

Trade Wars and Tariffs: What's at Stake for Individuals and Businesses

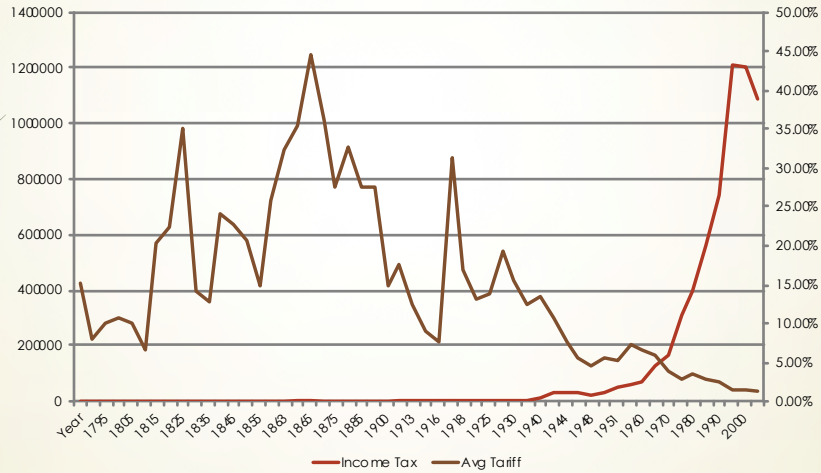
Kevin J. Fandl, J.D., Ph.D.
Assistant Professor, Fox School of Business, Temple University



Tariff Fundamentals

Evolution of U.S. Trade Tariffs

Tariff Rates and Income Tax Revenue in the U.S. (1792-2005)

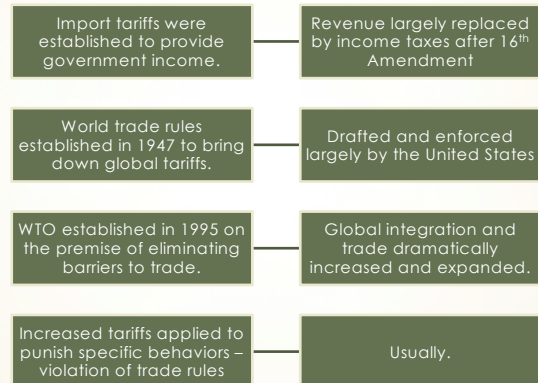


How a Tariff Works: Simplified

Note that tariffs typically apply to goods that are both domestically manufactured and imported.



Trade Policy



Broad Application of Tariffs Poses Risks

- ▶ 1930 Tariff Act enacted in response to economic depression
- ▶ At the time of enactment:
 - ▶ U.S. exports were increasing
 - ▶ U.S. imports were also increasing, depressing prices of goods
- ▶ Average import tariff increased to 59.1%
- ▶ Effect of the Tariffs:
 - ▶ U.S. imports fell by 66%
 - ▶ Unemployment increased from 8% to 25%
 - ▶ U.S. exports fell by 61%

U.S. Import Tariffs are Low

MFN Rate

Preferential Rate

Statutory Rate

Which countries qualify for the statutory rate?



Harmonized Tariff Schedule of the United States (2010)
Annotated for Statistical Reporting Purposes

II 7-2 Heading/ Subheading	Stat Suf- fx	Article Description	Unit of Quantity	Rates of Duty	
				General	Special
0701	0701.10.00	Potatoes, fresh or chilled:			
		Seed	kg	0.5¢/kg	Free (A+,AU,BH,CA,CL,D,E,IL,J,JO,MA,MX,OM,P,PE,SG)
		In immediate containers of not over 45 kg net weight	kg		1.7¢/kg
	0701.90	Other:			
	0701.90.10	Yellow (Solano) potatoes	kg	0.5¢/kg	Free (A+,AU,BH,CA,CL,D,E,IL,J,JO,MA,MX,OM,P,PE,SG)
	0701.90.50	Other	kg	0.5¢/kg	Free (A+,AU,BH,CA,CL,D,E,IL,J,JO,MA,MX,OM,P,PE,SG)
		In immediate containers of not over 1200 kg net weight:			
	15	Russet or netted gem varieties	kg		
	25	Red skin varieties	kg		
	35	Other	kg		
	45	Other:			
	45	Russet or netted gem varieties	kg		
	55	Red skin varieties	kg		
	65	Other	kg		
	0702.00	Tomatoes, fresh or chilled:			
	0702.00.20	If entered during the period from March 1 to July 14, inclusive, or the period from September 1 to November 14, inclusive, in any year	kg	3.9¢/kg	Free (AU,BH,CA,DE,IL,JO,MA,MX,OM,P,PE,SG)
		Greenhouse	kg		0.4¢/kg (CL)
		Other:			
	35	Cherry	kg		
	45	Grape	kg		
	65	Roma (plum type)	kg		
	65	Other	kg		

