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Changing Course in International Trade Policy: Implications for Michigan

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www.fordschool.umich.edu

Outline

- Features of Michigan's Trade
- President Trump's 2018 Trade Actions
  - Solar Panels and Washing Machines
  - Steel and Aluminum
  - Cars (threat)
  - China
  - Korea-US Trade Agreement Amended
  - NAFTA → USMCA

Features of Michigan's Trade

- Michigan
  - Trades more than most states
  - Mostly exports and imports cars and car parts
  - Trades most with Canada and Mexico

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Top US State Traders 2017 (Exports + Imports)

By Value, $bil.		
1	California	613
2	Texas	528
3	New York	205
4	Illinois	201
5	Michigan	200
6	New Jersey	147
7	Florida	130
8	Georgia	129
9	Washington	126
10	Pennsylvania	122

By Average* Rank	
1	Michigan
2	Texas
3	Louisiana
4	Illinois
5	Kentucky
6	Tennessee
7	New Jersey
8	Indiana
9	South Carolina
10	California

Per GDP		
1	Louisiana	40.1
2	Michigan	39.3
3	Kentucky	38.5
4	Texas	32.1
5	Tennessee	32.1
6	South Carolina	31.4
7	Indiana	26.2
8	Illinois	24.5
9	New Jersey	24.4
10	Washington	24.1

*Weighted average, with weights 1/3 on Value and 2/3 on Per GDP

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Top US State Exporters 2017

By Value, $bil.		
1	Texas	265
2	California	172
3	New York	78
4	Washington	76
5	Illinois	65
6	Michigan	60
7	Louisiana	57
8	Florida	55
9	Ohio	50
10	Pennsylvania	39

Per GDP		
1	Louisiana	24.2
2	Texas	16.1
3	Kentucky	15.3
4	Washington	14.6
5	South Carolina	14.55
6	Michigan	11.8
7	North Dakota	11.1
8	Indiana	10.7
9	Alabama	10.3
10	Mississippi	10.1

Compare: Michigan's rank by GDP: #14

Source: International Trade Administration

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Top US State Importers 2017

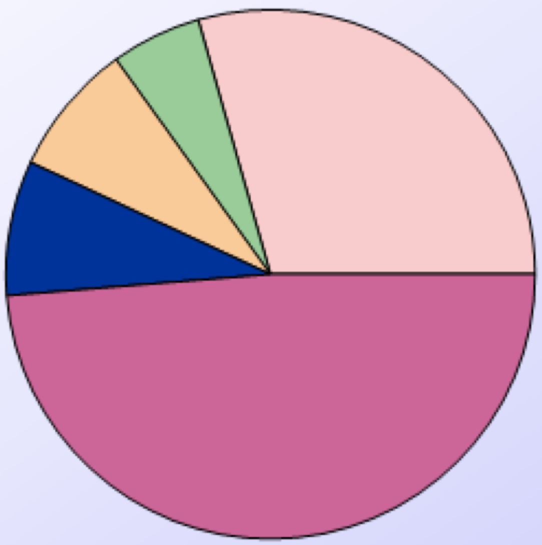
By Value, $bil.		
1	California	441
2	Texas	263
3	Michigan	140
4	Illinois	136
5	New York	127
6	New Jersey	113
7	Georgia	91
8	Pennsylvania	83
9	Tennessee	79
10	Florida	75

Per GDP		
1	Michigan	27.6
2	Kentucky	23.3
3	Tennessee	22.5
4	New Jersey	18.7
5	South Carolina	16.9
6	Illinois	16.5
7	Georgia	16.2
8	Texas	16.0
9	Louisiana	16.0
10	Rhode Island	15.8

Compare: Michigan's rank by GDP: #14

Source: International Trade Administration

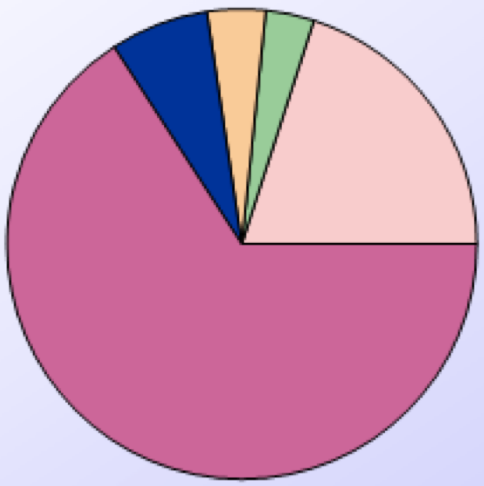
Michigan Exports by Product 2017



Product	Value ($)	Percent
336--TRANSPORTATION EQUIPMENT	$29,166,614,764	48.7 %
325--CHEMICALS	$4,931,046,846	8.2 %
333--MACHINERY, EXCEPT ELECTRICAL	$4,867,193,313	8.1 %
334--COMPUTER AND ELECTRONIC PRODUCTS	$3,300,542,901	5.5 %
All Others	$17,605,000,519	29.4 %
Grand Total	$59,870,398,343	100 %

