

Trade Tensions in the Time of Trump

Alan V. Deardorff
University of Michigan

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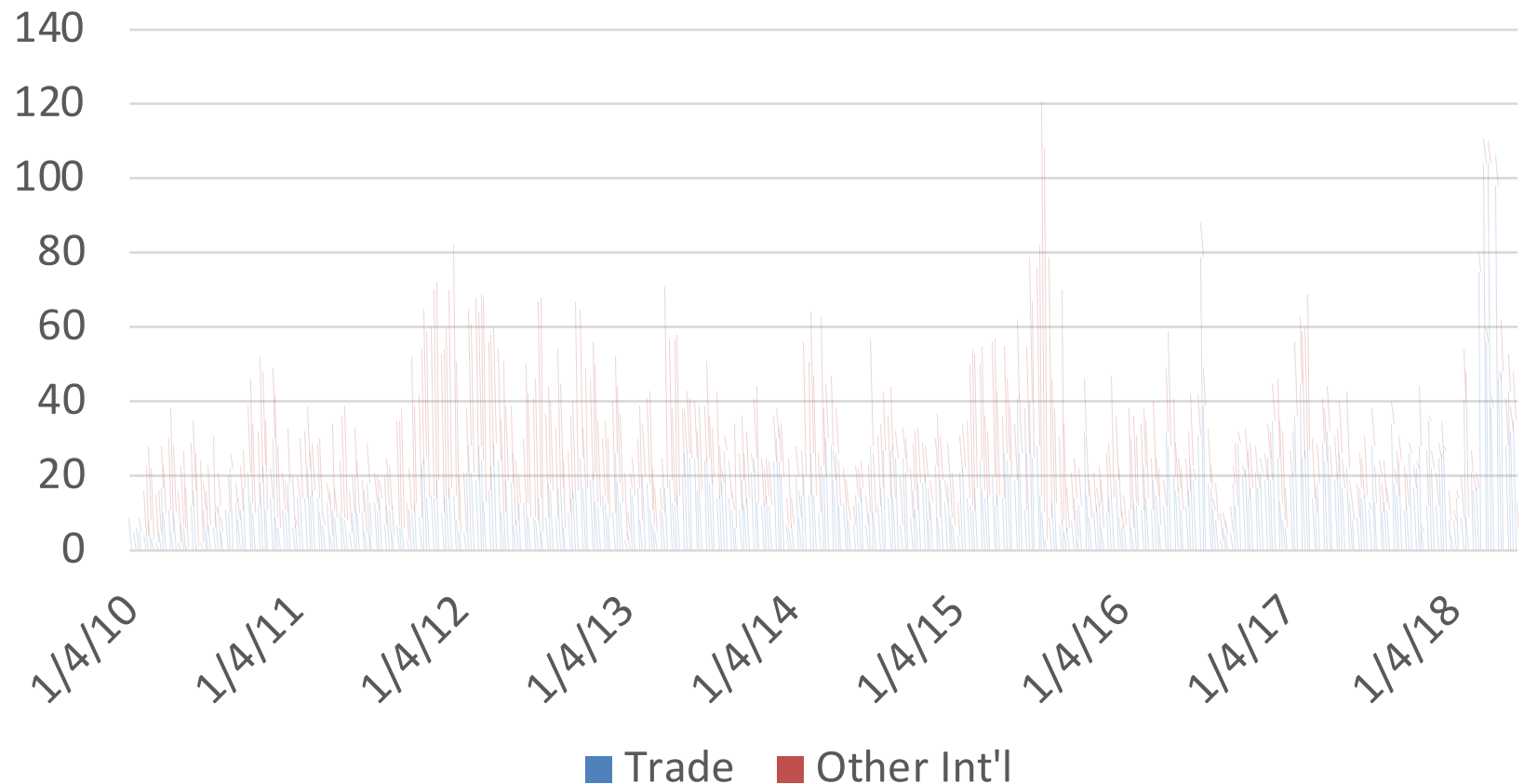
