

“U.S. Trade Policy: Where are we Heading?”

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Featured Presentation



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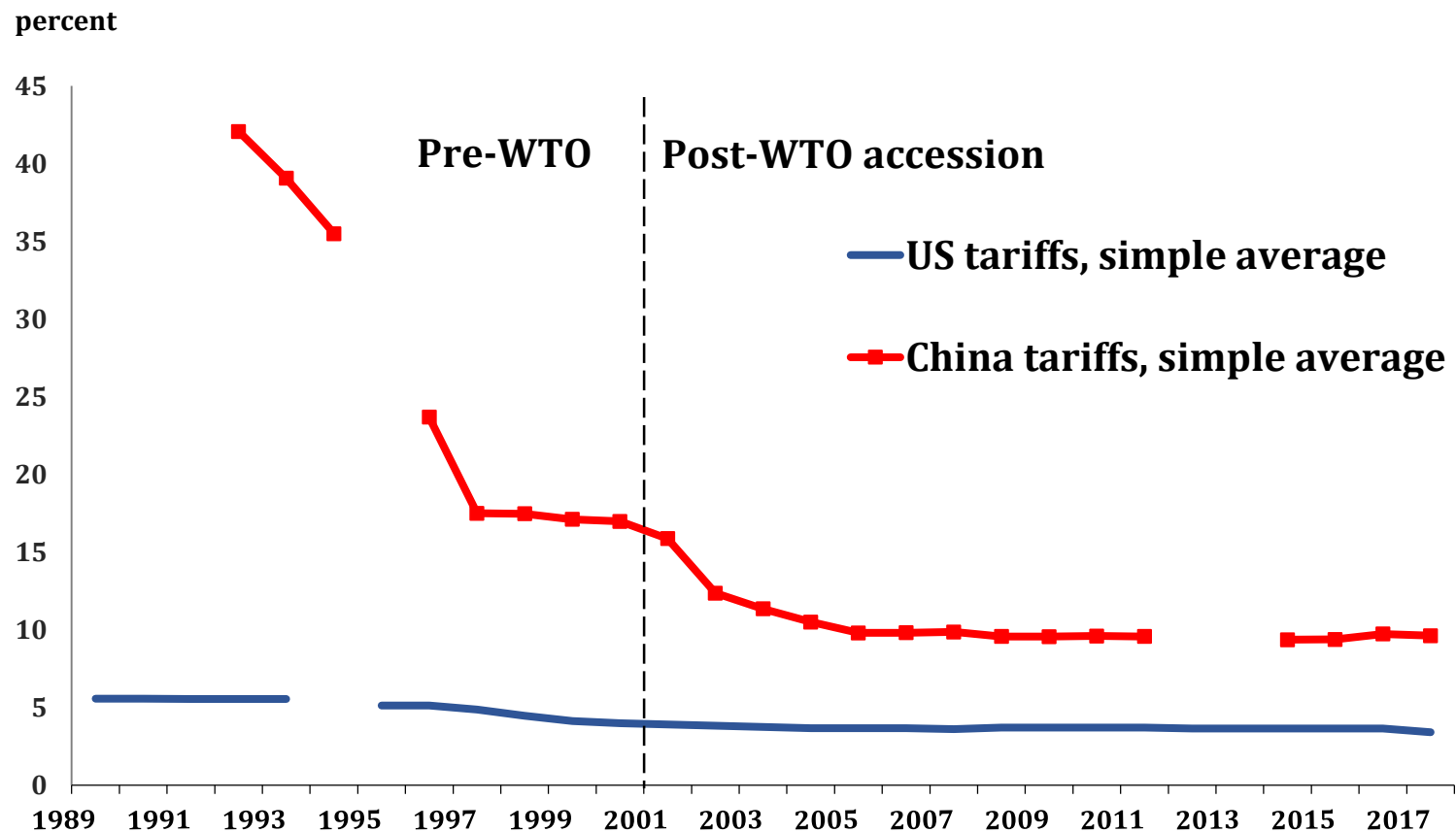
Cincinnati, OH



