



## U.S. Trade and Trade Wars

Andreas Waldkirch, Ph.D.

*Colby College*

*Rotary Club of Warrenton, VA*

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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

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



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## Who Are We?

- **Honorary Board: 47 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

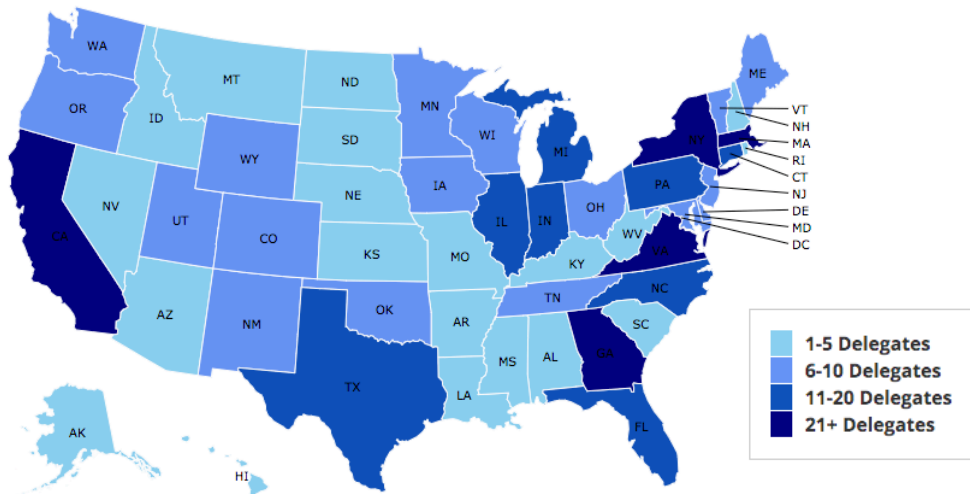


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## Where Are We?



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## Credits and Disclaimer

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  - Alan Deardorff, University of Michigan
  - Kadee Russ, University of California-Davis
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## Outline

- **U.S. Trade**
- **The Administration's 2018 Trade Actions and their Consequences**
  - Solar Panels and Washing Machines
  - Steel and Aluminum
  - China



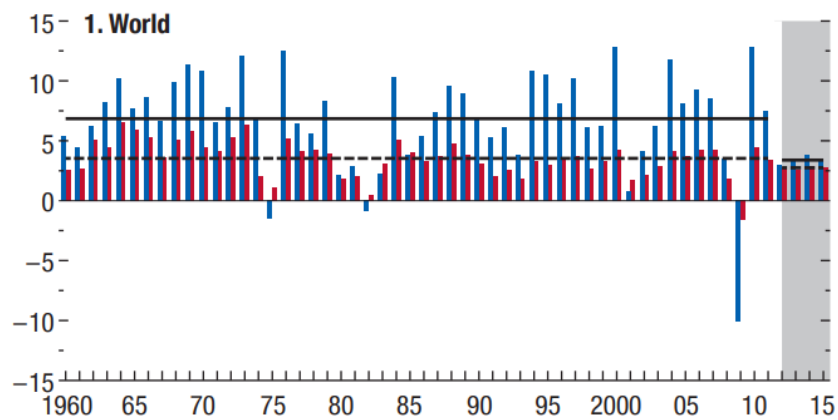
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# U.S. Trade

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## Global trade and GDP since 1960

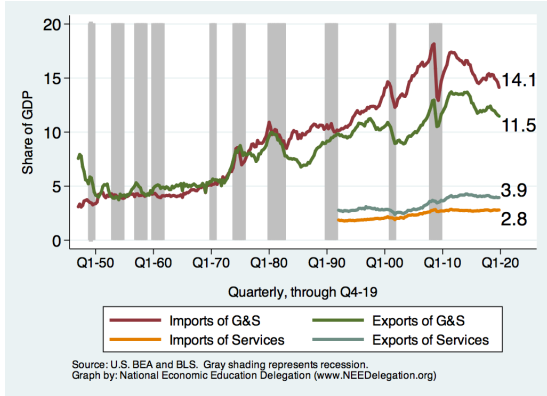
■ Import growth      ■ GDP growth  
— Average import growth      - - - - Average GDP growth



