International Trade Internal Assessment Article

Breaking down the costs of Trump's trade war with China

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Washington (CNN)-President Donald Trump is set to sign a "phase one" trade deal with China on Wednesday, but the agreement -- which has been almost two years in the making -- won't lift the tariffs he's imposed on Chinese-made goods. The deal is expected to leave tariffs on about $370 billion of goods, or nearly two-thirds of what the United States imports from China. The taxes have raised the price for items such as baseball hats, luggage, bicycles, TVs, sneakers, and a variety of materials used by American manufacturers.

Trump used tariffs as a negotiating tactic, meant to hurt China's economy and pressure Beijing to agree to a new trade deal that addresses unfair trade practices, such as intellectual property theft and forced technology transfers. That's a goal that business leaders across the country, as well as lawmakers on both sides of the aisle agree on.

But the tariffs have hurt Americans, too. They've cut into US businesses' bottom lines, forcing owners to make decisions about job cuts and raising prices on consumers. Plus, the uncertainty around how long the tariffs will be in place and whether Trump will escalate the rate -- which he did last May with just days' notice -- deter businesses from making long-term investments, potentially costing the US growth.

300,000 jobs lost

A report from Moody's Analytics says that the trade war with China, which started in early 2018, cost 300,000 jobs through September, based on an economic simulation.

Even with that loss, US job growth is still strong. The economy added 2.1 million jobs in 2019 -- though at a slower pace than the year before when 2.7 million jobs were created.

While it's hard to know exactly how many jobs losses can be attributed to trade tensions, the Moody's report isn't the only one that suggests the duties are having an effect on US workers.
A survey of businesses by staffing firm Challenger, Gray & Christmas found that trade difficulties were cited as the reason for more than 10,000 job cuts in August alone. And an analysis by the Tax Foundation also suggests the trade war will result to job losses in the long-run.

American importers paid an extra $46 billion in tariffs

Trump is wrong when he claims that China is paying the tariffs.
The cost of the tariff comes directly out of the bank account of an American importer when the good arrives at the port.

US companies have paid $46 billion more in tariffs than they would have without Trump's tariffs, according to an analysis of government data by the free-trade coalition called Tariffs Hurt the Heartland. American importers can choose to eat the cost of the tariff, or pass some -- or all -- of it along to the consumer.
It's possible that some Chines manufacturers lowered their prices in order to stay competitive in the US market. But at least two papers released last year suggested that US companies and consumers are bearing the brunt of the tariff cost.

Tariffs cost US consumers

Several studies show that tariffs end up costing US families. JPMorgan Chase said that the tariffs imposed in 2018 cost the average household $600 a year.
A separate report, from researchers at the NY Fed, Princeton, and Columbia University, estimated that those tariffs would cost households even more: $831 annually. Their research also considered the cost of shifting supply chains to avoid paying the tariffs.

But those estimates don't account for the tariffs imposed in September, which hit consumer goods like toys, TVs and clothing. Earlier rounds of tariffs hit industrial goods and were less likely to directly drive up the cost for shoppers.
Despite those increases, consumers are not seeing huge spikes in prices for goods across the board. Inflation has hovered around 2% ever since the trade war started and while consumer sentiment has fluctuated month-to-month, it also hasn't changed much since early 2018.

Manufacturing takes a beating

Trump has often argued that his tariffs are boosting the American manufacturing sector, but the industry is in a slump. In December, a measure of manufacturing activity weakened to its lowest point in more than a decade. Data from the Bureau of Labor Statistics show that just 46,000 net manufacturing jobs were added in 2019, an increase of less than 0.5%

While there are likely a lot of factors at play, a recent paper from economists at the Federal Reserve showed that the tariffs are certainly dragging down the sector. It's true that some businesses benefit when Trump's tariffs make a foreign competitor's goods more expensive. But many manufacturers need to import materials from abroad in order to assemble goods domestically -- and tariffs have hit hit items like steel, motors and bicycle parts.

Any benefit from the tariffs has been offset by the rise in price for input materials and damage from China's retaliatory tariffs on American-made goods, the paper said. It further stated that those factors led to a reduction in manufacturing jobs.

