

Trade and Globalization


Marin Jewish Community Center
January 9, 2020
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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: 46 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: 477 members**

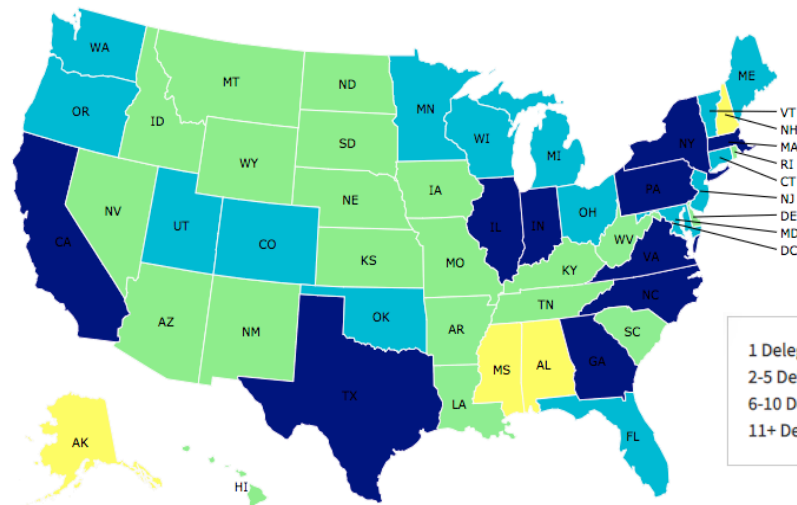
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



Where Are We?



