




Trade and Globalization

Northern Marin's Men's Breakfast Club
October 11, 2019
Jon Haveman, Ph.D.


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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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Who Are We?

• Honorary Board: 44 members

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

• Delegates: 364 members

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

• Global Partners: 42 Ph.D. Economists

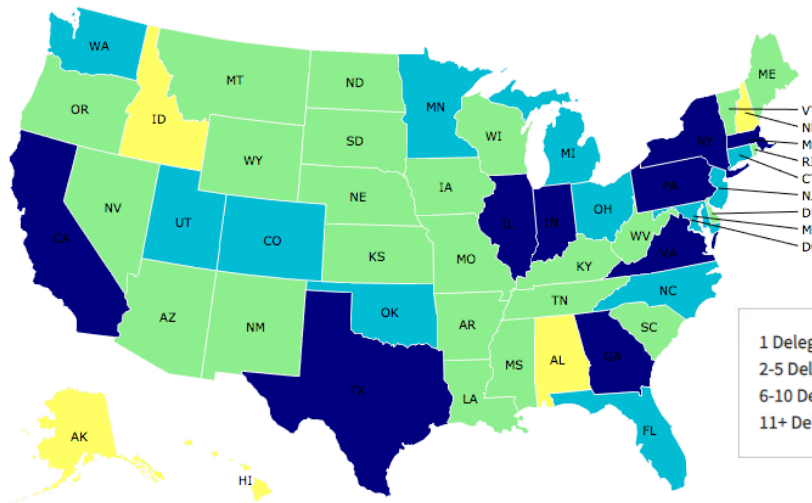
- Aid in slide deck development



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Where Are We?



1 Delegate - Yellow
 2-5 Delegates - Green
 6-10 Delegates - Light Blue
 11+ Delegates - Blue



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Credits and Disclaimer

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

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- **Disclaimer**

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



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Outline

- **Globalization**
- **International Trade**
- **Recent US Trade Policy**



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What is Globalization?

- **The growing interdependence of the world's:**

- Economies
- Cultures
- Populations

- **Brought about by cross-border flows of:**

- Goods and services
- Technology
- Investment
- People
- Information



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What Drives Globalization?

