

Globalization, International Trade, and President Trump's Tariffs

What Everyone Needs to Know

23 May 2019

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UNC-Chapel Hill and
National Economic Education Delegation



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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- **This slide deck was authored by:**

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- Jon Haveman, NEED

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide his own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Will this be a “TED” talk?

- **A “TED” talk:** a presentation relying upon facts and logic to convince the audience to draw a specific conclusion.
- **A “NEED” talk:** a presentation relying upon facts and logic to provide the audience with the consensus assessment of economists of a specific policy problem facing the US and the world.

When done well, robust debate follows a “NEED” talk.



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Central questions

1. What is globalization?
2. Is international trade a manifestation of globalization?
3. Why does the US have such large trade deficits?
4. Can you reverse globalization?
5. What is the impact of tariffs on economic activity?
6. What is the role of tariff-setting in US trade policy?
7. How is President Trump’s use of tariffs different from previous presidents?

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1. What is Globalization?

- The growing awareness in one country of the world’s cultures:
- Brought about by cross-border flows of people and information
- The growing interconnection of one economy with other world economies:
- Brought about by cross-border flows of:
 - Goods and services
 - Technology
 - Investment

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What Drives Globalization?

- **Transportation costs are falling**
- **Technology makes communication easier**
- **Countries post WWII have shared desire to cooperate**



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Joseph Stiglitz (Nobel Prize in Economics 2001)

- **“Globalization itself is neither good nor bad. It has the power to do enormous good.”**

(Stiglitz, J.: [Globalization and its Discontents](#), 2002, p. 20)



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Jagdish Bhagwati, University Professor, Columbia University

- **Globalization has “fundamentally benign” social and economic consequences.**
- **“Globalization must be managed so that its fundamentally benign effects are ensured and reinforced.”**

Bhagwati, J.: In Defense of Globalization, 2004, p. 35.

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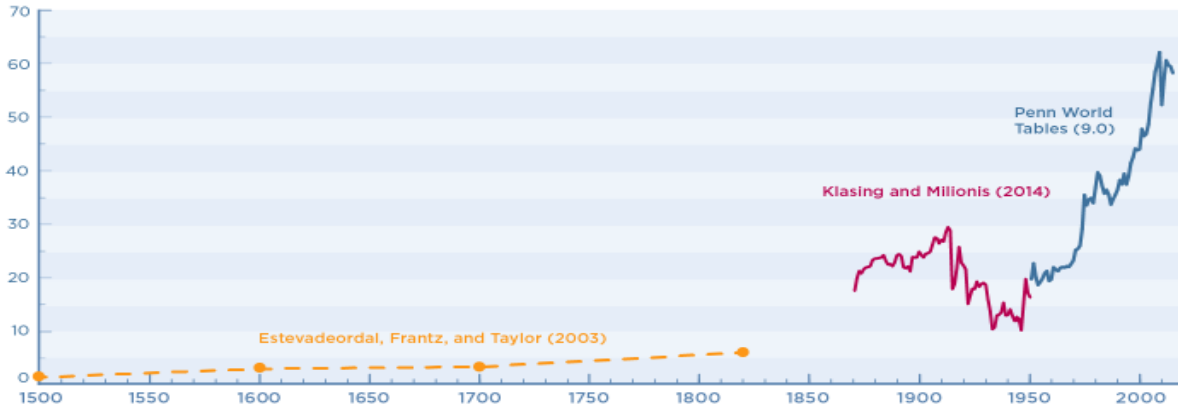
2. Evidence in International Trade?

- **Growing international trade is a manifestation of globalization at both levels.**
 - **We are aware of the value to us of goods and services from other countries.**
 - **All countries have grown interdependent – relying upon trading partners to produce specific goods they need.**

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Trade has skyrocketed in the past century

World trade as percent of world GDP (1500-2014)

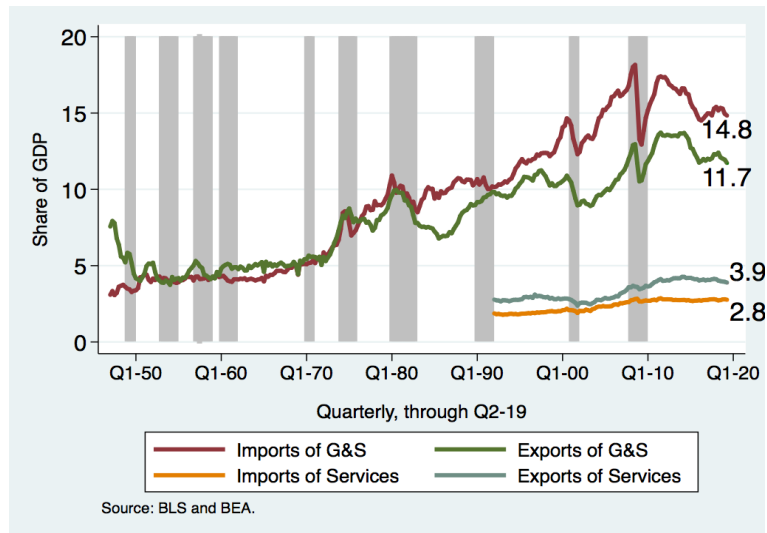


Note: This chart displays data from three sources. Data from 1500 to 1820 is the average of the upper and lower bound and only includes the years 1500, 1600, 1700, and 1820. Data not available from 1821-1869.

