

PubPol/Econ 541

Class 1

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

by

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Trade Wars, 2018-2020

- Outline
 - Battles in the Trade Wars
 - Washing Machines & Solar Panels
 - Steel & Aluminum
 - Intellectual Property
 - US-China Trade War
 - Cars
 - Mexico migration
 - Digital Tax
 - Targeting Companies
 - Effects of the Trade Wars

Washing Machines & Solar Panels

- Safeguards Protection
 - Section 201 of US trade law
 - Tariffs when surge of imports causes injury
 - Legal in WTO
- US action
 - USITC recommended Oct 31, 2017
 - Trump levied tariffs January 2018
 - Korea and China filed complaints at WTO

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
- Feb 16, 2018: Commerce finds security threat

Steel & Aluminum

- National Security
 - Mar 1: Trump levies tariffs
 - 25% on steel
 - 10% on aluminum
 - Against all countries
 - Several removed shortly thereafter
 - Remained in place on EU, China, Canada, Mexico, and others
 - Retaliation by all
 - (Tariffs on Canada & Mexico later removed, then reinstated on Canadian aluminum Aug 6, 2020)

Pause for Discussion

Questions

- The US constitution reserves to Congress the right to levy tariffs. Why, then, was Trump able to do it?
- Trump's right to levy tariffs on steel was challenged. On what basis?
- Is there any likelihood that Section 232 will be changed by Congress to make such actions less likely?

Intellectual Property

- Intellectual property
 - Usually 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

Intellectual Property

- USTR (United States Trade Representative, Robert Lighthizer)
 - 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 finds unfair trade practices
 - IP violations (see above)
 - Also subsidies to firms and state-owned enterprises (SOEs) to trade unfairly
- Trump announces tariffs on up to \$60 billion of China's exports to US

