

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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Globalization: Its Rise and Perhaps Its Fall

Alan V. Deardorff
University of Michigan

*Presentation for Osher Lifelong Learning Institute
at the University of Michigan
April 16, 2020*



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Outline

- **What is Globalization?**
- **Pros and Cons**
- **Policies**
- **Effects of the Pandemic**
- **Globalization's Future?**



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What Globalizations Is

- **Growth over time of many interactions between countries**
 - Trade
 - Foreign Direct Investment
 - Financial Flows
 - Migration
 - International Travel



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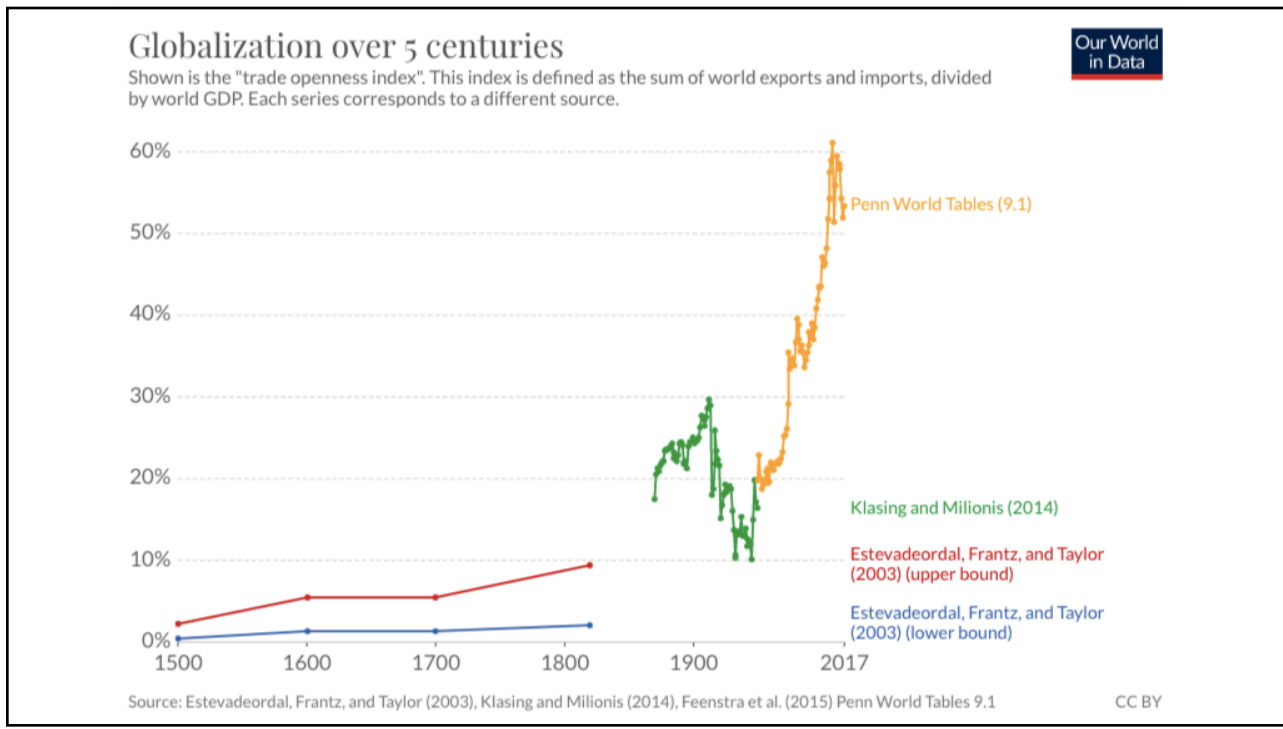
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Trade

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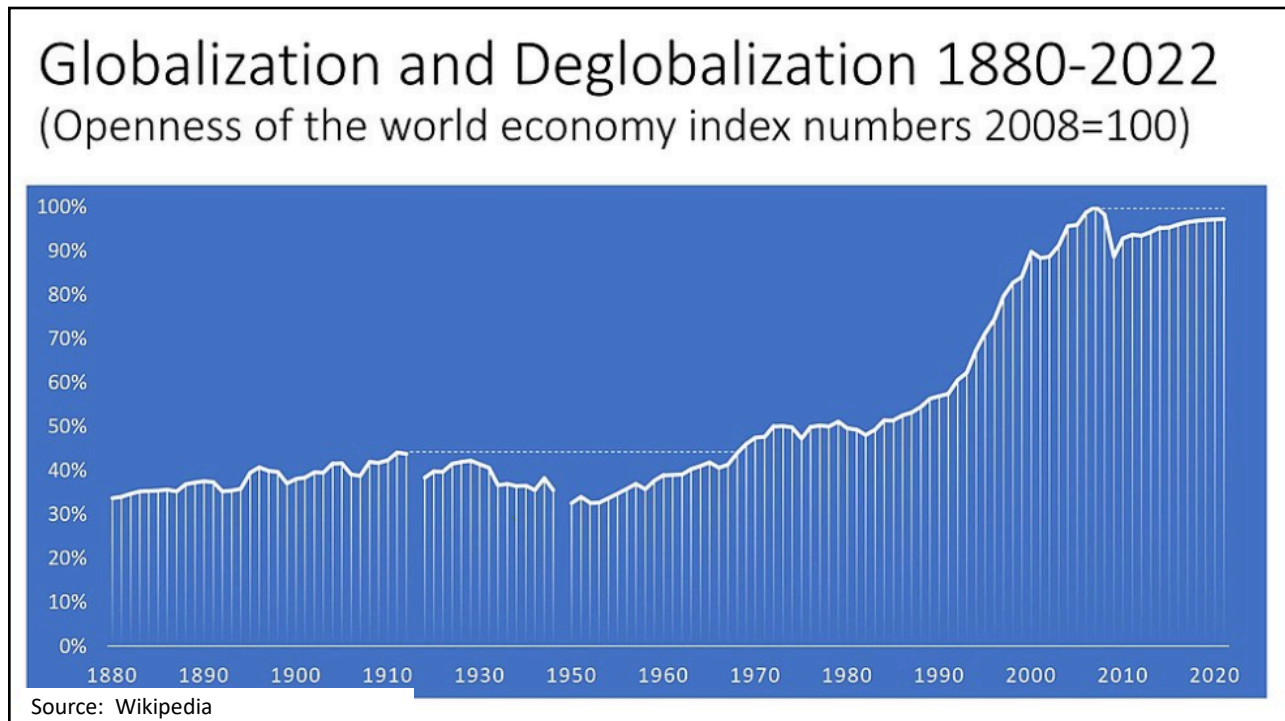
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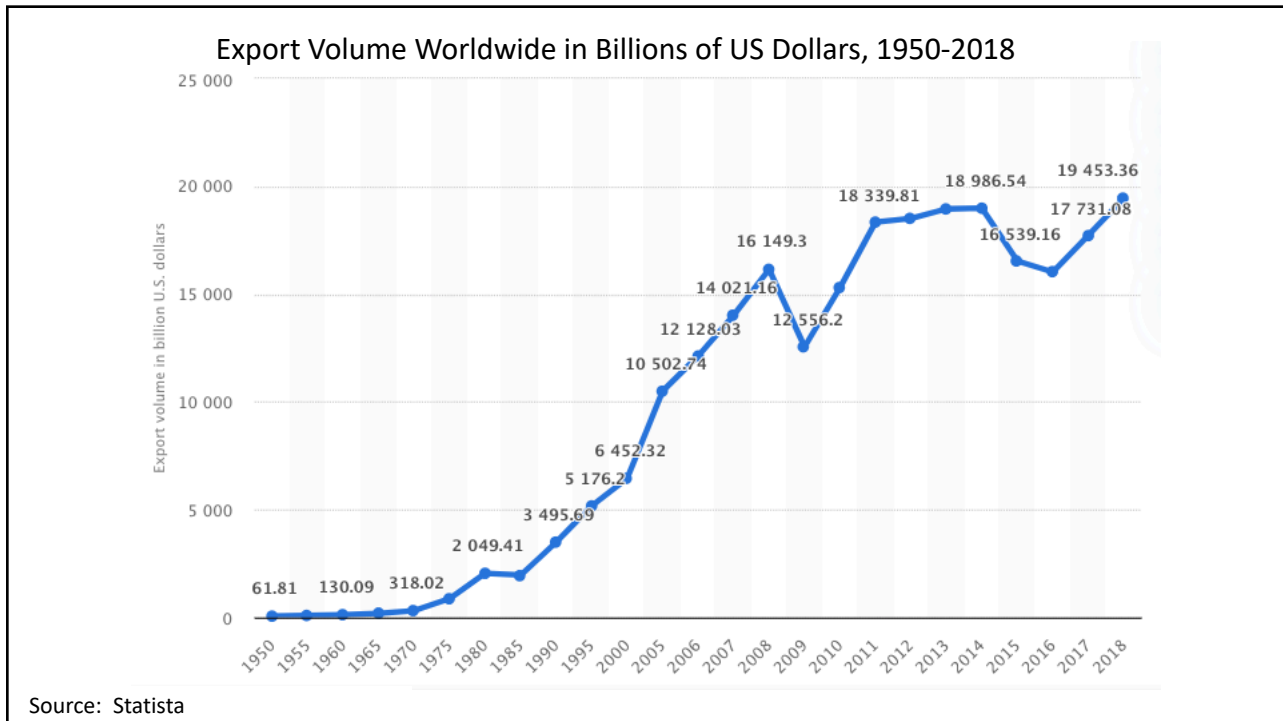
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Foreign Direct Investment (i.e., multinational companies)

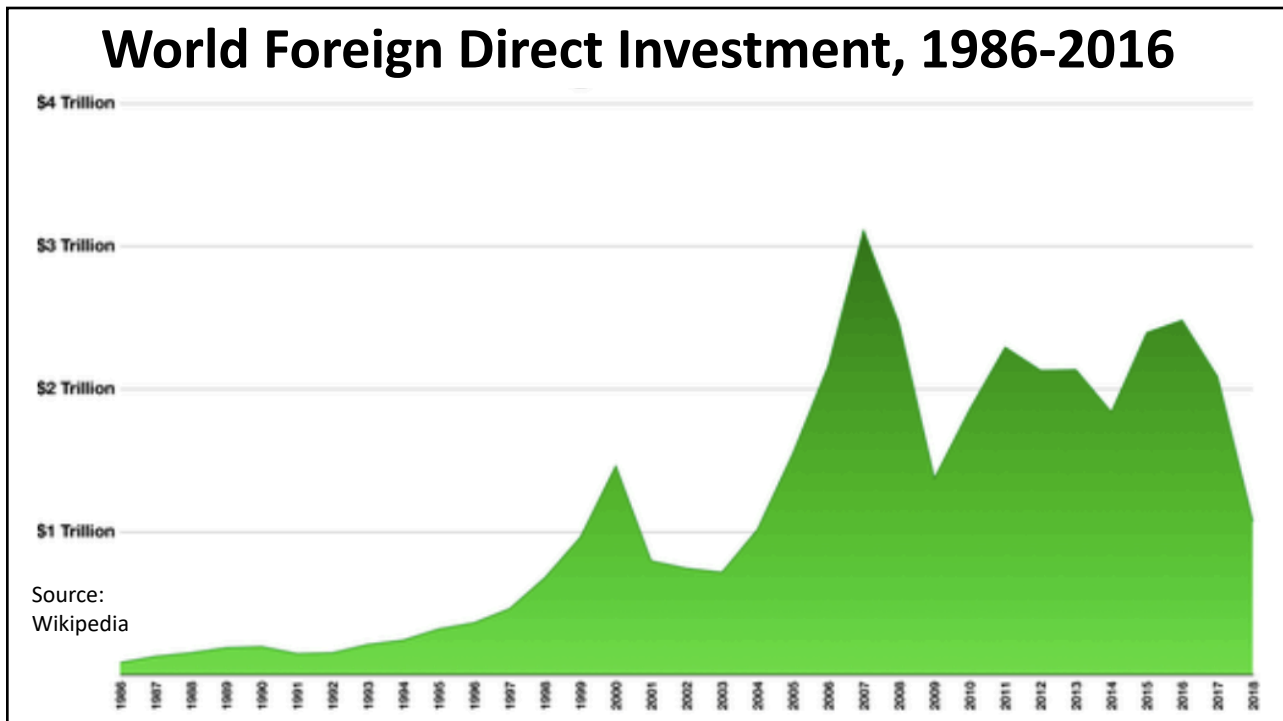
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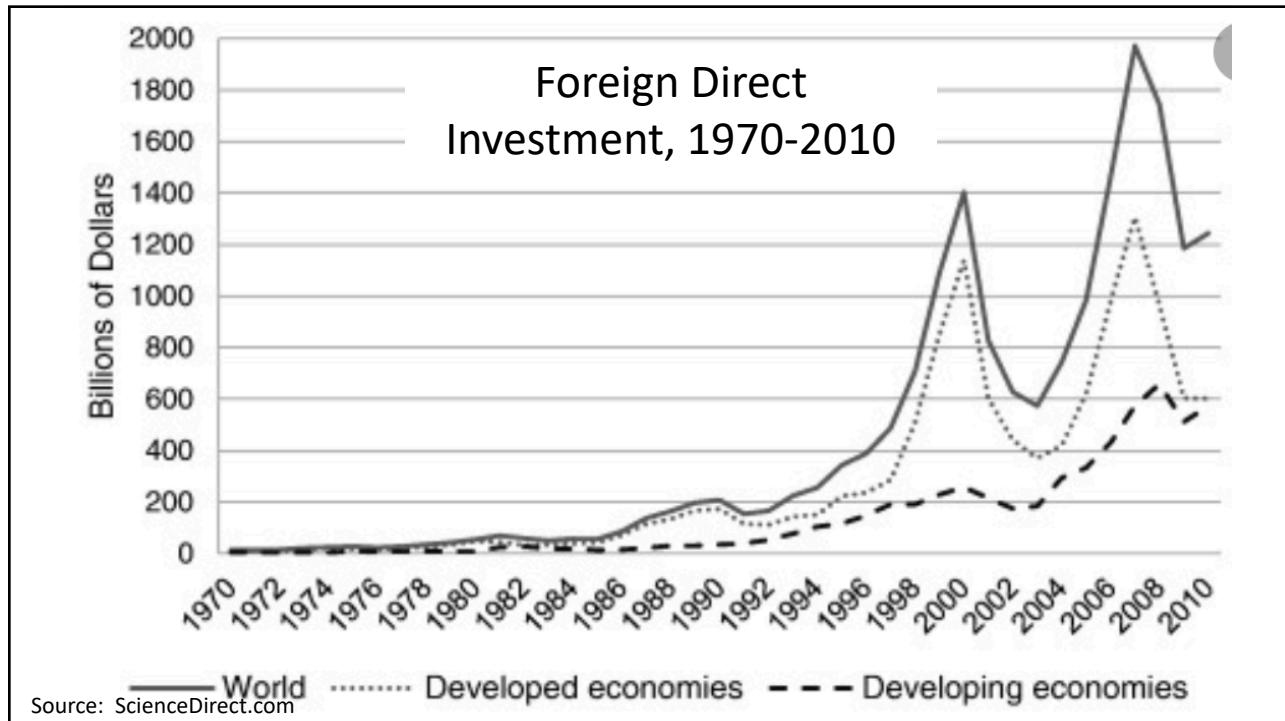
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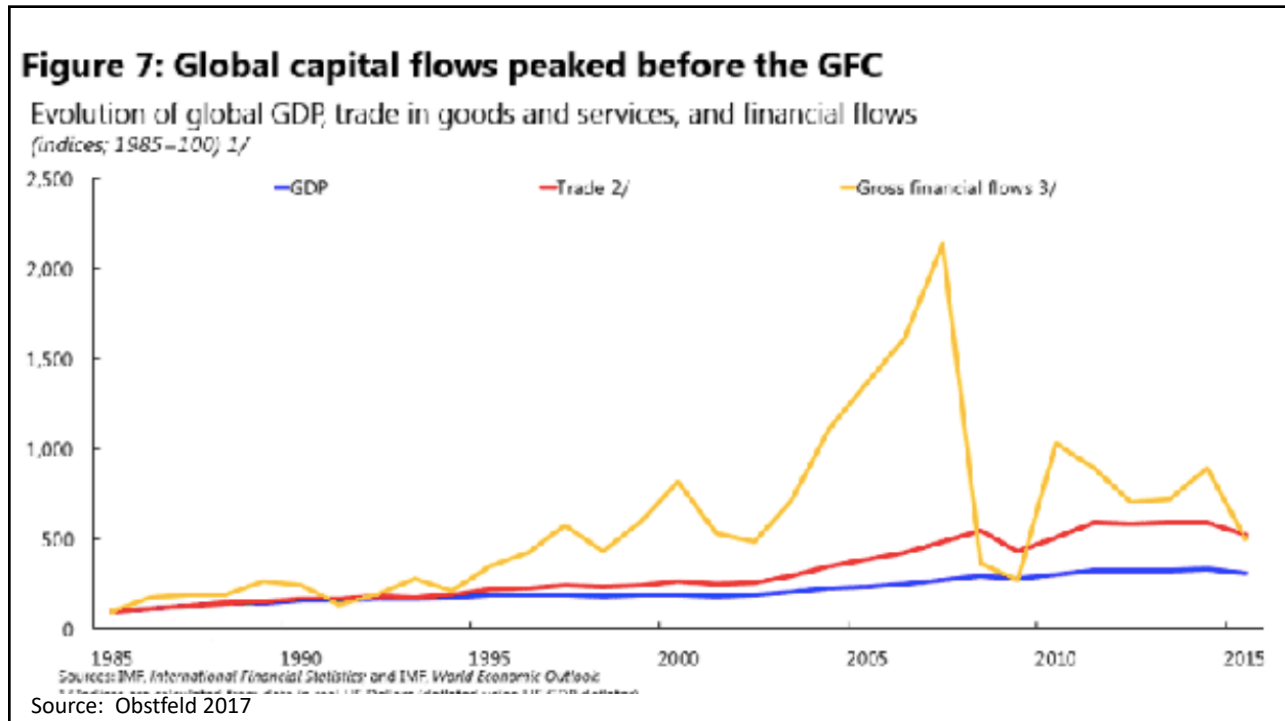
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Financial Flows

