International IA concept

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Commentary:

The article discusses the decision by the United States to impose tariffs on 370 billion dollars worth of Chinese goods, which saw the start of a trade war between the two countries (Agarwal, 2022). A tariff is a tax a country imposes on imports at the border to reduce their consumption in the country. In this case, tariffs are being used to lower the consumption of Chinese goods in the United. An increase in taxes will lead to a drop in imports which in turn will disrupt supply and lead to lower demand for tobacco.

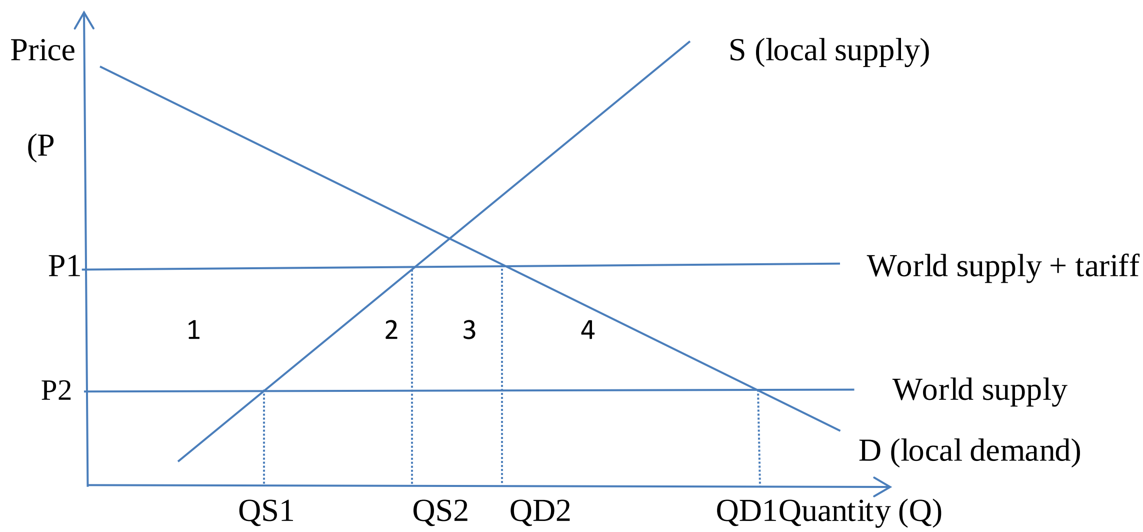

Figure 1

Figure 1 shows the United States market before and after the imposition of taxes. Before the imposition of tariffs, the global market dictated the prices in the market, the price is set at P2. The tariffs increase the price of commodities from P2 to P1. With the price at P2, domestic supply is at QS1. Domestic supply is low because international companies have a competitive advantage in the production of these goods. When the US government imposes taxes, the cost of production increases, which sees producers pass the costs to consumers by increasing prices from

P2 to P1. Further, local producers have to supply more to the market to meet the local market needs. The quantity supplied increases from QS1 to Qs2. This is an opportunity for local producers to make a profit. However, based on the law of supply and demand, an increase in price results in a drop in demand, and the quantity demanded decreases from QD1 to QD2. Notably, the quantity of imports has shrunk from QD1 minus QS1 to Qd2 minus QS2. This is because the tariffs increase protects local producers by discouraging imports.

A tax hike will increase the price level, which will lead to a loss of consumer surplus, represented in Figure 1 by the area marked by 1,2,3,4. The tariffs will not eliminate Chinese imports into the country, the US government will collect more taxes from imports equal to the region marked 3. However, there will be a gap in supply in the local market. Consequently, local producers will respond to the tariffs by increasing their supply to gain more profits. They will gain a producer surplus that is equal to region 1. There will also be a deadweight loss equal to region 1+2 due to the underutilization of the market. Essentially, the consumer surplus lost will be more than the producer surplus gained.

In the short run, China will likely see a drop in its exports to the United States. An increase in the price of its imports will see a dropped in demand in the US market, losing the market. However, the US economy will be negatively impacted by the tariffs.

The tariffs aim to protect local manufacturers from competition from international producers who have better economies of scale hence a competitive advantage in production. The government anticipates that the local producers will improve their economies of scale to meet the demand in the local market. However, this might not be factual. Some local manufacturers import inputs from China. The tariffs mean these companies have to incur extra costs in production, which negatively affects their margins. Further, the companies have to increase their prices, and the market responds by reducing demand for the goods. Ultimately, the tariffs will result in the shrinkage of the economy putting many jobs at risk.

The imposition of tariffs will see a drop in the demand and supply of Chinese goods in the US market. The government is likely to benefit by receiving more revenue. Producers are likely to gain more revenues from their sales as a result of the market being vacated by Chinese suppliers and the new price levels. However, in the long run, it will harm the economic well-being of the two economies.

While a tariff imposition seems the obvious solution to protecting US industries, many aspects must be considered. It is likely to create market inefficiencies in production, affecting the US firms' ability to produce and create employment. On the other hand, the introduction of tariffs will harm the Chinese economy. This leaves the two countries worse off, thus the need to find alternative solutions.

References

Agarwal, A. (July 20, 2022). Trump-era tariffs on Chinese tech imports cost US firms US$32 billion, hurting production and jobs. South China Morning Post https://www.scmp.com/economy/global-economy/article/3185958/trump-era-tariffs-chinese-tech-imports-cost-us-firms-us32