Trump's Trade Wars: Where Do We Stand?

Alan V. Deardorff

University of Michigan

For presentation at the Ann Arbor City Club
February 12, 2020

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National Economic Education Delegation

- **Vision**
  - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**
  - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**
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2

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Outline

- **Features of Michigan's Trade**
- **President Trump's Trade Actions**
  - Free Trade Agreements
  - Trade Wars
  - Other
- **Conclusion**

I'll skip this, for lack of time. Feel free to ask in Q&A

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4

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Features of Michigan's Trade

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Features of Michigan's Trade

- **Michigan**
  - Trades more than most states
  - Mostly exports and imports cars and car parts
  - Trades most with Canada and Mexico

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Top US Trading States: 2017
(Exports + Imports)

By Value, $bil.			By Average* Rank			Per GDP		
1	California	613	1	Michigan		1	Louisiana	40.1
2	Texas	528	2	Texas		2	Michigan	39.3
3	New York	205	3	Louisiana		3	Kentucky	38.5
4	Illinois	201	4	Illinois		4	Texas	32.1
5	Michigan	200	5	Kentucky		5	Tennessee	32.1
6	New Jersey	147	6	Tennessee		6	South Carolina	31.4
7	Florida	130	7	New Jersey		7	Indiana	26.2
8	Georgia	129	8	Indiana		8	Illinois	24.5
9	Washington	126	9	South Carolina		9	New Jersey	24.4
10	Pennsylvania	122	10	California		10	Washington	24.1

*Weighted average, with weights 1/3 on Value and 2/3 on Per GDP

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Michigan's Rank among States in 2017 Trade with

North America	Value ($)	Per GDP
Exports	3	2
Imports	2	1

China	Value ($)	Per GDP
Exports	9	11
Imports	14	20

Europe	Value ($)	Per GDP
Exports	18	22
Imports	13	13

Compare: Michigan's rank by GDP: #14

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...mong States in 2017 T...

Top 5 Exporters to North America $ bil	
Texas	526
California	44
Michigan	37
Illinois	28
Ohio	25

Top 5 Exporters to North America per GDP %	
North Dakota	9.8
Michigan	7.3
Texas	7.3
Indiana	5.2
Kentucky	4.9

	Value ($)	Per GD
	3	2
	2	1

China	Value ($)	Per GD
Exp	9	11
	14	20

	Value ($)	Per GDP
	18	22
	13	13

Top 5 Importers from North America $ bil	
Texas	108
Michigan	100
California	75
Illinois	44
Ohio	20

Top 5 Importers from North America per GDP %	
Michigan	19.7
Montana	8.0
Vermont	7.3
New Hampshire	7.2
Texas	6.6

Compare: Michigan's rank by GDP: #

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Trump's Trade Actions

- **Most were tariffs on imports**
  - Taxes levied by US on imports from others
  - Taxes levied by others (in retaliation) on US exports
- **Normal effects of tariffs**
  - Raise prices for importers
  - Lower prices for exporters
  - Cause substitution
    - o To other products
    - o To other countries (if not on all)

Net economic effect
is almost always
negative

Two recent studies of the 2018 Trade War
found that exporter prices did not fall.

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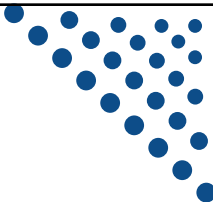Alan V. Deardorff - www.fordschool.umich.edu — UNIVERSITY OF MICHIGAN

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12

Trump's Trade Actions

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13

Outline

- **Features of Michigan's Trade**
- **President Trump's Trade Actions**
  - Free Trade Agreements
    - KORUS Amended
    - NAFTA Renegotiated
- **Conclusion**

Skip to Safeguards

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Trump's Trade Actions

- **Sep 24, 2018: Amended KORUS signed**
  - Raises Korea quota for US-certified cars
  - Extends years of US 25% tariff on light trucks

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Korea

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Korea

- **Increased quota for US cars that**
  - o Meet US standards
  - o Do not meet Korean standards
  - Quota doubles from 25,000 to 50,000 cars per auto maker
  - In fact, US companies have not usually reached the 25,000 limit

17

Korea

- **Original KORUS had US promise to remove its 25% "chicken tax" on light trucks from Korea by 2019.**
  - This is now extended to 2041
  - This seems important for US makers of pickup trucks, including in Michigan

18

Korea

- **Amended KORUS did not include, but was accompanied by**
  - Korea commitment to restrict exports of steel to the US
  - In return for US removing 25% tariff on Korean steel

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Trump's Trade Actions

- **May 18, 2017: NAFTA renegotiation begun**
- **Sep 30, 2018: USMCA agreed**
  - USMCA: U.S.-Mexico-Canada Trade Agreement
- **Jan 17, 2020: US Senate ratifies USMCA**
- **Jan 29, 2020: Trump signs USMCA**

