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貿易戰：誰受好處

Who Benefits from a Trade War

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Abstract

Throughout modern history, many countries have gone to war with one another over some conflict, be it economic or militaristic in nature. When such conflicts arise they are not always fought with manpower, but instead with trade sanctions – such as tariffs and subsidies. These conflicts, known as trade wars, are inherently bad for nations. They reduce trade, burden the local population with higher priced goods, and rarely end up achieving the goal leaders had in mind when first signing them into law. This paper will discuss two of these trade wars. First, the U.S. Smoot-Hawley Act, enacted in 1930, and then the current and ongoing U.S.-China Trade War. During both of these events, protectionist policies and nationalism increased, tariff rates heightened, and both occurred during pivotal moments in history – namely the Great Depression and the current COVID-19 crisis. This paper will first outline tariffs and subsidies, and how they effect a nation. Then, both the Smoot-Hawley Act and the U.S. China Trade war will be analyzed, highlighting the similarities amongst the two, in order to draw possible conclusions for current U.S. China Trade War.

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1 Trade Barriers

1.1 History of International Trade

Trade has a long and deeply rooted history, beginning even before recorded history. Before money, or any form of currency existed, prehistoric humans bartered and traded items with other people or tribes in order to obtain whatever items they needed or wanted. Earliest examples of international trade would include the silk road, which was monumental for its time. Spanning between Europe and Central Asia, traders traveled along the road – which was in reality a land path – exchanging and selling items. Along the silk road towns and cities sprouted up, benefiting from the wealth that traveled along the route. The silk road even found its way into politics. The Roman Empire Senate tried to ban the trading of silk – the most traded item along the Silk Road – citing that it had led to a trade imbalance in the Roman Empire (Crash Course, 2012). Trade has even led to the discovery of new continents. When Christopher Columbus famously sailed across the Atlantic Ocean in 1492, he did so not in search of new lands, but in search of a faster trading route for gold and spices between Europe and Asia. He landed first in the Bahamas, believing it to be somewhere in the East Indies, and next he landed in Cuba, believing it to actually be mainland China.

From its roots, with local tribes bartering goods, to the Silk Road linking East Asia with Europe and the Middle East, to even the present day – trading has changed considerably. In modern times, nations have even come together to form Intergovernmental Organizations (IGO), such as the World Trade Organization (WTO) in order to regulate global trade and push nations to adopt open and friendly trade policies. This is because humans have come to recognize how important trade is. Trade has consistently shaped humanity by empowering or weakening empires with its ability to generate wealth. Additionally, technology has shortened the distances between

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nations. There is no need for figures like Christopher Columbus to discover new lands anymore, nor the Silk Road for merchants to traverse on while bartering and selling goods. Because of technology, the world has become ever-increasingly connected, and therefore nations have become increasingly inter-dependent on one another. The result is that trading with foreign countries has become a large aspect in nearly every nation's modern economy – trade is now more important than ever.

Regardless, however, to put it bluntly we still live in a world where nations are self-motivated and, to a large degree, selfish. This is not a negative thing necessarily; this is just the nature of governments as people will do what it best for themselves. This is not to say that nations do not want to work together in order to achieve technological innovations that will propel our species to new heights, while creating a better living standard worldwide. But, the main point is that at the end of the day nations enact laws where they themselves stand to reap the biggest rewards. Many economists refer to this as having a protectionist mindset. And, through this protectionist mindset, trade barriers have evolved overtime. Having just discussed a very brief history of trading, and its importance with shaping humanity**,** this paper will now outline two main types of trade barriers that nations put into place when trading with their foreign counterparts. They are tariffs and subsidies.

1.2 Tariffs

Tariffs are the most well-known method in which a nation may try to protect their economy. Tariffs are essentially a tax that is paid by a domestic company upon the collection of imported goods. For example, in the U.S. a customs agent would collect a tariff payment from a company when they collect their imported goods at a land border or sea port. The customs agent would then pay the amount collected to the U.S.

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Treasury. What is most important here is to understand that it is the domestic company that pays the tariff, not the foreign company exporting the goods to the U.S. The domestic company then normally passes that extra cost onto consumers by raising sales prices. Tariffs also affect products that are assembled domestically, but that also have foreign parts used in their production process. The result is that the tariff, depending on which industries are affected, can have wide sweeping consequences for consumers. For example, if the U.S. puts a 10 percent tariff on potatoes being imported from the European Union (EU), and because of that tariff it raises the price of EU potatoes to an amount higher than potatoes harvested in the U.S. are sold for, less people will in turn buy the EU potatoes. This results in lower consumer demand for EU grown potatoes, while contrastingly raising demand for U.S. grown potatoes. The main point here is that the tariff is enacted to artificially increase demand for one product – domestic U.S. potatoes – and artificially lower demand for the other product – imported EU potatoes. The population that previously bought the EU potatoes would still likely want to purchase them, though some must switch to the U.S. variety for financial reasons.

Supporters of tariffs will claim that they can help raise revenue for governments, and additionally help protect certain industries in a country – such as protecting the U.S. farming industry in the potato example given in the previous paragraph. In terms of protecting industries, tariffs are normally put in place to protect infant industries from foreign competition. This is known as "Infant-Industry Protection". According to this theory, such tariffs might be seen as necessary in nations with developing industries, in order to prevent foreign competition from obtaining a strong hold within those domestic markets. Otherwise, that nation's own infant domestic industry won't be able to grow, as currently the industry cannot withstand competition from being too small and fragile (Kenton, 2019). If foreign competitors were to gain a stronghold, it could cause the

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country to become too reliant on foreign nations, and put a damper on domestic economic development. Supporters of this theory would argue that placing tariffs on certain imported products gives domestic companies, who also produce the same products, a chance to grow, develop and catch up to their foreign counterparts.

However, many economists have come to view such tariffs – even ones enacted to protect infant industries – as unnecessary and an overall burden to global trade, with the long term negatives eventually outweighing the short term positives. The reason here being that if a tariff is enacted to protect infant industries, in the long term there is less foreign competition in the tariff effected industry. This creates a more relaxed atmosphere, causing domestic companies within that industry to possibly be less motivated to innovate. Furthermore, because fewer foreign firms are present to compete, the domestic companies are now also allowed to potentially cooperate and charge higher prices. Additionally, because of less competition it is possible for some companies to continue to exist when and where they would have not been able to otherwise if there was no protection. As Melitz (2005) mentions in the Journal of International Economics, when citing an economist named John Stuart Mill – whom made an argument for infant-industry protection as long as certain variables were met – "Mill recognized that certain additional conditions must also be met in order to justify protection. He specifically mentioned that protection must be temporary and that the infant industry must then mature and become viable without protection" (p. 178).

It makes sense to protect industries that a nation deems important, as they bring revenue to the nation and add to their prestige in the international community. However, similar to what Melitz mentions, protection should only be provided until the industry has matured. From that time, it should be halted, otherwise the nation stands the risk of the industry becoming too reliant on protection to simply exist and generate revenue. At

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this point protection would undermine the free market philosophy, where firms that are run poorly and managed ineffectively, produce a service or product that is no longer desired by the public, or who's business model is outdated and inadequate would normally fail and then cease to exist.

1.3 Subsidies

Next, we'll tackle subsidies. Subsidies are essentially payments that are made to a domestic business or company by their nation's government. They often are either an actual cash payment, a tax rebate, or tax reduction. Subsidies can even take the form of a price reduction. For example, a government can agree to pay 20 percent of an item's sale price, which in turn allows the company to sell said item for 80 percent of the price that they normally would be willing to sell it for. This then normally gives the company an upper hand in the market with regards to attracting customers with cheaper prices. It would likely come to many individual's surprise to know that subsidies are prevalent across multiple sectors. For example, in the U.S. we have unemployment benefits that are paid to the unemployed, and student loans that are granted to university students in order for them to be able to bear the costs of college tuition; both of these are examples of subsidies (Chappelow, 2020).

However, in terms of trade, one needs only to focus on the latter – cash payments, tax incentives and price reductions. These subsides, similarly to tariffs, are paid to industries that deemed vital to their nation by their respective government, and that are also currently undergoing, or are in danger of economic hardship. The subsidy is made to levitate, either temporarily or permanently, the economic burden that has bestowed itself upon the industry. Economists who support the use of subsidies will argue that they are needed to support economic efficiency, with the key components

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being an optimal output level of goods and services. When output falls below optimal levels, a subsidy to support whatever industry produces said goods or services is then needed (Chappelow, 2020). Contrastingly, some economists do not support subsidies, and would point to the fact that subsidies interfere with the free-market. They would argue that if a particular industry or company is failing, it is either inefficient or it is no longer providing a valuable or desirable service to society – implying that the company or industry should be replaced.

1.4 Origins of Trade Wars

Trade Wars are often political in nature, and typically occur after traditional trade barriers make little to no impact in achieving the goal each nation had in mind. More often than not, while foreign nations and individuals may look towards governments as the instigators of such conflicts, it is almost always not so transparent or simple. Politicians and law makers, while rightfully being the power wielding individuals that sign bills into laws and then force adherence of said laws on companies and businesses, at their core they often simply want to protect their nation's interests and their own as well – the latter interest being their jobs. While sometimes they may actually agree with the legislation they are signing, other times they may not and simply are being pressured from either lobbyist and special interest groups, or they want to appeal to the voters that put them into power. Essentially, protectionist trade policies can often trace their roots back to interest groups in a particular nation, who market and lobby their cause to attract attention and support. Once enough support is gathered they then pressure politicians to fight for their cause, often by promising monetary support and votes. When trade wars commence, it is normally the large and powerful nations with robust economies that can afford to respond with aggression – such as slapping retaliatory tariffs. On the flip side, weaker or less developed nations are often either left

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trying to persuade the aggressing nation with soft power, or they are simply bullied and therefore forced to acclimate through whatever means available to the new trade environment.

In the next section "The Smoot-Hawley Act" this paper will outline some of the reasons as to why the Smoot-Hawley Act was enacted, as well as discuss some of the outlying factors that were present during the 1920's and 1930's, in order to portray the damage that was done to the U.S.'s international relations and its economy during the time.

2 The Smoot-Hawley Act

2.1 Overview

Passed by former U.S. President Herbert Hoover in 1930, during times of growing protectionist trade policies and politics, the Smoot-Hawley Act can be cited as the period with the second highest level of tariffs in U.S. history. Please see Figure 2. below, that details the average tariff rate levied by U.S. between the years of 1821 and 2016. Data was provided by the U.S. Department of Commerce, Bureau of Census, Historical Statistics of the United States, and U.S. International Trade Commission

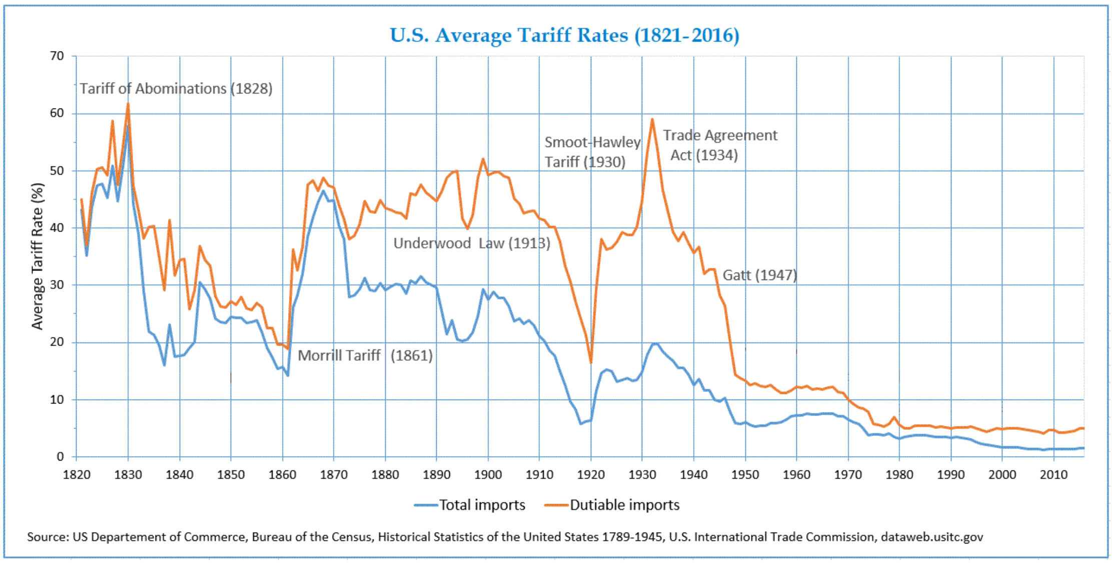

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Figure 2. U.S. Average Tariff Rates (1821 - 2016). Reprinted from *Smoot–Hawley Tariff Act*, by James 4, May 2017, retrieved from https://en.wikipedia.org/wiki/Smoot%E2%80%93Hawley_Tariff_Act Copyright 2020 by Wikipedia Commons.

Figure 2. above details average rate of U.S. tariffs when compared to both total imports and dutiable imports – dutiable imports being the amount of imports actually subjected to duties, otherwise known as tariffs. The reason these differ is due to the fact that one represents the actual total number of imports in a given period, and the other represents the total number of goods that would be subjected to a tariff, or duty, if actually imported by the U.S. – along with the rate of that tariff as a percentage of the imported good's value. As detailed above, the Smoot-Hawley Act of 1930 had the second highest amount of dutiable imports in U.S. history, only being surpassed by the 1828 Tariff of Abominations.

