Trump's protectionism: winners and losers

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NEED

Figure: https://needelegation.org

- **Who?** Founded by Jon Haveman
  - Hon. Board: 2 Fed Chairs, 6 CEA Chairs, 3 Nobel Lauratues
  - Delegates: 361 PhD economists
- **Vision?** NEED presentations $\Rightarrow$ public dicsussions of policy...
  - based on accurate perception of econ principles & data
- **Non-partisan and consensus view**
  - Material reviewed by liberal & conservative economist

Motivation

- Lots of controversial tariffs imposed over last 12 months
  - Biggest could be coming any day
- Typically real world trade policy is rather dull

Overview of Trump's tariffs on US imports

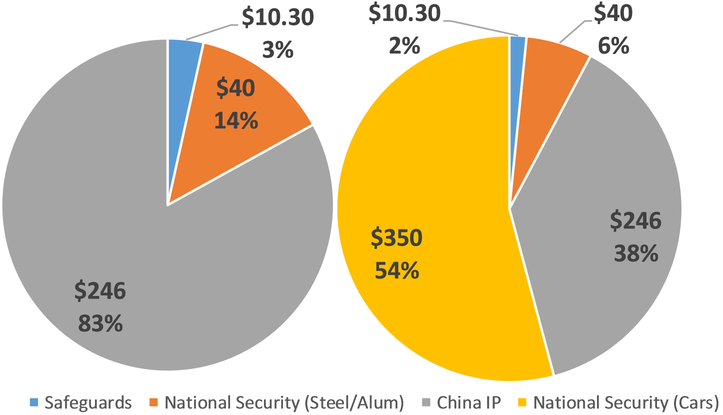

Figure: Trump's tariffs (2017 $bn imports)

Outline

Trump's tariffs
- Safeguard tariffs
- National security tariffs: steel & aluminum
- Unfair trade practices tariffs by China
- National security tariffs: autos & auto parts

Trade deficits

Conclusion

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Legislative authority

- General principle
  - US Constitution: Congress sole power over international commerce
  - Congress has delegated power in many situations
- Safeguard tariffs: Section 201, Trade Act of 1974
  - If USITC agree import surge $\Rightarrow$ major injury to industry...
  - Executive power for temporary tariffs
- Historically rare
  - 11 times in past, last was 2002 Bush steel tariffs

Solar panel & washing machine tariffs

- Imports: solar panels ($8.5bn), washing machines ($1.8bn)
- Jan 2018: "Tariff rate quotas" imposed by Trump
  - "Low" tariffs on initial volume of imports
    - 0% solar panels, 20% washing machines
  - "High" tariffs on excess volume
    - 30% solar panels, 50% washing machines
  - Phased out over 3-4 years

Winners & losers in US

- US tariffs = tax on US imports. So, higher prices in US Fig.
  - Winners: US producers & their workers
  - Losers: US "consumers" (firms & their workers)
- Winners: solar panel & washing machine producers
  - Suniva, Solar World, Whirlpool
  - But...
    - $\downarrow$ cons subsidies in China, LG & Samsung relocate to US
- Losers
  - Consumers, can be firms
    - 85% of solar panel employment in distribution & installation
  - Industries facing foreign retaliation
    - Texas sorghum (Chinese AD case)

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Legislative authority

- Section 232, Trade Expansion Act of 1962
  - Dept of Commerce conducts investigation
  - Upon receipt of report, President makes own decision
    - Essentially unlimited power, need not be temporary
- Extremely rare
  - Excluding oil, used only by Reagan (once in 1983)!
- Is there a real issue here?
  - Yes: massive steel overcapacity in China
  - But, China appears willing to negotiate

Steel & aluminum tariffs

- March 2018: Trump announces tariffs
- Steel: 25% tariff on \$24bn imports
  - Only 20% total demand imported
  - CAN+EU+MEX+KOR+JAP= 63%, RUS 5%, CHN 3%
- Aluminum: 10% tariff on \$16bn imports
  - 75-90% of total demand imported
  - CAN 37%, CHN+RUS 18%
- WTO challenges ongoing
  - US stance: self-determination
  - Foreign stance: can say anything is "national security"

Winners & losers in US

- Winners: steel producers & their workers ▸ Fig.
  - Nucor, United States Steel, AK steel
  - BEA: 140,000 jobs in steel producing industries
- Losers
  - Consumers, including steel consuming firms
    - Steel major intermediate input throughout economy
    - BEA: 2 million jobs in steel consuming industries (>5% input)
  - Industries facing foreign retaliation

Industry	**Countries**	**Share of US EX**
Pork	CHN, MEX	44%
Apples	CHN, MEX, IND	37%
Nuts	CHN, IND	12%
Whiskies (e.g. KY bourbon)	EU, CAN, MEX	53%
Mineral water, coffee, ketchup	CAN	$\approx$ 50%