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



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**

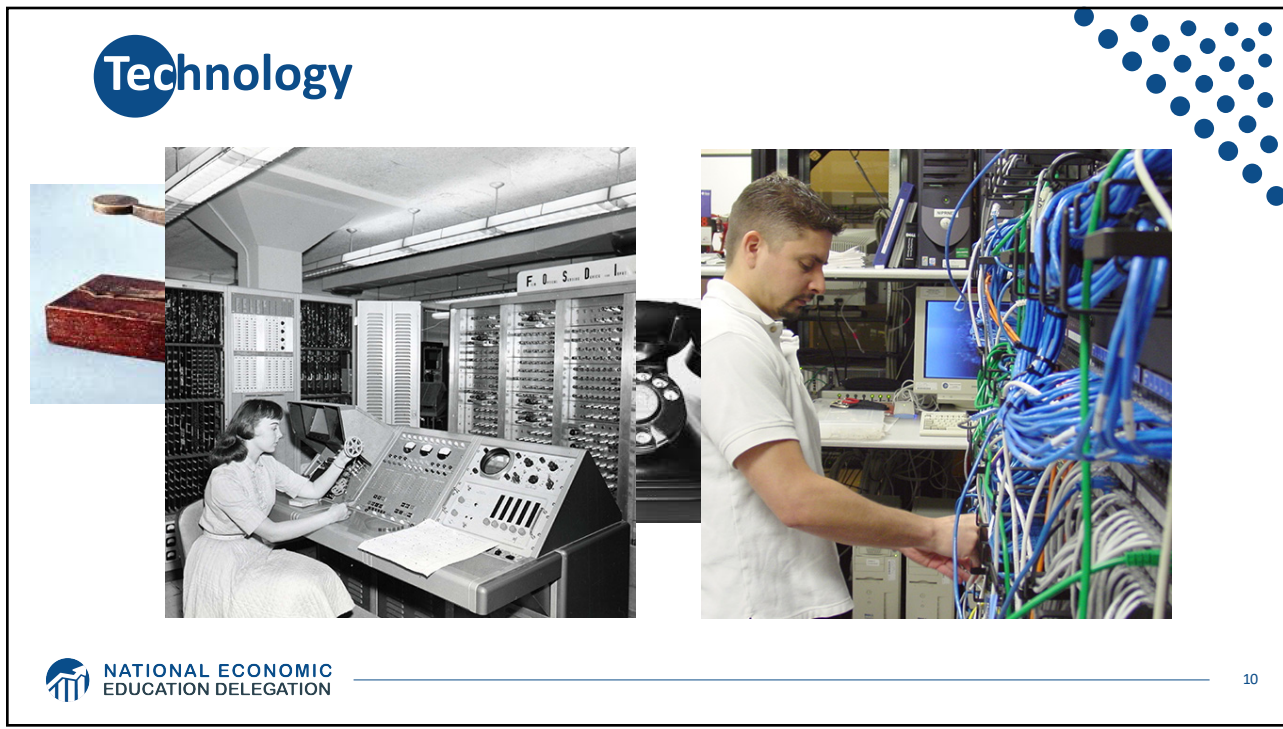


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Transportation



Technology



International Cooperation



1995 World Trade Organization (WTO)

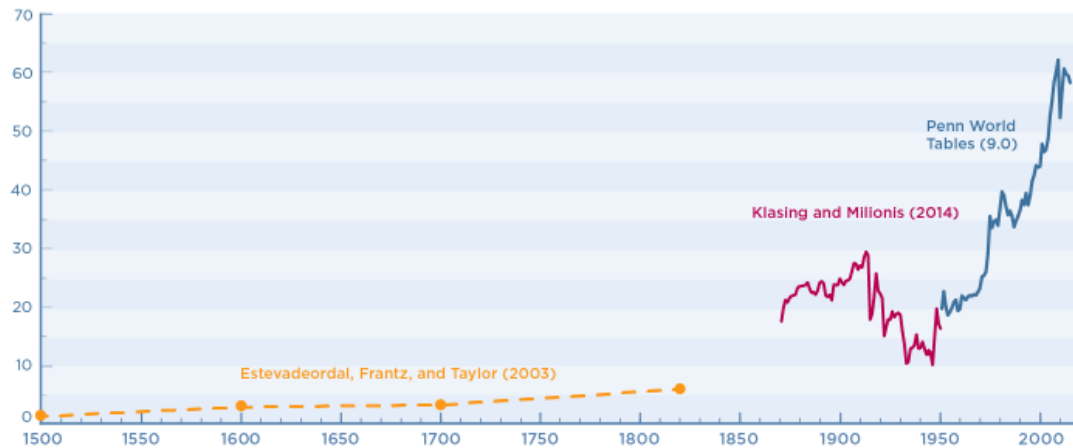
The modern trading system governed by rules is established, replacing the GATT.

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Trade has skyrocketed in the past century

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

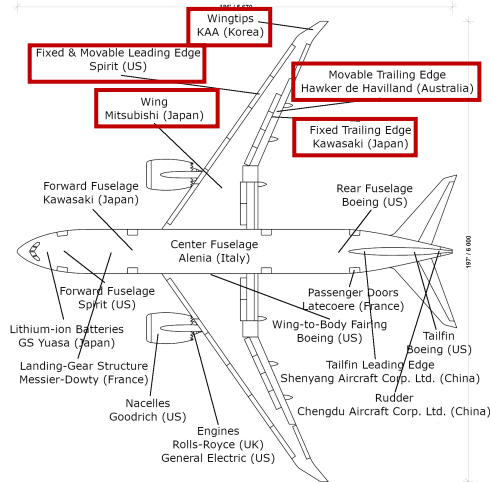


Note: This chart displays data from three sources. Data from 1500 to 1820 is the average of the upper and lower bound and only includes the years 1500, 1600, 1700, and 1820. Data not available from 1821-1869.