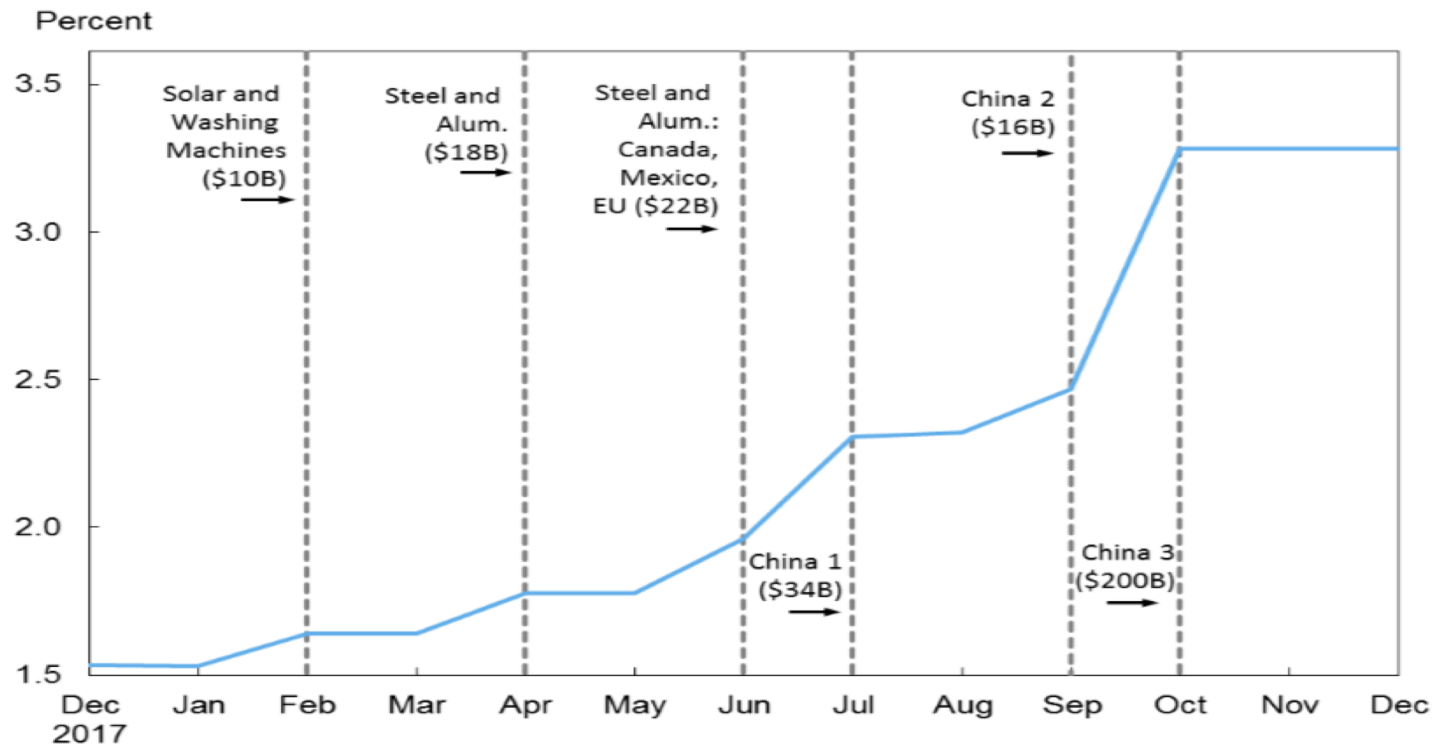
US-China Trade War

- US and China levy 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 tariff on US exports
 - Threat of more in December 2019 was suspended by “Phase One” US-China Trade Deal

Williams and Hammond,
 Table 3: Section 301 tariffs on China

Stage	Date	Tariff	Tariff lines	Imports (\$ bil)
1	7/6/18	25%	818	34
2	8/23/18	25%	279	16
3	9/24/18	10%	5,733	200
3	5/10/19	Raise to 25%		
4A	9/1/19	15%	3,229	126
4B	12/15/19 (suspended)	15%	542	156
4A	2/14/20	Lower to 7.5%		

Figure 1: Average Tariff Rates



Source: US Census Bureau; USTR; USITC; authors' calculations.

Source: Amiti, et al. 2019.

US-China Trade War

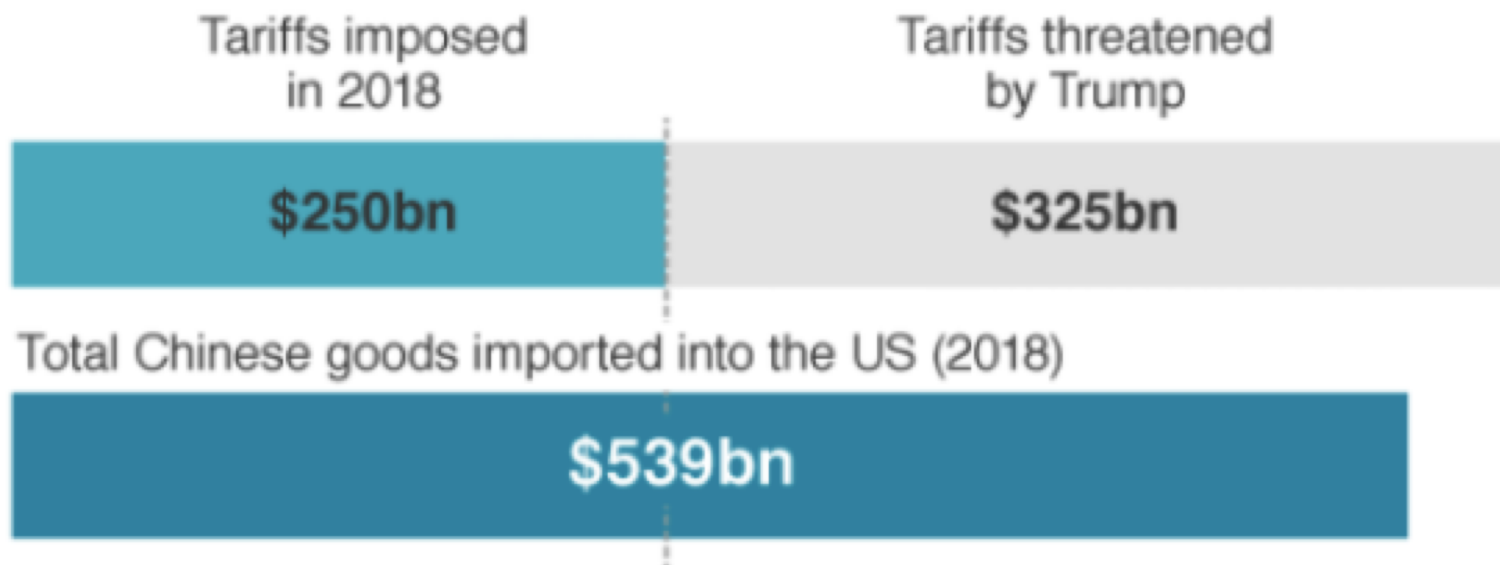
- Phase One Deal
 - In anticipation, Trump called off December 2019 tariffs
 - Agreement signed January 15, 2020
- Content of Deal:
 - China to buy \$200 billion more US exports
 - US to reduce a few tariffs on China
 - Most tariffs by both remain in place, and China did not address subsidies and SOEs

