

INFORM. INSPIRE. DEVELOP CIVIC LEADERS.

THE POLICY CIRCLE

TRADE AND TARIFFS





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A TARIFF IS A TAX ON IMPORTED GOODS, TYPICALLY INTENDED TO MAKE DOMESTICALLY PRODUCED GOODS CHEAPER FOR CONSUMERS. THE GOAL IS FOR PEOPLE TO BUY THEIR OWN COUNTRY'S LESS EXPENSIVE PRODUCTS AND KEEP MONEY IN THEIR OWN COUNTRY'S ECONOMY.

TENSIONS OVER CHINESE TRADE AND ECONOMIC POLICIES ESCALATED INTO A TRADE WAR DURING THE TRUMP PRESIDENCY, BUT TRADE POLICY IS LIKELY TO REMAIN A MAJOR ISSUE FOR SOME TIME TO COME.

➤ FACTS TO CONSIDER ◀

ALTHOUGH THE GOVERNMENT COLLECTS A TAX FROM ONE GROUP, THE BURDEN OF TAXATION CAN OFTEN BE PASSED ON TO ANOTHER GROUP OF ECONOMIC ACTORS. THE BURDEN OF TARIFFS IS GENERALLY PASSED ONTO U.S. IMPORTERS, WHO THEN PASS THIS ALONG TO CONSUMERS IN THE FORM OF HIGHER PRICES.

A TRADE DEFICIT OR SURPLUS IS THE DIFFERENCE BETWEEN THE VALUE OF GOODS THE US EXPORTS TO A GIVEN COUNTRY AND THE THE GOODS THE US IMPORTS FROM A COUNTRY. THE OFFICE OF THE U.S. TRADE REPRESENTATIVE HAS RELEASED A REPORT CLAIMING THAT THE LARGE U.S. TRADE DEFICIT WITH CHINA IS DUE TO UNFAIR CHINESE TRADE PRACTICES.

THE TRADE DISPUTE WITH CHINA IS FOCUSED ON CHINESE INVESTMENT RESTRICTIONS AND DOMESTIC SUBSIDIES. COMPANIES THAT DO BUSINESS IN CHINA ARE FORCED TO SHARE INTELLECTUAL PROPERTY AND EXPERTISE VIA JOINT VENTURES WITH CHINESE COMPANIES, AND CHINA USES SUBSIDIES TO GIVE ITS COMPANIES AN ADVANTAGE OVER INTERNATIONAL COMPETITORS.

THE U.S. TRADE DEFICIT WITH CHINA WIDENED TO \$355 BILLION IN 2021 DUE TO INCREASED AMERICAN DEMAND. THE TOTAL U.S. TRADE DEFICIT WAS \$678 BILLION IN 2020, AND INCREASED TO \$859 BILLION IN 2021.



GOVERNMENT POLICIES



AFFECTED SECTORS

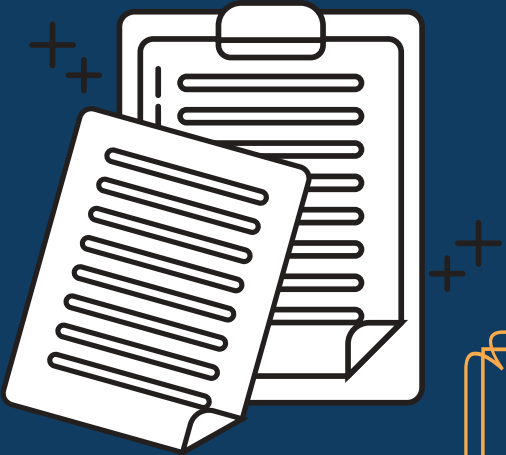
AFTER CHINESE POLICYMAKERS BACKTRACKED ON THEIR PREVIOUS COMMITMENTS TO TRADE REFORMS, THE TRUMP ADMINISTRATION RAISED TARIFFS ON \$200 BILLION WORTH OF CHINESE MANUFACTURED GOODS. AMERICA IS ONE OF THE WORLD'S BIGGEST AGRICULTURAL EXPORTERS, AND CHINA RETALIATED BY RAISING TARIFFS ON \$60 BILLION WORTH OF AGRICULTURAL GOODS LIKE SOYBEANS, BEEF, AND PORK.

