

LEGISLATIVE REFERENCE BUREAU

Wisconsin and U.S. Trade Policy

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I. Overview

When the administration of President Donald Trump took office, its first official action was withdrawing the United States from the Trans-Pacific Partnership, an agreement to facilitate trade and investment between the United States and eleven mostly Asian countries. Trade has been among the foremost issues on the current administration's agenda. This publication provides an overview of the issues involved in international trade and discusses the effect of trade policy on Wisconsin. Section II is a primer on how international trade and international trade barriers work. Section III is an overview of the international trade system and its key institutions. Section IV, a review of the largest recent US actions, and retaliation to those actions, traces the timeline of the changes that are affecting the United States' and Wisconsin's imports and exports. And section V, a summary of Wisconsin's trade, highlights key industries that are expected to be affected by trade actions. Section V also provides a simple estimation of the dollar effects of recently imposed tariffs on Wisconsin's imports and exports, a rough cut at the impact these tariffs have. Readers familiar with the mechanics and terminology of trade can skip to section IV.

II. Introduction to international trade

International trade is the exchange of goods and services between countries. The value of imports into a country subtracted from the value of its exports is called the **balance of trade**. The United States runs the world's largest **trade deficit**, spending \$462 billion more in 2017 than it earned.¹ The European Union as a whole (\$405 billion) and Germany alone (\$296 billion) have the greatest **trade surplus**.² There are a variety of barriers to the free flow of commerce between parties in different countries. These include product safety laws, inspection requirements, and the cost of transportation across great distances. As of this writing, the most salient barriers to trade are tariffs. A **tariff** is a tax on goods imported into a country. Tariffs are imposed for many reasons. Before the income tax, tariffs were the main source of revenue for the federal government. Today, tariffs are primarily a tool used to protect domestic industry from foreign competitors. A tariff increases the price of imported goods, so firms that compete with imports for the domestic market are helped by tariffs.

Over the last 73 years, a number of international agreements and laws have reduced

1. "Country Comparison: Current Account Balance," The World Factbook, Central intelligence Agency, <https://www.cia.gov>. Note that the current account balance includes "a country's net trade in goods and services, plus net earnings, and net transfer payments to and from the rest of the world during the period specified. These figures are calculated on an exchange rate basis." Second is the United Kingdom (-\$107 billion) and third is India (-\$51 billion).

2. Second is Japan (\$195 billion), and third is China (\$164 billion).

the tariffs of most countries around the world including the United States.³ The **World Trade Organization** (WTO) is the most prominent and far reaching international trade organization. The WTO requires members to reduce their tariff rates to the rates they afford the **most favored nation** (MFN) in their tariff schedule. The main exception to those rates are bilateral and regional preferential trade agreements, like the **North American Free Trade Agreement** (NAFTA). In a preferential trade agreement, a bloc of states, usually geographically proximate to each other, eliminates trade barriers on “substantially all the trade” among them.⁴

Two other factors are critical to determining the nature of a country’s trade flows: “non-tariff barriers” and monetary policy. First, **non-tariff barriers** are policies that have the effect of restricting trade without directly taxing or limiting the amount of imports or exports. These barriers are often health and safety regulations, like food safety inspection requirements and inspection fees that have the indirect effect of increasing the cost of imported food. Other times, they are simply tariffs by another name, applied to intentionally reduce importation of a good and protect domestic industries.⁵

Second, monetary policy and savings levels are perhaps the most important determinants of changes in trade flows. In the US context, most economists agree that monetary policy has a more important effect on the trade deficit than tariffs.⁶ A strong dollar means that foreigners who wish to buy American (or Wisconsin) products have to spend more of their own currency in order to acquire the necessary dollars. It also means that goods denominated in foreign currencies are cheaper for Americans to acquire. Americans as a whole have a relatively low savings rate, meaning that they are spending on consumer goods more than they are saving, and many of those goods come from abroad.⁷

Effects of trade and trade barriers

Trade barriers in general can have dampening effects on the economy. By increasing the price of imported goods, tariffs and other trade barriers make it more expensive for

3. A study attempting to gather data on pre-GATT weighted average tariff rates shows that the United States has gone from a peak tariff of 24.4 percent weighted average tariffs in 1932 to 1.67 percent in 2017. Nearly all other countries follow similar trends. Canada went from 16.6 percent weighted average tariff in 1931 to 1.56 percent in 2017. India went from 40 percent in 1933 to 6.35 percent today. Historical data from Chad P. Bown, and Douglas A. Irwin, “The GATT’s Starting Point: Tariff Levels Circa 1947,” (policy research working paper, World Bank Group, April 2016). The World Bank, 2016. Current data from The World Bank, “Tariff rate, applied, weighted mean, all products (%)” <https://data.worldbank.org>.

4. *General Agreement on Tariffs and Trade, Article XXIV §8 (a) (i) and (b)*.

5. For example, limitations on the use of geographical indicators on food are a common and controversial non-tariff barrier. The EU, with the most stringent geographical indicator rules, limits the use of the term “Champagne” to sparkling wines from the Champagne region of France. These restrictions can be justified as a measure to accurately advertise a heritage of quality winemaking or the distinct features of a good made in an area. However, others criticize these restrictions as a trade barrier intended to prop up uncompetitive French wineries.

6. James K Jackson, *Trade Deficits and U.S. Trade Policy*, CRS Report No R45243 (Washington D.C.:U.S. Congressional Research Service, 2018). See also Paul Kiernan and Paul Viera, “U.S. Trade Deficit Widens as Nafta Talks Grind On,” *Wall Street Journal*, September 5, 2018.

7. A more detailed exploration of NTBs and monetary policy is beyond the scope of this publication. The remainder of the report will mostly focus on tariffs, the locus of action, and debate in the area for the last two years.

retailers to purchase stock, or for manufacturers to purchase the primary and intermediate goods that they turn into finished products. These costs must either be absorbed or passed on to customers. If they are absorbed, the profit margins of manufacturers and retailers are hurt, or those businesses must reduce costs, often by laying off workers. The industries that are hurt by tariffs are usually different from the ones that benefit. For example, steel producers may benefit from trade protection, but motor vehicle manufacturers facing higher tariffs on imported metals and car parts are hurt.

In standard economics models and theories, freer trade increases overall prosperity. However, economists agree that the benefits and costs of trade are distributed unevenly.⁸ Although trade can lower the costs of goods for all citizens, this benefit may be offset by layoffs within firms that cannot compete with the world market.

Job losses are expected in comparatively disadvantaged industries as economies adjust to increased trade.⁹ Governments respond to these losses in a few different ways. In the United States, the federal government offers trade adjustment assistance for workers whose employment is endangered by trade.¹⁰ This assistance provides weekly cash payments and allowances for job searches and relocation. In Wisconsin, the Department of Workforce Development manages the ground-level case management of trade assistance. Additionally, trade adjustment programs offer assistance for retraining, so laid-off workers can pursue new skills in comparatively advantaged sectors, or sectors not exposed to trade pressures. Research shows that workers who lose their job and receive trade adjustment usually are unable to achieve their previous level of income after four years.¹¹ Governments can also attempt to insulate disadvantaged industries from the effects of trade by erecting barriers to trade, like tariffs. To the extent these barriers increase the cost of importing goods, firms that compete with imports are better able to compete in the domestic market, saving some jobs at the expense of consumers broadly.

Because increased trade harms some industries, many argue that increased impor-

8. The “Ricardian model” of international trade is the canonical illustration of why trade improves overall welfare. A discussion of this model written for undergraduate economics courses can be found in Paul Krugman and Robin Wells, “International Macroeconomics,” in *Macroeconomics*, 5th ed. (New York: Worth Publishers, 2018). The original illustration can be found in David Ricardo, “On Foreign Trade,” in *On the Principles of Political Economy and Taxation* (London: John Murray, Albemarle Street, 1817), 135–68.

9. Comparative advantage and disadvantage are economics concepts beyond the scope of this publication to describe in detail. In short, a country is comparatively advantaged in producing a particular good if it makes that good more efficiently than other goods. Note that comparative advantage in a good does not require a country to make a good more efficiently than other countries. For example, a developing country is advantaged over developed countries in textile production relative to airplane production, even though a developed country can probably make both products more efficiently. For a more detailed explanation written for a legislative audience, see Cathleen D. Cimino-Isaacs, “U.S. Trade Policy Primer: Frequently Asked Questions,” *CRS Report*, 1–3, <https://fas.org>.

10. United States Department of Labor, “Trade Adjustment Assistance,” <https://www.doleta.gov>.

11. Mathematica Policy Research and Social Policy Research Associates, “Estimated Impacts for Participants in the Trade Adjustment Assistance (TAA) Program Under the 2002 Amendments,” available at <https://wdr.doleta.gov>, table VII-3; as cited in Benjamin Collins, “Trade Adjustment Assistance for Workers,” *CRS Report*, March 5, 2014, <https://www.everycrsreport.com>.