US trade policy: rules-based

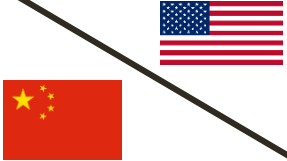
 <p>US</p>  <p>OECD</p>	<p>LOW TARIFFS</p>	<p>HIGHTARIFFS</p>
<p>LOW TARIFFS</p>	<p><u>GATT/WTO:</u> High trade volume</p>	<p>Beggar-thy-neighbor</p>
<p>HIGHTARIFFS</p>	<p>Beggar-thy-neighbor</p>	<p><u>Inter-war period:</u> Low trade volume</p>

Tariffs: US vs. China



Source: Bown (April, 2019)

US trade policy: rules-based to power-based

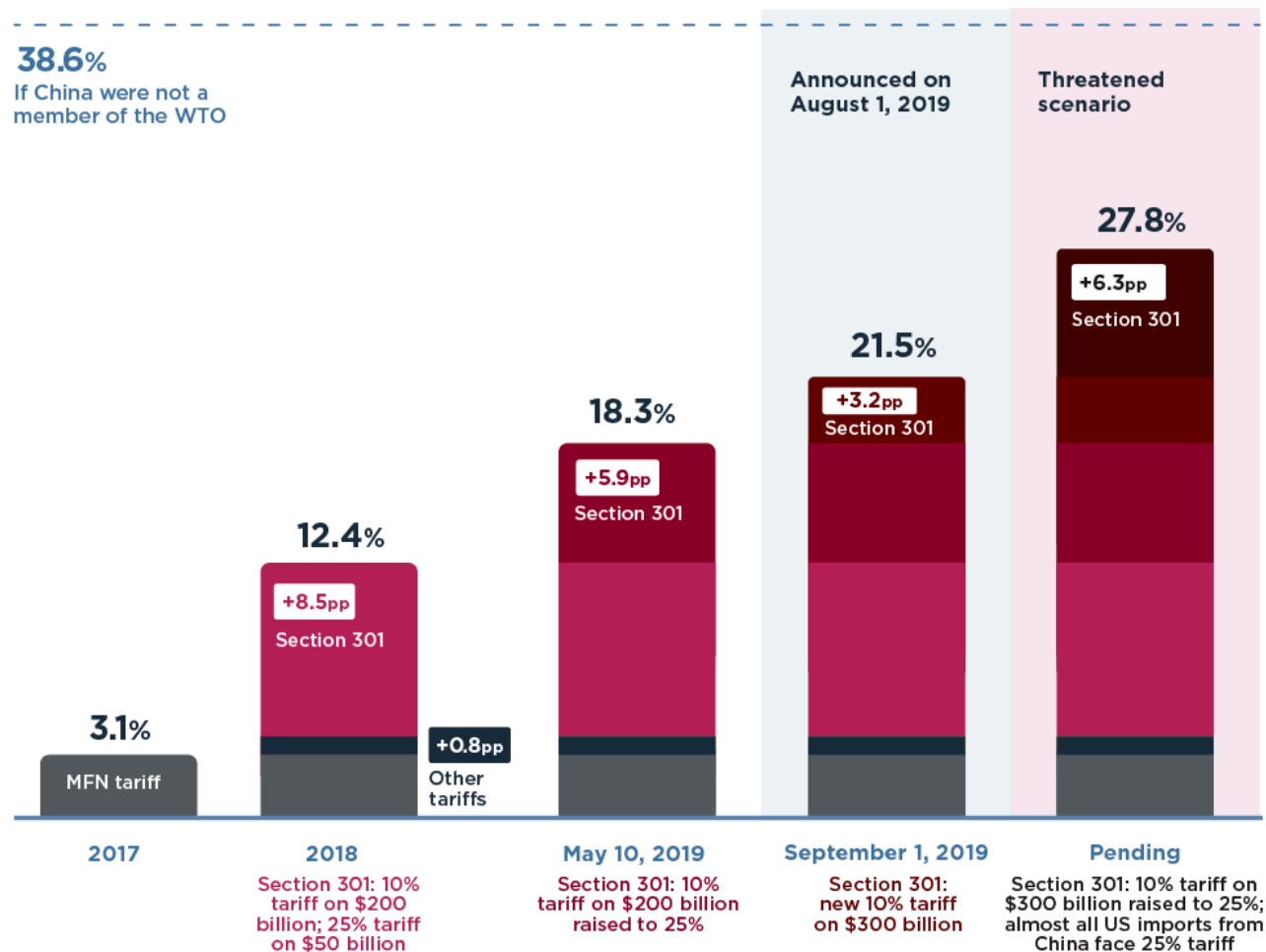
 <p>US China</p>	<p>LOWER AVERAGE TARIFFS</p>	<p>HIGHER AVERAGE TARIFFS</p>
<p>LOWER AVERAGE TARIFFS</p>	<p>GATT/WTO Average MFN=3.4%</p>	<p>Power-based Bargaining</p>
<p>HIGHER AVERAGE TARIFFS</p>	<p>Accession to WTO Average MFN=9.6%</p>	<p>Trade war</p>

