

# Trade Wars are Not Good, nor Easy to Win

## WASHINGTON HARDWOODS COMMISSION Annual Symposium

June 13, 2019

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**Dr. Kent Wheeler**

**Associate Professor and Director**

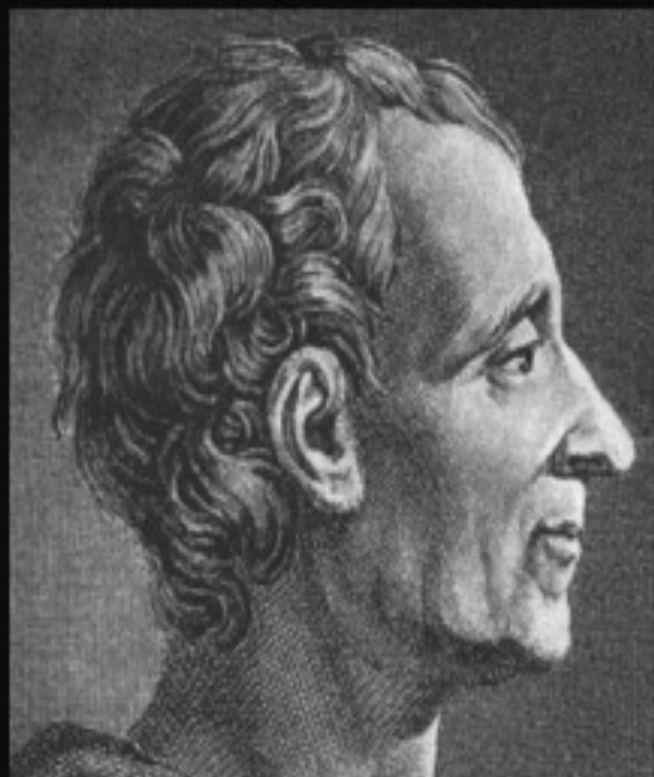
**Center for International Trade in Forest Products**

**SCHOOL OF ENVIRONMENTAL AND FOREST SCIENCES**

**UNIVERSITY *of* WASHINGTON**

**College of the Environment**





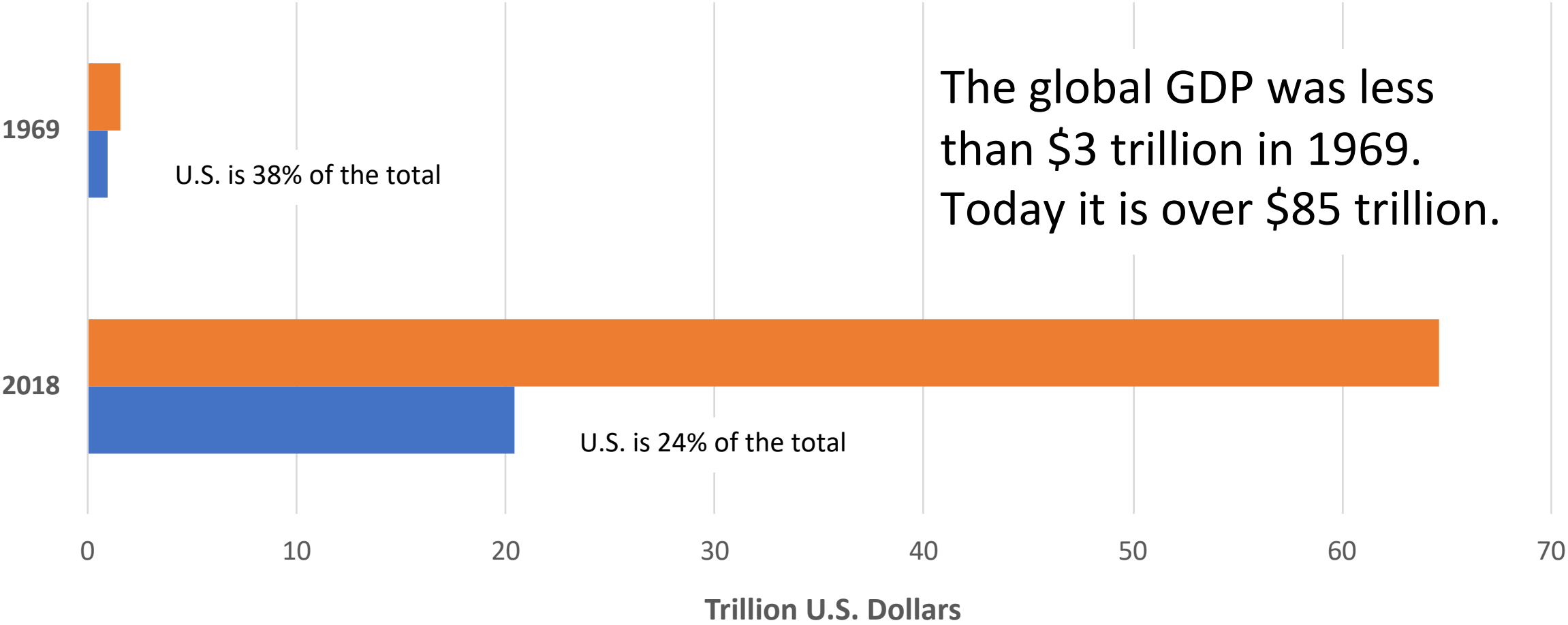
Peace is a natural effect of  
trade.

~ Baron de Montesquieu



# Global GDP 1969 vs. 2018

Rest of the World U.S.



# **This is a test**

- **In 2018 the United States imposed a 20% import tariff on Chinese washing machines, which led to:**
  - a) deforestation in the Amazon**
  - b) higher lead content in the U.S. water supply**
  - c) Sears declared bankruptcy**
  - d) the un-retirement of the Maytag repairman**

# *Trump Slaps Steep Tariffs on Foreign Washing Machines and Solar Products*



Workers installing solar panels in New Mexico. President Trump has approved solar tariffs for the next four years, a trade action aimed at Chinese imports. Sergio Flores/Bloomberg

**By Ana Swanson and Brad Plumer**

Jan. 22, 2018



MARKET NEWS > TRADE

# China to impose 25% tariff on U.S. soybeans

Beijing pulled the trigger after Trump proposed \$50 billion of levies on a slew of Chinese goods from gas turbines to lithium batteries.

Bloomberg 1 | Apr 04, 2018

# Clear evidence Trump's trade war is hitting U.S. farmers



Rick Newman

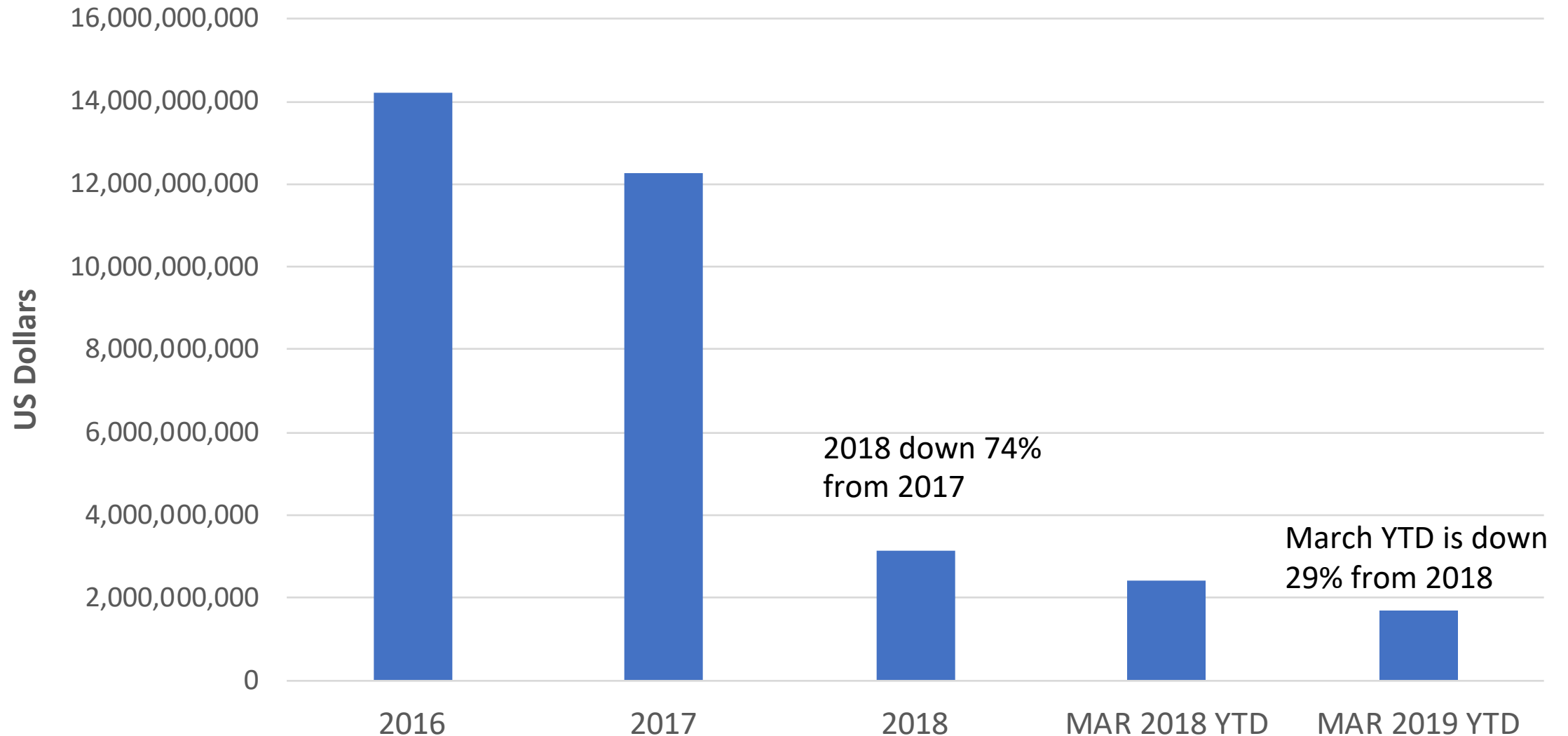
Senior Columnist

Yahoo Finance August 15, 2018

Prices for agricultural exports [fell 5.3% in July](#), the biggest drop since 2011. The price of soybeans fell 14.1%, accounting for most of the overall drop. There were also small declines in the price of corn, wheat, fruit and nut exports. Overall export prices fell 0.5%, the biggest drop in more than a year, with agriculture causing most of the decline.

Beginning July 6, China imposed 25% tariffs on a variety of American agricultural products, including soybeans, corn, poultry and pork. Tariffs are a tax that instantly raise the cost of the targeted product, so \$100 of soybeans would cost \$125 with China's 25% tariff. [The tariffs have led some purchasers in China to cancel orders for U.S. agricultural products and seek cheaper commodities from other nations](#) not subject to the new tariffs. Diminished demand pushes down prices and lowers farmers' incomes.

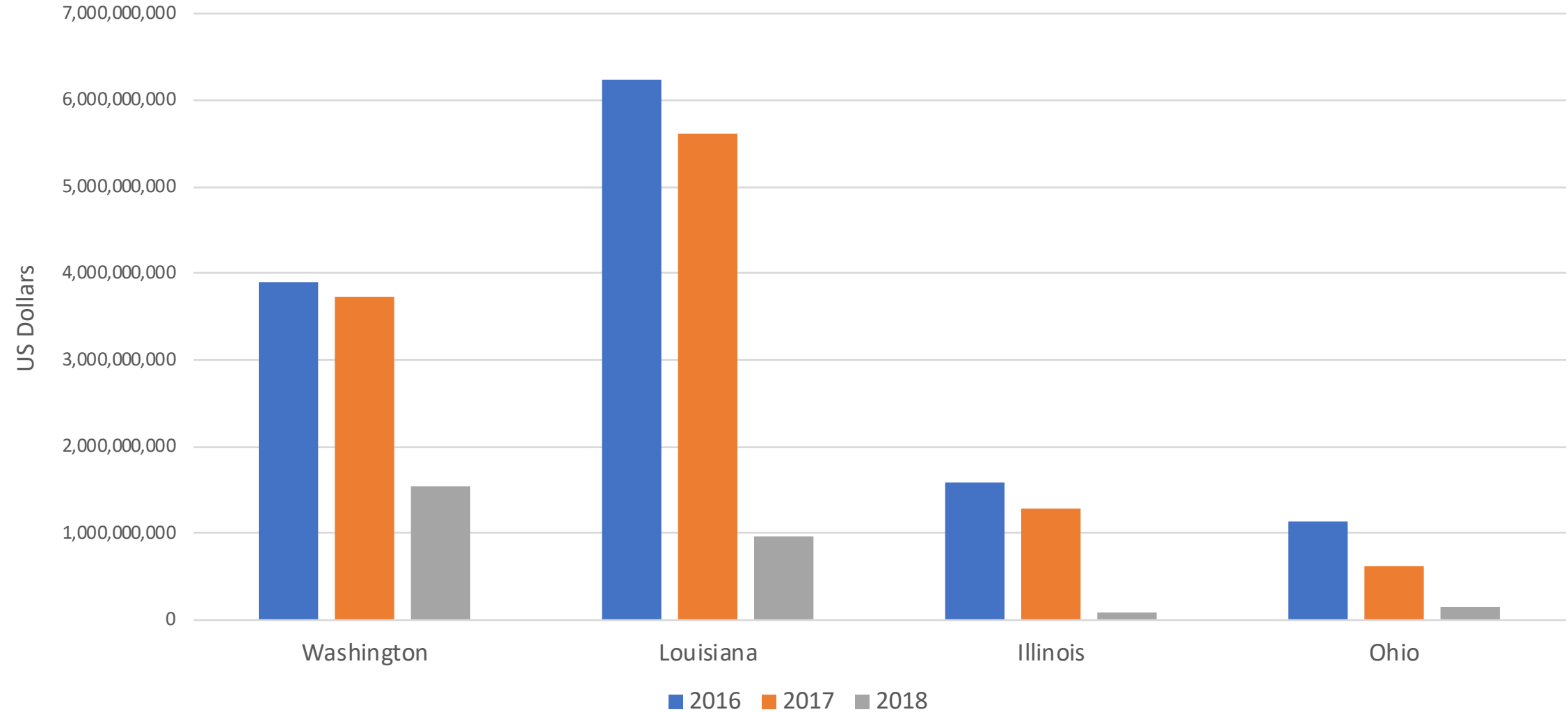
# U.S. Soybean Exports to China



Source: USA Trade Online (U.S. Census Bureau)

# U.S. Soybean Exports to China

## Top Four States



Source: USA Trade Online (U.S. Census Bureau)



# South China Morning Post

August 14, 2018

A new 25 per cent Chinese tariff on US soybeans – a retaliation for US levies by President Donald Trump – is expected to boost Brazil's soy exports to an all-time record this year.

