

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 Tuesday 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 30 class.)
- Office hours:
 - Feel free to enter even if others are there
 - If you want a private meeting, email me to schedule

Trade Wars



© Ingram Pinn

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

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**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, 2018-2021

- Outline
 - Battles in the Trade Wars
 - (Washing Machines & Solar Panels)
 - Steel & Aluminum
 - Intellectual Property / US-China Trade War
 - (Cars)
 - (Mexico migration)
 - Targeting Companies
 - Imports from Xinjiang, China

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

Pause for Discussion

Questions on Swanson & Rogers (re EU)

- Are the tariffs simply being removed?
- Is there any restriction on which EU products will qualify for zero tariff?
- Does the steel quota look like it will be binding?
- Are US industries other than steel and aluminum happy with this?

Questions on Hayashi (re Japan)

- How does this deal with Japan compare to the one with the EU?
- Does Japan see this as a final deal?
- What is Japan doing in return?

Questions on Williams (re UK)

- How does this deal compare to those with the EU and Japan?
- What complicated these negotiations?
- How did USTR Tai respond when asked about the likelihood of a UK-US FTA?

US-China Trade War

- Legal basis of 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

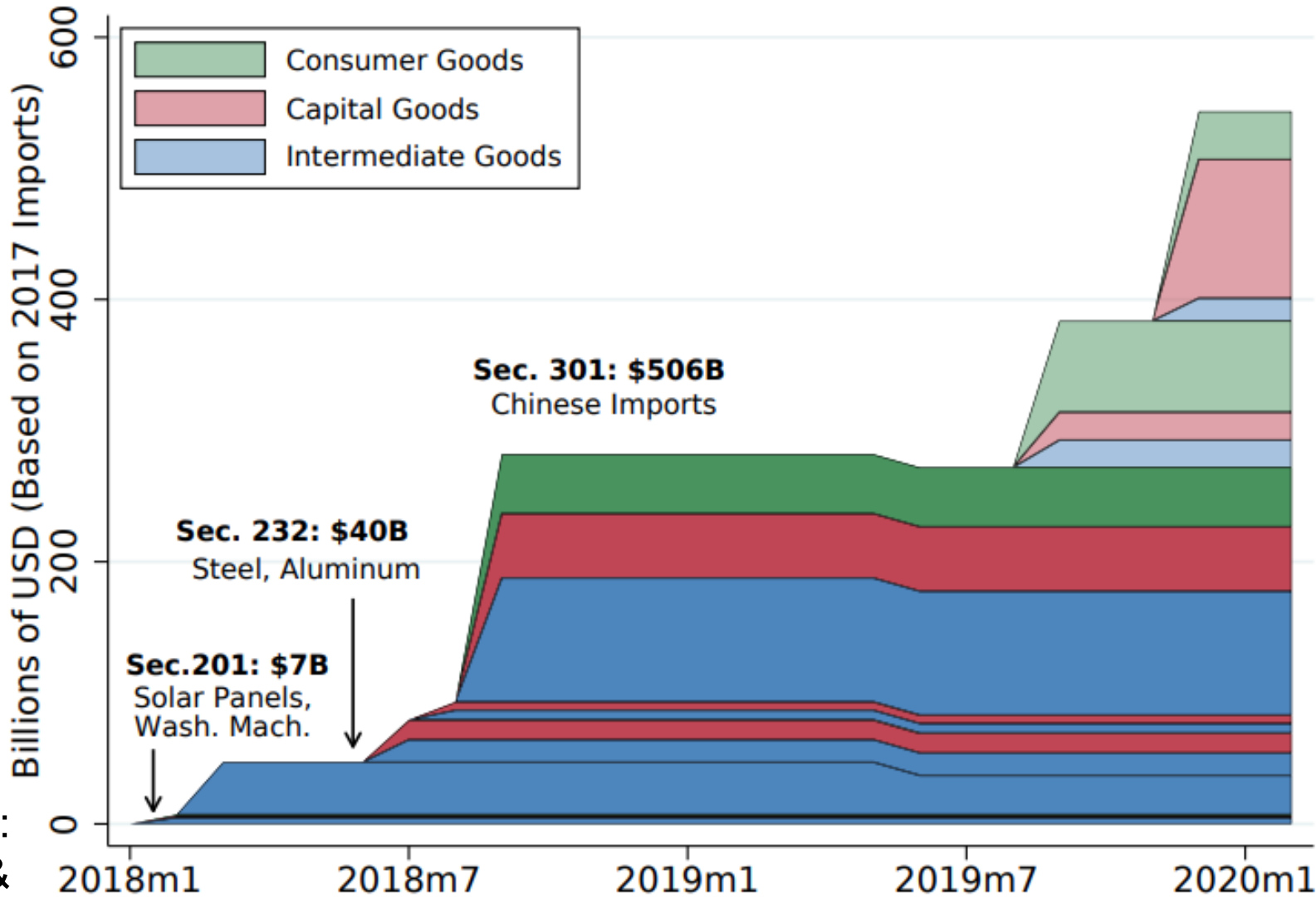
US-China Trade War

- 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

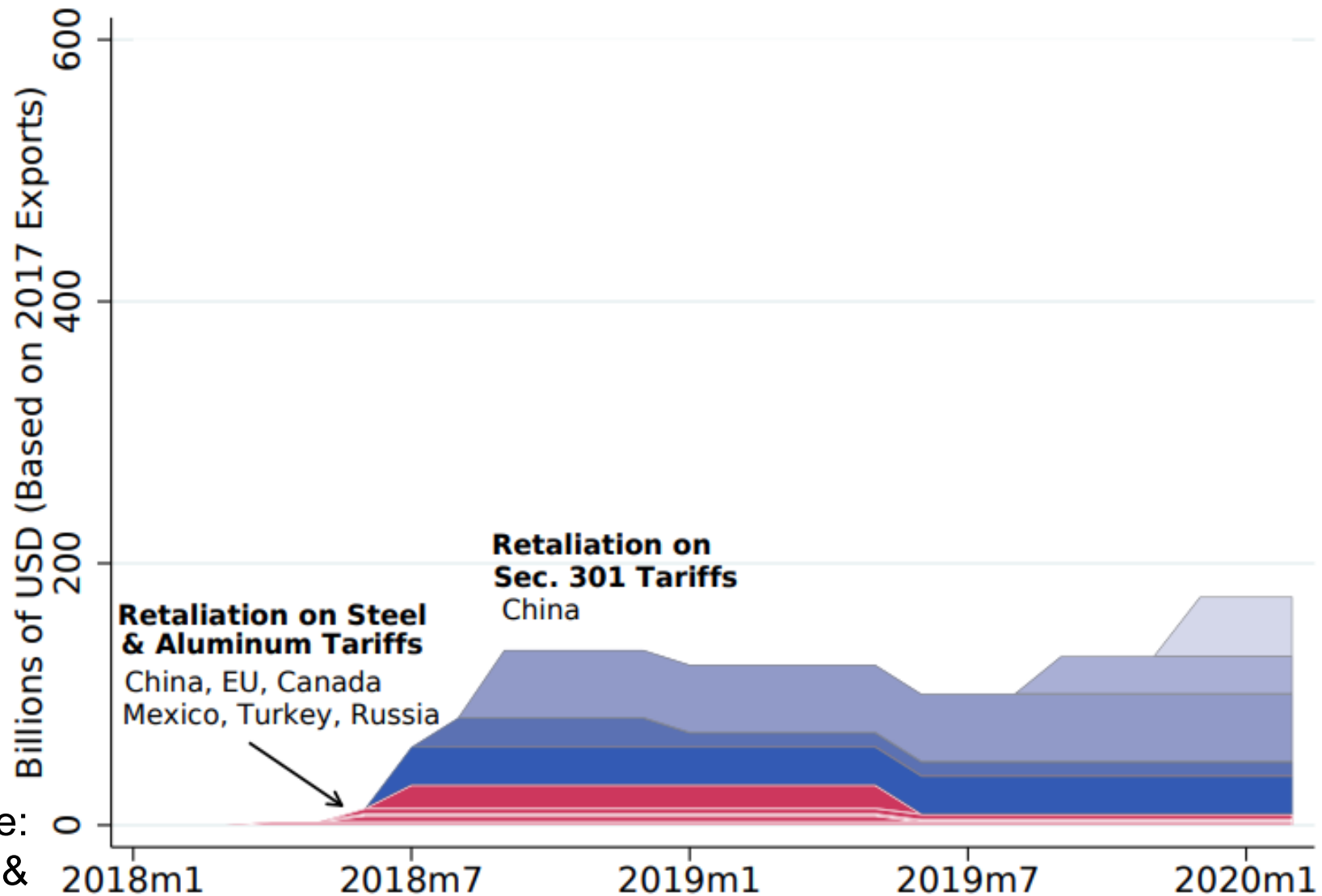
- US and China levied tariffs on each other
 - Three times in 2018, twice in 2019
 - Trump either added new tariffs on China exports or raised them
 - Each time, China responded with more tariffs on US exports
 - Threat of more in December 2019 was suspended by the “Phase One” US-China Trade Deal

