

Intelligence MEMOS



From: Dan Ciuriak
To: Canadians Concerned about Tariffs
Date: August 29, 2018
Re: **TRADE WARS: THE COSTS SO FAR**

Since last spring, the United States has initiated a series of trade actions that have elicited retaliatory responses from its partners. Trade wars are underway. This note quantifies the damage to date. (Click [here](#) for an expanded discussion.)

In March, US Customs began collecting tariffs on steel and aluminum products pursuant to an investigation under Section 232 of the *Trade Expansion Act* of 1962 that concluded that these imports threatened US national security. Canada and Mexico were initially exempted, but this exemption expired in July. A handful of countries accepted limitations on their exports to the United States through quota arrangements. Australia, a minor supplier to the United States, played the golf card (Greg Norman) and negotiated a full exemption. Most US trading partners do not consider national security to be a credible rationale for the steel and aluminum tariffs and have accordingly retaliated.

Next, the United States announced a tariff of 25 percent on \$50 billion worth of imports from China, in two tranches of \$34 billion and \$16 billion. This was framed as retaliatory punishment based on allegations that US exports and foreign sales were hindered by unfair Chinese trade practices related to technology transfer, intellectual property, and innovation. China has announced its retaliation in like amounts.

More could be in store. In May, the Secretary of Commerce targeted the imports of cars, SUVs, vans, light trucks and automotive parts with another investigation under Section 232. President Trump has repeatedly said that may result in tariffs of 25 percent, a threat he repeated this week as he urged Canada to come to a swift NAFTA agreement.

The probability of those auto tariffs looms larger in view of the openly voiced satisfaction of the Trump Administration with the effect of the steel and aluminum tariffs in boosting the fortunes of those sectors; these tariffs must accordingly be anticipated to remain in place indefinitely. In turn, downstream sectors require indefinite protection from foreign competitors with lower input costs, similar to the need for subsidies to farmers to offset the cost to them of retaliatory tariffs.

So let us count the costs so far.

Canadian Real GDP declines by -0.09 percent due to the steel and aluminum shock; Canadian retaliation compounds this by adding a further -0.066 percent decline, for a combined -0.156 percent from this theatre of the trade war. The US-China trade conflict, however, works to Canada's advantage as Canadian products gain competitiveness in both markets; these actions fully offset the negative steel and aluminum impacts, reducing the cumulative impact to a minor nick (-0.013 percent). US tariffs on autos would take a heavy toll on Canada, however, reducing Canada's real GDP by -0.336 percent. Canadian tariffs on US autos would add a further -0.6 percent impact.

The bottom lines for Canada on an all-inclusive basis:

- a cumulative real GDP loss of -0.95 percent, equivalent to US\$23 billion in value terms
- a welfare cost of \$21 billion
- total job loss on the order of 60,000
- the main sector at risk is automotive; it would face a potential decline of 28 percent in value-added with perhaps a similar percentage or close to 40,000 of the workforce of 140,000 at risk.

Macroeconomic dynamics could easily exacerbate the scale of the impacts. The IMF projects about 2 percent real growth for Canada in 2019. A full-blown trade war would reduce Canadian long-run growth by close to -1.0 percent, with knock-on effects from work flow disruption as supply chains rearrange, investment is stalled by uncertainty, and capital market volatility, all of which could easily stall the Canadian economy and tip it into full-blown recession.

The risks to the United States are smaller but not negligible. The IMF projects about 2.7 percent real growth for the United States in 2019. Trade wars would bring this to just above 2 percent; even doubling the size of the long-run impact to take account of short-term knock-on effects brings this down only to the 1.7 percent range. True, the United States can endure a trade war of attrition longer than Canada; however, all that winning would come at a cost.

Dan Ciuriak is Fellow-in-Residence with the C.D. Howe Institute, Senior Fellow with the Centre for International Governance Innovation, and Director and Principal, Ciuriak Consulting Inc.

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Link: [Trade Wars Update - The Impacts so far](#)