

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.

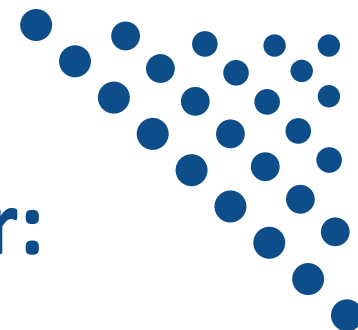
- **Mission**

- 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**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

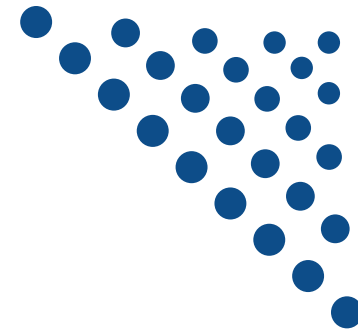
The Michigan Front in the Trade War: Michigan's Role in International Trade and Its Vulnerability to Recent Trade Policies



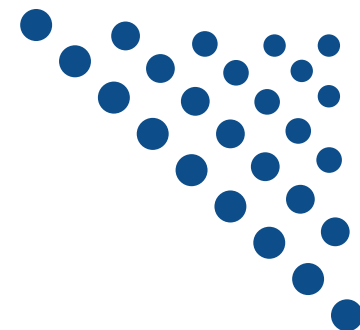
Alan V. Deardorff
University of Michigan

For presentation to the Economic Dinner Group
Ann Arbor, MI
March 18, 2019

Outline

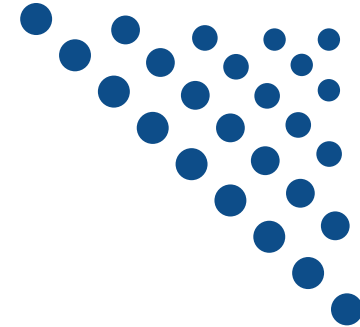


- Features of Michigan's Trade
- President Trump's 2018 Trade Actions
 - Trade War
 - ~~Solar Panels~~ and Washing Machines
 - Steel and Aluminum
 - Cars (threat)
 - China
 - Free Trade Agreements
 - ~~Korea US Trade Agreement Amended~~
 - NAFTA → USMCA



Features of Michigan's Trade

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

Top US Trading States: 2017 (Exports + Imports)

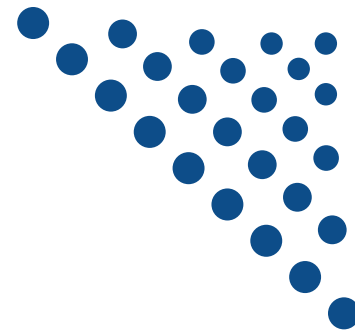


By Value, \$bil.		
1	California	613
2	Texas	528
3	New York	205
4	Illinois	201
5	Michigan	200
6	New Jersey	147
7	Florida	130
8	Georgia	129
9	Washington	126
10	Pennsylvania	122

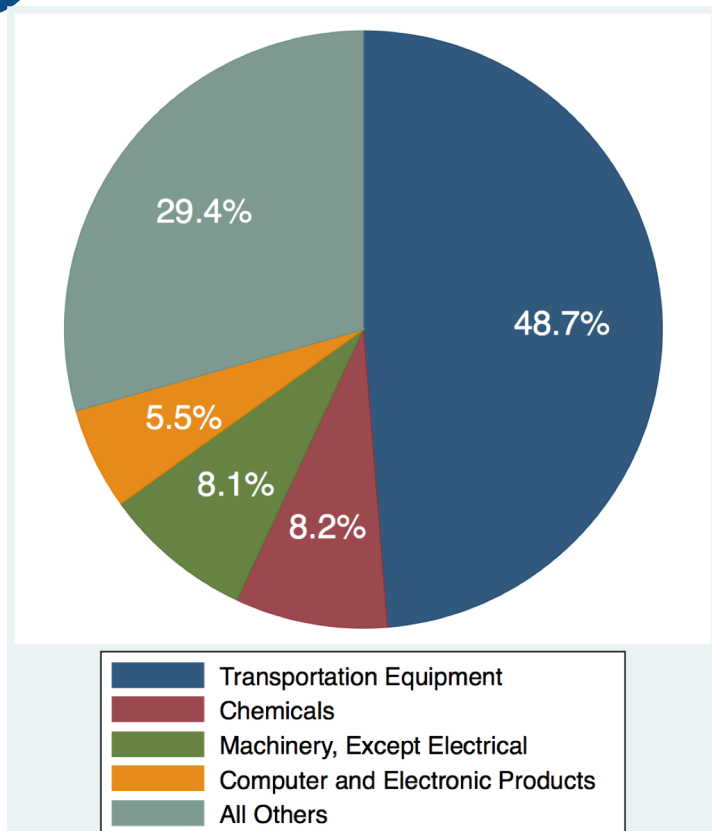
By Average* Rank	
1	Michigan
2	Texas
3	Louisiana
4	Illinois
5	Kentucky
6	Tennessee
7	New Jersey
8	Indiana
9	South Carolina
10	California

Per GDP		
1	Louisiana	40.1
2	Michigan	39.3
3	Kentucky	38.5
4	Texas	32.1
5	Tennessee	32.1
6	South Carolina	31.4
7	Indiana	26.2
8	Illinois	24.5
9	New Jersey	24.4
10	Washington	24.1

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

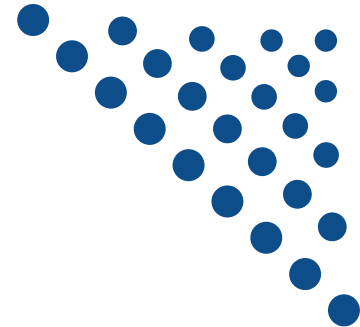


Michigan Exports, by Product: 2017

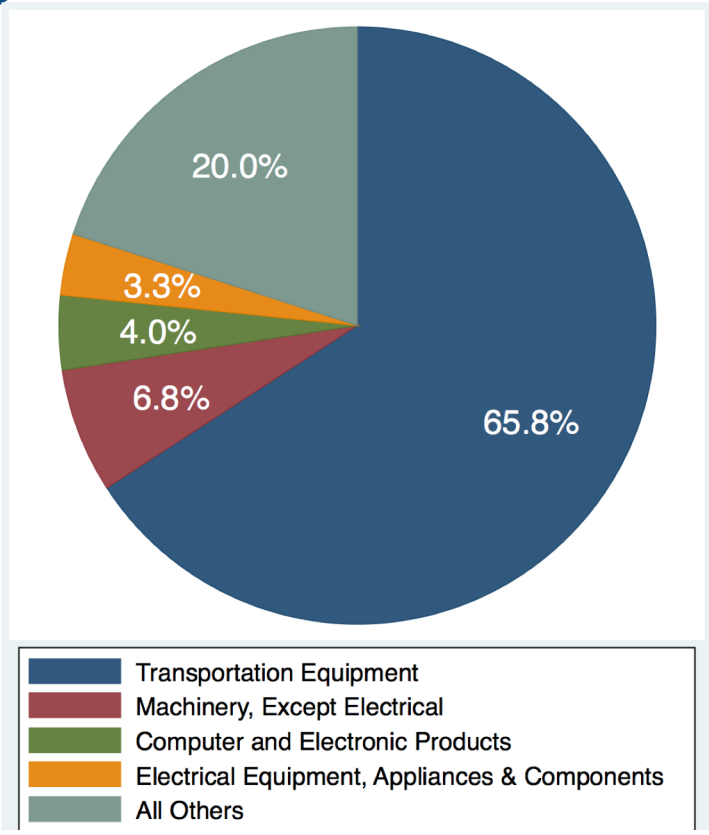


Product	Value (\$ B)
Transportation Equipment	\$29.2
Chemicals	\$4.9
Machinery, Except Electrical	\$4.9
Computer and Electronic Products	\$3.3
All Others	\$17.6
Grand Total	\$59.9

Source: International Trade Administration



Michigan Imports, by Product: 2017



Product	Value (\$ B)
Transportation Equipment	\$92.3
Machinery, Except Electrical	\$9.5
Computer and Electronic Products	\$5.6
Electrical Equipment, Appliances & Components	\$4.7
All Others	\$28.1
Grand Total	\$140.2