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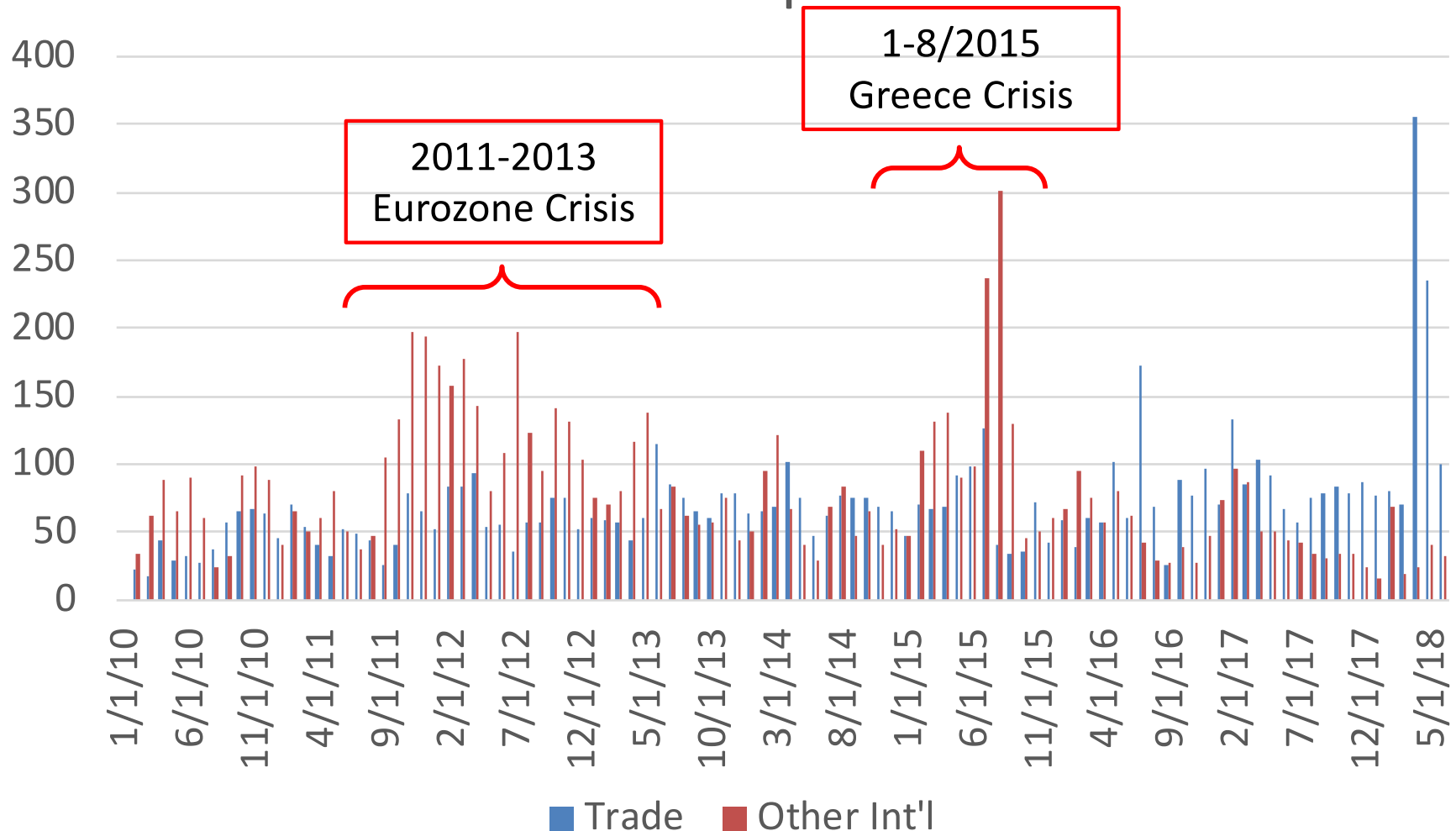
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