

PubPol/Econ 541

Class 1

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

by

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Announcements

- Next Monday I'll start by asking you for News, then discuss that and what I've noticed myself.
- Note that if I don't get through all my slides, you should view them later. (But not the Aug 28 class.)
- Office hours:
 - Feel free to enter even if others are there
 - If you want a private meeting, email me to schedule

Trade Wars



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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

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 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 Williams, “Biden Official Says...”

- Trump imposed tariffs on steel based on “national security.” Does Biden agree? Why or why not?
- A November deadline is mentioned. When is that? What happens then?
- What alternatives to simply removing the tariffs are mentioned?

Questions on Bounds, “EU rejects US ...”

- What is the “green steel club” that EU and US are striving for, and what is its more formal name?
- What policies do the EU and US favor, and why do they disagree?
- What was the truce that they agreed to earlier, and when does it expire?
- The EU is also concerned about the IRA. What is that, and why are they concerned?

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 not something permitted by the WTO

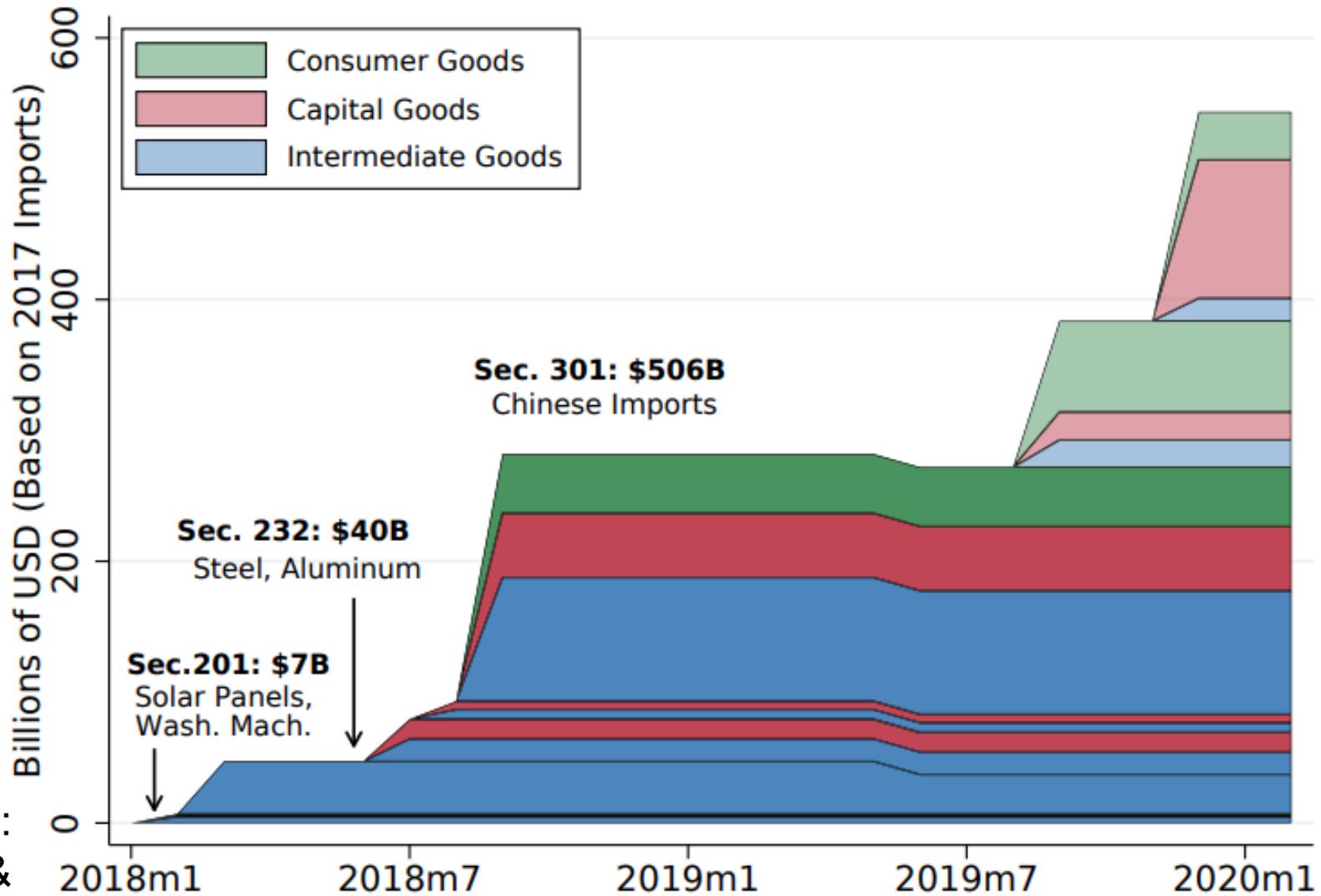
US-China Trade War

- 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

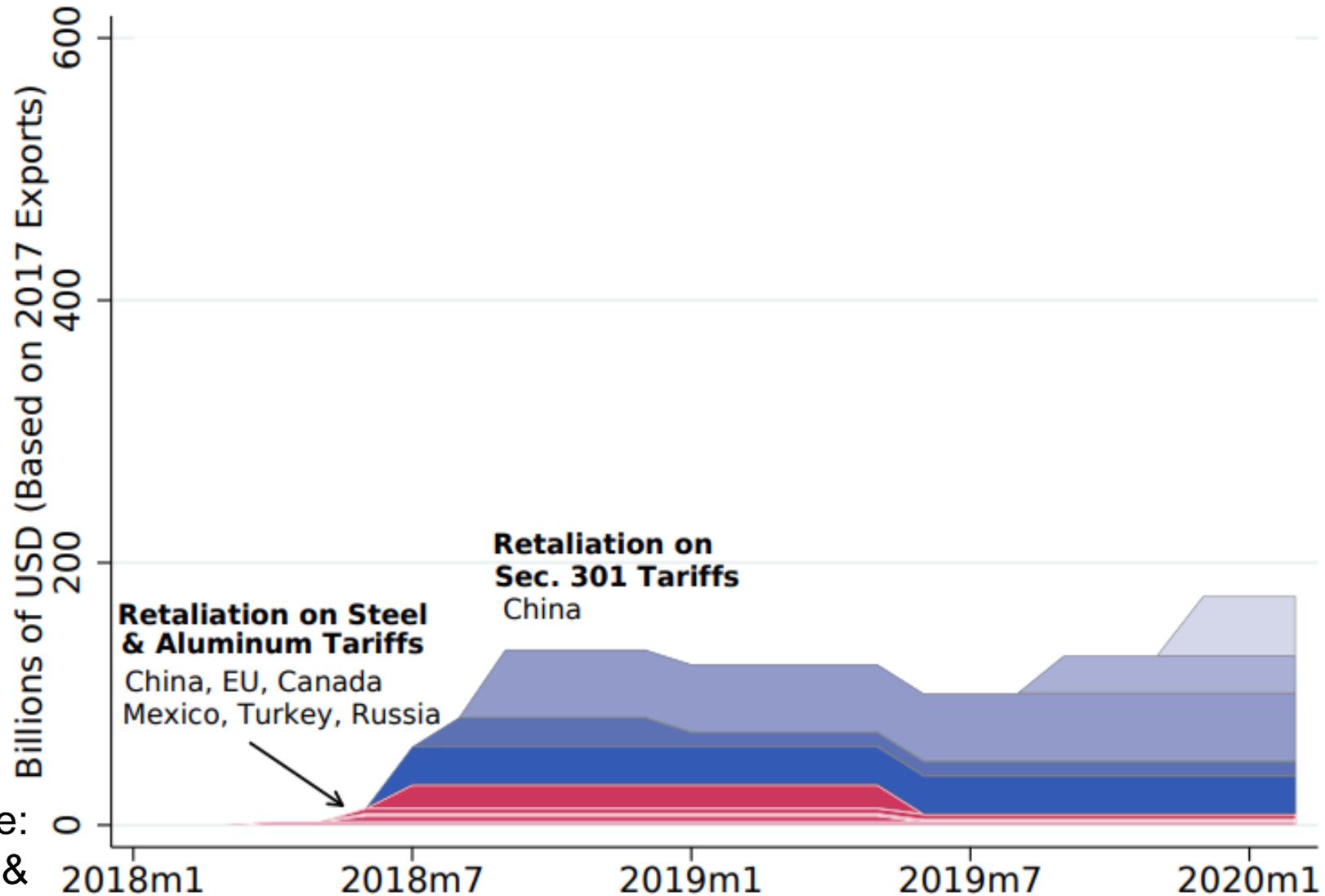
- US and China levied tariffs on each other
 - Three times in 2018, twice in 2019
 - Trump either added new tariffs on China exports or raised them
 - Each time, China responded with more tariffs on US exports
 - Threat of more in December 2019 was suspended by the “Phase One” US-China Trade Deal

