

Update on Trade and Tariffs



Midwest Association
of Rail Shippers

John Murphy
Senior Vice President for International Policy
July 16, 2019



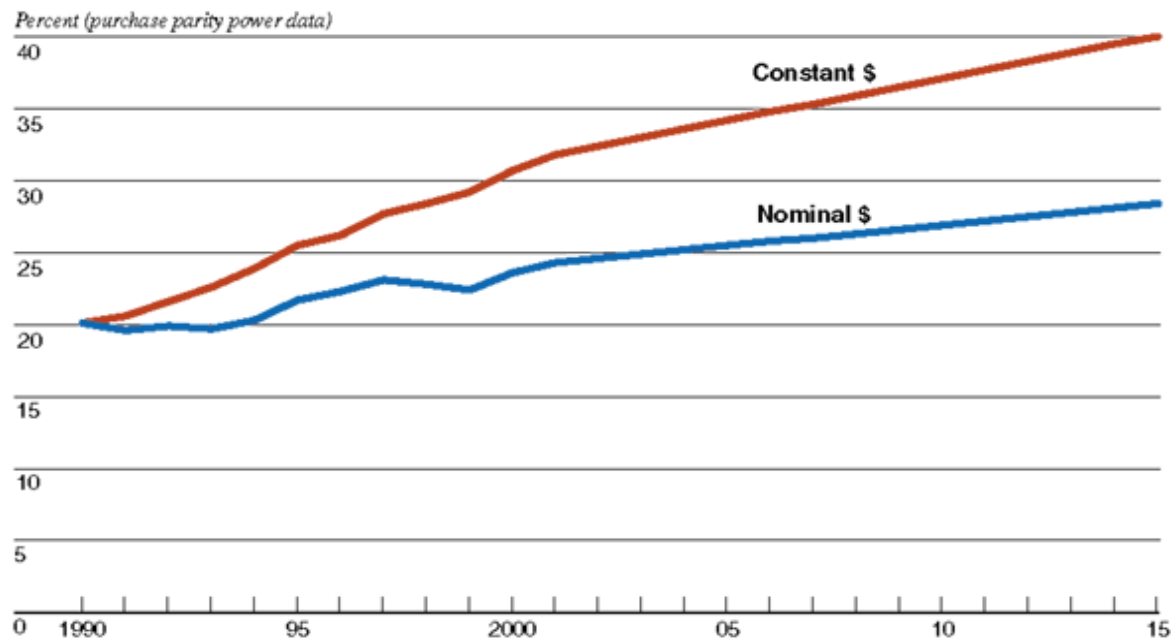
U.S. CHAMBER OF COMMERCE
International Affairs

Where is Trade Headed?



Growth in Trade as a Share of Global GDP

World Trade as a Percentage of World GDP: 1990-2015



NOTE: The constant dollar curve departs from the nominal curve largely because of the fall in price of IT-related traded goods in the 1990s and their expected price decline in the future.

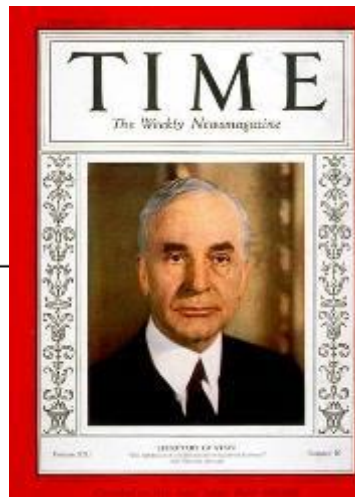
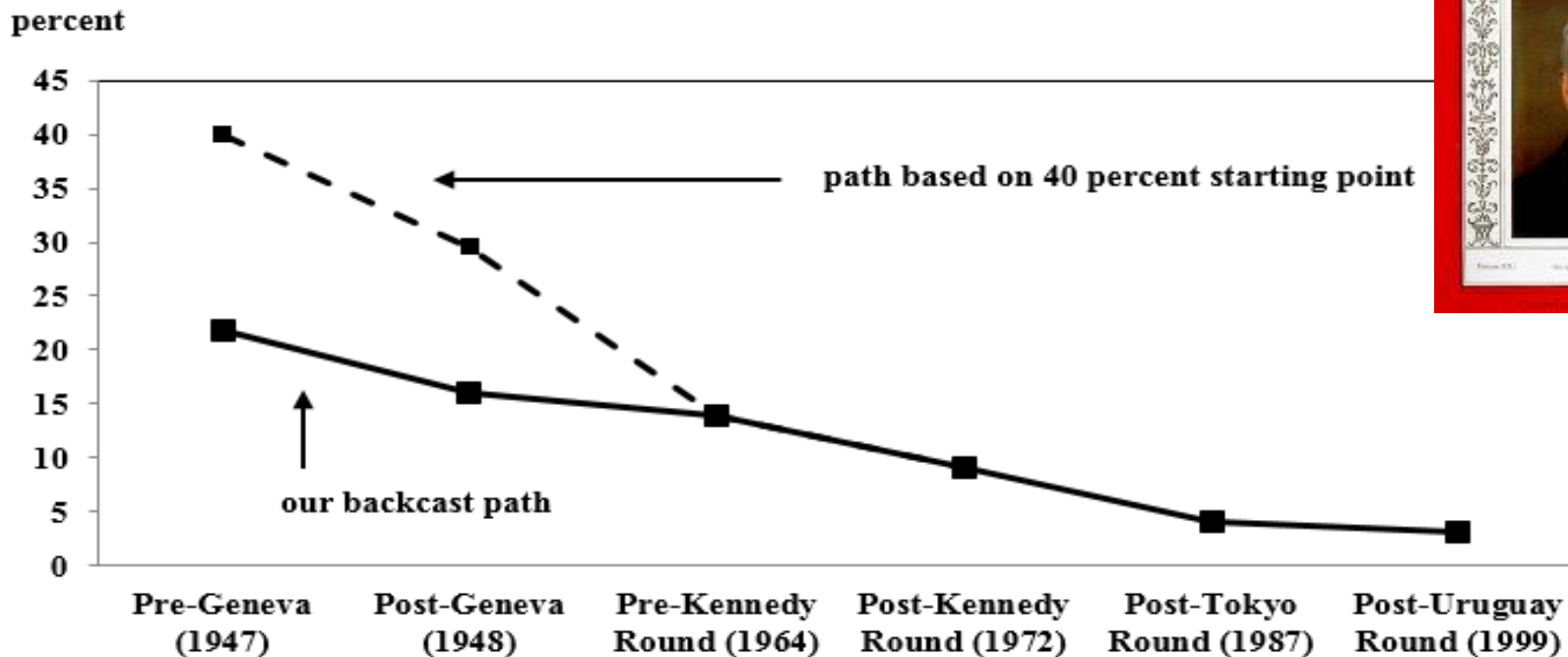
Source: CIA's Long-Term Growth Model.