Source: International Trade Administration

Michigan Imports by Product 2017



Product	Value ($)	Percent
336--TRANSPORTATION EQUIPMENT	$92,334,267,600	65.8 %
333--MACHINERY, EXCEPT ELECTRICAL	$9,478,436,737	6.8 %
334--COMPUTER AND ELECTRONIC PRODUCTS	$5,646,033,449	4 %
335--ELECTRICAL EQUIPMENT, APPLIANCES & COMPONENTS	$4,667,320,232	3.3 %
All Others	$28,096,691,675	20 %
Grand Total	**$140,222,749,693**	**100 %**

Source: International Trade Administration

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Michigan's Rank among States in 2017 Trade with

North America		$	Per GDP
	Exports	3	2
	Imports	2	1

China		$	Per GDP
	Exports	9	11
	Imports	14	20

Europe		$	Per GDP
	Exports	18	22
	Imports	13	13

Compare: Michigan's rank by GDP: #14

Source: International Trade Administration

Mic… k among Stat… de with

Top 5 Exporters to North America per GDP	
North Dakota	9.8
Michigan	7.3
Texas	7.3
Indiana	5.2
Kentucky	4.9

			Per GDP
			2
	Imports	2	1

China		$	Per GDP
	Exports		11
			20

Top 5 Importers from North America per GDP	
Michigan	19.7
Montana	8.0
Vermont	7.3
New Hampshire	7.2
Texas	6.6

	Per GDP
	22
3	13

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Top Michigan Trading Partners 2017

Exports to			
Rnk	Country	$bil.	Pct
1	Canada	24.9	41.6
2	Mexico	12.5	20.9
3	China	3.7	6.1
4	Brazil	2.3	3.8
5	Germany	2.0	3.3
6	Japan	1.6	2.6
7	South Korea	1.3	2.1
8	Italy	1.2	1.9
9	U.K.	0.9	1.6
10	Australia	0.8	1.4

Imports from			
Rnk	Country	$bil.	Pct
1	Mexico	53.0	37.8
2	Canada	47.4	33.8
3	China	9.6	6.8
4	South Korea	5.3	3.8
5	Germany	5.1	3.6
6	Italy	3.8	2.7
7	Japan	3.3	2.4
8	Spain	1.4	1.0
9	Taiwan	1.0	0.7
10	India	0.9	0.7

Source: International Trade Administration

Trump's 2018 Trade Actions

- Most were tariffs on imports
  - Levied by US on imports from others
  - Levied by others (in retaliation) on US exports
- Effects of tariffs
  - Raise prices for importers
  - Lower prices for exporters
  - Cause substitution
    - To other products
    - To other countries

Net economic effect is almost always negative

Trump's 2018 Trade Actions

These slides will list only actions actually completed. 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

- 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
    - Suniva, Chinese owned, manufactures in Georgia and in Saginaw, MI
    - SolarWorld, was German owned but now French,
  - 14 US manufacturers, including
    - CBS Solar, Copemish, MI

Tariffs on Solar Panels

- Who is hurt?
  - 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

- Why?
  - From 2012 to 2016, imports increased dramatically from Korean firms LG and Sumsung
  - Anti-dumping duties failed to stop this, as production moved to Thailand and Vietnaa

Tariffs on Washing Machines

- Who benefits?
  - Whirlpool, Benton Harbor, MI, which requested the tariffs
    - Whirlpool brands include Amana, Maytag,
  - 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
    - US appliance prices (I don't have washing machines alone) rose 8.1% over the 12 months to Nov 2018

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)

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

- Responses to metals tariffs
  - Retaliation by China, EU, Canada, & others
  - WTO disputes
    - May-Aug: Complaints filed against US
    - Jul: Complaints filed by US

