ISSUE BRIEF : OCTOBER 2018

UNPACKING THE ECONOMIC HARM OF TRUMP'S TARIFFS

HIGHER PRICES, BAD FAITH, LITIGATION, RETALIATION, ESCALATION, AND UNCERTAINTY

BUSINESS FORWARD

INTRODUCTION

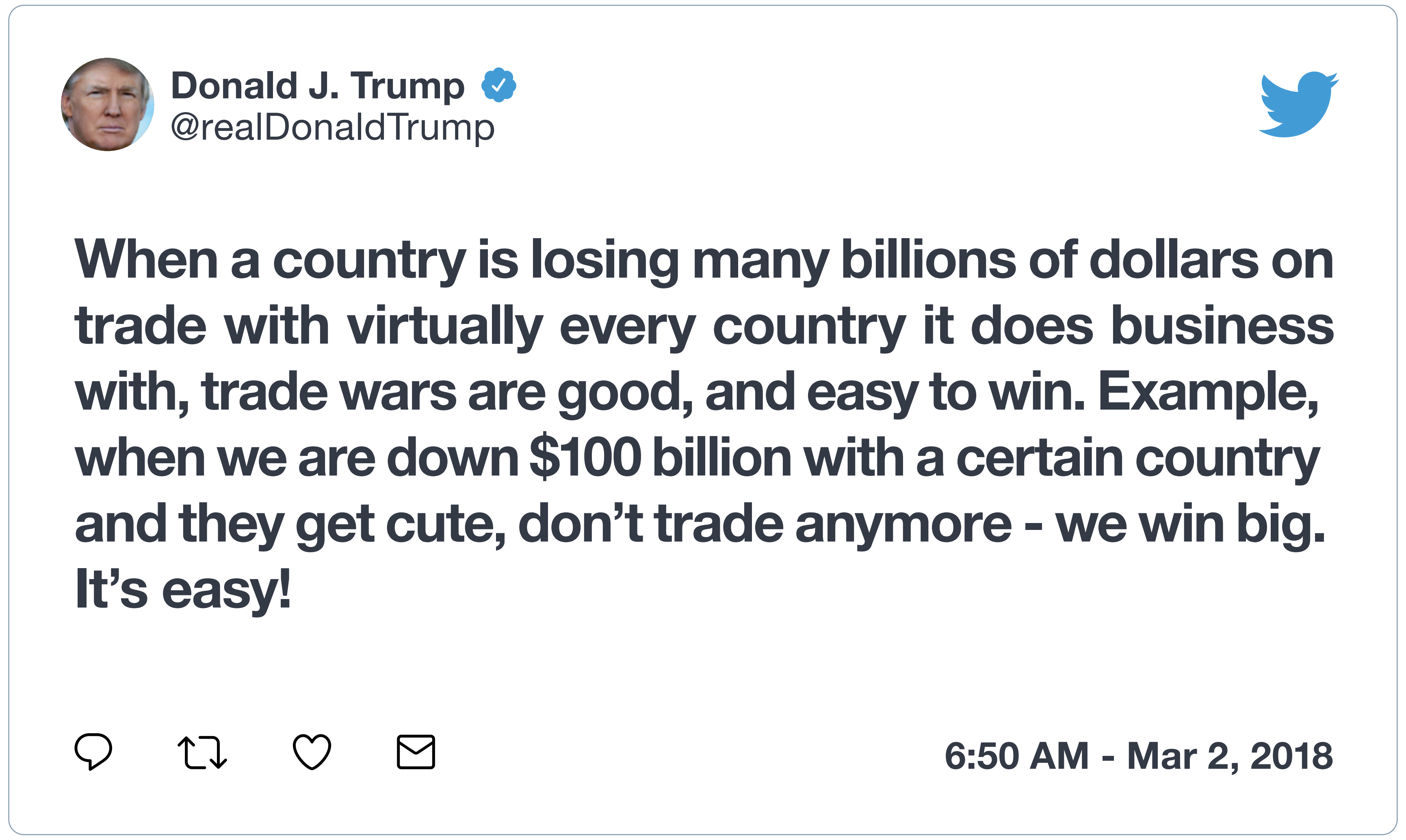
For nearly two years, the Trump Administration has negotiated with our trading partners in public, through press conferences, Tweets, and leaks.