Brazilian soybean exports to China rose to nearly 36 million tonnes in the first half of this year, up 6 per cent year on year. In July, they surged 46 per cent from the same month a year earlier to 10.2 million tonnes.



# US/China trade war could boost Brazil soy export, Amazon deforestation

by Zoe Sullivan on 21 June 2018 |



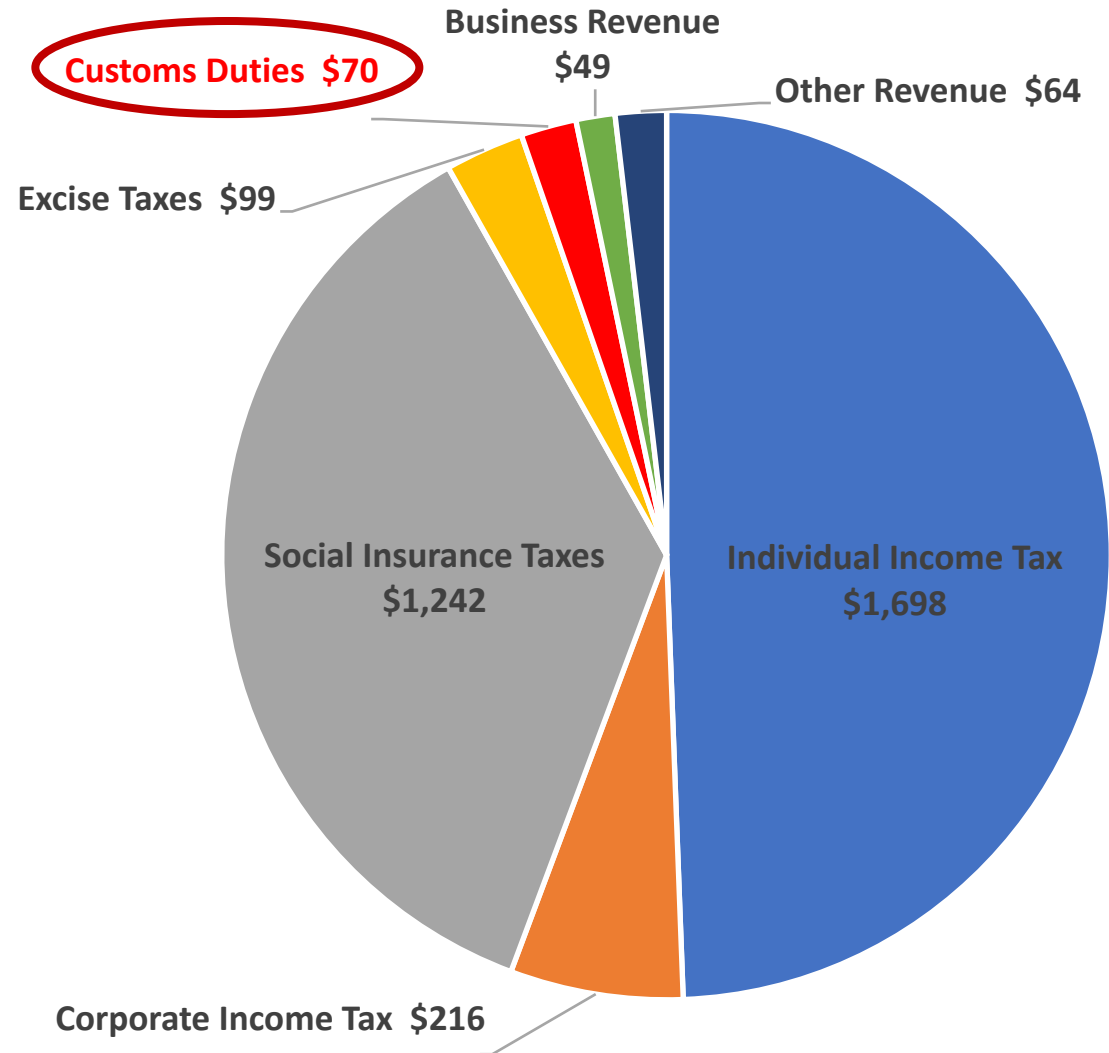
*If the U.S./China trade war results in a significant surge in Brazilian commodities production, deforestation rates there could soar. Scientists worry that Amazon deforestation, now at 17 percent, could be pushed past a 20-25 percent climate tipping point, converting rainforest to savanna, greatly swelling carbon emissions, and potentially destabilizing the regional and even global climate.*

# Tariffs 101

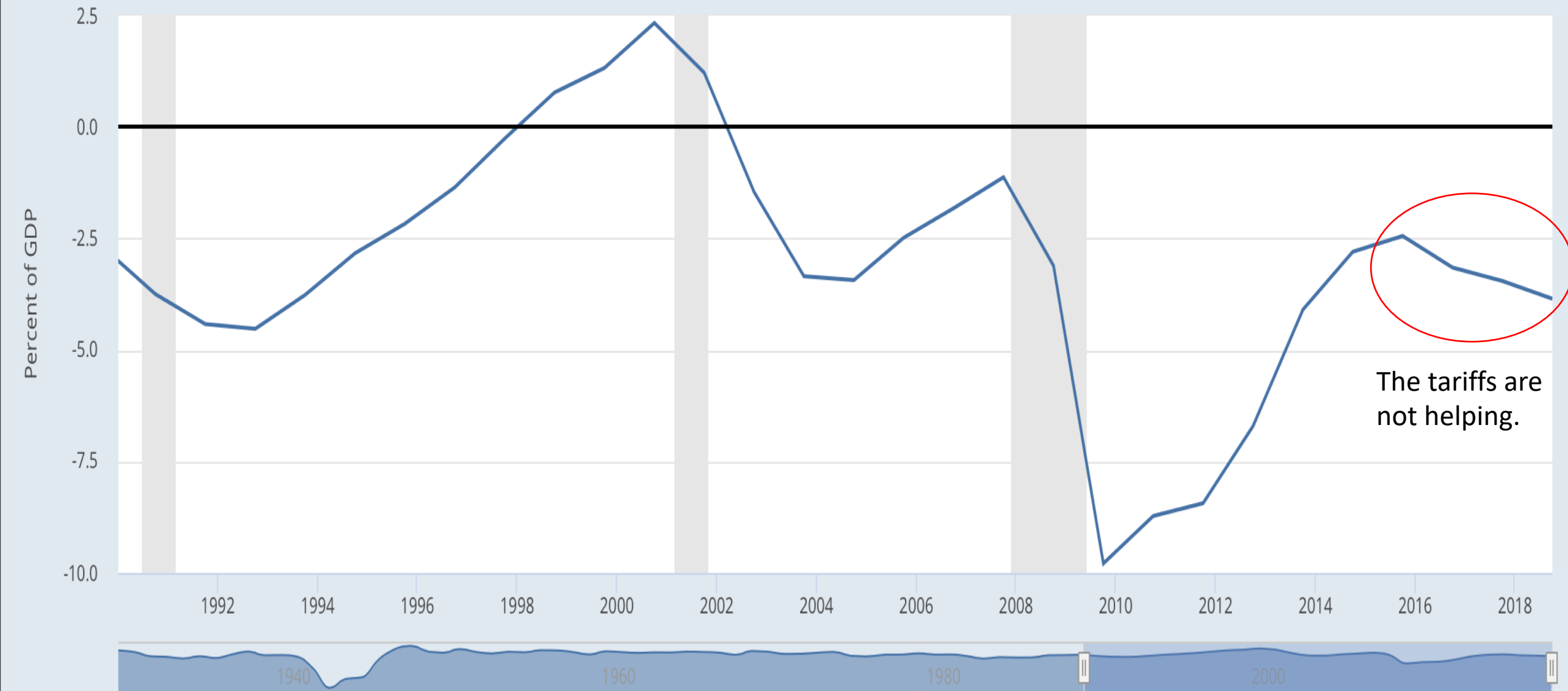
- **Tariffs are a tax on imported goods**
- **Paid by the U.S. importer**
- **Collected by U.S. Customs**
- **Tax revenue for the U.S. Treasury**

# U.S. Federal Government Revenues

## FY 2019 \$3.4 Trillion



- Tariffs provide 2% of Federal tax revenue
  - Est. \$70 billion in 2019



Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org



# Who Pays the Tariff?

- Tariffs are paid by the importer of record (e.g. WalMart)
- Who ultimately “pays” depends on market conditions
  - If the foreign supplier reduces prices by the amount of the tariff, they effectively pay
  - If the supplier doesn’t reduce prices, either the importer cuts their profit margin (i.e. the importer pays) or they raise prices and the consumer pays
  - If consumers pay the tariff via higher prices, it is a regressive form of taxation
  - Often the supplier, importer and consumer share some portion of the tax
  - Or the importer switches to a domestic or non-tariff foreign supplier

# Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy\*

Alberto Cavallo  
Harvard University

Gita Gopinath  
Harvard University and IMF

Brent Neiman  
University of Chicago

Jenny Tang  
Federal Reserve Bank of Boston

May 2019

- A nearly complete passthrough of tariffs to the total price paid by importers suggests **the tariff incidence has fallen largely on the US.**
- Analyses of retail prices preliminarily shows the higher cost of imports passed through to consumers for some goods but absorbed by lower retailer profit margins for others.
- In contrast to imports, US exports subjected to retaliatory tariffs exhibited declines in their ex-tariff prices relative to equivalent but non-targeted goods.

# THE IMPACT OF THE 2018 TRADE WAR ON U.S. PRICES AND WELFARE

*Mary Amiti, Stephen J. Redding and David Weinstein*

Federal Reserve Bank of New York, Princeton University, and Columbia University, respectively

March 1, 2019

## Abstract

This paper explores the impacts of the Trump administration's trade policy on prices and welfare. Over the course of 2018, the U.S. experienced substantial increases in the prices of intermediates and final goods, dramatic changes to its supply-chain network, reductions in availability of imported varieties, and complete passthrough of the tariffs into domestic prices of imported goods. Overall, using standard economic methods, we find that the full incidence of the tariff falls on domestic consumers, with a reduction in U.S. real income of \$1.4 billion per month by the end of 2018. We also see similar patterns for foreign countries who have retaliated against the U.S., which indicates that the trade war also reduced real income for other countries.

# Trade Wars

- **A unilateral increase in tariffs is usually reciprocated**
- **Domestic companies and non-targeted foreign suppliers producing similar goods benefit, but...**





TRADE & INVESTMENT POLICY WATCH

## Steel Profits Gain, but Steel Users Pay

Gary Clyde Hufbauer (PIIE) and Euijin Jung (PIIE)

December 20, 2018 10:45 AM

Photo Credit: PIIE/William Melancon

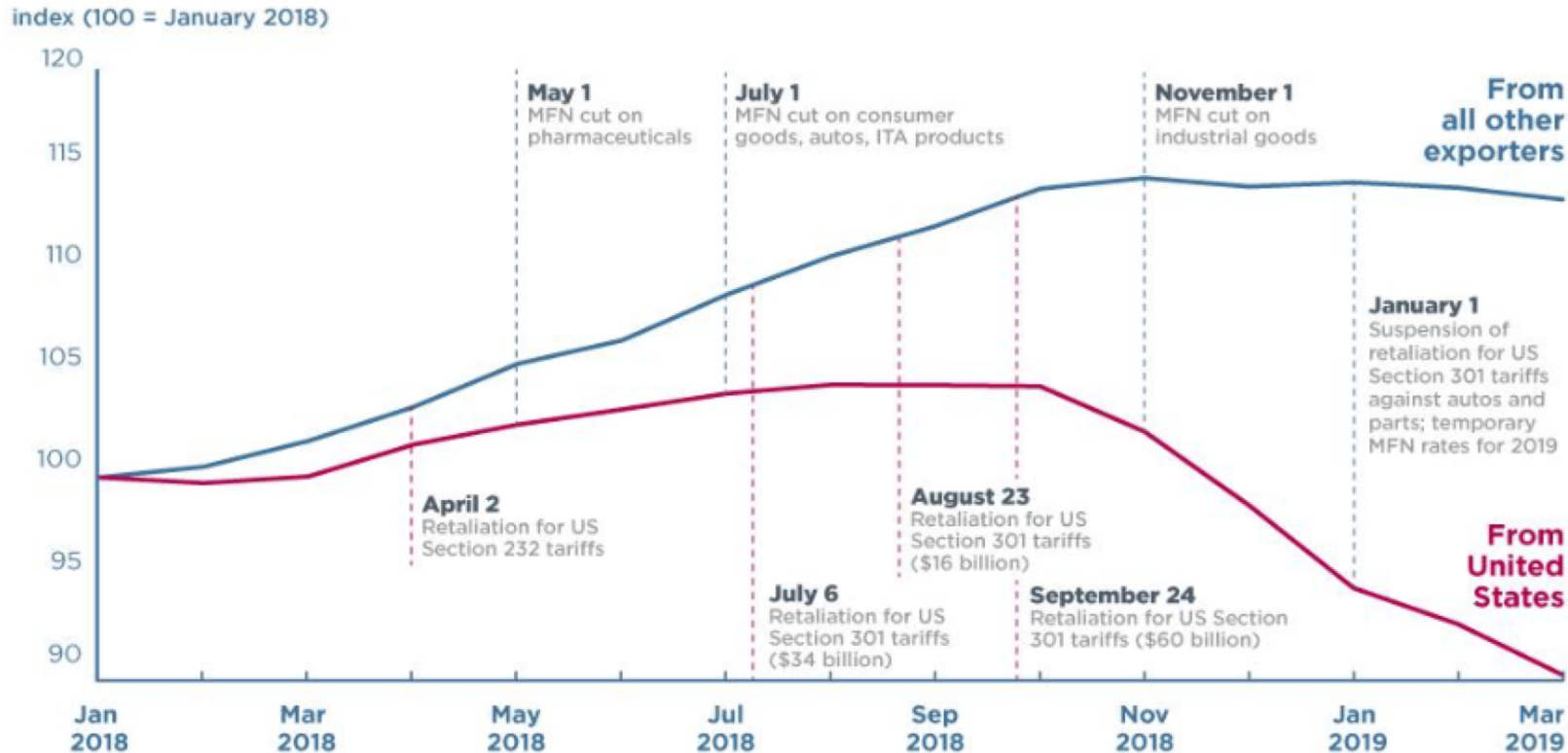
Our arithmetic is stark. Steel tariffs will boost firm pre-tax earnings by \$2.4 billion and create about 8,700 jobs—over \$270,000 of pre-tax profits for each job. Steel users will pay an additional \$5.6 billion for more expensive domestic steel, thanks to protection. In other words, steel users will pay about \$650,000 for each job created in the steel industry.

