Trade Wars

Implications for developing countries

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US concerns with China

- Bilateral trade deficit
- Unemployment in manufacturing sector
- Theft of intellectual property
- Unfair competition
- Currency manipulation
- China is not a “market” economy

Outline

- Chronology of reciprocal tariff increases
- Coverage
- Optimal tariff
- Scenarios
- GTAP CGE model
- Results
- Implications

Tit for tat (2018)

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- US initiated tariff war with China
- March. US tariffs on steel and aluminium
- April. China imposed tariffs on 128 products
- July. USA 1,333 products, an additional 25 per cent tariff on Chinese imports worth $34 billion
- July. China imposed tariffs on imports worth $34 billion (545 items)
- 23rd August. US 25% on List 2.
- 21st Sept. US 10% on List 3 ($200b), China retaliation ($60b)
- 18th November. China's MFN tariff cut on industrial goods

Tit for tat (2019 and 2020)

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- 1st Jan. China suspends retaliation on US auto and parts
- 8th Feb. US tariffs reduced on solar panels and washing machines
- May/June. US List 3 from 10% to 25%, China retaliates
- 1st July. China reduces MFN tariffs on IT products
- 1st Sept. US 15% on List 4A (subset of $300b), China retaliates on subset of $75b
- 17th Sept. China implements product exclusions
- 14th Feb. 2020. Phase 1. List 4A tariffs cut in half. China responds likewise on subset of $75b. China agrees additional $200b imports from US
- March 2020. US reduces tariffs on medical equipment (PPE)

Source: Bown 2020

Coverage, USA

– US tariffs on industrial products
  - aerospace
  - information technology
  - robotics
  - new machinery
  - automobiles

– not consumer products
  - television
  - mobile phones

Coverage, China

- China 1st list
  - fruit and nuts, pork products
  - various steel pipes, scrap aluminium

- China 2nd list
  - soybeans, other agricultural products, seafood
  - sports utility vehicles, electric vehicles and energy products
  - excludes aircraft and aviation equipment

Soya beans

- On China's 2nd list
- Subsequently removed
- Pig feed, with few close substitutes
- Mostly imported from USA
- Alternative supplier is Brazil

Optimal tariff

1. Is there an optimal tariff?
2. Differs by product, according to elasticity
3. US implements across-the-board-tariff: 5, 10, 25%
4. What is US, China welfare maximising tariff, assuming no retaliation?

Scenarios

1. US bilateral tariffs on $250 billion of imports from China
2. China bilateral tariffs on $75 billion of imports from USA
3. Trade war. Both countries impose bilateral tariffs