Figure 1. GDP for manufacturing in the U.S., 1963–2017

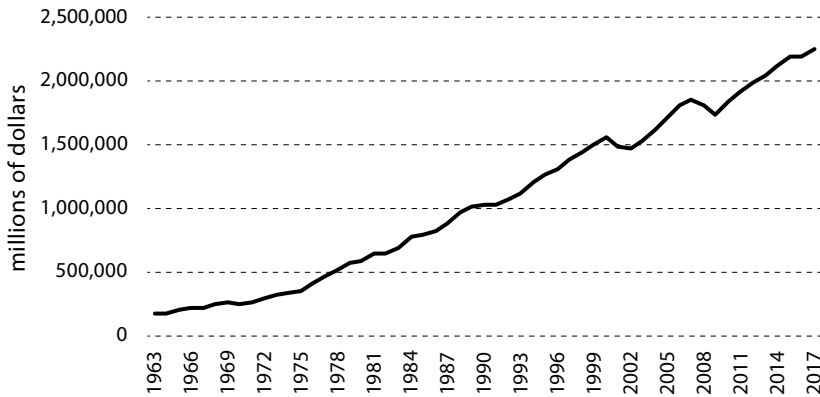
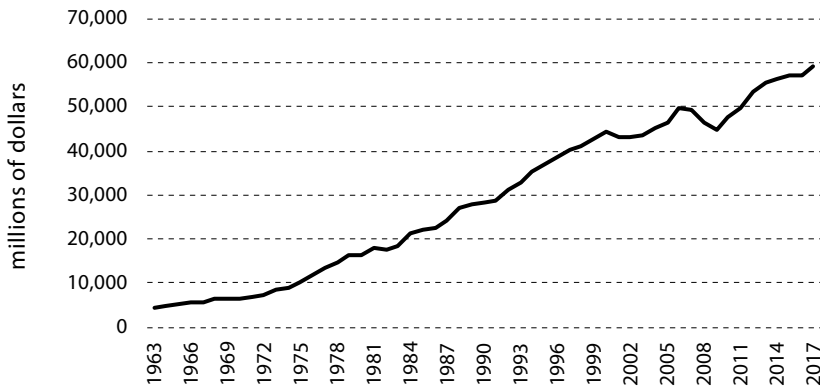


Figure 2. GDP for manufacturing in Wisconsin, 1963–2017



tation and the trade deficit are primarily responsible for a “decline” in manufacturing. However, manufacturing as a whole continues to increase while the trade deficit is also increasing. Since 2009, America’s GDP from the manufacturing sector has increased 30 percent nationally and 31 percent in Wisconsin.¹² This compares with a 6.6 percent increase in manufacturing employment nationally over the same period, and a 7.7 percent increase in Wisconsin.¹³ Over the same period, US annual exports grew \$490 billion, or 46 percent, while imports grew \$782 billion, or 50 percent, resulting in a \$292 billion

12. Gross Domestic Product (GDP) is the value of goods and services produced in a country. Data: Gross Domestic Product (by State), Bureau of Economic Analysis, <https://www.bea.gov/data/>.

13. Despite these growth trends in manufacturing, it takes up less of the economy as a whole. Private manufacturing employment increased from 15.7 percent of Wisconsin jobs in December 2009 to 15.9 percent in January 2016, and 16.5 percent in October 2018. However, manufacturing employment is overall down from 17.3 percent in December 2007, the start of the recession and from 22.5 percent in December 1990. Ratio of total manufacturing employment to total nonfarm employment (seasonally adjusted), calculated from Bureau of Labor Statistics, “State and County Employment and Wages,” <https://www.bls.gov/data/>.

Figure 3. U.S. manufacturing employment, 1998–2017

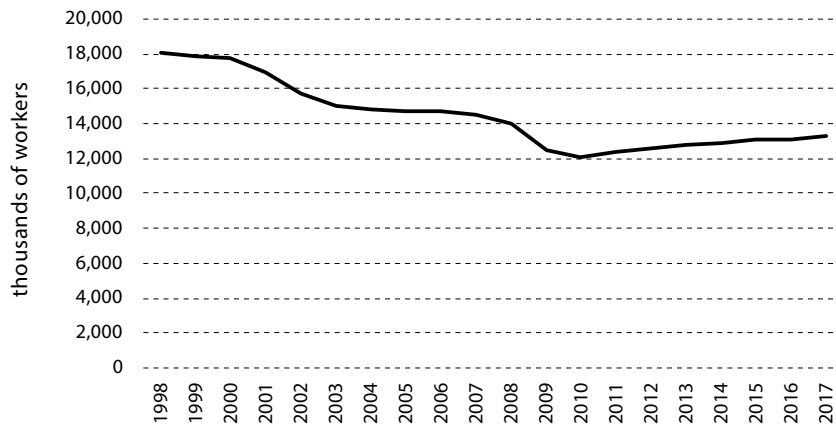
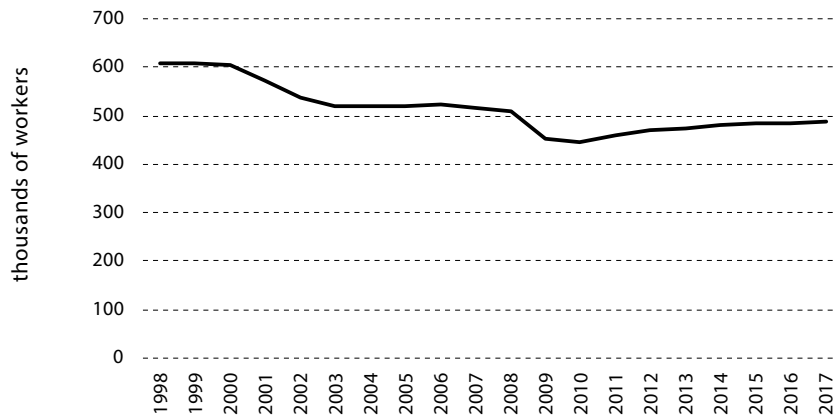


Figure 4. Wisconsin manufacturing employment, 1998–2017



increase in the trade deficit. The demand for imports, not a decline in exports, drives the trade deficit.¹⁴

Trade deficits are supposed to be self-correcting: increasing demand in a country for imports relative to exports should drive down the value of that country’s currency, making imports more expensive and exports more competitive. This process is short-circuited for the United States. The dollar remains the most popular and safe international currency, underpinning much of the international financial system. This monetary strength combines with a large market for American debt to prop up demand for the dollar. This

14. U.S. Census Bureau: Economic Indicators Division, U.S. Import and Export Merchandise Trade Statistics, <https://usa-trade.census.gov/data/>. Census Bureau state-level export data references the “origin of movement,” which may not be the actual transportation origin, i.e., if a shipment from Wisconsin is consolidated in New York, then exported, it may be listed as a New York export, rather than a Wisconsin export. Import data references the “state of destination,” which may not necessarily be the final destination for products, i.e., if a good is imported into another state for storage and distribution to Wisconsin at a later date, that good may not be counted as a Wisconsin import. This is the best data available, however, and is also used by the WEDC, academics, and many Wisconsin trade groups. Additional documentation can be found at <https://www.census.gov/foreign-trade/guide/sec2.html#state>.

demand increases the dollar's value and keeps importing cheap. Exacerbating this, US trading partners, especially China, may be intentionally weakening their currencies to facilitate exporting.¹⁵

III. Key agreements and laws

GATT/WTO

Following the end of World War II, Allied leaders negotiated the **General Agreement on Tariffs and Trade** (GATT) to achieve two main goals: to help rebuild the world's economies following the protectionism and disruption of the post-World War I era, the Great Depression and World War II, and to discourage war by increasing economic ties between nations.¹⁶ The GATT generally bound countries to offer each other the same tariff rates they offer to the nations with the most market access, the MFN rate.

Over the course of seven “rounds” of negotiation from 1945 to today, GATT signatories negotiated additional multilateral tariff reductions.¹⁷ Under this regime, the average American tariff on imports has fallen from 20 percent in 1932 to 1.67 percent in 2016.¹⁸ Tariffs in the rest of the world have fallen to a similar degree.

In 1994, the WTO replaced the GATT organization (although the GATT treaty is still in effect). Its main role, besides serving as a secretariat for negotiations, is in managing trade disputes. Under the WTO, a member country that has a dispute over whether another country is breaking its trade obligations can enter a quasi-judicial process known as the **Dispute Settlement Procedure** (DSP). When countries lose in the DSP, the WTO can authorize complainants to place reciprocal trade protection against violators.

Trade promotion authority

The Reciprocal Tariff Act of 1934 enabled the president to negotiate and implement tariff reductions without the approval of Congress.¹⁹ The subsequent Trade Act of 1974²⁰ authorized the president to negotiate comprehensive trade agreements that would be subject to a majority-rule congressional vote and not subject to amendment.²¹ Both laws make it far easier to enact a trade agreement than the normal two-thirds barrier required

15. For example, BBC News, “[Trump Accuses China of Manipulating its Currency](https://www.bbc.com),” 21 August 2018, <https://www.bbc.com>.

16. Douglas A. Irwin, Petros C. Mavroidis, and Alan O. Sykes, *The Genesis of the GATT* (Cambridge: Cambridge University Press, 2009) 7–16.

17. The Annecy Round (1949), Torquay Round (1951), Geneva Round (1955–56), Dillon Round (1960–62), Kennedy Round (1962–67), Tokyo Round (1973–79), and the Uruguay Round (1986–94). An eighth round, the Doha Round, has been in on-and-off negotiation since 2001 and is moribund.

18. See note 3.

19. [1934 H.R. 8687](#).

20. [Public Law 93-618](#).

