

Policy Note



Click or scan to view our website and access past reports, policy notes and more.



If Vice President Kamala Harris wins the 2024 US Presidential election, we expect most existing US-China tariffs to be maintained. However, we would not expect a "Trade War 2.0" escalation with sizable new tariffs imposed on US trade counterparts.

If former President Donald Trump wins the 2024 US Presidential election, we believe that "Trade War 2.0" escalation begins on "day 1" of his second term (i.e., the Inauguration - Monday, January 20th, 2025). Companies should assume sooner, larger and more universal this time across more trade counterparties and product categories. The suggestion, by some, that Trump will simply escalate to de-escalate is not entirely true in our view.

The path ahead is likely to be challenging, extremely complex and difficult to navigate. Please see below.

Trade War Begins on Day 1 of Trump 2.0

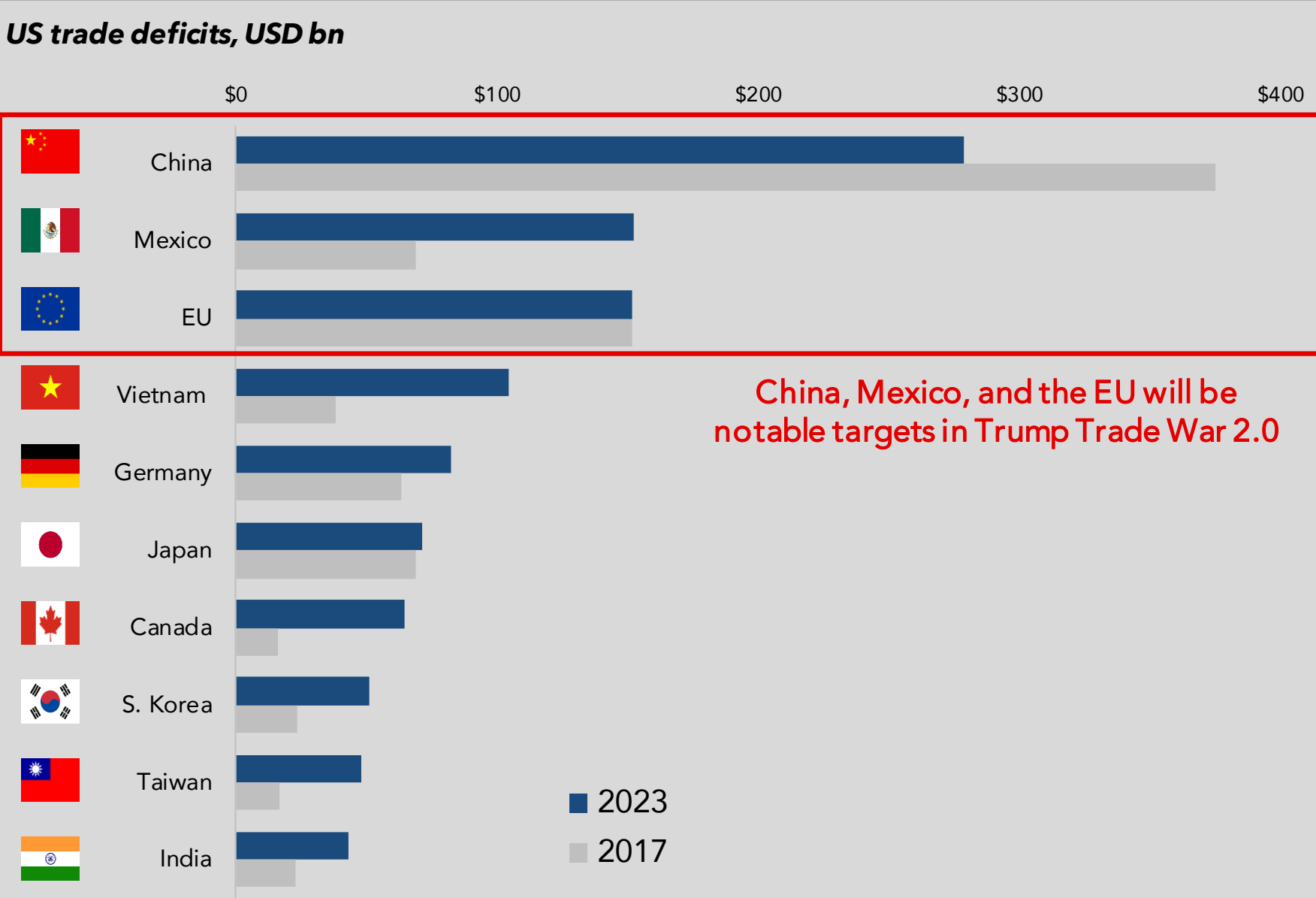
In his first term, former President Trump focused his first full year on generational tax reform in 2017 and the stock market rose 19%. In 2018, nearly 18 months into his first term, President Trump pivoted to the trade war, which did not reach its peak until the third year of his first term (2019). In a Trump 2.0 scenario, we expect the trade war to begin on Day 1. Think sooner, larger, more universal this time.

