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"Deglobalization and Trade Policy"

Globalization and Trade Policy

Since the financial crisis of 2008-09, there has been considerable discussion about whether the world economy, after a period of "hyper-globalization" (1989-2009), has entered an era of deglobalization, exacerbated by the impact of the COVID-19 pandemic. However, focusing on standard metrics of globalization, the available evidence suggests a more appropriate description of the world economy is one of "slowbalization".[1] In terms of trade, imports grew rapidly post-financial crisis, and then recovered quickly after the COVID-19 shock, although their share of world GDP has declined modestly. Trade in intermediate inputs, essential to the operation of global value chains (GVCs), has shown a very modest slowdown, the share of GVC trade as a percentage of world trade having plateaued at 50 percent,[2] their expansion perhaps having reached its technological limit.[3] With respect to inward foreign direct investment (FDI) and immigration, there has been no major downward trend. Therefore, it is probably premature to describe the world economy as entering a period of deglobalization, although both China and the United States do appear to be decreasing their reliance on global markets.

The view that the world is not currently deglobalizing does of course run counter to much of the popular debate in the media about global value chains (GVCs) that arose during the pandemic, with the trend in news articles mentioning term such as "onshoring/reshoring" and "friendshoring" increasing significantly after 2020.[4] Much of this discussion is related to the perceived need to move US and other countries' GVCs away from being reliant on China, and the pandemic-induced focus on the resilience of GVCs to major shocks. Interestingly, the empirical evidence to date suggests that GVCs were actually quite resilient during the pandemic.[5] It is also important to separate the concepts of offshoring and reshoring, i.e., even if the incentives to offshore have changed, GVCs are unlikely to simply abandon their offshore investments given the associated sunk costs.[6]

There is evidence for reallocation of GVCs due to both US-China trade tensions and the COVID-19 pandemic. For example, there has been real decoupling of the United States and China, China's share of US imports falling from 22 to 16 percent between 2017 and 2022, largely as a result of increased US tariffs.[7] At the same time, direct US sourcing from China has been replaced by indirect sourcing through low wage sources such as Vietnam and nearshoring sources such as Mexico, with

[1] See Pinelopi K. Goldberg and Tristan Reed, 2023. "Is the Global Economy Deglobalizing? If So, Why? And What is Next." *Brookings Papers on Economic Activity*, Spring: 347-396.
[2] See World Bank, 2020. *World Development Report 2020: Trading for Development in the Age of Global Value Chains*. Washington, DC: World Bank.
[3] See footnote 1.
[4] See footnote 1.
[5] See footnote 1.
[6] See Pol Antràs, 2020. "De-Globalization? Global Value Chains in the Post-COVID-19 Age." NBER Working Paper 28115. Cambridge, MA: NBER.
[7] See Caroline Freund, Aaditya Mattoo, Alen Mulabdic, and Michele Ruta, 2023. "Is US Trade Policy Reshaping Global Supply Chains?" World Bank Policy Research Working Paper 10503. Washington, DC: World Bank

evidence of a growing presence of China in the manufacturing sectors of both countries, i.e., China is "tariff-jumping" through its FDI.[8]

Notwithstanding the evidence against significant deglobalization, the trade policy environment has changed significantly over the past decade, stimulated by concerns in both the United States and European Union (EU) about the impact of Chinese import competition on labor markets, as well as the impact of immigration flows in Europe. Both the targeting of tariffs against China by the Trump administration in 2018-19, and the UK's exit (Brexit) from the EU in 2016 were a response to the China import shock, which in turn led to a dramatic rise in populism leading to a shift in each country's trade policy.[9] It may be the case that world trade and other metrics of globalization will respond with a lag to these two policy shocks, however, both have had a measured impact on their respective economies, and there is an expectation that mooted trade policy choices by the United States could have a significant impact on its future trade and economic growth.