21. The powers granted in the 1934 and 1974 powers are typically called Trade Promotion Authority.

for a treaty.²² This authority has been renewed several times after its initial five-year term.²³

Investor-state dispute settlement

Investor-state dispute settlement (ISDS) is a feature of many US trade and investment agreements. ISDS allows the arbitration of disputes between private firms and the foreign host countries in which they invest. The appeal of ISDS is that the arbitration is conducted by a neutral international body outside the host country's normal legal system. Disputes often center on government actions that expropriate firms' assets and investments (like nationalization of an industry) or diminish firms' returns (like increased regulation). The remedy is typically monetary compensation, rather than a reversal of government action. Because ISDS imposes penalties on governments for their policy choices, some see it as an infringement on a country's sovereignty.

TPP

The United States and eleven other countries completed negotiation of the **Trans-Pacific Partnership** (TPP) in February 2016. The agreement would have substantially lowered trade barriers between countries representing 40 percent of the world economy.²⁴ The agreement's controversies included the impact on workers in sectors that compete with imports, environmental and labor standards, and the potential impact of ISDS on government's ability to regulate industry. The agreement was a controversial topic during the 2016 presidential campaign, and both major presidential candidates opposed the TPP's ratification.²⁵ Once in office, the Trump administration withdrew the United States from the agreement.

The remaining members renegotiated TPP without the United States, creating the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The ratification of six countries—Australia, New Zealand, Canada, Japan, Singapore, and Mexico—put the agreement into effect on December 29, 2018.²⁶

NAFTA/USMCA

The North American Free Trade Agreement (NAFTA) is a trilateral preferential trade

22. U.S. Const. art. II, § 2, cl. 2.

23. The current trade promotion authority was included in Public Law 114-26 (19 U.S.C. 2111 to 2119), and will last until July 1, 2021, because of an extension in March 2018. For additional detail, see Ian F. Fergusson and Christopher M. Davis, "Trade Promotion Authority (TPA): Frequently Asked Questions," *CRS Reports*, September 4, 2018, 1, <https://fas.org>.

24. Kevin Granville, "What is TPP? Behind the Trade Deal That Died," *New York Times*, January 23, 2017, <https://www.nytimes.com>.

25. Dan Roberts, "Trump and Clinton's free trade retreat: a pivotal moment for the world's economic future," *The Guardian*, 20 August 2016 <https://www.theguardian.com>.

26. Alison Bevege, "Pacific Trade Pact Takes Off with Tariffs Cut in Six Nations," *Reuters*, December 29, 2018, <https://www.reuters.com>.

agreement among the United States, Mexico, and Canada that came into force in 1994. The agreement largely removed the trade barriers between the members, with some critical exceptions for agriculture (including dairy). Controversies over areas where trade barriers remained, the power of ISDS, and the movement of several manufactories to Mexico all fostered resentment of NAFTA. In May 2017, the Trump administration provided notice of its intent to renegotiate NAFTA, as required by Congress's grant of trade promotion authority.

The resulting agreement, signed November 30, 2018, is known as the **United States-Mexico-Canada Agreement** (USMCA). The USMCA includes wage requirements on autoworkers in Mexico, requires more parts of an automobile to be made in North America to qualify for zero tariffs,²⁷ and, importantly for Wisconsin, provides additional access to dairy markets in Canada.²⁸ The agreement also includes a weakened form of ISDS, limiting its use and requiring cases between American and Mexican parties to be adjudicated in domestic courts before going to international arbiters.²⁹ Congress is expected to vote on the agreement in 2019.

IV. Trump administration trade measures and retaliation

Section 232

Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. § 1862) allows the president to place trade barriers on goods whose importation “threaten[s] to impair the national security.”³⁰ Before barriers can be placed, the secretary of commerce must initiate a study finding that importing certain goods could damage national security and provide an assessment of what can be done to prevent that damage.

In April 2017, President Trump asked Commerce Secretary Wilbur Ross to initiate Section 232 investigations on steel and aluminum imports.³¹ The reports, issued in January 2018, found that both steel and aluminum production were necessary for national security and that production of both was in decline. The report also argued that the imposition of trade barriers on steel and aluminum importation would reduce imports, raising domestic demand and prices enough to incentivize the restarting and creation of domestic steel and aluminum smelters.³² The tariffs of 25 percent on steel and 10 percent

27. US-Mexico-Canada Agreement, Chapter 4, “Rules of Origin,” <https://ustr.gov>.

28. US-Mexico-Canada Agreement, Annex 3-A, “Agricultural Trade between Canada and the United States,” <https://ustr.gov>.

29. US-Mexico-Canada Agreement, Annex 14-D, “Mexico-United States Investment Disputes,” <https://ustr.gov>.

30. 19 U.S.C. § 1862 (c) (3) (A).

31. David Lawder, “U.S. launches national security probe into aluminum imports,” *Reuters*, April 26, 2017, <https://www.reuters.com>.

32. U.S. Department of Commerce, “The Effect of Imports of Steel on the National Security,” January 11, 2018 and “The Effect of Imports of Aluminum on the National Security,” January 18, 2018, <https://www.commerce.gov>.

on aluminum took effect March 8, 2018, for most countries, with a temporary exception for the EU, Canada, and Mexico being removed on June 1, 2018.³³

Section 301

Section 301 of the Trade Act of 1974 (19 U.S.C. § 2411) empowers the US trade representative to investigate the trade practices of other countries to determine whether they are engaging in any of three types of behavior injurious to US trade:

1. Violations of trade agreements.
2. Actions inconsistent with US international legal rights.
3. Actions that are unreasonable or discriminatory to US commerce.³⁴

On August 14, 2017, President Trump instructed the Office of the United States Trade Representative (USTR) to conduct an investigation of Chinese policies under Section 301.³⁵ The report, issued in March 2018, found that China engaged in discriminatory and unreasonable action in several areas. The foremost area of harm was in the use of foreign ownership restrictions to require the transfer of proprietary technologies from American companies to Chinese ones.³⁶ Relatedly, the USTR found that importation of foreign technology often required licenses that placed more onerous terms on foreign technologies than on domestic ones with respect to liability and patents.³⁷ The USTR argued that Chinese foreign investment is also unfair, as it is government subsidized with the goal of promoting technology transfer.³⁸ Lastly, China's state-sponsored cyber intrusions have successfully acquired confidential business information, including trade secrets, technical data, and internal communications.³⁹

On the basis of Section 301, the Trump administration, in April 2018, proposed a 25 percent tariff on a list of more than 1,300 goods,⁴⁰ worth approximately \$50 billion.⁴¹ The tariffs were split into two groups. Tariffs on the first group, worth \$34 billion, went into

33. Press Release, "President Donald J. Trump Approves Section 232 Tariff Modifications," May 31, 2018, <https://whitehouse.gov>.

34. Office of the U.S. Trade Representative, "Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, 3, <https://www.ustr.gov>.

35. Addressing China's Laws, Policies, Practices and Actions Related to Intellectual Property, Innovation, and Technology, 82 Fed. Reg., 39007, <https://www.federalregister.gov>.

36. See note 33, 23–29.

37. *Id.*, 48–51.

38. *Id.*, 62–65.

39. *Id.*, 153.

40. Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 83 Fed. Reg. 14906, <https://www.federalregister.gov>.

41. Ana Swanson, "White House Unveils Tariffs on 1,300 Chinese Products," *New York Times*, April 3, 2018, <https://nytimes.com>.

effect on July 6, 2018.⁴² The second group, worth \$16 billion, went into effect on August 23, 2018.⁴³

In June 2018, President Trump directed the USTR to identify another \$200 billion in Chinese imports on which to place a 10 percent tariff.⁴⁴ However, in August 2018, President Trump instructed that the tariff be set at 25 percent.⁴⁵ The USTR released the list of goods in July 2018, and finalized the list in September 2018.⁴⁶ The tariffs went into effect September 24, 2018, at the 10 percent rate. These tariffs were scheduled to increase to 25 percent on January 1, 2019;⁴⁷ however, an agreement reached between President Trump and Chinese President Xi Jinping delayed the increase to provide time for further negotiations.⁴⁸

The Trump administration has placed separate tariffs, not covered here in detail, on smaller sets of goods. Most notable among these is a 30 percent tariff on solar panels, a 20–50 percent tariff on washing machines, and an approximately 20 percent tariff on Canadian softwood lumber imports.⁴⁹

As part of a strategy to help farmers hurt by retaliation to import tariffs, the United States Department of Agriculture implemented a trade aid package as authorized by Section 5 of the Commodity Credit Corporation Charter Act (15 U.S.C. §714c).⁵⁰ The **Market Facilitation Program** component of the package offers \$9.5 billion in direct payments to farmers.

Retaliation by country

Several countries affected by the United States' tariffs have imposed, or threatened to impose, tariffs in retaliation.⁵¹ These retaliatory tariffs have typically been justified under

42. Michael Martina and David Lawder, “Dueling Tariffs Raise Fears of Long US-China Trade Battle,” *Reuters*, October 22, 2018, <https://www.reuters.com>.

43. Notice of Action Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 83 Fed. Reg. 408023, <https://www.federalregister.gov>.

44. Ana Swanson, Keith Bradsher, and Katie Rogers, “Trump Threatens Tariffs on \$200 Billion in China Goods, Escalating Fight,” *New York Times*, June 18, 2018, <https://www.nytimes.com>.