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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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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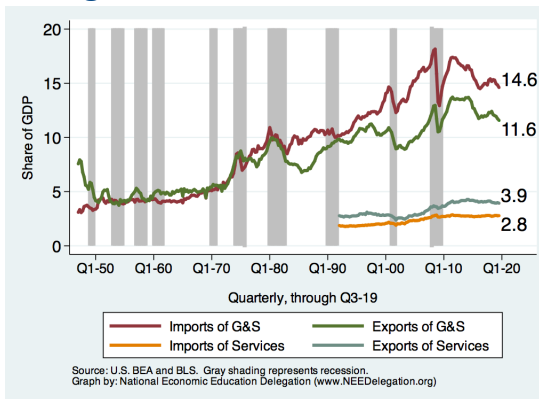
International Trade

Exports and Imports

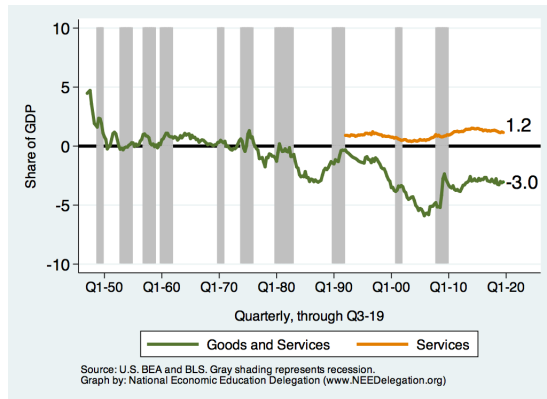
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Importance of US trade

• US goods trade as % of GDP



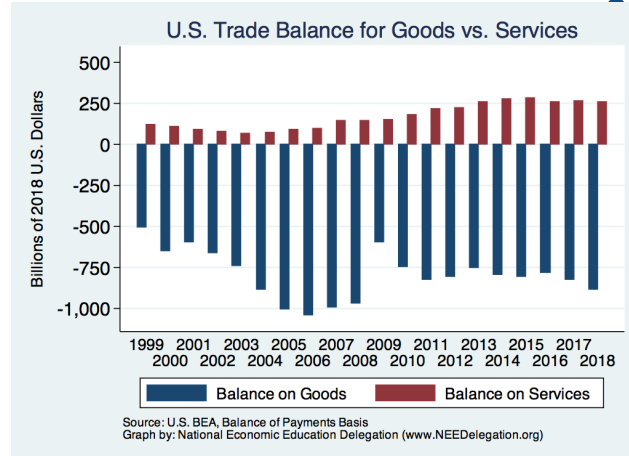
• US trade balance as % of GDP



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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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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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What do we Export? (\$1.6 Trillion)

Rank ↕	US Export Product	2017 Value (US\$) ↕	Change ↕
1	Processed petroleum oils	\$77.8 billion	+25.6%
2	Cars	\$53.6 billion	-0.5%
3	Automobile parts/accessories	\$44.9 billion	+4.5%
4	Integrated circuits/microassemblies	\$38.1 billion	+9.1%
5	Mobile phones, other phone system devices	\$34 billion	+0.5%
6	Electro-medical equipment (e.g. xrays)	\$26.5 billion	+0.2%
7	Computers, optical readers	\$25.3 billion	+4.2%
8	Petroleum gases	\$22.3 billion	+67.8%
9	Crude oil	\$21.8 billion	+131.6%
10	Soya beans	\$21.7 billion	-5.3%



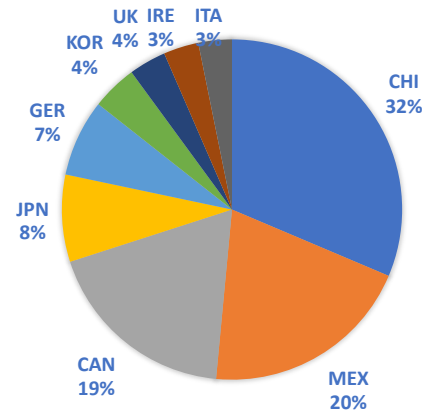
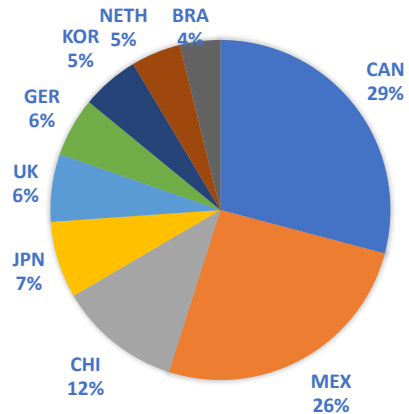
What do we Import? (\$2.4 Trillion)

