Trends in U.S. Trade

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  - Give presentations on current economic issues

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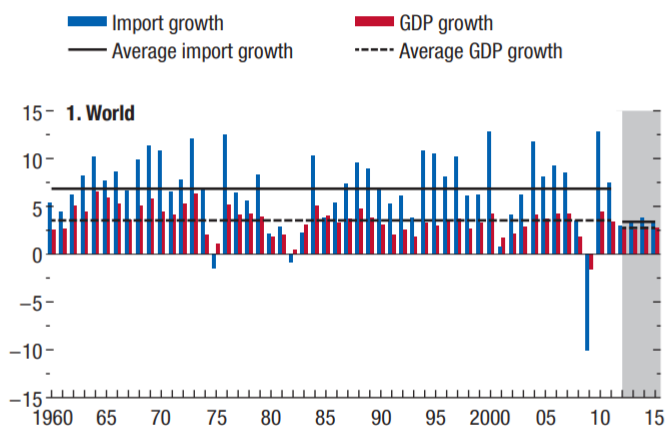
A slowdown in global trade since 2008



IMF 2016 World Economic Outlook, Chapter 2, Figure 2.1

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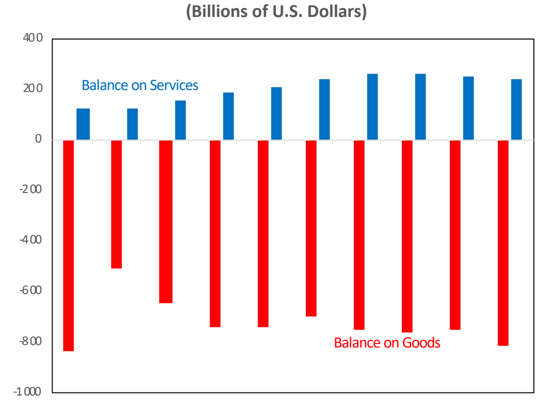
U.S. trade

- $2.3 Trillion in exports and $2.9 Trillion in imports of goods and services in 2017, in total 27% of GDP
- Overall, a nearly $570 Billion trade deficit (3% of GDP)
- Goods trade deficit over $800 Billion
- Services trade surplus about $250 Billion

U.S. Trade Balance for Goods v. Services (Billions of U.S. Dollars)



Source: U.S. Bureau of Economic Analysis

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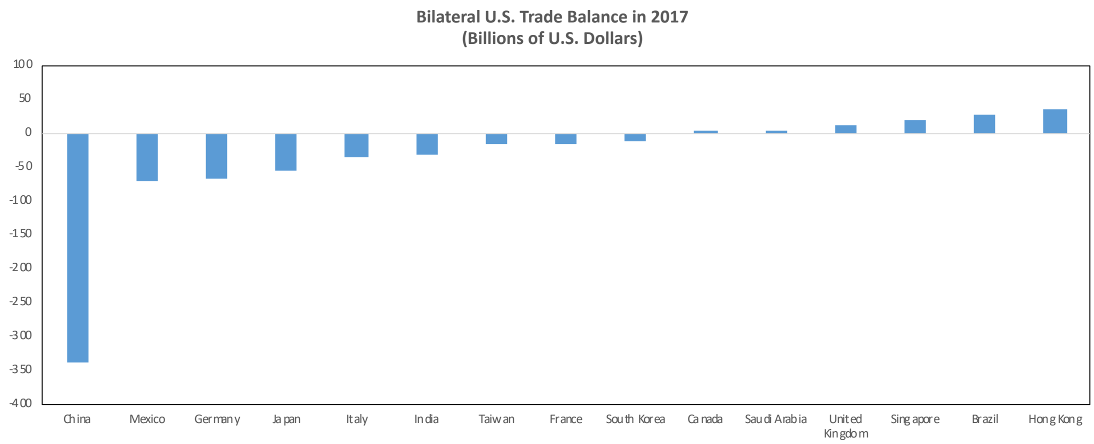
Bilateral trading relationships