- **Transportation**
- **Technology**
- **International Cooperation**

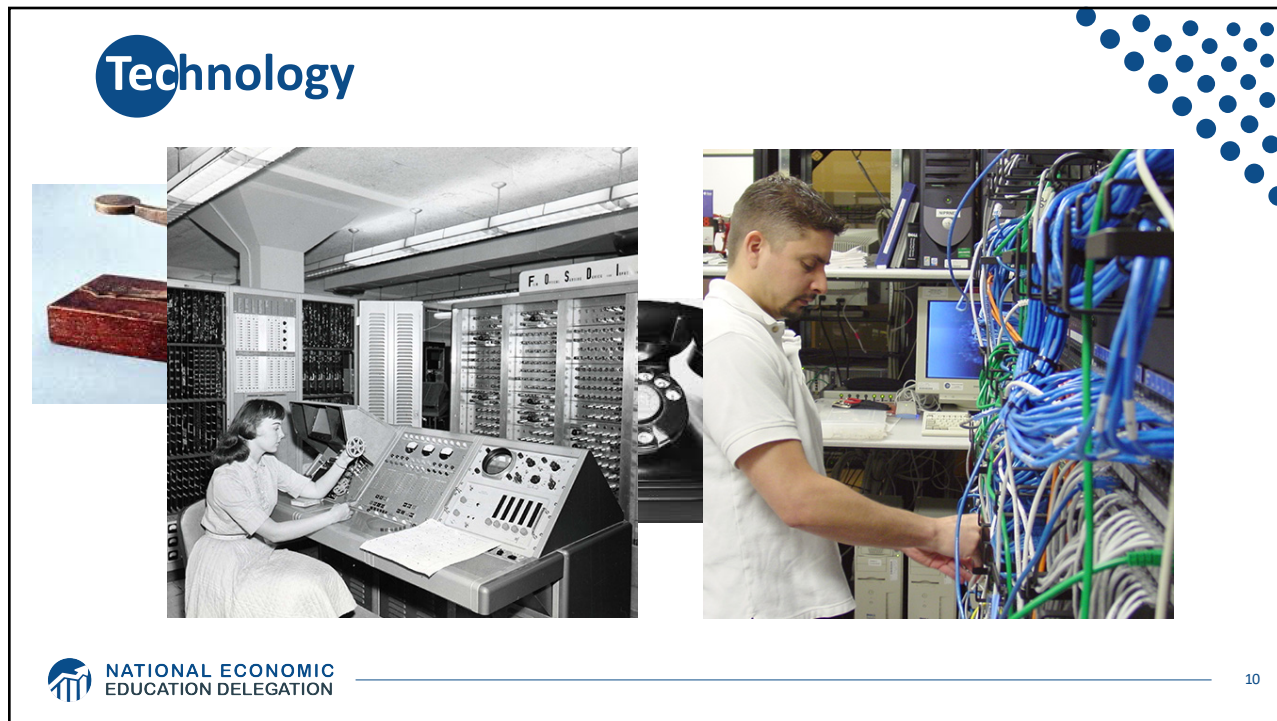


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Transportation



Technology



International Cooperation



1995 World Trade Organization (WTO)

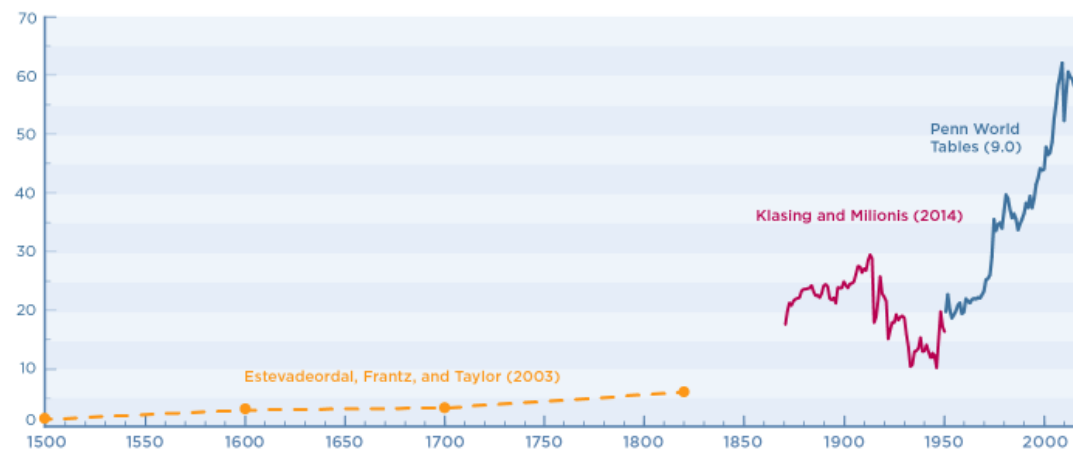
The modern trading system governed by rules is established, replacing the GATT.

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Trade has skyrocketed in the past century

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

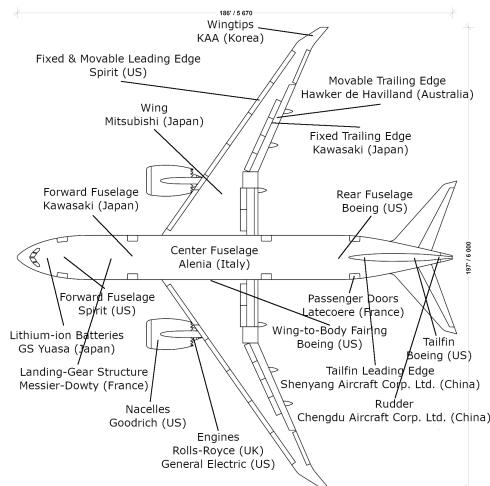


Note: This chart displays data from three sources. Data from 1500 to 1820 is the average of the upper and lower bound and only includes the years 1500, 1600, 1700, and 1820. Data not available from 1821-1869.

