# The U.S.-China Trade War

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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
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - 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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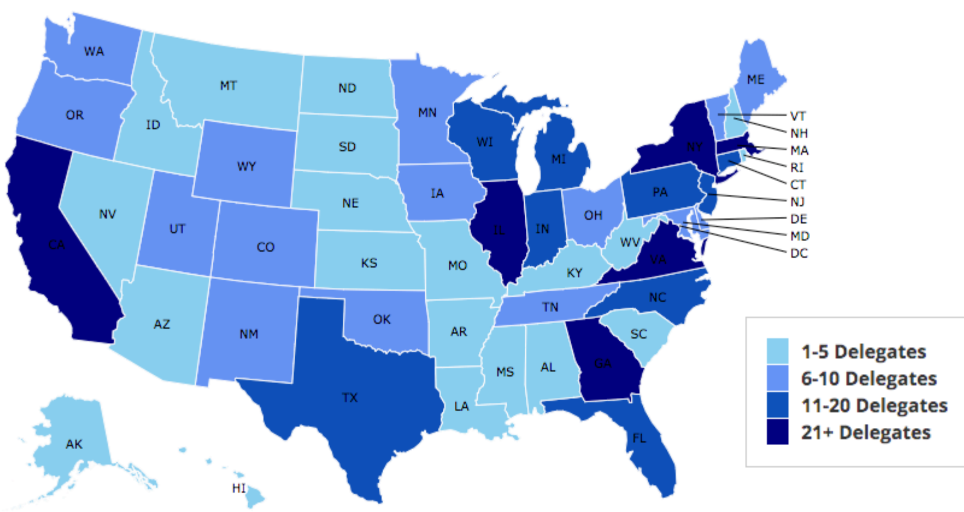
# Where Are We?

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# Outline

- U.S. Trade: the Broad Picture
- The Sources of U.S.-China Trade Tensions
- Timeline of the Trade War
- Thoughts about the Future

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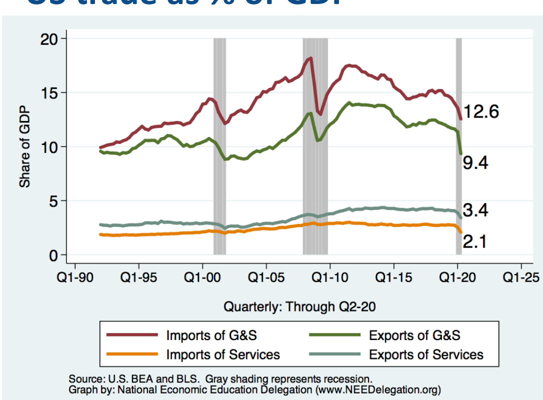
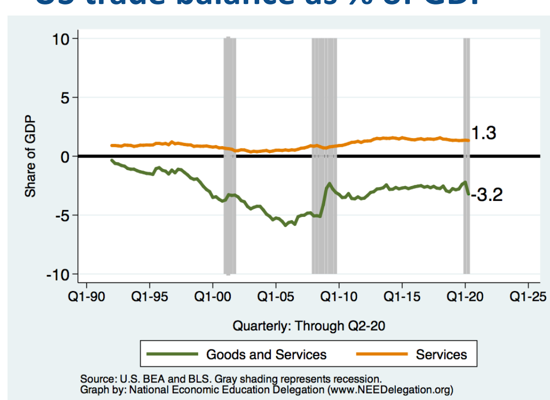
# Importance of US Trade

- US trade as % of GDP




- US trade balance as % of GDP

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# U.S. trade

- $2.3 Trillion in exports and $2.9 Trillion in imports of goods and services in 2017, in total 27% of GDP
- Overall, a nearly $570 Billion trade deficit (3% of GDP)
- Goods trade deficit over $800 Billion
- Services trade surplus about $250 Billion