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

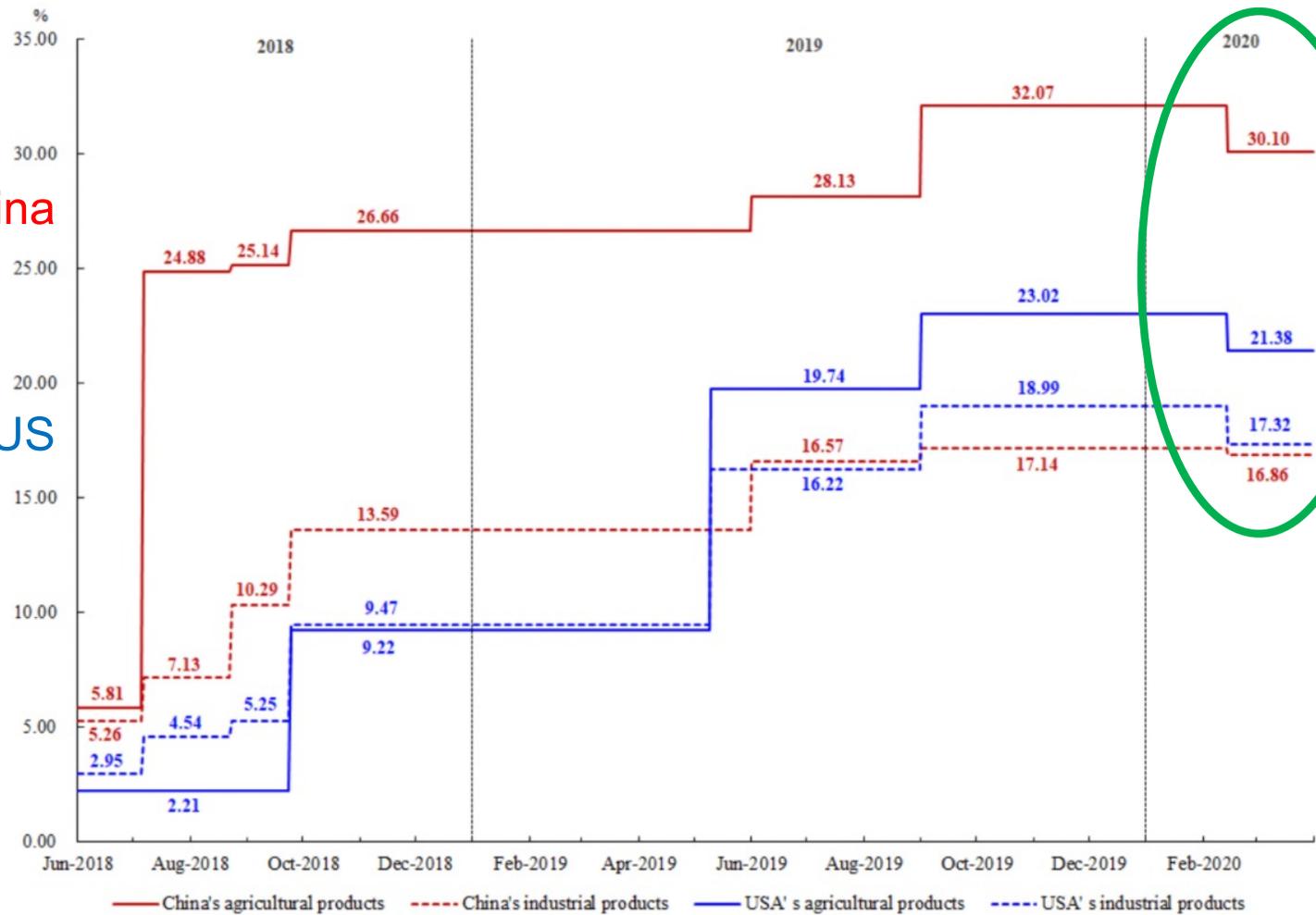
- Phase One Deal
 - In anticipation, Trump called off December 2019 tariffs
 - Agreement signed January 15, 2020
- Content of Deal:
 - China to buy \$200 billion more US exports
 - US to reduce a few tariffs on China
 - China to stop forcing foreign companies to transfer technology
 - Most tariffs remain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