45. United States Trade Representative, “Statement by U.S. Trade Representative Robert Lighthizer on Section 301 Action,” press release, August 1, 2018, <https://www.ustr.gov>.

46. United States Trade Representative, “USTR Finalizes Tariffs on \$200 Billion of Chinese Imports in Response to China’s Unfair Trade Practices,” press release, September 18, 2018, <https://www.ustr.gov>.

47. *Id.*

48. Donna Borak, “Trump and XI Celebrate Warm Talks But Remain Far Away From A Final Deal on Trade,” CNN, December 2, 2018, <https://www.cnn.com>.

49. Office of the United States Trade Representative, “President Trump Approves Relief for US Washing Machine and Solar Cell Manufacturers,” January 22, 2018, <https://ustr.gov>. Certain Softwood Lumber Products From Canada: Preliminary Affirmative Countervailing Duty Determination, and Alignment of Final Determination With Final Antidumping Duty Determination, 82 FR 19657, <https://www.federalregister.gov>.

50. Randy Schnepf, Megan Stubbs, Jim Monke, and Jenny Hopkinson, “Farm Policy: USDA’s Trade Aid Package,” *CRS Report*, September 26, 2018, <https://fas.org>.

51. A compilation of the tariff lists provided below can be found at John Brew, Frances Hadfield, Spencer Toubia, Edward Goetz, Cherie Waltermann, and Rebecca Toro Condori, “Latest U.S. Trade Actions/Tariffs and Other Countries Retaliatory Measures,” *Crowell & Moring International Trade Law*, December 4, 2018, <https://www.cmtradelaw.com>.

article 8, paragraph 2, of the WTO's Agreement on Safeguards, which allows signatories to "suspend . . . substantially equivalent concessions or obligations under GATT" if negotiations over a safeguard measure fail.⁵² Following WTO rules, retaliatory measures are designed to reciprocate the dollar amount of harm that the US tariffs do to the exports of those countries. Also in accordance with WTO rules, these tariffs will likely be removed if the United States removes its own.

In order to compel the United States to remove its own tariffs, retaliatory tariffs often target politically and economically important industries and areas in the hope that those constituencies will pressure the president to relent. As a swing state critical to the presidential election, many of Wisconsin's exports have been specifically targeted. This kind of targeting has proved successful in the past. For example, the EU threatened retaliatory tariffs on politically important constituencies in Florida, California, and the Carolinas in 2002, causing President George W. Bush to remove tariffs he had imposed on steel.⁵³

In addition to the existing retaliation, a consortium of countries has also initiated proceedings under the DSP, claiming that the United States' tariffs are a violation of their WTO obligations and not justified as national security safeguards.⁵⁴ The United States has also filed claim that retaliatory tariffs are unjustified, as tariffs imposed for national security reasons are allowed by GATT, section 21.⁵⁵ If the DSP rules against the United States, it will pave the way for other countries, like Norway, Brazil, Indonesia, and Saudi Arabia, to institute retaliatory tariffs or additional retaliation from those currently doing so. A win for the United States, however, could result in a reduction of retaliatory tariffs or legal authority for the United States to impose more tariffs on imports.

China

China's trade conflict with the United States is more severe than US disputes with other countries, both in dollar value and conflicts of interest. China's first set of retaliatory 25 percent tariffs went into effect July 6, 2018, covering \$34 billion in US goods.⁵⁶ Targeting Wisconsin, the tariff list includes cranberries, cheeses, and meat products. The second

52. Article 8: Level of Concessions and Other Obligations, *World Trade Organization Agreement on Safeguards*, <https://www.wto.org>.

53. William Branigin, "[Bush Administration Lifts Steel Tariffs](https://www.washingtonpost.com)," *Washington Post*, December 4, 2003, <https://www.washingtonpost.com>.

54. DS551: United States—Certain Measures on Steel and Aluminum Products, <https://www.wto.org>. See also DS544, DS547, DS548, DS550, DS552, DS554, DS556, DS564.

55. Bryce Bsachuk, "[Europe, U.S. Escalate Trade War With New Disputes at the WTO](https://www.bloomberg.com)," *Bloomberg*, October 18, 2018, <https://www.bloomberg.com>.

56. Evelyn Cheng, "[China Announces Retaliatory Tariffs on \\$34 Billion Worth of US Goods, Including Agriculture Products](https://www.cnbc.com)," *CNBC*, 15 June 2018, <https://www.cnbc.com>. An unofficial translation of the listed goods can be found [here](https://www.crowell.com) (<https://www.crowell.com>). (See note 51.)

list⁵⁷ of 25 percent tariffs, on goods worth \$16 billion, went into effect August 23, 2018.⁵⁸ The second list includes tariffs on motorcycles and paper.⁵⁹

A third list of tariffs, at rates between 5 percent and 25 percent, on goods worth another \$60 billion took effect September 24, 2018.⁶⁰ This list⁶¹ includes many Wisconsin products, among them soybeans and ginseng.

Following the agreement at the G20 Summit in Argentina, China agreed to reduce its tariffs on automobiles and auto parts from the United States and purchase more American agricultural goods, but the specific dollar value of those purchases is unclear at the time of writing.⁶²

European Union

The European Union placed tariffs on \$7.1 billion of US exports, generating an estimated \$1.6 billion in price effects.⁶³ The tariff rates range from 10 percent to 50 percent. Several major Wisconsin industries were targeted, notably motorcycles and cranberries.⁶⁴ The tariffs on \$3.27 billion of US exports took effect June 22, 2018. The remainder take effect in 2021, unless the WTO authorizes them sooner.⁶⁵

Canada and Mexico

In response to the Section 232 tariffs on steel and aluminum, Canada announced retaliatory tariffs of 10–25 percent on \$12.8 billion in US exports, which took effect July 1, 2018.⁶⁶ These tariffs targeted a number of goods exported by Wisconsin, including processed chicken and beef products, soups, paper, and bedding.⁶⁷

Although the USMCA exempts certain Canadian auto and auto part exports from

57. An unofficial list of products can be found here: <https://www.crowell.com/files/China-301-Retaliatio-Lists-June-and-August-2018.xlsx>.

58. Fred Imbert, “China Slaps 25% Tariffs on \$16 Billion Worth of US Goods,” CNBC, August 8, 2018, <https://www.cnbc.com>.

59. See note 51. An unofficial translation of the listed goods can be found [here](https://www.crowell.com) (<https://www.crowell.com>).

60. Tae Kim, “China Hits Back: It Will Impose Tariffs on \$60 Billion Worth of US Goods Effective Sept. 24,” CNBC, September 18, 2018, <https://www.cnbc.com>.

61. Frances Hadfield, Yun Gao, and Edward Goetz, “China’s Retaliatory Tariffs on \$60 Billion in U.S. Goods- List of Affected HTS Subheadings,” *Crowell & Moring International Trade Law*, August 19, 2018, <https://www.cmtradelaw.com>.

62. White House Press Secretary, “Statement from the Press Secretary Regarding the President’s Working Dinner with China,” December 1, 2018, <https://www.whitehouse.gov>.

63. Council for Trade in Goods, Committee on Safeguards, “Immediate Notification Under Article 12.5 of the Agreement on Safeguards to the Council for Trade in Goods of Proposed Suspension of Concessions and Other Obligations Referred to in Paragraph 2 or Article 8 of the Agreement on Safeguards: European Union,” press release, 18 May 2018.

64. Combined Nomenclature (CN) Codes 87114000, 87115000, 20098111, 20098119, 20098131, 20098159, 20098195, and 20098199.

65. European Commission, “EU Adopts Rebalancing Measures in Reaction to US Steel and Aluminum Tariffs,” press release, 20 June 2018, <http://europa.eu>.

66. Allison Martell, “Canada to Impose Tariffs on U.S., Challenge at WTO,” *Reuters*, May 31, 2018, <https://www.reuters.com>.

67. Canada Department of Finance, “Countermeasures in Response to Unjustified Tariffs on Canadian Steel and Aluminum Products,” May 31, 2018.

Section 232 tariffs, it does not address the broader tariffs currently in place. So, Canadian retaliatory measures are also still in place, despite the conclusion of USMCA negotiation.⁶⁸

Mexico completed the implementation of a two-stage tariff on July 5, 2018.⁶⁹ The tariff targets \$3 billion in US exports.⁷⁰ Several Wisconsin exports are targeted, but most notable is a 20–25 percent tariff on pork, cranberries, and cheeses covering up to \$63 million of Wisconsin exports to Mexico.

Other retaliators

India announced retaliatory tariffs between 5 percent and 100 percent on \$10.6 billion in US exports in May 2018, and updated that list in June 2018.⁷¹ Notably for Wisconsin, the tariff on motorcycles is increased by 50 percent under the June tariffs. The tariffs took effect once the United States declined India's initial request for WTO consultation.⁷²

Japan informed the WTO of its intent to impose tariffs on \$1.7 billion in US exports on May 18, 2018.⁷³ The specifics of the goods being targeted has not yet been released. Russia's tariffs⁷⁴ put an additional 25–40 percent tax on a variety of goods, increasing their cost by \$537.6 million.⁷⁵ The tariffs took effect August 5, 2018. Finally, on June 21, 2018, Turkey implemented tariffs between 5 percent and 40 percent on US exports, including paper products.⁷⁶

V. Wisconsin's trade profile and a simple estimation of the effects of tariffs

Trade balance

Like the United States as a whole, Wisconsin has consistently run a trade deficit by importing goods worth more than the goods it exports. From October 2017 to September

68. Jack Caporal and William Alan Reinsch, "From NAFTA to USMCA: What's New and What's Next?" Center for Strategic and International Studies, October 3, 2018, <https://www.csis.org>.