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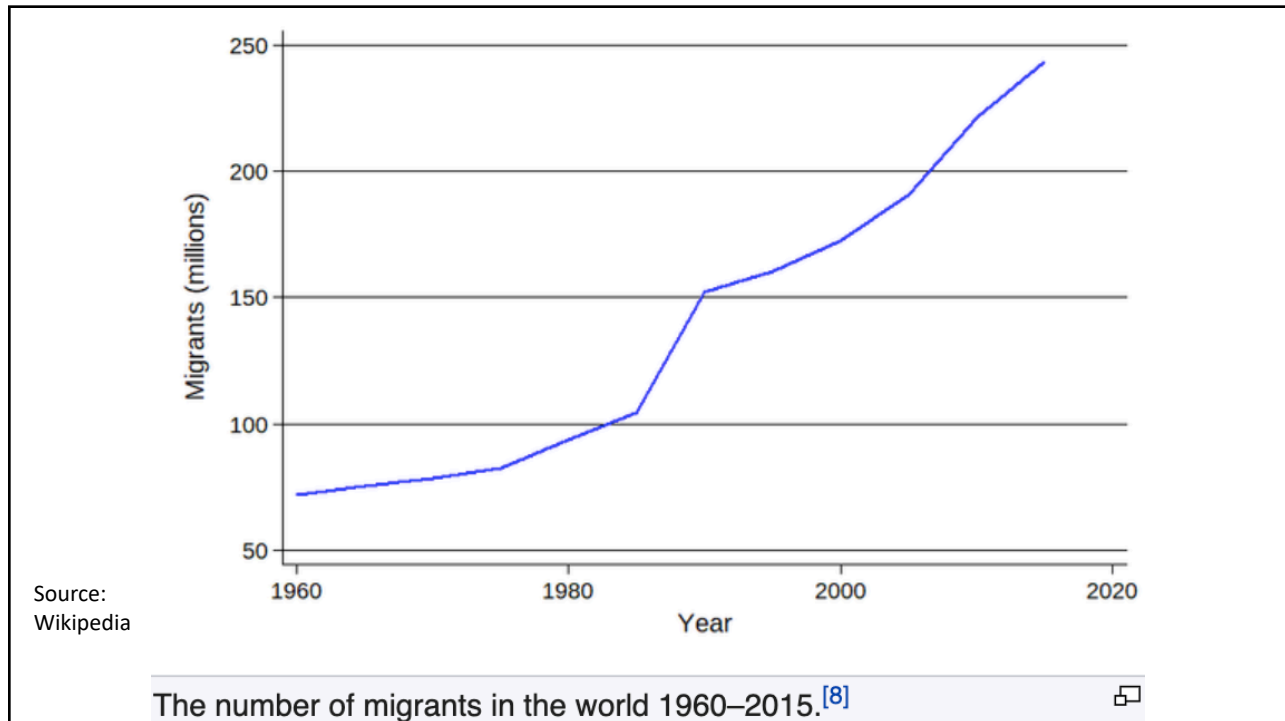
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Migration

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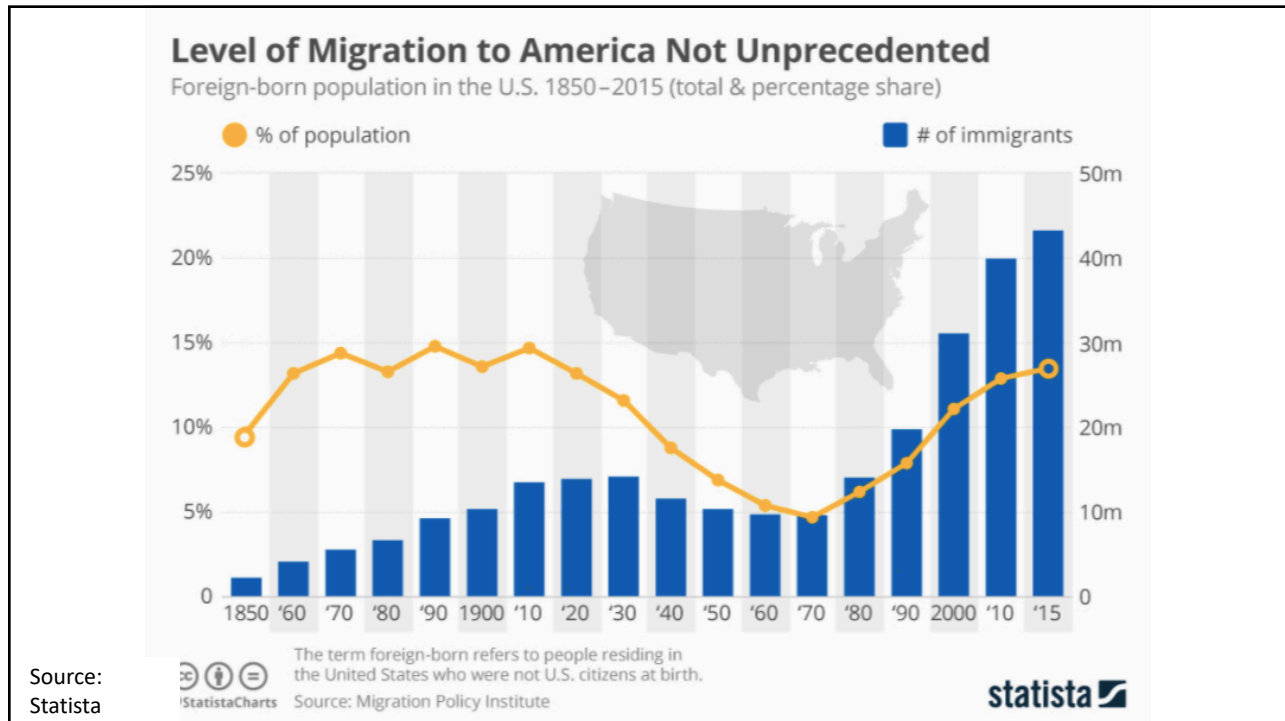
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International migrants, 1970–2015^[16]

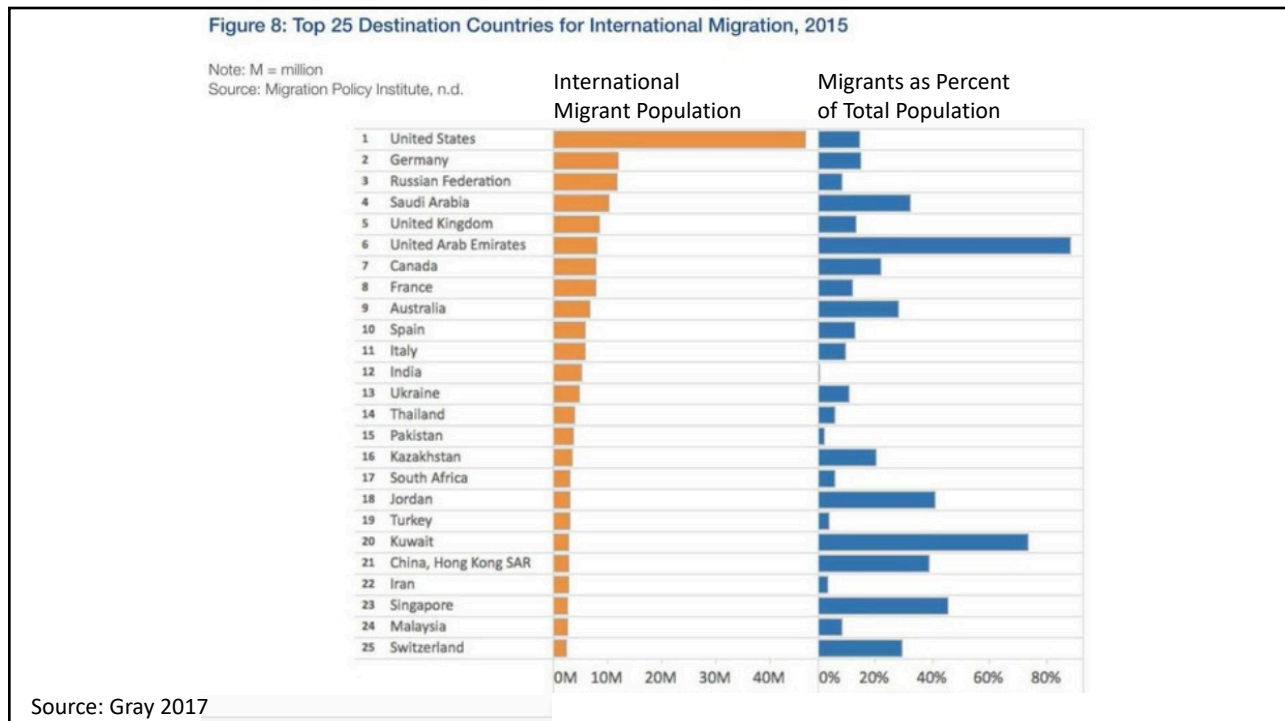
| Year | Number of migrants | Migrants as a % of the world's population |
|------|--------------------|---|
| 1970 | 84,460,125 | 2.3% |
| 1975 | 90,368,010 | 2.2% |
| 1980 | 101,983,149 | 2.3% |
| 1985 | 113,206,691 | 2.3% |
| 1990 | 153,011,473 | 2.9% |
| 1995 | 161,316,895 | 2.8% |
| 2000 | 173,588,441 | 2.8% |
| 2005 | 191,615,574 | 2.9% |
| 2010 | 220,781,909 | 3.2% |
| 2015 | 248,861,296 | 3.4% |
| 2019 | 271,642,105 | 3.5% |

Source: Wikipedia

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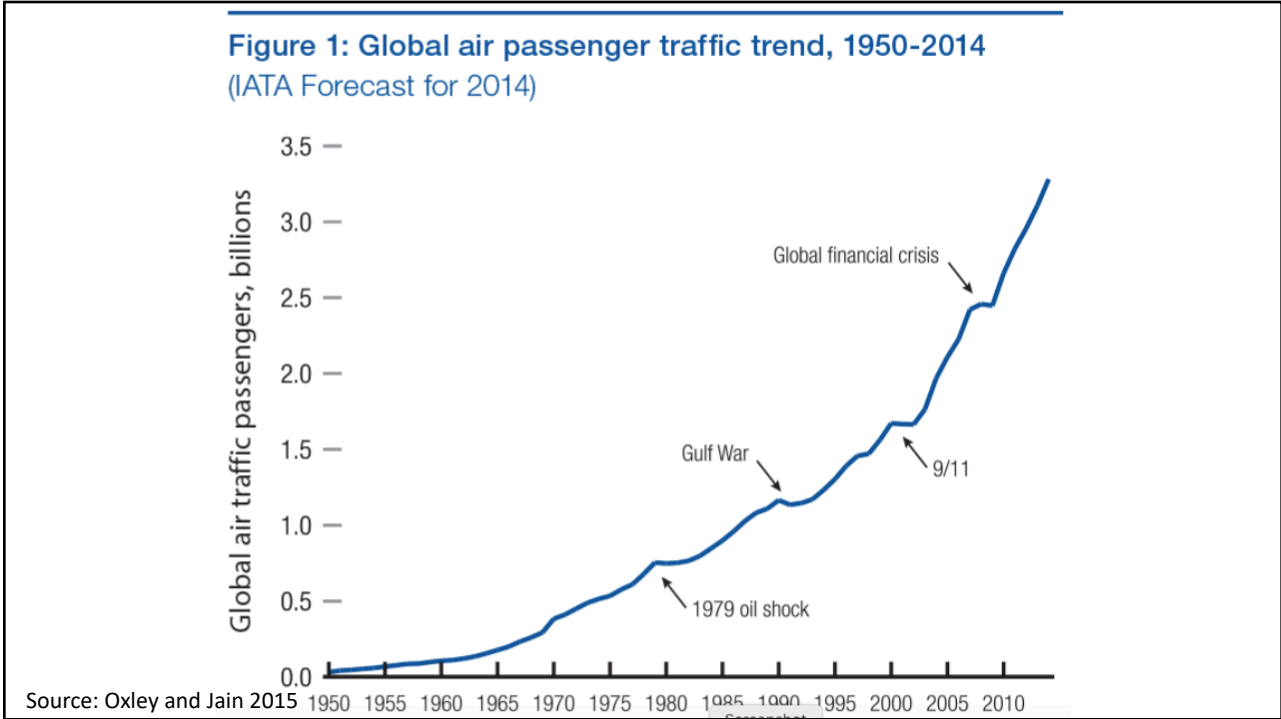
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International Travel