Phase One
Agreement
Reductions
Jan 2020

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

US tariffs on China
Agriculture
Industrial

China tariffs on US
Agriculture
Industrial



Source: Source: GTAP database and the list of additional tariffs published by China and the United States
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: following from unassigned reading by Bown (2022)
 - US exports to China: following 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)

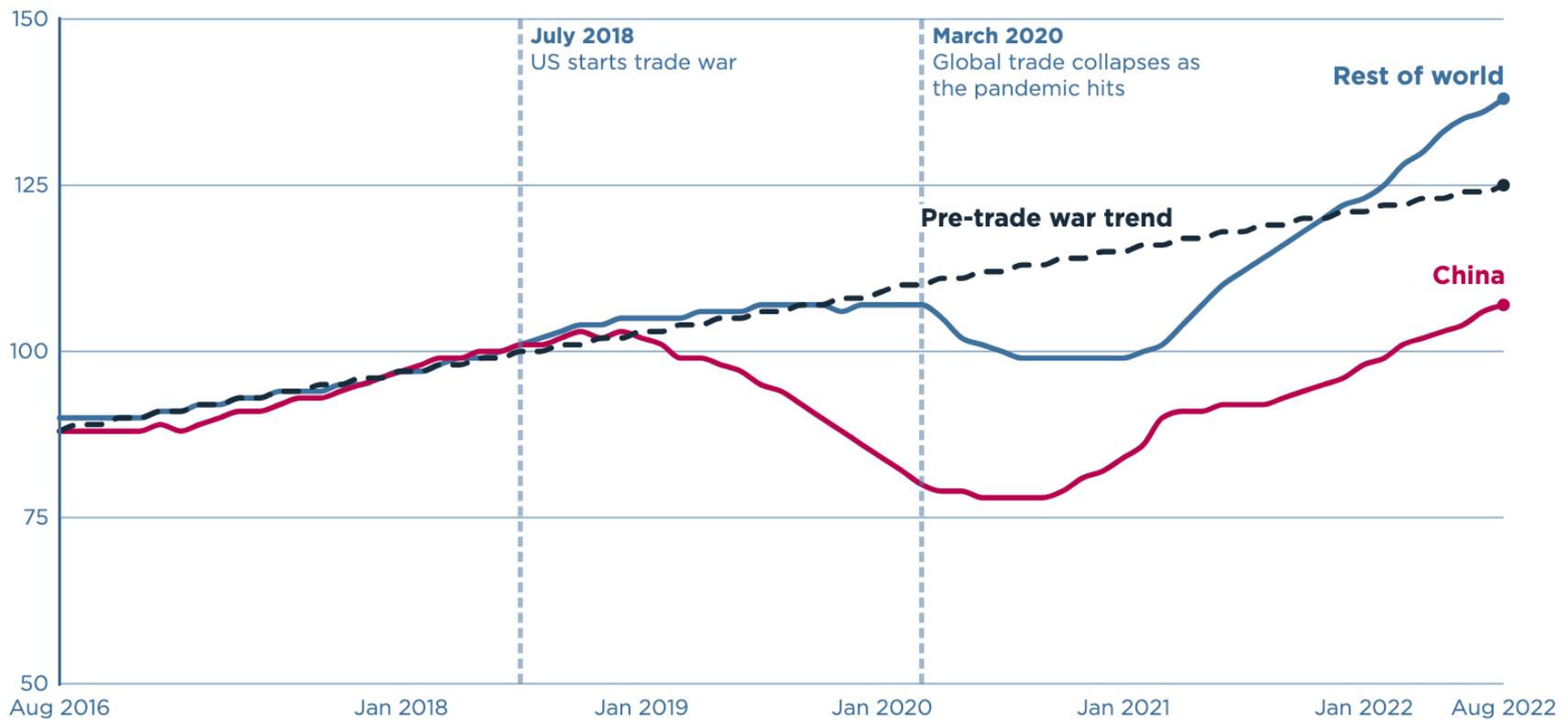


Figure 1

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



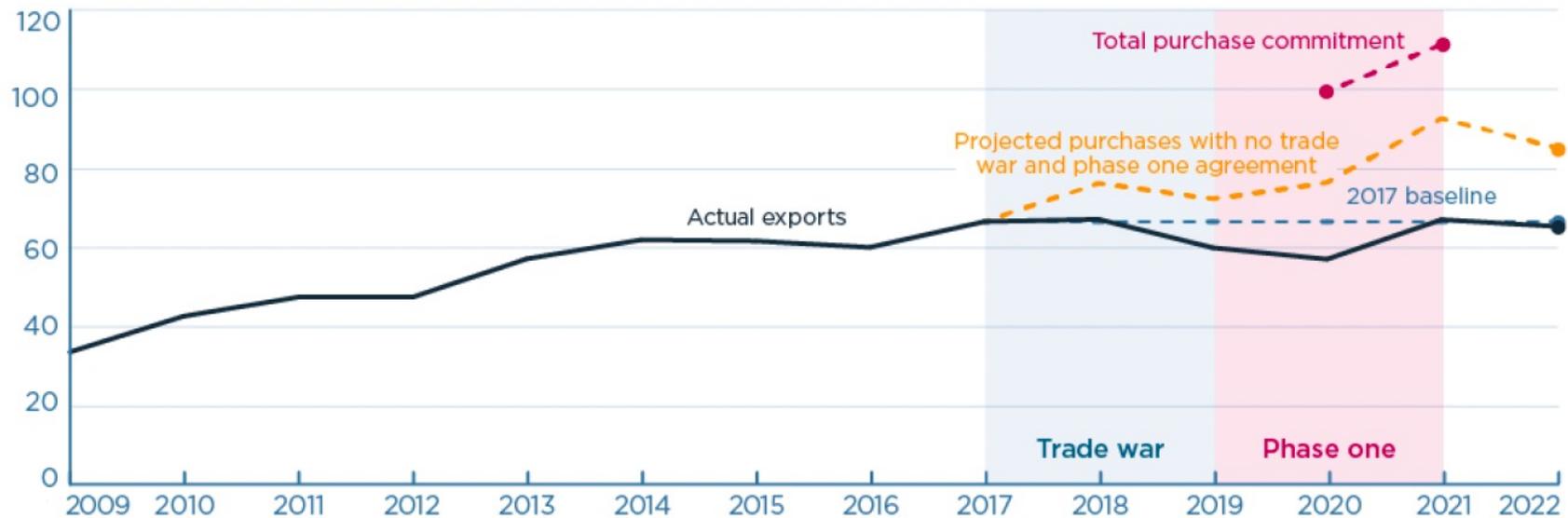
Source: Bown and Wang, 2023

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

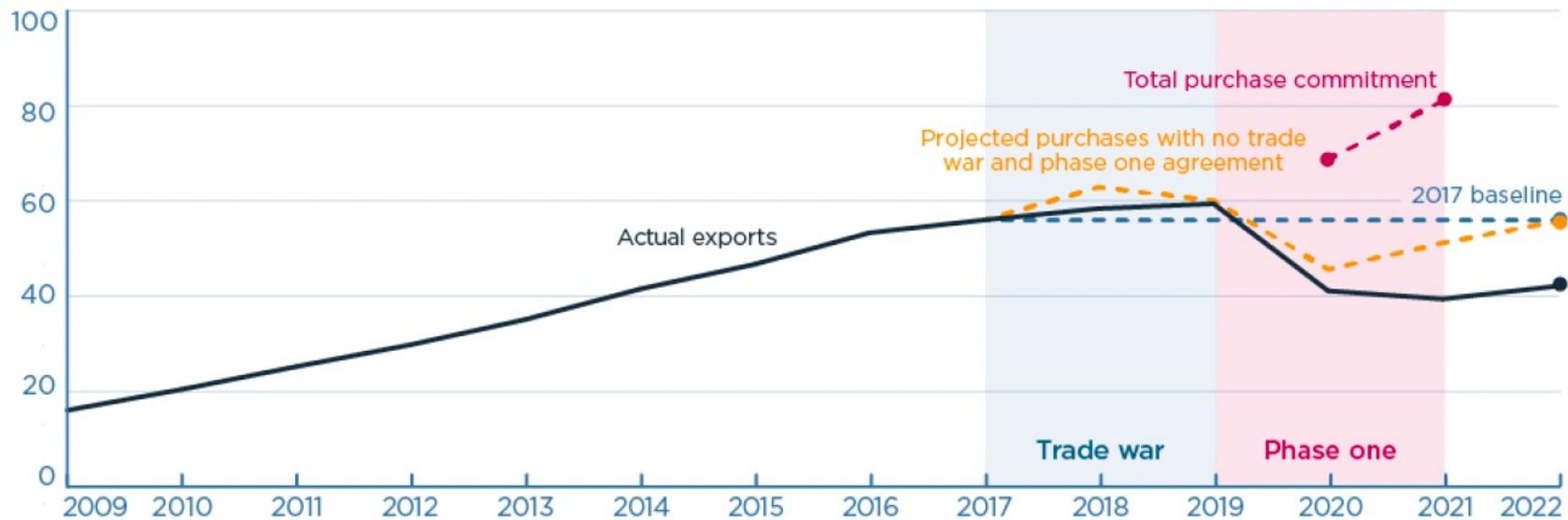


Source: Bown and Wang, 2023

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

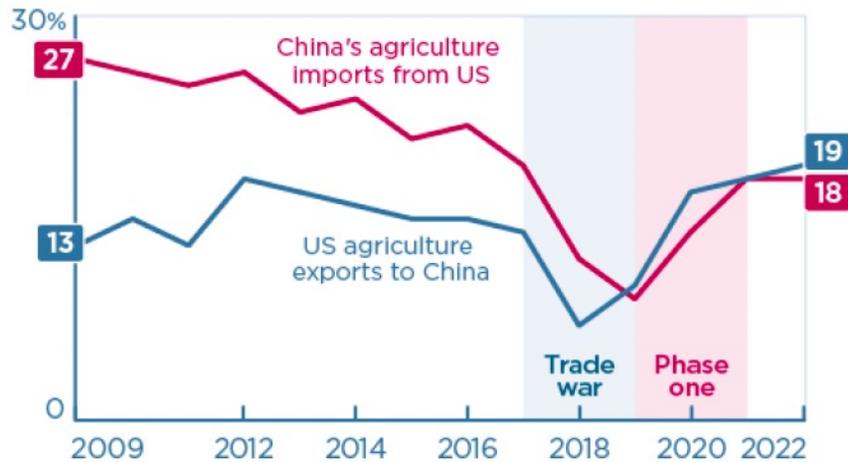