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NAFTA → USMCA

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NAFTA → USMCA

- **NAFTA is**
  - Free Trade Agreement (FTA)
    - ○ Zero tariffs on goods traded by US, Canada, Mexico
    - ○ Only if they satisfy Rules of Origin (ROOs)
  - Additional provisions regarding many things
    - ○ Services trade
    - ○ Foreign direct investment
    - ○ Intellectual property rights
    - ○ Dispute settlement
    - ○ Government procurement

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NAFTA → USMCA

- **USMCA is**
  - FTA with stricter ROOs
  - Some changes in NAFTA's additional provisions
  - New rules for environment, labor, financial services, digital trade
  - Weakening of Canada's dairy barriers
  - Discouragement of trade with China
  - Provision for renegotiation (sunset)

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NAFTA → USMCA

- **Most important for Michigan: Tighter ROOs for cars and car parts**
  - North American content increased from 62.5% to 75%
    - Intended to reduce inputs from outside N. America, likely benefiting Mexico
  - New requirement that 40-45% of content must be from labor paid $16/hr or more (but does not rise with inflation)
    - Intended to reduce inputs from low-wage Mexico, benefiting US and Canada

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NAFTA → USMCA

- **Effects of tighter ROOs**
  - If ROOs are
    - Satisfied: Higher costs of production
    - Not satisfied: Tariffs on traded inputs and final products
  - Either way
    - Prices rise
    - Demand falls
    - Products become less competitive internationally
  - Effects on demands for labor ambiguous throughout

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26

Outline

- **Features of Michigan's Trade**
- **President Trump's Trade Actions**
  - Trade Wars
    - o Safeguard tariffs
    - o National security tariffs
    - o China tariffs
    - o Immigration tariffs
- **Conclusion**

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Trump's 2018 Trade Actions

- **Jan 22, 2018: Safeguard tariffs**
  - 30% on solar panels
  - 50% on washing machines
  (Actually normal trade actions)

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Outline

- Features of Michigan's Trade
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    - o Safeguard tariffs
    - o National security tariffs (Metals)
    - o China tariffs
    - o Immigration tariffs
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Trump's 2018 Trade Actions

- **Mar 1, 2018: Announces "national-security" tariffs on steel and aluminum**
  - 25% on steel, 10% on aluminum
  - Announced for all countries
    - o Some delayed (EU, Canada, Mexico)
    - o Others later exempted (S. Korea)
    - o Canada & Mexico exempted much later

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Tariffs on Steel and Aluminum

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Tariffs on Steel and Aluminum

- **Responses to metals tariffs**
  - Retaliation by China, EU, Canada, & others
    - Tariffs on US
  - WTO disputes
    - May-Aug: Complaints filed <u>against</u> US
    - Jul: Complaints filed <u>by</u> US

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Tariffs on Steel and Aluminum

- **Who benefits?**
  - US producers of steel and aluminum
    - o Steel: AISI lists 12 producers in Michigan
      - AISI = American Iron & Steel Institute
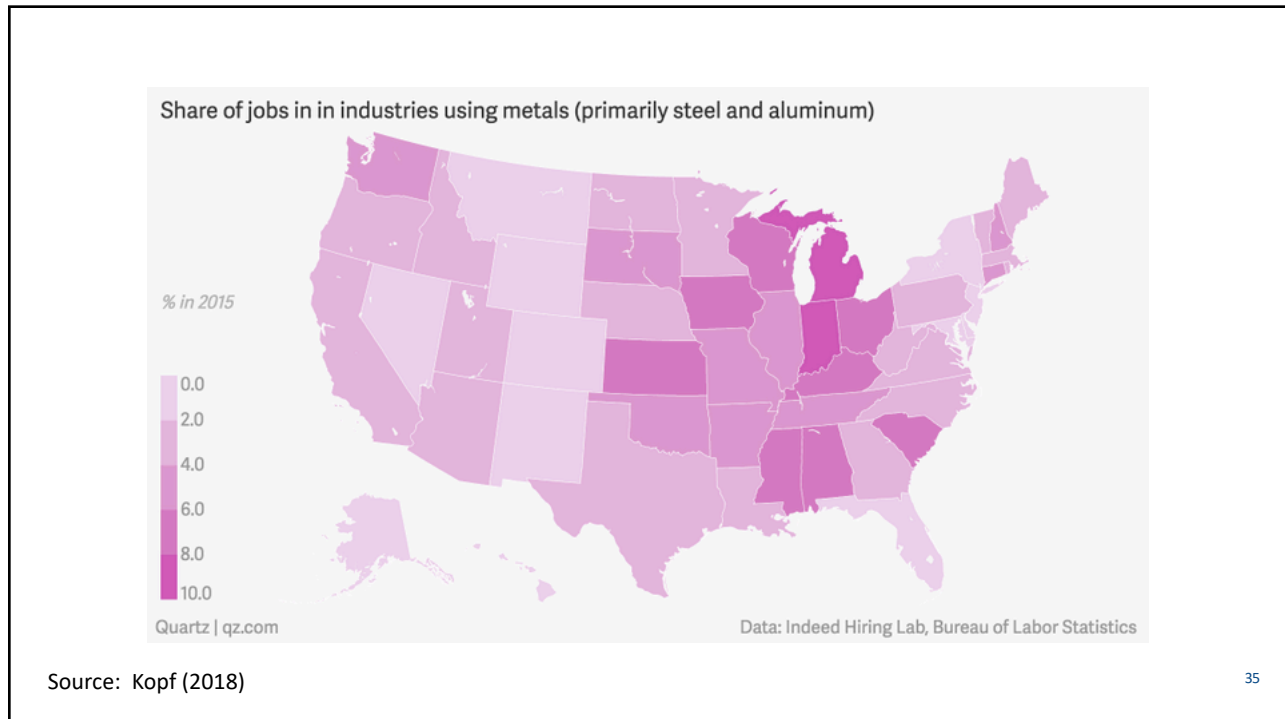   - o Aluminum: Thomas lists 76 suppliers in Michigan