US Trade Policy Post-2001

The recent changes to US trade policy are rooted in two interconnected issues: concerns about the Chinese economic model and its impact on the US economy, and ongoing US dissatisfaction with trade dispute resolution under the World Trade Organization (WTO). The trade war between the United States and China has been interpreted as the former switching from a "rules-based" to a "power-based" approach to trade negotiations, targeting higher "bargaining" tariffs at a country with which it has consistently run a bilateral trade deficit.[10] This switch in trade policy emphasis has been driven by several other well-documented concerns the United States has about its trade relations with China, including the latter's higher average bound tariffs, manipulation of its exchange rate, and its violation of WTO rules.[11] A key component of this "power-based" approach is the United States has also disabled the dispute settlement system of the WTO by paralyzing its Appellate Body (AB).[12]

Although the United States reduced its bound most favored nation (MFN) tariffs on imports from China after the latter's accession to the WTO in 2001, it then switched to using other WTO-consistent border instruments, i.e., anti-dumping duties (ADs) targeted at Chinese firms selling at "unfairly" low prices in the US market, complemented after 2006 with countervailing duties targeted at Chinese firms receiving subsidies (CVDs). Over the period 2001-2017, the United States imposed 103 AD and 69 CVD trade restrictions on imports from China, the average duties being 151.5 and 72.4 percent, respectively. By 2017, the combination of MFN tariffs and ADs resulted in an average US tariff of 8.4 percent being applied against imports from China, with the steel and aluminum industries being the most covered industries.[13]

Application of "special" protection by the United States was then significantly ratcheted up in 2018 based on US trade law(s): first, tariffs were applied to all imports of solar panels and washing machines under Section 201 of the US Trade Act of 1974 (import surges); second, tariffs were applied on all imports of steel and aluminum under Section 232 of the Trade Expansion Act of 1962 (national security); and third, tariffs were specifically targeted at $250 billion of imports from China under Section 301 of the US Trade Act of 1974. In the case of steel and aluminum, growth in US imports from China had been slowed down through use of AD and CVD restrictions, but due to trade deflection of exports from China to third countries, and trade diversion of exports from third countries to the United States, imports from third

[8] See Laura Alfaro and Davin Chor, 2023. "Global Supply Chains: The Looming 'Great Allocation'." In *Structural Shifts in the Global Economy*. Kansas City, MO: The Federal Reserve Bank of Kansas City.

[9] See Steve McCorriston and Ian Sheldon, 2020. "Economic Nationalism: US Trade Policy vs. Brexit." *Ohio State Business Law Journal*, 14(1): 65-99.

[10] See Ian M. Sheldon, 2022. "The United States' Power-Based Bargaining and the WTO: Has Anything Really Been Gained?" *Applied Economic Perspectives and Policy*, 44(3): 1424-1439.

[11] See Wayne M. Morrison, 2018. *China-U.S. Trade Issues*. Congressional Research Service Report RL33536. Washington, DC: Congressional Research Service.

[12] Joost Pauwelyn, 2019. "WTO Dispute Settlement Post 2019: What to Expect?" *Journal of International Economic Law* 22(3): 297-321.

[13] See Chad P. Bown, 2021. "The US-China Trade War and Phase One Agreement." *Journal of Policy Modeling*. 43 (4): 805-843.

countries had continued.[14] Not surprisingly, other countries retaliated by implementing their own tariffs on steel imports from countries such as Brazil and India to prevent trade deflection into their own markets.

Imposition of tariffs by the United States reflects its and other countries' concerns about the Chinese economic model that has evolved since 2001. Key to this is that, while Chinese firms compete with one another, they may be subsidized relative to their foreign competition. First, SOEs in some industries face soft budget constraints (Lardy, 2019).[15] Second, some Chinese firms are influenced either directly or indirectly by the Chinese Communist Party (CCP). This phenomenon is denoted as "China Inc.", where intervention in the Chinese economy does not always flow through the state, the CCP functioning as a separate actor.[16] In combination with an emphasis on market forces, the Party-state can influence economic outcomes through: controlling key sectors of the Chinese economy (aerospace, aviation, energy, transport, communications etc.); directing financial resources via large Chinese banks; guiding and coordinating government agencies and firms via Party entities such as the Central Financial and Economic Affairs Commission; facilitating coordination through informal networks in specific sectors; setting performance metrics and controlling hiring within government, SOEs, banks etc.; and, developing formal and informal linkages between the Party and private firms. The net result of "China Inc." is subsidies are often targeted through informal channels and not directly via the state.[17] Third, use of export taxes, and the discriminatory rebate of value-added taxes on exports act as implicit export subsidies, e.g., export taxes on raw materials drive down their domestic price(s), providing a competitive advantage to downstream users.[18]