THE "PHASE ONE" AGREEMENT

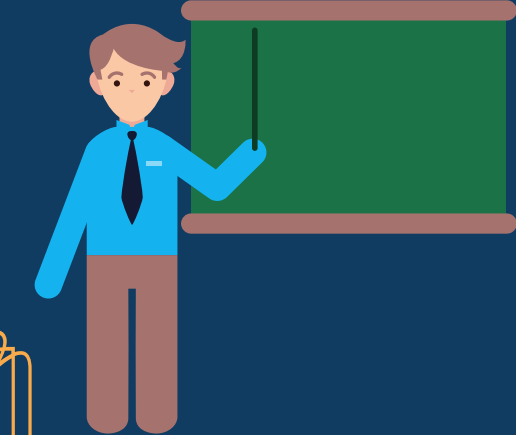
IN DECEMBER 2019, AMERICAN AND CHINESE OFFICIALS REACHED A PRELIMINARY AGREEMENT WHICH COVERED THE US TRADE DEFICIT, TARIFF RATES, AND OTHER ISSUES LIKE INTELLECTUAL PROPERTY, US-CHINA TECHNOLOGICAL COMPETITION, AND CHINESE DOMESTIC POLICIES LIKE SUBSIDIES AND FINANCIAL SERVICE REGULATIONS THAT PUT AMERICAN BUSINESSES IN CHINA AT A COMPETITIVE DISADVANTAGE.

NAFTA & USMCA

WHILE MOST OF THE TRADE FOCUS HAS BEEN ON CHINA, THE U.S., CANADIAN, AND MEXICAN GOVERNMENTS WERE WORKING ON THE U.S.-MEXICO-CANADA AGREEMENT (USMCA) TO REPLACE THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA). THE NEW DEAL INCLUDES PROVISIONS TO CREATE MORE MANUFACTURING JOBS AND NEW RULES IN THE AUTOMOTIVE SECTOR, AS WELL AS PROVISIONS THAT REDUCE UNCERTAINTY ABOUT DIGITAL TRADE AND DATA TRANSFERS.



➤ FRAMING THE ISSUE ◀



INTELLECTUAL PROPERTY

U.S. COMPANIES' ABILITY TO PROTECT THE END-PRODUCT OF COSTLY RESEARCH AND DEVELOPMENT PROCESSES FROM INDUSTRIAL ESPIONAGE OR COPYRIGHT INFRINGEMENT BY CHINESE COMPETITORS IS A MAJOR CONCERN IN U.S.-CHINA TRADE POLICY. U.S. TRADE NEGOTIATORS ARE FOCUSED ON ADVOCATING FOR STRONGER COPYRIGHT PROTECTIONS AND LESS PRESSURE ON TECHNOLOGY TRANSFER BETWEEN U.S. COMPANIES AND CHINESE PARTNERS IN JOINT VENTURES.

FINANCIAL SERVICES

CHINA'S BANKING SECTOR IS HIGHLY REGULATED AND DOMINATED BY A FEW LARGE GOVERNMENT-RUN BANKS. US FIRMS' ABILITY TO OFFER BANKING SERVICES, INSURANCE, CREDIT RATING SERVICES TO CHINESE CONSUMERS AND COMPETE ON A LEVEL PLAYING FIELD WITH CHINESE COMPETITORS WAS ONE OF THE ISSUES DISCUSSED IN THE "PHASE ONE" NEGOTIATIONS.