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Legislative authority

- Section 301, Trade Act of 1974
  - USTR conducts investigation
  - Upon receipt of report, President makes own decision
    - Essentially unlimited power, need not be temporary
- Very rare use of power these days
  - Pre-WTO (i.e. pre-1994), used very often
  - But, Dispute Settlement Board is WTO "crown jewel"
- Is there a real issue here?
  - Yes: many countries concerned about IPR issues in China

China tariffs

- March 2018: USTR into China IPR practices finds...
  - "Forced" tech transfer by JVs, licensing, admin review
  - "Forced" licensing at below market value (now WTO case)
  - Tech transfer in US via big investment & acquisitions
  - Cyber-security intrusions in US to steal business information
- July 2018: 25% tariff on $46bn CHN imports
  - Mostly intermediate goods: machinery, equip
- September 2018: 10% tariff on $200bn more CHN imports
  - About 50% of all CHN imports
  - Consumer goods
    - Fish, tires, tech goods, handbags, sport goods, furniture, apparel, beauty & household goods ▸ Quartz
  - Was set to go to 25% on March 1st. Now delayed.

Winners & losers in US

- Winners: producers (& workers) getting protection
  - Public hearings on which industries should get protection
    - Steel, furniture, textiles industries pushed hard
- Losers
  - Consumers, including firms relying on CHN machinery/equip
  - Industries facing foreign retaliation

Industry	**US EX to CHN**	**Share of US EX**
Soybeans	\$12.4bn	57%
Vehicles	\$11.3bn	10%
Crude Oil	\$4.4bn	20%
Shellfish	\$1.2bn	23%
Wood	\$1.2bn	52%
Raw Hides	\$0.8bn	78%
Sorghum	\$0.8bn	78%

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    - Essentially unlimited power, need not be temporary
- Extremely rare
  - Excluding oil, used only by Reagan (once in 1983)!
- Is there a real issue here?
  - No

Auto tariffs

- Mid Feb 2019: Dept of Commerce delivers report
  - President has 90 days to act (any day now!)
  - 25% tariffs rumored
- Imports: \$200bn autos, \$150bn auto parts
  - Auto imports excl trucks: 87% from EU, JAP, CAN, MEX
    - Current tariffs: 0% CAN & MEX, 2.5% EU & JAP
  - Truck imports: 92% from CAN & MEX
    - Current tariffs: 0% CAN & MEX

Winners & losers in US

- Winners
  - Car producers... no, vehemently opposed (Ford?)
    - Import lots of cars
    - Import lots of car parts
    - Fear foreign retaliation
  - Car part producers... no, strongly opposed too
    - Scared of impacts on car producers
- Losers
  - Car producers, car parts producers, workers
    - Major plants in AL, SC, TN
    - PIIE: 195k jobs gone in 1-3 years (upto 625k with retaliation)
  - Consumers
    - PIIE: price increases of 8-25%
    - Depends on amount of foreign content, pass through

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- Lots of political rhetoric about the trade deficit

$$\text{Trade deficit} = \text{Imports} - \text{Exports}$$

  - 2017 Trade deficit = \$568bn
    - Goods Trade deficit = \$811bn
    - Services Trade surplus = \$243bn
- Trump (NYT 3/5/18, Twitter 3/7/18)

  "Not half a million dollars. Not 12 cents. We lost \$800 billion a year on trade."
  "Last year we had a Trade Deficit of almost 800 Billion Dollars. Bad policies & leadership. Must WIN again!"

Interpretation #1: US has to pay for imports somehow...

- Trade deficit
  - \$ of goods & services IM by US > \$ of G&S EX by US
    - IM \$100 computers from China, EX \$40 soybeans to China
- But, China demands payment of some kind!
  - \$40 soybeans insufficient payment for \$100 computers!
  - US pays \$60 with financial assets
    - Govt bonds, corporate bonds, stocks, factories
- Trade deficit $\Leftrightarrow$ foreigners financing US govt/firm borrowing
  - Trade surplus $\Leftrightarrow$ US financing foreign govt/firm borrowing

Interpretation #2: China can buy US goods or assets...