69. Sabrina Rodriguez, "Mexico Imposes Retaliatory Tariffs on Dozens of US Goods," *Politico*, July 5, 2018, <https://www.politico.com>.

70. A translated list can be found [here](https://www.nam.org) (<https://www.nam.org>).

71. Council for Trade in Goods, Committee on Safeguards, "[Immediate Notification Under Article 12.5 of the Agreement of Safeguards to the Council for Trade in Goods of Proposed Suspension of Concessions and Other Obligations Referred to in Paragraph 2 of Article 8 of the Agreement on Safeguards: India](#)," press release, June 14, 2018, <https://www.docs.wto.org>.

72. *Id.*

73. Council for Trade in Goods, Committee on Safeguards, "[Immediate Notification Under Article 12.5 of the Agreement of Safeguards to the Council for Trade in Goods of Proposed Suspension of Concessions and Other Obligations Referred to in Paragraph 2 of Article 8 of the Agreement on Safeguards: Japan](#)," press release, May 18, 2018, <https://www.docs.wto.org>.

74. An unofficial translation of the Russian list can be found at Sandler, Travis, and Rosenberg, P.A., "[Tariff Actions Resource Page: Russia 232 Retaliation List](#)," <https://www.strtrade.com>.

75. Darya Korsunskaya and Andrey Ostroukh, "[Russia Hikes Duties on US Imports, Pledges More Retaliation](#)," *Reuters*, July 6, 2018, <https://www.reuters.com>.

76. Council for Trade in Goods, Committee on Safeguards, "[Immediate Notification Under Article 12.5 of the Agreement of Safeguards to the Council for Trade in Goods of Proposed Suspension of Concessions and Other Obligations Referred to in Paragraph 2 of Article 8 of the Agreement on Safeguards: Turkey](#)," press release, May 21, 2018, <https://www.docs.wto.org>.

2018⁷⁷ that deficit was \$7.66 billion.⁷⁸ Exports did grow year-over-year, from \$22.1 in 2016–17 to \$22.57 billion in 2017–18. However, imports also increased from \$26.1 billion to \$30.2 billion over those same periods, resulting in the net negative effect on the trade deficit.

This section provides a brief overview of Wisconsin’s exports and imports, primarily using data from 2016 to 2018. It describes exports prominently described as negatively affected by tariffs. These descriptions are not an exhaustive list of industries affected. Then, a simple estimation of the effects of tariffs shows more precisely the overall impact of recent events.

Exports

According to the Wisconsin Economic Development Corporation, Wisconsin exported products worth a total of \$22.3 billion outside the United States in 2017.⁷⁹ Wisconsin’s exports to those countries that have instituted retaliatory tariffs were valued at \$16.94 billion in 2017.

Wisconsin’s most valuable exported product categories to retaliating countries include machinery and appliances (\$3.84 billion), electrical machinery (\$1.75 billion), optical, medical, or surgical equipment (\$1.63 billion), vehicle parts (\$1.03 billion), and plastics (\$894 million). Product lines that have received significant attention in reports on the effects of tariffs on Wisconsin include soybeans (\$253 million in sales to retaliating countries in 2017), toilet paper (\$229 million), dairy products (\$218 million), and berries (including cranberries, \$41.2 million).

Export retaliation

In total, more than \$2.48 billion in Wisconsin exports, or 14.6 percent, are currently subject to retaliatory tariffs.⁸⁰ The estimated simple price effect of those tariffs—the revenue that tariffs would generate if the number and prices of exports were unchanged—is \$256 million. Exporters have reacted in several ways to these changes. Some are simply taking the hit, absorbing the cost of tariffs themselves rather than passing the cost on to customers. However, with an average tariff of 10.3 percent on exported goods, a reduction in a product’s price of 10 percent could result in goods being sold at cost or less than cost.⁸¹ Those unable or unwilling to absorb that hit can find themselves losing orders. Although Wisconsin’s exports have grown 2 percent as a whole year-over-year, concentrated losses

77. At time of writing, the most recent data available is from September 2018.

78. See note 14.

79. Wisconsin Economic Development Corporation, “[Wisconsin Export Data](https://wedc.org),” <https://wedc.org>.

80. See the appendix for the detailed methodology of how the effect of tariffs was estimated.

81. Rick Barrett, “[As Tariffs Continue, Panic Beginning to Sink in Among Wisconsin Manufacturers](https://www.usatoday.com),” *Milwaukee Journal Sentinel*, October 22, 2018, <https://www.usatoday.com>.

of orders in particular sectors can hurt businesses. Even if the tariffs are lifted, a disruption in the relationship between suppliers and buyers may not be easily repaired.

Table 1. Wisconsin exports and retaliation by country

Country	Wisconsin exports (\$1,000)	Goods affected (\$1,000)	Average tariff ⁸² (percent)	Estimated simple price effect (\$1,000)
Canada	6,910,542	717,989	9.8	70,158
China	1,732,109	1,389,417	8.5	117,831
India	287,358	24	25.9	6
Japan	788,517	*	*	*
Mexico	3,196,139	107,358	11.3	12,073
Russia	107,269	1,464	13.9	204
Turkey	90,794	5,128	22.6	1,159
European Union	3,830,436	259,618	21.1	54,669
Total	16,943,164	2,480,997	10.3	256,102

*Japan has not announced to which categories it intends to apply tariffs.

Several of the most affected product categories are also the most prominent in the public discussion of trade. Cranberries, dairy products, and prepared vegetable and fruit products (e.g. soybean oil) are among the ten most affected product categories, depending on the level of specificity.

Often omitted from the discussion of tariffs in Wisconsin are the large effects of retaliatory tariffs on Wisconsin's export of medical devices, machinery, and paper products. An estimated price effect of \$32.9 million on machinery and appliances, or \$32.4 million for medical instruments, is more than the total value of Wisconsin ginseng exported to the world in 2017 (\$30.4 million).

As a consequence of reducing revenue, retaliatory tariffs are likely to influence Wisconsin employment if affected firms reduce hiring or lay off staff to reduce costs. A report by the Brookings Institute estimates that the largest numbers of Wisconsin jobs supported by exports lie in major cities and suburbs.⁸³ Kenosha (part of the Chicago metro area), Milwaukee, Madison, Green Bay, and western Wisconsin counties near Minneapolis (St. Croix and Pierce) all have the largest number of export-supported jobs. However, the areas where the greatest proportion of export-supported jobs are influenced by retaliation are near Grant County, Shawano, Menomonie, and Baraboo.

82. Average tariff for affected products across Harmonized System six-digit (HS6) product categories. The value for the estimated price effect is calculated using the average tariff within HS6 categories. See appendix for detail on HS categories and calculations.

83. A description and downloadable version of the Brookings data is available at Joseph Parilla and Max Bouchet, "Which US Communities are Most Affected by Chinese, EU, and NAFTA retaliatory tariffs?" *Brookings Institute: Metropolitan Policy Project*, October 2018, <https://www.brookings.edu>.

