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When a country Taxes our products coming in at, say, 50%, and we Tax the same product coming into our country at ZERO, not fair or smart. We will soon be starting RECIPROCAL TAXES so that we will charge the same thing as they charge us. $800 Billion Trade Deficit-have no choice!

8:57 AM - Mar 2, 2018

27.5K people are talking...
A popular view among economists is that recent U.S. trade actions defy economic logic. They seem to link gains from trade to bilateral trade imbalances and depict trade as a zero-sum game.
What do these trade wars mean? A popular view

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  - either by design or, if a ploy to induce liberalization abroad,
  - because the ploy will fail and the higher “bargaining tariffs” will remain
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There is also a logical consequence of this view

- in the event that these trade wars do lead to more open markets,
- the tactics must be regarded as a success
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- the United States is initiating a change from “rules-based” to “power-based” tariff bargaining
- and is selecting countries with which it runs bilateral trade deficits as suitable targets of its bargaining tariffs
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The costs of these trade tactics cannot be avoided even if they happen to deliver lower tariffs

- the main costs will arise from the use of the tactics themselves
- and from the damage to the rules-based multilateral trading system
The most-favored-nation principle (MFN) and reciprocity are two pillars of the GATT/WTO rules-based multilateral trading system. MFN embodies the nondiscrimination principle, meaning that imports of the same product from different countries have the right to face the same (MFN) treatment in a given market. Reciprocity refers to the notion that bargains should be balanced; a country can anticipate an increase in the volume of its exports that is roughly equivalent in value to the increase in the volume of its imports. These rules constrain the exercise of power in tariff bargaining. Third-party spillovers from MFN dilute the gains for a powerful country to pressure bargaining partners to lower their tariffs, and reciprocity further neutralizes the exercise of power in tariff bargains, because it establishes an expectation of balanced terms for the bargain. Recent U.S. trade actions can be seen as an attempt to escape from these constraints.
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- with the goal of inducing U.S. trading partners to reduce their tariffs
- and rebalance the terms of existing trade agreements in favor of the United States
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*Donald J. Trump (@realDonaldTrump)*

We have large trade deficits with Mexico and Canada. NAFTA, which is under renegotiation right now, has been a bad deal for U.S.A. Massive relocation of companies & jobs. Tariffs on Steel and Aluminum will only come off if new & fair NAFTA agreement is signed. Also, Canada must.

6:47 AM - Mar 5, 2018

❤️ 47.1K  📣 19.4K people are talking about this
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- And why choose as targets of its bargaining tariffs countries with which the United States runs large bilateral trade deficits?
  - bilateral trade deficits signify trading partners with whom U.S. bargaining tariffs create the strongest threat point
Why are these trade wars happening now?

- In 1947, the United States was the unquestioned hegemon of the world economy and played a central role in the creation of the GATT.
- And it can be in a hegemon’s enlightened self-interest to support a rules-based system that limits its ability to exercise power.
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- But if the hegemon’s dominance wanes, its support for the WTO rules-based multilateral system could rationally erode.
  - \[\Rightarrow\] it may be in the country’s interest to depart from these rules (this is accelerating with Trump, but didn’t start with him).

More broadly, historian/commentator Robert Kagan sees the rules-based international order as “a historical anomaly” made possible by U.S. leadership and now collapsing, “returning the world to its natural state - a dark jungle of competing interests, clashing nationalism, tribalism and self-interest.”
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- The WTO may need a new hegemon to support it.
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  - bargaining outcomes hinge on ex-post threat points
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Figure 2. Hegemonic Transition: Equilibrium Payoffs
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- Regime change under hegemonic transition
  - U.S. Hegemony: United States supports rules-based regime to ensure participation of the weak
  - U.S. Dominance: United States finds power-based tariff bargaining more attractive
Figure 2. Hegemonic Transition: Equilibrium Payoffs

Payoff

Power-Based: U.S.

Power-Based: China

Rules-Based: U.S. & China

U.S. Hegemony

U.S. Dominance

China Dominance

China Hegemony

Rules-Based System

Power-Based System

Power-Based System

Rules-Based System
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  - Other countries will turn to power-based responses as the rules-based system unravels.
  - If the rules-based system suffers lasting damage, the United States will lose when the rules-based system is unavailable to the next hegemon.

There is evidence that rules-based tariff bargaining is more efficient than power-based tariff bargaining. MFN and reciprocity can mitigate strategic behavior and the bargaining frictions that can accompany such behavior. Ample historical evidence that bargaining tariffs lead to outcomes far away from those that might be considered desirable or efficient. A less myopic view would dictate greater U.S. restraint.
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- Power-Based: U.S.
- Power-Based: China
- U.S. Dominance
- China Dominance
- Power-Based System
- U.S. Dominance
- China Dominance
- China Hegemony
- U.S. Hegemony
- Rules-Based System
- Rules-Based System
- Power-Based System
- China Nash Ex Ante
- U.S. Nash Ex Ante
- China Nash Ex Post
- U.S. Nash Ex Post

Rules-Based: U.S. & China
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- \( \therefore \) A less myopic view would dictate greater U.S. restraint