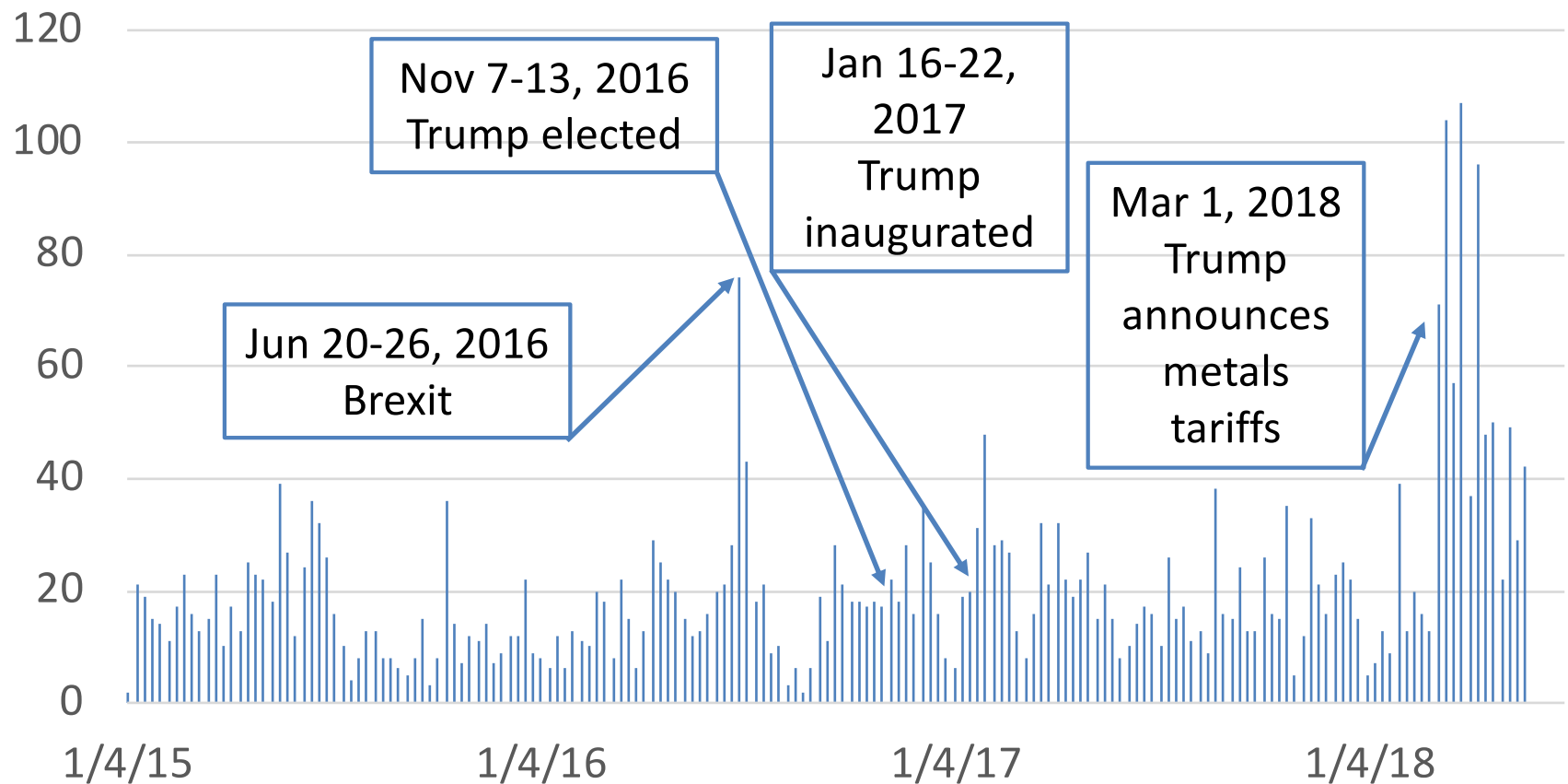
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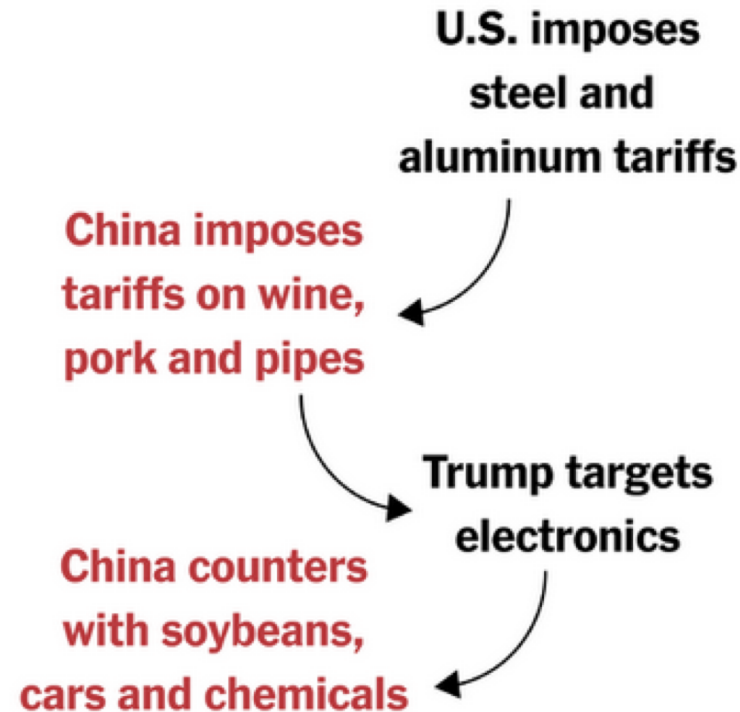


