



Global Investment Research

Trade War: Who Wins and Who Loses

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A look at history

- ❑ US effective tariffs rate declining over the past century
- ❑ Historically US current account improved in recessions
- ❑ China did not start (but probably accelerated) US manufacturing job losses

Where are we now?

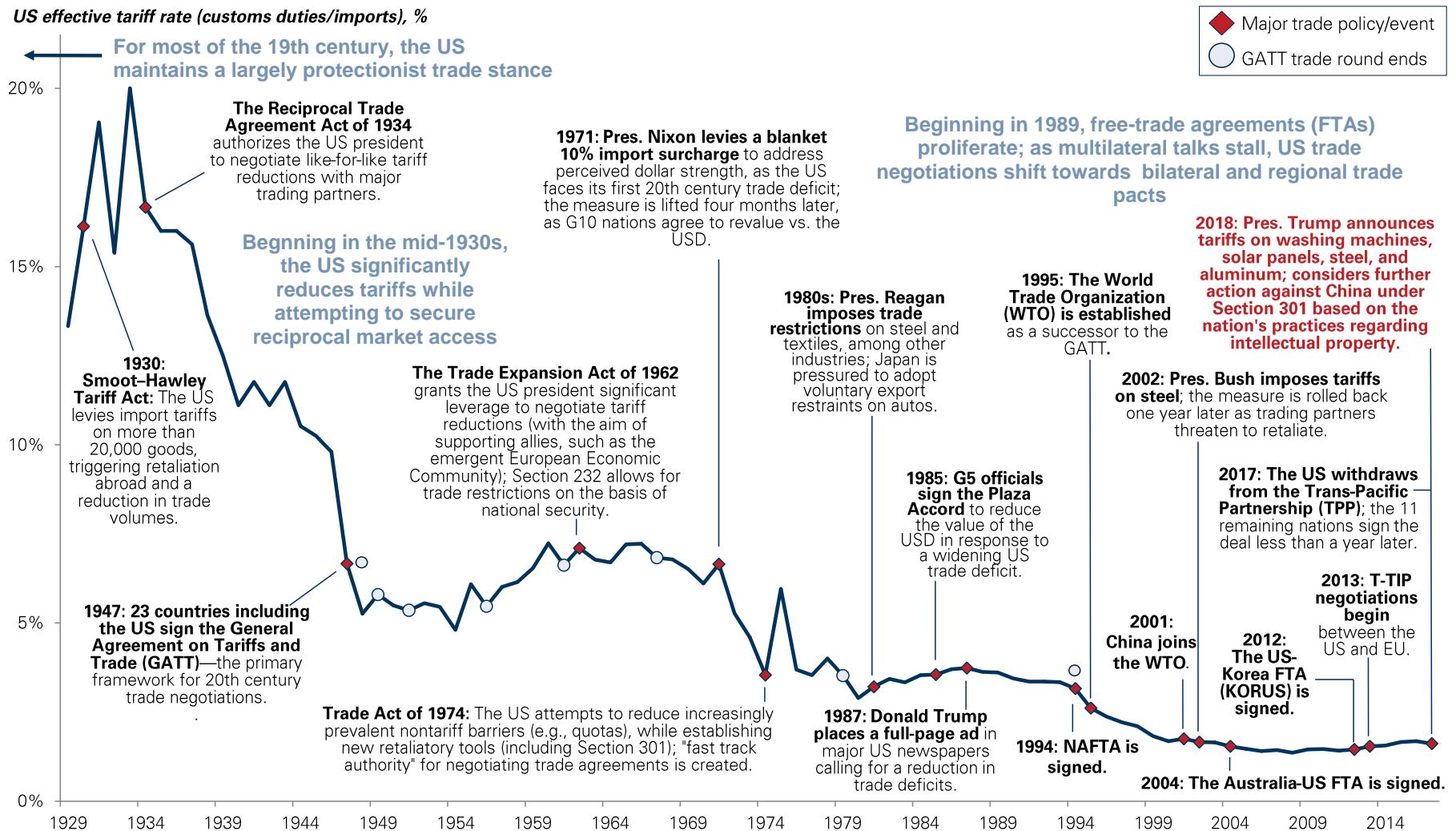
- ❑ Trade threats have become reality
- ❑ Section 232 steel and aluminum tariffs still evolving
- ❑ Direct impact on economy limited so far

Our view

- ❑ Tariffs redirect, not eliminate, trade flows
- ❑ Headline risk higher, not lower, after the US mid-term election
- ❑ US-China trade war more than just trade war

