

U.S. Trade Policy: Where is it Headed?

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What is Driving U.S. Trade Policy?

- ◆ **Administration has expressed view international trade is a zero-sum game**
- ◆ **21st Century *mercantilism* - i.e., imports are bad and exports are good**
- ◆ **Implies no net benefits from open trading system**
- ◆ **Trade deficit seen as evidence that U.S. is losing and other countries must be winning**
- ◆ **Objective of getting China to reform system that discriminates against foreign firms, e.g., transfer of technology through joint ventures**

Key U.S. Trade Policy Actions

- ◆ **Trans-Pacific Partnership (TPP) not ratified**
- ◆ **Broad-based tariffs on steel/aluminum imports on grounds of national security**
- ◆ **Renegotiation of NAFTA as USMCA - key change to “rules of origin” in North American auto sector**
- ◆ **Escalation of trade war with China over “unfair” trade practices**
- ◆ **National security investigation into U.S. auto imports – potential for 25% tariffs on imports from key allies**

Path to Trade War in 2018

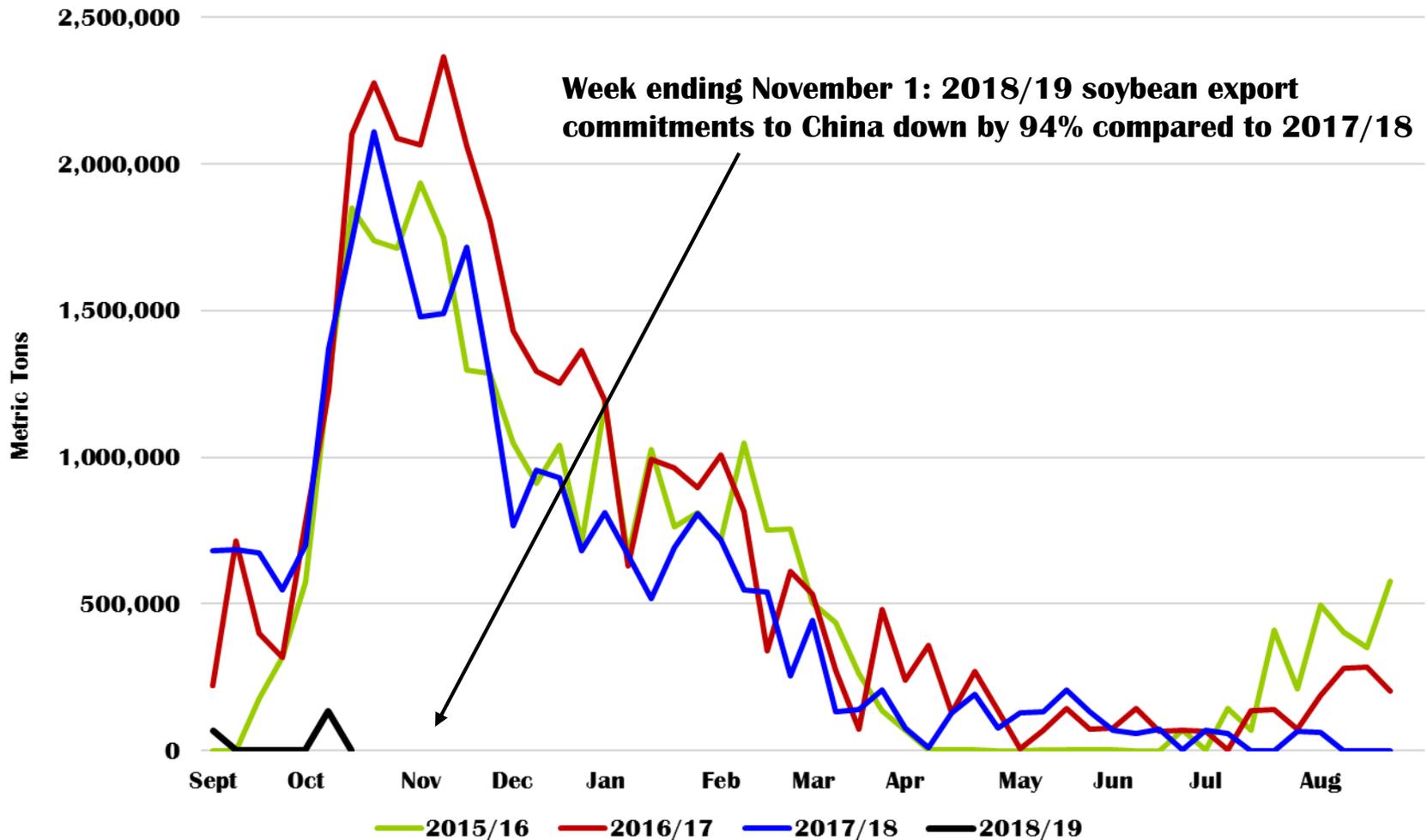
- ◆ **U.S. tariffs on solar panels and washing machines – retaliation by China on sorghum (January)**
- ◆ **U.S. tariffs on steel and aluminum – retaliation by China, EU, and Canada (March-June)**
- ◆ **Ratcheting up of war with China in phases:**