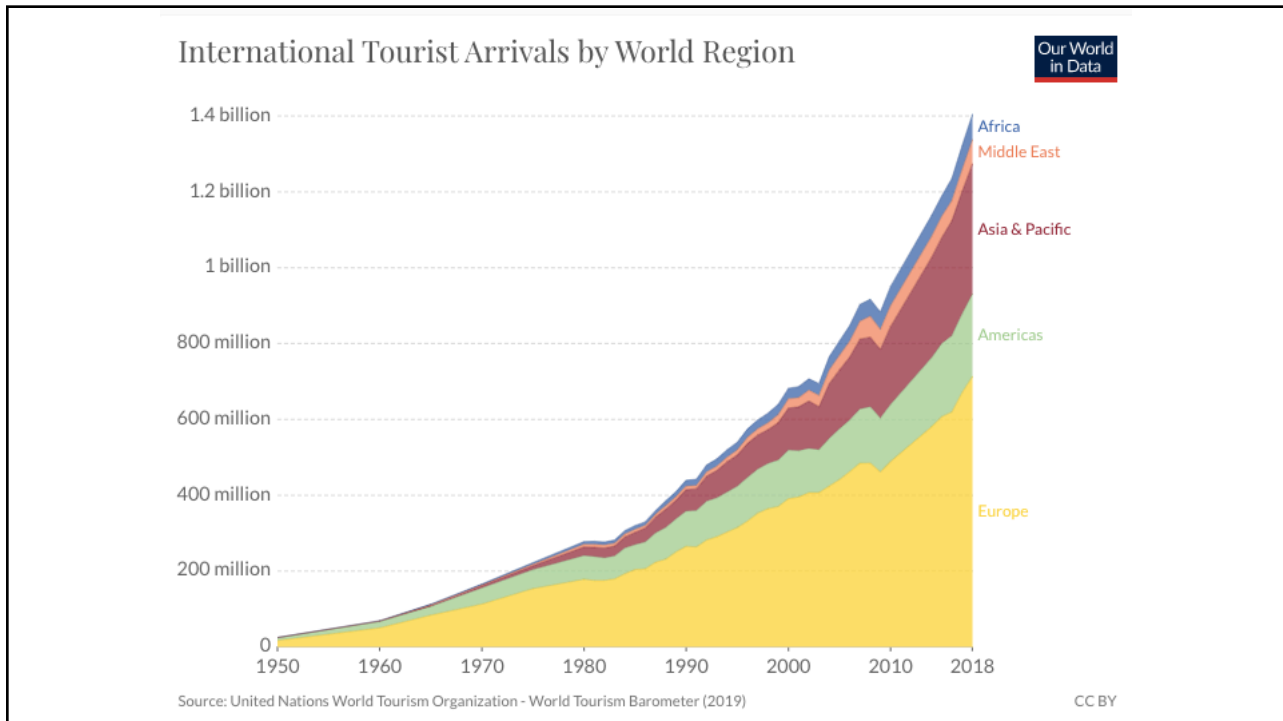
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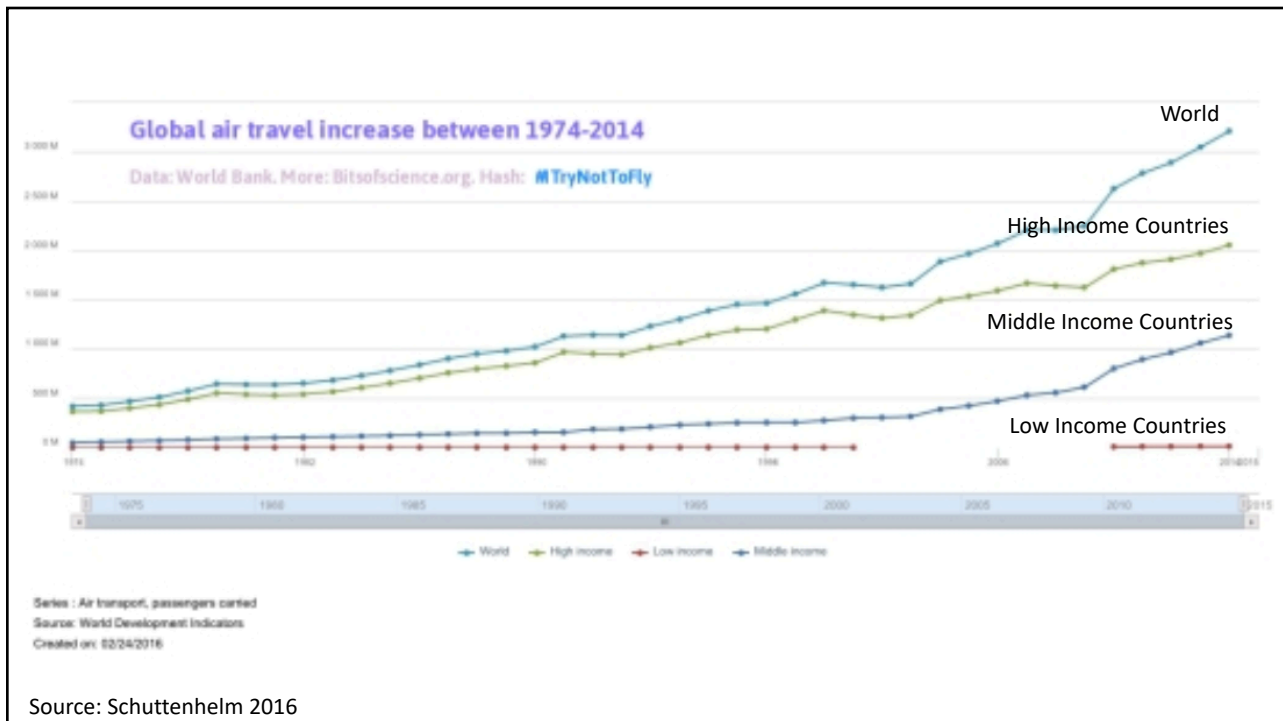
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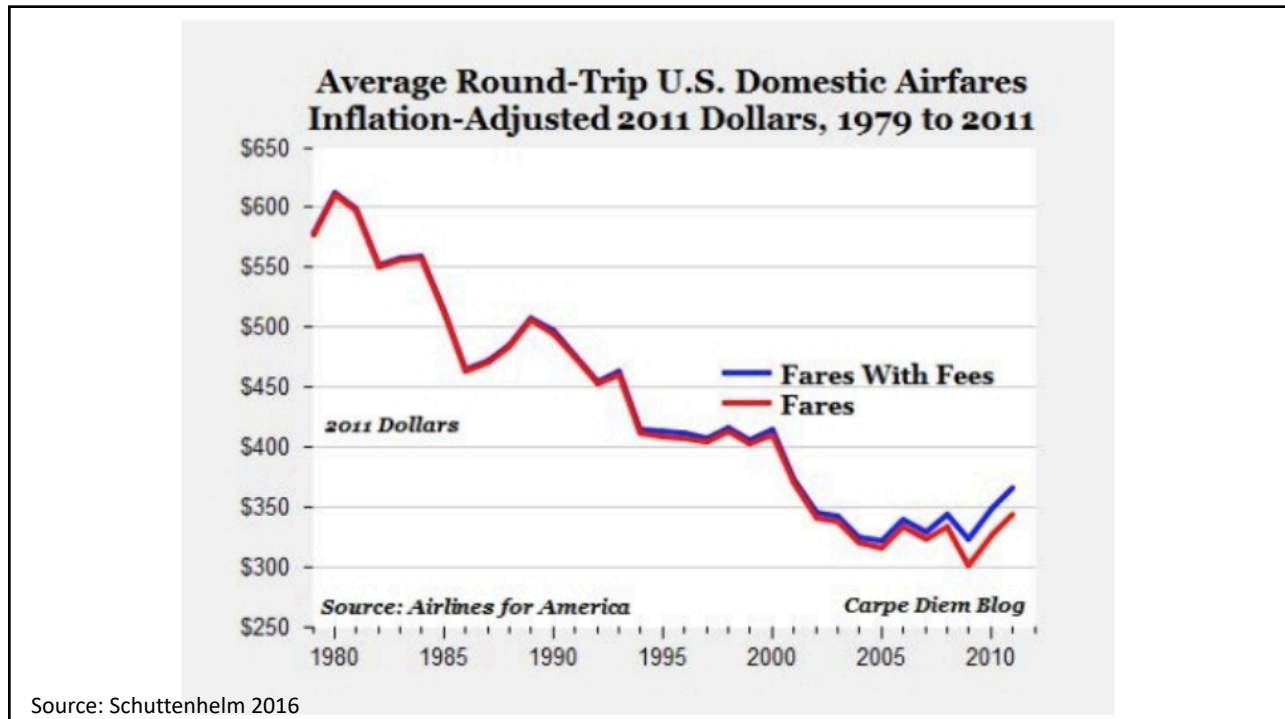
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Pros and Cons of Globalization

- **Pros and Cons of Globalization**
 - Gains from Trade
 - Theory of Comparative Advantage
 - Other Sources of Gain from Trade
 - Costs of Trade

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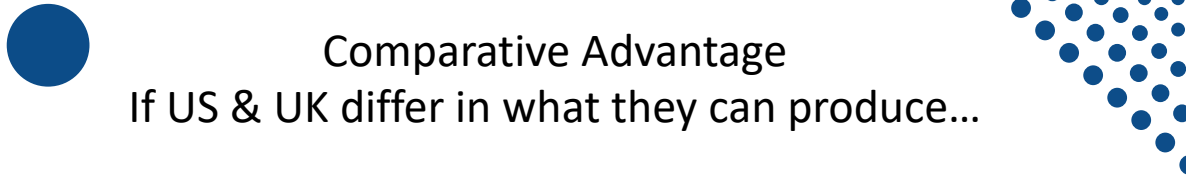
Gains from Trade

Theory of Comparative Advantage

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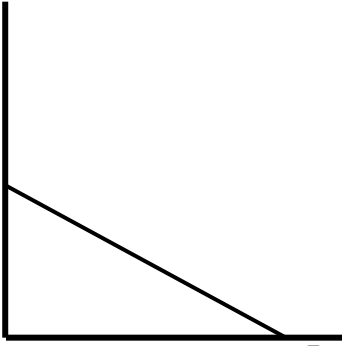
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Comparative Advantage

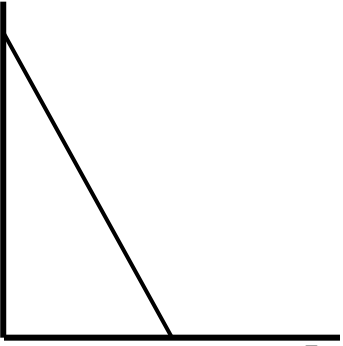
If US & UK differ in what they can produce...

