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

6/4/19

UPDATE:

Trade war heats up, threatens to boil over

Trump threatens Mexico tariffs over immigration

In an unusual approach, Trump threatens to use tariffs to punish Mexico for not controlling immigration. The move threatens to scuttle USMCA (NAFTA 2.0). Much opposition domestically. Ripple effects could be significant.

China fires shots across the bow

In response to US's new tariffs and Huawei ban, China announced retaliatory tariffs, then 1.) implied possible denial of rare earth mineral supply; 2.) announced it will produce a list of "unreliable companies," whose activities could be curtailed in China; 3.) started an investigation of Fedex relative to deliveries to Huawei, possibly signally a new front in the trade war—investigations and other administrative impediments.

A new front in the trade war: India

Due to its high tariffs, US denied India a special trade status which exempts developing countries from certain tariffs. US-India trade relationship is not large, but could portend broader change in US approach to developing countries.

WHAT'S NEXT

CHINA	***New tariffs being implemented, no talks scheduled.*** *Both sides preparing additional measures, including tariff and non-tariff barriers. No end in sight. Xi and Trump might meet in late June at G20 summit.*
NAFTA (USMCA)	***Newly threatened tariffs make for unclear path forward.*** *Removal of steel tariffs eliminated major obstacle. Canada and Mexico were moving forward. Administration was trying to move forward. Democrats haven't agreed yet but discussions were underway. Could be put to a vote later in the summer. All of this could change under new tariff threat linking trade to immigration.*
Japan	***Talks underway, but timing uncertain.*** *Negotiations restarted mid-April. Another round of talks in May. Trump visit to Japan, accompanied by trade team, helped progress. But still difficult to predict potential timing of an agreement. Ag and autos are key issues.*
EU	***No restart date set.*** *Negotiations supposed to restart soon but scope yet to be agreed. EU mandate excludes agriculture. US wants Ag in. Delayed auto tariffs removes immediate need for an agreement.*
STEEL	***Canada and Mexico to be exempted.*** *Tariffs will be removed from Canada and Mexico as part of USMCA. No timing yet for removal of tariffs for other countries.*
AUTO	***Decision delayed for six months, until late 2019.*** *Trump administration has not said when it will make decision on whether to impose auto tariffs.*

Commentary

Is the trade war about to get real?

Tariff threat on Mexico might just be posturing, or could be dramatic shift in the trade war

Donald Trump has a flair for the dramatic. Plus, while his trade rhetoric is fiery, and he has certainly taken strong actions at times, his approach to trade talks has actually been more pragmatic than anything else—delaying tariffs when it makes sense, agreeing to lift steel tariffs to get USMCA past Congress, etc. This is why, in all likelihood, within a few weeks, the threat to place tariffs on all goods imported from Mexico as a way to compel Mexico to be more effective in controlling migration, will be water under the bridge. It will have been delayed indefinitely, or taken off the table, or an agreement will have been reached. Something will happen to save the actual USMCA agreement and we won't be talking any more about using tariffs to enforce border control.

NEGOTIATIONS/AGREEMENTS

Overall: SK deal is done. NAFTA redone but not passed. China stalled. EU, Japan waiting.

- ***Next round of China talks still not scheduled. Unclear on how new tariff threat for Mexico will impact USMCA.*** No schedule for next round of Japan and EU talks. Overall situation is murky. Difficult to assess timing of any outcome.

Update: China, for now, is digging in, preparing for a fight, not more talks. Mexico reacting mildly to new tariff threat. Might jeopardize White Houses biggest trade accomplishment to date, USMCA.

- ***China's tone has become more combative, signaling a desire to continue talks and also a willingness to fight it out.*** Most importantly, China is showing some of the non-tariff measures it can use to retaliate against the US, including withholding rare-earth minerals necessary for many high tech products, and also using administrative and regulatory means to squeeze US companies that do business in China, even if they don't export to China.
- ***Linking immigration to tariffs makes the future of USMCA highly uncertain.*** If the White House follows through on the Mexico-immigration tariff proposal, Mexico clearly has no incentive to enact the USMCA. A deal only with Canada doesn't accomplish much. Maybe this goes away quickly, maybe the agreement dies. Difficult to say at this point.
- ***US denies India preferential treatment due to India's high tariffs. India has not offered much reaction yet. Trade with India too small to be a priority.*** India could lower every tariff the US finds objectionable. More likely India will want to negotiate a deal to partially comply. India hasn't reacted in detail yet. With so much on its plate, not clear when the US could get around to talks with India. Perhaps most important question is whether the US plans to deny other countries the preferences it just took away from India.

ECONOMIC IMPACT

Overall: Minimal and mixed impact, Ag hurting the most. That could change with new tariffs.

- ***US trade deficit hits record in 2018, grew slightly again in March.*** Overall US growth has remained relatively strong, but sectors are feeling the impact of tariffs. 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. New tariffs will increase the impact. Still unclear as to ultimate impact.
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Update: More tariffs on China and Mexico could dramatically raise the impact of the trade war.