# Trade Wars

- **In war there are casualties on both sides**
  - **Supply chains are disrupted**
  - **Consumer prices usually increase, and choice decreases**
  - **Investment is retarded**
  - **Non-tariff barriers increase**
  - **International trade is restrained**
  - **Distrust bred by the trade war spills into other areas**
  - **There will be unintended consequences**

Figure 4

## China's imports from the United States have declined much more rapidly than imports from elsewhere during the trade war



- China's average tariff on U.S. imports is now 20.7% (up from 8%)
- China's average tariff on everyone else is now down from 8% to 6.7%



ITA = Information Technology Agreement; MFN = most favored nation

**Note:** China's monthly import data, not seasonally adjusted, 12-month trailing average.

**Source:** Constructed by the authors with data from Trade Map, International Trade Centre, [marketanalysis.intracen.org](http://marketanalysis.intracen.org).

# How U.S.-China tensions could get a lot worse

South China Sea is a flashpoint in military buildup as China asserts control.

By **WESLEY MORGAN** and MINNIE CHAN | SOUTH CHINA MORNING POST | 12/13/2018 05:05 AM EST

## Chinese society

### Three decades after Tiananmen, China's youth loses faith in US

Trade war and material comforts rather than democracy define new generation

# How China Could Shut Down America's Defenses

Advanced U.S. weapons are almost entirely reliant on rare-earth materials only made in China—and they could be a casualty of the trade war.

BY **KEITH JOHNSON, LARA SELIGMAN** | JUNE 11, 2019, 5:10 PM

## The world's biggest shipping company warns Trump's China tariffs are hammering global trade

### fastFT Chinese business & finance

### China warns of growing issues facing students visiting US

Education ministry urges parents to make more careful assessments of the risks with trips

## OECD cuts global growth forecast as US-China tensions rise



Date created : 21/05/2019 - 12:08

# Larry Summers

## A Revealing Puzzle in the China Tariffs

<http://larrysummers.com/2019/05/15/theres-a-revealing-puzzle-in-the-china-tariffs/>

- On Monday May 13, 2019, following news of increasing tariffs in the U.S.-China trade war, the Dow dropped 617 points or 2.4%. With a total value of U.S. stocks around \$30 trillion, this decline represents more than \$700 billion in lost wealth.
- The actual amount of the tariffs is a small fraction of this lost value.
- It is the greater risk of catastrophic medium-run outcomes, rather than the proximate impact of trade conflicts, that is driving the outsize market reactions to trade negotiation news.
- The current trade conflict is a possible prelude to a far larger conflict between the two nations with the largest economies and greatest power for as far as can be foreseen.
- A world where relations between the United States and China are largely conflictual could involve a breakdown of global supply chains, a splinternet (as separate, noninteroperable internets compete around the world), greatly increased defense expenditures and conceivably even military conflict. All of this would be catastrophic for living standards and would also have huge adverse effects on the value of global companies.
- It is risky to turn the pursuit of even vital national objectives into an existential crusade. Rather, even when nations have objectives that are in conflict, it is important to seek compromise, to avoid inflammatory rhetoric and to confine rather than enlarge the areas where demands are being made. Establishing credibility that promises will be kept and surprises will be avoided is as or more important with adversaries as with friends.
- There is no greater threat to the success of our national enterprise over the next quarter-century than mismanagement of the relationship with China. It is not just possible but essential to be strong and resolute without being imprudent and provocative.

# Walter Russell Mead

## Americans Aren't Ready for Cold War II

*The Wall Street Journal*, June 11, 2019

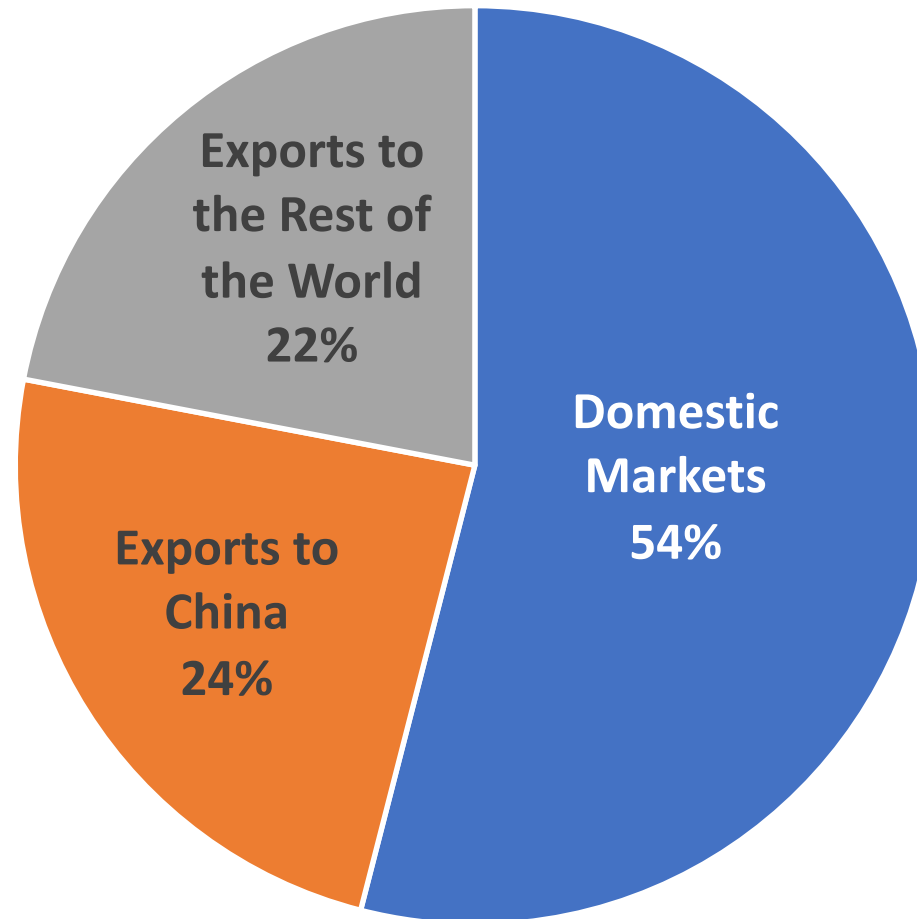
- Neither we nor the Chinese can predict the scale, scope or consequences of the emerging rivalry.
  - How will the competition affect Americans in their daily lives?
  - How will it change the technology and higher-education sectors?
  - What impact will cyber technology and other forms of asymmetrical warfare have on the balance of power?
  - Will the deep economic ties between the countries soften diplomatic and military competition -- or sharpen it?
- It's difficult to prepare for a contest with so many uncertainties, but the ancient Chinese strategist Sun Tzu offered advice that is still sound:
  - If you know the enemy and know yourself, you need not fear the result of a hundred battles.
  - If you know yourself but not the enemy, for every victory gained you will also suffer a defeat.
  - If you know neither the enemy nor yourself, you will succumb in every battle.
- Americans should start by deepening our understanding of how Beijing's policy makers see themselves and the world.
- Red America, blue America and establishment America don't understand one another very well; the resulting division makes stable, long-term foreign policy hard to sustain. One of Washington's highest priorities should be creating an approach to China policy that can endure from one administration to the next.
- It's impossible to know how the marked shift in U.S.-China relations will develop. The clouds now assembling on the horizon could dissipate or build into a storm of historic proportions. Either way, it is past time for Americans to heed Sun Tzu's advice. **We do not know either China or ourselves as well as we should.**

# Trade War Casualties

- Consumers
- Farmers
- Ports
- Dock workers
- Auto industry
- etc. etc., and...
- **The U.S. Hardwood Industry**

# China is the Largest Market for U.S. Hardwoods

U.S. Hardwood Grade Lumber Consumption 2018





# Chronology of the U.S.-China Trade War

DATE	ACTION
Apr 7, 2017	Presidents Trump & Xi agree to a 100-day plan to address trade issues
Jan 22, 2018	U.S. imposes 30% tariff on imported solar panels, 20% on washing machines
Mar 23, 2018	U.S. imposes 25% tariff on imported steel, 10% on aluminum
Apr 2, 2018	China retaliates by imposing 15-25% tariffs on 128 U.S. products (\$3 billion value)
Apr 3, 2018	U.S. announces 25% tariff on \$50 billion of Chinese goods; China retaliates in proportion
July 6, 2018	U.S. implements 25% tariffs on \$34 billion; \$16 billion delayed; China retaliates in proportion
July 10, 2018	U.S. announces plans for 10% tariff on \$200 billion of Chinese goods
Aug 1, 2018	President Trump instructs USTR to increase proposed tariff to 25% on \$200 billion
Aug 3, 2018	China retaliates by announcing plans for tariffs of 5-25% on \$60 billion of U.S. goods
Aug 23, 2018	Both U.S. & China implement 25% tariffs on remaining \$16 billion announced in April
Sep 7, 2018	President Trump threatens tariffs on remaining \$267 billion as yet untargeted Chinese goods

*Up to this point there is a looming threat, but **no tariffs on hardwood logs or lumber have been implemented.***

# Chronology of the U.S.-China Trade War

DATE	ACTION
Sep 24, 2018	U.S. imposes 10% tariff on \$200 billion of Chinese goods; will increase to 25% on January 1. China retaliates with 5-10% on \$60 billion.
	China's tariffs include 10% on N.A. hardwood logs, 10% on Oak, Cherry & Ash lumber, and 5% on Maple, Walnut, Poplar, and Alder lumber.
Dec 1, 2018	January 1 deadline is extended 90 days.
Feb 24, 2019	Deadline is postponed again.
May 5, 2019	President Trump declares that the 10% tariffs will be increased to 25% effective May 10, and that his administration will impose new tariffs of 25% on all remaining Chinese goods.
May 10, 2019	U.S. increases tariffs to 25% on Sep 24 targeted items (\$200 billion) that were at 10%.
June 1, 2019	China retaliates by increasing tariffs on \$60 billion of U.S. goods up to 25%.
	Oak logs and lumber increased from 10% to 25%.
	N.A. hardwood logs, Cherry & Ash lumber increased from 10% to 20%.
	Maple, Walnut, Poplar, and Alder lumber stays at 5%.