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

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An example: The Boeing 787 Dreamliner

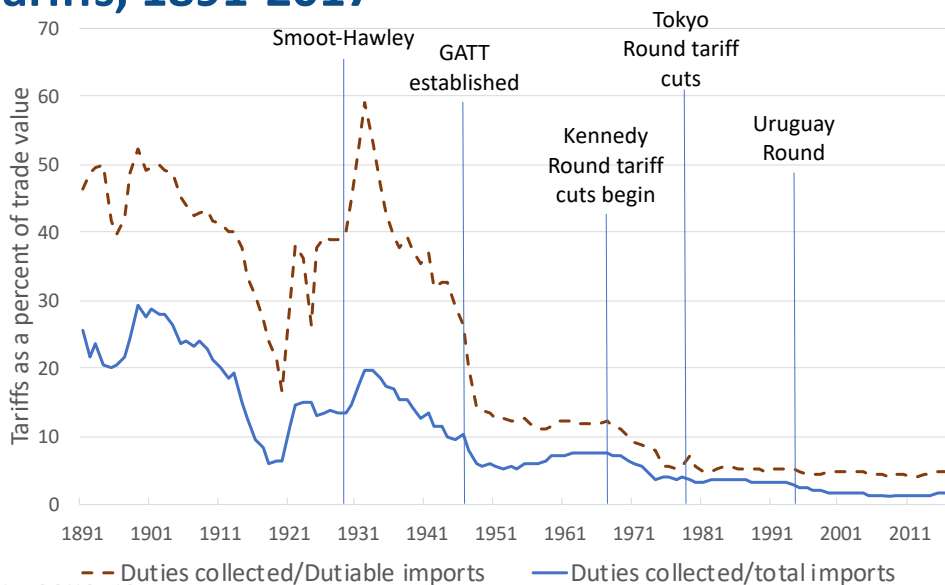


Parts and components from suppliers all over the world:

- Japan
- Italy
- China
- Australia
- ...

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US Tariffs, 1891-2017



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International Cooperation – Ending?



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.

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International Trade

Exports and Imports

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Exports and Imports

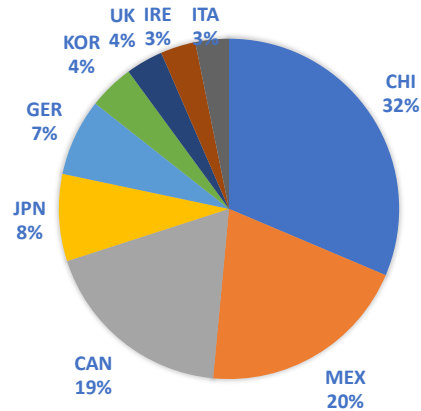
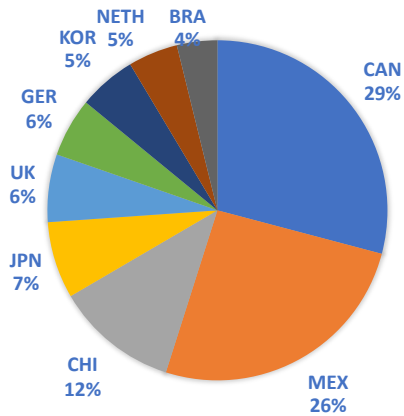
- Exports: goods or services sold to another country
- Imports: goods or services bought from another country

US exports (2016 shares)				US imports (2016 shares)			
Goods		Services		Goods		Services	
Planes	4.5%	Bus/Fin/Ins	34%	Cars	8.2%	Bus/Fin/Ins	34%
Crude Petroleum	4.3%	Travel	27%	Crude Petroleum	4.7%	Travel	24%
Cars	4.2%	Royalties	17%	Computers	4.1%	Transport	19%

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Top US Trade Partners (Goods, 2018)

- Top 10 US export destinations
- Top 10 US import sources



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U.S. Trade Deficits

- Overall, a nearly \$621 Billion trade deficit (3% of GDP)
- Goods trade deficit over \$891 Billion
- Services trade *surplus* of about \$270 Billion



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Trade Contributes to Growth

- **EFFICIENCY**
 - Allocates production across countries efficiently so that countries can specialize in what they are best at producing.
- **Varieties**
 - More choice for consumers.
 - Better inputs for our production.
- **Competition**
 - Brings in cheaper goods.
 - o Makes consumers better off.
- **Economies of Scale**
 - Trade makes some industries bigger, more cost efficient. Lowers prices.

