

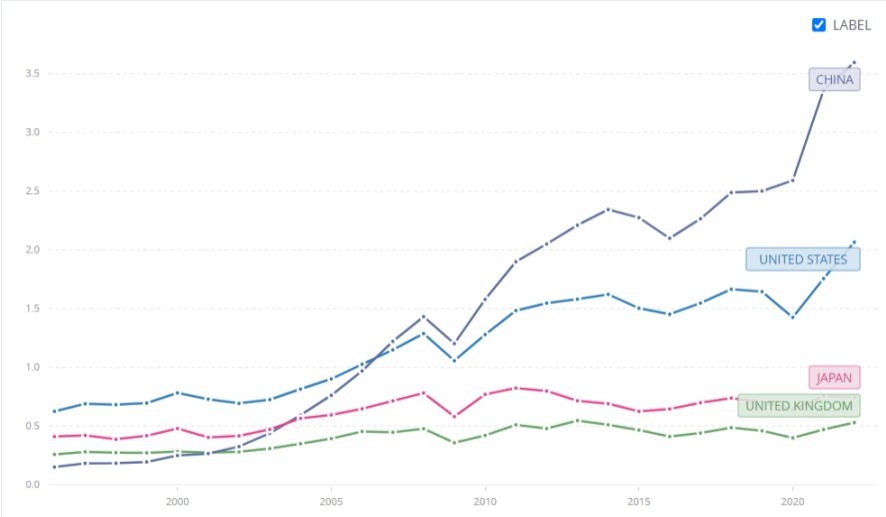
# China's Influence on International Trade

**Yuan MEI (SMU)**

National Press Foundation

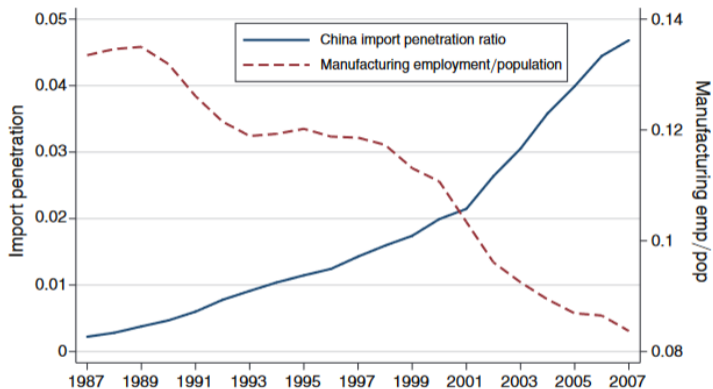
June 26, 2024

# Merchandise exports (trillion USD)



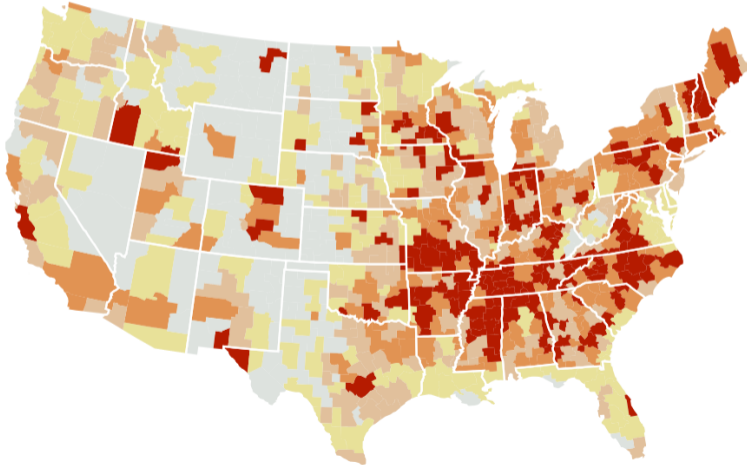
source: World Bank

## the China shock



- Autor, Dorn, and Hanson (2013) *“The China Syndrome: Local Labor Market Effects of Import Competition in the United States”*, AMERICAN ECONOMIC REVIEW VOL. 103, NO. 6:
  - Import competition from China explains **one-quarter** of the contemporaneous aggregate decline in US manufacturing employment