Rank ↕	US Import Product	2017 Value (US\$) ↕	Change ↕
1	Cars	\$179.6 billion	+3.9%
2	Crude oil	\$139.1 billion	+23.4%
3	Phone system devices including smartphones	\$113.1 billion	+5.4%
4	Computers, optical readers	\$85 billion	+6.4%
5	Automobile parts/accessories	\$66.6 billion	-0.3%
6	Medication mixes in dosage	\$65 billion	-5.9%
7	Processed petroleum oils	\$48 billion	+10.9%
8	Integrated circuits/microassemblies	\$33.5 billion	+8%
9	Trucks	\$26.5 billion	+8.4%
10	Blood fractions (including antisera)	\$26 billion	+27.5%



Top US Trade Partners (Goods, 2018)

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



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Why Do Countries Trade?

- Competition
- Varieties
- Efficiency

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Why Might Efficiency Differ Across Countries?

- **Labor**
 - Skilled or unskilled
- **Technology**
 - Some countries have firms that produce some goods well
 - Other countries have firms that produce other goods well
- **Environment**
 - Cold/Warm Wet/Dry Sunny/Cloudy
- **Land**
 - Rocky, soil, fertile, barren
 - Tundra, desert, grasslands, forest



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Comparative Advantage – Key Notion

- **Two kinds of advantage: absolute and relative**
- **E.g., Babe Ruth vs Madison Bumgarner**

- Babe Ruth:	ERA – 2	Batting average - .350
- Madison Bumgarner	ERA – 3	Batting average - .185
- **Babe is better at both**
 - *Absolute advantage*
- **If only one can bat and one can pitch, who does what?**
 - *Relative advantage*



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Relative Advantage

- **Babe has an absolute advantage in both activities.**
 - He is better at both pitching and hitting
- **Is he RELATIVELY better at one than the other?**
 - Pitching: Babe is 33% better (era of 2 vs 3)
 - Hitting: Babe is 100% better (.350 vs .185)
- **Babe has a relative advantage in hitting**
 - So: Babe should hit and Madison should pitch
- **Relative advantage determines comparative advantage**
 - Babe has a COMPARATIVE ADVANTAGE in hitting
 - Madison has a COMPARATIVE ADVANTAGE in pitching



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Same Holds True for Countries



- **Every country has a good or a set of goods that it is RELATIVELY better at producing.**
 - Those are the goods that it will export.
 - It will import the other goods.
- **There are exceptions.**
 - Varieties and competition
 - May find countries trading the same goods back and forth.



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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.
 - Makes consumers better off.
- **Economies of Scale**
 - Trade makes some industries bigger, more cost efficient. Lowers prices.



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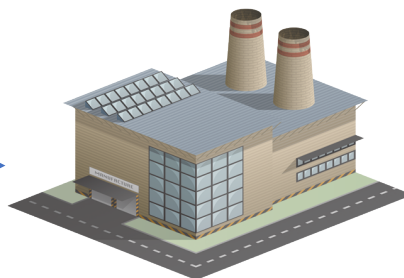
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How to Think About Imports

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

Soy Beans
(Exports)



Laptops/iPhones
(Imports)



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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. Not clear why prices are falling at WalMart?
 - Individual might save \$50, but
 - \$50 x 300 million = \$15 billion!
- **Costs of trade are very high for some workers and groups**
 - these costs have not been sufficiently appreciated or addressed by policymakers