Ingram Pinn, Financial Times, April 6, 2018

How the U.S.- China Trade Conflict Has Evolved

The United States wants American companies to have a level playing field with their Chinese counterparts. China wants to build its industries into sophisticated global competitors. Both countries have demonstrated a willingness to offer concessions — and escalate tensions — to get what they want.

April 5, 2018



Source:
Swanson &
Tankersley
(2018)

Outline

- Timeline of events
- TPP
- NAFTA
- Safeguards
- Trade deficits
- Steel & Aluminum
- China
- WTO

Timeline of Trade Policy under Trump

- Actions taken in 2017
 - Jan 23: Trump pulls out of TPP
 - Apr 3: Trump signs 2 executive orders on trade
 - Apr 24: 20% tariff on Canada softwood lumber*
 - May 18: US launches NAFTA renegotiation
 - Oct 5: Negotiation began to amend US-Korea FTA

CVD case begun
under Obama

Trade Policy under Trump

- Actions taken in 2018
 - Jan 21: Safeguard tariffs on solar panels and washing machines
 - Mar 1: Announces 25% tariff on steel; 10% on aluminum on all countries
 - Mar 23: Steel and aluminum tariffs begin, exempting: Canada, Mexico, EU, Australia, S. Korea, Brazil, Argentina (not Japan) until May 1

Trade Policy under Trump

- March 2018
 - Mar 22: Trump announces tariffs on \$50-60 billion of China exports (details announced Apr 2)
 - Mar 22: China threatens tariffs on \$3 billion of US exports
 - Mar 27: Amended KORUS signed (extends tariffs and reduces trade)
 - Mar 29: US suspends duty-free access for apparel from Rwanda

Trade Policy under Trump

- April 2018
 - Apr 1: China announces tariffs on 128 US exports
 - Apr 6: Trump threatens tariffs on another \$100 billion of China exports. China threatens to hit back.
 - Apr 7: Trump considers stricter environmental enforcement for imported cars
 - Apr 12: Trump considers rejoining TPP
 - Apr 17: He changes his mind
 - Apr 16: US acts against China's ZTE telecoms company for selling to Iran & N. Korea
 - Apr 17: China AD case on US Sorghum adds 179% deposit
 - May 18: China drops the case and removes the tariff

Trade Policy under Trump

- May 2018
 - May 1: Trump extends metals tariff exemptions for 30 more days for EU and other allies
 - May 3-5: Seven US trade negotiators meet with officials in Beijing. No agreement results.
 - May 7: In NAFTA negotiation, US asks for minimum wage for auto workers
 - May 10: China's ZTE halts operations
 - May 14: Trump says he'll protect ZTE jobs in China
 - May 17-19: China's Liu He meets in Washington with Treasury Secretary Mnuchin
 - May 19: China promises to increase imports from US by \$200 billion
 - May 24: Trump initiates national security investigation of auto imports

TPP

- 12-country FTA negotiated un Obama but not ratified by Congress
- Trump said he'd pull out and he did, on first full day in office
- Later said he'd like to rejoin, but changed his mind after a few days
- Meanwhile, the 11 other countries renegotiated TPP as
 - Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

NAFTA

- Trump opposed from before it was enacted:
 - 1993: “The Mexicans want it, and that doesn't sound good to me.”
 - 2016: “The single worst trade deal ever approved in this country”
- Threatened (repeatedly) to pull out, but is currently “renegotiating”

NAFTA Renegotiation

- Began Aug 16, 2017
- Intended to finish before now
- US eager to finish soon, before
 - Trade Promotion Authority (Fast Track) expires July 1
 - Mexico's presidential election, July 1
 - US midterm elections, November but primaries already underway

NAFTA Renegotiation

- Issues
 - Auto trade
 - Rules of origin
 - Wages
 - Sunset clause
 - Dispute settlement mechanism
 - Investor-state (Chapter 11)
 - AD/CVD (Chapter 19)

Safeguards

- Implemented safeguard tariffs (US 201, or Escape Clause)
 - 30% on solar panels
 - 50% on washing machines
 - (both declining over 4 years)
- Both follow prior anti-dumping actions that had been circumvented
- President had option not to use

Trade Deficit(s)

- Trump's primary objection is to US trade deficits, bilateral and overall
- Says they mean "US is losing in trade"

Quote from Trump

- Told by Canada's Justin Trudeau that Canada doesn't have a trade surplus with the US, Trump says "I said, 'Wrong, Justin, you do.' I didn't even know. I had no idea."
- In fact, by US data, the US has a surplus with Canada in goods and services, but a deficit if you count only goods. 2017, \$billions:
 - Goods: -17.5
 - Goods and services: +2.8
- As economists explain, there is no reason why countries' trade should balance, especially bilaterally, under either measure.