The Trump Administration argues that the immediate cost of this trade war – on American manufacturers, farmers, ranchers, exporters, and consumers – is acceptable, because the trade war will ultimately force other countries to agree to fundamentally better terms.

But the numbers suggest otherwise. Our steel tariffs are hurting American manufacturers, who employ 46 times more Americans than the steel producers Trump is trying to help. Using a "national security" exemption to impose some of these tariffs has made it harder for trading partners to trust America with a long-term deal. Retaliatory tariffs have severely harmed key American exporters. And the Administration responded to our partners' retaliatory tariffs with new tariffs of its own, pushing even more industries into this trade war.

The immediate costs are obvious: higher prices, layoffs, and lost growth. The long-term costs are harder to assess, but likely bigger: global companies, worried about Trump's trade war, are going to shift investments from the U.S. to markets facing fewer tariffs and with more dependable leadership.

This issue brief examines the results of Trump's trade war: higher prices, bad faith, retaliation, escalation, and uncertainty.


Donald J. Trump
@realDonaldTrump

When a country is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down $100 billion with a certain country and they get cute, don't trade anymore - we win big. It's easy!

6:50 AM - Mar 2, 2018

EXECUTIVE SUMMARY

HIGHER PRICES = LOWER PROFITS, LAYOFFS, LOST GROWTH
Tariffs are meant to protect struggling industries, but the consumers harmed tend to outnumber the workers helped. U.S. businesses facing $172 billion in new tariffs have a choice: pass on the cost to their customers, accept smaller profits, or lay off workers.

BAD FAITH = FEWER DEALS
President Trump justified some of his tariffs on "national security," which leaders of his own Party call bogus. Our bad faith is causing our trading partners to cut deals without us.

POOR PLANNING = BUREAUCRACY AND LITIGATION
New steel tariffs prompted 20,000 petitions for relief – more than the government can adjudicate. The result? Arbitrary decisions and lots of legal fees.

RETALIATION = COLLATERAL DAMAGE
Our trading partners responded to our tariffs with tariffs of their own, and they're hitting us where it hurts.

ESCALATION = MORE COLLATERAL DAMAGE
We hit their washing machines; they hit our sorghum. We hit their steel mills; they hit our farms, ranches, dairies, and mills. We threaten their autos; they threaten our autos and tech companies – and so on.

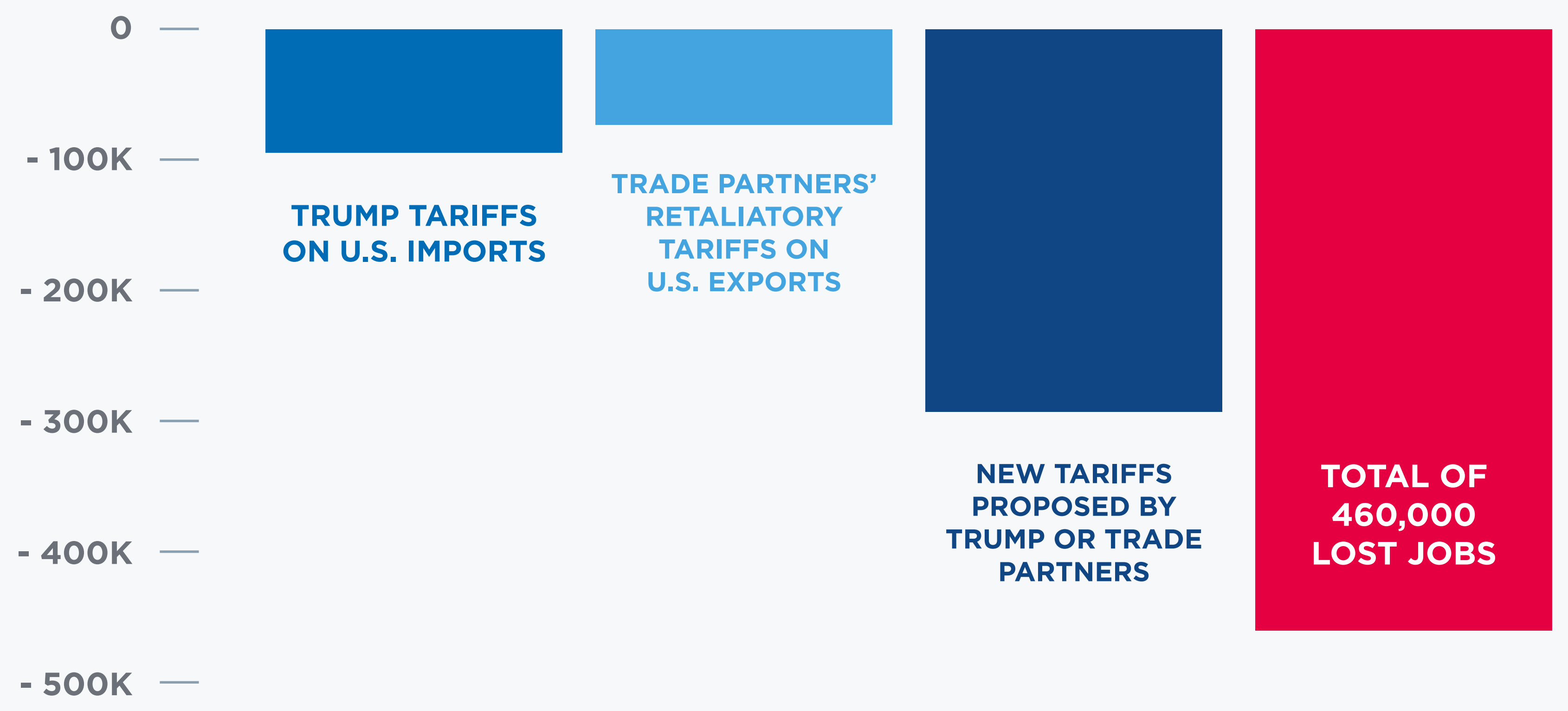
UNCERTAINTY = DISLOCATION AND DECLINE
Our tariffs made it more expensive to manufacture here. Retaliatory tariffs are making it more expensive to export from here. Global companies are shifting investments to markets with lower tariffs and more dependable leadership, threatening long-term growth.