Level of tariffs against China

Trump's Latest Trade War Escalation Will Push Average Tariffs on China Above 20 Percent

38.6%

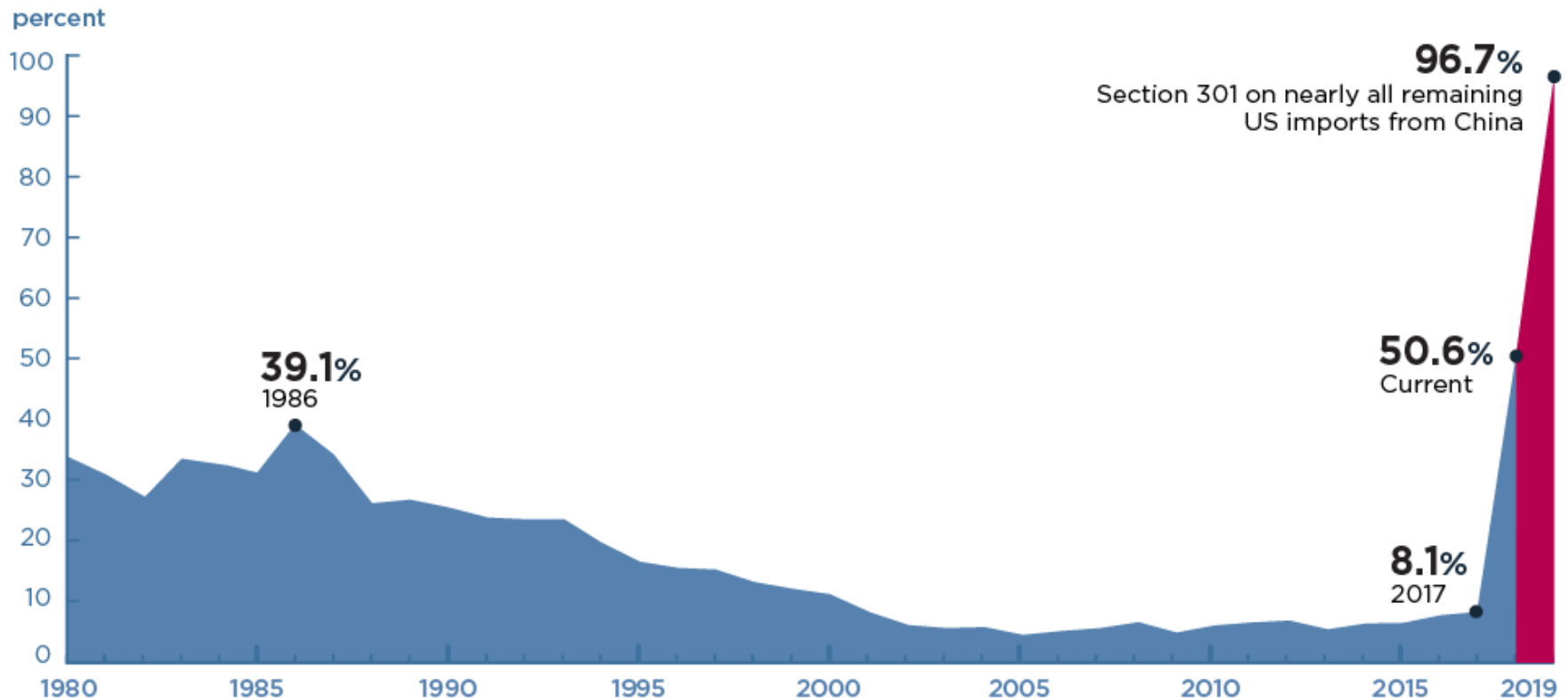
If China were not a member of the WTO



Source: Bown and Zhang (August, 2019)