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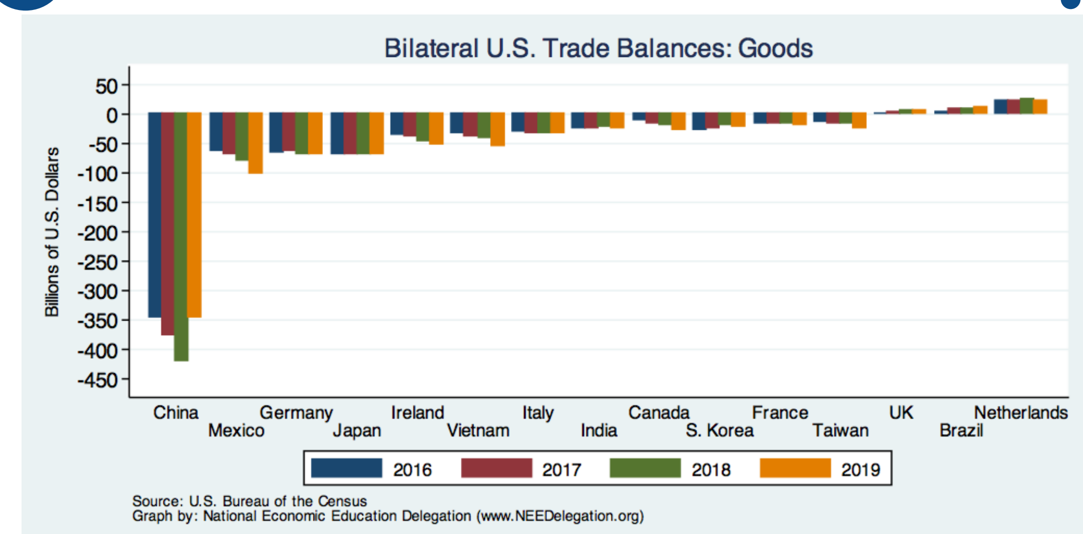
# Bilateral trading relationships

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## The emergence of China-US economic tensions

- **In the era of major globalization (1980s to 2019), there have been three great economic shocks:**
- **1. The financial crisis of 2008-2010.**
  - A major source of political dissatisfaction with policy elites and globalization.
- **2. The Covid-19 global pandemic.**
- **3. China's entry into the world trading system and the "China Shock".**
  - China's massive size and rapid growth greatly expanded the global labor pool and competition.
  - China's insistence on running its own industrial policy raises concerns about fairness and whether it "plays by the rules".

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## Managing the relationship

- **The United States has had an active bilateral dialogue with China since the 1980s, and over familiar issues:**
  - Trade and investment liberalization;
  - Intellectual property rights theft;
  - State-owned enterprises;
  - Lack of transparency in economic policy.
  - Human rights, labor rights, environmental standards, and other social policies.
- **If you check this history, you will find a long series of US-China bilateral agreements (and EU-China) about these and other issues. The issue seemed manageable.**

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# Managing the relationship

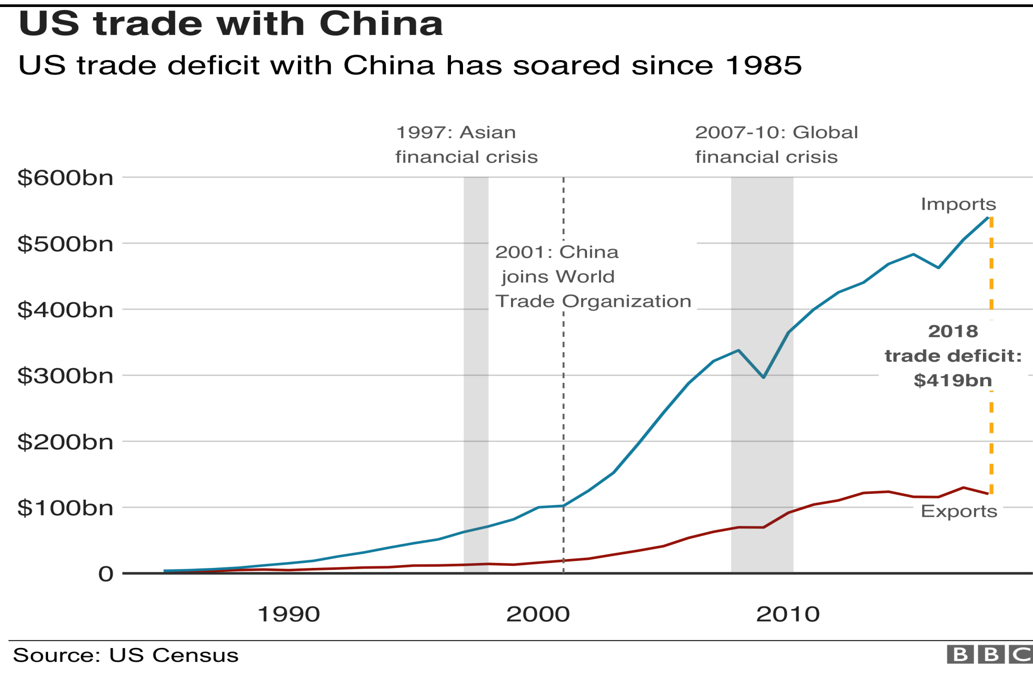
- **Things changed in the 1990s as China became a major exporter and recipient of direct investment. How do you "manage" a massive and rapidly growing economic power?**
- **One answer: facilitate China's entry into the World Trade Organization (WTO), which should mean:**
  - Getting China to cuts its remaining trade and investment barriers, improve protection of intellectual property rights, reduce the use of industrial policy.
  - Requiring China to subject its policies to the rules-based system focused on transparency and non-discrimination.
- **The US/EU/Japan view: this set of conditions would permit a managed expansion of China's exports while opening Chinese markets to international competition.**
- **China wanted to join the WTO for its own reasons:**
  - Establish legitimacy among world nations and position itself ultimately as a leader of emerging and developing countries.
  - Avoid the uncertainty of facing high, non-MFN tariffs from the EU and the US. (WTO membership gave China "permanent normal trading relations".)