Source: International Trade Administration

Michigan's Rank among States in 2017 Trade with



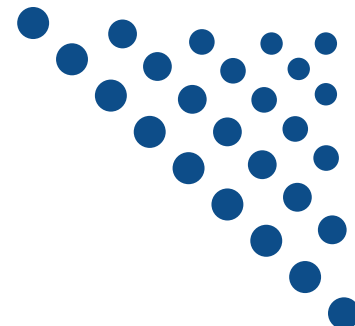
North America		Value (\$)	Per GDP
	Exports	3	2
	Imports	2	1

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

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

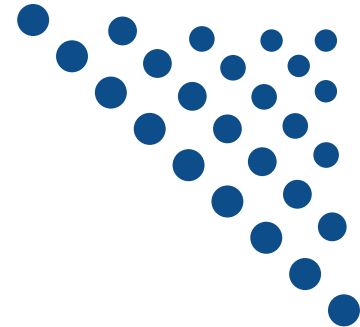
Compare: Michigan's rank by GDP: #14

Source: International Trade Administration



Trump's 2018 Trade Actions

Trump's 2018 Trade Actions



- **Most were tariffs on imports**

- Levied by US on imports from others
- Levied by others (in retaliation) on US exports

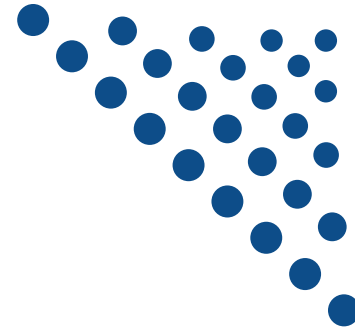
- **Normal effects of tariffs**

- 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.

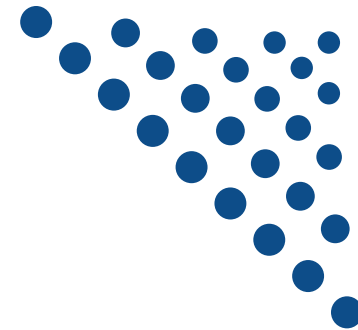
Trump's 2018 Trade Actions



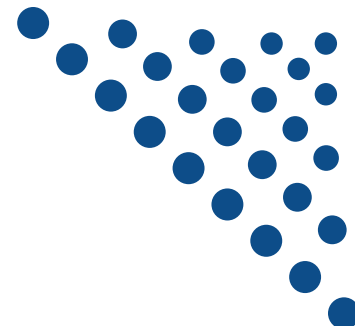
These slides will list only actions actually done.

Most had plans and threats announced in the days and weeks beforehand.

Trump's 2018 Trade Actions

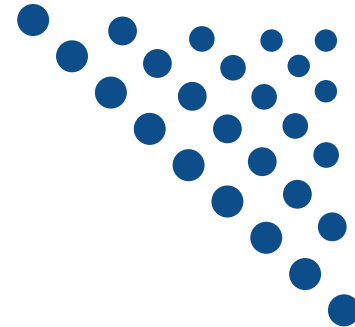


- **Jan 22, 2018: Safeguard tariffs**
 - 30% on solar panels
 - 50% on washing machines



Tariffs on Washing Machines

Tariffs on Washing Machines



- **Who benefits?**

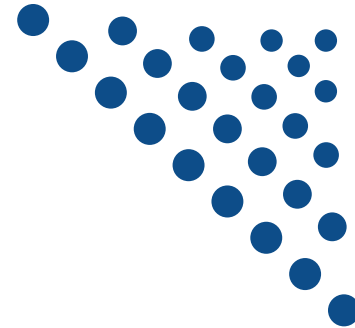
- Whirlpool, Benton Harbor, MI, which requested the tariffs
 - Whirlpool brands include Amana, Maytag, & more
- Other US manufacturers, such as GE, Electrolux and Frigidaire (Swedish), Equator, Speed Queen
- In 2017, Samsung and LG announced plans to build factories in South Carolina and Tennessee

Tariffs on Washing Machines

- **Who is hurt?**

- Consumers

- US appliance prices (I don't have washing machines alone) rose 8.1% over the 12 months to Nov 2018



Tariffs on Washing Machines

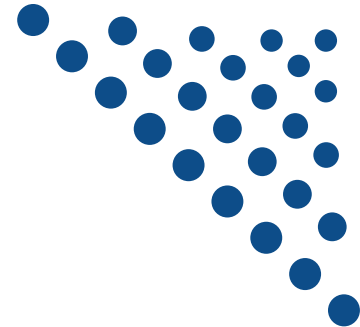
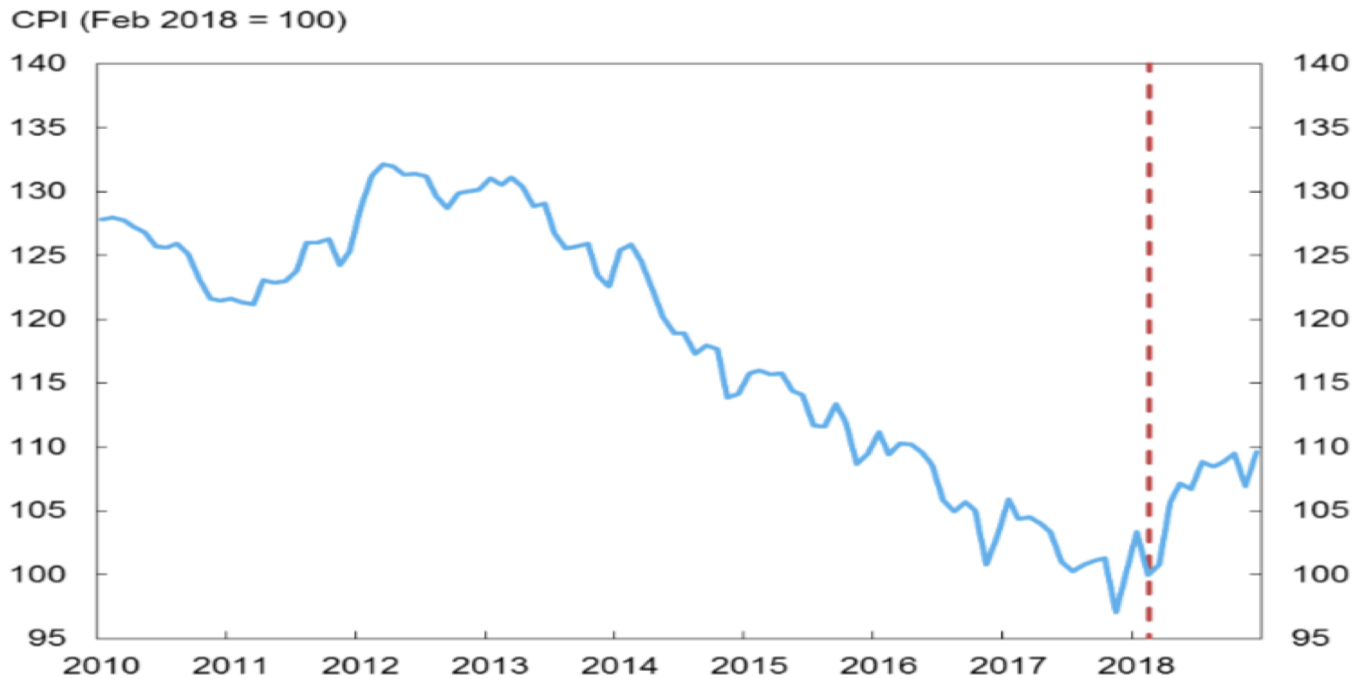
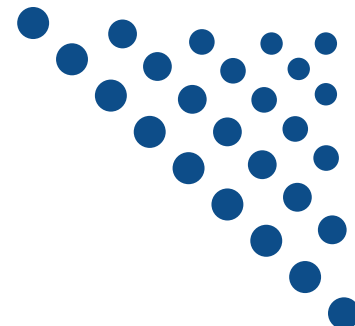


Figure 2: Major Appliance CPI



Source: BLS.