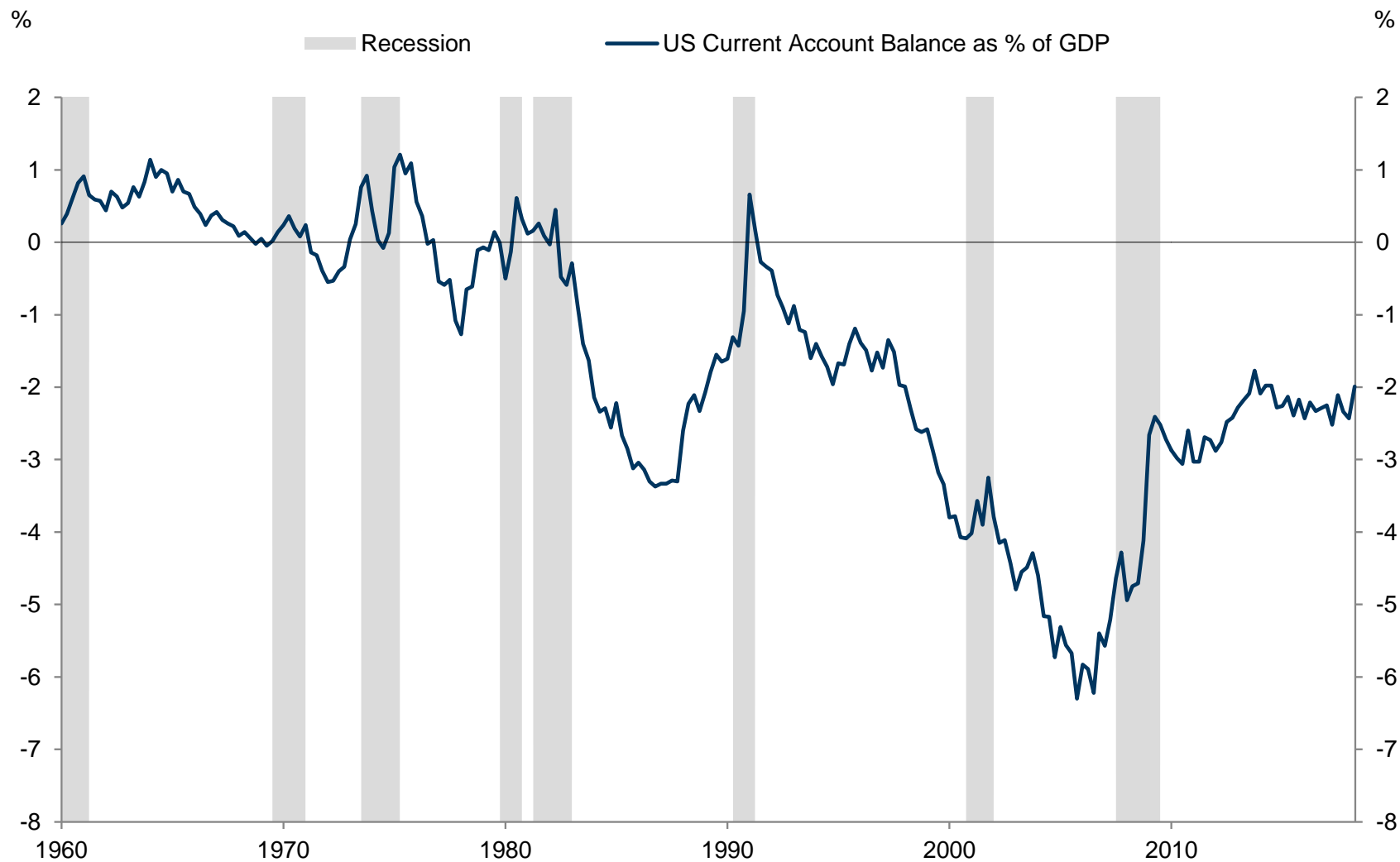
A Look at the History

Long history of US trade policy



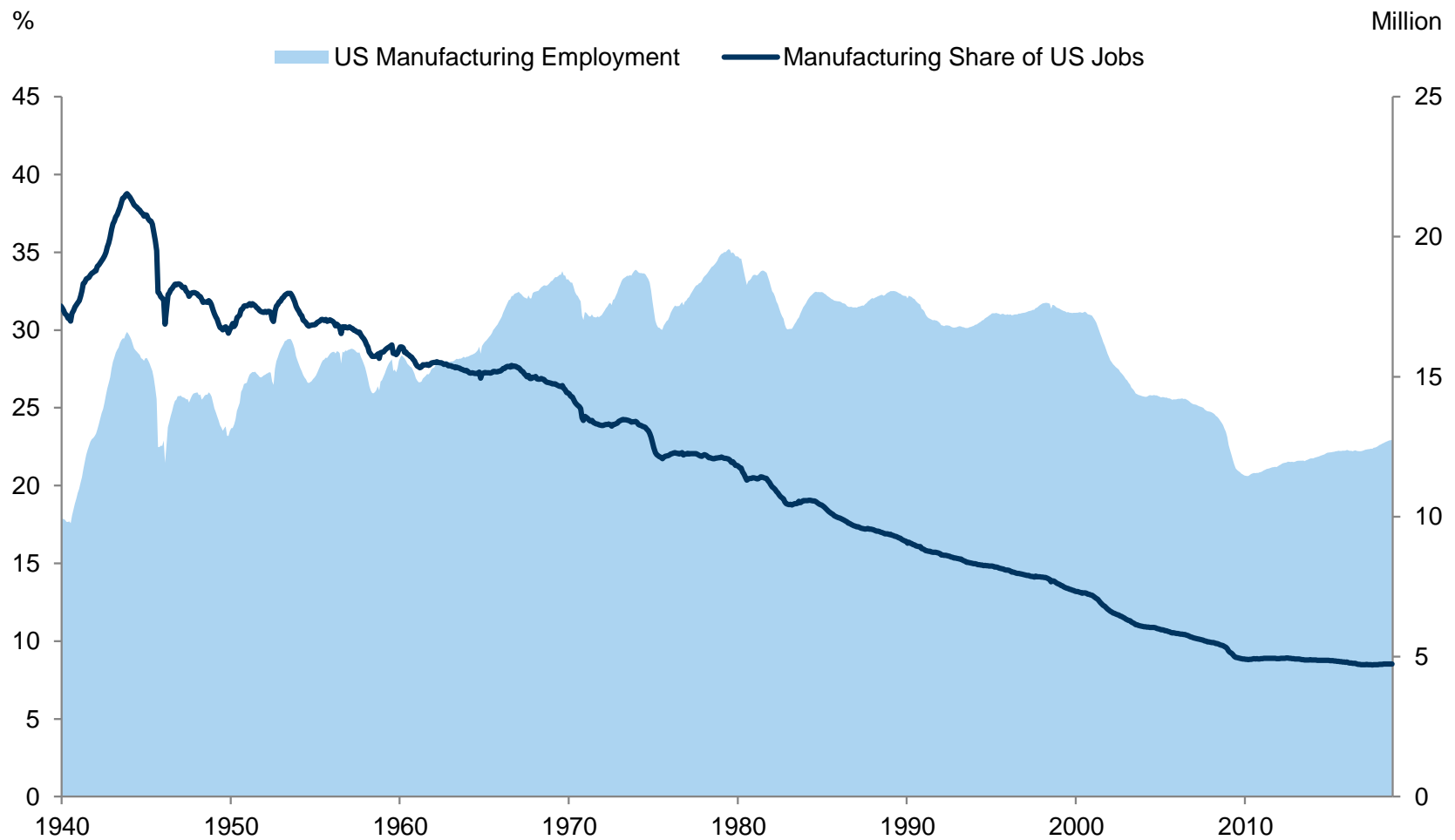
Source: US International Trade Commission, US Department of Commerce, WTO, Irwin, Douglas A., "Clashing Over Commerce: A History of US Trade Policy," Goldman Sachs Global Investment Research.

Historically US current account improved in recessions



Source: Haver Analytics, Goldman Sachs Global Investment Research.