Source: U.S. Bureau of the Census

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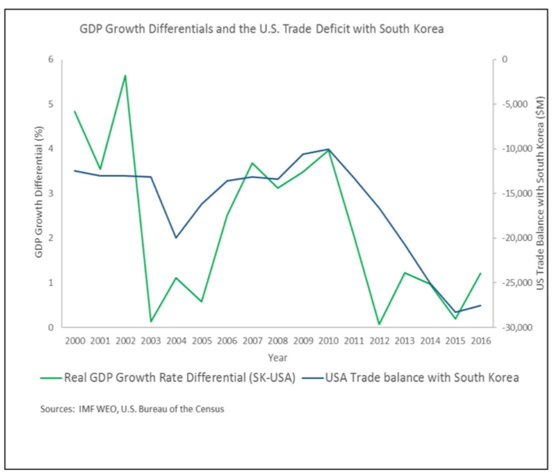
Trade imbalances

- **Driven by macroeconomic factors**
  - Trade deficits happen when a country's firms, households, and government together consume more than the country produces.
  - Trade deficits can happen when a country's economy starts to expand faster than its trading partners
- **Example: U.S.-S.K. trade deficit roughly tracks the S.K.-U.S. real GDP growth differential**



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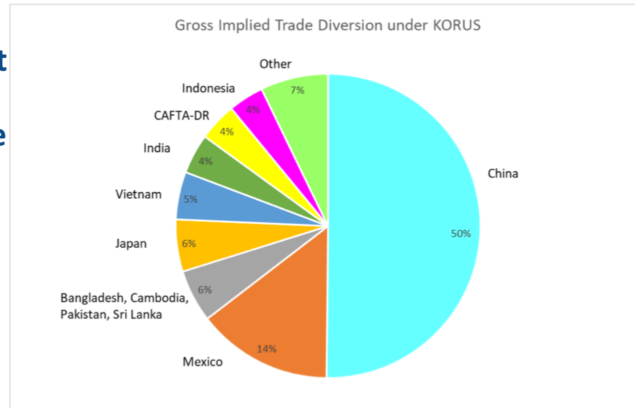
Trade agreements may re-route trade

- Many observers were concerned that the U.S. bilateral trade deficit with South Korea increased more than $10 billion annually after the Korea-U.S. Free Trade Agreement went into force in 2012.
- Recent research shows that KORUS just shifted about $13 billion of U.S. imports from other countries to South Korean suppliers (Russ and Swenson).



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U.S. now using some established and some new approaches to trade policy

Established

- Barriers against import surges and imports of unfairly traded products
- Bilateral and multilateral trade agreements to increase market access for U.S. exports
- Leadership in GATT/WTO
- Non-discrimination

New

- Renegotiations of and withdrawal from existing trade agreements
- Weakening of WTO trade dispute settlement mechanism
- "Reciprocity"

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Recent applications of established barriers against import surges and imports of unfairly traded products

- **Trade Act of 1974**
  - Section 201 (surges): solar cells, washing machines
  - Section 301 (non-market activity): China forced technology transfer
- **Trade Expansion Act of 1962**
  - Section 232 (national security): steel and aluminum
- **Trade Act of 1930**
  - Anti-dumping and countervailing duties (cover about 80% of steel from China)

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

- 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

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- **"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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Recent research suggests trade disrupts job markets

- **China Shock 1991-2011: ≈ 2 million jobs displaced in import-competing industries (Acemoglu, Autor, Dorn, Hanson, Price)**
- **Impact on some communities absolutely devastating.**
  - Concentrated job losses, home prices fell, cuts to local services, reduced marriage and fertility.
- **Research suggests that nationally, jobs expanded in other industries by about the same number, or possibly more.**
  - Cheaper imported inputs allow import-using sectors to grow faster.
  - Feenstra, Ma and Xu; Wang, Wei, Yu, and Zhu

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- New research suggests many of the contracting industries were late in the "product cycle" of innovation (Eriksson, Russ, Shambaugh, and Xu).
- The trade shock may have accelerated a trend that was already occurring.

