

# PubPol/Econ 541

Class 1

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

by

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# Announcements

- I mis-spoke on Tuesday when I said you could turn in quizzes late (for a penalty) any time until Sunday midnight. This should have been Saturday midnight.
- Next Tuesday I'll start by asking you for News, then discuss what I've noticed myself.

# Plan for Course

- Recent trade events (trade war, etc.)
- Tariff/quota analysis (needed for papers)
- Int'l macro (exchange rates, deficit)
- Institutions (Int'l, national)
- Trade barriers (NTBs)
- Trade theory (General equilibrium)
- Uses & abuses (FTAs, remedies)



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Bown, Chad P. and Melina Kolb,  
"Trump's Trade War Timeline

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BATTLE #6: Safeguarding US Semiconductor Supremacy, page 17

We'll focus on  
these two only

# Pause for Discussion

# Questions on Bown & Kolb

- With what countries is 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?

# 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)
    - Targeting Companies
  - Effects of the Trade Wars



# 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
      - 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)

# Steel & Aluminum

- US-EU Negotiations
  - Talking now about removing the US tariff and EU's retaliatory tariffs
  - Result, according to EU Trade chief:
    - “may fall short of removing all the barriers sheltering the industries”
  - Why”
    - “We understand the willingness of the US to protect its steel industry, but certainly there are ways to do it in a way which is less disruptive for EU producers”
  - Talks are on a “constructive track”

A portrait of Valdis Dombrovskis, a man with short brown hair and glasses, wearing a dark blue suit jacket over a light blue shirt. He is looking slightly to the right of the camera. The background is a blurred office interior with large windows showing a view of a city and water.

Valdis Dombrovskis said any solution to the dispute would have to be less disruptive to EU producers and respect historical volumes of trade

# Pause for Discussion

# Questions

- Why doesn't Biden just remove the Trump tariffs on steel and aluminum?
- As of this date (of the Barfield reading), had the WTO ruled on any national-security-based trade restrictions?
- Does the Biden administration accept that the WTO has the power to judge the legitimacy of a country's use of national-security-based trade restrictions?

# US-China Trade War

- Based mostly on intellectual property
  - IP mostly 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

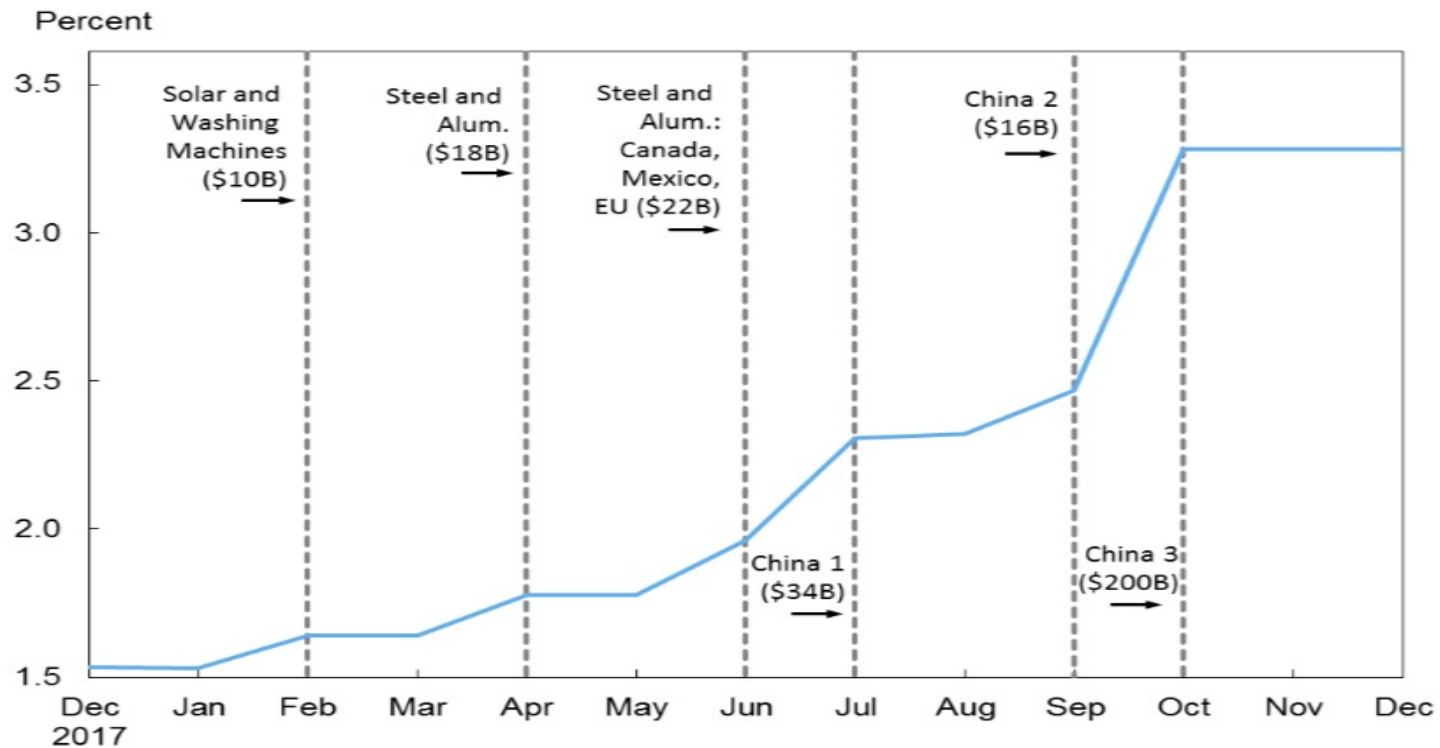
- March 22, 2018: Report found unfair trade practices
  - IP violations (see above)
  - Also subsidies to firms and state-owned enterprises (SOEs) to trade unfairly
- Trump announced tariffs on up to \$60 billion of China's exports to US

