

# The Trade War Dashboard

Keeping you up to date on the Trade War, one of today's most critical issues  
Status, Updates, Impact, What's Next, and Analysis

5/3/19

## STATUS

**China** The US has applied tariffs to \$250 Billion of Chinese goods. China reciprocated on \$110 Billion of US goods. Negative impact on US farmers fairly significant. Issues include increased purchases of US goods, opening Chinese markets, forced tech transfer, IP protection, other. Negotiations have been on-again, off-again but maybe close to an agreement. US Biz and Political community mostly supportive of US effort; some wary of weak deal.

## NAFTA (USMCA)

US, Canada, and Mexico agreed to the new USMCA trade deal on 11/30/18, subject to legislative approval. Major provisions: increased local content requirements and higher wages for autos; elimination of intl. arbitration mechanism; strengthened IP protection, mild dairy market opening in Canada, other. Seems to borrow heavily from TPP. Seen by many as fairly minor modification of NAFTA. Biz groups mostly satisfied. Passage by US Congress not assured. Might incentivize US to raise tariffs on cars

**Steel** 25% tariff since 6/1/18. Steel industry profits up substantially. Steel industry employment up less than 2%. Steel prices rose for much of 2018 but falling since due to economic cycle. Steel co. stock prices are down 20-40%. Auto, appliance and other sectors report profit impact from tariffs. No signal yet if or when tariffs will be dropped.

**Automobiles** Trump administration threatened auto tariff of 25%. Study by Commerce Dept. as to relationship between autos and national security is complete but not released. Auto has close connection to EU trade talks. EU has threatened retaliation. US auto tariff only 2.5% (vs. 10+% for others). US tariff for pickup trucks is 25%

## WHAT'S NEXT

<b>CHINA</b> <b>UPDATED</b>	<b>Mid-May is the new target date for an agreement, with a presidential signing summit in late May or early June. Obstacles remain. Success is not guaranteed yet.</b>
<b>NAFTA (USMCA)</b>	<b>Congress must approve.</b> Should be put to vote summer 2019. Passage uncertain. Support and opposition from both sides. Elimination of steel tariffs, labor concerns, and general restrictions could be sticking points.
<b>Japan</b> <b>UPDATED</b>	<b>Negotiations restarted mid-April.</b> Both sides hoping for a quick agreement. Too early to tell. Ag and autos are key issues.
<b>EU</b>	<b>No restart date set.</b> Negotiations supposed to restart soon but scope yet to be agreed. EU mandate excludes agriculture. US wants AG in. US application of auto tariffs would be a roadblock.
<b>STEEL</b>	<b>Removal uncertain.</b> Tariffs still in place. Canada, along with some in Congress and business community, want steel tariffs eliminated as part of USMCA approval.
<b>AUTO</b>	<b>No decision yet.</b> Trump administration has not said when it will make decision on whether to impose auto tariffs.

## ECONOMIC IMPACT

**Overall: Minimal and mixed impact, Ag hurting the most**

- **US trade deficit hits record in 2018, fell in 1/19.** Steel company profits are up, but their stock prices are down, as are steel prices, and steelworker employment has increased by less than 2%. Agriculture, particularly soybean farmers, has been hit the hardest. Extension of existing tariffs or implantation of new ones (autos) would increase the impact.

**Update: USMCA gets positive impact assessment from USITC**

- **The US International Trade Commission (USITC) issued its report on the impact of the USMCA,** citing positives in the agreement and also estimating the potential impact on growth. Some might say it is more of a base hit than a homerun. Some might also say the calculation methodology might exaggerate the benefit.
- **Ag continues to be the most heavily impacted sector,** with decline in Ag-related capital investment being the most recent indicator. Protected industries have benefited, but other companies complain of higher costs and disrupted supply chains. More evidence that production is shifting from China to other low-cost countries (like Mexico).

## Commentary

### USMCA: Big Deal, Bad Deal, or No Deal

A quick assessment of the USMCA, in light of the USITC's recent analysis. Read full article below.