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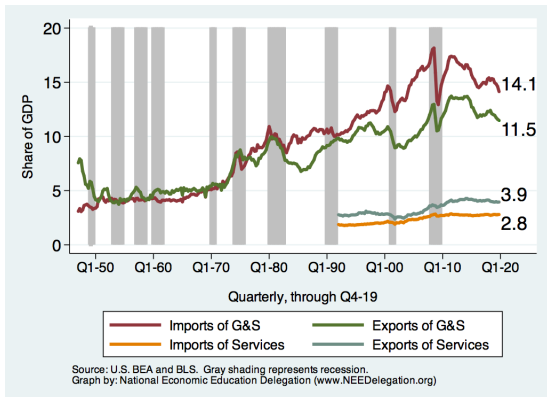
# Importance of US Trade

## • US trade as % of GDP

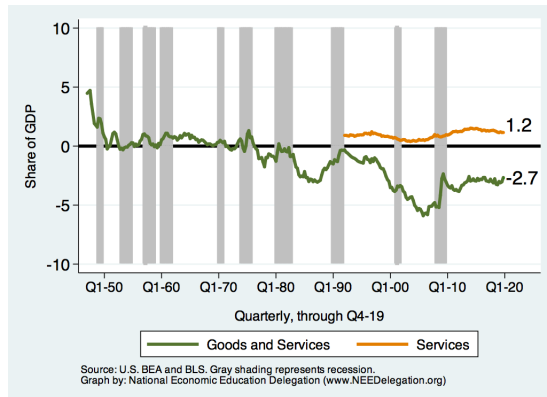


# Importance of US Trade

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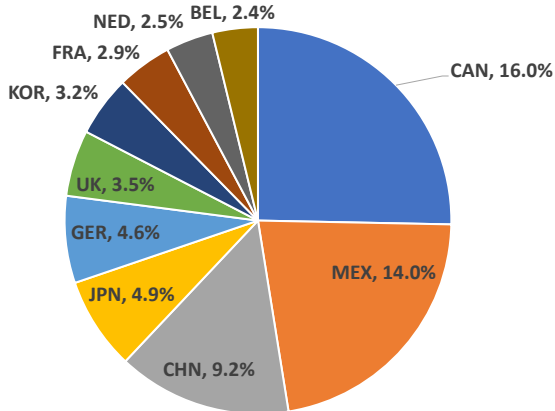


## • US trade balance as % of GDP



## Top US Trade Partners (Goods, 2016)

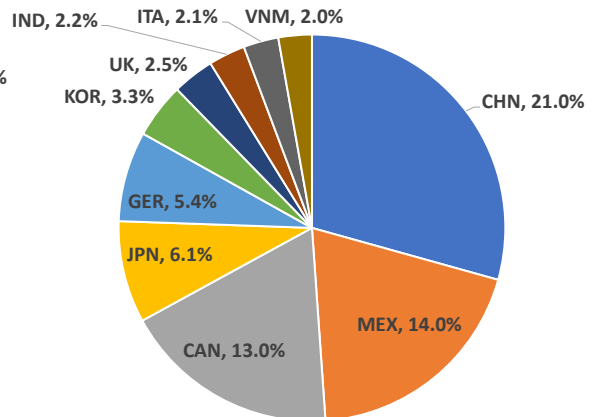
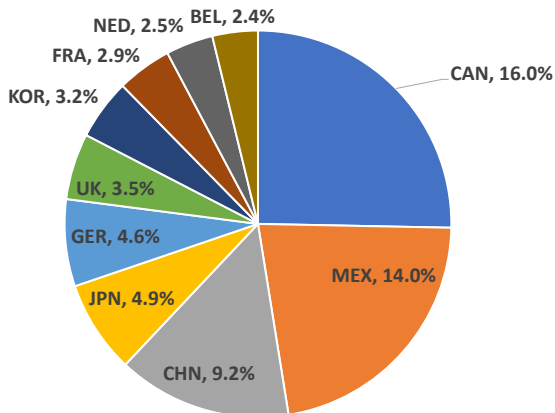
### • Top 10 US export destinations