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Costs of Trade

- **Trade with low-wage countries will lower the earnings of low-wage workers as a group in the U.S.A**
- **Perhaps more importantly, however, is that the adjustment costs are big.**
 - People do not like to move, and getting laid off can be very traumatic, wages likely fall.
- **Costs of trade.**
 - Inequality
 - Adjustment costs



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Another Problem: Statistics

- **Massive Trade Deficit**

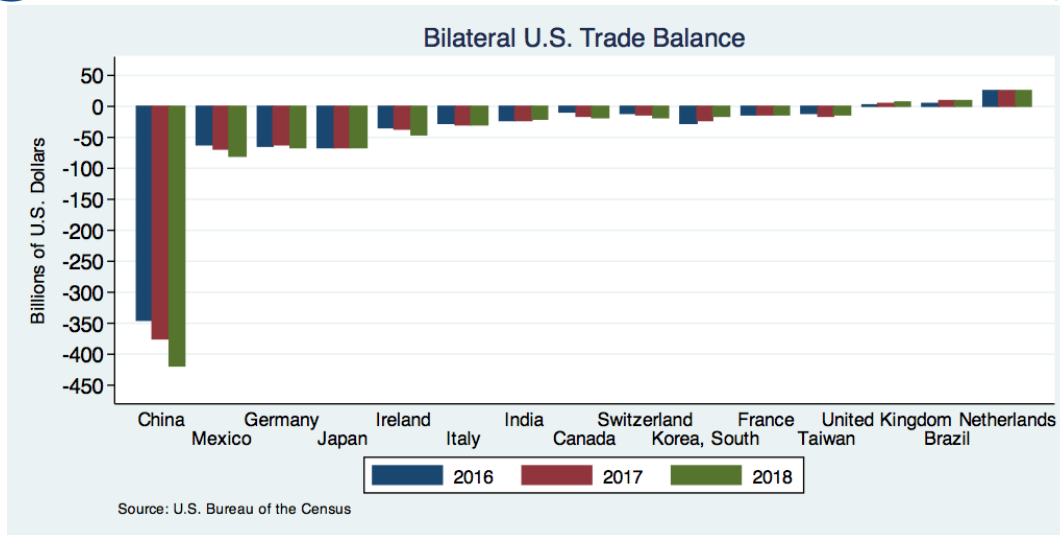
- 3.0% of US GDP
- \$621 Billion in 2018

- **Massive Trade Deficit with China**

- 2/3 of US Trade Deficit

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Bilateral Trading Relationships



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How to Think About the Trade Deficit

- A trade deficit is when:
 - VALUE of imports > VALUE of exports.

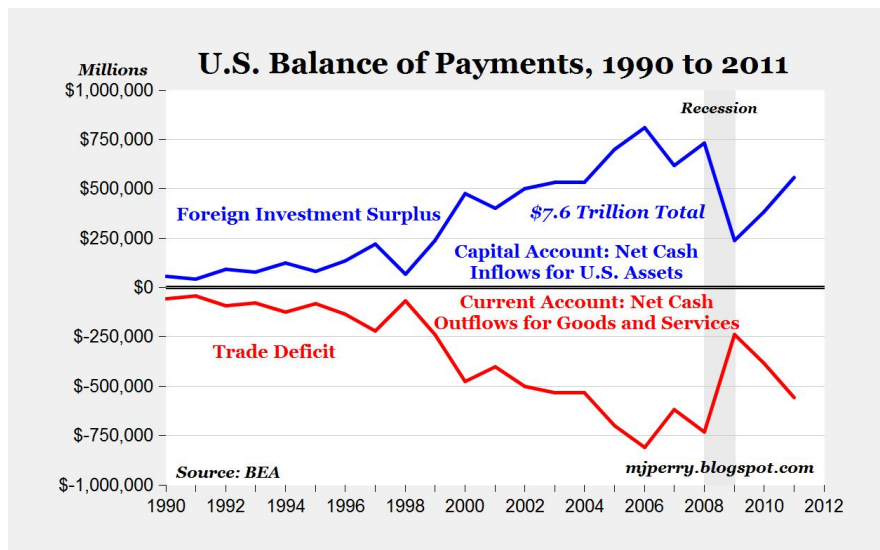
- Why does this happen?

