

Prospects & Perspectives



Although Trump only focuses on the benefits of the United States, global trade will really become a positive-sum game if he can continuously enhance his trade policy.

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An Analysis of the Impact of Trump's Trade Policy on the Global Market

By *Ming-fang Tsai*

Since the 2016 US presidential campaign Donald Trump has continued to point out that Chinese support for its own domestic industries has led to an excess supply of cheap exports over the past 10 years. This unfair industrial subsidy policy indirectly hurts many producers in the United States and results in plenty of workers losing their jobs. The policy does not only hurt producers in the US, but also destroys the world trade system. This is



because free trade is based on fair trade. Free trade can create a positive-sum game due to comparative advantages in the Ricardian trade model. In contrast, the China-type trade creates a zero-sum gain because the Chinese government utilizes a discriminatory and exclusive policy to extract profits from its rivals.

Trump's trade policy and the shift in the supply chain in China

As trade tension between the United States and China escalates, firms in different kinds of brand-product supply chains also seriously plan to move to other south-east Asian countries to avoid Trump's tariff policy. The trade war will certainly decrease the total value of exports and in turn hurt the profits of export-oriented firms. A drop in exported goods and services will have a knock-on effect in demand for intermediate goods and services in China. A decrease in natural resources will further hurt some developing countries. Thus, the impact of US-China trade disputes on global trade is huge.

A report of the Economist Intelligence Unit (EIU) (2018) says, "Vietnam and Malaysia will benefit the most from the US-China trade war, particularly in low-end manufacturing of ICT products, such as intermediate components and manufacturing of consumer goods like mobile phones and laptops." The Economist Intelligence Unit also points out that, "High taxes, limited land and expensive labour will prevent significant reshoring of ICT manufacturing operations from China back to these four markets." That is, the impact of the US-China trade war on some south-east Asian countries is clear. Furthermore, the impact of the US-China trade war on South Korea, Japan, Taiwan and Singapore is limited because the ICT components produced by these countries are high-end and are not easily replaceable through import substitution.

The agenda of Trump's trade policy and the issue of technology-theft in China

The Office of the United States Trade Representative (USTR) announced that Donald Trump has agreed to impose 30% tariffs on solar imports and 50% tariffs on washing machines, respectively, in January 22 of this year. On June 15, Trump declared that the United States would impose a 25% tariff on \$50 billion of Chinese exports. \$34 billion would start July 6. On July 10, the U.S. released an initial list of the additional \$200 billion of Chinese goods that would be subject to a 10% tariff. China assured the US it would retaliate with additional tariffs on American goods worth \$60 billion annually two days later. On August 8, the Office of the United



States Trade Representative published a list of 279 Chinese goods, worth \$16 billion, to be subject to a 25% tariff from August 23. China also responded with its own tariffs of equal value when Trump's tariff scheme comes into operation.

The U.S. tariff policy can be viewed as the most important part of the "America First" agenda. This is because President Trump deeply believes that a high-tariff policy will bring about fair trade. On the one hand, a high-tariff policy will protect domestic producers in the United States and then create a lot of jobs. On the other hand, some products subject to high-tariffs may not be produced by domestic firms in the United States. In this case, the consumer surplus will decrease due to Trump's tariff plan. As a result, we can conclude that the impact of the Trump tariff policy on the employment rate in the United States may be positive, but on the consumer surplus it is ambiguous. The 2018 United States midterm elections were held in the United States on November 6, 2018. The final results of the midterm elections may partly show that the impact of Trump's trade policy on the economy of the United States is ambiguous.

Furthermore, the issue of technology stealing is of especially concern to the Trump administration. State-owned enterprises of the People's Republic of China, such as ZTE Corporation and Fujian Jinhua Integrated Circuit, Co., Ltd., engage in an aggressive technology-progressing policy. The Trump administration puts a lot of effort into investigating whether the state-owned enterprises of the PRC violate Intellectual Property Rights (IPRs). There, the firms in the supply chain of China state-owned enterprises also face a big challenge from the Department of Justice of the United States.

Peter Navarro, an Assistant to the President and Director, has pointed out that industrial subsidies, currency manipulation or currency undervaluation, and value-added tax all are means of creating unfair trade. Therefore, if Trump's trade policy can force China to eliminate its exclusive trade policy, the income distribution between countries due to global trade must be more equal while the value of global trade will decrease.

Trump's trade policy will build a healthy global trade system

The impact of Trump's trade policy on global trade may be negative in the short-run, but this trade policy must incur a positive effect for the global market in the



long-run. This is because the tough problem of an excess supply in the global market can be solved and the added value of products will increase, that is, the market failure will be corrected by eliminating unfair trade practices. Facing Trump's trade policy, a more diversified trade relationship becomes more important, especially to a small economy. Under the "America First" agenda, Trump's administration has redefined the North American Free Trade Agreement (NAFTA) as the United States–Mexico–Canada Agreement (USMCA). Trump's administration also views the USMCA as a benchmark for future free trade agreements.

Consequently, in addition to China, some enterprises, such as Apple Inc., Nike, Walmart et al., also utilize an absolute bargaining power to extract the benefits of a whole supply chain in each industry. Although Trump only focuses on the benefits of the United States, global trade will really become a positive-sum game if he can continuously enhance his trade policy.

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