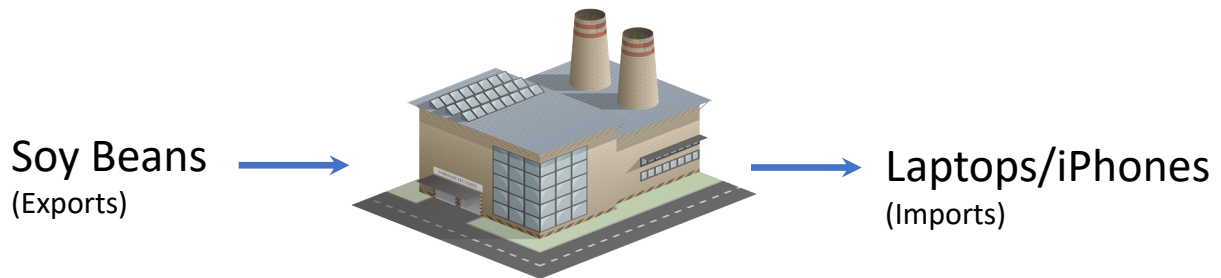


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How to Think About Imports

- Think about international trade as the introduction of a new technology.



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Why is the public turning against trade?

- **Gains from trade are very large for the economy, BUT**
 - Not always noticeable by consumers. Why are prices lower at WalMart?
 - Not always that large per consumer: consumers might save \$50/year on some imported goods
 - For 300 million consumers, \$50/year would be \$15 billion per year savings to the country!
- **Costs of trade are very high for some workers and groups, and these costs have not been sufficiently appreciated or addressed by policymakers (or economists!)**



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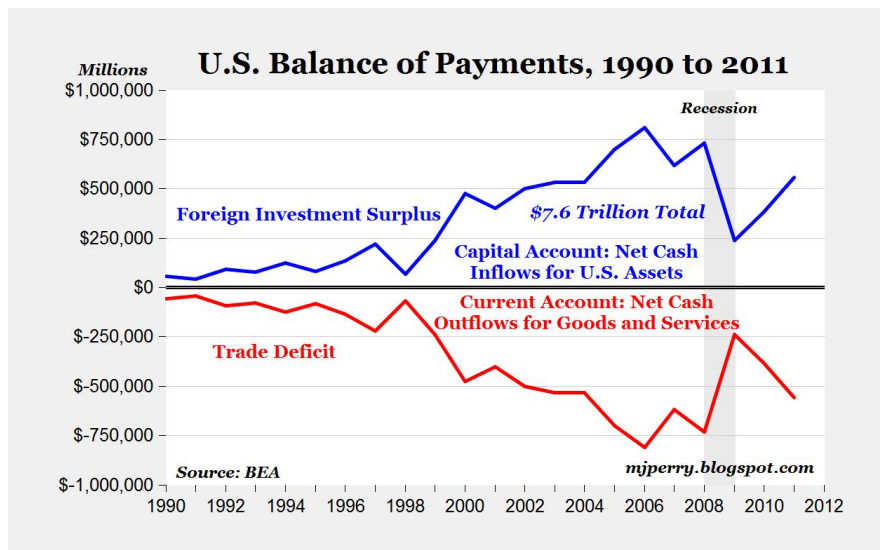
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Another Problem: Trade Deficit

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

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Trade and Investment Flows Balance Out