## Top US Trade Partners (Goods, 2016)

### • Top 10 US export destinations

### • Top 10 US import sources



## Recent Research Suggests Trade Disrupts Job Markets

- **China Shock 1991-2011:  $\approx$  2 million jobs displaced in import-competing industries (Acemoglu, Autor, Dorn, Hanson, Price)**
- **Impact on some communities were devastating.**
  - Concentrated job losses, home prices fell, cuts to local services, reduced marriage and fertility.
- **Research suggests that nationally, jobs expanded in other industries by about the same number, or possibly more.**
  - Cheaper imported inputs allow import-using sectors to grow faster.
  - Feenstra, Ma and Xu; Wang, Wei, Yu, and Zhu



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## 2018 Trade Actions



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## The 2018 Trade Actions

These slides will list only actions actually taken.

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



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## U.S. now using some established and some new approaches to trade policy

### Established

- **Barriers against import surges and imports of unfairly traded products**
- **Bilateral and multilateral trade agreements to increase market access for U.S. exports**
- **Leadership in GATT/WTO**
- **Non-discrimination**

### New

- **Renegotiations of and withdrawal from existing trade agreements**
- **Weakening of WTO trade dispute settlement mechanism**
- **“Reciprocity”**



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## Recent applications of established barriers against import surges and imports of unfairly traded products

- **Trade Act of 1974**
  - Section 201 (surges): solar cells, washing machines
  - Section 301 (non-market activity): China forced technology transfer
- **Trade Expansion Act of 1962**
  - Section 232 (national security): steel and aluminum
- **Trade Act of 1930**
  - Anti-dumping and countervailing duties (cover about 80% of steel from China)



## The 2018 Trade Actions

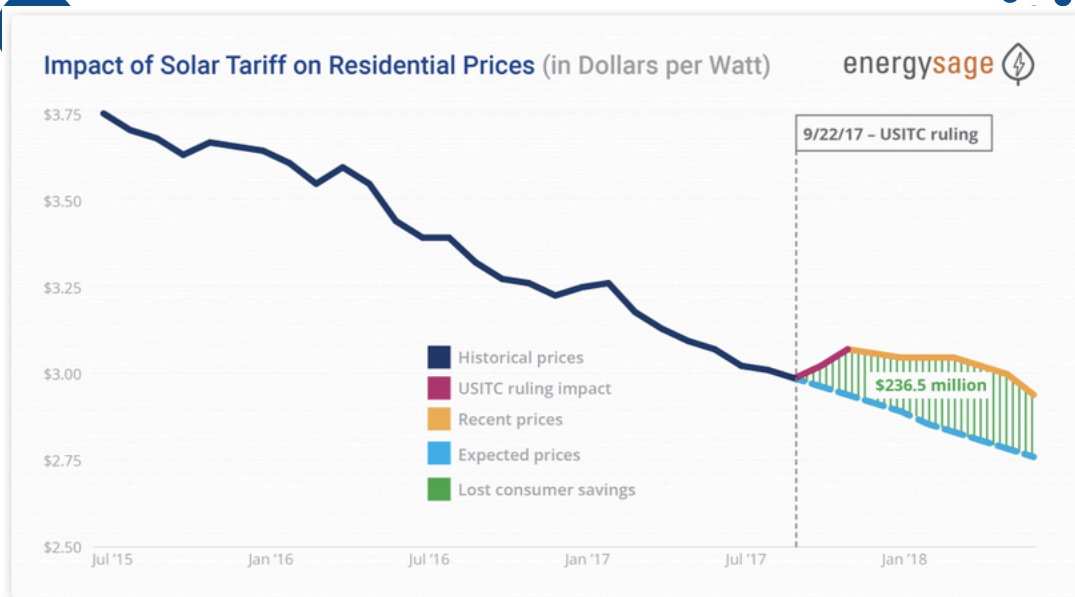
- **Most were tariffs on imports**
  - Taxes levied by US on imports from others
  - Taxes levied by others (in retaliation) on US exports
- **Normal effects of tariffs**
  - Raise prices for importers
  - Lower prices for exporters
  - Cause substitution
    - o To other products
    - o To other countries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