Three Men, Three Breakthroughs For Trade



Cordell Hull and Tariff Cuts

Multilateral Trade Liberalization Since 1947



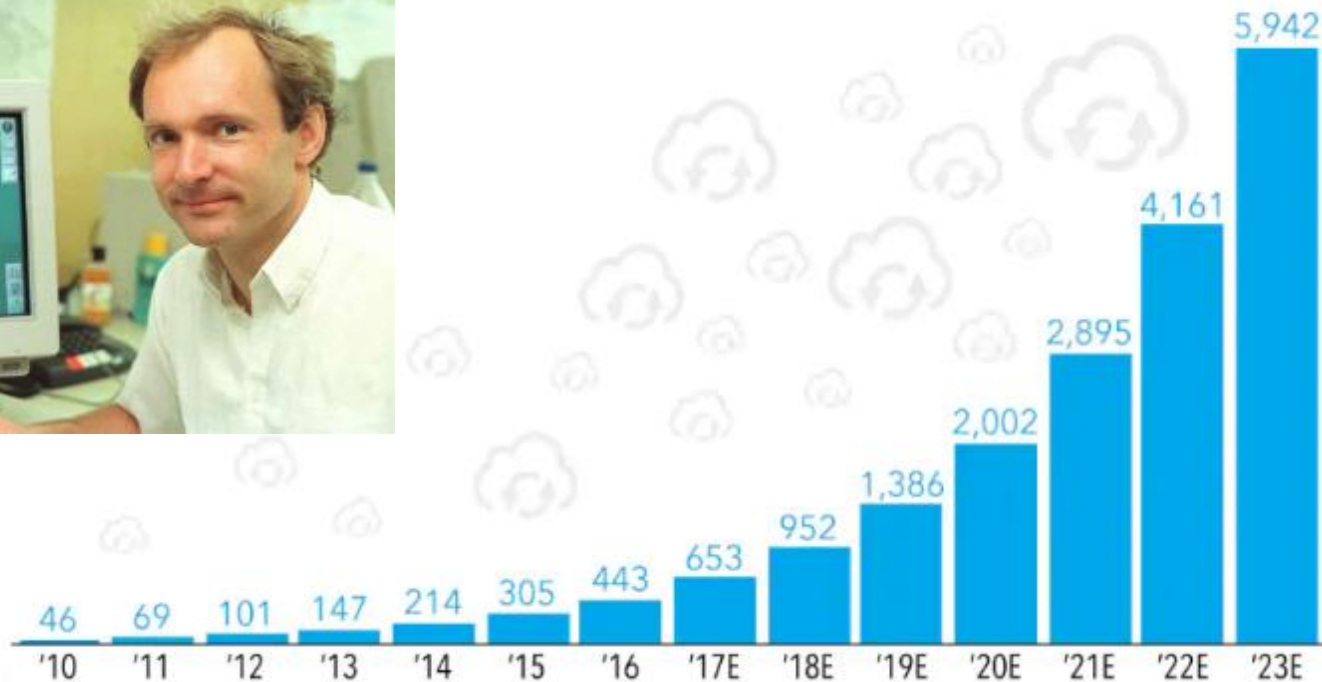
Malcom McLean and the Container