Sources: See chart, "Globalization over 5 centuries," at <https://ourworldindata.org/trade-and-globalization> for full citations.

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US Trade Value (as percent of GDP)



Source: BLS and BEA.

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Is this interdependence a good thing?

- Yes!

- Specialization in a subset of all goods makes it possible to produce those goods relatively more cheaply: comparative advantage.
- Each country will have its own varieties of goods, giving those of us with a taste for variety a benefit as well when we buy their goods and services.



Paul Samuelson, Nobel Prize in Economics

“Free trade or any kind of restricted trade is, in Samuelson's sense, better than no trade, regardless of the size of the trading country. The theorem is valid whether or not the country imports raw materials, or is a net lender or borrower.”

Kemp, M.: “The Gains from Free Trade”, Economic Journal, 1962.



What Do the Data Say?

Trade Lowers Prices for Consumers

- **Effect of import surge from China: 2000-2007**
 - Prices would be about 10% higher without this import surge.
 - Benefits for U.S. consumers of \$100,000 per lost manufacturing job.
- **Do rich or poor benefit more from lower import prices?**
 - Evidence is mixed.

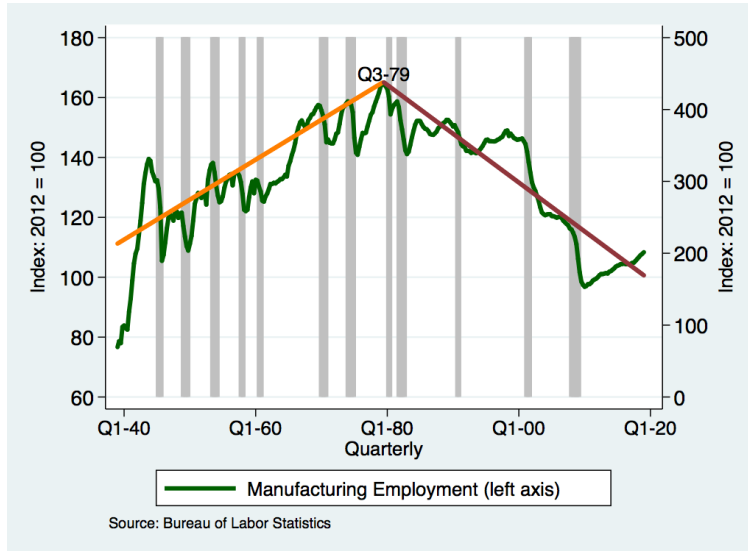


Is this interdependence a good thing?

- **No!**
 - if you don't like change, this reliance can be nerve-wracking. Competitors can arise all around the world to compete with the good your country produces. If they have a comparative advantage, then our producers will have to adjust to some other product.
 - An example: the appearance of China's products in the 1990s.

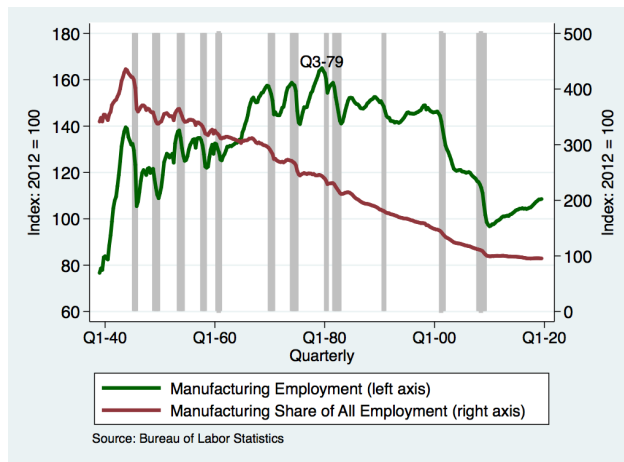


The Basic Issue: Inverted V of Jobs in Manuf.



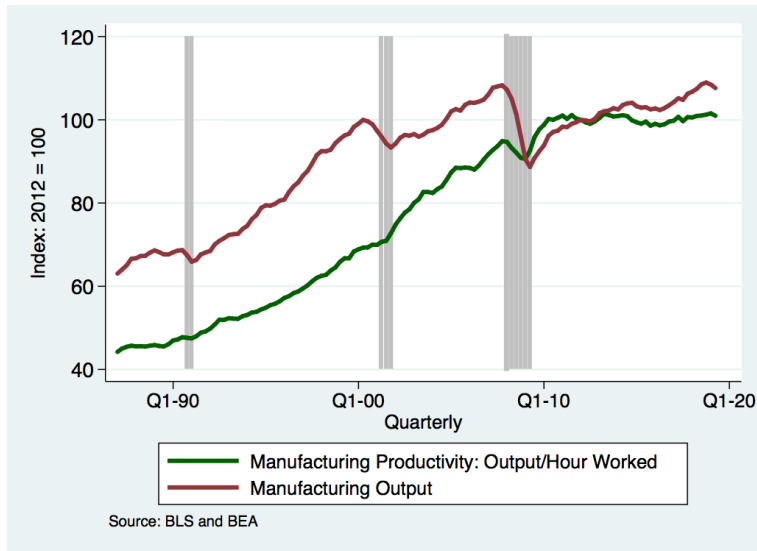
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But There is No V in the Fraction of Jobs in Manufacturing



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Manufacturing Productivity is on the Rise



What does International Trade have to do with it?

