

Faculti Summary

<https://faculti.net/the-us-china-trade-war-and-global-reallocations/>

This video discusses the impact of tariff increases initiated by the United States in 2018, marking a significant shift away from decades of trade liberalization. By the end of 2019, over 17,000 products were subject to tariffs, with average rates rising from approximately 4% to 26%. This video led to a trade war between the US and China, with an estimated \$400 billion in trade affected, representing about 3.5% of US GDP; a larger impact compared to the historical Smoot-Hawley tariffs of 1930.

The analysis notes that the trade war didn't come as a complete surprise, given previous tensions with trade organizations and escalating public discourse around tariffs. Initially, there were expectations about how third countries would respond to the trade war.

A research paper mentioned explores the effects on third countries, finding that, on average, exporters from these nations increased their exports to the US, benefiting despite the context of a trade war. Notably, countries such as Vietnam and Mexico began to fill the gap left by China, and there was an unexpected growth in exports to other regions as well, countering the idea that trade wars reduce overall trade.

Findings highlighted include:

1. **Unexpected Benefit**: Many exporters from third countries benefited, exporting more in targeted product categories instead of less, showing a 6% higher growth in affected products compared to non-targeted ones.
2. **Heterogeneous Responses**: The effects of the trade war varied greatly between countries, influenced by country characteristics rather than just sectoral specializations.
3. **Country Characteristics**: A significant portion of the variation in responses was driven by pre-existing country-specific traits rather than their specialization in specific products.

This video concludes by emphasizing the complexity of the trade environment created by these tariffs and proposes further research to ascertain the long-term effects and persistency of these trends beyond 2019, especially considering changes introduced by the COVID-19 pandemic. The overarching lesson emphasizes the importance of integration into the global trading system to better position countries to benefit from such shifts.