33

Tariffs on Steel and Aluminum

- **Who is hurt?**
  - US users of steel and aluminum pay higher prices
    - o Most obviously the car companies
    - o But also many others

34

Source: Kopf (2018)

35

35

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    - o Safeguard tariffs
    - o National security tariffs (Cars)
    - o China tariffs
    - o Immigration tariffs
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Trump's Trade Actions

- **May 23, 2018: Initiates Commerce Dept investigation of car and car part imports**
  - Feb 17, 2019: Commerce approves tariffs
  - Feb 2020: Still pending, waiting for Trump

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37

Tariff on Cars and Car Parts

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Tariff on Cars and Car Parts

- **Who would benefit?**
  - US car companies?
    - Most (e.g., GM) are opposed
    - I can't find objection from Ford, but others list Ford among those who object
  - US auto workers?
    - UAW has spoken in favor of "target measures" with with understanding that broad tariffs or quotas "could cause harm" including "mass lay-offs for American workers."

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Tariff on Cars and Car Parts

- **Who would be hurt?**
  - Most car companies, including GM
  - US car buyers

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40

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    - ○ National security tariffs
    - ○ China tariffs
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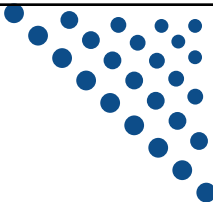Alan V. Deardorff - www.fordschool.umich.edu   UNIVERSITY OF MICHIGAN

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Trump's Trade Actions

- **Jul 6, 2018: First tariffs on China, $34 billion**
  - On $34 billion of China exports to US
  - Based on "unfair trade practices" in intellectual property (IP)

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China Tariffs

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China Tariffs

- **Concerns about China's IP practices pre-existed Trump**
  - Theft of technology secrets
  - Forcing investors in China into joint ventures and sharing technology
- **Prior to Trump, complaints had been voiced by US and EU, but nothing had been done**
- **US initiated investigation under Section 301 of US trade law (unfair trade practices)**
  - Aug 18, 2017: Investigation initiated
  - Mar 22, 2018: Report finds unfair trade and recommends tariffs
- **Since then, Trump has announced and then implemented multiple rounds of tariffs**

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Trump's Trade Actions

- Jul 6, 2018: First tariffs on China , $34 billion
- **Aug 23, 2018: Second tariffs on China, $16 billion**

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45

Trump's Trade Actions

- Jul 6, 2018: First tariffs on China , $34 billion
- Aug 23, 2018: Second tariffs on China, $16 billion
- **Sep 24, 2018: Third tariffs on China, $200 billion**

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46

Tr**u**mp's Trade Actions

- Jul 6, 2018: First tariffs on China , $34 billion
- Aug 23, 2018: Second tariffs on China, $16 billion
- Sep 24, 2018: Third tariffs on China, $200 billion
- **May 10, 2019: Tariffs on $200 billion rise from 10% to 25%**

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Tr**u**mp's Trade Actions

- Aug 23, 2018: Second tariffs on China, $16 billion
- Sep 24, 2018: Third tariffs on China, $200 billion
- May 10, 2019: Tariffs on $200 billion rise from 10% to 25%
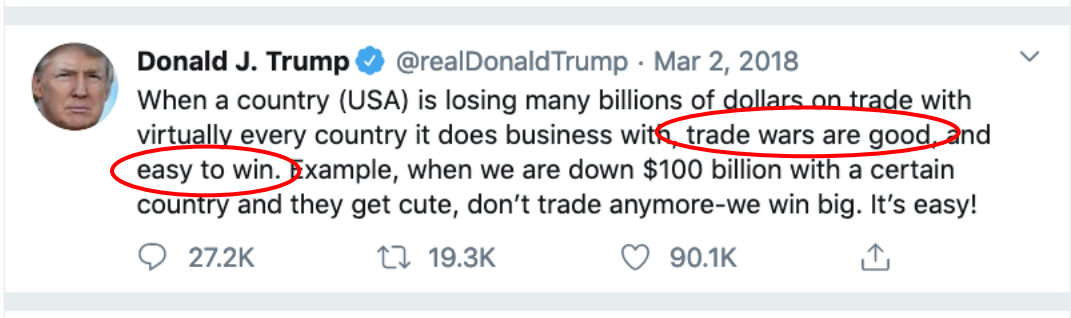- **Sep 1, 2019: Fourth tariffs on China, $112 billion (& plan for $160 billion Dec 15)**