**Donald J. Trump**

@realDonaldTrump

Following



We do have a Trade Deficit with Canada, as we do with almost all countries (some of them massive). P.M. Justin Trudeau of Canada, a very good guy, doesn't like saying that Canada has a Surplus vs. the U.S. (negotiating), but they do...they almost all do...and that's how I know!

9:29 AM - 15 Mar 2018

Is he right about “almost all countries”?

- US Census reports goods trade balances of US with 234 countries for 2017. US has
 - Surpluses with 130
 - Deficits with 104
- But with our top-10 trading partners (ranked by exports plus imports) we have a surplus with only one: U.K.
- Of our top 50 partners, we have surpluses with only 36%

Steel and Aluminum

Legality under
WTO doubtful

- Mar 1: 25% tariff on steel; 10% on aluminum
– Based on “national security”
- Mar 2:  China grumbles at Trump’s tariff move, but Europe takes aim at Harleys and bourbon
- Mar 2:  Trump insists ‘trade wars are good, and easy to win’ after vowing new tariffs
- Mar 2:  Donald Trump’s steel tariffs flirt with a global trade war
The US president puts the rules-based global trading system in peril
- Mar 2:  Trump just started a trade war, all right – with his own party
- Mar 3:  Jeffrey Sachs Trump's tariff move shows he flunked economics
- Mar 3:  Trump fires back at EU tariff retaliation threats

Steel and Aluminum

- Mar 8:   **Paul Krugman** Oh, What a Trumpy Trade War!
- Mar 8: Trump metals tariffs to start in 15 days, exempting Canada and Mexico
- Mar 22: Also exempts other allies EU, Australia, S. Korea, Brazil, Argentina (not Japan)
- Mar 23: Tariffs go into effect, mostly on China and Russia



FT Trump plays a game of chicken with EU on trade

Steel and Aluminum

- May 1: Exemptions extended late on Apr 30
 - 30-day exemption for EU, Canada, Mexico, during which US will negotiate for possible permanent exemption
 - Canada & Mexico as part of NAFTA talks
 - EU, US is pushing for quotas
 - US has “agreement in principle” with Argentina, Australia, and Brazil, for permanent waivers if finalized
 - S. Korea got permanent exemption with amended KORUS FTA (in return for promise to cut steel exports to 70% of 2017 levels)

China

- Mar 22: Trump announces tariffs on \$50-60 billion of China exports
- Mar 22: China threatens tariffs on \$3 billion of US exports
- Apr 1: China announces tariffs on 128 US exports
- Apr 6: Trump threatens tariffs on another \$100 billion of China exports. China threatens to hit back.

China

- May 3-5: Negotiations in Beijing
- May 17-19: Negotiations in Washington
- May 19:

 ***China Pledges \$200 Billion in U.S. Purchases by Overhauling Trade Rules***

- Related US-China issues
 - ZTE
 - China sorghum imports
 - Intellectual property theft
 - Joint-venture requirements

World Trade Organization

- Trump has not (yet) taken much direct action against the WTO. But he has ignored and weakened it.
- WTO is
 - Agreement among member countries not to use trade policies against each other except under specified rules
 - Forum for negotiation to resolve disputes and liberalize trade
- WTO superseded GATT which stopped the pre-WWII chaos of trade policy

World Trade Organization

- Trump's actions
 - Blocked replacements on WTO Appellate Body
 - Though that was done first by Obama
 - Threatened tariffs on China ignoring WTO rules
 - Mar 23, 2018: **🇺🇸** *Trump Just Pushed the World Trade Organization Toward Irrelevance*
 - He prompts others to ignore WTO rules
 - Mar 6, 2018: **FT**
EU retort to Trump's tariffs risks breaching WTO rules

Concerns Going Forward

- Tariffs will cause harm
 - Supply chains that expanded will be broken
- Trade war
 - Tariffs, retaliation, and counter-retaliation will push both trade and the world economy into recession or depression
- WTO will cease to matter and world trading system will revert to rule by the strong
 - That may have worked in the 1980s, when US and EU agreed and were dominant
 - It won't work now with China an equal power