

Osher Lifelong Learning Institute, Spring 2019
**What Economists Know About Important
Policy Issues**

**Lecture 7:
Trade and Globalization**

May 7, 2019

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National Economic Education Delegation



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- **Join the NEED Community:** www.needelegation.org/friends.php
- ThinkTank Tuesdays: Wine, Water, and Policy Whimsy
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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.



Credits and Disclaimer

- **This slide deck was authored by:**

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- Jon Haveman, NEED

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



What is Globalization?

- **The growing interdependence of the world's:**

- Economies
- Cultures
- Populations

- **Brought about by cross-border flows of:**

- Goods and services
- Technology
- Investment
- People
- Information



What Drives Globalization?

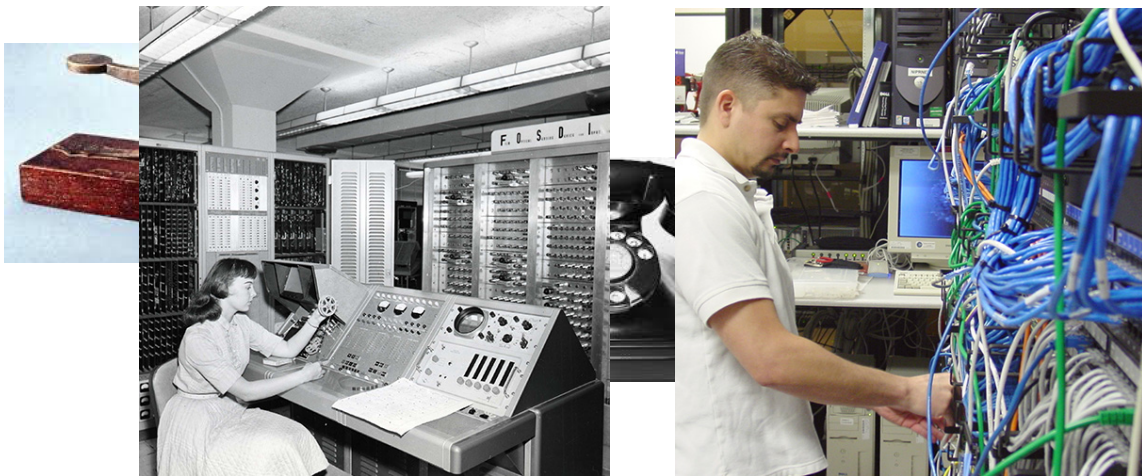
- **Transportation**
- **Technology**
- **International Cooperation**



Transportation



Technology



International Cooperation



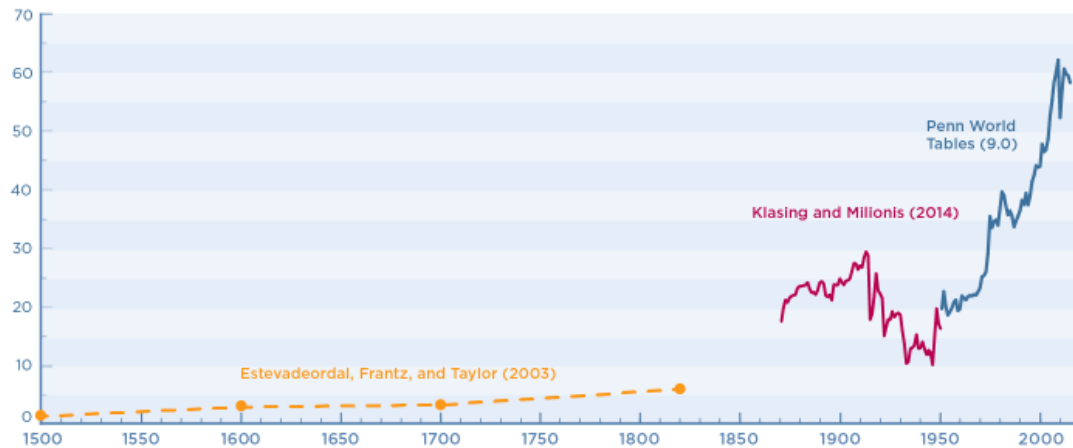
1995 World Trade Organization (WTO)

The modern trading system governed by rules is established, replacing the GATT.

the
to
to

Trade has skyrocketed in the past century

World trade as percent of world GDP (1500–2014)



Note: This chart displays data from three sources. Data from 1500 to 1820 is the average of the upper and lower bound and only includes the years 1500, 1600, 1700, and 1820. Data not available from 1821-1869.

Sources: See chart, "Globalization over 5 centuries," at <https://ourworldindata.org/trade-and-globalization> for full citations.

International Cooperation – Ending?



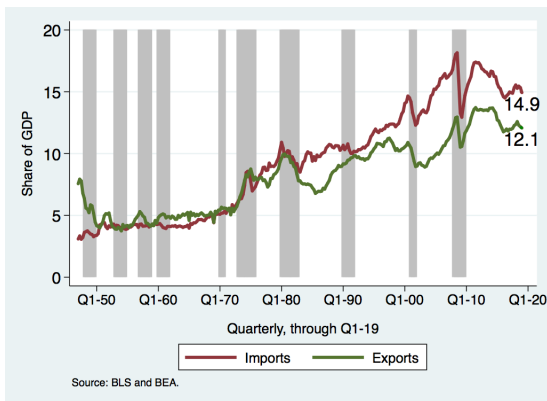
2017 — 2018

President Donald Trump Repudiates Trading System

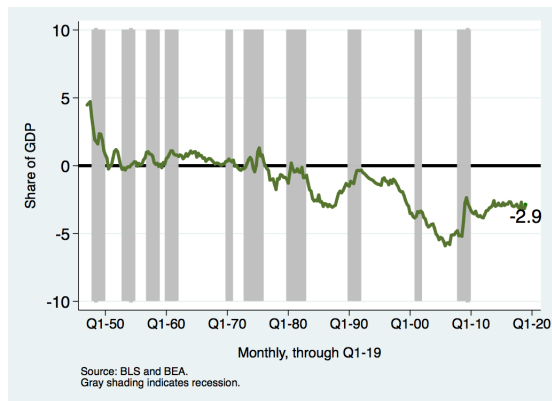
Trump withdraws from the Trans-Pacific Partnership (TPP), threatens to abandon NAFTA (then later negotiates a preliminary deal that adds new restrictions), and criticizes WTO rules as unfair to the United States. His administration imposes tariffs against China and US allies, which escalates into a tit-for-tat trade war.

Importance of US Trade

• US trade as % of GDP



• US trade balance as % of GDP



U.S. Trade

- Overall, a nearly **\$570 Billion** trade deficit (3% of GDP)
- Goods trade deficit over **\$800 Billion**
- Services trade *surplus* of about **\$250 Billion**



What do we Export? (\$1.6 Trillion)

Rank	US Export Product	2017 Value (US\$)	Change
1	Processed petroleum oils	\$77.8 billion	+25.6%
2	Cars	\$53.6 billion	-0.5%
3	Automobile parts/accessories	\$44.9 billion	+4.5%
4	Integrated circuits/microassemblies	\$38.1 billion	+9.1%
5	Mobile phones, other phone system devices	\$34 billion	+0.5%
6	Electro-medical equipment (e.g. xrays)	\$26.5 billion	+0.2%
7	Computers, optical readers	\$25.3 billion	+4.2%
8	Petroleum gases	\$22.3 billion	+67.8%
9	Crude oil	\$21.8 billion	+131.6%
10	Soya beans	\$21.7 billion	-5.3%

