Forecast for U.S. Trade Policy:
Tariffs, Negotiations, and Trump

John Murphy
Senior Vice President for International Policy
U.S. Chamber of Commerce
I: Where is Trade Headed?
II: Where is U.S. Trade Policy Headed?
III: The World Won’t Stand Still
Where Is Trade Headed?
COMMERCE DEFIES EVERY WIND.
OUTRIDES EVERY TEMPEST, AND INVADES EVERY ZONE — BANCROFT
“Commerce Invades Every Zone”

Growth in trade as a share of global GDP

World Trade as a Percentage of World GDP: 1990-2015

NOTE: The constant dollar curve departs from the nominal curve largely because of the fall in price of IT-related traded goods in the 1990s and their expected price decline in the future.

Source: CIA's Long-Term Growth Model.
“Commerce Invades Every Zone”

Multilateral trade liberalization: 1947

Diagram showing percent decrease over time:

- 40 percent starting point
- Path based on 40 percent starting point
- Our backcast path

Timeline:

- Pre-Geneva (1947)
- Post-Geneva (1948)
- Pre-Kennedy Round (1964)
- Post-Kennedy Round (1972)
- Post-Tokyo Round (1987)
- Post-Uruguay Round (1999)
“Commerce Invades Every Zone”

Containerization: Malcolm McLean, 1956
“Commerce Invades Every Zone”

World Wide Web: 1989
Peak Trade?
Peak Trade? Growth Stalls

![Graph showing world trade as a percentage of GDP from 1960 to 2015. The peak trade level of 61% in 2008 is compared to the 58% level in 2015.]
Peak Trade? FDI Drops
Peak Trade? Protectionism Spreads
Where is U.S. Trade Policy Headed?
41 million
American jobs depend on trade

98%
of American companies that export goods are small and medium-size businesses

6 million
manufacturing jobs depend on exports

3 in 5
voters want government to negotiate more trade deals

Choose a state to learn more
ALL STATES
4,869,200
California jobs supported by international trade

75,722
companies export goods from California locations

96%
of California exporters are small and medium-sized businesses

72,591
small and midsized exporters in California

$287.8 B
of goods and services exported from California in 2014

39%
of California exports went to Free Trade Agreement markets

665,000
workers employed by foreign firms invested in California

TOP EXPORT MARKETS FOR CALIFORNIA
Mexico  Canada  China  Japan
How Can We Tame Trade?

“With tough and fair agreements, international trade can be used to grow our economy, return millions of jobs to America’s shores, and revitalize our nation's suffering communities.”

—President Donald Trump
How Can We Tame Trade?

“Trying to pull up a drawbridge on trade would only hurt us and hurt our workers. So the answer is to make sure that globalization and trade is working for us, not against us... This is an opportunity to grow our economies and write the rules for trade in the 21st century in a way that's equitable.”

—President Barack Obama
Manufacturing Concerns

US Real Manufacturing Output vs. Employment, 1947 to 2014
Manufacturing Opportunity

Source: NAM
US tariffs on $40 billion of steel and aluminum

Foreign retaliatory tariffs on $40 billion of US exports

US tariffs on $50 billion of Chinese imports

Chinese retaliatory tariffs on $50 billion of US exports

US tariffs on $200 billion of Chinese imports

Chinese retaliatory tariffs on $60 billion of U.S. exports and other measures

US tariffs on $350 billion of auto imports?

US tariff rate increase (10% to 25%) for Chinese goods?

MORE?
Sec. 232 Tariffs on Steel and Aluminum
Sec. 232 Tariffs on Steel and Aluminum

- 25% on steel, 10% on aluminum
  - Quotas: Korea, Brazil, Argentina; Australia the exception
- Steel prices up ~40% since 1/1/18; recent decline
- Aluminum prices volatile, up 130% since 1/1/18
- Foreign retaliation on $40 billion of U.S. exports
U.S. Steels the Show
The cost of American steel has surged amid continued uncertainty over the impact of import tariffs.

Steel price by region
- U.S.
- Europe
- China

Note: U.S. prices are for Midwest hot-rolled coil; Europe for North European hot-rolled coil; China for Shanghai, VAT-inclusive hot-rolled coil
Source: S&P Global Platts
Countervailing Forces
U.S. tariffs are cutting into tax savings for American automakers

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<th>Tax savings in Q1</th>
<th>Steel, aluminum tariff cost for 2018</th>
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<td>Ford</td>
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Note: Calculations don’t take into account other factors, such as depreciation, foreign tax credits or other one-time tax charges or benefits that can alter overall tax rate.
Source: Bloomberg, Nomura
Sec. 232 Tariffs on Autos, Auto Parts
Sec. 232 Tariffs on Autos, Auto Parts

- 20%-25% tariff proposed: Report due Feb. 19
- $350 billion in imports affected
- Commensurate retaliation to be expected
- 99% of comments opposed: No industry support
- 700,000 U.S. jobs at risk; $4,000 price hike per car
Sec. 301 Tariffs on Imports from China
Tariffs on Chinese Imports

- Broad agreement on diagnosis: Concerns about China’s forced tech transfer policies and IP theft
- Broad opposition to tariffs as a remedy
  - 25% tariff on $50 billion of imports on 7/6, 8/23
  - Another $200 billion on 9/24
  - Tariff rate increase from 10% to 25% on March 1?
Tariffs on Chinese Imports

- Which is the U.S. goal?
  - Reduction in bilateral trade deficit?
  - Structural reform and market access?