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China Tariffs

- **This is a "Trade War": Tariffs and retaliation**
  - US tariffs on $34 billion Jul 6 were matched that day by China tariffs on $34 billion of US exports
  - US tariffs on $16 billion Aug 23 were matched that day by China tariffs on $16 billion of US exports
  - US tariffs on $200 billion Sep 24 were less-than-matched by China on $60 billion of US exports
  - Trump said he'd use tariffs on still more ($267 billion), approaching <u>all</u> of China's exports to US
    - Did <u>not</u> do all of that
    - Delayed for China-US trade talks

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China Tariffs

- **What's the point?**
  - To get China to stop its IP practices?
  - To reduce the US bilateral trade deficit with China?
  - To stop China's rise as an economy and as a world power?
- **Who will "win"?**
  - Nobody! Everybody loses from tariffs
  - Trump said it's "easy to win" because he measures success from trade deficit

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Donald J. Trump ✓ @realDonaldTrump · Mar 2, 2018
When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down $100 billion with a certain country and they get cute, don't trade anymore–we win big. It's easy!

💬 27.2K   ⟲ 19.3K   ♡ 90.1K   ⬆

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Trump's Trade Actions

- Sep 24, 2018: Third tariffs on China, $200 billion
- May 10, 2019: Tariffs on $200 billion rise from 10% to 25%
- Sep 1, 2019: Fourth tariffs on China, $112 billion (& plan for $160 billion Dec 15)
- **Dec 13, 2019: Trump cancels Dec 15 increase**
  - Says "Phase One Deal" is coming

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Trump's Trade Actions

- **May 10, 2019: Tariffs on $200 billion rise from 10% to 25%**
- **Sep 1, 2019: Fourth tariffs on China, $112 billion (& plan for $160 billion Dec 15)**
- **Dec 13, 2019: Trump cancels Dec 15 increase**
- **Jan 15, 2020: Phase One Deal signed**
  (More on that in a moment)

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Trade War

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Trade War

- **Effects of the 2018-19 Trade War**
  - US average tariffs rose, in several waves
  - Prices of imports in US rose
  - Quantity of imports fell
  - Number of imported varieties fell

Source: Amiti, Redding, and Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," CEPR Discussion Paper DP13564, March 1, 2019.

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Trade War • US prices of imports rose

Waves of tariffs:

Figure 1: Average Tariff Rates
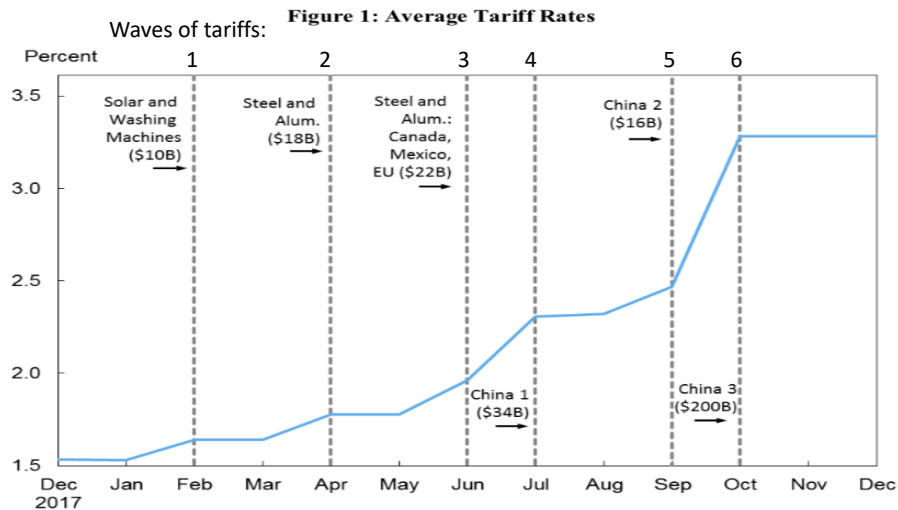
Source: US Census Bureau; USTR; USITC; authors' calculations.

Source: Amiti, et al. 2019.