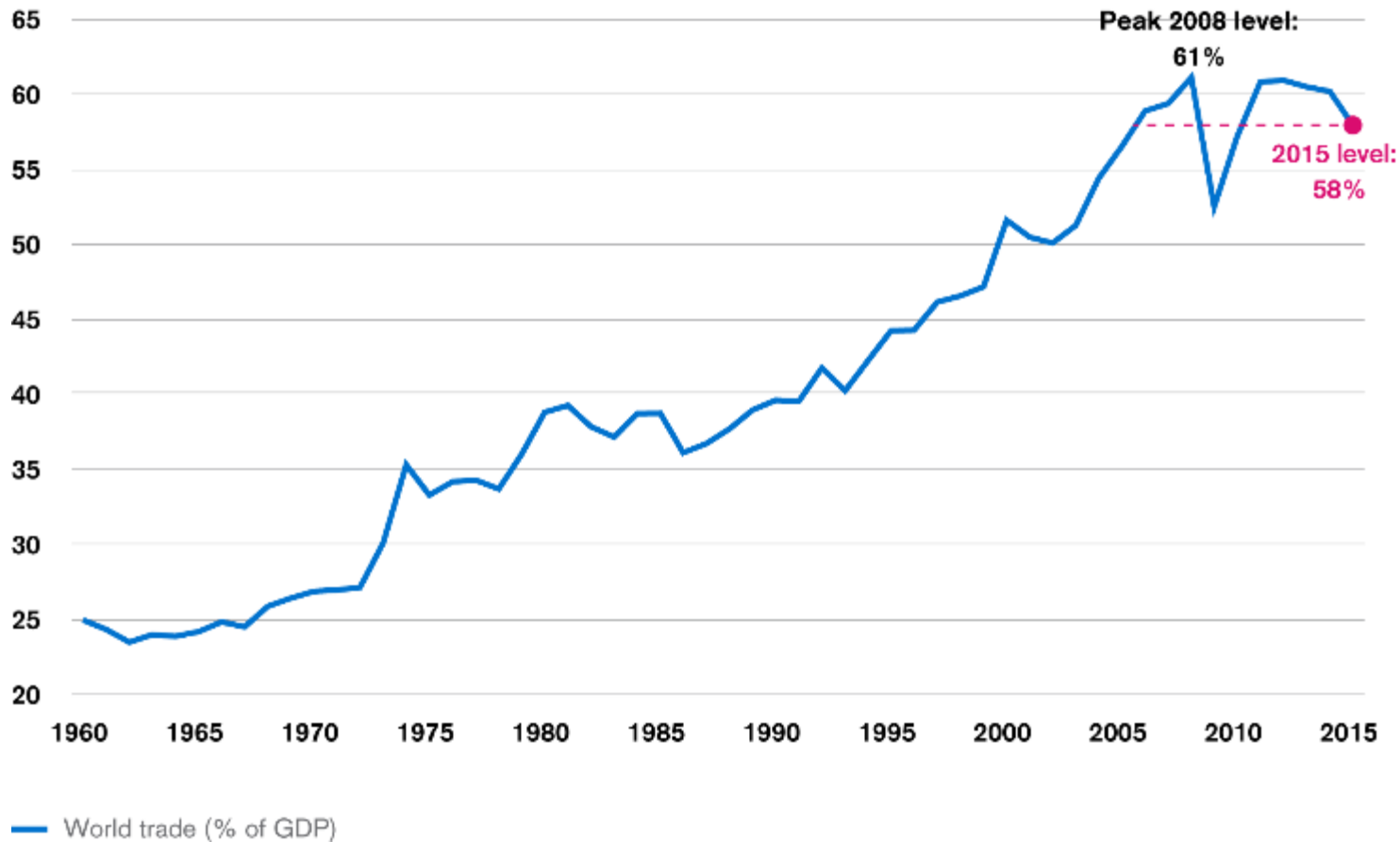
Tim Berners-Lee and the Web

Data traffic has been on the rise as digital trade grows¹

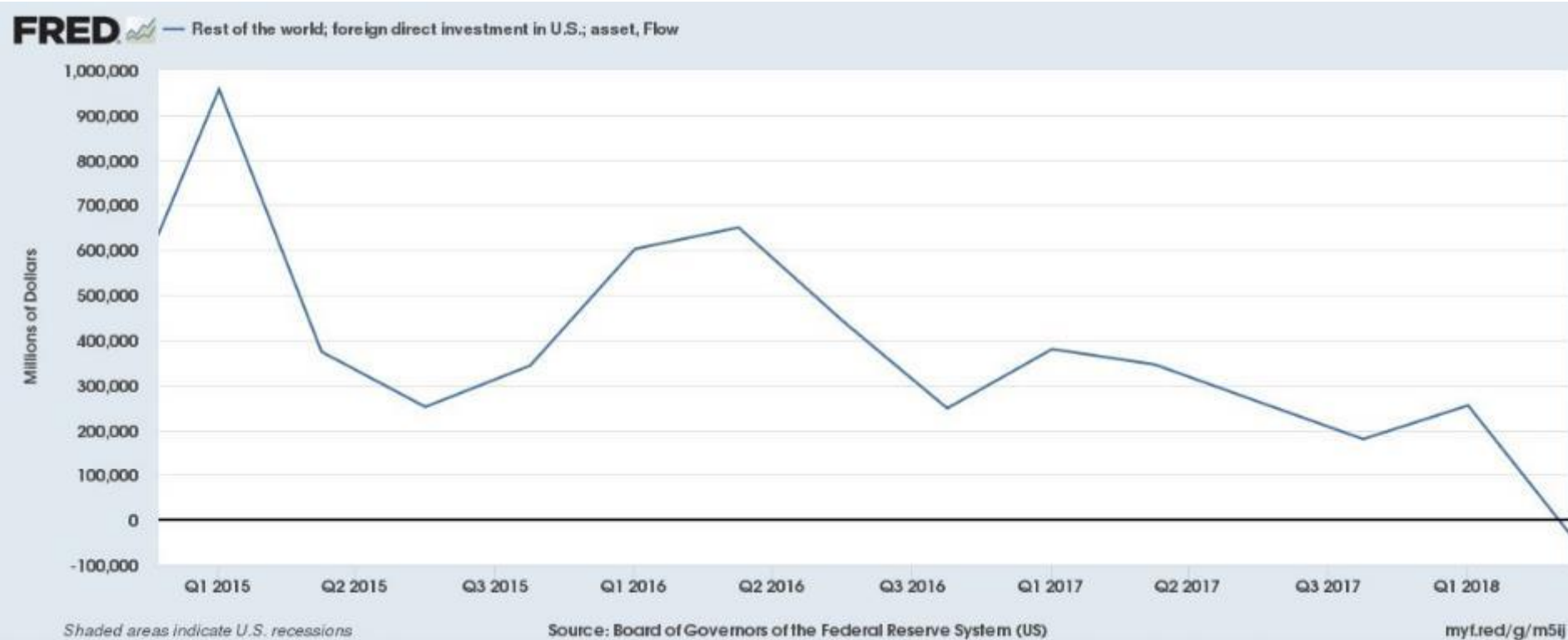
Global cross-border bandwidth (terabits per second)