US-China Trade War

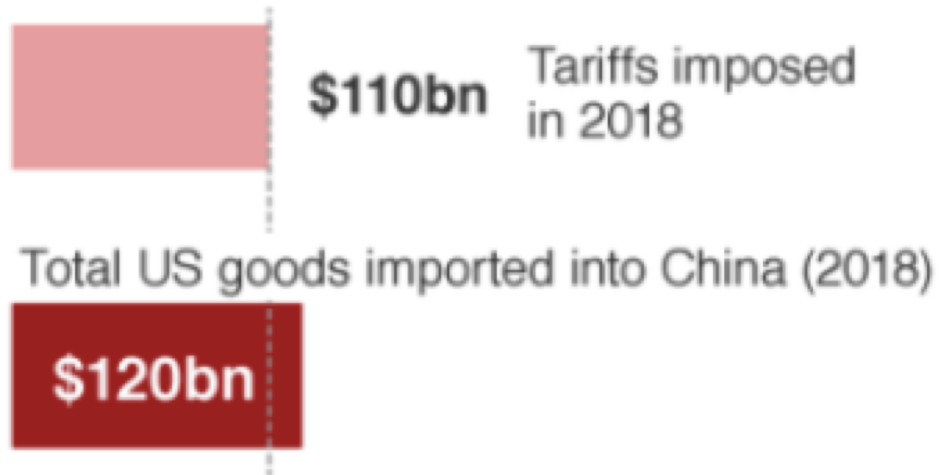
- Phase One Deal as of today
 - (Swanson and Bradsher)
 - Pandemic hit trade hard and slowed China's imports
 - Otherwise, both sides seem happy with the progress
 - Trump: “We’re doing very well on our trade deal but I feel differently about China than I’ve ever felt.”
 - He has other complaints, as we’ll see

How the trade war has played out

US tariffs on China



Chinese tariffs on US



Source: US Census Bureau, BBC research. Note: Data as of 8 May 2019

Threats

- Tariff on Cars
 - Based on national security
 - Still pending
- Tariff on all goods from Mexico
 - Based on immigration
 - Planned, then cancelled

Pause for Discussion

Questions

- To what extent did China always retaliate at the same level as the US had hit them?
- Who are mentioned in the headlines as benefiting from the trade war?
- Is China on track to increase imports by the amount promised?
- Is China doing anything to improve its behavior on intellectual property?

Digital Tax

- The Issue:
 - The international norms for taxing firms are based on firms' physical locations
 - As a result, firms that operate over the internet avoid taxation in countries where they lack physical presence
 - This issue has been of concern for years, but discussions of fixing it have not succeeded
 - The US resists any change, since it is almost entirely US companies that benefit

Digital Tax

- Negotiations
 - Discussions have been underway in the OECD to devise a new global tax framework
 - France in 2019 enacted a Digital Services Tax (DST), not waiting for a new framework
 - The US threatened retaliation, and in January, both paused, awaiting results from the OECD
 - But in June, the US pulled out of the OECD talks, saying they had reached an “impasse”

Digital Tax

- France now says its DST will go into effect at the end of 2020
 - The DST is a 3% tax on revenues earned by providing goods or services to French users over the internet.
 - While it applies to companies from all countries, the most affected will be from the US: Facebook, Google, and Amazon

Digital Tax

- Trump's response
 - On July 10 he announced new 25% tariffs on \$1.3 billion of French goods
 - They will be delayed until January 2021
- Now other countries are considering a tax like that of France.
 - Italy, Spain, Austria, UK

Targeting Chinese Companies

- Trump has used national security as the grounds for a series of actions against Chinese companies
 - ZTE
 - Huawei
 - TikTok

Targeting Chinese Companies

- ZTE
 - In 2018 Trump banned US firms from selling products to ZTE,
 - a major Chinese maker of telecoms equipment,
 - concerned that it would let Beijing spy on the US
 - After several months and reversals of the policy, ZTE was allowed to continue.
 - Trump used it as bargaining chip with President Xi
 - ZTE “loaded up on lobbyists”

Targeting Chinese Companies

- Huawei
 - The world's leading maker of 5G telecoms equipment, among many other things
 - US worried that, though a private company, the Chinese government could use it to spy
 - 2012: US firms were encouraged not to buy from Huawei
 - 2018: US asked allies not to buy from Huawei, but few complied (New Zealand, UK)