"WIDER TARIFFS THREATEN TO TAKE A BIG ECONOMIC TOLL"

By Harriet Torry
June 3, 2018

THE WALL STREET JOURNAL.

LOST JOBS DUE TO TARIFFS
(TAX FOUNDATION, SEPTEMBER 18, 2018)



HIGHER PRICES = LOWER PROFITS, LAYOFFS AND $30B IN LOST GROWTH

TARIFFS 101

A tariff is an excise tax the U.S. government levies on a particular imported good (for example, steel). It is intended to protect a specific industry (U.S. steel mills) from foreign competition. But the protected industry's U.S. customers (auto, aerospace and other manufacturers, plus the consumers who buy products made with steel) end up paying more. When consumers spend more for protected goods, they have less to spend on everything else. This hurts jobs, wages, and economic growth. The Tax Foundation estimates *current* tariffs alone will reduce future growth by $30 billion.

TARIFFS RAISE PRICES HERE, LOWER PRICES ELSEWHERE

When Trump imposed new tariffs on steel and aluminum imports, prices rose for manufacturers here. But that's just half the problem. Our tariffs push excess steel and aluminum to other markets, which increases the supply there, causing prices there to fall. By July, steel prices in the U.S. had risen by 21%, while competitors' prices fell 4%. That's a 25% disadvantage for U.S. manufacturers on steel. Tariffs are particularly damaging to exporters because their prices rise as their competitors' prices fall.

A 25% COST DISADVANTAGE
(JULY 2018)

TRUMP'S TARIFFS CREATE MORE LOSERS THAN WINNERS

The U.S. steel industry employs 140,000 workers. The U.S. companies that buy U.S. steel employ 6.5 million workers.

140K
U.S. STEEL WORKERS

6.5M
U.S. WORKERS EMPLOYED BY U.S. COMPANIES THAT BUY U.S. STEEL

=

46:1
U.S. WORKERS HURT FOR EVERY ONE STEEL WORKER HELPED

HIGHER PRICES HURT CONSUMERS

EXPERTS AGREE

The immediate impact will be to raise prices on consumers...

Walmart

We're concerned about tariffs because they would increase prices on everyday products for American families...

TARGET

Tariffs of the kind being proposed are sales-killing and company-killing actions.

Office DEPOT

In some cases, we'll have no choice but to pass the impact of these tariffs through to our consumers...

GAP

Proposed auto tariffs would increase cost of typical vehicle by $4,400...