The Smoot-Hawley Act was very controversial in the U.S., and came after two other separate tariff acts – the Emergency Tariff Act of 1921, and the Fordney-McCumber Tariff of 1922. Both of these acts consecutively increased duties on imported goods, therefore when the Smoot-Hawley Act was passed tariffs were already high. Smoot-Hawley's main focus was aiding U.S. farmers, who had seen their income decrease throughout the 1920's following the end of World War I (WWI). Additionally, it helped changed the way tariffs we're enacted through law, specifically by strengthening a previously passed bill, the Flexible Tariff Provision (FTP) of 1922. The FTP gave the U.S. President broader power to negotiate tariffs with the help of a Tariff Commission set by the Executive Office, separately from U.S. Congress – who traditionally exclusively had the power to negotiate tariffs, not the president. The FTP, along with seeking tariffs on agricultural products, were key demands of U.S. President Hoover when agreeing to sign the bill into law. At the time, the Executive Office

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viewed the U.S. Congress as being unable to place tariffs on foreign nations in a timely manner, therefore being inadequate in responding to the quickly changing economic environment of the 1920's and 1930's (Koyama, 2009). After the Smoot-Hawley Act's eventual gradual downfall that started in 1934, another act was passed that went even further in adding to the president's power to negotiate tariffs. This bill, entitled the Reciprocal Trade Agreement Act of 1934, empowered then U.S. President Franklin D. Roosevelt to become the first U.S. president to rightly be able to enable tariffs and negotiate bilateral trade agreements with foreign nations without any approval from the U.S. Congress (Loftis, 2019).

The Smoot-Hawley Act had devastating effects on U.S. bilateral relationships and trade agreements. A great example of this would be how the tariff act affected one of the U.S.'s closest trading partners and next door neighbor, Canada. The Smoot-Hawley Act disrupted the Canadian general election of 1930, and it caused the Canadian government to harbor resentment towards the U.S. – which inevitably caused them to place retaliatory tariffs in response. In the next section "Effects on Politics – Canada's General Election of 1930", Canada's general election of 1930 will be analyzed, along with how the Smoot-Hawley Act affected its outcome.

2.2 Effects on Politics – Canada's General Election of 1930

In the 1930's, and even up to present day in 2020, Canada has remained the U.S.'s largest trading partner – currently accounting for 13.8 percent of total U.S. exports, or approximately 204 billion USD in trade (United States Census Bureau, 2020). Therefore, any trade conflict between the U.S. and Canada has the potential to affect both economies on a large scale. Additionally, since trade affects a nation's economy it also often affects its politics. This is because during a trade conflict, or in

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the midst of a possible one, politicians will often choose sides and rally behind constituents – promising to either take a “hard” or “soft” approach on opposing nations. This is especially true when detailing Canada’s response to the Smoot-Hawley Act, as it was successful in altering Canada’s 1930 election.

Before the passage of the Smoot-Hawley Act in 1930, Canada had been reluctant to raise tariffs on the U.S. This was true even when, as previously discussed, the U.S. passed the Emergency Tariff Act of 1921, and the Fordney-McCumber Tariff in 1922. For example, the Fordney-McCumber Tariff raised duties on foreign imports, which inevitably included Canadian agricultural exports to the U.S. – specifically wheat, cattle and milk. It could be argued that a main reason Canada did not retaliate at this time was because Canadians recognized this as a return to normal tariff levels – meaning that these products were not tariff free previously. Additionally, during 1922 Canada was relatively prosperous, and therefore more willing to endure economic hardships. Contrastingly, when Smoot-Hawley Act was passed in 1930 Canada was enduring a recession, which likely added to the reason why the country responded more harshly (McDonald, O'Brien, & Callahan, 1997). Canada’s contrasting reactions also shed light on how outlying factors can, and will, contribute to a nation’s response when involved in a trade conflict with a foreign nation. Regardless, in 1922 Canada was, at that time, not the aggressor and simply dealt with the changes.

The story of how the Smoot-Hawley Act affected Canadian politics starts with Canada’s general election of 1925 – separate from the general election of 1930, but important to discuss in order to convey the severity of the change in Canadian politics leading up to Smoot-Hawley. A that time Prime Minister Mackenzie King, a member of Canada’s Liberal Party, won his reelection campaign – he had already served as Prime Minister from 1921 to 1925. Though, in 1925 his Liberal Party won only 99 seats,

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compared to the Conservative Party and their ability to acquire 116 seats. Canada's additional smaller party, the Progressive Party, had won just 24 seats. Despite his party's smaller number of parliament seats, King was able to keep his power through convincing the Progressive Party to unite with his Liberal Party, therefore forming a plurality. King temporarily united the two parties by campaigning on a low tariff policy, which was in line with both Liberal and Progressive Party values. The Liberal Party did, in fact, have a small number of members that did not support low tariffs, but regardless of this fact King in his previous term – from 1921 to 1925 – was able to enact significant tariff reductions in 1922, 1923 and 1924. It needs to be reinstated King was able to do this, even though the U.S. had enacted the Fordney-McCumber Tariff in 1922 – again this raised duties on several Canadian agricultural products (McDonald, O'Brien, & Callahan, 1997). This further exemplifies what was discussed earlier, that the Canadian public had not yet felt the need to retaliate to U.S. tariff hikes – King had now won two elections in a row. Contrastingly, however, Canada's Conservatives Party largely wanted a tariff hike at the time.

In September of 1926, however, another general election was held. This was due to the fact that the Conservative Party had technically won a majority of seats in 1925's general election – King could not count his temporary fusion with the Progressive Party as a majority, as it was two parties. Therefore, during the 1925 general election Prime Minister King had agreed to giving the Conservative Party a chance to form a government before the next general election was schedule to be held. Long story short, that agreement was not kept. King was forced to resign, and the Conservative Party was then given a chance to form a government. However, a vote of no confidence was held and parliament was then dissolved. In September, once the general election was held – because parliament has been dissolved – King won and

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again resumed the seat of Prime Minister. His Liberal Party, with the help of the Progressives secured a majority of seats this time, now holding a total of 128. This was done through a number of Progressive Party members joining the Liberal Party as "Liberal-Progressives". Meanwhile, the Conservatives won 91 seats and the Progressive Party grabbed 20 seats. Additionally, it needs to be noted that the Conservatives actually won the popular vote this time around. Regardless, King stayed committed to his Liberal Party's platform for low tariff policies throughout his new term. For example, the tariff boards established for the next consecutive years of 1926 and 1927 contained no duty increases (McDonald, O'Brien, & Callahan, 1997).

Returning to the U.S., at this time Herbert Hoover was campaigning to become the U.S. President. Central to his campaign, Hoover rallied on the prospect of calling for a concentration of U.S. production, particularly for limitation on its exports. Additionally, as the Republican nominee Hoover had also been adamant on increasing U.S. tariffs on agricultural products, to levels even higher than the current Fordney-McCumber Tariff established them at (Hoover, 1952). Once November 1928 passed and Hoover won, Canadian Prime Minister King began getting concerned. He started conveying to President Hoover that he was worried about the U.S. raising tariffs on imported goods, and how that would affect Canadian exports to the U.S. Though, through multiple meetings with the U.S. ambassador to Canada, William Phillips, King thought that he was assured that any tariffs the U.S. had planned to enact would not harm Canadian goods. McDonald et al. (1997) cites evidence for this sentiment Prime Minister King felt by quoting a personal diary entry by King, dated from 17 November, 1929 "King meets with Phillips, the U.S. ambassador, and voices his concerns about increases in U.S. duties. King is left under the impression that Canada would receive special treatment by Hoover" (p. 807).

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Prime Minister King, while continuing to be reluctant to start a tariff battle, made it clear to U.S. Ambassador Phillips that if Canada was indeed affected by any tariff increases, that he must react in a way that would please the Canadian public and his fellow parliament members (McDonald, O'Brien, & Callahan, 1997). Around this time, Prime Minister King began to find it more and more difficult to calm his other members of the Canadian Parliament, especially those of the Conservative Party. Conservative Party Leader, Richard Bennett, was increasingly outspoken about implementing a counter tariff that would favor a strengthened economic relationship with the British Commonwealth – meaning the United Kingdom, Australia and New Zealand (McDonald, O'Brien, & Callahan, 1997). This idea hatched by Richard Bennett became known as the “Empire Preference System”, which was used by the British Commonwealth to, among other things, circumvent the Smoot-Hawley Act when it eventually passed.

Looking beyond the Canadian government, it should be noted that at this time the general Canadian public still largely believed that President Hoover would not raise tariffs that would specifically, or even indirectly target Canadian goods. In general Canadians believed the U.S. would not be willing to harm their close bilateral relationship with Canada. Canadian magazines also made the notion that President Hoover’s tariff increases we’re simply obligations of his promises he made during his campaign, and being that he was a Republican candidate were largely a matter of party politics. McDonald et al. (1997) gives an example of then current Canadian sentiment towards the U.S., by citing a 17 April, 1929 issue of the Toronto Globe

> “In April 1929 the Toronto Globe editorialized that, although Hoover was obliged by "campaign promises, made under the stress of political necessity" to propose raising agricultural duties, he would "do everything in his power to

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discourage Congress from enacting drastic tariff increases whose chief effect would be to arouse resentment in Canada" (p. 806).

Regardless, in April of 1929 Hoover called a special session of Congress and made it apparent that he indeed planned on keeping true to his promises. McDonald et al. (1997) takes a 17 April, 1929 publication from the Montreal Daily Star to show evidence of U.S. President Herbert Hoover's intensions "In his message to Congress, Hoover argued that the problems of U.S. agriculture were due in part to the "growth of competition in the world markets from countries that enjoy cheaper labor or more nearly virgin soils." This was taken in Canada to be a reference to Canadian agriculture" (p. 806). Afterwards, the U.S. House of Representatives (HOR) quickly passed the new tariff bill – which would later become known as the Smoot-Hawley Act. Though, throughout the year of 1929 it was delayed in the U.S. Senate.

Fast forwarding to May of 1930, just a month before the Smoot-Hawley Act would be officially passed by the U.S. Senate, Prime Minister King felt obligated to enact some immediate tariff adjustments in his new 1930 budget (McDonald, O'Brien, & Callahan, 1997). McDonald et al. (1997) cites information found from McDiarmid, Neatby, Kottman, and Granatstein and Hillmer, that shows the number of, and variety of products affected by King's new tariff adjustment

> "Apart from some minor adjustments (including some reductions) to the rates on goods imported under the general tariff, the main changes were to increase the preference given to British products and to penalize the United States. The duties on 270 goods imported from within the British Empire were reduced. Countervailing duties were levied on 16 products, which brought the Canadian duties on these products to the levels charged by the United States" (p. 809).

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Therefore, these adjustments included preference to trading with Britain under a "Empire Preference System" – as we discussed previously. The tariff changes were also, quite literally, a retaliatory act to the U.S. made in hopes of "punishing" the country. Furthermore, to address the magnitude of this tariff implementation, historical statistics from the U.S. Department of Commerce found that, at the time these 16 products – from the U.S. – represented roughly 30 percent of U.S. exports to Canada (McDonald, O'Brien, & Callahan, 1997).

The next Canadian general election was held in July of 1930. Regardless of King's tariff changes, the Conservative Party won and their leader Rich Bennett was then elected and chosen as Prime Minister. There was much criticism that King changes did not go far enough, and that he failed to raise tariffs on a number of U.S. products. The Conservative Party ended up securing a majority, their first and biggest victory in the Canadian Parliament between the years of 1911 and 1958 – adding 46 seats. The main point to drive home here, is that the U.S. Smoot-Hawley Act can be credited solely as the strongest reason for the Conservative Party's win during the 1930 Canadian general election. King's rival, Bennett, campaigned with the notion of "Canada First" and a desire to distance the nation from the U.S. – the exact opposite of the campaign normally ran by the Liberal Party, which was one valuing low tariffs and pro U.S. policies (McDonald, O'Brien, & Callahan, 1997).

The Smoot-Hawley Act directly disrupted Canadian politics by creating an environment in which conservatives found an advantage and won the election of 1930, and then afterwards set out to set up retaliatory tariffs directly aimed at targeting U.S. products. This is evident as up until 1930, the Liberal Party had continued to win with platform of low tariffs. It was only after the Smoot-Hawley Act was passed, that the Canadian public turned their backs on the U.S., instead opting for retaliation. The

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Smoot-Hawley Act essentially turned a mostly blue country red. Therefore, it is evident that tariff hikes, of which can turn into a tic-for-tac trade war, have the power to disrupt the internal politics of a nation. While it is true that outlying factors can either add to, or reduce tensions – in the case for Canada adding to during 1930 because they were in a recession, compared to reducing tensions during 1925 when they we're relatively prosperous – when nations enacts tariff hikes they do not know how outlying factors will develop. Furthermore, when tariff hikes are implemented they are normally in vain either way as foreign nations will usually circumvent them, opting to instead trade with another foreign nation. This is evident, as powerful countries like the UK adopted a regional preference system for trading to circumvent the Smoot-Hawley Act. The UK, under pressure from Australia and Canada, adopted a "Empire-Preference System" and sub sequentially slapped 10 percent tariffs on all other foreign nation's imports – minus 15 nations with which the UK afterwards signed bilateral trade agreements with. The U.S. was not one of these 15 nations. (Conybeare, 1985).

2.3 Effects on U.S. Economy – The Great Crash of 1929

Beyond the realm of politics, a detailed outlook on the economic damage that the Smoot-Hawley Act brought about to the U.S. is quite important to detail. The economics of the Smoot-Hawley Act were quite difficult for economists to analyze, as it occurred at roughly the same time as when the Great Depression was beginning to unfold. The Great Depression was brought about by a number of factors, such as the October 1929 stock market collapse, decreased loan lending from banks – which many people had used to borrow credit and invest in the stock market, as well as businesses had used to pay employees. Therefore, when banks suddenly stopped loaning credit to people, it caused a chain reaction in the stock market. Additionally, when businesses

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couldn't afford to pay employees with said loans, they began to lay off employees in mass numbers, which lead to a rapid growing of unemployment in the early 1930's.

Referring back to the stock market crash of October 1929, to show just how much the Smoot-Hawley Act contributed to the stock market collapse of that year, one needs not to look very far. Stocks sat comfortably at around 196 points in March of 1929. Once the U.S. HOR passed the Smoot-Hawley Act in May of 1929, stock fell slightly – around 6 points. However, since it had yet to pass the U.S. Senate investors remained optimistic. Many were opposed to the tariff bill, and hope remained that it would not pass and simply die out. Furthermore, adding to this hope was the fact that Republicans from the Senate Finance Committee met in July for plans on rewriting the bill for a more favorable compromise or solution. Hope continued to fill investors, as is evident with stocks rising to their high of that year – 216 points – in September. Frighteningly, however, only a month later in October the U.S. Senate voted to reject a motion to limit tariff increases to agricultural products – separate from the Smoot-Hawley Act – and also in the same month members on the opposing side – the anti-tariff movement – actually switched sides and voted in favor of a few motions to increase tariffs on a variety of imports. The stock market responded by dropping 38 points to arrive at 140 (Reynolds, 1979).