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.

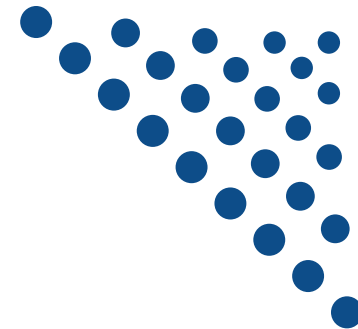


Tariffs on Steel and Aluminum

Trump's 2018 Trade Actions

- Jan 22, 2018: Safeguard tariffs
- **Mar 1, 2018: Announces “national-security” tariffs on steel and aluminum**
 - 25% on steel, 10% on aluminum
 - Announced for all countries
 - Some delayed (EU, Canada Mexico)
 - Others later exempted (S. Korea)

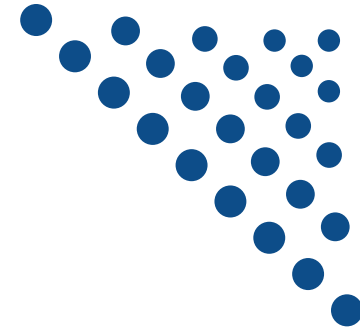
Tariffs on Steel and Aluminum



- **Responses to metals tariffs**

- Retaliation by China, EU, Canada, & others
- WTO disputes
 - May-Aug: Complaints filed against US
 - Jul: Complaints filed by US

Tariffs on Steel and Aluminum



• Who benefits?

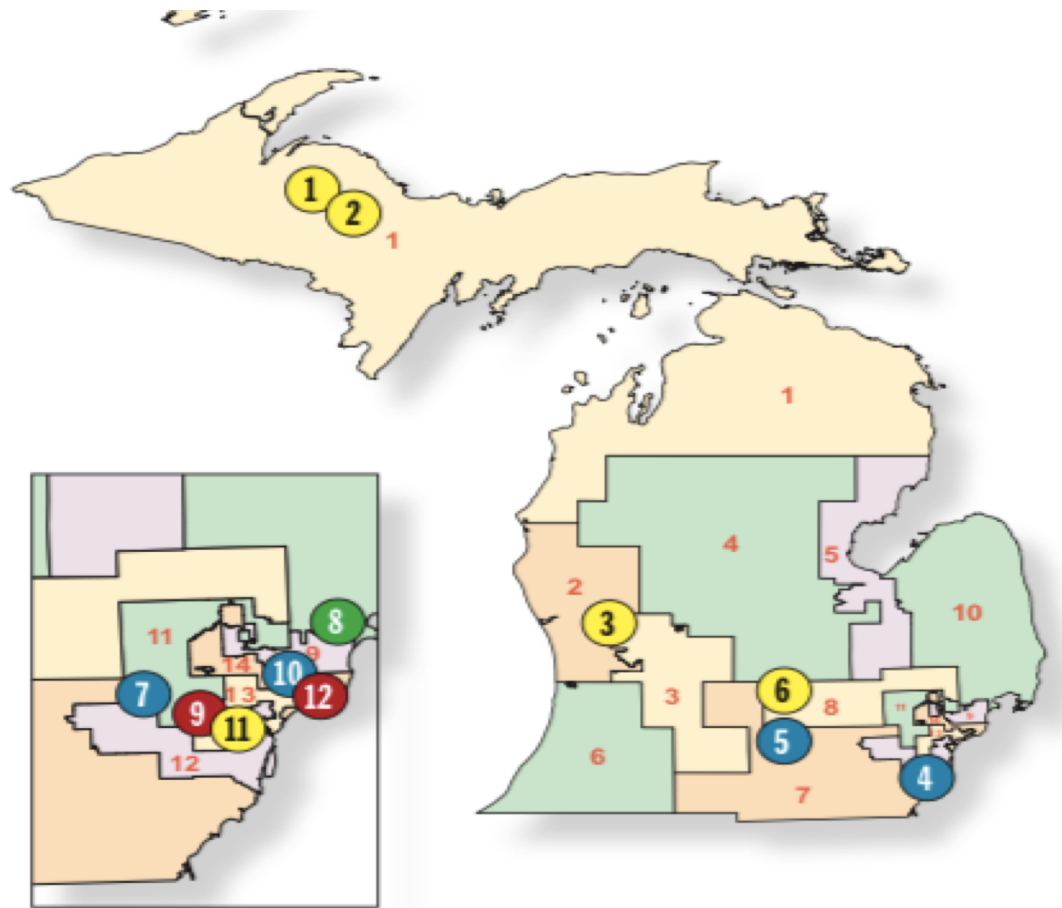
- US producers of steel and aluminum
 - Steel: AISI lists 12 producers in Michigan
 - Aluminum: Thomas lists 76 suppliers in Michigan

Steel Produced in Michigan

AISI MEMBER FACILITIES	12
JOBS GENERATED	7,291
TOTAL JOBS SUPPORTED BY THE STEEL INDUSTRY	49,600*
POPULATION	9,895,622
GOVERNOR	Rick Snyder (R)
SENATORS	Debbie Stabenow (D) Gary Peters (D)

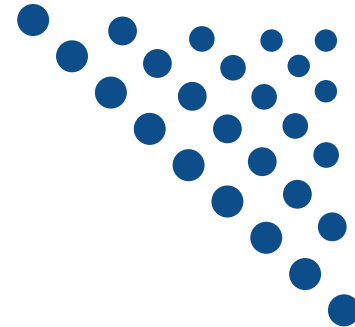
* Both steel and supported

Sources: BLS, 2015; Economic Impacts Report, 2012



Greater Detroit Area Districts

Tariffs on Steel and Aluminum



- **Who is hurt?**

- US users of steel and aluminum pay higher prices

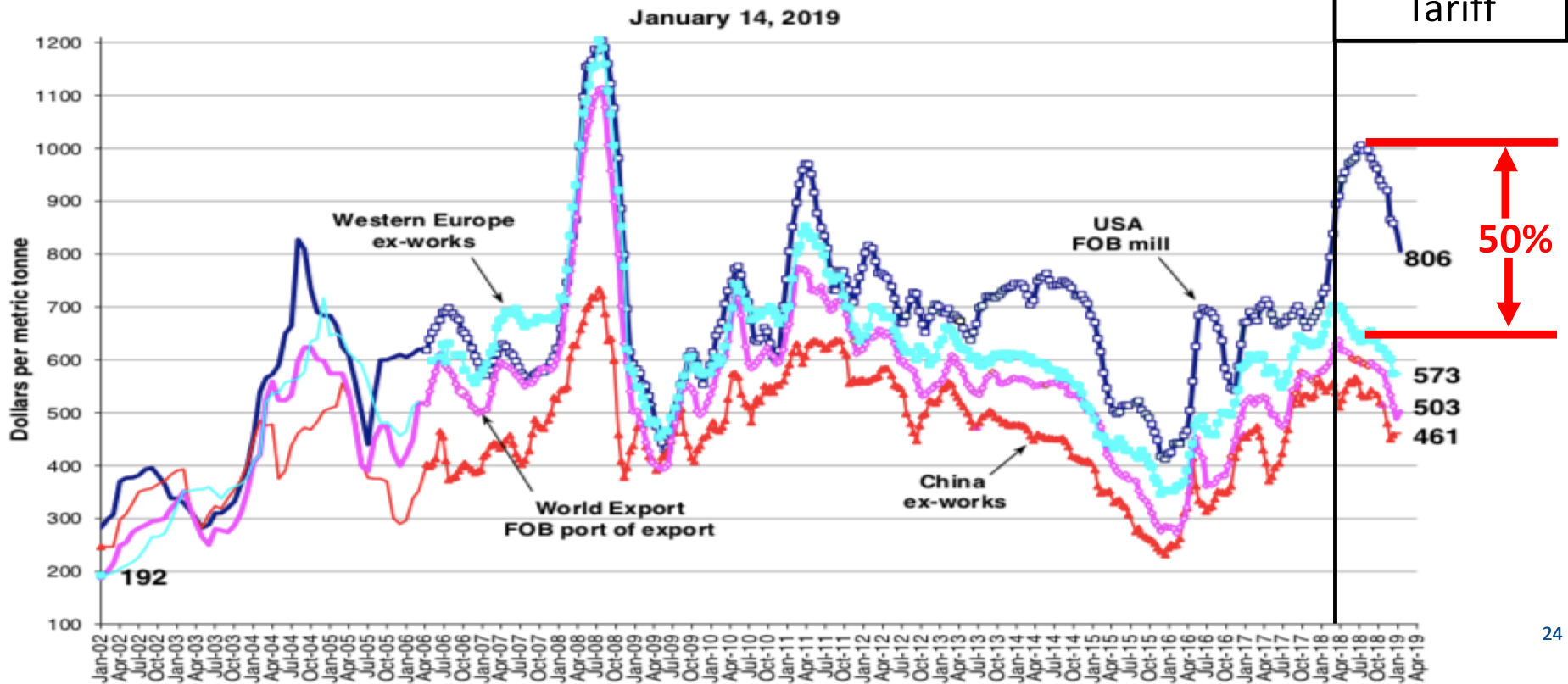
- Most obviously the car companies but many others

