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White House Should Provide Public with Economic Reasoning for China Tariffs

Riley Walters

Trade tensions between the U.S. and China continue to worsen. The Office of the U.S. Trade Representative (USTR) recently began the process of placing additional 25 percent tariffs on $300 billion worth of goods that Americans buy from China, bringing the total value of goods from China to be taxed to roughly $550 billion.[1] These tariffs will affect everything Americans buy from China, from consumer electronics to toys. Because these new taxes are a significant cost for American businesses and consumers, it is important they understand the potential costs.

Various studies have analyzed the economic impact of the Trump Administration's trade policies over the past two years.[2] Despite these studies showing the overall negative effects on U.S. households and the economy as a whole, it is not clear whether the Administration is taking this impact into account. The Administration should provide economic reasoning for each tariff increase on imports from China. When complete, it should also provide analysis of the potential benefit of an agreement with China, relative to the cost of tariffs. Given the lack of congressional oversight over ongoing U.S.–China negotiations, Congress should also instruct the Congressional Budget Office to produce an analysis on the effects the Trump Administration's tariffs are having on the overall U.S. economy.

The U.S.–China Trading Relationship

In 2018, the U.S. imported $559 billion worth of goods and services from China.[3] The U.S. also exported $180 billion worth of goods and services to China. Combined, these trade flows total $739 billion, making China the single largest trading partner to the U.S.—above Canada ($721 billion) and Mexico ($678 billion).[4]

Bilateral trade value between the U.S. and China is significant, but neither economy solely relies on bilateral trade for domestic growth. The $739 billion worth of trade between the U.S. and China makes up roughly 13.1 percent of the $5.6 trillion in total trade, the sum of all imports and exports of goods and services, done by the U.S. in 2018. And, the $5.6 trillion in total trade equals roughly 27.4 percent of the $20.5 trillion worth of U.S. gross domestic product (GDP) in 2018.[5] Meaning, in 2018, total trade with China equaled only 3.6 percent of U.S. GDP.

The U.S. is also China's largest trading partner, with the total trade of goods in 2018 equaling roughly 4.9 percent of China's GDP.[6] Forty-two percent of China's total exports, valued at $2.49 trillion in 2018, come from businesses that are foreign-funded, including American, either through investment or joint-ownership.[7]

In general terms, Americans are either buying capital goods or consumer goods sourced from China, though these may not be 100 percent Chinese-made products, like Apple products. Capital goods are things, like machines, used to make other goods, like consumer goods. Consumer goods are things

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214 Massachusetts Avenue, NE
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Americans may buy right off the shelf. Americans export a wider variety of goods, including raw material and intermediate goods to China.

To date, the U.S. has applied tariffs on mostly non-consumer imports, keeping American families from having to pay the immediate price of these taxes. China has primarily applied tariffs on raw materials, including agricultural and farm products, and finished goods like kitchenware and other consumer goods. As the Trump Administration proceeds with plans to increase tariffs on the rest of imports from China, there will be no household that is safe from the direct and indirect costs of tariffs.

The Economic Cost of Tariffs

Tariffs are a tax on imports. They are paid for by the importer, meaning that U.S. tariffs on imports from China are mostly paid by American businesses, which then pass these costs on to consumers. Studies have tried to estimate the total impact of recent tariffs. Tariffs result in the loss of economic activity and jobs, decreased trade, and higher prices. Americans are already paying the price of these tariffs as the terms of trade with China have deteriorated over the past year.[8]

A recent study by the International Monetary Fund estimates that additional U.S. tariffs of 25 percent on virtually all goods imported from China will lead to a loss of between 0.3 percent and 0.6 percent of annual GDP for the U.S., and a loss of between 0.5 percent and 1.5 percent for China.[9] This should be viewed in the context of U.S. GDP growth, which was 3.1 percent in 2018. China's GDP growth was 6.6 percent.

A study by Trade Partnership Worldwide estimates that the same level of U.S. tariffs, including Chinese retaliatory tariffs, will lead to a loss of 1.01 percent of annual GDP for the U.S.[10] It will also cost a family of four roughly $2,290 more a year, and could potentially lead to U.S. job losses of up to 2.2 million.

