CHAPTER 9

Formulation of National Trade Policies

Tyrone Siu/Reuters/Newscom

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Present the major arguments in favor of and against governmental intervention in international trade.
2. Identify the advantages and disadvantages of adopting an industrial policy.
3. Analyze the role of domestic politics in formulating a country's international trade policies.
4. Describe the major tools countries use to restrict trade.
5. Specify the techniques countries use to promote international trade.
6. Explain how countries protect themselves against unfair trade practices.

HUAWEI LEADS THE WAY

Huawei (pronounced hwah-way) can lay claim to being China's most successful multinational corporation. Headquartered in Shenzhen, the company employs 140,000 workers in 140 countries. In 2012, Huawei's sales reached $35 billion, and it captured the title of being the world's largest telecommunications equipment manufacturer, displacing Sweden's Ericsson from that perch. It is a major supplier of mobile and fixed broadband networking equipment. It is the third-largest seller of smartphones, although its presence in this market in the United States is relatively small. It, along with Haier, the world's largest white goods manufacturer, and Lenovo, a leading PC manufacturer, is at the vanguard of Chinese companies that have enjoyed multinational success.

Huawei was founded in 1987 by Ren Zhengfei, who began his career as an engineer in the People's Liberation Army (PLA). After leaving the army, he sold private branch switching equipment for a Hong Kong manufacturer. He soon turned to manufacturing such equipment under the Huawei name. Ren built his company by producing high-quality products that sell for low prices. Huawei initially focused on serving smaller cities and rural areas in inland China, where competition was less intense. It then expanded into larger Chinese cities. By 1992, Huawei had developed its own digital telephone switch for the mainstream telecommunications market. Two years later Huawei branched into long-distance transmission equipment. Ten years after its founding, Huawei went international, marketing landline networking equipment to Hong Kong's Hutchinson Whampoa. Huawei built a research and development (R&D) center in India in 1999, in Sweden in 2000, and four in the United States shortly thereafter. In the 2000s it established R&D joint ventures with 3Com Communications, Siemens, Motorola, and Symantec. To maintain its position in the fiercely competitive and highly innovative telecom equipment market, Huawei ploughed $4.8 billion of its revenues into R&D in 2012. Huawei's strategies seem to be working: executives forecast revenue growth of 10 percent a year for the next five years, driven in part by the LTE mobile phone networks that China Mobile, China Telecom, and China Unicom, the three largest Chinese mobile operators, will be rolling out. With a billion customers, their LTE upgrades will provide a lucrative new stream of revenues for Huawei.

Although triumphant in its domestic market, Huawei has also successfully competed in international markets, with 70 percent of the company's revenues generated outside of China. However, Huawei's efforts to enter additional new market niches have been increasingly hindered by trade and investment barriers erected by governments in host countries. Australia stymied Huawei's proposed collaboration in the construction of a nationwide high-speed broadband network. India has limited Huawei's expansion there as well. Canada's government excluded Huawei's participation in the building of a secure government communications network. Huawei has been effectively banned from many U.S. markets on national security grounds as well.

Some of these governments are suspicious of Ren's links to the PLA. Huawei's growing presence in providing critical elements of the information infrastructure has generated concerns about cybersecurity. Critics have raised fears that Huawei could embed computer code in its telecommunications equipment that would facilitate industrial espionage and cyberattacks. In 2012 the U.S. House Permanent Select Committee on Intelligence released a report suggesting that hackers with ties to the PLA were responsible for systematic cyberattacks on numerous U.S. military, commercial, and journalistic organizations. The congressional report argued that Huawei should be banned from doing business in the United States because of these security issues. A UK parliamentary committee examining Huawei raised similar cybersecurity concerns.

Huawei is fighting other battles as well. In 2003 Cisco sued Huawei, claiming that the Chinese rival had infringed its patents and stolen the source code that controlled its switchers and routers. Motorola filed similar complaints in 2010. Both lawsuits were settled out of court, and confidentiality agreements have cloaked the settlements. The European Commission (see Chapter 10) has launched an investigation into whether Huawei has unfairly benefitted from subsidies—low-interest loans and favorable export credits—granted by the Chinese government. Huawei denies these charges, arguing that it is not a state-owned enterprise (SOE). But Huawei's secretive nature and its opaque ownership structure make it vulnerable to such attacks. Company spokespersons report that Ren owns 1.4 percent of Huawei's shares, with most of the rest owned by company employees. However, Huawei has disclosed little information about key corporate governance issues, such as selection procedures for its board of directors, share ownership by the board, or the transferability of its shares. Huawei has rejected these criticisms, dismissing them as protectionist arguments. Cathy Meng, Ren's daughter and the company's chief financial officer, notes "Whenever trade protectionism intervenes with competition in the market, it is the consumer who suffers in the end."

Huawei is not the only Chinese company facing difficulties in its international expansion strategy. President Barack Obama rejected the application of a Chinese firm attempting to purchase an Oregon wind farm, deeming it too close to a military base. The re-emergence of SOEs as key drivers of China's economic growth and their often opaque ties to the Chinese Communist Party and the PLA raises concerns that diplomatic, political, and economic agendas may drive their decisions as much as commercial opportunities. Critics claim that the SOEs have benefitted from favorable governmental treatment, including access to cheap loans and land and protection from domestic and foreign competitors. The SOEs allegedly contribute to corruption and create an aura of favoritism. Often they pay small or nonexistent dividends to the state; profits are allegedly siphoned off by company leadership and shared with their political patrons in the party. Their power hinders the ability of smaller Chinese firms to develop and market new products that threaten the market power of the SOEs.[1] ■

In today's global economy, many firms benefit from international trade, finding foreign markets a rich source of additional customers. Exports generate domestic jobs, so many national governments promote the success of their countries' domestic firms in international markets. But at times, firms believe that their foreign competitors have gained an unfair advantage because of policies adopted by their governments. As a result, as is the case in the telecommunications market, a firm may ask its national government for protection against the foreigners. In this chapter, we discuss the development of national trade policies that protect domestic firms from foreign competition and help promote the country's exports. We also explore the rationale for these policies and the means by which governments implement them.

Rationales for Trade Intervention

Politicians, economists, and businesspeople have been arguing for centuries over government policy toward international trade. Two principal issues have shaped the debate on appropriate trade policies:

1. Whether a national government should intervene to protect the country's domestic firms by taxing foreign goods entering the domestic market or constructing other barriers against imports
2. Whether a national government should directly help the country's domestic firms increase their foreign sales through export subsidies, government-to-government negotiations, and guaranteed loan programs

In North America, the trade policy debate has recently focused on the issue of whether the government should promote "free" trade or "fair" trade. **Free trade** implies that the national government exerts minimal influence on the exporting and importing decisions of private firms and individuals. **Fair trade**, sometimes called **managed trade**, suggests that the national government should actively intervene to ensure that domestic firms' exports receive an equitable share of foreign markets and that imports are controlled to minimize losses of domestic jobs and market share in specific industries. Some fair traders also argue that the government should ensure a "level playing field" on which foreign and domestic firms can compete on equal terms. Although sounding reasonable, the level playing field argument is often used to justify policies that restrict foreign competition.