US concerns about the Chinese economic model have also informed debate about the impact of the China import shock prior to the financial crisis, and the subsequent shift in US politics to overt nationalism. The negative impact of increased import competition from China on the US labor market has been documented,[19] along with evidence that the China import shock affected polarization of voting patterns in the United States, especially districts most exposed to competition from Chinese imports.[20] This has been rationalized as a rise in populism being driven by a significant external event such as an import shock, which then leads to a substantive shift in a country's trade policy towards protectionism.[21]

At the same time as the United States has unilaterally implemented tariffs, it has effectively paralyzed the dispute settlement mechanism of the WTO, refusing to accept new appointments to its Appellate Body (AB) as the terms of sitting members expired.[22] It is important to note that while the number of AB members finally fell below the seven necessary to reach a quorum on December 10, 2019, this was the end result of long-running US dissatisfaction with decisions by the AB, and one that successive administrations (Obama/Trump/Biden) have expressed since 2016, when the Obama administration first opposed the appointment/reappointment of new/existing AB members.[23] With

[14] See Chad P. Bown, 2019. "The 2018 US-China Trade Conflict After Forty Years of Special Protection." *China Economic Journal* 12(2): 109-136.

[15] See Nicholas R. Lardy, 2019. *The State Strikes Back: The End of Economic Reform in China?* Washington, DC: Peterson Institute for International Economics.

[16] See Mark Wu, 2016. "The 'China, Inc.' Challenge to Global Trade Governance." *Harvard International Law Journal* 57(2): 261-324.

[17] See Mark Wu, 2019. "China's Rise and the Growing Doubts over Trade Multilateralism." In *Trade War: The Clash of Economic Systems Endangering Global Prosperity*, ed. Meredith A. Crowley, 101-110. VoxEU.org Book, London: CEPR Press.

[18] See Jason Garred, 2018. "The Persistence of Trade Policy in China after WTO Accession." *Journal of International Economics* 114(3): 130-142.

[19] See David H. Autor, David Dorn, and Gordon H. Hanson, 2013. "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." *American Economic Review* 103(6): 2121-2168.

[20] See David Autor, David Dorn, Gordon Hanson, and Kaveh Majlesi., 2020. "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure." *American Economic Review* 110(10): 3139-3183.

[21] See Gene M. Grossman and Elhanan Helpman, 2021. "Identity Politics and Trade Policy." *Review of Economic Studies* 88(3): 1101-1126.

[22] See Bernard M. Hoekman and Petros C. Mavroidis, 2020. "To AB or Not to AB? Dispute Settlement in WTO Reform." *Journal of International Economic Law* 23(3): 703-722.

[23] See Daniel C.K. Chow, 2023. "A Critique of the 2020 United States-China Trade Agreement and Suggested Corrective Measures." In *The Future of Trade: A North*

appointments to the WTO's AB being stymied by the United States, this essentially means that WTO panel decisions can be appealed "into the void".[24]

The US critique of the AB focuses on the way in which it has executed its mandate, and its dissatisfaction with some of its decisions. The latter fall into three groups: those decisions that (i) held certain US statutes to be in violation of WTO law, thereby requiring their appeal; (ii) rejected US enforcement of trade remedies such anti-dumping laws; and (iii) ruled in favor of China in several cases, despite China not meeting its WTO commitments to dismantle its state-led economy, notably its continued use of industrial subsidies.[25]