Steel Prices

SteelBenchmarker™ HRB Price

USA, China, Western Europe and World Export

(Track data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006)





Aluminum Price

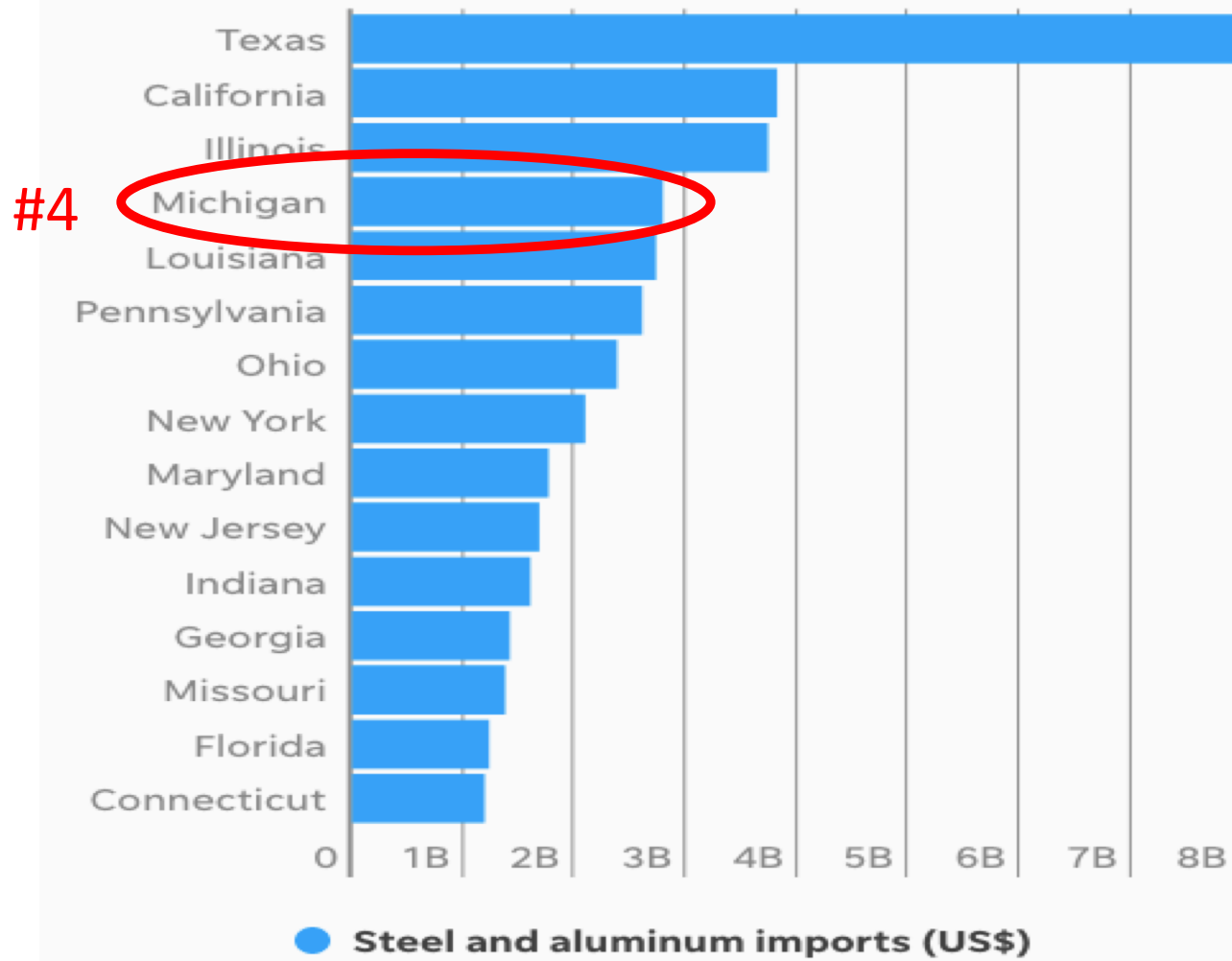
Historical Data API

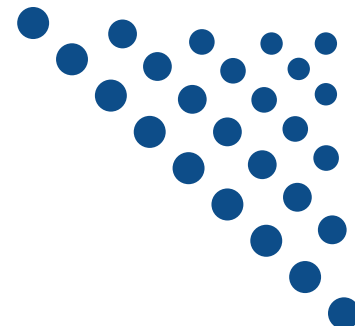
US 10%
Tariff



SOURCE: TRADINGECONOMICS.COM | OTC

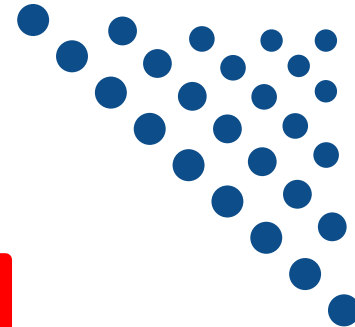
Top 15 states for steel and aluminum imports in 2017





Tariff on Cars and Car Parts

Trump's Trade Actions



- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces tariffs on steel and aluminum
- **May 23, 2018: Initiates Commerce Dept National Security investigation of car and car part imports**

Tariff on Cars and Car Parts

• Who would benefit?

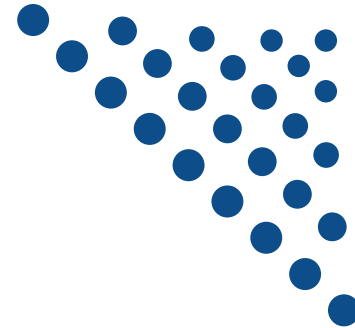
- US car companies?

- Most (e.g., GM) are opposed

- But I can't find objection from Ford

- US auto workers?

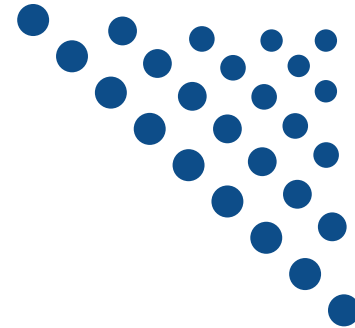
- UAW has spoken in favor of “target measures” with with understanding that broad tariffs or quotas “could cause harm” including “mass lay-offs for American workers.”



