PubPol/Econ 541

Class 1

The State of Play in International Trade and Trade Policy I: Trade Wars

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2024

Announcements

- Next class (Wednesday) I'll start by asking you for recent News, then discuss it and what I've noticed myself.
  - After that, every Monday if class
- Note that if I don't get through all my slides, you should view them later. (But not the Aug 26 class.)
- Office hours:
  - Feel free to enter even if others are there
  - If you want a private meeting, email me to schedule

Trade Wars


TARIFFS
Ingram Pinn
TRADING TARIFFS

Bown, Chad P. and Melina Kolb,
"Trump's Trade War Timeline

We'll focus on these three only

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Pause for Discussion

Questions on Bown & Kolb

- With what countries is/was the US engaged in a trade war?
- What have been the legal bases (within the US) for tariffs and threats of tariffs?
- What is the current status of the trade war with China?
- To what extent has President Biden reversed the tariffs begun by Trump?
- What main new actions have happened under Biden?

Trade Wars, 2018-2021

- Outline
  - Battles in the Trade Wars
    - (Washing Machines & Solar Panels)
    - Steel & Aluminum
    - US-China Trade War (re Intellectual Property)
    - (Cars)
    - (Mexico migration)
    - Semiconductors

Steel & Aluminum

- National Security
  - Section 232 of US trade law
  - Tariffs on imports that “threaten national security”
  - “National security” is not defined
  - Legality in WTO is unclear
    - But WTO panel report ruled against US

Steel & Aluminum

- National Security
  - Mar 1, 2018: Trump levies tariffs
    - 25% on steel, 10% on aluminum
    - Against all countries
      - A few removed shortly thereafter
      - Remained in place on EU, China, Canada, Mexico, and others
    - Retaliation by all
    - (Tariffs on Canada & Mexico were later removed)

Steel & Aluminum

- US-EU and other
  - Negotiations began under Biden May 17, 2021
  - US lifts some tariffs but keeps them on over-quota quantities ("tariff-rate quota") and partners remove retaliatory tariffs on US:
    - EU: Oct 31, 2021
    - Japan: Feb 7, 2022
    - UK: Mar 22, 2022
    - Ukraine: May 9, 2022
  - WTO panel rules on Trump's tariffs ("inconsistent")

Pause for Discussion

Questions on Reuters, “Biden extends …”

- How high were the tariffs before the suspension?
- When were they suspended and against whom?
- What were the tariffs replaced with?
- How are non-EU exports treated?

Questions on Rampell, "The terrible lesson …"

- What policy action prompted this article (not mentioned in the headline)?
- What effect does this say tariffs on steel have on jobs in the US, and why?
- Will this policy, only on exports from China, be as costly? What other policy is mentioned that would be more so?
- What policy has Trump said he will enact if reelected, and how has Biden responded?

US-China Trade War

- Legal basis for US tariffs on China was mostly on intellectual property
  - IP includes patents, trademarks, copyrights, and trade secrets
  - US (and others) claim that China
    - Steals technology secrets
    - Forces investors to turn over technologies in joint ventures

US-China Trade War

- USTR (United States Trade Representative) under Trump
  - Initiated investigation of China's IP practices
  - Under Section 301 of US trade law – Unfair trade practices
  - This is <u>not</u> something permitted by the WTO