**TPP** US withdrew (before formally joining). Eleven remaining countries formed the CPTPP, which is largely the same as the original TPP. Because CPTPP lowers some AG tariffs, American farmers claim to be losing business in Japan, SK, other. US could join later. Some think TPP would be a good way to wrestle concessions from China.

**EU** Discussions started in relation to enactment of steel tariffs and threat of auto. Truce announced on 7/25/18. Resumption of talks not yet scheduled. US wants broad agenda including agriculture. EU wants narrow agenda—a pact for 0% tariffs on all industrial products. During Obama administration, TTIP talks collapsed for same reason— inability to agree on scope.

**Japan** Japan failed to get US to reconsider TPP pull out and to get exemption for steel tariffs. US has indicated that autos are a major concern, as is agriculture. If US asks for more concessions than TTP, Japan might not be able to agree. Next round of discussions to occur in 4/19.

**South Korea** A few fairly minor modifications to existing trade agreement. US's 25% tariff on imported trucks extended, SK cap on US car imports increased from 25K to 50K ; SK cutting steel exports to US by 30% in exchange for no steel tariff. SK is still worried that auto tariffs could be applied.

## **POLITICS**

**Overall: Intense debate over new trade agreements likely, congressional opposition possible**

- **Support and opposition exist on both sides of the aisle** for much of the trade war agenda, including the new NAFTA (USMCA) and China. Two Senate bills have been introduced seeking to curtail unilateral trade action by the Executive Branch. Plus presidential election politics could play a role. The next phase of the trade war—domestic debate—could be more intense than the last phase, only the acrimony will be at home.

**Update: Congress digs in on USMCA. Trade might be big issue in 2020 campaign**

- **Congress sets conditions on USMCA passage.** Repeal of steel tariffs, stronger labor enforcement, and adjustments to pharma IP are among the congressional concerns. White House seems willing to be flexible.
- **Mexico passed a labor law that will assist the country in complying with USMCA.** A positive step that was considered necessary for USMCA to pass and take effect.
- **Bernie Sanders doubles down on trade.** First he said USMCA should be torn up and renegotiated. Now says China should be labeled a currency manipulator and worries Trump's China deal will be too weak. Seems like trade might be an issue in 2020 as it was in 2016.

## **NEGOTIATIONS/AGREEMENTS**

**Overall: Two deals done (NAFTA and SK), three to go (China, EU, Japan)**

- **China is the current priority. Purportedly a deal is near.** NAFTA and the South Korean trade deals have been renegotiated. Japan and EU are still in early stages.

**Update: US-China getting close to a deal. US-Japan re-engage.**

- **US China talks apparently continue to make progress.** Two rounds of discussions set for early and mid-May, pushing for conclusion in late May or early June with Trump-Xi meeting. While reports suggest possible agreement on difficult issues like enforcement, details still unknown so difficult to predict terms of any eventual agreement.
- **Japan and US have restarted negotiations.** US would like to get something done quickly relative to AG markets. Japan wants something in return, which could be a demand for no auto tariffs. Too early to tell speed of talks or likely result.



## **VIDEO SERIES**

First in our series of videos on the Trade War.

Click [here](#) to watch.

## USMCA: Big Deal, Bad Deal, or No Deal

**Big Deal:** *The USITC says USMCA is a winner for the US, but more of a single than a homerun. Given the methodology, even a single might be an overstatement.*

**Bad Deal:** *There is a chance that the USMCA could devolve into a significant negative for the US. Spoiler Alert: Could auto jobs actually be at risk?*

**No Deal:** *As Congress sets conditions on passage, actual implantation of the deal, though likely, is not yet certain.*

### USITC Rates USMCA as a (fairly minor) positive boost to growth

In its report on USMCA, the US International Trade Commission cited many positive aspects of the deal, including more open markets for agriculture and better protection for digital business and pharma IP. The report also said there will be a net benefit to the US economy, estimated to be a 0.35% boost to GDP and 28,000 new auto jobs.