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56

Trade War

Figure 3: 12-month Proportional Change in Import Prices by Tariff Wave
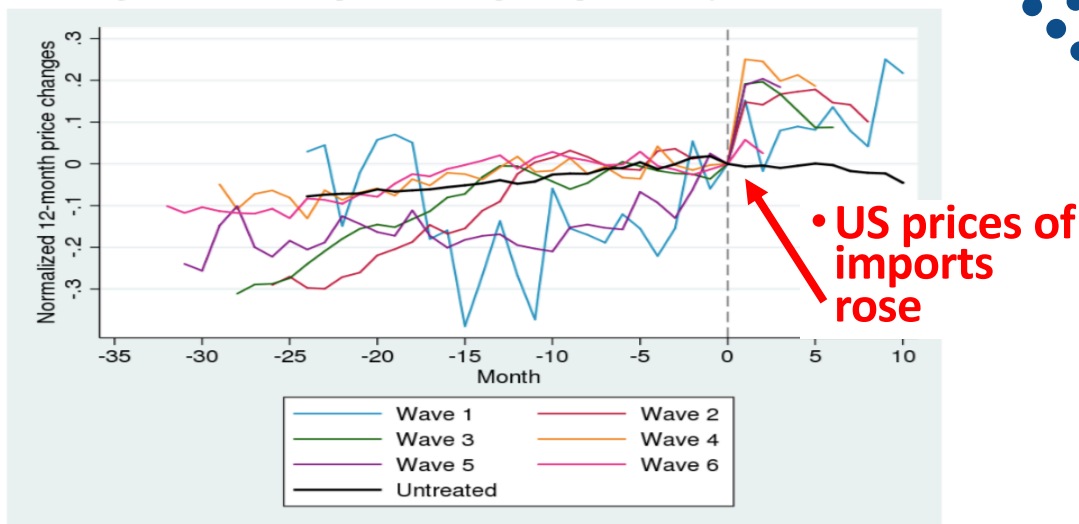
• **US prices of imports rose**

Source: Amiti, et al. 2019.

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Trade War

- **Effects of the 2018 Trade War**
  - Effects varied across US
    - US tariffs hit Michigan, hard
    - Foreign tariffs did not hit Michigan hard

Source: Fajgelbaum, Goldberg, Kennedy, and Khandelwal,
"The Return to Protectionism," March 3, 2019.

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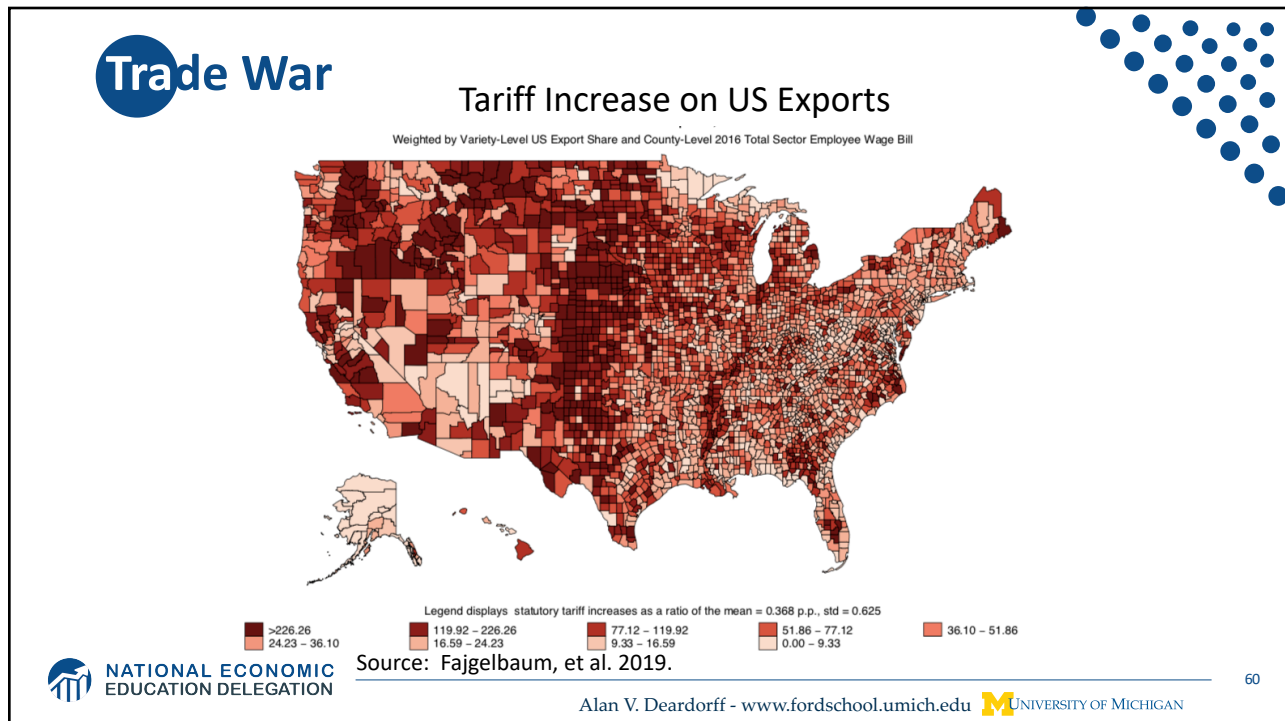
Trade War

Tariff Increase on US Imports

Weighted by Variety-Level US Import Share and County-Level 2016 Total Sector Employee Wage Bill

Legend displays statutory tariff increases as a ratio of the mean = 0.106 p.p., std = 0.201

| >220.62 | 130.06 – 220.62 | 83.45 – 130.06 | 56.46 – 83.45 | 37.66 – 56.46 |
| 24.85 – 37.66 | 15.61 – 24.85 | 7.49 – 15.61 | 0.00 | |

Source: Fajgelbaum, et al. 2019.