NADA

BAD FAITH LEAVES U.S. OUT OF BIG TRADE DEALS

Republican senators and the Pentagon agree that President Trump is misusing "national security" claims to break current trade deals.

When the U.S. breaks existing deals under false pretenses, trading partners grow reluctant to negotiate.

> Invoking 232 as the justification for putting these tariffs in place is a mistake... It's very clear. This isn't about national security.
>
> \- SEN. PAT TOOMEY
> (R) PENNSYLVANIA

> [Section] 232 is being misused in my view right now... I think it's not being used properly.
>
> \- SEN. BOB PORTMAN
> (R) OHIO

Instead, they're cutting deals without us.

- When Trump pulled out of the Trans Pacific Partnership, the other 11 countries signed the deal without us.
- The EU has struck new deals with Singapore, Vietnam, Canada, and Japan.
- The Regional Comprehensive Economic Partnership, which could be signed later this year, covers 16 countries (including China) and about 40 percent of the world's economy – but not the U.S.

> The U.S. military requirements for steel and aluminum each represent only about 3% of U.S. production. Therefore, DoD does not believe that the findings... meet national defense requirements.
>
> \- JAMES MATTIS
> SEC. OF DEFENSE

And China is reducing tariffs on imports from other countries as they increase tariffs on the U.S. This compounds the pain for American exporters trying to compete in China.

- Auto exports to China from U.S. are becoming 15 percent more expensive at the same time exports from Europe to China become 7 percent cheaper.

> It's kind of a perverse dynamic that we end up targeting our partners and allies who aren't actually driving the overcapacity that is hurting the U.S. industry, but they are the ones that are going to pay these tariffs.
>
> \- ANDREW HUNTER
> CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

POOR PLANNING = BUREAUCRACY, LITIGATION AND PROFITEERING

To obtain an exemption from these tariffs, a manufacturer must make a separate application for each product it makes, each type of metal it uses, and each width, length, shape, and form it requires. Companies have already submitted 20,000 requests for relief from Trump's steel tariff alone. Each application must state the use of the product, annual consumption, and estimate the composition of 24 chemical elements in the product.

Commerce had considered fewer than 1 percent of these requests, because it does not have enough staff – and those they have lack the industry expertise necessary to judge the requests.

On month after arguing tariffs would "help our domestic aluminum and steel industries to revive idled facilities," the Commerce Department concluded that steel producers were keeping the profits instead.

> **It's going to be so unbelievably random, and some companies are going to get screwed...These people are making multi billion-dollar, unbelievably uninformed decisions.**

- COMMERCE OFFICIAL
TALKING TO THE WASHINGTON POST

Meanwhile, U.S. Steel will earn $2 billion this year thanks, in part, to tariffs, but it is still demanding wage and benefit cuts. Its workers voted overwhelmingly to strike.

"This is Big Government at its worst – arbitrary and capricious, if not outright political, as it picks winners and losers in business. And all of this is being done without any new law being passed and while a Republican Congress, which used to stand for free enterprise and limited government, remains supine."