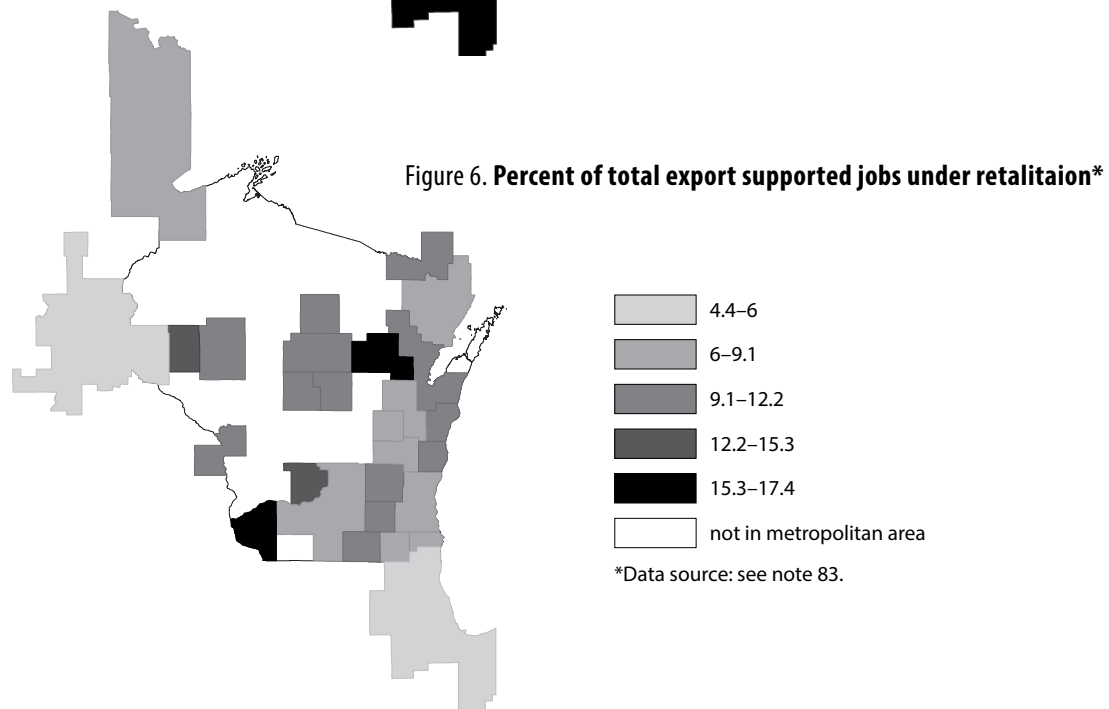
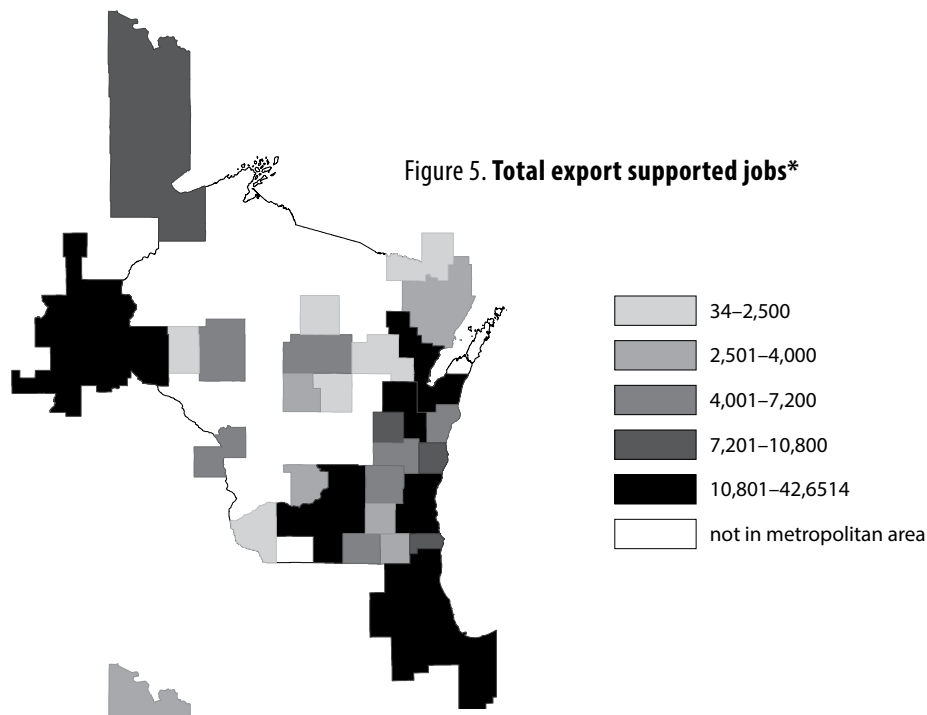
Table 2: Ten most affected product categories, Harmonized System (HS6 Level)

Product category	HS6 code	Wisconsin exports (\$1,000)	Goods affected (\$1,000)	Estimated simple price effect (\$1,000)
Cranberries, prepared or preserved	200893	117,632	92,363	15,679
Handkerchiefs, tissues, and towels	481820	131,237	121,705	12,748
Whey and whey products	040410	132,248	47,018	11,755
Washing machines	845011	42,466	27,362	8,283
X-ray machines	902290	198,042	33,254	6,651
Toilet paper	481810	58,455	58,418	5,842
Electro-diagnostic apparatus (e.g., EKG machines)	901819	243,252	40,973	5,736
Mixtures of odiferous substances (e.g., perfume)	330290	87,579	54,673	5,467
Stainless steel pipes	730640	32,829	25,061	5,199
Computed tomography apparatus (e.g., CT scanners)	902212	378,706	97,628	4,881
Composite diagnostic or lab reagents	382200	236,892	17,535	4,384

Table 3: Ten most affected product categories, Harmonized System (HS 2 Level)

Product category	HS2 code	Wisconsin exports (\$1,000)	Goods affected (\$1,000)	Estimated simple price effect (\$1,000)
Machinery and mechanical appliances	84	3,844,963	365,788	32,856
Medical or surgical instruments and apparatus	90	1,627,714	372,059	32,447
Paper products	48	757,625	270,097	27,368
Preparations of vegetables, fruit, nuts, or other parts of plants	20	270,755	118,476	24,048
Dairy produce, honey, and eggs	4	217,998	51,205	18,096
Iron or steel articles	73	351,535	84,182	15,831
Electrical machinery and equipment and parts thereof	85	1,749,422	168,725	14,650
Iron and steel	72	82,235	32,070	9,664
Plastics and articles thereof	39	893,916	73,762	9,663

Some category labels changed from HS for comprehensibility.



Soybeans

Wisconsin's soybean industry is facing dramatic losses in sales exacerbated by retaliatory tariffs. Soybean farmers, like many agriculture producers, cannot afford to decrease their prices in order to accommodate retaliatory tariffs and compete with other countries. Soybeans fell 11 percent in price from November 3, 2017, to November 3, 2018.⁸⁴ As a result, several farmers have resorted to stockpiling their soybeans, hopeful the price will increase or the tariffs end.⁸⁵ The USDA's market facilitation program offers \$1.65 a bushel

84. Macrotrends.net, "Soybean Prices—45 Year Historical Chart," <https://www.macrotrends.net>, data from NASDAQ.

85. Binyamin Appelbaum, "Their Soybeans Piling Up, Farms Hope Trade War Ends Before Beans Rot," *New York Times*, November 5, 2018, <https://www.nytimes.com>.

Figure 7. U.S. soybean price per bushel

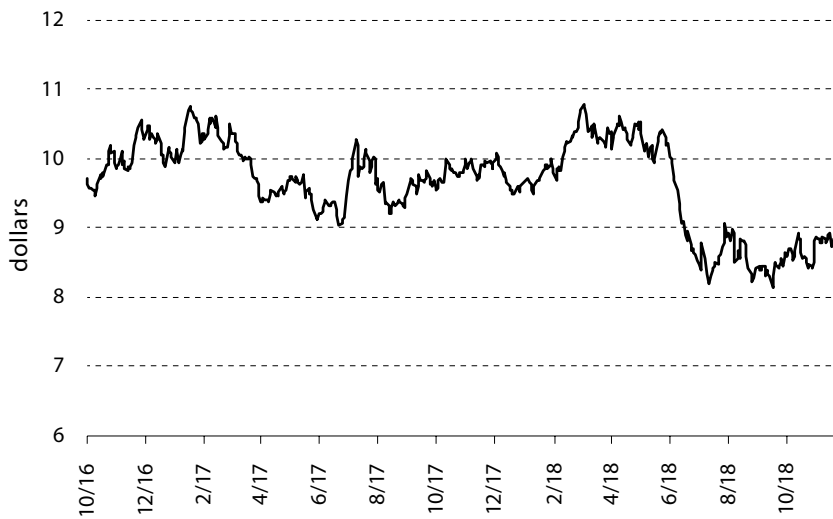
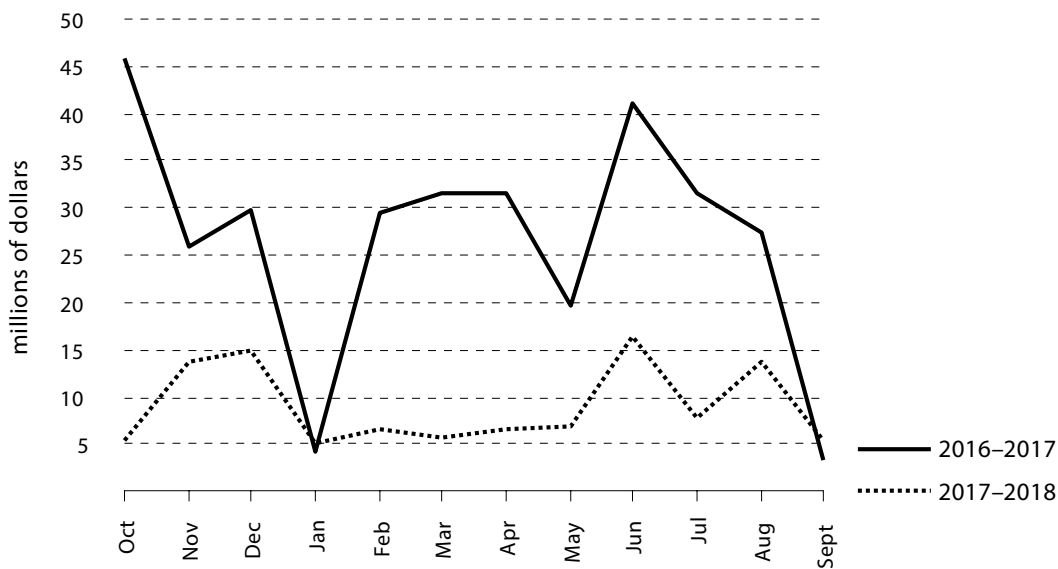


Figure 8. Wisconsin soybean exports, worldwide



to soybean farmers.⁸⁶ As Chinese tariffs against Wisconsin soybeans have increased, Latin American countries, most prominently Brazil, have increased their exports to China.⁸⁷

In the interim, the effect of low prices and tariffs has been significant. Wisconsin soybean exports from October 2017 to September 2018⁸⁸ are down approximately \$213 million (or 66 percent) over the same period a year earlier. This is dramatic, given that

86. US Department of Agriculture, “Market Facilitation Program,” <https://www.farmers.gov>.

87. “Brazil exports 80 percent of soy to China in January-August: agriculture ministry,” *Reuters*, September 14, 2018, <https://www.reuters.com>.