# Most-affected areas of the U.S.

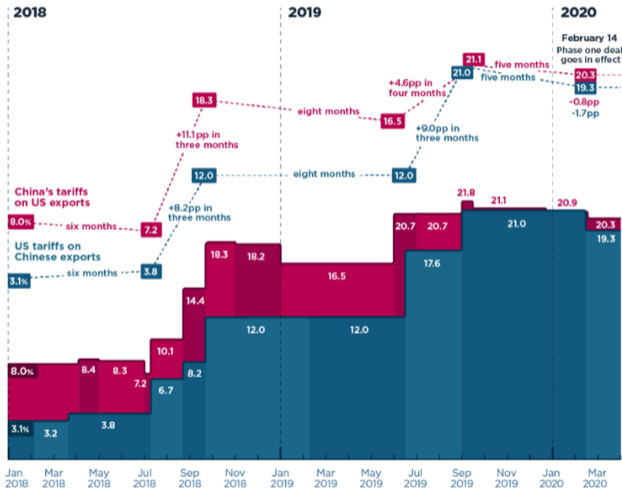


## Does it mean trading with China is bad for the U.S.?

- Imports from China reduce consumer prices in the U.S. driven by
  - Changes in the prices of existing goods and entry of new goods (Bai and Stumpner, 2019)
  - Intensified competition and declining markups (Jaravel and Sager, 2024)
- U.S. exports to China also creates jobs
  - Job gains due to US export expansion largely offset job losses due to Chinese import competition, resulting in a net gain of 379 thousand jobs over 1991-2011 (Feenstra, Ma, and Xu, 2019)
- China's WTO entry reduced U.S. manufacturing industry price indexes by
  - Supplying cheaper intermediate inputs and driving other countries selling to the U.S. to lower their prices (Amiti, Mi, Feenstra, and Romalis, 2020)

# U.S.–China trade war

Average tariff rate, percent



source: PIIE

## Trump's tariffs on steel and aluminum

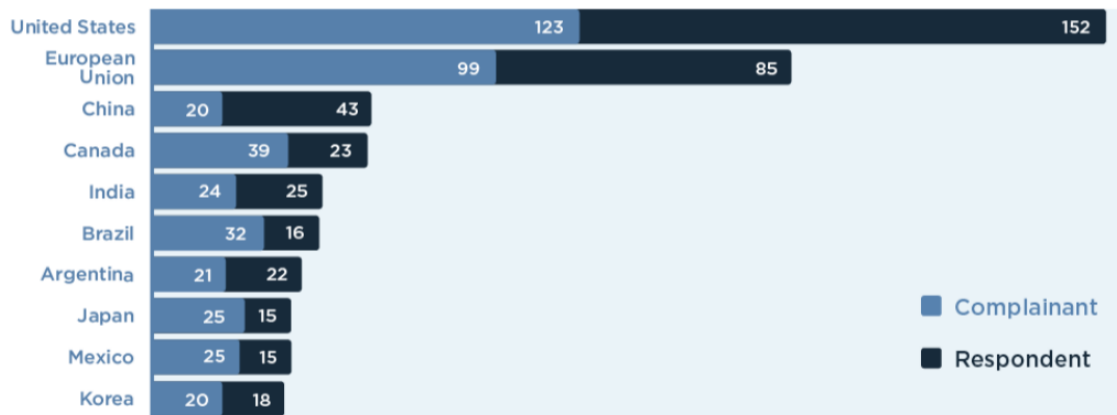
- In March 2018, U.S. President Trump formally announced new tariffs on imported steel (25%) and aluminum (10%)
  - Applies globally but four countries are permanently exempted: South Korea, Argentina, Brazil and Australia (more allies exempted later)
- Legal basis: Section 232 of the Trade Expansion Act of 1962
  - U.S. President is allow impose tariffs based on the recommendation from the U.S. Secretary of Commerce if “an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security.”
- The World Trade Organization (WTO): violate global trade rules
  - Difficult to enforce: U.S. has for years blocked appointments to the WTO's appellate body leaving it unable to function

## Economists' view on tariffs

- Booth Business School in University of Chicago asked a group of leading economists to respond to one statement:
  - **New US tariffs on steel and aluminum will improve Americans' welfare.**
- Among those who responded, **24% disagreed and 76% strongly disagreed**
  - Richard Thaler (Chicago, 2017 Nobel Laureate): In net we want more trade not less.
  - Oliver Hart (Harvard, 2016 Nobel Laureate): A robust result is that free trade increases national income. The cases where this is not true are rare and hard to spot.
  - Eric Maskin (Harvard, 2007 Nobel Laureate): I thought we had learned our lesson with Smoot-Hawley.
  - Ken Judd (Stanford): They may help SOME Americans SIGNIFANTLY but the number is small and the costs to others will far exceed the gains.

