (6) are nominated by President and confirmed by Senate
      - After that they are on their own
    - Main Function: To determine “injury” in cases of
      - Anti-Dumping
      - Countervailing duties (subsidies)
      - Safeguards (a.k.a., Escape Clause)

# US Trade Institutions

- Export-Import Bank
  - Official export credit agency of the US
  - Assists foreign purchasers of US exports
    - With loans
    - Loan guarantees
    - Etc.
  - Was target of Tea Party in 2015 as “crony capitalism”
    - Was prevented July, 2015 to May 2019 from funding projects of over \$10 million

# Pause for Discussion

# Questions

- To what part of the US government does the US constitution assign responsibility for commercial policy?
  - What does this imply for the procedures by which the US enters into trade agreements?
- Can the US federal government enter into international agreements that constrain the US states?
  - Does the same apply to other negotiating units' (e.g., Canada, the EU) abilities to commit their sub-units?
- What units of the US government have responsibilities for aspects of US trade policies?

# Features of US Trade Policies

- Tariffs
  - Column 2: Tariffs left over from pre-1934
    - They apply only to N. Korea and Cuba
  - Column 1: Tariffs applied to almost all countries
    - MFN rates for WTO members and others
    - Negotiated mostly zero rates for FTA members



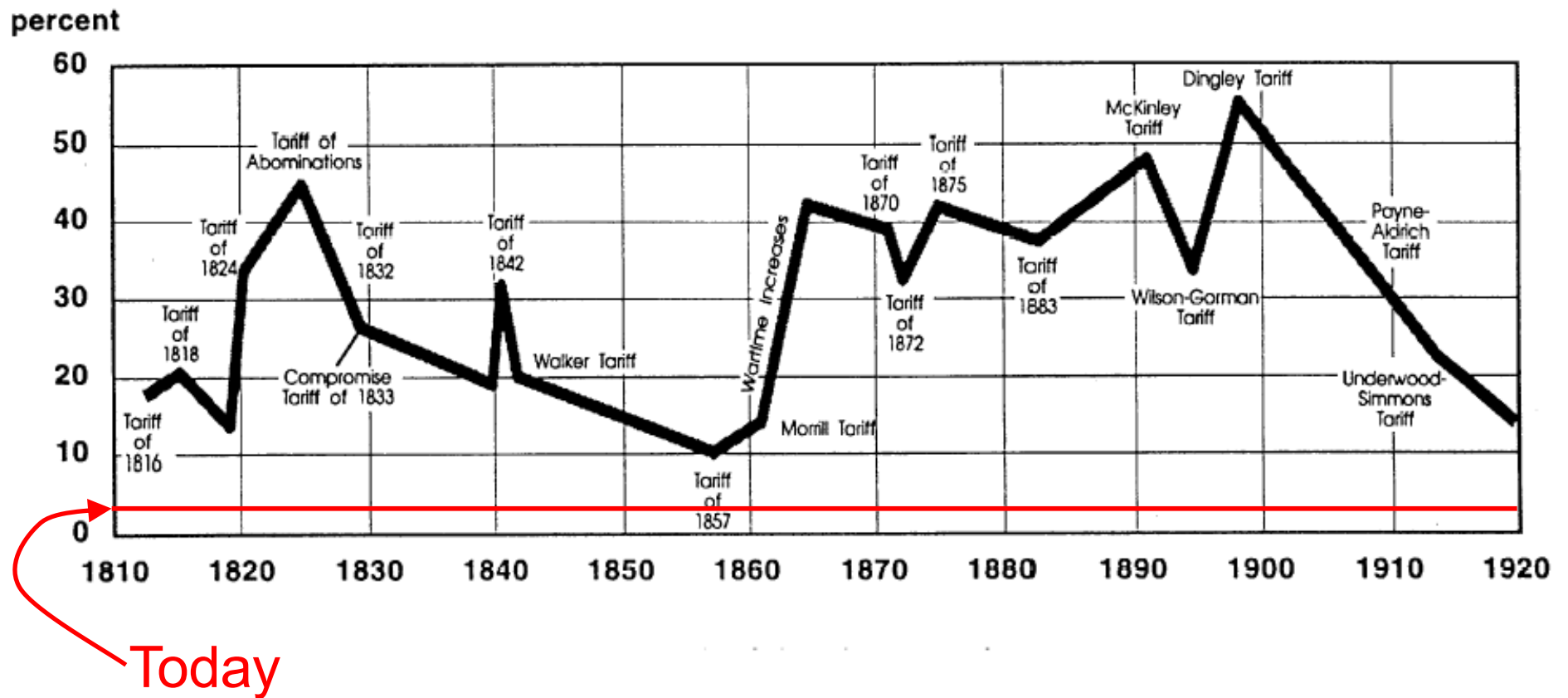
## Harmonized Tariff Schedule of the United States (2020) Revision 21