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Trade War

Tariff Increase on US Exports

Weighted by Variety-Level US Export Share and County-Level 2016 Total Sector Employee Wage Bill

Legend displays statutory tariff increases as a ratio of the mean = 0.368 p.p., std = 0.625

| >226.26 | 119.92 – 226.26 | 77.12 – 119.92 | 51.86 – 77.12 | 36.10 – 51.86 |
| 24.23 – 36.10 | 16.59 – 24.23 | 9.33 – 16.59 | 0.00 – 9.33 | |

Source: Fajgelbaum, et al. 2019.
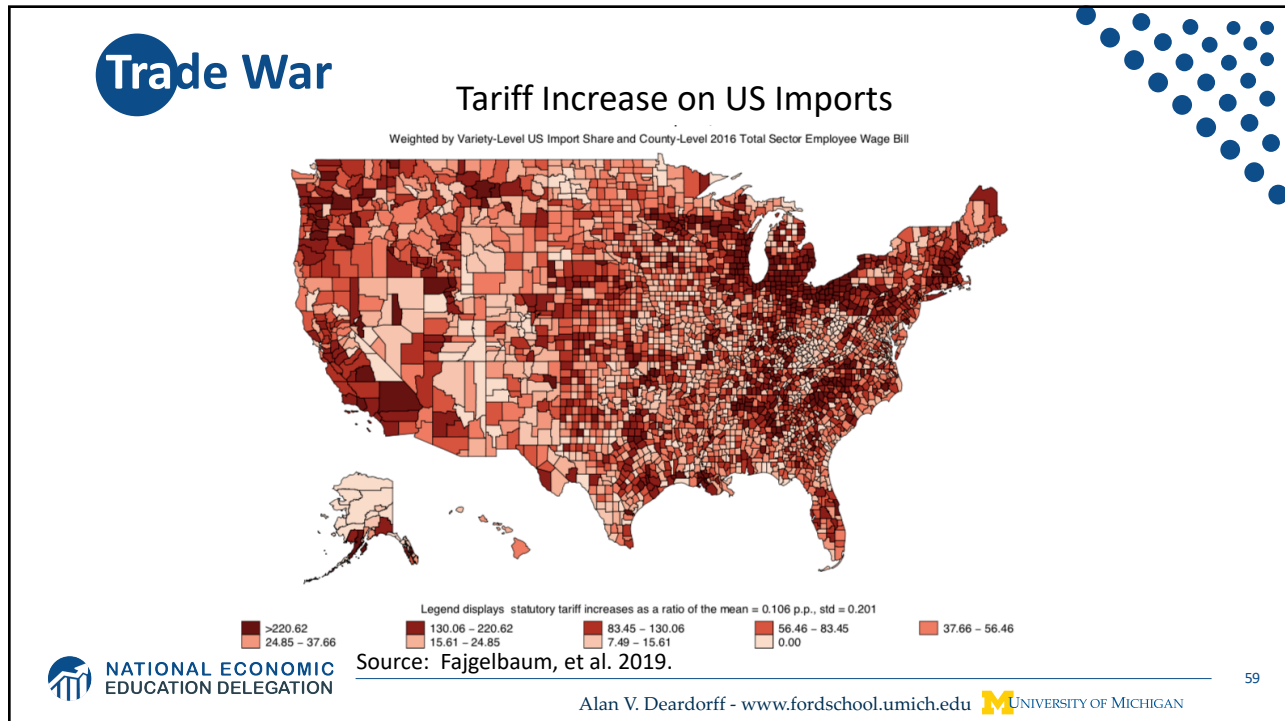
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60

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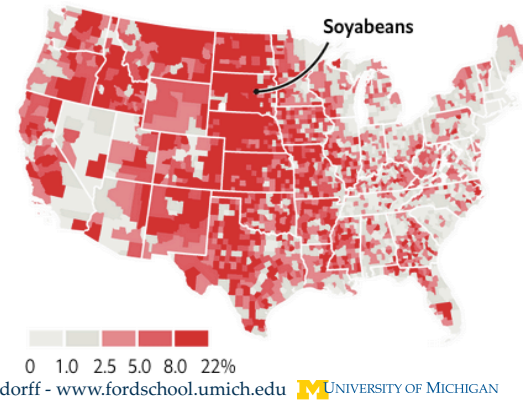
62

Trade Talks

• China-US Trade Talks, I

- Talks began in May 2018, in response to Trump's threat of tariffs
  o China promised to import more from US and allow more foreign investment
  o Said to have "averted trade war"
  o But then talks broke off in early June
- Trade war with China Jul, Aug, Sep 2018