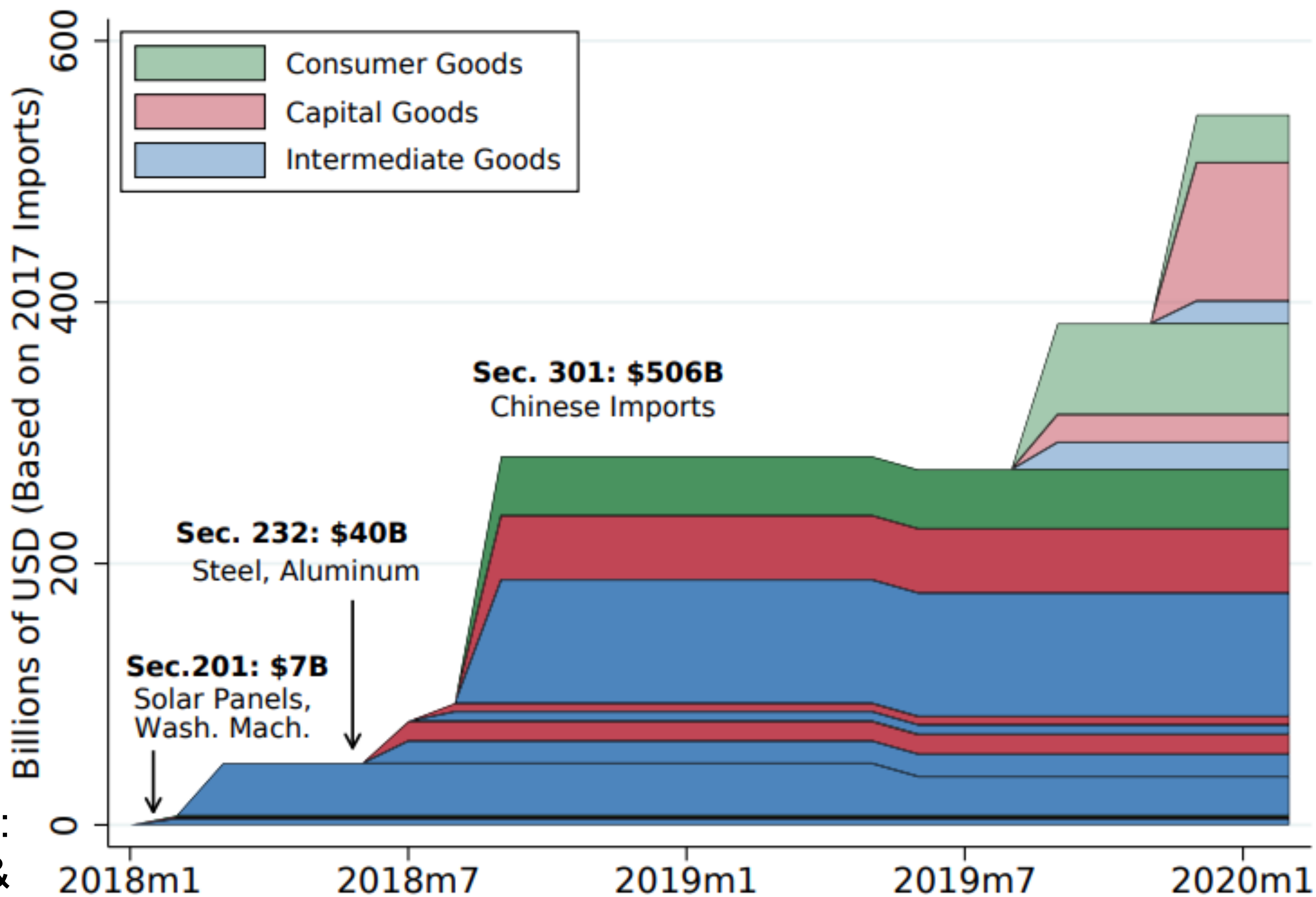
US-China Trade War

- March 22, 2018: Report found unfair trade practices
  - IP violations (see above)
  - Also subsidies to firms and state-owned enterprises (SOEs) to trade unfairly
- Trump announced tariffs on up to $60 billion of China’s exports to US