Tariffs on Steel and Aluminum

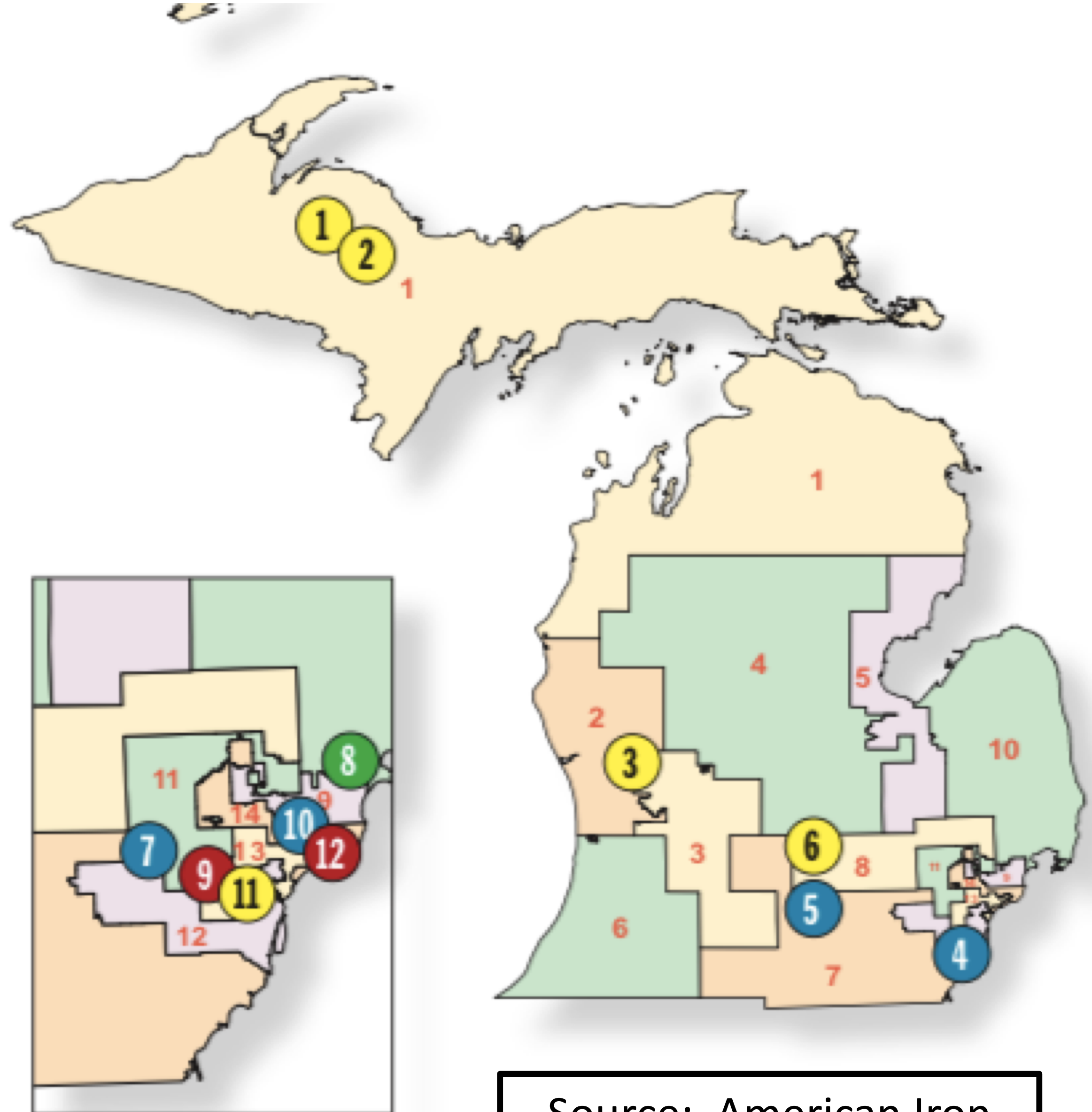
- Who benefits?
  - US producers of steel and aluminum
    - Steel: AISI lists 12 producers in Michigan
    - Aluminum: Thomas lists 76 suppliers in Michigan

Steel Produced in Michigan

AISI MEMBER FACILITIES	12
JOBS GENERATED	7,291
TOTAL JOBS SUPPORTED BY THE STEEL INDUSTRY	49,600*
POPULATION	9,895,622
GOVERNOR	Rick Snyder (R)
SENATORS	Debbie Stabenow (D) Gary Peters (D)

* Both steel and supported
Sources: BLS, 2015; Economic Impacts Report, 2012

- Raw Steel Facility
- Steel Mill Products
- Other Manufacturing/Mill Services
- Tech/R&D Facility
- Member HQ



Greater Detroit Area Districts

Source: American Iron and Steel Institute

Tariffs on Steel and Aluminum

- Who is hurt?
  - US users of steel and aluminum pay higher prices
    - Most obviously the car companies but many others