Essentially, the United States believes the AB has exceeded its authority by engaging in "judicial activism",[26] claiming that it has rejected existing US rights, as well as inventing new rights and obligations in its rulings against the United States.[27,28] First, the US charge of judicial activism is driven by the fact that while the AB was created to correct legal errors by panels, there has been no effective check on AB decisions, exacerbated by its *de facto* application of the principle *stare decisis*, the United States arguing the AB has been "creating its own rules".[29] Second, the AB has addressed issues not raised by parties as well as providing unnecessary opinions, i.e., commentary that in legal terms would be considered *obiter dicta*,[30] and in the US view this has the potential to wrongly influence future disputes if treated as precedent. Therefore, given the United States believes such decisions have been made outside of the defined authority of the WTO, they are considered unlawful, the United States having no obligation to abide by them – fundamentally, in the view of the United States, the AB has undermined its legitimate sovereignty.[31]

Tariffs and the US-China Trade War

Prior to 2018, US-China trade-weighted tariff rates toward each other averaged 3.1 and 8 percent respectively.[32] By the end of 2018, trade-weighted average US tariffs on 46.9 percent of its imports from China had been raised to 12 percent, matched by an increase in trade-weighted average Chinese tariffs to 16 percent on 56.3 percent of its imports from the United States. When the United States China Trade Agreement (USCTA) was signed in early-2020, trade-weighted average US tariffs on 58.3 percent of its imports from China had risen to 19.3 percent (26.7 percent including anti-dumping duties), while trade-weighted average Chinese tariffs on 66.4 percent of its imports from the United States had risen to 20.7 percent (21.2 percent including anti-dumping duties).[33] Therefore, over this two-year period, trade-weighted average US tariffs against China (including anti-dumping duties) more than tripled relative to their pre-2018 level of 8.4 percent, approaching the trade-weighted average tariff level of 28.1 percent imposed under the Smoot-Hawley tariff act of 1930.[34]

The Economic Costs of the Trade War

The US-China trade war represents a natural experiment, such wide-ranging increases in tariffs having not been seen since the 1930s. In addition, other key trading US trading partners, including Canada, the European Union (EU), Japan, and Mexico were dragged into the conflict after the United States implemented tariffs against steel and aluminum imports in 2018. During 2018, US

American Perspective, edited by David A. Gantz and Tony Payan, 175-199, Cheltenham, UK: Edward Elgar.

[24] See footnote 12.

[25] See footnote 23.

[26] See United States Trade Representative (USTR), 2018. *2018 Trade Policy Agenda and 2017 Report of the President of the United States on the Trade Agreements Program*. Washington, DC: USTR.

[27] See footnote 23.

[28] See also Tetyana Payosova, Gary Clyde Hufbauer, and Jeffrey J. Schott, 2018. *The Dispute Settlement Crisis in the World Trade Organization: Causes and Cures*. Policy Brief 18-5, Washington, DC: Peterson Institute for International Economics.

[29] See World Trade Organization (WTO)/Dispute Settlement Body (DSB), 2002. "Minutes of Meeting." WT/DSB/M/121, para. 35. Geneva: WTO

[30] See Terence P. Stewart, 2018. *The Broken Multilateral Trade Dispute System*. Washington, DC: Law Offices of Stewart and Stewart.

[31] See footnote 22.

[32] See footnote 14.

[33] See footnote 14.

[34] See Chad P. Bown and Douglas A. Irwin, 2018. "What Might a Trump Withdrawal from the World Trade Organization Mean for US Tariffs?" Policy Brief 18-23. Washington, DC: Peterson Institute for International Economics.

tariffs were targeted at 12,043 specific products at the Harmonized Tariff Schedule of the United States (HTSUS)-10-digit level, where in 2017, these imports were valued at $303 billion, accounting for 12.7 percent of total US imports.[35] The average *ad valorem* tariff increased by from 2.6 to 16.6 percent. In terms of retaliatory tariffs on U.S. exports by Canada, China, Mexico, Russia, Turkey, and the EU, these accounted for $127 billion of U.S. exports, 8.2 percent of total exports, covering 8,073 products.[36]

US tariffs were mostly targeted at China, and Chinese retaliatory tariffs against the United States dominate, supporting the contention the trade war has essentially been between these two countries. In 2018, the United States targeted 11,207 products accounting for 49 percent of total imports from China, tariffs increasing on average from 3.0 to 15.5 percent, while China targeted 7,474 products, tariffs increasing on average from 8.4 to 18.9 percent. The data also show the most protected US sectors were primary metals, machinery, computer products, and electrical equipment and appliances, while US trading partners targeted different products, most notably agricultural imports.