The outcome of the debate is critical to international managers. The policies individual countries adopt affect the size and profitability of foreign markets and investments, as well as the degree to which firms are threatened by foreign imports in their domestic markets. Governments worldwide are continually pressured by successful and efficient firms that produce goods for export, as well as by the firms' labor forces and the communities in which their factories are located, to adopt policies supporting freer trade. Companies such as Huawei, Samsung, Volkswagen, and Caterpillar gain increased sales and investment opportunities in foreign markets when international trade barriers are lowered. At the same time, governments are petitioned by firms beleaguered by foreign competitors, as well as by these firms' labor forces and the communities in which their factories are located, to raise barriers to imported goods by adopting fair-trade policies because they gain increased sales opportunities in their domestic markets when international trade barriers exist.

The debate also affects consumers in every country, influencing the prices they pay for automobiles, clothing, televisions, and thousands of other goods. Barriers erected by the U.S. government against free trade in textiles and sugar, for example, raise the prices that parents must pay to clothe and feed their children.

Industry-Level Arguments

The argument for free trade follows Adam Smith's analysis outlined in Chapter 6: Voluntary exchange makes both parties to the transaction better off and allocates resources to their highest valued use. In Smith's view the welfare of a country and its citizens is best promoted by allowing self-interested individuals, regardless of where they reside, to exchange goods, services, and assets as they see fit. However, many businesspeople, politicians, and policymakers believe that, under certain circumstances, deviations from free trade are appropriate. In this section, we review the primary arguments against free trade and for government intervention, and we discuss trade policies that focus on the needs of individual industries. In the next section, we explore broader, national-level policies.

THE NATIONAL DEFENSE ARGUMENT National defense has often been used as a reason to support governmental protection of specific industries. Because world events can suddenly turn hostile to a country's interests, the **national defense argument** holds that a country must be self-sufficient in critical raw materials, machinery, and technology or else be vulnerable to foreign threats. For instance, the vulnerability of Japan's supply lines was demonstrated by the extensive damage done to its merchant marine fleet by Allied submarines during World War II. After the war, Japan banned the importation of rice as a means of promoting domestic self-sufficiency in the country's dietary staple. Similarly, the United States, to retain shipbuilding skills and expertise within the country in case of war, has developed numerous programs to support its domestic shipbuilding industry. For example, all U.S. naval vessels must be built in U.S. shipyards, and ocean transportation between U.S. ports must be conducted by U.S.-built ships. Many of the jobs in the U.S. shipbuilding industry would be lost without these federal protections because U.S. shipyards are not competitive with those of Korea, Norway, China, or Vietnam. And, as noted in the chapter's opening case, Huawei's ability to expand its presence globally has been limited by government officials concerned about cybersecurity and cyberattacks.

The national defense argument appeals to the general public, which is concerned that its country will be pushed around by other countries that control critical resources. Many special-interest groups have used this politically appealing argument to protect their industries from foreign competition. The U.S. mohair industry, for example, produces wool that was once used in military uniforms. It benefited from federal subsidies after passage of the 1954 National Wool Act, which protected the industry purportedly in the country's strategic interest. Even though the military had long since replaced mohair with synthetic fabrics, the subsidy remained in effect for more than 40 years. Other U.S. industries receiving favorable treatment for national defense reasons include steel, electronics, machine tools, and the merchant marine.[2]

To ensure that critical technology and skills remain in the country, the United States government requires that all American naval vessels be built in American shipyards, such as this guided missile destroyer constructed at the Bath Iron Works in Maine.

Reuters/Corbis

What has the French government accomplished with its $2 billion subsidy?

1. It has induced Areva to develop the new nuclear power plant technology.
2. It has induced the Japanese firm to stay out of the market.
3. It has succeeded in allowing a French firm to make a $12 billion profit at a cost to French taxpayers of only $2 billion.

By adopting a strategic trade policy in a market where monopoly profits are available, the French government has made French residents as a group better off by $10 billion ($12 billion in profits minus $2 billion in subsidies).

However, strategic trade theory applies only to markets that are incapable of supporting more than a handful of firms on a worldwide basis. (One industry that may meet the requirements of strategic trade theory is the commercial aircraft industry; see the part-closing case following Chapter 10, "Jumbo Battle over Jumbo Jets.") Most global industries are more competitive than this. A country's wholesale adoption of strategic trade policies to cover a broad group of industries may actually reduce the country's overall international competitiveness because favoring certain industries inevitably hurts others. For example, if the French government chooses to subsidize the nuclear power industry, the demand for and the salaries paid to the mechanical engineers, computer programmers, and systems analysts needed by the nuclear power industry will rise, thereby reducing the international competitiveness of other French industries requiring such skilled personnel. Further, the benefit of the subsidy could be neutralized if another country adopts a similar strategy. If Japan responded to France's $2 billion subsidy by giving a $3 billion subsidy to Toshiba, the payoff matrix would change: Toshiba would be encouraged to develop the power plant as well. Any anticipated monopoly profits might be dissipated if the two countries engaged in an all-out subsidy war.

National Trade Policies

The policies just discussed address the needs of individual industries. A national government may also develop trade policies that begin by taking an economy-wide perspective. After assessing the needs of the national economy, the government then adopts industry-by-industry policies to promote the country's overall economic agenda.

ECONOMIC DEVELOPMENT PROGRAMS An important policy goal of many governments, particularly those of developing countries, is economic development. International commerce can play a major role in economic development programs. Countries that depend on a single export often choose to diversify their economies to reduce the impact of, say, a bad harvest or falling prices for the dominant export. For example, the West African country of Ghana, which once depended heavily on cocoa, began an industrialization program to protect itself from fluctuations in cocoa prices. Dubai chose to diversify away from its heavy dependency on oil sales, electing to do so by making the emirate a business center and aviation hub. Dubai's international airport, already the world's third largest, is on track to handle 160 million passengers a year once its expansion program, worth $8 billion, is completed.[4]

As discussed in Chapter 2, some countries, such as Singapore, South Korea, and Taiwan, based their post–World War II economic development on heavy reliance on exports. According to this **export promotion strategy**, a country encourages firms to compete in foreign markets by harnessing some advantage the country possesses, such as low labor costs. Other countries, such as Australia, Argentina, India, and Brazil, adopted an **import substitution strategy** after World War II; such a strategy encourages the growth of domestic manufacturing industries by erecting high barriers to imported goods. Many multinational corporations (MNCs) responded by locating production facilities within these countries to avoid the costs resulting from the high barriers. In general, the export promotion strategy has been more successful than the import substitution strategy, as Chapter 2 indicated.