Tariff on Cars and Car Parts

- **Who would be hurt?**

- Most car companies, including GM
- US car buyers



Tariff on Cars and Car Parts



Estimated Effects on Car Sales and Prices of 25% Tariff

Tariff on:	Sales impact (units)	Average Price Increases (\$/unit) on vehicles sold in US		
		All	US-assembled	Imported
All imports	-2.0 M	\$4,400	\$2,270	\$6,875
Canada & Mexico exempted	-1.2 M	2,450	1,135	3,980

Source: Center for Automotive Research

Tariff on Cars and Car Parts

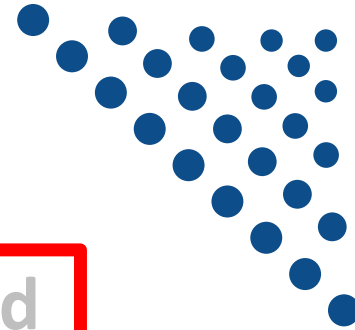
- **Where we stand:**

- Commerce Dept. report was due Feb 17
- FT Jan 22: “president was leaning towards slapping tariffs on automotive imports, in the hope of forcing Brussels to further open the EU market to American farm products.”
- Report has not yet been released



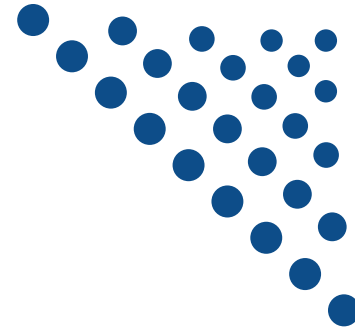
China

Trump's Trade Actions



- Mar 1, 2018: Announces tariffs on steel and aluminum
- May 23, 2018: Initiates Commerce Dept investigation of car and car part imports
- **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)

China

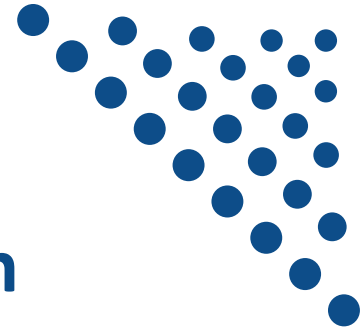


- **Concerns about China's IP practices pre-existed Trump**
 - Theft of technology secrets
 - Forcing investors in China into joint ventures and sharing technology
- **Prior to Trump, complaints had been voiced by US and EU, but nothing had been done**
- **US initiated investigation under Section 301 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**

Trump's Trade Actions

- Mar 1, 2018: Announces tariffs on steel and aluminum
- May 23, 2018: Initiates Commerce Dept investigation of car and car part imports
- 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**

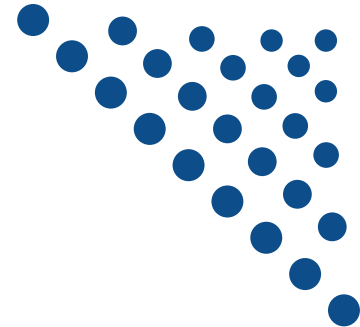
China



- **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 has said he’ll use tariffs on still more (\$267 billion), approaching all of China’s exports to US

China



- **What's the point?**

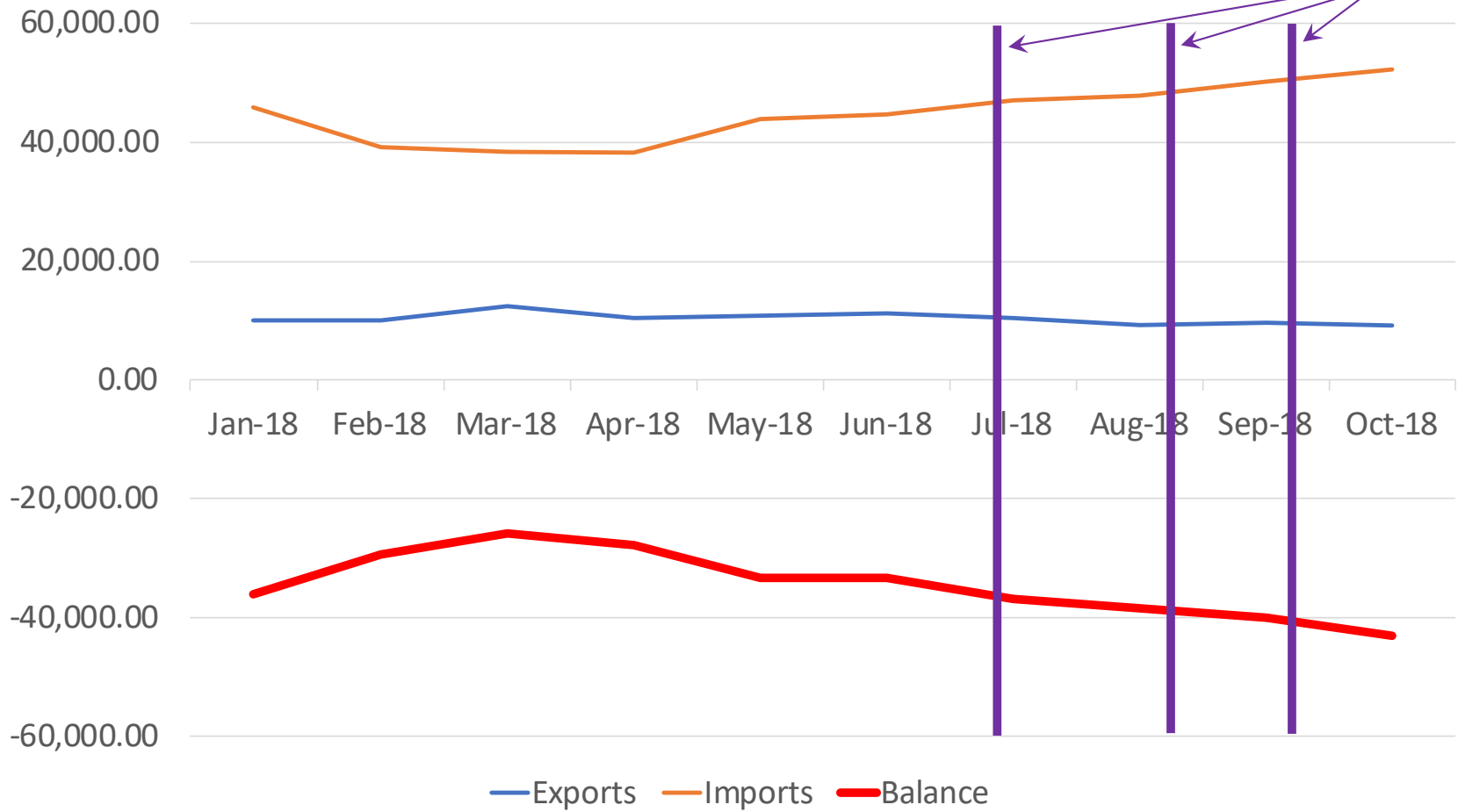
- To get China to stop its IP practices?
- To reduce the US bilateral trade deficit with China?
- To stop China's rise as an economy and as a world power?

- **Who will "win"?**

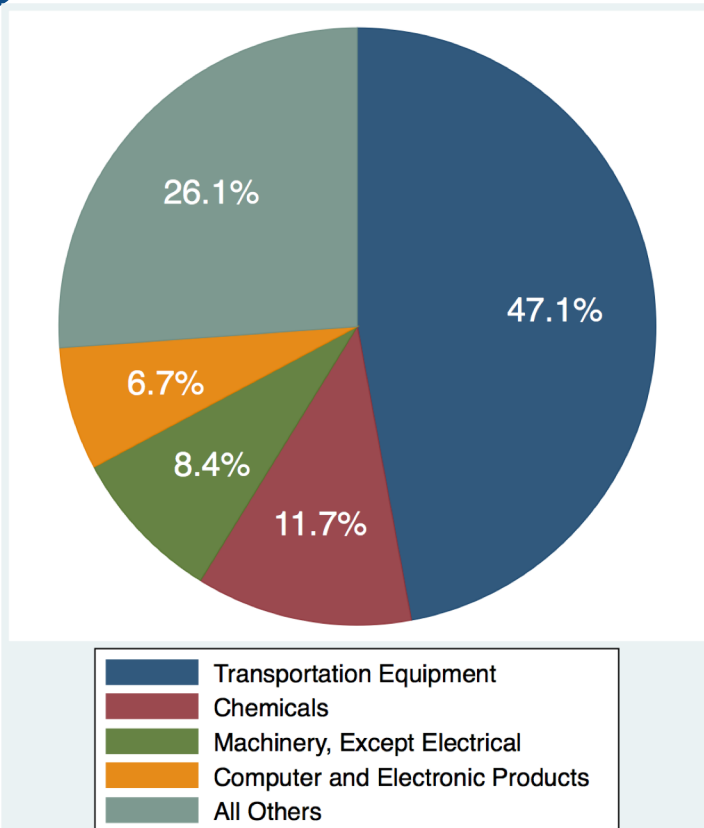
- Nobody! Everybody loses from tariffs
- Trump says it's "easy to win" because he measures success from trade deficit

