



5 questions for Scott Lincicome on the trade war with China

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What have been the economic costs of the trade conflict between America and China? Who has borne these costs? How will the struggle end? Scott Lincicome joins to explore these questions.

Scott Lincicome is an international trade attorney with experience in trade litigation before the Department of Commerce, the US International Trade Commission, the US Court of International Trade, the European Commission and the World Trade Organization's Dispute Settlement Body. Scott is a visiting lecturer at Duke University and an adjunct scholar at the Cato Institute where he researches trade policy.

Below is an abbreviated transcript of our conversation. You can read our full discussion [here](#). You can also subscribe to my podcast on [iTunes](#) or [Stitcher](#), or download the podcast on [Ricochet](#).

Pethokoukis: Last year, you said that our situation with China was more of a “trade skirmish.” What about now — is this a trade war?

Lincicome: Yes. I think a year ago, we trade nerds were hesitant to call this a trade war.

At this point, with tariffs on well over half of all Chinese imports and with Chinese tariffs on essentially all American exports, you can call it a trade war.

We have a litany of what I would call abnormal tariffs. The United States has some standard tariffs and trade remedies, but these are different. And they are far more aggressive and different from the trade status quo pre-Trump.

Why is that bad for Americans, though? Many people will say, “Well, prices don't seem to have gone up, so what's so bad about the trade war?”

The vast majority of these tariffs were on manufacturing input. So the reason that there wasn't a lot of direct consumer price evidence for increases is because manufacturers in the United States were absorbing a lot of the costs. And when they were passing them on, they were doing it over a large variety of goods.

That's one of the reasons that trade is such a tough political issue, because the benefits of the protectionism are quite significant and concentrated, whereas the costs are quite diffuse. But there have been multiple economic analyses that have looked at the tariff costs, and they've said

that the United States consumer — be it a manufacturer or an end-consumer like you or me — is bearing 95 percent of the cost. And the idea that, as President Trump claims, China is completely eating the costs isn't true.

So if it's really just Americans eating the cost, where is the benefit for us if it isn't economic?

Well, there's the classic protectionist cycle that took about a year to play out, where prices of things like steel spiked, and then the demand collapsed. The failure on that front is very straightforward.

China, on the other hand, is very confusing. So on the one hand, it's "buy more soybeans, lower the trade deficit, fix intellectual property." And yet you also have this geopolitical "Great Separation" of the two economies, this disengagement.

The problem is that all of these things fight against each other. So if you're buying *more* from each other, you're not actually separating the two economies. If you resolve the intellectual property issues — and look, there are legitimate IP issues in China — then you remove the tariffs and again, you don't have this great disengagement. And then, of course if you *do* disengage, then you're not going to solve any of those previous two issues.

Is there any resolution to these issues that this administration still has open to them?

I think so, but the president has painted himself into a corner on this. He needs to do something to convince markets that we're not going into a recession.

Politically, also, remember that this is a man who sold himself as President Deals. He was going to make all of the deals that all of those stupid trade negotiators and the dumb trade nerds like me couldn't handle.

So President Deals needs a *deal* for political purposes — but like you said, on the other end, if he caves you'll have national security hawks in his own party hitting him. You'll have Democrats hitting him, too.

It looks like there is an eye of a needle that they could thread, and that would be some sort of mini-deal. Essentially pulling back some of the latest tariffs, leaving on some of the other tariffs on industrial inputs, and announcing more soybean purchases and all of that. As well as some tweaks to intellectual property.

With how much of a mess we've gotten into with China, we're seeing a revival of some of the China-hawks saying, "See? We shouldn't have let them into the WTO. We should be letting this authoritarian regime and strategic competitor modernize." Is there any logic to that?

You have to look at what American policymakers were seeing in the late 1990s. China was a country that was undertaking significant economic reforms that, according to economists, really powered China's export competitiveness along with WTO entry.

Also, you had every other WTO member — about 140 of them — that wanted China in the WTO. So the United States was left with a "choice" of denying China permanent normal trade relations, and instead letting every other country in the world get the benefits of China's more

open markets. The US would've given China a free pass to keep discriminating against exports, services, and the rest.

It's just become a quagmire — if we back out now we look like we lost. So in the short term on the political level, I'm pessimistic. But the fact is that Americans, particularly younger Americans, not only accept but appreciate trade and globalization. They think it is good for the American economy and their own pocketbooks. So I think that in the longer term, once we get the geriatrics out of the White House and slowly move away from the current moment we're in, I think things can get better.