Farmers are hurting. But Trump's aid package helped

China targeted US farmers by hitting agricultural products, like soybeans, wheat and corn, with retaliatory tariffs.But even though farmers lost one of their biggest export markets, a recent survey found that farmer sentiment is higher than it has been since 2016 and the US Department of Agriculture projected that farm income will be up 10% this year, to the highest level since 2014.

That's largely due to a bailout from Trump. His administration has given about $28 billion -- about double the cost of the 2009 auto bailout -- to farmers hurt by the Chinese tariffs. The payments aren't meant to make up for their total losses, but it's helping bridge the gap. Without government payments, which are expected to be up 64% in 2019, farm income would have actually shrunk.

But Trump's aid payments aren't saving everyone. Farm bankruptcies are up 24% compared to the year before, according to the American Farm Bureau.

China's growth slows. US economy stays strong

China's economic growth slowed to its lowest level in nearly three decades last year, at least in part due to the pain from the trade war. Some US importers have shifted their supply chains, buying from manufacturers in other Asian countries in order to avoid paying the tariff.

While the American job market remains resilient and the economy continues to grow, it did slow down over the course of 2019.

It's hard to tell how much of that was due to the trade war, which slowed China's economy and had other global effects. But Trump's tariff threats continue to foster an uncertain business environment. In addition to China, he's imposed tariffs on foreign steel and European wines and cheeses. His administration is currently weighing escalating those European tariffs and imposing new duties on a variety of French-made goods and products -- a move that has drawn sharp outcry from wine importers and restaurants.

ANALYSIS

The trade war between US and China has been capturing headlines everywhere. The essential cause of the trade war commenced when Mr. Trump, current US president, implemented tariffs on imported Chinese goods. Tariffs can be defined as taxes on imported goods. This has had a significant affect on US companies, along with it's residents, since many goods and materials are imported from China. Graph 1 will help further our understanding of the consequences of tariffs :