Annotated for Statistical Reporting Purposes

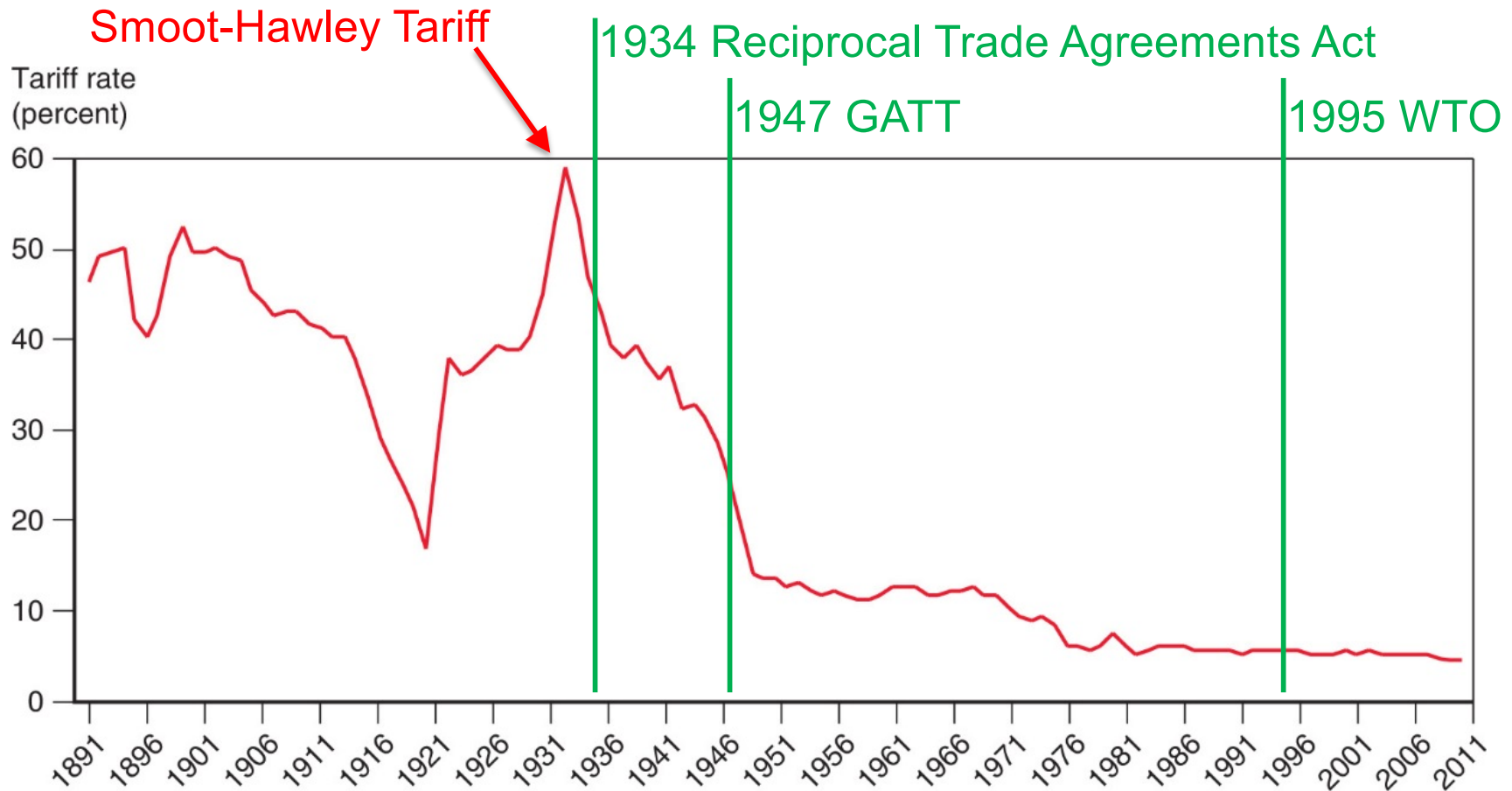
XVII  
87-5

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty		
				1		2
				General	Special	
8703 (con.)		Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars: (con.)				
8703.21.01		Other vehicles, with only spark-ignition internal combustion reciprocating piston engines: Of a cylinder capacity not exceeding 1,000 cc.....	.....	2.5% <sup>1/</sup>	Free (A+, AU, B, BH, CA, CL, CO, D, E, IL, JO, KR, MA, MX, OM, P, PA, PE, S, SG)	10%