US-China Trade War

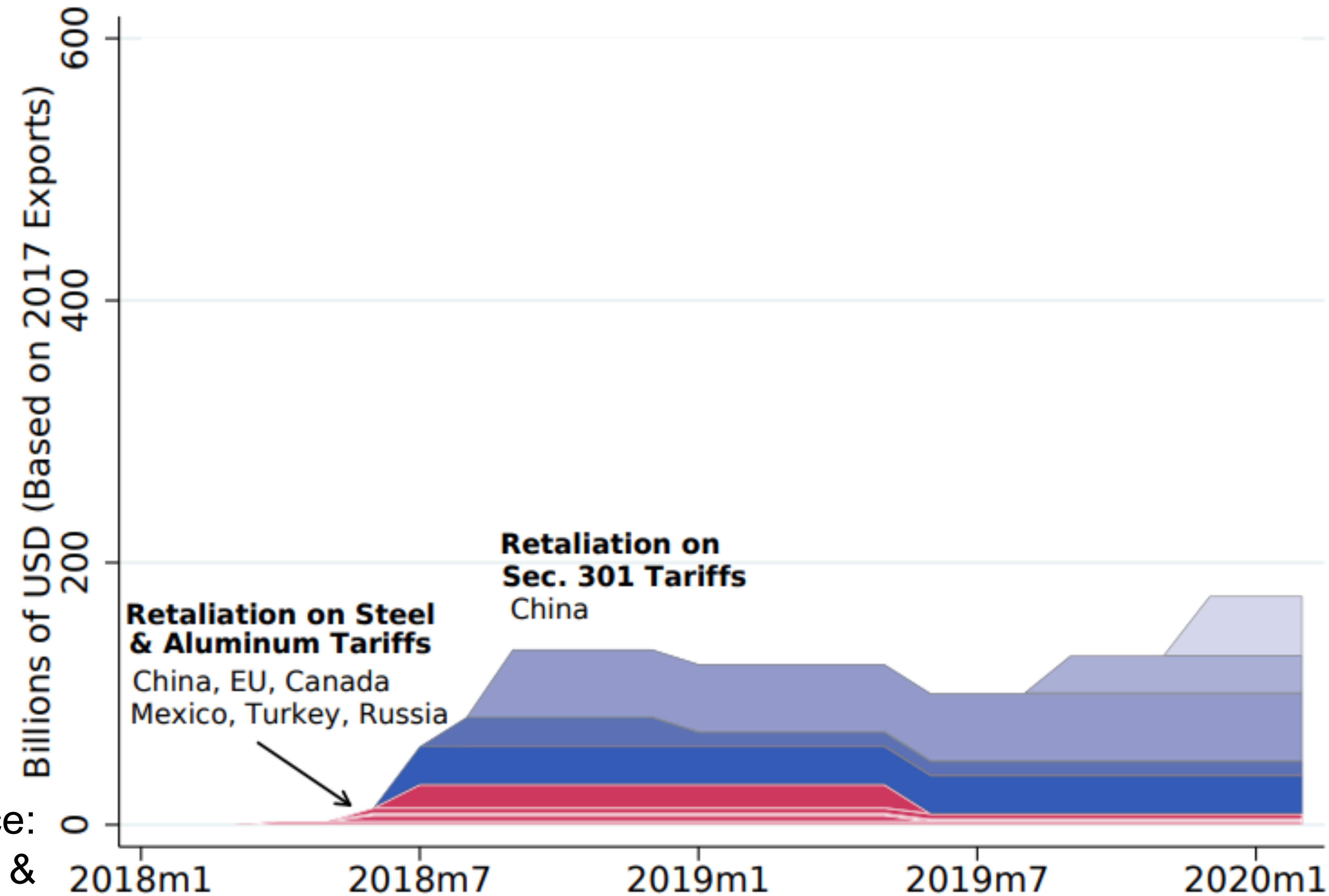
- US and China levied tariffs on each other
  - Three times in 2018, twice in 2019
    - Trump either added new tariffs on China exports or raised them
    - Each time, China responded with more tariffs on US exports
  - Threat of more in December 2019 was suspended by the “Phase One” US-China Trade Deal