INDUSTRIAL POLICY In many countries, the government plays an active role in managing the national economy. Often an important element of this task is determining which industries should receive favorable governmental treatment. Bureaucrats within Japan's Ministry of International Trade and Industry (MITI), for example, identify emerging technologies and products and through subsidies, public statements, and behind-the-scenes maneuvering encourage Japanese firms to enter those markets. (In 2001, MITI's name was changed to the Ministry of Economy,

Barriers to International Trade

We have seen that domestic politics often causes countries to try to protect their domestic firms from foreign competitors by erecting barriers to trade. Such forms of government intervention can be divided into two categories: tariffs and nontariff barriers. Countries have been erecting trade barriers since the creation of the modern nation-state in the sixteenth century in hopes of increasing national income, promoting economic growth, or raising their citizens' standard of living. Sometimes, as you just read, national trade policies that benefit special-interest groups are adopted at the expense of the general public or society at large.

Tariffs

A **tariff** is a tax placed on a good that is traded internationally. Some tariffs are levied on goods as they leave the country (an **export tariff**) or as they pass through one country bound for another (a **transit tariff**). Most, however, are collected on imported goods (an **import tariff**). Three forms of import tariffs exist:

1. An **ad valorem tariff** is assessed as a percentage of the market value of the imported good. For example, in Table 9.1 (which is drawn from the existing U.S. tariff code) a 2.1 percent ad valorem tariff is levied against imported pineapples preserved by sugar.
2. A **specific tariff** is assessed as a specific dollar amount per unit of weight or other standard measure. As Table 9.1 shows, imported citrus fruit preserved by sugar bears a specific tariff of 6 cents per kilogram.
3. A **compound tariff** has both an ad valorem component and a specific component. Imported cherries preserved in sugar are levied a 6.4 percent ad valorem tariff and a 9.9 cents per kilogram specific tariff.

In practice, most tariffs imposed by developed countries are ad valorem. The tariff applies to the product's value, which is typically the sales price at which the product enters the country. Suppose Target buys a large shipment of canned pineapples preserved by sugar from a Philippine food processor at $400 a ton. When the pineapples are delivered to the Port of Los Angeles,

VENTURING ABROAD

EMIRATES AIRLINE EXPANSION – THE CASE OF THE CANADIAN MARKET

Dubai's flagship carrier, Emirates Airline represents one of the fastest-growing corporations in the United Arab Emirates (UAE) and has received more than 400 global awards for service excellence in linking Asia to Europe and the Americas. In its effort to further expand internationally and cater to the increasing demand of its Asian customers, Emirates requested that the Canadian government enable it to increase its current quota of three flights per week to Pearson International Airport in Toronto to daily service from Dubai to Toronto, Calgary, and Vancouver airports.

Negotiations between the two lasted a few years. In the fourth quarter of 2010, the Canadian government decided to retain the non-tariff barrier (NTB) on Emirates' flights to Canada, claiming that more landing rights will result in an unfair "capacity dumping" into its airline market.

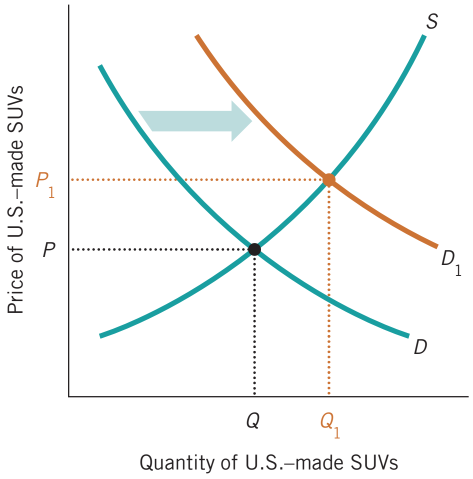
Unlike Emirates Airline, Canada's leading airline (Air Canada) does not offer services to most key cities in Southeast Asia, Africa, and the Middle East and relies on its European partners to transport passengers onto these routes. Therefore, by protecting a prime national firm against a foreign competitor, the Canadian government has deprived travelers (mostly Canadian) from shorter journey times and more choice in prices and services. Furthermore, in retaliation to Canada's action, the UAE government placed restrictions on several Canadian firms dealing with the UAE (which is ranked the seventeenth largest export market for Canada) and removed it from the Visa Waiver Program, thus forcing all its citizens to obtain an entry visa to the UAE prior to traveling.

Emirates argued that increasing the current frequency and adding more cities to its network would create 2,800 jobs in Canada, while keeping its share to just under 2 percent of the country's international airline services. On the other hand, Air Canada is facing increasing criticism from customers relating to bad service, despite it being supported with millions of dollars provided by the Canadian government.

Currently, Emirates Airline's expansion efforts into the Canadian market seem to rely on a change in Canada's airline protection policies. As a result, Emirates has launched multiple campaigns that portray the benefits that Canada could obtain from such an endeavor and focused its energy on further expansion within other North and South American countries. To that end, starting in January 2012, Emirates has been flying to six U.S. cities, some of them at the rate of two and three flights per day. Thus, it remains to be seen if Asian customers would start using Emirates routes to the United States as connection to Canadian cities.

FIGURE 9.3

Impact of an Import Tariff on Demand for U.S.-Made SUVs



Gainers include GM, Ford, and Chrysler dealerships selling domestic SUVs; suppliers to domestic producers; workers at domestic GM, Ford, and Chrysler SUV assembly plants; and the communities in which domestic SUV factories are located. Domestic consumers are losers because they pay higher prices for both domestic and foreign SUVs. Foreign producers also lose, as do people and firms that depend on them, including Toyota and Mazda dealerships in the United States, workers and suppliers in Japan, and communities in Japan in which the SUVs are manufactured.

Nontariff Barriers

Nontariff barriers are the second category of governmental controls on international trade. Any government regulation, policy, or procedure other than a tariff that has the effect of impeding international trade may be labeled a **nontariff barrier (NTB)**. In this section we discuss three kinds of NTBs: quotas, numerical export controls, and other NTBs.

QUOTAS Countries may restrain international trade by imposing quotas. A **quota** is a numerical limit on the quantity of a good that may be imported into a country during some time period, such as a year. Quotas have traditionally been used to protect politically powerful industries, such as agriculture, automobiles, and textiles, from the threat of competition, as in the use of quotas to limit imports of rice by Japan, Korea, Taiwan, and the Philippines. However, as a result of trade agreements such as the Uruguay Round (see Chapter 10), many countries have replaced quotas with tariff rate quotas. A **tariff rate quota (TRQ)** imposes a low tariff rate on a limited amount of imports of a specific good; above that threshold, a TRQ imposes a prohibitively high tariff rate on the good. This situation is depicted in Figure 9.4, where the first 100,000 widgets imported into a country are subjected to a low tariff rate, T_L; all widgets after the first 100,000 are subjected to the high tariff rate, T_H. Canada, for example, has substituted a TRQ for its previous quotas on imports of eggs, dairy products, and poultry. Imports of these goods above the threshold may carry tariffs as high as 350 percent. Japan imposes a 341-yen tariff on imported rice in excess of the quota, the equivalent of a 400-percent tariff.[7] Korea imposes tariffs of 243 percent on over-quota honey and 304 percent on over-quota potatoes.[8] In the short run, such high tariffs have the same effect as a quota: They normally limit imports of a good to the threshold level. However, at least in concept, exporters are allowed to increase their sales to the country as long as they are willing to pay the high tariff. And because tariffs are more visible than quotas, most experts believe that converting quotas to TRQs makes it easier to eliminate this type of trade barrier over time through trade negotiations.