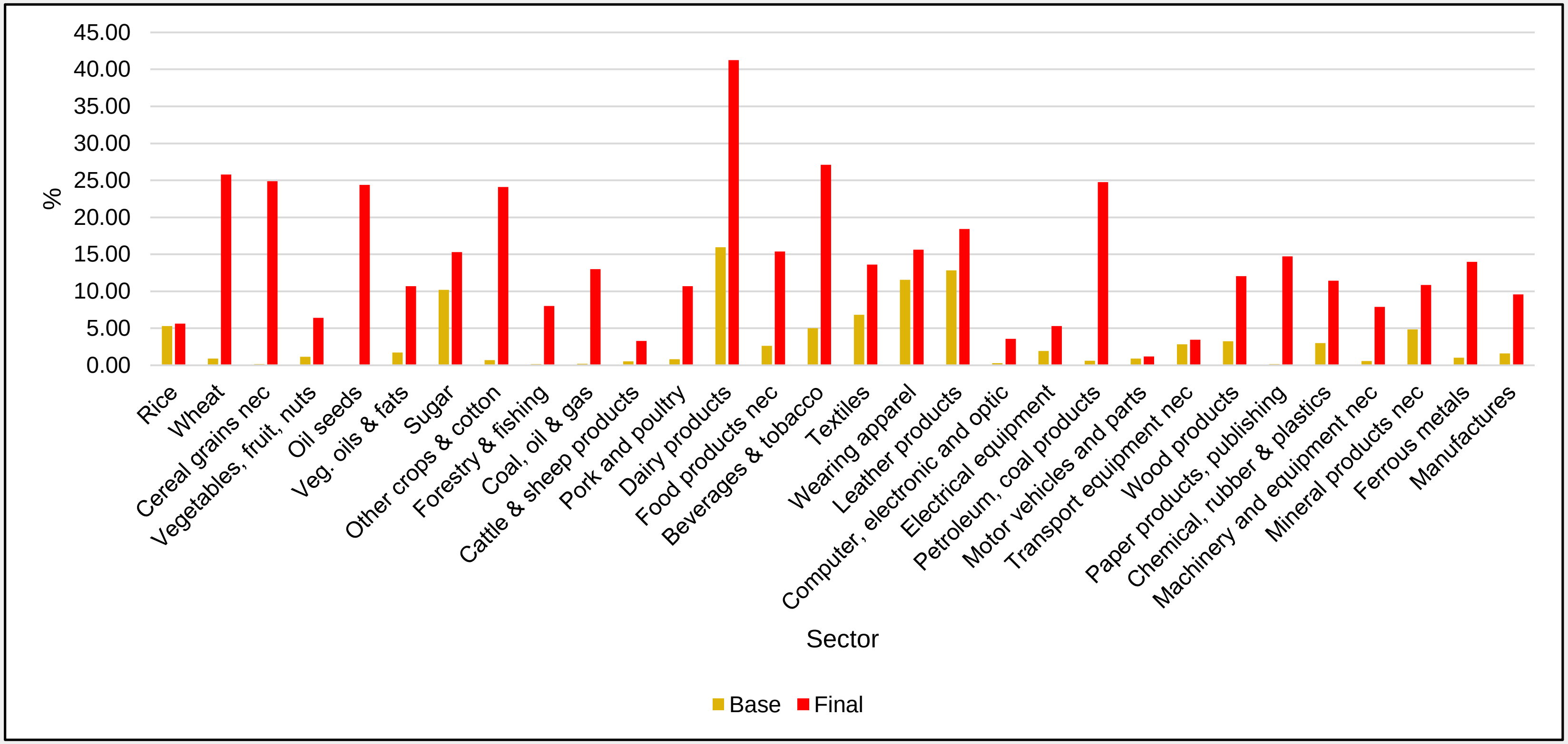
Shock is additional 25 percentage points on listed items, e.g. 5%-->30%.

Excludes Phase 1 February 2020.

Global general equilibrium

- GTAP
- Version 10, base 2014
- Bilateral trade and tariffs
- Includes preferential tariffs
- Shocks at 8 digit level, aggregate to 32 GTAP sectors
- Standard closure, static simulation.

