International Trade Political Issues
by Richard "Chip" Peterson, Economics PhD
Professor Emeritus (Finance) Texas Tech University

International Trade raises contentious issues. In general, any restrictions upon free trade will reduce individual welfare for the public at large since they will have fewer choices. However, some politically connected special interests may benefit. Because of what I call "easy to see concentrated benefits and hard-to-see widely distributed costs" politicians are often able to earn "monopoly rents" by serving special interest groups who hope to gain from the concentrated benefits. Among the most widely used trade interventions are tariffs, quotas, foreign exchange manipulation, value-added or other border taxes, and non-tariff barriers, including import inspection requirements and product content and approval requirements. Another contentious issue concerns the theft of intellectual property without compensation across borders.

Government Interference in Trade and Tariff Effects

In most cases of government interference in trade the interests of the public are subordinate to the interests of politically connected special interest. Tariffs, for instance, are levied upon imports of particular goods like a tax assessed at the border. Tariffs raise the overall prices of affected goods. They raise prices for imports and allow competing domestic producers to raise their prices as well. The price increases hurt consumers and other users of the affected products. However, the price increases may allow domestic producers of the affected products to increase their profits and hire more employees. Those producers often gain political favors by pointing out the hiring and profit gains as a benefit from the government intervention.

There can be some cases where government intervention may be justified, however. In some cases, countries may engage in "dumping" some of their products in other countries at a price below their production costs. They may do so in order to maintain employment in some of their key industries. However, more nefariously, they may do so in order to cause producers in the recipient countries to suffer losses and eventually go out of business. That sort of policy is a form of "predatory pricing" that will eventually allow the country that dumps to hollow out the industrial structure of the recipient country. Consequently, the predatory country may be able to raise its prices with impunity and to hold the recipient country hostage by threatening to shut off its supply of key materials in future trade negotiations. Such a situation, in fact, exists with the production of certain key "rare-earth" elements that are mainly produced by China.

Because of the possible nefarious effects of "dumping," the World Trade Organization (WTO), which establishes trade rules for the world, allows countries to retaliate against countries that dump their products. However, those rules require long negotiations to establish that the products are actually being dumped at prices below their production costs. In addition, various countries may provide implicit subsidies that are hard to discern and may lower reported production costs. Canada is often accused of doing so with its lumber industry, the US is often accused of doing so with its agricultural industries, and other countries are often accused of providing subsidized power to their manufacturers.

If the WTO rules allow for retaliation, the affected country may be able to levy tariffs on various products originating from the offending country.

Quotas

Quotas limit the total amount of particular goods that can be imported over a certain period of time. They are particularly popular with politicians since they can give rise to many "monopoly rents." A prime example is the US sugar quotas that were applied in the 1960s and 1970s. At the time the US

price of sugar was 20 cents per pound or more, while the world sugar price was closer to 4 or 5 cents per pound. Many influential Congressmen either came from districts where many constituents participated in domestic sugar production or owned sugar plantations themselves. Thus, they had a vested interest in keeping US sugar prices above world sugar prices, even if that meant that US consumers of sugar would have to pay more. The sugar quota had additional potential benefits for politicians also, since the quotas could be differentially assigned to various competing countries. Since exporters of sugar from the favored countries stood to gain substantially if their quotas were approved or increased, sugar producers in those countries were in a position to pay substantial monopoly rents to their politicians and the US politicians who approved additional US sugar quotas for their countries.
Because the corruption associated with quotas can be seen easily as the benefits are traced, they do not seem to be used as frequently as in the past. However, other non-tariff barriers exist.

Non-tariff Barriers

A wide variety of Non-tariff barriers exist in international trade. Some may result in absolute prohibitions against imports of various sorts. One example of which most people may be aware involves the EpiPen. That pen contains ephedrine that can be injected to quell potentially dangerous allergic reactions. It cost $800 per dual dose before the press became aware that the US had only one supplier approved by the US Food and Drug Administration (FDA). It turned out that the FDA is regulated by Congress and an influential Senator was the father of the president of the company that made the Pippen. Meanwhile, ephedrine was available for around $20 per dose in Europe. Another company had tried to introduce a competitive product to the EpiPen but the FDA would not approve it on the grounds that it would be administered differently than the patented EpiPen and that might confuse some people. Similar restrictions to the EpiPen exist in many other cases. This is true particularly with pharmaceutical products, which often sell for far less in world markets than in the US. However, the FDA may not allow them to be sold in the US unless they can show that the manufacturers meet FDA approved standards and/or the products meet FDA approved efficacy and safety standards. Meeting the requisite regulatory requirements may cost billions of dollars and, thus, effectively prohibit many foreign products from being imported into the US.

The US is not the only country that imposes non-tariff tariffs to restrict imports. The European Union (EU) restricts imports of many Genetically Modified grains. They also have restricted the import of beef that has been grown with the assistance of various growth hormones. De facto, these restrictions impede agricultural imports into EU countries while preserving agricultural markets for their less efficient producers.

Non-tariff barriers can go beyond product specifications that effectively disqualify many foreign produced goods from being imported. For instance, inspection requirements imposed at borders may effectively discourage various imports—either by declaring that they do not qualify for import or because their import is delayed. That is particularly the case with agricultural products that may rot or lose their flavor if their import is sufficiently delayed. The Japanese in times past have done that with the import of oranges and beef.

Intellectual Property

The US produces a substantial amount of “intellectual property.” in the form of software, music, movies, and technical products and processes that are patented so their creators can earn royalty income if they are used by others. However, such property can often be stolen over the internet or copied either by reverse engineering or by straightforward copying. The net effect is that a country that effectively steals intellectual property has obtained what otherwise could be a valuable export item without paying for it. International rules should require payment but they are hard to enforce across borders.