A quota or TRQ helps domestic producers of the good in question but invariably hurts domestic consumers. Consider the impact on the U.S. market of the TRQ on sugar. The U.S. government normally restricts the amount of foreign sugar that can be imported to less than 2 million tons annually by slapping a 17-cent specific tariff on each pound of sugar imported into the United States above that amount. (Domestic producers normally produce about

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China restricts the number of foreign films that can be shown in its movie theaters, limiting them to no more than one-third of total screening time. It also regulates the share of the box office revenues allocated to the foreign films' owners. Hollywood movie studios complain that such practices facilitate piracy of their products and restrict their ability to compete in the large and growing Chinese market.

movie studios and stimulates the widespread counterfeiting of DVDs. Indonesia similarly limits the screen time of foreign films to 60 percent in its movie theaters.[19]

India has historically limited foreign participation in its retailing sector, fearing that competition from Western chains such as Carrefour, Marks & Spencer, and Walmart would devastate the country's army of small mom-and-pop retailers. India has been pressured to eliminate these restrictions by its trading partners. The government has responded cautiously: In 2006, it relaxed the restrictions against single-brand stores, allowing foreign investors to own

BRINGING THE WORLD INTO FOCUS

THE FIGHT OVER RARE EARTHS

Most trade conflicts arise from a country's erecting barriers against the importation of goods. In 2010, China decided to tighten its export controls on rare earths, announcing a 35-percent reduction in exports in 2011 from their 2010 levels. The intensity of the ensuing battle triggered over these obscure minerals reflects the globalization of supply chains and China's desire to transition its economy from manufacturing low-value-added goods to producing higher-value-added ones.

Rare earths is a term used to denote 17 different minerals that are critical for the production of many high-tech products, such as smartphones, computer chips, and batteries for hybrid cars. For example, cerium oxide is used to polish hard drives, while less than a penny's worth of neodymium allows cell phones to vibrate. Despite their name, rare earths are not that rare. However, they are expensive to produce, and environmental damage can ensue if the toxic chemicals used in their refining are not carefully handled. Moreover, bringing a new mine into production can take years.

China currently accounts for more than 90 percent of the world's rare-earth production, although it possesses only one-third of global reserves. It exported almost $1 billion of these minerals in 2010. China's dominance in the market is attributed to the low prices its mines charged starting in the 1990s. As prices fell, foreign producers closed their mines, unable to compete with the "China price."

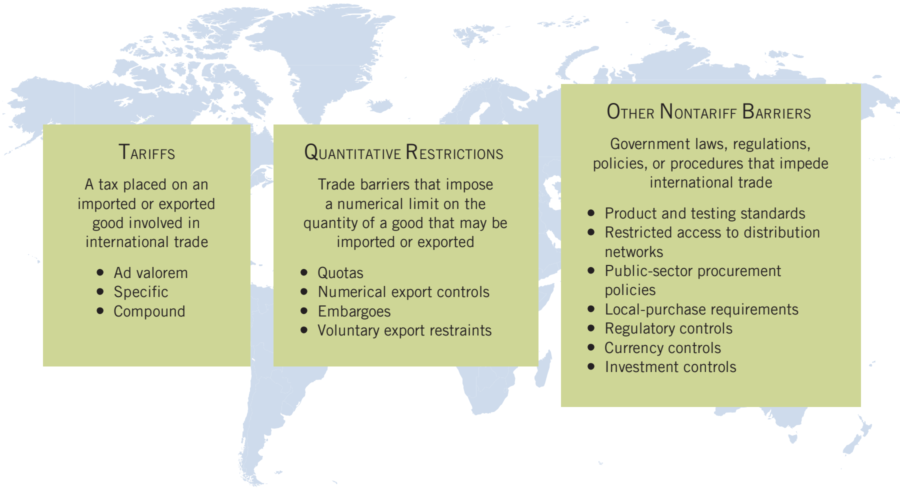
China has claimed its export controls are motivated by its desire to protect the environment, save energy, and protect national resources. Critics in Europe, North America, and Japan see less benign reasons. They fear that the export controls are designed to boost Chinese production of high-tech goods by driving up the costs of key inputs to foreign users and encouraging foreign high-tech firms to relocate production facilities to China. They note that a 2009 policy paper issued by the country's Resource Ministry stressed that the quotas would enable the ministry to promote the government's industrial policy and influence the demand-supply relationships in the market, allowing China to boost the prices it receives for its exports of rare earths. Moreover, it has announced plans to stockpile these minerals and has assured foreigners that any factories located in China will continue to have access to the rare earths they need.

China's policies have caused firms to seek to diversify their sourcing of rare earths. Japan is the largest importer of them, accounting for about 20 percent of annual usage. Its government is promoting recycling and funding R&D efforts in such areas as robotic deep-sea mining to lessen its dependence on Beijing. In late 2010,

(*Continued*)

FIGURE 9.5

Types of Barriers to International Trade: A Summary



International businesses whose operations are affected by NTBs often need the support of their home governments to help resolve these problems. Figure 9.5 summarizes the various forms that trade barriers can take.

In Practice

- The major barriers to international trade include tariffs, quotas, and other trade barriers.
- Government regulations controlling access to distribution networks, public-sector procurement policies, and access to foreign exchange can serve as trade barriers.

For further consideration: Consider France's policy limiting non-French music on its radio stations. Is this a trade barrier or a legitimate attempt by the French government to protect French culture?

Promotion of International Trade

We have just explored some techniques that governments use to restrict foreign business activity. In this section, we discuss government policies that promote international business, including subsidies, establishment of foreign trade zones, and export financing programs. Typically, these programs are designed to create jobs in the export sector or to attract investment to economically depressed areas.

Subsidies

Countries often seek to stimulate exports by offering subsidies designed to reduce firms' costs of doing business. Brazil, for example, provides a variety of tax, tariff, and financing incentives to spur exports, while Jordan exempts profits generated by exporting from income taxation in many industries.[41] The Turkish Grain Board lowers the cost of wheat to Turkish exporters of pasta and flour.[42] Our opening case detailed the concerns expressed by U.S. and European politicians that Huawei has benefited from subsidies granted by the Chinese government.

National, state, and local governments often provide economic development incentives—another type of subsidy—to entice firms to locate or expand facilities in their communities to provide jobs and increase local tax bases. These incentives may be in the form of property tax abatements, free land, training of workforces, reduced utility rates, new highway construction, and so on. Competition among different localities can be fierce. For instance, Georgia agreed to provide Kia Motors with $400 million in incentives to capture that firm's first U.S. plant and the 2,500 jobs it was estimated to produce.[43] Similarly, the U.S. Virgin Islands pledged to spend $100 million to help expand Fortune Brand's rum distillery on St. Croix and to build a new wastewater treatment facility for it.[44]

Because subsidies reduce the cost of doing business, they may affect international trade by artificially improving a firm's competitiveness in export markets or by helping domestic firms fight off foreign imports. Subsidies, however, can grow so large as to disrupt the normal pattern of international trade. The shipbuilding, wheat, and butter industries are notorious examples of markets in which trade is distorted because of the high level of subsidies. The big losers in the subsidy wars are efficient producers in countries that lack large-scale subsidies, such as Australia's wheat industry or New Zealand's dairy industry. "People, Planet, and Profits" discusses the impact of subsidies on the market for cotton.