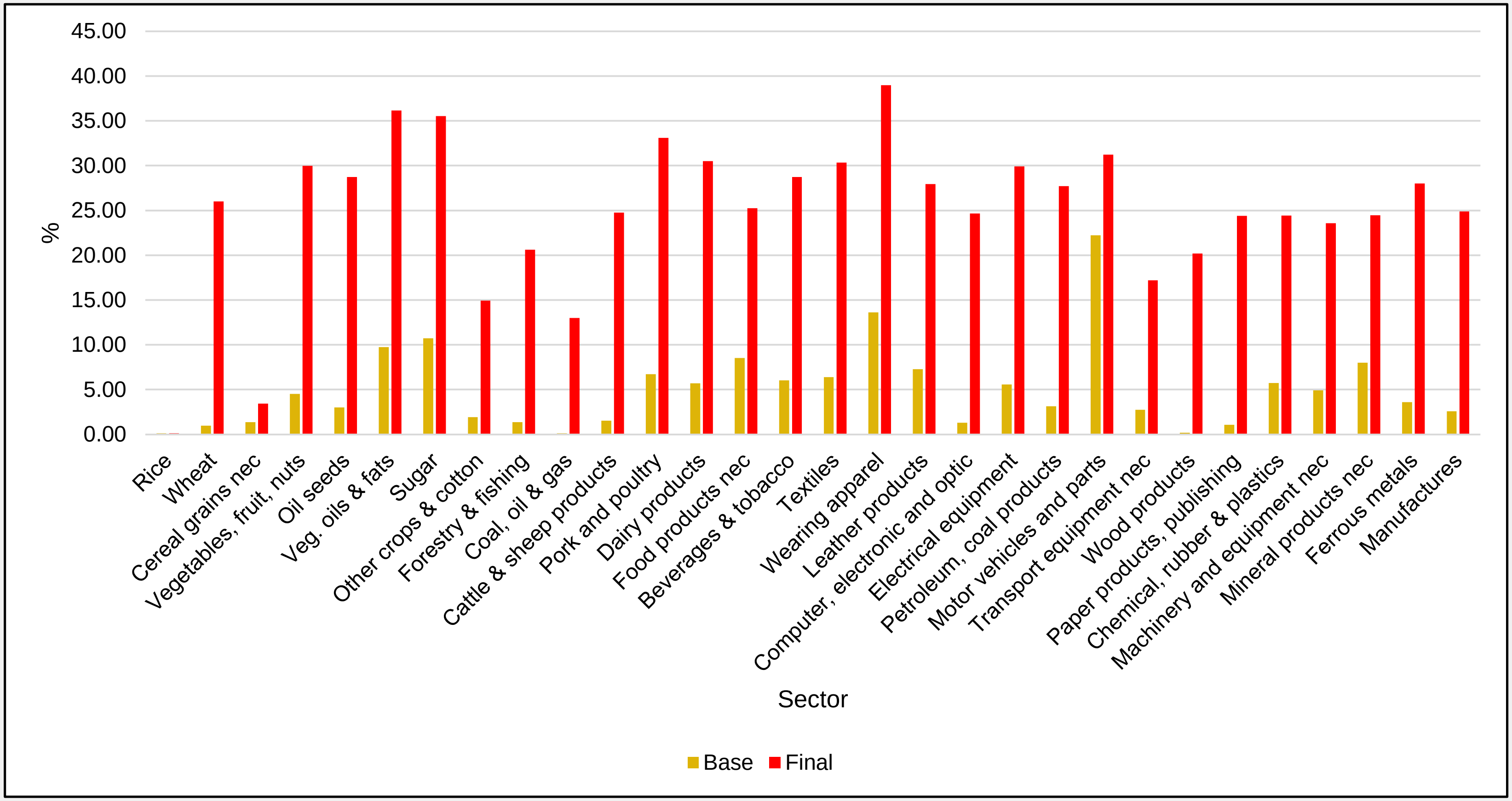
US tariffs



Base and final US tariffs on imports from China

Source: Calculations with TASTE.