Initial analysis compared targeted and non-targeted US imports and exports.[37] In the case of imports, the results indicate their value and quantity declined by 20 and 23 percent, respectively. Initial evidence was also found that the incidence of US import tariffs was borne entirely by US consumers, tariff-inclusive unit values of imports increasing significantly as compared to before-tariff unit values which did not change. A similar pattern was found in the case of exports, where their value and quantity fell by 24 and 25 percent respectively, with no change in their before-tariff unit values, i.e., there was, complete passthrough of retaliatory tariffs to foreign consumers.[38]

The impact of tariff increases on US import demand and foreign export supply has also been examined, the empirical results showing both the value and quantity of US imports declined in response to the application of tariffs, other research finding similar effects.[39] It was also found that there was no impact of US tariffs on before-tariff unit values. The latter result provides further evidence for complete passthrough of the tariffs to tariff-inclusive prices borne by US consumers. Similar results are reported for the impact of retaliatory tariffs on US exports – there were significant declines in both the value and quantity of exports, but there was no reduction in before-tariff unit values by US exporters.[40]

The finding that incidence of US tariffs was almost entirely borne by US consumers is a surprising result given the empirical support for the terms-of-trade theory of trade agreements.[41] Over a longer time-period, it might be expected exporters would eventually cut before-tariff prices, especially if there was resolution of exporter uncertainty about how long the tariffs will remain in place. Interestingly, another study with data for 2019, finds some variation across sectors, e.g., US tariffs led foreign steel exporters to lower their before-tariff prices.[42]

The overall effects of the trade war on the US economy have also been evaluated, the results being as follows: first, US consumers of imported goods in aggregate lost $51 billion due to higher prices; second, US exporters saw an increase in their income of $9.4 billion; and third, US tariff revenue totaled $34.3 billion. Therefore, the net effect of the trade war was an aggregate loss of US real income of $7.3 billion,[43] which compares with an

[35] See Pablo D. Fajgelbaum, Pinelopi L. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal. 2020. "The Return to Protectionism." *Quarterly Journal of Economics* 135(1): 1-55.
[36] See footnote 35.
[37] See footnote 35.
[38] See footnote 35.
[39] See footnote 35. See also Mary Amiti, Stephen J. Redding, and David E. Weinstein, 2019. "The Impact of the 2018 Tariffs on Prices and Welfare." *Journal of Economic Perspectives* 33(4): 187-210, who found similar effects in their study.
[40] See footnote 35.
[41] See Kyle Bagwell and Robert W. Staiger, 2011. "What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization". *American Economic Review* 101(4): 1238-1273.
[42] See Mary Amiti, Stephen J. Redding, and David E. Weinstein, 2020. "Who's Paying for the U.S. Tariffs? A Longer-Term Perspective." *AEA Papers and Proceedings* 110(May): 541-546.
[43] See footnote 35.

estimated net real income loss of $8.2 billion reported in another study.[44]

In summary, the empirical evidence clearly shows the incidence of import tariffs implemented in 2018 was entirely borne by US consumers, any terms-of-trade effects on the import side being insignificant. Also, if there had been no retaliation by China and other countries, there would have been a modest US real income gain of $0.5 billion in 2018 due to terms-of-trade effects on the export side. In addition, despite the repeated claims that unilateral implementation of tariffs would have a positive effect on US manufacturing jobs, recent research indicates that they neither raised nor reduced employment in the protected sectors, and China's retaliatory tariffs had negative employment effects, notably in the agricultural sector, which were only partially mitigated by agricultural subsidies provided through the Market Facilitation Program (MFP).[45]

The Impact of Retaliatory Tariffs on US Agriculture

An initial analysis of the effect of retaliatory tariffs against the US agricultural sector indicated average tariffs on US agricultural products increased from 8.3 to 28.6 percent on 908 products accounting for $32 billion worth of US exports.[46] Retaliatory tariffs disproportionately affected agricultural products compared to other sectors, and the tariff increases were also steeper. The most significant retaliation was by China, who imposed tariffs on $25.5 billion of U.S. imports.