SteelBenchmarker™

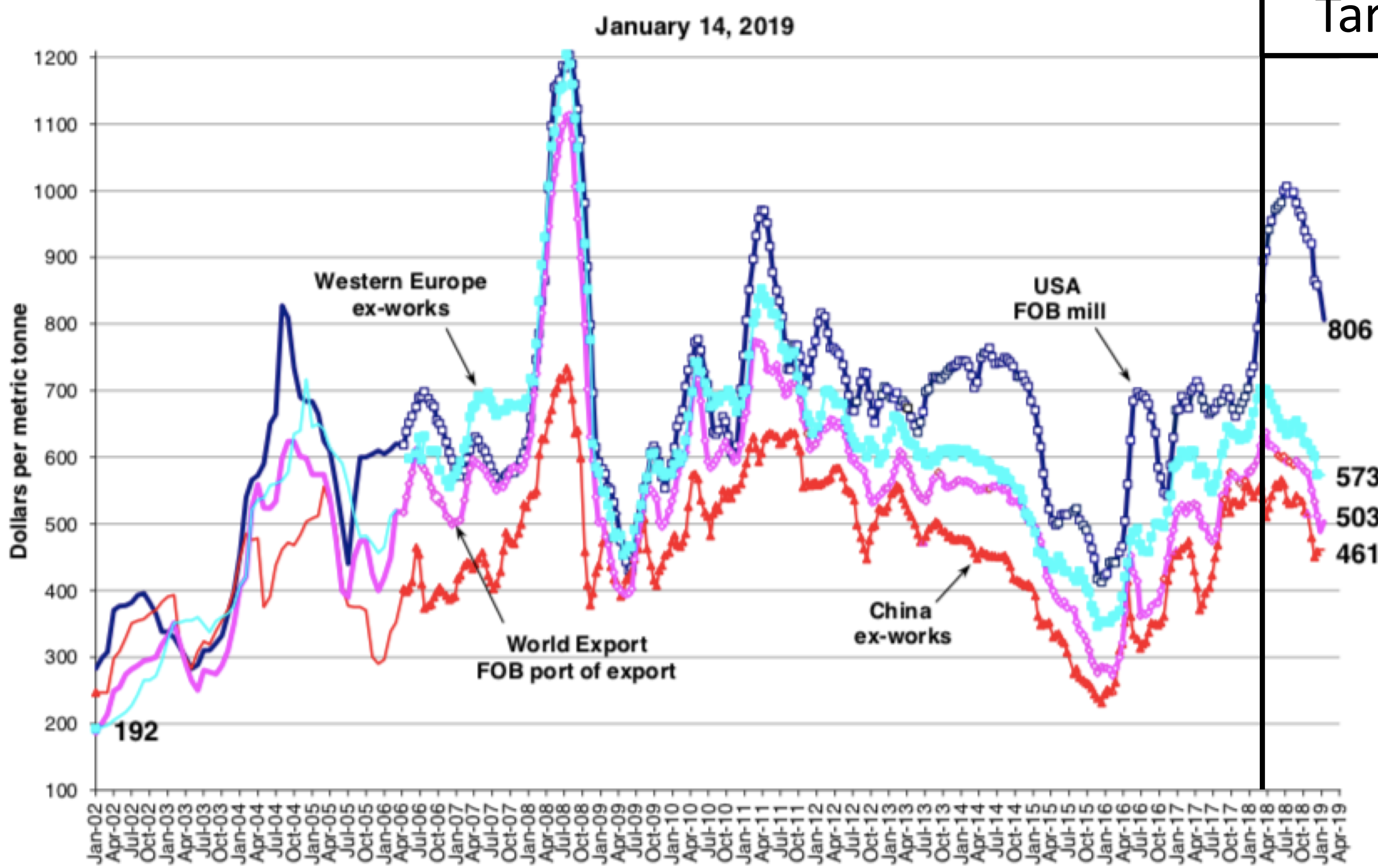
Steel Prices

SteelBenchmarker™ HRB Price

USA, China, Western Europe and World Export

eTrack data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006)

