

Trump's Trade War

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Dallas Association for Business Economics (Fall 2019)



NATIONAL ECONOMIC EDUCATION DELEGATION

Figure: <https://needelegation.org>

- ▶ **Who?** Founded by Jon Haveman
 - ▶ Hon. Board: 2 Fed Chairs, 6 CEA Chairs, 3 Nobel Laureates
 - ▶ Delegates: 361 PhD economists
- ▶ **Vision?** NEED presentations $\Rightarrow$ public discussions of policy...
 - ▶ based on accurate perception of econ principles & data
- ▶ **Non-partisan and consensus view**
 - ▶ Material reviewed by liberal & conservative economist

Motivation

- ▶ Lots of controversial tariffs imposed over last 18 months
 - ▶ Big escalation over Summer 2019
 - ▶ Another big escalation could be coming any day
- ▶ Typically real world trade policy is rather dull

Evolution of Trump's trade war

Average tariff rate, percent

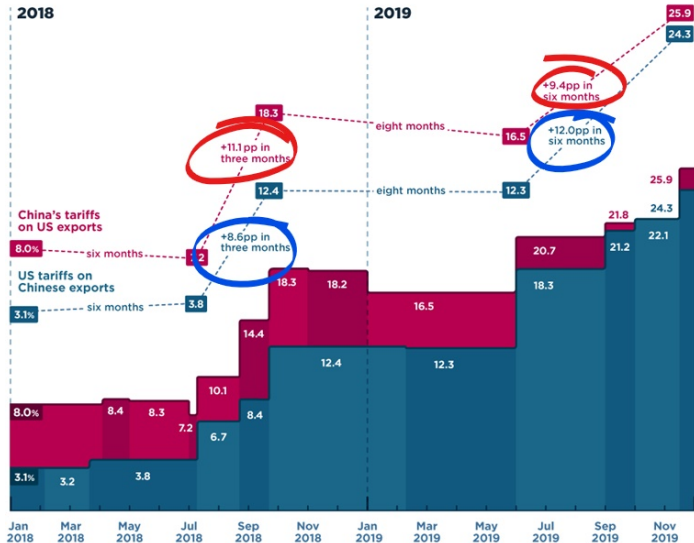


Figure: Chad Bown's blog post (see last slide)

Evolution of Trump's trade war

□ Imposed by the U.S. on China

■ Imposed by China on the U.S.

March/April 2018

□ \$40B
■ \$3B

Steel and aluminum products from most countries (10% aluminum, 25% steel)

Wine, pork, nuts, steel pipes, recycled aluminum (15% to 25%)

July 2018

□ \$34B
■ \$34B

Aircraft parts, semiconductors, microscopes (25%)

Soybeans, wheat, electric vehicles, whiskey, seafood, cigars (25%)

Aug. 2018

□ \$16B (\$53B)
■ \$16B (\$53B)

Motorcycles, steam turbines railway cars (25%)

Beef, poultry, fiber-optic cables, motorcycles (25%)

Sept. 2018

□ (\$253B)
■ \$60B (\$113B)
\$200B

Fabric, modems, chemicals, furniture, seafood (10%, raised to 25% in May 2019)

Cosmetics, vodka, reptiles, wigs, diamonds, video games (5% to 10%, raised to 5% to 25% in May 2019)

Planned

□ About \$110B on Sept. 1 (\$363B)
□ About \$160B on Dec. 15 (\$523B)
■ \$75B Divided between Sept. 1 and Dec. 15 (\$188B)

Sept. 1: Agricultural products, antiques, clothes, kitchenware, footwear (15%)

Oct. 1: 25% tariffs on Chinese goods to go to 30%

Dec. 15: Smartphones, laptops, children's toys (15%)

Crude oil, soybeans (5%) Pork, beef, chicken, wheat, sorghum, cotton and other farm products (10%)

Some vehicles (30% to 35%)

Figure: Bloomberg news article (see last slide)

Are a lot of imports being hit with tariffs?

