US China Trade War Assignment

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Requirement 1

Create a diagram of the history to date from 10 July 2018 of the trade war between China and US

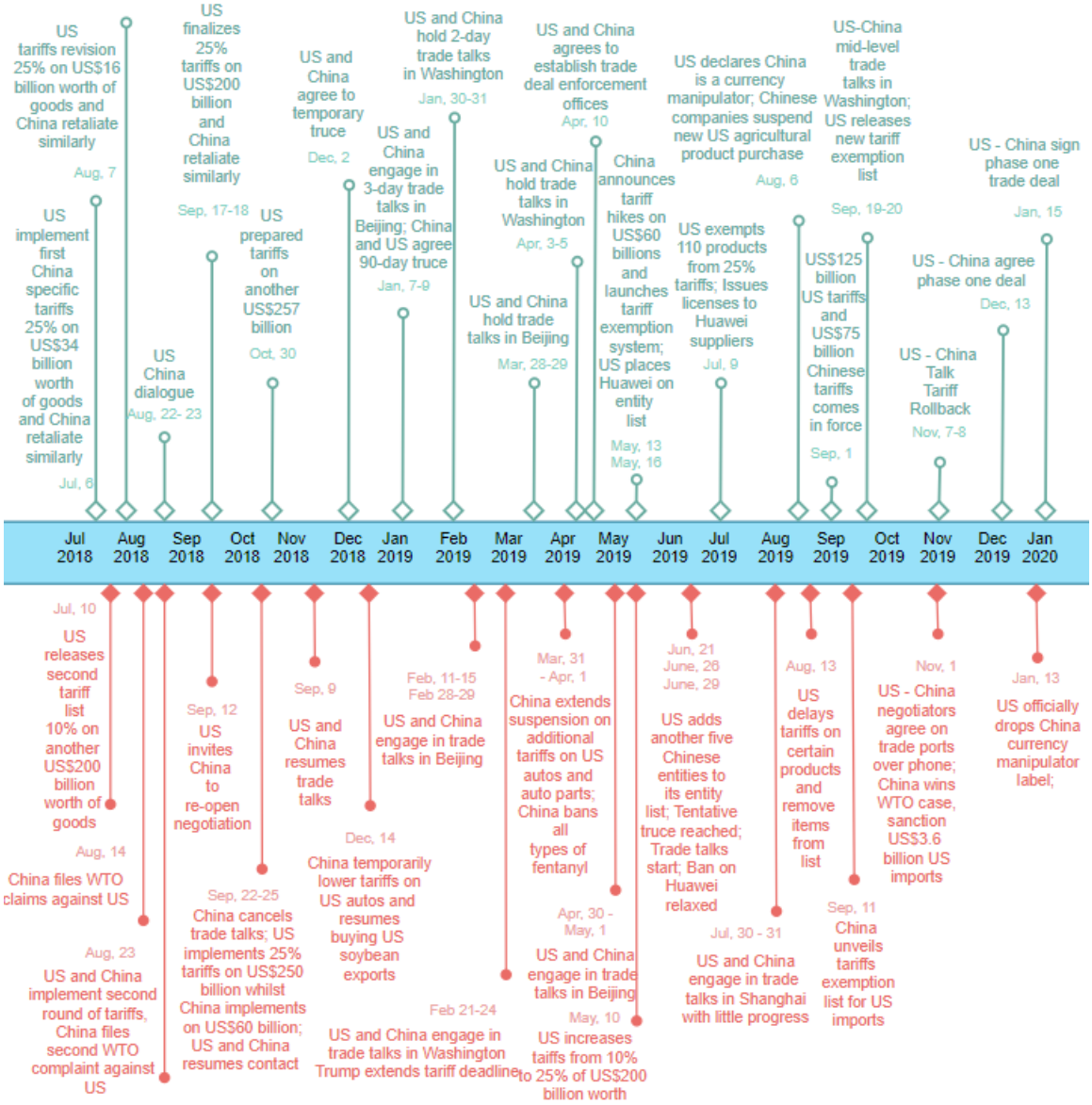

Figure 1: US-China trade war timeline

For over 18 months, global economy and trade trembles over the US-China trade war starting in July 2018. The war initiates with a 25 percent tariffs on US$34 billion worth of goods imported from both sides to tariffs on US$550 billion worth of goods imported from China and US$185 billion worth US products (Wong & Koty, 2020)