Targeting Chinese Companies

- Huawei (cont.)
 - December 2018: Canada arrested Huawei CFO to extradite to US for violating US sanctions on Iran
 - May 2019: US firms were banned from selling chips made in US to Huawei
 - Aug 17, 2020: US “prohibits anyone from selling any chips to Huawei, custom or not, if these were produced with American technology” (*Economist*)

Targeting Chinese Companies

- TikTok
 - A very popular video app owned by the Chinese company ByteDance, is said by Trump to threaten national security
 - By making data on its users available to the Chinese government
 - First threatening to ban it in the US, he now is encouraging its acquisition by a US company
 - Candidates are Microsoft, Oracle, and Walmart

Targeting Chinese Companies

- WeChat
 - A messaging app owned by TenCent
 - Subject to concerns and similar to TikTok

Pause for Discussion

Questions

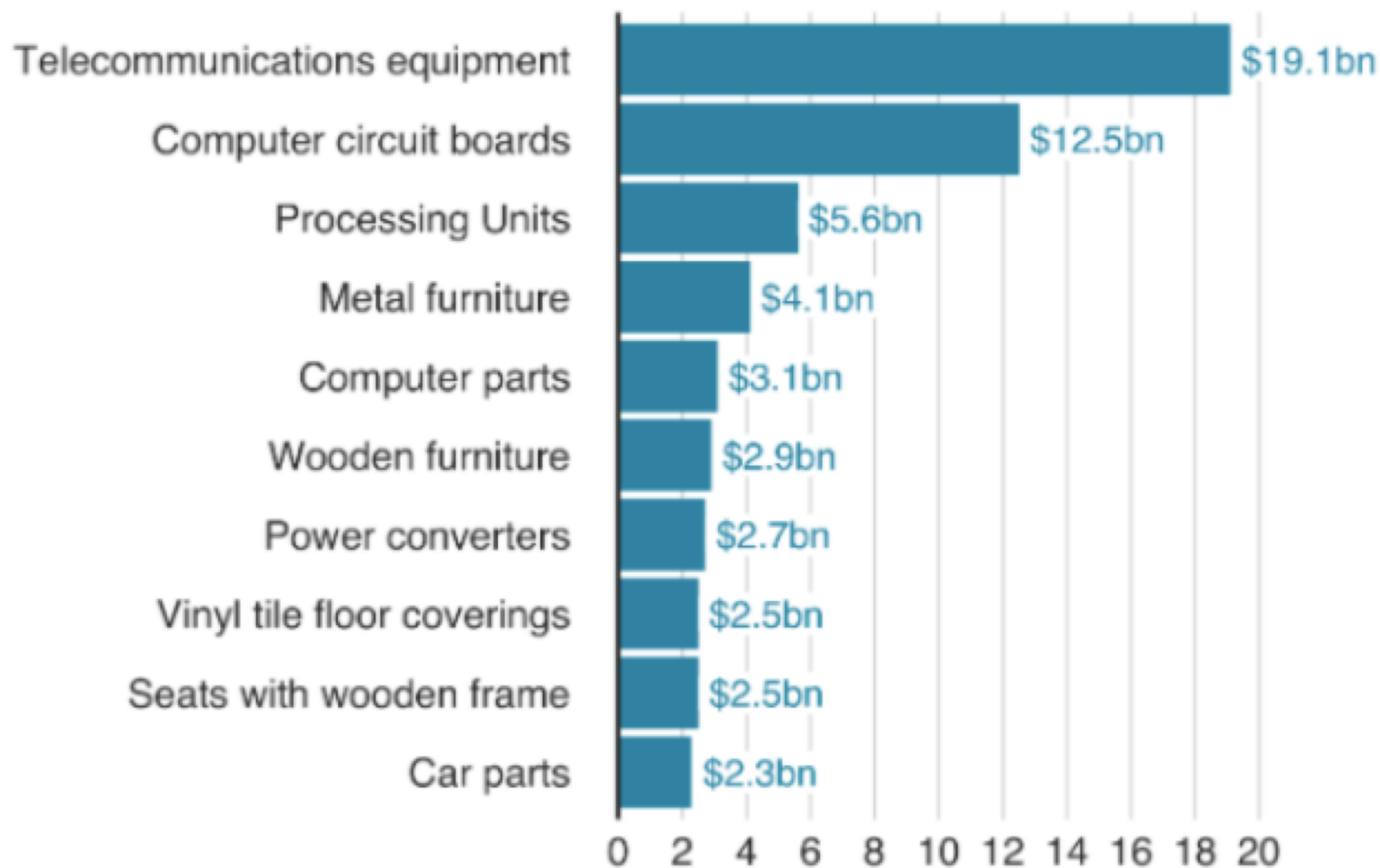
- How could China respond to the US actions against Huawei? Is it doing anything?
- Do the US actions against Huawei prevent all US companies from supplying Huawei?
- Do the US actions against ZTE, Huawei, and TikTok help or hurt US consumers and US companies?