The same study also identified the impact of the retaliatory tariffs on US agricultural exports, based on exploiting differences in export quantities, values, and unit values between targeted and non-targeted products over time.[47] The results indicate retaliatory tariffs had a significant impact on agricultural trade. First, the United States saw a 55 percent reduction in its exports to retaliating countries worth -$15.6 billion (trade destruction), which was only partially offset by a 0.8 percent increase in exports worth $1.2 billion to countries that did not implement tariffs (trade deflection), i.e., net destruction of US agricultural exports was -$14.4 billion. Second, non-retaliating countries experienced a 31 percent expansion of their exports to retaliating countries worth $13.5 billion (trade diversion). These effects were also very concentrated at the product level, with trade destruction and trade diversion being particularly significant for soybeans at -$7.1 billion and $3.7 billion respectively, trade in pork products and coarse grains such as corn also being affected. Overall, US exporters appear to have had difficulty in adapting their supply chains to non-retaliating countries, while other exporting countries were able to increase their market share in retaliating countries at the expense of the US.[48]

These findings have been reinforced by another study designed to evaluate the impact on US agricultural exports of the retaliatory tariffs imposed by several of its trading partners.[49] Importantly, this study controls for any pre-exiting trade distortions that had little to do with the trade war. Their key results are: first, due to tariff retaliation, the US agricultural sector suffered annualized trade losses of $13.5 to $18.7 billion, China accounting for the majority and severity of the retaliation; second, losses were larger for bulk commodities compared to differentiated products, damage to soybean exports being estimated at $10.7 billion.[50]

Drawing on the latter study, economists at the Economic Research Service (ERS) of USDA examined the distribution of agricultural export losses by both state and commodity groups over the period 2018-19.[51] At the

[44] See footnote 39.
[45] See David Autor, Anne Beck, David Dorn, and Gordon H. Hanson, 2024. "Help For The Heartland? The Employment and Electoral Effects of The Trump Tariffs in The United States." NBER Working Paper 32082. Cambridge, MA: NBER.
[46] Colin A. Carter and Sandro Steinbach, 2020. "The Impact of Retaliatory Tariffs on Agricultural and Food Trade." NBER Working Paper 27147. Cambridge, MA: NBER.
[47] See footnote 46.
[48] See footnote 46.
[49] See Jason H. Grant, Shawn Arita, Charlotte Emlinger, Robert Johansson, and Chaoping Xie, 2021. "Agricultural Exports and Retaliatory Trade Actions: An Empirical Assessment of the 2018/2019 Trade Conflict." *Applied Economic Perspectives and Policy* 43(2): 619-640.
[50] See footnote 49.
[51] See Stephen Morgan, Shawn Arita, Jayson Beckman, Saquib Ahsan, Dylan Russell, Philip Jarrell, and Bart

national level, losses due to retaliatory tariffs over the period totaled $27 billion, with China accounting for 95 percent of the losses, annualized losses being $13.2 billion. At the commodity level, export losses were dominated by soybeans at $9.4 billion, 71 percent of the annualized losses, while at the state level, export losses were concentrated in the Midwest, notably in Iowa, Illinois, and Kansas. In terms of Ohio, its annualized trade losses were $616.09 million, accounting for 4.7 percent of the US total, with the bulk of its export losses being in soybeans at $567.12 million.[52]

Following signing of the USCTA's Phase One Agreement in January 2020, and China's offer of tariff exemptions in March 2020, US agricultural exports to China did rebound, although some of the increase was likely driven by factors beyond trade policy such as recovery of the Chinese hog sector post-African Swine Fever. By 2021, US export market share in China had still not recovered to pre-2018 levels, and the most recent forecast from ERS indicates that China will fall to being the United States' third largest market behind Mexico and Canada.[53]

