

Assessing Trade Agendas in the US Presidential Campaign

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Hillary Clinton—Gains foregone

- Opposes TPP
- Would create “trade prosecutor” position, emphasize enforcement of existing agreements
- Opposes “market economy status” for China
- Supports countervailing duties against exchange rate manipulators



And now for something completely different...



- Opposes TPP
- Would declare China a currency manipulator
- Supports tariffs (possibly firm-specific) on China and Mexico
- Renegotiate and possibly abrogate existing FTAs
- Possibly withdraw from WTO if it finds against the US
- Threats and bargaining



Modeling Donald Trump's proposals

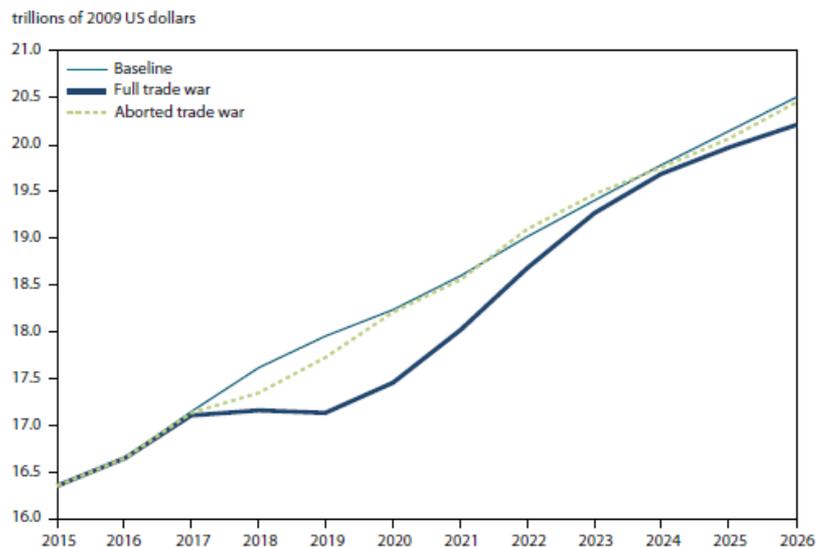


- Three illustrative scenarios:
 - Full trade war—permanent imposition of 35% tariff on Mexico, 45% tariff on China, they respond symmetrically
 - Asymmetric trade war—China targets specific sectors for retaliation
 - Aborted trade war—tariffs removed after one year
- For full and aborted trade war scenarios, start with Moody's Analytics macro model for baseline and model runs
- Augment with greater commodity detail
- Overlay state, county activity matrices
- Conservative:
 - Hold public sector activity fixed—results are for private sector output and employment only
 - No FTA or WTO withdrawal modeling—only model subset of Trump proposals
- Important caveat re: supply chains

Moody's Analytic macro scenario summary



Figure 2.2 Projected US GDP under baseline, full trade war, and aborted trade war scenarios, 2015–26



Source: Authors' calculations.

Table 2.1 Projected changes in selected macroeconomic variables as a result of full trade war and aborted trade war, 2017–26

Year	Percent deviation from baseline			Projected	
	Consumption	Investment	Government	GDP growth rate (percent)	Unemployment rate (percent)
Full trade war					
2017	-0.2	-0.5	-0.2	2.7	4.9
2018	-1.7	-5.2	-1.6	0.3	6.4
2019	-2.9	-9.5	-2.7	-0.1	8.4
2020	-3.0	-8.7	-2.9	1.9	8.6
2021	-2.4	-5.1	-2.7	3.2	7.8
2022	-1.6	-0.8	-2.1	3.7	6.6
2023	-1.1	2.1	-1.3	3.2	5.6
2024	-1.0	2.3	-0.9	2.1	5.3
2025	-1.2	0.8	-0.8	1.4	5.5
2026	-1.5	-1.0	-1.0	1.3	5.9
Aborted trade war					
2017	-0.2	-0.2	-0.1	2.9	4.8
2018	-1.3	-3.4	1.2	1.2	5.6
2019	-0.6	-3.5	-0.8	2.2	6.0
2020	0.1	-0.2	-0.0	2.7	5.2
2021	-0.0	0.3	-0.3	1.9	5.3
2022	0.2	2.5	0.2	2.9	4.8
2023	0.2	1.9	0.3	2.0	4.7
2024	-0.0	-0.0	0.2	1.4	5.1
2025	-0.2	-0.9	0.1	1.6	5.2
2026	-0.2	-0.7	0.0	2.0	5.1

Source: Authors' calculations.