# WTO dispute settlement cases

Number of WTO dispute settlement cases (1995–2019)

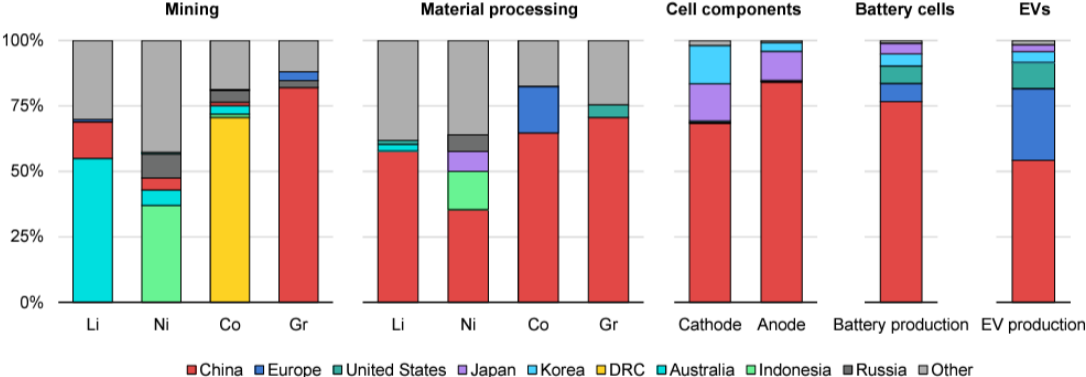


source: PIIE



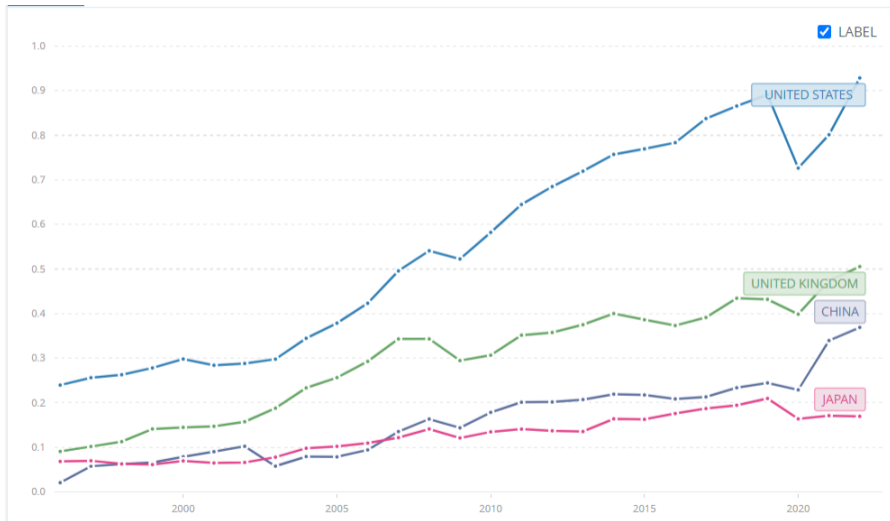
# Supply chain: using electric vehicles as an example

Geographical distribution of the global EV battery supply chain



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# Service exports (trillion USD)



source: World Bank

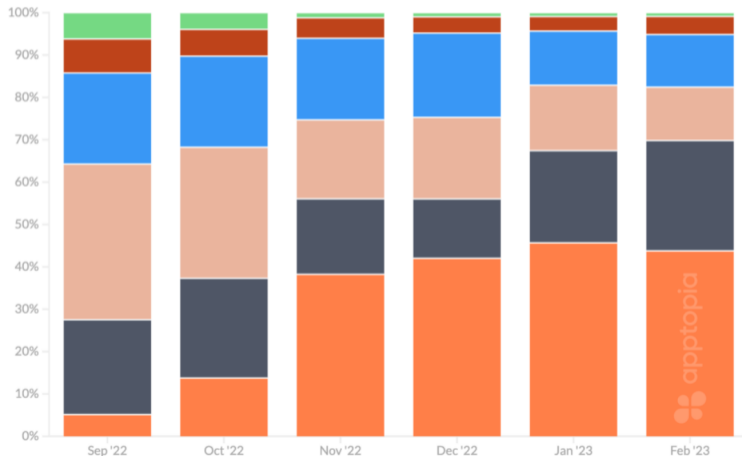
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# E-Commerce

## Temu suddenly became a threat to large ecommerce players in the U.S.

Market share by Downloads, U.S.

Temu SHEIN Amazon Walmart AliExpress Wish



## Conclusion

- China shock: surge of the country's merchandise exports, especially after its accession to the WTO in 2001
- In addition to import-competing sectors, trade can also affect consumers, exporting sectors, downstream firms...
- Economists typically consider tariffs as a bad thing for various reasons
- Trade pattern of China in recent years
  - Transformation from low value-added to high value-added
  - Dominate merchandise trade, both in final products and input intermediates
  - Lag behind in service trade but grow fast in e-commerce

Thank you