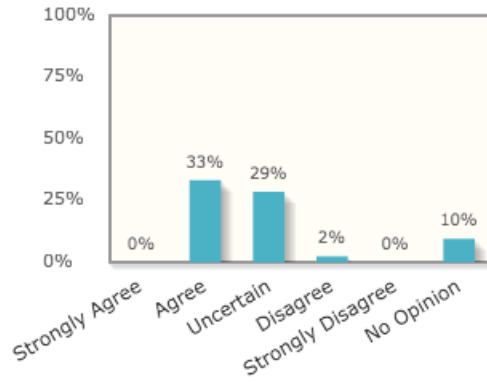


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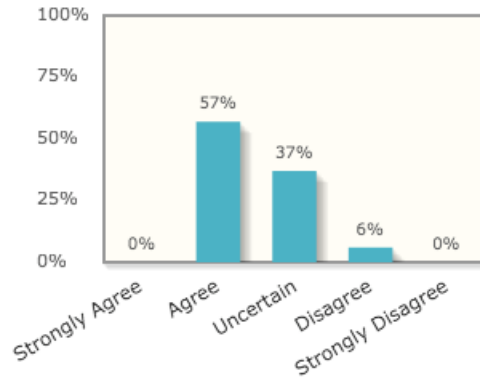
General Agreement Among Economists

If the US reduced its fiscal deficit, then its trade deficit would also shrink.

Responses

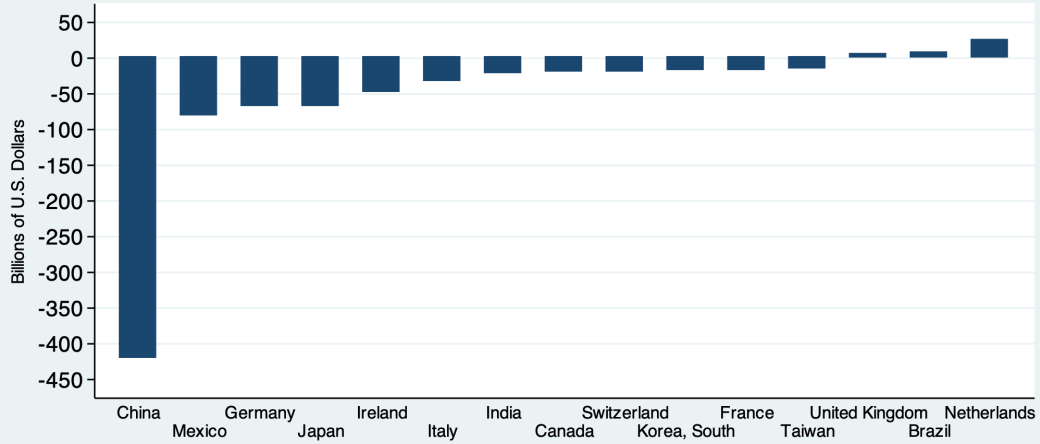


Responses weighted by each expert's confidence



Bilateral Trading Relationships

Bilateral U.S. Trade Balance in 2018



Source: U.S. Bureau of the Census

Policy Solutions



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Tariffs

- **Tariffs temporarily reduce imports of particular goods**
- **Tariffs raise prices**
 - Final goods (consumers)
 - Intermediate goods (producers who use imported inputs)
 - Rising prices distort consumption and production decisions
- **Tariffs invite retaliation, lowering demand for our exports**
- **In the long run, the exchange rate adjusts to offset the tariffs because of the effects of borrowing: Tariffs, therefore, cannot correct a trade deficit**
- **Tariffs lower overall welfare, while generating very large gains for small groups (e.g. A cost of 100 to many for a gain of 80 for a few).**
- **Tariffs are generally considered to be an inefficient way to help those people who are hurt by trade**



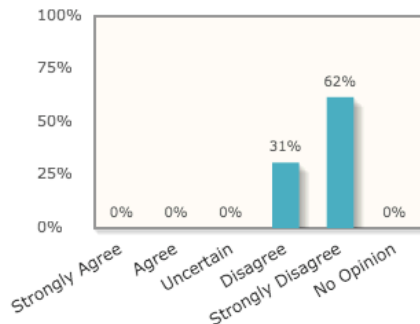
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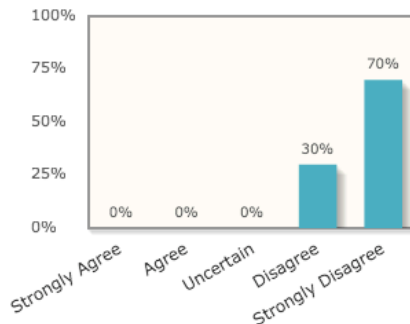
General Consensus of Economists on Tariffs

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



Balanced Budgets

- Reducing federal borrowing would reduce pressure on trade deficits.
- Size of debt – nearly 21 trillion in 2018 – means that some combination of cutting spending and rising taxes would be necessary.
- Reducing the debt would also reduce the large share of the federal budget that is directed towards interest payments and free up money for other things.
- Reducing the debt also increases our economic security because it could reduce foreign debt exposure.