US Trade in Goods with China 2018

Tariffs



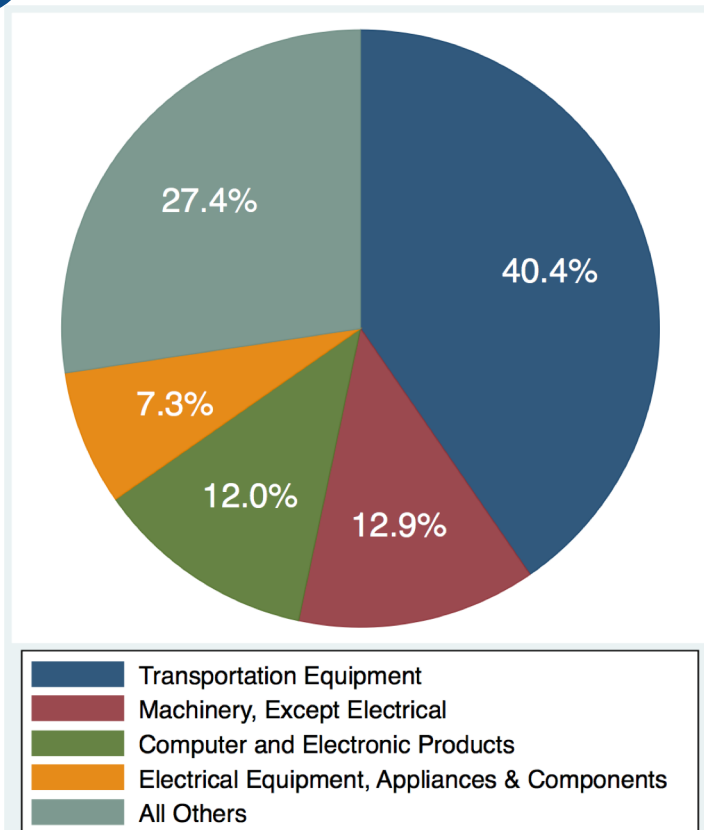
Michigan Exports to China, by Product: 2017



Product	Value (\$ B)
Transportation Equipment	\$1.7
Chemicals	\$0.4
Machinery, Except Electrical	\$0.3
Computer and Electronic Products	\$0.2
All Others	\$1.0
Grand Total	\$3.7

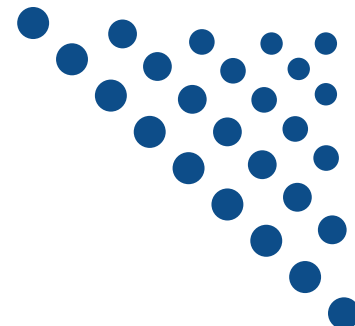
Source: International Trade Administration

Michigan Imports from China, by Product: 2017



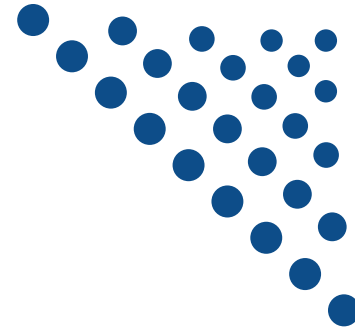
Source: International Trade Administration

Product	Value (\$ B)
Transportation Equipment	\$3.9
Machinery, Except Electrical	\$1.2
Computer and Electronic Products	\$1.1
Electrical Equipment, Appliances & Components	\$0.7
All Others	\$2.6
Grand Total	\$9.6



Trade War

Trade War

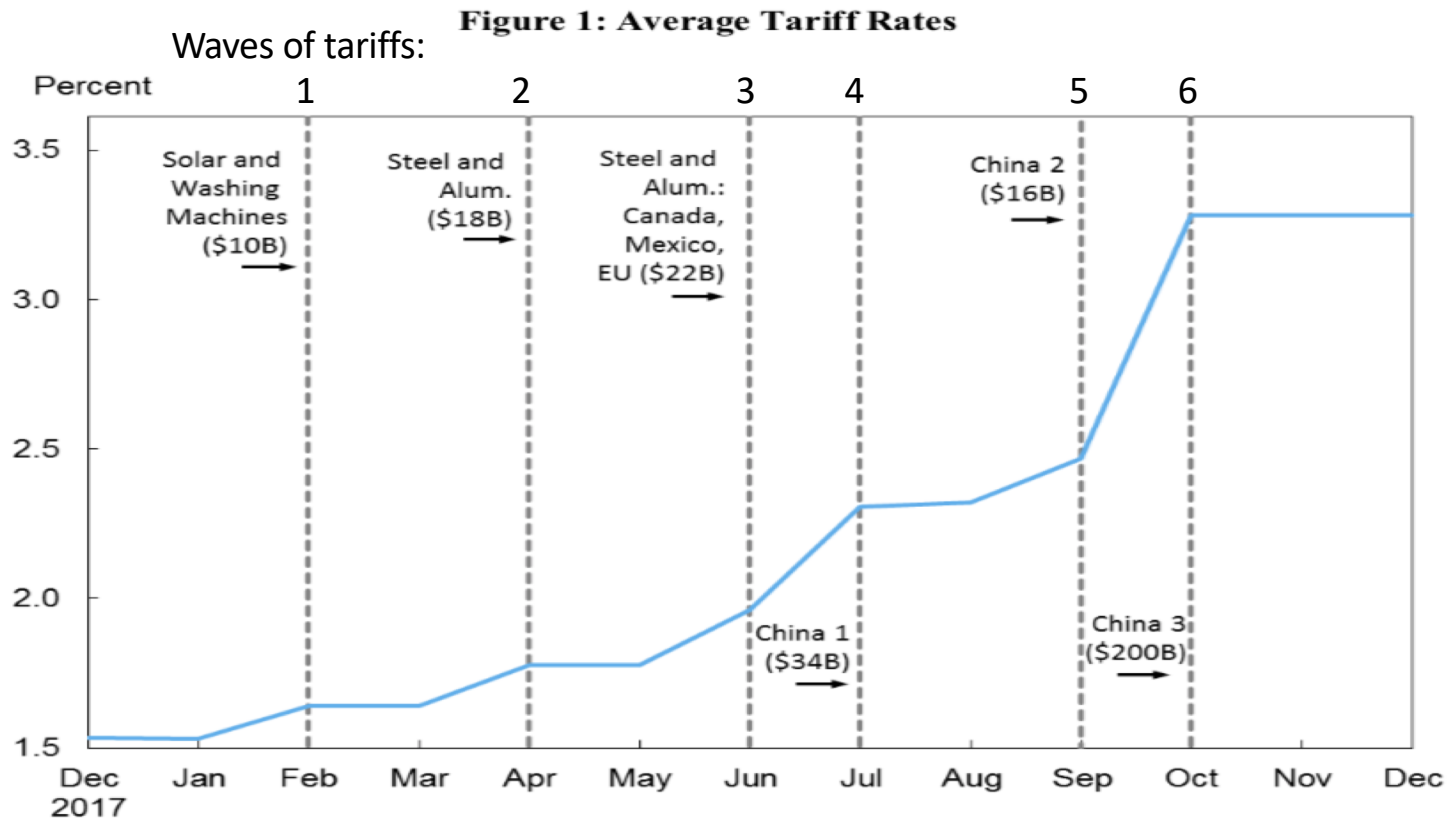


• Overall Effects of the 2018 Trade War

- US average tariffs rose, in 6 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.