- US buys \$100 computers from China, paid in CNY
  - US sells \$100 on FX market, gets 700 CNY
  - US gets computers from China, pays 700 CNY
  - At this point, US trade deficit is \$100
    - Has US "lost" \$100?
- What does China do with \$100?
  - Buy US goods or US assets?
    - $\uparrow$ US assets bought $\Rightarrow$ trade deficit $\uparrow$ towards \$100
    - $\uparrow$ US goods bought $\Rightarrow$ trade deficit $\downarrow$ towards \$0
  - This choice depends on
    - state of US macroeconomy (e.g. investment climate)
    - state of Chinese economy, Chinese demographics

Interpretation #3: GDP identity

$$\underbrace{Y}_{\text{National income}} = \underbrace{C + I + G}_{\text{National expenditure}} + \underbrace{X - M}_{\therefore\text{National savings}}$$

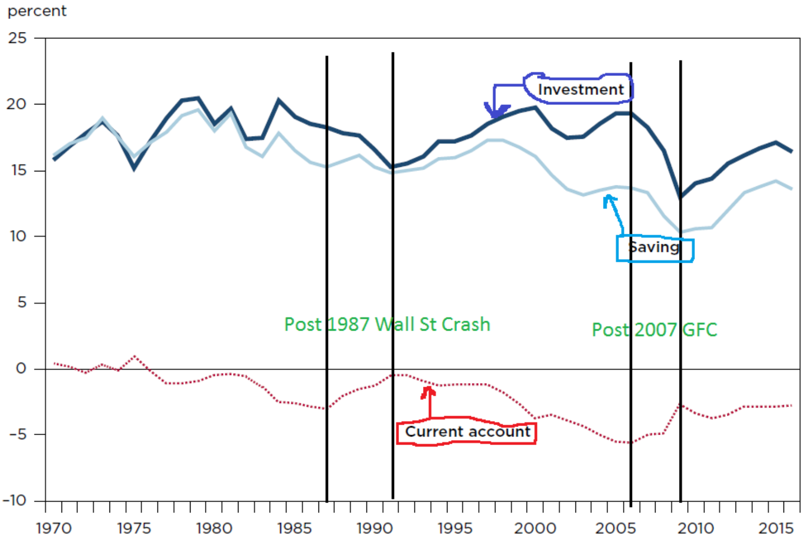
$$\underbrace{M - X}_{\text{Trade deficit}} = I - \underbrace{(Y - C - T)}_{\text{Private savings}} - \underbrace{(T - G)}_{\text{Govt savings}}$$

- **Key observation**

$$\begin{aligned} \text{Trade deficit} &= \text{Investment} - \text{National savings} \\ &= \text{Investment} + \text{Govt deficit} - \text{Private savings} \end{aligned}$$

  - Trade deficit and national borrowing flip sides of same coin!!
    - Without trade: Investment = National savings
    - With trade deficit: Investment > National savings
    - With trade surplus: Investment < National savings

Data: want to eliminate the trade deficit?



Source: Table 1.1.10 US National Income Accounts, Bureau of Economic Analysis.

Figure: US current account (% of GDP)

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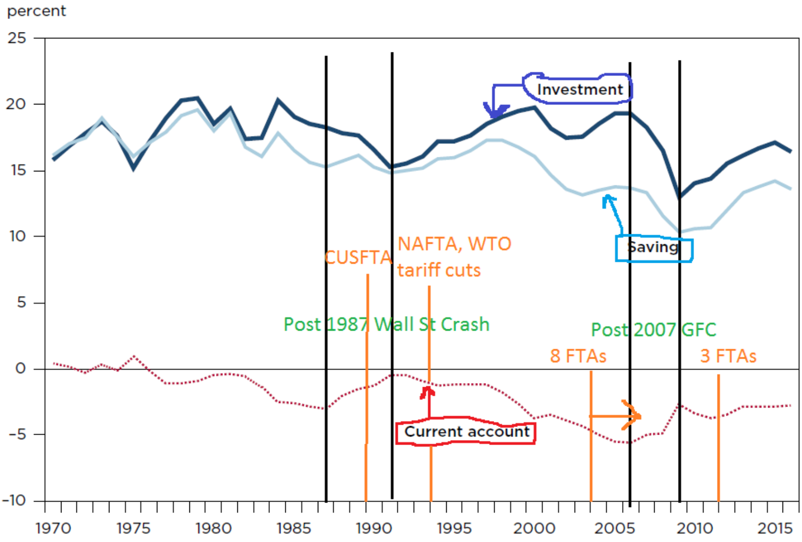