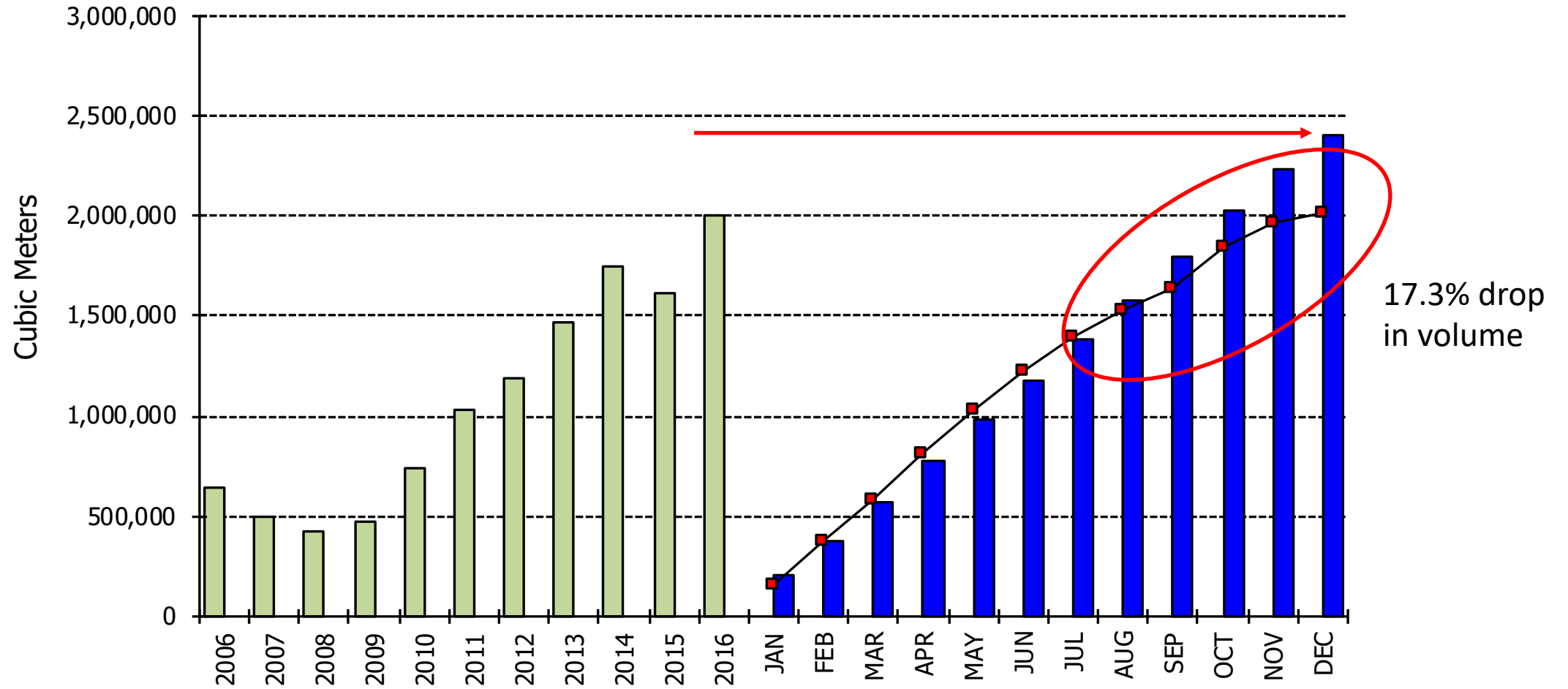
# Chinese Currency to U.S. Dollar



# US Hardwood Lumber Exports to China

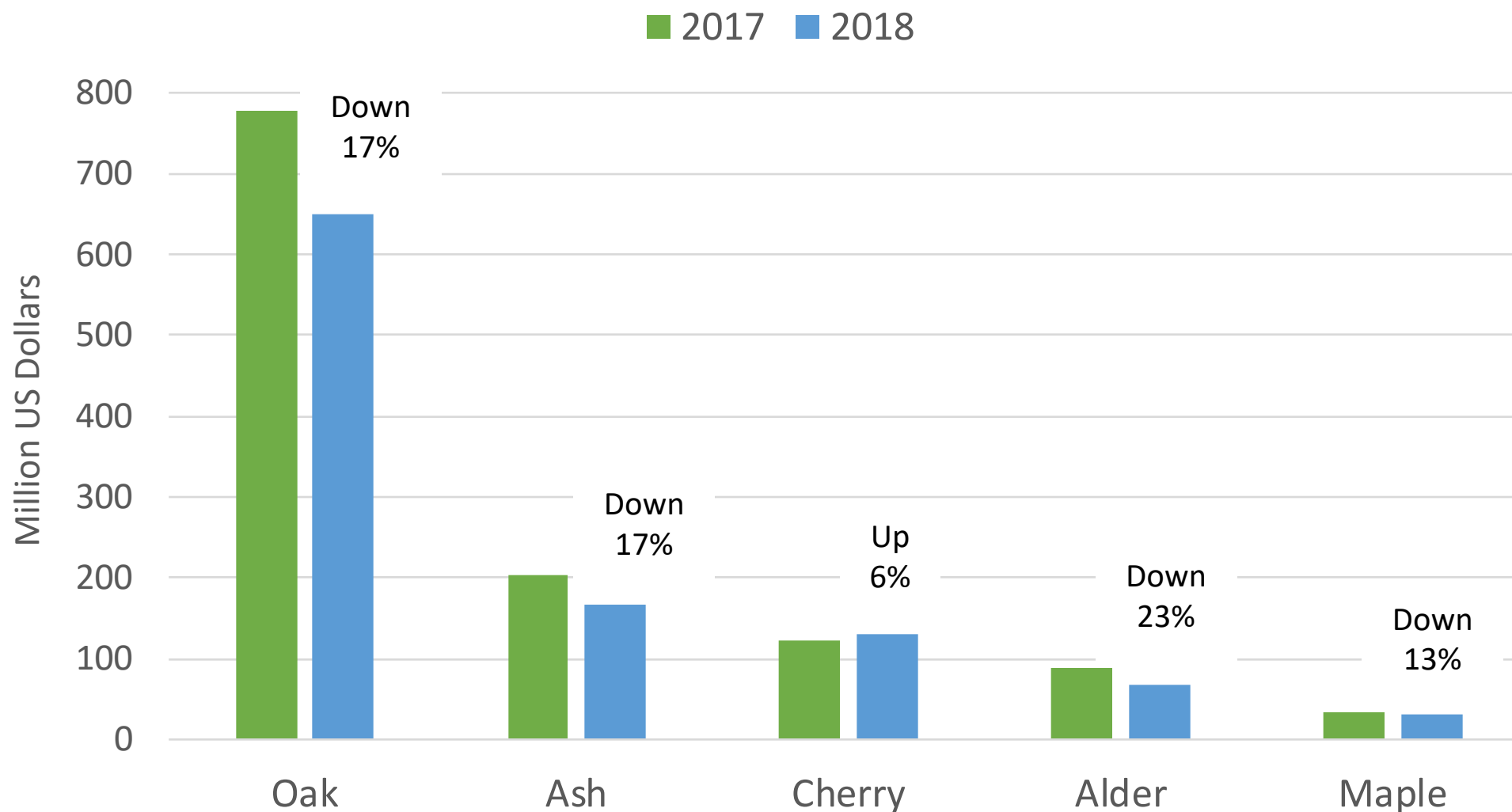
Blue Columns = 2017

Red Line = 2018 YTD



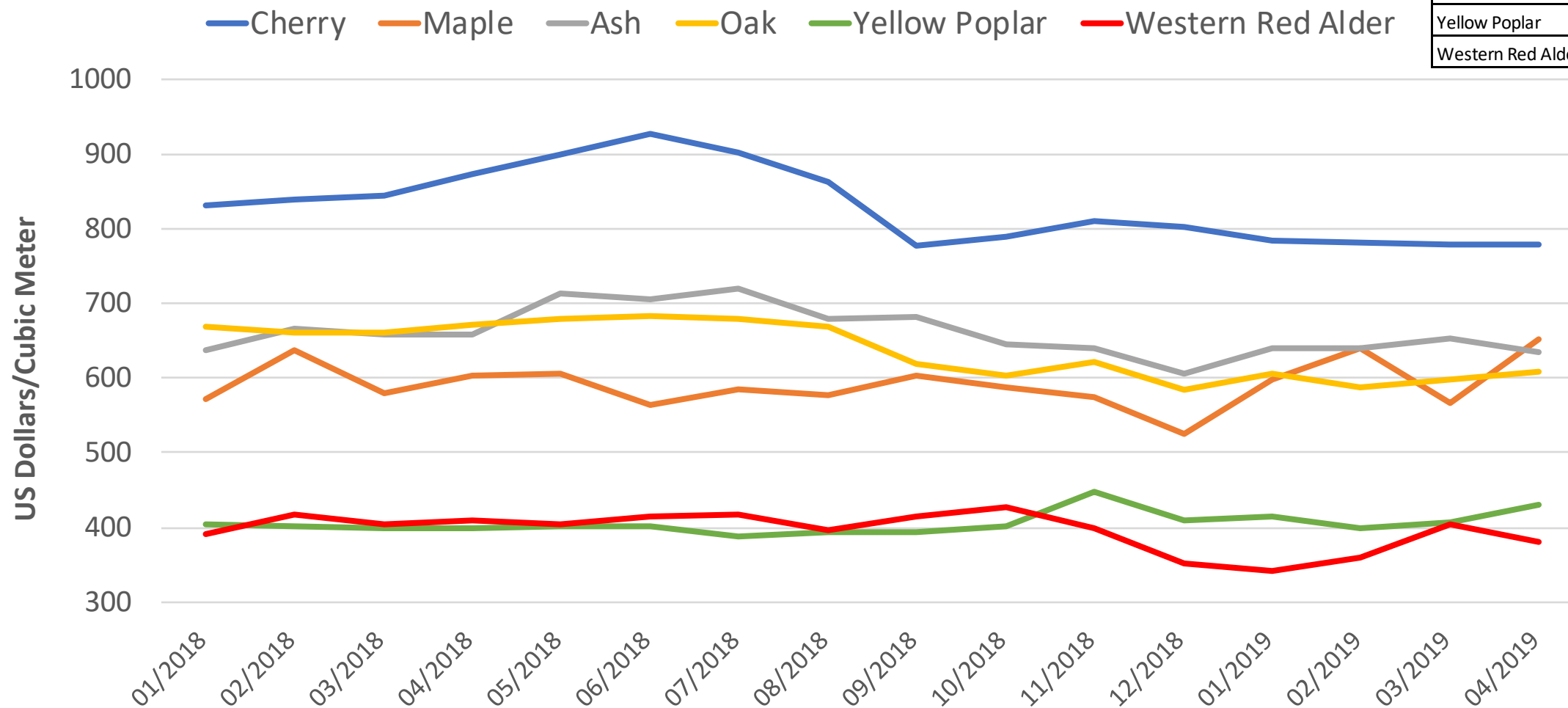
Source: Global Trade Atlas

# U.S. Hardwood Lumber Exports to China



# U.S. Hardwood Lumber Exports to China

## Average Monthly Unit Value (US\$/m3)

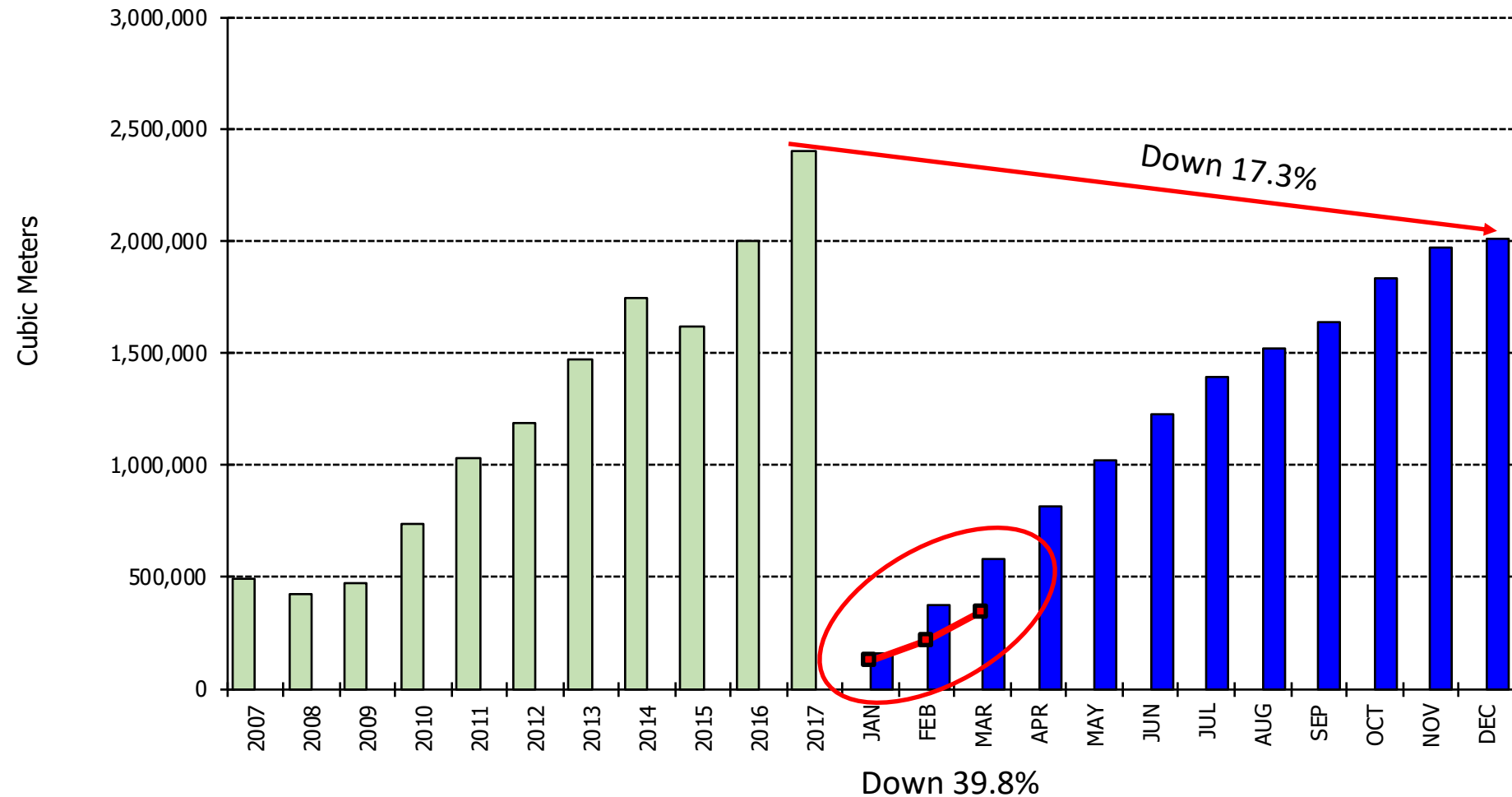


2018 change by year end from peak price	
Cherry	-13.6%
Maple	-17.4%
Ash	-17.1%
Oak	-14.9%
Yellow Poplar	-9.2%
Western Red Alder	-17.8%