US 25% Tariff



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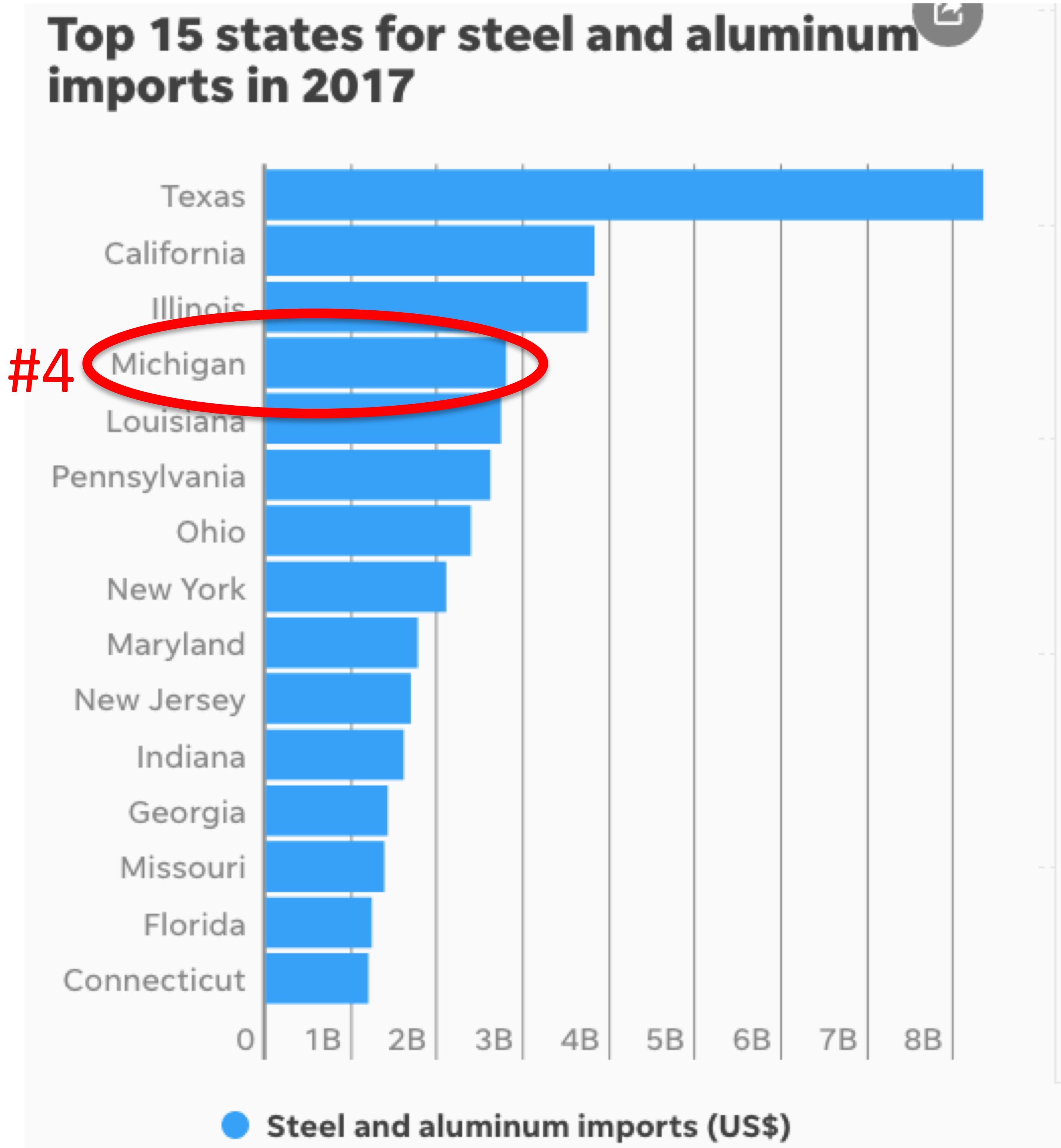
Aluminum Price


Top 15 states for steel and aluminum imports in 2017
#4
Texas
California
Illinois
Michigan
Louisiana
Pennsylvania
Ohio
New York
Maryland
New Jersey
Indiana
Georgia
Missouri
Florida
Connecticut
0
1B
2B
3B
4B
5B
6B
7B
8B
Steel and aluminum imports (US$)

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

- Who would benefit?
  - US car companies?
    - Most (e.g., GM) are opposed
    - But I can't find objection from Ford
  - 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 Car Sales and Prices of 25% Tariff

	Sales impact (units)	Average Price Increases ($/unit) on vehicles sold in US		
Tariff on:		All	US-assembled	Imported
All imports	–2.0 M	$4,400	$2,270	$6,875
Canada & Mexico exempted	–1.2 M	2,450	1,135	3,980

Source: Center for Automotive Research

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

Estimated Effects on Revenue & Employment in New Car Dealerships of 25% Tariff				
	Dealership Revenues		Dealership Employment	
Tariff on:	Total	Per D'ship	Total	Per D'ship
All imports	–66.5 B	–4.0 M	–117.5 K	–7
C & M exempted	–39.1 B	–2.3 M	–50.5 K	–4

Source: Center for Automotive Research

Tariff on Cars and Car Parts

- Where we stand:
  - Commerce Dept. report is due Feb 17
  - 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."

