

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

Bown & Kolb, “Trump’s Trade War Timeline: An Up-to-Date Guide,” PIIIE, June 1, 2023.

- With what countries was the US engaged in a trade war, in the sense that we used tariffs against them, and they responded with tariffs against us? **<a: Certainly EU, Canada, and Mexico with our tariffs on iron and steel. And China with our tariffs on a range of things. Not Korea, apparently, as we exempted them due to a quota, and not perhaps other countries such as Brazil and Australia.>**
- What have been the legal bases (within the US) for tariffs and threats of tariffs on solar panels, washing machines, steel, aluminum, Chinese exports, cars, and Mexico? **<a: For solar panels and washing machines, safeguards. For steel, aluminum, and cars, national security. For Chinese exports, intellectual property abuses. For Mexico, it’s not clear.>**
- To what extent have the US and other countries used the World Trade Organization in these disputes? **<a: They have, at least a little, initiated disputes. But there’s no mention of these having any outcomes.>**
- What is the current status of the trade war with China? **<a: It’s on hold, under the “Phase One” agreement, with US not raising tariffs and reducing a few, and China promising to buy more agricultural products from US. But China failed to increase purchases, which actually declined, and there is no word yet of how this will be responded to, if at all.>**
- To what extent has President Biden Reversed the tariffs begun by Trump? **<a: On solar tariffs, Biden extended them, then temporarily suspended some for Southeast Asia. On metals, the US lifted some tariffs on the EU and on steel from Japan, the UK, and Ukraine. On China, not at all, though mention of “reinstating” some tariff exclusions may have meant something.>**
- What main new actions have happened under Biden? **<a: The CHIPS Act and related controls.>**

Steel & Aluminum:

Williams, Aime, “Biden official says protecting US steel a national security issue,” *Financial Times*, October 3, 2021.

- Trump imposed tariffs on steel based on “national security.” Does Biden agree? Why or why not? **<a: Yes. His commerce secretary says that having our steel industry operating at below 80% capacity is a national security risk. This doesn’t say more than that.>**

- There is a November deadline mentioned. When is that? What happens then? **<a: This would have been in 2021. EU would raise retaliatory tariffs that they shelved in an agreement earlier that year, if no deal is reached.>**
- Does the EU agree that steel is an issue of national security? **<a: No, though they agreed that overcapacity in steel is a threat to the steel industry.>**
- What alternatives to simply removing the tariffs are mentioned? **<a: Some form of export quota, and converting tariffs into “safeguards.”>**

Bounds, Andy, "EU rejects US offer to end steel tariff dispute," *Financial Times*, June 28, 2023.

- What is the “green steel club” that EU and US are striving for, and what is its more formal name? **<a: Called the Global Arrangement on Sustainable Steel and Aluminium (GSA), to pursue low-carbon production and rely less on China.>**
- What policies do the EU and US favor, and why do they disagree? **<a: EU wants (and has) a carbon tax, but that would apply to the US, since US doesn’t have a carbon price. US wants to set emissions standards and use tariffs on countries without them.>**
- Is the WTO relevant for this? **<a: Yes, as EU says that US tariff would break its rules, while the EU plan is OK.>**
- What was the truce that they agreed to earlier, and when does it expire? **<a: Under the truce, US metals tariffs were converted to tariff-rate quotas, and the EU suspended its retaliatory tariffs. The truce expires in October 2023.>**
- The EU is also concerned about the IRA. What is that, and why are they concerned? **<a: IRA is the US Inflation Reduction Act under which we subsidize electric vehicles and batteries that use materials from US, Canada, and Mexico. EU want to be included, but we’ve so far offered this only for 5 minerals, not all.>**

Optional to Read:

Wall Street Journal Editorial Board, "Call Them the Biden-Trump Tariffs Now," *Wall Street Journal*, October 26, 2022.

- Does this explain the headline? **<a: Not really, except that most of the Trump tariffs are still in place.>**
- If an industry doesn’t use imported inputs, is it immune from the tariffs? **<a: No, as domestic producers raise prices.>**
- Is aluminum from Canada subject to the tariffs? **<a: No, except during a “brief reversal” in 2020.>**

China Tariffs:

Economist, “New research counts the costs of the Sino-American trade war,” January 1, 2022.

- What did China promise in the Phase One deal, and to what extent did they do as promised? **<a: They promised to import \$200 bn more imports over 2 years. They did only 10% of that.>**
- How much did average tariffs rise between the US and China? **<a: US from 3% to 19%; China from 8% to 21%..>**
- Who paid most of the cost of the tariffs? **<a: US importers for US tariffs, 90%. In China, 2.5% reduction in GDP per person in affected areas>**
- What were the macroeconomic effects that have been estimated? **<a: Business investment was depressed; manufacturing employment hurt by 1.4%.>**
- How did US import patterns change? Is this good or bad for the US? **<a: Imports from China “fractionally lower,” imports from Vietnam doubled, imports from Mexico up 20%. %. One might say this hurts US, by buying from higher-cost sources. But it also reduces US reliance on single sources, which recent experience suggests is an improvement.>**

Manak, Inu, Gabriel Cabanas, and Natalia Feinberg, "The Cost of Trump's Trade War With China Is Still Adding Up," Blog Post, Council on Foreign Relations, April 18, 2023.