Full trade war



Table 2.2 Sectors projected to be worst-affected by full trade war

Rank	Sector	Percent of jobs lost	Rank	Sector	Number of jobs lost
1	High-speed drives and gear manufacturing	10.2	1	Nonspecified retail trade	311,000
2	Construction equipment manufacturing	10	2	Wholesale trade	257,000
2	Iron and other metal ore mining	10	3	Hospitals	192,000
4	Semiconductor equipment manufacturing	9.7	4	Full-service restaurants	182,000
5	Other metalwork manufacturing	9.6	5	Limited-service restaurants	158,000
5	Fluid power equipment manufacturing	9.6	6	Employment services	155,000
5	Plastics equipment manufacturing	9.6	7	General merchandise stores	134,000
8	Turbine manufacturing	9.5	8	Food and beverage stores	119,000
8	Truck trailer manufacturing	9.5	9	Management of companies and enterprises	101,000
10	Compressor manufacturing	9.4	10	Physicians' offices	91,000
10	Industrial furnace and oven manufacturing	9.4			
10	Aluminum production	9.4			
10	Power, transmission, and transformer equipment manufacturing	9.4			

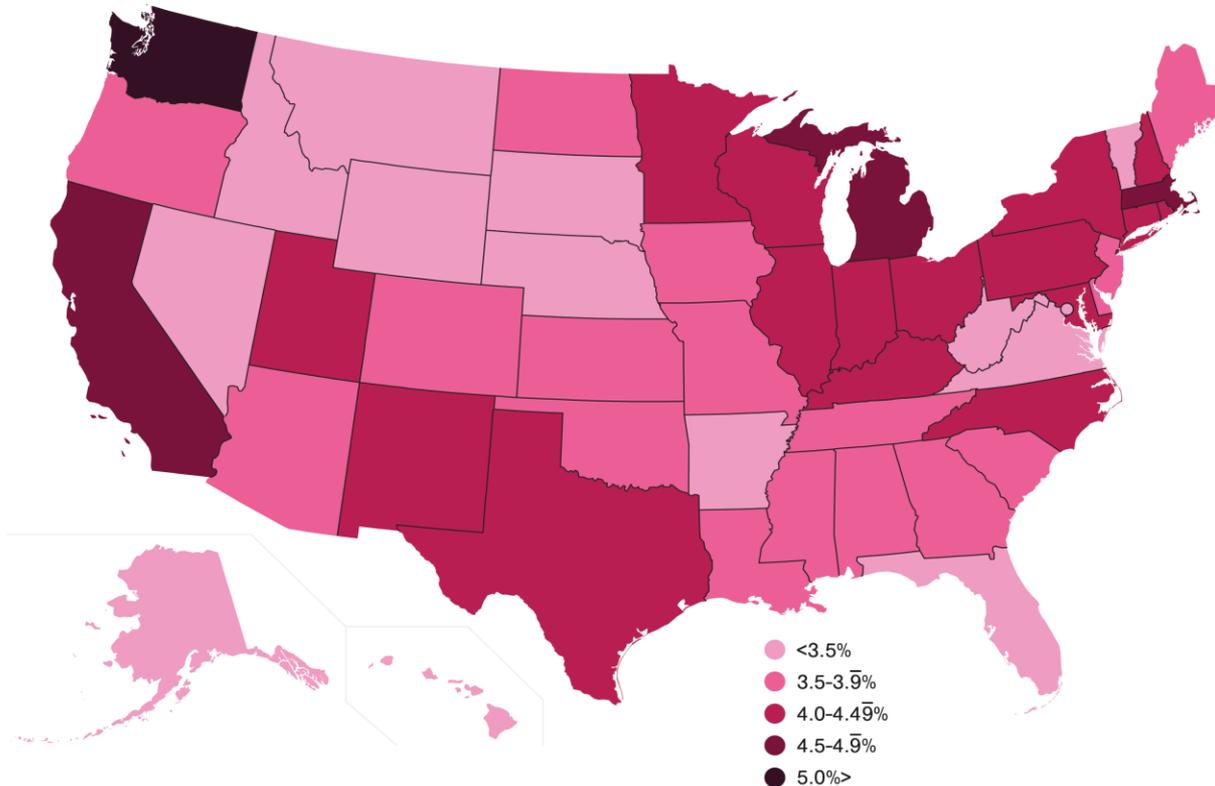
Source: Authors' calculations.