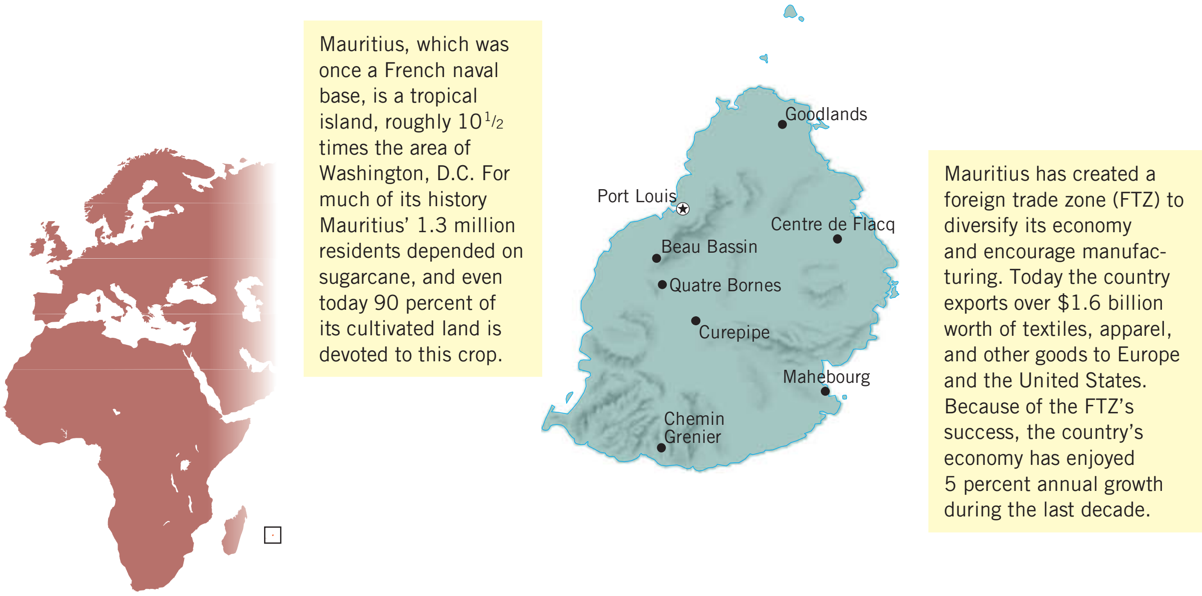
Foreign Trade Zones

A **foreign trade zone (FTZ)** is a geographic area in which imported or exported goods receive preferential tariff treatment. An FTZ may be as small as a warehouse or a factory site (such as Caterpillar's diesel engine facility in Mossville, Illinois) or as large as the entire city of Shenzhen, China (which neighbors Hong Kong).[45] FTZs are used by governments worldwide to spur regional economic development. For example, an FTZ has played a key role in the economic development of the small African island nation of Mauritius (see Map 9.3). Through the use of an FTZ, a firm typically can reduce, delay, or sometimes totally eliminate customs duties. Generally, a firm can import a component into an FTZ, process it further, and then export the processed good abroad and avoid paying customs duties on the value of the imported component.

The *maquiladora* system represents another example of the use of FTZs. A **maquiladora** is a factory located in an FTZ in Mexico; most are situated near the U.S. border. These factories import unfinished goods or component parts, further process the goods or parts, and re-export them. The goods produced by maquiladoras enjoy preferential customs and tax treatment. Mexico levies no customs duties on unfinished goods imported by a maquiladora, provided the goods are re-exported after having been further processed in Mexico. Machinery imported into Mexico and used by a maquiladora is also exempt from customs duties. U.S. customs duties on maquiladoras' exports are applied only to the value of the processing performed in Mexico. Today the maquiladora industry is the second-largest sector of the Mexican economy (after oil production) and the second-largest source of Mexico's foreign-exchange earnings. However, as a result of NAFTA, many tariff advantages once enjoyed only by the maquiladoras are now available to factories throughout Mexico. Thus, interior cities such as Monterrey and Saltillo have been put on a more even footing with border communities such as Nuevo Laredo and Matamoros in terms of attracting new plants to serve the North American market.

MAP 9.3

Foreign Trade Zone on Mauritius



PEOPLE, PLANET, AND PROFITS

COTTON SUBSIDIES AND WORLD POVERTY

For years the United States and the European Union (EU) have poured money into subsidizing their agricultural sectors. These subsidies have been criticized by the Cairns Group, an organization of efficient agricultural producers who believe the U.S. and EU subsidies are distorting trade in agricultural goods. These critics have recently been joined by advocates concerned about alleviating poverty in developing countries; these advocates include nongovernmental organizations (NGOs) such as Oxfam and U2's lead singer, Bono, who believe these subsidies contribute to the impoverishment of farmers in less-developed countries. Oxfam estimates that EU subsidies depress world butter prices by 20 percent, while its sugar subsidies cost Thailand $150 million and Brazil $500 million a year.

Cotton provides another example of this phenomenon. In a complaint filed with the WTO, Brazil argued that the $3 billion-a-year subsidies paid to U.S. farmers increase U.S. cotton production by 29 percent, thereby depressing world cotton prices by 12.6 percent. Brazilian officials estimate these U.S. subsidies cost Brazilian farmers $600 million in lost sales. After the WTO found in Brazil's favor, the two countries negotiated a settlement requiring the U.S. government to provide $147 million in annual subsidies to Brazilian cotton farmers.

This settlement did not alleviate the impact of the U.S. cotton subsidies on parts of Central and Western Africa that are heavily dependent on cotton production. Thousands of farmers in Benin, Burkina Faso, Chad, and Mali, many living below the poverty line, make their living farming cotton. Oxfam estimates that the subsidies paid to U.S. cotton farmers cost these countries $300 million a year and reduce their exports by a tenth. And the subsidies often neutralize whatever aid Western countries provide them. In a typical year Oxfam estimates that U.S. cotton subsidies cost Mali $43 million, offsetting the $38 million in foreign aid the United States provided that country.

The United States is not the only country that subsidizes its cotton farmers. China provides an estimated $1.2 billion in subsidies to its farmers, and the EU subsidizes its cotton growers, primarily in Spain and Greece, to the tune of $700 million a year. China and the United States produce about 45 percent of the world's supply.

