

INTERNATIONAL TRADE

IT'S COMPLICATED

Smoot – Hawley Tariff act passed in June of 1930. It imposed or raised tariffs on 20,000 items. Results, seemingly, were a disaster:

US imports – 1929 \$4.4 billion, 1933 \$1.5 billion

US exports – 1929 \$5.4 billion, 1933 \$2.1 billion

US GNP - \$103.1 billion 1929

\$75.8 billion 1931

\$55.6 billion 1933

The US has run a trade deficit since 1975 – 42 years

Does the US trade deficit hurt economic growth?

Apple's iphone 7	factory cost (fob)	\$237.45
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	selling price	\$699.00
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	Gross margin	\$461.55
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Apple pays Chinese factory \$237.45 to “manufacture” the phone and US imports go up by \$237.45 when it is imported. In reality that is wrong. China only contributed \$8.45 in parts and labor. Factually, the US contributed \$68.69 to the factory costs.

Staying with this phone, Apple has revenue of \$699 when it is sold in the US. That adds \$699 less factory costs to GDP under the formula:

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$

C is consumer spending, I is investment, G is government spending on goods & services, X is exports and M is imports. When I bought that phone, GDP went up by \$461.55 ignoring the US component of the factory cost.

Does the US trade deficit have to be repaid?

So, the U.S. trade deficit is financed by inflows of foreign capital used to purchase U.S. assets. Most of the assets purchased are equities and physical assets (direct investment). Some of the assets purchased are corporate debt and government debt. As of the end of 2014, Americans held a total of \$24.6 trillion of foreign assets. Foreigners held a total of \$31.6 trillion of U.S. assets. Of that \$31.6 trillion foreign asset portfolio, treasury bills and bonds accounted for about **\$6 trillion — just under 20 percent of the total**. It is only this portion — government debt owned by foreigners — that the American public (of this generation or the next) is on the hook to pay back. Corporate debt has to be repaid, but only by the shareholders and employees of the companies issuing the debt — not by you or me or our children, generally. Equity purchases don't have to be paid back *at all* — they're not loans! When European, Japanese, Korean, Chinese or any foreign investors purchase U.S. companies or make “greenfield” investments to build new production or research facilities or hotels or shopping centers, there is no debt to be repaid.

Is a trade deficit good or bad?

According to the chief economist at Manulife/John Hancock Asset Management “Rich countries with deficits have grown somewhat faster than surplus countries over the past decade”

When the US trade deficit shrinks, it is often during economic downturns. The trade deficit nearly halved during the recession of 2009, going from \$709 billion to \$384 billion.

Perhaps, it does not matter.

The other side of the ledger.

The US economy in 2017 was \$18 trillion and exports were \$2.3 trillion, about 13% of the total. Source: World Bank, current US\$

Will our current tariff policy/threats have a negative effect on exports?

<https://ustr.gov/sites/default/files/enforcement/301Investigations/List%201.pdf>

This is a link to all items covered in the 1st round of tariffs

<https://www.scribd.com/document/388833987/Round-2-Chinese-Tariffs-List-of-Products-Sectors-Items>

This is a link to all items covered in the proposed 2nd round of tariffs.