



Charts of interest: Diving into the U.S. China Trade War

June 2018

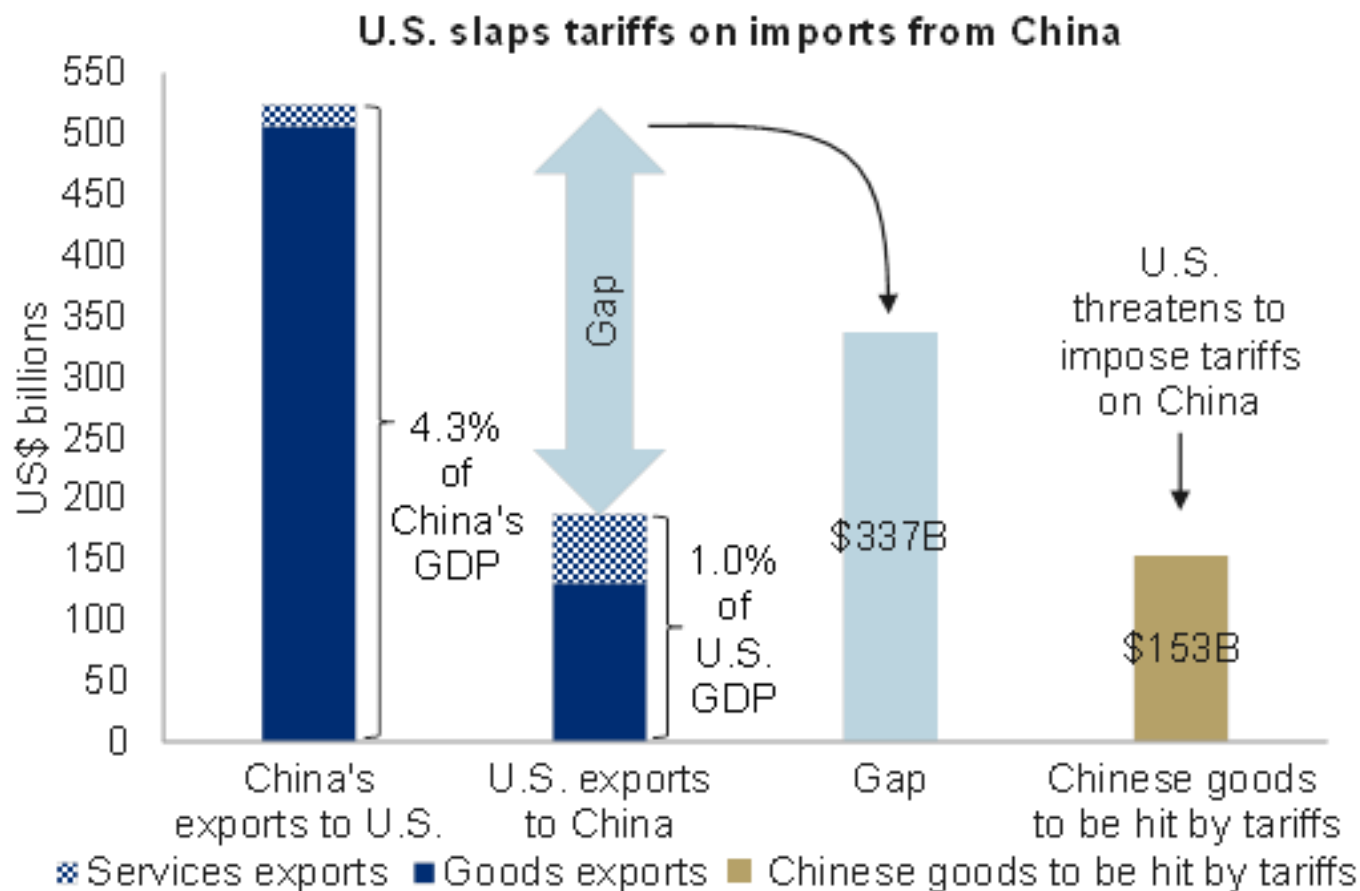


**Global Asset
Management**

Impact of a U.S.-China trade spat

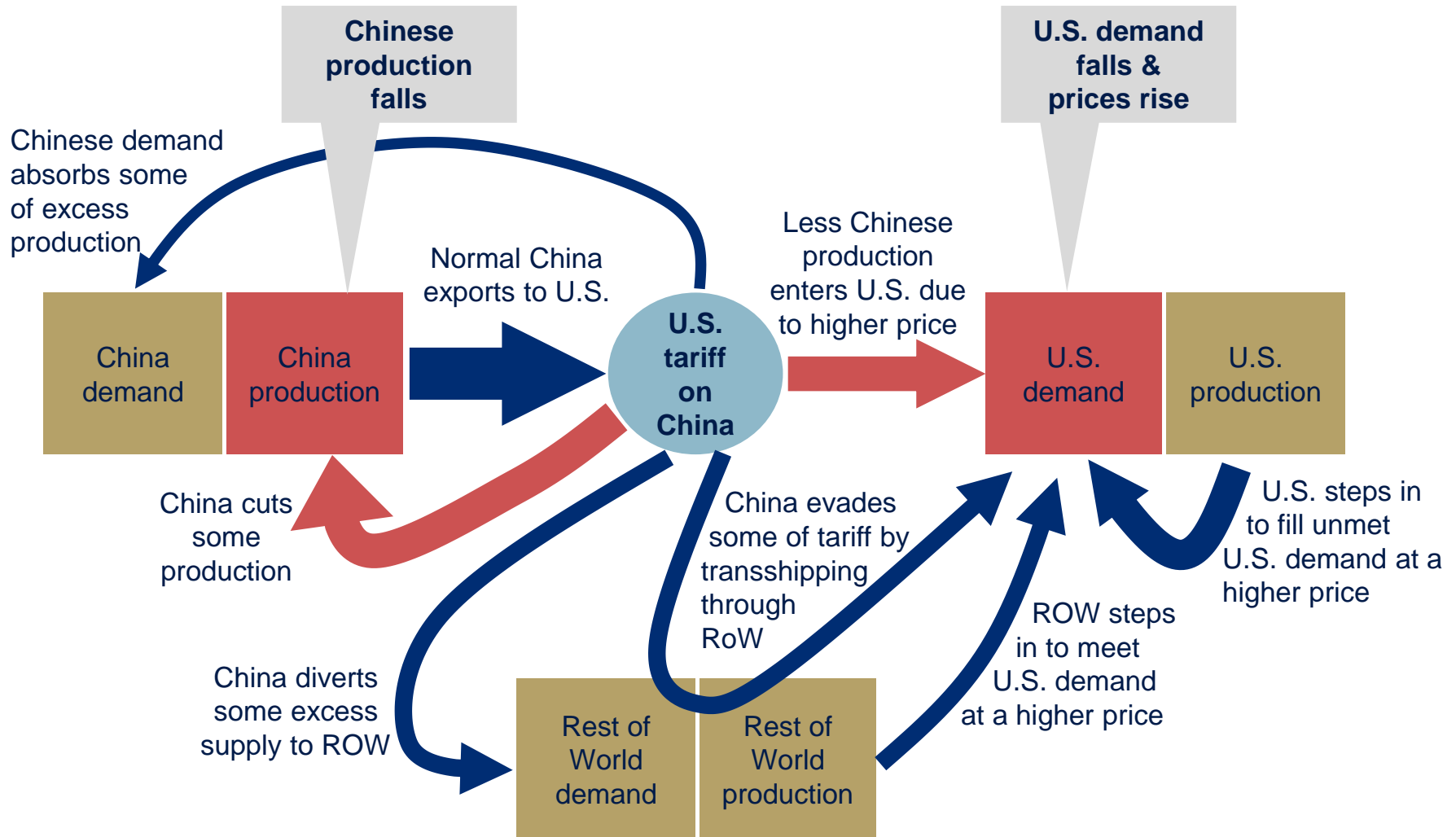


U.S. and China trade tariff threats



Note: 2017 exports shown in chart. Tariffs on China include tariffs on steel and aluminum products estimated based on 2017 imports and tariffs on \$150 billion of goods from China announced on April 3, 2018 and April 5, 2018. Source: U.S. Census Bureau, Haver Analytics, RBC GAM


The mechanics of a tariff on China



Source: RBC GAM

U.S. trade scenarios

Scenario	Worst case	Negative	Slightly negative	Neutral	Best case
Likelihood	10%	25%	35%	15%	15%
Detail	Trade war w/ blanket tariffs	Substantial increase in tariffs	Small Trump tariffs persist	Reverse Trump tariffs	Foreign barriers fall to pressure
Economic effect	US: -1.0% China: -1.6%	US: -0.3% China: -0.3%	US: -0.1% China: -0.1%	US: 0.0% China: 0.0%	US: positive China: ?


U.S. could be hit a bit worse than China

Complications:

- Most trade models say protectionism damage is fairly small (see above).
- Ossa (2015) argues standard models understate gains to trade by factor of 2-3
- Trade uncertainty likely exerting economic drag in meantime.
- Integrated U.S.-China and North American supply chains could reduce economic damage in short run but increase it in long run.

Source: RBC GAM

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