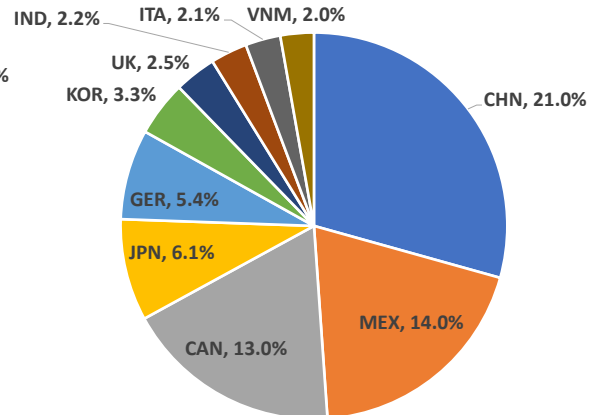
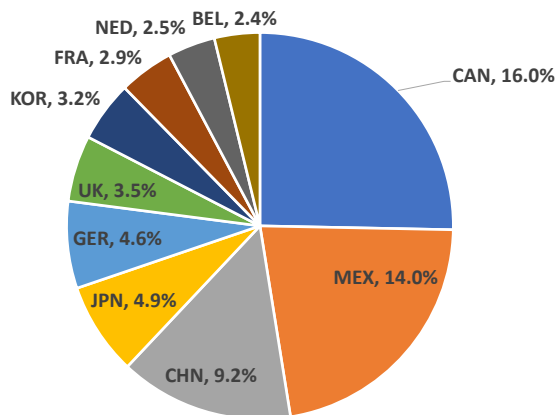
What do we Import? (\$2.4 Trillion)

Rank ↕	US Import Product	2017 Value (US\$) ↕	Change ↕
1	Cars	\$179.6 billion	+3.9%
2	Crude oil	\$139.1 billion	+23.4%
3	Phone system devices including smartphones	\$113.1 billion	+5.4%
4	Computers, optical readers	\$85 billion	+6.4%
5	Automobile parts/accessories	\$66.6 billion	-0.3%
6	Medication mixes in dosage	\$65 billion	-5.9%
7	Processed petroleum oils	\$48 billion	+10.9%
8	Integrated circuits/microassemblies	\$33.5 billion	+8%
9	Trucks	\$26.5 billion	+8.4%
10	Blood fractions (including antisera)	\$26 billion	+27.5%

Top US Trade Partners (Goods, 2016)

• Top 10 US export destinations

• Top 10 US import sources



Why Do Countries Trade?

- Competition
- Varieties
- Efficiency



Why Might Efficiency Differ Across Countries?

- **Labor**
 - Skilled or unskilled
- **Technology**
 - Some countries have firms that produce some goods well
 - Other countries have firms that produce other goods well
- **Environment**
 - Cold/Warm Wet/Dry Sunny/Cloudy
- **Land**
 - Rocky, soil, fertile, barren
 - Tundra, desert, grasslands, forest



Comparative Advantage – Key Notion

- **Two kinds of advantage: absolute and relative**
- **E.g., Babe Ruth vs Madison Bumgarner**
 - Babe Ruth: ERA – 2 Batting average - .350
 - Madison Bumgarner ERA – 3 Batting average - .185
- **Babe is better at both**
 - *Absolute advantage*
- **If only one can bat and one can pitch, who does what?**
 - *Relative advantage*



Relative Advantage

- **Babe has an absolute advantage in both activities**
 - He is better at both pitching and hitting
- **Is he RELATIVELY better at one than the other?**
 - Pitching: Babe is 33% better (era of 2 vs 3)
 - Hitting: Babe is 100% better (.350 vs .185)
- **Babe has a relative advantage in hitting**
 - So: Babe should hit and Madison should pitch
- **Relative advantage determines comparative advantage**
 - Babe has a COMPARATIVE ADVANTAGE in hitting
 - Madison has a COMPARATIVE ADVANTAGE in pitching



Same Holds True for Countries

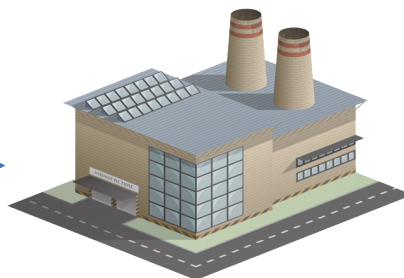


- **Every country has a good or a set of goods that it is RELATIVELY better at producing.**
 - Those are the goods that it will export.
 - It will import the other goods.
- **There are exceptions.**
 - Varieties and competition
 - May find countries trading the same goods back and forth.

How to Think About Imports

- **Think about international trade as the introduction of a new technology.**

Soy Beans
(Exports)



Laptops/iPhones
(Imports)

Trade Contributes to Growth

- **EFFICIENCY:**
 - Allocates production across countries efficiently so that countries can specialize in what they are best at producing.
- **Varieties**
 - More choice for consumers.
 - Better inputs for our production.
- **Competition**
 - Brings in cheaper goods.
 - Makes consumers better off.



Why is the public turning against trade?

- **Gains from trade are very large for the economy, BUT**
 - Not always noticeable by consumers. Not clear why prices are falling at WalMart?
 - Individual might save \$50, but
 - \$50 x 300 million = \$15 billion!
- **Costs of trade are very high for some workers and groups**
 - these costs have not been sufficiently appreciated or addressed by policymakers



Problem: Statistics

- **Massive Trade Deficit**

- 2.9% of US GDP
- \$893 Billion in 2018

- **Massive Trade Deficit with China**

- 2/3 of US Trade Deficit



Trade With China: 63% of US Trade Deficit

U.S. Trade Deficit With China

The U.S. trade deficit with China was **\$419 billion** in 2018.

Total U.S. imports from China: **\$540 billion**



Largest U.S. Imports

- \$77 billion in computers
- \$70 billion in cell phones
- \$54 billion in apparel and footwear

Total U.S. exports to China: **\$120 billion**



Largest U.S. Exports

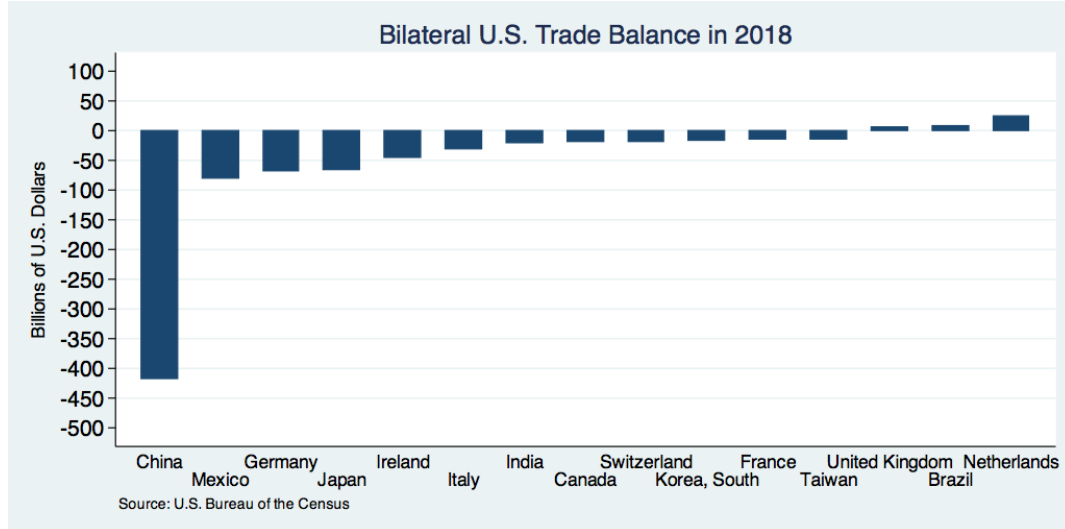
- \$16 billion in commercial aircraft
- \$12 billion in soybeans
- \$10 billion in autos



China owns **28%** of U.S. public debt to foreign countries.



