

# Update on Trade and Tariffs

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International Affairs

# Here's what we're going to cover:

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- 1) Tariffs are still here (and likely to remain)
- 2) What are the pressing trade issues of the day?
- 3) Is COVID-19 a short-term trade disruption or a longer-term issue?
- 4) What does the future hold?



# Big Picture

- Trade Talk Success in Q1
  - USMCA, U.S.-China Phase I agreement
- Global Impact of COVID-19
  - Demand and supply shocks to global trade --> 10-20% drop in trade & commerce
  - New trade barriers in 80+ countries
  - Growing trade protectionism in U.S. & abroad
- High tariffs remain in place
- U.S.-China relationship deteriorating
- Trade negotiations ongoing, but most will not be completed this year



# A Level Playing Field?

- U.S. access to foreign markets is poor
  - WEF: U.S. is 130th out of 136 economies in “tariffs faced”
- U.S. has FTAs with 20 countries
  - EU countries have them with 100
- Subsidies, forced localization, IP theft
- State enterprises and national champions



# Tariffs Still on the Books

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- **Sec. 232 Tariffs on Steel and Aluminum**
  - 25% on steel, 10% on aluminum
- **Sec. 301 Tariffs on Chinese Goods**



# More Tariffs (and Retaliation) to Come?

- Re-impose tariffs/quotas on Canadian Aluminum?
- Boeing/Airbus Case with the EU
- Auto Tariffs? Too late?
- New Sec. 232 Investigations (Mobile Cranes, Transformers and Parts, Vanadium)
- New Sec. 301 Tariffs in Response to DSTs?



# NAFTA ► USMCA



# USMCA: The Case for Approval

## ***Preserve U.S. Trade Ties to Canada and Mexico***

- Supports **12 million** American jobs
- Tops the next **11** largest markets for manufactures
- Accounts for one-third of all U.S. agricultural exports

## ***Modernize North American Trade Rules***

- New rules on digital trade, services, non-tariff barriers, etc.





# USMCA: Who Is Affected?

- ***Little change for most:*** Agriculture, services, most manufacturers will see modest benefits
- ***Modernization for some:*** Digital trade, technical barriers to trade, other rules chapters
- ***Complications for others:*** Auto rules of origin will be costly to implement; loss of investor-state dispute settlement; IP disappointment



# USMCA: Takeaways

- **Huge majorities (9 out of 10 members of Congress) voted to support free trade in North America**
- **Democrats and Republicans worked together on labor**
- **Modernization was popular (e.g., digital trade)**
- **Entry Into Force – July 1**
- **Implementation Continues**



# U.S.-China Trade



# Key Components of U.S. Frustration

- **Massive state subsidies, forced tech transfers, digital/data discrimination, and IP theft** in key areas of U.S. strength
- **Market access barriers** (financial services, ICTS, agriculture, autos, etc.)
- For POTUS, **trade deficits** at various periods exacerbated by **currency manipulation**



# U.S.-China Trade Negotiations

## What USG Asked For

- Expanded market access
- Fair & reciprocal treatment
- Eliminating subsidies
- Stronger IPR protection
- Removal of digital trade & data restrictions
- Deficit reduction

## What We Got (Phase I)

- Purchase commitments & currency agreement
- Finance & ag opening
- Some IPR reforms
- Vague promise to end limited amount of forced tech transfer



# Phase 1 Deal: Purchases

- **China to increase purchases of U.S. goods and services by \$200 billion — on top of 2017's \$186 billion:**
  - ✓ \$78 in manufactures (up by \$33 billion from 2017)
  - ✓ \$52 billion in energy (up by \$43 billion from 2017)
  - ✓ \$38 billion in services (up by \$13 billion from 2017)
  - ✓ \$36 billion in agriculture (up from \$24 billion in 2017)



# U.S. National Security Response

- Huawei export licenses
- CFIUS reform and Export Control Reform Act
- Xinjiang human rights and HK-related laws
- Securing ICTS Supply Chain EO
- Expanded use of visa restrictions
- Houston Consulate Closure



# Impact on Bilateral Commercial Relations

- **Phase I** purchase commitments thrown into question
- **Phase II**, now beyond visible horizon
- **Longstanding bilateral issues**, which had intensified due to lack of progress, could become **exacerbated**:
  - Mutual recriminations from U.S. & Chinese governments
  - Acceleration of “decoupling” trend among companies & policy-makers







What Next for Trade?

Je voulais  
VIVRE  
Drosophila  
M'A ATTAQUÉ  
LA  
FRANCE  
M'A  
ACHEVÉ

# Era of the “Mini Deal”?

- ✓ U.S.-India
- ✓ U.S.-Brazil
- ✓ U.S.-Kenya
- ✓ U.S.-U.K.
- ✓ U.S.-E.U.



# Other Trade Issues

- ✓ **U.S.-Japan Phase II**
- ✓ **U.S.-China Phase II**
- ✓ **The WTO**
- ✓ **Expiration of TPA in 2021**
- ✓ **Sanctions**
- ✓ **Export Controls**



# The New Buzzword - “Supply Chains”

- Pushed to front of the line by COVID-19
- Medicine, Medical Goods -> ???
- Policy Response
  - Executive Orders
  - Bills Introduced in Congress
  - Defense Authorization Amendments



# Trade and the 2020 Election

<b>President</b>	<b>House</b>	<b>Senate</b>
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