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

# Trump Tariffs, 2018

Figure 1: Average Tariff Rates



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

Source: Amiti, et al. 2019.

# US-China Trade War

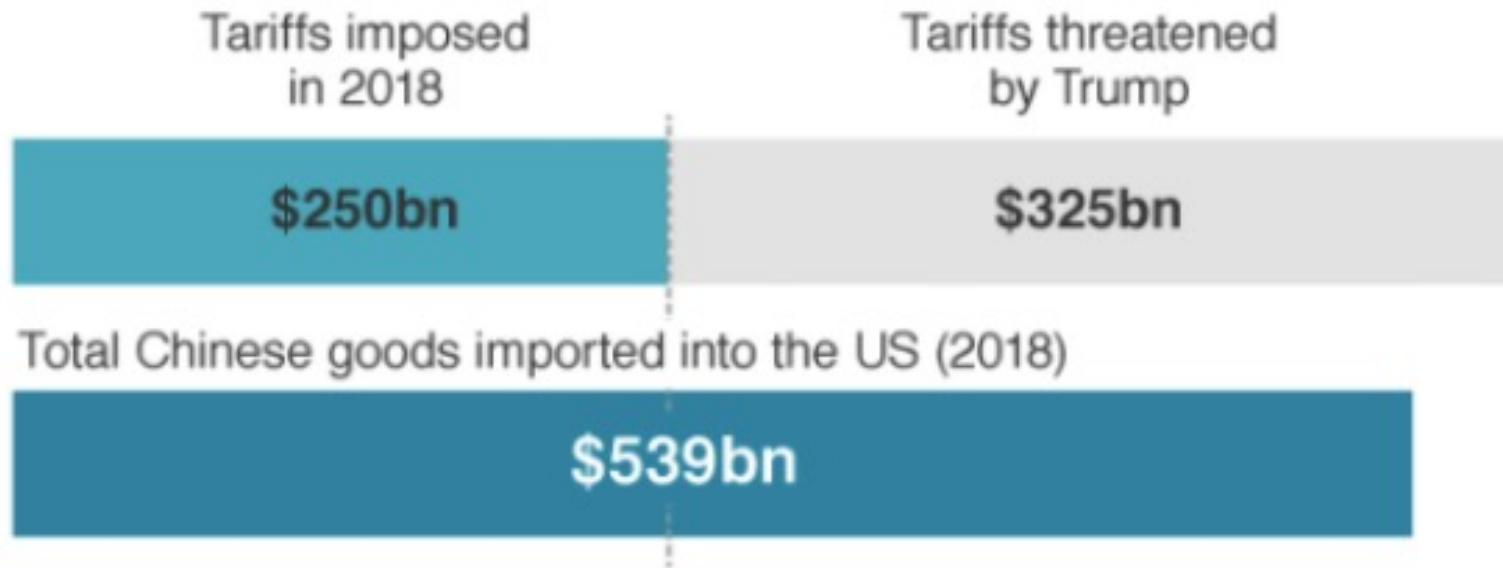
- Phase One Deal
  - In anticipation, Trump called off December 2019 tariffs
  - Agreement signed January 15, 2020
- Content of Deal:
  - China to buy \$200 billion more US exports
  - US to reduce a few tariffs on China
  - China to stop forcing foreign companies to transfer technology
  - Most tariffs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