Cloth US



Food

Cloth UK

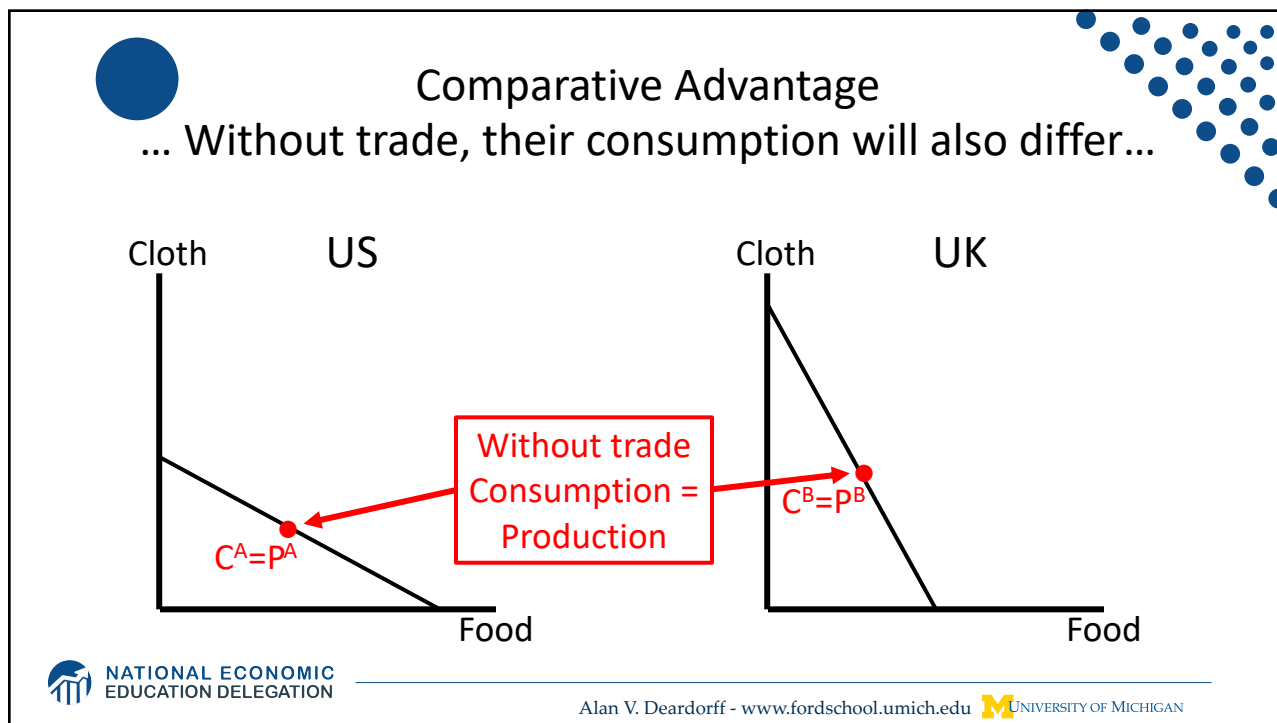


Food

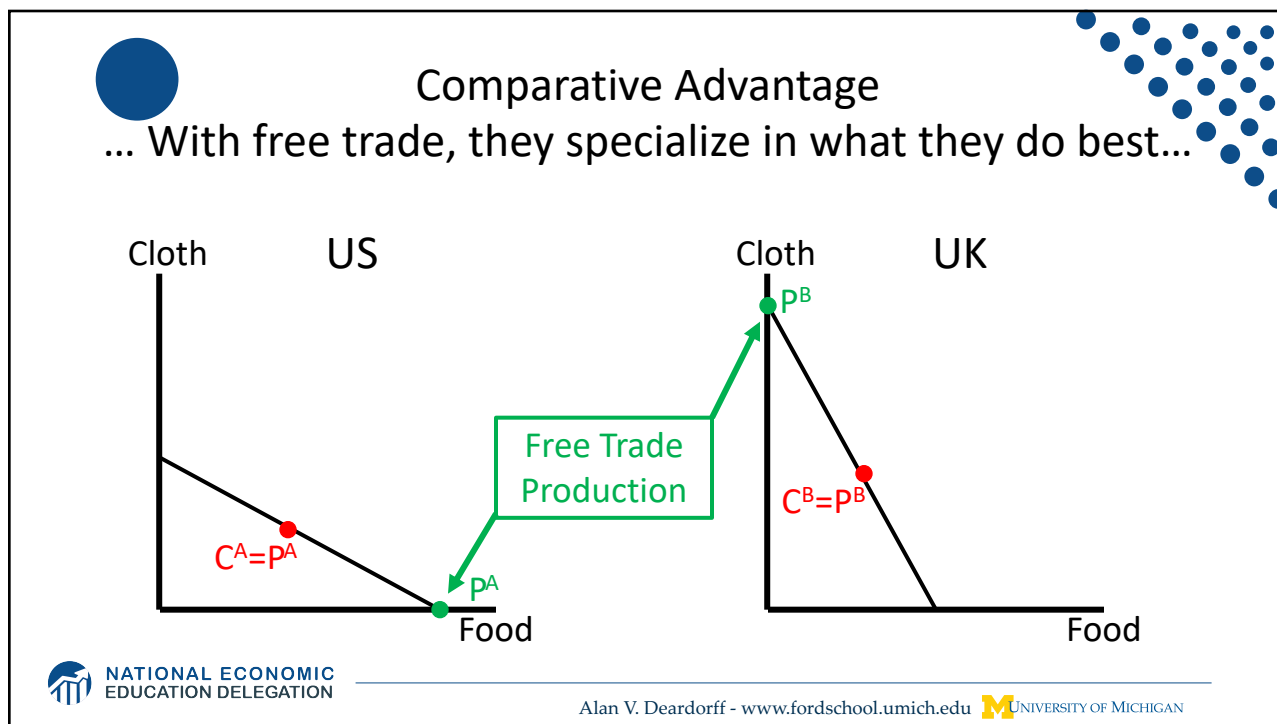
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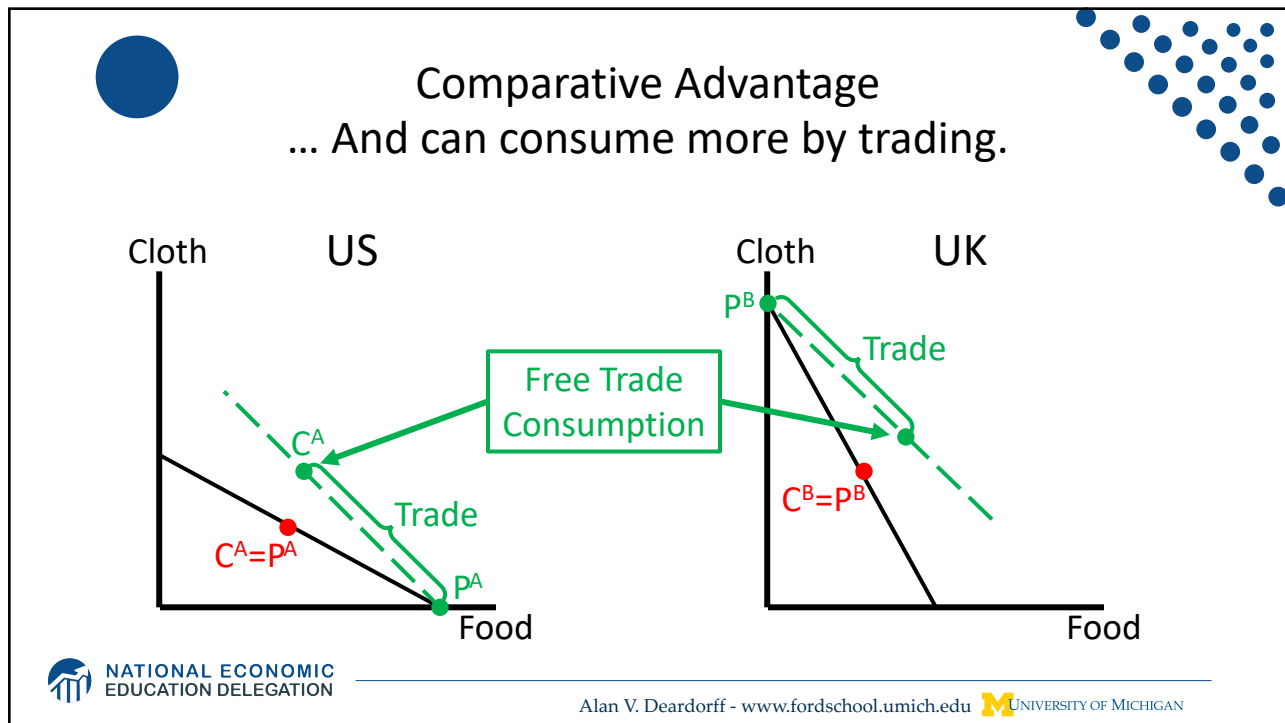
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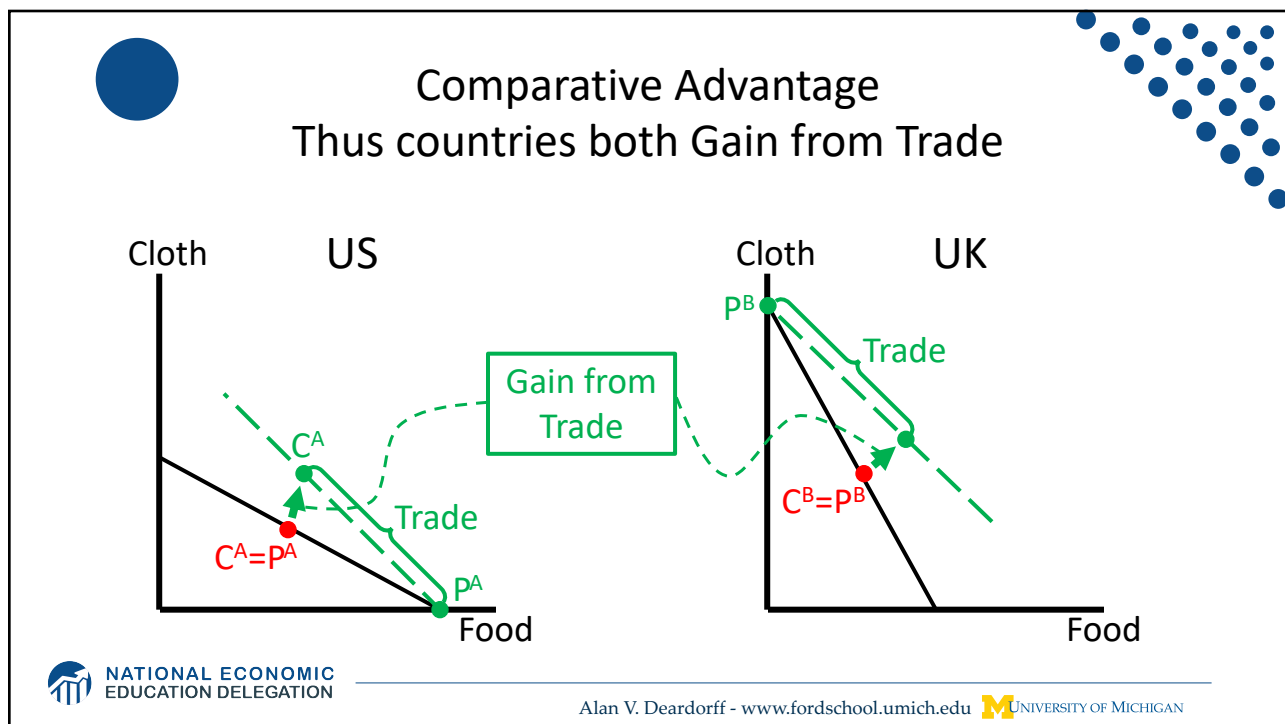
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Gains from Trade

Other Sources of Gain from Trade

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Other sources of Gain from Trade

- **Productivity** (most productive firms expand and export)
- **Returns to scale** (small countries can support larger firms)
- **Competition** (monopolies in small countries lose market power)
- **Variety** (buyers can access more choices)
- **Supply chains** (firms source parts from cheapest sources)
- **Technology** (producers access foreign technologies)

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Costs of Trade



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But there are Costs

- **Economic:**

- When trade expands (or contracts)
 - Some firms lose market share or shut down
 - Their workers lose jobs
 - Their communities lose customers
- Vulnerability to foreign recession/inflation

- **Non-economic**

- Dependence on other countries
- Vulnerability to trade disruption
 - Crisis induced (earthquake, flood, disease)
 - Policy induced (sanctions, tariffs, export bans)



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Policies that Affect Globalization

• Policies that Affect Globalization

- That Encourage It
 - Tariff Reductions
 - Trade Agreements
 - Other
- That Discourage It
 - Trump's Tariffs
 - Trade War



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Policies that Encourage Globalization




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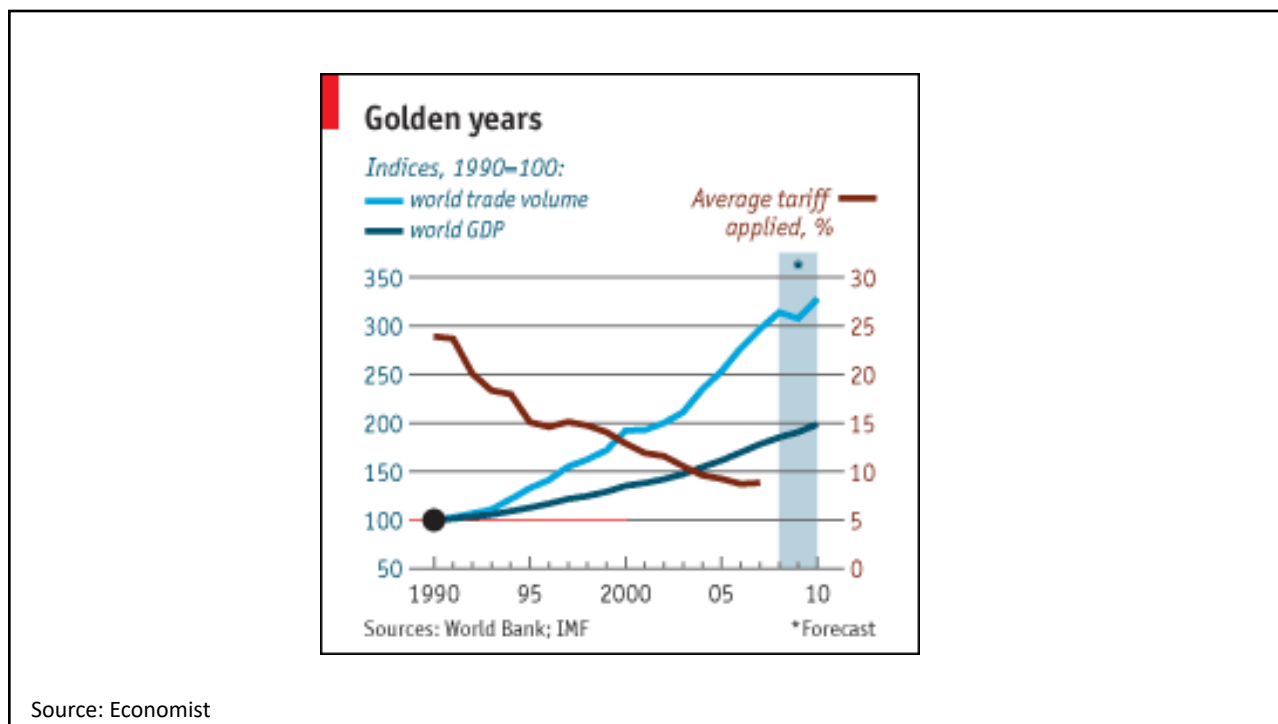
Tariff Reductions



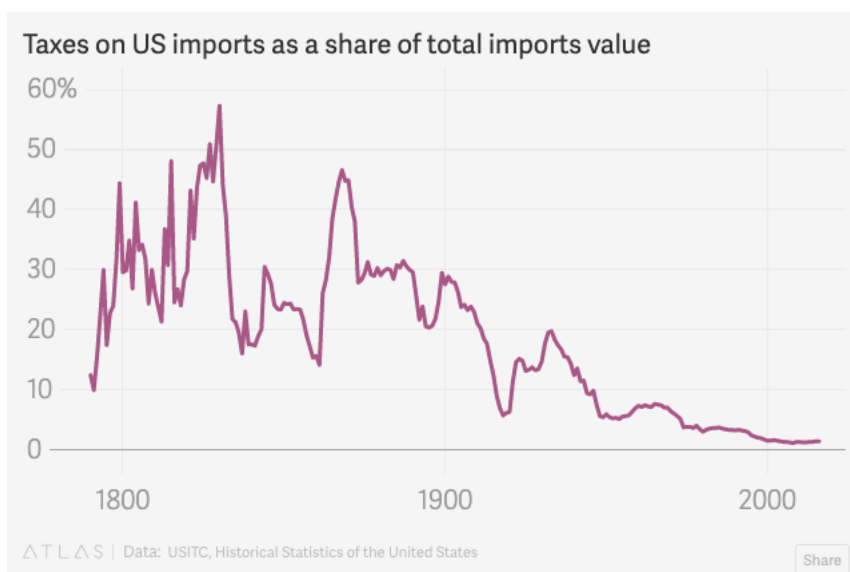
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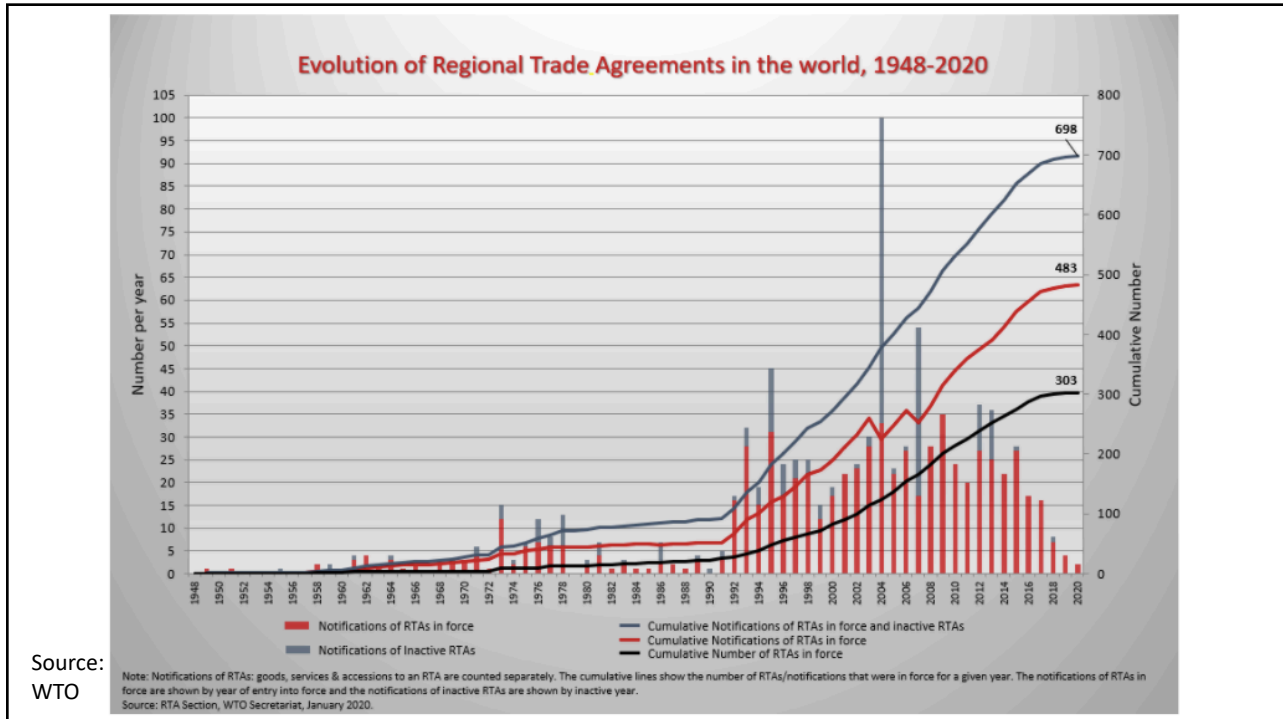


