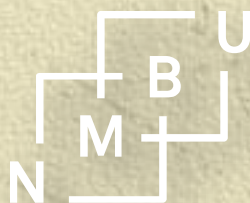


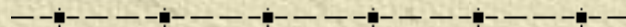
A Trade War to Put America First

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ECN230 Session 13: Summarizing Trade Policy



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of Life Sciences



1. Introduction

✦ America first

- ◆ “**Protection leads to great prosperity and strength** ... we protect ...[the US] border from countries making our products, stealing our companies, and destroying jobs ...” – *Inauguration 20.01.16*
- ◆ “**Trade pacts are no good for us** . . . or for our workers” – *CBS republican primary debate in S. Carolina, 13 Feb 2015*
- ◆ “**Trade wars are good and easy to win** ... US loses billions of dollars with virtually every country...” *Tweet 02.03.2018*
- ◆ “The era of economic surrender is over. ... We expect trading relationships to be **fair, ... and reciprocal**... we protect workers and ... intellectual property through **enforcement of our trade rules.**” – *State of the Union address, 30 Jan 2018*

Introduction, continued ...

✦ Motivation: why pursue a trade war?

- ◆ Stable genius and master dealer?
 - Stage 1. Challenge existing world order
 - Stage 2. Renegotiate from strength

or ...

- ◆ Reckless, unpredictable, unfit leader?
 - Weaken institutions, cut deal, claim victory
 - No attempt to ask: What next?



2. Chronology of the trade war

✦ Trump's trade war

- ◆ Underlying logic: trade deficits have a cost
- ◆ Objectives
 - American workers, jobs
 - US companies, products and technology
- ◆ Strategy
 - Attack trade imbalances
 - Inflict asymmetric pain