Graph 1 : Tariffs implemented on Chinese goods by US

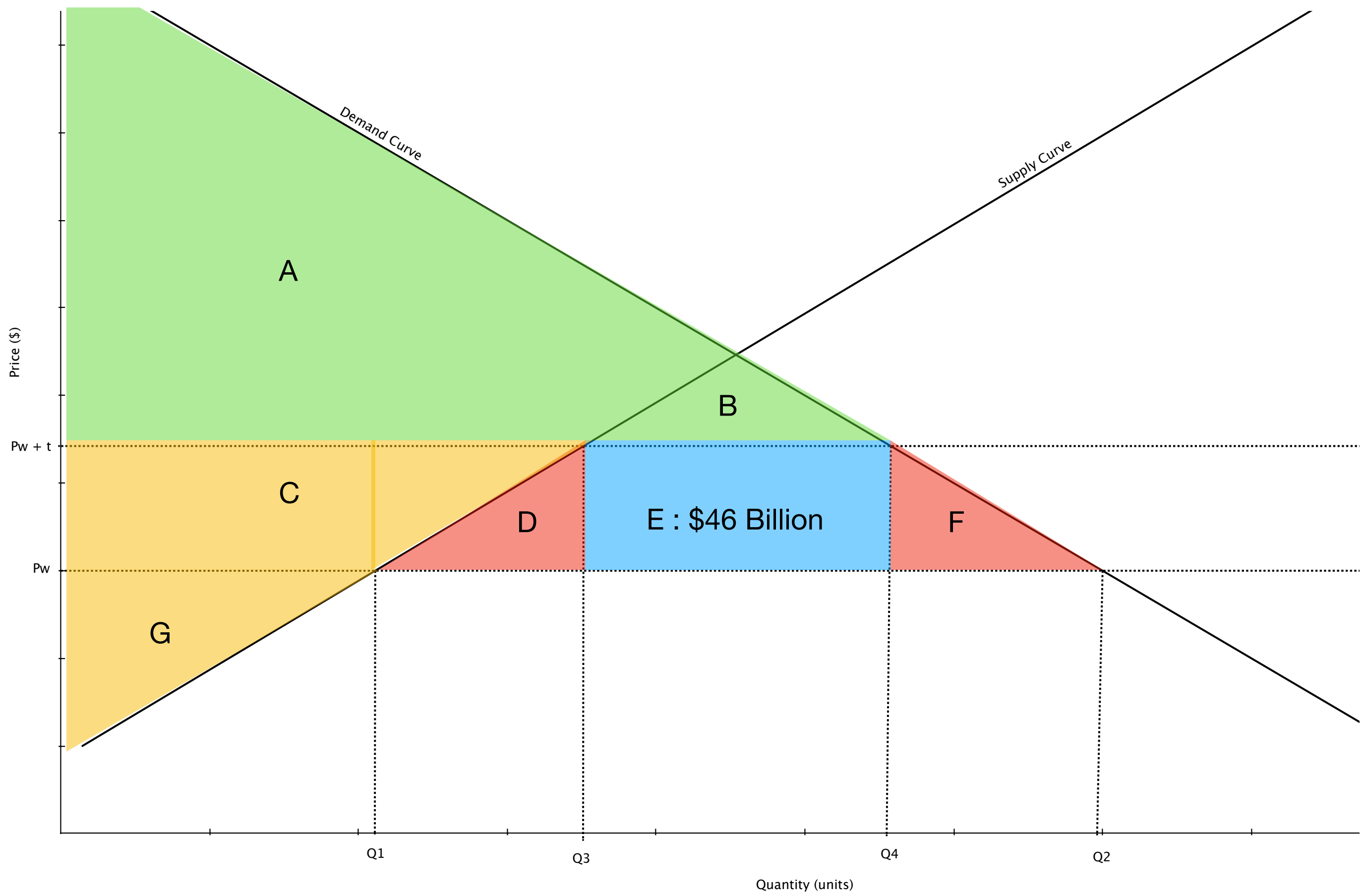


Table 1 : Key for Graph 1

Area (Post Tariffs)	Definition
A & B : Consumer Surplus	The highest price consumers are willing to pay for a good minus the price actually paid
E : Government Revenue	The total revenue the government makes, which is generated from the taxes on the relative good
C & G : Producer Surplus	The price received by firms for selling their good minus the lowest price they are willing to accept to produce the good
D & F : Welfare (deadweight) Loss	Welfare benefits that are lost to society because resources are not allocated efficiently