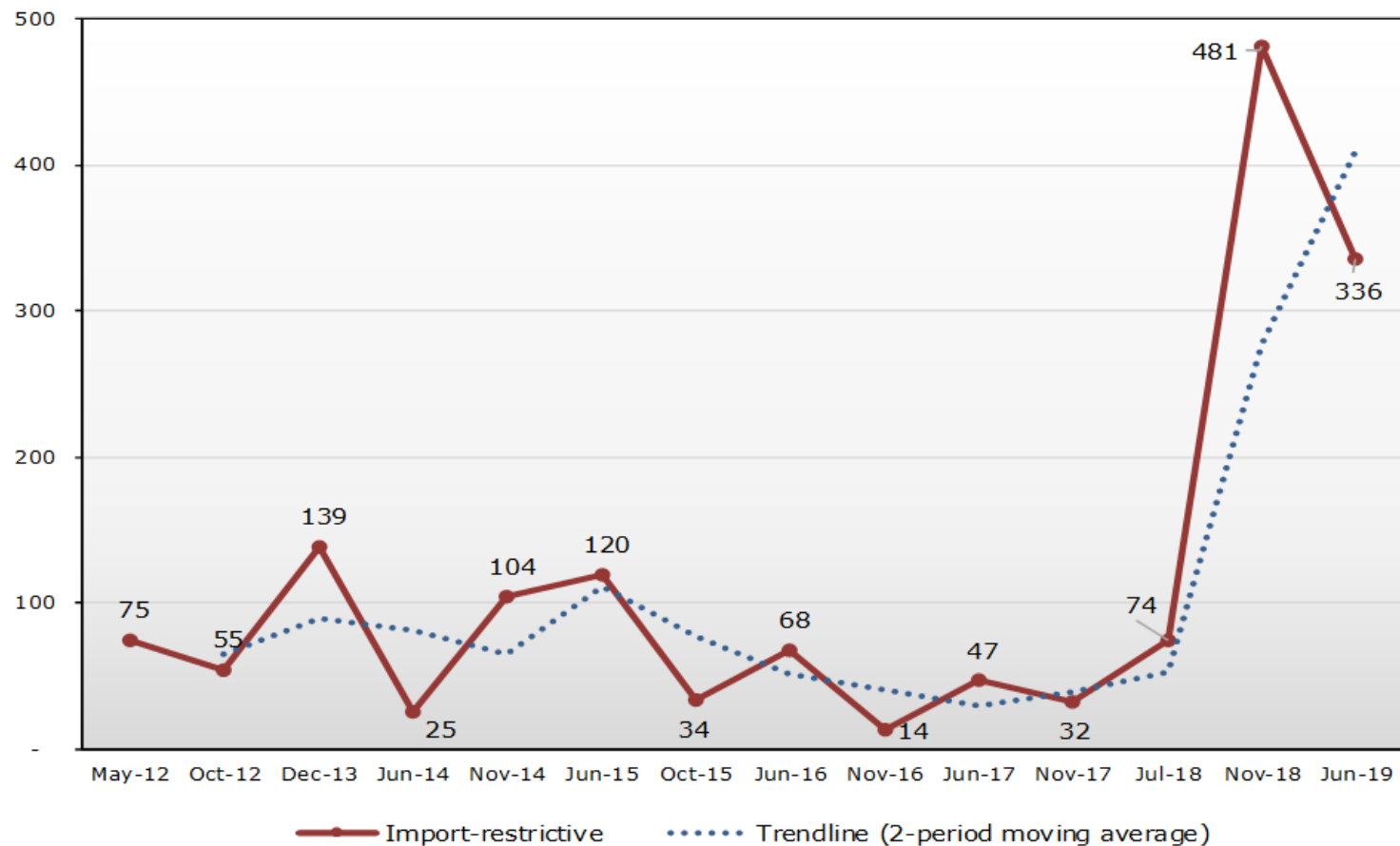
Peak Trade? Growth Stalls



Peak Trade? FDI Drops



Protectionism Spreads





41 million

American jobs depend on trade



98%

of American companies that export goods
are small and medium-size businesses



6 million

manufacturing jobs depend on exports



3 in 5

voters want government to negotiate more
trade deals

Choose a state to learn more

ALL STATES ▼



800,800

Wisconsin jobs supported by
international trade

SOURCE

8,857

companies export goods from
Wisconsin locations

SOURCE

87%

of Wisconsin exporters are
small and medium-sized
businesses

SOURCE

7,691

small and midsized exporters
in Wisconsin

SOURCE

\$30.3 B

of goods and services
exported from Wisconsin in
2014

SOURCE

55%

of Wisconsin exports went to
Free Trade Agreement
markets

SOURCE

90,000

workers employed by foreign
firms invested in Wisconsin

SOURCE

TOP EXPORT MARKETS FOR WISCONSIN

Canada Mexico China Japan



Where is U.S. Trade Policy Headed?

“Man Controlling Trade”—in front of the FTC in Washington, D.C.

Presidential Views

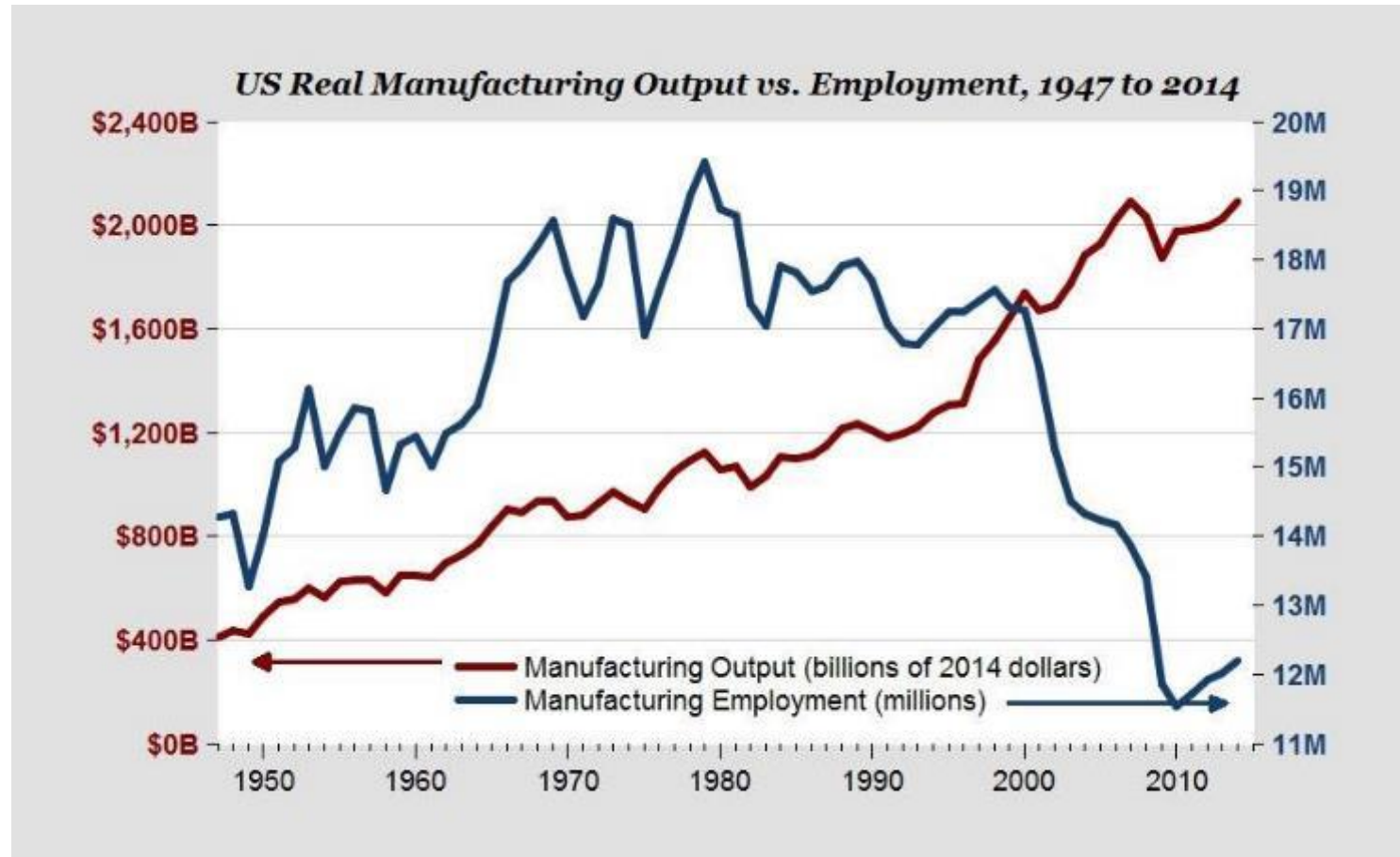
“With tough and fair agreements, international trade can be used to grow our economy, return millions of jobs to America’s shores, and revitalize our nation’s suffering communities.”