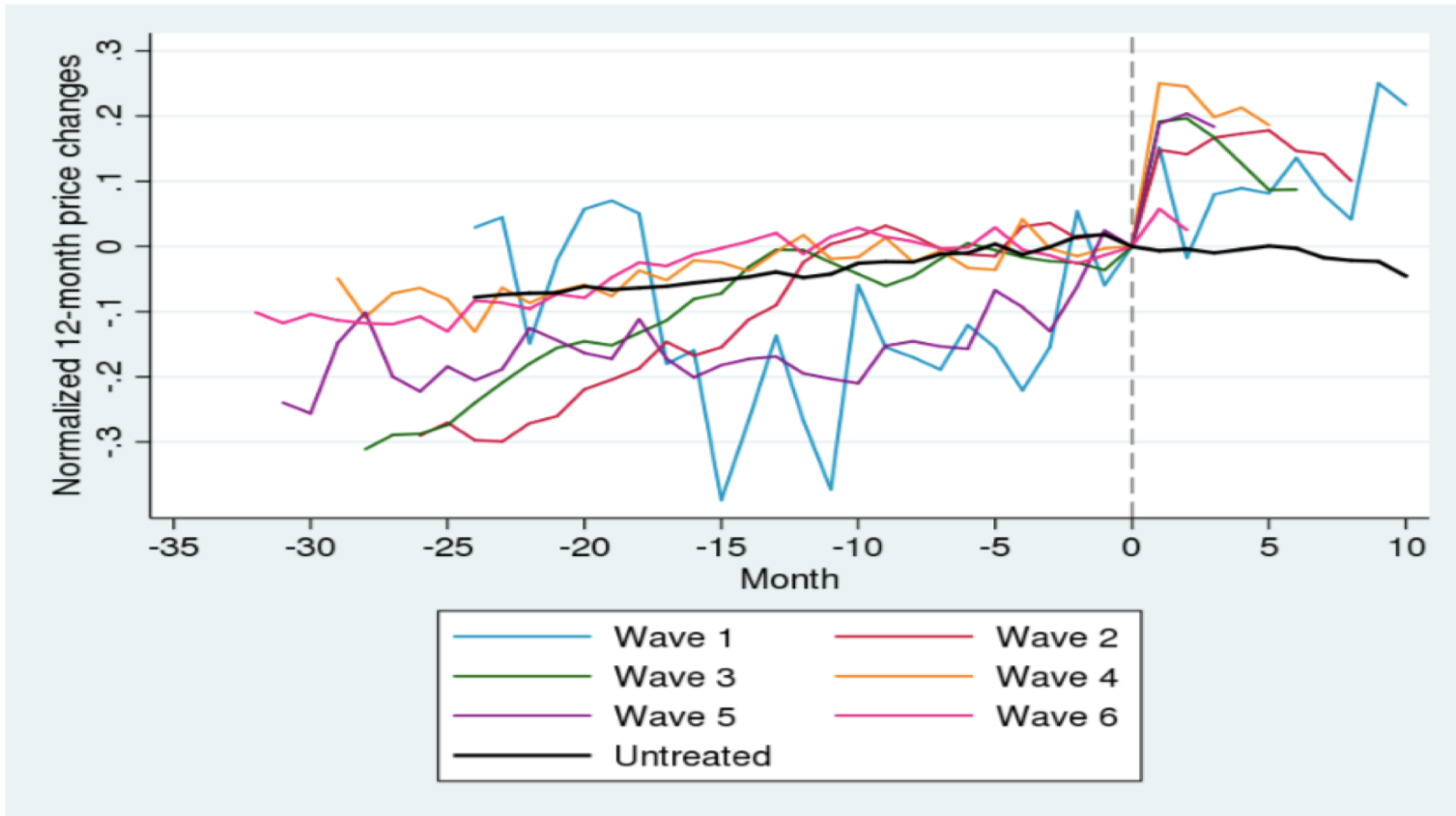
Trade War



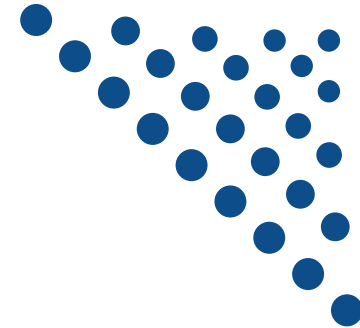
Source: US Census Bureau; USTR; USITC; authors' calculations.

Trade War

Figure 3: 12-month Proportional Change in Import Prices by Tariff Wave



Trade War



• Effects of the 2018 Trade War

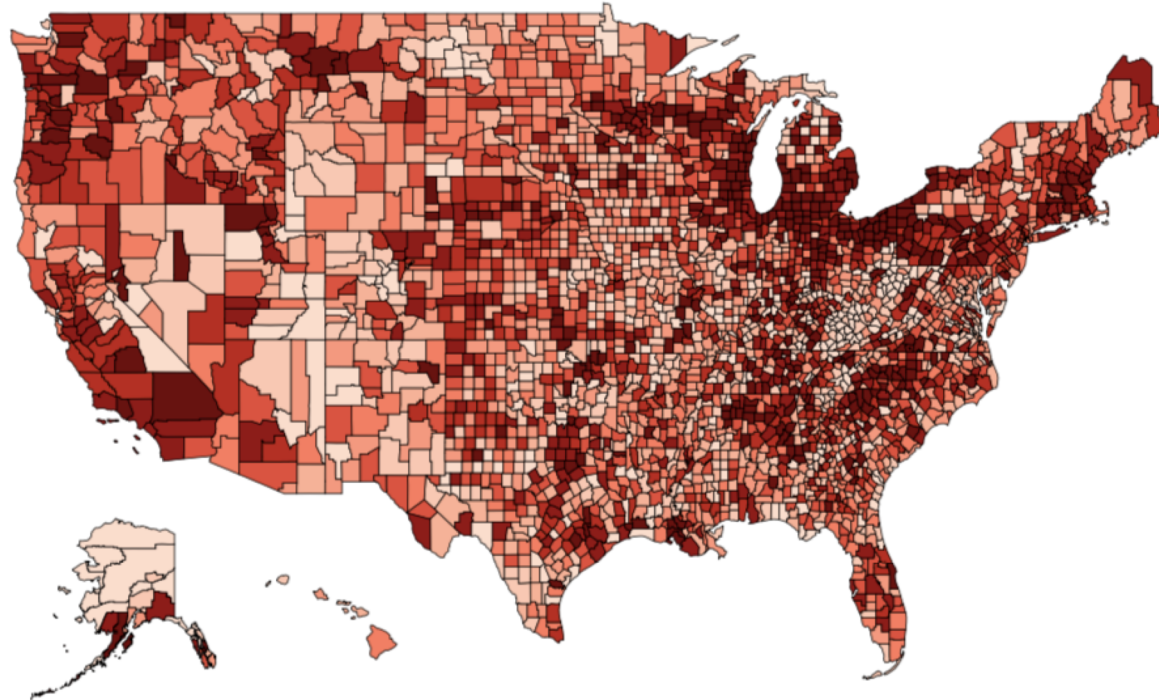
- Effects varied across US
 - US tariffs hit Michigan, hard
 - Foreign tariffs did not hit Michigan hard
 - Real wages fell most not in Michigan

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

Trade War

US Tariff Increases on US Imports

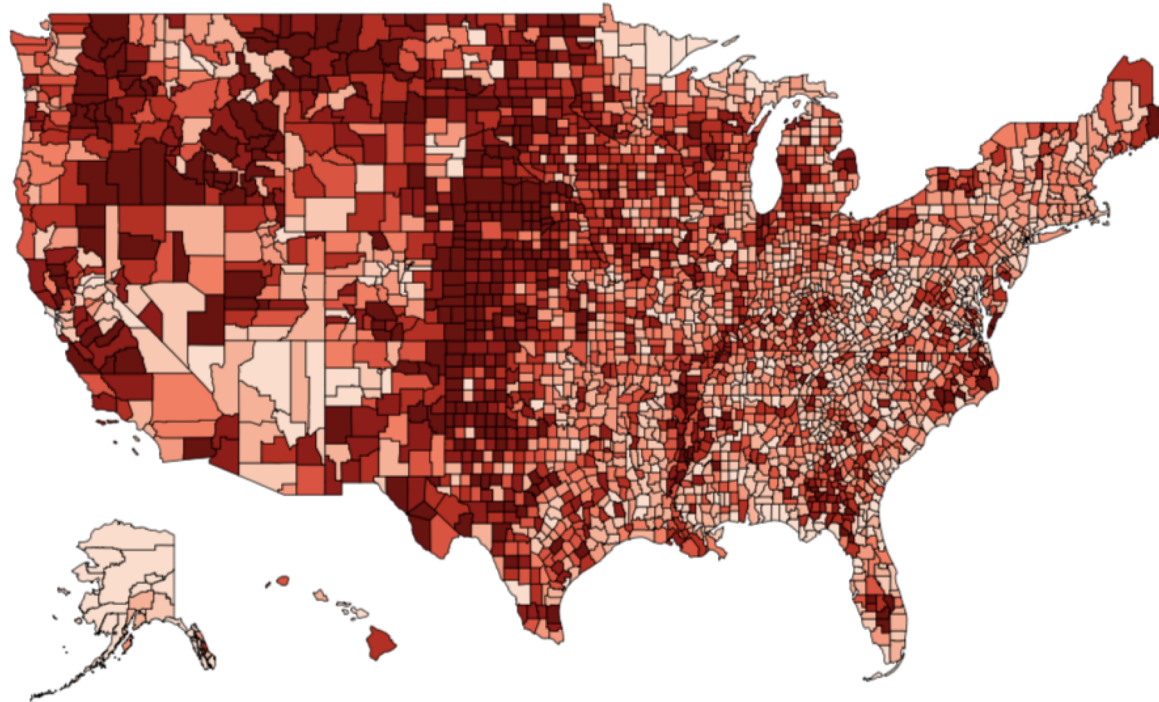
Weighted by Variety-Level US Import Share and County-Level 2016 Total Sector Employee Wage Bill