## US Hardwood Lumber Exports to China

Blue Columns = 2018

Red Line = 2019 YTD



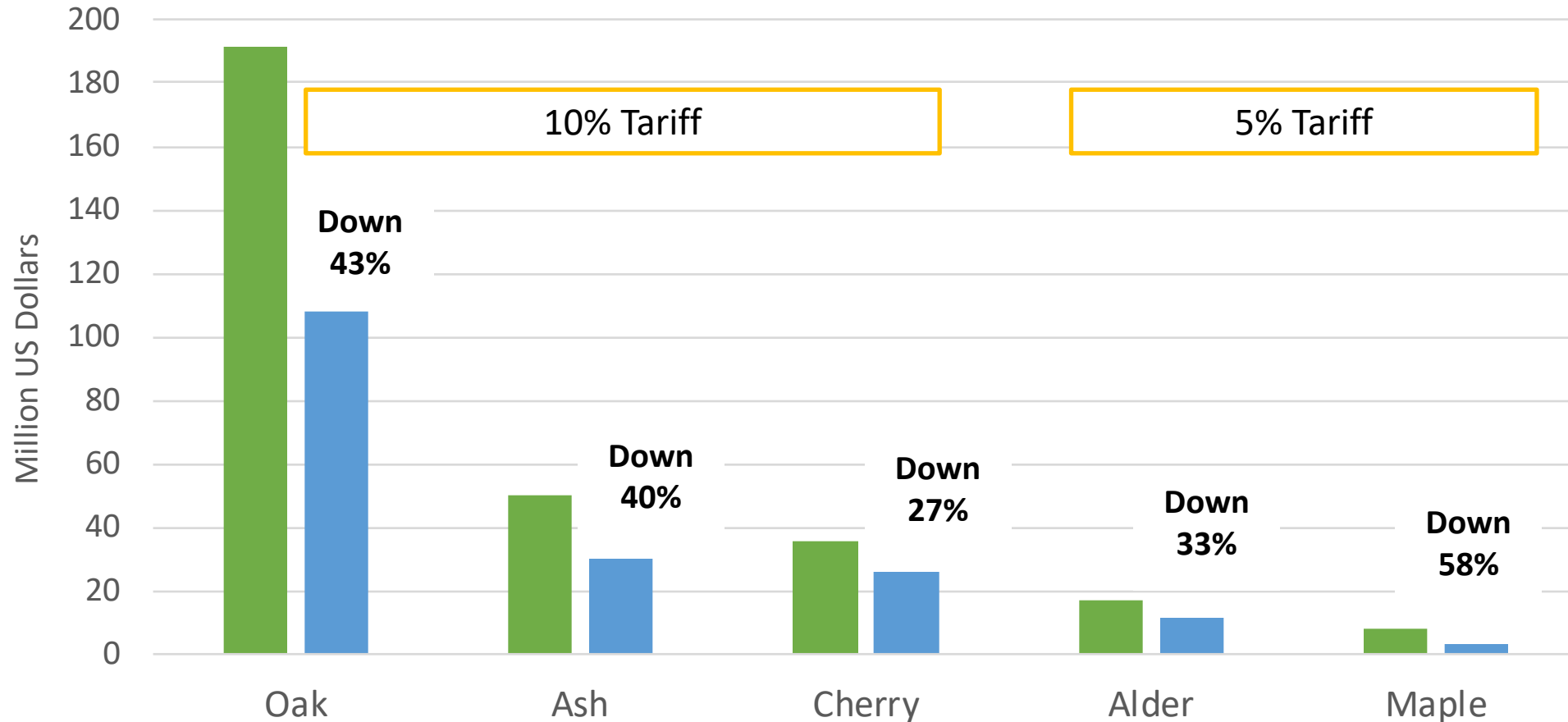
Source: Global Trade Atlas

# U.S. Hardwood Lumber Exports to China

March 2018 YTD vs March 2019 YTD

■ 2018 ■ 2019

Data source: Global Trade Atlas



Tariff as of June 1, 2019:

25%

20%

20%

5%

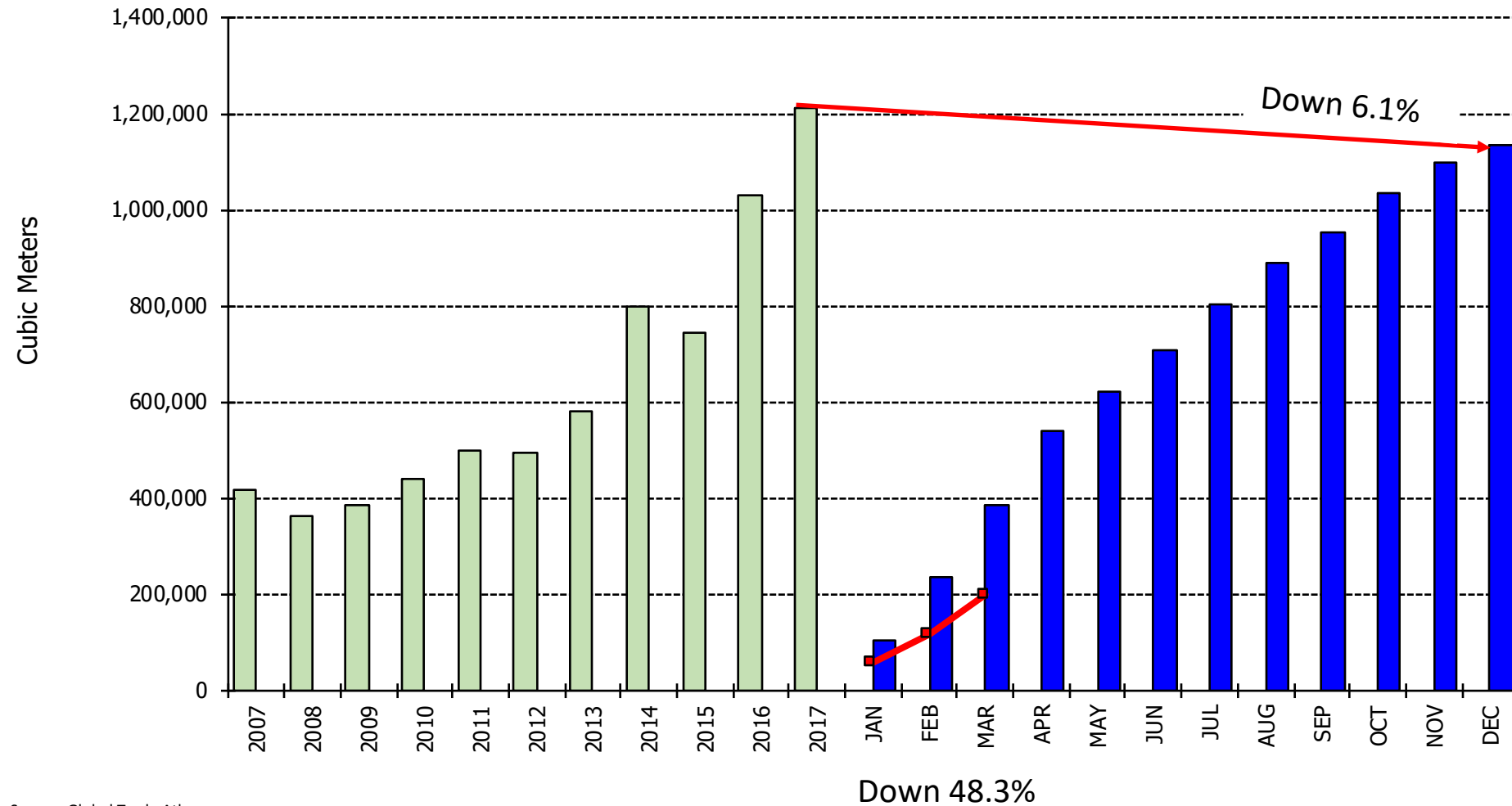
5%



## US Hardwood Logs Exports to China

Blue Columns = 2018

Red Line = 2019 YTD

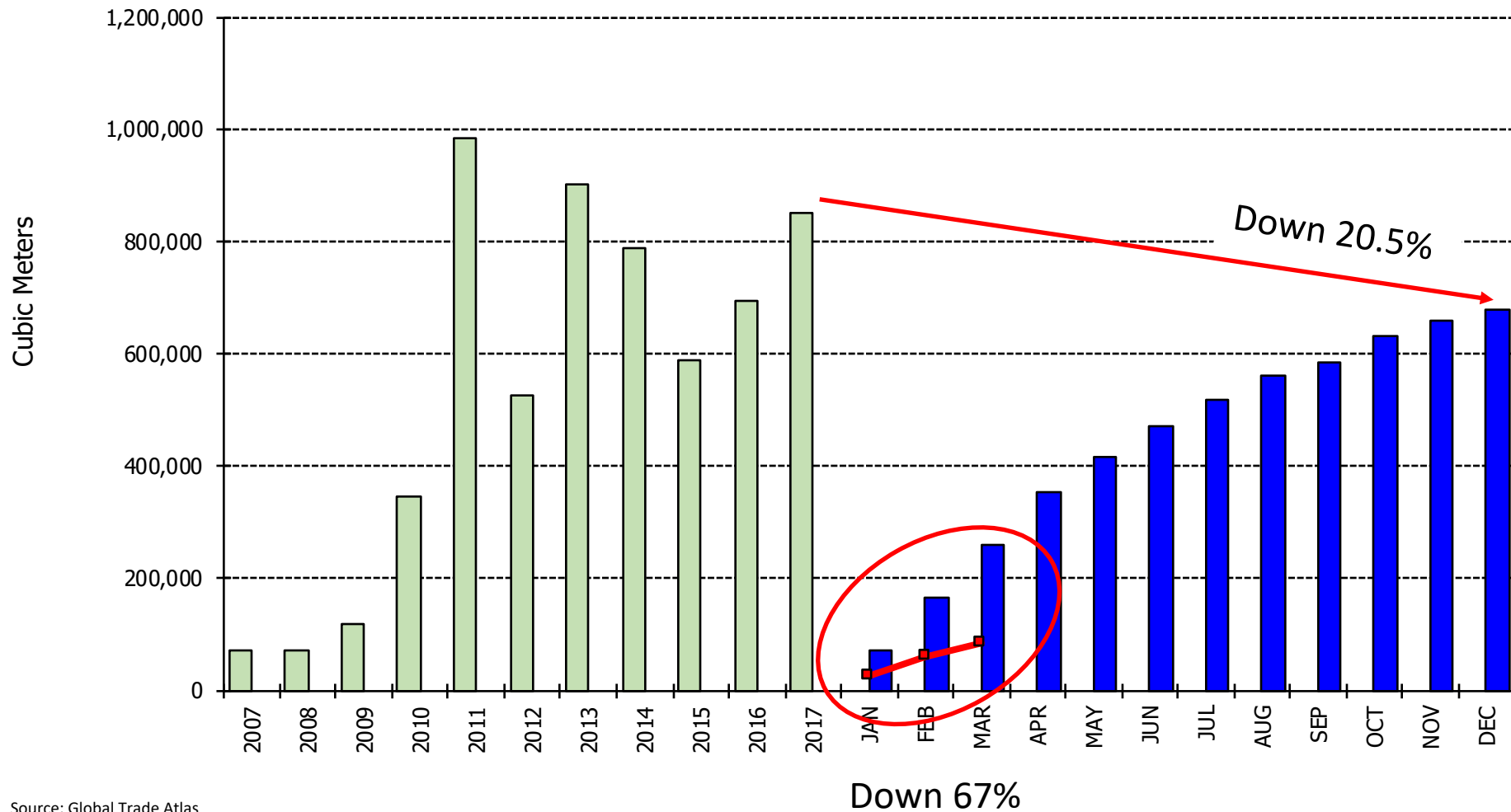


Source: Global Trade Atlas

## US Softwood Lumber Exports to China

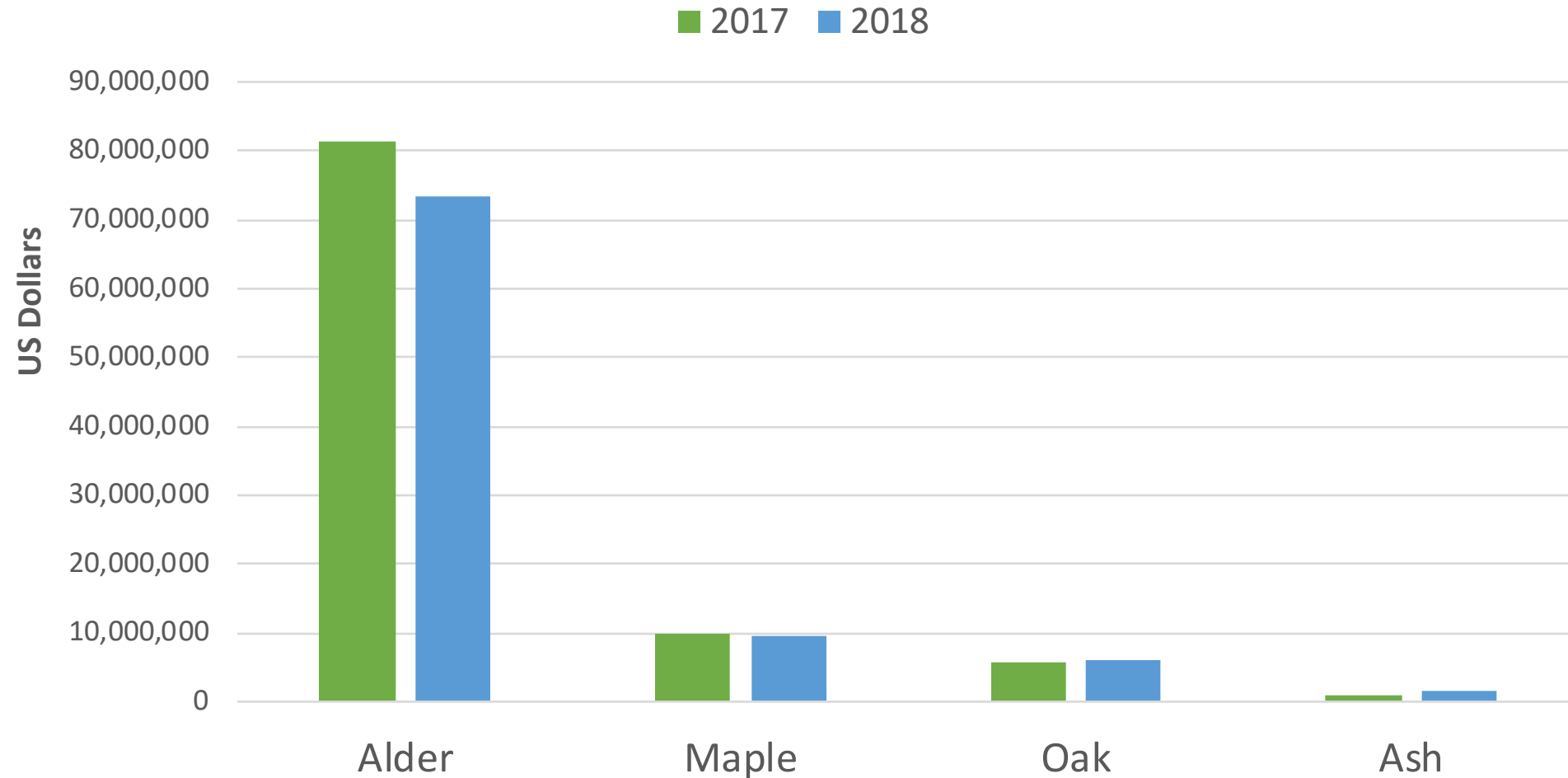
Blue Columns = 2018

Red Line = 2019 YTD

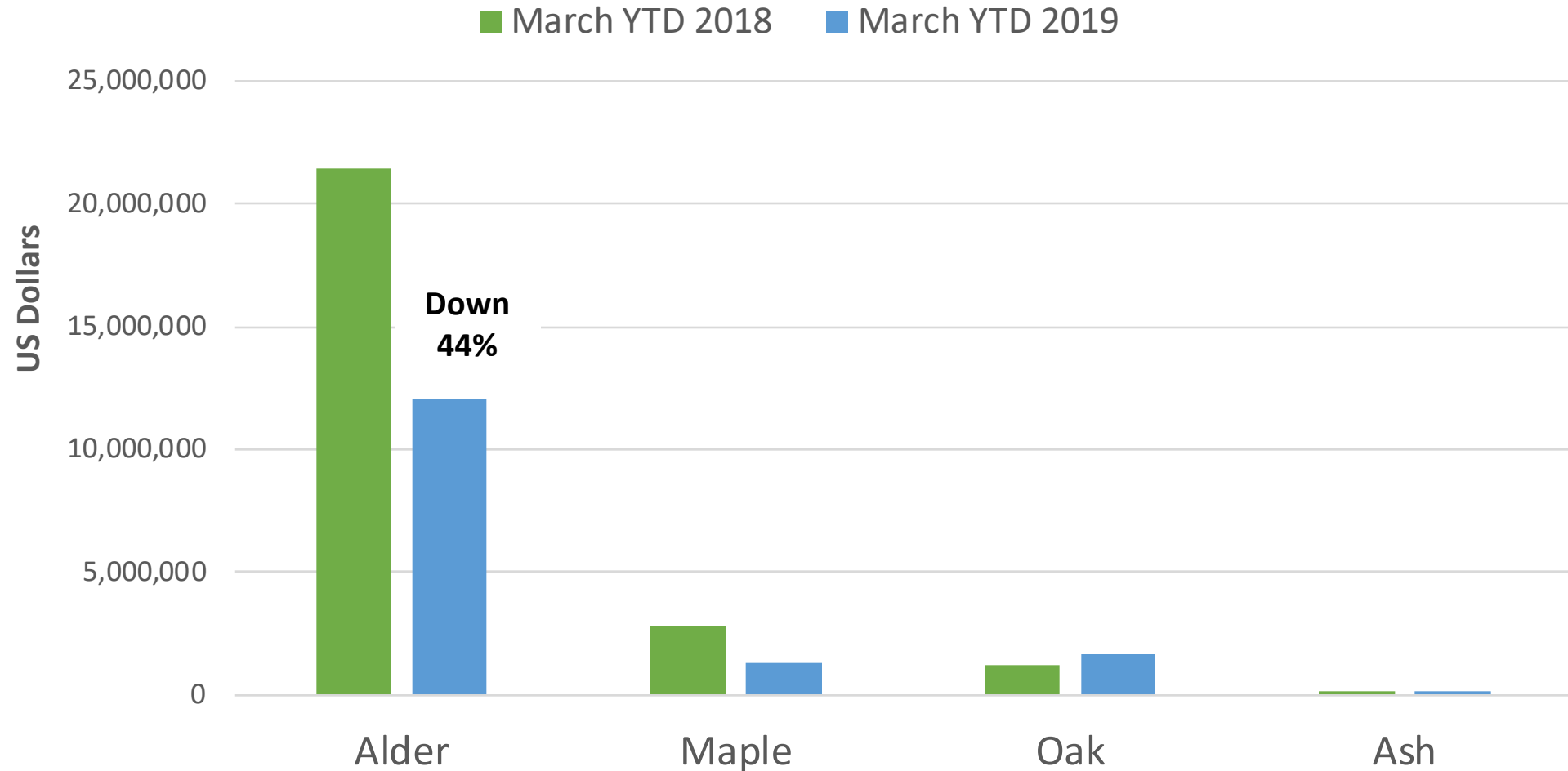


Source: Global Trade Atlas

## Exports of Hardwood Lumber through Washington Ports



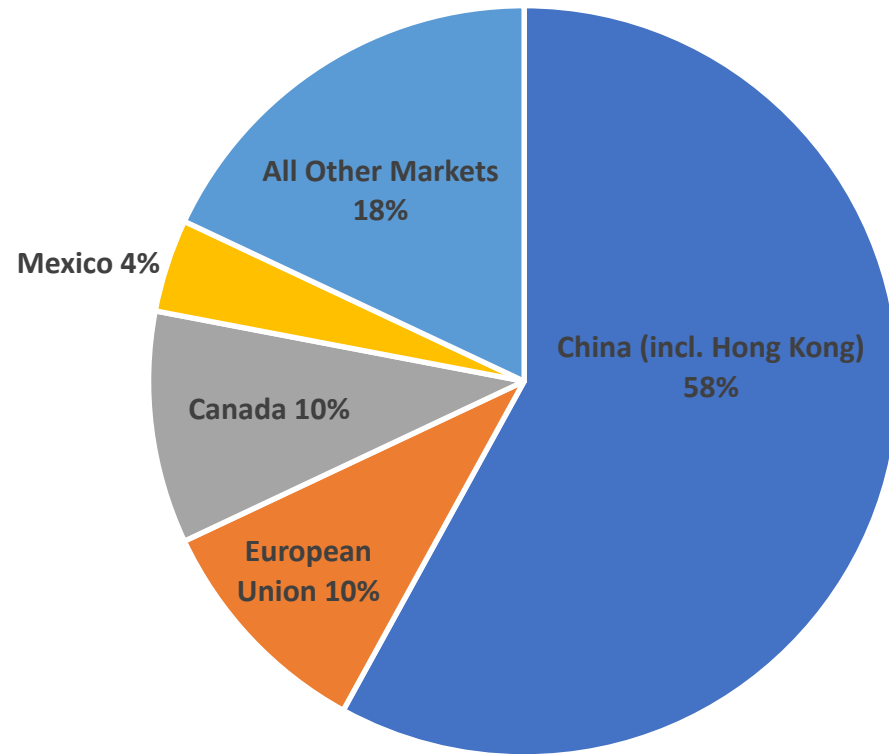
## Exports of Hardwood Lumber through Washington Ports



# No Other Markets Can Absorb the China Volume

But in addition, the U.S. has ongoing trade disputes with the largest of our alternative markets.

U.S. Hardwood Lumber Exports  
to "Trade War" Countries



Source: American Hardwood Export Council

# The Inter-Mountain

## Tariffs taking toll on hardwood

### industry

Frank Stewart  
Executive Director  
W.Va. Forestry Assoc.

The third round of retaliation in September 2018 placed a 10% tariff on Red Oak and other species from the U.S. With falling prices, and now a tariff, Red Oak quickly became a loss leader for sawmills. The number one market for the number one species of American hardwood lumber was being sold below cost — if it sold at all.

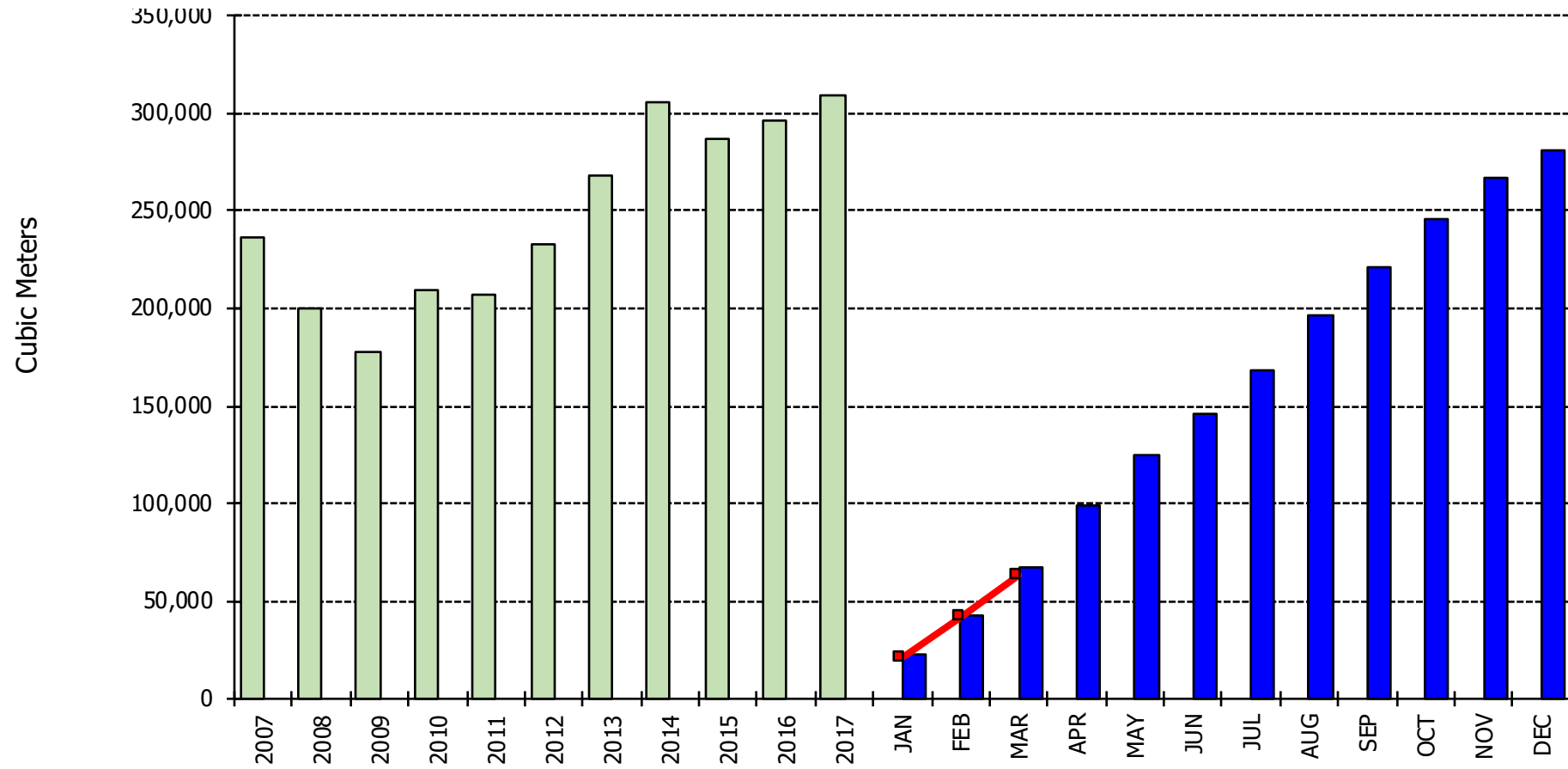
Sawmill owners looked for alternative markets in Vietnam, Indonesia and Europe. There is no other market to absorb 32,025 shipping containers of American Red Oak that sold to China in 2017. The tariffs have taken all profits from U.S. hardwood exports to China. It will drive mills out of business this year, losing jobs and outlets for landowners to sell their timber.