# U.S.-China economic tensions

- **China joined the WTO in December 2001. The impact on export growth and inward investment was rapid and large.**
- **The next chart shows the rapid growth of the U.S. trade deficit with China in goods.**
- **Along with the trade deficit came increases in Chinese purchases of US assets, moving US into a net debtor position, particularly with government bonds.**

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# U.S.-China economic tensions

- **These trends raised considerable political pressures in the United States (and EU). Some elements:**
- **1. Serious economic research (Autor, Dorn and Hanson, American Economic Review) appeared in 2013 demonstrating the "China Shock":**
  - Chinese imports could be shown to have caused losses of about 2 million US manufacturing jobs.
  - Local communities that were particularly exposed to this competition suffered lower earnings, higher unemployment and departures from the labor force, and received higher unemployment and disability payments. Later: those communities suffer more from opioid addiction and other problems.
- **Numerous studies in economics and political science have correlated trade pressures with support for populism, nationalism and anti-trade and anti-immigration attitudes.**
- **And voting for Donald Trump.**
- **2. A widespread opinion emerged that China does not play by market/WTO rules. Key examples:**
  - China has been a major subsidizer of steel capacity and exports, and some high-tech goods.
  - China is the target of far more anti-dumping cases in the US and EU than anywhere else.
- **3. In recent years China has ramped up its industrial policies, culminating in the planning document "Made in China 2025".**

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# Trade policy in the Trump Administration

- **Donald Trump has been talking about China as an economic threat for a long time.**
- **The key elements of the administration's vision about international trade policy:**
  - Trade deficits harm the economy and are largely the fault of foreign trading partners.
  - Higher import tariffs will protect U.S. jobs and bring back jobs that had been offshored through supply chains.
  - Existing us trade agreements (including NAFTA, TPP, and WTO) were disastrous and should be abandoned or renegotiated.
  - The U.S. should exert its economic power unilaterally to achieve better market conditions abroad.
  - Multilateral trade rules are a restraint on U.S. ability to achieve these goals.

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# Trade policy in the Trump Administration

- **The war with China is just one part of extensive use of import restrictions against many countries. Some key examples:**
- **20% tariffs on solar panels from China, January 2018.**
- **20% (up to 50%) tariffs on washing machines, January 2018.**
- **Section 232 (national security) tariffs of 25% on steel and 10% on aluminum (all sources initially), March 2018. Many countries retaliated; most tariffs remain in place.**
- **A Section 232 investigation in 2018 that recommended 25% tariffs on imported automobiles; not yet implemented.**

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# Timeline of the U.S.-China Trade War

- March 2018: report released on the Section 301 (unfair trade) investigation into China's treatment of intellectual property and investment rules.
- July 2018: first tariffs on $34 billion of U.S. imports from China. China quickly retaliated in kind.
- There were 3 rounds of tariff hikes in 2018 (next chart). Each time met with retaliation by China.
- By the end of 2018 U.S. tariffs on China had quadrupled and Chinese tariffs on U.S. exports had more than doubled (following chart).