Notable attributes of a trade war in a Trump 2.0 scenario

<p>Timing Day 1 of Trump 2.0 (Inauguration: Monday, Jan 20)</p>	<p>Architect Robert Lighthizer Former US Trade Representative</p>	<p>Legal Toolkit</p> <ul style="list-style-type: none"> • Sec 201 (Trade Act of 1974) • Sec 232 (Trade Expansion Act of 1962) • Sec 301 (Trade Act of 1974) • Balance of Payments Authority (Trade Act of 1974) • International Emergency Economic Powers Act (IEEPA) 	<p>Targets Allies <u>and</u> adversaries More universal across trade partners and product categories</p>	<p>China Existential threat (higher tariffs, non-compliance penalties, revoke MFN status)</p>
--	--	---	--	--

Largest US Trading Deficits

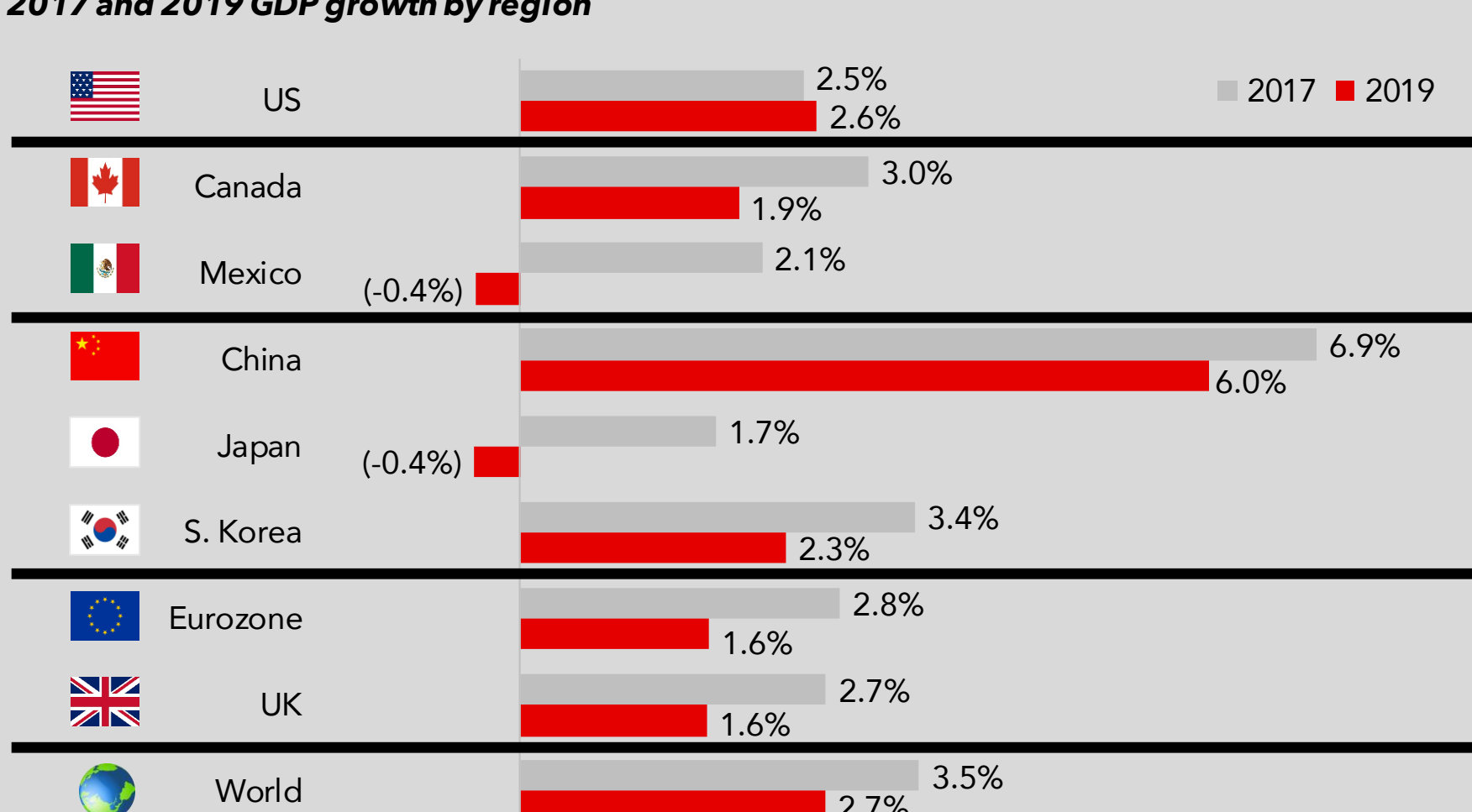
The US trade deficit with China has declined by nearly \$100 bn since 2017, though has widened with other trading partners in the region, notably Vietnam, South Korea and Taiwan.



