Trade War!

Topic: Issue in modelling international trade
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Current US trade policy is marked by a sharp break with recent precedent. Whereas the US has traditionally had a relatively open economy, protectionist sentiment is rising, and protectionism is indeed one source of Trumpâ€™s ability to win the 2016 US Presidential election.

Over the past 20 years, the US has contributed to the increased globalization in international trade in goods and services by maintaining an open economy, with origination and participation in many multilateral free trade agreements, particularly with its two largest trading partners Mexico and Canada. However, the largest source of imports to the US is China, which is also the 3rd largest destination of US exports. The bilateral trade deficit with China has been steadily increasing, and various practices adopted by China are viewed as unfair by US companies, voters and politicians. This is particularly true in the area of intellectual property (IP).

Since May, 2018 the Trump Administration has proposed steep Section 301 tariffs on a large number of Chinese products. Starting in January 2019, 25% tariffs on up to $250 billion of Chinese merchandise import categories are scheduled to take effect.

This paper examines the economic impacts of these tariffs using the Inforum models of the USA and China, linked in a bilateral trade modeling system (BTM). We also examine the impacts of the retaliatory tariffs proposed by China. We begin by identifying the types of goods that are subject to the tariffs, using tables published by the US Trade Representative. Using bilateral trade data based on UN Comtrade and other sources, we then translate these tariffs into impacts by commodity sector in the US Inforum model called Lift. The first round of impacts include higher import prices and reduced imports by the US of imports of Chinese goods. The impacts show up in the China model Mudan as reduced exports. The retaliatory tariffs instituted by China increase costs of US goods to Chinese consumers, and reduce Chinese demand for US exports.

In addition to the bilateral effects between US and China, there are global impacts. To the extent that the growth of the China and US economies is reduced due to the tariffs, this reduces demand by these countries on products of many other countries. We will estimate not only the impact on trade between the US and China, but also with other partner countries.