TRADE PROMISES

AS PART OF THE "PHASE ONE" AGREEMENT, CHINA AGREED TO PURCHASE AN ADDITIONAL \$200 BILLION WORTH OF U.S. GOODS IN A VARIETY OF SECTORS. CHINA FELL SHORT OF THIS IN 2020, HAVING ONLY PURCHASED \$110 BILLION BY THE END OF 2020. EVEN WITH AN INCREASE IN ITS PURCHASES OF U.S. AGRICULTURAL GOODS, AS OF FEBRUARY 2022 CHINA HAD ONLY BOUGHT 57% OF THE AMERICAN EXPORTS IT COMMITTED TO PURCHASE.

REMAINING TARIFFS

75% OF CHINA'S EXPORTS CURRENTLY FACE US TARIFFS. TARIFF RATES ON U.S. EXPORTS TO CHINA AND CHINESE EXPORTS TO THE U.S. ACROSS ALL SECTORS ARE ABOUT 20% HIGHER THAN BEFORE THE TRADE WAR BEGAN. THERE IS NO CLEAR TIMELINE FOR A "PHASE TWO" AGREEMENT TO REMOVE THESE BARRIERS AND A CLIMATE OF UNCERTAINTY WILL DISCOURAGE US-CHINA TRADE AND INVESTMENT FOR THE FORESEEABLE FUTURE. COMPANIES MAY BYPASS U.S.-CHINA TARIFFS BY EXPORTING GOODS FROM CHINA TO THIRD COUNTRIES LIKE VIETNAM, AND THEN FROM VIETNAM TO THE US.



➤ SOLUTIONS ◀

UNDERSTANDING COMPARATIVE ADVANTAGE AND THE VALUE OF INTERNATIONAL TRADE

EVEN THOUGH THE US IS A MASSIVE, RESOURCE-RICH COUNTRY HAS THE ABILITY TO BE SELF-SUFFICIENT IN A VARIETY OF GOODS, IT IS ECONOMICALLY ADVANTAGEOUS FOR THE US, AMERICAN CONSUMERS, AND AMERICA'S TRADE PARTNERS TO SPECIALIZE IN WHAT THEY CAN PRODUCE THE MOST EFFICIENTLY AND ENGAGE IN INTERNATIONAL TRADE. AMERICA HAS ENOUGH FARMLAND WITH GOOD CLIMATES FOR VINEYARDS TO BE SELF-SUFFICIENT IN WINE PRODUCTION, BUT CONSUMERS AND THE US ECONOMY STILL BENEFIT FROM THE ABILITY TO IMPORT GOODS LIKE FRENCH WINE AND SELL OTHER PRODUCTS TO FRANCE.

LEARN HOW YOUR COMMUNITY AND STATE BENEFIT FROM TRADE

WHAT ARE THE MAJOR EMPLOYERS OR INDUSTRIES IN YOUR CITY OR COUNTY, AND HOW ARE THEY AFFECTED BY TARIFFS? THE OFFICE OF THE US TRADE REPRESENTATIVE COLLECTS STATE-LEVEL DATA ON YOUR STATE'S BIGGEST INTERNATIONAL EXPORTS, THE NUMBER OF JOBS SUPPORTED BY INTERNATIONAL TRADE AND INVESTMENT, AND YOUR STATE'S LARGEST INTERNATIONAL TRADE PARTNERS.

PURSUE ECONOMIC OPPORTUNITY FOR AMERICANS THROUGH FREE TRADE

CRITICS OF INTERNATIONAL TRADE SEE FREE TRADE AGREEMENTS AS A "RACE TO THE BOTTOM" FOR LABOR AND ENVIRONMENTAL STANDARDS THAT DESTROY AMERICAN JOBS. HOWEVER, FREE TRADE ALSO REPRESENTS A MASSIVE OPPORTUNITY FOR AMERICAN BUSINESSES REACH MILLIONS OF POTENTIAL CUSTOMERS BUSINESS PARTNERS, WITH MORE CHOICE AND LOWER COSTS FOR CONSUMERS.