GDP Impact of 2018-2019 Trade Wars

With exports only 11% of GDP, the US economy was more resilient to the 2018-19 trade wars than more export dependent global economies. Nonetheless, by the summer of 2019, the US yield curve had inverted, signaling US recession risk concerns, and the Fed cut rates in August, September and October of that year.

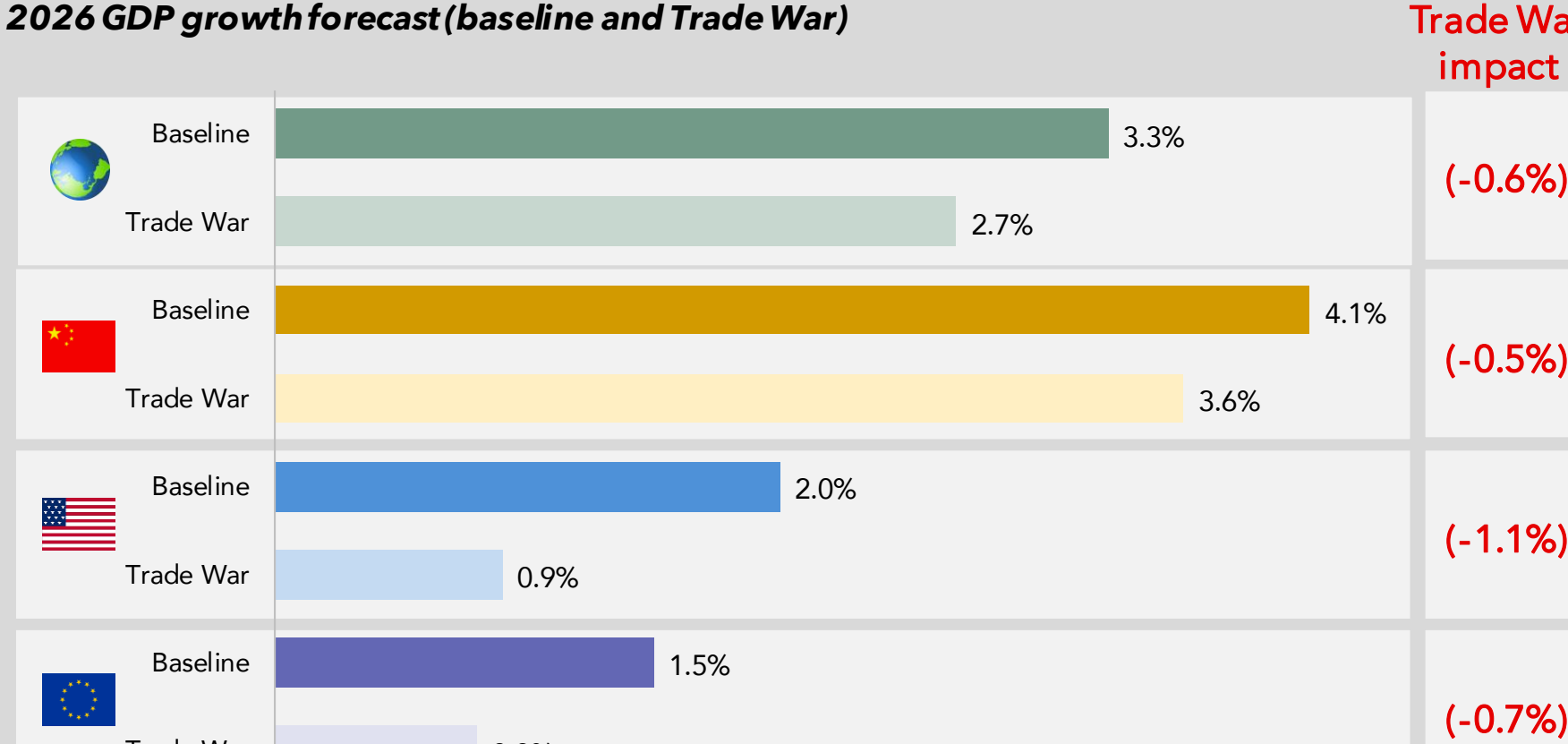
2017 and 2019 GDP growth by region



Projected GDP Impact of Trump Trade War 2.0

According to the IMF, the potential for major tariff increases and retaliatory measures is a major risk that