88. The most recent 12-month period of data available at time of print. U.S. Census Bureau, Economic Indicators Division, “U.S. Import and Export Merchandise Trade Statistics,” <https://usatrade.census.gov/data>.

only China has imposed a tariff on soybeans, and they represent only a third of Wisconsin's export market, which accounts for 65 percent of all Wisconsin's soybean sales.⁸⁹ The estimated price effect of tariffs is \$895 thousand on \$7 million in Wisconsin exports. The estimate of price effects is low because the collapse of soybean sales occurred in August 2017, before Chinese tariffs went into effect.

Negotiations between President Trump and Chinese President Xi Jinping in the December 2018 G20 summit resulted in a Chinese promise to resume soybean importation.⁹⁰ This has resulted in an improvement in the price of soybeans and new orders.⁹¹ Even as the situation improves, there may be downstream effects of the tariffs. The interruption of buyer-seller relationships may ultimately result in long-term depression of the Wisconsin soybean market in China.⁹²

Dairy

Dairy is among the preeminent industries in Wisconsin, accounting for \$292 million of Wisconsin's exports (over the 12 months preceding October 2017), of which \$218 million goes to countries engaging in retaliatory tariffs against the United States. Exports also represent an increasingly large fraction of total dairy production, rising from less than 4 percent in 2000 to more than 14 percent of the national market in 2017.⁹³

Dairy products are among the largest product groups affected by retaliation. Overall, there are an estimated \$18 million in tariffs on nearly \$100 million in dairy exports.⁹⁴ Despite these large numbers, the value of milk exports decreased only a relatively small amount since the beginning of US trade actions. Exports over the last year have fallen only \$7.2 million. The current low price of milk, down about 13 percent from just two years ago, may be mitigating the dollar effect of retaliatory tariffs. The USDA Market Facilitation Program offers twelve cents per hundredweight.⁹⁵

These tariffs exacerbate several challenges already facing Wisconsin dairy farms caused by farm consolidation, increased productivity of dairy cows and the consequent oversupply of dairy. The year 2018 set a record for the amount of dairy farm closures in

89. Wisconsin Soybean Marketing Board, "[US and Wisconsin Soybean Facts](http://www.wisoybean.org)," <http://www.wisoybean.org>.

90. See note 62.

91. Black Nicholson, "[Farmers buoyed but cautious as China resumes buying soybeans](https://www.apnews.com)," *AP News*, December 14, 2018, <https://www.apnews.com>.

92. Isis Almeida, "[Trump Trade War Fallout Could Haunt US Soy Farmers for Years](https://www.bloomberg.com)," *Bloomberg*, November 13, 2018, <https://www.bloomberg.com>.

93. Don. P. Blayney, Terry L. Crawford, and Christopher G. Davis, "[Dairy Export Markets: Changing the Structure of US Dairy Demands](https://www.ifama.org)," *International Food and Agribusiness Management Review*, 19B (2016), 202, <https://www.ifama.org>. US Dairy Exporter Blog, "[US Dairy Exports Up 14% in 2017](http://blog.usdec.org)," US Dairy Export Council, <http://blog.usdec.org>.

94. Whey products alone worth \$47 million are subject to \$11 million in tariffs. Grated cheeses worth \$12 million face \$2.5 million in tariffs; \$32 million in Cheddar and Colby exports face \$2.2 million in tariffs.

95. The price of milk was \$15.12 per hundredweight on January 3, 2019, up from \$14.08 on November 28, 2018. See United States Department of Agriculture, "[Announcement of Advanced Prices and Pricing Factors](https://www.ams.usda.gov)," <https://www.ams.usda.gov>.

Wisconsin.⁹⁶ To study and address structural, legal, and technological issues in the industry, Governor Walker created the Wisconsin Dairy Task Force 2.0 in June 2018.⁹⁷

Ginseng

Ginseng is an herb, used medicinally in Eastern Asia. Ginseng is also the Wisconsin state herb.⁹⁸ Wisconsin is the primary American producer of ginseng, producing about one million pounds of the herb annually—accounting for 10 percent of the world’s supply—with operations concentrated in Marathon County, Wisconsin.⁹⁹

Ginseng has been directly targeted for retaliation, and is particularly sensitive because of the industry’s heavy exporting to China. The tariffs—and the expectation of these tariffs—have already resulted in lost orders for Wisconsin ginseng producers.¹⁰⁰ Wisconsin grows 90 percent of the nation’s ginseng, 85 percent of which is exported to China.¹⁰¹ Over the 12 months preceding September 2018, Wisconsin ginseng exports to the world fell by \$7.7 million, or 24 percent, from the same period in 2016–17 (\$32.6 million). The estimated price effect of tariffs is \$706 thousand on \$14.1 million in exports.

Motorcycles

Harley-Davidson, headquartered in Milwaukee, is one of the largest corporations based in Wisconsin, with \$5.56 billion in revenue in 2017 and over 6,000 employees.¹⁰² Tariffs affect the company in two ways. Import tariffs on steel and aluminum increase the price of intermediate goods and parts used in motorcycle construction. Retaliatory tariffs, especially those from the EU, specifically target American motorcycle exports, increasing their cost and decreasing Harley-Davidson’s competitiveness abroad.

Harley-Davidson primarily finishes their motorcycles in other states and countries, with Wisconsin production facilities producing parts for assembly elsewhere.¹⁰³ Retaliatory tariffs targeting motorcycles affect only an estimated \$760,000 of Wisconsin exports. The company has announced plans to move production of motorcycles for the EU market overseas in response to the tariffs.¹⁰⁴

96. WAOW, “Record percentage of Wisconsin dairy farms go out of business in 2018,” December 19, 2018, <https://waow.com>.

97. Wisconsin Department of Agriculture, Trade and Consumer Protection, “Wisconsin Dairy Task Force 2.0,” <https://datcp.wi.gov>.

98. 2017 Wis. Stats. §1.10 (3) (v).

99. Madeline Kasper, “Ginseng: the Official Herb of Wisconsin,” *LRB Reports*, Wisconsin Legislative Reference Bureau, <http://docs.legis.wisconsin.gov>.

100. Max Beyer, “As China Prepares New Tariffs, Wisconsin Ginseng Farmers Already Feeling the Effects,” *Milwaukee Journal Sentinel*, July 9, 2018, <https://www.jsonline.com>.

101. Glen Moberg, “Chinese Tariff on Ginseng is a Blow to Central Wisconsin,” Wisconsin Public Radio, April 4, 2018, <https://www.wpr.org>.

102. Harley-Davidson, Inc., “Harley-Davidson Announces Fourth Quarter, Full-Year 2017 Results,” <https://investor.harley-davidson.com>.

103. For example, Harley-Davidson’s powertrain operations facility in Menomonee Falls, <https://www.harley-davidson.com>.

104. United States Securities and Exchange Commission, “Regulation FD Disclosure,” June 25, 2018, <https://www.sec.gov>.

Cranberries

Cranberries are Wisconsin's official state fruit.¹⁰⁵ According to the Wisconsin State Cranberry Growers Association, "Wisconsin is the nation's leading producer of cranberries, producing 60 percent of the country's crop."¹⁰⁶ Even before the current trade conflict, cranberry farmers struggled with overproduction problems, and destroyed 15 percent of the 2017 crop to keep prices afloat. Between oversupply and tariffs, the USDA authorized the destruction of 25 percent of the 2018 crop.¹⁰⁷ Despite the imposition of tariffs, cranberry exports from Wisconsin have grown year-over-year during October 2017 to September 2018 from the same period in 2016–17. Wisconsin exported \$137 million in cranberries in that time, a 21 percent increase from the 12 months before.¹⁰⁸ This is despite the fact that at the most detailed level for which data is available, cranberries are the most affected by retaliatory tariffs, facing \$15.6 million in price effects on \$177 million in goods.

Imports

Wisconsin imported a total of \$27.75 billion in goods in 2017. The state's most imported products in 2017 include vaccines (\$3.1 billion), hand tools (\$742 million), sweaters (\$683 million), batteries (\$592 million), and tractors (\$533 million). Goods imported in large quantities are largely exempt from the Section 232 tariffs. The largest category hit, aluminum plates over 0.2 millimeters thick, is Wisconsin's 106th most imported good (\$60.1 million).¹⁰⁹

Imports from China are vastly more affected because of the broad scope of the Section 301 tariffs. China's biggest exports to Wisconsin are hand tools (Wisconsin's second-most imported good worldwide, \$730 million), lamps and lighting fixtures (nineteenth, \$201 million), media storage devices (e.g., USB drives, twenty-second, \$187 million), furniture

Table 4. Total effect of import tariffs

Tariff	Estimated Wisconsin imports affected (\$1,000)	Estimated simple price effect (\$1,000)	Estimated simple price effect, post G8 (\$1,000)
Section 232 (steel and aluminum) tariffs	501,985	78,307–81,548	Unchanged
Section 301 (China) tariffs	3,843,857	755,335–905,769	452,436–545,008

105. Wis. Stats. § 1.10 (3) (r).

106. Wisconsin State Cranberry Growers Association, "About Cranberries," <http://www.wiscran.org/cranberries>.

107. Rick Barrett, "Glut of Cranberries in Wisconsin Means 25% of crop could be discarded," *Milwaukee Journal Sentinel*, November 9, 2018, <https://www.usatoday.com>.