### Forecasting isn't easy. The USITC assessment has a few weakspots.

Not to be too cynical, but, if economic forecasting were easy, would we have surprise financial crisis? Would so many government programs go way over budget? In terms of assessing the accuracy of the USITC projection, two points should be made. First, the report states that it took into account how growth will be enhanced by removing uncertainty around certain trade issues (like protection of digital data). Does calculating how certainly impacts growth sound like an easy calculation to make? Or does that seem more like throwing a dart the wall to get a number? Secondly, the report predicts both lower auto sales in the US and more auto-related jobs, the implication being that higher costs from higher local content requirements will hurt demand but help jobs. Again, that seems like a difficult calculation to make. I'm not saying the USITC is definitely wrong about this. I'm not saying the USITC report is useless. I am saying that I wouldn't bet my retirement on the USMCA producing the results that the USITC predicts. It isn't a terrible deal. They right about that. The impact likely won't be huge. They right about that. The rest is a guess.

### Local content requirements plus low tariff rate could add up to job losses

There is one aspect of the USMCA that has the potential to become a major negative. First, recall that, outside of NAFTA, America's auto tariff is only 2.5% (compared to 25% for trucks). The increase in local content requirements could prompt some companies to manufacturing outside of the US and simply pay the 2.5% tariff. If this happens more than projected, we could actually see a decrease in auto employment. One way to correct this—the wrong way, by the way—would be to increase the auto tariff, perhaps to 10% or so. That would have an even greater negative impact on the economy. I'm not saying I expect this to happen. But I do think the increased content requirements are the weakest part of the agreement and there is the potential for them to backfire.

### Congress: Conditions have been spelled out

Before agreeing to support the USMCA, Senator Grassley wants the steel tariffs lifted so that Iowa farmers will no longer suffer from reciprocal agricultural tariffs. The unions want better enforcement of labor standards, and Democrats not only support the union position but want better terms on other issues like pharma IP protection. Plus, there's always the chance the Democrats will want to stonewall just to deny Donald Trump a victory. So there are plenty of reasons why the USMCA might not pass Congress. Then again, President Trump has recently shown a willingness to be flexible and the Democrats might decide that trying to position Donald Trump as being too weak on trade doesn't really make sense. That's why there's still a good chance USMCA will pass. But, as this point, passage is anything but a sure thing.

# Article Links

## ***ECONOMIC IMPACT***

[USITC RELEASES REPORT CONCERNING THE LIKELY IMPACT OF THE UNITED STATES-MEXICO-CANADA AGREEMENT \(USMCA\)](#)

[New North American trade deal modestly boosts U.S. economy, trade panel finds](#)

[Farm-Equipment Sales Plunge Most Since 2016 in Trade-War Fallout](#)

[China and Canada fall away as Mexico becomes the US' biggest trading partner](#)

[Polaris Industries Facing Trade Headwinds for Q1 Earnings](#)

[GDP Data Illustrate Both the Good and Bad of Trump's Trade Wars](#)

[As Harley-Davidson profit falls, it considers building bikes in Europe and Trump threatens trade war](#)

[Shrinking U.S. Trade Gap, China Growth Bode Well for Global Economy](#)

## ***NEGOTIATIONS/AGREEMENTS***

[Japan's Exports Fall Again Amid U.S. Pressure in Trade Talks](#)

[As trade talks reach endgame, U.S.-China ties could hinge on enforcement](#)

['Productive' end to latest round of US-China trade talks](#)

[Why Trump's tariffs are one of the last big obstacles in U.S.-China trade talks](#)

## ***POLITICS***

[Ag Groups Tout USMCA Benefits](#)

[Bernie Sanders unveils trade platform challenging Trump's China policy](#)

[Democrats threaten to block Trump's Mexico-Canada trade deal](#)

[Trump's Tariffs End or His Trade Deal Dies](#)