Figure B1: Composition of New U.S. Import Tariffs: 2018-2019



Source: Flaan & Pierce 2020

Figure 3: Timeline of Retaliatory Tariffs on U.S. Exports: 2018-2019



Source: Flaan & Pierce 2020

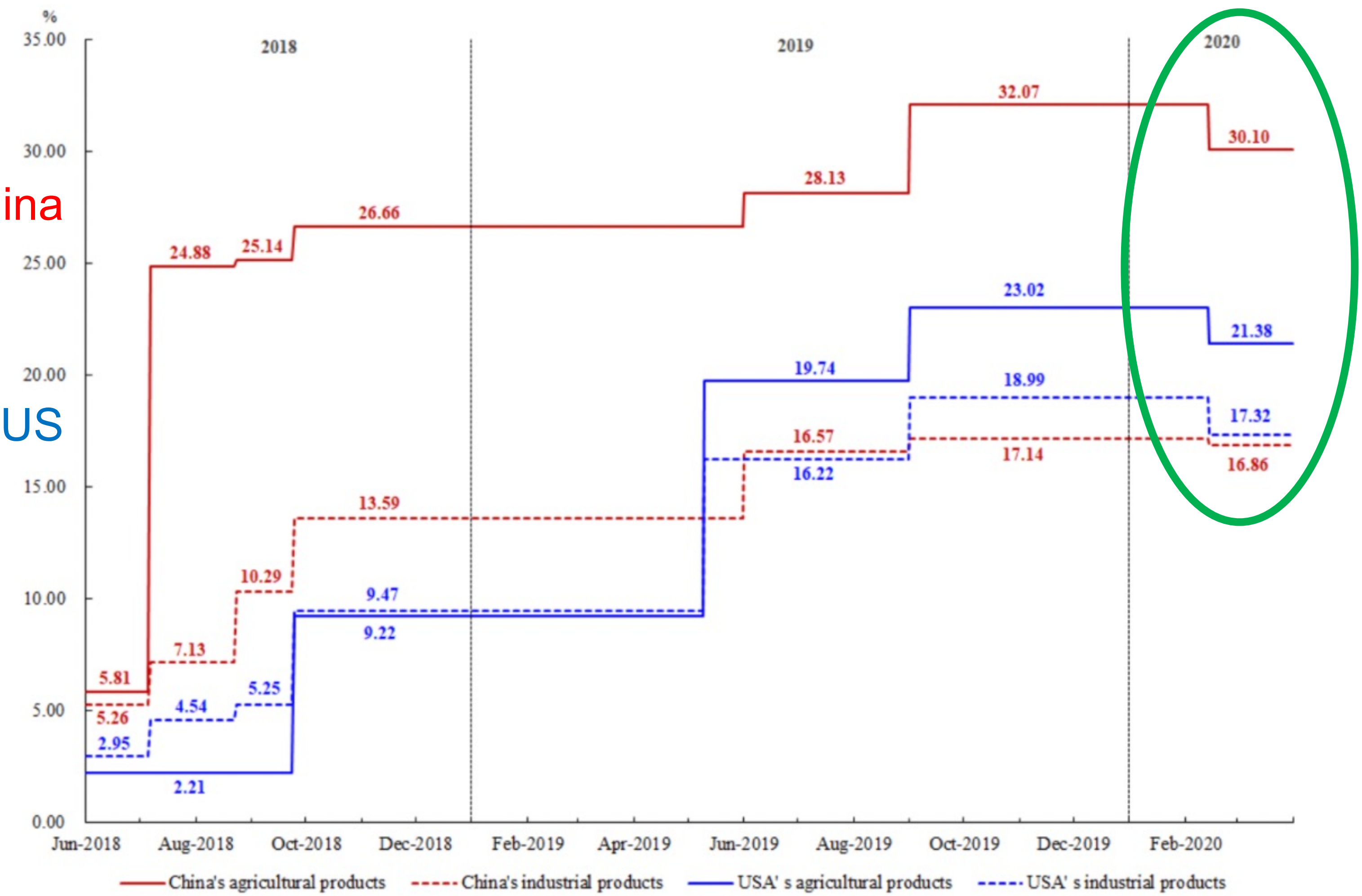
US-China Trade War

- Phase One Deal
  - In anticipation, Trump called off December 2019 tariffs
  - Agreement signed January 15, 2020
- Content of Deal:
  - China to buy $200 billion more US exports
  - US to reduce a few tariffs on China
  - China to stop forcing foreign companies to transfer technology
  - Most tariffs remain in place by both, and China did not address subsidies and SOEs

Figure 1. China-US bilateral import tariff increases, percentage points.

US tariffs on China
Agriculture
Industrial

China tariffs on US
Agriculture
Industrial



Source: GTAP database and the list of additional tariffs published by China and the United States

Source: Zheng et al. Oct 2021

US-China Trade War

- Effects of the trade war
    - Economist, “New research counts the costs of the Sino-American trade war,” *The Economist*, January 1, 2022.
  - Tariffs rose:
    - US on China 3% to 19%
    - China on US 8% to 21%
  - Compared to Smoot-Hawley tariffs of 1930
    - Covered more trade as share of GDP
    - Caused smaller harm to GDP (“effects muffled by complex supply chains”)
  - US prices of imports rose by 90% of tariffs
  - Reduced US manufacturing employment by 1.4%