Source: Quartz 2018

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Trade Agreements

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NAFTA (now USMCA)

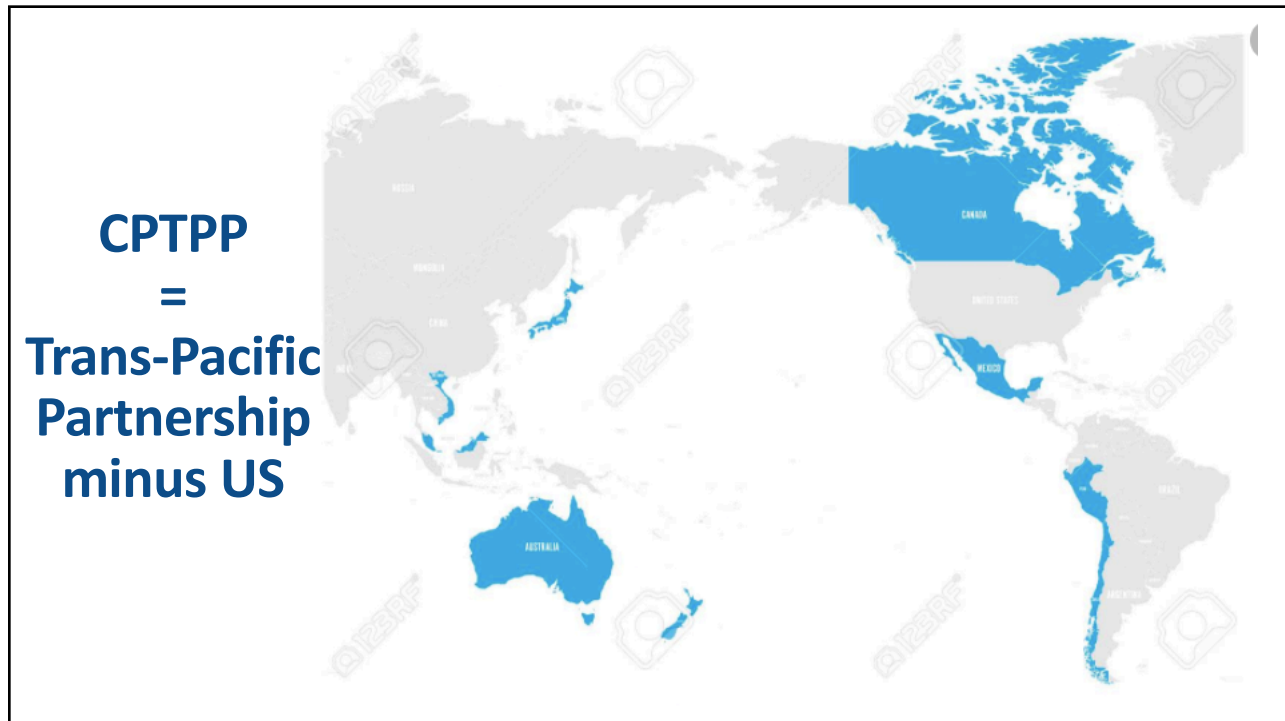


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Other Policies to Encourage Globalization

- **IMF/World Bank**
 - Policy advice to open markets (the "Washington Consensus")
 - Loans to countries conditional on
 - Reducing trade barriers
 - Permitting capital flows
- **GATT/WTO (World Trade Organization)**
 - Negotiate reciprocal trade liberalization
 - Settlement of trade disputes (usually about interfering with trade)
- **Bilateral Investment Treaties**
 - Better treatment of multinational corporations



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Policies that Discourage Globalization



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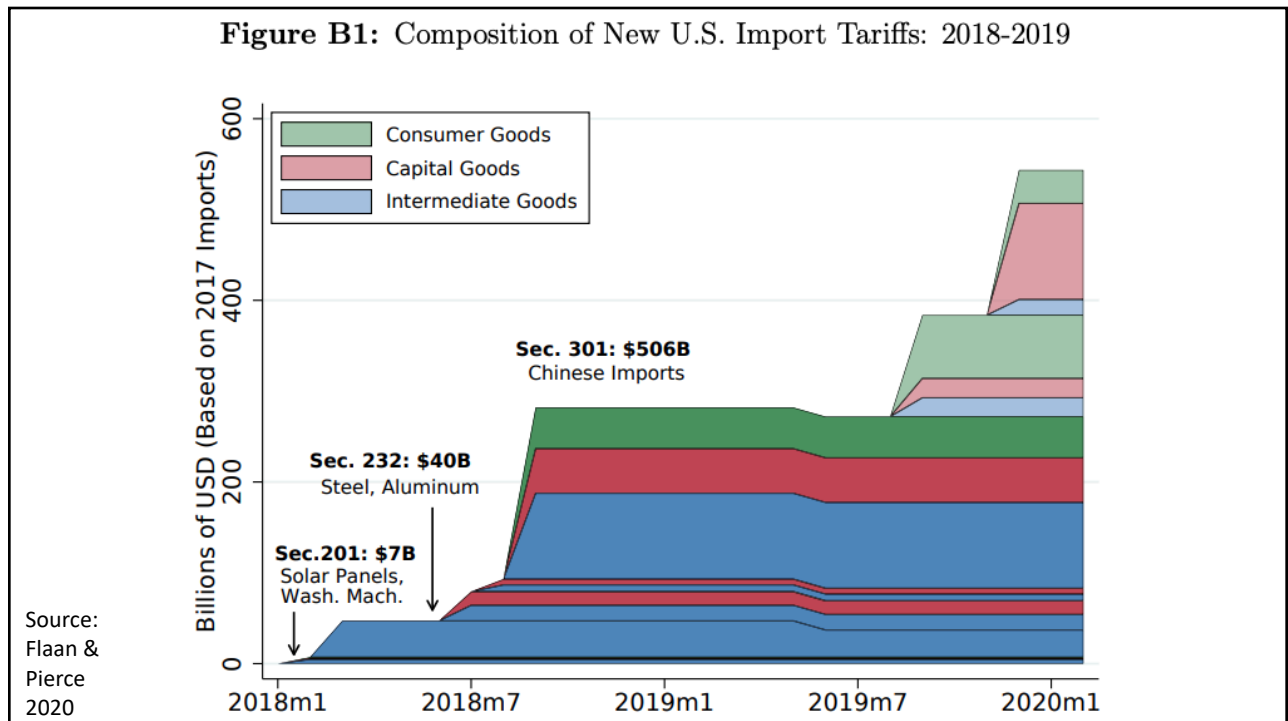
Trump's Tariffs



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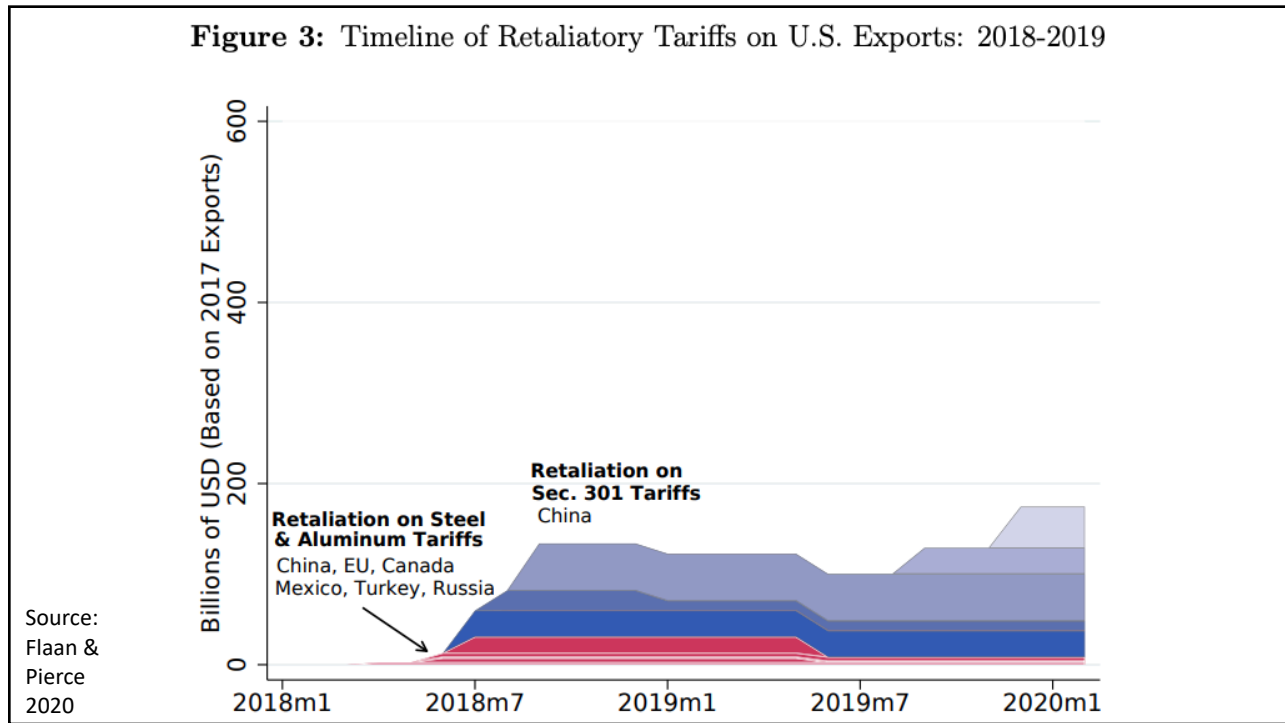
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Figure 3: Timeline of Retaliatory Tariffs on U.S. Exports: 2018-2019



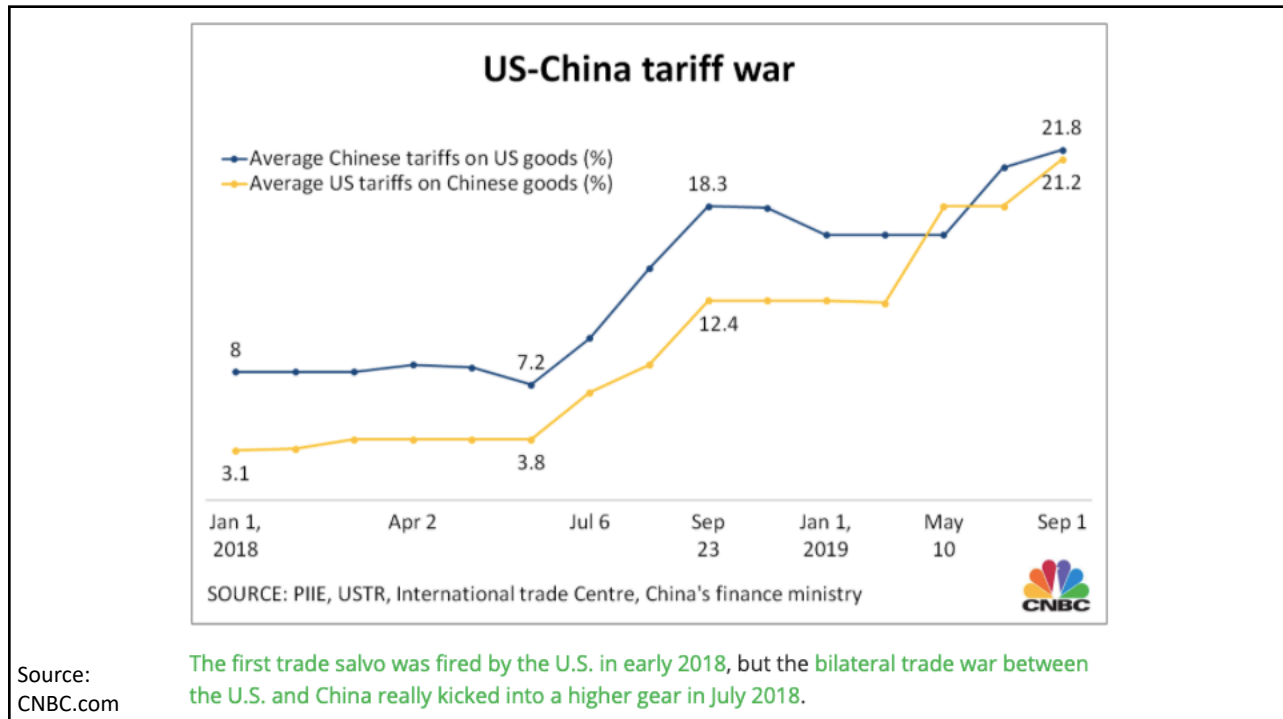
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Trade War

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Other Policies to Discourage Globalization

- **Undermine the WTO**
 - Trump blocks appointments at WTO, disabling the Dispute Settlement Body
- **Export bans**
 - To keep food cheap at home
 - To keep medical supplies at home
- **Immigration restrictions**
 - Trump blocks travelers from target countries
 - US and others block refugees

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Effects of the Pandemic on Globalization

• Effects of the Pandemic on Economies

- Travel halted
- Stock markets fall
- Factories shut down
- Supply chains interrupted
- Trade plummets
- Unemployment
- Reduced GDP
- Panic buying and shortages



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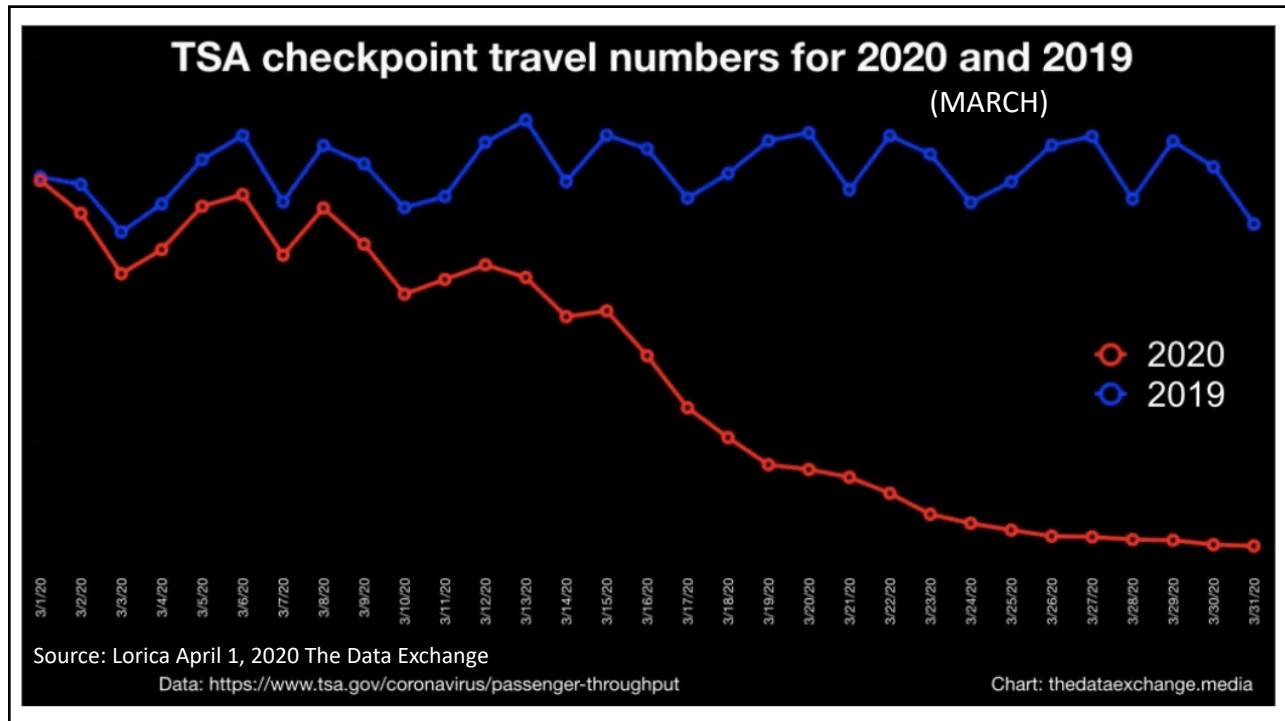
Travel