- What reviews have been undertaken of Trump's tariffs on China? **<a: A statutory 4-year review asked industries that supported the tariffs, and it found support from at least one on each tariff to continue them (and hence USTR did). A second review asked the larger public. Results still being reviewed but this author looked at them>**
- What is the consensus of the feedback? **<a: 260 supported continuing them; 917 favored removal.>**
- What do the economist studies say? **<a: The tariffs caused US real income to fall and the costs were passed on to consumers.>**
- Did Biden approve of the tariffs before he was elected? **<a: No. He said the American people were paying them, and that Trump should have known that from basic economics.>**
- How did the tariffs on imports affect US exports? **<a: They hurt them, through several mechanisms: retaliatory tariffs, higher costs, disadvantage relative to other exporters.>**
- Did the tariffs achieve their objective of changing China's behavior? **<a: The feedback says no.>**
- One responder said the tariffs caused them to move their production to China. Why would that be? **<a: Because the tariffs raised the cost of their inputs from China.>**

Swanson, Ana, "The Contentious U.S.-China Relationship, by the Numbers," *New York Times*, July 7, 2023.

- Is China's economy bigger or smaller than the US economy? **<a: In nominal terms it is smaller, but in real (PPP adjusted) terms it is larger. Because a given nominal amount buys more there.>**
- How much has China contributed to global infrastructure and through what initiative? Can you tell how this compares to what the US has done? **<a: It has**

contributed more than a trillion dollars through its Belt and Road Initiative. This doesn't compare this to anyone else, though.>

- How does China's military size and capability compare to the US? **<a: It is bigger in boats and people, but less well equipped.>**
- Where does China stand as a trading partner of the US? **<a: It is our #3 after Canada and Mexico, and imports have reached a record. But as a share they are falling. They are an important destination for US exports and source for our supply chains.>**
- Does China make cars? **<a: Yes, it is the world's biggest car exporter, especially electric vehicles.>**
- Is the US eager to export all products to China? **<a: No. There are 721 companies and organizations in China on our "entity list" to which we refuse to export certain products.>**

Optional to Read:

Bown, Chad P. and Yilin Wang, "Five Years Into the Trade War, China Continues Its Slow Decoupling From US Exports," *Realtime Economics*, Peterson Institute of International Economics, March 16, 2023. [17p].

- What is the main conclusion of this article regarding the "decoupling" of the US and China? **<a: That there are clear signs that it is happening, in spite of the fact that China-US trade reached a record (nominal) high in 2022.>**
- Most of the focus here is on US exports to China. Are there any that expanded in 2022? **<a: Yes: Much of agriculture (though not pork and not wheat.>**
- What comparison do the authors use to infer what has happened, as opposed to whether the data just rise or fall? **<a: They compare to what they call a "trend" of would have happened if the US share of China's exports had remained fixed. (I think.)>**

Semiconductors:

Mozur, Paul and John Liu, Nicholas, "With Ban on Micron, China Escalates Microchip Clash With U.S.," *New York Times*, May 22, 2023.

- What was China's claimed basis for blocking purchases of chips from Micron? **<a: "Relatively serious cybersecurity problems.">**
- What actions had the US taken previously that might have motivated this? **<a: Work to cut off China's access to the smallest and fastest chips; billions of new subsidies for chip production in the US.>**
- What actions had China taken previously in this area? **<a: Computer hacks of American firms; policies designed to acquire closely held intellectual property; subsidies to domestic chip leaders.>**

Hayashi, Yuka and John D. McKinnon, "U.S. Looks to Restrict China's Access to Cloud Computing to Protect Advanced Technology," *Wall Street Journal*, July 4, 2023.

- Why is restriction of Chinese access to US cloud services closing a loophole in previous US export restrictions? **<a: Because Chinese who can't buy our chips can still use them through the cloud.>**
- What had China done just before this announcement? **<a: They had imposed "export restrictions on metals used in advanced chip manufacturing.>**
- What else is the US worried about China cutting off? **<a: Components to electric-vehicle batteries.>**
- Is the US alone in taking actions against China? **<a: No. It is expected to get Netherlands and Japan to use similar restrictions on chip making equipment.>**

Sohn, Jiyoung, Yang Jie, and Rhiannon Hoyle, "China's Export Curb on Chip-Making Metals Prompts Countries to Explore Supply-Chain Diversification," *Wall Street Journal*, July 5, 2023.

- Who is China targeting with its new restrictions on exports of gallium and germanium? **<a: It says its policies are nondiscriminatory, but it is clearly responding to efforts by the US to keep it from dominating in high-tech industries.>**
- What are the aims of China and the US? **<a: "Each seeks to dominate in core technologies with military and industrial applications.>**
- What steps does South Korea say it will pursue to deal with this? **<a: Diversity "sourcing routes;" develop alternative materials; develop recycling technologies.>**
- Does China have a natural monopoly on these materials? **<a: Apparently not, in the sense that the materials exist in many other countries. They've been ignored there, allowing China to become dominant. But many other places could and likely will start producing them.>**

Optional to Read:

Bounds, Andy, Qianer Liu, and Tim Bradshaw, "Dozens of ASML Shipments to China Face Tougher Export Curbs," *Financial Times*, June 30, 2023.

- What does ASML make that is now being restricted as to who can buy it? **<a: The "world's most advanced semiconductor-making tools.>**
- Does the policy explicitly target China's buyers? **<a: No. It is said to be "country neutral." But the expectation is that Chinese companies will be among the few that will be refused a license >**
- Is the motive, for the US in persuading Netherlands to do this, just to keep China from succeeding economically? **<a: Apparently not. Washington is seeking to curb China's access to advanced weaponry as it threatens Taiwan .>**

- How does China respond, rhetorically? **<a: It says restrictions impose “a technological blockade against China” and “seriously undermine market rules and the international trade order.”>**