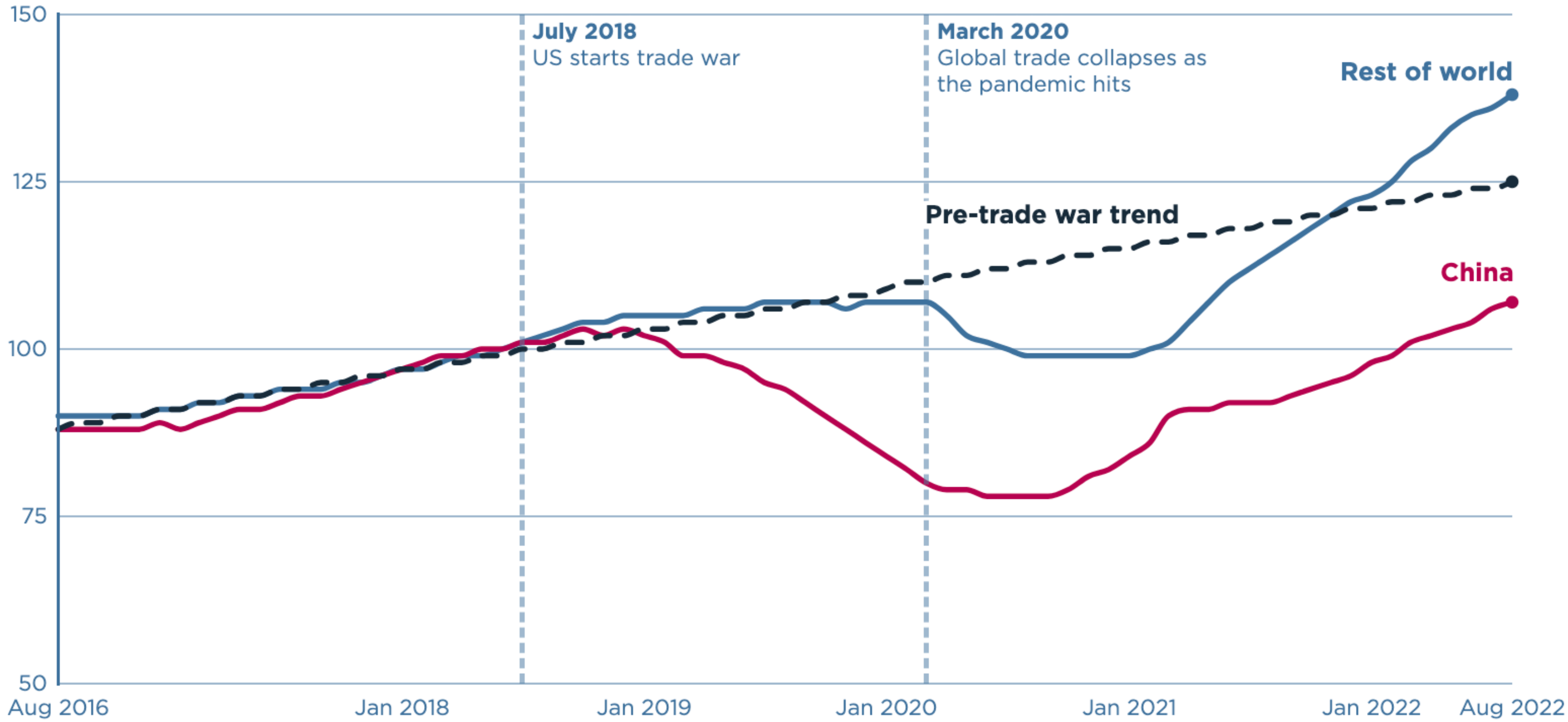
US-China Trade War

- Other effects of the trade war
  - With higher tariffs, exporters are re-packaging to keep values under the "*de minimis*" threshold
    - Into US, imports under $800 pay no tariff
    - See *Economist*, "Artful dodging: America's tariff wall on Chinese imports looks increasingly like Swiss cheese," Feb 26, 2022 (Not assigned)
- What happened to trade?
  - US imports from China: the following is from unassigned reading by Bown (2022)
  - US exports to China: the following is from optional reading, Bown and Wang (2023)

Figure 1

US imports from China have only recently returned to pre-trade war levels, while imports from the rest of the world are above trend

Value of US goods imports from China and rest of world, 2016–2022 (June 2018 = 100)