Potential Effects of Future US Trade Policy

Clearly, there has been a substantive change in the US approach to its international trading relationships. Importantly, this approach has not fundamentally changed under the current administration, the tariffs against China being maintained, along with the introduction of targeted tariffs of 50 and 100 percent on imports from China of semiconductors and electric vehicles (EVs) respectively,[54] and application of export restrictions on semiconductors.[55] The latter polices reflect the United States switching away from trade to industrial policy, as well as being distinctly different to the EU's policy approach to EVs.[56] At the same time, there is no sign of the United States lifting its veto on new appointments to the WTO's AB, the United States preferring to utilize unilateral, bilateral and regional approaches to enforcing trade commitments.[57]

There is also a distinct probability that the trade war with China could be ratcheted up, a bipartisan US House Select Committee recently recommending that the United States discontinue Permanent Normal Trade Relations (PNTR) with China,[58] i.e., China's MFN status would be revoked. [59] What this means for US tariffs on Chinese imports is currently unclear, one suggestion being that all existing Section 301 exclusions are withdrawn, implying 25 percent tariffs across the board on imports from China, another that tariff rates will be set at levels similar to those applied to other countries without PNTR such as Belarus, Cuba, North Korea, and Russia.[60] There is also the chance that an incoming administration could implement even higher tariffs of 60 percent against Chinese products, as well as 10 percent tariffs on imports from the rest of the world.[61]

While resumption of the trade war has not yet happened, it is important to understand the potential implications if an incoming administration were to follow up on commitments to raise tariffs against both

Kenner, 2022. "The Economic Impacts of Retaliatory Tariffs on U.S. Agriculture." Economic Research Report Number 304. Washington, DC: USDA/ERS.

[52] See footnote 51.

[53] See James Kaufman, Hui Jiang, Bart Kenner, Angelica Williams, and Adam Gerval, 2024. Outlook for U.S. Agricultural Trade." AES-128. Washington, DC: USDA/ERS.

[54] See Alan W. Wolff, 2024 "Trump's proposed blanket tariffs would risk a global trade war." Realtime Economics, May 29. Washington, DC: Peterson Institute for International Economics.

[55] See footnote 1.

[56] See Keith M. Rockwell, 2024. "China EVs Drive A Widening Gulf In Transatlantic Trade Policy." Singapore: Hinrich Foundation.

[57] See Ian Sheldon and Daniel C.K. Chow, 2024. "The Future of Dispute Resolution in International (Agricultural) Trade." Invited Paper, AAEA Annual Meetings, New Orleans, LA.

[58] See United States Congress – The Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, 2024. *Reset, Prevent, Build: A Strategy to Win America's Economic Competition with the Chinese Communist Party.* Washinton, DC: United States Congress.

[59] See Deborah Elms, 2024. "Least Favored Nation: What it means if the US revokes PNTR with China." Singapore: Hinrich Foundation.

[60] See Oxford Economics. 2023. *The Impact of China PNTR Repeal and Increased Tariffs on the US Economy and American Jobs*. Oxford, UK: Oxford Economics.

[61] See footnote 54. See also Kimberly A. Clausing and Mary E. Lovely, 2024. "Why Trump's Tariff Proposals Would Harm Working Americans." Policy Brief 24-1. Washington, DC: Peterson Institute For International Economics.

China and other trading partners. Necessarily any evaluation of the effects is before the fact, but given the extent and breadth of the proposed tariff increases, and given what is known about the previous tariff increases, it is important to get some sense of what to expect. Assuming no terms-of-trade effects and no retaliation, a recent study by the Peterson Institute for International Economics calculates that if all the additional tariff proposals are implemented, the costs to US consumers would be equivalent to at least 1.8 percent of GDP, almost five times the cost of the tariff increases through late-2019, summing to $500 billion per year.[62] Importantly, these estimates should be treated as a lower bound to expected costs, as retaliation by China and other US trading partners is ignored.