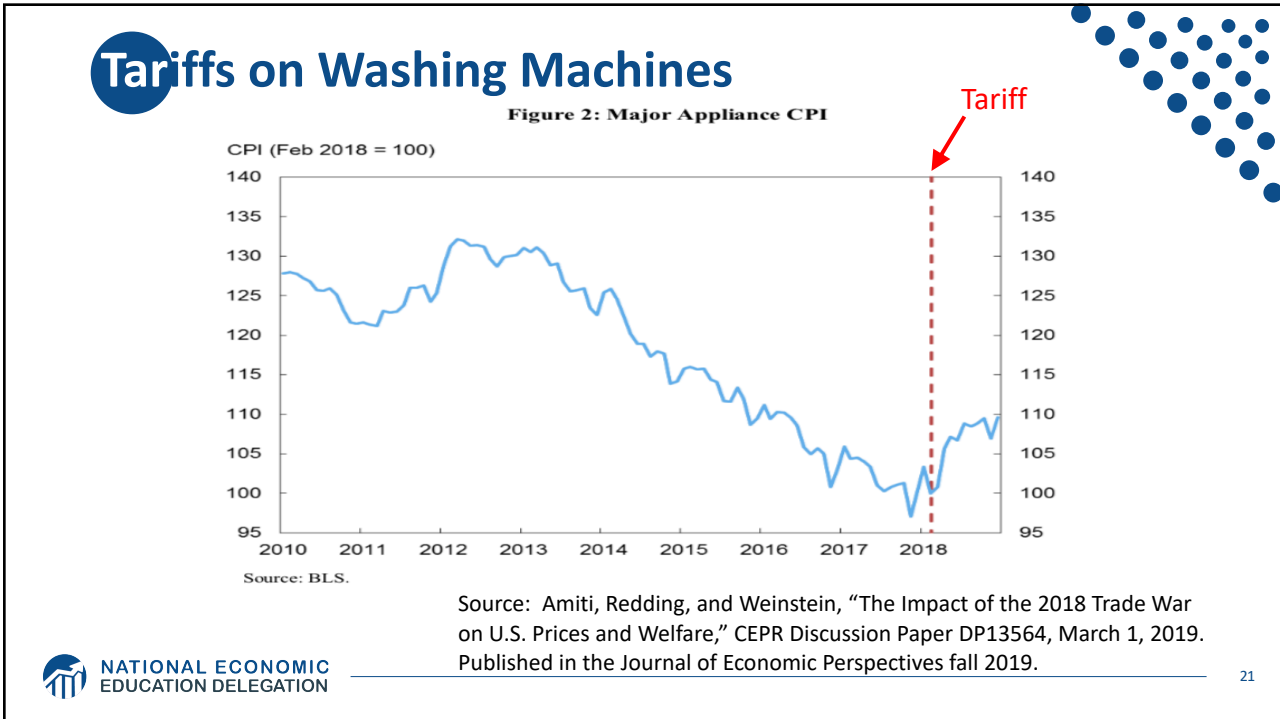
# Safeguards

- **WTO permits tariffs on imports that cause serious injury**
- **The Administration used the following:**
  - 30% on solar panels
  - 50% on washing machines  
(both declining over 3 or 4 years)
- **Both were on exports of all countries**
  - Reason: previous China-only tariffs had been evaded by moving production elsewhere

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Net economic effect is almost always negative



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- ~~Lower prices for exporters~~
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Two recent studies of the 2018 Trade War  
found that exporter prices did not fall.