In January, the Congressional Budget Office initially estimated that tariffs, and retaliatory tariffs, would lead to an annual loss of 0.1 percent of U.S. GDP, but it did not estimate what would happen if additional tariffs of 25 percent were applied to all goods being imported from China.[11]

America's Trade Laws

The Trump Administration has been using Section 301 of the Trade Act of 1974 as its legal authority to apply tariffs on imports from China.[12] The tariffs were initially a response to China's non-commercial practices, which the USTR estimated cost the U.S. economy $50 billion a year.[13] The USTR has since failed to provide economic reasoning for each round of new tariffs, whether it was after imposing 25 percent

1. Office of the U.S. Trade Representative, "Request for Comments Concerning Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," *Federal Register*, Vol. 84, No. 96 (May 17, 2019), p. 22564, https://www.govinfo.gov/content/pkg/FR-2019-05-17/pdf/2019-10191.pdf (accessed May 17, 2019).
2. Riley Walters, "The Data Are Clear: Remove the Tariffs on China," Heritage Foundation *Issue Brief* No. 4949, April 5, 2019, https://www.heritage.org/trade/report/the-data-are-clear-remove-tariffs-china (accessed May 14, 2019).
3. U.S. Census Bureau, "Foreign Trade: U.S. International Trade in Goods and Services," Exhibit 20. U.S. Trade in Goods and Services by Selected Countries and Areas–BOP Basis, https://www.census.gov/foreign-trade/Press-Release/current_press_release/index.html (accessed May 14, 2019).
4. The European Union, with $1.26 trillion in total trade in 2018, is the U.S.'s largest trading partner by location.
5. GDP, as a measurement, subtracts imports from exports. This is a measure of total trade relative to GDP, despite trade already being counted in GDP.
6. Based on the author's calculations, China's GDP in 2018 is measured as $13.6 trillion, total trade in goods measured at $4.6 trillion, and goods traded with the U.S. at $661 billion.
7. People's Republic of China, Ministry of Commerce, "Statistics: Statistics of Imports and Exports of Foreign-Funded Enterprises in Regional Distribution," 2018, http://english.mofcom.gov.cn/statistic/charts.shtml (accessed May 16, 2019).
8. A deterioration of the terms of trade with China means that imports from China have become more expensive relative to exports to China.
9. International Monetary Fund, *World Economic Outlook*, April 2019, https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019#Full%20Report%20and%20Executive%20Summary (accessed May 14, 2019).
10. Trade Partnership Worldwide, "Estimated Impacts of Tariffs on the U.S. Economy and Workers," February 2019, https://tradepartnership.com/reports/estimated-impacts-of-tariffs-on-the-u-s-economy-and-workers-2019/ (accessed May 14, 2019).
11. Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029*, January 28, 2019, https://www.cbo.gov/publication/54918 (accessed May 14, 2019).
12. Trade Act of 1974, Public Law 93–618.
13. U.S. Trade Representative, "Section 301 Fact Sheet," March 2018, https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2018/march/section-301-fact-sheet (accessed May 14, 2019).

tariffs on $34 billion worth of imports from China, 25 percent tariffs on $16 billion worth of imports, or 10 percent tariffs on $200 billion worth of imports.

Section 301 states the USTR must do two things:

1. "Any action [like tariffs]...to eliminate an act, policy, or practice [in China] shall be devised so as to affect goods [imports into the U.S.] or services of the foreign country in an amount that is equivalent in value to the burden [$50 billion] or restriction being imposed by that country on United States commerce."

This means that the USTR simply cannot place tariffs an any amount that exceeds $50 billion.

2. "To the extent possible, reflect the full benefit level of the export targeting to the beneficiary over the period during which the action taken has an effect."

Meaning, the USTR needs to show that any agreement with China also compensates for the effects of the tariffs since July 2018. However, the USTR has increased the tariff rate on the $200 billion worth of imports to 25 percent and plans to impose new tariffs on $300 billion worth of imports, bringing the total of goods to $550 billion, despite the USTR showing tariffs have had no effect in increasing or decreasing China's practices. The USTR must be able to show that its efforts in fact benefit U.S. commerce.

Finding the Real Cost of Tariffs

The USTR cannot be allowed, even under the direction of the President, to unilaterally impose tariffs and regulate commerce with China to no end. Therefore, as the Trump Administration increases taxes on Americans who buy goods from China, it needs to be clear about how its efforts will ultimately benefit the U.S. economy. Therefore,

1. **The Trump Administration should provide the public with an economic analysis.** Businesses and families will ultimately pay the price for these tariffs. It is essential that the Administration let the U.S. public know what costs the American people should expect to pay for each new tariff hike.

2. **The USTR should provide an estimated benefit analysis.** Once completed, the government should provide economic reasoning on the gains of a U.S.–China agreement. This will allow the public to know whether the USTR's efforts were worth the costs.

3. **Congress should otherwise demand its own economic impact analysis.** It is Congress's constitutional obligation to regulate commerce, and its duty to oversee the USTR's Section 301 efforts. Yet, Congress continues to sit idling as the Administration unilaterally increases tariffs on imports. Congress should demand its own economic analysis to understand how the President and the USTR's Section 301 actions affect U.S. commerce and the overall economy.

Conclusion

There are few studies that show that tariffs are a successful negotiating tactic, and there are numerous studies showing that tariffs hamper economic growth. The U.S. public should know whether the Administration's efforts to reform China's practices are worth the costs.

*—**Riley Walters** is Policy Analyst in the Asian Studies Center, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*