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
- 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

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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
- 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 has said he'll use tariffs on still more ($267 billion), approaching <u>all</u> of China's exports to US

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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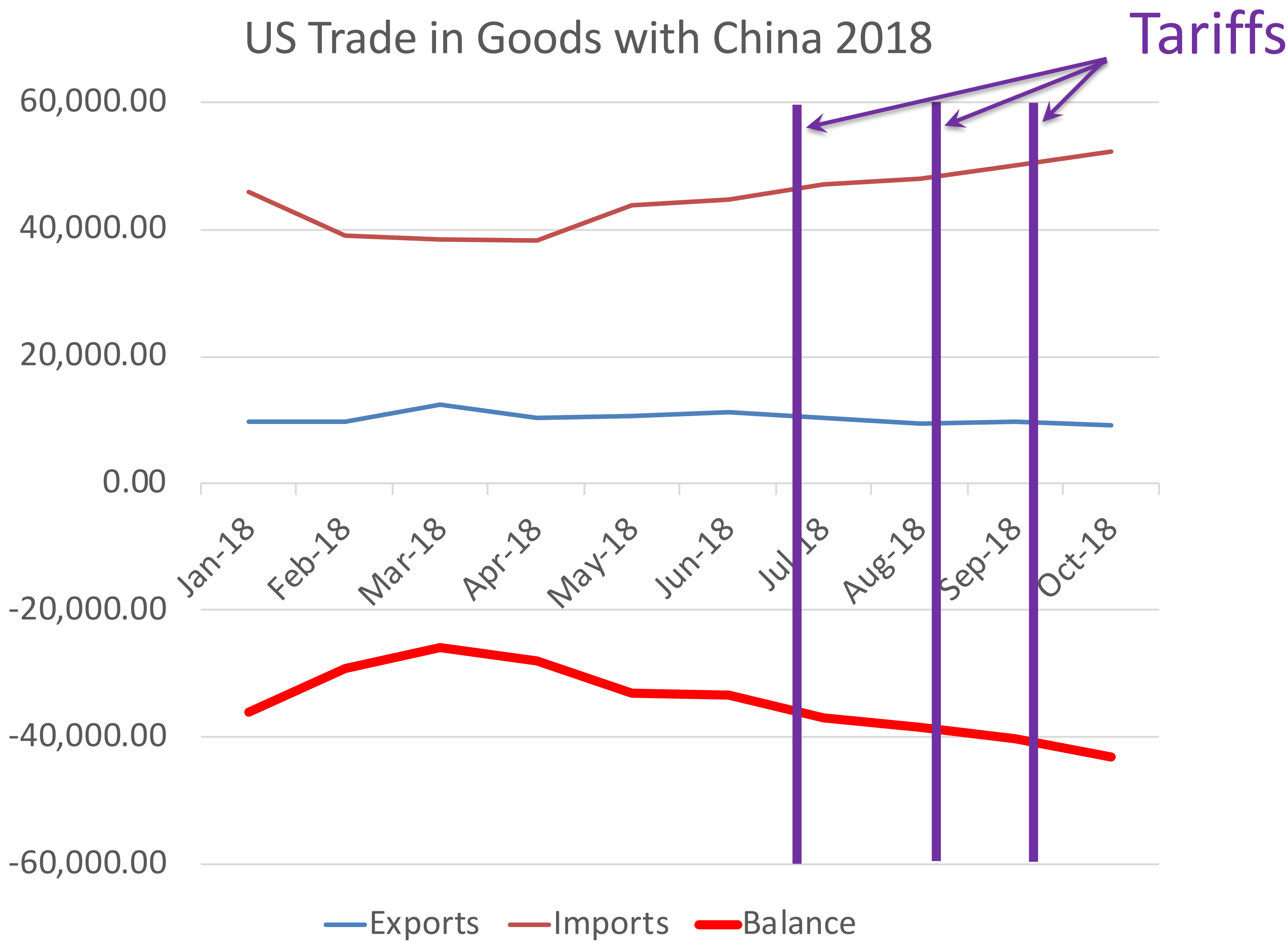
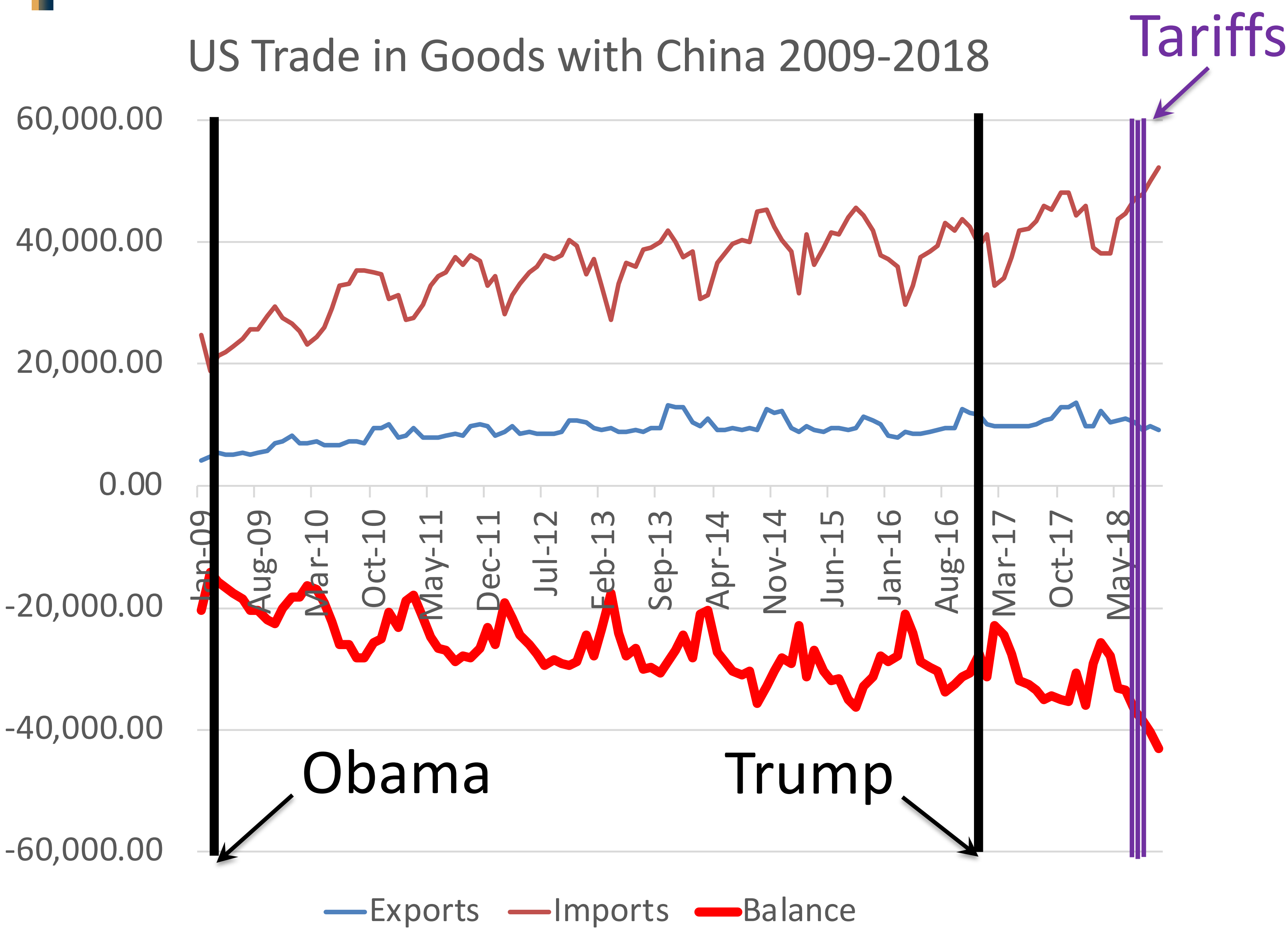