- International transactions include:
 - Imports and exports of goods and services - Current Account
 - ALSO: imports and exports of assets (investments) - Capital Account

- The TRADE DEFICIT only looks at the Current Account

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Trade and Investment Flows Balance Out



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Exchange Rates Prevent an Overall Deficit

- **As the trade deficit grows:**
 - The price of the dollar declines.
- **As the price of the dollar declines:**
 - Investing in the United States becomes more attractive.
- **As investing in the US is more attractive:**
 - The financial account surplus grows.
- **The financial account surplus offsets the trade deficit.**
- **Balance on international accounts is restored.**



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Policy Solutions:

If we must ...

How do we “fix” the trade deficit?



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Protect Domestic Markets and Workers

- **Tariffs**
 - Tax on imports
- **Quotas**
 - Simply limit the amount of imports



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How Does A Tariff Work?

- **It is a tax that is paid by the importer of the product**
- **What effect does it have on the price of the product?**
- **What effect does it have on domestic producers?**
 - Prices?
 - Production?
- **Does it work to protect labor?**
 - Yes and No
 - It's like putting rocks in your harbor: **hurts both imports and exports!**



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Tariffs

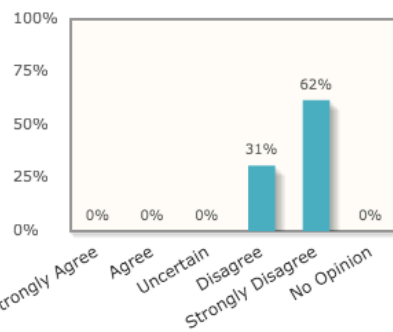
- Tariffs temporarily reduce imports of particular goods.
- Tariffs raise prices.
 - Final goods (*consumers*)
 - Intermediate goods (*producers who use imported inputs*)
- Tariffs invite retaliation, lowering demand for our exports.
- Tariffs lower overall well-being.

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

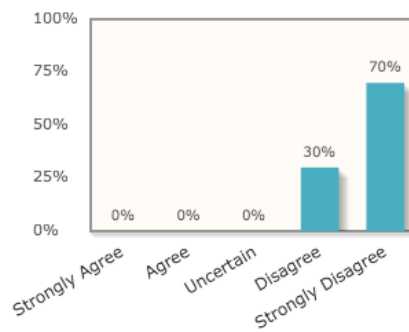
General Consensus of Economists on Tariffs

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

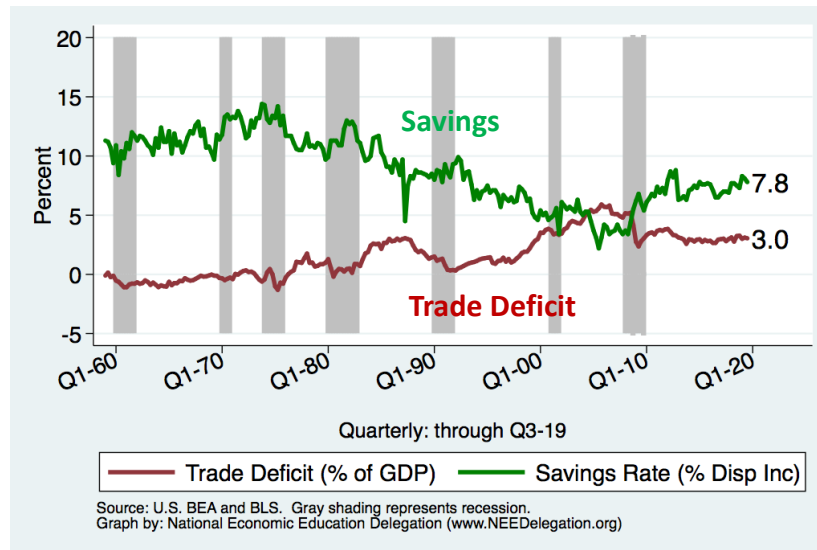


Balanced Budgets & Increased Savings

- Reducing federal borrowing would reduce pressure on trade deficits.
- More savings would mean more domestic investment and less borrowing from abroad.