1. Productivity improvements in manufacturing – in all countries.
2. International siting of production according to comparative advantage.

David Autor, Ford Professor at MIT

“Workers displaced by trade cannot change jobs costlessly, and by reshaping skill demands, trade integration is likely to be permanently harmful to some workers and permanently beneficial to others.”

Autor, D.: [IZA World of Labor](#), 2018

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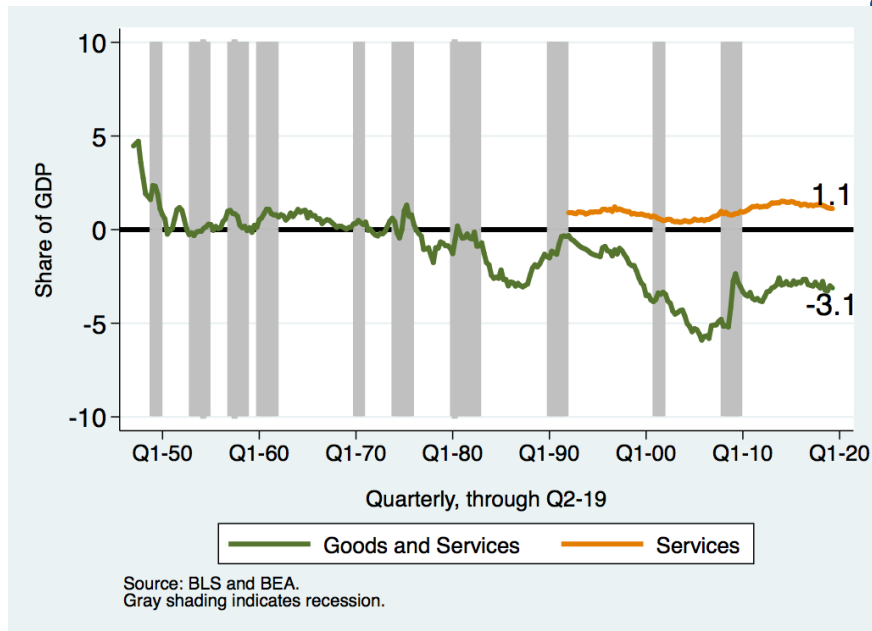
3. What about these trade deficits?

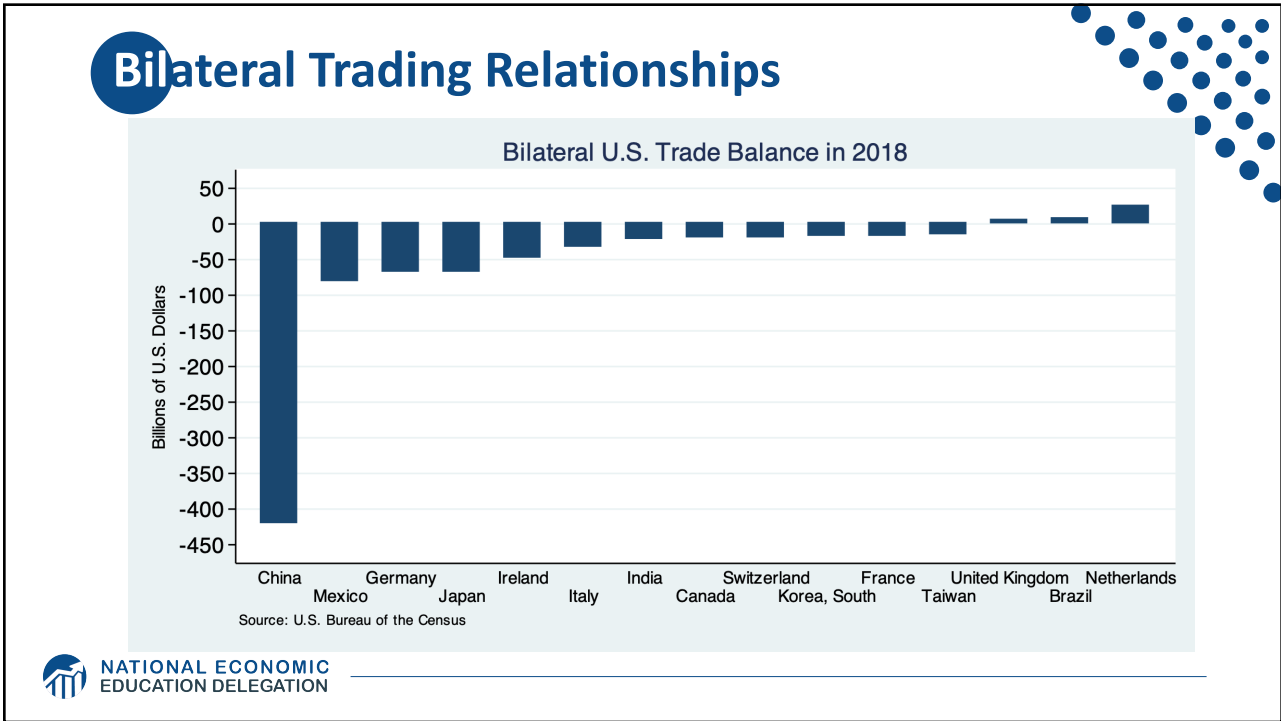
- **Massive US Trade Deficit in Goods**
 - 2.9% of US GDP
 - \$893 Billion in 2018
- **Massive Trade Deficit in Goods with China**
 - 2/3 of US Trade Deficit

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US Trade

- Overall, a nearly \$570 Billion deficit in goods and services in 2018 (3% of GDP)
- Goods trade deficit over \$800 Billion
- Services trade surplus of about \$250 Billion





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Why such large trade deficits?