Source: US Census Bureau (not updated due to Shutdown)



Source: US Census Bureau (not updated due to Shutdown)

China

- Michigan's trade with China
  - Saw above Michigan's rank among states:

China		$	Per GDP
	Exports	9	11
	Imports	14	20

  - As we rank #14 in GDP, Michigan's exports to China are slightly more than average, imports just average or below.
  - Detailed effects depend on products traded and subject to tariffs. Mixed gains and losses, but losses > gains.
  - Largest producer effects on cars

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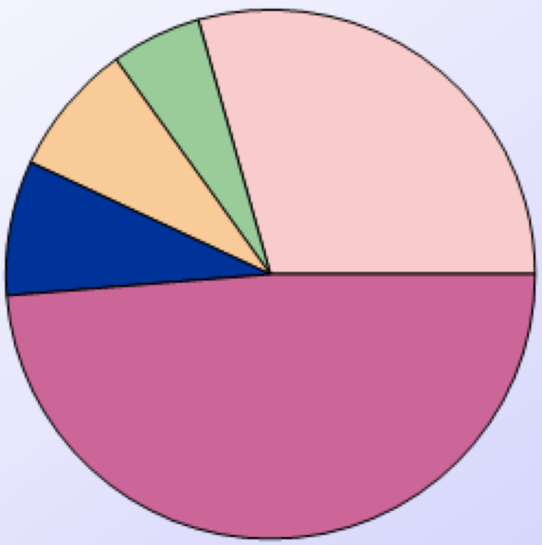
Michigan Exports to China by Product 2017



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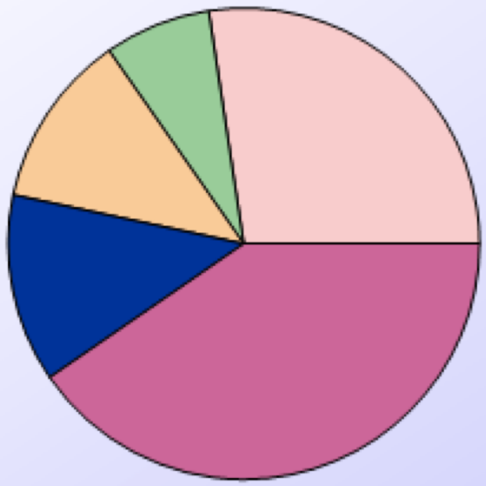
	All Others	$17,605,000,519	29.4 %
	Grand Total	$59,870,398,343	100 %

Source: International Trade Administration

Michigan Imports from China by Product 2017



Product	Value ($)	Percent
336--TRANSPORTATION EQUIPMENT	$3,868,431,849	40.4 %
333--MACHINERY, EXCEPT ELECTRICAL	$1,237,971,600	12.9 %
334--COMPUTER AND ELECTRONIC PRODUCTS	$1,147,139,160	12 %
335--ELECTRICAL EQUIPMENT, APPLIANCES & COMPONENTS	$700,124,292	7.3 %
All Others	$2,621,996,156	27.4 %
Grand Total	$9,575,663,057	100 %

Source: International Trade Administration

China

- Michigan's trade with China in cars and car parts
  - Imports
    - Cars almost none: ∴No effect of US tariffs
      - China sold only 3 of every 10,000 cars in US in 2017 (0.03%)
    - Parts, a lot:
      - Car companies hurt
      - Some parts companies benefit

China

- Michigan's trade with China in cars and car parts
  - Exports
    - China raised tariff from 25% to 40% in trade war
    - China bought over 250,000 US-made cars in 2017, in spite of 25% tariff (but <1% of market)
    - Exports are luxury cars, not sensitive to price
  - China
    - Raised tariff on US cars from 25% to 40% in response to trade war
    - Now promises (has already?) reduced tariff to 15%

Makers of top-20 US-made models sold in China in 2017

	Models	Cars
Ford/Lincoln	5	44,487
BMW	4	106,971
Mercedes-Benz	4	72,187
Jeep	3	15,831
Tesla	2	14,779
Toyota	1	7,460
Chevrolet	1	977

Source: *USA Today* from *LMC Automotive*

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States producing top-20 US-made models sold in China in 2017

	Models	Cars
South Carolina (BMW)	4	106,971
Alabama (Mercedes)	4	72,187
Michigan (Jeep, Chevy, Ford, Lincoln)	4	21,873
Kentucky (Lincoln)	2	19,517
California (Tesla)	2	14,779
Illinois (Ford; Jeep)	2	14,603
Indiana (Toyota)	1	7,460
Ohio (Jeep)	1	5,302

Source: *USA Today* from *LMC Automotive* + Wikipedia

China

- Bottom line for Michigan
  - Trade war with China does not appear to hurt Michigan any more than most states
  - Michigan's exports to China won't respond much to China's tariffs
    - (Compare to soybean exporters, who compete with Brazil)
  - Michigan's imports from China are mostly similar to other states'
    - Some can be bought from other countries

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

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Korea

- Increased quota for US cars that
    - Meet US standards
    - Do not meet Korean 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

- 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 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, which is currently closed due to shutdown
  - Trump threatens to issue six-month withdrawal notice from NAFTA

Conclusion

- Trump's trade actions in 2018
  - In all states, but especially Michigan
    - Raise prices to consumers
    - Raise costs to producers
  - Alienate other countries
- May they serve any purpose?
  - Not to reduce trade deficit(s)
  - Perhaps to motivate other countries to change policies for the better