Afterwards, and into the new year of 1930, stocks began to rally again and eventually reached 170 points. Even after the eventual passage of the Smoot-Hawley Act by the U.S. Senate in June of 1930, stock continued to remain relatively unaffected. A reason for this, was that sentiment still remained that U.S. President Hoover would veto the bill upon its arrival at his office in the White House. However, once President Hoover signed Smoot-Hawley – the final legal process in the U.S. government to make a bill into a law – stocks dropped back to 140. The main point here is that rollercoaster

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effect on the stock market – meaning investors becoming bearish and switching to safer investments, or feeling a bit more bullish and preferring to hedge their bets on risker assets – exactly mirrored the legislation in Washington D.C. The idea that the Smoot-Hawley Act did not affect the Great Crash of 1929, is incorrect. As Alan Reynolds (1979) proclaims in his article "What Do We Know About The Great Crash?"

> "Many scholars have long agreed that the tariff had disastrous effects, but most of them have felt that it could not have caused the stock market collapse of October 1929, since the tariff was not signed into law until the following June. Today we know that market participants do not wait for a major law to pass, but instead try to anticipate whether or not it will pass and what its effects will be" (p. 1418).

2.4 Effects on U.S. Economy – Trade

Diving deeper into the Smoot-Hawley Act's effects on the U.S. economy, over the last few decades there have been a couple of analyses done on how the tariff act affected U.S. Gross National Product (GNP), and import and export volumes at the time. Beginning in 1929, both U.S. GNP and import volumes began to drastically decrease. For a description on exact levels, below please see Figure 1., provided by Douglas Irwin through a study he conducted on the economic effects of the Smoot-Hawley Act

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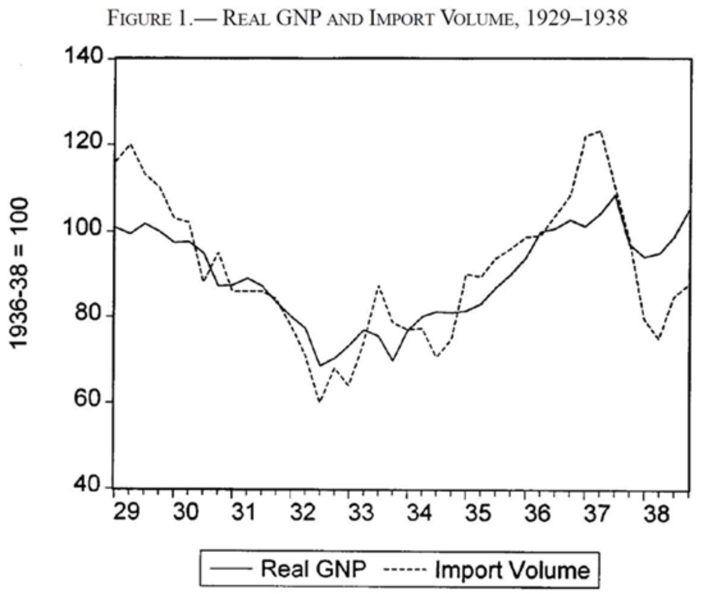

Figure 1. Real GNP And Import Volume, 1929 – 1938. Reprinted from “The Smoot-Hawley Tariff: A Quantitative Assessment”, by Douglas A. Irwin, May 1998, *The Review of Economics and Statistics*, *80*(2), p. 327. Copyright 1998 by “MIT Press”.

Irwin (1998), with reference to the above, states “As figure 1 illustrates, the volume of U.S. imports plummeted 41.2% between the second quarter of 1930 and its local trough in the third quarter of 1932” (p. 326). The reason for this? Obviously, the Great Depression had a significant impact. With layoffs increasing, and thus spending decreasing – people were buying less. Therefore, fewer products were being manufactured by companies, both overseas and in the U.S., as demand had significantly decreased. However, how much of this was due solely because of the Smoot-Hawley Act? Let’s first look at how much import duties increased. One method of measuring this is to look at the ad valorem. Ad valorem is essentially a tax – in this case a tariff – on a good, that is based upon its transactional value. For example, let’s say you want to import a computer that is valued at 1,000 USD. However, there is tariff levied by the U.S. on computers. The tariff rate is 50 percent, and the tariff is an ad valorem. The

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final price of each computer would be 1,500 USD – an arguably substantial rate. Below, Irwin (1998) describes how much tariff revenue rose in the U.S. between 1929 and 1930

> "The simplest and most frequently used measure of the ad valorem equivalent ''average tariff'' is tariff revenue as a share of dutiable imports. This rose from 40.1% in the second half of 1929 to 47.1% in the second half of 1930, a 17.4% increase which, if taken as the average ad valorem tariff rate, translates (ceteris paribus) into a 5.0% increase in the relative price of imports, calculated as (1 + t1)/(1 + t0)" (p. 327).

Essentially, what Irwin is conveying is that tariff revenue as a share of dutiable imports – again, ad valorem – rose from 40.1 percent to 47.1 percent from 1929 to 1930. Furthermore, Irwin did mention that the tariff hike only resulted in an increase of 5 percent to the price of imports, but it's important to remember that that's an average rate of increase – spread over a large array of products, all with different tariff rates and prices.

However, as previously described in Figure 1., over the period of 1929 to 1932, both U.S. GNP and import volumes decreased. As such, it is hard to know the true extent of the damage brought on by the ad valorem increase. This is because while the graph does say that tariff revenue rose, this is simply because the ad valorem rose. As mentioned, total imports fell. If they had not fallen so drastically because there was no Great Depression, it would be easier to measure the damage as the level of imports that are subjected to duties would likely be higher – which is more typical of a healthy economy. In other words, the damage brought on by the ad valorem is skewed downwards in this situation. To circumvent this, information was provided by the U.S. Tariff Commission and the U.S. Senate. Table 1. below shows how much the average

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ad valorem equivalent rates of duty rose between the years of 1913 and 1930. However, what is indicative about this chart, are that these rates have been measured based upon the trade volume and value of imports in the year of 1928 – the last time the economy could be deemed as semi-healthy before the Great Depression struck. Therefore, for reasons stated above, it can be deemed a good year to base calculations off of, in order to paint a clearer picture of the magnitude.

TABLE 1.—COMPARABLE AD VALOREM EQUIVALENT RATES OF DUTY

Tariff Legislation	Average *ad valorem* Equivalent
Act of 1913	21.08
Act of 1922	34.61
Act of 1930	42.48

Source: U.S. Senate (1930).
Note: The equivalent *ad valorem* rates are calculated from the quantity and value of imports in the calendar year 1928.

Note: Reprinted from "The Smoot-Hawley Tariff: A Quantitative Assessment", by Douglas A. Irwin, May 1998, *The Review of Economics and Statistics*, *80*(2), p. 327. Copyright 1998 by "MIT Press".

As Irwin (1998) states, with reference to the above Table 1.

> "To avoid these problems, the U.S. Tariff Commission calculated the average revenue effect of the 1930 duties using the 1928 volume and value of imports as weights. Table 1 shows this calculation, which indicates that the Smoot–Hawley tariff raised duties on average by 22.7%, bringing about a 5.8% increase in the relative price of imports, compared to the 1922 duty schedule. This fixed weight estimate exceeds that given by the variable-weight ''tariff revenue'' measure and indicates the magnitude of the substitution bias" (p. 327).

Therefore, with regards to what Irwin stated above, it shows that Smoot-Hawley further increased import prices by roughly 5.8 percent – when using 1928's data of total import volume and weight as a measurement. One could think of 1928's trade volume

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as a fixed-weight scale, used to better represent the magnitude of the Smoot-Hawley Act – instead of opting for a record of total tariff revenue as was depicted in the first study, which again can be skewed downwards because trade fell tremendously. This second study is in line with the first study, as it points to a 5.8 percent increase, while the first study finds a 5 percent increase. However, even Table 1. can be a bit skewed. One must remember that previous to the enactment of the Smoot-Hawley Act, both the Emergency Tariff Act of 1921, and Fordney-McCumber Tariff Act of 1922 were passed. These tariff acts can be seen as iterations, with duties continuing to rise with the passage of each, and then even further with the passage of the Smoot-Hawley Act. For example, imagine there was a 5 percent tariff established on dairy products when the Emergency Tariff Act was passed. Next, with the passage of the Fordney-Mcumber Tariff, that same dairy product tariff was then raised to 10 percent. Finally, with the Smoot-Hawley Act's passage it was raised to 15 percent. How much burden did the Smoot-Hawley Act alone cause? In this fictional scenario the answer would be a 5 percent tariff increase on dairy products, without calculating the total in monetary value.

One more study that will be detailed in analyzing damages done by the passage of the Smoot-Hawley Act, focuses on the Bureau of Labor Statistics (BLS) Price Index. Here, instead of using total trade volumes and weight, the BLS Price Index is used to show how much prices had increased overtime. This allows observers to see how much total tariff rates had risen, when compared as a percentage of a good's price. Through citing data gathered from Lerdau's "On the Measurement of Tariffs: The U.S. over Forty Years", Irwin (1998) gives a detailed explanation below

> "Because imports in the 1928 base year chosen by the Tariff Commission are influenced by the 1922 tariff, an alternative method of measuring the height of the tariff would be to avoid trade weights altogether. Lerdau (1957) constructed

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an annual ‘‘effective weighted tariff rate’’ for the years 1907–1946 using weights from the wholesale price index of the Bureau of Labor Statistics (BLS). This tariff index rises from 20.9% in 1929 to 25.3% in 1931, a 21% increase that translates into a 3.6% increase in the relative price of imports” (p. 327).

All the graphs above show different methods in calculating damages done by the Smoot-Hawley Act. Two of the graphs focus on tariffs as a percentage of total weight and volumes of trade, while one instead focuses on tariffs as a percentage of prices. All are flawed, and none are perfect. There were many variables present as a result of the Great Depression, which somewhat hindered obtaining precise and accurate answers. However, all graphs seem to point to an overall 20 percent increase in duties, which caused a roughly 4 to 5 percent increase in import prices (Irwin, 1998).

Furthermore, what is also important to note, is that not all the tariffs imposed were ad valorem – which again, is a tariff that is based upon a percentage of the imported good’s value. Instead, many tariffs included were a specific dollar amount per imported good. Therefore, the tariff amount did not fluctuate with the price of the good. This made matters much worse when prices plummeted between 1929 and 1932, as the tariffs that were not ad valorem did not decreased in value when the good’s price decreased – therefore making up a much larger percentage of the good’s value than previously (Irwin, 1998). For example, let’s say your importing computers. The computer’s value is 1,000 USD and the tariff is 20 percent, which raises the consumer’s price to 1,200 USD. For whatever reason, the computer’s value drops to 500 USD. Since the tariff is 20 percent of the value, the tariff then lowers to an amount of 100 USD, bringing the total price for the computer to 600 USD. This is an ad valorem tariff. On the flip side, the tariff can be a fixed dollar amount. Using the same example, whether the computer’s value is 1,000 USD or 500 USD, the tariff is stuck at 200 USD.

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This was a major issue during the early 1930's as many tariffs imposed on imported goods we're not ad valorem, but instead fixed dollar amounts. Therefore, when values dropped the tariffs made up a larger percent of the price consumers were faced to pay. Finally, to make matters even worse, with the Great Depression came deflation. This essentially made not only the price of the good worth much more, but it also increased the monetary value of tariff.

2.5 Effects on U.S. Economy – U.S. Farmers

Finally, when dealing with the economic effects of the Smoot-Hawley Act, it is important to detail how it affected U.S farmers and their industry – as protecting U.S. farmers was one of the main objectives cited by U.S. President Hoover when he decided on signing the tariff bill into law. During WWI, the U.S. saw a great increase in the demand of their agriculture products. This was due to severely decreased output in other parts of the world, mainly Europe, where wartime production demands preceded agricultural demands. Once WWI ended and Europe once again increased their agricultural output, the U.S. saw a decrease in demand of their agricultural products. Hayford & Pasurka (1992) cite statistical data submitted by U.S. Department of Commerce, Bureau of the Census, and with historical tariff data submitted by the author Taussig, to exemplify how much U.S. farmer's income fell during the 1920's

> "With the conclusion of the war in the fall of 1919, the economy experienced a severe contraction that lasted from January 1920 to July 1921. In addition, from 1919 to 1920 real net farm income fell 24%, followed by a decline of 40% from 1920 to 1921" (p. 31).

In response to the decrease in farmer's income, U.S. Congress proposed tariffs for the agricultural sector by way of the tariff bill known as the Emergency Tariff Act.

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However, then U.S. President Woodrow Wilson refused to sign it into law, choosing to instead veto it. Upon U.S. President Woodrow Wilson's term ending, and then U.S. President Warren G. Harding assuming office, it was immediately passed the following year in May of 1921. Follow the Emergency Tariff Act's passage, in 1922 the U.S. Congress also passed the Fordney-McCumber Tariff, which further increased tariff rates. Hayford & Pasurka (1992) again explain, with historical tariff data cited by the author Taussig, how much import duties increased due to both tariff acts

> "The passage of the Emergency Tariff Act was followed by a more general increase in tariffs of the Fordney-McCumber Tariff Act of 1922. Data from Foreign Commerce and Navigation of the United States (U.S. Department of Commerce, Foreign and Domestic Commerce Bureau, 1923) reveal that the average tariff rate on dutiable imports increased from 16.4 to 36.17% and the average tariff rate on total imports increased from 6.38 to 15.18% from 1920 to 1923" (p. 31).