1. When a country runs an aggregate trade deficit, it is borrowing from the rest of the world. Purchases exceed sales -- living beyond our means.
2. **Who is doing this borrowing? (It's not you and me, is it?) When US government and US corporations take out loans to make purchases, the lenders are often foreign actors. Our mortgages can be bundled and sold to foreign savers.**
3. **Why do the foreign lenders do this? They want to save for the future. We as a country want to borrow against the future.**
4. **The amount of our borrowing that is financed by foreign savers – that is equal to the amount of our aggregate trade deficit in each year.**

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George Alessandria, FRB of Philadelphia

“Trade deficits tend to be a sign of good things to come. Countries tend to run trade deficits when they are borrowing to finance productive investment opportunities. This is a way to shift world production toward more productive locations.”

Alessandria, G.: “Trade Deficits Aren’t As Bad As You Think.”, 2007.

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The International Monetary Fund

“When a country runs a current account deficit, it is building up liabilities to the rest of the world that are financed by flows in the financial account. Eventually, these need to be paid back.

Common sense suggests that if a country fritters away its borrowed foreign funds on spending that yields no long-term productive gains, then its ability to repay—its basic solvency—might come into question.”

Finance and Development, International Monetary Fund, 18 December 2018



4. Can we reverse globalization?

- Increase transport costs?
- Increase the technological costs of communication?
- **Throw up barriers to flows of goods, services and information?**



5. What is a tariff?

- A tax paid by the importer of a product purchased from a foreign country.
- Impact on the price of the product?
- Are there other ways to disrupt free trade?

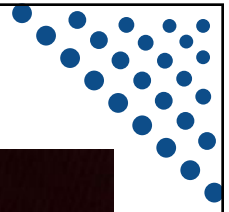


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In the beginning ...



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Alexander Hamilton

First to raise US tariffs
– because the Federal government needed the money.



The Fathers of the Trade War

US trade with Europe fell in value by two-thirds from 1929 to 1932



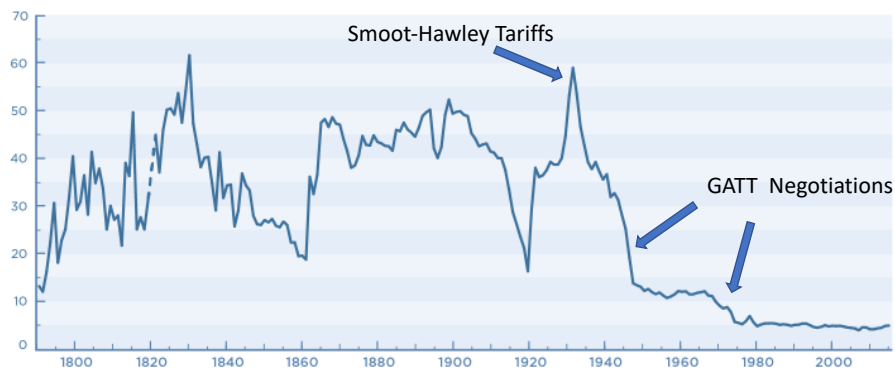
Representative Willis Hawley of Oregon and Senator Reed Smoot of Utah
But what about Fordney and McCumber?



History of US Tariffs

US import taxes dropped considerably post-World War II

Average US tariff rates on dutiable imports (1790–2016)



Note: Rates are weighted by trade value. Dotted line indicates years when data are not available.
Source: US International Trade Commission. Compiled by Douglas A. Irwin.



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The GATT years

- A Bretton Woods commitment to collaborative tariff and trade barrier reduction by signatories. Negotiations led by the US.
- Twenty-three signatories in 1947 , up to 123 signatories in 1994.
- Average tariffs of major participants fell from 50 percent to 5 percent.
- Non-tariff barriers largely eliminated.
- The World Trade Organization, created in 1995, is the formal successor organization to the GATT.



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The (Pre-Trump) Tariff Toolkit

1. Harmonized tariffs and quotas:

- Constrained by Most-Favored Nation Status in US Trade Law, associated with GATT/WTO agreements.