- Forecast: No easy out
  - White House economic anxiety may lead to weak deal
  - Questions about whether tariffs will be rolled back
Tariffs on Chinese Imports

A better way?

- End multi-front trade war, work with allies to forge a common front instead
- Use U.S. trade remedies, WTO more
- Craft new trade agreements (like TPP) to raise standards
NAFTA ➤ USMCA
The Facts on North American Trade

- **JOBS**: 11 million American jobs
- **MANUFACTURING**: More U.S.-made manufactured goods than next 10 largest markets combined
- **AGRICULTURE**: Even more important
USMCA: Preserve and Strengthen U.S. Trade Ties to Canada, Mexico

- **Preserve**: Structure of tariff-free North American trade is preserved — “95% the same” (Grassley)
- **Strengthen**: Modernized chapters on digital trade, intellectual property, etc.
USMCA: Outlook in Congress

- Steel and aluminum tariffs a threshold issue
- TPA suggests a vote in April – August window
- Several dozen House Democratic votes needed
  - Demands on labor enforcement; what else?
- Overall political environment obviously poor
  - Can it be overcome to permit bipartisan cooperation?
New Trade Negotiations

- U.S.-Japan: Agriculture and autos
- U.S.-EU: “Non-auto industrial goods”
- U.S.-UK: Prisoner to Brexit talks
  - Odds of a “no deal” Brexit outcome rising; delay from March 29 until June?
Conclusion:
The World Won’t Stand Still
The World is Moving Forward
Reversing Tax Cuts

Combined, tariffs would offset half of the TCJA tax cuts
Americans Warming to Trade?

Foreign Trade as Economic Opportunity for U.S., by Party ID

Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports? (% Opportunity for economic growth)

- Republicans
- Independents
- Democrats

GALLUP
U.S. Chamber of Commerce Actions

- Communications
- Congressional Outreach
- Outside the Beltway
Objective: Congressional approval

- Congressional Outreach
- Grassroots
- Communications
100,000 unique visits

Most visited Chamber page

$15 billion in California exports
Trade fight hits New Mexico cheese, mattresses, salsa. Trump's global trade war expected to inflict economic casualties in Wisconsin and across the nation. New tariffs could cost Michigan $2.3 billion. Chamber: Tariffs could hit more than $208 million in state exports. S.C. will be one of the biggest losers in Trump's trade wars, business group warns. U.S. Chamber: Trump tariffs put $3.5B in Alabama exports at risk. Montgomery Advertiser. From chocolate to coffee and clothes, exporters in Pennsylvania sorting through the effect of tariffs. Arizona exports of $266 billion could be hit by retaliatory tariffs, experts say. Trade fight hits New Mexico cheese, mattresses, salsa. In South Dakota, patience wears thin as tariffs hit home. New tariffs could threaten $276.9 million in Colorado exports. Report: Tariffs could hit more than $208 million in state exports. Report: Trump administration tariffs threaten $800 million in Oregon exports, half a million jobs. $107M of Nevada exports threatened by retaliatory tariffs. Tampa Bay and Florida businesses expect tariffs to drive prices up.
‘Nobody Ever Wins in Trade Wars:’ Meet 3 Minnesota Small Businesses Being Crushed by Tariffs

OCT 02, 2018 - 11:00AM

MAX NELSON
Intern, Strategic Communications

Tariffs are Hurting This Minnesota Small Business

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1 week 1 day
A New NAFTA

2 weeks 6 days
Quick Take: Your Primer on Trump’s Auto Tariffs

2 weeks 6 days
‘Our prices have gone up significantly.' Tariffs Threaten Virginia Businesses

Our Position on International Trade and Investment
Congressional Outreach

- Hundreds of meetings on Capitol Hill
- Trade/tariff-specific forums in 27 states
- Nearly 100 in-district meetings with Members
- 200 tariff briefings for chambers
- Trade for America, Farmers for Free Trade, Americans for Free Trade, etc.
How Can You Help?

USMCA
- Sign up at www.USMCACoalition.org
- Use online tool to reach Congress

Tariffs
- Visit www.TheWrongApproach.com
- Write to Congress
- Share your story
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