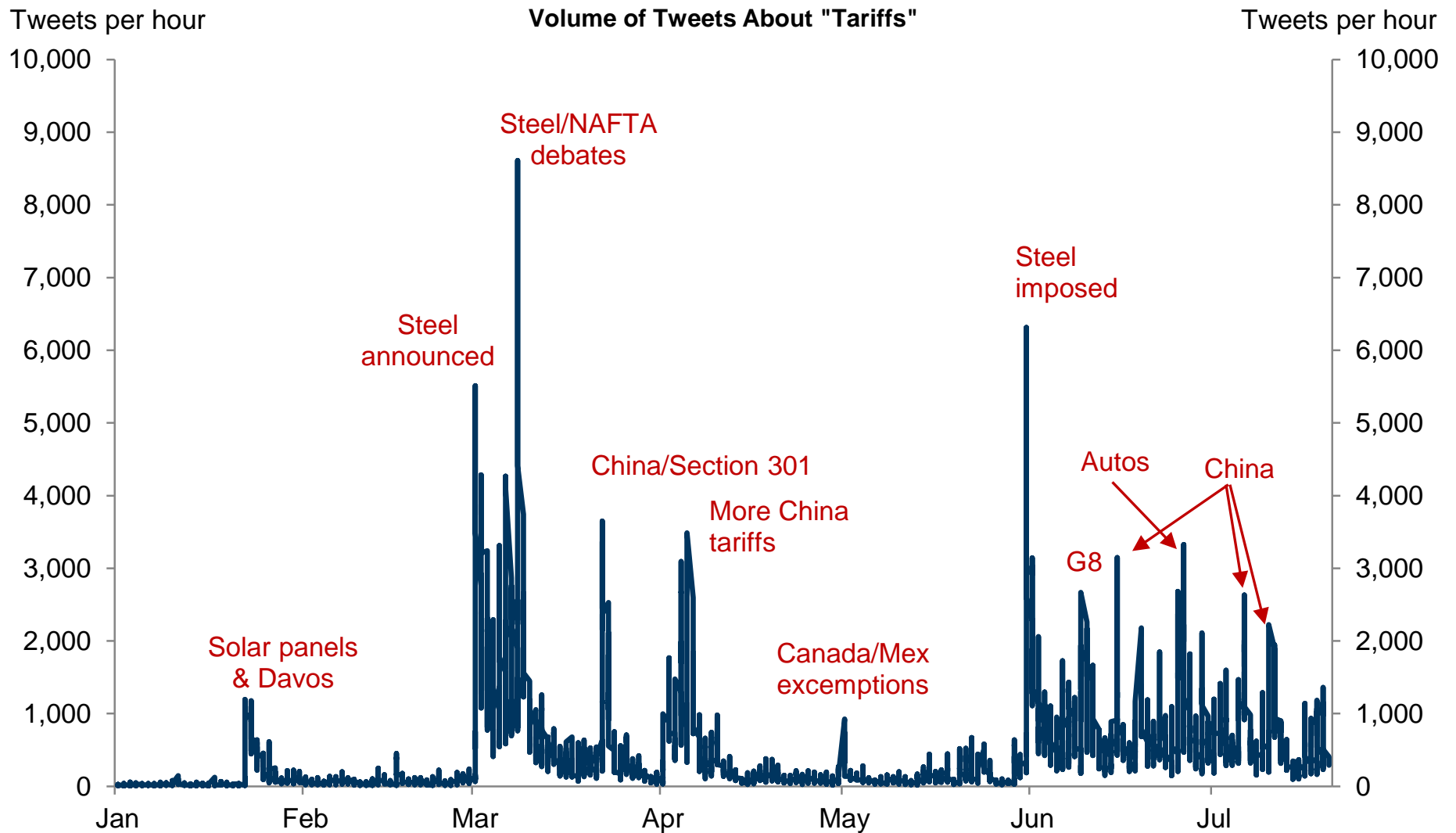
China did not start US manufacturing job losses



Source: Haver Analytics, Goldman Sachs Global Investment Research.

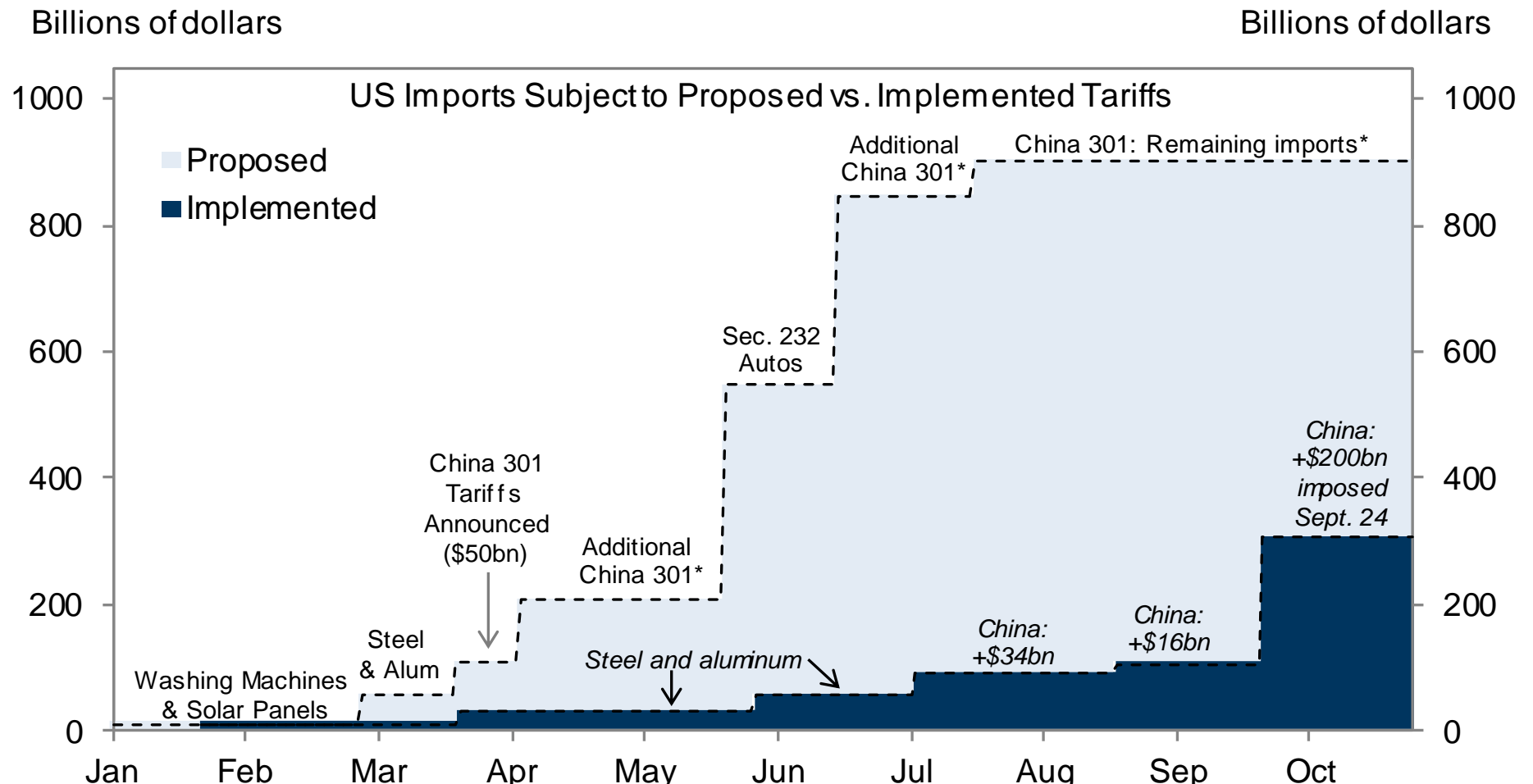
Where Are We Now?