2. Safeguards Tariffs (section 201)

- Steel Products (G.W. Bush)
- Pick-up Truck Tires (Obama)

3. National Security tariffs (Section 232)

- Machine tools (Reagan)
- Petroleum (Carter, Reagan, Bush, Clinton)



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The (Pre-Trump) Tariff Policy Toolkit

4. Removing foreign barriers to our imports (Section 301)

Semiconductors in Japan (Reagan, Bush) – Carla Hills' crowbar

5. Anti-Dumping Duties and Countervailing Duties:

- Solar Panels from Taiwan and China (Obama)
- Aircraft from Canada (Obama)
- Steel Pipe from China (G.W. Bush)
- Lined paper school supplies from China (G.W. Bush)



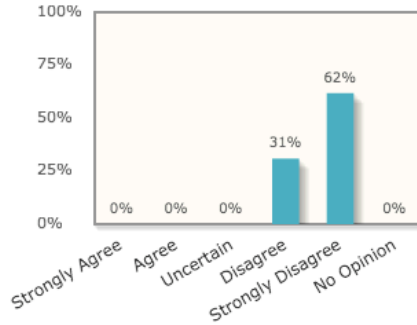
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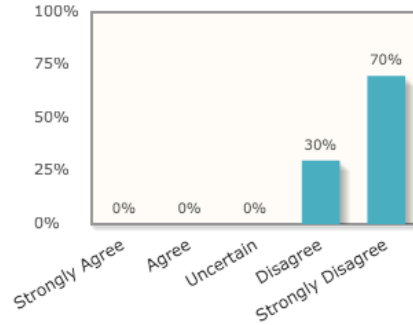
General Consensus of Economists on Tariffs

Adding new or higher import duties on products such as air conditioners, cars, and cookies — to encourage producers to make them in the US — would be a good idea.

Responses



Responses weighted by each expert's confidence



6. How is President Trump different?



2017 — 2018

President Donald Trump Repudiates Trading System

Trump withdraws from the Trans-Pacific Partnership (TPP), threatens to abandon NAFTA (then later negotiates a preliminary deal that adds new restrictions), and criticizes WTO rules as unfair to the United States. His administration imposes tariffs against China and US allies, which escalates into a tit-for-tat trade war.




The Trump Era:

“I want tariffs. Bring me some tariffs!”

27 August 2017

- Rejection of trade agreements: TPP
- Renegotiation of trade agreements: NAFTA.
- Use of Section 201: washing machines, solar panels (all countries)
- Use of Section 301: Technology products from China
- Use of Section 232 (National Security): Steel and Aluminum
- Use of WTO Dispute Settlement Mechanism
- Free Trade with Europe?



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Trump’s rising-tariff policy: Are there benefits for the US?


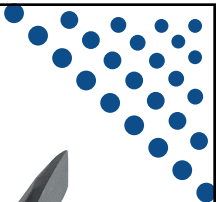




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Trump's Crowbar

inducing market-access change abroad without actually raising tariffs.


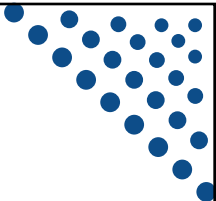



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Trump's Reset

Short-term pain from tariffs leads to long-run benefits by inducing more open markets overseas.

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MAGA

Large countries can gain from increasing tariffs:

Acting like Monopolists.



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Winners



Rising tariffs redistribute national income from consumers to producers in affected industries – but also cause efficiency losses.

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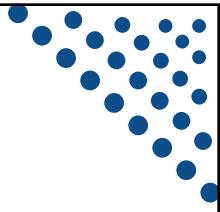



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Losers

Consumers pay more.

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Retaliation

When the US imposes trade restrictions, other countries will respond in kind.

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“What will be the effect of tariffs on the U.S. economy, workers, and households?”

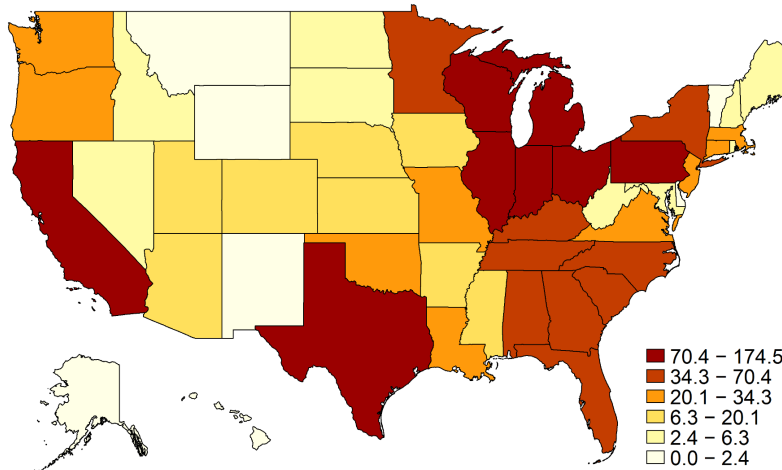
- Negative Consumer impact
- Higher costs for US businesses that rely on imported inputs may put these firms and their workers at risk
- Risk of recession-- investment is a particularly import-intensive type of demand
- Retaliatory tariffs will put firms and jobs in U.S. export industries at risk
- “Won’t tariffs start an investment and output boom, since companies that serve the U.S. market will want to produce in the U.S.?”
- “Won’t tariffs bring back jobs?”
- “Won’t tariffs help raise wages for U.S. workers and reduce inequality?”

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Tariffs on Imported Inputs Can Hurt Firms

Jobs in Steel-Intensive Industries
(Thousands of workers)



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Paul Krugman, Nobel Prize in Economics

“In the short run, there’s a huge amount of disruption: we’d eventually gain jobs in import-competing industries, but we’d immediately lose a lot of jobs both in export sectors (including farming) and in industries that are currently part of global supply chains, like autos and electronics. So we’d be talking about millions of immediate losers, even if some would eventually gain.”