Coverage of tariffs against China

Tariffs on almost all remaining US imports from China would raise special trade protection coverage to unprecedented level

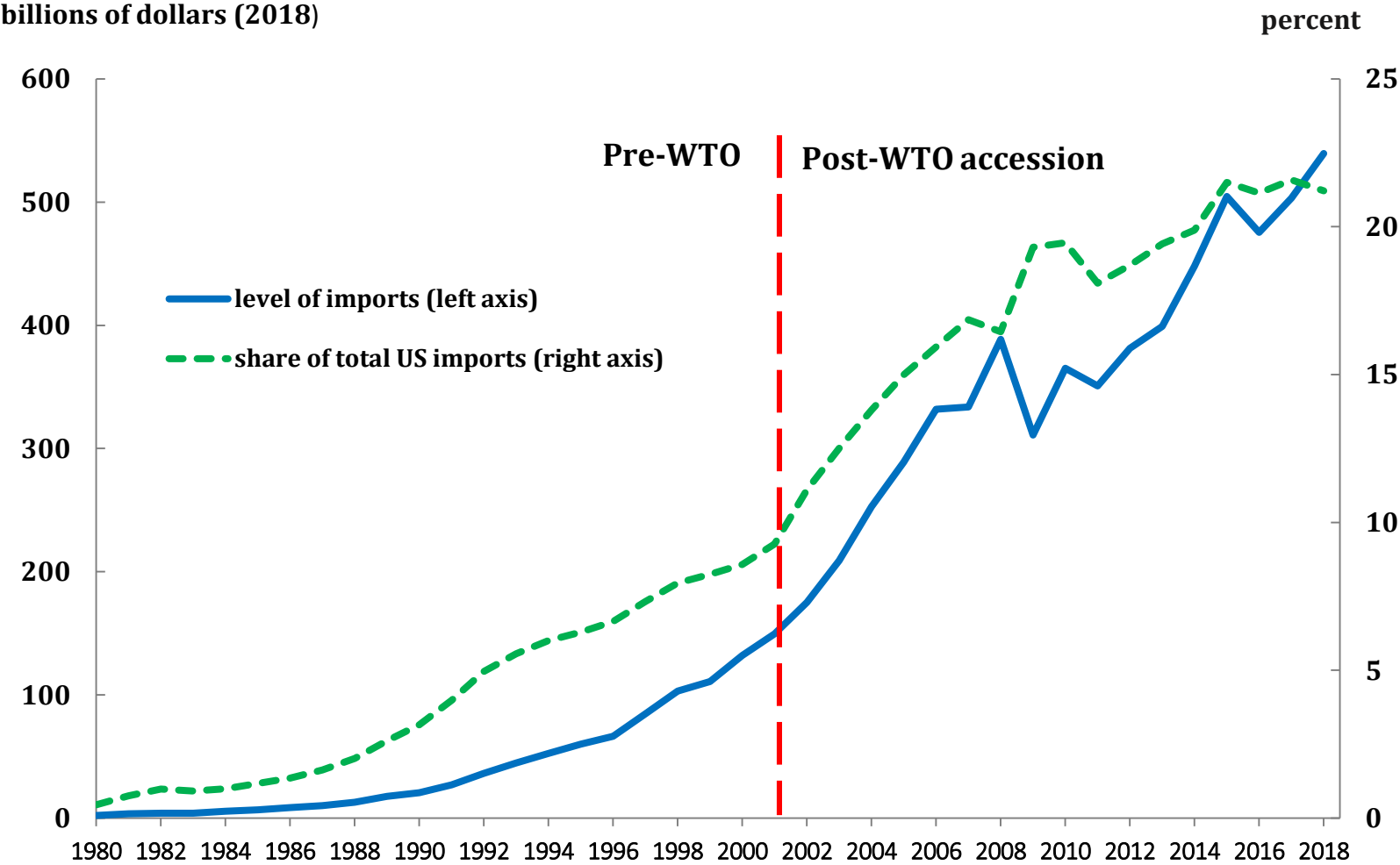


Source: Bown and Zhang (May, 2019)