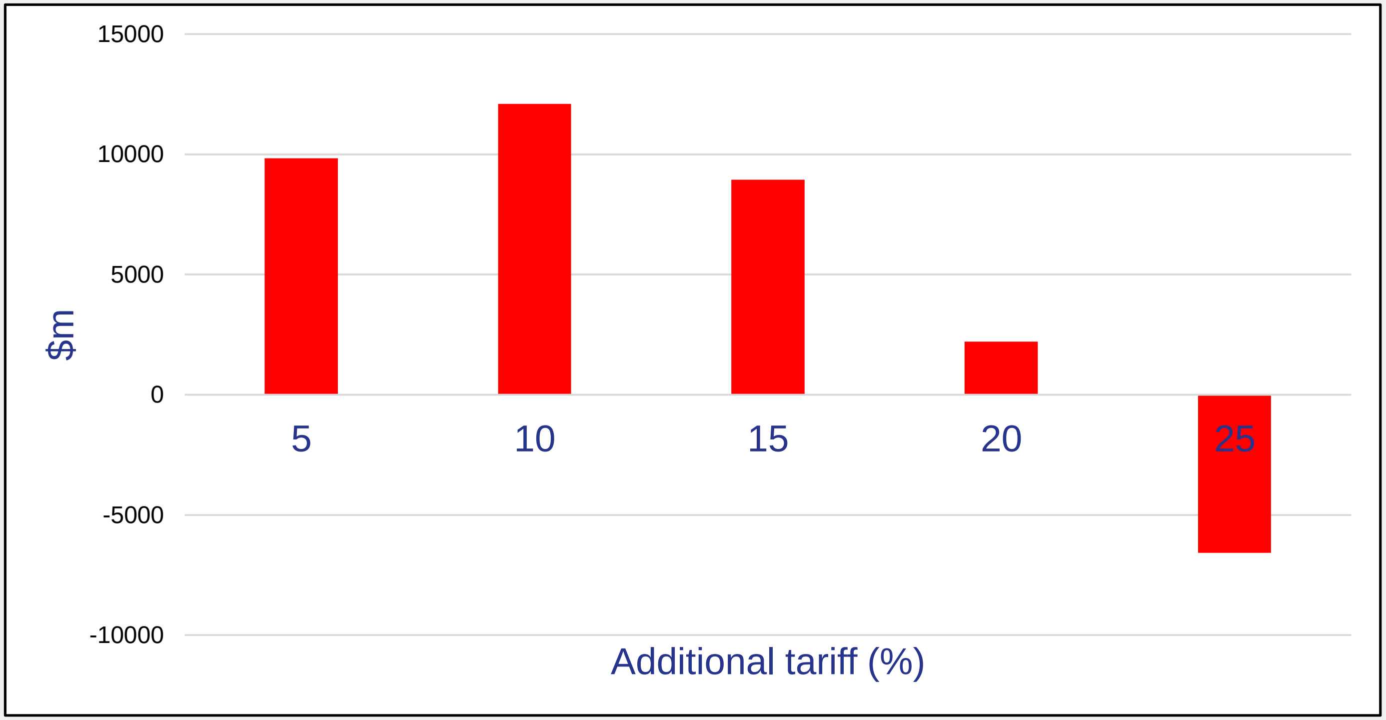
China tariffs



Base and final China tariffs on imports from USA

Source: Calculations with TASTE.

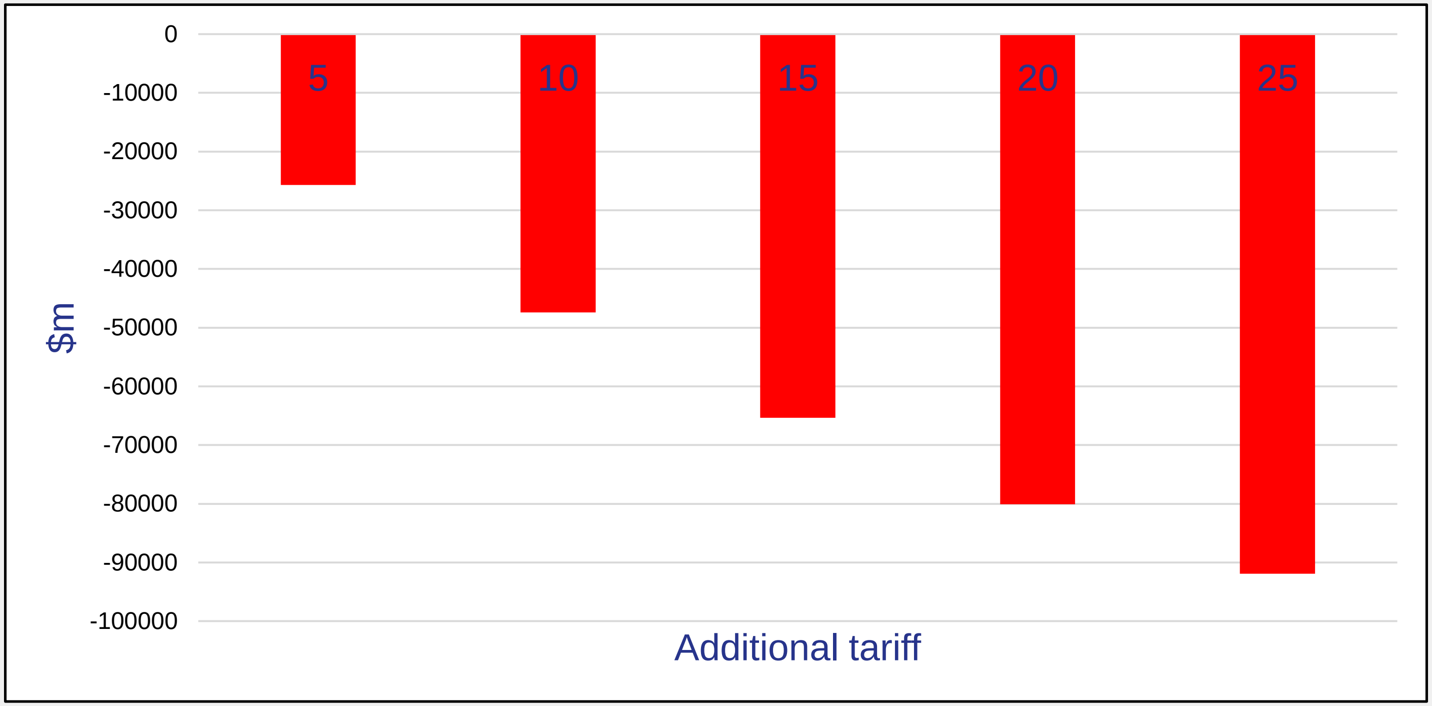
US optimal tariff



Welfare gains assuming no retaliation

Source: GTAP simulations.