Directed Support: Adjustment Costs

- The most efficient way to help those hurt by trade is through direct payments
- Trade Adjustment Assistance (TAA) is an example of an attempt at this principle
 - TAA includes some retraining funds and extended unemployment benefits
 - Not generally considered to be very successful
 - Underfunded
 - Hard to determine who is hurt by trade and not other factors
- Larger direct payments would be most effective and efficient



**TRADE
ADJUSTMENT
ASSISTANCE
FOR FIRMS**



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Trade Summary

- Trade and growth are positively related.
- Gains from trade can be widespread (lower prices for consumers).
- Losses from trade can be highly concentrated.
- Tariffs reduce trade overall, thus imposing widespread losses to both producers (who use imported inputs) and consumers (who buy lower-priced imported goods).
- More direct policies can be more efficient and save gains from trade.



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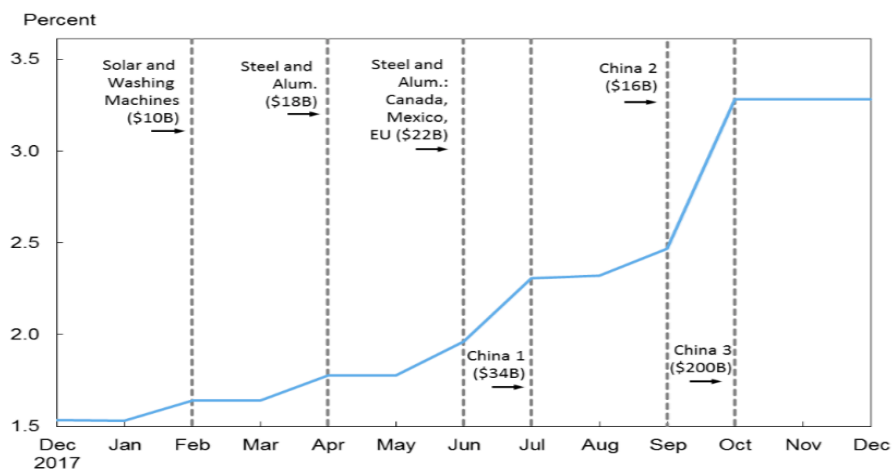
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U.S. Trade Policy

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Policies Have Been Raising U.S. Tariffs

Figure 1: Average Tariff Rates



Source: US Census Bureau; USTR; USITC; authors' calculations.

Source: Amiti, et al. 2019.

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The China Problem



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Trump's Trade Strategy

- **Trump objects to**
 - US trade deficits (bilateral and multilateral)
 - Loss of US manufacturing due to trade
 - Other countries' trade barriers
 - Other countries' (esp. China's) unfair practices
- **His strategy seems to be**
 - Threaten and then use tariffs to hurt others
 - Get them to negotiate changed behavior

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Trade Talks

What Might a China-US Trade Deal Include?

- **US wants** (per FT, 3/25/19):
 - o Huge Chinese purchases of US exports
 - to reduce US trade deficit
 - o Liberalization of market access for US goods and services
 - o Reform of Chinese industrial policy
 - especially “forced transfers” of IP
 - US permitted to use punitive tariffs if these are violated
 - without China retaliating or complaining to WTO

- **China wants:**
 - o Removal of US tariffs
 - o Removal on restrictions on Huawei



China Tariffs

What happened?