# US-China Trade War

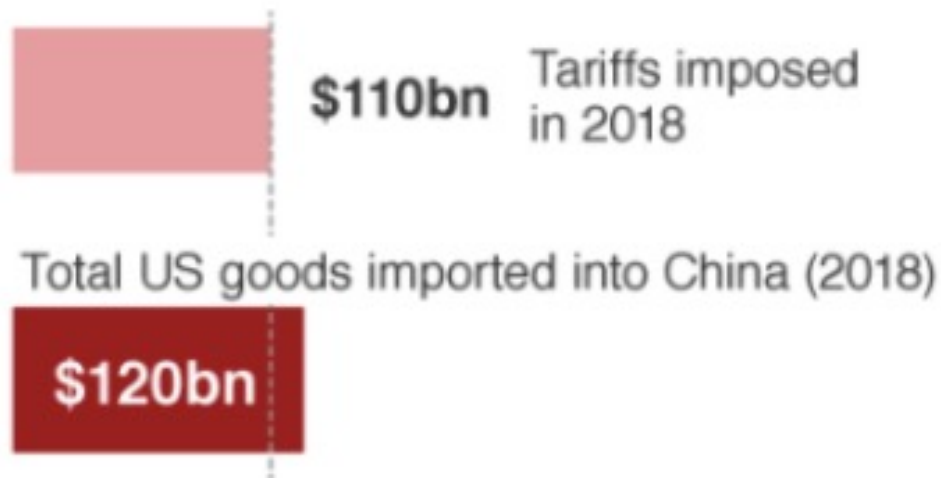
- Phase One Deal as of today (Bradsher)
  - Pandemic hit trade hard and slowed China's imports
  - Did not remove China's subsidies. Instead US continued tariffs on subsidized imports
  - This is setting a pattern that others (EU) may follow
  - Deal has not reduced the US trade deficit with China

# How the trade war has played out

## US tariffs on China



## Chinese tariffs on US



# US-China Trade War

- Actions by US under Biden & USTR Tai (Davis & Hayashi)
  - Nothing yet
  - US will not simply remove the tariffs
    - Even though “tariffs can exact a toll on U.S. businesses and consumers “
  - Why not? The China tariffs
    - “Shield companies from subsidized foreign competition”
    - Give USTR “leverage”



Katherine Tai comes to the trade job with striking bipartisan support—including a 98-0 confirmation vote by the Senate.



# Pause for Discussion

# Questions on Bradsher

- Did the Phase One deal remove China's subsidies and US tariffs?
- What pattern did the Phase One deal set that others are following?
- Will Phase One be followed by Phase Two?
- In what ways does China provide subsidies?

# Questions on Davis & Hayashi

- Which country (China or US) put tariffs on more of the other's exports?
- Is China on track to increase imports by the amount promised?
- What effects of the tariffs are mentioned here?
- Why, under Biden, hasn't the US just removed the tariffs on China?

# Targeting Chinese Companies

- US Entity List
  - “A tool utilized by BIS to restrict the export, reexport, and transfer (in-country) of items ... reasonably believed to be ... contrary to the national security or foreign policy interests of the United States.”
    - Department of Commerce, Bureau of Industry and Security (BIS)
  - List has many entities from many countries (474 pages of them)
  - Exports are not necessarily banned, but require a license

# Targeting Chinese Companies

- US Entity List (cont.)
  - Recently expanded the number of Chinese companies on the list
    - Trump added “dozens of Chinese companies”
    - Biden added firms building supercomputers
      - See Sevastopulo

# Targeting Chinese Companies

- Trump and Biden have also banned investment in some Chinese companies
  - Trump has banned investment in 48 companies
  - Biden increased that to 59 as of June 3
    - See Lubold & Leary
  - Based on links to China's military
  - Current investors have 1 year to divest

# Targeting Chinese Companies

- Trump 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 largest telecommunications equipment maker
  - US worried that, although 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.)
  - May 2019: US firms were banned from selling chips made in US to Huawei
  - Aug 2020: US prohibited anyone from selling chips to Huawei, custom or not, if produced with American technology”
    - Based on “foreign direct product rule” – stronger than entities list
  - Governments in Africa, Asia, and Latin America are still buying from them
    - See Kynge
    - “77% of these countries are “not free” or “partly free” according to Freedom House.

# Targeting Chinese Companies

- TikTok
  - A very popular video app owned by the Chinese company ByteDance, was said by Trump to threaten national security
    - By making data on its users available to the Chinese government
  - Trump threatened to ban it but did not.

# Pause for Discussion

# Questions

- Does the US ban on investments in Chinese companies apply only to new investment?
- Are there circumstances, aside from licensing, in which a US company can still sell to listed entities?
- Has the US succeeded in persuading other governments not to deal with Huawei?