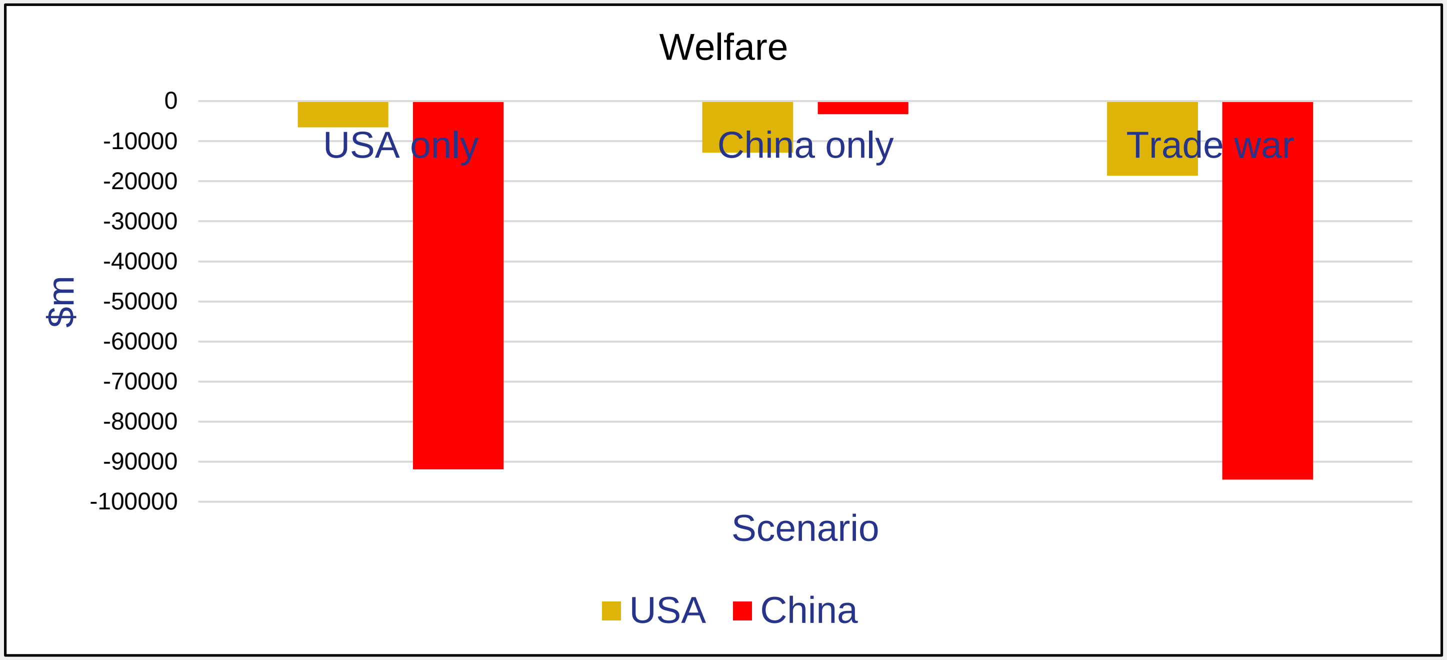
Impact on China of US tariffs



Welfare losses

Source: GTAP simulations.