Trade tensions escalating



Source: Dataminr.

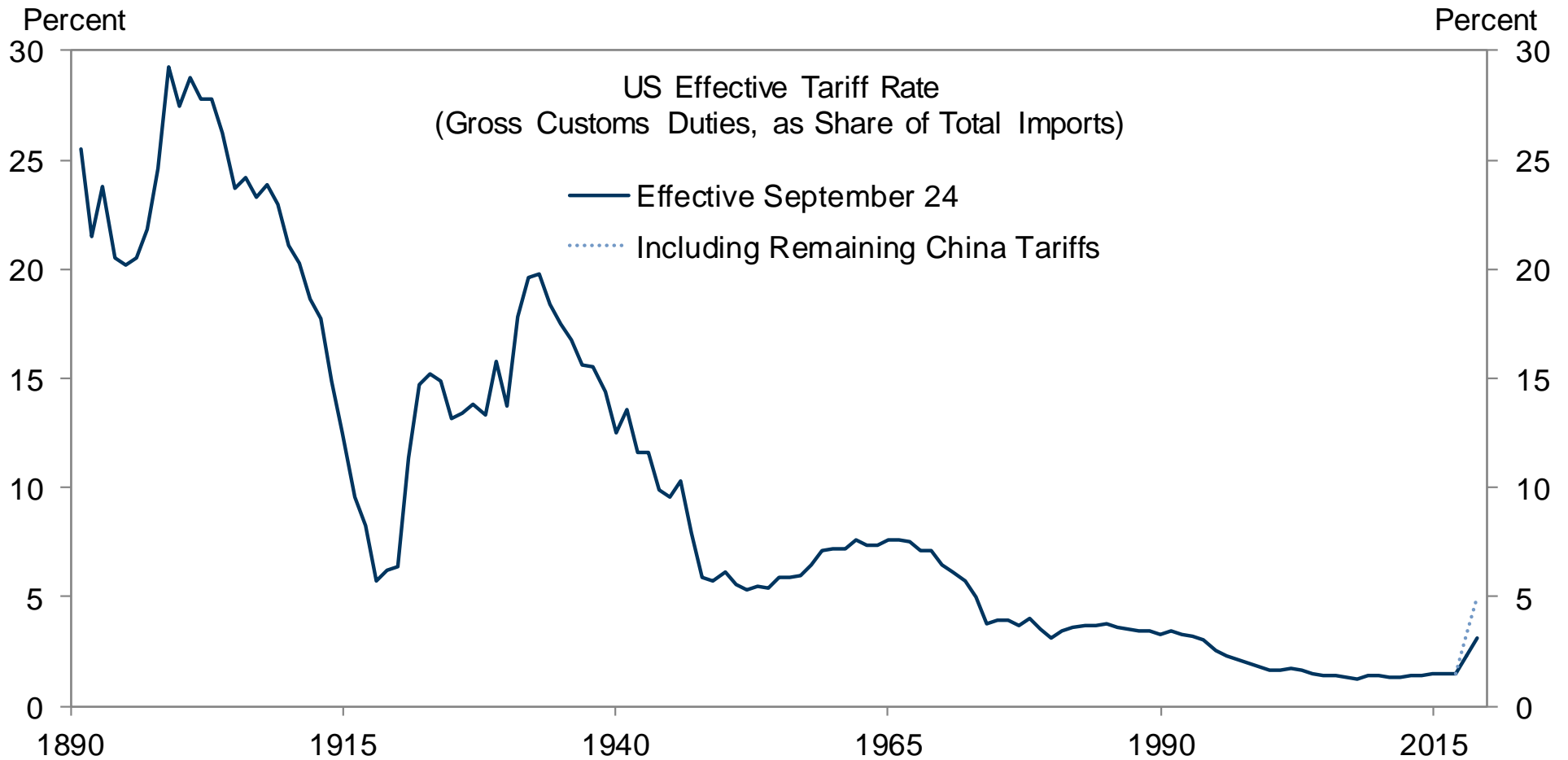
Tariff threats start to become reality



*In April, the White House proposed tariffs on additional \$100bn in imports in response to China's retaliation. This supplemental proposal was increased to \$400bn on June 18 and to all remaining imports on July 20.

Source: USITC, White House, Goldman Sachs Global Investment Research.