“In the longer run, the economy would just be less efficient: instead of concentrating on stuff we’re especially good at, we’d be doing a lot of labor-intensive stuff for ourselves.”

Krugman, P.: “Paul Krugman Explains Trade and Tariffs”, 15 March 2018, New York Times.



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Your Conclusions

- **Globalization and international trade: an opportunity for all, but not a sure thing for anyone. How should we as a nation respond?**
- **US trade deficits: do they matter to us?**
- **The President’s aggressive use of tariffs: is it good for the country?**



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Reading List

- Bhagwati, Jagdish: In Defense of Globalization. New York: Oxford University Press, 2004.
- Irwin, Douglas: Free Trade Under Fire. Princeton, NJ: Princeton University Press, 2015.
- Stiglitz, Joseph: Globalization and its Discontents, New York: WW Norton, 2002.
- Tankersley, Jim: “Trump Hates the Trade Deficit. Most Economists Don’t”, New York Times, 5 March 2018.

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Thank you!

Any Questions?

Patrick Conway
UNC-Chapel Hill

www.NEEDelegation.org

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Trump's 2018 Trade Actions



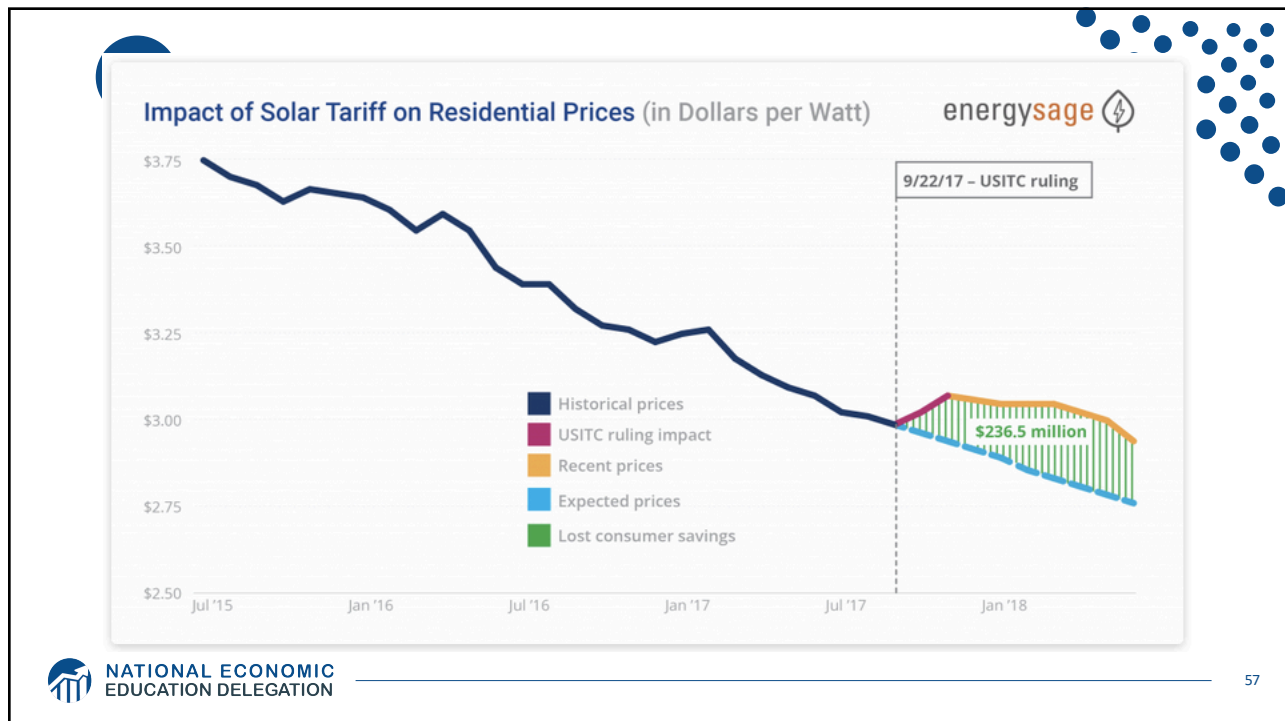
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What About US Trade Policy: Active!

- **US: Jan 22, 2018: solar panels**
 - 30% tariff on \$8.5 billion of solar panels
- **US: Jan 22, 2018: washing machines**
 - 20% tariff \$1.7 B of washing machines
- **China: Feb 5, 2018: sorghum**
 - Into effect on 4/17/18
 - \$1 billion (178.6% tariff)
- **March 9, 2018: tariffs on steel and aluminum imports**
- **May 18, 2018: Negotiations end tariffs on Sorghum**
- **China: Aug 14, 2018: WTO dispute against US solar panel tariffs**
- **Tariff dispute with China accelerates...**



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Tariffs on Solar Panels

• Who is hurt?