Date	Event	Details
July 6, 2018	US tariff imposes	25 percent on 818 Chinese products (List 1), worth US$34 billion set to take effect immediately
	US tariff discussion	25 percent on 284 Chinese products (List 2), worth US$16 billion
	China tariff imposes	25 percent on 545 US products, worth US$34 billion set to take effect immediately
July 10, 2018	US tariff threaten	10 percent on 6,000 Chinese products (List 3), worth US$200 billion
August 2, 2018	US tariff threaten	25 percent on List 3, worth US$200 billion
August 3, 2018	China tariff threatens	- 25 percent on 2,493 products - 20 percent on 1,078 products - 10 percent on 974 products - 5 percent on 662 products Total worth: US$60 billion and 5,207 products
August 7, 2018	US tariff threatens	25 percent on List 2 (now includes 279 products) set to take effect on August 23, 2018
August 23, 2018	US tariff imposes	25 percent on List 2 (now includes 279 products) in effect
	China tariff imposes	25 percent on 333 US products, worth US$16 billion set to take effect immediately
September 7, 2018	US tariff threatens	Tariff imposed on US$267 billion more bringing the total amount to US$517 billion

September 17, 2018	US tariff threatens	Tariff on List 3 setting to take effect at 10 percent on September 24, 2018 and increase to 25 percent on January 1, 2019.
September 18, 2018	China tariff threatens	Tariff on US$60 billion US products
September 24, 2018	US tariff imposes	10 percent on List 3 in effect
	China tariff imposes	5-10 percent on US$60 billion worth of US goods
October 30, 2018	US tariff threatens	Tariff on remaining US$267 billion Chinese goods (List 4)
December 2, 2018	Trade war truce	US refrain from increasing tariff on List 3 and imposing tariff on List 4. China promises to purchase more US products. The truce ends in March 1, 2019
December 14, 2018	Trade war truce	Remove 25 percent tariff on 144 US autos and 5 percent tariff on 67 US auto parts for a quarter starting from January 1, 2019 China purchases 1.5 million tons of soybeans
March 31, 2019	Trade war truce	The lowering of tariff on US autos and auto parts were extended without expiry date
May 5, 2019	US tariff threatens	Increase tariff on List 3 from 10 percent to 25 percent set to take effect on May 10, 2019 Tariff on List 4 (then worth US$325 billion)
May 10, 2019	US tariff imposes	Increase tariff on List 3 from 10 percent to 25 percent in effect

May 13, 2019	China tariff threatens	Increase tariff on US$60 billion set to take effect on June 1, 2019
	US tariff threatens	25 percent on List 4 (then worth US$300 billion)
June 1, 2019	China tariff imposes	Increases from 5-10 percent to 5-25 percent on US$60 billion (previously imposed on September 24, 2018)
July 9, 2019	Trade war truce	US exempt 110 Chinese products from 25 percent tariff previously imposed on July 6, 2018
July 16, 2019	US tariff threatens	Tariff on List 4 (then worth US$325 billion)
August 1, 2019	US tariff threatens	10 percent on List 4 (then worth US$300 billion) set to take effect on September 1, 2019
August 23, 2019	China tariff threatens	5-10 percent on 5,078 US goods and reinstate tariff on US auto and auto parts set to take effect in two batches: September 1, 2019 and December 15, 2019
	US tariff threatens	10 percent on List 4 (then worth US$300 billion) set to take effect in two batches: September 1, 2019 and December 15, 2019.
	US tariff threatens	Increases from 25 percent to 30 percent on tariffs on List 1, List 2, and List 3 set to take effect on October 1, 2019
September 1, 2019	US tariff imposes	15 percent tariff on US$125 billion Chinese products on List 4 in effect
	China tariff imposes	Additional tariff on US$75 billion US products in effect including 5 percent on US crude oil

September 11, 2019	Trade war truce	China adds 16 US products on exemption list US delays increasing tariffs on List 1, List 2, and List 3 to October 15, 2019.
September 13, 2019	Trade war truce	US exempts 437 Chinese products from tariffs
October 11, 2019	Trade war truce	US announces Phase 1 deal US delays tariff increases on List 1, List 2, and List 3.
October 18, 2019	Trade war truce	US tariff exclusion process for tariff on List 4
December 13, 2019	Trade war truce	US stops 15 percent tariff on US$160 billion Chinese products setting to take effect on December 15, 2019 US reduces tariffs on US$120 billion Chinese products which set effect on September 1, 2019 to 7.5 percent US maintains 25 percent tariff on List 1, List 2, and List 3 China agrees to buy US$200 billion worth of US goods over the next two years China suspends retaliatory tariff set to take effect on December 15, 2019 China exempts more US products from taxes
January 15, 2019	Trade war truce	US and China signs Phase 1 Deal

Table 1: US – China trade war timeline

Sourced: (Wong & Koty, 2020)

Requirement 2

Evaluate the outcome of the trade war between the US and China in terms of its impact on the US economy and the benefits for the American people.