Therefore, with regards to what Hayford & Pasurka cited above, the data shows that both the Emergency Tariff Act of 1921 and the Fordney-McCumber Tariff of 1922 had a major effect on imports levels and tariff rates in the U.S. And, this was still yet before the passage of the Smoot-Hawley Act, which in itself only further increased tariffs. This paper has talked about both the Emergency Tariff Act and the Fordney-McCumber Tariff previously, but it is important to reiterate here how they passed as both times the intent was to aid U.S. farmers by increasing tariffs. In Washington, the Smoot-Hawley Act was also seen as the solution to decreased income within the U.S. agricultural sector, which at the time of its passage in 1930 had still not recovered and returned to levels seen during and pre-WWI. Hayford & Pasurka (1992) give yet another example

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of U.S. farmer's income levels – pre WWI and after – and of the White House's intent in passing the Smoot-Hawley Act

> "For the decade of the 1920s real net farm income averaged $11,004 (1967 = 100) compared with $12,769 for 1910-1914 and $14,972 for 1914-1918. As a consequence, real net farm income was 14% lower in the 1920s than during the 5 years before World War I and 27% lower than its level during World War I. President Hoover proposed an increase in tariffs on agricultural goods to help farmers. Hoover also suggested an increase of tariffs on those manufactured goods which would assist depressed industries" (pp. 31-32).

One could certainly argue that helping farmers is a justifiable cause – they are one of the backbones of any nation. However, the Smoot-Hawley Act did not aid farmers. For an example, please see Table 2. below. Table 2., provided by Elaine Schwartz (2019), details by how much egg exports dropped between the U.S. and Canada, from 1929 to 1932.

	1929	1932
From U.S. to Canada	919,543 dozen	13,662 dozen
From Canada to the U.S.	13,299 dozen	7,939 dozen

Note: Reprinted from *Throwback Thursday: Remembering When Congress Controlled Tariffs: U.S. - Canada Egg Exports from 1929 to 1932*, by Elaine Schwartz, retrieved from https://econlife.com/2019/05/tbt-smoot-hawley-tariff-history/ Copyright 2019 by Econlife.

The reason for this massive drop? As we discussed previously in the "Effects on Politics – Canada's General Election of 1930" section of this paper, Canada imposed retaliatory tariffs on the U.S. after the Smoot-Hawley Act was enacted. This caused U.S. exports,

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that were affected by newly imposed Canadian tariffs, to plummet. As Schwartz (2019) further explains "You can see what happened to egg farmers. After the United States raised its tariff from 8 cents to 10 cents. a dozen. Canada increased its tariff on U.S. eggs from 3 cents to 10 cents a dozen also. By 1932, U.S. egg exports to Canada had plunged" (para. 5).

The Smoot-Hawley Act did not achieve the end goal of protecting farmers in the U.S., and additionally only served to worsen relations with foreign countries. In fact, none of the 1920's tariff acts did their job with regards to increasing farmer's incomes. Several nations simply circumvented the U.S. buy setting up their own separate trade routes, as could be seen with Canada's "Empire-Preference System" of trading. International trade only began to pick up again after Herbert Hoover left office, and the act was slowly demolished. As can be seen in the previously provided Figure 1., U.S. GNP and import volumes began to pick up again starting in 1934. This was after Franklin D. Roosevelt took office and the Reciprocal Trade Agreement Act was passed by U.S. Congress. This act gave the U.S. President the power to negotiate trade agreements bilaterally with foreign countries, separate from Congress. Then U.S. President Franklin D. Roosevelt began to slowly make trade agreements with foreign countries, of which took the place of the previously imposed Smoot-Hawley tariffs. This resulted in gradually increased trade between the U.S. and other nations.

2.6 Outlying Factors – The Great Depression

The Smoot-Hawley Act has been cited by many economists to have aggravated and elongated the U.S. Great Depression, which lasted roughly from 1929 to 1940. For starters, as we previously discussed it helped cause the Great Crash of 1929 – which many historians cite as the beginning of the Great Depression. As Phalan, Yazigi, &

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Rustici (2012) cite in their “Foundation for Economic Education” article “For instance, the secondary financial markets, such as the New York Stock Exchange, crashed twice during the last eight months of Smoot-Hawley’s legislative history” (para. 8). After the actual passage of the Smoot-Hawley Act, the result of the U.S. stock market was even worse. Phalan et al. (2012) go further to say “The Dow Jones Industrial Average fell 23 percent in the first two weeks of June 1930 leading up to President Herbert Hoover’s signing the bill into law. On June 16 Hoover claimed, “I shall approve the tariff bill,” and stocks lost $1 billion in value that day—a huge sum at the time” (para. 8).

Going back to U.S. GNP, at the time of Smoot-Hawley the foreign trade sector, or in other words exports and imports, made up roughly 7 percent of U.S. GNP. This would make it seem that any tariffs placed upon imports would result in a relatively small effect over the lowering of U.S. GNP. However, this thinking is a bit flawed, as it details the overall – thus dissipating the effects and spreading them over a wide area. While 7 percent may be small, depending on which sectors it affects the result could be quite devastating. Well known economists Mario Crucini, James Kahn and Douglas Irwin further explain that those three economists found that the Smoot-Hawley Act’s tariffs lowered U.S. GNP by roughly 2 percent (Phalan, Yazigi, & Rustici, 2012). As mentioned previously regarding small numbers, 2 percent is even lower than 7 percent. However, that 2 percent is spread out over only a few areas of the economy, or even only affects a few number of U.S. states, the results are quite damaging. The Smoot-Hawley Act lowered exports from 7 billion USD in 1929, to 2.4 billion USD in 1932. Furthermore, at the time a substantial portion of U.S. exports were agricultural products – again, shedding light on how much this tariff act hurt U.S. farmers. As such, many U.S. states witnessed a significant decrease in farming income due to severely reduced

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exports, caused by retaliatory tariffs being placed on U.S. exports by foreign nations. (Phalan, Yazigi, & Rustici, 2012)

Beyond the world of agricultural products, the global retaliation against the U.S. spilled over into other industries as well. U.S. minerals exports dropped in volume, which can be partially blamed for the collapse of the Wingfield chain of banks – at the time making up 1/3 of Nevada's banks, a prominent mining state. U.S. iron and steel exports also decreased roughly 85 percent by 1932, resulting in a monetary loss of 379 million USD. Furthermore, the U.S. automobile industry suffered due to European retaliatory tariffs, that resulted in an 82 percent drop in U.S. car export sales, or in other words a monetary value that equated to diving from 541 million USD annually to just 97 million USD by 1933 (Phalan, Yazigi, & Rustici, 2012).

All of these industries affected – banking, automobile, agricultural, mining – greatly exacerbated the Great Depression's effects on the U.S. economy. However, despite the damages of the Smoot-Hawley Act, nations have yet to learn their lessons. Even up to present day trade wars are still being conducted. The greatest example in the year this paper was written, 2020, is the U.S.-China Trade War. Being that, this trade war is being fought between arguably the two strongest nations on the planet currently, it has the potential to disrupt economies worldwide – and it arguably already has. Additionally, the trade war is happening at a very pivotal time in human history. Outlying factors, such as COVID-19, are wreaking havoc on global trade and supply routes without the added effects of the trade war. Therefore, given the severity and eccentricity of current global parameters, this paper will now examine the U.S.-China Trade War below in hopes of detailing a future outlook for trade war based upon Smoot-Hawley's outcome.

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3 U.S.-China Trade War

3.1 Overview

Officially beginning in January of 2018, the current U.S.-China Trade War is one of the biggest in history. The political history between the U.S. and China is all but perfect, and the two countries have been at odds with one another for years. However, despite their rocky relationship, the trade war can be seen as a huge divergence from the norm. To date, a large amount of tariffs have been placed. First, please see Figure 3. below, where you can find a condensed chart of the tariff amounts placed between July 2018 and June 2019. This information was gathered by researchers at the BBC

Figure 3. How the US-China trade war has escalated. Reprinted from *A quick guide to the US-China trade war: How the US-China trade war has escalated*, by British Broadcasting Corporation, January 16 2020, retrieved from https://www.bbc.com/news/business-45899310 Copyright 2020 by BBC.

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Furthermore, please see Figure 4. below, by Chad P. Bown (2020) at the Peterson Institute for International Economics (PIIE) for a longer, more detailed tariff report

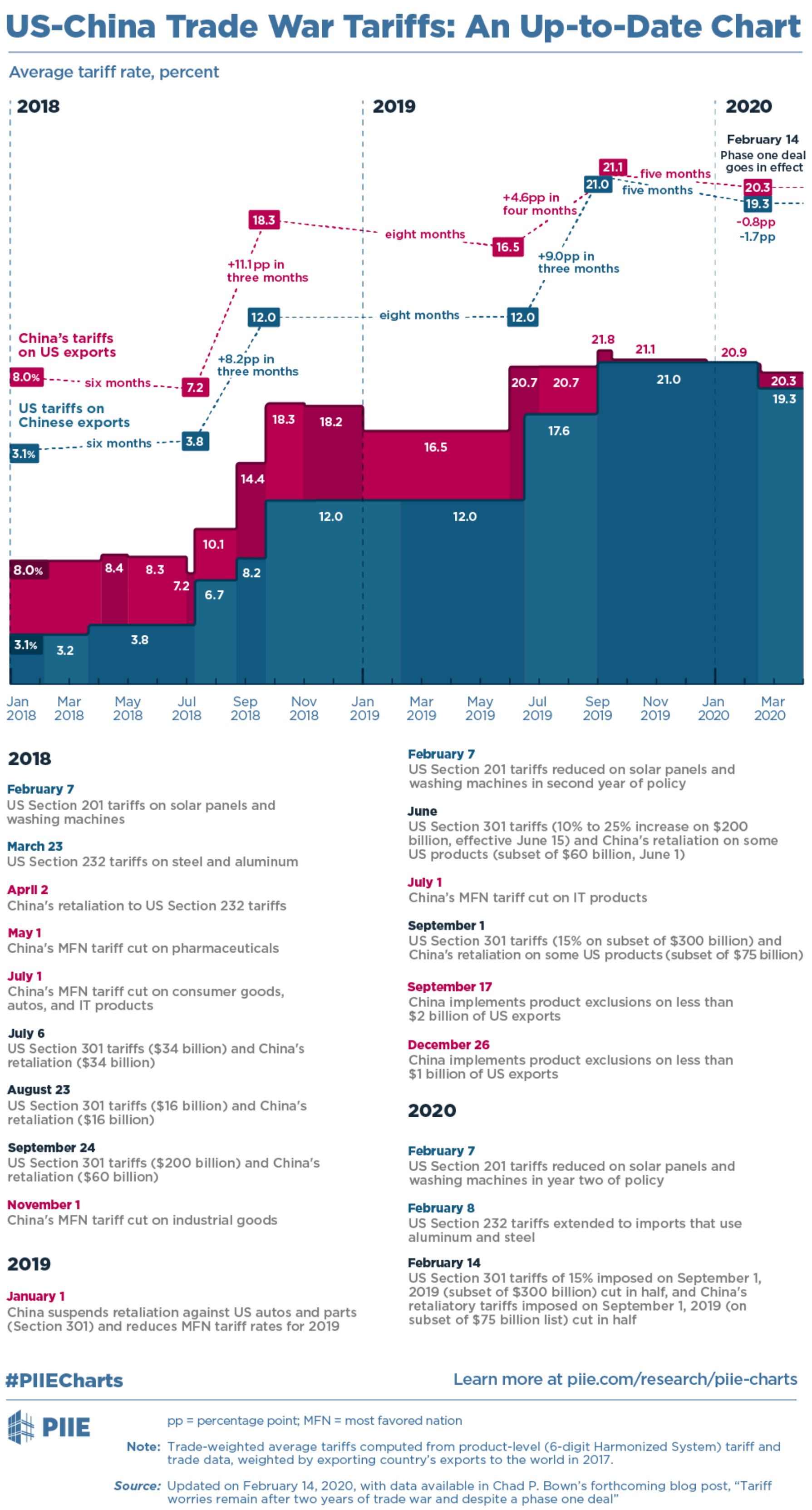

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Figure 4. US-China Trade War Tariffs: An Up-to-Date Chart. Reprinted from *US-China Trade War Tariffs: An Up-to-Date Chart*, by Chad P. Bown, February 14 2020, retrieved from https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart Copyright 2020 by Peterson Institute for International Economics.

As you can see from both Figure 3. and Figure 4., many billions USD worth of tariffs have been placed by each country in a very tit-for-tat fashion. Technically, the U.S. were the ones to first place tariffs on China. Starting in January of 2018, U.S. President Trump placed 30 billion USD worth of tariffs on Chinese solar panels and washing machines. Then, in February of 2018, China retaliated with placing import duties on U.S. sorghum exports. U.S. retaliated in March by placing 25 percent tariffs on Chinese imported steel, and 10 percent on Chinese aluminum. Once again, in April China retaliated by enacting tariffs on a sweeping numbers of U.S. products, most significantly 25 percent on U.S. pork and 15 percent on fruits, nuts and wine (Marchant & Wang, 2018) .This trend has continued, with the most significant time points highlighted in the above figures provided by BBC and PIIE. It should also be noteworthy why China chose U.S. agricultural products to impose tariffs on, and why the U.S. initially chose solar panels and washing machines – both being electronics. Statistically speaking, China's largest U.S. imports are agricultural products, with the top contenders being soybeans, cotton, fish, dairy sorghum, wheat nuts and pork. Sales from these U.S. agricultural products regularly amount to 20 billion USD annually (Marchant & Wang, 2018) . On the flip side, U.S. businesses mainly purchase Chinese electronics. In recent times, China has become a major manufacturing hub for the world, as they have shown they are very efficient at manufacturing labor-intensive electronics.