## The 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
    - o Some delayed (EU, Canada, Mexico)
    - o Others later exempted (S. Korea)



## Tariffs on Steel and Aluminum

- **Who benefits?**
  - US producers of steel and aluminum
    - Steel production increased 1.3% from 2018 to 2019
    - Steel imports decreased 18% from 2018 to 2019
- **Who is hurt?**
  - US users of steel and aluminum pay higher prices
    - Car companies, appliance makers, etc.
    - BEA: 2 million jobs in US industries where steel  $\geq$  5% of inputs



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    - BEA: 2 million jobs in US industries where steel  $\geq$  5% of inputs
- **Net effect:**
  - Peterson Institute (2019): negative \$5.6 billion
  - 8,700 new jobs: Cost per job about \$650,000 (steel workers' average wage is \$58k)



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## Tariffs on Steel and Aluminum

- US industries targeted by foreign retaliation

| Industry                       | Countries            | Share of US exports |
|--------------------------------|----------------------|---------------------|
| Pork                           | China, Mexico        | 44%                 |
| Apples                         | China, Mexico, India | 37%                 |
| Nuts                           | China, India         | 12%                 |
| Whiskies (e.g. KY bourbon)     | EU, Canada, Mexico   | 53%                 |
| Mineral water, coffee, ketchup | Canada               | About 50%           |

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## The 2018 Trade Actions

- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces “national-security” tariffs on steel and aluminum
- **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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## The 2018 Trade Actions

- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces “national-security” tariffs on steel and aluminum
- 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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## US Trade Policy in Practice: Winners and Losers

- **Unfair trade practices tariffs on China**
  - 25% tariffs on \$250bn of Chinese imports
    - About 85% of \$50bn and 47% of \$200bn are inputs and capital equipment
  - **Winners:** US producers where tariffs in place
    - US producers pushing for protection included steel, furniture, textiles
  - **Losers:** US consumers (including firms using inputs & capital equipment)
  - Retaliation (\$110bn of US exports)

| Industry  | US exports to China | Share of US exports |
|-----------|---------------------|---------------------|
| Soybeans  | \$12.4bn            | 57%                 |
| Vehicles  | \$11.3bn            | 10%                 |
| Crude oil | \$4.4bn             | 20%                 |
| Shellfish | \$1.2bn             | 23%                 |
| Sorghum   | \$0.8bn             | 78%                 |

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# Trade War

## • Effects of the 2018 Trade War

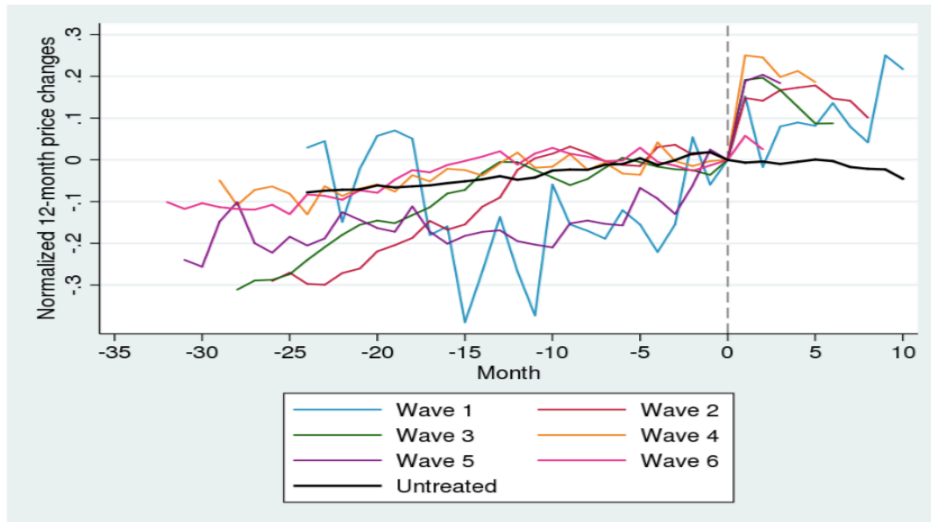
- US average tariffs rose, in 6 waves
- Prices of imports in US rose
- Quantity of imports fell
- Number of imported varieties fell

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. Published in the Journal of Economic Perspectives fall 2019.



