

# US-China Trade Tensions

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# The Impact of Trade Conflicts

- How economists model trade disputes and agreements
- Effects of escalating tariffs
- Moving forward

# Economist agree free trade is best, so why do countries impose tariffs?

- Terms of Trade: Big importers affect prices (eg. soybeans, steel)
- Imperfect Competition: Shift profits to domestic firms
- Revenue: Some countries are dependent on trade taxes for revenue
- Special Interests: Government may favor certain industries because of connections, national security, jobs etc.

# But when all countries impose tariffs, everyone is worse off

- Prisoner's dilemma:

		US	
		Free Trade	Protection
China	Free Trade	(100, 100)	(50, 125)
	Protection	(125, 50)	(60, 60)

- Trade agreements allow countries to commit to liberalization

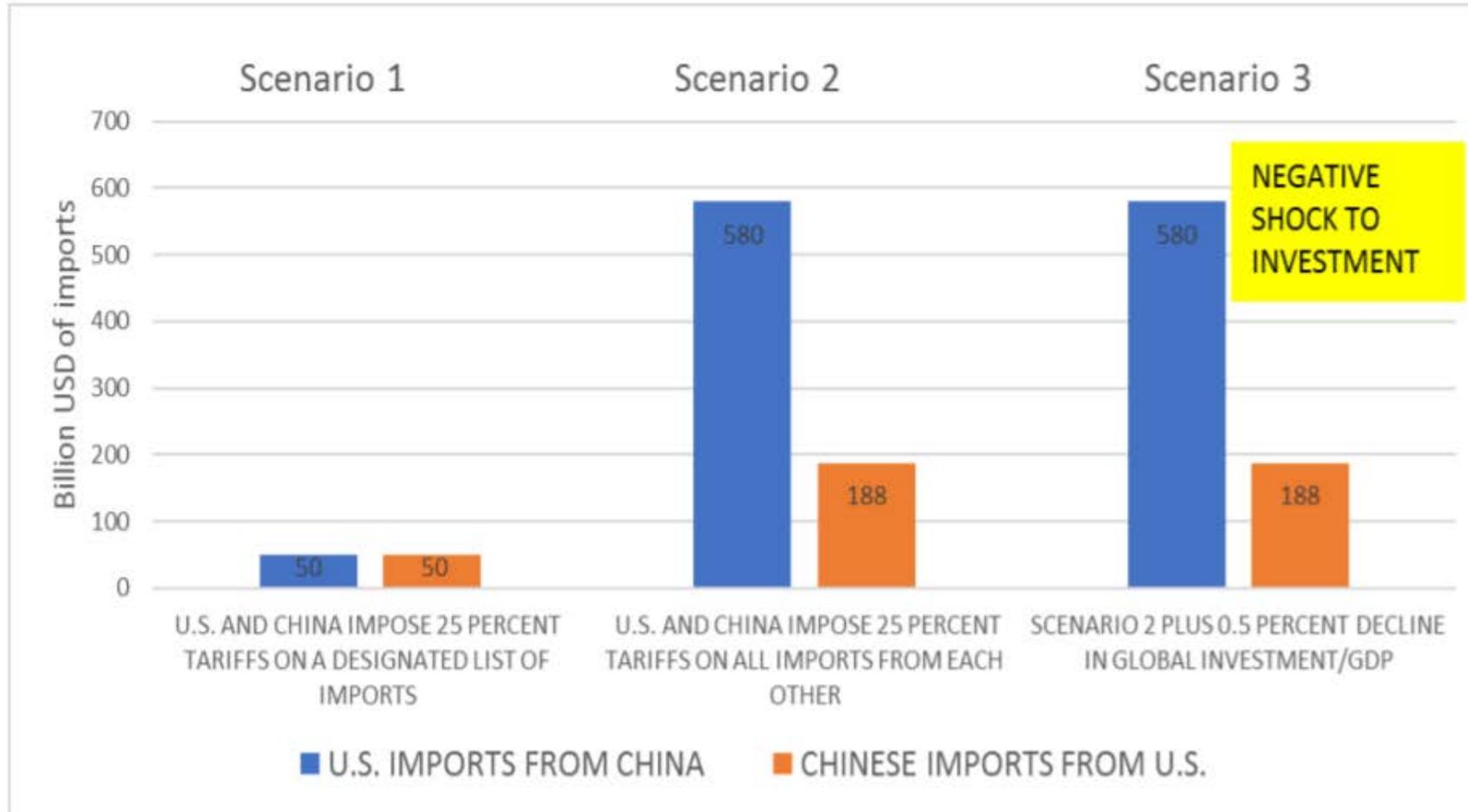
# US administration view

- China has not played by the rules

		US	
		Free Trade	Protection
China	Free Trade	(100, 100)	(50, 125)
	Protection	(125, 50)	(60, 60)

- “Tariffs are not a solution, but they are a tool”

# US Threats and China's Retaliation



Source: BEA on US imports of goods and services, Comtrade and staff estimates (2017).

# Impact on Income of Three Scenarios

	<b>Lists 1 and 2 implemented on both sides (\$50 bn)</b>	<b>25pp tariff surcharge on bilateral US-CHN trade</b>	<b>25pp tariff surcharge on bilateral US-CHN trade and decline in investor's confidence</b>
	<b>Percent Change in GDP (Medium Run)</b>		
USA	-0.2	-0.4	-1.6
China	-0.3	-2.5	-3.5
Mexico	0.2	1.4	-0.8
Canada	0.1	0.6	-1.1
EAP excl. China	0.1	0.3	-1.3
SAR	0	0.2	-0.9
LAC	0.1	0.1	-1.1
AFR	0	0	-1.1
ECA	0	0	-1.7
MENA	0	0.1	-1.2
HICs	0.1	0.1	-1.7
ROW	0	0.1	-1.1
Global	0	-0.3	-1.7

Source: WB staff estimates.

# Moving Forward

- Resolution requires clarity about US demands
  - Are tariffs a tool or does US administration want more trade protection?
  - How important is trade deficit vs technology transfer issues?
- Resolution requires action by China
  - Important to maintain dialogue, positive signs from NAFTA
  - Reform is good for China's growth and will win over ROW
- All countries should continue liberalization programs, avoid resorting to restrictions, and use the WTO or dispute settlement bodies of regional trading arrangements to bring disputes