—President Donald Trump

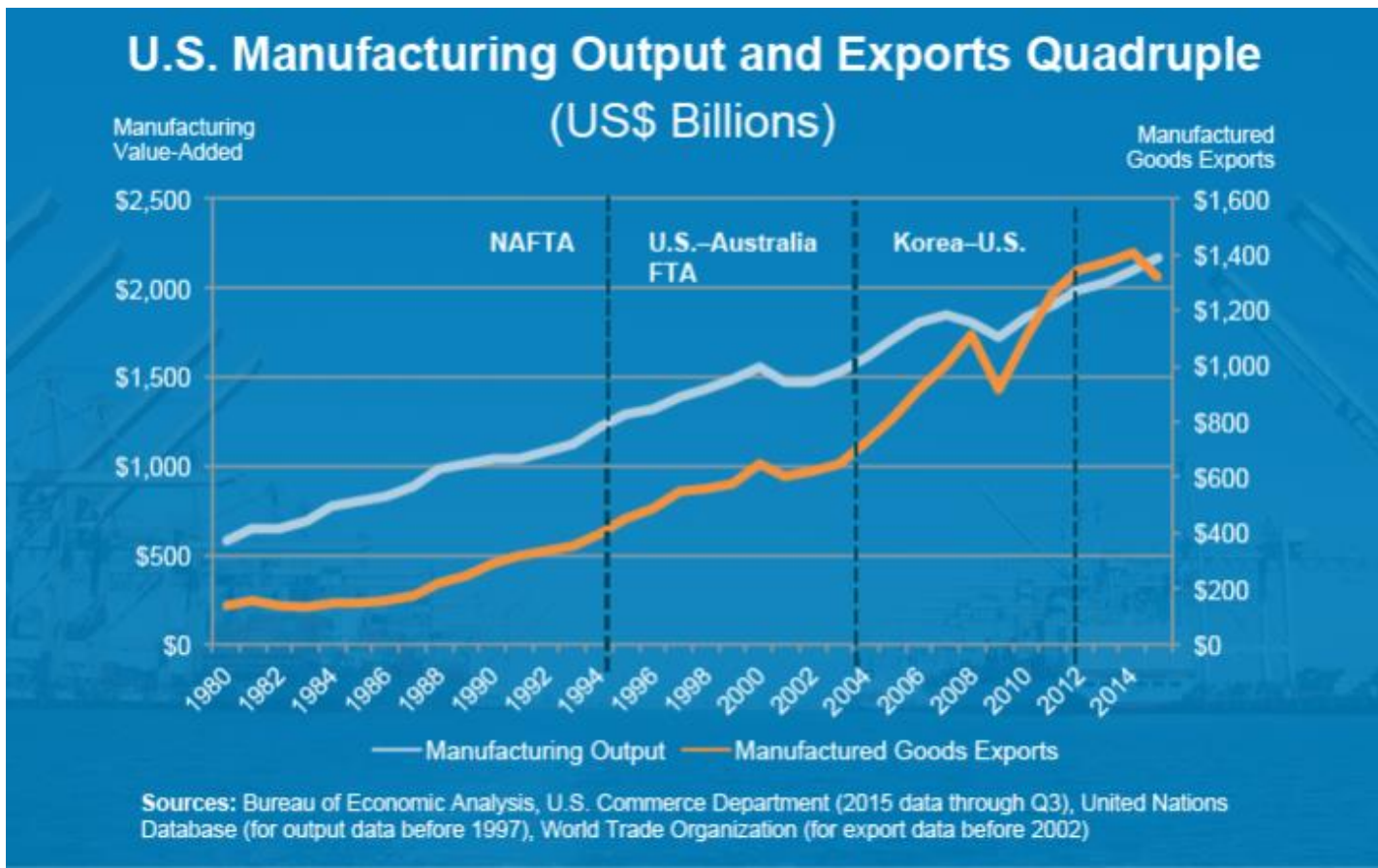
“The answer is to make sure globalization and trade are working for us, not against us... This is an opportunity to grow our economies and write the rules for trade in the 21st century.”

—President Barack Obama

Manufacturing Concerns



Manufacturing Opportunity



Source:
NAM

NAFTA ► USMCA



USMCA: The Case for Approval

Preserve U.S. Trade Ties to Canada and Mexico

- Supports 12 million American jobs
- Tops the next 11 largest markets for manufactures
- Accounts for one-third of all U.S. agricultural exports
- Services exports have tripled in 25 years

Strengthen North American Trade

- New rules on digital trade, intellectual property, etc.