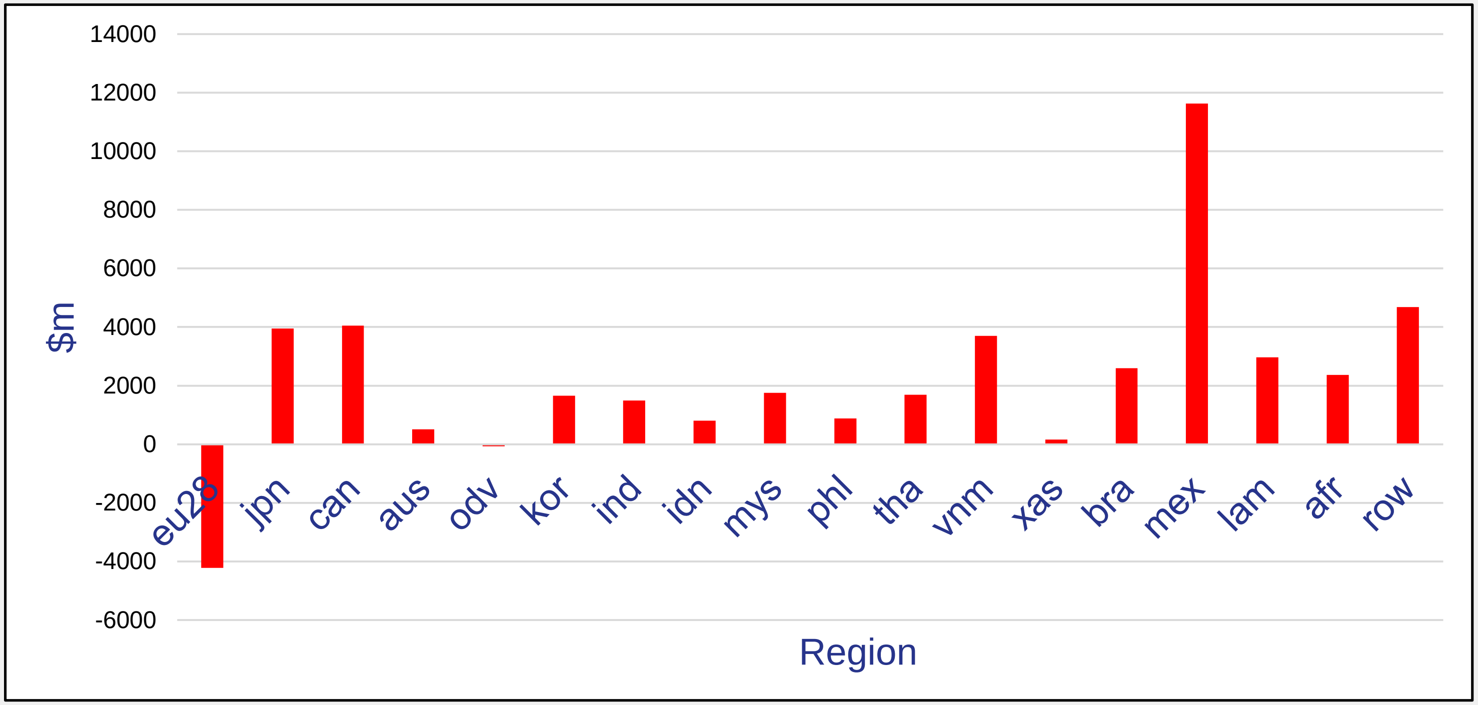
Results: 3 scenarios



China has little impact on US.

Source: GTAP simulations.

Welfare, trade war scenario



Mexico, Japan, Canada, Vietnam

Source: GTAP simulations.

