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Nations Don't Trade With Each Other;Individuals Do

WASHINGTON (Reuters) -- *The United States imported $2.74 billion of "oil country tubular goods" from China in 2008, more than triple the previous year, as a surge in oil prices led to increased demand for the oil well tubing and casing.*

MP: The statement above perpetuates a common misconception about international trade that clouds clear thinking about the topic. Technically, the United States did NOT import $2.74 billion of steel pipe from China, at least not as a "country." It was dozens, if not hundreds, of American-owned companies that voluntarily placed hundreds, if not thousands, of individual purchase orders in 2008 to purchase Chinese steel from dozens, if not hundreds, of steel-producing companies in China who filled the orders totalling $2.72 billion, and shipped the steel.

It might be a subtle point, but it's important to realize that countries don't trade with each other as countries - rather it's individual consumers and individual companies that are doing the buying and selling. The confusion gets reinforced when we constantly hear about the "U.S. trade deficit with Japan" or China, which might again imply that the "unit of analysis" for international trade is the country, when in fact the unit of analysis is the individual U.S. company that engages in trade with other individual companies on the other side of an imaginary line called a national border.

It's possible that some of the confusion about international trade can be traced to confusion about the "trade deficit" and the "budget deficit." The relevant unit of analysis for the budget deficit is indeed the country, since it's the entire country via elected officials that is responsible for the "budget deficit." By conflating these two distinctly different deficits, it's then easy to assume that the relevant unit of analysis for both is the "country" when in fact that only applies to the "budget deficit" and not the "trade deficit."

Once one understands that it's individual companies, not countries, that are doing the trading, then it's not so easy to get fooled by statements or headlines like "Punitive tariffs are being imposed on China," or "Obama to hit China with tough tariff on tires." Since China doesn't actually trade with the United States at the national level, tariffs cannot be imposed on the country of China - it's not like the United States government sends a tax bill to the Chinese government.

Rather, since it is companies that are trading, it's companies that have to pay the taxes (tariffs) TO their OWN government. In the case of U.S. tariffs on Chinese tires or steel, the tariffs (taxes) are being imposed not on the Chinese government or even the Chinese steel-producers, but on American companies who now are taxed for buying tires or steel from China, and then those taxes are ultimately passed along to the individual Americans who purchase the tires and purchase the consumer products like automobiles that contain Chinese steel.

Bottom Line: Starting with the fallacy that countries, not individuals, engage in international trade, it's then much harder to realize that it's individual American companies and consumers who are penalized, taxed and disadvantaged by trade protection. By understanding that only individuals ultimately trade, it's then much easier to see that trade barriers typically protect a concentrated, small but well-organized group of inefficient domestic producers from more efficient foreign competition, while imposing huge and significant costs on other Americans - domestic companies that buy imported inputs and ultimately millions of U.S. consumers.