- Snapshot of 2019, expressed as deviation from baseline
- Capital goods sectors hardest hit
- Biggest job losses in non-traded
- Labor market impact regressive
- Millions of Americans have a stake in this and probably do not realize it

Job Loss Incidence by State



Map 2.1: Percentage private sector job loss by state

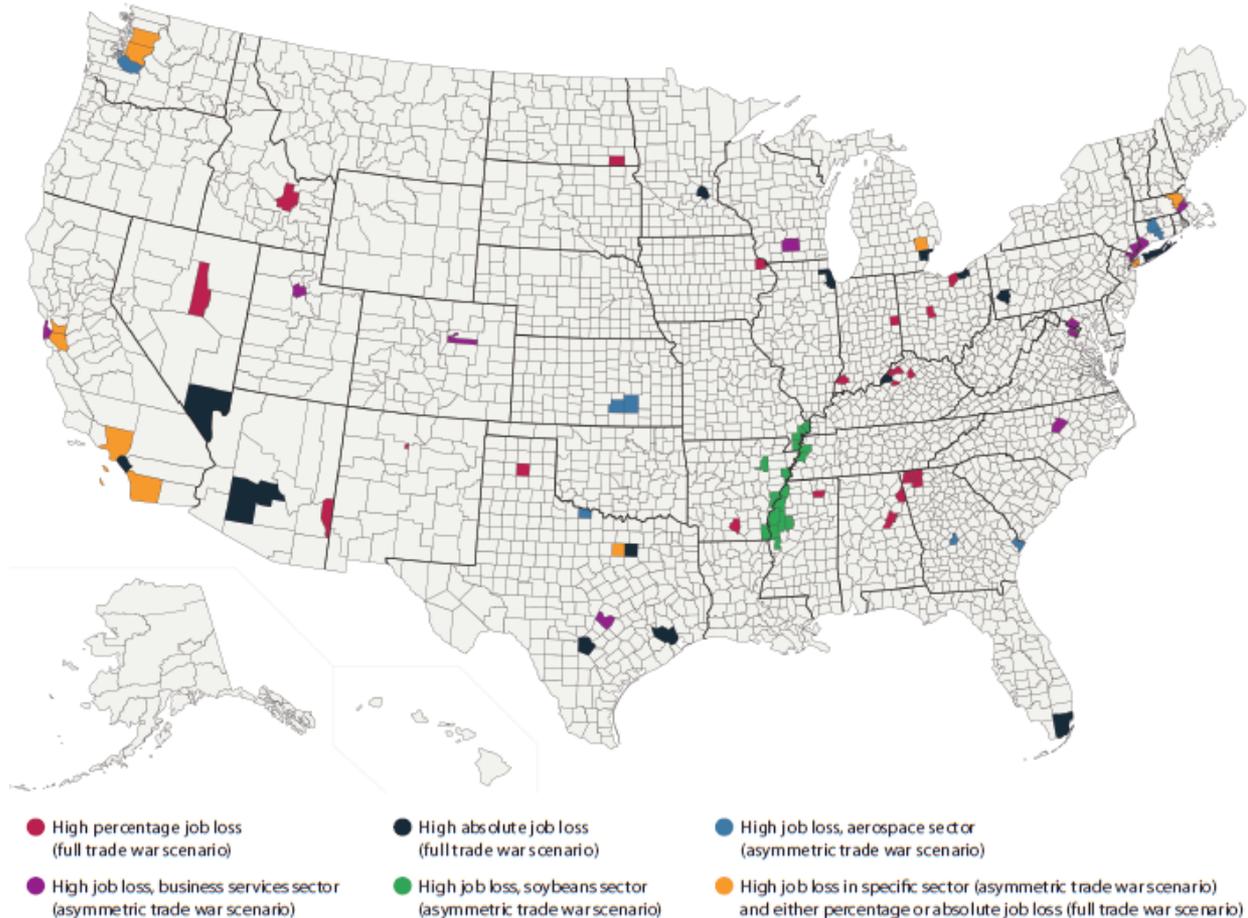


- Washington state worst affected; 5% decline in employment relative to baseline
- 19 states experience 4% or more decline
- Interactive map available on website
- County-level: Los Angeles, Chicago, Houston hardest hit; Santa Clara county (San Jose) combines large absolute and percentage job loss