Impact of “China shock” on US political economy

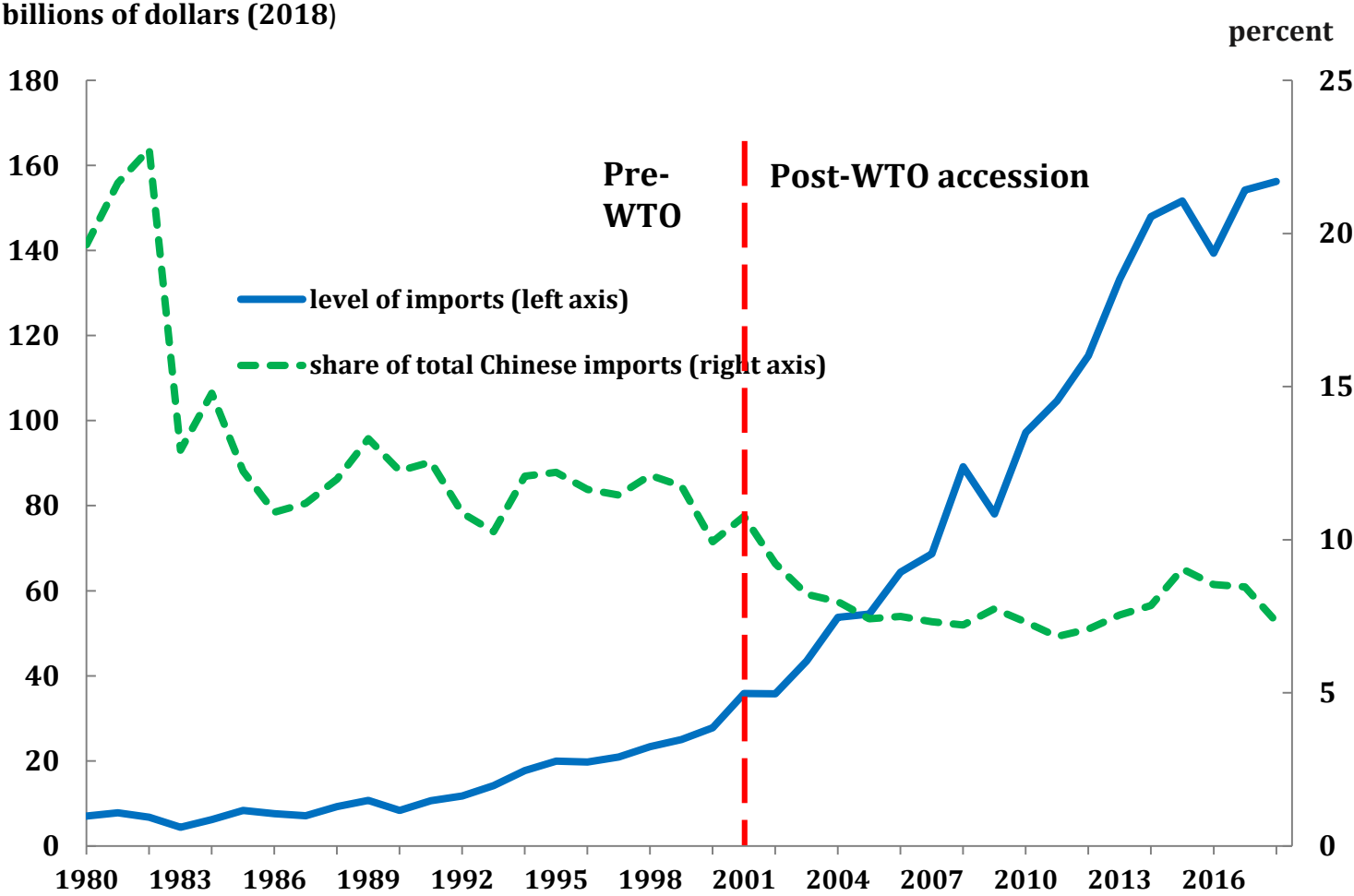
- Post-2000–increase in US imports from China not offset by increase in US exports (Autor *et al.*, 2016)
- Effect of China import shock well-documented, Autor *et al.* (2013), and Pierce and Schott (2016)
- Trade exposure contributed to growth of *populism* (Grossman and Helpman, 2018) and polarization in US politics (Autor *et al.*, 2017)
- Populism reflected in *anti-elitism* (Eichengreen, 2018) and shift to *economic nationalism* (Colantone and Stanig, 2018) – i.e., opposition to free trade
- China targeted over its trade policies, e.g., level of tariffs, exchange rate policy, and trade surplus