Bilateral Trading Relationships



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Costs of Trade

- Trade with low-wage countries will lower the earnings of low-wage workers as a group in the U.S.A.
- Perhaps more importantly, however, is that the adjustment costs are big.
 - People do not like to move, and getting laid off can be very traumatic, wages likely fall.
- Costs of trade:
 - Inequality
 - Adjustment costs



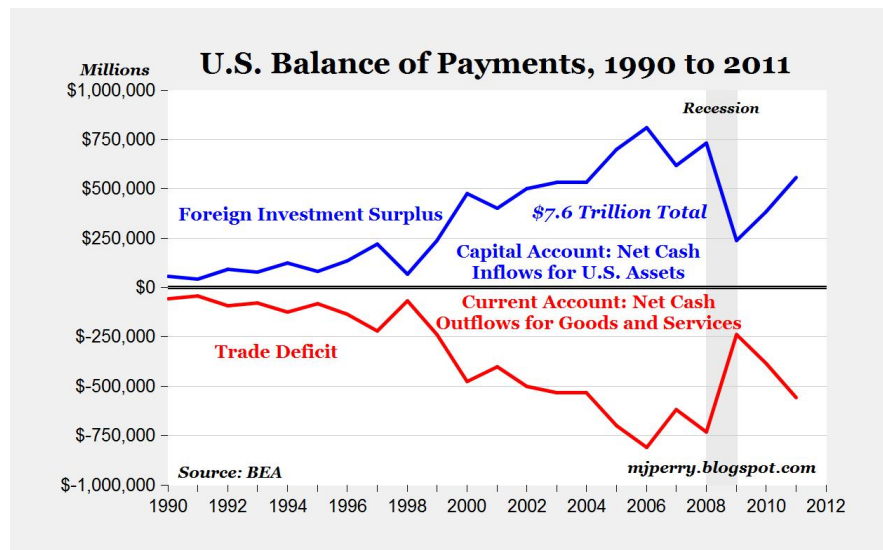
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How to Think About the Trade Deficit

- A trade deficit is when:
 - VALUE of imports > VALUE of exports.
- Why does this happen?
- International transactions include:
 - Imports and exports of goods and services - Current Account
 - ALSO: imports and exports of assets (investments) - Capital Account
- The TRADE DEFICIT only looks at the Current Account



Trade and Investment Flows Balance Out



Policy Solutions:

If we must ...
How do we “fix” the trade deficit?



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Protect Domestic Markets and Workers

- **Tariffs**
 - Tax on imports
- **Quotas**
 - Simply limit the amount of imports



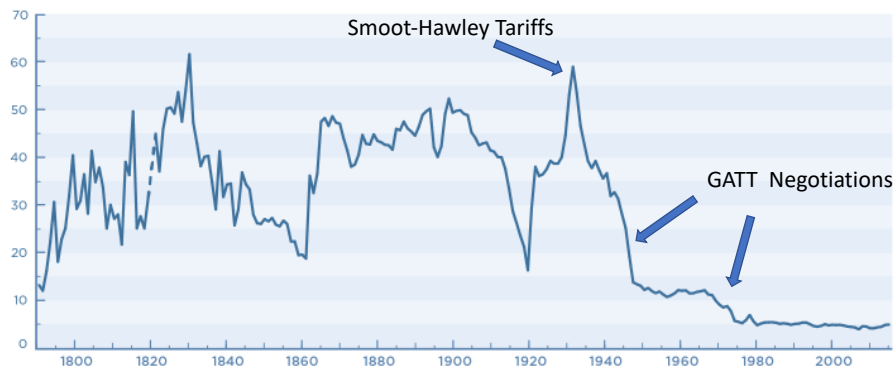
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History of US Tariffs

US import taxes dropped considerably post-World War II

Average US tariff rates on dutiable imports (1790–2016)



Note: Rates are weighted by trade value. Dotted line indicates years when data are not available.
Source: US International Trade Commission, Compiled by Douglas A. Irwin.



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How Does A Tariff Work?

- It is a tax that is paid by the importer of the product
- What effect does it have on the price of the product?
- What effect does it have on domestic producers?
 - Prices?
 - Production?
- Does it work to protect labor?
 - Yes and No



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Tariffs

- **Tariffs temporarily reduce imports of particular goods.**
- **Tariffs raise prices.**
 - Final goods (*consumers*)
 - Intermediate goods (*producers who use imported inputs*)
- **Tariffs invite retaliation, lowering demand for our exports.**
- **Tariffs lower overall well-being.**

- **Tariffs are generally considered to be an inefficient way to help those people who are hurt by trade.**



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Directed Support: Adjustment Costs

- **The most efficient way to help those hurt by trade is through direct payments.**
- **Trade Adjustment Assistance (TAA) is an example of an attempt at this principle**
 - TAA includes some retraining funds and extended unemployment benefits.
 - Not generally considered to be very successful.
 - Underfunded
 - Hard to determine who is hurt by trade and not other factors.
- **Larger direct payments would be most effective and efficient.**



**TRADE
ADJUSTMENT
ASSISTANCE
FOR FIRMS**



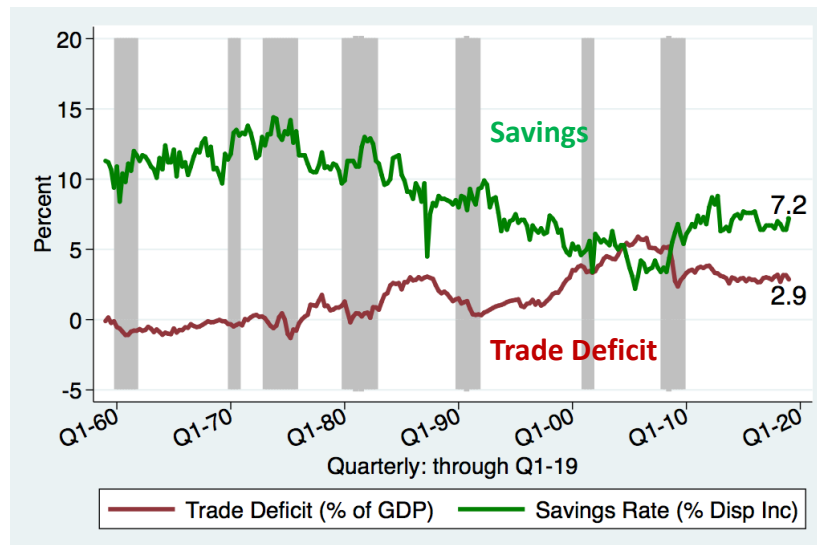
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Balanced Budgets & Increased Savings

- Reducing federal borrowing would reduce pressure on trade deficits.
- More savings would mean more domestic investment and less borrowing from abroad.



US Savings and the Trade Deficit



Conclusions

- Trade and growth are positively related.
- Gains from trade can be widespread (lower prices for consumers).
- Losses from trade can be highly concentrated.
- Tariffs reduce trade overall.
 - Imposing widespread losses to producers (who use imported inputs).
 - And consumers (who buy lower-priced imported goods).
- More direct policies can be more efficient and save gains from trade.
- The trade deficit, per se, is not a source of worry.
 - But activities that cause it, may well be.



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Course Summary

- US Economy
- Government Budgets
- Federal Debt
- Climate Change
- Safety Net
- Economic Inequality



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US Economy



Things to Be Worried About

- **Stock Markets**
- **Yield Curve**
- **Government Debt**
- **Declining Labor Force**
- **Income and Wealth Inequality**
- **Policy Uncertainty**
 - Trade and immigration policy, especially



Government Budgets



Budget Summary: Slide 1

- **Total Spending: \$4.1 Trillion in 2018**
- **There is remarkably little discretion in the budget:**
 - Mandatory: 69%
 - Discretionary 31%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2048:**
 - Debt is forecast to grow to 150% of GDP, from 80% today
 - Interest payments are forecast to grow from 8% to 22% of budget



Budget Summary: Slide 2

- **Categories that get a lot of attention are relatively small...**
 - Foreign Aid: 1% of the budget
 - Income support/welfare: 8.7%
- **Tax expenditures are enormous: 25% of spending**
...and get relatively little attention.