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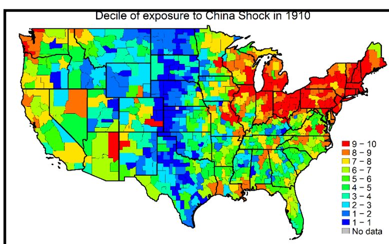
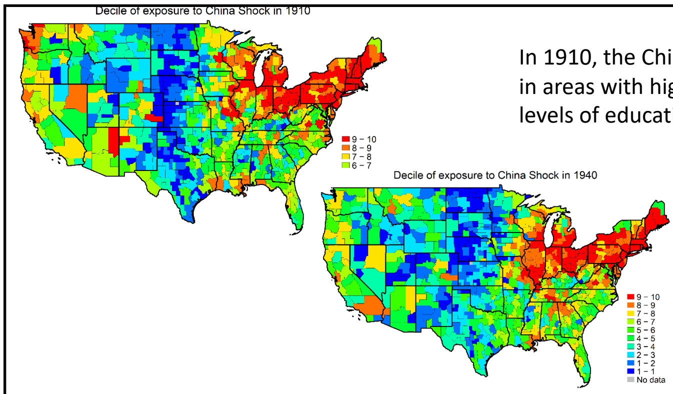


In 1910, the China Shock (1991-2011) industries were concentrated in areas with high capacity for innovation and areas with high wages and levels of education.



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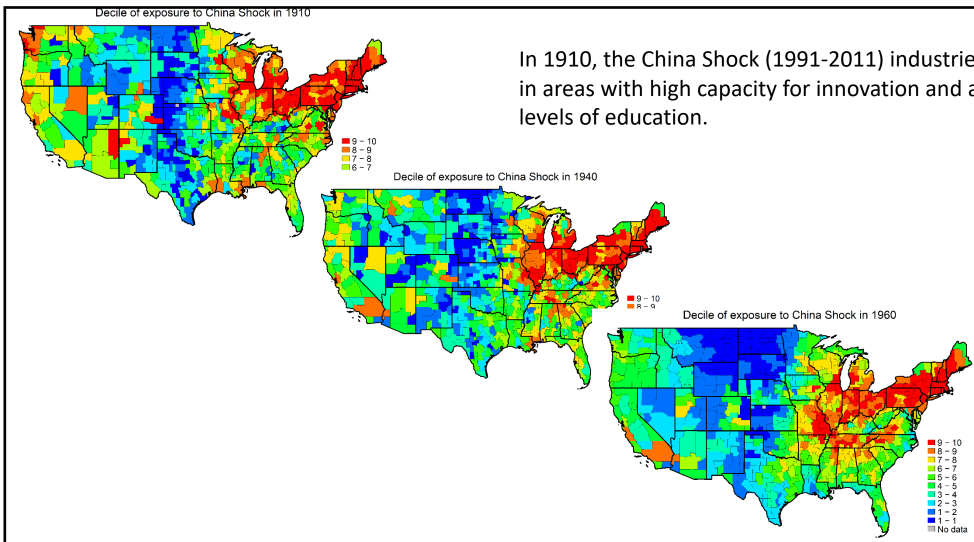

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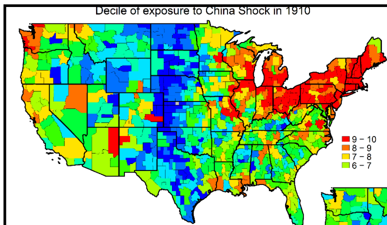

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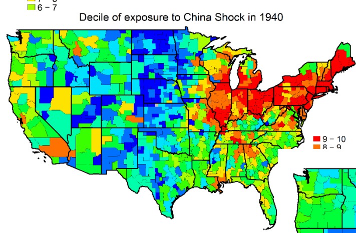
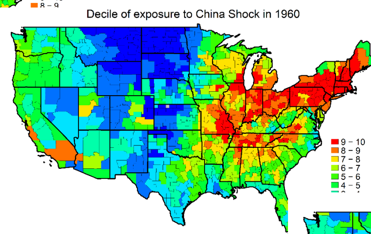
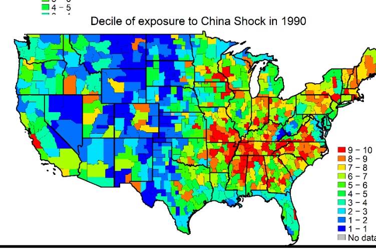




By 1990, the China Shock industries had moved away from highly innovative areas, into areas with lower wages and lower levels of education in the workforce.