would adversely impact global GDP growth over the next 5 years, with the impact of a 2025 Trade War to be felt more powerfully in 2026. Importantly, the IMF GDP projections are based on just one round of tariff escalation.

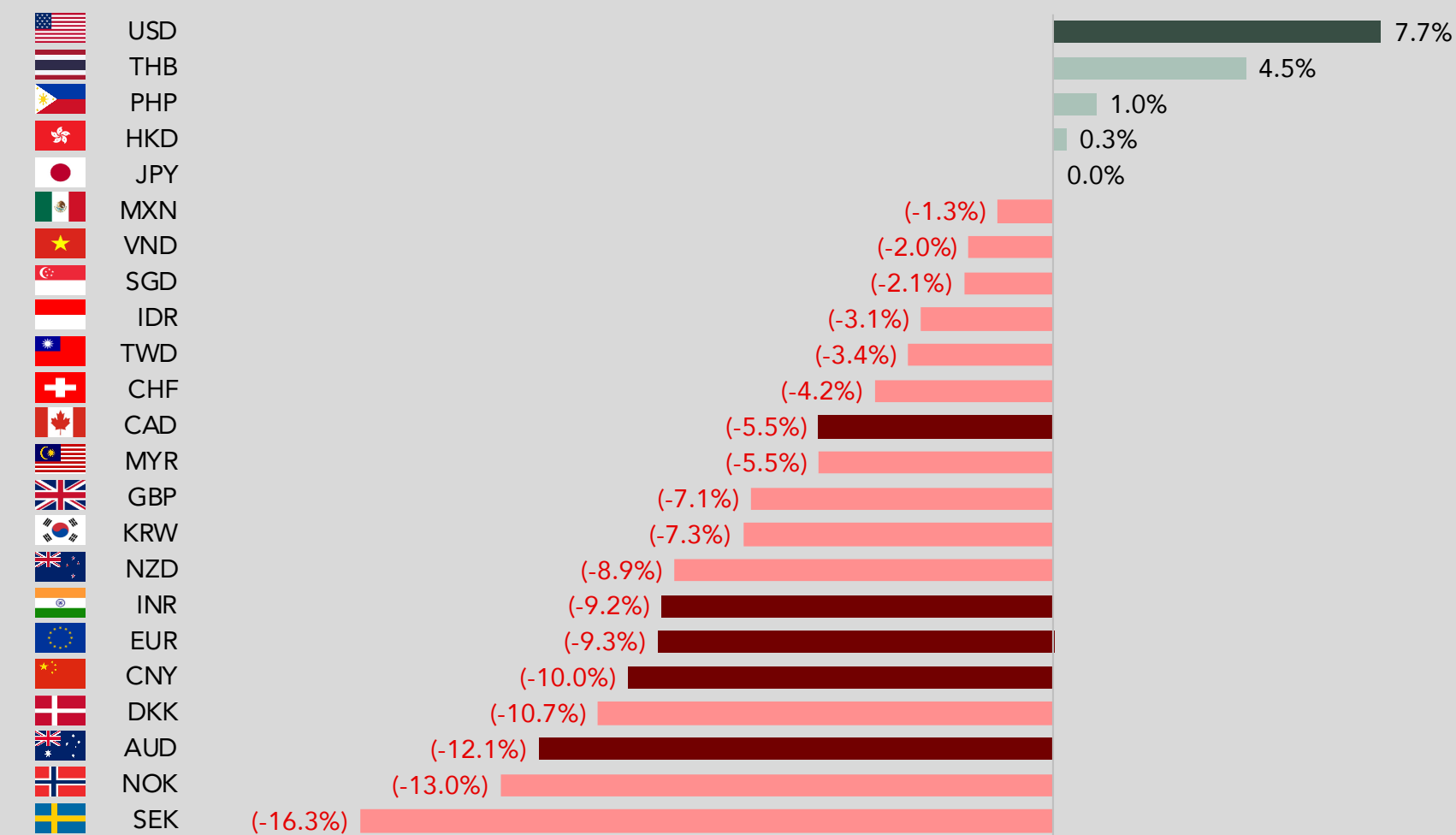
2026 GDP growth forecast (baseline and Trade War)



Currency Impact of the 2018-19 Trade Wars

As noted by Lin Li, Head of MUFG Research in Asia, most major DM and EM currencies declined sharply during the 2018-2019 trade wars as global central banks reduced policy rates to offset the economic shock of US tariffs.

