

China-U.S. Trade: From the Cold War to the Trade War

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University of Rochester | February 28, 2024

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What happened?

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 - ▶ Higher prices for U.S. consumers
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How long will the trade war last?

How did we get here?

10/1949 People's Republic of China is established.

12/1950: The trade embargo on China begins.

06/1971: The trade embargo is lifted and Chinese imports face high NNTR tariffs.

02/1972: Nixon visits China and issues the Shanghai Communiqué.

02/1980: China gains **conditional** access to U.S. markets at low NTR tariffs.

12/2001: China joins the WTO.

03/2018: Trump administration proposes broad tariffs on Chinese goods.

11/2020: Biden is elected President of the United States, continues trade war.

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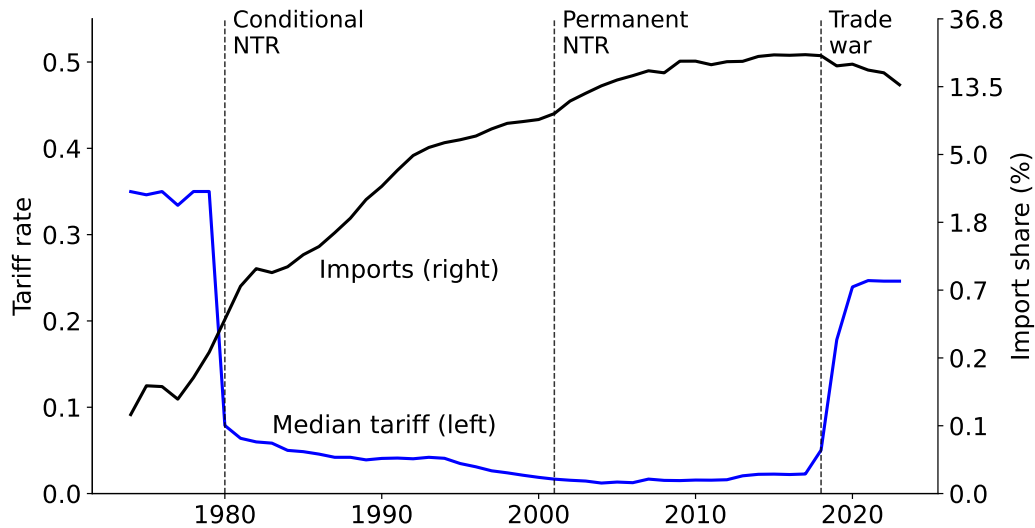
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Two broad periods:

1971–2001: Integration era

2018–??: Trade-war era

U.S. imports from China



A framework for understanding U.S.-China trade

- ▶ Both eras are characterized by **uncertain** U.S. policy
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 - Trade war:** When will the trade war end? (Trump/Biden)
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 - ▶ Entering a new market is expensive (distribution, labeling, advertising)
 - ▶ These up-front costs are fixed and sunk
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Exporting from China to America was and remains [...] a bet on American trade policy.

– The Economist 2/22/2024

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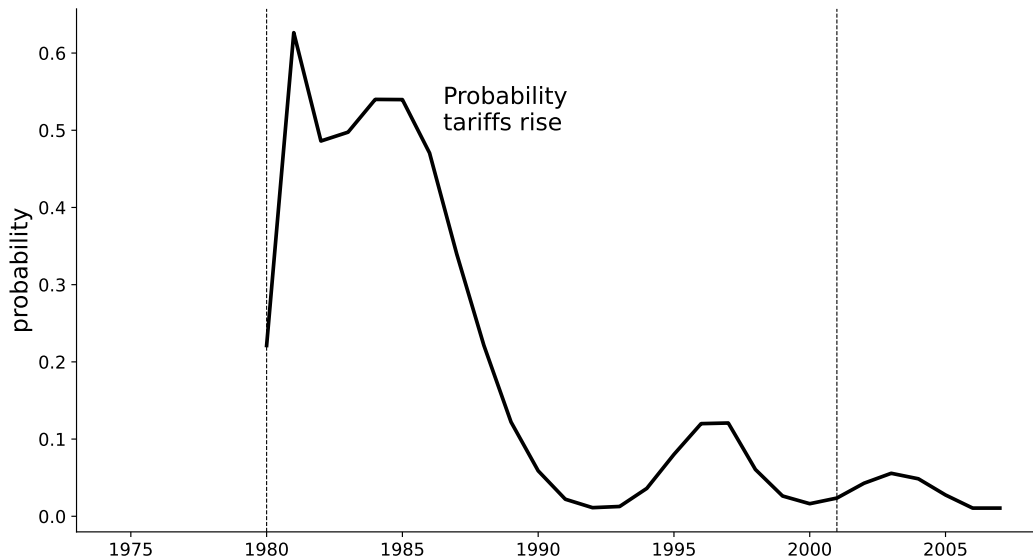
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Less trade \rightarrow less entry \rightarrow more uncertainty (higher expected tariffs)