108. Due to the categorization system of census data, some other berries may be counted in these sums, but the preponderance are cranberries. See note 14 and appendix.

109. Id. Products measured at HS4 category (see appendix).

Table 5. Top five metal imports affected by Section 232 tariffs

Product category	HS6 Code	Wisconsin imports (\$1,000)	Estimated goods affected (\$1,000)	Estimated simple price effect (\$1,000)
Aluminum alloy plates	760612	36,541	36,541	3,654
Steel pipes, rectangular cross sections	730661	14,336	14,336	3,441
Unwrought aluminum alloys	760120	27,750	27,750	2,775
Flat-rolled stainless steel, width >600 mm, thickness exceeding 10 mm	721921	8,132	8,132	1,952
Flat-rolled steel, width <600 mm	722692	6,866	6,866	1,648

(twelfth, \$178 million), and toys (twenty-eighth, \$172 million).¹¹⁰ Import tariffs have been tailored to minimize their application to consumer goods, but consumer product categories, like lighting, have still been hit.

The Section 301 tariffs on China dwarf the effect of Section 232 metal tariffs, even with the post-G8 postponement of an increase in many tariffs from 10 percent to 25 percent. However, the effect of \$78–82 million on more than \$500 million in imports is concentrated on firms that use these steel and aluminum goods to make their products. The data show that the affected imports are almost all intermediate goods, used in the production of more complicated and valuable products.¹¹¹ For example, Wisconsin’s beer producers have voiced significant concerns about the effect of tariffs on the cost and supply of aluminum for cans.¹¹²

Section 301 tariffs have a much greater but also broader effect, hitting approximately \$3.8 billion in imports into Wisconsin, for a total price effect of \$452–545 million. If negotiations break down and 25 percent tariffs go into effect, that amount will balloon to between \$755 million and \$906 million.¹¹³ Of the top five most influenced categories, three are goods that consumers can purchase directly, including lighting, generators, and metal furniture. Outside that list are products like wooden furniture (sixth), chairs (twentieth), and bicycles (twenty-fifth).

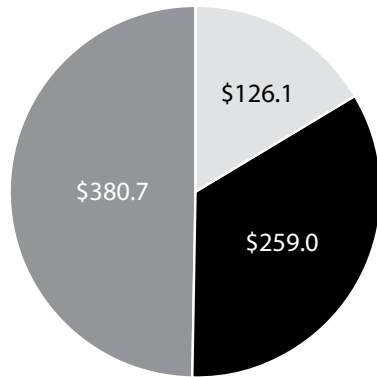
110. Id. Products measured at HS4 category (see appendix).

111. Matching the product codes for affected metal imports to the UN’s Broad Economic Categories classification system allows for categorization based on a good’s likely end use: either as a consumer good, intermediate good, or capital good. For metal imports, the targeted goods are all classified as intermediate goods. Concordance Table available from UN Trade Statistics, “Correspondence Tables,” <https://unstats.un.org>.

112. Ximena Conde and the Associated Press, “Walker, Wisconsin Companies Voice Opposition to Trump’s Proposed Tariffs on Steel, Aluminum,” Wisconsin Public Radio, March 2, 2018, <https://www.wpr.org>.

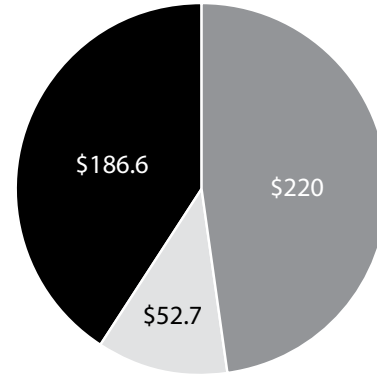
113. Import effects can be estimated two different ways, providing a range of estimated price effects. See appendix for detail.

Figure 9. Section 301 tariffs, simple price effect by goods type (millions \$)



■ Capital ■ Intermediate ■ Consumer

Figure 10. Section 301 tariffs post G-8 deal, simple price effect by goods type (millions \$)



■ Capital ■ Intermediate ■ Consumer

Table 6. Top five Chinese imports affected by Section 301 Tariffs

Product category	HS6 code	Wisconsin imports (\$1,000)	Estimated goods affected (\$1,000)	Estimated price effect (\$1,000)	Estimated simple price effect, post G8 (\$1,000)
Wall/ceiling lighting	940510	89,188	78,523	\$19,631	7,852
Computed tomography apparatus (CT Scanners)	902212	121,657	70,841	\$17,710	17,710
Internal combustion engines	840790	139,876	64,847	\$16,212	16,212
Internal combustion generators	850220	60,332	59,750	\$14,938	5,975
Metal furniture	940320	69,671	58,295	\$14,574	5,830

VI. Conclusion

For 73 years, the world has moved in fits and starts towards less trade protection. Economists believe this process has benefited the United States as a whole, but there have been both winners and losers in different sectors of the economy. The Trump administration's actions in this area are largely motivated to rectify what it sees as unfair trade deals and inequitable results. While new deals are currently being crafted, Wisconsin is facing hundreds of millions of dollars of lost orders, reduced profit margins, and disruption in supplier-customer relationships. Federal programs exist to mitigate some of the effects, especially in agriculture, but are unlikely to make up all of the difference. The situation for Wisconsin trade is in flux, and it is possible new deals that will remove many or all of the tariffs this publication discusses could be struck soon. However, the effects of more than a year of trade disruption could have long-lasting effects. ■

Appendix

When retaliating, countries issue lists of products subject to additional tariffs. These tariffs are calibrated so that the estimated value of the goods affected, and the revenue they generate, will equal the United States' tariffs.

The international standard for customs and product identification is called the Harmonized System (HS). This system differentiates products at a two-digit, four-digit, and six-digit level. For instance, code "04" denotes dairy produce, code "0406" denotes cheese, and code "040630" denotes processed cheeses that aren't grated or powdered. In most cases, these tariffs are specified as product codes that are specific to the importer. For instance, the EU uses the Combined Nomenclature (CN) system, specifying products with eight-digit classifications. Matching Wisconsin exports, measured at the six-digit HS code by the Census Bureau, to tariffs that are applied to eight- or ten-digit codes requires some inference.

First, the average tariff for each six-digit product group was identified as the percentage of each six-digit group (HS6) that is covered by retaliatory tariffs multiplied by the sum of the tariff rates within that group. For example, if a tariff covers 80 percent of processed cheese categories, and all the tariffs on processed cheese are 20 percent, then the average tariff is 16 percent. The estimated simple price effect is the average tariff multiplied by the dollar value of the product group exported in 2017. This price effect can also be thought of as the total amount of the tax the tariffs would generate for retaliating countries, if goods were purchased in the same price and amount as in 2017.

The HS6 average tariff is a rough way to approximate actual coverage of each product group. For it to be perfectly accurate, the total value of every exported product within an HS6 group would have to sum to the same value. In practice, tariffs are carefully calibrated to inflict harm against specific industries, often those that export heavily or when producers are influential constituents who may press policymakers to remove the originally offending tariffs.¹¹⁴ As a result of targeting industries that rely on exports, the true simple price effect probably lies somewhere between the estimated simple price effect and the total value of the goods affected.

This approach is the best available, however. In those countries that do disaggregate their import statistics by product, they do not also disaggregate by US state. One alternative approach would have been to measure the percentage of all US exports covered by tariffs at the six-digit product level, but this data is not consistently available across retaliating countries.

It should be noted that the price effect is not necessarily reflected in actual prices.

114. For an illustration of how China is currently doing this, see Edward Helmore, "Chinese Retaliatory Tariffs Aim to Hit Trump in His Electoral Base," *The Guardian*, June 24, 2018, <https://www.theguardian.com>.

Exporters may choose to reduce their prices rather than pass the price increase on to the consumer. This is most likely in situations when demand for a good is likely to decrease in response to price changes, or when there are substitutes available for a good from other exporters. Alternatively, the tariffs may deter orders, reducing Wisconsin exports and harming exporters to a greater degree than reflected in simple price effects.¹¹⁵

In addition to the percent-of-categories approach, import data price effects were also calculated by matching directly the United States' ten-digit tariffs codes to US imports of a good. This allows a perfect estimation of the average tariff applied to all US imports in an HS6 category. Applying this average tariff for US imports as a whole to Wisconsin provides another way to roughly approximate the effect of tariffs. These estimations were always larger than those based on the percentage of category covered, because of the calibration of tariffs discussed above. Both estimates are presented in table 4 as a range. Tables 5 and 6 show the effect calculated with the US average tariff. The United States carved exceptions for metal imports to various countries; those exceptions are included in the data but not covered here in detail.

115. Erica York of the nonpartisan Tax Foundation offers a more dynamic model of the effects of tariffs on the national economy as a whole, including wage, GDP, and employment effects, at <https://taxfoundation.org/trump-tariffs-economic-distributional-impact/>.