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Do Other Countries' Trade Policies Hurt the United States?

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The major candidates in this year's presidential race both believe that trade policies of foreign countries are unfair and serve to damage the United States. Donald Trump says, "The American worker is being crushed" by trade. Hillary Clinton's take is that, "When countries break the rules, we won't hesitate to impose targeted tariffs."

Appealing to populist sentiment may prove to be good politics, but is it good economics? How justified are the charges that other countries' trade policies are harmful to America?

To answer those questions, it helps to divide foreign trade policies into two broad categories: (1) those that limit the ability of U.S. exporters to sell into overseas markets; and (2) those that reduce the prices of foreign products entering the United States.

The ability of U.S. firms to export is somewhat constrained by other countries' import restrictions. So-called "border measures" – primarily tariffs and quotas – have been reduced substantially since 1948 through a series of negotiations under the General Agreement on Tariffs and Trade (GATT), now transformed into the World Trade Organization (WTO). However, many countries still have tariffs that are quite high on products of interest to the United States. As an example, Japan's import tariff on rice is prohibitive at over 700 percent.

Domestic policies can be just as restrictive as tariffs. A country might craft technical specifications for motor vehicles in ways that make it impossible for U.S. cars to meet them. Thus, American automobiles would need to be redesigned before they could be exported. WTO rules specify that technical standards should not create unnecessary obstacles to trade, but many such barriers still exist. One U.S. objective in negotiating the Trans-Pacific Partnership (TPP) was to reduce the trade restrictiveness of domestic policies.

It may provide scant consolation to exporting firms, but economists have understood for decades that trade restrictions do more economic damage to the country that imposes them than to countries at which they are directed. So even though Japan's high rice tariff hurts U.S. rice growers, it does far more damage in Japan by reducing economic welfare there. Bottom line: the import restrictions of other countries do some harm to the United States, but they impose much bigger costs on the nations that implement them. (Of course, the same is true in reverse for U.S. import restrictions.)

How about the second category – foreign government policies that lower the prices of their exports? Direct export subsidies generally are not allowed under WTO rules. However, many countries take steps to help their exporters. Among others, these can involve providing tax incentives to encourage construction of new plants, assisting in worker training, building new export infrastructure, and offering export credit to overseas buyers. Countries with centrally planned economies tend to do even more. Those nations have the ability to establish artificially low prices for basic inputs used by industrial firms, or to offer government loans that may never be repaid.

In addition, some countries at times appear to have reduced artificially the values of their currencies in relation to those of other nations. This has the effect of making exports less expensive. If such "currency manipulation" is a conscious policy choice, it is a strange one, indeed. A country's decision to reduce the value of its currency is a decision to change the "terms of trade" (the ratio of a country's export prices to its import prices) in a way that benefits the U.S. economy. America will get a bargain – obtaining a greater value of imports for the same value of exports. The country with the low-valued currency will be selling its exports for less than they are worth, thus transferring wealth to the United States.

The same dynamic holds true for any foreign government policy that unnaturally reduces the prices of exported goods – it has the effect of transferring wealth to this country. So when other nations are "unfair" in promoting their exports, they reduce their own economic welfare and enhance America's.

Policies that strengthen the export postures of foreign nations can create political challenges in the United States. Those policies have the potential to lessen the competitiveness of U.S. firms and to eliminate jobs of U.S. workers. Not every American comes out ahead when other countries promote their exports, even though overall U.S. economic welfare is enhanced.

The United States has a history of providing adjustment assistance to people who have lost their jobs. It is in America's best interest to ensure that help for unemployed workers is provided in ways that don't restrict trade.

The trade policies of other countries – whether they restrict imports or promote exports – really can't to do all that much to harm the United States. However, America inadvertently could inflict a great deal of damage on itself by erecting new trade barriers.

Daniel Pearson joined the Cato Institute after serving for 10 years on the U.S. International Trade Commission, the federal agency that, among other responsibilities, oversees the U.S. trade remedy laws.