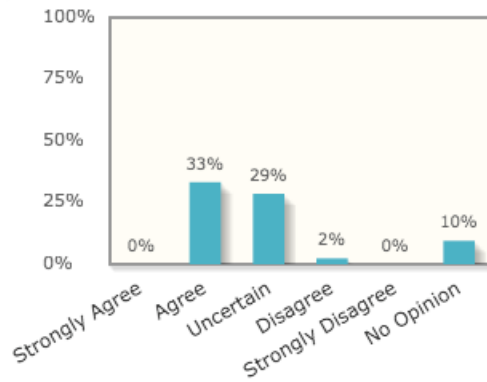
US Savings and the Trade Deficit



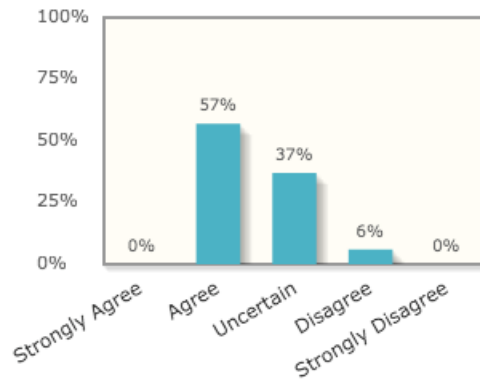
General Agreement Among Economists

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

Responses



Responses weighted by each expert's confidence



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**

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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U.S. Trade Policy



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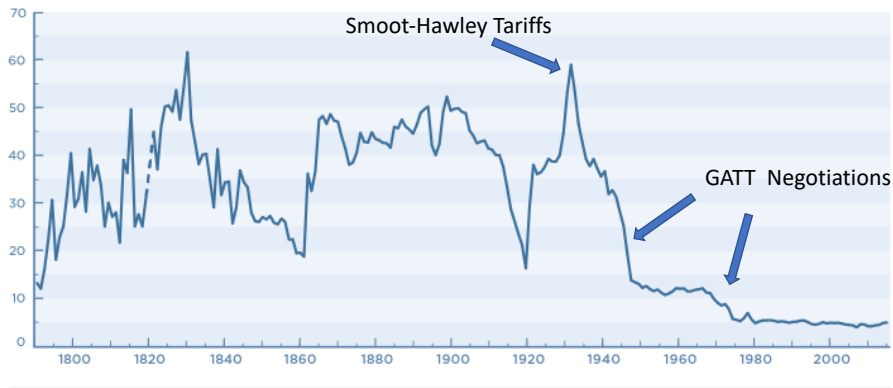
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History of US Tariffs