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3.2 Made in China 2025

The most important question involved here in simply, why have U.S. President Donald Trump and General Secretary of the Chinese Communist Party Xi Jinping been so adamant about placing tariffs? Or, even if the U.S. was the first to instigate such a conflict, why did U.S. President Trump begin such an endeavor? Surprisingly, trade disputes are not a new issue between the U.S. and China, though this is the first time it has started a trade war. President Trump has made several claims that China is a threat to the U.S., and is not playing fairly in regards to trade or politics. An example of President Trump's claims would be China's "Made in China 2025" initiative. Released in 2015, "Made in China 2025", which China has described more as a vision rather than an actual act or law that has been passed, essentially is China's plan to modernize their industry and manufacturing. The Chinese Communist Party's (CCP) ultimate goal is to reduce foreign dependency, while simultaneously promoting and improving Chinese manufacturing through key initiatives. McBride & Chatzky (2019) give further insight to the CCP's goal "China 2025 sets specific targets: by 2025, China aims to achieve 70 percent self-sufficiency in high-tech industries, and by 2049—the hundredth anniversary of the People's Republic of China—it seeks a dominant position in global markets" (para. 6). They plan to do this by adopting several strategies, namely subsidies, investment in foreign firms and acquisitions, and forced transfer agreements. First, in terms of subsidies Chinese officials have been, and plan to continue providing direct subsidies to Chinese firms. Huawei is an example of this. To date, Chinese firms have received several hundreds of billion in subsidies from the CCP. Additionally, in most cases these firms have no direct foreign ownership, or foreign equity, as having any would likely exclude them from the receiving said subsidies. Next, the CCP has been utilizing what they refer to as "forced transfer agreements". Essentially, if a

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foreign company wants to conduct business in China they must partner with a Chinese firm, and then share their sensitive information, mostly technology and innovation secrets, with the Chinese firm. Finally, the CCP has been encouraging Chinese companies to invest in foreign companies abroad to gain access to their technology. This has been going on in several nations, including the U.S. and the EU. McBride & Chatzky (2019) further explain "Chinese companies, both private and state-backed, have been encouraged to invest in foreign companies, notably semiconductor firms, to gain access to advanced technology. The value of Chinese acquisitions in the United States peaked in 2016 at over $45 billion" (para. 14). Rightfully so, many foreign leaders have complained about Made in China 2025, as it worries them about Chinese intensions on the global stage.

Another complaint that U.S. President Trump has made towards the CCP concerns the U.S. trade deficit with China, which has continually grown over the last couple of decades. Please see Figure 5. below, provided by the BBC with research conducted on data from the U.S. Census Bureau, which details how much the U.S. trade deficit with China has grown since the 1980's up to the present day

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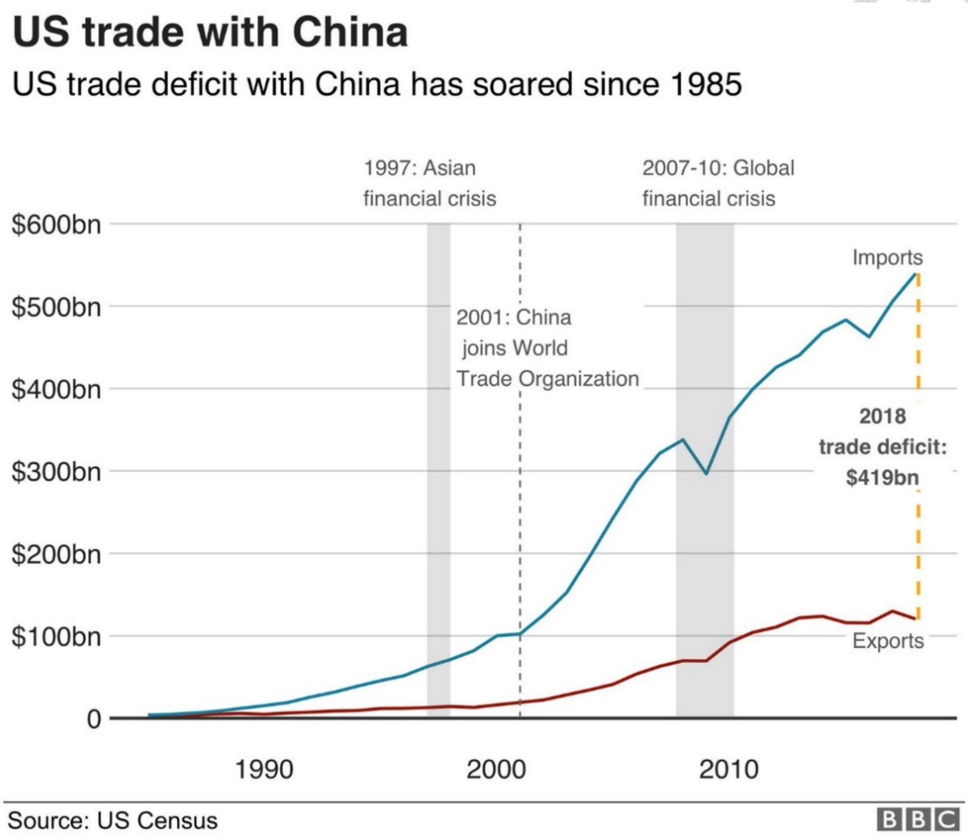

Figure 5. US Trade with China. Reprinted from *Trade war: US-China trade battle in charts*, by British Broadcasting Corporation, May 10 2019, retrieved from https://www.bbc.com/news/business-48196495 Copyright 2019 by BBC.

As detailed above the trade deficit has continually grown, topping out as recently as 2018 at a total of 419 billion USD. More recently, in 2019 the U.S. trade deficit with China amounted to 345 billion USD. And, for the year of 2020, as of May it amounted to 104 billion USD. Furthermore, in 2018 the total U.S. trade deficit globally amounted to 872 billion USD, and in 2019 it amounted to 854 billion USD (United States Census Bureau, 2020). Taking these numbers into account and doing some minor calculations will reveal that as of 2018, trade with China made up 48 percent of the U.S.'s trade deficit worldwide, then 40 percent in 2019, and finally 31 percent as of May 2020. One could conclude that the trade deficit with China has been falling slightly, decreasing from 48 percent to 40 percent from 2018 to 2019. However, for the year of 2020 results

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are unclear as the year has not ended yet, and the COVID-19 global pandemic has severely reduced trade overall. The trade deficit is a tricky subject as not everyone views it as a negative aspect of trade, and moreover some economists see it as simply a byproduct of demand. As discussed previously, the U.S.'s main export to China are their agricultural products, and China's main export to the U.S. are their electronics. Some economists have argued this is simply due to cost – food is less expensive than electronics. Therefore, it would seem natural for U.S. to spend more money purchasing Chinese goods than vice versa. As Marchant & Wang (2018) explain "While the United States has a large trade deficit with China, it has a trade surplus in agricultural products" (para. 2).

3.3 Phase One Deal

Efforts to calm tensions between China and the U.S. over trade issues were initially in vain, but in 2020 a "Phase One Deal" was signed. On January 15, 2020 President Donald Trump and China's Vice Premier Liu He met to sign the deal, which included several measures by China to help mitigate disputes made by the U.S. over what they deem as unfair trade policies. First, China promised to make an additional 200 billion USD in purchases of U.S. goods and services over the next two years. This is important, as since the trade war has begun U.S. agricultural exports to China have significantly decreased. Please see Figure 6. below, provided by the Center for Strategic & International Studies (CSIS), through data they collected from the U.S. Department of Agriculture

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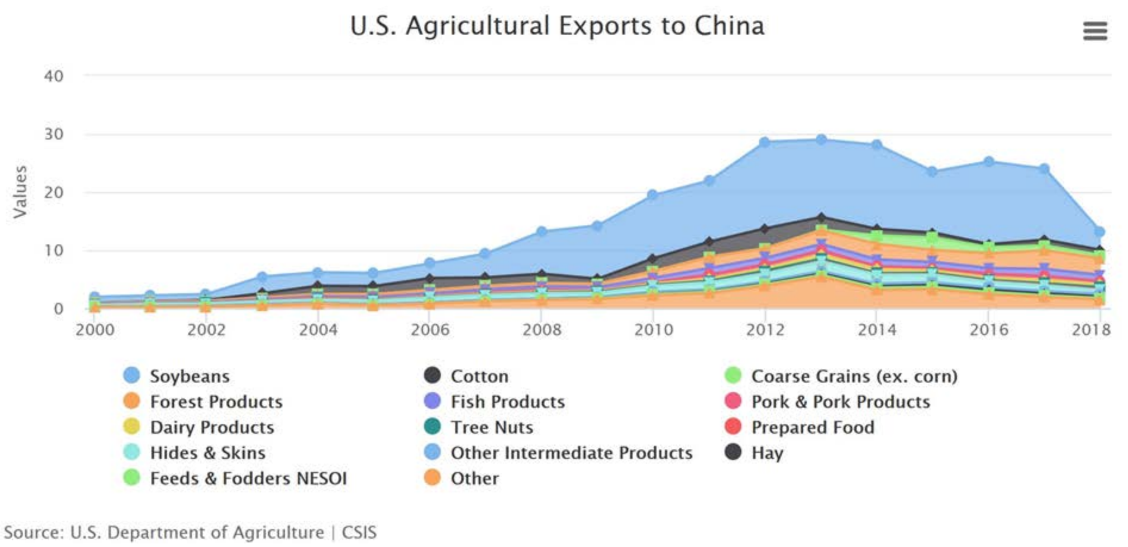

Figure 6. U.S. Agricultural Exports to China. Reprinted from *What's Inside the U.S.-China Phase One Deal?*, by Center for Strategic and International Studies, January 15 2020, retrieved from https://www.csis.org/analysis/whats-inside-us-china-phase-one-deal Copyright 2020 by Center for Strategic and International Studies.

As you can see from Figure 6. above, U.S. agricultural exports to China have decreased by more than 30 percent since the start of the trade war. The majority of this decrease has been from soybean exports, which is one of the main U.S. crops exported to China. Additionally, according to information published by the International Trade Administration U.S. Department of Commerce, U.S. agricultural exports to China fell from 15.7 billion USD in 2017 to just 5.9 billion USD in 2018. Recently, in 2019 they have risen again to 10.2 billion USD, but that is still lower than any amount in the last decade (International Trade Administration U.S. Department of Commerce, 2020). Providing further details, Menzie Chinn and Bill Plumley (2020) from Econofact also state

> “U.S. exports of agricultural products to China decreased by 63% between 2017 and 2018, from $15.8 billion to $5.9 billion. The effects of this were concentrated in Washington, Louisiana, Texas, California, and Oregon, which

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together accounted for nearly 80% of 2018's exports, according to our calculations based on data from the U.S. International Trade Administration" (para. 3).

Of the 200 billion USD in additional products and services China has promised to purchase from the U.S. during the next two years, 80 billion USD is solely dedicated towards purchasing U.S. agricultural products. This is unnerving because while China is promising to purchase additional agricultural products from the U.S. at 40 billion USD annually, that amounts to 11 billion USD more than even when U.S. agricultural exports to China were at their highest level ever – 29 billion USD in 2013. For its part, the U.S. has agreed to lower tariffs on Chinese imports, but for now will maintain tariffs on 360 billion USD worth of Chinese goods (Goodman, Kennedy, Reinsch, Segal, & Caporal, 2020). With relevance to the previous statement, there are two factors. First, U.S. farmers may not be able to keep up with such demand. This is especially true after the COVID-19 pandemic occurred in February of 2020, which has severely disrupted global supply chains and caused many companies to turn towards sourcing locally rather than globally, opting for reliability over cost – not the norm previously. Secondly, with the U.S. complaining about China's already overreaching governmental control over their economy, forcing them to make such large scale purchases when demand is suffering is counter intuitive. As Bisio et al. states, with help from Finbarr Bermingham's "China's Trade War Dear 'May Be Doomed from the Start"

"Some observers worry that in order to meet the agreement's requirements for expanded U.S. imports, the Chinese government may have to direct large-scale purchases of U.S. products—in other words, increasing even further the government's role in economic decision making" (Charles Horne, 2020).

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The second issue that China and the U.S. have outlined in the Phase One Deal surrounds intellectual property (IP) rights. This has been a huge complaint made by the U.S. against China, as many U.S. businesses with offices located in China have complained about the lack of laws and protections regarding IP rights in the country. China has made obligations on IP in the past, but the Phase One Deal requires China to publish an action plan on when, and how the government will uphold their obligations to safeguard IP rights. The deal also requires China to afterwards produce data on what impact their measures have had on safeguarding IP rights in the country. The agreement specifically mentions China making advancements in curbing their counterfeit and pirated good's market, along with making improvements with regards to the protection of trade secrets and overall confidential information among businesses. Finally, the deal demands that China punish IP theft more harshly in the country (Goodman, Kennedy, Reinsch, Segal, & Caporal, 2020). The Phase One Deal's section regarding IP rights also dives into the realm of Chinese courts, and states that China must switch the burden of proof – from proving innocence from the plaintiff to the accused – while also requiring that lawsuits revolving around IP complaints be switched from administrative courts to criminal. This leads to the notice that China must, more harshly, punish abusers of IP theft (Bisio, et al., 2020). In terms of U.S. requirements and obligations with regards to IP protection, no new requirements are made, but rather the U.S. simply agreed to continue to adhere to their own IP laws and regulations.

The third issue that is detailed in the Phase One Deal, deals with forced transfers of trade secrets, another huge complaint made by U.S. government officials and business owners alike. For several years now, China has been forcing international companies to share intellectual property and trade secrets in exchange for market access in China. Once opening firms in China, the international company must partner with a

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Chinese firm, and afterwards share sensitive information. This goal is in line with China's Made in China 2025 initiative, with the purpose being to improve China's manufacturing capabilities by improving their technology. The Phase One Deal now prohibits technology transfer in exchange for market access, which China has previously agreed to per WTO rules. However, per technology transfers, there are no monitoring guidelines, enforcement protocols or targets. Additionally, the U.S. likely lacks the ability to properly monitor CCP compliance, minus individual Chinese firms' willingness to adhere (Bisio, et al., 2020).