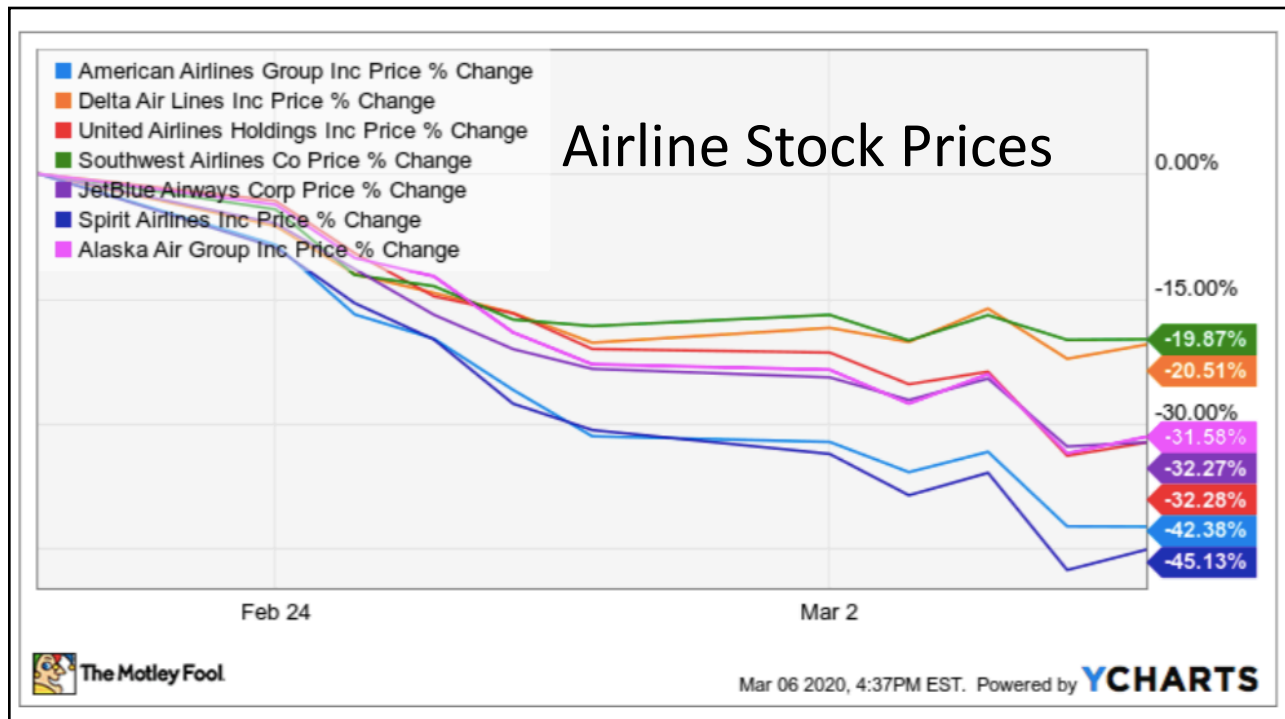
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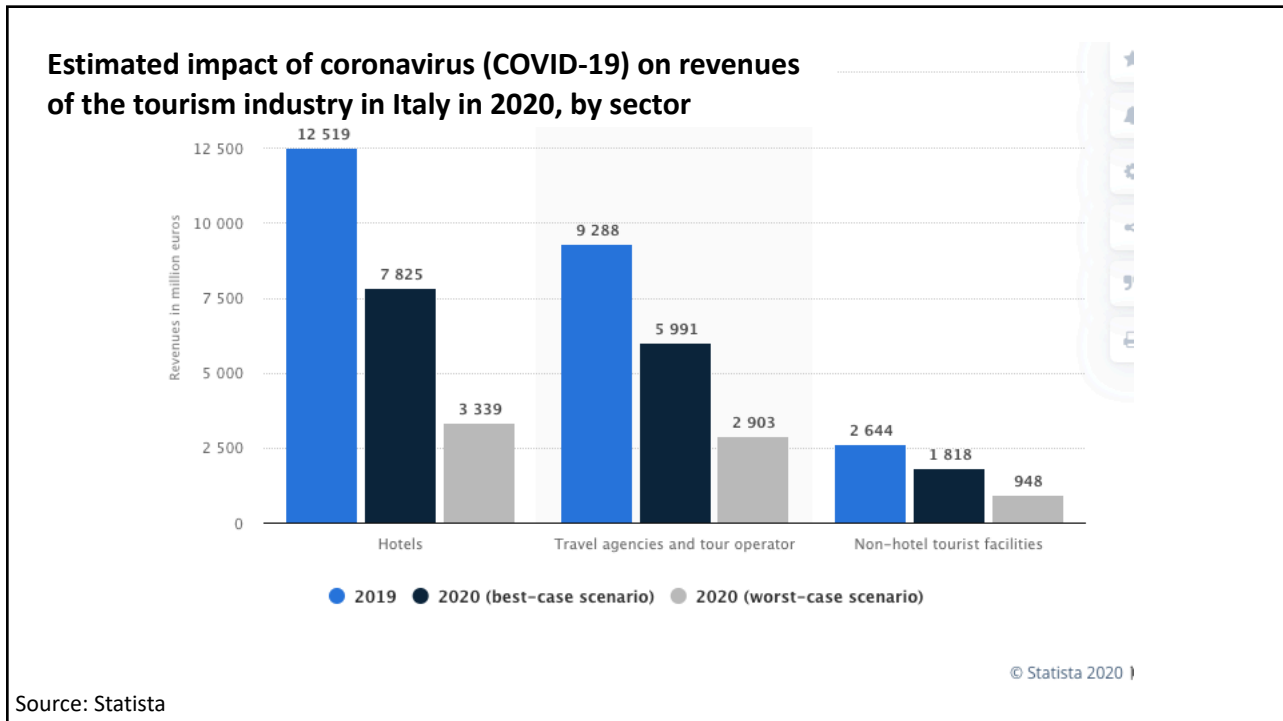
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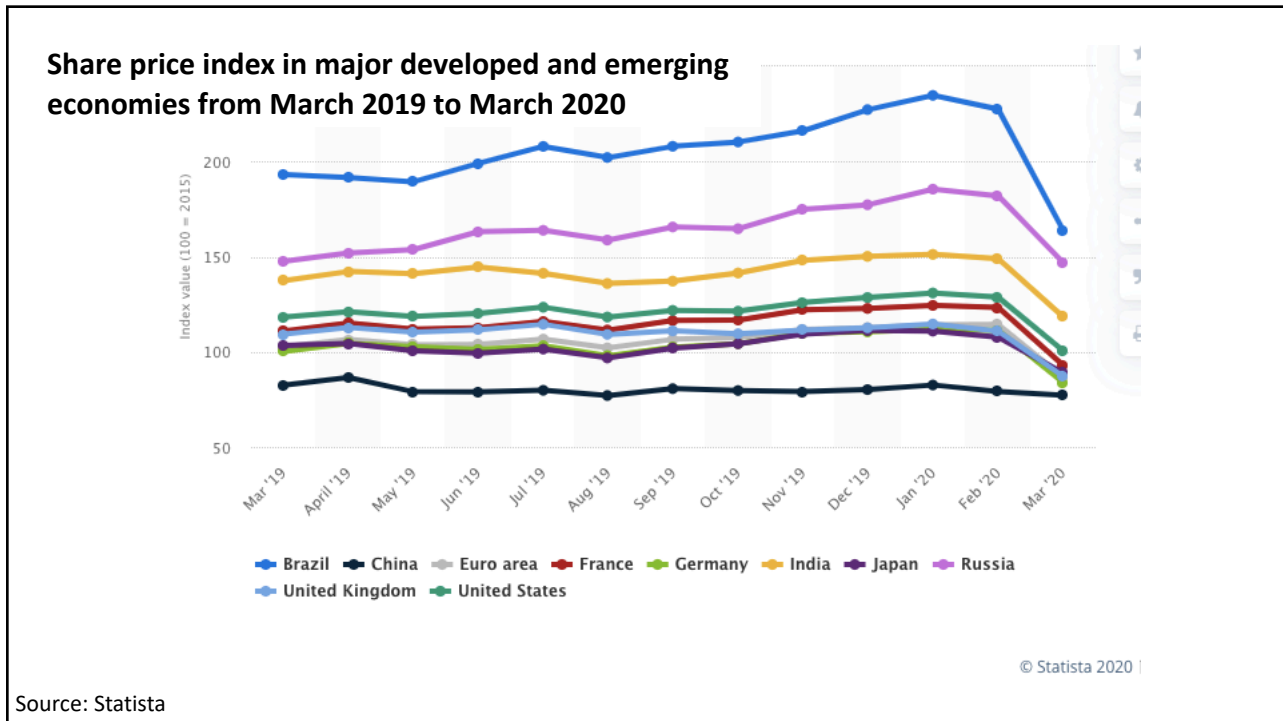
Stock Markets

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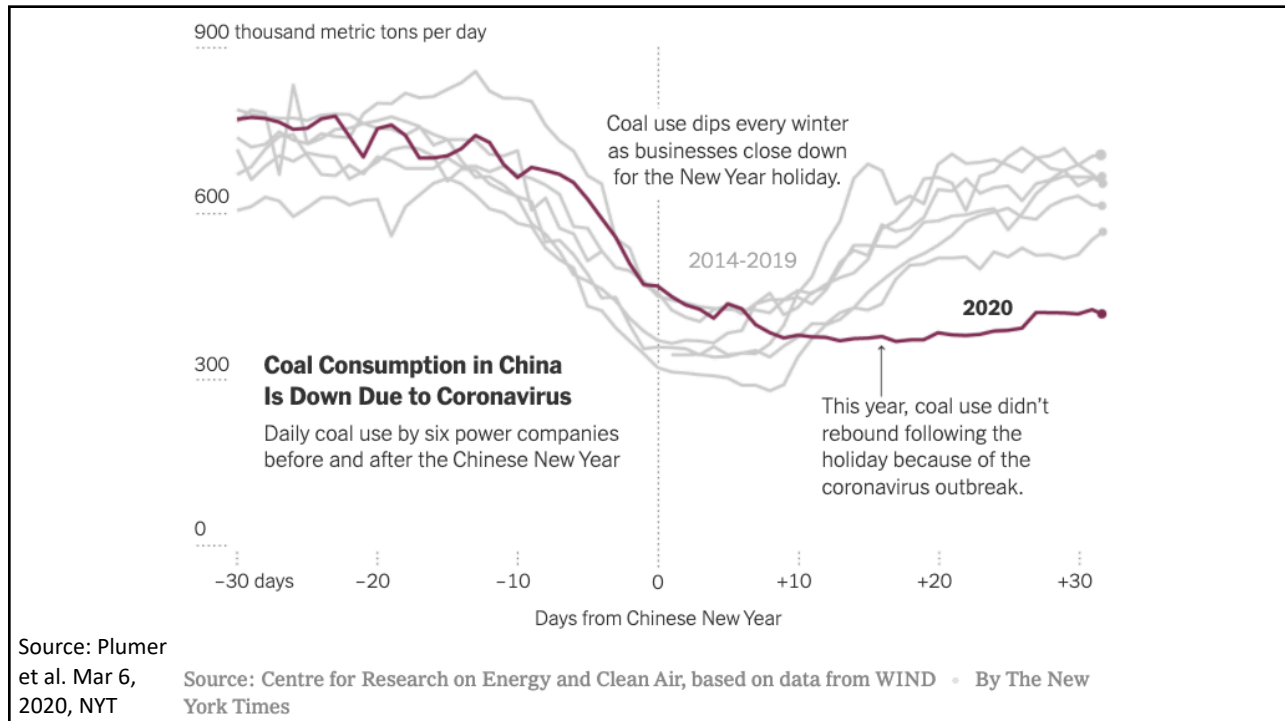
Factory Shut-downs

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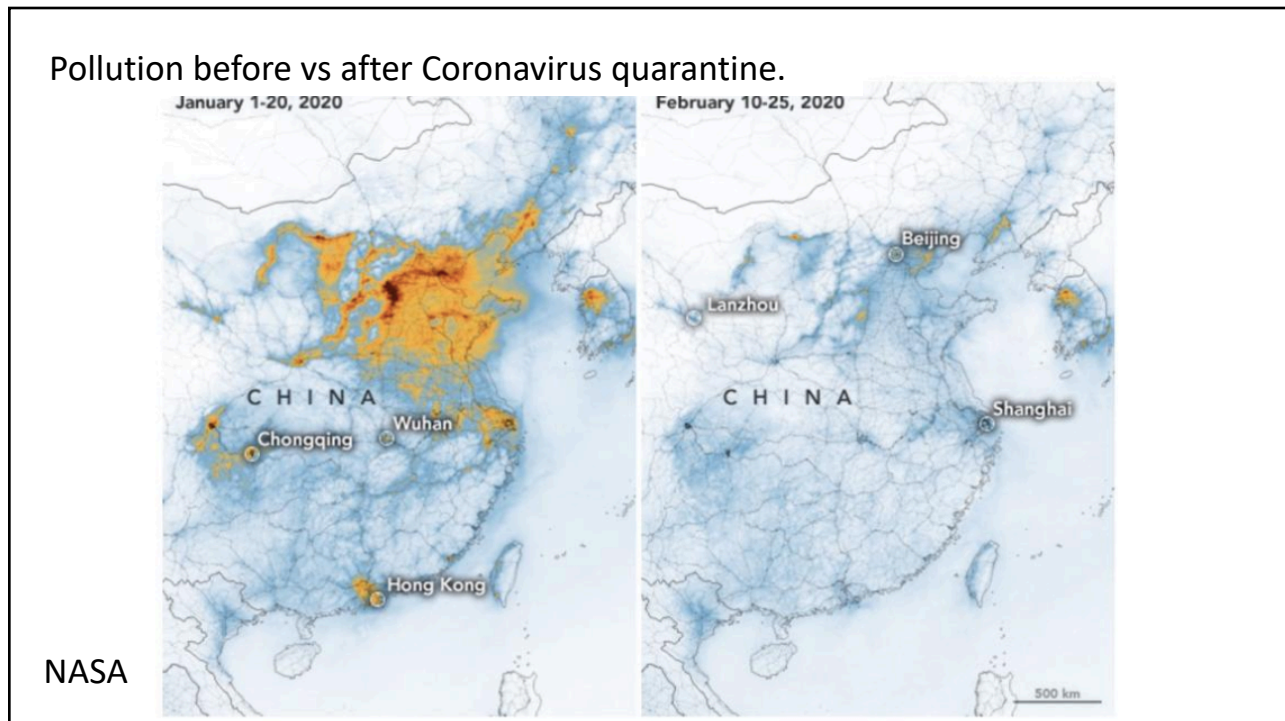
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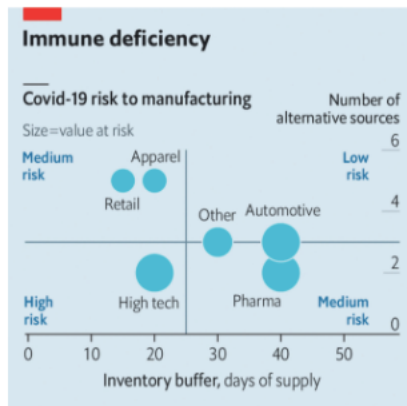
Supply Chains