# Imports from Xinjiang, China

- The concern (in US and EU)
  - Human rights
    - “Rights groups, researchers, former residents and some Western lawmakers and officials say Xinjiang authorities have facilitated forced labor by detaining around a million Uyghurs and other primarily Muslim minorities since 2016.” (Martina)

# Imports from Xinjiang, China

- Previous actions
  - US banned specific imports from Xinjiang:
    - Tomatoes (January 2021)
    - Cotton (January 2021)
    - Some solar products (June 2021)
  - French investigation into four fashion retailers
    - (See Martina)

# Imports from Xinjiang, China

- The new US policy
  - See Martina
  - US law has banned imports produced with forced labor since the Tariff Act of 1930
  - New law likely to be enacted:
    - Uyghur Forced Labor Prevention Act
    - Creates “rebuttable presumption” that goods produced in Xinjiang use force labor



# Imports from Xinjiang, China

- Private-sector actions

See Lin et al.)

- Suppliers to several companies (Apple, Nike) are phasing out employment of “Uyghur factory workers transferred from Xinjiang through a state-backed labor program.”
- China’s response: “state-run transfers of Uyghur, Kazakh and other mostly Muslim minority laborers are part of poverty-alleviation programs”

# Pause for Discussion

# Questions

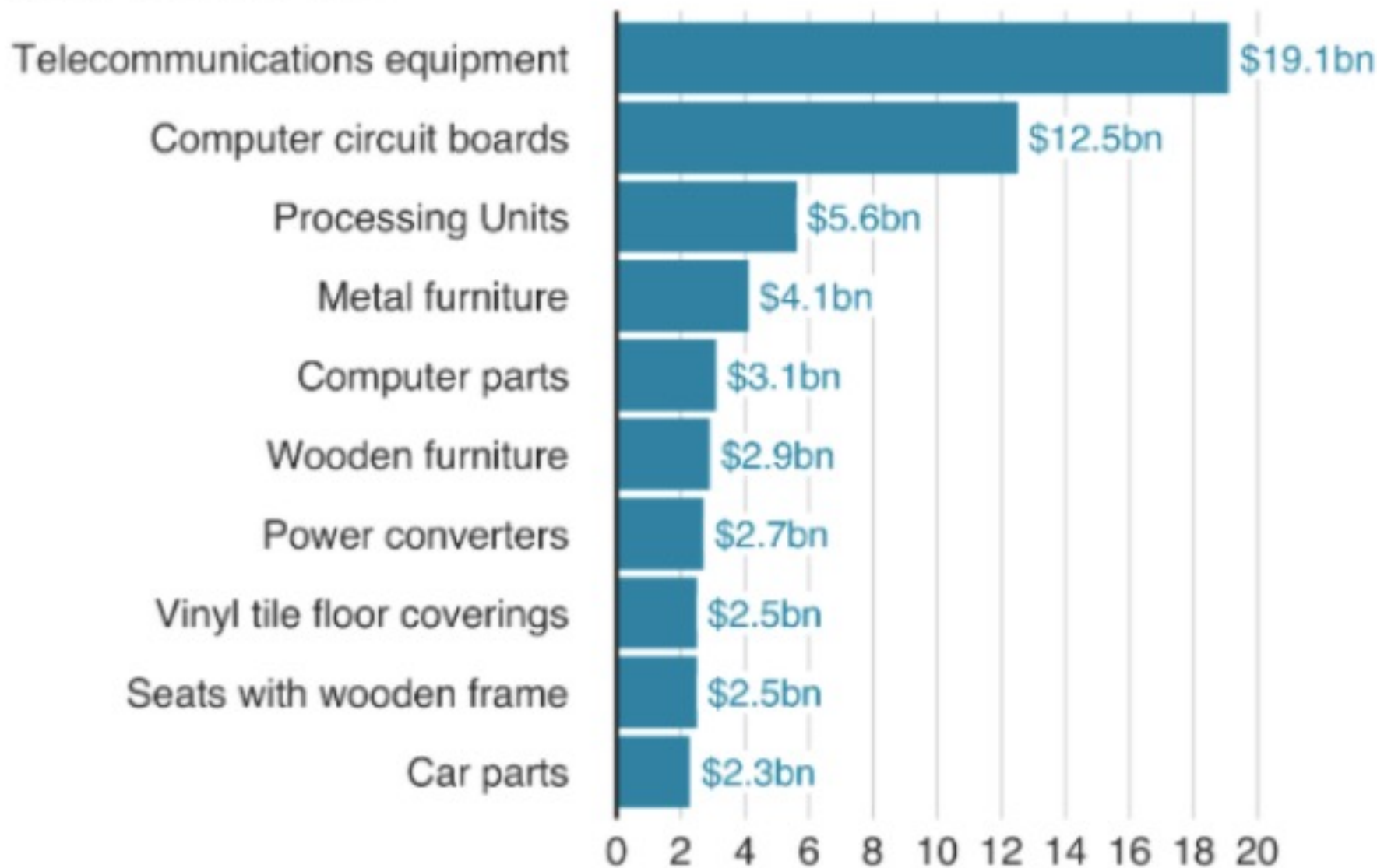
- What “advisory” did Biden issue relating to Xinjiang?
- Is the new bill, the Uyghur Forced Labor Prevention Act, likely to become law?