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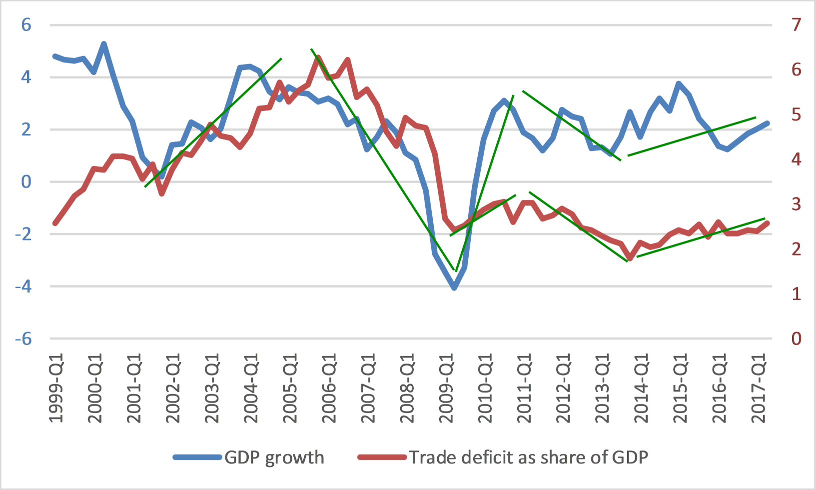
Figure: US current account (% of GDP)

Surely lower trade deficit increases growth/jobs!

$$Y = C + I + G - (M - X)$$

- Suppose US consumers decide to save more and...
  - "Make America great again!" $\Rightarrow$ only buy less foreign goods
  - But, $\downarrow (M - X) = \downarrow C$ and $\therefore$ Y unchanged
- Suppose $\downarrow$ relative price of US steel
  - Perhaps, US buys more steel & subst from foreign to dom steel
  - So $\downarrow (M - X)$ and possible that $\uparrow Y$ (full employment?)
- Suppose falling aggregate demand pushes US into recession
  - Hence $\downarrow Y$. In turn, $\downarrow C$ and $\downarrow M$. But, X unchanged.
  - So $\downarrow Y$ and $\downarrow (M - X)$
- **Takeaway:** unclear correlation b/w growth/jobs & trade deficit

Data: growth and the trade deficit



Source: Bureau of Economic Analysis

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Conclusions

- Very extensive & very rare use of executive trade authority
- Growing tensions between US and China
- Some real issues here
  - Chinese steel overcapacity
  - Chinese tech/IP practices
  - Trade deficit, especially bilateral, NOT a real issue
    - Trade balance is NOT a trade scorecard!!
    - Trade deficit improves when investment plummets
    - Empirically, US growth higher when trade deficit higher
- US taking unprecedented unilateral actions
  - Not exploiting similar concerns of other countries
  - Could violate WTO rules

US appliance prices

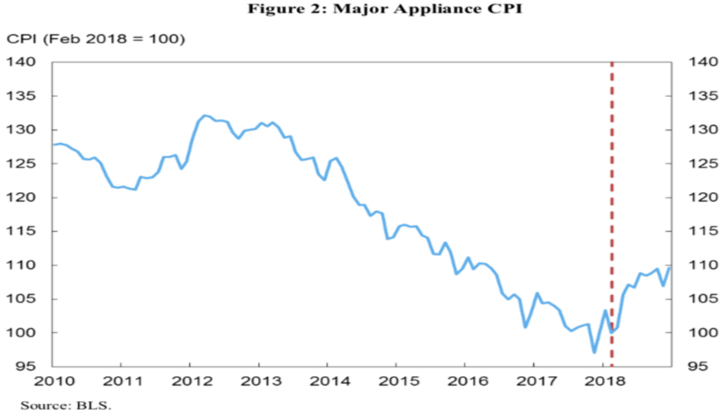

Figure: Amiti, Redding, Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare" (2018 CEPR discussion paper DP13564)

go back

US steel prices

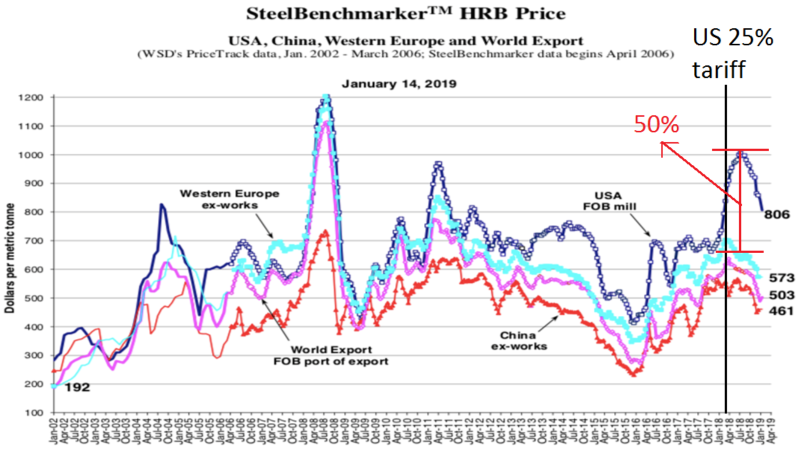

Figure: US steel prices

Quartz distributor in Dallas

Figure: Shortages of quartz

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