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



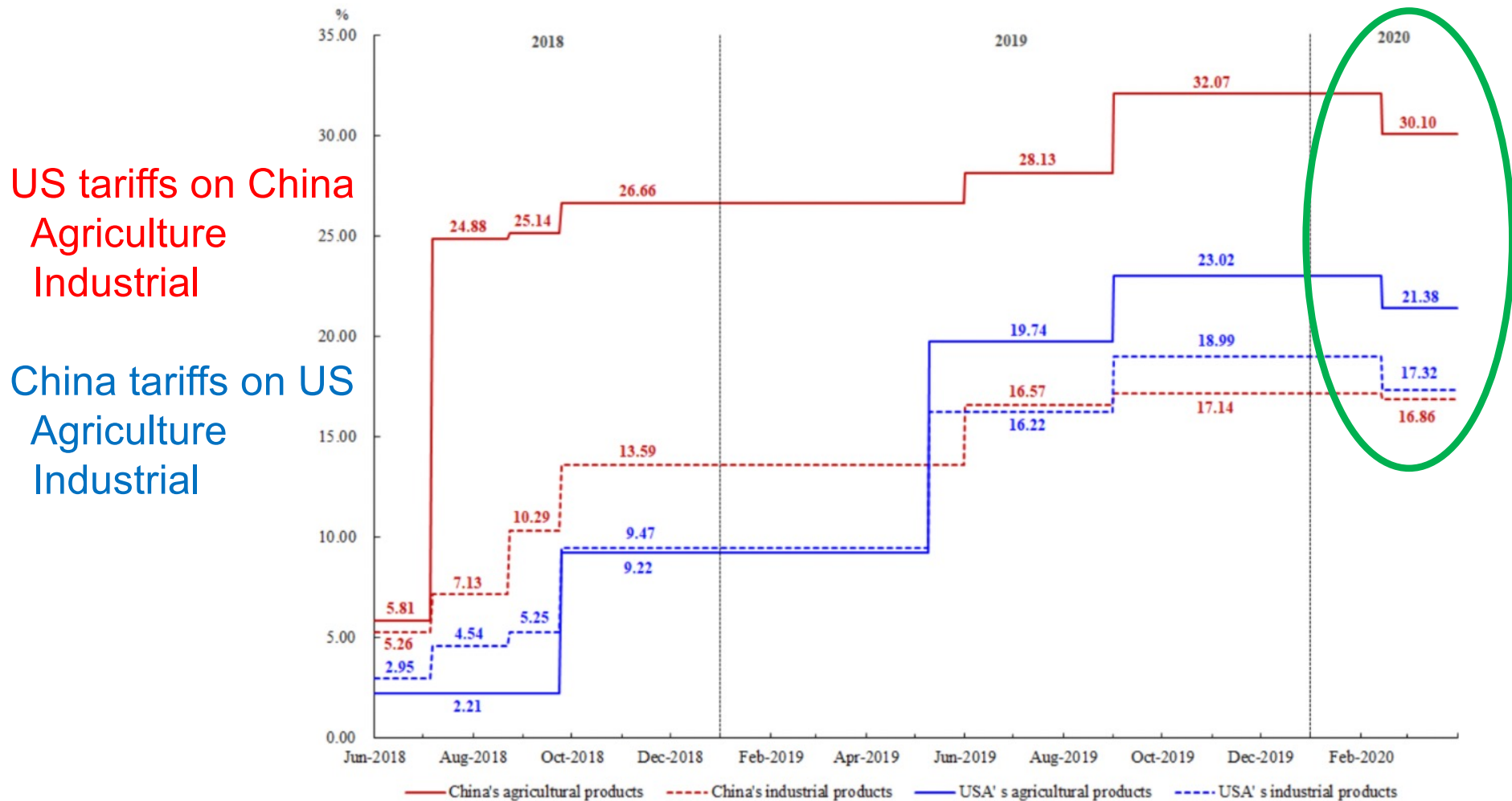
Source:
Flaan &
Pierce
2020

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.



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%

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 Economist, “Artful Dodging...”

- What are the ways mentioned for avoiding US tariffs?
- Why has the de minimus loophole gotten bigger?
- What has one congressman proposed to fix this?
- Is this hurting the US?

Questions on Swanson, “China Continues to...”

- What was the basis for US tariffs on China?
- What had Trump’s deal with China gotten them to promise regarding this issue?
- What has China done in response?
- What issue is mentioned here between the US and the EU?

Questions on Sevastopulo, “Joe Biden’s administration...”

- What is the tradeoff that Biden is confronting?
- Who (in US gov’t) are in favor of tariff cuts on China, and who are opposed?
- What policy is suggested to try to achieve both of Biden’s aims?
- What is said to be likely to happen?

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

Targeting Chinese Companies

- Trump and Biden have also banned investment in some Chinese companies
 - 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

- 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
 - “77% of these countries are “not free” or “partly free” according to Freedom House.

Pause for Discussion

Questions on Strumpf, “U.S. Set Out to Hobble...”

- What has the US government done to Huawei?
- Has this hurt Huawei?
- Is this the sort of action that the US has taken against a foreign company often?
- How is Huawei dealing with this?

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.”

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

Imports from Xinjiang, China

- The US policy
 - Since the Tariff Act of 1930, US law has banned imports produced with forced labor
 - 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
 - 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 on Yeung, “US Bans Imports from...”

- Is there any exception for importers wanting to import from Xinjiang?
- What harms does the US government say are being done to people in Xinjiang?
- What does China say it is doing?