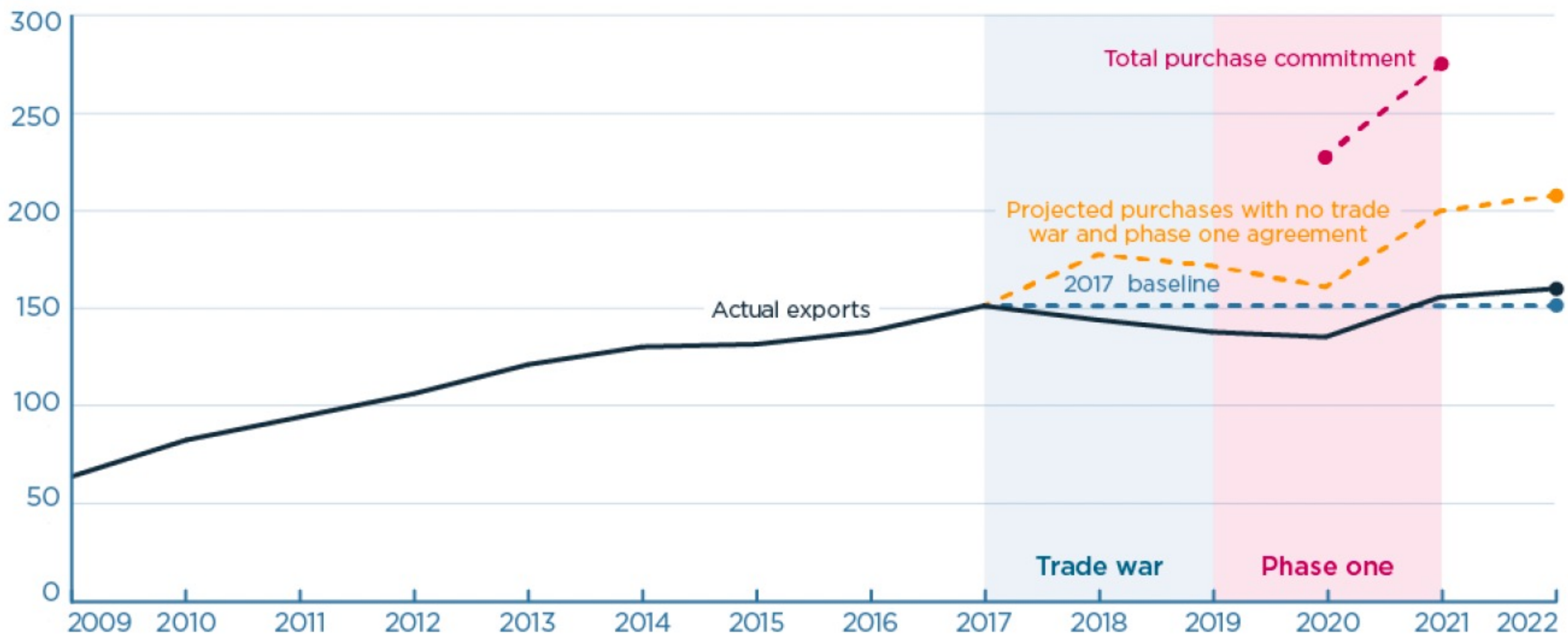


Source: Bown, 2022

Figure 1

US exports to China continue to struggle

US exports to China of goods and services covered by the phase one deal, billions USD, 2009–22



Source: Bown and Wang, 2023

Figure 2

US exports to China of manufactured products have gotten worse

US manufacturing exports to China covered by the phase one deal, billions USD

a. All manufactured goods, 2009–22

Source: Bown and Wang, 2023

Figure 4

Pandemic-battered US services exports to China have not recovered

US services exports to China covered by the phase one deal, billions USD, 2009–22