Source: Bown and Wang, 2023

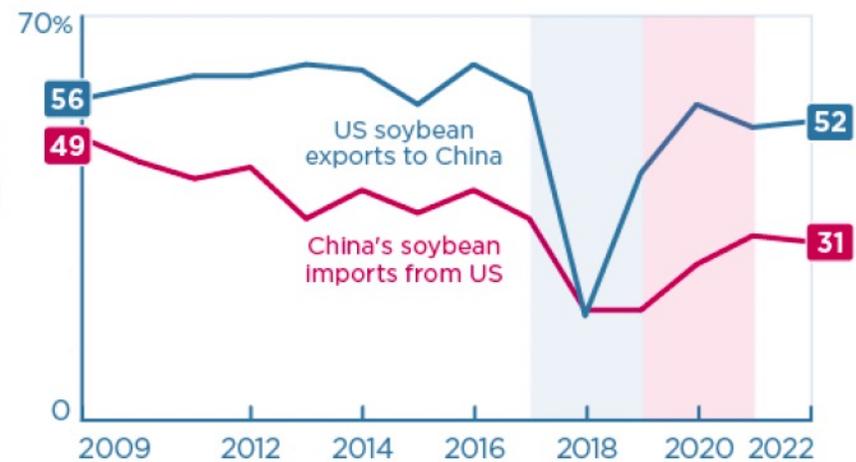
Figure 6

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

a. Agricultural trade between US and China as a share of each country's total



b. Soybean trade between US and China as a share of each country's total



Source: Bown and Wang, 2023

Pause for Discussion

Questions on Economist, “New Research...”

- What did China promise in the Phase One deal, and to what extent did they do as promised?
- How did US import patterns change?
- Are the changes in US import patterns good or bad for the US?

Questions on Manak et al., “Cost of Trump’s Trade War ...”

- What reviews have been undertaken of Trump’s tariffs on China?
- What is the consensus of the feedback?
- How did the tariffs on imports affect US exports?
- One responder said the tariffs caused them to move their production to China. Why would that be?

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?

Semiconductors

- As early as 2016 (under Obama), the US was taking actions to “Safeguard US Semiconductor Supremacy”
- 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
 - Sep 1: US, Japan, & Netherlands require permit to export high-end chip-making machines made by Dutch company, ASML
 - China says this is a “technological blockade against China”

Pause for Discussion

Questions on Mozur & Nicholas, “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 Hayashi & McKinnon, “U.S. Looks to Restrict ...”

- Why is restriction of Chinese access to US cloud services closing a loophole in previous US export restrictions?
- What had China done just before this announcement?
- What else is the US worried about China cutting off?

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?