Effects of the Trade Wars

- Sectors that are hit
- On trade with China
- On the US trade balance
- Stock markets

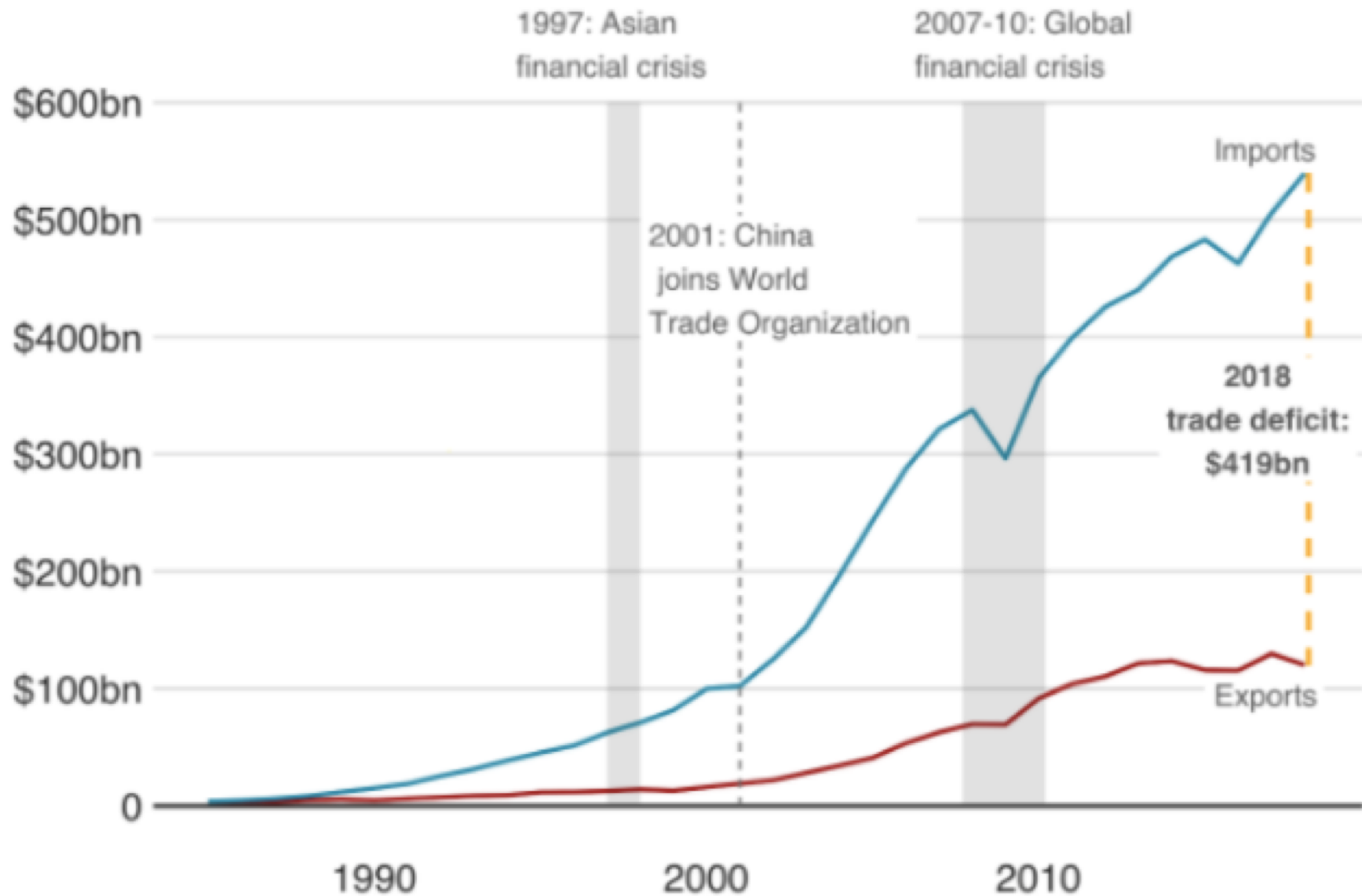
What could be hit by the new tariffs?