Sources: "Why the U.S. is also giving Brazilians farm subsidies," *Time*, April 9, 2010; "U.S. and Brazil reach agreement on cotton dispute," *New York Times*, April 6, 2010; "WTO allows Brazil to fine U.S.," *Wall Street Journal*, August 1, 2009; "In fight against farm subsidies, even farmers are joining foes," *Wall Street Journal*, March 14, 2006, p. A7; "Unpicking cotton subsidies," *The Economist*, April 30, 2004 (online); "Cultivating poverty," Oxfam Briefing Paper 30, Oxfam International; "A great yarn," *The Economist*, December 20, 2003, pp. 43ff.; "WTO chief leads cotton review," BBC News online, September 12, 2003.

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Brazil filed a complaint with the World Trade Organization, urging it to end the large subsidies that the European Union and the United States offer their cotton farmers. Oxfam, one of the leading NGOs fighting world poverty, believes that such subsidies cost African cotton farmers over $300 million in lost sales and lowered prices, monies they can ill-afford to lose.

Export Financing Programs

For many big-ticket items such as aircraft, offshore drilling rigs, and large construction projects, success or failure in exporting depends on a firm's producing a high-quality product, providing reliable repair service after the sale, and—often the deciding factor—offering an attractive financing package. For example, Boeing competes with Airbus to sell Air Canada 200-seat short-range aircraft. When Air Canada is deciding which firm's aircraft to buy, it carefully weighs price, after-sale technical support, aircraft operating costs, and financing expenses. All other things being equal, the financing terms offered to Air Canada may be critical in its decision of which firm wins the contract.

Because of the importance of the financing package, most major trading countries have created government-owned agencies to assist their domestic firms in arranging financing of export sales, both large and small. The **Export-Import Bank of the United States (Eximbank)** provides financing for U.S. exports through direct loans and loan guarantees; in 2012 it supplied financing for almost 3,800 export transactions worth $35.8 billion. Large firms such as Boeing are important clients, but the Eximbank also services small U.S. exporters. For example, it guaranteed $9.4 million in bank loans that helped three Midwestern companies, including two small businesses, to export equipment needed to construct a hydroelectric dam in Turkey.[46] Another U.S. government–sponsored organization, the **Overseas Private Investment Corporation (OPIC)**, provides a different type of insurance—political-risk insurance, a subject covered in Chapter 3. If a foreign country confiscates an insured firm's goods or assets, OPIC will compensate the firm for its losses. Most major trading countries have similar organizations that provide export financing, commercial insurance, and political-risk insurance. In China, state-owned banks play a key role in supporting the growth of China's exports by offering such services.[47] Other countries, such as Malaysia, rely on their central bank to provide low-cost export financing.

In Practice

- Governments often promulgate policies that expand the role of domestic firms in international commerce to create jobs or to attract investment to economically depressed regions.
- These policies can include subsidies, establishment of foreign trade zones, and export financing programs.

For further consideration: Although these government policies benefit some firms, are they unfair to other firms who do not benefit from the policies?

Controlling Unfair Trade Practices

With governments around the world adopting programs designed to protect domestic industries from imports and other programs to promote their exports, it should not be surprising that competitors often cry foul. In response to these complaints, many countries have implemented laws protecting their domestic firms from unfair trade practices.

In the United States, complaints from firms affected by alleged unfair trade practices are first investigated by the International Trade Administration (ITA), a division of the U.S. Department of Commerce, which determines whether an unfair trade practice has occurred. The Department of Commerce transfers confirmed cases of unfair trading to the U.S. International Trade Commission (ITC), an independent government agency. If a majority of the six ITC commissioners decide that U.S. producers have suffered "material injury," the ITC will impose duties on the offending imports to counteract the unfair trade practice. The ITC, like the Canadian International Trade Tribunal and other similar government agencies worldwide, focuses on two types of unfair trade practices: government subsidies that distort trade and unfair pricing practices.

Countervailing Duties

Most countries protect local firms from foreign competitors that benefit from subsidies granted by their home governments. A **countervailing duty (CVD)** is an ad valorem tariff on an imported good that is imposed by the importing country to counter the impact of foreign subsidies. The CVD is calculated to just offset the advantage the exporter obtains from the subsidy. In this way, trade can still be driven by the competitive strengths of individual firms and the laws of comparative advantage, rather than by the level of subsidies that governments offer their firms. For instance, the EU and the United States each imposed CVDs on high-end glossy paper imported from China, in the belief that Chinese producers had benefited from cheap governmental financing and land sales.[48]

Not all government subsidies give a foreign firm an unfair advantage in the domestic market. Most countries impose CVDs only when foreign subsidization of a product leads to a distortion of international trade. For example, the U.S. government, in administering its CVD rules, tries to determine whether a particular subsidy is generally available to all industries in a country, in which case CVDs will not be applied, or whether the subsidy is restricted to a specific industry, in which case CVDs may be imposed. If a foreign government grants a tax credit to all employers for training handicapped workers, a CVD will not be applied because the tax credit is available to all the country's firms. If the tax credit is restricted to the footwear industry, however, a CVD may be imposed on imported footwear equal to the value of the tax credit.

CVD complaints are often triggered by some governmental action designed to overcome some other governmental action. For example, the EU's common agricultural policy has had the effect of raising the prices paid to European grain farmers. Unfortunately, the high cost of feed grains raised the costs of European swine producers and made their meat products uncompetitive in world markets. To undo the damage caused to swine producers by high grain prices, the EU agreed to provide an export subsidy for canned hams and other processed meat products. With the aid of this subsidy Danish and Dutch pork processors were able to capture 25 percent of the Canadian canned ham and canned luncheon meat market. As a result, Canadian pork-packing houses successfully petitioned the Canadian International Trade Tribunal to impose a CVD on Danish and Dutch canned pork products.

Antidumping Regulations

Many countries are also concerned about their domestic firms being victimized by discriminatory or predatory pricing practices of foreign firms, such as dumping. There are two types of dumping. **Dumping** can occur when a firm sells its goods in a foreign market at a price below what it charges in its home market. This type of dumping is a form of international price discrimination. The second type of dumping involves the firm's selling its goods below cost in the foreign market, in which case the dumping is a form of predatory pricing. The concern with predatory pricing is that a foreign company may lower its prices in the host country, drive host country firms out of the market, and then charge monopoly prices to host country consumers once competitors have been eliminated. Antidumping laws protect local industries from dumping by foreign firms.

Determining whether the first type of dumping—price discrimination—has actually occurred is not always easy. For example, many Western politicians incorrectly accuse Japanese companies of dumping, noting that Japanese goods often retail for higher prices in Tokyo than in New York City. Retail prices, however, are irrelevant in determining whether dumping has occurred. The comparison should be made between the prices charged foreign customers and domestic customers at the factory gate; these prices are often difficult to obtain. The high retail prices in Tokyo might reflect the inefficient Japanese distribution system or high costs of retailing there rather than dumping by the manufacturer.

In the second type of dumping—predatory pricing—defining costs is complicated, particularly when dealing with a large, multidivisional MNC such as Toyota or Nissan. For example, when the ITA is determining the "cost" of a Toyota Sienna minivan, should it measure cost as the marginal cost of producing one more Sienna? Should it include some of

Toyota's minivan-related R&D expenses, or should it simply recognize that these R&D costs would have been incurred whether or not the U.S. market existed? Should it include charges for Toyota's corporate overhead? Foreigners' guilt or innocence in dumping cases often turns on the answers to such accounting questions.