Federal Debt



Summary: The Debt

- **The jury is (sort of) out on the debt.**
- **Conventional wisdom is being challenged:**
 - Previously: inflationary and crowd out private investment
 - New assertion: these things don't matter for a country that can borrow in its own currency.
- **Upshot?**
 - This is a policy choice.
 - The cautious approach is to rein in the debt.
 - The cautious approach may lead to slower economic growth.



Climate Change



Summary

- **Climate change is real, is caused by human actions, and has impacts we're already feeling.**
- **We need to reduce emissions to balance the costs of action against the costs of inaction.**
- **Scientists and the IPCC recommend that we work to keep warming below 2 degrees celsius.**
 - *Economists believe that this goal is well worth the costs!*
 - *It passes a Cost-Benefit Analysis*



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Summary – *continued*

- **There are many ways to reduce emissions.**
- **Economics-inspired policies can help us do this at the lowest cost.**
- **Taxes and cap and trade are proven effective tools to fight climate change!**
- **Other tools may also be necessary.**



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Safety Net



Summary: U.S. Safety Net

- **The U.S. safety net is a complex set of programs to aid the poor.**
 - Medical, nutrition, education, housing, cash
 - Different benefit amounts, eligibility rules, duration of assistance, administration
- **There are unintended consequences on the labor supply, and possibly on marriage and childbearing as well.**
- **There are substantial direct effects on measured poverty under measures that fully account for benefits.**
- **The U.S. safety net is small when compared to peer countries.**



Economic Inequality

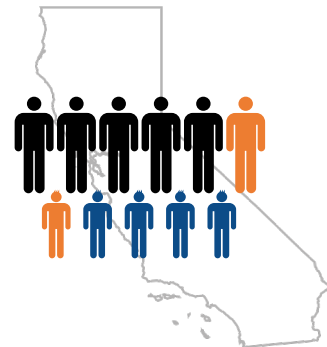


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Summary

- **Income inequality is clearly increasing.**
 - The economy is clearly favoring owners of productive resources over labor.
- **The causes appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing institutions.
- **Open questions are:**
 - To act or not to act?
 - If so, how?



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Tension in Policy Solutions

- **Is it possible to increase growth at the same time that you reduce income inequality?**
 - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
 - Expanding equality of access requires resources likely from the well-to-do.

ThinkTank Tuesdays:

- **May 14: Federal Budget and Debt**
- **June 18: Trade Wars**
- **To get announcements of Future TTTs and NEED events:**

Become a Friend of NEED:
www.NEEDelegation.org/friend.php



Trade Wars!



What About US Trade Policy: Active!

- **US: Jan 22, 2018: solar panels**
 - 30% tariff on \$8.5 billion of solar panels
- **US: Jan 22, 2018: washing machines**
 - 20% tariff \$1.7 B of washing machines
- **China: Feb 5, 2018: sorghum**
 - Into effect on 4/17/18
 - \$1 billion (178.6% tariff)
- **March 9, 2018: tariffs on steel and aluminum imports**
- **May 18, 2018: Negotiations end tariffs on Sorghum**
- **China: Aug 14, 2018: WTO dispute against US solar panel tariffs**
- **Tariff dispute with China accelerates...**



“What will be the effect of tariffs on the U.S. economy, workers, and households?”

- Consumer impact
- Higher costs for US businesses that rely on imported inputs may put these firms and their workers at risk
- Risk of recession-- investment is a particularly import-intensive type of demand
- Retaliatory tariffs will put firms and jobs in U.S. export industries at risk

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“What will be the effect of tariffs on the U.S. economy, workers, and households?”

- Consumer impact
- Higher costs for US businesses that rely on imported inputs may put these firms and their workers at risk
- Risk of recession-- investment is a particularly import-intensive type of demand
- Retaliatory tariffs will put firms and jobs in U.S. export industries at risk
- “Won’t tariffs start an investment and output boom, since companies that serve the U.S. market will want to produce in the U.S.?”
- “Won’t tariffs bring back jobs?”
- “Won’t tariffs help raise wages for U.S. workers and reduce inequality?”

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Trump's 2018 Trade Actions



Trump's 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)

Net economic effect
Net economic effect
is almost always
is always negative
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 taken.

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



Safeguards

- **WTO permits tariffs on imports that cause serious injury**
- **Trump 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



Tariffs on Solar Panels



Tariffs on Solar Panels

• Why?

- Increased imports from China had driven US companies out
- Anti-dumping duties had failed to help, as companies moved production to other non-China and non-US locations

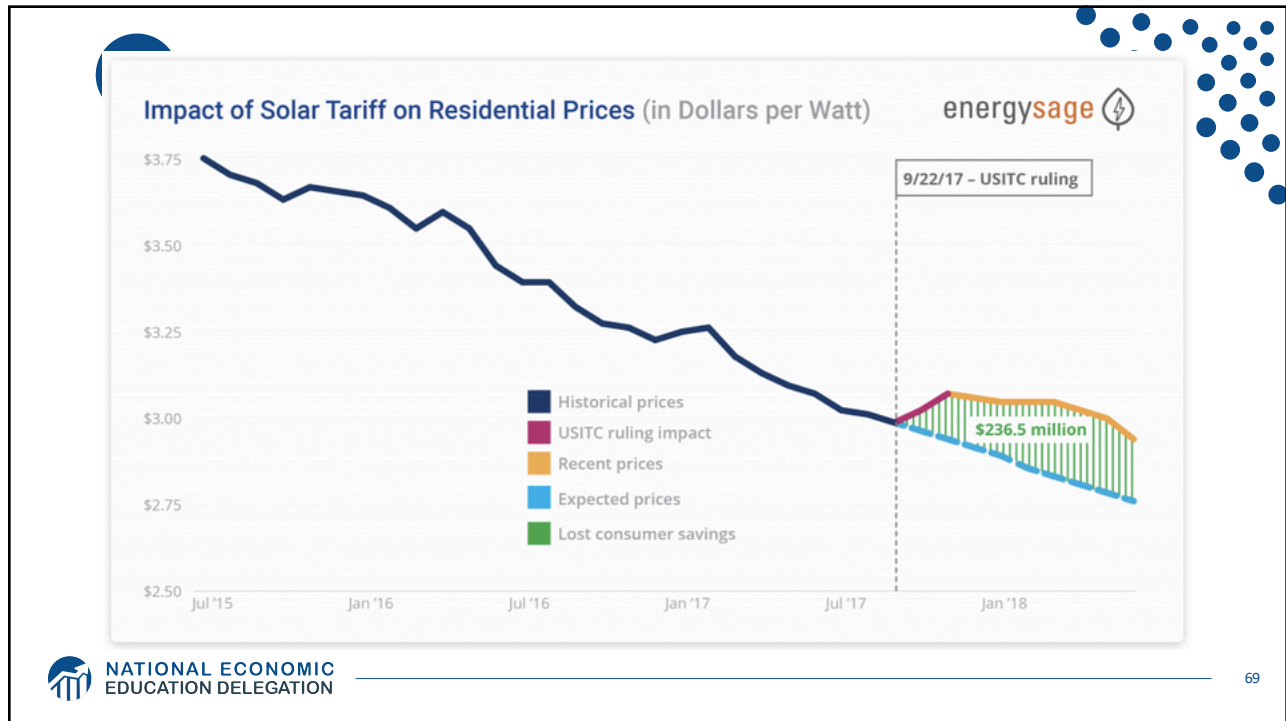


Tariffs on Solar Panels

• Who benefits?