Top 10 US imports from China facing a tariff increase from 10% to 25%

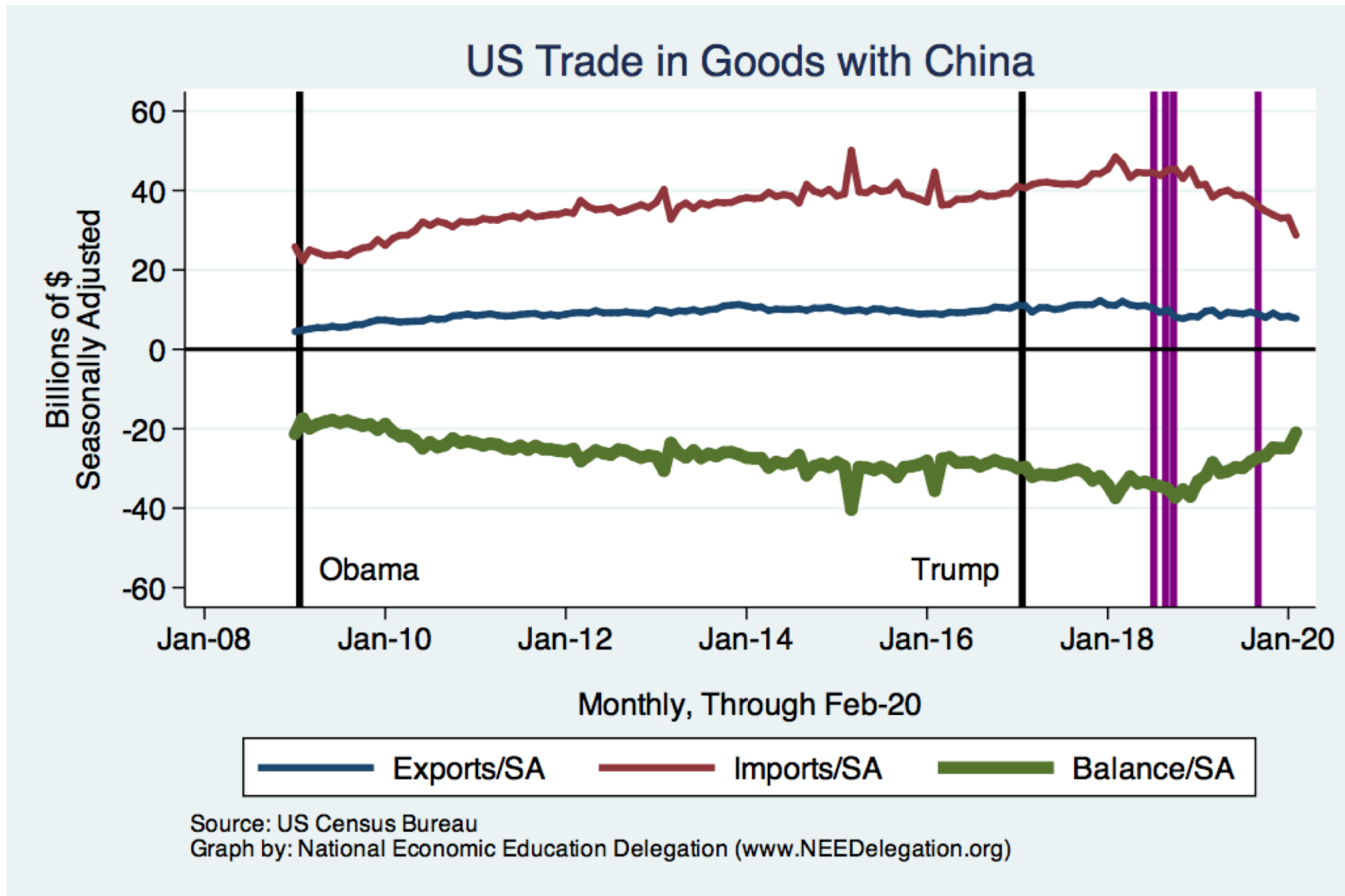


US trade with China

US trade deficit with China has soared since 1985



US Trade with China



Stock markets since US-China trade war began

Percentage change performance since January 2018

— Hang Seng — Dow Jones — Shanghai Composite