U.S. Import Tariffs on Steel

New Steel Tariff Rates (May 31, 2018):

- 25% on worldwide imports
- Imposed under Section 232 of the Trade Act (National Security)

Revision 12

	Stat Suf- fx	Article Description	Unit of Quantity	Rates of Duty	
				1	2
7208.10		In coils, not further worked than hot-rolled, with patterns in relief:			
	00	Pickled	kg	Free	0.4c/kg + 20%
		Other:			
	00	Of a thickness of 4.75 mm or more	kg	Free	20%
	00	Of a thickness of less than 4.75 mm	kg	Free	20%
		Other, in coils, not further worked than hot-rolled, pickled:			
	00	Of a thickness of 4.75 mm or more:			
	00	Of high-strength steel	kg	Free	20%
	00	Other	kg	Free	0.4c/kg + 20%
	30	Of a thickness of 3 mm or more but less than 4.75 mm:			
	30	High-strength steel	kg	Free	0.4c/kg + 20%
	60	Other	kg	Free	
	60	Of a thickness of less than 3 mm:			
	30	High-strength steel	kg	Free	0.4c/kg + 20%
	60	Other	kg		



Key Trade Protection Provisions in U.S. Law

Section 201: Safeguards clause allowing U.S. to impose temporary protections in event of serious injury to U.S. industry.

Section 301: USTR -- violation of trade agreements or unreasonable or unfair practices (dual investigation).

Section 232: Rarely used national security protection clause.

Case: Steel Safeguards in 2002

- March 5, 2002: The U.S. steel industry was suffering from cheaper European and Chinese imports in 2002. President Bush imposed increased tariffs on imported steel as a safeguard measure under Section 201.
- March 7, 2002: EU files complaint with WTO.
- Nov. 11, 2003: WTO rules U.S. tariffs violate GATT rules. Steel imports were not surging and in fact had declined during subject period. Authorized \$2 billion in retaliatory sanctions against the U.S.
 - Bush promised to maintain the safeguard.
- December 3: EU threatens to impose tariffs on U.S. exports of oranges and Harley Davidson motorbikes.
- December 4: Bush removes safeguards.



Case: Steel Safeguards in 2018

- Global Tariffs:
 - January 23, 2018: Trump imposes 20% - 50% tariffs on washing machines and solar panels.
 - March 8, 2018: Trump imposes trade safeguards
 - 25% Steel/ 10% on Aluminum
 - Authority: Section 232 of the Tariff Act of 1962 (National Security)
 - Allowed when "an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security."
 - Only used twice before (Iran and Libya – oil) and not since 1995 WTO
- Targeted Tariffs:
 - March 22, 2018: \$50b on Chinese goods under Section 301 of the Trade Act of 1974
 - April 2: China responded in kind
 - June 15, 2018: Additional \$34b in Chinese goods targeted



Why Tariffs?

China (Section 301)

- Trade deficit in 2017 was \$335 billion with China
- Chinese rules hurt U.S. firms (e.g., revealing IP to China)

NAFTA (China and Mexico)

- Rules of origin (increase from 62.5% to 75% of local content)
- Wages for autoworkers (increase from \$4-6/ hour to \$16/ hour)

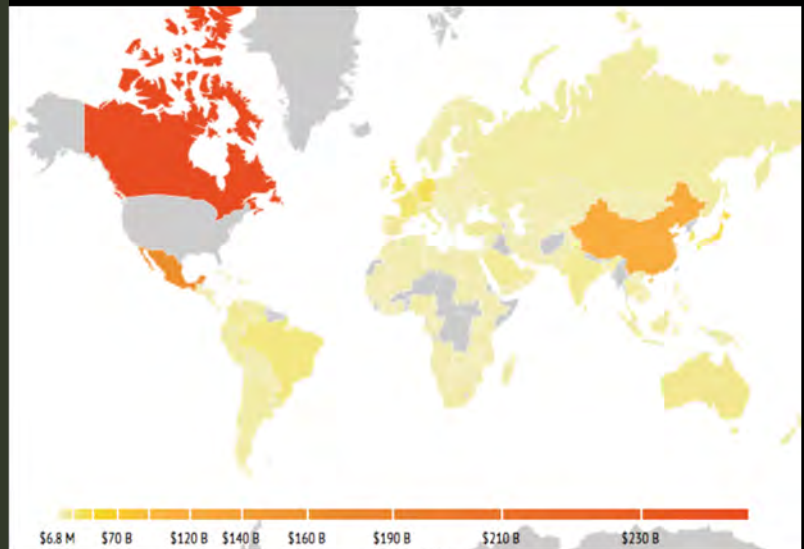
Europe/ Rest of World (Section 232)

- Competitive imports (e.g., steel)
- Tariffs on imported cars and industrials from U.S.
 - Current EU car tariff = 10%
 - Current US car tariff = 2.5% (25% on light trucks and SUVs)



U.S. Export Markets

- European Union (\$270 billion)
- China (\$115 billion)
- Canada (\$266 billion)
- Mexico (\$230 billion)
- Japan (\$63 billion)



Retaliation

When the 1930 Tariff Act was passed, Congress acknowledged foreign retaliation but claimed that tariffs were a domestic concern only.