- Who requested
 - o Suniva, Chinese owned, manufactures in Georgia and in Saginaw, MI
 - o SolarWorld, was German owned but now French,
- 14 US manufacturers





Tariffs on Solar Panels

• Who is hurt?

- Consumers
- Solar panel installers, led by Solar Energy Industry Association
 - They estimate that the 30% tariff “would cause the loss of 23,000 in 2018, as well as the delay or cancellation of billions of dollars of investments in solar energy.”

Tariffs on Washing Machines



Tariffs on Washing Machines

• Why?

- From 2012 to 2016, imports increased dramatically from two Korean firms LG and Samsung
- Anti-dumping duties failed to stop this, as production moved to Thailand and Vietnam



Tariffs on Washing Machines

• Who benefits?

- Whirlpool - 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

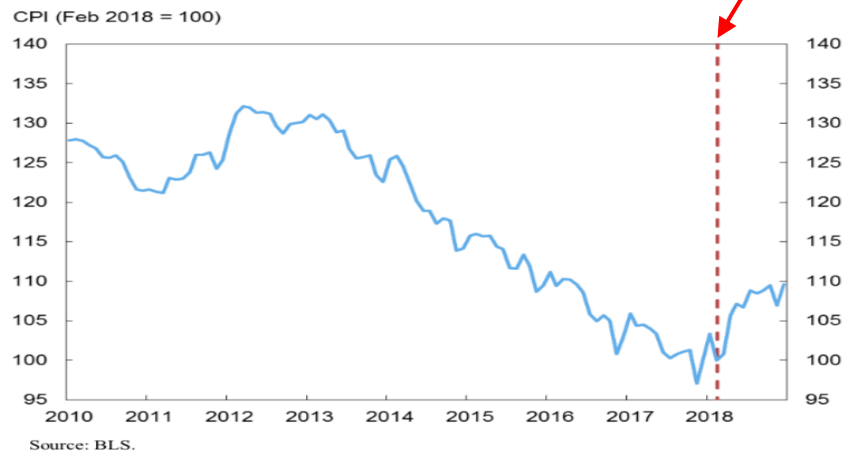
• Who is hurt?

- Consumers
 - Washers (and dryers!) both increased in price by about 12% (per Flaaen et al. 2019)
 - Note that the tariff was levied on washers only, not dryers]
 - "consumers bore between 125 percent and 225 percent of the costs" (NYT 4/21/19)
 - US appliance prices (I don't have graph for washing machines alone) rose 8.1% over the 12 months to Nov 2018



Tariffs on Washing Machines

Figure 2: Major Appliance CPI



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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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)



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National Security

- **Trump used Section 232 of US trade law to levy tariffs on imports of metals, based on national security**
 - “Economic security is national security”
 - (Trump Dec 18, 2017)
 - 25% on steel, 10% on aluminum
 - Mar 23: Tariffs start with some exemptions
 - Mar 28: Korea exemption permanent in return for a quota cutting its exports to ~80% of 2017
 - Jun 1: Tariffs extended to EU, Canada, Mexico



Tariffs on Steel and Aluminum



Tariffs on Steel and Aluminum

• Responses to metals tariffs

- Retaliation by China, EU, Canada, & others
- WTO disputes

- May-Aug: Complaints filed AGAINST U.S.

- July: Complaints filed BY U.S.



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



Tariffs on Steel and Aluminum

•Who is hurt?

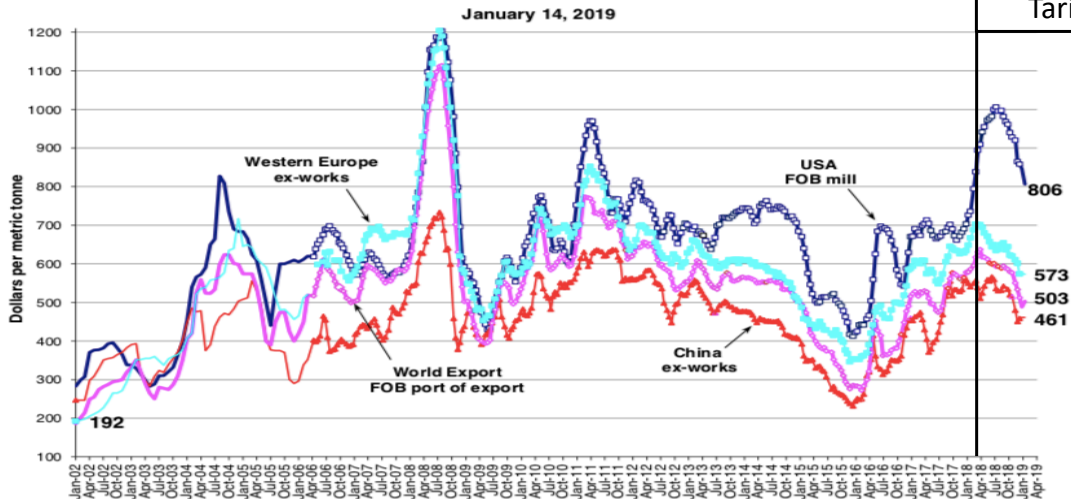
- US users of steel and aluminum pay higher prices
 - o Most obviously the car companies but many others