The fourth component that deals with demands outlined in the Phase One Deal, pertains to currency manipulation and issues with financial markets. First, with regards to currency manipulation, these demands are the same as those outlined in the G20 and the International Monetary Fund (IMF), simply stating that China will not purposely devalue its currency for competitive purposes. This same rule applies to all nations whom participate in the G20, or whom receive loans from the IMF. The Phase One Deal rather states that each nation will continue its commitments to adhere to this policy, not outlining any changes. Secondly, with regards to financial markets, starting in 2020 China has pledged to cease adherence of their foreign investor ownership limits in their financial sector (Goodman, Kennedy, Reinsch, Segal, & Caporal, 2020). This is due to U.S. financial firms, including MasterCard and Visa, having long complained about China's intentionally burdensome paperwork required to invest within the country. Officials have speculated that this is because China does not want foreign competition to rival their own domestic payment industries. Also, the CCP has made it very difficult for Chinese financial firms to allow foreign personnel and firms to have a majority stake or ownership in the company. Little here has been changed, other than the CCP reaffirming their commitment to allow U.S. agencies to acquire majority ownership in

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existing joint ventures, while also making it easier for U.S. payment and credit agencies to access the Chinese market. For their part, the U.S. agreed to be nondiscriminatory toward Chinese firms when allowing access to the U.S. financial sector. (Charles Horne, 2020).

Finally, we will discuss implementation – or rather how does each side make sure the other honors the agreement and rules therein? The steps outlined in this agreement are quite unique. For starters, both China and the U.S. must create a "Bilateral Evaluation and Dispute Resolution Office", where each side can submit complaints if either feels that agreements and rules are not being followed as outlined in the deal. From here, if the office is not able to settle the dispute it will go up the chain of command, ending with the U.S. Trade Representative and Chinese Vice Premier. If, still a resolution is not met, the complaining party may take measures deemed to be appropriate, as based on factual information outlined during consultations held by each side. As Goodman et al. (2020) from CSIS explains

> "Should no resolution be achieved, the Complaining Party may resort to taking action based on facts provided during the consultations, including by suspending an obligation under this Agreement or by adopting a remedial measure in a proportionate way that it considers appropriate with the purpose of preventing the escalation of the situation and maintaining the normal bilateral trade relationship" (para.11).

In regards to the "remedial measure" outlined in the above quote, the deal states that the opposing party may not take a counter measure if they disagree with the remedial measure taken against them, and instead the only option they have is to withdraw from

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the agreement by submitting a 60-day notice, if they wish to do so (Goodman, Kennedy, Reinsch, Segal, & Caporal, 2020).

3.4 Outlying Factors – Political Climate

Excluding the Phase One Deal's relative ambiguity, and chances that it will fall short of being successful, after being signed only 6 months ago issues are already arising. Recently, more than 40 U.S. companies have issued statements urging the CCP to uphold their side of the deal and commit to purchasing U.S. goods. As mentioned in the previous section when outlining the Phase One Deal, Beijing has committed to purchasing 200 billion USD worth of U.S. exports over the next two years. A letter was sent to Treasury Secretary Steven Mnuchin, U.S. Trade Representative Robert Lighthizer, and Chinese Vice Premier Liu He. In said letter, several businesses from an array of industries, including the U.S. Chamber of Commerce, outlined the severity of both parties need to stand firm on Phase One Deal commitments. As stated by Wei & Davis (2020), two journalists at the Washington Street Journal (WSJ)

> "The letter was also signed by the Business Roundtable, the U.S.-China Business Council and other trade groups covering a swath of industries including aerospace, autos, semiconductors and pharmaceuticals. The groups expressed their concerns that China is falling short of the overall purchase targets laid out in the trade deal despite progress it has made toward buying American farm products" (para. 2).

Since the signing of the Phase One Deal, Beijing has focused on purchasing agricultural products, because U.S. President Trump made them the core of his demands during the two yearlong process of negotiations. To date in 2020, manufactured goods were at 56 percent of their annual purchasing target, farm products were at 39 percent,

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and energy was at 18 percent. Regardless, the businesses that signed the letter have conveyed that its significance is more so to urge Beijing to keep strong on its agreements in the trade deal, rather than a complaint. Their main goal is to keep the trade deal alive (Wei & Davis, 2020). This is quite important in a time of increasingly rising tensions between the two countries. As of late, the U.S. has made complaints of China's handling of the COVID-19 pandemic, how they're treating the Uighurs population in China's Xinjiang Province, how they're ruling over Hong Kong, and their military presence in the South China Sea. On the other hand, Beijing has also made complaints about the U.S. – mainly their interference with Hong Kong, stating that the U.S. is interfering with China's domestic policies. Recently, Beijing passed a new security law concerning the territory of Hong Kong, which made major changes to Hong Kong laws. For starters, it makes secession, subversion, terrorism and collusion with foreign and external forces all punishable under the law, and additionally it carries a maximum life time sentence for each of these offenses if found guilty. For example, damaging public transportation can be tried as terrorism. Additionally, the security law establishes a new security office in Hong Kong, run by mainland personnel – whom cannot be subjected to local Hong Kong law. Hong Kong's Chief Executive, currently Carrie Lam, will have full authority to appoint judges to hear national security cases – some of which may be sent to mainland China for trial. Finally, Beijing will have the power to dictate how the security law is to be interpreted, and people, if found guilty, afterwards cannot run for public office in Hong Kong (Tsoi & Cho Wai, 2020). Many nations are afraid that this bill will further erode Hong Kong's autonomy, established under the label "One Country – Two System". This system, which grants Hong Kong special privileges, rights and laws not found in mainland China for an additional period

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of 50 years, was promised to Hong Kong during the transfer that took place between Beijing and the UK in 1997.

In response, the U.S. Senate recently unanimously passed the “Hong Kong Autonomy Act”, along with President Trump having already signed it – making it legal binding. The law imposes sanctions on international banks found to be doing business with anyone whom is seen as a threat to Hong Kong’s autonomy. As Zengerle (2020) from Reuters reported “The measure also includes secondary sanctions on banks that do business with anyone found to be backing any crackdown on the territory’s autonomy, potentially cutting them off from American counterparts and limiting access to U.S. dollar transactions” (para. 2). Additionally, President Trump recently ended the special economic treatment – essentially special trading status – provided by the U.S. that Hong Kong had enjoyed. Instead, President Trump has now opted to treat Hong Kong the same as mainland China. Officials argue that Beijing has anticipated the move, and that it remains to be seen whether or not it will have significant impact on Hong Kong’s economy. Chinese officials have stated that Hong Kong is becoming more detached from the West, while simultaneously becoming more intertwined with Asia in terms of trading and banking (Myers, 2020). Regardless, Beijing has responded harshly and has complained that the U.S. is overreaching their jurisdiction, while also claiming that the new security law does not intend to erode any of Hong Kong’s special rights and privileges, and instead intends to protect national security.

Additionally, very recently the U.S. demanded that China close their consulate in Houston TX, citing reason that that unidentified officials were seen burning documents outside in the embassy courtyard. Afterwards, U.S. Secretary of State, Mike Pompeo, accused the CCP of stealing U.S. and European IP. In response, China demanded that the U.S. close its embassy in the Chinese city of Chengdu, citing reasons

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that U.S. officials there were interfering with Chinese affairs, national interests and security. The U.S. Chengdu embassy is seen as strategically important, as its close proximity to the Chinese semi-autonomous region of Tibet allows the U.S. to monitor the political situation and climate there (US consulate: China orders US consulate closure in tit-for-tat move, 2020).

All of these issues add tensions, and have the potential to negate the success of the trade deal, regardless of fact that these are all outside factors. However, while not supporting specific moves made by China or the U.S., many still support the Phase One Deal and claim without it there is no room for dialogue, nor a way to work out issues as it provides a channel for compromise. Wei from Reuters, while citing a former Trump White House trade negotiator, states "Clete Willems, a former Trump White House trade negotiator, says the trade deal is crucial to keeping pressure on Beijing. "If you don't have an agreement you have no way to fix problems," he said. "There's no way to leverage additional purchases; there's no way to fix biotechnology issues" (Wei & Davis, 2020).

3.5 Outlying Factors – War on Technology

Separate from the U.S.-China Trade War, but yet another outlying factor affecting current U.S.-China negotiations, is the ongoing war over technology between the two nations. A great example of this would be the recent disputes made over the Chinese company Huawei – currently the world's largest telecommunication equipment producer, as well as the world's second largest smartphone seller. Huawei, of which is headquartered in Shenzhen, China, has been a thorn in U.S.-China bilateral relations for nearly a decade. Several nations, including the U.S., have made claims that Huawei's equipment could be used by the CCP as a backdoor to conduct cyber espionage. This

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accusation has only grown in size as Huawei has developed as a company, growing richer along the way and thus becoming better able to compete with other major foreign telecom corporations.

As telecommunications have developed, 5G technology has been emerging globally, with many nations trying their best to prepare for switch from 4G in their respective consumer markets. Globally, Huawei has become a leader in the 5G market, thus far filing the most 5G patents out of any other international company. Please see Figure 7. below, provided by the Council on Foreign Relations (CFR), that was constructed through research gathered, in part, by IPlytics

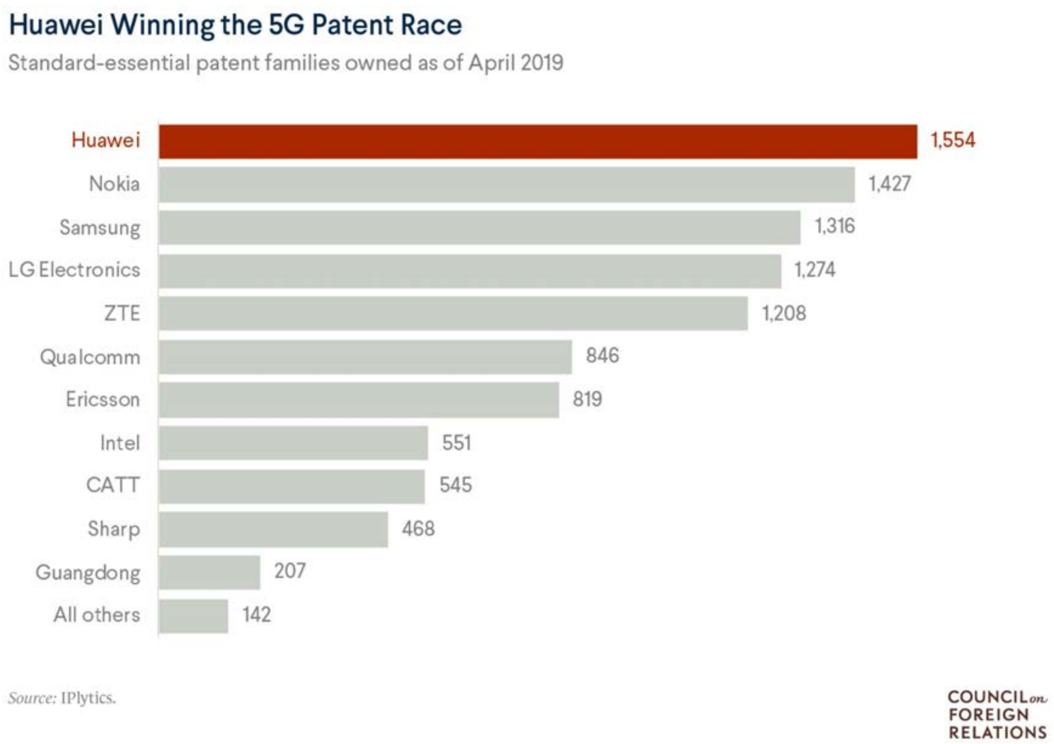

Figure 7. Huawei Winning the 5G Patent Race. Reprinted from *Huawei: China's Controversial Tech Giant*, by Council on Foreign Relations, February 12 2020, retrieved from https://www.cfr.org/backgrounder/huawei-chinas-controversial-tech-giant Copyright 2020 by Council on Foreign Relations.

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Additionally, Huawei has secured many contracts to build 5G infrastructure in foreign countries. As of February 2020, Huawei had secured 91 commercial 5G contracts worldwide, of which 47 were located in European countries (Li & Ting-Fang, 2020).

However, despite Huawei's success they have had many backlashes as of late. First, beginning in 2018, U.S. President Donald Trump forbid U.S. federal agencies from using or purchasing Huawei equipment. Additionally, in May of 2019, the Trump Administration added Huawei to the U.S.'s entity list – essentially banning Huawei from buying U.S. products without prior permission to do so. This is important, as Huawei relies on U.S. software and chips for its production process. Though, exceptions were made for a few U.S. companies, including Microsoft, to sell Huawei supplies. Then, in November of 2019, the U.S.'s Federal Communications Commission (FCC) officially labeled Huawei and ZTE – another prominent Chinese telecommunication company – as national security risks (Maizland & Chatzky, 2020). Going even further, in May of 2020, the Trump Administration barred Huawei – including their affiliates and suppliers – from even using U.S. technology, software and machinery for the purpose of designing or producing chips for Huawei. The rule is meant to go into effect starting in September of 2020. And, while the Trump Administration mentioned that companies affected could still apply for a license to continue to use U.S. technology in conjunction with the production of Huawei products, they added that it is unlikely that such licenses would be granted (Swanson, 2020).

Besides citing national security risks and espionage, the U.S. defends their ban of Huawei by pointing to China's 2017 National Intelligence Law. Under the new law, Chinese companies must adhere to, cooperate and comply with the CCP in regards to intelligence gathering. Furthermore, Chinese firms must now also establish a branch within their company, that would work in conjunction with the CCP. In China's

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defense, Huawei stated that they have never used their equipment to spy, nor would they ever do so. Additionally, Huawei's CEO Ren Zhengfei publically stated that he would never harm his customers, nor would he answer the CCP's requests for intelligence gathering, if the CCP were ever to do so. Huawei, with help from a Chinese law firm, also created a legal report that stated it could not be forced to spy for the CCP (Maizland & Chatzky, 2020).