US effective tariff rate increased

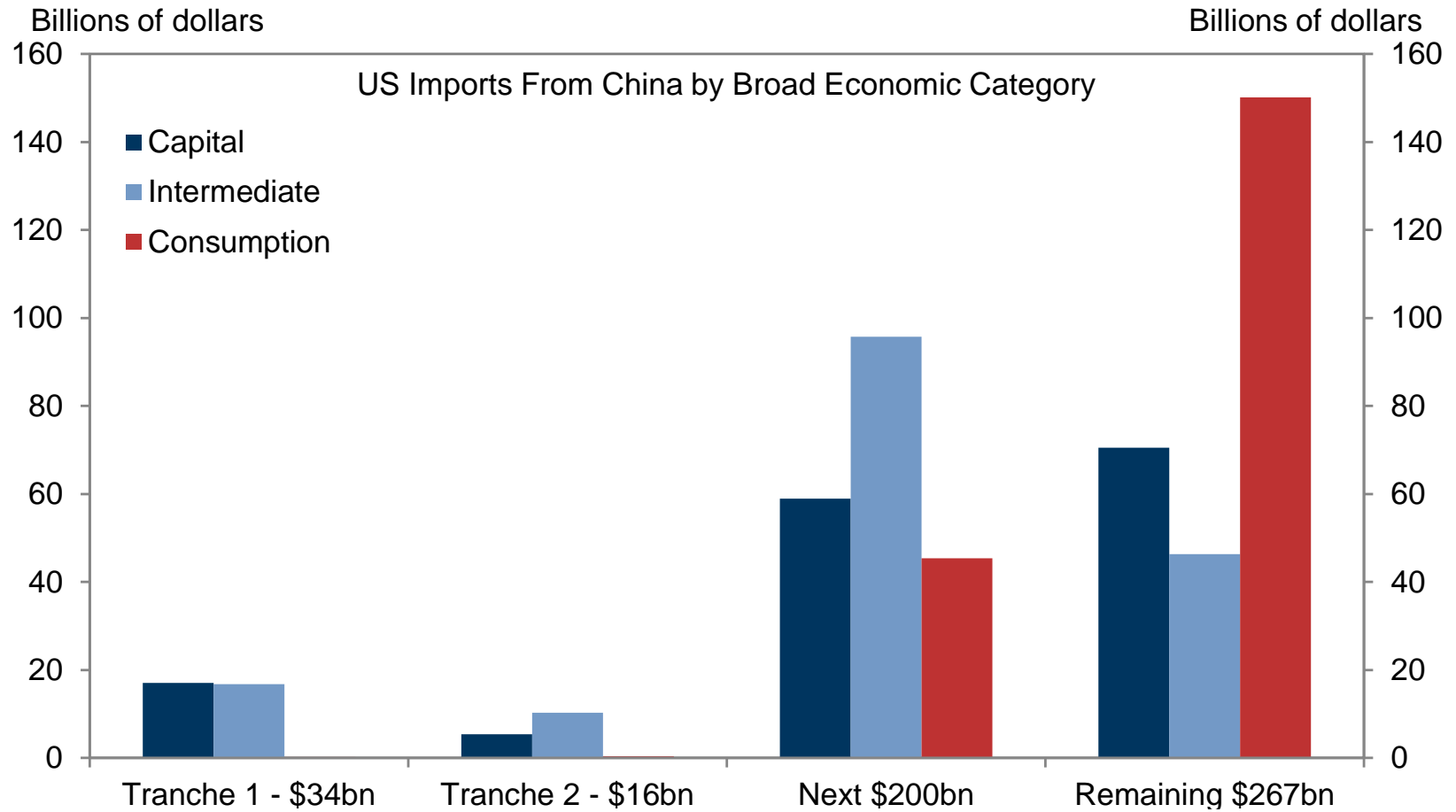


*Includes (1) *enacted* tariffs on steel and aluminum, solar panels, washing machines, and \$50bn in imports from China as well as (2) *proposed* tariffs on \$200bn in imports from China at a rate of 10%.

**Includes January 2019 tariff rate increase from 10% to 25% on \$200bn and additional \$267bn for remaining imports from China at 10% rate.

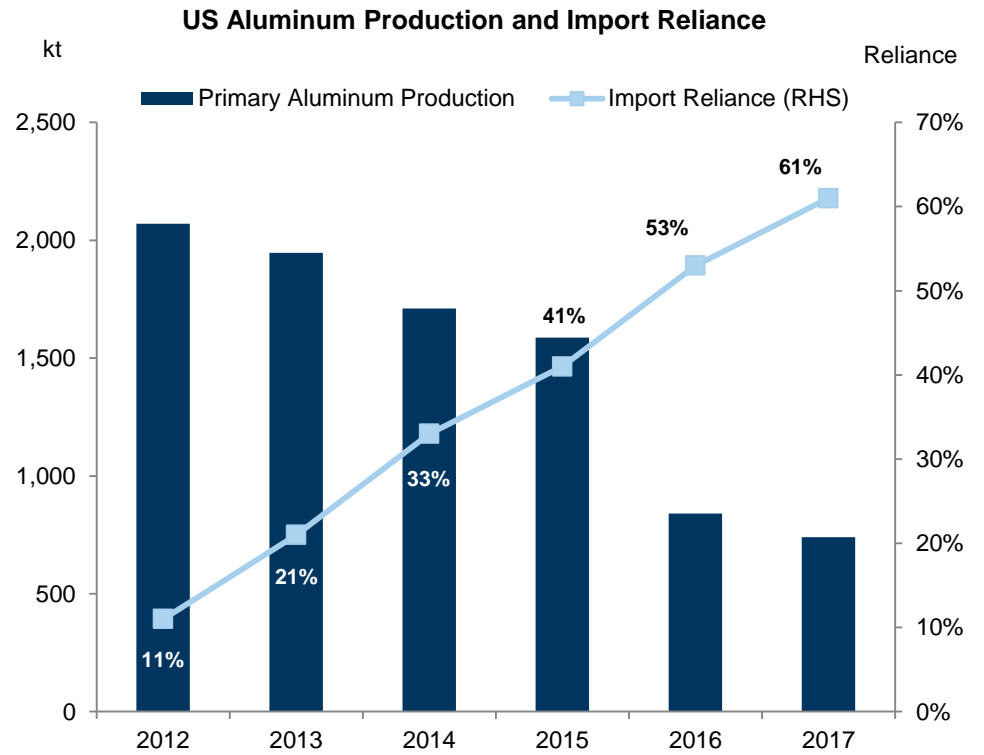
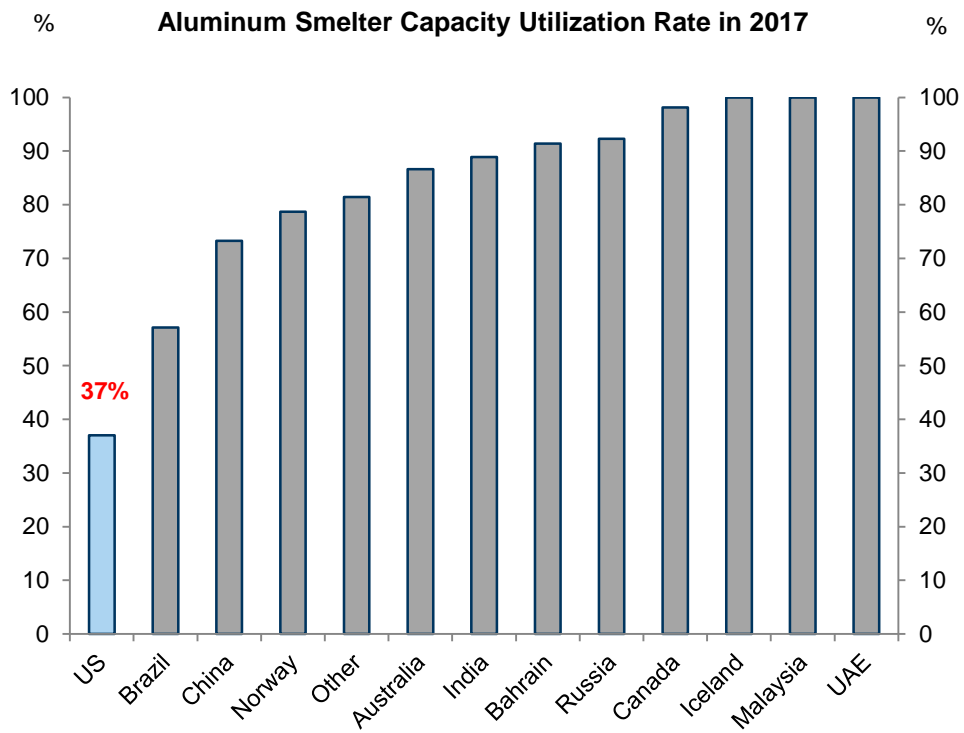
Source: Goldman Sachs Global Investment Research.

Initial tariffs avoided consumer products



Source: USITC, United Nations, WTO, Goldman Sachs Global Investment Research

One can make a case for aluminum tariffs



Source: USGS, Goldman Sachs Global Investment Research.