## US Hardwood Lumber Exports to Mexico

Blue Columns = 2018

Red Line = 2019 YTD



Source: Global Trade Atlas

## ***Trump Says U.S. Will Hit Mexico With 5% Tariffs on All Goods***



President Trump on Thursday outside the White House. The administration also said it planned to seek congressional approval of the new trade pact with Mexico and Canada. Tom Brenner for The New York Times

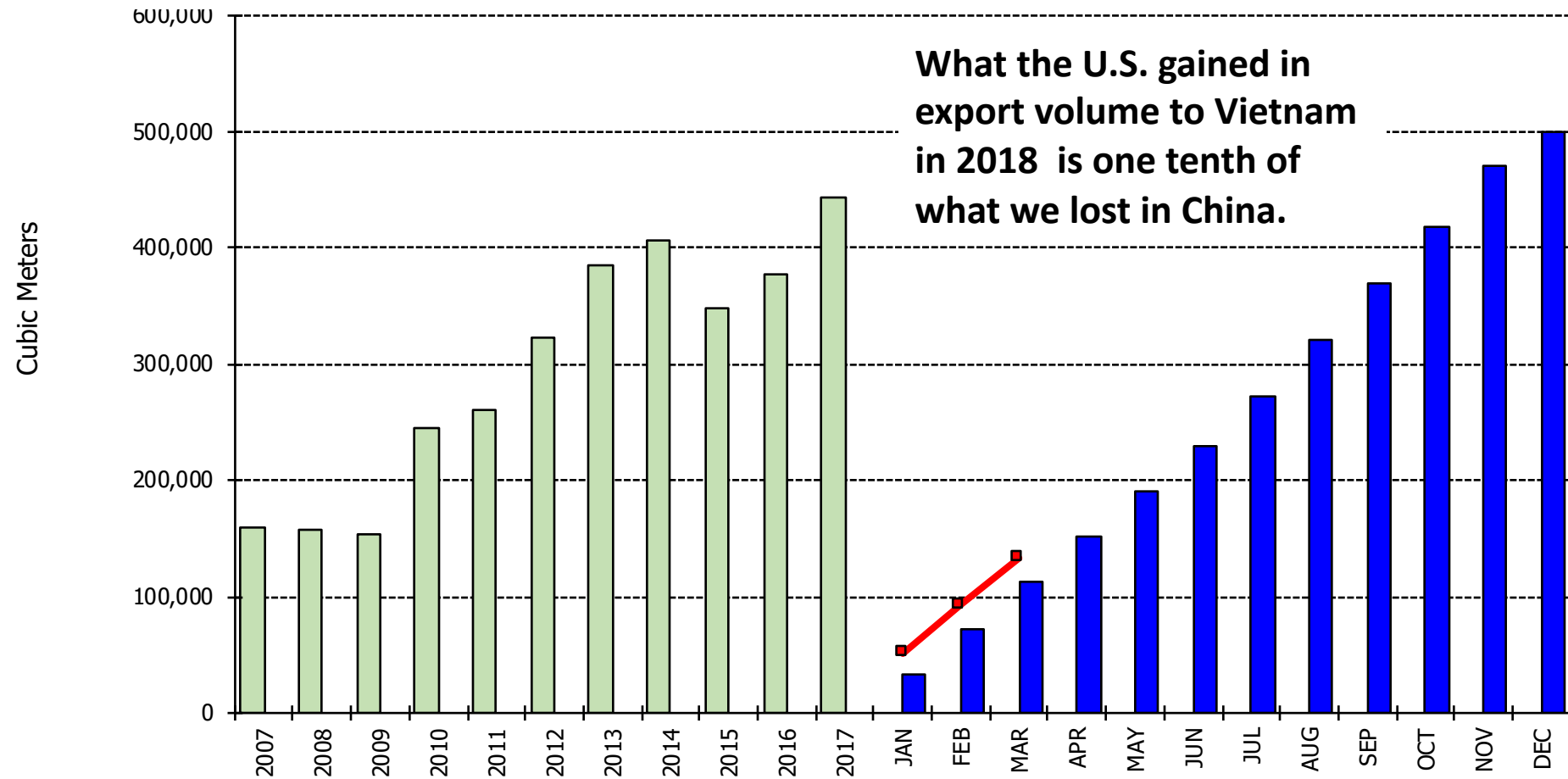




## US Hardwood Lumber Exports to Vietnam

Blue Columns = 2018

Red Line = 2019 YTD



Source: Global Trade Atlas



*Photographer: Tomohiro Ohsumi/Bloomberg*

Markets

# China's Tariffs on U.S. Hardwood Exports Deliver 'Painful' Blow

By [Jen Skerritt](#)

August 3, 2018, 11:48 AM PDT





FEATURE

# The American Casualties of Trump's Trade War

Tariffs on Chinese imports have endangered small business around the United States — a growing nightmare that critics say the president could have avoided.





## U.S. Hardwood Industry Suffers from China Trade War

For Immediate Release

### Media Contact

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Executive Director  
Hardwood Federation  
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202.463.2705

### U.S. Hardwood Industry Suffers From China Trade War

**WASHINGTON, D.C., May 24, 2019** – The U.S. Hardwood Lumber industry has a heavy reliance on export markets for its survival, and is being devastated by the ongoing trade dispute with China. Domestic mills have suffered sharp declines in export sales. Operations have been shuttered. Jobs lost. Communities, reliant on good paying hardwood jobs, ruined.

### Woodworking Industry News

## Hardwood lumberers concerned over proposed Chinese tariffs

By Robert Dalheim August 07, 2018 | 1:56 pm EDT



CNN Politics  
@CNNPolitics

As trade talks stall between the US and China, the effects of soaring tariffs are making struggling US industries suffer even more. CNN's Vanessa Yurkevich reports the lumber industry has been cut by nearly 40% because of tariffs



## Editorial, May 17, 2019

- Hardwood lumber exports to Asia in the last half of 2018 were back down to 2014-2015 levels, and first-quarter totals this year were the lowest in at least the last 21 quarters.
- Shipments to Asia from 2016 through mid-2018 averaged 20 mmbf higher per month than in 2014 and 2015. That's 600 million additional board feet (50,000 more containers) than at the current or the 2014-2015 pace.
- Splitting a 5% or 10% tariff was a workable solution for many American suppliers and their Chinese buyers, but splitting a 25% tariff will not be.
- Higher domestic demand will help during the summer, but the best option for the 20 mmbf/month that is no longer shipping to China is to *not make it*.
- As such, absent a quick resolution to the trade dispute, the summer doldrums are coming early and heavy this year. Overproduction is likely again, for the first time in years, and Red Oak will be the hardest hit.



## Hardwood Industry Not included in U.S. Tariff Aid Package



by WFB Editors  May 29th 2019



 Like 0

 Tweet



The hardwood industry was not included in a federal aid package for industries negatively impacted by the ongoing trade war with China, according to the Hardwood Federation. The Federation **had recently lobbied for the hardwood industry's inclusion in the aid package**, generating more than 1,000 messages to Congress from more than 330 hardwood industry professionals.

The commodity aid package from the U.S. Department of Agriculture was announced May 23 and will go to U.S. farmers who produce edible farm goods and cotton.

“In spite of this setback we will continue to reach out to Congress and the Administration to explore options for those in the industry hit by the retaliatory tariffs imposed by China,” the Hardwood Federation said in a statement.





# Make Money Manage Hardwood

WHC Annual Symposium

June 14, 2018

WSU Puyallup  
D F Allmendinger Center  
2606 West Pioneer  
Puyallup, WA 98371

6.5 Category-1 CFE credits available

Last year I encouraged you to plant more alder because China will be a good and growing market for it. I still believe that. But we have got to convince our political leaders that the hardwood industry should not be the sacrificial casualty of the trade war.



## Certain Hardwood Plywood Products From the People's Republic of China: Countervailing Duty Order

A Notice by the [International Trade Administration](#) on 01/04/2018



### PUBLISHED DOCUMENT



### AGENCY:

Enforcement and Compliance, International Trade Administration, Department of Commerce.

### SUMMARY:

Based on affirmative final determinations by the Department of Commerce (Commerce) and the International Trade Commission (ITC), Commerce is issuing the countervailing duty order on certain hardwood plywood products (hardwood plywood) from the People's Republic of China (China).

### DATES:

Applicable January 4, 2018.

### DOCUMENT DETAILS

#### Printed version:

[PDF](#)

#### Publication Date:

01/04/2018

#### Agencies:

[International Trade Administration](#)

#### Dates:

Applicable January 4, 2018.

#### Document Type:

Notice

#### Document Citation:

83 FR 513

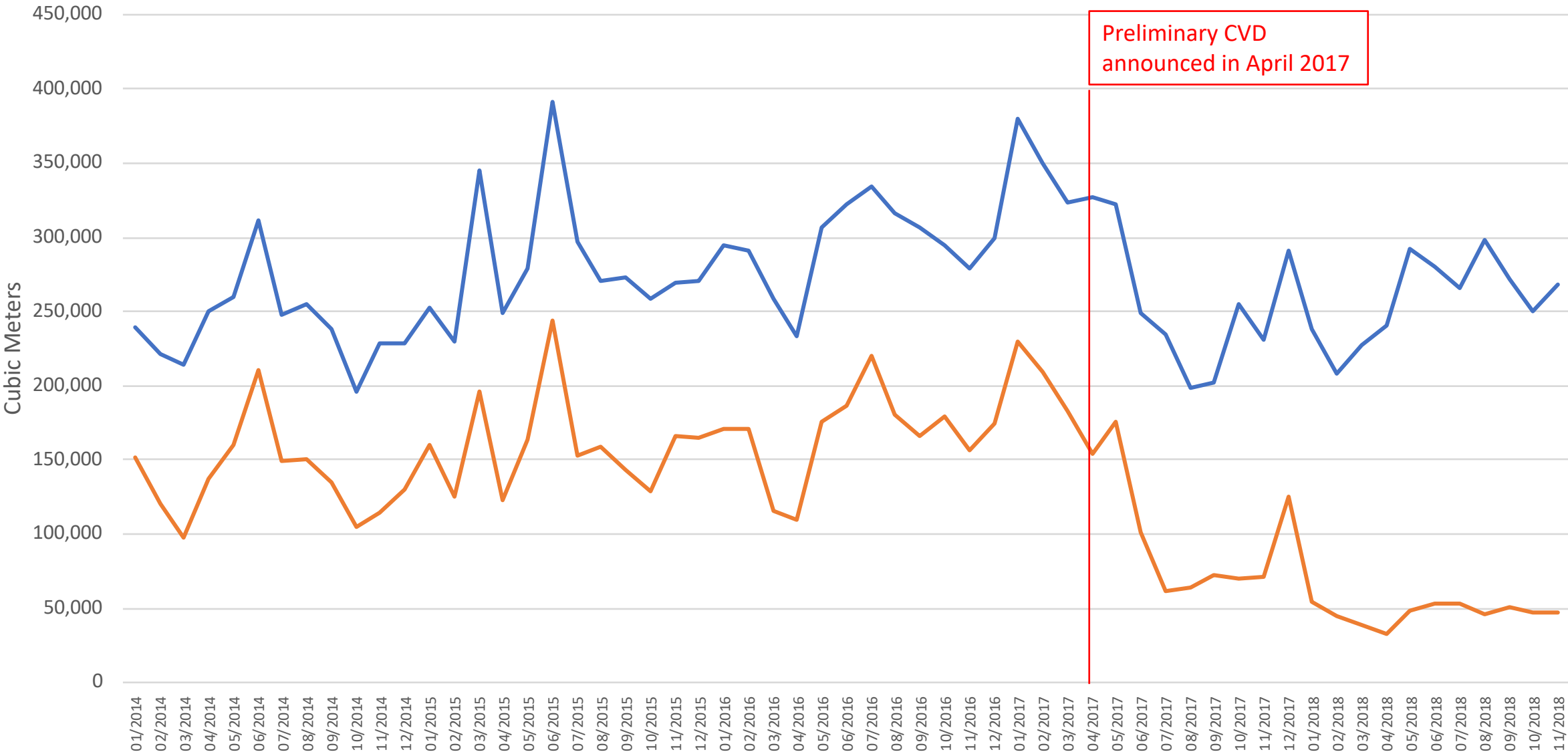
#### Page:

513-516 (4 pages)