- US tariff history: 1810-1920



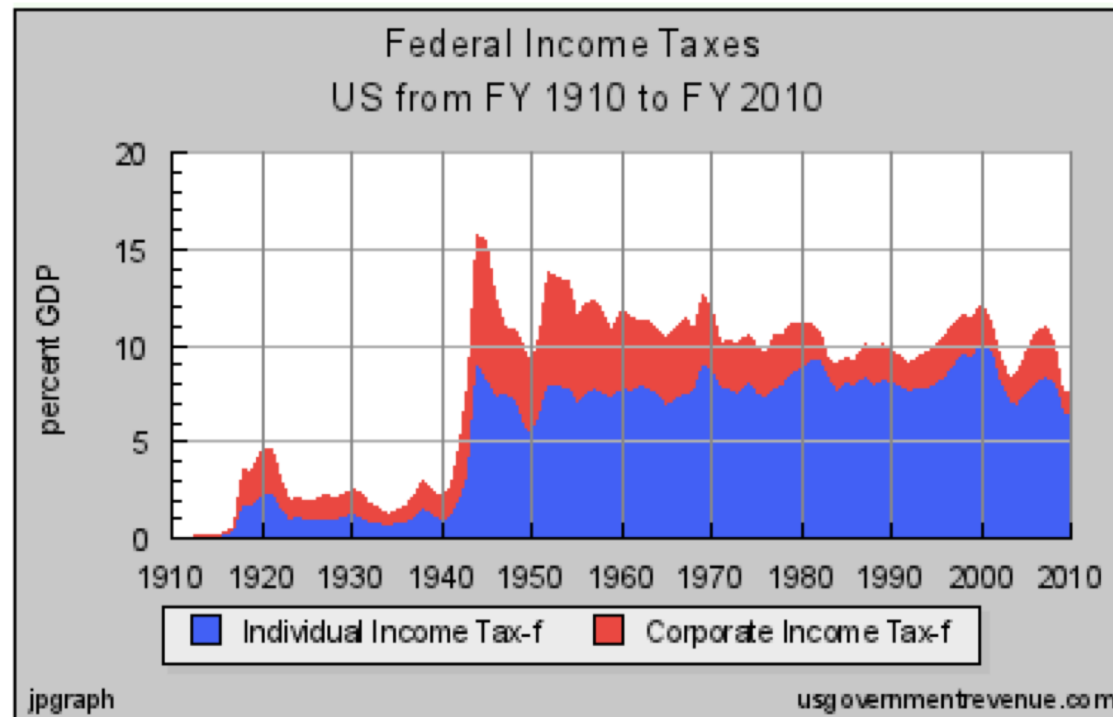
# Figure 10.5 The U.S. Tariff Rate



After rising sharply at the beginning of the 1930s, the average tariff rate of the United States has steadily declined.

# Features of US Trade Policies

- Why the decline in tariffs? Partly due to revenues from income tax:



# Features of US Trade Policies

- Tariffs, quotas, etc.
  - We still have high tariffs on some products
    - Textiles, apparel
    - Agriculture
  - Quotas are still common in agriculture
  - VERs: Voluntary Export Restraints
    - No longer
    - But Trump has negotiated something like VERs
  - With Trump we have more high tariffs

# Features of US Trade Policies

- Escape Clause = Section 201
  - Called “Safeguards” in WTO
  - Permits temporary protection from injurious imports
    - Does NOT allege that the imports are “unfair”
  - Eligibility is decided by USITC alone
    - Injury (must be serious)
    - Causation (must be due to imports)
  - Implemented by President, who may say NO.
  - This was used under Trump for solar panels and washing machines
  - We’ll study it more on Nov 17

# Features of US Trade Policies

- Unfair Trade Laws
  - Permit protection (not temporary) from “unfair” imports
    - Must also be injurious, but less so than for escape clause (“material injury”)
    - “Unfair” if
      - Subsidized by foreign government
      - “Dumped”, i.e., priced too low by firm (more on this below)

# Features of US Trade Policies

- Unfair Trade Laws
  - Fairness decided by ITA
  - Injury decided by USITC
  - President is NOT permitted to say NO
- We'll study these more Dec 1-8



# Features of US Trade Policies

- Section 301 of the Trade Act of 1974
  - US law permitting tariffs on countries that engage in “unfair trade” (other than dumping and subsidies)
  - What is unfair trade? “acts that are ‘unjustifiable’ or ‘unreasonable’ and burden U.S. commerce.”
  - Before 1995, used extensively by US to pressure other countries
  - 2018 applied to China by USTR: “practices related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory, and burden or restrict U.S. commerce.”