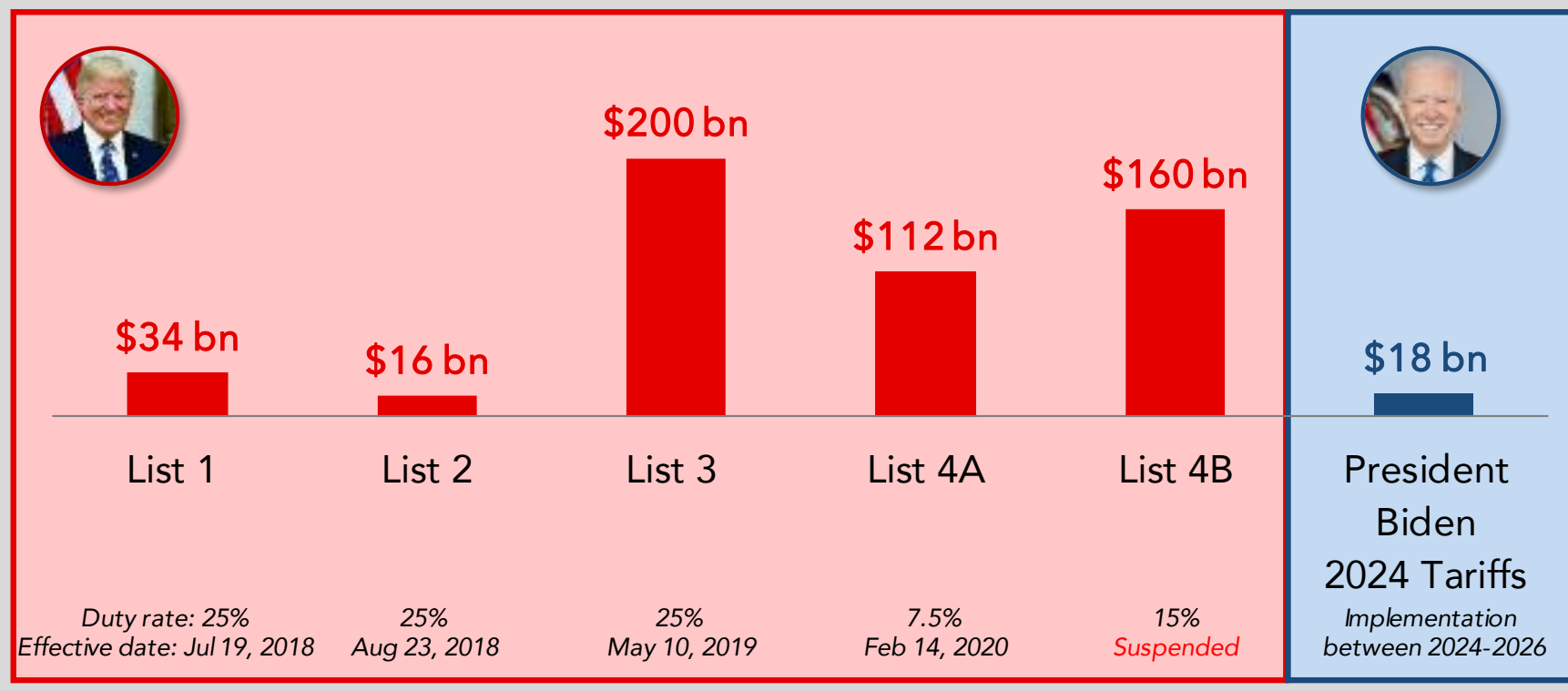
FX performance vs. USD during 1st Trump presidency trade war period (Feb 2018 - Dec 2019)



Nearly \$400bn of US-China Trade Subject to Tariffs

Between 2018 and 2020, former President Trump announced and implemented tariffs on over \$500 bn of US imports from China, though roughly \$160 bn of "List 4" tariffs were suspended in the subsequent "Phase One" trade deal with China. While comparatively smaller, President Biden's additional tariffs target industries critical to US swing states such as electric vehicles, semiconductors, solar, manufacturing and defense.