US imports from China



Source: Bown (April, 2019)

China's imports from US



Source: Bown (April, 2019)

Chinese market distortion and WTO

- **US concerns about China's trade practices well-documented (USTR, 2018; Morrison, 2018):**
 - **Forced technology transfer**
 - **Discriminatory licensing restrictions**
 - **Theft of intellectual property**
 - **Investment restrictions**
 - **Subsidies to state-owned enterprises (SOEs)**
- **WTO case could be built against China that one or more Chinese government measures “nullify or impair” benefits of US and other WTO members (GATT Article XXIII:1(a))**

“China, Inc.”

- **China’s economy structured in ways not anticipated by WTO negotiators (Wu, 2016):**
 - **Party controls “commanding heights” of economy**
 - **Party controls and directs largest banks**
 - **Party coordinates government agencies and firms**
 - **Party-set performance metrics of SOEs, banks etc.**
 - **Informal linkages between Party and private firms**
- **Party controls economy while still taking advantage of benefits of market mechanism, i.e., control is not via state**

“China, Inc.”

- **WTO case could also be made against China under “non-violation nullification or impairment” (NVNI) clause of GATT (Article XXIII:1(b)) (Hillman, 2018)**
- **Argued only way to approach this is through “grand coalition” of countries (Hillman, 2018; Lawrence, 2018)**
- **Problem with US unilateral approach:**
 - **“Shallow” deal (Hillman, 2018)**
 - **“Free-riding” (Bown, 2018)**
 - **Potential to undermine WTO (Mattoo and Staiger, 2019)**