# Features of US Trade Policies

- Trade Adjustment Assistance (TAA)
  - Provides temporary help (not tariff protection) for firms and workers hurt by imports
  - Gives workers access to income support, relocation allowances, job search allowances, health coverage tax credit, and occupational training
  - As of 2002, Alternative Trade Adjustment Assistance (ATAA) also provides limited “wage insurance” for trade-displaced older workers
  - Will study more Nov 19

# Features of US Trade Policies

- Fast Track -- officially “Trade Promotion Authority” (TPA)
  - Procedure, imposed by Congress on itself, requiring it to 

Consider trade legislation without amendment
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  - Relevant for approval of FTAs and some other trade deals
  - Congress approved TPA in July 2015, good until July 1 2018, later extended to July 1, 2021
  - So Trump has it, for a while, for deals with UK, etc.

# Features of US Trade Policies

- GSP = Generalized System of Preferences
  - Charge lower tariffs on some exports from some developing countries than we charge other countries
  - Other developed countries do this too (permitted by WTO)
  - Trump has withdrawn GSP
    - From India in Jun 2019, prompting retaliation
    - From Thailand in Oct 2019 (see Politi & Reed)

# Pause for Discussion

# Questions

- Who has "standing" under the antidumping law? Who determines whether there is dumping?
- How do the injury requirements differ for antidumping and for safeguards? Do either require that the domestic firms make losses?
- What can a U.S. producer do if it believes that its competitors in another country are engaging in anticompetitive conduct that is being tolerated by their government?

# Questions

- Why did Fast Track, or something like it, become necessary only after trade negotiations were moving on from tariffs to negotiating non-tariff measures?
- Is US withdrawal of GSP preferences from Thailand based on the belief that Thailand is no longer a developing country?
- Who requested the withdrawal of GSP from Thailand, and why was the Trump administration willing to do it?

# US Trade Policies under Trump

- 2017: Not much
- 2018-20: See State of Play, Sep 3
  - Tariffs on steel and aluminum (Section 232)
  - Tariffs on China (Section 301)
  - Threat of tariffs on cars (Section 232)
  - Threat of tariffs on Mexico
  - Actions targeting firms (ZTE, Huawei, TikTok)



# US Trade Policies under Trump

- USTR Lighthizer's US accomplishments
  - Phase 1 deal with China
  - USMCA
  - Deals with Japan
  - Airbus retaliation
  - France digital tax retaliation
  - Actions against the WTO
    - “brought about a fundamental rethinking of the World Trade Organization”

# Pause for Discussion

# Questions on USTR “Agenda”

- Who in the US has benefited from these policies?
- What do they plan for the next year?

# US Trade Policies under Trump

- Section 232 Tariffs
  - Used by Trump on Steel and Aluminum
  - Threatened by Trump on cars & car parts
  - Has basis in US law, but legality still questioned (see Fefer et al.)
  - Investigation underway on electrical grid imports (see Williams)
  - Even some Republicans want to change the law (see Elis)

# Pause for Discussion

# Questions on Fefer

## “Section 232”

- Under what circumstances does Section 232 of the 1962 Trade Act permit the President to levy tariffs?
- Who conducts the investigation to determine if this is the case? If the answer is yes, must the President levy tariffs?
- Must the tariffs apply to all imports of the product? If not, do we know why not?
- Is the use of Section 232 legal under the rules of the WTO?

# Questions on Williams, “electrical grid imports”

- What is the basis for the investigation of imported electrical grid parts?
- Has the US already blocked any imports of these products?
- What portion of the US economy might be protected by a tariff on the type of electrical steel used in transformers?

# Questions on Ellis, “Grassley”

- What trade law is being considered for change?
- How has Trump used this law?
- Is this only a Democrat seeking to stop Trump?



# US Trade Policies under Trump

- Other
  - US may allow some drug imports (see Armour & Burton)
  - Congress may ban buses, railcars from China (see Wise & Ferek)
  - Sanctions

# Pause for Discussion

# Questions on Armour & Burton, Drug Imports

- Is it legal now for Americans to import drugs from Canada?
- Why are drug prices lower in Canada and other countries than in the US?
- Is the purpose here really to make drugs cheaper to US consumers, and will it work?

# Questions on Wise & Ferek, “Ban Chinese Buses”

- What is the lawmakers’ concern about imports of railcars and buses from China?
- For other products mentioned here, is that also the concern?

# Questions on Rappoport & Rogers, “Sanctions”

- How does the use of sanctions by the Trump administration compare to prior administrations?
- Has Trump been consistent in his use of sanctions?
- How do other countries respond to sanctions?
- Will Trump’s use of sanctions make the US more powerful after he leaves?