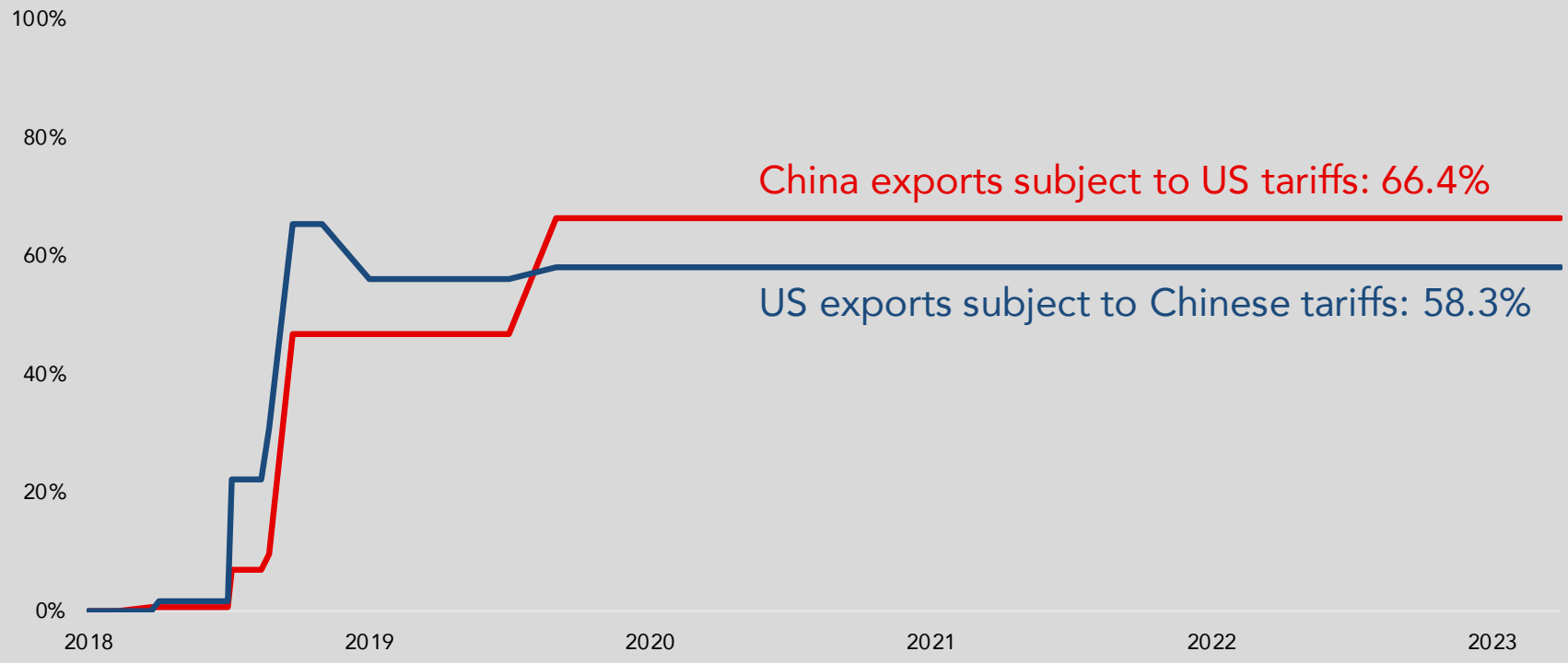
Section 301 China tariffs based on import good value at time of tariff implementation



Nearly 2/3 of US-China Trade Subjected to Tariffs

Today, approximately 2/3 of US-China trade is already subjected to tariffs. Despite their ideological and leadership style differences, President Biden largely maintained Trump-era tariffs. In USTR Katherine Tai's review of Trump's Section 301 tariffs on \$360 bn of imports, the Biden administration decided to maintain all existing tariffs while also levying new or higher tariffs on an additional \$18 bn of imports.