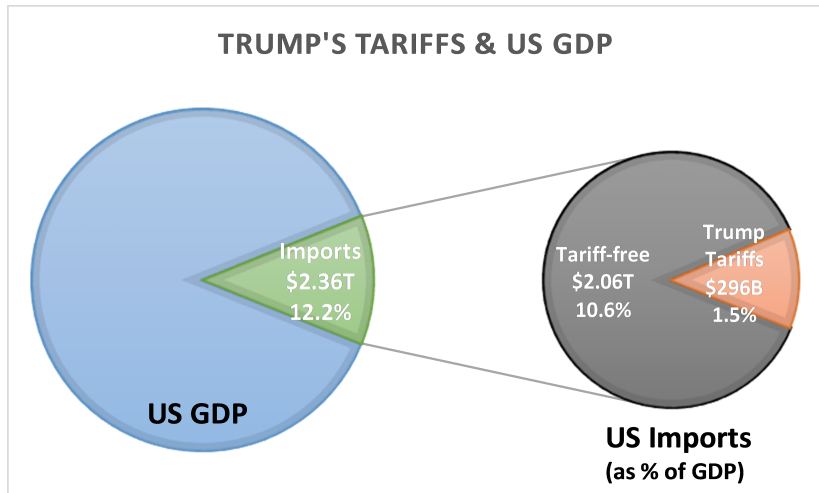


Figure: The view of Spring 2019

Are a lot of imports being hit with tariffs?

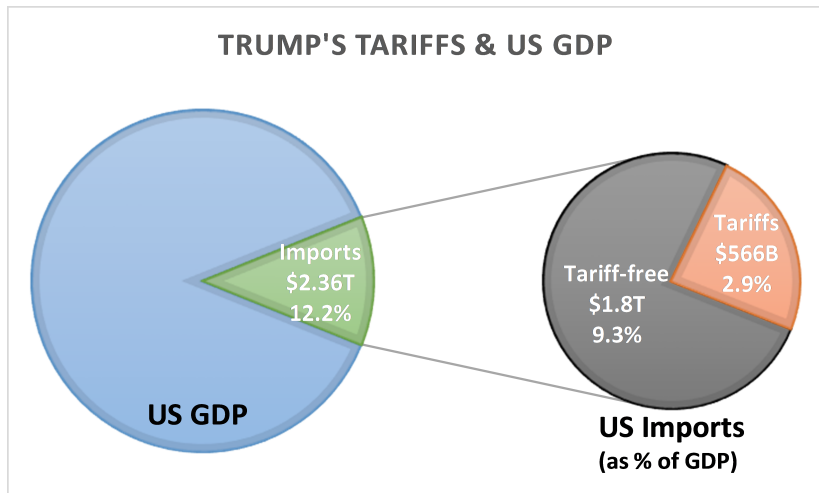


Figure: The view of Fall/Winter 2019

Are a lot of imports being hit with tariffs?

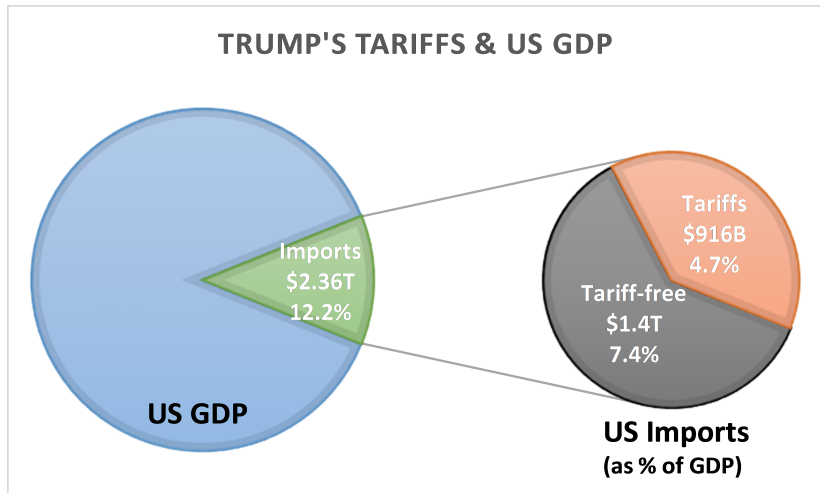


Figure: The view post proposed Auto tariffs

Outline

Trump's tariffs: what are they?