GDP, trade war scenario

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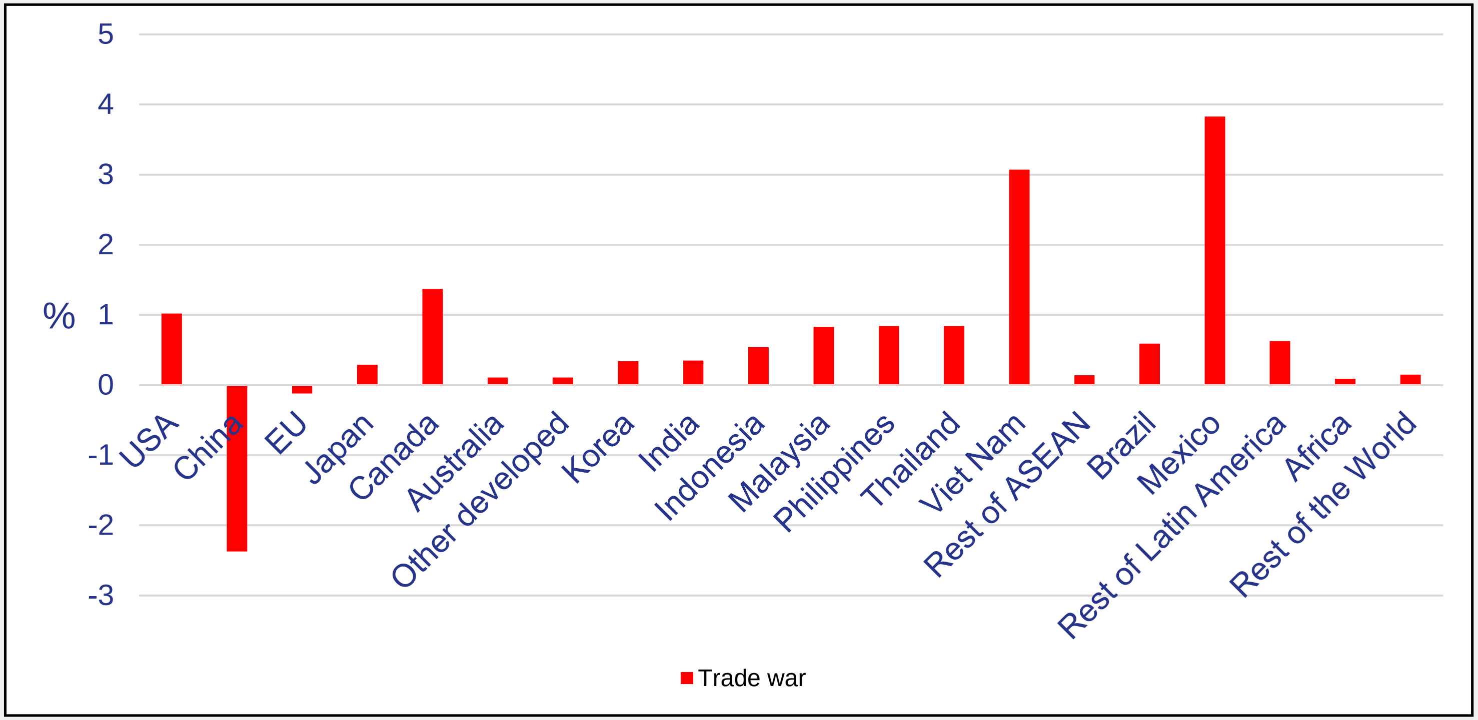
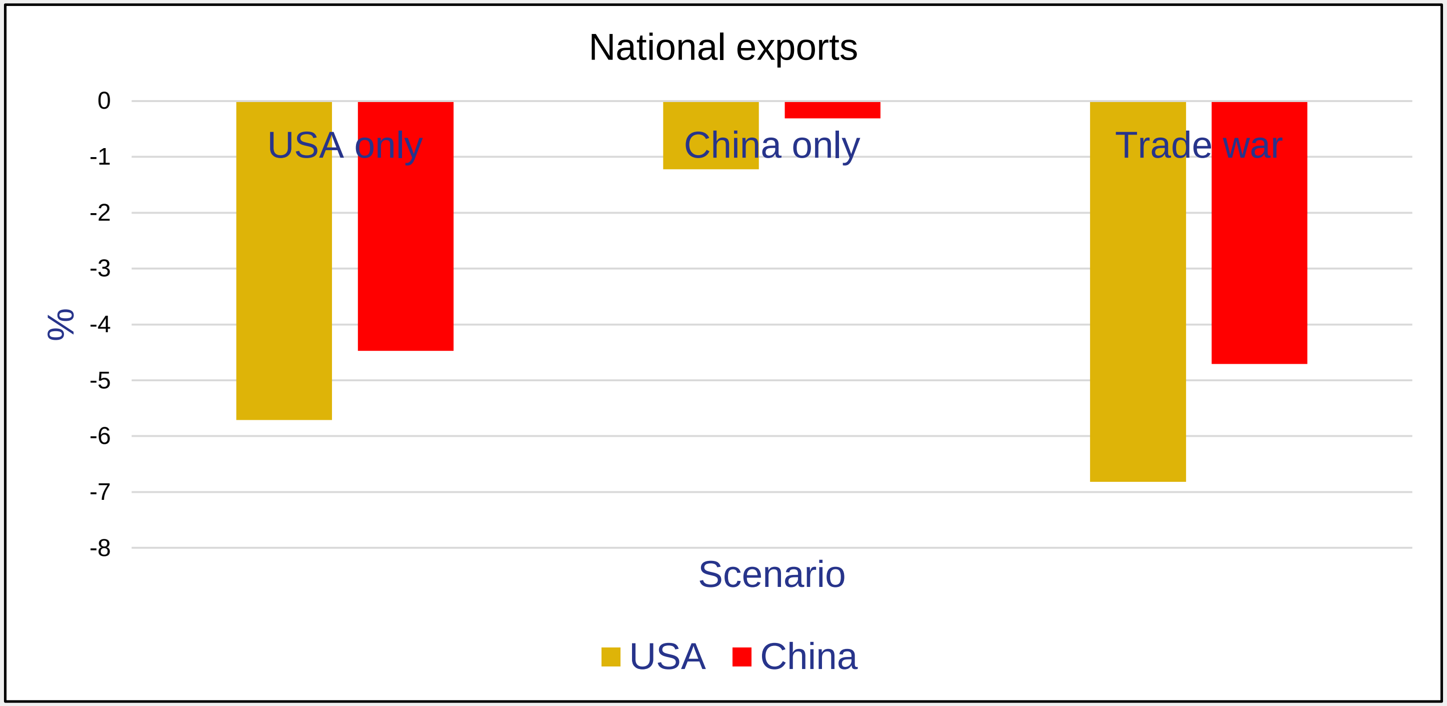


Mexico, Japan, Canada, Vietnam

Source: GTAP simulations.