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USMCA: Issues of Contention

- ✓ Steel/aluminum tariffs
- ✓ Mexican labor law reform
- ✓ Mexican Congress approval
- ☐ Canadian Parliament approval
- ☐ “Enforcement”
- ☐ “Drug pricing”
- ☐ “Labor and the Environment”



Tariffs on Mexico: A New Obstacle?

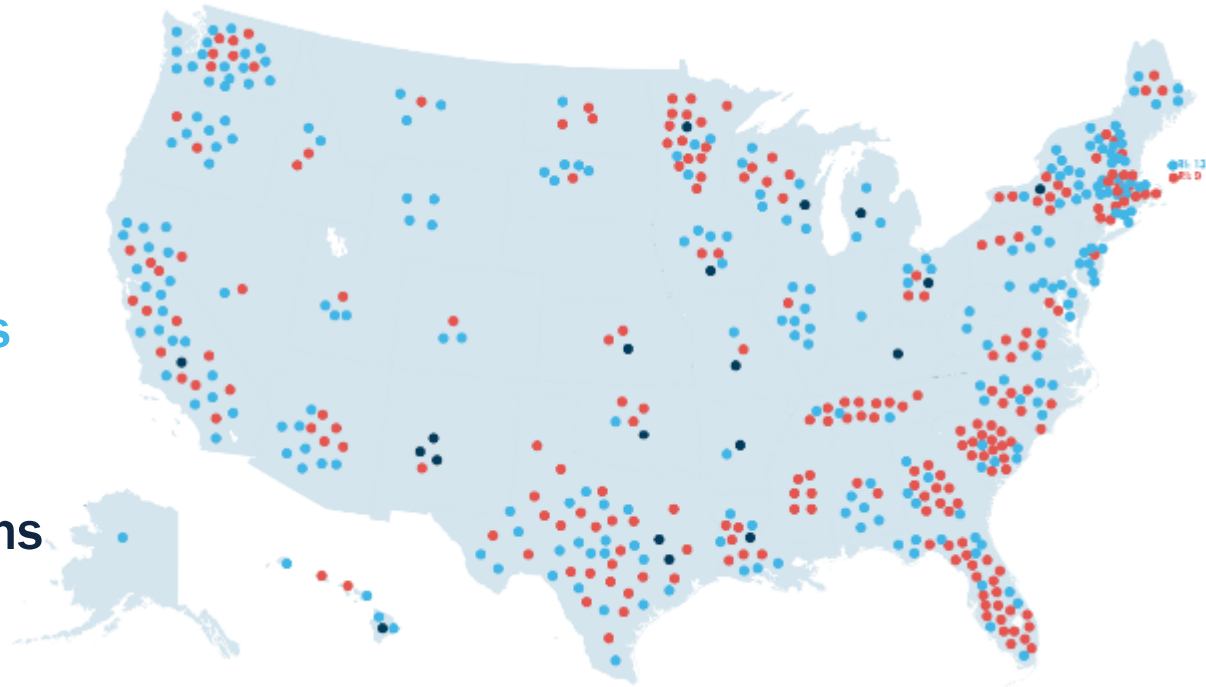
- 5% on June 10; ratchet up to 25% by October 1
- Mexico recently became the top U.S. trading partner
 - ✓ \$346 billion in imported goods from Mexico last year
 - ✓ Thus, it's a \$17 billion tax, rising to \$86 billion
- Manufacturing (autos), energy, retail, ag, transport
- Mobilization: Press, Congress, Legal



#USMCANOW

What We're Doing

- 540 mtgs with MoCs
 - 276 mtgs in DC
 - **264 mtgs in district**
- 19 chamber fly-ins
- 262 chamber briefings
- 655 press hits
- 95 fact sheets
- 650 million impressions
- 400 in coalition



Tariffs on Steel, Aluminum, and Autos



Sec. 232 Tariffs on Steel and Aluminum

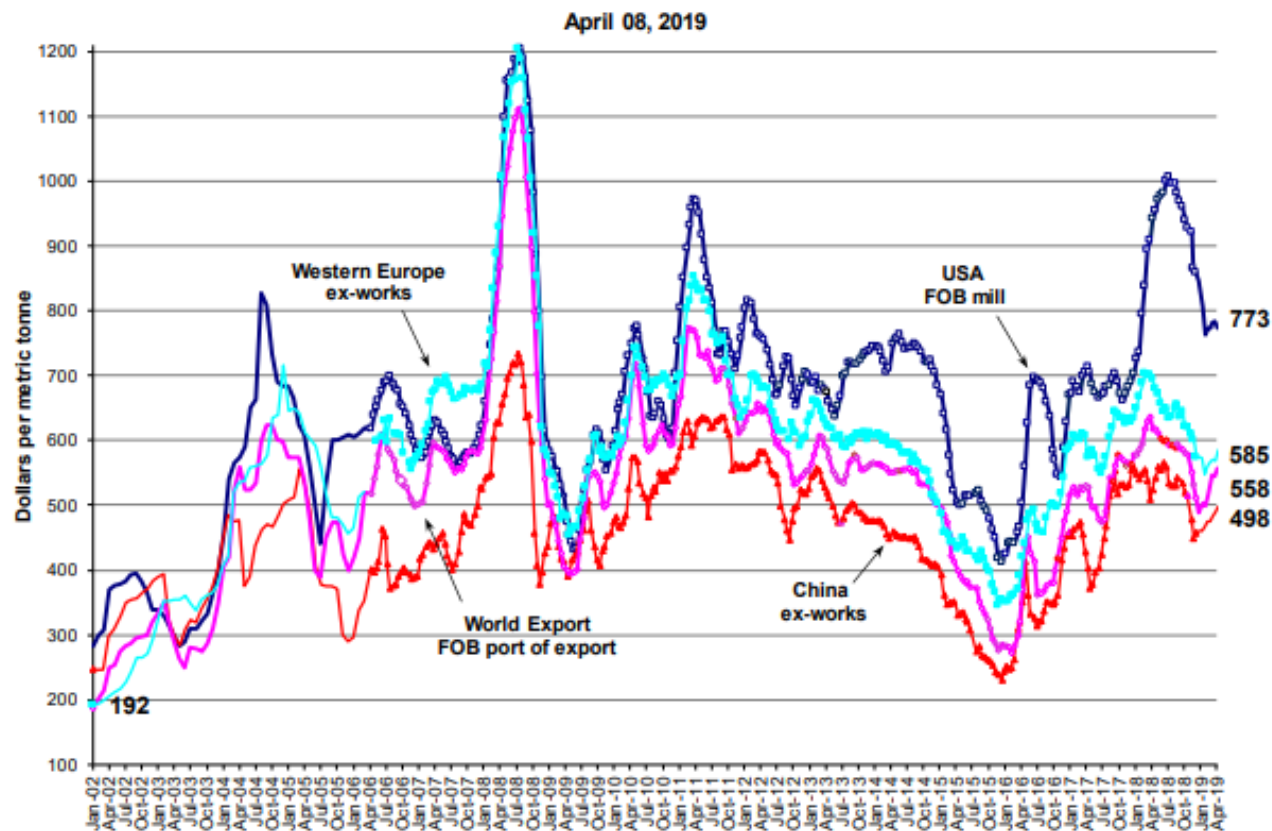
- **25% on steel, 10% on aluminum**
 - ✓ Quotas: Korea, Brazil, Argentina; Australia the exception
- **Steel prices up ~40% since 1/1/18; recent decline**
- **Aluminum prices volatile, up 130% since 1/1/18**



