Comments:

US-China Rivalry: The Macro Policy Choices

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Significance of the Paper

- US and China are major export destinations and import sources for the Philippines
- Continued trade friction negatively affects the overall investment sentiment
- The extent of impact, whether positive or negative, depends on the industries/products affected.

Main Contribution of the Paper

- Most of the recent papers on US-China trade war focus on the macroeconomic effects of a global trade war. See for example Berthou, et. al (2019), Bolt, et. al (2019), and Fajgelbaum et. al (2019).
- The paper puts emphasis on:
  - Roles of monetary policy and tax and import instruments;
  - Strategic policy choices;
  - Effects on financial markets, bond yields and capital accumulation; and
  - Effects of income distribution

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The Model (1)

Global general equilibrium with money and financial asset markets

- Six regions: United States, the European Union, Japan China, Australia and the Rest of the World
- Cobb Douglas technology
- Taxation on labor, capital incomes, consumption, imports and exports
- Three household groups: low-skilled, skilled and capital owning

The Model (2)

Financial market structure

- Regions maintain global asset portfolios with augmentation from new saving and rebalancing to maximize portfolio rates of return.
- Savers are influenced by the market rate, current disposable income, and expected future disposable income.
- Government deficits are bond financed with large deficits raising an interest rate premium.

Summary of Results (1)

- For both US and China, unilateral capital tax relief and bilateral tariffs are shown to be *"beggar thy neighbor"* in the long run.
- Tariff is most advantageous for the US if revenue finances consumption tax relief.
- China is a net loser from unilateral protection, regardless of its policy response.
- A Chinese currency float cushions the effects on its GDP in the short run.

Summary of Results (2)

- Equilibria in normal form non-cooperative games exhibit substantial spillovers
  - Insufficient to deter dominant strategies
- In the long run, the US imposes tariffs and maintains fiscal balance via consumption tax relief.
- For China, the best response is to liberalize.

Comments (1)

- *Optimal tariff theorem assumption*. How robust are the results of “optimal tariff” effects for the United States?

- Other recent studies have found evidence for Lerner symmetry in their analyses of global trade war and protectionism issues. See for example Bolt et al (2019) and Linde and Pescatori (2019)

  - Lerner symmetry: import tariffs are equivalent to export taxes

Comments (2)

- *The realities of global value chains*. Global value chains (GVCs) are widespread and makes it challenging at times to differentiate impacts on importers and exporters.
  - Apple's iPhone
- *Other channels of trade war impacts*. how other channels are considered in the model.

Possible Extensions

- It would be interesting to see the results of third country effects.
  - Negative effects from escalating trade dispute between US and China on countries across Asia (AMRO)
  - Mildly positive for developing Asia (ADB)
- Asia as a separate region
- Analysis of sectoral composition of goods targeted by US and China to examine trade diversion
- US-Mexico-China trade scenarios

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