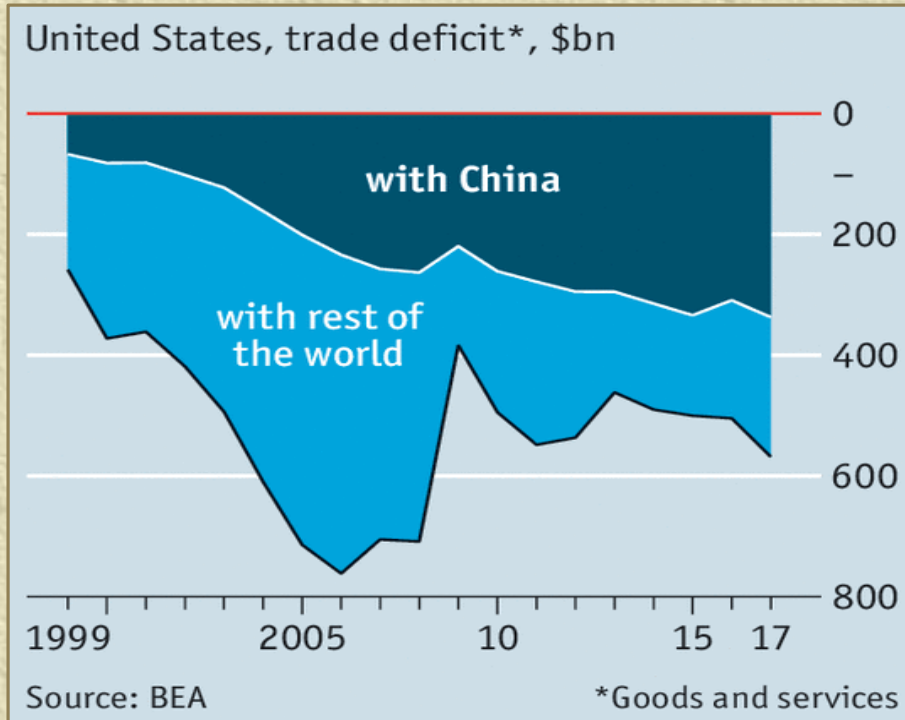


Economist.com

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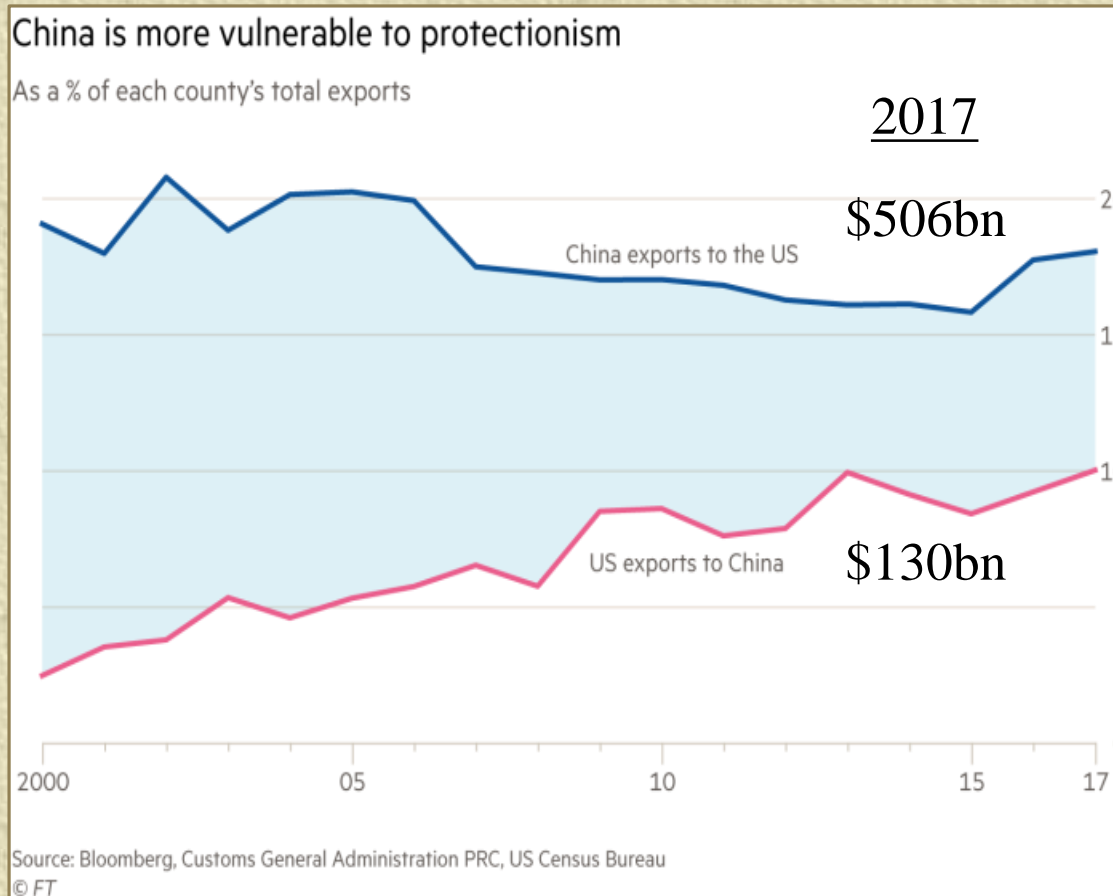
Chronology of the trade war, continued ...

◆ Theater of war



Chronology of the trade war, continued . . .

◆ US scope for inflicting pain on China



Bilateral
export share
of GDP:

4.1%

0.7%

Chronology of the trade war, continued ...

