

Evaluation

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U.S. has long been seeing red numbers in recent trade deficits. The government has always been subsidizing certain industries to preserve the diversity and competitiveness of domestic products. This article discusses the imminent trade dispute—subsidies and tariffs on domestic and foreign products.

As discussed in class, a subsidy is a monetary or political allowance government agencies give as incentives for producers and businesses. It is similar to a negative tax. A subsidy reduces the buyer's price below the seller's price. The U.S. government gives agricultural producers subsidies to help them lower costs and increase competitiveness in the world market. Otherwise, U.S. agricultural producers have a dim chance of survival in the world market because our cost of production is higher than other competitors. With this additional monetary allowance, farmers are able to lower prices for their produces and still make a profit.

Besides the agricultural subsidies, the governments are also imposing high tariffs on the agricultural goods. A tariff is a tax designed to reduce or eliminate imports by forcibly increasing the costs of imported goods. Higher prices reduce the competitiveness of imported goods, decreasing their market share in the long run. The quantity of imports is reduced in the long run as the price of imported goods cannot be lowered because of the tariffs. Foreign producers are in a sense punished in the market. This punishment certainly favors domestic produces, who can seize the chance to make a profit of this advantage.

Industrialized countries' agricultural policy to protect their own farmers put less developed countries at a disadvantage in international trade. These developing countries often have to rely on exporting agricultural goods and raw material as a major revenue. The purpose of WTO is to increase the total welfare by fair trade. That is, every country should eliminate subsidies and tariffs to allow for fair competition between domestic and foreign producers. However, with more stable political and economic power, the rich countries have stronger influences on the WTO as well. Therefore, the negotiation that disadvantages the rich countries becomes even more difficult to end