Section 232 tariffs on steel and aluminum

Country	Import share (2017)		Current Status	Date effective
	Aluminum	Steel		
Argentina	3.8%	0.6%	Quota of average annual import volume from 2015-2017 for aluminum; quota of 135% of average annual import volume from 2015-2017 for steel	June 1st, 2018
Australia	1.5%	0.8%	Exempt from tariffs, no expiration date	June 1st, 2018
Brazil	0.8%	13.5%	Subject to current tariff levels for aluminum; quota of 70% of average annual import volume from 2015-2017 for finished steel products and 100% of average for semi-finished steel products	June 1st, 2018
South Korea	0.5%	9.8%	Subject to current tariff levels for aluminum; quota of 70% of average annual import volume from 2015-2017 for steel	June 1st, 2018
Turkey	0.2%	5.7%	Steel articles covered by Section 232 subject to tariff of 50%**	August 13th, 2018
Indonesia	1.2%	0.1%	Indonesia awarded exemption on 161 steel products***	September, 2018
Other Countries	93.5%	75.2%	Subject to current tariff levels*	March 23rd, 2018

* Set out in Proclamation 7604 as 25% tariff on steel and 10% tariff on aluminum

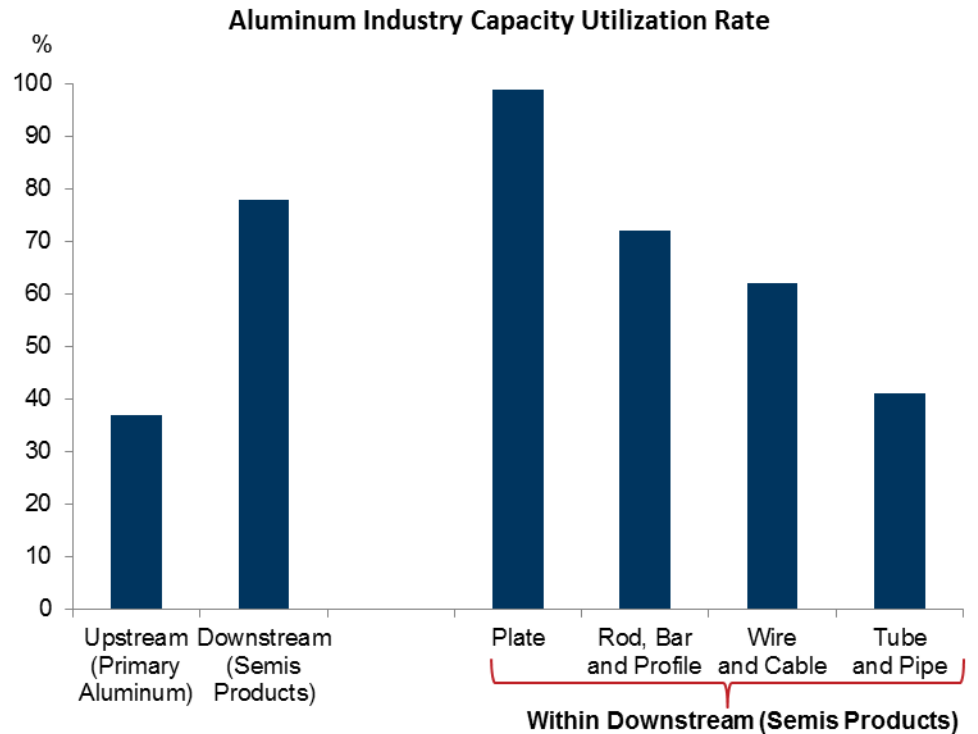
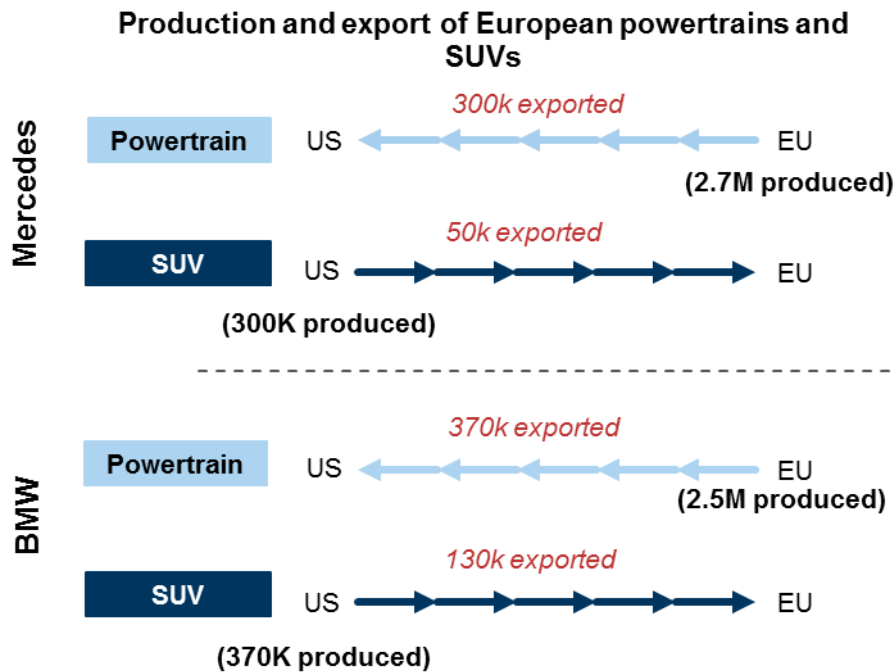
** President Trump tweeted tariffs would increase to 20% for aluminum, but no Proclamation has been issued

*** Announced by Indonesia's Ministry of Trade

**** Companies may apply for product exclusions based on insufficient quantity or quality available from U.S. steel or aluminum producers, ~120 companies awarded exemptions as of Se

Source: Goldman Sachs Global Investment Research.