Joining the U.S. in its Huawei ban, in July 2020 the UK – of which has commercial and private businesses who had already secured contracts with Huawei to build and install 5G infrastructure in the country – turned course by officially banning Huawei. The UK's Digital Secretary Oliver Dowden set guidelines, of which officially come into force as of December 2020, that forbid UK businesses and corporations from buying additional 5G kits from Huawei. Furthermore, the Digital Secretary set a 2027 deadline, by which Huawei must have dismantled and removed all pre-installed 5G equipment in the country. The UK cited reasons of national security being at risk for the decision (Kelion, 2020). This was a big turning point for the UK, who in the past had shared warmer feelings with Huawei. In 2005, the UK became the first country in Europe to offer contracts to Huawei, acting as a foothold into the continent for the company. Huawei also organized several projects in the country, such as planning to spend 1 billion pounds on a research center in Cambridge during 2020. Many have cited U.S. pressure as being the ultimate reason for the ban, along with growing tensions between the UK and China over recent events in Hong Kong, such as the National Security Law passed by China in 2020 (Satariano, Castle, & Sanger, 2020). Starting in 2018, the Australian government also decided to ban both Huawei and ZTE from obtaining contracts to build 5G networks within their country. Australia also cited security concerns as being the reason for banning both companies. Then Australian

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Prime Minister, Malcolm Turnbull, further explained that the Australian government's decision was not based on the idea that Huawei themselves would conduct malicious acts, but rather that they were afraid Huawei's hardware would leave Australia vulnerable to espionage (Choudhury, 2019).

Aside from concerns over national security, the current Huawei bans also stem from additional accusations. For example, the U.S. has complained that Huawei has, in the past, violated trade sanctions and committed IP theft. In terms of IP theft, starting in 2003, the U.S. complained that source code from the U.S. company Cisco was found in one of Huawei's products. Additionally, in 2017 a jury found Huawei guilty of stealing IP from T-Mobile. With regards to trade violations, the U.S. has also claimed that Huawei violated trade sanctions that were put in place on Iran (Maizland & Chatzky, 2020). There is currently an ongoing dispute concerning the trade sanction violations, of which surrounds Meng Wanzhou – Chief Financial Officer (CFO) of Huawei – who has been detained on house arrest in Canada on request from the U.S. since December of 2018. The U.S. has charged Meng Wanzhou with bank fraud, citing that she deliberately lied to, or at the very least mislead HSBC Bank about Huawei's dealings with Iran. This is important to the U.S., as they currently have many sanctions placed on Iran. In response to the allegations, China has repeatedly demanded Meng's release. The situation has become even more tense after May of 2019, when a Canadian judge ruled that Meng's alleged crimes – if she is found guilty – could be punishable in both Canada and the U.S. This essentially rules out a swift and easy court case, as the case could now drag out for years to come (Warburton, 2020). Additionally, in the same month as Meng Wanzhou's arrest, two Canadian officials were detained in China – Michael Spavor, a Canadian business consultant, and Michael Kovrig, a former diplomat. China had accused the two of espionage. This has only added to tensions, as

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the Canadian Prime Minister Justin Trudeau believes the two men's arrests to be a direct retaliation by China for Meng Wanzhou's detainment. However, China denies such accusations. As recently as June of 2020, Canadian PM Trudeau refused to halt extradition proceedings concerning Meng Wanzhou. Trudeau cited his reasoning as not allowing political pressure from foreign nations to influence the functioning of Canada's justice system, as if it did it would endanger the millions of Canadians living abroad (Ljunggren, 2020).

Diplomats and government officials alike, have speculated over where the current hardline stance between China and the U.S. over technology is heading. Some believe it might divide the world. While the U.S. doubles down, determined to punish China over alleged IP theft, cyber espionage, and forced technology transfers, China feels compelled to increase their core technology by supporting initiatives like China 2025. Programs like these in China will increase government surveillance and control over their economy, likely making it very difficult for Western companies to compete in the country. Some officials are now referring to this issue as the new "Digital Iron Curtain" – a play on words to refer to the Iron Curtain that took place after WWII between the U.S. and former USSR. (Segal, Staden, Kania, Sacks, & Zaagman, 2019). Here, instead of a barrier dividing the U.S. and USSR ideology – that was seen more as occupying a physical land area – the U.S. and China may create an ideological rift that takes place on the digital stage, but affecting business and commerce all the same, while forcing other countries at the whim of such a fight to choose a side whether they desire to or not.

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4 Similarities

4.1 Protectionist Trade Policies & Nationalism

Both the Smoot-Hawley Act and the U.S.-China Trade War have happened amongst times of growing protectionist trade policies, and a rise in nationalism. A major factor of enacting the Smoot-Hawley Act for the U.S., was protecting U.S. farmers due to their steadily decreasing annual incomes throughout the 1920's. However, the tariffs the U.S. sought out to impose did not aid the farmers in the end, and doubly angered the majority of the U.S.'s allies – Canada is a great example, outlined already in this paper. The tariff act even caused Canada to begin a "Canada First" attitude, angered at the U.S. for hurting their economy. Their allies responded by establishing special preference systems for trading – such as the UK commonwealth's "Empire-Preference System" – or simply placing retaliatory tariffs on the U.S., resulting in limiting U.S. exports. This evident, as due to the combined effects of Smoot-Hawley and the Great Depression, U.S. exports went from amounting 7 billion USD annually in 1929, to just 2.4 billion USD only a couple of years later in 1932. Again, this was at a time when U.S. agricultural products made up the majority of U.S. exports, another example of how the tariff act damaged farmers' incomes. Smoot-Hawley also lead to the Great Crash of 1929, as investors looked to Washington for guidance, leaning on their actions with the tariff bill to decide whether or not to invest in the stock market. This can also be seen with the current COVID-19 pandemic and the U.S. stock market, as once word reached the U.S. that the pandemic might infect the country in mass numbers, the stock market ended up falling roughly 30 percent – though it has since regained a lot of lost ground.

As for the U.S-China Trade War, since the Trump Administration took power in 2016, the U.S. and China have both began taking tougher stances on one another with regards to bilateral relations. This is evident with Phase One Deal itself, as it addresses

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China’s “Made in China 2025” initiative. Additionally, the U.S. has been retaliating against the majority of Chinese political decisions as of late. This is evident with the Uighurs in Xinjiang, Tibet’s political status, island building and military presence in the South China Sea, and recently the Hong Kong National Security Law. Even as of late, both have ordered the closing of one of their respective embassies in each other’s country – the Chinese Embassy located in Houston, TX U.S., and the U.S. Embassy located Chengdu, China. U.S. President Trump has even speculated about canceling visas for members of the CCP and their family members, which would expel those already living in the U.S. Essentially, both nations have taken a much stronger, stricter stance against one another, which can be tied to protectionism and nationalism.

4.2 Environment – COVID-19 & The Great Depression

While the COVID-19 pandemic and the Great Depression are both very different events, they are similar in the fact that both are pivotal moments in human history. The Great Depression lead to much suffering, and combined with the Smoot-Hawley Act it led to numerous downfalls – the Great Crash of 1929, a decrease of U.S. GNP and import volumes, and heightened tensions with political allies – to name a few. With respect to the current COVID-19 pandemic, IGO’s such as the WTO have forecasted gloomy future trade results. Please see Figure 8. below, provided by the WTO through research conducted by their Office of the Secretariat, located in Geneva, Switzerland

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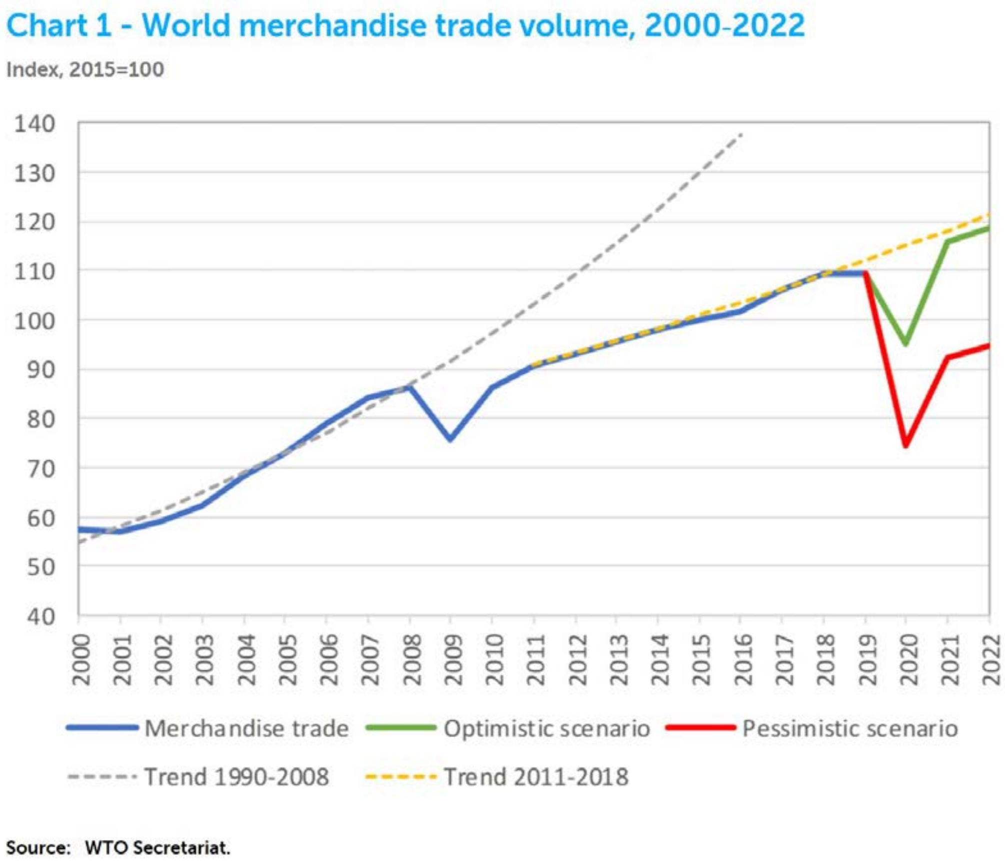

Figure 8. World merchandise trade volume, 2000-2022. Reprinted from *Trade set to plunge as COVID-19 pandemic upends global economy*, by WTO Secretariat, April 8 2020, retrieved from https://www.wto.org/english/news_e/pres20_e/pr855_e.htm Copyright 2020 by World Trade Organization.

The above graph details two possible outcomes, as predicated by the WTO, an optimistic and pessimistic prediction of how trade volumes will recover going into 2020 and 2021. As the WTO Office of the Secretariat (2020) further explains

> "Future trade performance as summarized in Table 1 is thus best understood in terms of two distinct scenarios: (1) a relatively optimistic scenario, with a sharp drop in trade followed by a recovery starting in the second half of 2020, and (2) a more pessimistic scenario with a steeper initial decline and a more prolonged and incomplete recovery" (para. 10).

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Please note, with reference to above quote by the WTO Office of the Secretariat, “Table 1” represents Figure 8. in the paper.

What role does the U.S.-China Trade War play in all of this? For starters, just as the Smoot-Hawley Act exacerbated the Great Depression, the U.S.-China Trade War is adding to issues that are already severely strained by the COVID-19 pandemic. In the midst of the pandemic, many businesses have already begun rerouting supply chains, opting to set up several trade routes that they can utilize, in case one route becomes temporarily unusable. Being that, China currently for accounts for 60 percent of global consumer goods exports, and 41 percent of global technology, media and telecom exports, many businesses have label this as a “China +1 trade route strategy. China’s market is so big that there’s currently no substitute for it. However, because of “China +1”, other nations have benefited from the additional supply routes (Hedwall, 2020). Also, as Hedwall (2020) from the World Economic Forum further explains

> “The global supply chain had begun responding to US-China tensions and we can expect the disruption caused by COVID-19 to accelerate the pace of this response. Trade analytics show China lost global export market share at an accelerated pace in 2019, as companies moved to other countries. We have seen low-cost production moving mainly to Mexico and Vietnam” (para. 7).

However, it is still unknown exactly how trade will perform in the future, as it is largely dependent on several factors – lockdowns, trade disputes, and whether or not a vaccination will be developed anytime soon. The main point here is that the U.S.-China Trade War, and tensions that come with it, serve to possibly further exacerbate the COVID-19 pandemic’s problems by disrupting already strained supply chains, adding to the already heightened good’s costs by adding tariffs, and adding to protectionist

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policies – during a time when nations are already becoming more protectionist in a fight to protect their citizens from the pandemic.

4.3 High Tariff Rates

Another characteristic that both the Smoot-Hawley Act and the U.S.-China Trade War share, are that both have made tariffs rates very high during their respective time frames. With regards to the Smoot-Hawley Act, tariffs on average hovered around 50 percent. Furthermore, due to the fact that some of the tariffs were a fixed dollar amount, instead of a percentage of the good's value – otherwise known as an ad valorem – when deflation hit due to the Great Depression both the price of the good and the tariff became worth much more. This had a double negative effect on the ability of U.S. consumers being able to afford said goods. Foreign nations also retaliated against the U.S. during Smoot-Hawley, enacting new tariffs or raising rates on the already existing ones on U.S. exports.

With respect to the U.S.-China Trade War, U.S. tariffs worldwide are overall still quite small, hovering at around 2 percent – nowhere near the amount of Smoot-Hawley's tariffs. Furthermore, currently over a half of industrial exports to the U.S. enter duty free (Office of the United States Trade Representative, 2020). However, with regards to Chinese imports, as of 2020 the U.S. currently levies a 25 percent tariff on 250 billion USD worth of Chinese imports, and a 7.5 percent tariff on an additional 120 billion USD worth of Chinese imports. The 7.5 percent tariff is actually progress, and was due to the Phase One Deal – promised in agreement for China purchasing an additional 200 billion USD worth of U.S. exports over the next two years. As York (2020) states, that as of February 2020 "U.S. reduces tariffs on $120 billion of Chinese goods by half to 7.5% and China reduces tariffs on approximately $75 billion of US

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goods in half to 2.5% and 5%.” (para. 1). The reduction on the U.S.’s side includes Chinese electronics, such as washing machines and solar panels. However, on the bulk of Chines imports, tariffs remain unchanged. As Bown (2020), from the PIIE quotes

> “The February 14, 2020 implementation of the phase one deal between the Trump administration and China establishes new US tariffs on imports from China for the foreseeable future. Average US tariffs on imports from China will remain elevated at 19.3 percent. These tariffs are more than six times higher than before the trade war began in 2018” (para. 1).