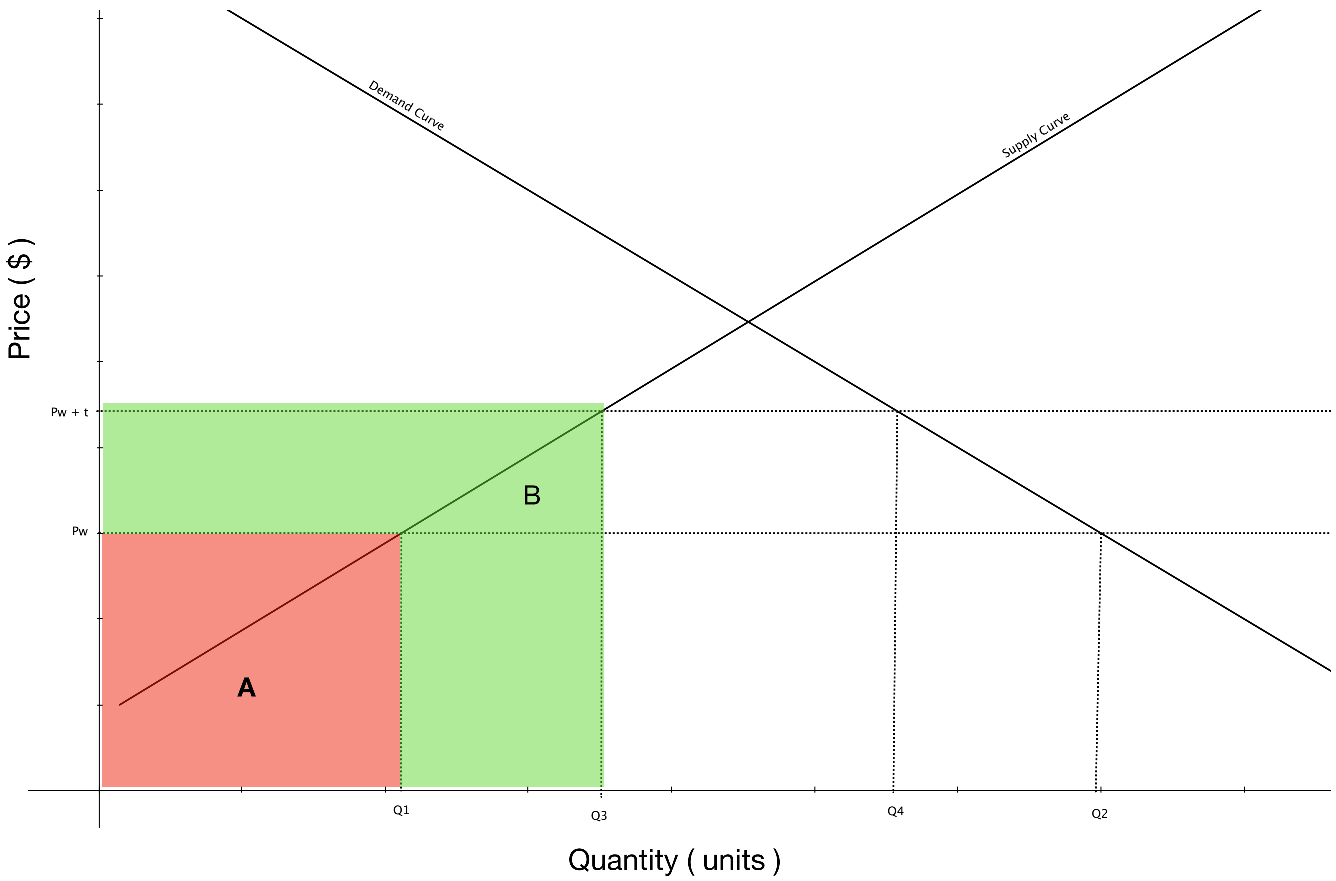
The Pw represents the world price of the good and Pw + T represents the price after the implementation of the tariffs. So the tariff can be defined as (Pw + T) - Pw here. The effect of the tariff can be seen on 3 main stakeholders, the consumer, the producer and the government. Implementing the data from the article, the government revenue generated from the tariffs is $46 billion. This is a very large sum of money but considering how much goods from china are imported, it is clear why the government revenue is so large but what is lost in order to generate this government revenue?

The consumer surplus before the implementation of tariff, so at Pw, were areas A + B + C + D + E + F. Since, it's the entire area above the price and below the demand curve. However, upon the implementation of tariff and the increase in price, the consumer surplus decreased to areas A + B. Area E went from being the consumer surplus to the government revenue. This shows that the domestic consumers are worse off, as stated in the article, consumers had to pay $600 more on average annually as a direct cause of the tariffs. However, this isn't the only loss either, there is also significant welfare loss which is lost due to the inefficient allocation of resources, represented by areas D + F, which were also part of the consumer surplus before the implementation of the tariff. However, tariffs are typically put in place for 2 main reasons :

- To generate government revenue
- To protect the domestic producers from foreign competition

So what effect does this have on the producer? Graph 2 will help further understand the effect on the producer :

Graph 2 : Effect of the Tariffs on producers



The producer's revenue before the tariffs was Pw x Q1, which is the red area A in graph 2. However, the producer's revenue is (Pw +T) x Q3 after the implementation of the tariff, which is both area A + B, so the red and the green region becomes part of the producer's revenue. Therefore, one can say that domestic producers are better off since their revenue increased as result of selling at a higher price, Pw + T and selling a larger quantity, Q3. The effect on the producers can further be seen in graph 1 also. The producer surplus before the tariff was just area G. However, after the tariff, the producer surplus increased to areas G + C.

The size of the imports overall also decrease due to the tariffs. Since before the tariffs, the quantity imported was Q2 - Q1. Whereas after the tariff, the quantity imported becomes Q4 - Q3, which is a significantly smaller quantity. As a consequence, the foreign producer, China, is also worse off, despite them selling at Pw, their quantity of exports decreases. Since this is essentially Mr. Trump's goal, to hurt china's economy, it seems to be effective since China's revenue from exports to the US decreased as a result of the tariffs, resulting in a decrease in China's economic growth.

Word Count : 723 words