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63
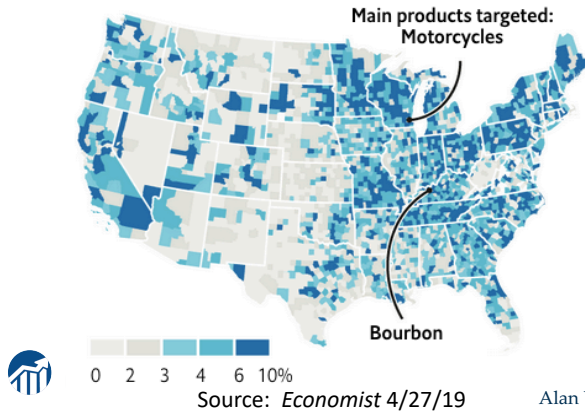
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63

Trade Talks

• China-US Trade Talks II

- Nov 1, 2018: New round of talks began with phone call from Trump to Xi
- Dec 2, 2018: G20 Summit dinner agrees truce: No more tariffs while talks continue
- May 10, 2019: Talks break down and Trump
  o Raises tariff on $200 billion from 10% to 25%
  o Threatens 25% tariff on the rest of China exports
- Jun 1, 2019: China retaliates

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Trade Talks

- **China-US Trade Talks III**
  - Sep 5, 2019: Agree to resume talks
  - Sep 11, 2019:
    - China suspends some tariffs
    - Trump delays some tariff increases
  - Oct 11, 2019: Trump announces "Phase One" trade deal (details were still to be worked out)
    - Discussions were still fraught
    - Agree to delay some tariffs
  - Dec 13, 2019: Phase One deal agreed
  - Jan 15, 2020: Phase One deal signed

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President Trump and China's Vice Premier Liu sign the 'phase one' trade deal

President Trump and China's Vice Premier Liu He, head of his country's negotiation team, signed the "phase one" deal at the White House on Jan. 15. (Reuters)

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China-US Phase One Trade Deal

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67

67

China-US Phase One Trade Deal

- **Purchases**
  - China promised to increase purchases compared to 2017, with 2-year totals of
    - $77.7 billion of manufactures
    - $52.4 billion of energy products
    - $32 billion of agriculture (e.g., soy, meant, seafood)
    - $37.9 billion of services

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68

68

34

China-US Phase One Trade Deal

- **Intellectual Property**
  - China will increase IP protections
  - No commitment to stop cybertheft
- **Technology Transfer**
  - China to stop forcing US companies to hand over technologies
- **Food and Agriculture**
  - China to loosen some ba~~~~~~~~rts
- **Financial Services**
  - China & US both open to more competition

Yesterday (Feb 11) China announced it is letting MasterCard in.

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69

69

China-US Phase One Trade Deal

- **Macroeconomics & Exchange rates**
  - Both pledge not to devalue currencies
- **Dispute Settlement**
  - Officials to meet regularly to address violations
  - If not resolved, either side can
    - Impose punitive measures (e.g., tariffs)
    - Without "counter-response" (if in good faith)
- **New negotiations for "Phase Two"**
  - Will happen, but with no time line

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70

70

China-US Phase One Trade Deal

- **Tariff Cuts?**
  - Not mentioned in the agreement
  - China may (and actually, already has) cut some tariffs, perhaps as a means to increase imports
  - US has not, at least formally, promised anything
  - Tariff cuts are said to wait for Phase 2 deal, probably not until after November election

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Outline

- **Features of Michigan's Trade**
- **President Trump's Trade Actions**
  - Trade Wars
    - ○ Safeguard tariffs
    - ○ National security tariffs
    - ○ China tariffs
    - ○ Immigration tariffs
- **Conclusion**

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Trump's Trade Actions

- **May 30, 2019: Trump threatens Mexico**
  - US will place tariff on all exports from Mexico
    - Initially 5% starting Jun 10
    - It will rise by 5%pts each month to 25%
  - Reason: Flood of immigrants through Mexico into US.

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73

73

Trump's Trade Actions

- **Jun 7, 2019: Trump strikes deal with Mexico**
  - Mexico will restrict immigration
  - US will not levy tariff after all

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74

74

Outline

- Features of Michigan's Trade
- **President Trump's Trade Actions**
  - Other
    - Deal with Japan
    - Huawei
    - Boeing-Airbus
    - France digital tax
- Conclusion

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75

Conclusion

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Conclusion

- **Trump's trade actions, in all states, but especially Michigan**
  - o Raise prices to consumers
  - o Raise costs to producers
    - Alienate other countries