- **In this case, tariffs are not likely to bring jobs back to areas where they already were moving out, and may provide only temporary protection to low-wage areas where the industries were moving in.**

- **Broader, place-based policy may be called for to equip workers and firms in vulnerable communities with "late-stage" industries to cope with trade and other types of shocks.**

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"Latecomers' problem"

- Advanced economies began systematically lowering tariffs on manufactured goods 70 years ago in the GATT negotiations, now institutionalized in the WTO.
- Advanced economies' tariffs on manufactures are now low, with protection for agriculture politically hard to lower.
- Advanced economies have little to offer as incentive for emerging markets to give up production subsidies in their industrial sectors.
- Bagwell and Staiger

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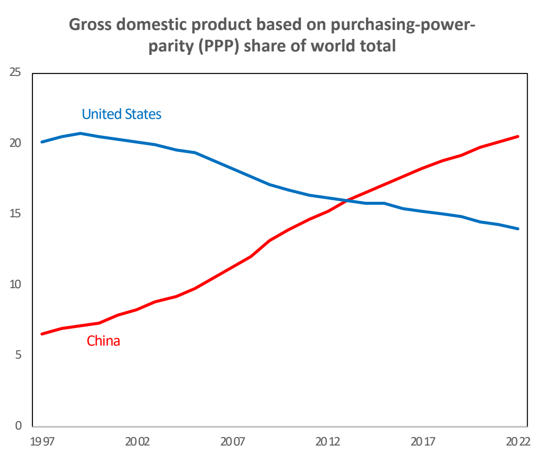
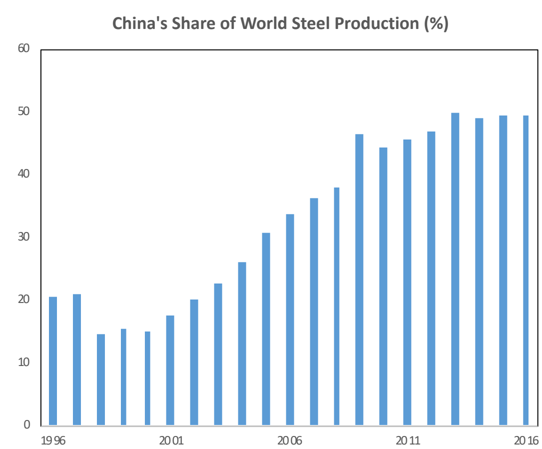
Emerging markets are getting bigger fast





Sources: IMF World Economic Outlook Database, World Steel Association Statistical Yearbook

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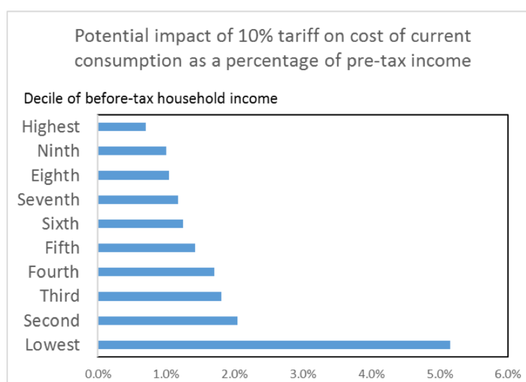
Their size makes the latecomers' problem a multilateral issue

- **Overcapacity from industrial subsidies affects global prices**
- **The United States often is small in terms of global demand**
  - 6-8% of global steel demand
- **Unilateral tariffs (by U.S. against one country) not effective**
- **Broad tariffs (by U.S. against all trading partners) can alienate potential allies in multilateral negotiations**
- **Broad tariffs raise costs for U.S. exporters competing abroad**
- **Multilateral fora: G-20, WTO, OECD Global Forum on Steel Excess Capacity**