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The new coronavirus could have a lasting impact on global supply chains



Source: *Economist*

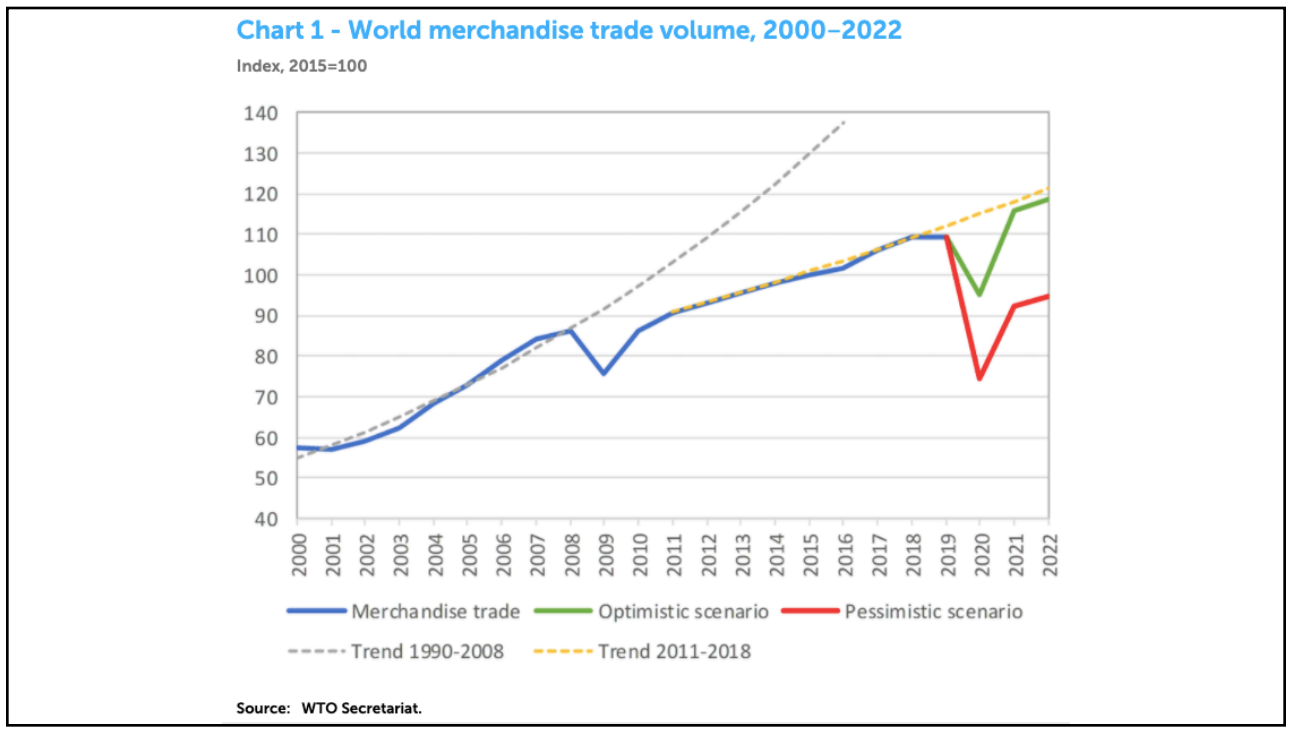
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Trade

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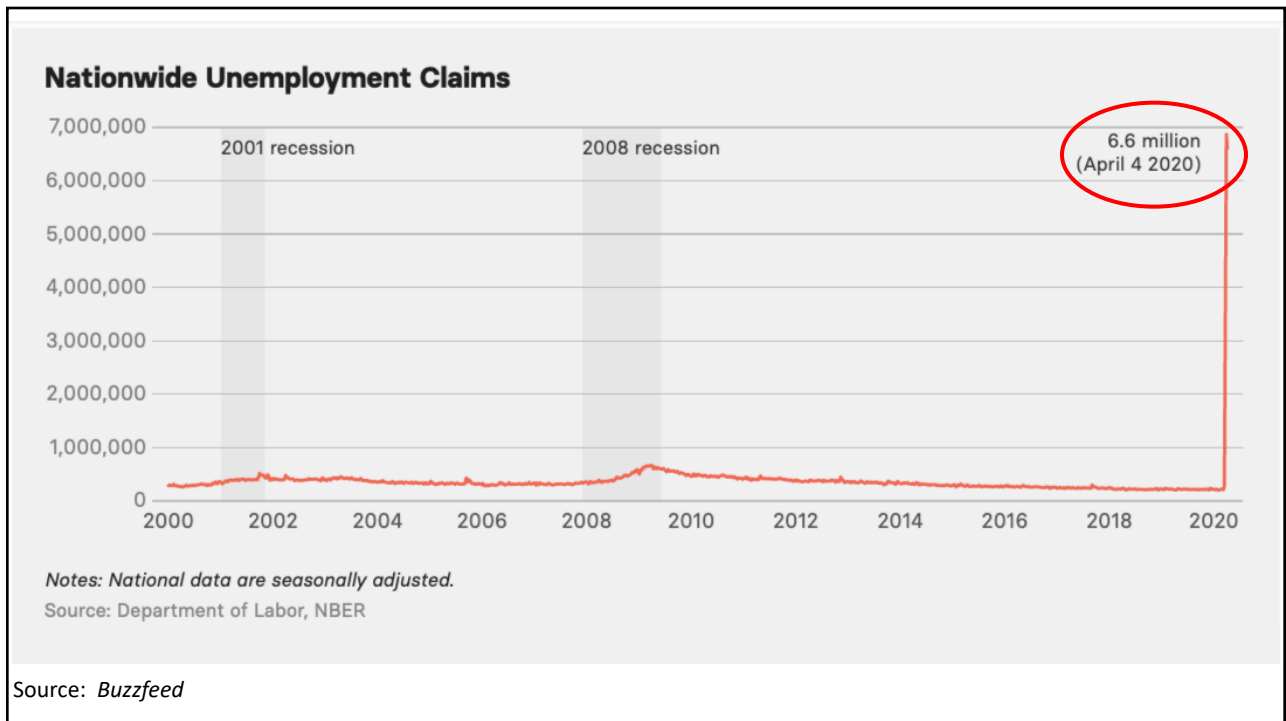
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Unemployment

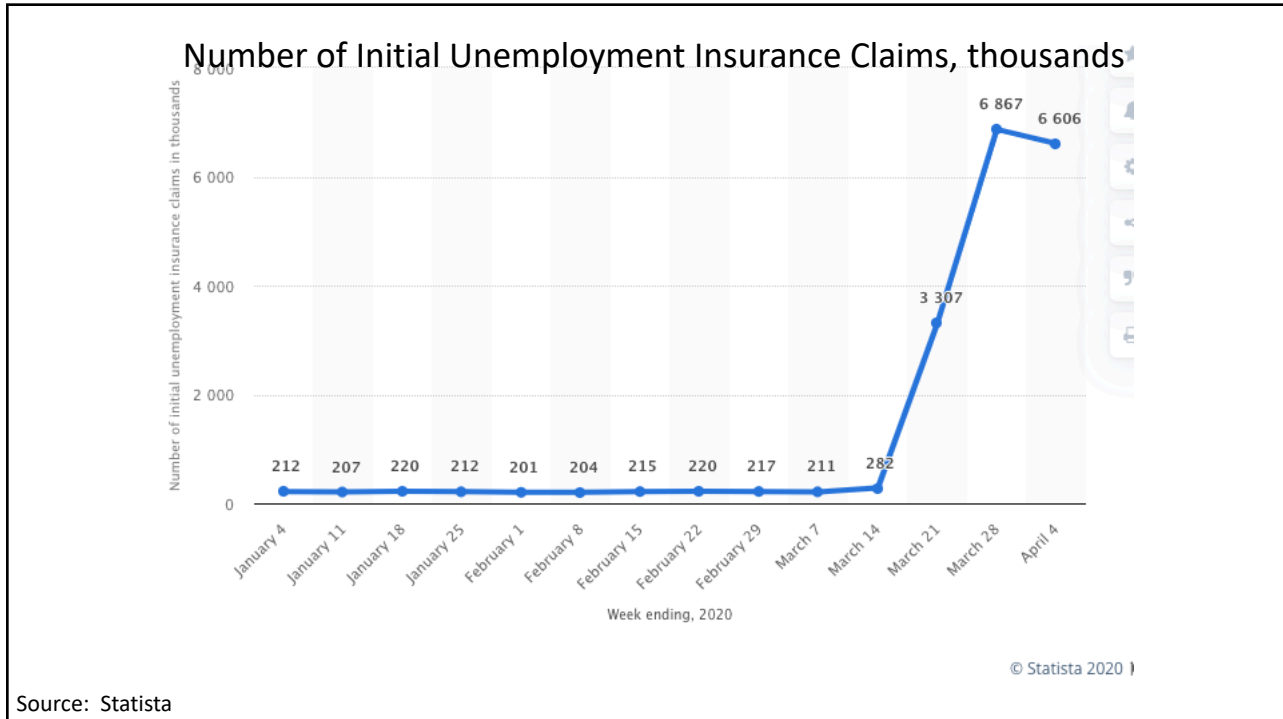
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Source: Statista

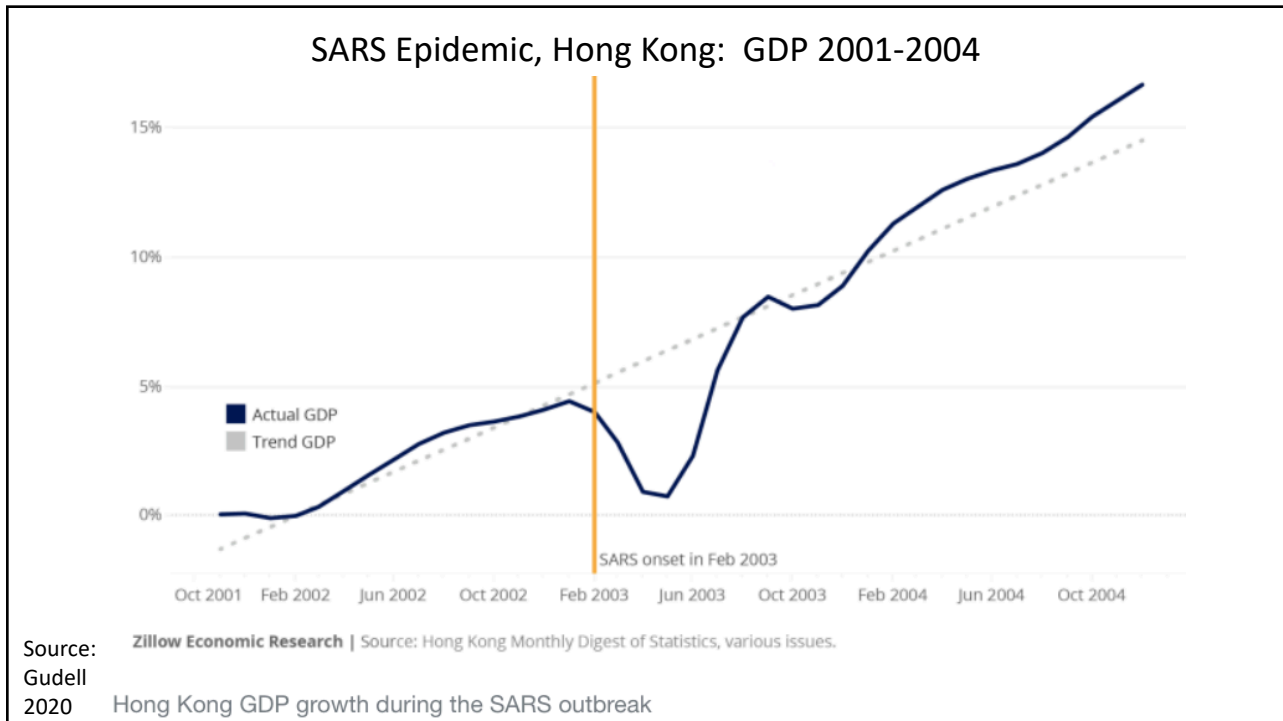
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GDP