✦ 4 battle fronts: of differing degrees and scope

- ◆ 1st: Nov 2017 - solar panel/washing machines, injury to sectors
 - Jan 2018: Tariffs on \$8.5bn on panels; \$1.8bn on machines

- ◆ 2nd: Apr 2017 - steel and aluminum, “national security threat”
 - Mar 2018: 25% tariff on steel, 10% aluminum; exemptions for quotas
 - Jun: EU tit-for-tat tariffs - Harley Davidson moves production overseas

- ◆ 3rd: May 2018 - automobiles and parts, “national security threat”
 - Aug: ceasefire with EU and renegotiated NAFTA

- ◆ 4th: Aug 2017 - China- intellect. property theft, unfair trade/invest
 - Mar 2018: USTR reports \$60bn in tariffs
 - Apr; Jul; Sep: escalating tit-for-tat tariffs threat up to \$200bn in trade

3. Theory

✦ Art of War, Sun Tzu

- ◆ Preparedness: plan, calculate, be deceptive
- ◆ Waging war: avoid prolonged operations
- ◆ When/how to fight
 - Know your enemy and yourself
 - **Attack the enemy's strategy**

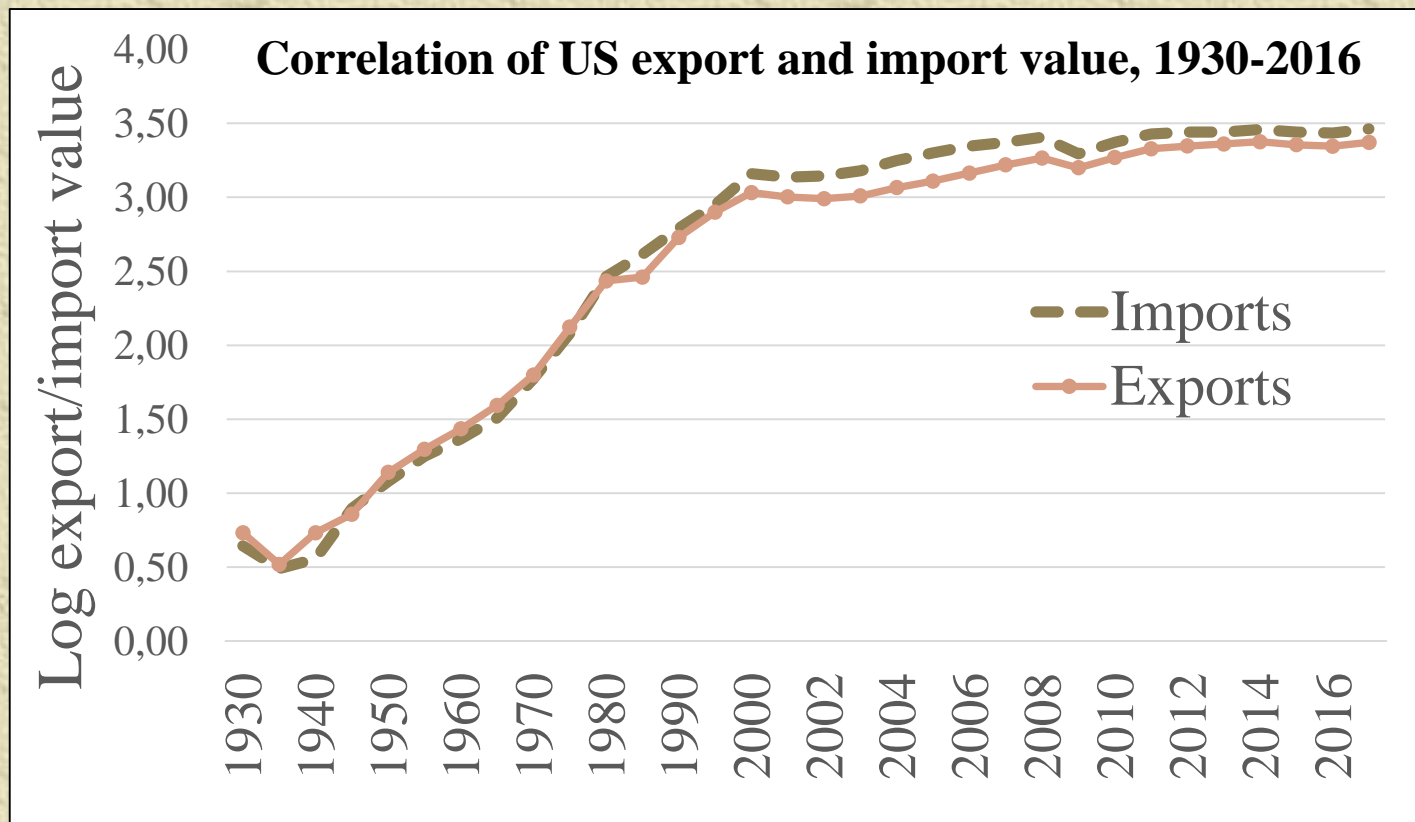


✦ Bargaining model of [trade] war

- ◆ International relations literature – breakdown in diplomacy?
- ◆ Economics: scarce resources, unlimited and competing uses
- ◆ Disagreement over resource allocation and/or policy choice

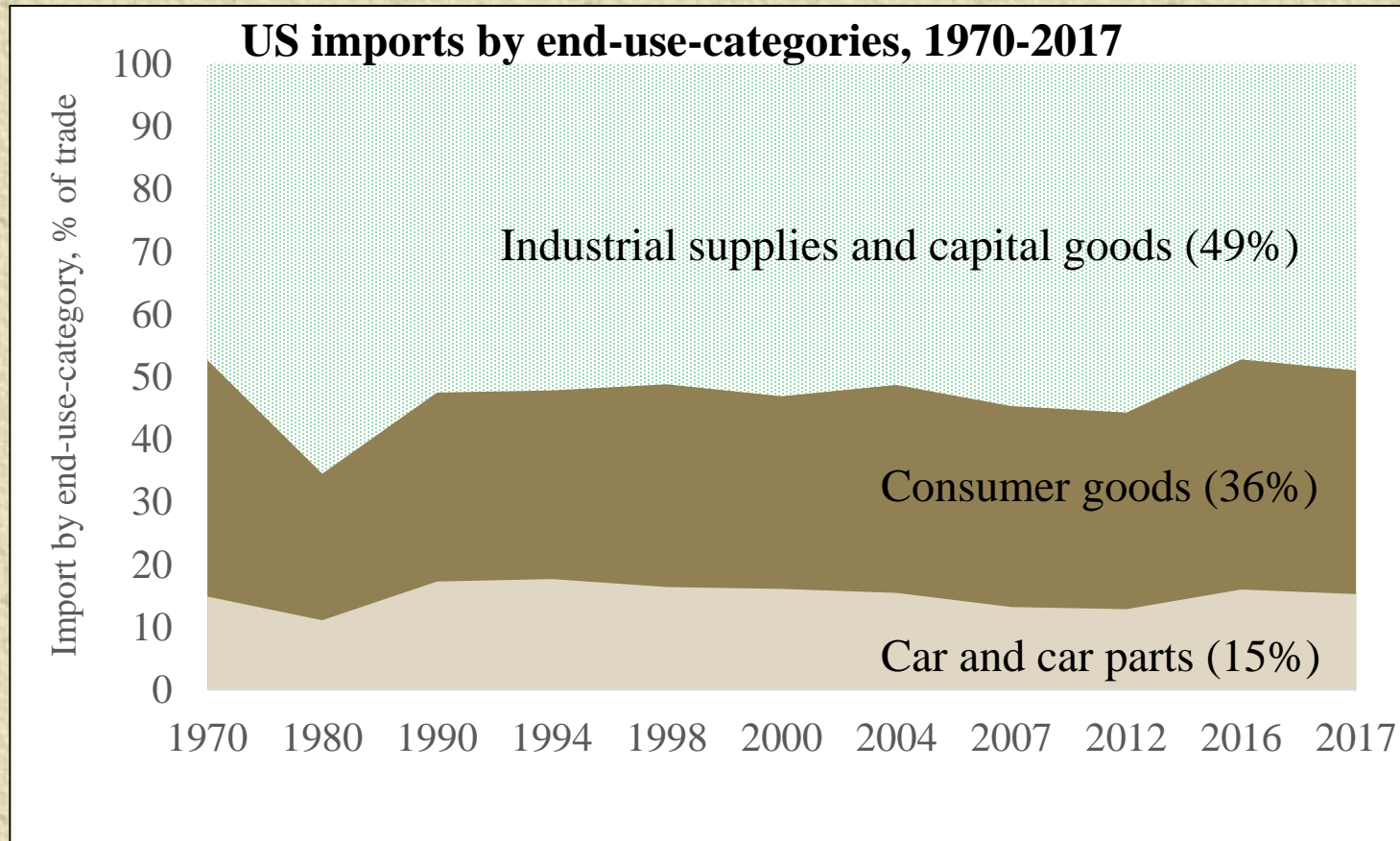
Theory, continued ...

