On the Effectiveness of Devaluation to Overcome Tariff Barriers to Trade

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The Sino-American trade war has brought renewed research into the subject of international trade disputes, as well as a display of tactics rarely seen outside of the theoretical. Notably, during the summer of 2019 China seemingly threatened to overcome U.S. tariffs by intentionally devaluing its currency. This paper investigates the theoretical viability and consequences of a country depreciating their currency in order to overcome a tariff barrier to trade. Utilizing a simulated international economy with eight fictional nations of varying sizes and construction, it gauges the effectiveness of currency devaluations against tariff barriers to trade in a global commodity market.

The results of the simulation paint a simple but important series of conclusions. First, under reasonable circumstances devaluation can be used to overcome a tariff barrier to trade. Secondly, whereas tariffs can (under certain conditions) increase in effectiveness if countries band together to implement them in multitude, the effectiveness of currency devaluation decreases as more countries employ it. Finally, each tactic (be it tariffs or devaluation) come at the expense of the consumer. If consumer surplus is taken as a proxy for the standard of living, then a decline in the wellbeing of a country's citizens is nearly universal under the utilization of the analyzed methods.