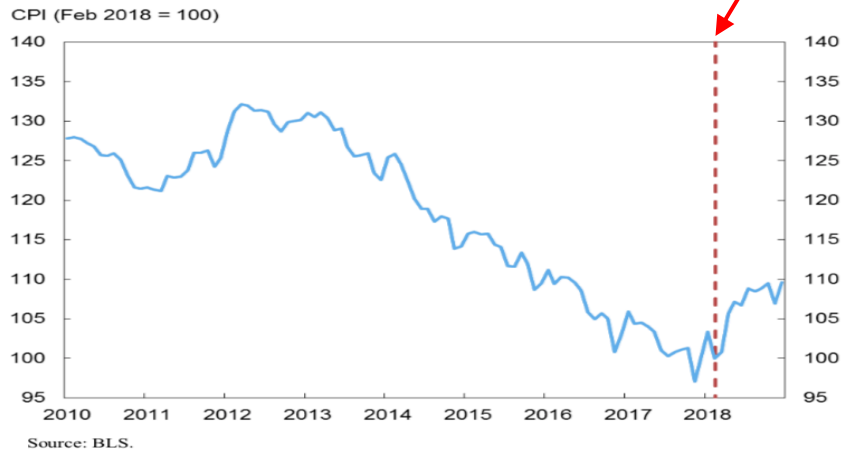
- Consumers
- Solar panel installers, led by Solar Energy Industry Association

They estimate that the 30% tariff “would cause the loss of 23,000 in 2018, as well as the delay or cancellation of billions of dollars of investments in solar energy.”

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Tariffs on Washing Machines

Figure 2: Major Appliance CPI



Source: Amiti, Redding, and Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," CEPR Discussion Paper DP13564, March 1, 2019.