- ✦ Economic theory: principles relating to trade
 - ◆ Taxing imports is taxing exports



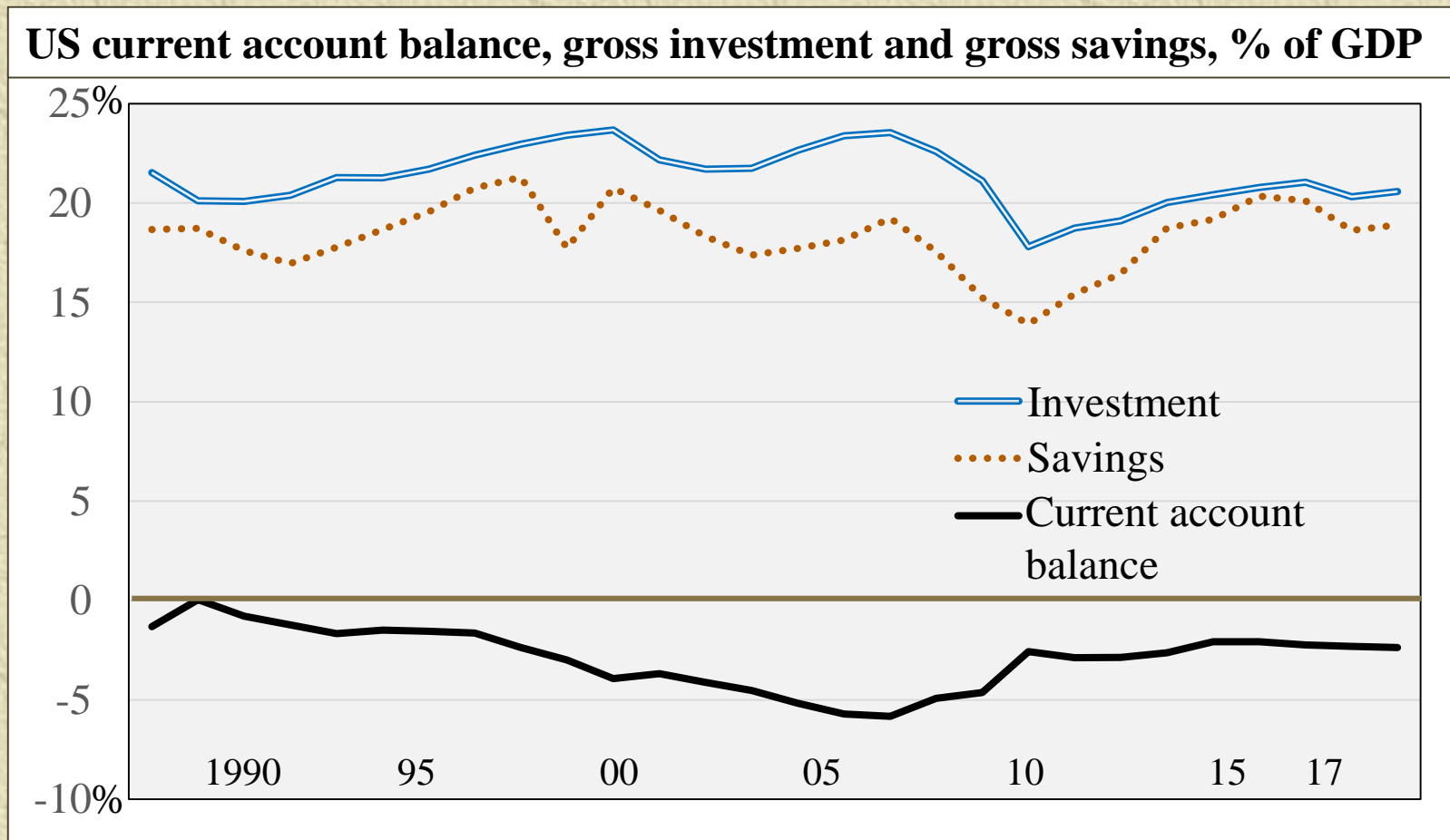
Theory, continued ...