- Safeguard tariffs (S.201)

- National security tariffs: steel & aluminum (S.232)

- Unfair trade practices tariffs on China (S.301)

- National security tariffs: autos & auto parts (S.232)

US-China Trade War

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Legislative authority

- ▶ General principle
 - ▶ US Constitution: Congress sole power over international commerce
 - ▶ Congress has delegated power in many situations
- ▶ Safeguard tariffs: Section 201, Trade Act of 1974
 - ▶ If USITC agree import surge $\Rightarrow$ major injury to industry...
 - ▶ Executive power for temporary tariffs
- ▶ Historically rare
 - ▶ 11 times in past, last was 2002 Bush steel tariffs

Solar panel & washing machine tariffs

- ▶ Imports: solar panels (\$8.5bn), washing machines (\$1.8bn)
- ▶ Jan 2018: “Tariff rate quotas” imposed by Trump
 - ▶ “Low” tariffs on initial volume of imports
 - ▶ 0% solar panels, 20% washing machines
 - ▶ “High” tariffs on excess volume
 - ▶ 30% solar panels, 50% washing machines
 - ▶ Phased out over 3-4 years

Winners & losers in US

- ▶ US tariffs = tax on US imports. So, higher prices in US ▶ Fig.
 - ▶ Winners: US producers & their workers
 - ▶ Losers: US “consumers” (firms & their workers)
- ▶ Winners: solar panel & washing machine producers
 - ▶ Suniva, Solar World, Whirlpool
 - ▶ But...
 - ▶ ↓ cons subsidies in China, LG & Samsung relocate to US
- ▶ Losers
 - ▶ Consumers, can be firms
 - ▶ 85% of solar panel employment in distribution & installation
 - ▶ Industries facing foreign retaliation
 - ▶ Texas sorghum (Chinese AD case)

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Legislative authority

- ▶ Section 232, Trade Expansion Act of 1962
 - ▶ Dept of Commerce conducts investigation
 - ▶ Upon receipt of report, President makes own decision
 - ▶ Essentially unlimited power, need not be temporary
- ▶ Extremely rare
 - ▶ Excluding oil, used only by Reagan (once in 1983)!
- ▶ Is there a real issue here?
 - ▶ Yes: massive steel overcapacity in China
 - ▶ But, China appears willing to negotiate

Steel & aluminum tariffs

- ▶ March 2018: Trump announces tariffs
- ▶ Steel: 25% tariff on \$24bn imports
 - ▶ Only 20% total demand imported
 - ▶ CAN+EU+MEX+KOR+JAP= 63%, RUS 5%, CHN 3%
- ▶ Aluminum: 10% tariff on \$16bn imports
 - ▶ 75-90% of total demand imported
 - ▶ CAN 37%, CHN+RUS 18%
- ▶ WTO challenges ongoing
 - ▶ US stance: self-determination
 - ▶ Foreign stance: can say anything is “national security”
 - ▶ WTO stance: Russia vs Ukraine case
 - ▶ No self-determination

Winners & losers in US

- ▶ Winners: steel producers & their workers ▶ Fig.
 - ▶ Nucor, United States Steel, AK steel
 - ▶ BEA: 140,000 jobs in steel producing industries
- ▶ Losers
 - ▶ Consumers, including steel consuming firms
 - ▶ Amiti et. al. (2018): full pass through of tariffs to prices
 - ▶ BEA: 2 million jobs in steel consuming industries (>5% input)
 - ▶ Industries facing foreign retaliation

Industry	Countries	Share of US EX
Pork	CHN, MEX	44%
Apples	CHN, MEX, IND	37%
Nuts	CHN, IND	12%
Whiskies (e.g. KY bourbon)	EU, CAN, MEX	53%
Mineral water, coffee, ketchup	CAN	≈ 50%

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Legislative authority

- ▶ Section 301, Trade Act of 1974
 - ▶ USTR conducts investigation
 - ▶ Upon receipt of report, President makes own decision
 - ▶ Essentially unlimited power, need not be temporary
- ▶ Very rare use of power these days
 - ▶ Pre-WTO (i.e. pre-1994), used very often
 - ▶ But, Dispute Settlement Board is WTO “crown jewel”
- ▶ Is there a real issue here?
 - ▶ Yes: many countries concerned about IPR issues in China