Should Countries Enforce Their Unfair Trade Practice Laws?

It may be surprising to learn that many economists argue for abolishing unfair trade practice laws. Who, after all, would support promoting unfair trade? Advocates of abolishing unfair trade practice laws generally agree with the objectives of these laws:

- Promote global efficiency by encouraging production in those countries that can produce a good most efficiently.
- Ensure that trade occurs on the basis of comparative advantage, not the size of government subsidies.
- Protect consumers from predatory behavior.

However, abolition advocates assert that in practice these laws do more harm than good. Much of their concern rests on how the laws are enforced. Foreign firms alleged to have dumped goods in the United States must provide comprehensive documentation of their pricing and cost-accounting procedures, in English, using U.S. generally accepted accounting principles (GAAP). Firms failing to comply with the short deadlines for supplying these documents find themselves at a disadvantage in defending themselves before the ITC. Moreover, critics of unfair trade practice laws argue that the ITC's costing methodology is flawed and biased toward finding dumping when none exists. New Zealand kiwi fruit was subjected to high dumping duties in the U.S. market for nearly a decade, for example, on what many experts consider to be flimsy evidence. Indeed, most major trading countries believe that U.S. enforcement of its unfair trade practice laws is based on politics, not the law, and thus the laws serve as a protectionist trade barrier.

Some economists go even further in their disdain for unfair trade practice laws. They believe the laws make no sense, either in theory or in practice, because of the harm they cause consumers. These economists are skeptical of the predatory pricing argument, contending that decades of economic research have failed to find many real-world examples of such behavior. With regard to international price discrimination or government subsidization, the economists argue that if foreigners are kind enough (or dumb enough) to sell their goods to our country below cost, why should we complain?

Safeguards

The previous sections refer to unfair trade practices. International trade law also allows countries to protect themselves from sudden surges in imported goods, even if the goods were traded fairly, to allow them time to adjust to the changed economic environment. Such actions use "safeguard clauses" or "escape clauses." In U.S. trade law, Section 201 of the Trade Act of 1974 permits the imposition of temporary tariffs, quotas, or other trade barriers by the federal government if the ITC finds that U.S. firms have been seriously harmed by increased imports and if the president approves the ITC's findings.

For instance, in 2009, President Obama imposed temporary tariffs for three years on tires imported from China after the ITC ruled that U.S. tire producers were harmed by rapid increases in imports, causing them to trim their workforces by 5,000 employees. Between 2004 and 2008, the ITC found that the U.S. market share of Chinese tires rose from 4.7 percent to 16.7 percent, and that four U.S. tire factories had shuttered their gates as a result. Obama chose to levy a 35-percent tariff on Chinese tires for one year. The president determined that the tariff should decline to 30 percent in the second year and to 25 percent in the final year. While the United Steelworkers, who filed the original complaint, were delighted by the president's decision, many U.S. tire wholesalers, who rely on imports to keep their costs down, were not.[49]

In Practice

- Many countries have implemented laws protecting their domestic firms from unfair trade practices.
- The two primary unfair trade practices result from government policies that distort international trade and from dumping.

For further consideration: Should governments enforce their unfair trade practices law?

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CHAPTER REVIEW

Summary

Formulating trade policies that advance the economic interests of their citizens is an important task facing most national governments. Although some policymakers suggest that free trade is the most appropriate policy, numerous firms, government bureaucrats, and other interested parties argue for active governmental intervention in international trade.

Some rationales for governmental intervention focus on the specific needs of an industry (national defense, infant industry, maintenance of existing jobs, and strategic trade arguments), whereas others focus on the country's overall needs (economic development and industrial policy).

Over the centuries, governments have developed a variety of trade barriers. Import tariffs raise revenues for the government as well as help domestically produced goods compete with imported goods. Quotas and VERs place a numerical limitation on the amount of a good that can be imported or exported. Other NTBs may also disadvantage foreign products in the market. These barriers include product and testing standards, restricted access to distribution systems, public-sector procurement policies that favor local firms, local-purchase requirements, regulatory powers, and currency and investment controls.

National governments also seek to promote the interests of domestic firms in international trade through other programs. The governments may subsidize local production of goods and services to make them more competitive in international markets. They also may authorize the establishment of FTZs to help domestic firms export goods. Export financing programs have been developed to assist exporters in marketing their goods.

National governments protect local producers from unfair foreign competition by enacting unfair trade laws. CVDs are imposed on foreign products that benefit from government subsidies that distort international trade. Antidumping laws protect domestic producers from being victimized by predatory pricing or price discrimination policies of foreign firms.

Review Questions

9-1. How does free trade benefit the consumer?
9-2. What is the national defense argument?
9-3. What are the different types of tariffs?
9-4. Why is it useful for an importer to seek out an advance tariff classification from the U.S. Customs Service?
9-5. Why might a country adopt a VER?
9-6. What are the major forms of NTBs?
9-7. What are subsidies?
9-8. What is the role of OPIC?
9-9. What is the purpose of a CVD?
9-10. What are the two definitions of *dumping*?

Questions for Discussion

9-11. What are the advantages and disadvantages of an industrial policy?
9-12. Because of Japan's success in competing in international markets, it has been the target of numerous complaints that it restricts foreign access to its local markets. As Japan reduces its barriers to imported goods, who is likely to gain from lowered barriers? Who is likely to lose from them?

9-13. In your opinion, what are the main disadvantages of adopting the strategic trade theory? In your answer, list and briefly explain at least three disadvantages.

9-14. Refer back to Figure 9.2 on page 265. What would happen if Japan offered Toshiba a subsidy of \$1.5 billion after it learns that France granted Areva a subsidy of \$2 billion?

9-15. Canada places a non-tariff barrier (NTB) on Emirates Airline (Dubai flagship carrier) flights by limiting the landing rights of this foreign carrier within Canadian airports. If the Canadian government removes this NTB what would be the implications of this decision on Canadian firms (including Air Canada, the national airline) and the Canadian economy?

9-16. Should we worry if foreigners sell us goods cheaply?

Building Global Skills

Assessing Trade Barriers

The ability of firms to market their products in foreign countries is often affected by trade barriers imposed by individual countries. Your assignment is to pick an industry or product and report on the barriers to trade or investment that five countries impose on it. Because the members of the EU have common trade policies, only one of the five countries can be an EU member.

Fortunately, there are numerous sources of useful information available in published form and on the Internet. The Office of the U.S. Trade Representative publishes annually an analysis of trade barriers imposed by other nations titled the *National Trade Estimate Report on Foreign Trade Barriers.* This study also provides a detailed description of the evolution of current trade conflicts between the United States and its trading partners. The European Commission provides similar information for the EU in the Trade section of its website (see http://ec.europa.eu/trade/). The U.S. Customs Service's website provides information on tariffs imposed by the United States. Other groups, such as the WTO and industry trade associations, also publish useful information.