Aug 29, 2018 USA TODAY

U.S. INVESTIGATING POSSIBLE 'PROFITEERING' ON TARIFFS

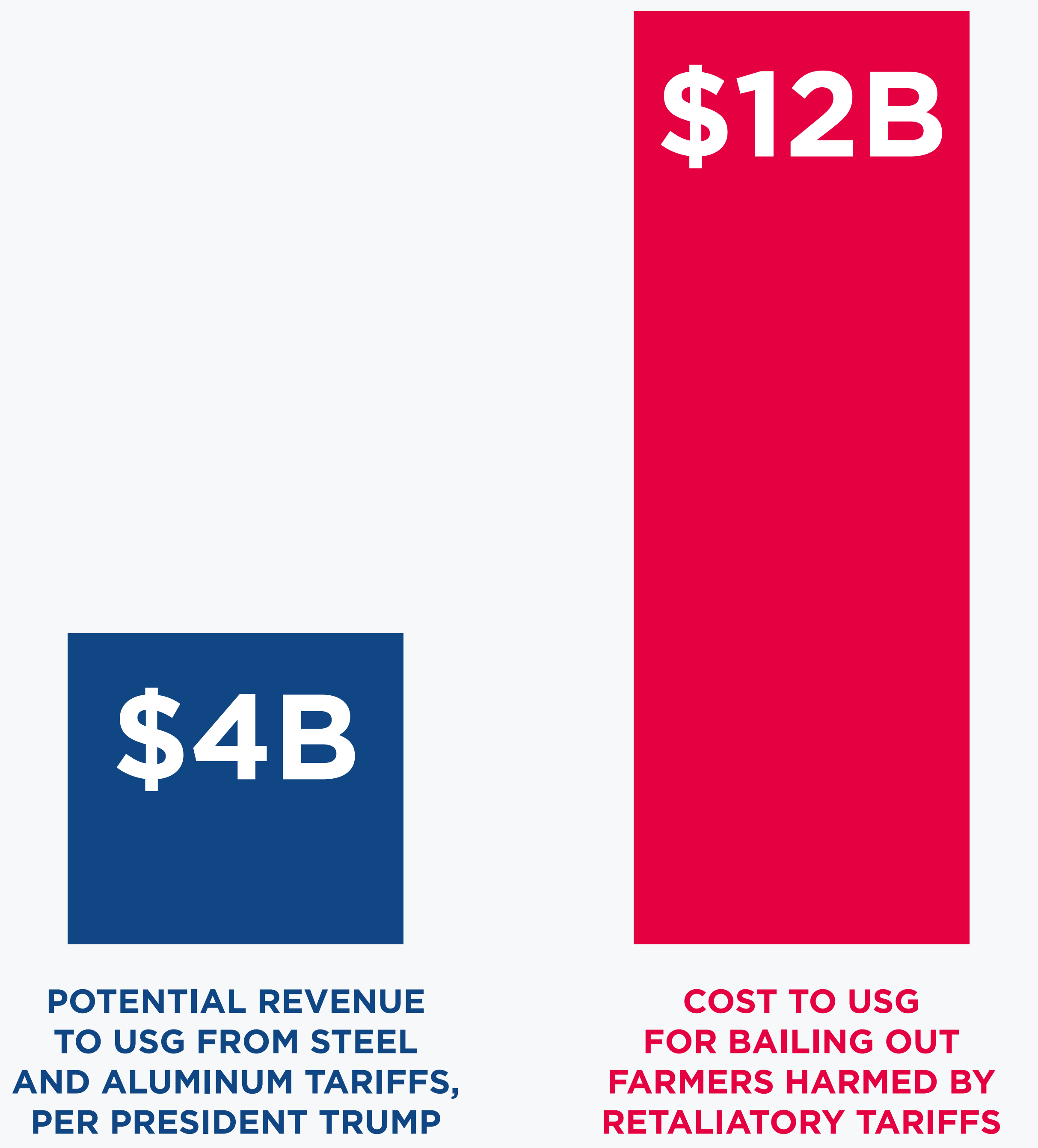
"There's no reason for tariffs to increase the price of steel by far more than the percentage of the tariff, and yet that's clearly what has been happening... That's clearly a result of antisocial behavior by participants in the industry." - Wilber Ross

Jun 20, 2018 Bloomberg

RETALIATION = $24 BILLION IN COLLATERAL DAMAGE

Retaliatory tariffs on U.S. exports hurt soybean, nut, dairy and sorghum farmers; wineries, pork growers, motorcycle manufacturers, automakers, whisky distillers, denim mills, and manufacturers of washing machines, cosmetics, boats, and steel pipes. The Tax Foundation projects these retaliatory tariffs alone will reduce future growth by $24 billion.

TRUMP TARIFFS VS. RETALIATORY TARIFFS



> We are borrowing money from China to pay farmers not to sell their crops to China.

- SEN. BRIAN SCHATZ
(D) HAWAII

> If this Administration isn't careful, decades of efforts by our farmers [to open new global markets] could be wasted."

- MIKE MILLER
CHAIRMAN, U.S. WHEAT

EFFECTS ON THE AGRICULTURE INDUSTRY

SOYBEAN ($40B/YEAR) IS AMERICA'S SECOND BIGGEST CROP.

HALF OUR EXPORTS GO TO CHINA.

IN RESPONSE TO OUR STEEL AND ALUMINUM TARIFFS, CHINA ADDED A 25% TARIFF ON SOYBEANS.

MEXICO AND CHINA BUY 40% OF AMERICA'S PORK EXPORTS.

EACH HAS IMPOSED TARIFFS ON PORK, EFFECTIVELY CLOSING OFF THE MARKET.