China tariffs

- ▶ March 2018: USTR into China IPR practices finds...
 - ▶ “Forced” tech transfer by JVs, licensing, admin review
 - ▶ “Forced” licensing at below market value (now WTO case)
 - ▶ Tech transfer in US via big investment & acquisitions
 - ▶ Cyber-security intrusions in US to steal business information
- ▶ July 2018 - December 2019
 - ▶ US average tariff on China from 3% to 24%
 - ▶ Will cover all imports from China ▶ Figs
 - ▶ Initially, mostly intermediate goods
 - ▶ Soon, all consumer goods as well ▶ Quartz
 - ▶ Chinese average tariffs on US from 8% to 26%
 - ▶ Will cover 70% of US exports to China
 - ▶ China also *lowering* tariffs on other countries

Winners & losers in US

- ▶ Winners: producers (& workers) getting protection
 - ▶ Public hearings on which industries should get protection
 - ▶ Steel, furniture, textiles industries pushed hard
- ▶ Losers
 - ▶ Consumers, including firms relying on CHN machinery/equip
 - ▶ Amiti et. al. (2018): full pass through of tariffs to prices
 - ▶ Industries facing foreign retaliation

Industry	US EX to CHN	Share of US EX
Soybeans	\$12.4bn	57%
Vehicles	\$11.3bn	10%
Crude Oil	\$4.4bn	20%
Shellfish	\$1.2bn	23%
Wood	\$1.2bn	52%
Raw Hides	\$0.8bn	78%
Sorghum	\$0.8bn	78%

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 - ▶ Essentially unlimited power, need not be temporary
- ▶ Extremely rare
 - ▶ Excluding oil, used only by Reagan (once in 1983)!
- ▶ Is there a real issue here?
 - ▶ Economists: no... but
 - ▶ Administration: auto industry supplies lots of military R&D

Auto tariffs

- ▶ Mid Feb 2019: Dept of Commerce delivers report
 - ▶ 25% tariffs rumored
 - ▶ President had 90 days to act
 - ▶ Trump ordered USTR to negotiate with EU and Japan
 - ▶ 6 month delay till mid Nov
- ▶ Imports: \$200bn autos, \$150bn auto parts
 - ▶ Auto imports excl trucks: 87% from EU, JAP, CAN, MEX
 - ▶ Current tariffs: 0% CAN & MEX, 2.5% EU & JAP
 - ▶ Truck imports: 92% from CAN & MEX
 - ▶ Current tariffs: 0% CAN & MEX

Winners & losers in US

▶ Winners

- ▶ Car producers... no, vehemently opposed (Ford?)
 - ▶ Import lots of cars
 - ▶ Import lots of car parts
 - ▶ Fear foreign retaliation
- ▶ Car part producers... no, strongly opposed too
 - ▶ Scared of impacts on car producers

▶ Losers

- ▶ Car producers, car parts producers, workers
 - ▶ Major plants in AL, SC, TN
 - ▶ PIIE: 195k jobs gone in 1-3 years (upto 625k with retaliation)
- ▶ Consumers
 - ▶ PIIE: price increases of 8-25%
 - ▶ Depends on amount of foreign content, pass through

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Trump is worried about real issues

- ▶ Companies worldwide worried about “forced tech transfer”
 - ▶ Many govts worried about China’s “non-market economy”
- ▶ Of course, not a new issue...
 - ▶ Obama administration worried too
 - ▶ US was IP pirate in late 1700s/early 1800s!
- ▶ Can existing WTO rules deal with China?
 - ▶ State-owned enterprises and govt subsidies
 - ▶ Opaqueness of govt policies
 - ▶ Not clear whether current WTO rules adequate
 - ▶ But, China does respect WTO rulings
- ▶ Trump has chosen unilateral over multilateral approach
 - ▶ Alternative approach: multilateralism

Is a deal close?

- ▶ Early May 2019: deal seemingly imminent
 - ▶ Chinese negotiators coming to DC to close deal
 - ▶ But, Trump tweets threats
 - ▶ 10% tariffs on \$250bn up to 25%
 - ▶ 25% tariffs on the \$300bn not yet hit
 - ▶ Talks collapse, no deal. New tariffs go into effect.
- ▶ US side of story
 - ▶ China reneged on prior commitments
- ▶ Chinese side of story (& key sticking points)
 - ▶ US want laws in China to ensure compliance
 - ▶ ... China say violation of Chinese sovereignty
 - ▶ China wants all tariffs gone. Trump says stay $\geq$ 6 months

Olive branches or smoke & fire

- ▶ Some recent small Olive branches
 - ▶ China exempt a small number of US goods from tariffs
 - ▶ China exempt some major US goods from tariff hikes
 - ▶ Trump delays hike from 25% to 30% tariffs for 2 weeks
- ▶ Does Trump really want a deal?
 - ▶ Self proclaimed “Tariff Man”
 - ▶ “Protection will lead to great prosperity & strength”
 - ▶ Trump’s Inauguration speech
 - ▶ Gloat about China deal or pump up a China punching bag?