- **Aug 18, 2017:** USTR investigates “unfair trade practices” by China, mostly intellectual property violations
- **Apr 3 – Jul 6, 2018:** Tariff threats and counter threats, plus some negotiations.
- **Jul 6, 2018:** Round 1 of tariffs on \$34 billion exports
- **Aug 23, 2018:** Round 2 of tariffs on \$16 billion
- **Sep 24, 2018:** Round 3 of tariffs on \$200 billion (by US) and \$60 billion (by China)
- **Dec 1, 2018 – Aug 1, 2019:** Truces and negotiations, on and off
- **May 10, 2019:** Round 3 tariffs raised from 10% to 25%
- **Sep 1, 2019:** Round 4 of tariffs, on part of \$300 billion
- **Oct 15, 2019:** Raising some existing tariffs on \$250B from 25% to 30%.
- **Dec 15, 2019:** The rest of Round 4 of tariffs planned



China Tariffs

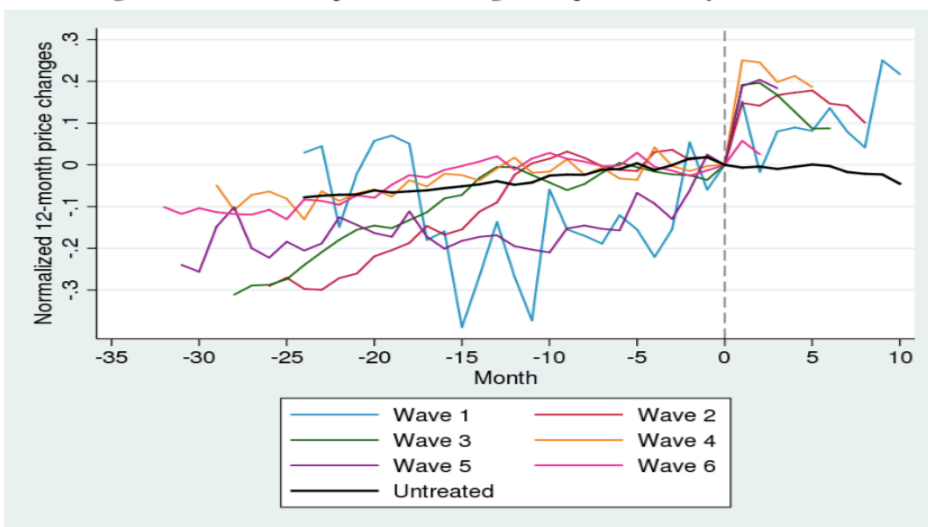
Did it work?

- Certainly not yet

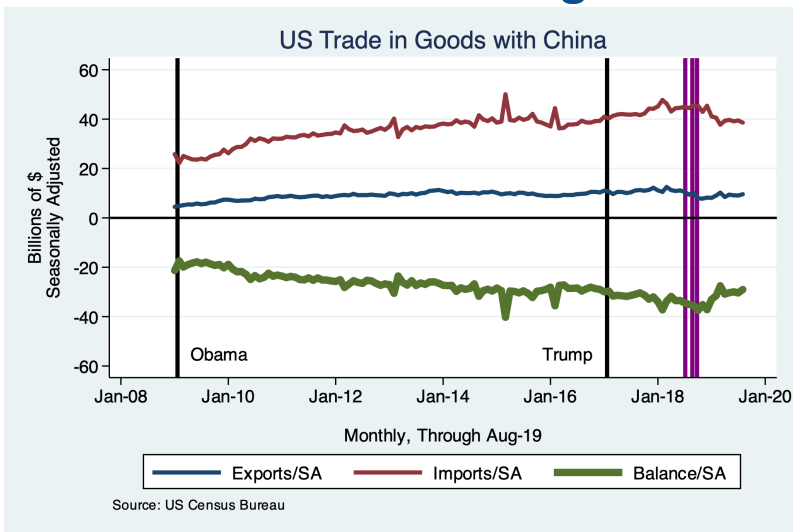
- So far he's gotten only very minor concessions from China.
- Even the talks have faltered.
- But Prices are rising!