Trade war between China and the US have re-structured trade relations of the two largest economies with other regions including Japan, European Union, the rest of Asia, Middle Eastern and Africa, and Latin America. Particularly, trade communications between the US and these three regions have increased by appropriately 10.4 percent, 8.58 percent, 12.79 percent, 4.65 percent, and 4.72 percent (Liu, Creutzig, Yao, Wei, & Liang, 2020). Trade frictions have caused a major decline in import of China goods at a rate of over 44 percent. Trade deficits, the origin cause for the war, and US export to China also decreased by around 15 percent compared to 2018 (from about $419 billion to $353 billion). The most vulnerable US industries to the frictions were vegetables and fruits, coal and meat products where exports fell by more than 80 percent (Liu, Creutzig, Yao, Wei, & Liang, 2020).

Besides, the war also caused major impact toward economic growth and employment in the US. Whilst China seems to take more damage with 0.21 percent down in GDP, the US suffered a fall of 0.08 percent. As a consequent to the tensions in goods flow, the American household faced 0.01 percent decrease in income as opposed to 0.55 percent for Chinese citizens (Liu, Creutzig, Yao, Wei, & Liang, 2020). Moreover, the American people, throughout the war, took a restraint approach to consumption and investment. The figures for these aspects of the economy in the US fell by respectively 0.01 percent and 0.99 percent. Many goods in the US market have become more expensive, especially consumer ones like TVs and clothing (Kashyap & Bothra, 2019). The US consumers are the ones to pay for the increase in Chinese imported goods or alternative ones imported from other regions. Meanwhile, the event is negative news to the stock market which motivate the citizens to switch to savings (Kashyap & Bothra, 2019).

Concerning the labour market, although household survey data released by the US Bureau of Labour Statistics suggest improvement in unemployment rate at 3.5 percent in December 2019 (the figure was 3.9 percent a year earlier) (US Bureau of Labor Statistics, 2020), study suggests high impact on agricultural and agro-by-product processing industries due to shock in global demands, particularly from China. The decrease in production and the accumulation of stocks have forced corporate to layoffs workers. Some US agriculture industries loss double digit percentage

of employment due to the trade war (Liu, Creutzig, Yao, Wei, & Liang, 2020). In other words, while half a million of people more were employed over the last year, the gains in retail, trades, health care, leisure, and hospitality covers for the loss in other industries.

Regarding welfare, according to Hicksian equivalent variation [EV] estimated by Liu, et al. (2020), US welfare lost around $1.4 billion. Even though the US profited from significant increase in tax revenue from tariffs on over $500 billion worth of Chinese goods, the return was not enough to cover for the decline in production and American household income in overall. Furthermore, in the long-run, it is anticipated that the US will lost between 0.4 percent and 1.33 percent in GDP depending on the status of the trade war. Welfare will also suffer losses of between $31.3 billion and $74.4 billion (Liu, Creutzig, Yao, Wei, & Liang, 2020). Many reports even suggests a hike of between $600 to $831 annually in the cost of the average American household. However, inflation in the US has actually remained at 2 percent and consumers have not suffered any spike in goods prices since (Lobosco, 2020).

Despite the fact that manufacturing and farmers were expected to be heavily affected by rise in input materials price, while the former merely slowed down, the latter was aided by a $28 billion aid package from the Government (Lobosco, 2020). Since the aid to the farmers were much smaller to the anticipated tax revenue increase, the US economy stays strong with increase in Government activities. However, gloomy days may stay ahead for the US economies as Government retains in its' habit of accumulating even more debts. Now, only time will tell to what extent the US economy and US citizens affected by the trade war.

Requirement 3

On 4 August 2019: President Trump said "things are going along very well with China," and repeated his contention that China is paying the U.S. "Tens of Billions of Dollars" after successive rounds of import tariffs.

On Twitter the President had earlier said on 10 May 2019

Talks with China continue in a very congenial manner - there is absolutely no need to rush - as Tariffs are NOW being paid to the United States by China of 25% on 250 Billion Dollars' worth of goods & products. These massive payments go directly to the Treasury of the U.S....

