

3. Given the arguments relating to the new trade theory and strategic trade policy, what kind of trade policy should business be pressuring government to adopt?
4. You are an employee of a U.S. firm that produces personal computers in Thailand and then exports them to the United States and other countries for sale. The personal computers were originally produced in Thailand to take advantage of relatively low labor costs and a skilled workforce. Other possible locations considered at the time were Malaysia and Hong Kong. The U.S. government

decides to impose punitive 100 percent ad valorem tariffs on imports of computers from Thailand to punish the country for administrative trade barriers that restrict U.S. exports to Thailand. How should your firm respond? What does this tell you about the use of targeted trade barriers?

5. Reread the Management Focus, "U.S. Magnesium Seeks Protection." Who gains most from the antidumping duties levied by the United States on imports of magnesium from China and Russia? Who are the losers? Are these duties in the best national interests of the United States?

Research Task



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The Political Economy of International Trade

Use the globalEDGE website (globaleedge.msu.edu) to complete the following exercises:

Exercise 1

You work for a pharmaceuticals company that hopes to provide products and services in New Zealand. Yet management's current knowledge of this country's trade policies and barriers is limited. After searching a resource that summarizes the *import and export regulation*, outline the most important foreign trade barriers your firm's managers must keep in mind while developing a strategy for entry into New Zealand's pharmaceutical market.

Exercise 2

The number of member nations of the World Trade Organization has increased considerably in recent years. In addition, some nonmember countries have observer status in the WTO. Such status requires accession negotiations to begin within five years of attaining this preliminary position. Visit WTO's website to identify a list of current members and observers. Identify the last five countries that joined the WTO as members. Also, examine the list of current observer countries. Do you notice anything in particular about the countries that have recently joined or have observer status?

CLOSING CASE

U.S. Tariffs on Tire Imports from China

In September 2009, President Obama placed a tariff on tire imports from China. The tariff was a response to a rising tide of imports from China and intense lobbying from the United Steelworkers union, which represents 15,000 workers at 13 tire plants in the United States. Tires imported from China are usually low-end models that sell for half the price of American-made, name-brand tires. In 2008, the United States imported 46 million tires from China, three times as many as it did in 2004. China's share of the American market leaped from 5 percent to almost 17 percent over the same period, while U.S. employment in the industry fell by more than 5,000 and domestic production slumped from 218 million tires to 160 million tires.

The United Steelworkers petitioned the International Trade Commission, which is a unit of the U.S. Department of Commerce, for protection. After reviewing the

case, the commission concluded that the surge in Chinese tire imports was causing significant "market disruption" and recommended imposing a three-year tariff on imports of Chinese tires. The Obama administration agreed and placed a 35 percent tariff for one year on tire imports from China, followed by a 30 percent tariff in the second year and a 25 percent tariff in the final year. These tariffs were placed on top of an existing 4 percent import tariff.

The Chinese quickly objected, calling the tariffs "a serious case of protectionism" and arguing that the United States was violating World Trade Organization rules, of which both countries were members. For its part, the United States argued that the tariffs were allowed under the terms of a special safeguard provision that was part of the U.S. agreement to support China's entry into the WTO in 2001. Under that provision, U.S. companies or



Tires imported from China have taken a growing share of the U.S. market.

workers harmed by imports from China can ask the government for protection simply by demonstrating that American producers have suffered a “market disruption” or have experienced a surge in imports from China.

The WTO’s dispute resolution panel quickly took on the case. In December 2010, the panel issued its ruling, finding that the United States “did not fail to comply with its obligations” under world trade agreements and allowing the tariffs to remain. China immediately appealed the ruling. Chinese officials stated the tariff had hurt the interests of both China and the United States. They argued that the tariffs cost jobs in the U.S. sales sector, causing some small and medium-size wholesalers and dealers to go out of business. Moreover, they argued that the tariff has burdened low-income consumers in the

United States, with the average price of tires increasing 10 to 20 percent since the tariffs were imposed.

For its part, the United Steelworkers argued that the tariff had been a big success. For the first six months after the tariffs were imposed, U.S. production increased more than 15 percent, and the union claimed that U.S. producers were making plans to add additional capacity. During the same period, tire imports from China fell by 34 percent. However, the union may have been too quick to claim victory. Over the next 18 months, tire imports surged from Thailand, Indonesia, and Mexico, suggesting that low-cost producers in other countries were taking advantage of the tariffs on Chinese tires to increase their exports to the United States. Furthermore, U.S. producers did not add capacity. Indeed, several U.S. tire makers have factories in China and elsewhere and had, for some time, been exporting from them. To complicate matters, China responded to the tariffs on tires by placing tariffs on the export of some U.S. products, such as broiler chickens, to China.³⁸

Case Discussion Questions

1. Which groups benefited from the imposition of U.S. tariffs on Chinese tire imports? Which groups suffered? What does this tell you about tariffs in general?
2. How do you think that the United States would have reacted if the Chinese had raised tariff rates on the importation of certain goods from the United States?
3. What does the rise of tire imports from Thailand, Indonesia, and Mexico during 2010 and 2011 tell you about the value of this kind of trade policy?
4. Do you think that the policy was in the best interests of the United States? Justify your answer.

Endnotes

1. Sources: Chuin-Wei Yap, “China Revamps Rare-Earth Exports,” *The Wall Street Journal*, December 28, 2011, p. C3; “The Difference Engine: More Precious than Gold,” *The Economist*, September 17, 2010; “Of Metals and Market Forces,” *The Economist*, February 4, 2012; and J. T. Aredy and C. W. Yap, “China Raises Rare-Earth Export Quota,” *The Wall Street Journal*, August 22, 2012.
2. For a detailed welfare analysis of the effect of a tariff, see P. R. Krugman and M. Obstfeld, *International Economics: Theory and Policy* (New York: HarperCollins, 2000), Ch. 8.
3. James Healey, “U.S. Alleges Unfair China Auto Subsidies in WTO Action,” *USA Today*, September 17, 2012; and M. A. Memoli, “Obama to Tell WTO That China Illegally Subsidizes Auto Imports,” *Los Angeles Times*, September 17, 2012.
4. World Trade Organization, *World Trade Report 2006* (Geneva: WTO, 2006).
5. The study was undertaken by Kym Anderson of the University of Adelaide. See “A Not So Perfect Market,” *The Economist: Survey of Agriculture and Technology*, March 25, 2000, pp. 8–10.
6. K. Anderson, W. Martin, and D. van der Mensbrugghe, “Distortions to World Trade: Impact on Agricultural Markets and Farm Incomes,” *Review of Agricultural Economics* 28 (Summer 2006), pp. 168–94.
7. R. W. Crandall, *Regulating the Automobile* (Washington, DC: Brookings Institution, 1986).
8. J. B. Teece, “Voluntary Export Restraints Are Back: They Didn’t Work the Last Time,” *Automotive News*, April 23, 2012.

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Chapter 7 Trade policy
Case: US Tariff on Chinese Tire Imports

Discussion Questions:

1. What are the political and economic argument supporting the tariff on Chinese tire imports, if any?
2. What stakeholder groups are affected by the tariff? Think of the importing country (US), exporting country (China), producers, consumers, and related industry such as car producers, tire shops, etc.
3. Among the stakeholder groups, who benefit from the tariff? Who lose from the tariff?
4. Will the tariff help increase employment in US tire manufacturing industry? Why and why not?
5. What can Chinese tire exporters do to reduce the impact of tariff? (Optional)