# Effects of the Trade Wars

- Best seen pre-pandemic
  - Sectors that are hit
  - Tariffs by and against China
  - Trade with China
  - US trade balance
  - Stock markets

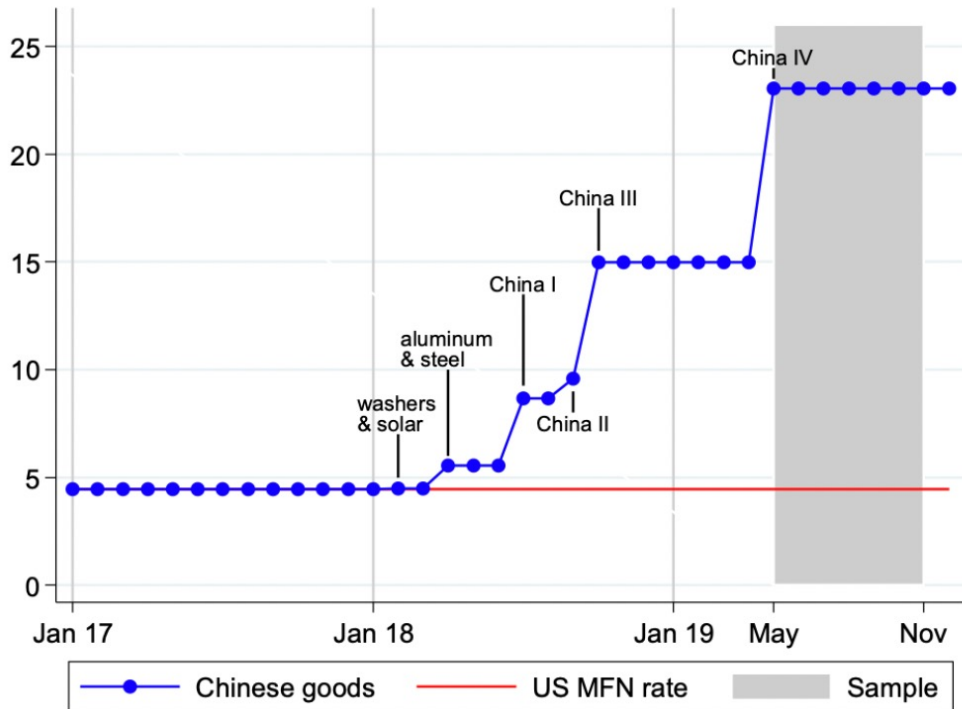
# What could be hit by the new tariffs?