Assess the accuracy of these statements with reference to the payments going to the Treasury?

As of June 2019, total custom duties received by the US Treasury doubles since the trade war. In fact, in the 12-months between beginning of July 2018 to the ending of June 2019, the US was reported to collect a sum of US$63.45 billion in tariff revenue alone. The figure double the US$37.65 billion level from before the trade tension (Zumbrun, 2019). The difference between July 2017-June 2018 and July 2018-June 2019 was US$25.8 billion. From this figure alone, it is reasonable for President Trump statement on 4 August 2019.

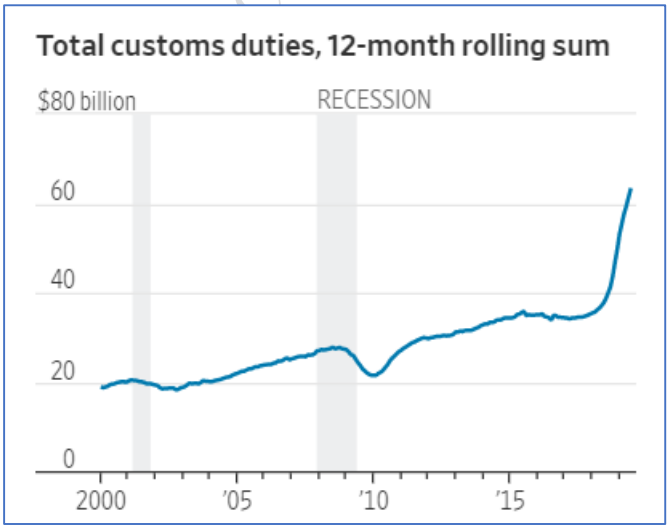

Figure 2: Total customs duties received by US Treasury in 12-month rolling sum since early 2000s

Sourced: (Zumbrun, 2019)

In details, going by the timeline, the US imposed 25 percent of tariff on 818 Chinese products (List 1), which worth US$34 billion, on July 6, 2018. Another 279 products, worth US$16 billion, face 25 percent of custom duties starting on August 23, 2018. Then, 6,000 Chinese products, worth US$200 billion, were imposed 10 percent tax duties on September 24, 2018. Afterward, the tension raises with an increase tariff of 15 percent on May 10, 2019 toward the US$200 billion Chinese products previously taxed at 10 percent (Wong & Koty, 2020).

Roughly by estimation, between July 2018 to the ending of June 2019, the US Treasury should receive a full annual year of 25 percent tariff on US$34 billion goods, over 10 months of 25 percent tariff on US$16 billion goods, around 7 months of 10 percent on US$200 billion goods, and 2 months of 25 percent on US$200 billion goods. Thus, the US Treasury should receive an addition US$31.83 billion in custom duties. The difference between the estimations and the actual figure may be caused by changes in trade volumes between the countries and the exact date the taxes coming into effect.

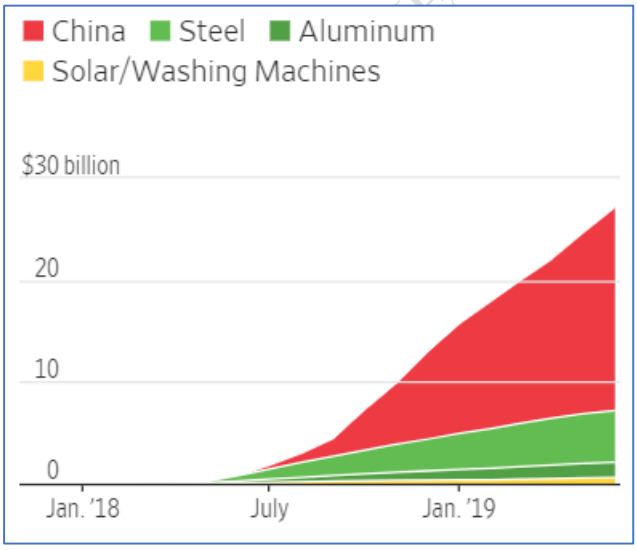

Figure 3: Cummulative effect of Trump tariff on China import, steel, alumunium, and solar/ washing machines

Sourced: (Zumbrun, 2019)

However, it should be mentioned that the cummulative tax effect from President Donald Trump should not account for China import custom duties alone. After all, the President has raised tariffs for Steel, Aluminum, and Solar/ Washing Machines products. As a matter of fact, by the end of June 2019, the accumulated tariff gained from new China import tax have earned US Treasury