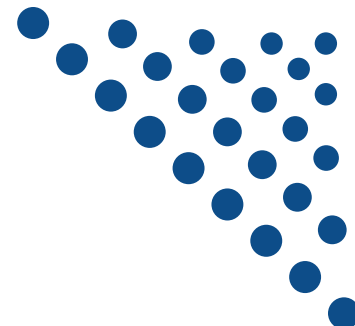


Trade War

Foreign Tariff Increases on US Exports

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





NAFTA → USMCA

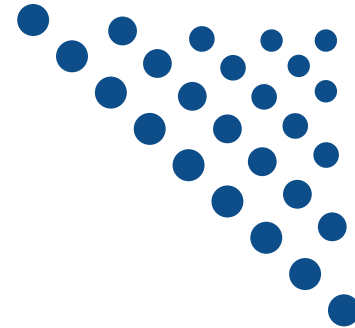
Trump's Trade Actions

- Aug 23, 2018: Second tariffs on China, \$16 billion
- Sep 24, 2018: Third tariffs on China, \$200 billion
- Sep 24, 2018: Amended KORUS signed
- **Sep 30, 2018: USMCA agreed**
 - NAFTA renegotiation had completed previously with Mexico
 - Now Canada signed on, and name changed (by Trump) to USMCA
 - USMCA: U.S.-Mexico-Canada Trade Agreement

NAFTA → USMCA

- **NAFTA is**

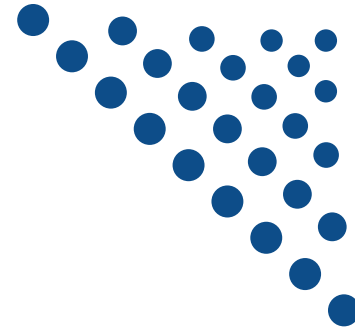
- Free Trade Agreement (FTA)
 - Zero tariffs on goods traded by US, Canada, Mexico
 - Only if they satisfy Rules of Origin (ROOs)
- Additional provisions regarding many things
 - Services trade
 - Foreign direct investment
 - Intellectual property rights
 - Dispute settlement
 - Government procurement

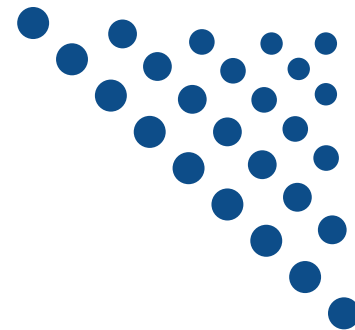


NAFTA → USMCA

- **USMCA will be (if approved)**

- 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)



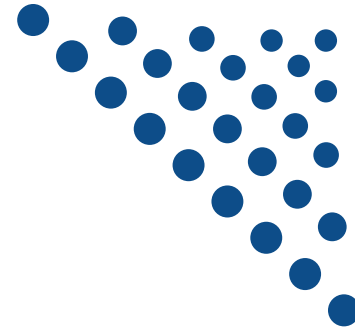


NAFTA → USMCA

- **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

NAFTA → USMCA



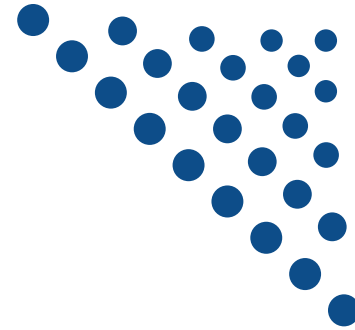
• Effects of tighter ROOs

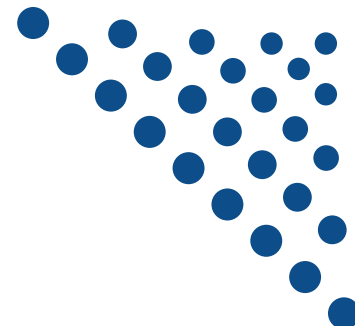
- If ROOs are
 - Satisfied: Higher costs of production
 - Not satisfied: Tariffs on traded inputs and final products
- Either way
 - Prices rise
 - Demand falls
 - Products become less competitive internationally
- Effects on demands for labor ambiguous throughout

NAFTA → USMCA

- **Will USMCA be ratified?**

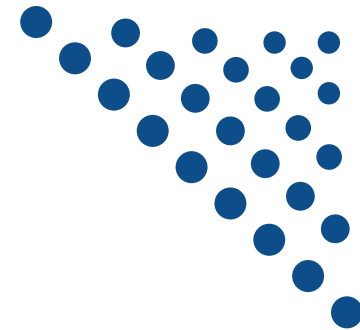
- Needs ratification in all three countries
- In US, there are problems
 - Democrats want changes
 - Stronger enforcement of labor provisions
 - Remove tariffs on steel and aluminum
 - Approval requires a report from USITC, which was delayed by government shutdown
- Trump threatens to issue six-month withdrawal notice from NAFTA



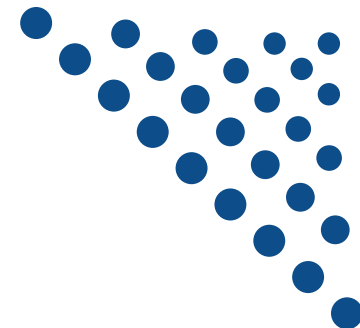


Conclusion

Conclusion



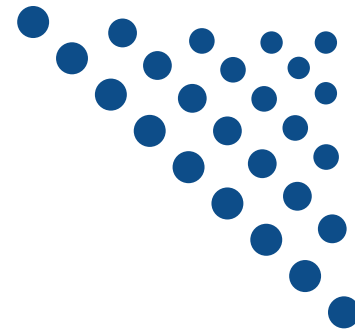
- **Trump's trade actions in 2018**
 - In all states, but especially Michigan
 - Raise prices to consumers
 - Raise costs to producers
 - Alienate other countries



Conclusion

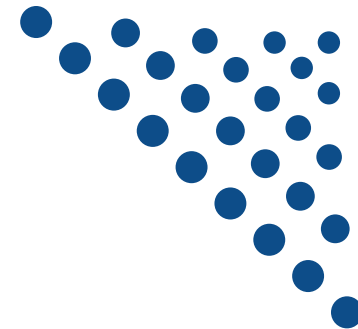
- **May they serve any purpose?**
 - Not to reduce trade deficit(s)
 - Tariffs may reduce both exports and imports
 - They do not change overall trade balance
 - Mar 6, 2019, NYT:
 - “The United States trade deficit in goods ballooned to its largest level in history, reaching \$891.3 billion in 2018, despite President Trump’s repeated promise to reduce that figure.”

Conclusion



- **May they serve any purpose?**
 - Perhaps to motivate other countries to change policies for the better
 - US is negotiating with
 - China, to change their IP policies and increase imports from US
 - EU to open to more imports of agricultural goods from US

Thank you!



Any Questions?

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