# Trade War

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

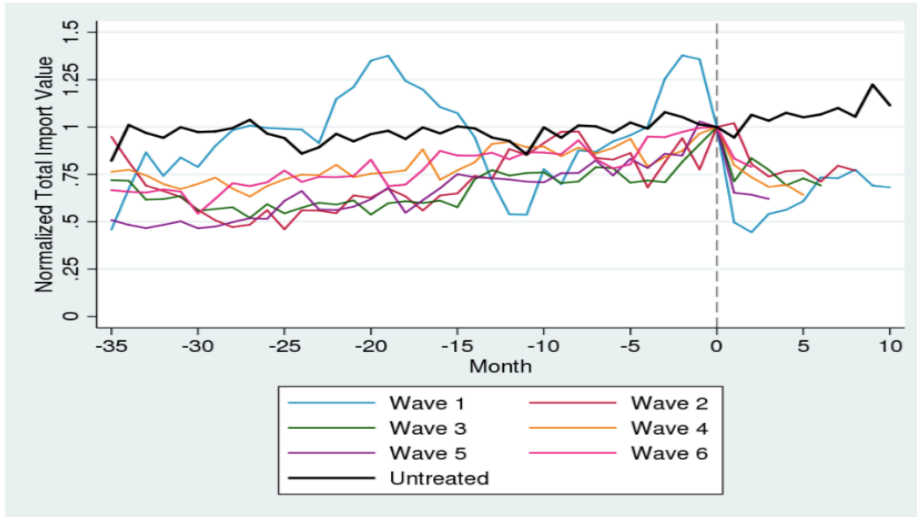


Source: Amiti et al. 2019.



# Trade War

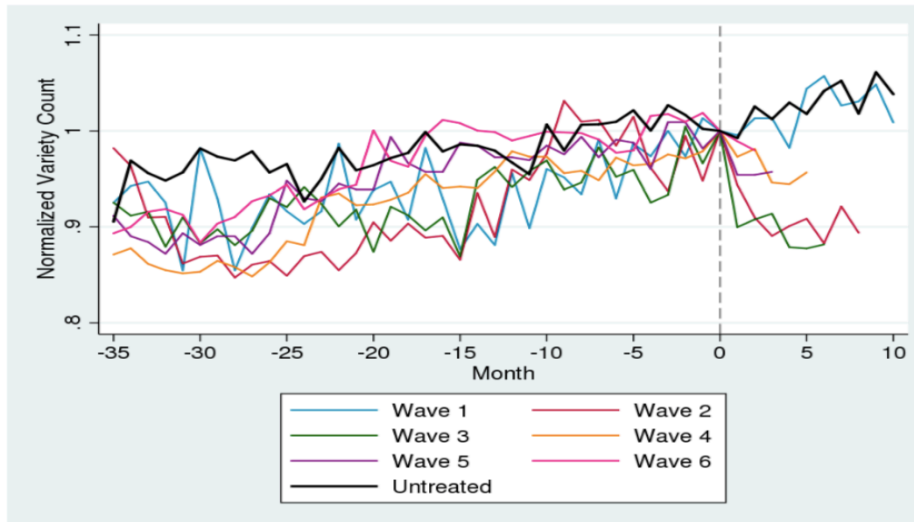
Figure 4: Total Import Values by Tariff Wave



Source: Amiti et al. 2019.

# Trade War

Figure 7: Number of Varieties by Tariff Wave



Source: Amiti et al. 2019.



# Conclusion

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## Conclusion

- **The Administration's trade actions in 2018**
  - Raise prices to consumers
  - Raise costs to producers
  - Reduce choice
  - Alienate other countries

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**Thank you!**

## Any Questions?

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Andreas Waldkirch, Ph.D.  
andreas.waldkirch@colby.edu

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