- ***China and Mexico are the US's #1 and #3 trade partners, combining for $1.2 Trillion in trade with US in 2018. While tariffs to date have hit mostly intermediate products, newly proposed tariffs would directly impact apparel, electronics, produce, other consumer products.*** At the extreme of the suggested additional tariffs would be 25% on everything coming from Mexico and China. Both countries would likely retaliate broadly. Tariffs would certainly be felt more directly by consumers. Might be enough to seriously dent economic growth.
- ***Tit for Tat: Components for Huawei vs. Rare Earth Minerals for the US*** The US ban on doing business with China's telecomm giant Huawei would seriously impact the company's ability to survive. If China stops exporting rare earth minerals, the US might have a hard time making lasers, satellites, cell phones, weapons, and other things. Both actions would involve much short term pain that could be alleviated over time. Hard to say which side would suffer more. Maybe provides both sides with incentive to come to the table.
- ***What if US companies can't have factories in either China or Mexico.*** The Tariffs on China caused some manufacturers to move production to Vietnam, Mexico or some other country. If Mexico is also off the list, impact on US manufacturers could grow. Trump would say they just have to move plants back to the US, in which case either costs will rise or we will learn that there really is no reason to build a plant anywhere but the US.

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. Yet most still supportive of hardline stand against China.

Update: New Mexico tariff threat, plus ratcheting up the tariff pain, will test support for trade agenda

- ***Jeopardizing USMCA, misuse of presidential tariff authority, and increasing costs for consumers*** are some of the reasons political opposition to Trump's trade agenda could ramp up. Opposition to use of tariffs to put pressure on Mexico for immigration reasons has been voiced from both sides of the aisle, business in general, and (reportedly) even from within the White House. Likely won't shake Trump's base, but particularly if trade actions start to impact growth, the politics could change.

Commentary (cont.)

However, if that doesn't happen, if the US actually moves forward with plans to place tariffs on all imports from Mexico, we might remember this moment as the time when the trade war got real, as in real serious. The trade war could go from economic sideshow to the main stage, with potential political consequences as well. Below is a brief outline of what the impact might be:

Tariffs on #1 and #3 trade partners could mean real economic pain

China is America's #1 trade partner. Mexico is #3, slightly behind Canada. The US is already moving toward 25% tariffs on all Chinese goods. If it combines that with 25% tariffs on all Mexican goods, that will mean 25% tariffs on roughly $800 Billion in imports, plus reciprocal tariffs likely on $400 million of US exports. That's not a trade skirmish anymore. That's an all-out trade war, which could have a meaningful impact on growth, employment, etc.

China might be emboldened to take a hardline

Hardliners in China are happy with Trump's latest tariff threat. From their point of view, the meaning is clear. It doesn't matter if you negotiate in good faith (as Mexico did), the US will invoke tariffs anyway because that is what Trump really wants. You might not agree with that assessment, but it is very believable from China's perspective. Hardliners will use that to insist that China dig in and not yield to US demands.

A political tug-of-war on trade might ensue in the US

Long before Donald Trump became president, political commentators were discussing the rise of the "imperial" US presidency, most obviously evidenced by the increasing reliance of presidents of both parties on executive orders that bypass Congress. Donald Trump has applied this unilateralist approach to trade in an unprecedented way. Two bills, both with bipartisan support, have already been introduced in the Senate to limit unilateral trade action by the Executive branch. Trump's decision to apply tariffs to immigration is already rubbing congressman of both parties the wrong way. It could prompt a showdown on trade policy overall.

Mexico was the substitute for China. If Mexico is off the table, manufacturers will be scrambling

One of the biggest side effects of the China tariffs has been that manufacturing has been moving from China to Mexico, not in massive amounts, but enough to be noticeable. If tariffs make Mexico an unattractive alternative, it will be even harder to for manufacturers to reconfigure supply chains. Donald Trump seems to think the best answer is for companies to move manufacturing back to the US. Companies, and economic theory, say that will raise costs. This might be the moment when Mr. Trump's ideas on this subject are put to the test.

Article Links

ECONOMIC IMPACT

U.S. Economy Remained Robust in First Quarter
Mighty US jobs market buoys economy amid China trade war, Mexico tariff threat
How Mexico tariffs could hurt $600 billion in cross-border trade — and the US economy
Mexico Tariff Threat Trips Up Manufacturers Shifting Out of China
Airline industry group slashes its profit forecast as trade war hurts the cargo business
China's Challenges Pile Up as Factories Slow Amid Trade Standoff
China's Factories Hit by Trade Battle

NEGOTIATIONS/AGREEMENTS

Trump's Mexico tariffs slow momentum for North America trade deal
Trump removes India from special trade status
Mexico Tariffs Make China-US Deal Less Likely, Analysts Say
China blames US for stalled trade talks but remains open for negotiations

TARIFFS/RETALIATION

Mexico Warns of Retaliation for U.S. Tariffs
If China Really Wants to Retaliate, It Will Target Apple
China Threatens Sweeping Blacklist of Firms After Huawei Ban
China escalates rare earths threat at US in response to technology ban
Here's why China's trade war threat to restrict rare earth minerals is so serious
China Tariff Retaliation Kicks In as Trade War Ratchets Up
China Targets Fedex As Trade War Escalates
FedEx Misrouted Huawei Packages After Changes to Internal Protocols
Huawei's Main Chip Maker Faces Long-Term Risks From U.S. Ban
Trump's Huawei Problem: Asia Doesn't Want US to Kneecap China
Finished Tech Products Could Take Some Blows in Tariffs Fight

POLITICS

White House kickstarts USMCA trade deal approval process
Pence travels to Canada to talk trade with Trudeau, pitch USMCA
Trump's Threat of Tariffs on Mexico Prompts Outcry