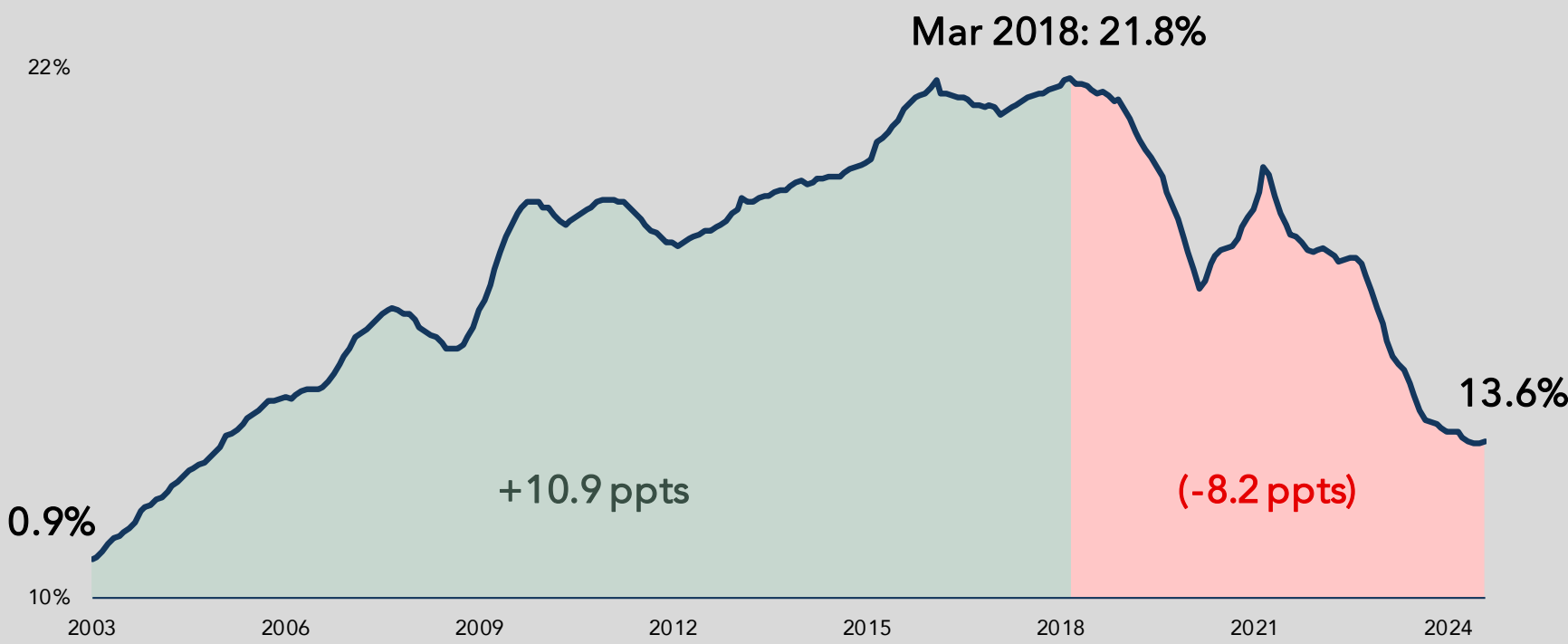
Percent of US-China trade subject to trade war tariffs



US-China Trade Has Declined Nearly 40%

Following their accession into the WTO in Dec 2001, China's market share of US imports more than doubled from about 10% to nearly 22% in just 15 years. Since the peak of the trade wars in 2018, China's market share of US imports has declined nearly 40% as US MNCs restructure supply chains and diversify production into Mexico, Europe and Asia. While Vietnam and India have been the largest beneficiaries of China's five year net decline, supply chain shifts are occurring across dozens of industries and countries concurrently.