- "Manifestly, we cannot reduce to a minimum our imports from foreign countries without eventually reducing relatively our exports to such countries." (congressional record, 1929)
- Retaliation was swift and painful.

Retaliation to the 2018 Tariffs:

China:

- Retaliation of \$50b (summer 2018) + \$60b (fall 2018)
- China only imports \$130 billion of U.S. goods
- Thus, retaliation would go beyond tariffs into licensing, delayed customs processing, etc.

EU:

- \$7b in tariffs on U.S. exports (May 2018)

Mexico:

- \$3b in tariffs on U.S. exports (June 2018)

Canada:

- \$13b in tariffs on U.S. exports (June 2018)

National Firm-level Effects

- Tyson Foods: cut profit forecast from \$6.70/share to \$5.70/share due to chicken and pork export prices.
- BMW: X5 and X6 models exported to China increased price by 4% - 7%.
- Caterpillar: increasing prices to offset \$100-\$200m increase in material costs.
- GM: considering job cuts to offset reduced demand.
- Coca-Cola: raising prices of coke products to offset tariffs on aluminum.

Reading the Tea Leaves: The Long-term Impact of a Trade War



Global Integration is at its Highest Level Ever

- ▶ Lower trade barriers mean maximizing efficient production
- ▶ Global supply chains, economies of scale, export markets
- ▶ The largest U.S.-based auto exporter is BMW (2017)
- ▶ Components of an automobile produced in North America may cross the border as frequently as 8 times before being finally installed in a vehicle.
- ▶ “The NAFTA Highway”
 - ▶ E.g., Bombardier:
 - ▶ Fuselage and wings made in Mexico
 - ▶ Design and assembly done in Wichita
 - ▶ R&D conducted in Toronto

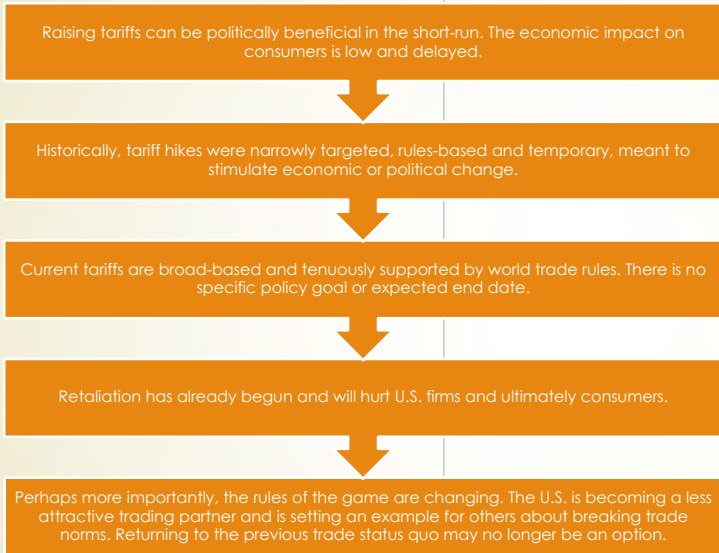
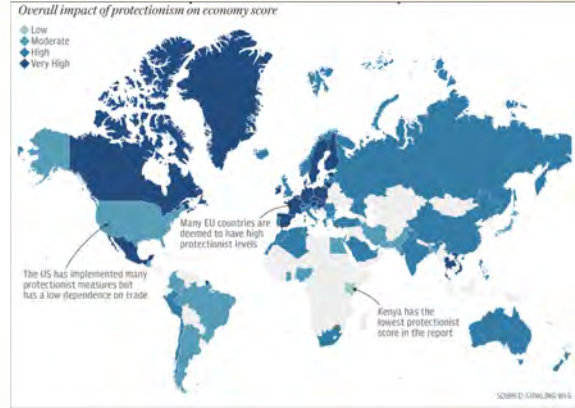


But Protectionism is Looming

Global Foreign Direct Investment fell by 44% in Q1 2018 due to global investment fears and U.S. tax reforms.

Retaliation against U.S. tariffs will likely cause input prices to rise and reduce export opportunities. Some U.S. firms will move production overseas.

The impact of tariffs depends on the degree of a country's global integration.



Outlook

Thank you

Kevin J. Fandl, J.D., Ph.D.
Assistant Professor, Fox School of Business
Temple University
Twitter: @kfandl
Email: Kevin.Fandl@Temple.edu
www.KevinFandl.com