Trade War and a recession?

- ▶ Muted effect so far
 - ▶ Tariffs have been implemented gradually...
 - ▶ Ratcheted up a lot since May, but still small share of GDP
 - ▶ Mostly on intermediate goods so far, not consumer goods
 - ▶ Changing a lot with recent/upcoming tariffs
- ▶ Some worrying signs in Q2 GDP numbers
 - ▶ Growth tapering?
 - ▶ Weakening business investment, exports, manuf output
 - ▶ Fed citing concerns about trade war & role of monetary policy
- ▶ Uncertainty is a big issue
 - ▶ Trump's policy changes often unexpected & unpredictable
 - ▶ Uncertainty could spillover to rest of economy

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Conclusions

- ▶ Very extensive & very rare use of executive trade authority
- ▶ Big recent escalation of tensions US-China tensions
 - ▶ No sign of ending soon
- ▶ Some real issues here
 - ▶ Chinese steel overcapacity
 - ▶ Chinese tech/IP practices
- ▶ Is Trump's approach right and/or working?
 - ▶ Not exploiting similar concerns of other countries
 - ▶ China situation worse than pre-Trade War
 - ▶ Effect on overall US economy muted
- ▶ Trump may not want Trade War to end

Sources

- ▶ Chad Bown blog post
 - ▶ “US-China Trade War: The Guns of August” [▶ Link](#)
- ▶ Bloomberg news article [▶ Link](#)
- ▶ Amiti, Redding, Weinstein (2018)
 - ▶ “The Impact of the 2018 Trade War on U.S. Prices and Welfare” [▶ Link](#)

US appliance prices

Figure 2: Major Appliance CPI

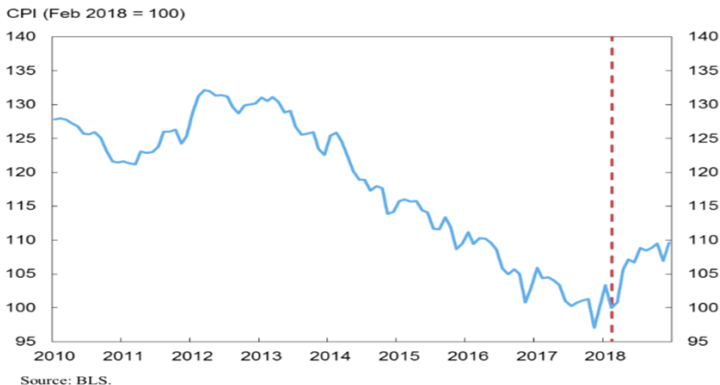


Figure: Amiti, Redding, Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare" (2018 CEPR discussion paper DP13564)

US steel prices

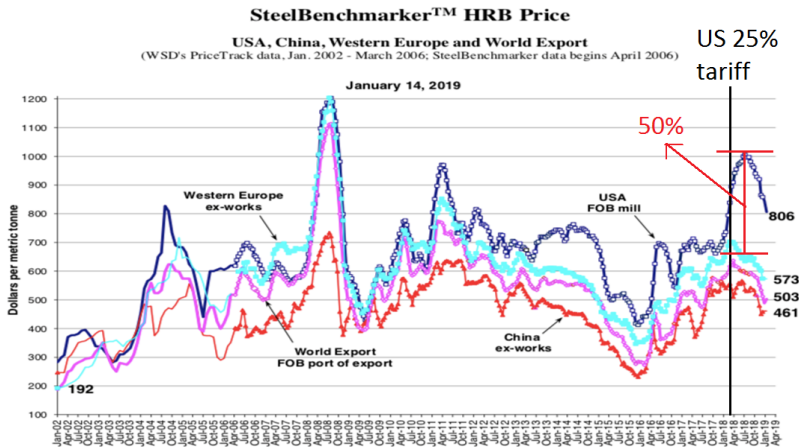


Figure: US steel prices

Quartz distributor in Dallas



Figure: Shortages of quartz

Motivation

- ▶ Lots of political rhetoric about the trade deficit

$$\text{Trade deficit} = \text{Imports} - \text{Exports}$$

- ▶ 2017 Trade deficit = \$568bn
 - ▶ Goods Trade deficit = \$811bn
 - ▶ Services Trade surplus = \$243bn
- ▶ Trump (NYT 3/5/18, Twitter 3/7/18)

"Not half a million dollars. Not 12 cents. We lost \$800 billion a year on trade."