- ◆ Businesses are consumers too



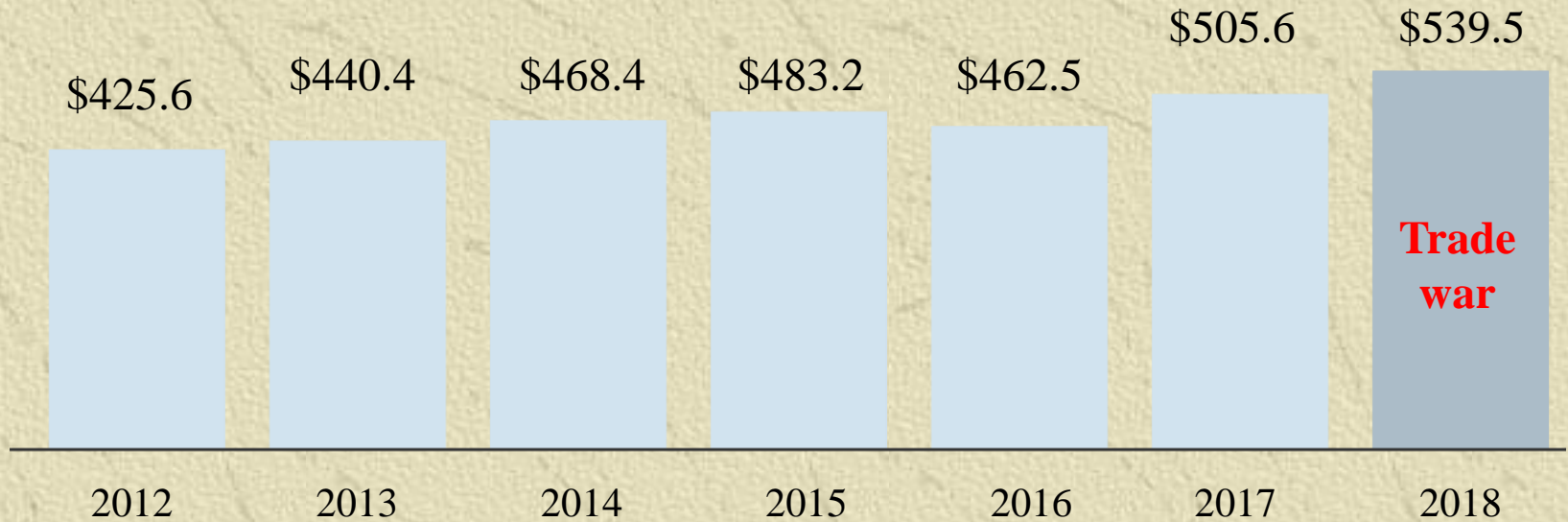
Theory, continued ...