Phase	Tariff Rate (%)		Trade Value (\$b)		Products	
	U.S.	China	U.S.	China	U.S.	China
1 – April	25	25	50	50	Intermediate	Soybeans, autos, and aircraft
2 - June	10-25	5-10	200	60	Intermediate and consumer	Intermediate and consumer
3 - Sept	?	?	267	53	Intermediate and consumer	Intermediate and consumer

Costs of Trade War

- ◆ **Harley-Davidson has shifted production overseas to avoid EU tariffs of 31% on U.S. imports**
- ◆ **Significant reduction in U.S. soybean exports to China – lost market share? (Tyner, 2018)**
- ◆ **\$450 million gains to U.S. agriculture from USMCA matched by \$7.9 billion losses to sector from tariff retaliation (Tyner et al., 2018)**
- ◆ **If auto tariffs are implemented – forecast loss of 195,000 U.S. jobs (Robinson et al., 2018)**
- ◆ **Potential fall in global GDP of \$430 billion, with U.S. being “especially vulnerable” (IMF, 2018)**

U.S. Soybean Exports to China



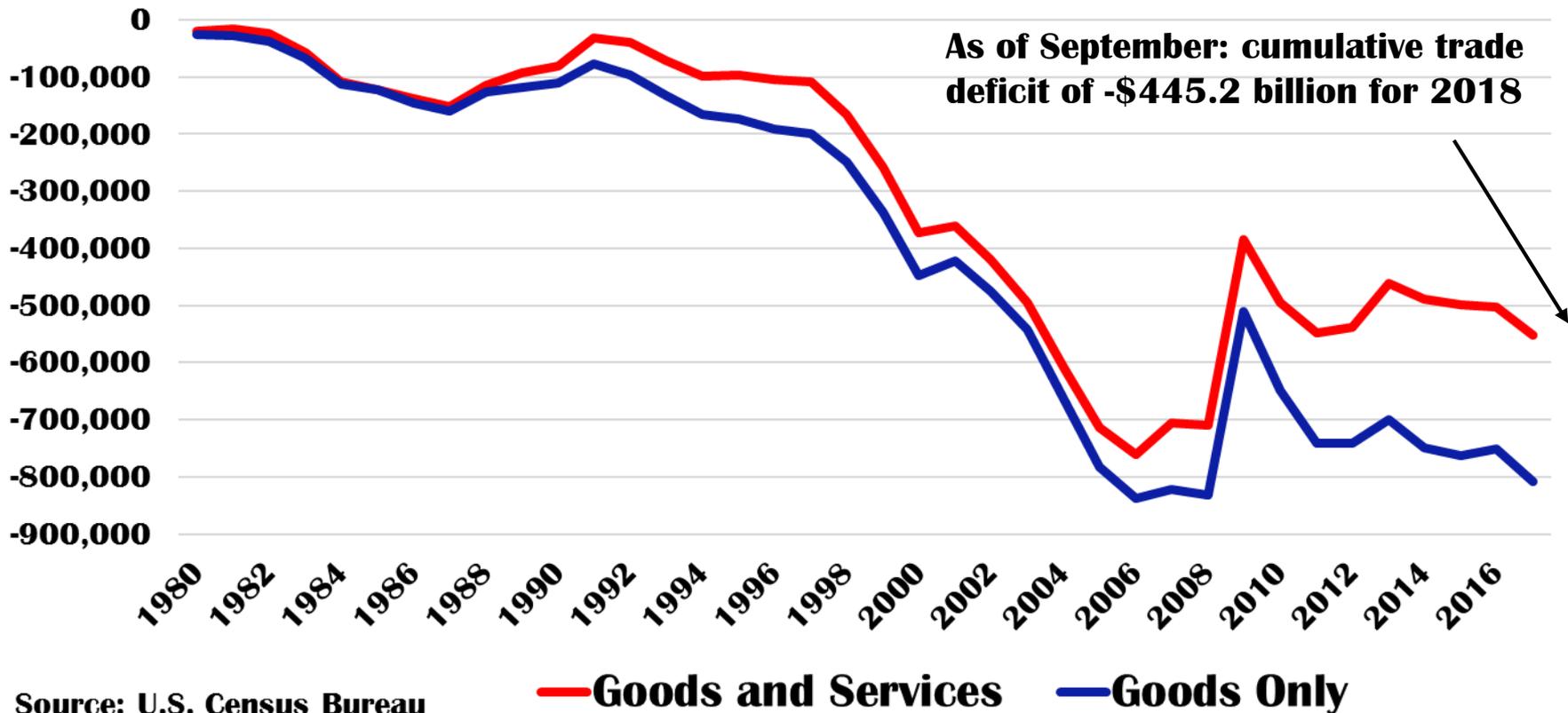
Source: USDA-FAS

The U.S. Trade Deficit

- ◆ **U.S. has run a trade deficit since early-1980s**
- ◆ **Economists agree: U.S. trade deficit driven by decline in national savings rate**
- ◆ **U.S. households have high marginal propensity to consume and U.S. government has propensity to run fiscal deficits**
- ◆ **Trade deficit will continue unless savings increase and/or investment falls**
- ◆ **Any increase in fiscal deficit will feed into trade deficit – exacerbated by fact that U.S. economy is running at full employment**