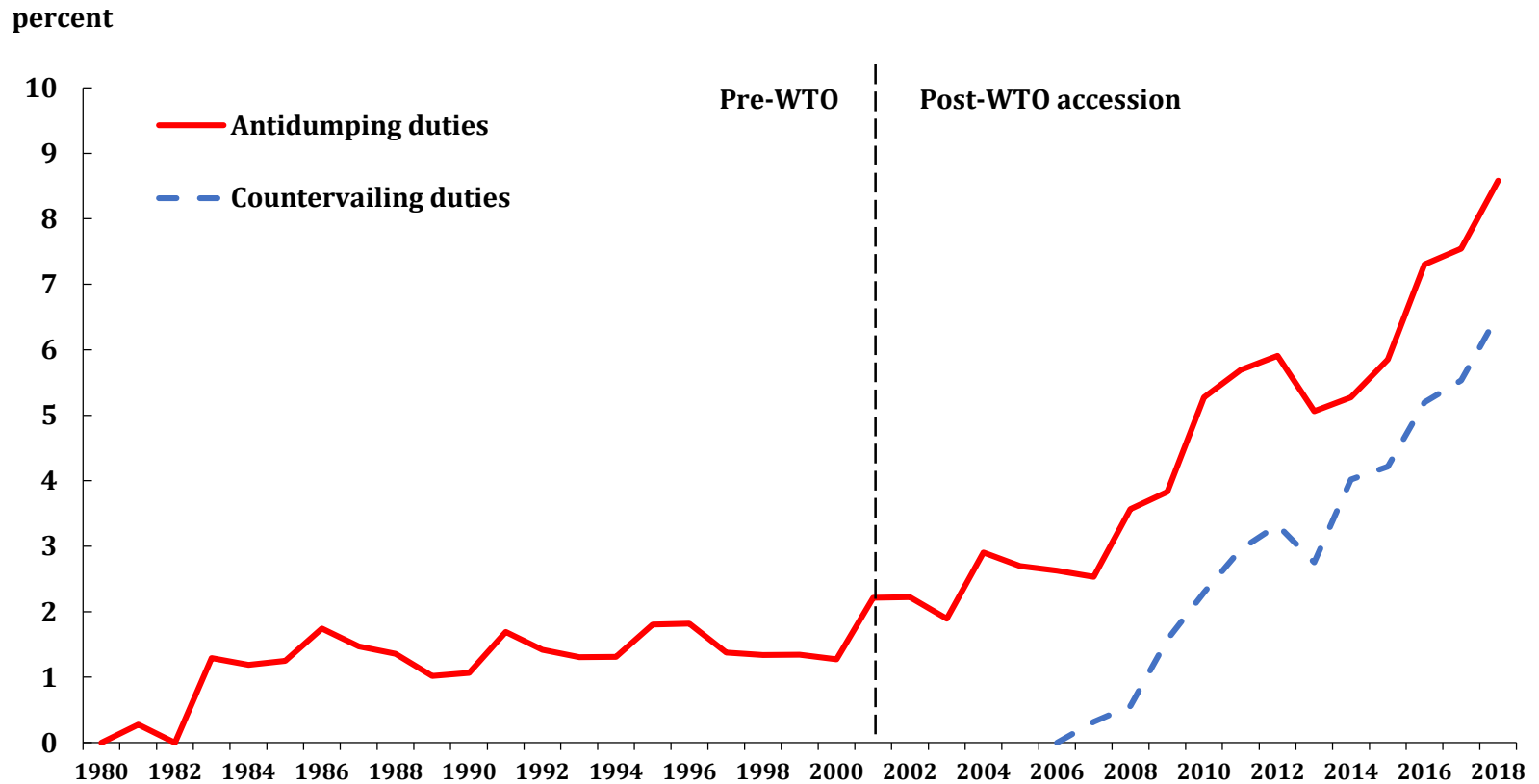
Provoking a trade war

- **Conventional wisdom - US has deliberately poked holes in weakest spots of WTO (Bown, 2019):**
 - **Imposed tariffs on steel and aluminum in 2018 on grounds of national security - US argued these would be “non-justiciable”, i.e., cannot be questioned as with anti-dumping duties**
 - **US unilaterally implemented tariffs on \$250 billion of Chinese imports after internal investigation by USTR (2018) - based on Section 301 of US Trade Act**
 - **US chose to block judicial appointments to WTO Appellate Body**

Trade war and WTO dispute settlement

- **US imposed national security tariffs in part because of Chinese economic model(Bown, 2019):**
 - **Chinese trade practices had to be countered**
 - **Anti-dumping duties had not worked**
 - **Safeguard tariffs would have been stopped by WTO**
 - **US would not win case at WTO due to “China, Inc.”**
- **Counter-argument – US gave up on formal dispute settlement too soon, i.e., specifically, it should have appealed to NVNI clause**
- **Requires Appellate Board to deal with complex interactions in non-market economy**

US anti-dumping duties and China



Source: Bown (April, 2019)

Failure of WTO dispute settlement

- Concerns over “judicial over-reach” in AB, and emergence of principle of *stare decisis* in WTO case law (Payosova *et al.*, 2018)
- Dispute settlement will break down by end of 2019, i.e., any member will be able to block panel rulings
- Members should agree on procedures for AB to submit uncertain legal issues arising on appeal to respective WTO committees – *legislative remand*
- Emphasizes need for permanent negotiations in WTO
- Also requires US to stop “...kicking at the working leg of a limping institution...” (The Economist, December 7, 2017)