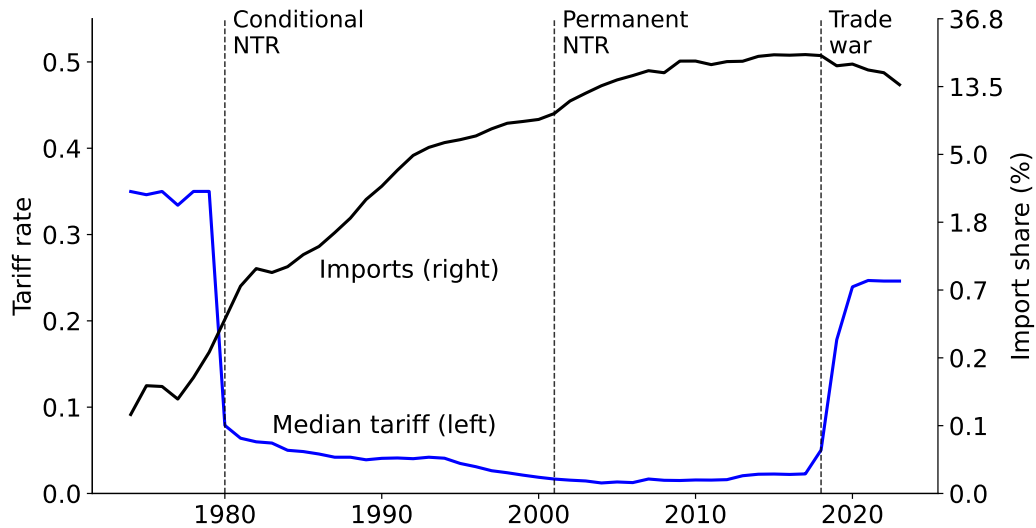
The integration era: 1971–2001



Large uncertainty in 1980s: Background

- 1979:** Carter normalizes relations with China; severs relations with Taiwan (keeps commercial & defense relations)
- ▶ Congress resoundingly passes Taiwan Relations Act
- 1980:** Carter makes China the 3rd non-market economy to receive a waiver through the Jackson-Vanik Amendment, following Romania (1975) and Hungary (1978)
- ▶ For 10 years, no other country gains NTR
 - ▶ Poland loses NTR in 1982, Romania in 1988
- 1981:** Reagan elected; campaigned on restoring relations with Taiwan
- 1982/83:** China gains observer status at GATT; joins the multi fibre arrangement
- 1985:** China undertakes major market-oriented reforms following key agricultural reforms
- 1986:** China applies for membership in GATT; negotiations expected to last a few years

