

SEMINAR

Trade Wars and Industrial Policies along the Global Value Chains

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ABSTRACT:

We provide a quantitative estimation of the welfare impacts of the US-China trade conflict starting at 2018. We first document that the Trumpian tariffs were initially concentrated in a few high-tech manufacturing industries emphasized by the “Made in China 2025” (“MIC 2025”) project. These industries (i) exhibit strong economies of scale, and (ii) have low elasticities of substitution as inputs for other sectors. Motivated by these features, we extend the quantitative trade model in Caliendo and Parro (2015) by incorporating sectoral external economies of scale and nested-CES input-output linkages. We calibrate the model to 7 major economies and 95 disaggregated industries and examine the impacts of the Trumpian tariffs and the “MIC 2025” project. We find that the Trumpian tariffs lead to welfare losses in China, where high-tech industries are disproportionately affected. Surprisingly, “MIC 2025” increase the US welfare by lowering prices of inputs imported by the US firms. Moreover, we find that the Trumpian tariffs effectively increase China’s welfare gains from “MIC 2025”.

BIOGRAPHY:

Xiaodong Zhu is a full professor of economics at the University of Toronto, the director of the Research Center for Growth and Macroeconomic Policy at the National Institute for Financial Research in Tsinghua University, and the director of the Center for Global China at Wuhan University. His main research areas are macroeconomics, growth and development, and the Chinese economy. He is an expert on the Chinese economy and his research on China has been published in leading economics journals such as the *American Economic Review*, *Journal of Political Economy*, *Journal of Monetary Economics*, *International Economic Review*, *Journal of Development Economics*, *Review of Economic Dynamics*, and *Journal of Economic Perspectives*. He was a co-editor of the *China Economic Review* and is on the editorial boards of several economic journals.

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