A study by Oxford Economics, focusing on the sectoral impact of a possible repeal of PNTR over the forecast period 2024-28, finds that in the absence of Chinese retaliation, there would be a cumulative real GDP loss of $1.6 trillion, households being worse off on average by $8,700 in lost income. The worst affected sector would be manufacturing given its dependence on imported intermediate inputs, but agriculture would only be minimally affected, coming in at 4th among the top-10 best performing sectors in terms of reduced contribution to GDP.[63] However, allowing for Chinese retaliation, the cumulative loss in real GDP increase to $1.9 trillion, households being worse off by $11,100. Not surprisingly, retaliation by China has a negative effect on US exports, with agriculture now being 7th among the top-10 worst performing sectors in terms of lost production and contribution to GDP. At the state level, due to dependence on agricultural activity, the largest impact of retaliation is expected to be on Midwestern and Southern states, retaliation exacerbating the impact of US-only tariffs.[64] Interestingly, a study of the potential impact of repeal on PNTR indicates the Californian agricultural sector could suffer trade losses of up to $1 billion, equal to about 4 percent of the value of its agricultural exports.[65]

There may also be important knock-on effects on agricultural and other exporters through expected exchange rate effects, which will in turn add to the US trade deficit, i.e., an appreciation in the US dollar would raise the price of US exports at the same time as making foreign production cheaper.[66] Macroeconomists have long understood that increased tariffs on US imports are likely to result in an appreciation of the US dollar.[67] Given the generalized tariff increase being imposed, the dollar has to appreciate in order to ensure international equilibrium, i.e., without appreciation there would be an excess demand for US-produced goods given tariffs, and an excess supply of foreign-produced goods. A stronger dollar raises the relative price of US goods on the world market, which encourages foreign consumers to shift away from US exports towards foreign-produced goods, restoring international equilibrium.[68]

Available empirical evidence indicates that the 2018-19 tariff increase did result in an appreciation of the US dollar, as well as a depreciation of the Chinese yuan.[69] There may also be additional appreciation pressures if foreign central banks cut interest rates in the face of lost exports to the United States, the subsequent investment flows into the United States bidding up the value of the dollar. Given US imports are typically invoiced in dollars, any increase in consumer purchasing power due to appreciation could be offset by the inflationary effect of higher tariffs.

Conclusion

Informed by the earlier studies of the 2018-19 US tariff increases, the overall conclusion to be drawn here is that the scale of the

[62] See footnote 61.
[63] See footnote 60.
[64] See footnote 60.
[65] See Colin A. Carter and Sandro Steinbach, 2024. "Revoking China's Preferred Trade Status Would Be Costly for California Agriculture." ARE Update, 27(4). California: Giannini Foundation of Agricultural Economics, University of California.
[66] See Kimberly Clausing and Maurice Obstfeld, 2024. "Can Trump Replace Income Taxes With Tariffs?" Realtime Economics. Washington, DC: Peterson Institute of International Economics.
[67] See Robert Mundell, 1961. "Flexible Exchange Rates and Employment Policy." *The Canadian Journal of Economics and Political Science* 27(4): 509-517.
[68] See footnote 66.
[69] See Olivier Jeanne and Jeongwon Son John, 2024. "To What Extent Are Tariffs Offset By Exchange Rates?" *Journal of International Money and Finance* 142 (April): 10315.

proposed increase in tariffs is likely to have a significant negative impact on US consumers, and they have the potential to inflict substantial damage to US agricultural and other exporters, given the high probability that China and other US trading partners will retaliate. In addition, there may be broader fiscal and distributional costs associated with higher US tariffs, along with appreciation of the dollar and an increase in the trade deficit.

At the same time, even though a coalition of 26 countries, including the EU and China, have agreed not to appeal WTO panel reports, there appears little chance the United States is either prepared to join the coalition or remove its veto on appointments to the WTO's AB. Instead the United States continues to pursue trade dispute resolution through bilateral and regional arrangements such as USCTA and the United States-Mexico-Canada Agreement (USMCA).[70]

Therefore, given current trade policy choices, combined with ongoing dysfunction of the WTO's multilateral dispute settlement mechanism, there is a real possibility that the global economy, which has survived significant shocks since the financial crisis, could enter a period of real deglobalization as opposed to observed slowbalization, if a new trade war breaks out.

Andersons Policy Bulletins are discussions of key trade and policy issues. The author of this bulletin, Ian M. Sheldon, is Andersons Chair of Agricultural Marketing, Trade and Policy in the Department of Agricultural, Environmental, and Development Economics within the College of Food, Agricultural, and Environmental Sciences at The Ohio State University.

Questions or comments?

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[70] See footnote 57.