TOGETHER, MEXICO AND CHINA HAVE IMPOSED $1 BILLION IN NEW TARIFFS ON MILK, CHEESE, AND OTHER DAIRY.

> We are looking at a short-term washout of 20 percent of Wisconsin dairy farm milk income on a monthly basis. That's how dangerous this mess is.

- PETE HARDIN
PUBLISHER, DAIRY INDUSTRY NEWSLETTER

ESCALATION = $242B MORE COLLATERAL DAMAGE

The more tariffs are added, the higher tariffs get, the more countries are covered, the further away we get from our initial focus on helping U.S. manufacturing. The Tax Foundation projects the threatened tariffs alone could reduce future economic growth by $242 billion.

HEADLINES, 24 HOUR CYCLE

"TRUMP TO PULL TARIFF TRIGGER AT MIDNIGHT IN TRADE-WAR ESCALATION" → "CHINA VOWS 'IMMEDIATE' RETALIATION IF U.S. TARIFFS APPLIED" → "U.S. PRESIDENT HAS SAID HE'LL UP ANTE IF CHINA RETALIATES"

Bloomberg
July 24-25, 2018

HISTORY OF U.S. – CHINA TRADE WAR

1. U.S. adds new tariff on steel, aluminum, solar panels, and dishwashers, including China.
2. China responds with tariffs on targeted U.S. crops
3. U.S. puts tariffs on $50 billion in China imports.
4. China responds with tariffs on $50 billion in U.S. imports.
5. U.S. escalates with tariffs of 10% on $200 billion in China imports.
6. China responds with tariffs on $60 billion in U.S. imports.
7. U.S. threatens to raise tariffs on first $200 billion from 10 to 25%, plus 10% on additional $267 billion in imports.
8. U.S. reiterates support for new tariffs on automobile and auto parts imports, including imports from China.
9. China reduces tariffs on auto imports from Europe and other markets (excluding U.S.).

UNCERTAINTY = DECLINE

Uncertainty discourages capital investment and makes existing investments less valuable. Surveys by the U.S. Federal Reserve, Business Roundtable, and others have found tariffs are causing companies to rethink capital investment here in the U.S. In other words, tariffs intended to boost American manufacturing are hurting manufacturers, particularly ones that export. Short term costs are hurting long-term investments, which threaten our long-term competitiveness.

Business Roundtable

CEO ECONOMIC OUTLOOK INDEX (3Q2018)

Nearly two out of three CEOs surveyed by BRT say recently enacted tariffs and pending trade policies will have a negative effect on their capital spending in the coming months.

Tariffs have caused one in three manufacturing firms to reassess their capital expenditure plans, according to a survey by the Federal Reserve Bank of Atlanta, Stanford, and University of Chicago (August 2018).

UNITED STATES • FEDERAL RESERVE SYSTEM •

CASE STUDY: AUTO INDUSTRY

Our trade war with China is hurting U.S. investments by BMW, Daimler, Tesla, Ford, Harley Davidson, Whirlpool – and their suppliers. For example, BMW's $8 billion investment in its South Carolina assembly plant is premised on exporting 2/3 of its production (with about 1/3 of that going to China).

"TARIFF DISPUTE THREATENS EXPORTS OF AMERICAN-MADE CARS"

By William Boston, July 10, 2018

[BMW, Daimler, and Volvo] have invested billions to expand U.S. factory production with the goal of exporting a significant number of vehicles to China and other markets world-wide. But the tit-for-tat tariffs on U.S.-China trade could prompt the foreign automakers to rethink that strategy... [T]he tariffs could discourage these car makers from proceeding with planned expansions...

THE WALL STREET JOURNAL.

"NEW CHINA TARIFF LIST CREATES RISK OF 'DOWNWARD CYCLE' FOR U.S. AUTO INDUSTRY"

September 18, 2018

USA TODAY

> This is a favorable situation for [Porsche] because the products from manufacturers in the U.S. are becoming less competitive.

- LUTZ MESCHKE
  CFO, PORSCHE

> Tariffs could 'lead to a smaller GM' and 'less investment, fewer jobs and lower wages'

- GENERAL MOTORS

> Negative effects on investment and employment in the United States.

- BMW

> Developing contingency plans 'on a massive scale.'

- FIAT-CHRYSLER

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