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

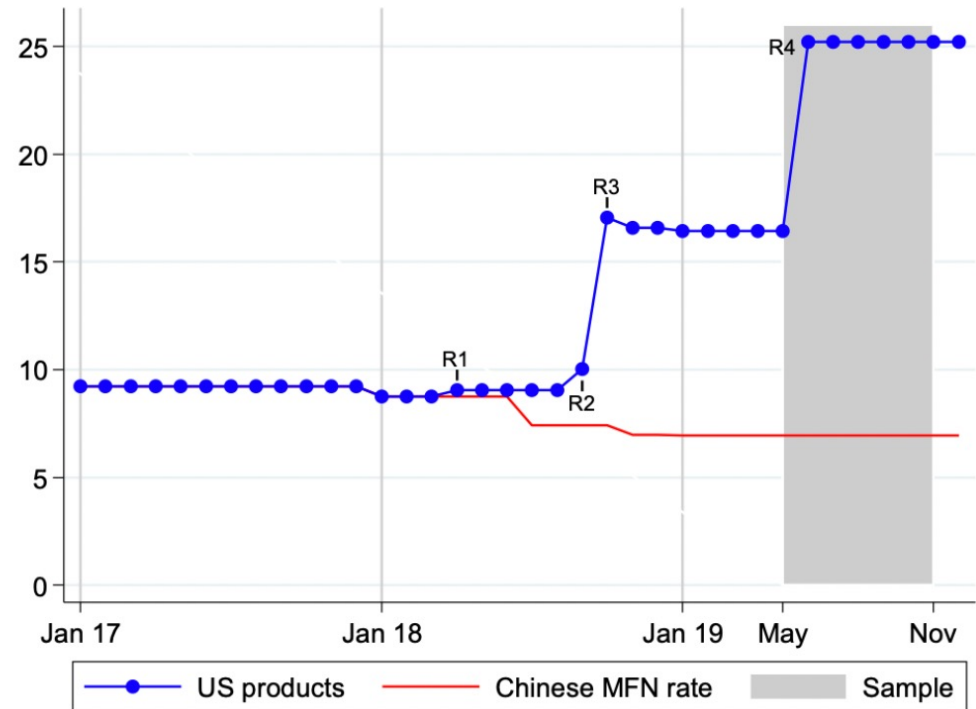


# Figure 1 Tariffs and bilateral volumes of US and Chinese exports during the trade war

(a) US tariffs on Chinese goods



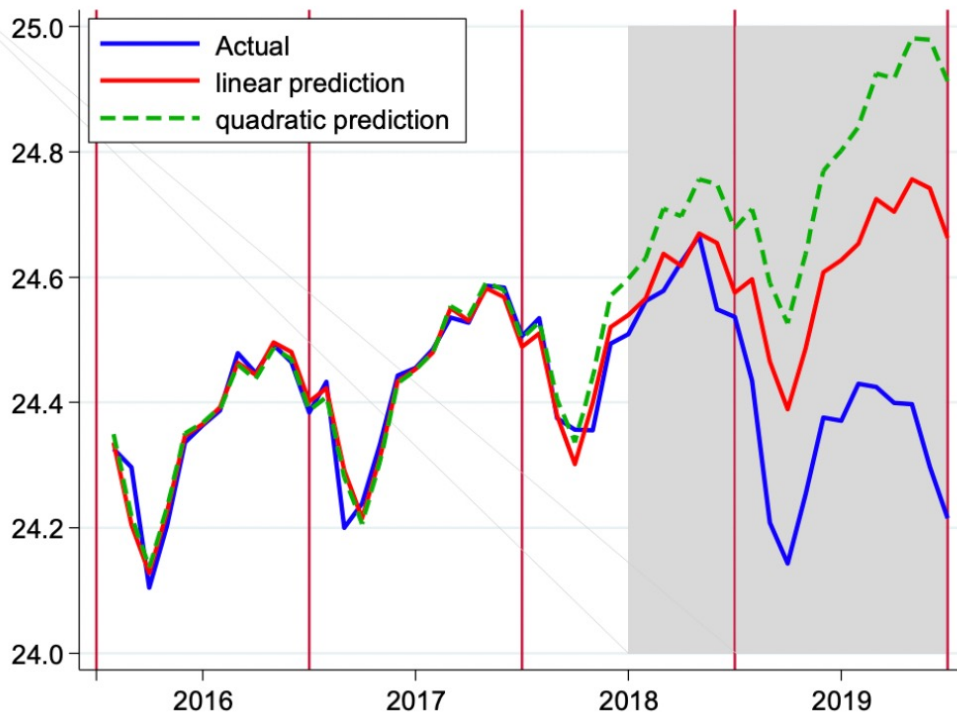
(b) Chinese tariffs on US goods