CLOSING CASE Green Energy and Free Trade

The trauma of the Global Recession of 2008–2009 motivated politicians around the world to seek new ways of rejuvenating their struggling economies. Many of them focused on the promotion of green energy as a critical element of their economic recovery programs. (Green energy encompasses power generated by sustainable, renewable sources, such as solar, wind, waves and tide, geothermal deposits, biomass, and low-impact hydroelectric power.) In 2008, then presidential candidate Barack Obama proposed a "New Energy for America" initiative, which sought to invest \$150 billion over 10 years to promote clean energy, reduce dependence on foreign oil, lower greenhouse gas emissions, and create five million new jobs. By stimulating new green energy technologies, candidate Obama believed that the United States would become a dominant exporter in the green energy markets of the future. During his 2010 election campaign, British Prime Minister David Cameron pledged to create a £20 billion green homes program. German Chancellor Angela Merkel announced her Nine-Point Program designed to increase over a 40-year period the role of renewable sources in generating Germany's electricity. For 2020, Merkel established a goal of having renewable sources provide 35 percent of Germany's electricity needs. The Canadian province of Ontario's Green Energy and Green Economy Act of 2009 promised to stimulate green energy production and to increase energy efficiency. Similar green energy programs were announced by the governments of China (with a price tag of \$220 billion), South Korea (\$60 billion), and Japan (\$35 billion).

These green energy initiatives typically had dual goals: rejuvenate stagnating economies and address the global climate change problem. The Kyoto Protocol, the result of a 1997 enclave, and the Copenhagen Accord, the product of the 2009 United Nations Climate Change Conference, highlighted the need to reduce greenhouse gas emissions. Although these two international meetings were less successful than many climate experts wished—the United States did not ratify the Kyoto Protocol and the Copenhagen Accord was not framed as a legally binding treaty—national leaders recognized the magnitude of the global climate change threat.

The dual goals of these well-intentioned and politically appealing green energy initiatives have created numerous problems for the world's trade officials, however. As we will discuss in detail in the next chapter, most countries are members of the WTO and have pledged to reduce barriers to international trade. Yet many of these green energy initiatives contain provisions that are contrary to

Case Questions

9-17. Why have so many governments chosen to subsidize green energy initiatives? Can all of these programs be successful?

9-18. China has passed the United States as the largest emitter of greenhouse gases, which displeases environmentalists concerned about global climate change. China has subsidized its green energy manufacturers, allowing them to dominate key industries, such as solar panels, which displeases advocates of free trade. What would you recommend China do? Should it accommodate its critics? Should it ignore them?

9-19. What is the rationale for BTAs? Under what conditions, if any, should countries be allowed to impose BTAs?

9-20. What is the appropriate trade-off between promoting free trade and promoting green energy? Should the WTO rules be suspended when dealing with green energy?

Source: "EU hands China solar reprieve," *Financial Times*, June 5, 2013, p. 2; "China solar panel makers negotiate with U.S. and EU," *Financial Times*, May 24, 2013, p. 2; "The Cloudy Logic of Europe's Solar Tariffs," *Wall Street Journal*, May 13, 2013, p. C8; "EU Plans Tariffs Up to 67.9% on Chinese Solar Panels," *Wall Street Journal*, May 9, 2013, p. B3; "Europe's Green Central Planning," *Wall Street Journal*, May 9, 2013; "Chinese sun panels face EU levies," *Financial Times*, May 6, 2013, p. 2; "India Plans Subsidies to Boost Solar-Power Sector," *Wall Street Journal*, April 21, 2013; "Wind-Power Subsidies? No Thanks.," *Wall Street Journal*, April 2, 2013, p. A13; "Suntech Rattles Investors in U.S.," *Wall Street Journal*, March 21, 2013, p. B5; "Suntech's China solar panel venture declares bankruptcy," *Financial Times*, March 21, 2013, p. 11; "U.S. fuels global energy battle with solar trade case against India," *Financial Times*, February 7, 2013, p. 1; "Washington to Hit Beijing With Solar-Panel Tariffs," *Wall Street Journal*, November 8, 2012, A15; "China Files WTO Complaint on EU Solar Subsidies," *Wall Street Journal*, November 5, 2012; "The way the world turns," *Financial Times*, November 29, 2011, p. 10; "Overrun by Chinese Rivals, U.S. Solar Company Falters," *Wall Street Journal*, August 17, 2011, p. B1; Office of the U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2011*, pp. 54, 181; "Wind power hits a trough," *Wall Street Journal*, April 4, 2011; "Indian solar rules burn U.S.," *Wall Street Journal*, February 8, 2011; "U.S. seals energy deals as Hu arrives for visit," *Wall Street Journal*, January 19, 2011; "U.S. pushes India to lift solar import restrictions," *Wall Street Journal*, December 15, 2010; "Asia's green tech rivals," *The Economist*, November 13, 2009; "Obama lays out clean-energy plans," *Washington Post*, March 24, 2009; "Barrack Obama and Joe Biden: New energy for America," www.barackobama.com; G. Atkinson, Hamilton G. Ruta, and D. van der Mensbrugghe, 2009, "Trade in 'Virtual Carbon': Empirical Results and Implications for Policy," Background paper for the World Development Report 2010; German government press release at http://www.germany.info/Vertretung/usa/en/_pr/P_Wash/2010/09/07_EnergyPlan_PR,archiveCtx=1992696.html.

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9-21. Discuss the primary barriers that countries erect to protect domestic firms from foreign competition. Who benefits from the erection of these barriers? Who loses?

9-22. The enforcement of antidumping laws in controversial. Discuss why this is so. Should nations enforce their antidumping laws? Defend your answer.

9-23. Mymanagementlab Only—comprehensive writing assignment for this chapter.

Endnotes

1. "U.K. Raises Cybersecurity Concerns Over Huawei," *Wall Street Journal*, June 7, 2013, p. A8; "Huawei shifts focus after U.S. U-turn," *Financial Times*, April 30, 2013, p. 15; "Huawei predicts 10% annual rise in revenues," *Financial Times*, April 9, 2013, p. 17; "China's Huawei Sees Wireless Growth Despite U.S. Shutout," *Wall Street Journal*, April 4, 2013, p. B4; "Huawei dismisses claims over Beijing ties," *Financial Times*, March 1, 2013, p. 13; "Huawei builds clout through R&D," *Wall Street Journal*, February 25, 2013, page B1; "Clear as mud," *The Economist*, February 2, 2013; "China Eyes Electronics Clout," *Wall Street Journal*, January 23, 2013, p. B10; "ZTE Girds for Loss, While Huawei Forecasts 33% Rise in Net," *Wall Street Journal*, January 22, 2013, p. B3; "Huawei in pledge to disclose more information," *Financial Times*, January 22, 2013, p. 15; "Huawei pins hope on fresh face," *Financial Times*, January 22, 2013, p. 17; "Not just tilting at windmills," *The Economist*, October 6, 2012; "Who's afraid of Huawei?," *The Economist*, August 4, 2012.
2. "The trough," *The Economist*, June 27, 1992, p. 22.