Worst Affected Counties



Map 2.2 Most-affected US counties



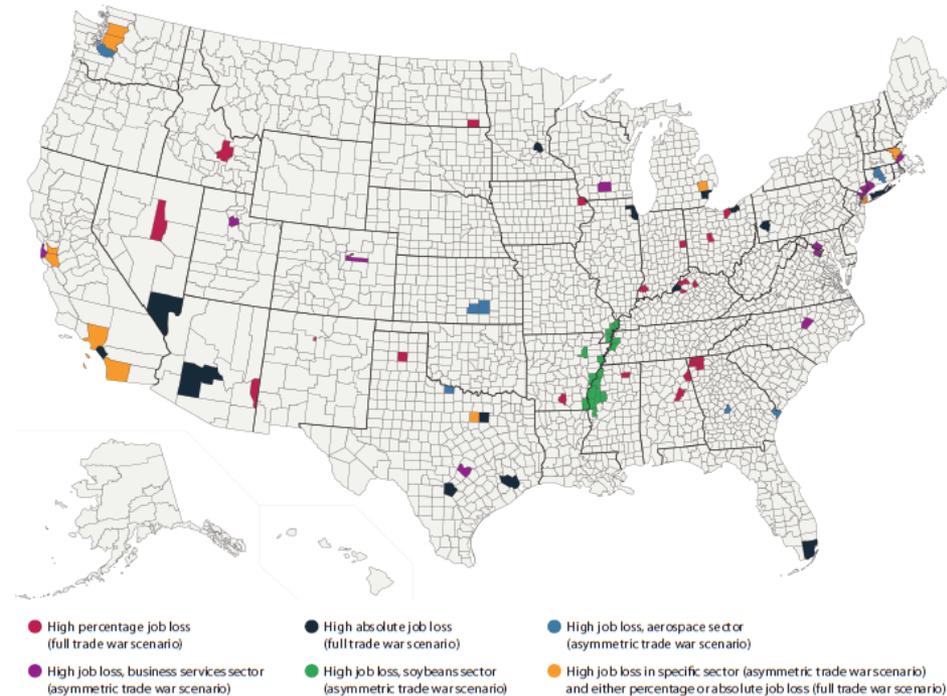
Note: Counties in red are defined as those in the top 25 counties with highest percentage job loss in the full trade war scenario. Counties in black are defined as those within the top 25 counties with the greatest absolute job loss in the full trade war scenario. For aerospace (blue), business services (purple), and soybean (green) sectors, counties with high job loss are defined as those that fall within the intersection of counties within the top 50 affected in both percentage and absolute terms in the sector-specific asymmetric trade war scenarios. Counties with high sector-specific and either percentage or absolute job loss (yellow) fall within at least one sector-specific high job loss stratum in the asymmetric trade war scenario and at least one high job loss stratum in the full trade war scenario. Also included in yellow are counties with multiple sector-specific high job loss. Santa Clara county (California) is the only county that would experience both high percentage and high absolute job loss in the full trade war scenario. It would also suffer high job loss in the business services sector in the asymmetric trade war scenario.

Asymmetric trade war



- Possible Chinese sector-specific retaliation
 - Aircraft
 - “Buy No American” instruct SOEs to stop buying American—modeled as 40% loss of business service
 - Embargo US soybean imports
- Modeling not contingent on macro scenarios; report first order shocks, eventually full employment restored
- Aircraft
 - 179,000 jobs displaced
 - Highly concentrated geographically
- Business services
 - 85,000 jobs lost
 - Los Angeles, Seattle (again), New York, Boston, Silicon Valley
- Soybeans—Sharkey Co. MS (40%), Bolivar Co. MS (25%), Mississippi Co. MO (21%) with 8 more counties experiencing job loss exceeding 10%

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Aborted Trade War

Motivations (in increasing order of likelihood):

- Mexico and China make adequate concessions
- The Administration loses in the courts
- So disastrous that US forced to stand down
 - Shutdowns of supply-chain dependent factories in the US a la 9/11
 - Financial market turbulence
 - Expected earnings of major US firms plummet due to loss of supplies, retaliatory tariffs
 - Real or threatened Chinese selling of financial assets; interest rates up, stocks down
 - Consumer product shortages and price rises—iPhone as perfect vehicle for retaliation



Sectoral, geographic incidence similar to full trade war, magnitudes much smaller



Loss of US Leadership

- US benefits from leadership in rules-based system, perception of reliability.
- Failure of TPP would be blow to US leadership in the Asia-Pacific—this is on both candidates, but
- Trump courting trade wars, attacking WTO, NAFTA, KORUS et al. goes much further:
 - Creates diplomatic opening for China in both economic and strategic spheres, potentially destabilizing NE Asia
 - Abrogation of FTAs would harm moderate Arab states and roil relations with Latin America
 - Undo a generation of progress in US-Mexico relations, potentially increase undocumented migration to the US



Conclusions

- Both candidates' trade policies are suboptimal;
- Clinton might deliver stasis—her policy amounts to benefits foregone...
- Trump advocates policies that could overturn the existing US-led rules-based trade system:
 - Trade wars could reduce output and employment
 - Significant impact on non-traded sectors, low-skill/low-income workers
 - Specific localities could be hard hit
 - Withdrawal from FTAs/WTO self-inflicted economic and strategic blow.
- A preferable trade policy would combine liberalization with adjustment support—a package PIIE has long supported.