- ◆ Trade imbalances reflect macroeconomic phenomena
 - Balance of payments
 - External imbalances relate to domestic macro imbalances



4. Assessing the US-China front

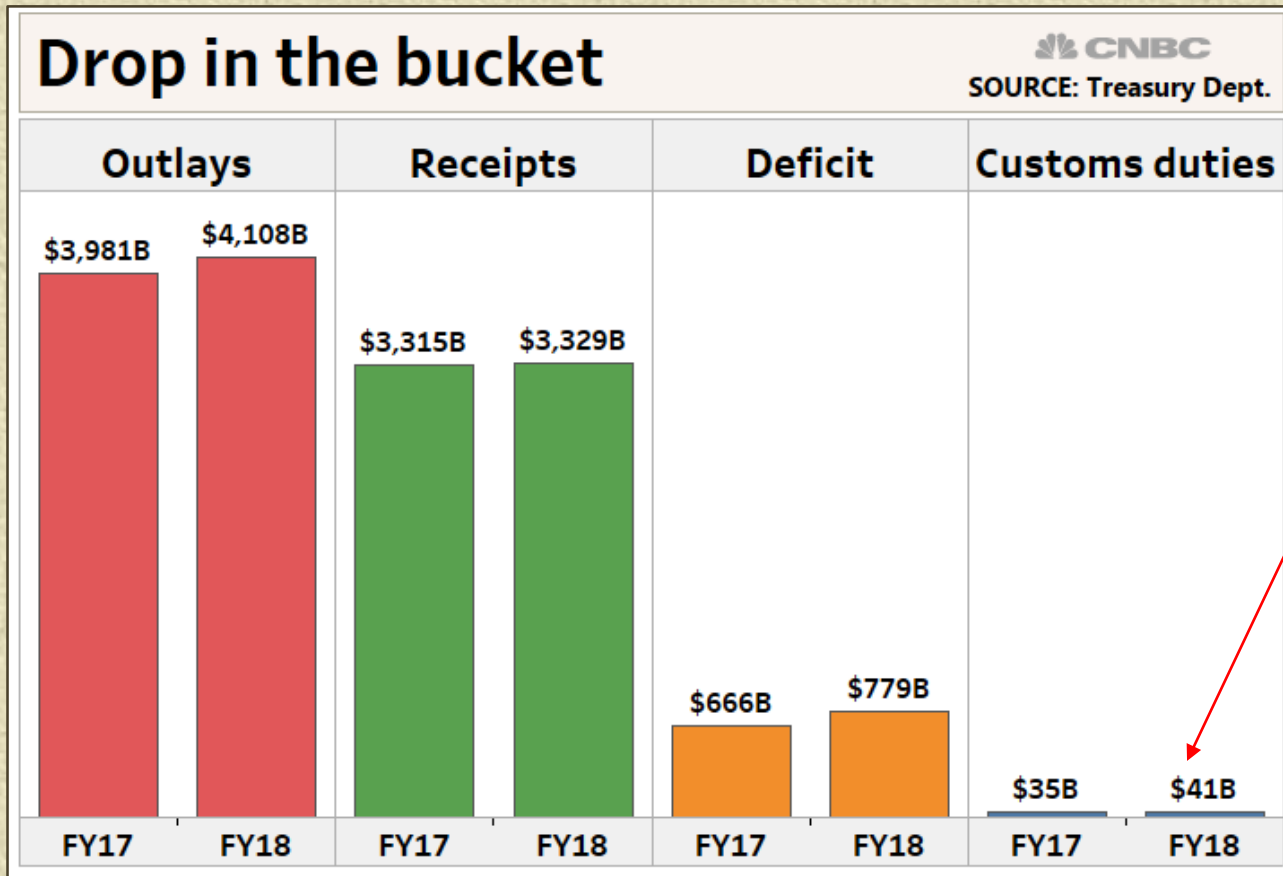
✦ Annual US trade deficit with China, USD bn



Source: The Balance, <https://www.thebalance.com/u-s-china-trade-deficit-causes-effects-and-solutions-3306277>, accessed Oct. 2019.

Assessing the US-China front, continued ...

✦ US revenue from tariffs



“Billions of dollars pouring into coffers of US Treasury because of tariffs charged on China, and there is a long way to go” ...