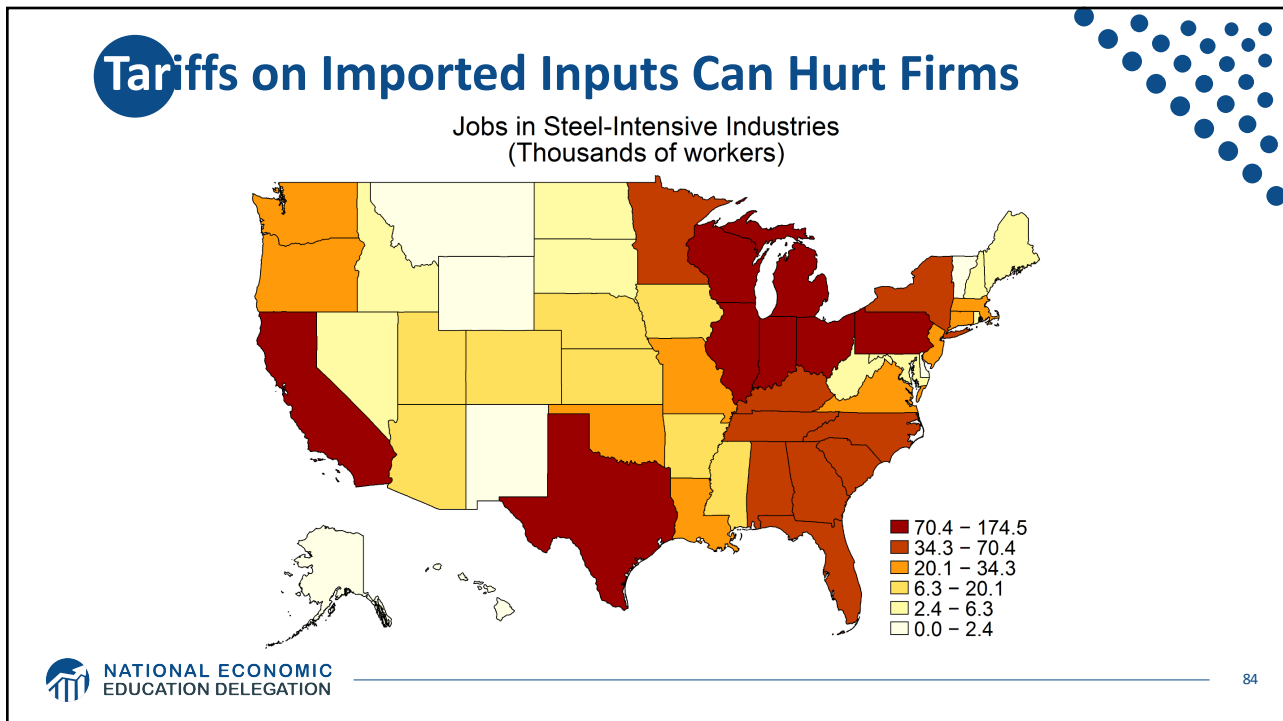
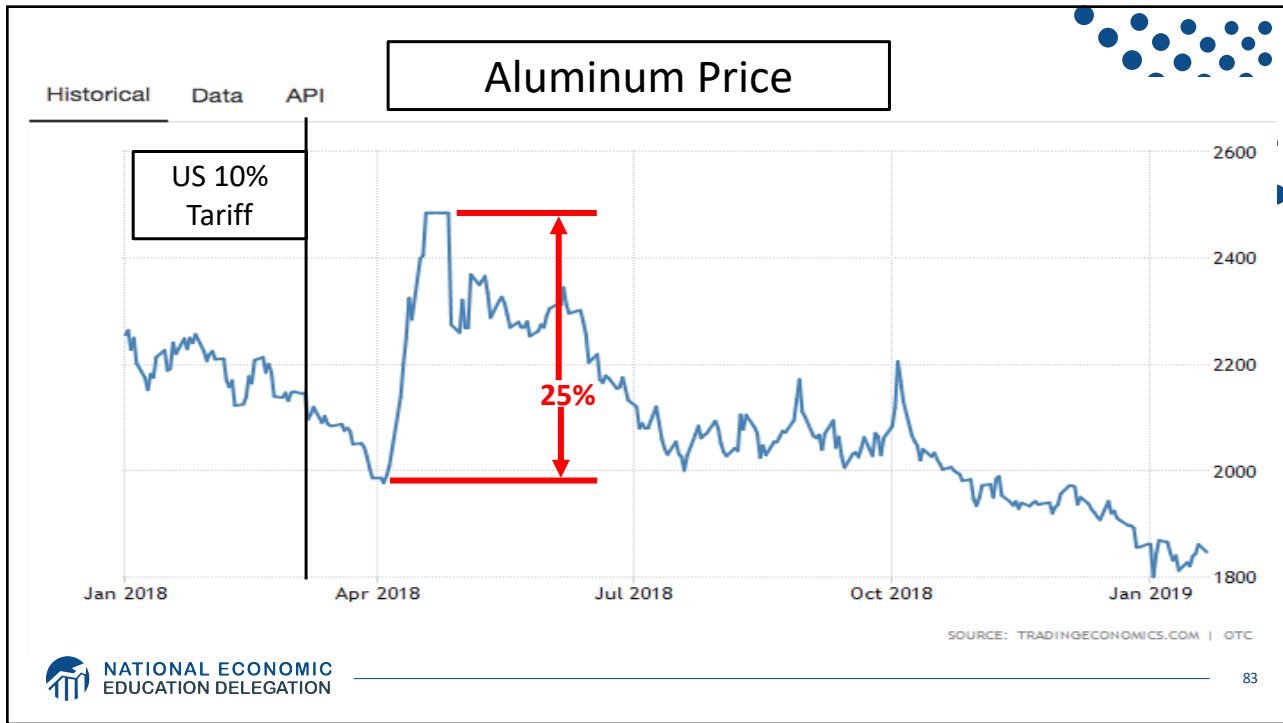
SteelBenchmarker™

Steel Prices

SteelBenchmarker™ HRB Price

USA, China, Western Europe and World Export
Track data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006





Trump's Trade Actions

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



National Security

- **Cars**
 - Trump initiated another national security investigation: on imported cars
 - Trump said he's considering a 25% tariff on cars and car parts
 - This would be bigger than on metals:
 - Tariffs on \$48 billion of steel and aluminum imports
 - Tariffs on \$351 billion of car and car part imports (per NYT)





Tariff on Cars and Car Parts




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."



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 Employment & GDP of 25% Tariff

Tariff on:	Total US Employment	US GDP
All imports	-714.7 K	-\$59.2 B
Canada & Mexico exempted	-197.2 K	-15.3B

Source: Center for Automotive Research

Tariff on Cars and Car Parts

- **Where we stand:**

- Commerce Dept. sent report to Trump Feb 17
 - Not public, but said to include several options for tariffs
 - Trump has 90 days to decide
- 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.”

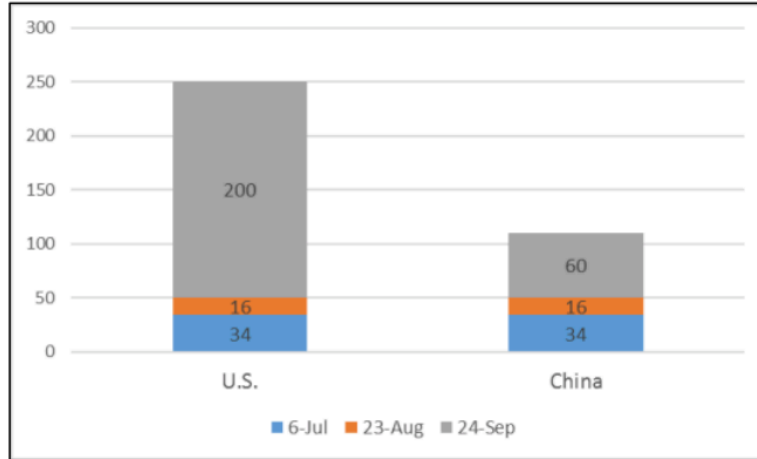


China



Three Rounds of Tariff Hikes in 2018

Total Products Affected (\$ in billions) and Effective Dates

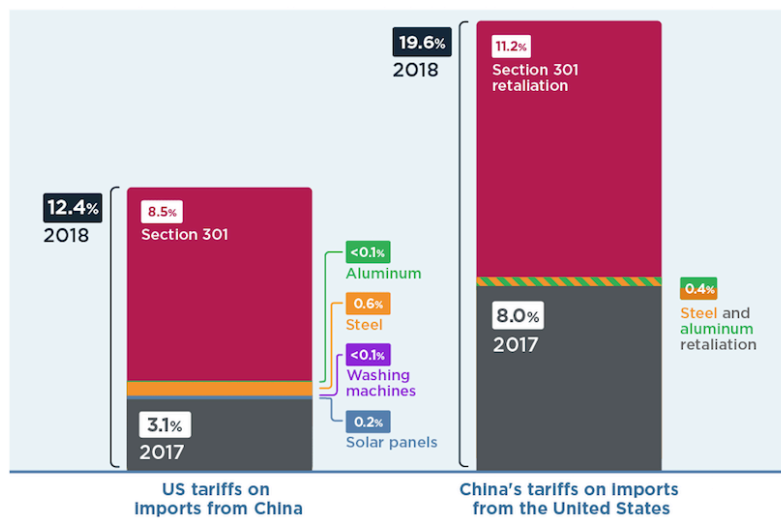


Source: USTR and Chinese Ministry of Commerce.



Source: Congressional Research Service, Enforcing U.S. Trade Laws: Section 301 and China, April 8, 2019

Average U.S. and China Tariffs: Before and After



Source: Chad P. Bown, 2019, The 2018 US-China Trade Conflict After 40 Years of Special Protection (PIIE Working Paper 19-7)

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
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- 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 said he'd use tariffs on still more (\$267 billion), approaching all of China's exports to US
 - Did not do that; delayed for China-US trade talks



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"?