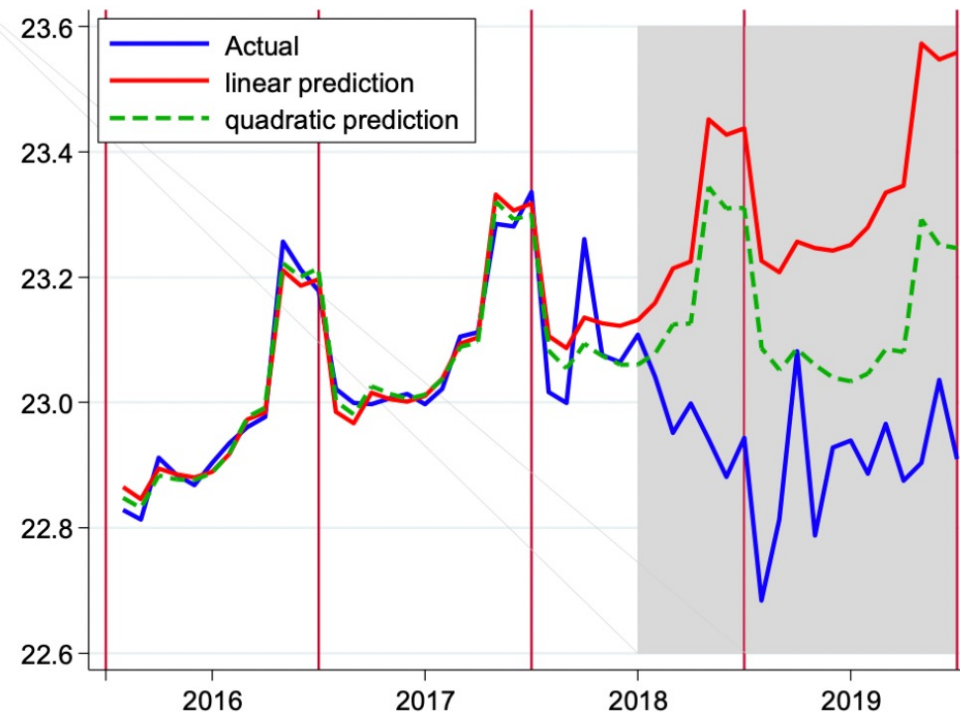
Source: He et al., July 2021

# Figure 1 Tariffs and bilateral volumes of US and Chinese exports during the trade war

(c) US imports from China

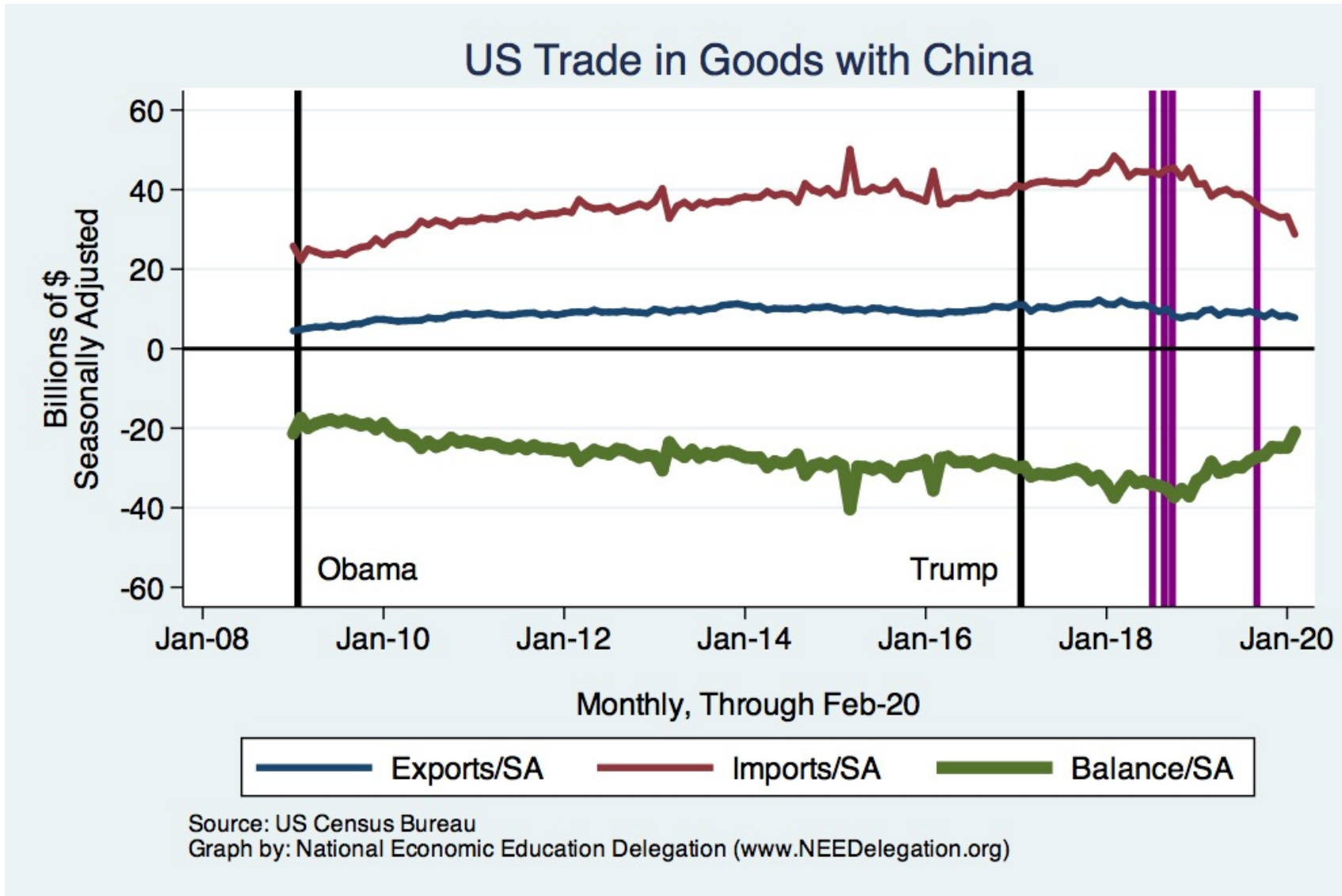


(d) US exports to China



Source: He et al., July 2021