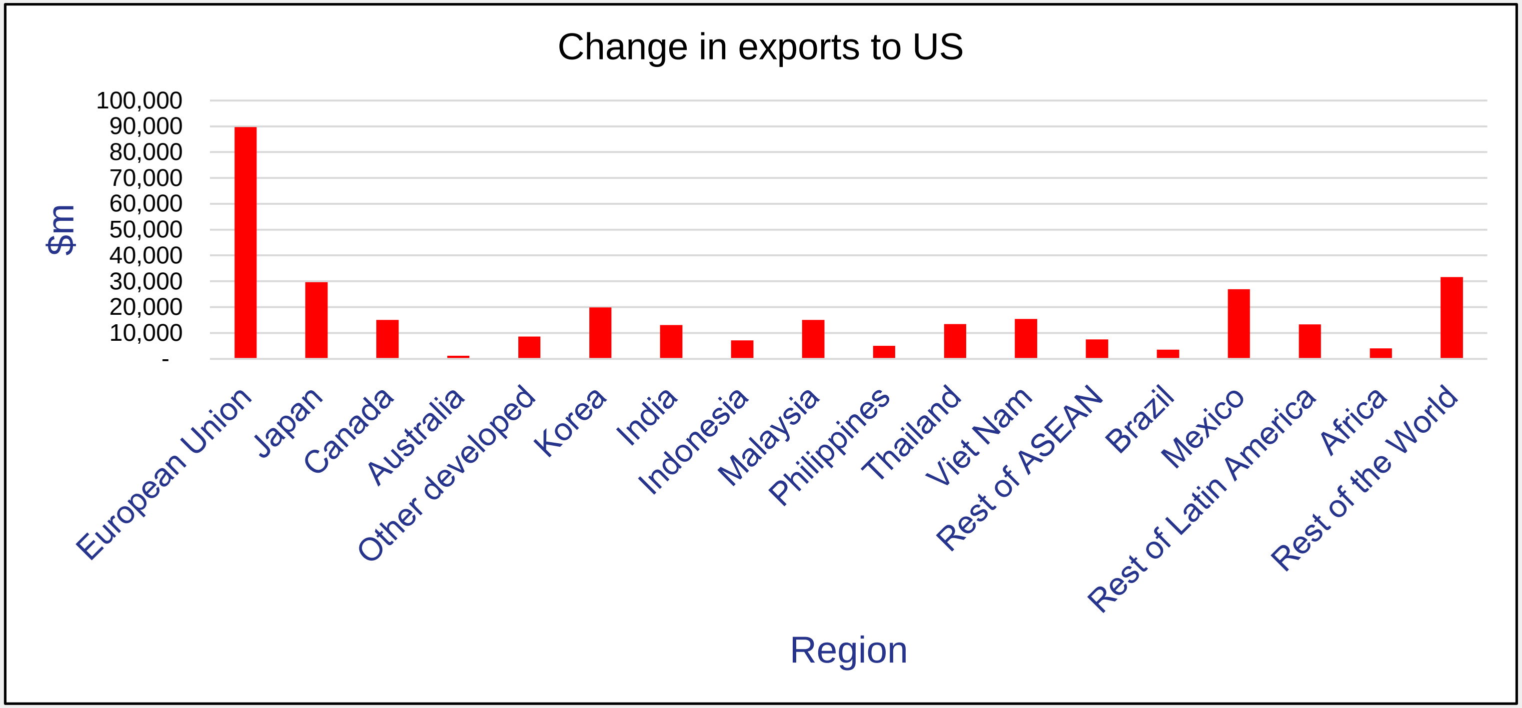
Trade, 3 scenarios



Large bilateral effects (40-80%),
modest national effects

Source: GTAP simulations.

Trade, third countries



EU, Japan, Mexico

Source: GTAP simulations.

Implications

- Large change for US-China bilateral imports
- Much trade diversion
- National trade largely unaffected, 5%
- China harder hit, greater incentive to negotiate
- Opportunities for third countries to export to US, not China
- Not so much in agriculture, except Brazil (oilseeds)

Limitations

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- Tariff changes may not be implemented
- Model is medium term, not short run
  - Uncertainty, confidence
  - Model does not have financial sector
- Trade elasticities
- Value added treatment

The End