Bown’s above quote is previously exemplified, shown in Figure. 4, titled “US-China Trade War Tariffs: An Up-to-Date Chart”. On China’s side, average tariffs on U.S. exports also remain unchanged, excluding the previously mentioned reductions on 75 billion USD worth of U.S. goods. Levels remain elevated, around 20.3 percent. This is only a slight decrease from levels in December of 2019, which averaged at 20.9 – before the Phase One Deal was signed (Bown, 2020). It’s important to understand that, with respect to Chinese tariffs on U.S. goods, and vice versa, 20.3 and 19.3 are averages – equating to all the differing tariffs amounts, affixed to set industries and goods, being averaged together.

While the above facts may not seem alarming, as U.S. tariffs worldwide remain at a very low 2 percent – excluding the goods that enter duty free – the tariffs on Chinese goods are astronomically high. This is troublesome, as China is the U.S.’s third largest trading partner, currently accounting for 12.4 percent of total U.S. foreign trade. More specifically, 16 percent of U.S. imports come from China (United States Census Bureau, 2020).

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5 Future Outlook & Conclusion

5.1 The Need for Dialogue – Utilize Think Tanks

There are a couple of strategies that can be utilized to mitigate the current issues. For starters, the U.S. and China should utilize think tanks for negotiation purposes and communication channels. Essentially, think tanks can help foster dialogue between the two nations. Think tanks are policy oriented organizations, established for the purpose of academic research in order to directly influence public opinion, with the hopes of ultimately swaying government decisions during policy making. By using James G. McGann's novel "The Fifth Estate: Think Tanks, Public Policy, and Governance" for guidance, Youwei (2019) states "A think tank is a policy-oriented study organization which mainly addresses domestic and international issues, so as to help policy makers and the public make informed decisions on those issues. Thus, it is sometimes called a "thought-producing factory." (p. 144). Think tanks have worked in the favor of bilateral U.S.-China relations previously, especially in times of heightened tensions, by helping both sides opt for friendlier policy decisions. For instance, during the Richard Nixon Administration in the early 1970's, thanks to the Council of Foreign Relations (CFR) and the Conlon Associates Ltd. – both prominent think tank organizations – policy foundation was laid out between the U.S. and China that still stands today. This would include changing the containment policy on China and maintaining the political status-quo on Taiwan, all thanks to a report published by Conlon Associates Ltd. in 1959, of which gave an in depth look into Chinese politics (He Hui, 2017, as cited in Youwei, 2019).

Since the 1980's, the U.S., and especially China, have stepped up utilization of think tanks in their bilateral relationship. During the 1980's, China was in its infancy of utilizing think tanks, partially because they did not exist in China before then. China

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had academic institutions, of whom we're dedicated to the sort of research that think tanks conduct, but their mission was simply academic research – not policy recommendation. As Youwei (2019) further explains "In fact, the concept of "think tank" had yet to be introduced into China to distinguish between academically-oriented and policy-oriented research institutions" (p. 146). Because of this think tank infancy in China, there were few U.S. think tanks that we're approved by the CCP to exchange information with Chinese academic institutions. Additionally, due to a lack of funding from the CCP these institutions we're not able to conduct a lot of research. Therefore, during the 1980's communication was very much one sided, with the majority of the information coming from the U.S., and as such these Chinese institutions very much benefited from U.S. research and knowledge as they slowly developed and enhanced their own think tank culture. Into the 1990's, with incidents such as Tiananmen Square, information exchanges between Chinese and U.S. think tanks had rough patches, but overall improved over the course of the next two decades. Also, in the 1990's the Chinese economy also opened up considerably, in part thanks to Deng Xiaoping's economic reform policies, and it was at this time the CCP started seeing the importance of think tanks utilization (Youwei, 2019).

However, in the recent years fewer and fewer exchanges are taking place between Chinese and American think tanks. For example, in the last few years conservative and liberal think tanks alike have been making fewer trips to China to exchange research and ideas. This is in part due to ensuing issues that China and the U.S. do not see eye-to-eye on – for example, and as previously mentioned, the trade war, South China Sea, Xinjiang, Tibet, and Hong Kong to name a few. Also, interestingly enough, there has been a growing sentiment amongst think tanks that the visits just aren't worth it anymore, citing that fewer ideas are being shared and little new

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insight is being made. Overall, engagement is being encouraged less, which is a turn from the past generations, whom constantly advocated for transparency and information sharing (Youwei, 2019). Furthermore, since the Trump Administration has taken charge, many obstacles have been established for bilateral think tank meetings that are held in the U.S. by Chinese and American officials. Government funding for many U.S. think tanks has been significantly reduced, and many in the Trump administration have also accused some of the Chinese officials as spies, canceling their visas in the process. Some have claimed this has occurred out of a perceived fear of China's rise to becoming a powerful nation, and thus developing the capability to rival the U.S. in global affairs (Youwei, 2019). Another example of this comes from the Trump Administration and their very recent announcement on possibly canceling U.S. visas for members of the CCP. The move, if actually implemented, would ban members of the CCP, their family members, and members of the Peoples Liberation Army (PLA) from entering the U.S. It would also cancel visas for those already residing in the U.S., ultimately expelling them from the country. (Mozur & Wong, 2020). This sort of sentiment was last seen in the Cold War, between the U.S. and the USSR. Exchanges must be had on both sides, and a further sense of "drawing inward" will only make things much worse by leading to further mistrust and misunderstanding.

This lack of information exchange and the trade war can be seen as an example of a fight for hegemony, explaining, at least in part, the reason for the current U.S. – China trade war. Some experts are predicting that currently there is a restructuring of global power occurring. Vlados (2020) further explains the current fight for a hegemony

> "More generally, we can understand that the ongoing Sino-US trade war falls within the category of claiming "hegemony" in a multipolar world. The contemporary world of crisis and restructuring of globalization does not seem to

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have settled into a status quo that creates conditions for stable and generalized well-being" (p. 8).

These exchanges need to happen, and ideas need to be spread. Especially, when making exchanges with one another true values and ideas need to be conveyed. There is, of course the argument that a politically correct approach is needed, but without having moments that may seem at best uncomfortable, actual feelings will not be exchanged. The result of this is further miscommunication, which leads to misunderstanding, and finally a lack of rapprochement and reciprocity. Therefore, this paper would recommend the U.S. and China to once again step up funding and usage of think tanks – of the sort that can foster uncharged and unbiased exchanges – in order to deliver valuable insights for both sides.

Of these channels that need to be upheld, is the Phase One Deal. As mentioned previously by the former Trump White House trade negotiator, Clete Willems, without the Phase One Deal there is no way to fix perceived problems related to trade. In a time when there are fewer and fewer exchanges between Chinese and U.S. think tanks, the Phase One Deal serves as a channel for communication, negotiations and exchange. While it may be true that the Phase One Deal does not address all of the issues and complaints that both nations have against one another, the Phase One Deal remains a channel for dialogue so that these issues may one day be solved. It also serves as a channel for communication so that China may voice its concerns over issues it has with the U.S., such as Hong Kong. In a time when think tanks – whom traditionally served as mediators between the U.S. and China – are not only having fewer interactions and exchanges with their Chinese counterparts, but are also showing signs of a lack of desire to even do so, the Phase One Deal may become a very important channel for dialogue and a bargaining chip on where future relations are heading. It is also important, for

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both sides, to realize that all demands may not be realized in the deal. For one, it will be very hard to get China to adhere to all of the Trump Administration's demands regarding "Made in China 2025". Many issues have been left out of the Phase One Deal, at least for now.

5.2 U.S. Farmers – Trade Wars Do Not Help

One of U.S. President Trump's main goals in the trade deal was to help U.S. farmers, though they have been some of the hardest hit leading up to the Phase One Deal, as China slapped tariffs on U.S. sorghum products – one of the U.S.'s largest exports to China. As previously discussed, this resulted in U.S. agricultural exports decreasing exponentially, falling from 15.7 billion USD in 2017, to just 5.8 billion USD in 2018, and then rising again in 2019 to 10.2 billion USD – though this is a height smaller than any level seen in the last decade. Additionally, during the trade war some of the hardest hit states, such as Texas and California, have large farming communities. TIME magazine, through citing a survey done by the NBC, explain that 45 percent of the population in rural farm communities disapprove of Trump's trade war, while contrastingly only 28 percent support it. (Worland & Mo, 2018).

This relates to the circumstances that were present leading up to the Smoot-Hawley Act. Throughout the 1920's and leading up to Smoot-Hawley's enactment in June of 1930, tariffs were continually placed on imports – many of them agricultural – in order to aid U.S. farmers. This also included both the Emergency Tariff Act in 1921, and the Fordney-Mcumber Tariff in 1922. The entire decade of the 1920's saw increasingly protectionist trade policies, all in the name of aiding Americans. But, did these tariffs aid Americans, especially farmers? The data shows the opposite, as farming income continually decreased throughout the 1920's, not returning to heights seen

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during WWI. As previously mentioned by Hayford & Pasurka, U.S. farmers' net income during the 1920's was 11,004 USD, when compared with 12,769 from 1910-1914, and 14,972 from 1914-1918. Essentially, during the 1920's farmers' net income was 14 percent lower than before WWI, and 27 percent lower than levels seen during WWI.

To negate that decreased income, more tariffs were placed with the Smoot-Hawley Act – one of the main reasons cited by U.S. President Hoover when signing the bill. Granted, the conditions were different during the 1920's, as the decreased U.S. farming income was due to Europe once again focusing their production towards agricultural products post WWI. With the Phase One Deal, agricultural demand is slowly picking up speed due to the requirements for China to purchase an additional 200 billion USD worth of U.S. goods. That demand, however, is not genuine, and simply the CCP buying up large portions of U.S. agricultural goods to adhere to the rules. Additionally, it is the highest demand the U.S. has ever seen, even when agricultural demand from China peaked in 2013 at 29 billion USD. The amount of 29 billion USD would be considered very high even under normal parameters, excluding the declining demand and trade issues brought about by the COVID-19 pandemic. Whole countries have been put on lockdown, and supply chains have either been temporarily halted, or changed and altered all together. U.S. farmers may not be able to handle this. Demand will, of course, fall during this time as people are not spending money either due to not being able to venture outside, to losing their jobs and income, or even to the fear of such happening and therefore opting to save money. While many lockdowns have ended, and thus economies have slowly opened back up, many lockdowns still persist. Additionally, no economy has fully recovered yet, and

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additional breakouts have occurred in many countries. All of these problems will persist until a permanent solution, such as a vaccine, is found.

5.3 U.S.-China Trade War – Potentially Exacerbating COVID-19

Finally, the U.S.-China Trade War has the potential to make the situation brought about by COVID-19 worse. Average tariff rates are still very high between the U.S. and China. With respect to Chinese tariffs on U.S. imports, the average rate is still 20.3 percent. With regards to the opposite – U.S. tariffs on Chinese imports – the average rate is currently 19.3 percent. Making things more severe, the U.S and China both represent large portions of one another's respective trade. As mentioned previously, China is the U.S.'s third largest trading partner, currently accounting for 12.4 percent of total U.S. foreign trade, and 16 percent of total U.S. imports. On China's end, according to information provided by the World Bank, in 2017 the U.S. accounted for roughly 8 percent of Chinese imports – equating to a total annual trade value of 154 billion USD. In 2018, the U.S. equated to roughly 7 percent of Chinese imports – a total trade value of 156 billion USD (The World Bank, 2020). When both of your respective trade volumes are quite large, and there is an average 19.3 or 20.3 percent tariff on each other's respective goods, that equates to a significant amount of added costs and lost revenue for businesses. With the added effects COVID-19 is currently having on supply routes – companies choosing a "China+1" advantage, or completely altering routes altogether – the tariffs will only serve make matters worse by further increasing costs and complicating trade.

6 Final Thoughts

Instead of opting for tariffs and protectionist policies, governments should look towards adopting more open trade policies and free trade agreements, as well as being

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transparent with respect to their guidelines and laws. If a nation increases the trade that flows through their borders, it then in turn generates wealth and adds to the economic prosperity of that nation. This is because that nation can now purchase more foreign products – at better rates because of the trade agreements – that are either more efficiently made overseas, or that would not be able to be manufactured in their domestic market due to resource availability, climate, or a variety of other factors. This in turn allows the nation to specialize in a particular range of products, as they can allocate their resources to where they may be best utilized. After allocating resources, the nation is able to focus on manufacturing efficiency, quality, and eventually cost reduction. This adds to economic growth – which adds jobs – and with it comes an increase in national purchasing power. Contrastingly, this then further helps other foreign nations, as that nation is now able to purchase even more foreign products (Thompson, 2007). An example of this can be seen in Asia. At the end of World War II (WWII) many nations, such as Japan, Korea, and Taiwan were poor. Their wage rates were low, along with their manufacturing capabilities under developed. First, Japan developed post-WWII, with their wage rates eventually rising until they could no longer produce goods cheap enough to be competitive, and with that labor moved to Taiwan and Korea. Taiwan and Korea developed, and labor again moved. The cycle continues to this day. But, the point is that once these markets developed they were able to buy more foreign goods. Essentially, the economic growth experienced by foreign nations has the ability to aid growth in other nations – making the benefit two-folded. Taiwan is, for example, today a major purchaser of U.S. soybean products (Thompson, 2007).

Opponents of globalization and free trade will assert that industries in a nation must be protected. While, it is true that when jobs move from country to country – because of industrial development and with it rising labor costs – overall if national

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purchasing power increases, then the wealth of that nation has increased. There is an argument for tariffs that are placed to protect infant industries in a nation, but they must be monitored carefully, and furthermore lifted when said industry develops. To go against globalization and to protect industries that have already matured – meaning not speaking of infant industry protection – one is going against the natural flow of the markets. Additionally, at the same time they are going against the ability to develop their nation’s own core specialization of products by keeping industries alive that would have otherwise fallen due to market forces.

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