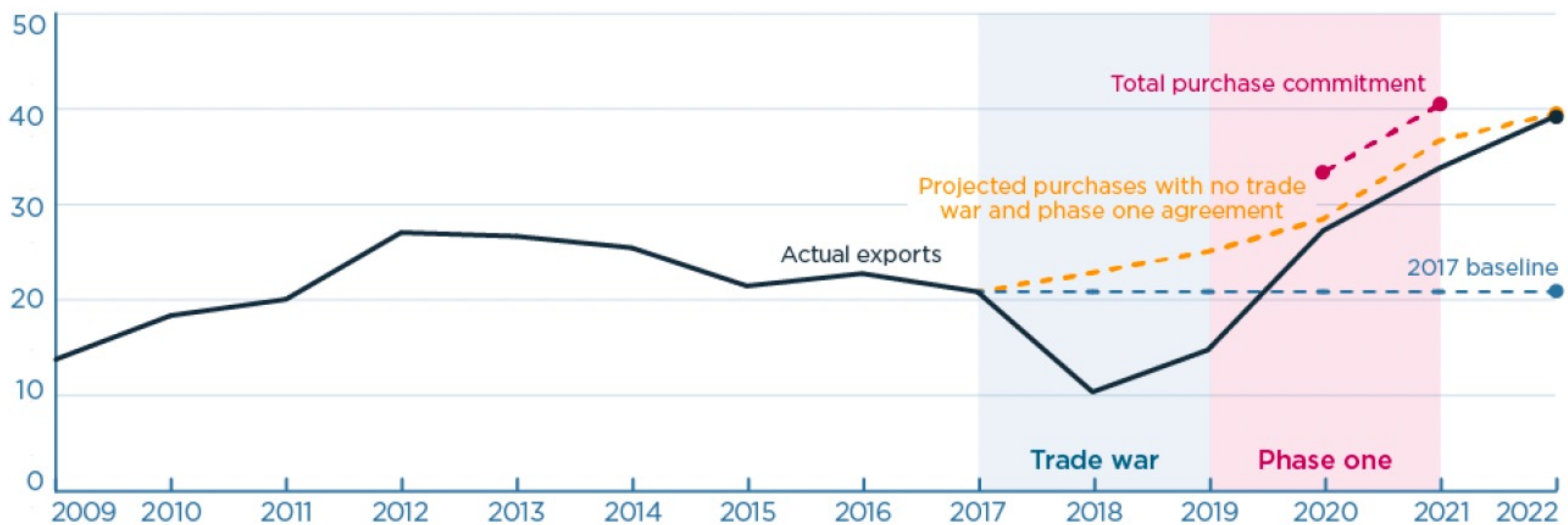
Source: Bown and Wang, 2023

Figure 5

US agricultural exports to China were a lone bright spot in 2022

US agricultural exports to China covered by the phase one deal, billions USD

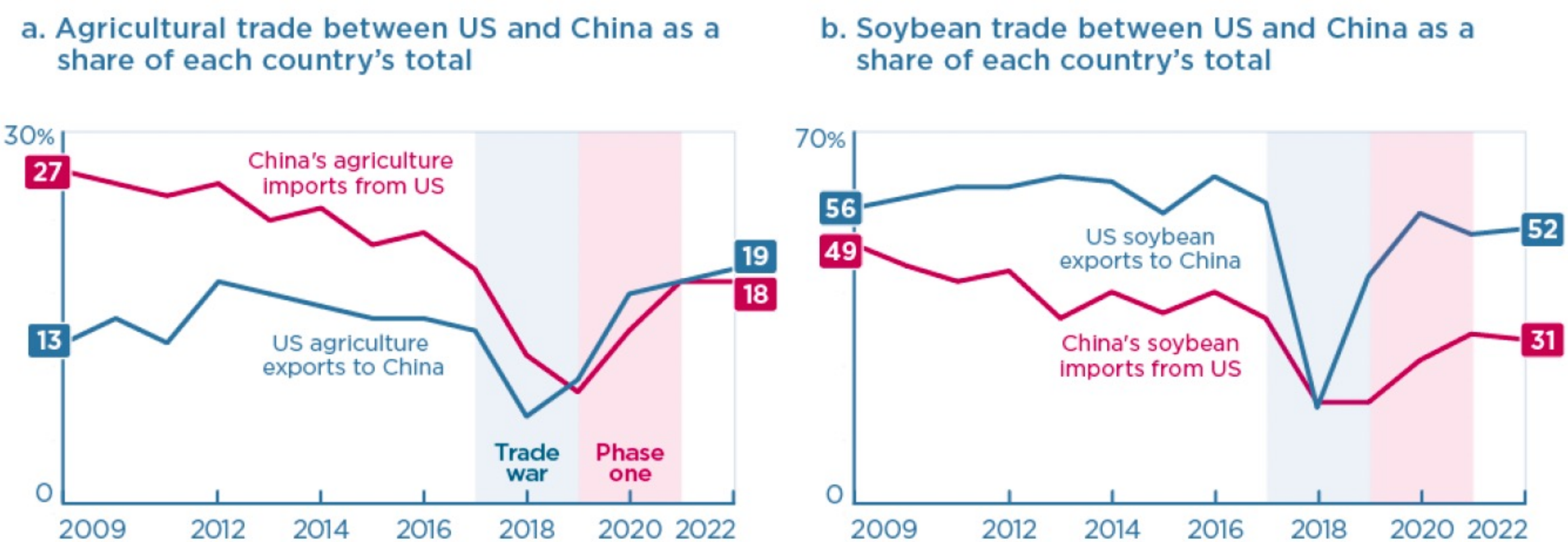
a. All agricultural goods, 2009–22



Source: Bown and Wang, 2023

Figure 6

China is becoming less dependent on American farmers, but US export dependence on China remains high