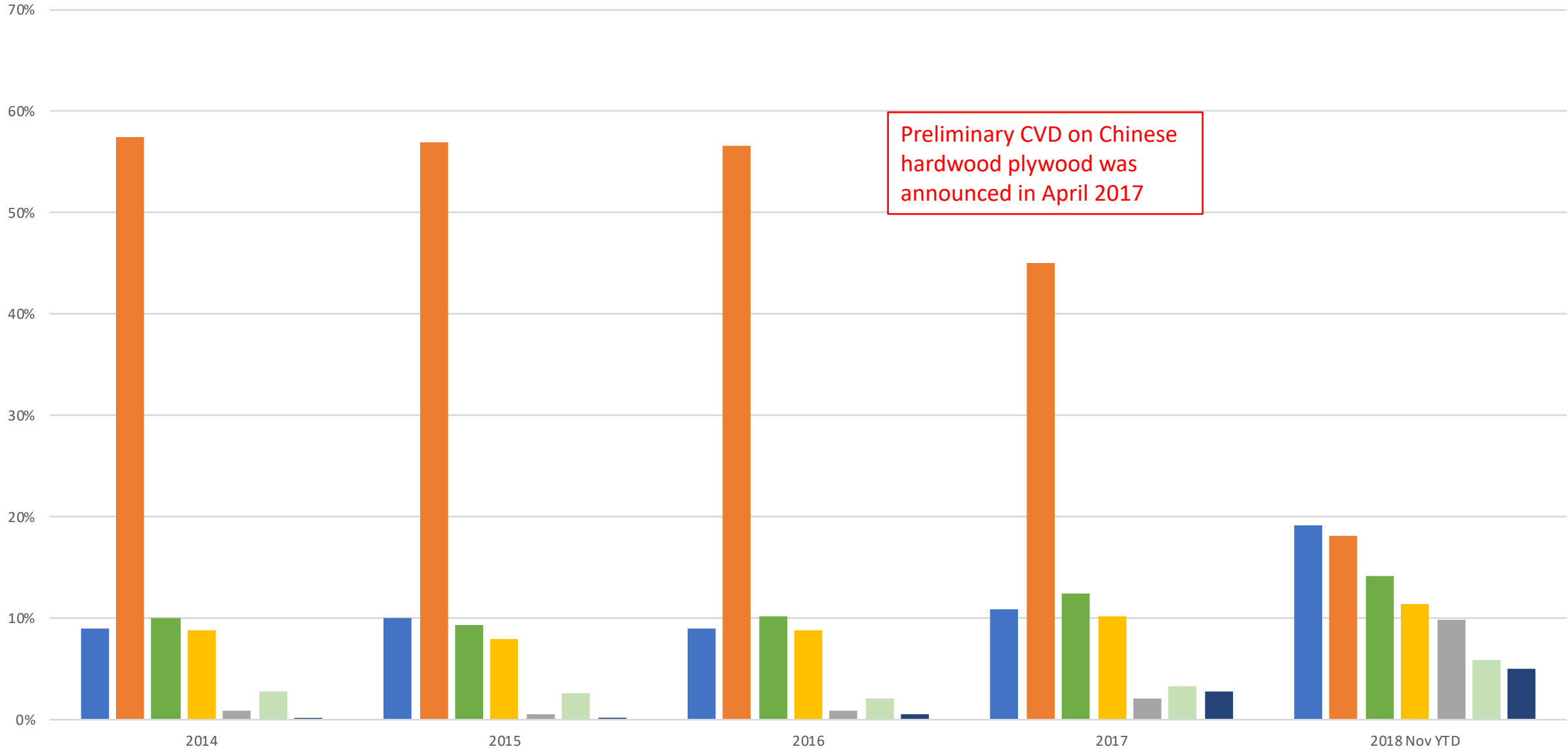
# U.S. Imports of Hardwood Plywood

World China

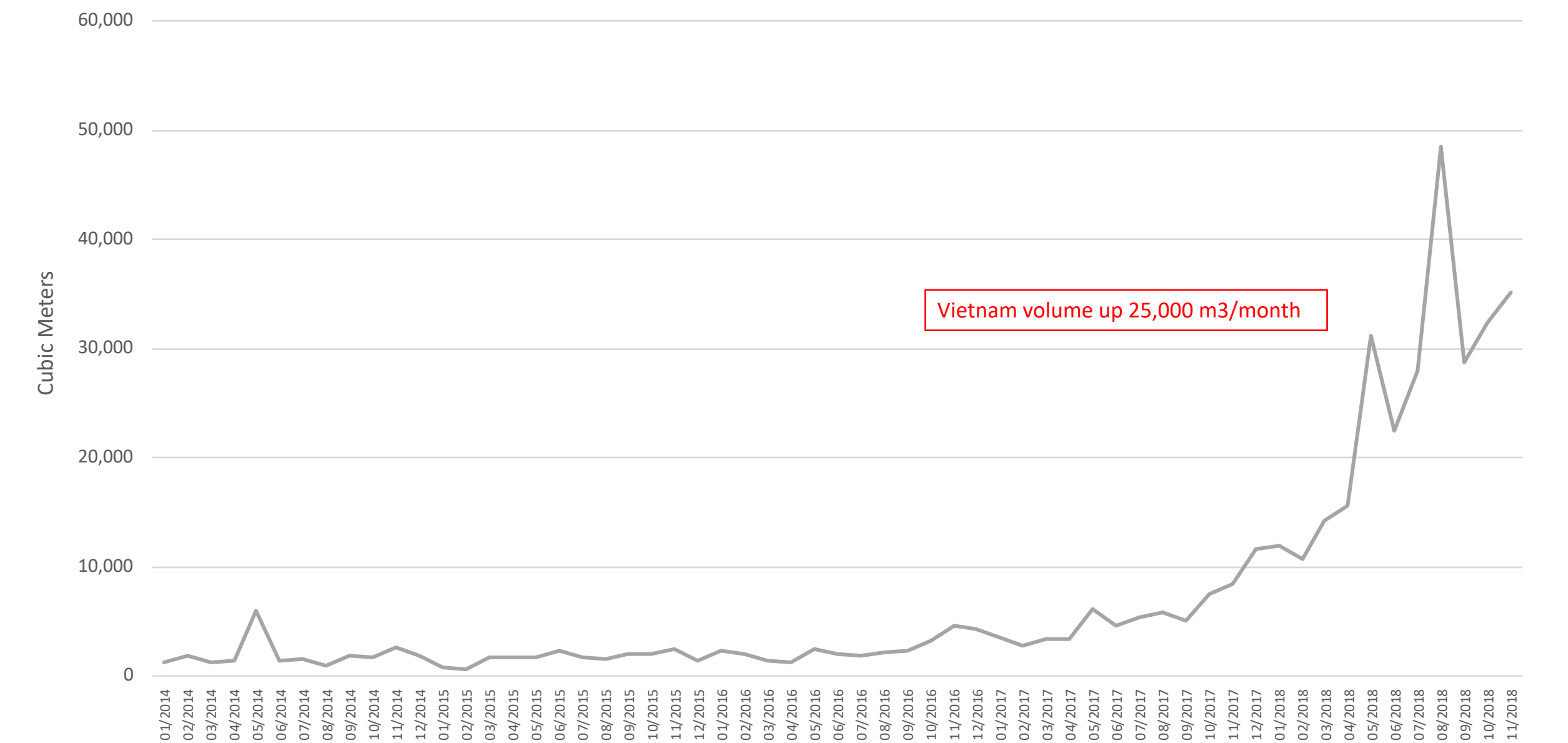


# U.S. Hardwood Plywood Imports Sources of Supply

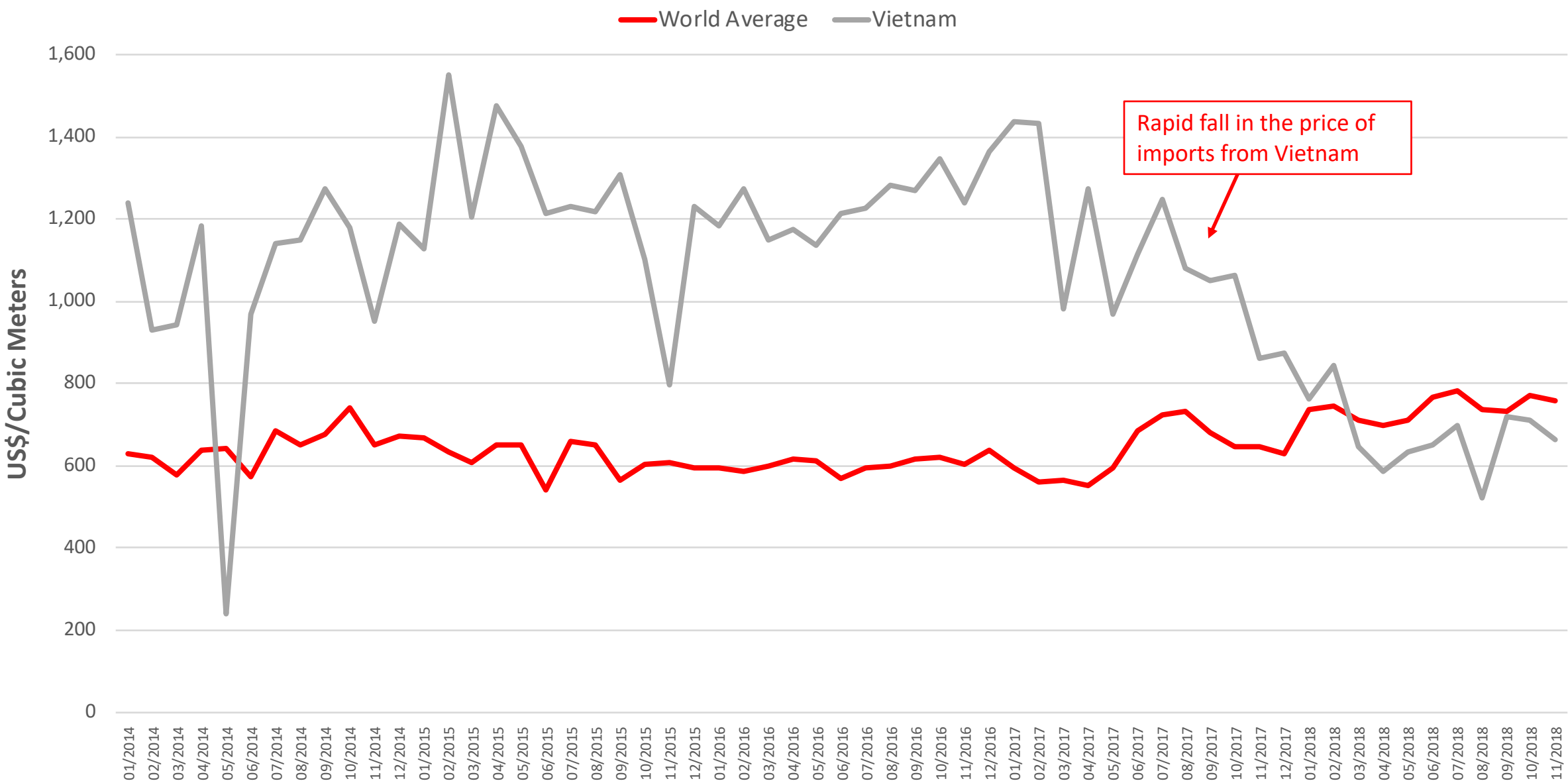
Indonesia China Russia Canada Vietnam Malaysia Cambodia



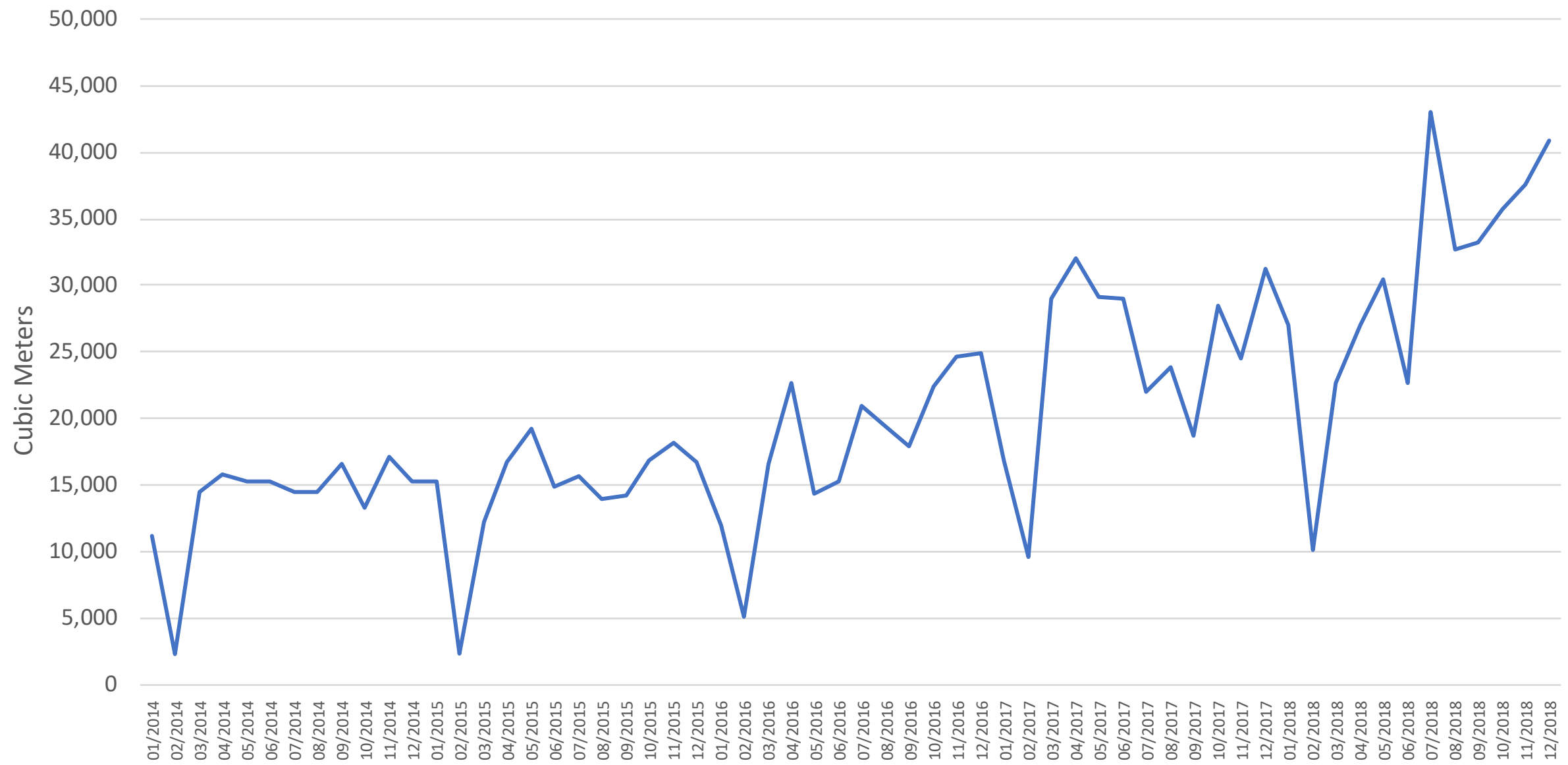
# U.S. Imports of Hardwood Plywood



# U.S. Imports of Hardwood Plywood: Dollars/Cubic Meter



# China Exports of Hardwood Plywood to Vietnam



U.S. Customs and  
Border Protection



November 20, 2018

**PUBLIC VERSION**

EAPA Cons. Case Number 7252

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Compton, CA 90221

Plaintiff



⦿ A few questions  
with Halifax artist  
Elana Camille  
Saimovici



⦿ GAIL  
LETHBRIDGE:  
Griping about  
'youth today' is a  
rite of passage



⦿ Money.  
Happiness. F  
How do we c  
success?

## Vietnam to crackdown on Chinese goods relabeled to beat U.S. tariffs

Reuters

**Published:** June 9, 2019



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“The faking of origin and the illegal transshipment of goods happens most often in the sectors of textiles, seafood, agricultural products, tiles, honey, steel and iron, aluminum and timber products,” Vietnamese Customs said in a statement.

# October 2013: S. Korea imposes 4-38% antidumping duties on Chinese plywood







LET  
PURPLE  
REIGN  
AGAIN

WASHINGTON  
FOOTBALL



Thank  
you!