"Last year we had a Trade Deficit of almost 800 Billion Dollars. Bad policies & leadership. Must WIN again!"

Interpretation #1: US has to pay for imports somehow...

- ▶ Trade deficit
 - ▶ \$ of goods & services IM by US $>$ \$ of G&S EX by US
 - ▶ IM \$100 computers from China, EX \$40 soybeans to China
- ▶ But, China demands payment of some kind!
 - ▶ \$40 soybeans insufficient payment for \$100 computers!
 - ▶ US pays \$60 with financial assets
 - ▶ Govt bonds, corporate bonds, stocks, factories
- ▶ Trade deficit $\Leftrightarrow$ foreigners financing US govt/firm borrowing
 - ▶ Trade surplus $\Leftrightarrow$ US financing foreign govt/firm borrowing

Interpretation #2: China can buy US goods or assets...

- ▶ US buys \$100 computers from China, paid in CNY
 - ▶ US sells \$100 on FX market, gets 700 CNY
 - ▶ US gets computers from China, pays 700 CNY
 - ▶ At this point, US trade deficit is \$100
 - ▶ Has US “lost” \$100?
- ▶ What does China do with \$100?
 - ▶ Buy US goods or US assets?
 - ▶ $\uparrow$ US assets bought $\Rightarrow$ trade deficit $\uparrow$ towards \$100
 - ▶ $\uparrow$ US goods bought $\Rightarrow$ trade deficit $\downarrow$ towards \$0
 - ▶ This choice depends on
 - ▶ state of US macroeconomy (e.g. investment climate)
 - ▶ state of Chinese economy, Chinese demographics

Interpretation #3: GDP identity

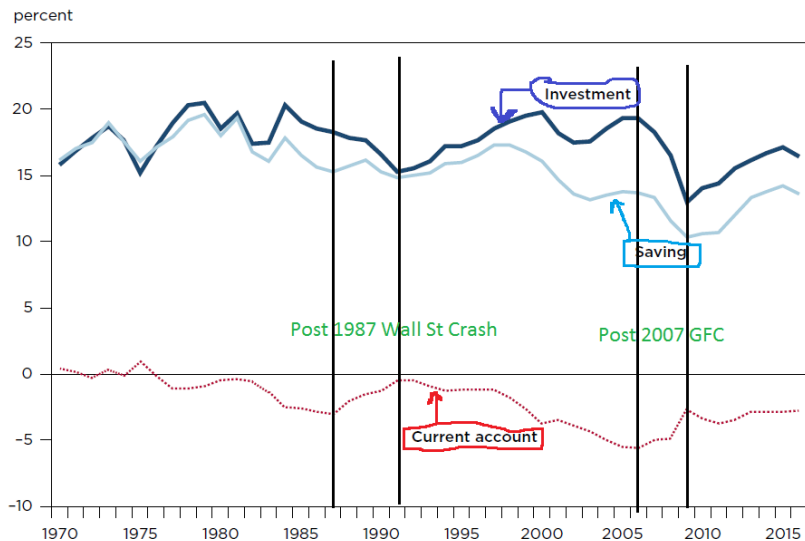
$$\underbrace{Y}_{\text{National income}} = \underbrace{C + I + G}_{\text{National expenditure}} + \underbrace{X - M}_{\therefore \text{National savings}}$$
$$\underbrace{M - X}_{\text{Trade deficit}} = \underbrace{I - (Y - C - T)}_{\text{Private savings}} - \underbrace{(T - G)}_{\text{Govt savings}}$$

► Key observation

$$\begin{aligned}\text{Trade deficit} &= \text{Investment} - \text{National savings} \\ &= \text{Investment} + \text{Govt deficit} - \text{Private savings}\end{aligned}$$