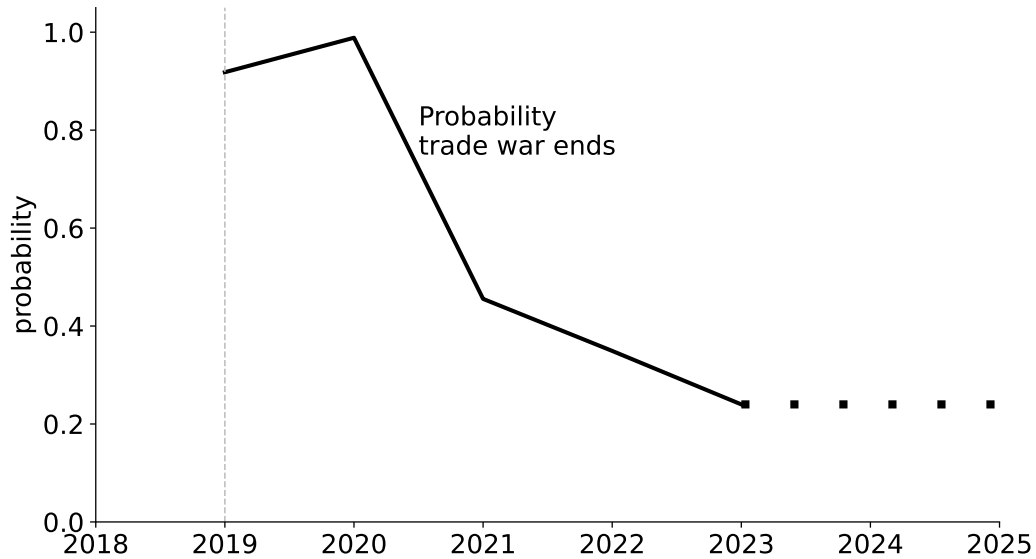
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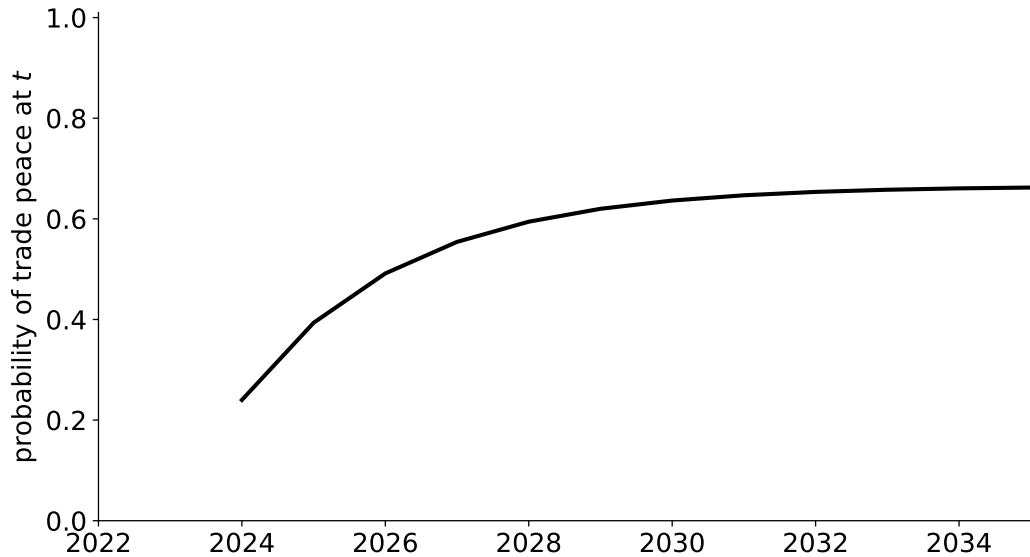
Trade war era: 2018–??

- ▶ Use the same framework to study the trade war
- ▶ The uncertainty: Will trade-war tariffs revert to NTR tariffs?

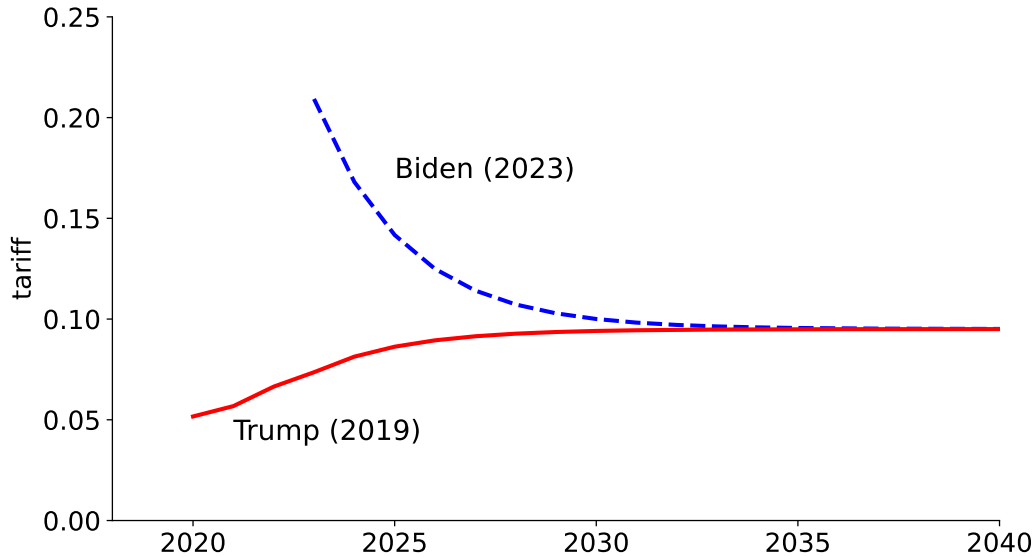
The trade war era: 2018–??



Probability of trade peace (2023 estimate)



Expected tariffs



How do we restore China-U.S. trade?

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Lower tariffs.

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Will we restore China-U.S. trade?

The data say: not likely.

Expect trade with China to continue to fall.

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