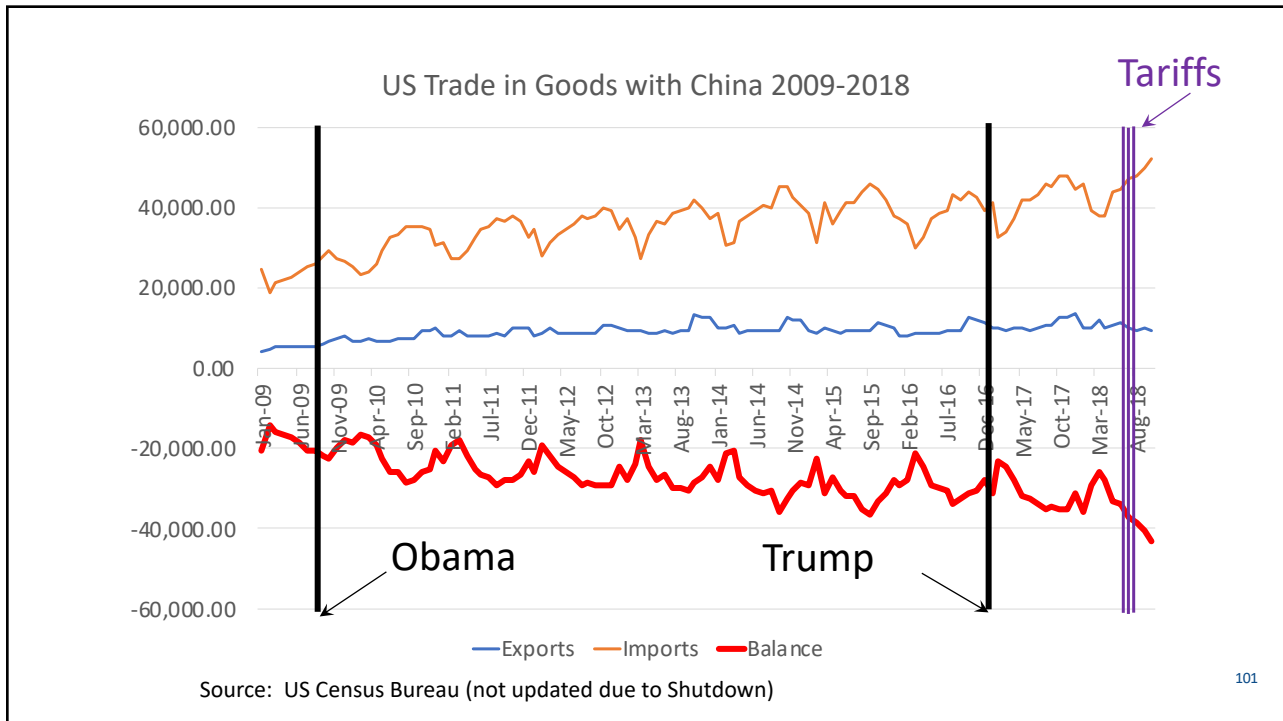
- Nobody! Everybody loses from tariffs
- Trump says it's "easy to win" because he measures success from trade deficit



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Trade War

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Trade War

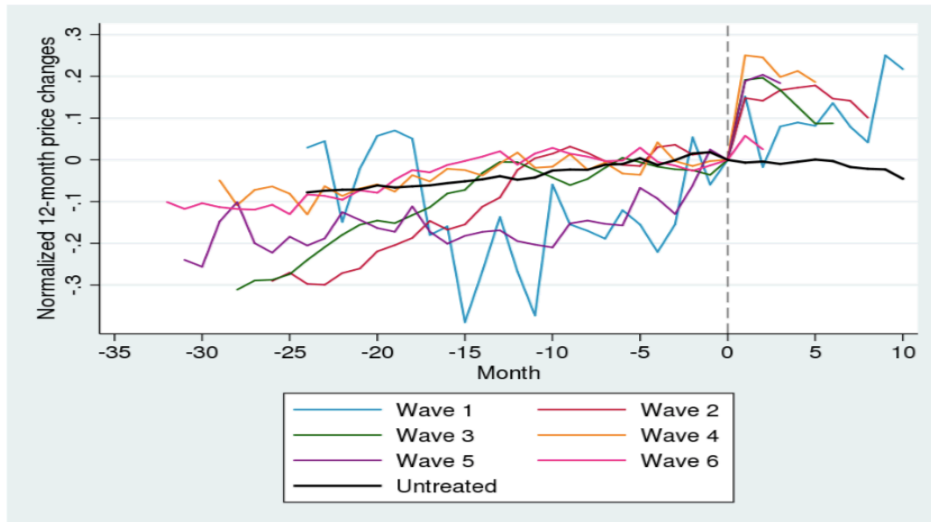
• Effects of the 2018 Trade War

- 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.

Trade War

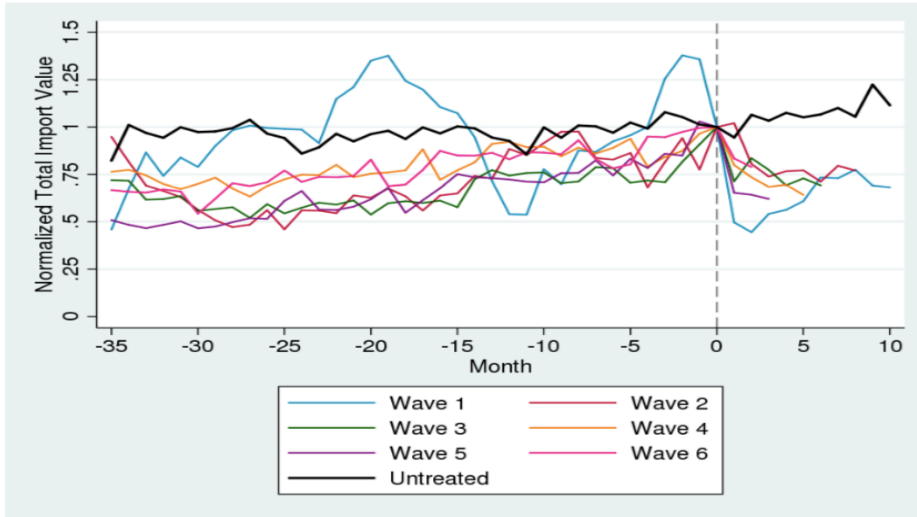
Figure 3: 12-month Proportional Change in Import Prices by Tariff Wave



Source: Amiti, et al. 2019.

Trade War

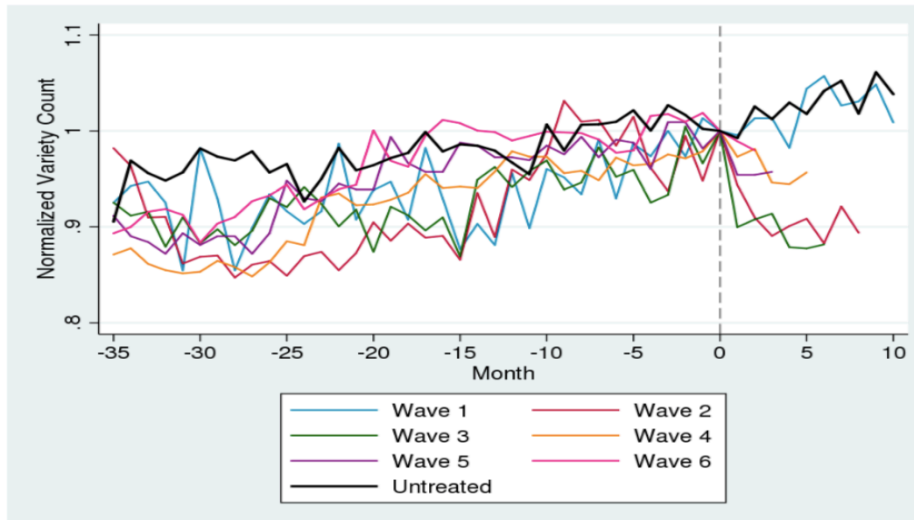
Figure 4: Total Import Values by Tariff Wave



Source: Amiti, et al. 2019.