US$20.01 billion in custom duties (Zumbrun, 2019). The number far lowers the estimated US$31.83 billion figure. On September 1, 2019, the US finally announces 15 percent tariff on US$125 billion Chinese products amongst the remaining untaxed goods. The news further raises the potential for custom duties from China in the coming months for US Treasury. Apparently, US import tariff was record-high at $7.2 billion in October 2019 alone (Heeb, 2019)

On the other hand, although it is indeed tariffs being paid to United States and the US Treasury as suggested by the President statement on 10 May 2019, whether the money comes from China or not is debatable. From another perspective, it is American importers who have paid the tens of billions extra in tariff. According to the Tariffs Hurt the Heartland, a free-trade coalition, US businesses are the ones who have paid the US$46 billion tariff bill for 2019 import activities (Lobosco, 2020). More importantly, many reports and researchers have suggested the fact that the bills would eventually arriving to US households through increase in living cost and production cost of local manufacturers (Lobosco, 2020; Liu, et al., 2020).

As a matter of fact, recent analysis suggests negative impacts toward Chinese economy comes from decline in manufacturing sector and export activities. Chinese businesses do not pay the cost of the war directly to the US Treasury and neither do the Chinese Government pay for the damage (Liu, Creutzig, Yao, Wei, & Liang, 2020). Yet, according to Lobosco (2020), American households have not seen considerable increase in goods price. Therefore, the statement should be corrected such that American importers have paid tens of billions of US$ dollars to the US Treasury.

Requirement 4

On 24 August 2019 hours after China announced retaliatory tariffs on U.S. goods on President Trump ordered U.S. companies to "start looking for an alternative to China, including bringing your companies HOME and making your products in the USA.".

Outline the steps open to President Trump to enforce that requirement without requiring approval from the US Congress?

According to Reuters, there are several tools that President Donald Trump can utilize to get US firms to relocate their factories back to US soils without approval from the US Congress. According to Reuters, in the period between 1990 and 2017, US corporates have invested a lump sum of US$256 billions in the most populous country. Unlike China, the US legislation cannot simply order US companies to return home. Without legal enforcement, the President can utilize tariffs, national emergency declaration, federal procurement curbs, and 1917 trading with enemy act invocation (Reuters, 2019). It should be noted that US companies manufactures goods and products in China for various reasons such as being closer to raw materials source, lower labor and production cost in overall, and exploitation of the country. By removing these reasons, these businesses may no longer have any incentives to do such.

First, by raising import tariff and barriers back to the US, the President squeezes companies' opportunity to manufacture cheap goods in China and import them to US to enjoy higher prices and customers' strong buying power. As a matter of fact, although China is several times the population size the US, consumptions and spending in China pales to compare to America. Thus, the corporates operating in China should partly rely on the revenue and profit from exporting goods and products to the US. More importantly, higher tariffs also make it less likely for US companies to do joint ventures in China for cheap supplies (Reuters, 2019). Throughout the trade wars, importing and exporting activities between China and US have plummeted. Although investment from the US to China remain strong, the act merely serves to exploit the growing buying power of the Chinese citizens. Some also relocates to China to enjoy lower wages and more accommodating laws and regulations (Hancock, 2019).

Second, by declaring national emergency under the 1977 International Emergency Economic Powers Act (IEEPA), the President has the power and authority to restraint US businesses'

activities due to national security reasons. In fact, during the trade war, the President has put currency manipulator status on Chinese Yuan and warned about Chinese theft of intellectual property (Reuters, 2019). Although the move may trigger many legal problems with the US courts, the 1977 law framework is a powerful tool for President Donald Trump to use to enforce such requirement without requiring approval from the US Congress. Apparently, many authors actually agree that there's indeed theft activities from the Chinese sides (Kashyap & Bothra, 2019). Therefore, when the President put currency manipulator status on Chinese Yuan and warned about Chinese theft of intellectual property, there was little regulation movement against him.

Third and final, the federal procurement curbs and the invocation of 1917 trading with enemy Act are observed as dramatic moves, especially the last one. Both allows the President to ban any interactions between US companies and the Chinese sides. However, these movements clearly are too aggressive and unnecessary (Reuters, 2019). The problems between the two sides are simply politics and economics issues. Ultimately, President Donald Trump merely wants a fairer deal for the US side and "righting the wrongs of the past" (Swanson & Rappeport, 2020).

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