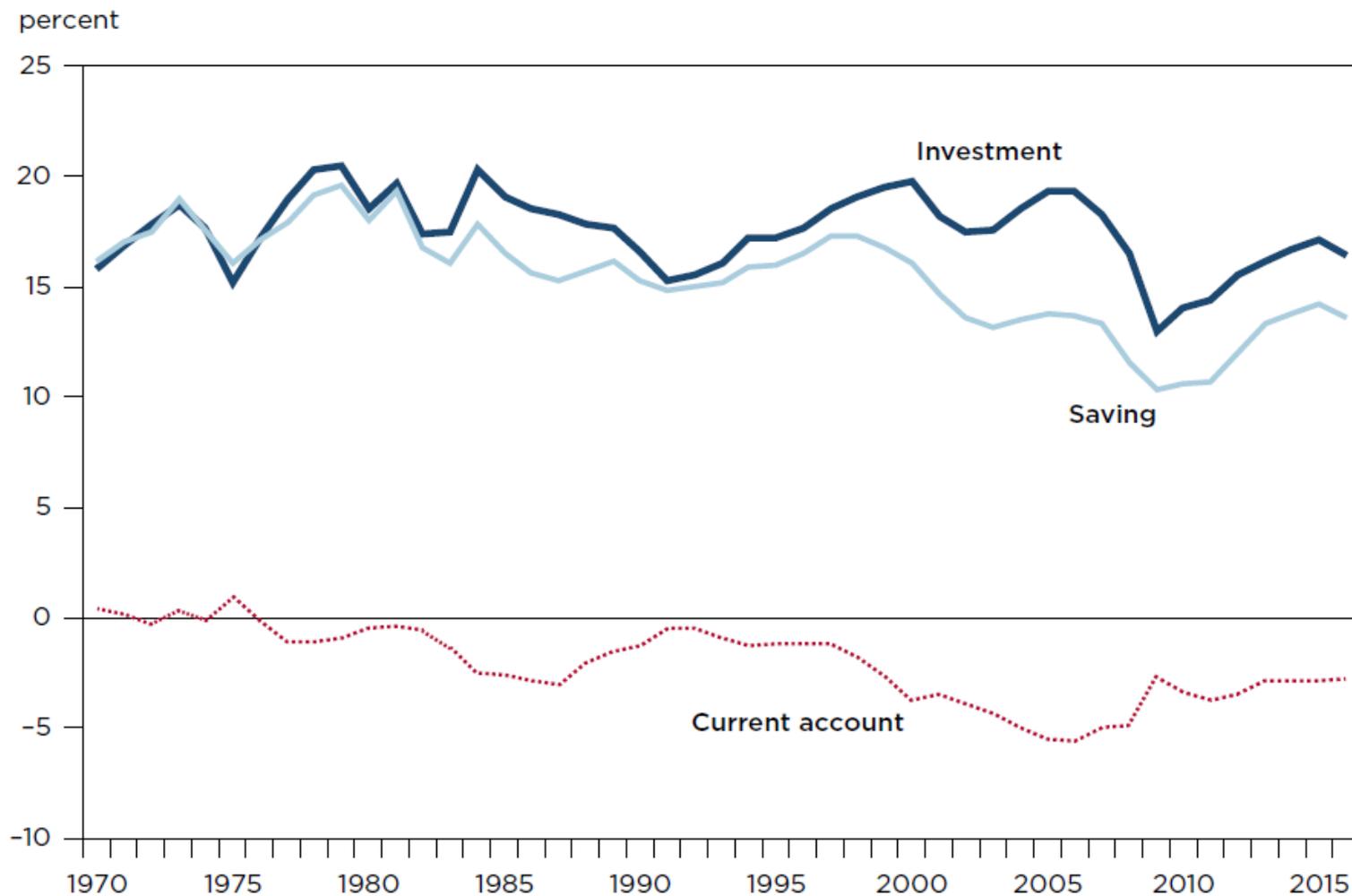
U.S. Trade Deficit

U.S. Current Account 1980-2017 (millions of \$)



Source: U.S. Census Bureau

U.S. Savings and Trade Balance



Source: Bureau of Economic Analysis

Trade Policy Won't Fix It

- ❖ **Economists agree: bilateral trade policy will not solve U.S. trade deficit – diverts trade to other countries/products**
- ❖ **Tariffs reduce imports, but also reduce exports, i.e., lower imports reduces demand for foreign currency, \$ strengthens, exports decline**
- ❖ **Essentially U.S. trade deficit is a macroeconomic phenomenon that can only be resolved through macroeconomic policy**
- ❖ **Policy choices: (i) Tax consumption/reduce fiscal deficit; (ii) Depreciate exchange rate; (iii) tax capital inflows (Freund, 2017)**

Concluding Thoughts

- ◆ **Trade is a positive-sum game: \$2.1 trillion extra U.S. GDP since 1950 (Hufbauer and Lu, 2017)**
- ◆ **Import tariffs will not solve U.S. trade deficit**
- ◆ **Legitimate concerns about trade with China: e.g., theft of U.S. intellectual property rights (IPRs) – \$50 billion/year (USTR, 2018)**
- ◆ **U.S. and allies should put pressure on China to conform to WTO rules (Lawrence, 2018) – but allies forced to retaliate against U.S. steel/aluminum tariffs**
- ◆ **U.S. trade policy a threat to post-war multilateral consensus on trade rules of GATT/WTO**