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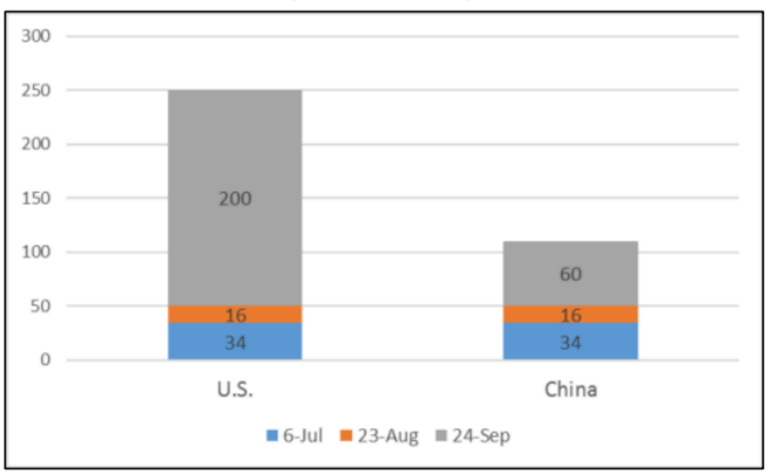
# Three Rounds of Tariff Hikes in 2018

Total Products Affected ($ in billions) and Effective Dates




**Source:** USTR and Chinese Ministry of Commerce.

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

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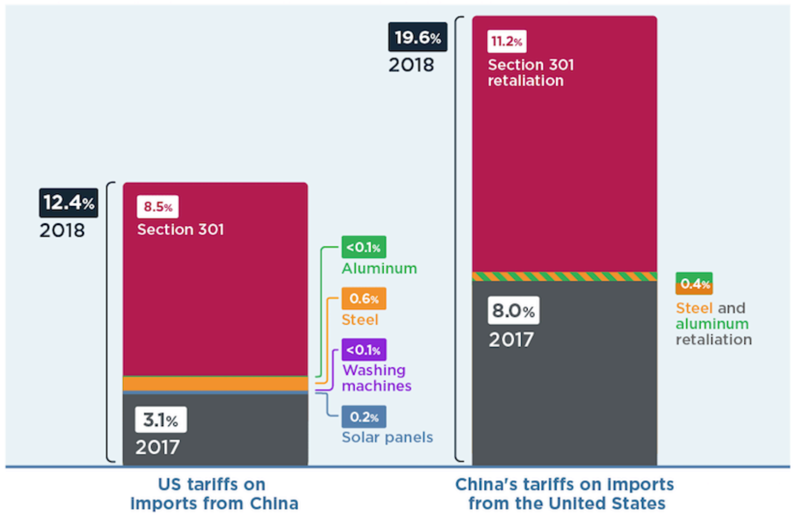
# Average U.S. and China Tariffs: Before and After

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

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# Timeline of the U.S.-China Trade War

- January to May 2019: bilateral talks continue without progress.
- May 2019: U.S. claims China has reneged on its commitments and raises the Section 301 tariff on $200 billion of imports to 25%.
- U.S. also places Huawei on the restricted list, launching a technology-oriented trade conflict that continues.
- August 2019: talks fail and U.S. announces 10% tariffs on $300 billion of Chinese imports. China cuts its purchases of agricultural goods. The yuan falls and US declares it a currency manipulator.
- August 2019: Trump delays about half these last tariffs, sparing electronic goods. And several consumer goods exempted in September.
- August 2019: China raises tariffs on $75 billion of US imports.

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## The outcome

**January 2020: a "Phase One Agreement" announced. Main points:**

- **Both countries reduced modestly their tariffs on a small range of the other's exports.**
- **China committed to raise purchases of specific U.S. goods in 2020-21. So far, they are far behind the pace needed to meet this commitment.**
- **China agreed to improve its intellectual property protection over time but did not agree to reform its industrial policy significantly.**
- **A mechanism was established to monitor the dollar-yuan exchange rate and the U.S. is permitted to raise its tariffs if China is found to be a currency manipulator.**

**Trump seems to have lost interest in a Phase Two agreement, so the existing tariffs will remain in place.**

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## Has the U.S. "won" this trade war?

- **What was the objective?**
  - If it was to reduce the bilateral goods-trade deficit, this has happened modestly. But both imports and exports have fallen.
  - If it was to raise domestic manufacturing employment, there is not much evidence of it. Companies tend to shift their supply locations from China to other locations. And downstream firms face higher costs, so they lay off workers.
  - If it was to force improvements in Chinese domestic technology policies, the agreement is disappointing. But we won't know for some time.
  - If it was to "decouple" the two economies by reducing trade and investment, it seems to be working though again that is a long-term issue.
- **Who gains and who loses in the U.S. from this trade war?**
  - Potential winners: domestic firms who get to raise their prices (there is evidence of price increases) and the politically connected.
  - Potential losers: consumers (higher prices and diminished choices), firms and workers that use imported inputs.
  - In economic terms the effect is negative overall: higher tariffs are taxes that disrupt trade and destroy more jobs than they create.

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