Trade is complicated

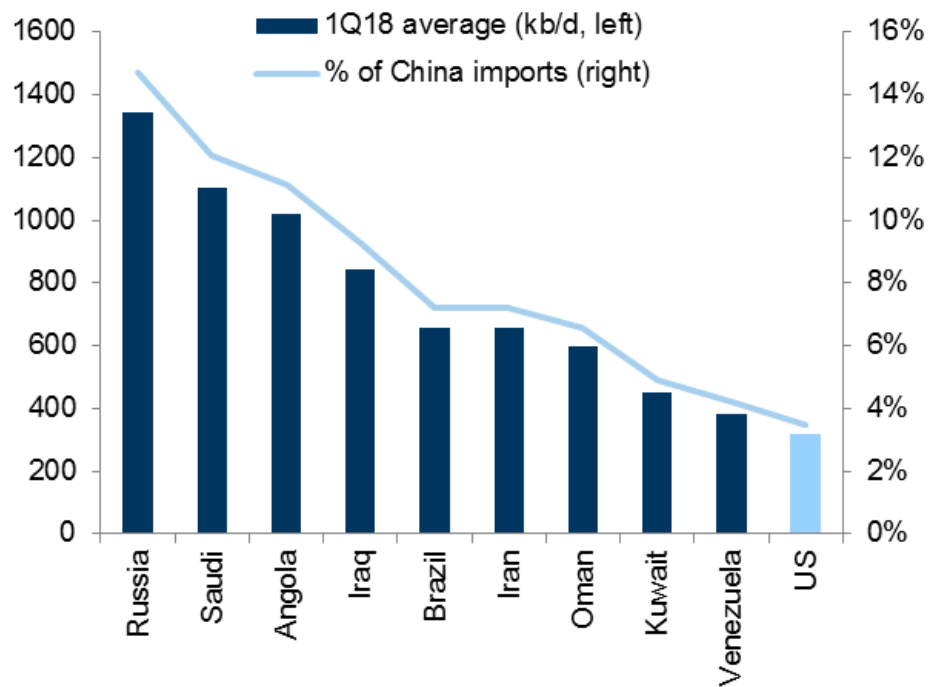


Source: Company Data, USGS, US Dept. of Commerce, Goldman Sachs Global Investment Research.

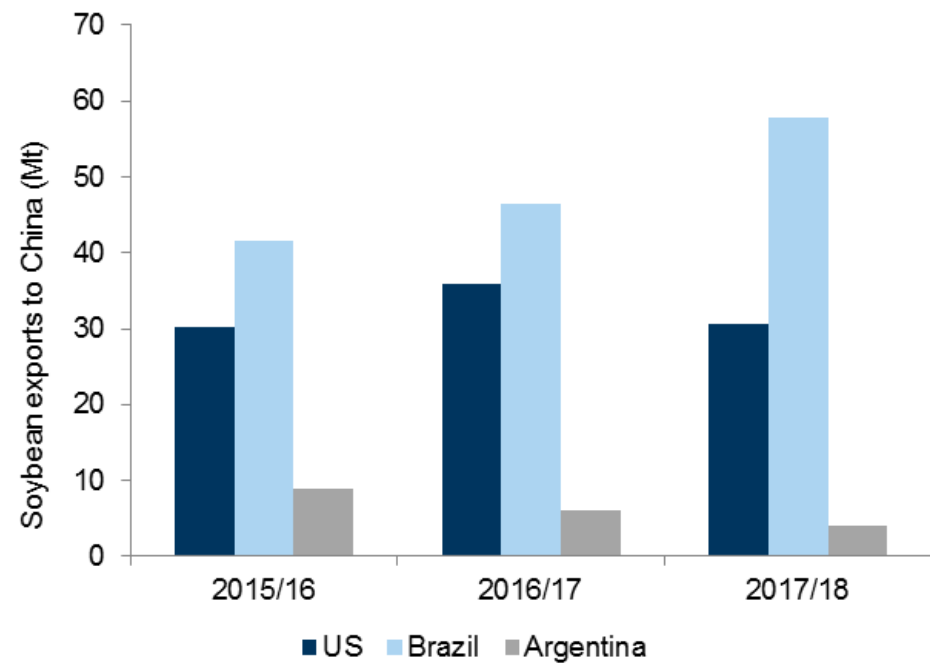
Our Views

Tariffs redirect, not eliminate, trade flows

The case of oil...