Costs of trade war

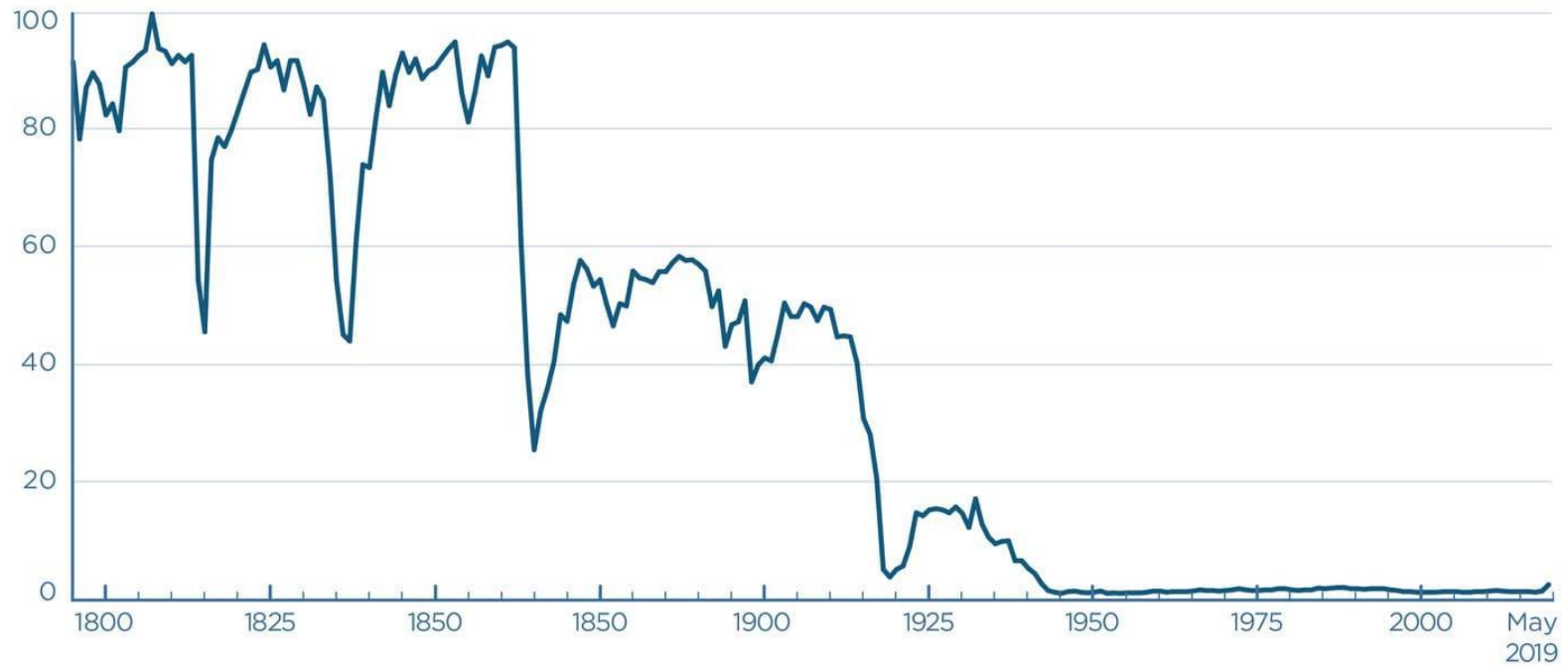
- **Initial economic effects (Fajgelbaum *et al.*, 2019):**
 - **Loss from higher prices - -\$68.8 billion**
 - **Terms of trade gains - +\$23.0 billion**
 - **Tariff revenue - +\$39.4 billion**
 - **Aggregate loss to US - -\$6.4 billion**

- **Potential to undermine WTO – reputation, and norms of cooperation matter in a rules-based system (Mattoo and Staiger, 2019)**

- **Even if multilateral trading system is maintained, return to GATT-type system would allow countries with bargaining power to veto disputes (Bown, 2019)**

Tariffs are a small source of revenue

US tariff revenue as percent of total government revenue, 1795–May 2019



Source: Bown and Irwin (July 16, 2019)

Conclusions

- **Trade war already imposing costs on US, which will increase as height/breadth of tariffs increases**
- **Potential to increase downside risk to global economy (IMF, July 23, 2019)**
- **US-China trade deal likely to be “shallow”, targeted at trade deficit with little focus “behind the border”**
- **A coalition of WTO members would likely be more appropriate way to deal with “China Inc.”**
- **Failure of US to follow rules-based trading system runs risk China will not follow system if (when) it becomes dominant economic power**

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