Trade War

Figure 3: 12-month Proportional Change in Import Prices by Tariff Wave

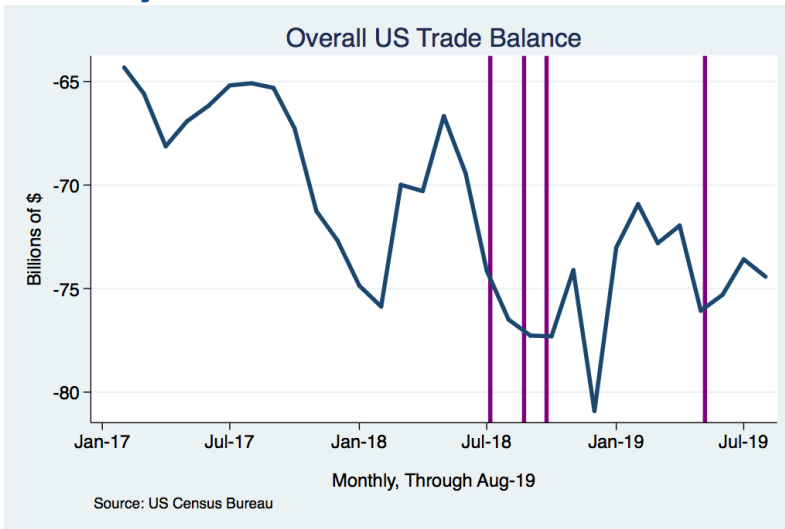


Trade Deficit Effects: It's Working!



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Maybe...Maybe Not...



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Unintended Consequences: Falling Exports



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Why Are US Exports Declining?

- **Retaliation**

- Chinese tariffs on US exports
- Other forms of retaliation
 - o E.g., week long quarantine of cherries

- **Exchange rate changes**

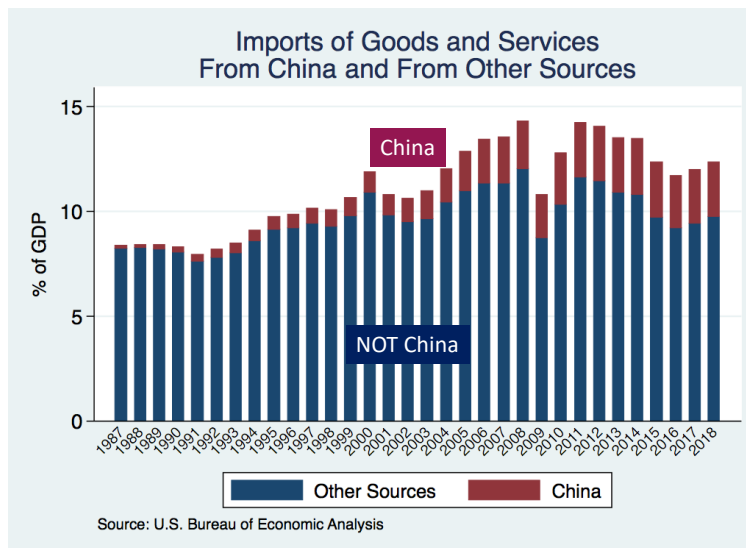
- Fewer imports raises the value of the U.S. dollar
 - o Makes U.S. exports more expensive

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Chinese Retaliation

- **US tariffs on \$34 billion Jul 6**
 - matched that day by China tariffs on \$34 billion of US exports
- **US tariffs on \$16 billion Aug 23**
 - matched that day by China tariffs on \$16 billion of US exports
- **US tariffs on \$200 billion Sep 24**
 - less-than-matched by China on \$60 billion of US exports
- **Other impediments have also been put in place**

China: The Problem? The Solution?



Summary

- **International trade brings significant benefits.**
 - But it comes with some costs, which are best dealt with in order to sustain the benefits.
- **International trade has the same effects as technological change.**
 - Would we block technological change?
- **Trade deficits are not in and of themselves a problem.**
 - They result from other problems.
- **Trade wars are no way to deal with a bilateral trade deficit.**
 - There is no good way to deal with them, they are generally irrelevant.
- **Costs to consumers**
 - US Protectionism since early 2018: \$1,700 per household.



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Thank you!

Any Questions?

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