Trade War

Figure 7: Number of Varieties by Tariff Wave



Source: Amiti, et al. 2019.



Trade Talks



Trade Talks

• China-US Trade Talks, I

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



Trade Talks

• China-US Trade Talks II

- Oct 2018: US and China postured about renewing trade talks
- 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
- Talks are still underway, but said to be approaching a deal



Trade Talks

• China-US Trade Talks II: Calendar

- Nov 9: He & Mnuchin talk by phone
- Jan 7-9: Talks in Beijing
- Jan 30-31: Talks in DC
- Feb 11-15: Talks in Beijing
- Feb 21-24: Talks in DC
- Mar 28-29: Talks in Beijing
- Apr 3-5: Talks in DC
- Apr 23-?: Talks in Beijing
- May 8-?: Talks in DC

Source:



Trade Talks

• China-US Trade Talks II: Headlines

- Nov 29, WSJ: U.S., China Exploring Deal to Ease Trade Tensions
- Dec 4, WSJ: Trump Names Lighthizer to Run U.S.-China Negotiations
- Dec 30, FT: China and US hail 'positive progress' on trade talks
- Jan 7, WP: Trade talks open in Beijing amid optimism about an end to U.S.-China dispute
- Jan 9, FT: China and US strike upbeat tone after talks but offer few details
- Jan 22, FT: US turns down China offer of preparatory trade talks
- Jan 24, FT: US commerce secretary Ross says US 'miles' from a trade deal with China
- Jan 29, WSJ: Big Divides Remain as U.S.-China Trade Talks Resume
- Jan 31, FT: Donald Trump says US-China trade talks 'going well'
- Feb 6, WSJ: Agriculture Execs Say U.S.-China Trade Deal Nearing
- Feb 13, WSJ: China, U.S. Seek Broad Outline of a Trade Pact This Week
- Feb 15, FT: US-China trade talks end with little sign of progress
- Feb 16, WSJ: Chinese, U.S. Trade Negotiators Inch Toward a Broad Agreement
- Feb 21, FT: A potential new snag in the US-China trade talks
- Feb 23, WSJ: China Trade Talks Extended as Trump Pushes to Close the Deal
- Feb 28, WSJ: U.S. Drops Threat of 25% Tariffs on Chinese Goods in Sign That Accord Is Near
- Mar 4, WSJ: U.S., China Close In on Trade Deal
- Mar 8, FT: Trump prepared to walk away from 'bad' China trade deal
- Mar 8, NYT: Chinese Officials Becoming Wary of a Quick Trade Deal
- Mar 18, NYT: Trade Fight With China Enters Overtime, With Tariffs a Costly Sticking Point
- Mar 28, FT: US-China trade talks could stretch for 'months' — Kudlow
- Apr 3, FT: US and China draw closer to final trade agreement
- Apr 4, FT: US and China push back timing of possible trade deal
- Apr 14, NYT: Mnuchin Says China Trade Talks Are Nearing Final Round
- Apr 26, NYT: Trump Says Xi Jinping of China Will Visit Soon, Stirring Anticipation of a Completed Trade Deal



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- Dec 30, FT: China and US hail 'positive' start to trade talks
- Jan 7, WP: Trade talks open in Beijing
- Jan 9, FT: China and US still seem to be at odds after talks
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- Jan 24, FT: US says US 'miles' from a trade deal with China
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Exploring deal

'Miles' from a trade deal

Trade deal nearing

Little sign of progress

Accord is near

Closer to final trade agreement

Talks could stretch for 'months'

Anticipation of a completed trade deal

- Feb 21, FT: A potential new snag in the US-China trade talks
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Sunday/Monday's NYT Headlines

- **Sunday:**
 - Trump Tariff Threat Leaves U.S.-China Talks in Limbo as Markets Fall
- **Monday:**
 - Trump's Tariff Threat Stemmed From Concerns U.S. Is Losing in Trade Deal

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Trade Talks

• China-US Trade: Issues of Negotiation

- Government subsidies to state-owned companies
- Chinese purchases of U.S. farm and energy products and services
- China's market-opening efforts in sectors such as financial services and manufacturing
- Improving its protection of U.S. intellectual-property rights
- Pressure on U.S. companies to share technology
- Industrial policies that favor state-controlled companies
- Currency stability
- Regulatory relief for foreign companies in China
- How to enforce any agreements on the above
 - Reimpose tariffs, or
 - Leave them in place



Trade Talks

• What Might a China-US Trade Deal Include?

- US wants (per FT, 3/25/19):
 - Huge Chinese purchases of US exports, to reduce US trade deficit
 - Liberalization of market access for US goods and services
 - Reform of Chinese industrial policy, especially "forced transfers" of IP
 - US permitted to use punitive tariffs if these are violated, without China retaliating or complaining to WTO
- China wants:
 - Removal of US tariffs



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



Korea



Korea

• Increased quota for US cars that

- Do not meet Korean standards
- But do meet US 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

Korea

• Trucks

- 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

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 → 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, delayed by government shutdown, but was issued Apr 18
- Trump threatens to issue six-month withdrawal notice from NAFTA



NAFTA → USMCA

• USITC Report Main Findings

- Positive impact on US real GDP and employment
 - Raise GDP by 0.35%
 - Raise employment by 0.12 %
- Most significant effects from
 - Reduced uncertainty in digital trade
 - Rules of origin in auto sector
- Auto sector
 - Increase in US production
 - Small increase in prices and reduced demand



NAFTA → USMCA

- **News from Michigan**

- April 24, MLive:

Trump's trade deal wins big praise from Michigan's Big Three automakers



Conclusion

Conclusion

• Trump's trade actions in 2018

- 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

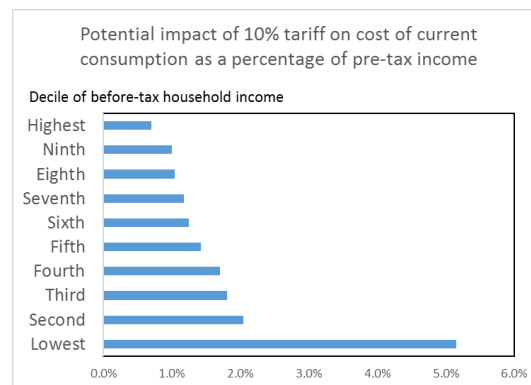
• May they serve any purpose?

- 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 and Japan to open to more imports of agricultural goods from US



Risks from all-out trade war

- **Moody's Mark Zandi estimated an all-out trade war would cost 4 million U.S. jobs.**
- **Observed import share in U.S. consumption deceptively low due to unobserved competitive effects of rival suppliers.**
- **Across-the-board increase in tariffs may fall heavily on the poor and families with children (Furman, Russ, and Shambaugh; USITC).**



Source: Furman, Russ, and Shambaugh



How to Think About the Trade War

- **Will it stimulate a solution to the underlying problems?**
 - Intellectual property theft
 - Trade deficit
- **Will it help low skilled workers? Those most affected by imports.**
 - Possibly, but at what cost?
- **Will it foster greater cooperation between the United States and China?**
 - Future trade agreements
 - Future trade disputes
 - Other international issues
- **What about other economic implications?**
 - uncertainty



Thank you!

Any Questions?

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Jon@NEEDelegation.org

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