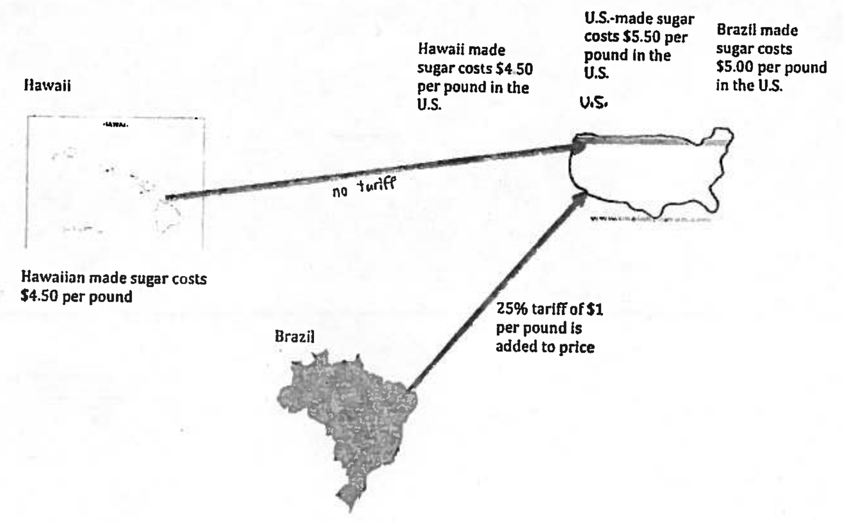
Impact of taxes and treaties on trade (between Hawaii and the United States)

Often governments of different countries enter into treaties (formal agreements) with each other. Some of these treaties deal with tariffs or duties. Tariffs and duties are taxes on goods and services that enter a country. Tariffs and duties protect businesses in a country from competition outside the country by making foreign goods more expensive.

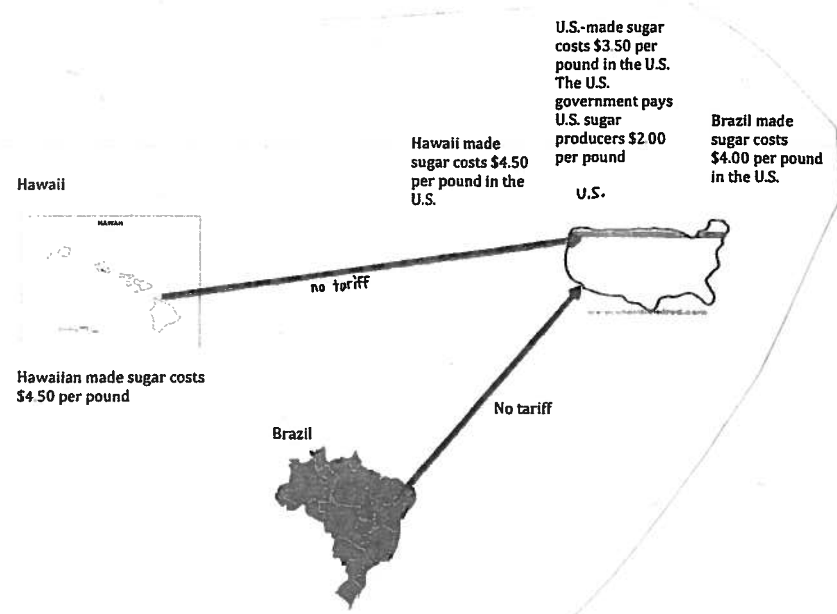
As a result of the American Civil War, sugar prices rose greatly in the United States when it became hard to get (much of the sugar production in the United States had occurred in the southern states that seceded from the Union, particularly Louisiana). This situation caused members of the U.S. government and the Hawaii sugar plantation owners to establish a treaty of reciprocity between the United States and Hawaii. Reciprocity basically means an exchange of favors. The Reciprocity Treaty of 1875 was a free-trade agreement between the United States and the Hawaiian kingdom that guaranteed Hawaiian sugar to be sold in the United States duty-free in exchange for special economic privileges for the United States that were denied to other countries.

When the treaty was renewed in 1887, the United States received exclusive rights to enter and establish a naval base at Pearl Harbor.



Brazil made sugar costs $4.00 per pound

Unfortunately for Hawaii's sugar producers, in 1890, the U.S. Congress created the Mckinley Tariff, which allowed ALL raw sugar to enter the United States free of duty. Under the tariff, the U.S. paid two-cents per pound to domestic (within the country) producers for their sugar. The effect of the tariff completely erased the advantage that the reciprocity treaty had provided to Hawaii's sugar producers over other foreign sugar producers selling sugar to the U.S. Hawaii exports of sugar to the U.S. then began to steadily decrease as other foreign sugar producers could sell sugar to the U.S. much more cheaply due to their lower labor costs.



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