- Trade deficit and national borrowing flip sides of same coin!!
 - Without trade: Investment = National savings
 - With trade deficit: Investment > National savings
 - With trade surplus: Investment < National savings

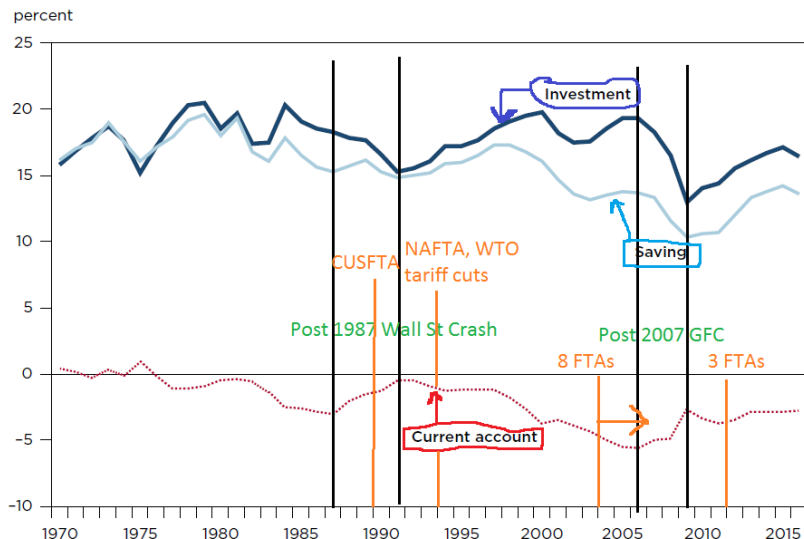
Data: want to eliminate the trade deficit?



Source: Table 1.1.10 US National Income Accounts, Bureau of Economic Analysis.

Figure: US current account (% of GDP)

Data: want to eliminate the trade deficit?



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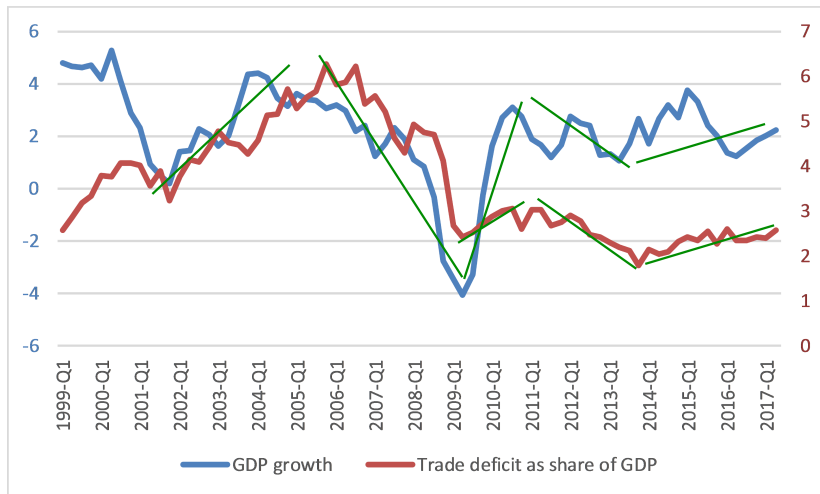
Figure: US current account (% of GDP)

Surely lower trade deficit increases growth/jobs!

$$Y = C + I + G - (M - X)$$

- ▶ Suppose US consumers decide to save more and...
 - ▶ “Make America great again!” $\Rightarrow$ only buy less foreign goods
 - ▶ But, $\downarrow (M - X) = \downarrow C$ and $\therefore Y$ unchanged
- ▶ Suppose $\downarrow$ relative price of US steel
 - ▶ Perhaps, US buys more steel & subst from foreign to dom steel
 - ▶ So $\downarrow (M - X)$ and possible that $\uparrow Y$ (full employment?)
- ▶ Suppose falling aggregate demand pushes US into recession
 - ▶ Hence $\downarrow Y$. In turn, $\downarrow C$ and $\downarrow M$. But, X unchanged.
 - ▶ So $\downarrow Y$ and $\downarrow (M - X)$
- ▶ **Takeaway:** unclear correlation b/w growth/jobs & trade deficit

Data: growth and the trade deficit



Source: Bureau of Economic Analysis

Figure: US current account (% of GDP)