SteelBenchmarker™ HRB Price

USA, China, Western Europe and World Export

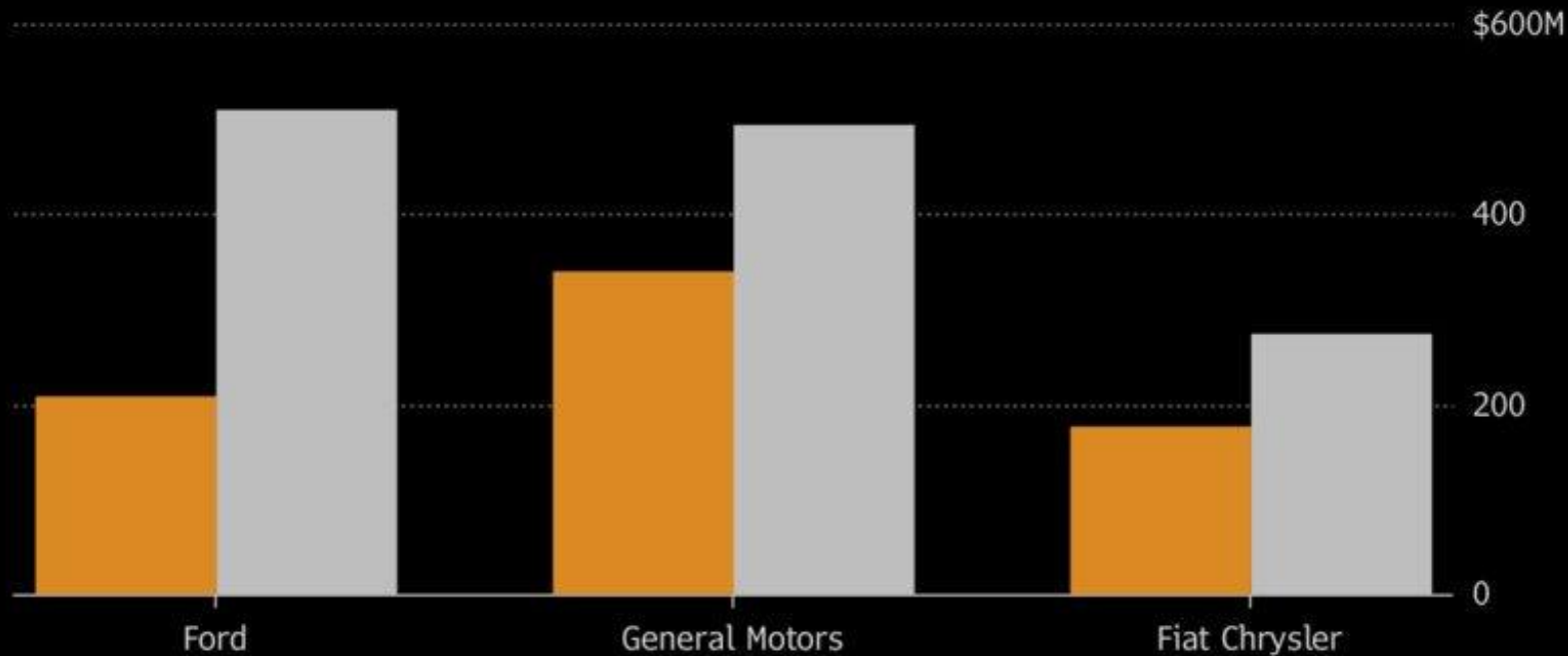
(WSD's PriceTrack data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006)



Countervailing Forces

U.S. tariffs are cutting into tax savings for American automakers

■ Tax savings in Q1 ■ Steel, aluminum tariff cost for 2018



Note: Calculations don't take into account other factors, such as depreciation, foreign tax credits or other one-time tax charges or benefits that can alter overall tax rate.

Source: Bloomberg, Nomura

Retaliation Against \$40B in U.S. Exports



Sec. 232 Tariffs on Autos, Auto Parts

- 25% tariff threatened
- \$350 billion in trade
- 700,000 U.S. jobs at risk
- United opposition from industry
- EU, Japan focus; mid-November action?



U.S.-China Trade Negotiations



U.S.-China Trade Negotiations

- Broad *agreement* on diagnosis: Concerns about tech transfer, IP theft, subsidies, market access
- Broad *opposition* to tariffs as a remedy
 - ✓ 25% tariff on \$250 billion (July, August, Sept., June)
 - ✓ 25% tariff on another \$300 billion prepared, deferred



Cost of the U.S.-China Trade War

- ✓ **IIF: \$40 billion in U.S. exports lost due to retaliation (900 product categories collapse)**
- ✓ **Hit to heartland: Soybean sales collapse; farm bankruptcies reach new high (see next slide)**



Grain Gloom

Markets tumble to lowest since 1977 as trade war rages

■ BCOM Grain Total Return



Source: Bloomberg

Bloomberg

U.S.-China Trade Negotiations

- **Forecast: No easy out**
 - ✓ **How will the agreement be enforced?**
 - ✓ **Will tariffs be rolled back?**
 - ✓ **Huawei?**



A composite image featuring a view of Earth from space, showing the Americas. Overlaid on the globe is a complex network of glowing yellow and green lines, representing global connectivity or data flow. A bright sun is visible on the right side, creating a lens flare effect. The text "The World is Moving Forward" is written in large, bold, white letters in the upper right corner.