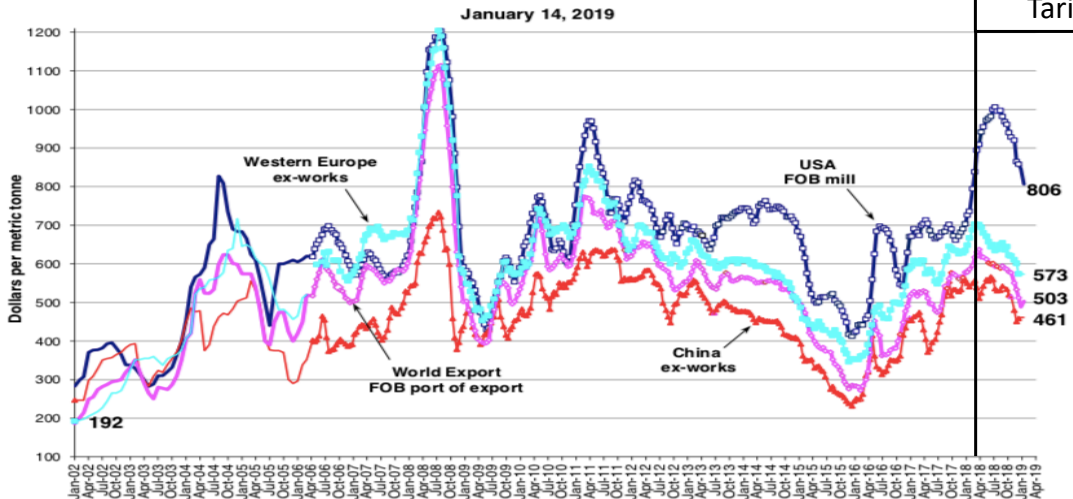


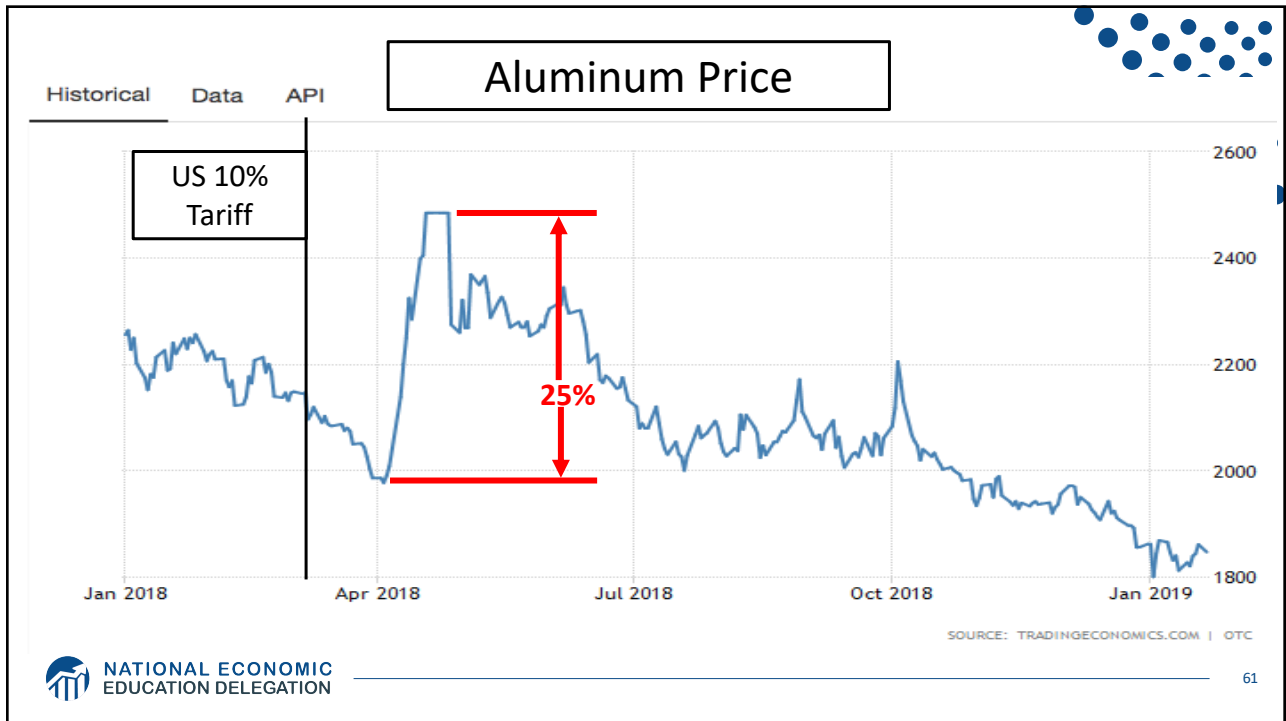
SteelBenchmarker™

Steel Prices

SteelBenchmarker™ HRB Price

USA, China, Western Europe and World Export
(Track data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006)





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Tariff on Cars and Car Parts

Estimated Effects on Employment & GDP of 25% Tariff

Tariff on:	Total US Employment	US GDP
All imports	-714.7 K	-\$59.2 B
Canada & Mexico exempted	-197.2 K	-15.3B

Source: Center for Automotive Research

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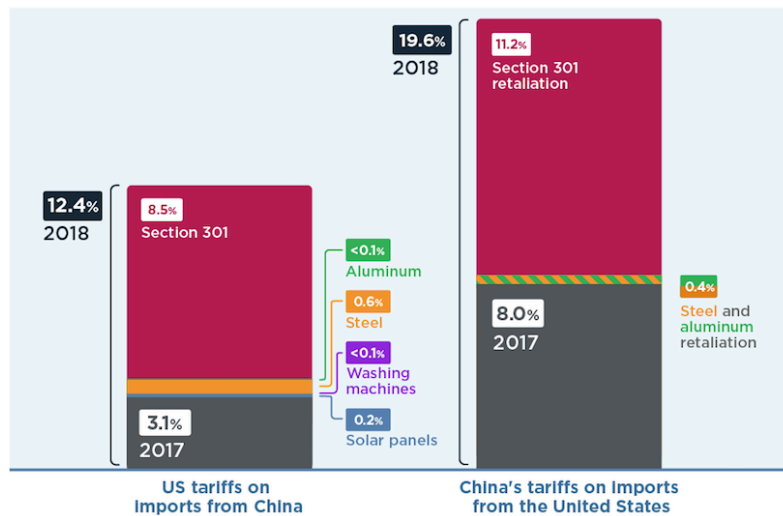
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Will tariffs reduce trade deficit?

- They do not change the overall trade balance
- “The United States trade deficit in goods ballooned to its largest level in history, reaching \$891.3 billion in 2018.”
6 March 2019 New York Times

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Average U.S. and China Tariffs: Before and After



Source: Chad P. Bown, 2019, The 2018 US-China Trade Conflict After 40 Years of Special Protection (PIIE Working Paper 19-7)

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Tariffs and economic activity

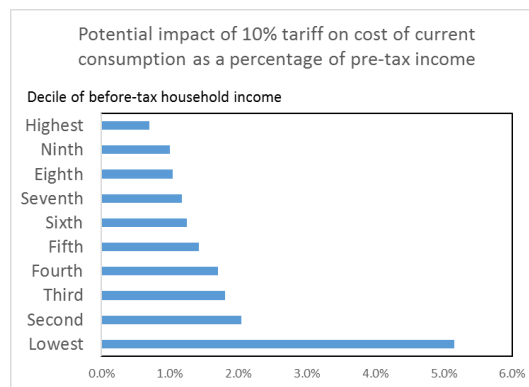
- Tariffs temporarily reduce imports of particular goods.
- Tariffs raise prices.
 - Final goods (*consumers*)
 - Intermediate goods (*producers who use imported inputs*)
- Tariffs invite retaliation, lowering demand for our exports.
- Tariffs lower overall well-being.

- Tariffs are generally considered to be an inefficient way to help those people who are hurt by trade.

Risks from all-out trade war

- Moody's Mark Zandi estimated an all-out trade war would cost 4 million U.S. jobs.

- Across-the-board increase in tariffs may fall heavily on the poor and families with children (Furman, Russ, and Shambaugh; USITC).



Source: Furman, Russ, and Shambaugh



Regional trade areas

- European Union (1957)
- Andean Pact (1969)
- CUSFTA (1988)
- NAFTA (1994)
- And many others ...

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NAFTA: A Triumph of Negotiation?

- Or “The Worst Trade Deal Ever Made!”?
- On the road to Austin ...

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Carlos Salinas de Gortari, George Bush, Brian Mulroney;
Jaime Serra Pucha, Carla Hills, Michael Wilson
Austin, Texas, October 1992

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Section 301:

Carla Hill's "crowbar"



CARLA HILLS
US TRADE REPRESENTATIVE 1989-1993

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Section 301: Opening foreign markets to US exports

- Carla Hills used the threat of tariffs against the Japanese economy in the late 1980s – most notably, in effort to open Japanese market to US semiconductors.
- Successful in getting Japanese to negotiate “voluntary import expansion” before US applied tariffs.
- President Trump’s rationale for his initial tariffs on Chinese products.



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