Three things:

- ◆ Revenue is trivial
- ◆ In 2018 revenue was only domestic transfer
 - consumer paid tax
 - firms ↓ profits
- ◆ US gov't ended FY2018 with highest deficit in 6 yrs

Source: <https://www.cnbc.com/2018/11/29/trump-claims-money-pours-in-because-of-tariffs-but-they-are-not-much.html>, accessed Oct 2019

Assessing the US-China front, continued ...

✦ Is a unilateral challenge to China optimal strategy?

- ✦ Trump goes unilateral even where multilateral leverage exists
- ✦ 60+% of China's exports of good is to advanced economies
- ✦ EU and Japan share same concerns



Source: *Financial Times*, "The looming 100-year US-China conflict"

<https://www.ft.com/content/52b71928-85fd-11e9-a028-86cea8523dc2> Accessed Oct 2019.

Assessing the US-China front, continued ...

✦ Can “attacking the strategy” restore the US economy?

✦ Delinking Factory Asia from global supply chain?

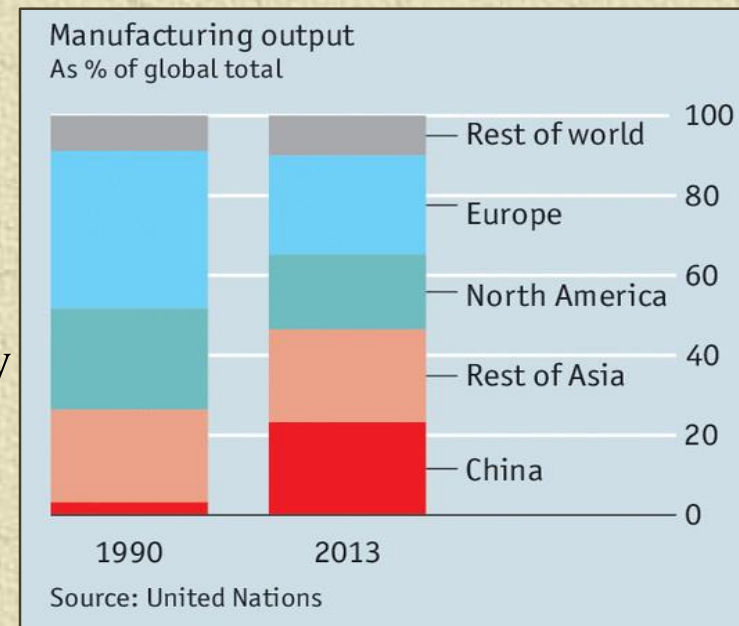
- Factory Asia: intermediate goods trade; supplier-final assembly close
- Delinking supply chain
 - ✦ Reshoring manu/jobs to US?
 - ✦ Prevent movement up value chain?

✦ Unfair trade practices

- “Made in China, 2025” – industrial policy
- Belt and Road Initiative, 2013 – global infrastructure investment; Chinese loans

✦ “Using [unilateral] tools available”

- ✦ Trade: tariffs and ban on strategic US exports
- ✦ Investment rules – restrict deals if national security threatened
- ✦ Extradition of Huawei’s financial chief (Meng Wanzhou) for sanction-busting and concerns with IP theft



5. Concluding observations

✦ Preparedness for waging war

◆ Deception or incompetence?

- Strategy/objectives not revealed
- Focus on bilateral imbalances is economically illiterate
 - ◆ Trade war not aligned with economics
 - ◆ Macro + micro goals make statecraft difficult
 - ◆ Trade deficits and reshoring manu are different objectives
- Political actors and administration contradict each other
- Trump reverses positions: is he transactional or ideological?

◆ How/when to fight

- Multiple battle fronts: was it a single bargaining process?
- Were allies attacked to prove he was serious about China?

◆ Prolonged operations

- Renegotiated deals: were they “quick victories”?
- Will unilateral tariffs deal with issues of intellectual property?