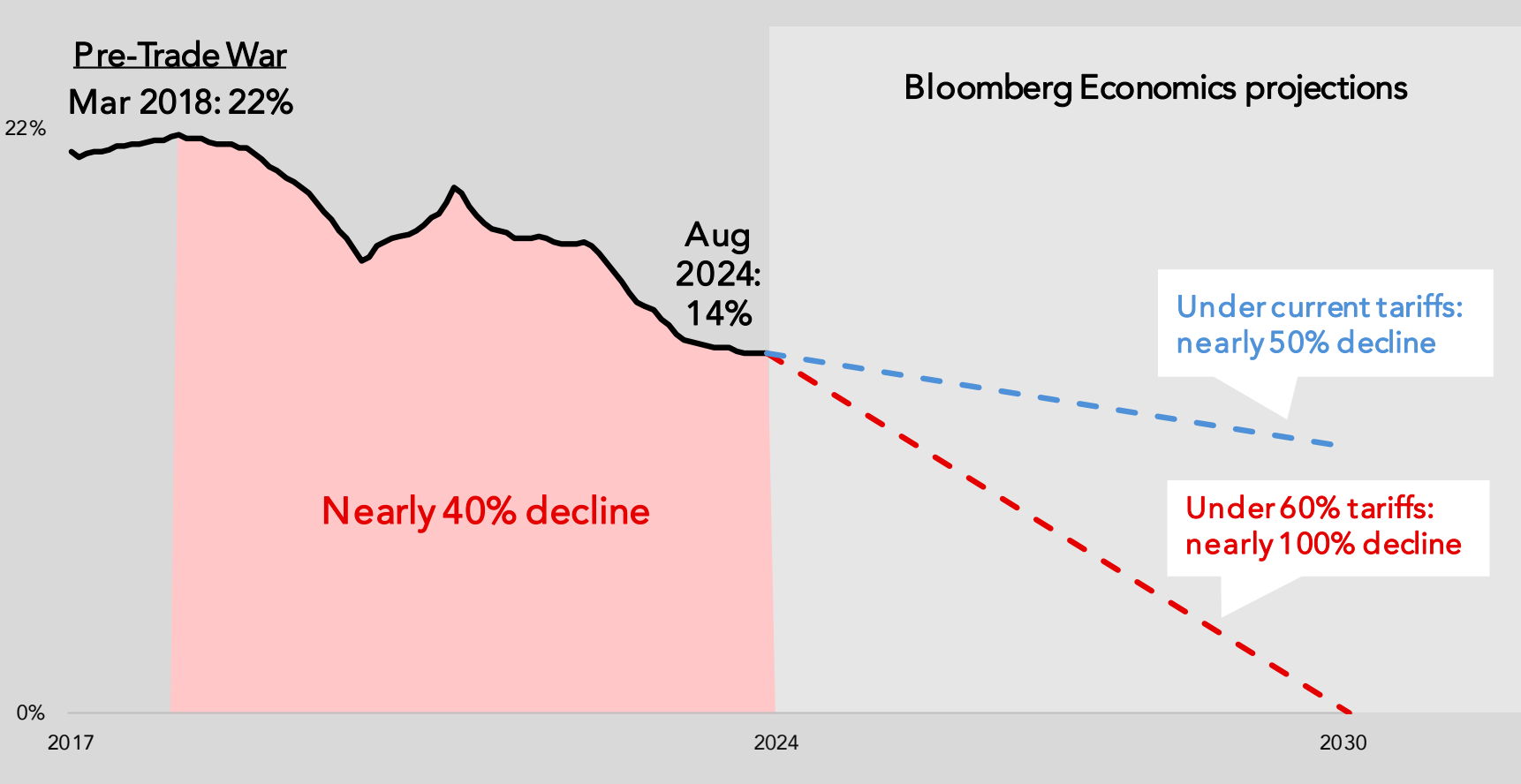
Share of US goods imports from China



US-China Trade Could Collapse in Trade War 2.0

According to analysis by Bloomberg Economics, an across the board tariff of 60% would likely reduce US imports from China almost entirely. In addition, based on the "tit-for-tat" pattern during Trump's first term, China would likely retaliate leading to a reduction in US exports to China to nearly zero, an annual loss of about \$150 bn.

Share of US goods imports from China



Source: (1) US Census Bureau. US trade in goods by country. Nominal USD, not seasonally adjusted, Data as of year end 2023. (2) Oxford Economics. (3) IMF World Economic Outlook October 2024. Trade war impact includes 10% tariffs on trade flows among US, EU and China as well as a 10% tariff between the US and the rest of the world and trade policy uncertainty from IMF Scenario A impact on GDP. (4) MUFG, "Asia FX Outlook Q4 2024 - Ride with the Tide". (5) ST&R, "Section 301 Tariffs on China." Tax Foundation, "Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions." (6) Peterson Institute for International Economics, "US-China Trade War Tariffs" (Chad Bown). (7) US Census Bureau. Data is rolling 12-month average through August 2024. (8) US Census Bureau. Data is rolling 12-month average through August 2024. Bloomberg, "Trump's Second Trade War Will Damage US as Well as China" (Orlik).

Global Corporate & Investment Banking Capital Markets Strategy Team



Tom Joyce
Managing Director
Tom.Joyce@mufgsecurities.com
(212) 405-7472



Stephanie Kendal
Vice President
Stephanie.Kendal@mufgsecurities.com
(212) 405-7443



Angela Sun
Analyst
Angela.Sun@mufgsecurities.com
(212) 405-6952

"Macro stability isn't everything, but without it, you have nothing."