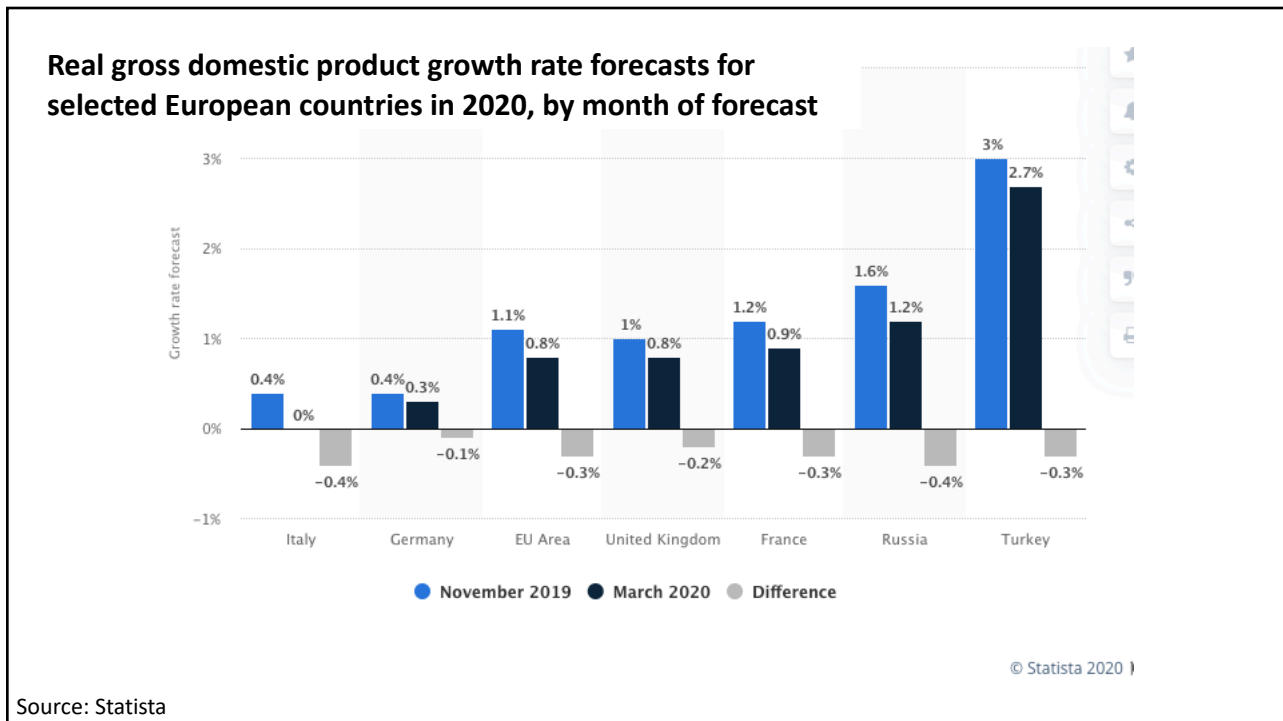
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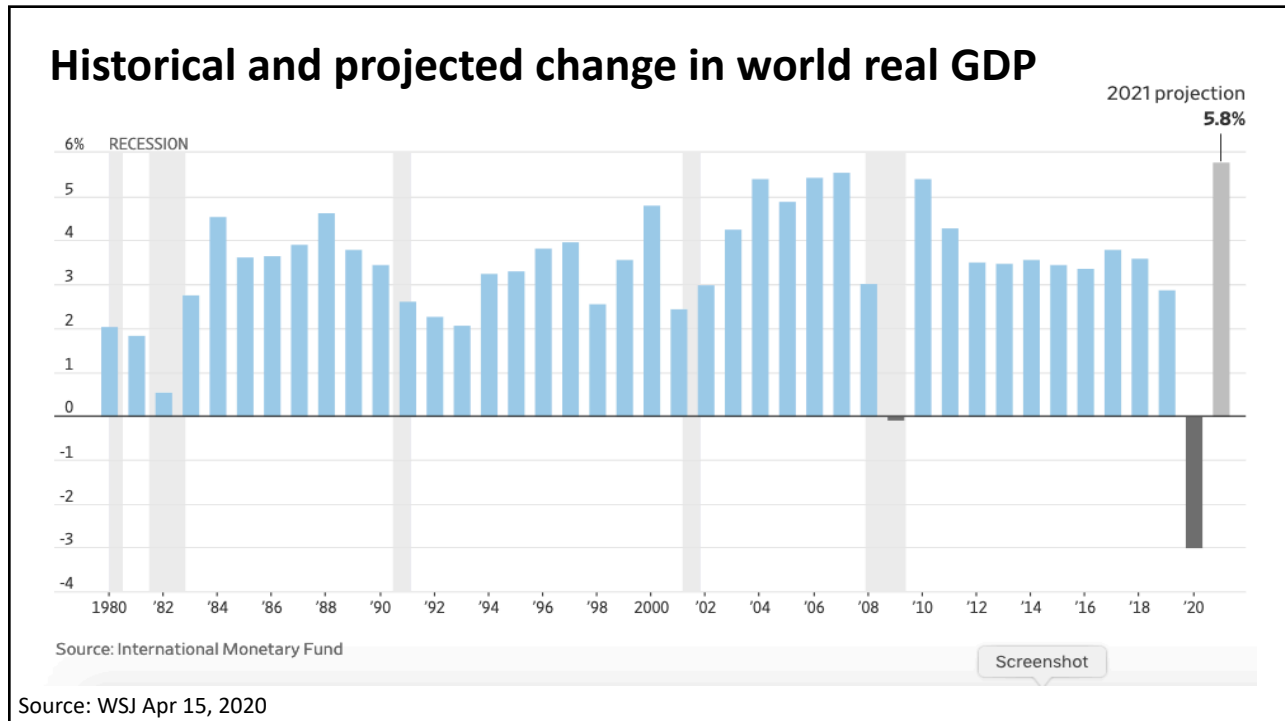
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Shortages

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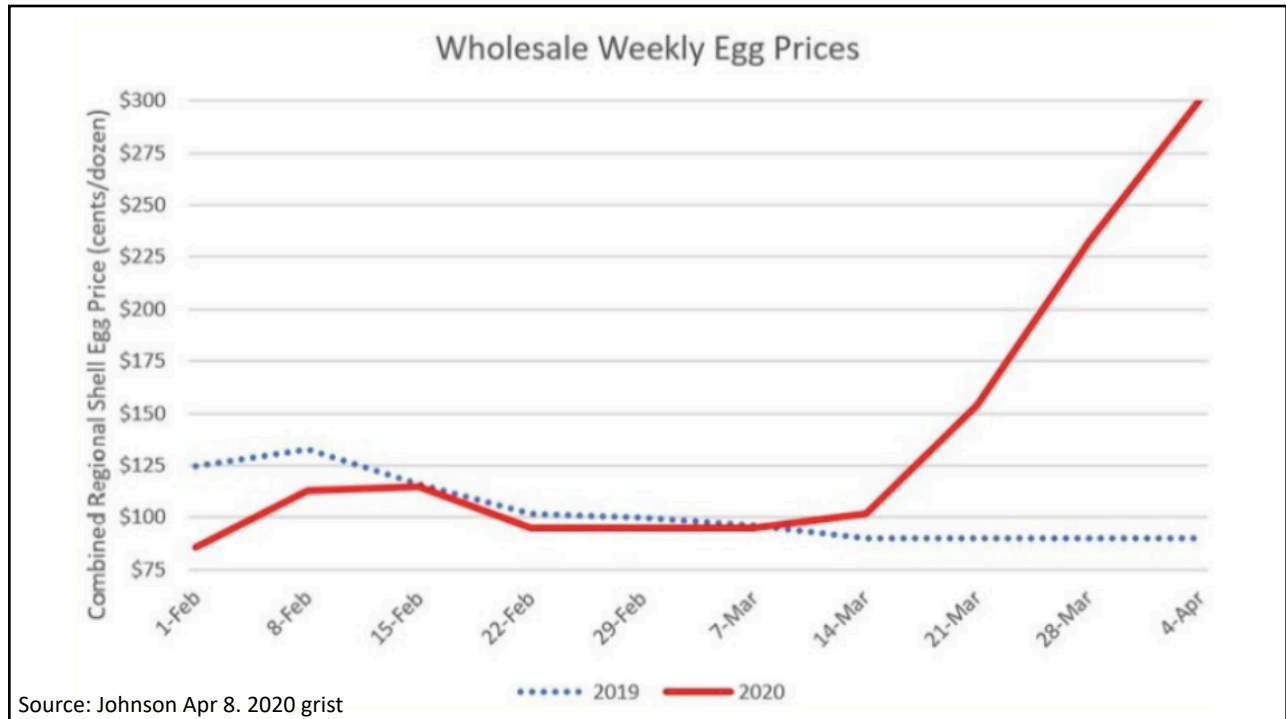
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Source: Thurston, Mar 30, 2020

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Source: Johnson Apr 8, 2020 grist

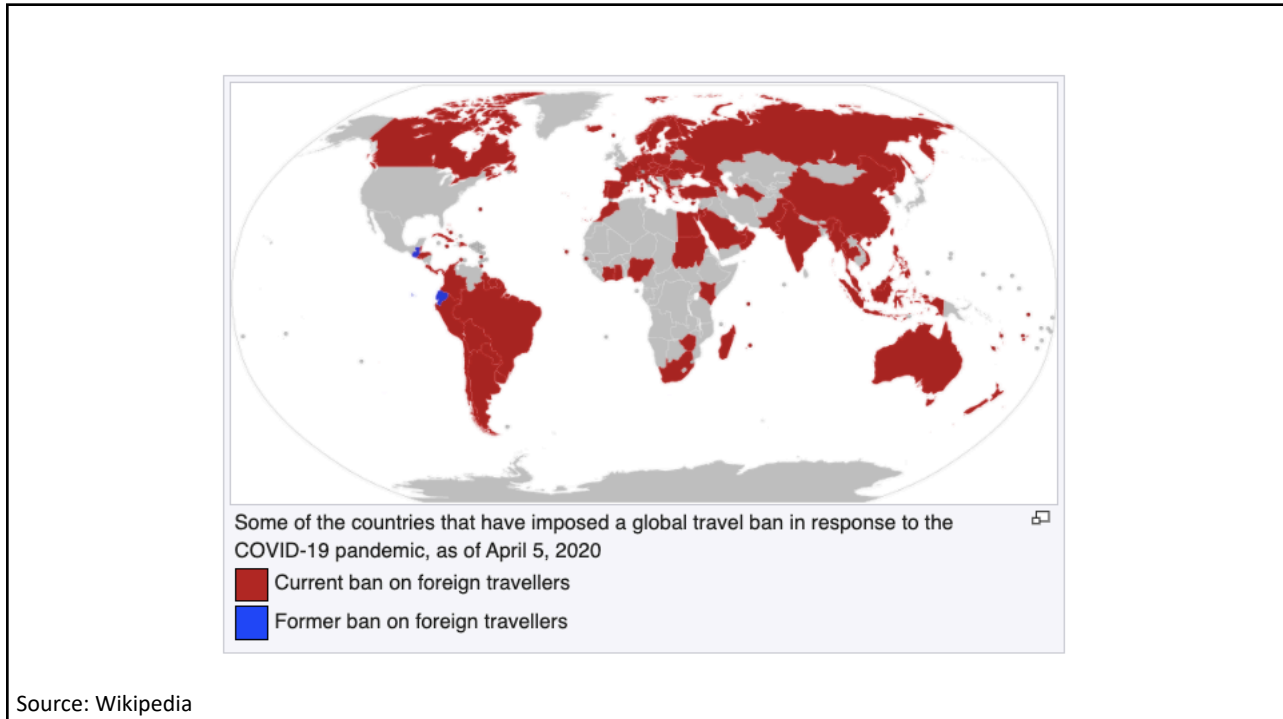
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Effects of the Pandemic on Globalization

- **Effects of the Pandemic on Policies**

- Travel restrictions
- Export bans
- Requests for reduced tariffs

Travel Restrictions



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- **Headlines on Travel restrictions**
 - Jan 31, NYT: **Trump Administration Restricts Entry Into U.S. From China**
 - Mar 10, NYT: **U.S. to Suspend Most Travel From Europe**

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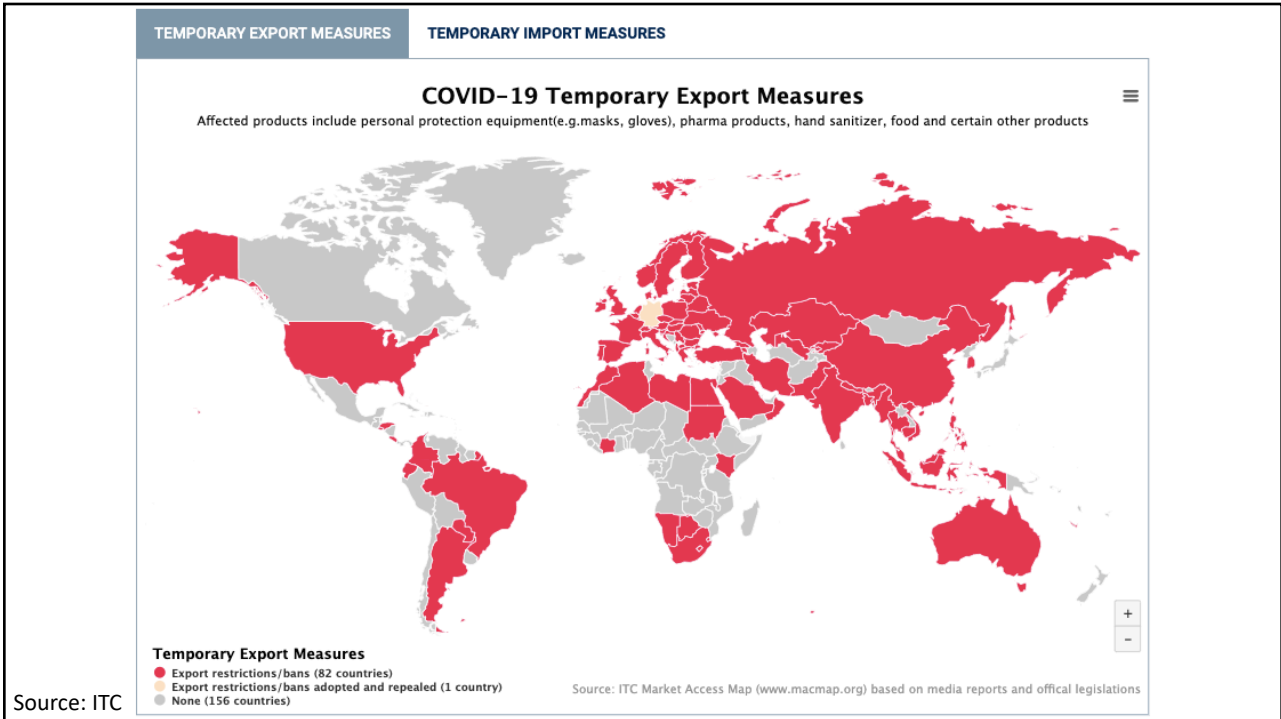
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Export Bans

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• Headlines on Export bans

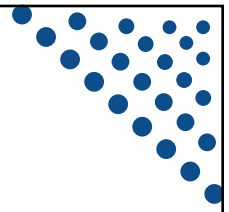
- Mar 19: Sickening thy neighbour: **Export restraints** on medical supplies during a pandemic
- Apr 3, NYT: Trade **Restrictions on Food Exports** Due to the Coronavirus Pandemic
- Apr 8, WP: As **borders harden** during pandemic, some countries look to hold on to their own food
- Apr 8, WSJ: U.S. to **Restrict Mask, Glove Exports** for Four Months During Coronavirus Pandemic
- Apr 10, Bloomberg: Food Supply Fears Are Growing as Romania **Bans Grain Exports**



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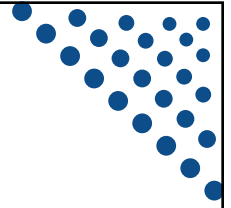
Reduced Tariffs (?)



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• Headlines on Reduced Tariffs (?)

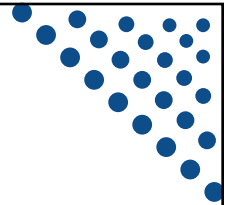
- Mar 16 NYT: U.S. Weighs **Tariff Relief** but Some Fear China Will Take Advantage
- Mar 19 WSJ: Trump Spurns Business **Plea to Ease Tariffs** Amid Coronavirus
- Mar 24 FT: **Drop the tariffs** and save some lives. Quick
- Mar 26 WSJ: U.S. Will Approve Some **Delays in Tariff Payments** Amid Coronavirus Crisis
- Mar 31 FT: Trump to **suspend some tariffs** for 90 days
- Apr 2 NYT: Trump Rebuffs Demands to **Lift Tariffs** as Economy Falters
- Apr 13 WSJ: U.S. **Tariffs Hamper Imports** of Sanitizer, Disinfectants, Some Companies Say



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Globalization's Future?



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Globalization's Future?

- **Will trade, travel, etc. come back?**
 - Yes, partly
- **Will it reach the previous trend**
 - Probably not.
 - It didn't after the financial crisis
- **Will attitudes change?**
 - Yes.
 - Firm's will try to limit exposure
 - Consumers will learn to live differently
- **Will economists' view of globalization change?**
 - I think so.
 - We still think globalization is good, but it should include greater protections



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Thank you!

Any Questions?

Alan V. Deardorff
Ford School of Public Policy
University of Michigan

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