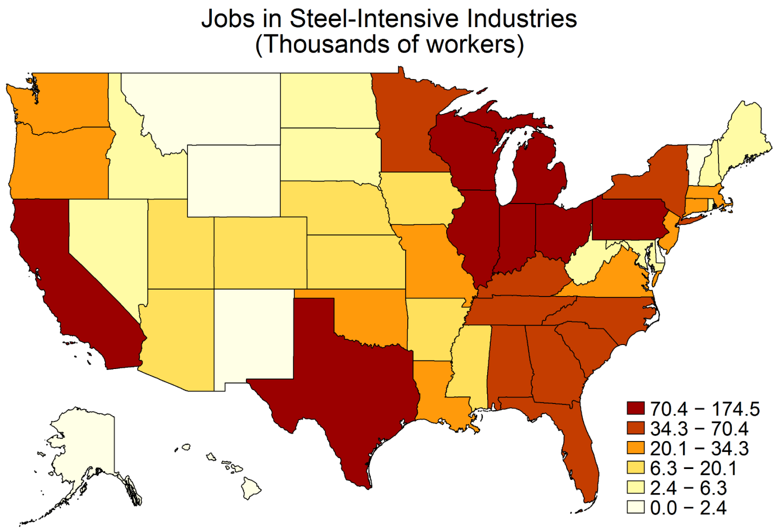
Risks from all-out trade war

- **Moody's Mark Zandi estimated an all-out trade war would cost 4 million U.S. jobs.**
- **Observed import share in U.S. consumption deceptively low due to unobserved competitive effects of rival suppliers.**
- **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

Tariffs on imported inputs can hurt firms



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Uncertainty

- Handley and Limao (2017) find that eliminating the certainty in the tariff schedule brought about under the WTO may reduce investment in traded goods industries in a way that reduces trade substantially.
- If countries no longer consider WTO trade agreements binding, the United States may lose 1/3 of current economic gains from trade.
- This effect requires no new tariffs, only uncertainty about existing tariffs.

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Trade initiatives now led by Asia/Pacific Rim

- One Belt One Road
- Regional Comprehensive Economic Partnership
- Trans-Pacific Partnership (now CPTPP)
- Japan-EU Free Trade Agreement

Multilateral institutions relevant to resolving trade tensions

- ASEAN
- APEC
- OECD
- G-20
- WTO

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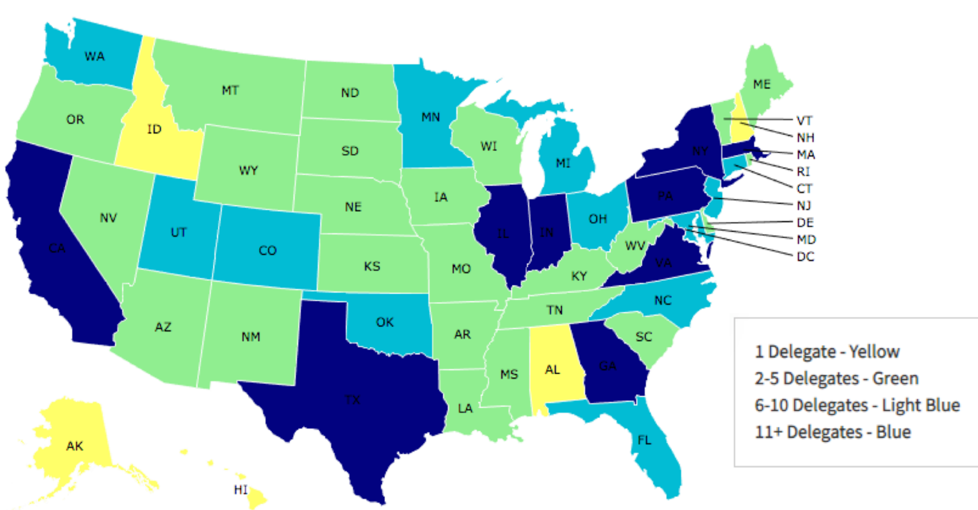

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