Source: Bown and Wang, 2023

US-China Trade War

- Recent changes
  - Biden has <u>NOT</u> reduced Trump's tariffs on China
  - In May 2024, Biden raised tariffs on some products from China (see next table)
  - EU also announced high tariffs on Electric vehicles from China
  - US announced tariffs on China exports via Mexico

US-China Trade War

- Biden raised tariffs on goods from China:

On	From	To	When
Steel and aluminum, certain products	0-7.5%	25%	2024
Semiconductors	25%	50%	2025
Electric vehicles	25%	100%	2024
Batteries, etc.	25%	100%	2024
Solar cells	25%	50%	2024
Ship-to-shore cranes	0%	25%	2024
Syringes and needles	0%	50%	2024
Certain PPE	0-7.5%	25%	2024
Rubber medical & surgical gloves	7.5%	25%	2026

Pause for Discussion

Questions on Swanson, "Contentious U.S.-China…"

- Is China's economy bigger or smaller than the US economy?
- Where does China stand as a trading partner of the US?
- Does China make cars?
- Is the US eager to export all products to China?

Questions on White House, "FACT SHEET: President …"

- What actions by China are these new tariffs a response to, and under what US law?
- What is the main evidence cited to China's actions?
- How do these policies by Biden differ from those of Trump and Republicans?
- Are all the new tariffs in high-technology sectors?

Questions on Foroohar, "Not all American tariffs …"

- How do Biden's and Trump's tariff differ, according to this?
- Why does the author dismiss standard economic analyses of trade?
- What other reasons does the author give to justify Biden's tariffs on China?
- In what sense mentioned here does the US rely on China for energy?

Questions on Bounds et al., “EU to hit Chinese electric …”

- On what basis is the EU imposing higher tariffs on China’s EVs?
- When are the tariffs to go into effect? Is it possible that they won’t?
- How large is China’s tariff on imported EVs? How large was the EU’s tariff on EVs before?
- By how much has China’s share of EU EVs increased since 2020?

Questions on Williams, "US targets Chinese steel…"

- The tariff on steel from China was already 25%. What is different here?
- What are the political and economic reasons for doing this?
- What percentages of steel and aluminum from Mexico will be subject to these tariffs?

Semiconductors

- As early as 2016 (under Obama), the US was taking actions to "Safeguard US Semiconductor Supremacy"
- US placed Chinese companies on its "Entity List"
  - 2016: ZTE, a partially state-owned technology company that specializes in telecommunication
  - 2019: Huawei, the world's largest supplier of telecommunications network equipment
  - 2020: SMIC, a semiconductor foundry company

Semiconductors

- 2022
  - Aug 9: US passes CHIPS Act
    - “invests $280 billion to bolster US semiconductor capacity, catalyze R&D, and create regional high-tech hubs and a bigger, more inclusive STEM workforce.” (per McKinsey & Co)
  - Aug 31: US Imposes New Controls on Advanced Chip Exports
  - Sep 16: US Redefines National Security
    - “maintain as large a lead as possible in foundational technologies”
  - Oct &: New export controls

Semiconductors

- 2023
  - Mar 8: Netherlands Joins US Export Controls
  - Mar 31: Japan Restricts Chipmaking Equipment Exports
  - May 21: China Bans Some Chips from US-Based Micron
  - Jul 4: China limits exports of gallium and germanium, critical to manufacturing semiconductors
  - Sep 1: US, Japan, & Netherlands require permit to export high-end chip-making machines made by Dutch company, ASML

Semiconductors

- 2024
  - May 14: Biden raises tariffs on semiconductors from China (see above)

Pause for Discussion

Questions on Mozur & Liu, “With Ban on Micron…”

- What was China’s claimed basis for blocking purchases of chips from Micron?
- What actions had the US taken previously that might have motivated this?
- What actions had China taken previously in this area?

Questions on Sohn et al., "China's Export Curb …"

- Who is China targeting with its new restrictions on exports of gallium and germanium?
- What are the aims of China and the US?
- What steps does South Korea say it will pursue to deal with this?
- Does China have a natural monopoly on these materials?