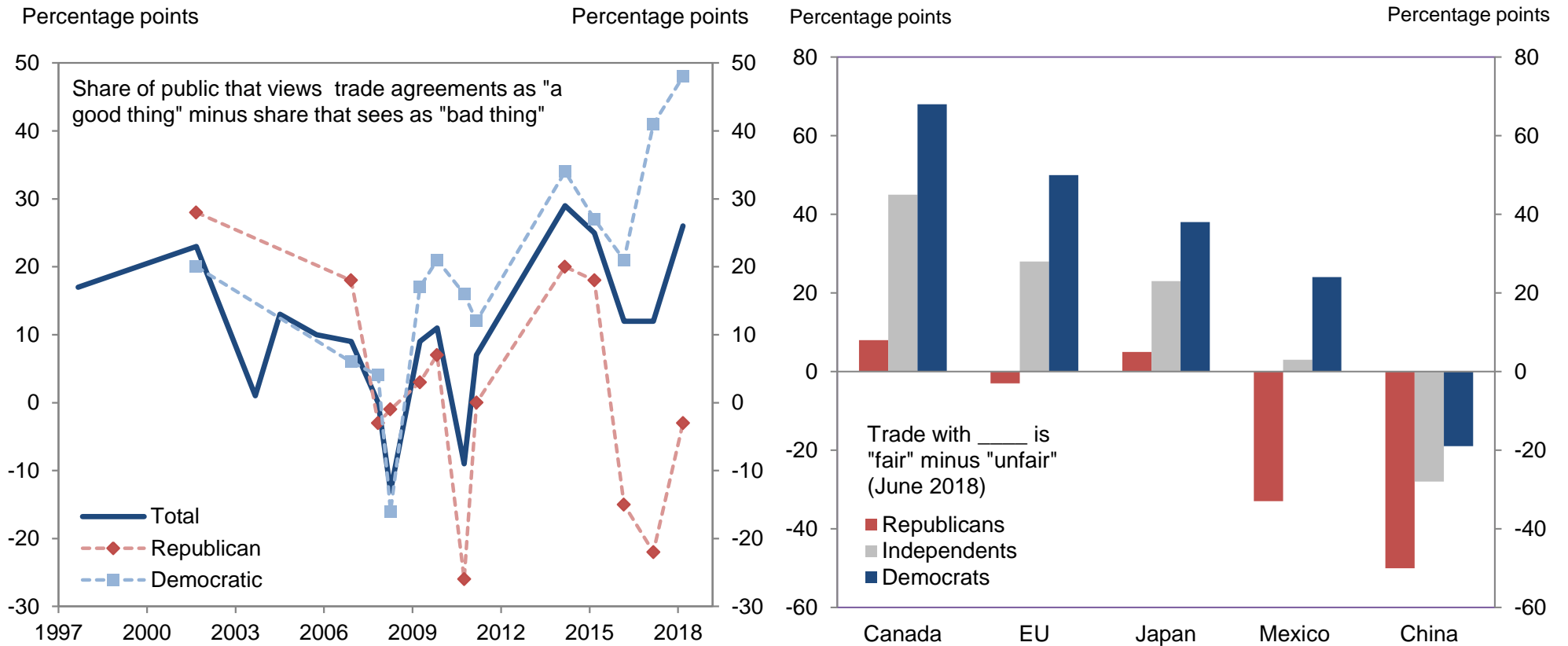


... and the case of soybean



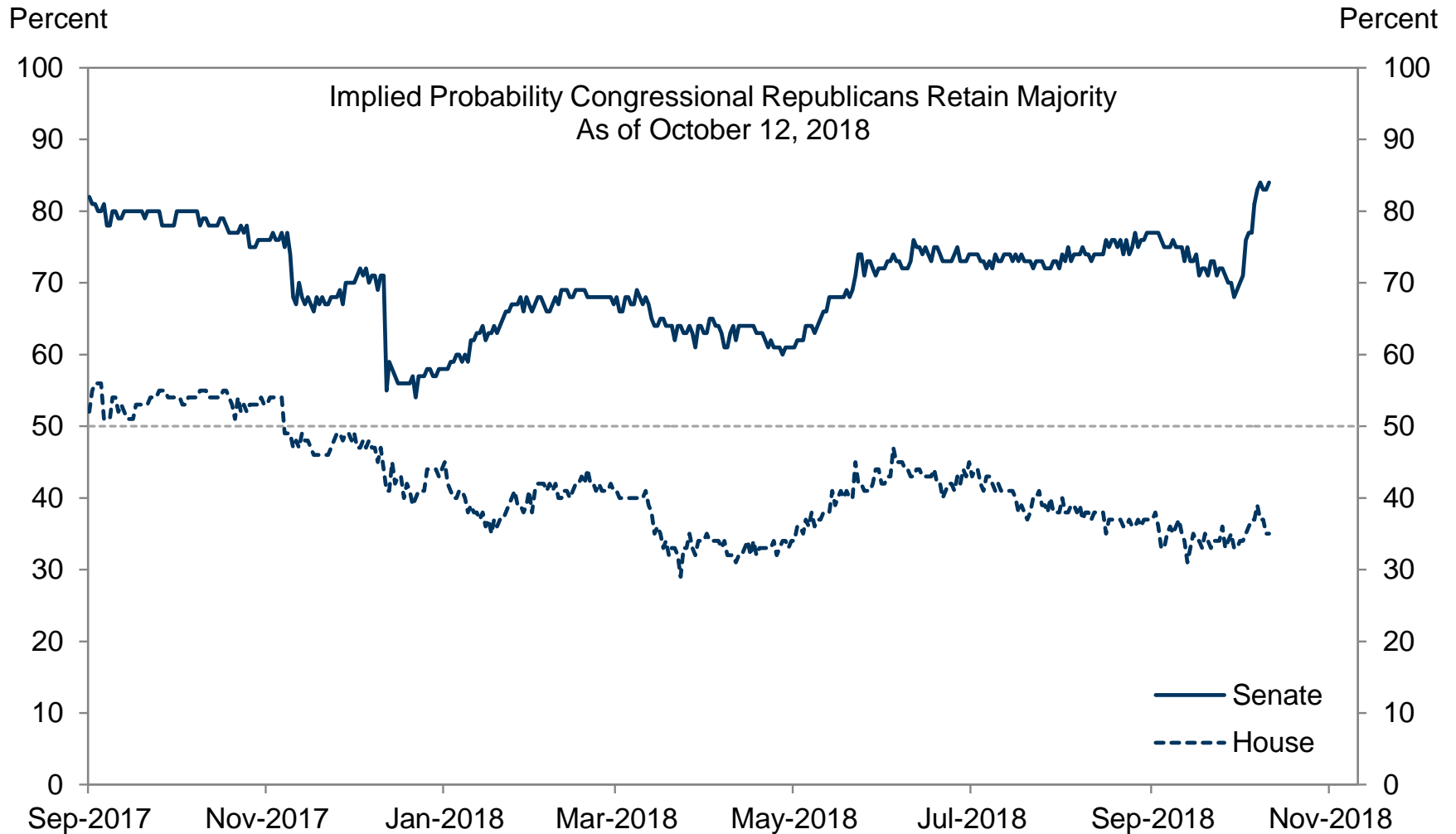
Source: CEIC, USDA, Goldman Sachs Global Investment Research.

The politics of US-China trade are different



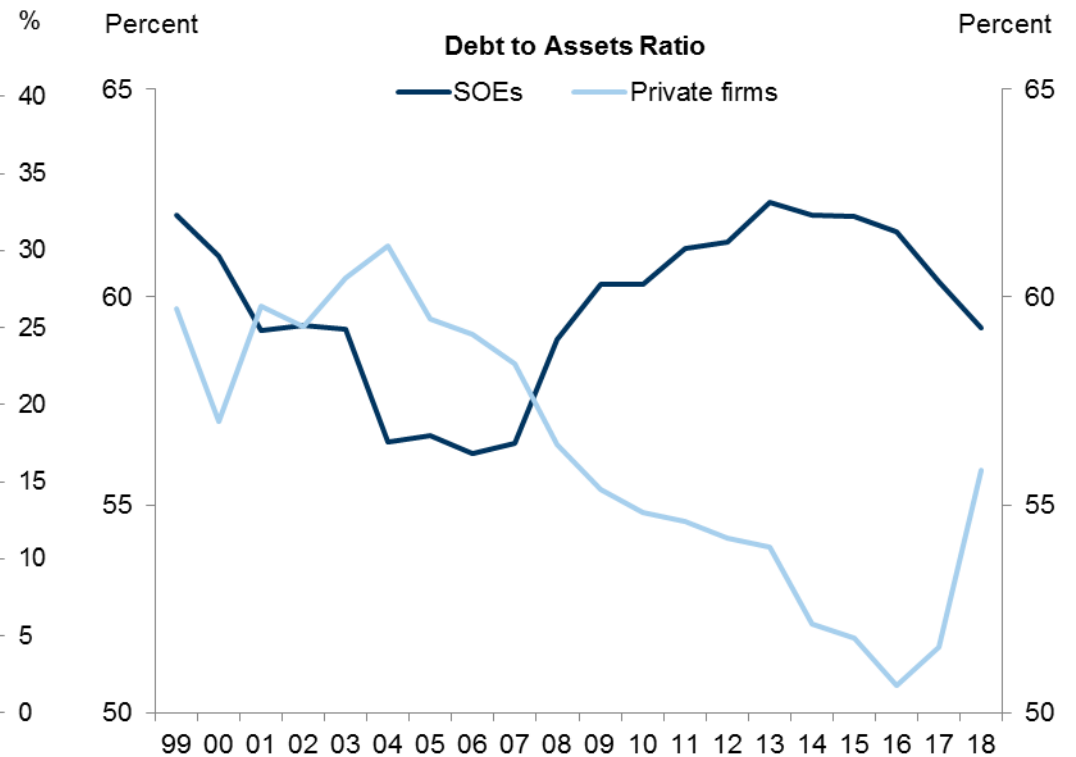
Source: Pew Research. Goldman Sachs Global Investment Research.

Prediction markets imply a divided congress



Source: PredictIt. Goldman Sachs Global Investment Research.

For China, trade war is more than just trade war



Source: CEIC. Goldman Sachs Global Investment Research.

Disclosure Appendix

October 12, 2018

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