77

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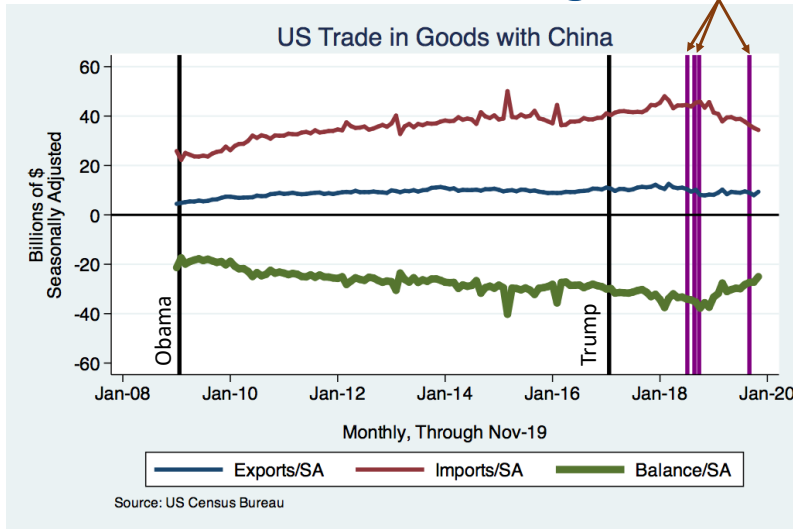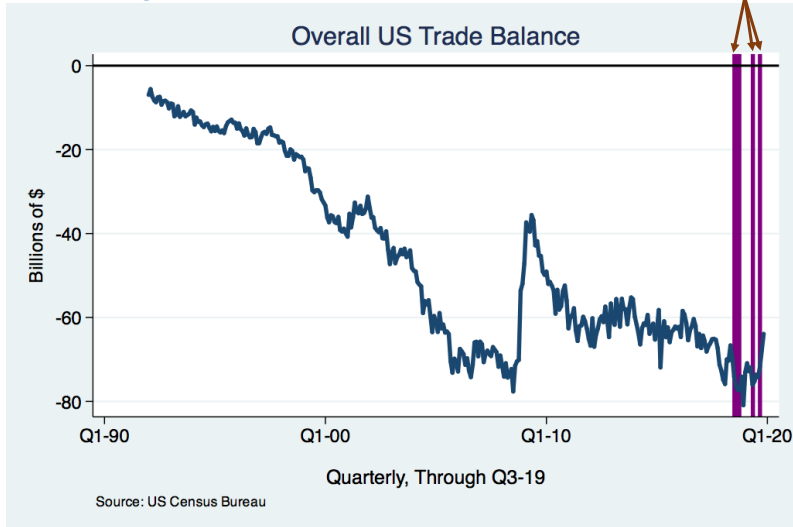
77

Conclusion

- **May they serve any purpose?**
  - Not to reduce trade deficit(s)
    - o Tariffs may reduce both exports and imports
    - o They do <u>not</u> change overall trade balance

78

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Trade Deficit Effects: It's Working!

Trump tariffs

US Trade in Goods with China

Monthly, Through Nov-19

Exports/SA — Imports/SA — Balance/SA

Source: US Census Bureau

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79

Maybe….Maybe Not…

Trump tariffs

Overall US Trade Balance

Quarterly, Through Q3-19

Source: US Census Bureau

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80

Maybe….Maybe Not…

Trump tariffs

Overall US Trade Balance

(chart: Billions of $ vs Quarterly, Through Q3-19, Source: US Census Bureau)

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81

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Unintended Consequences: Falling Exports

Trump tariffs

US Exports of Goods and Services

(chart: Billions of $ vs Quarterly, Through Q3-19, Source: US Census Bureau)

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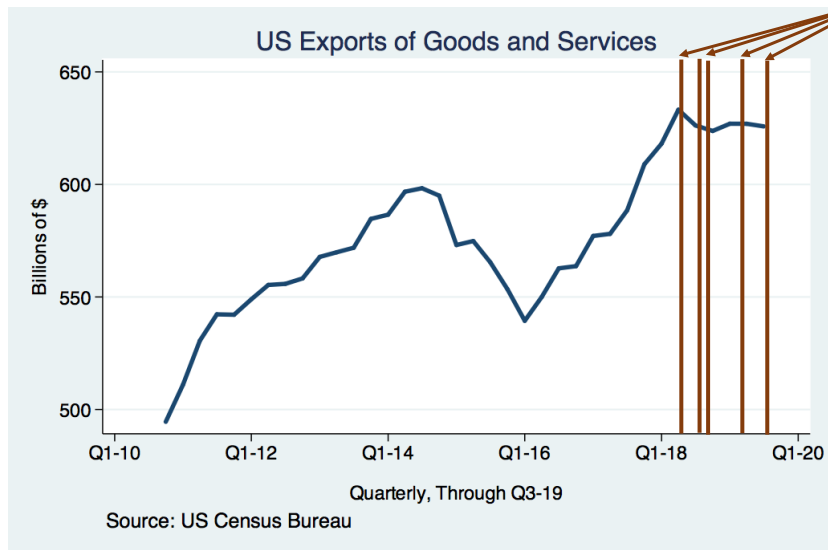
82

Conclusion

- **May they serve any purpose?**
  - Perhaps to motivate other countries to change policies for the better
    - ○ US has negotiated with
      - China, to change their IP policies and increase imports from US (Phase One Deal)
      - EU and Japan, to open to more imports of agricultural goods from US (Nothing yet)
      - Mexico, to limit migration

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83

Thank you!

Any Questions?

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84