# US Trade with China



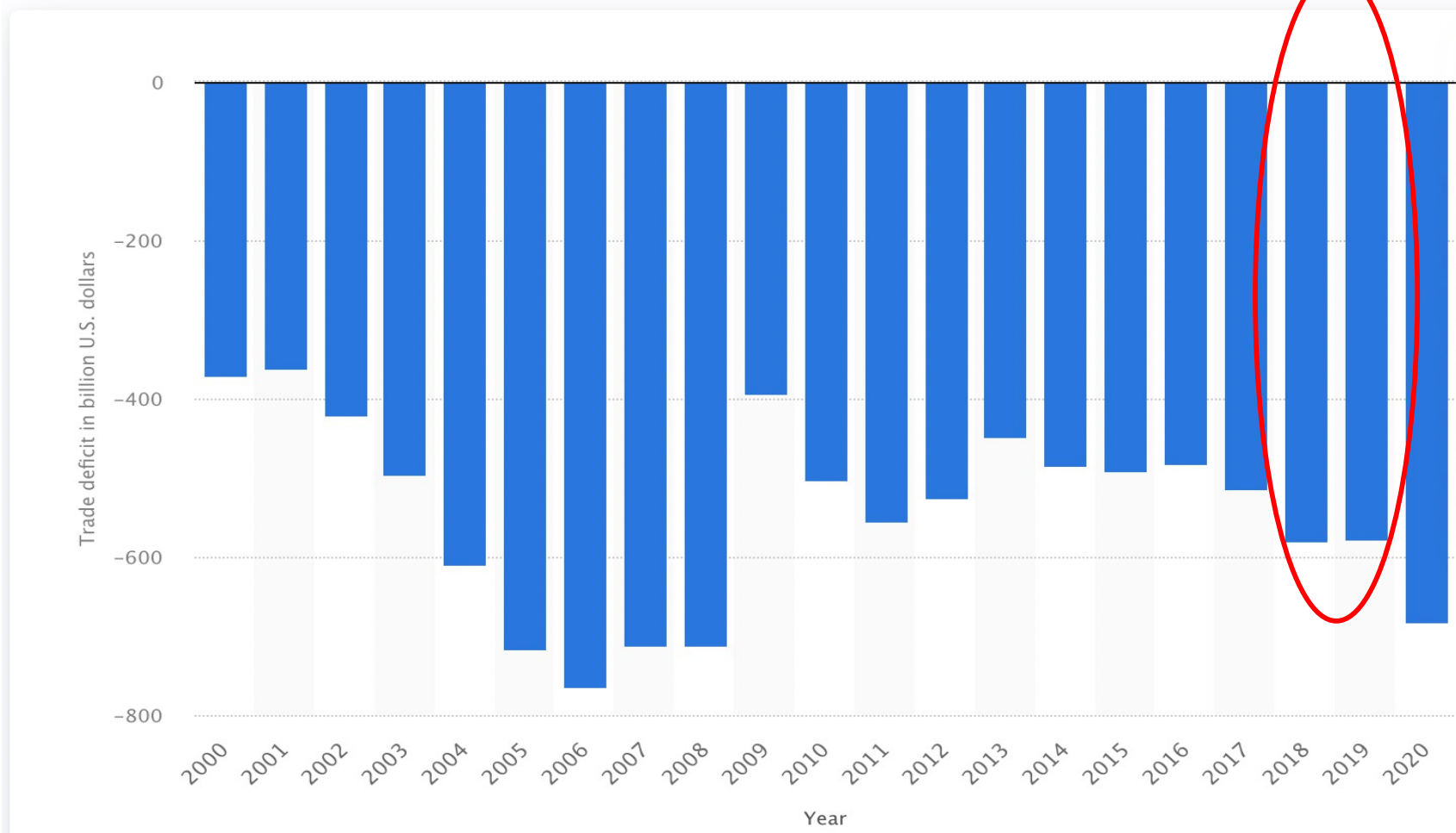


# US Trade with World

United States' trade balance from 2000 to 2020

(in billion U.S. dollars)

Trade War



# Stock markets since US-China trade war began

Percentage change performance since January 2018