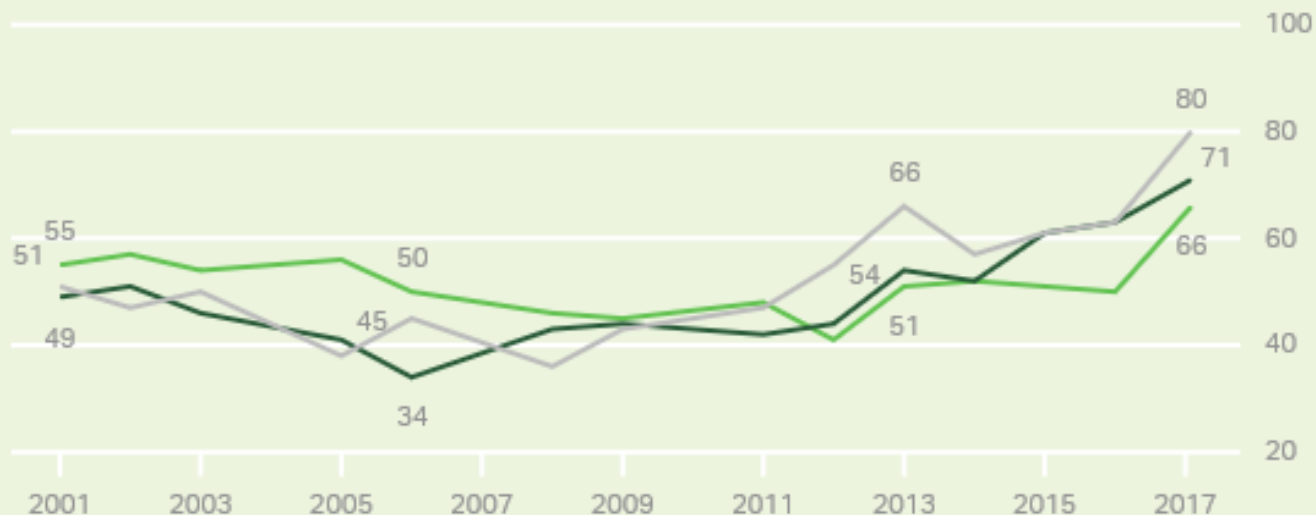
**The World is
Moving
Forward**

Americans Have Warmed to Trade

Foreign Trade as Economic Opportunity for U.S., by Party ID

Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports? (% Opportunity for economic growth)

■ Republicans ■ Independents ■ Democrats



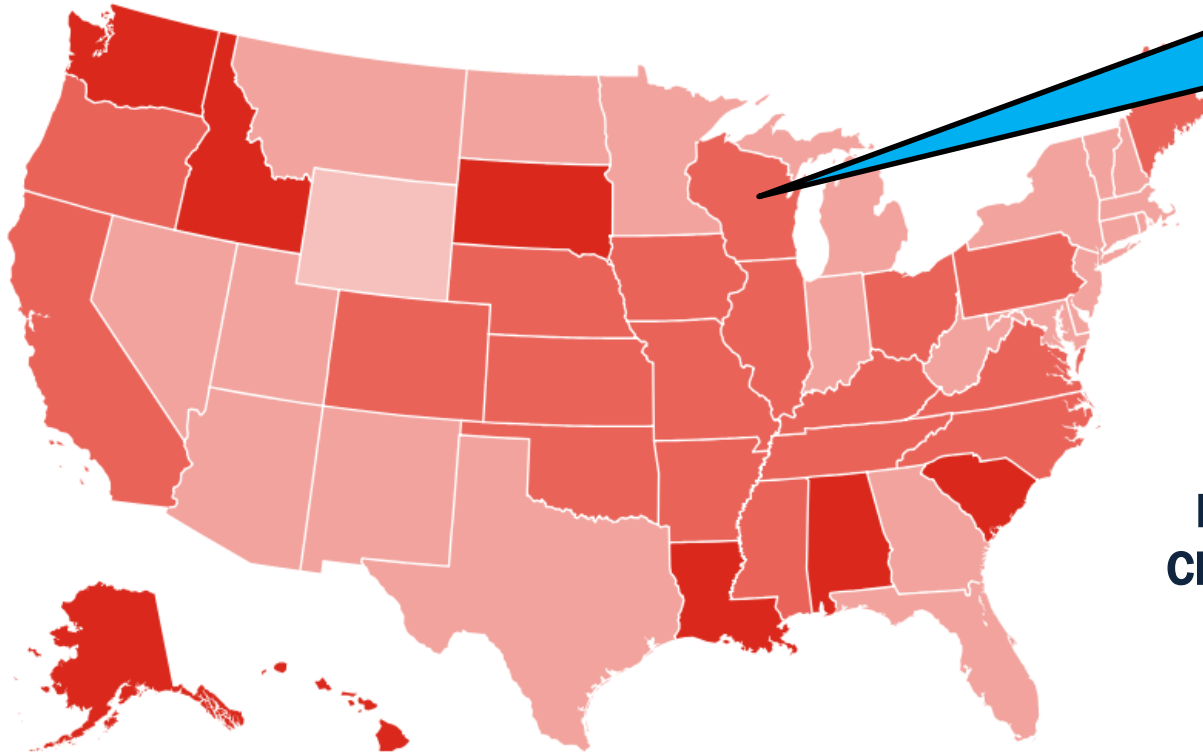
GALLUP

www.TheWrongApproach.com

**\$2.4 billion
in Wisconsin
exports**

**100,000
unique visits**

**Most visited
Chamber page**



Significant Damage

Very Significant Damage

Extremely Significant Damage



Objective: Congressional approval

- **Congressional Outreach**
- **Grassroots**
- **Communications**

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