

Protection on Sale? The Political Economy of Beef and Bananas

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The 1990s witnessed a boom of Section 301 trade dispute cases between the United States and some of its trade partners under free trade agreements, with hormoned beef and Chiquita bananas featured prominently in the news. In these cases where a foreign country's unfair trade practices cause damage to U.S. exports, Section 301 of the Trade Act of 1974 provides the United States with the authority to retaliate by blocking an equivalent amount of imports. The construction of these retaliation lists gives the U.S. government freedom to choose both the level of retaliatory tariffs and which foreign products these tariffs should be levied upon.

In this paper, we embed a two-country monopolistic competition model, where products differ in their elasticity of substitution with competing imports, in a political economy framework in order to advance two objectives. Firstly, we derive optimal product selection rules, which will crucially depend on the weight the government attributes to the welfare of different economic agents in its objective function. Secondly, we will employ these results to reexamine evidence from past retaliation lists, which will allow us to assess the structure of the U.S. government's objective function and whether the U.S. Dept. of Commerce in practice reaches its goal of minimizing "the harmful effects on U.S. businesses and consumers" in constructing these lists.