US import taxes dropped considerably post-World War II

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

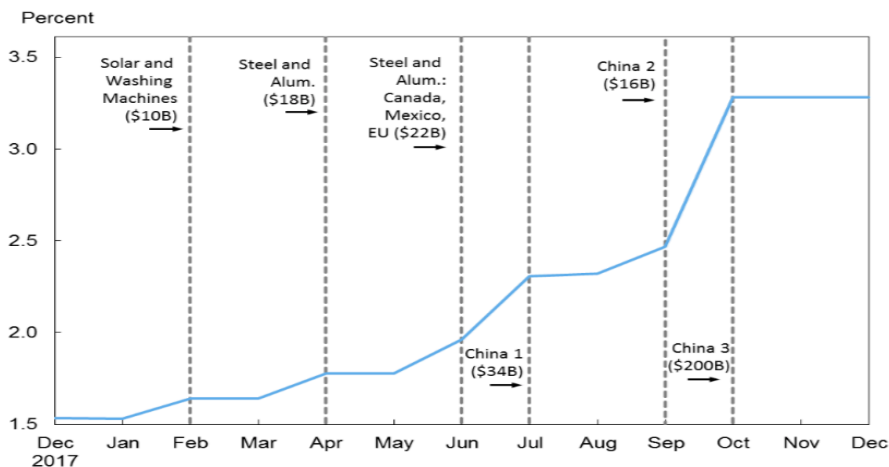


Note: Rates are weighted by trade value. Dotted line indicates years when data are not available.
 Source: US International Trade Commission, Compiled by Douglas A. Irwin.

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Policies Have Been Raising U.S. Tariffs (2018)

Figure 1: Average Tariff Rates



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

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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

The China Problem



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



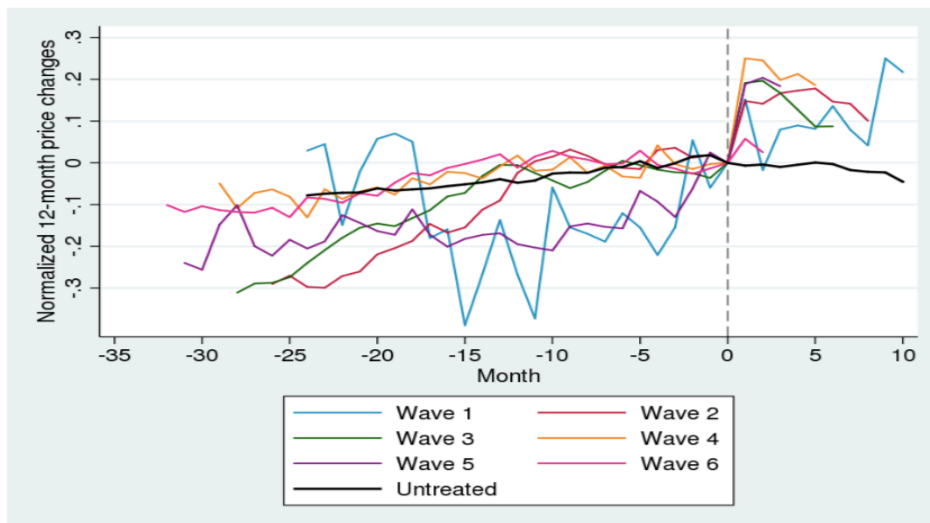
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Trade War

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



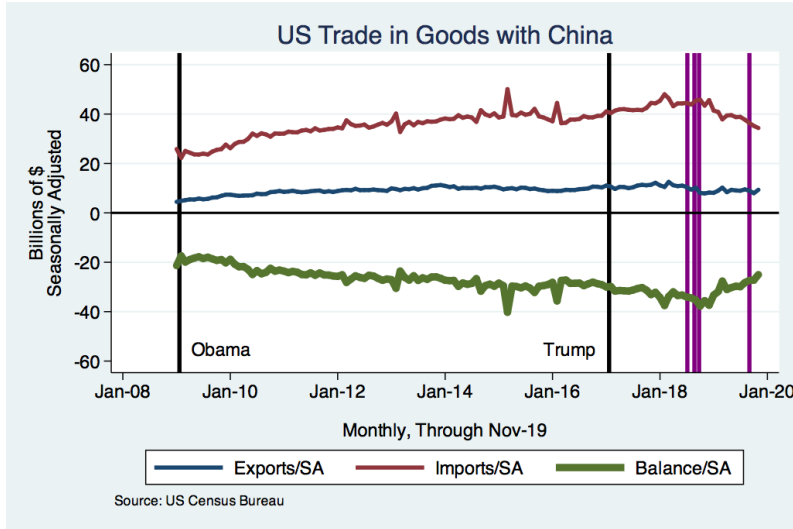
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Source: Amiti, et al. 2019.

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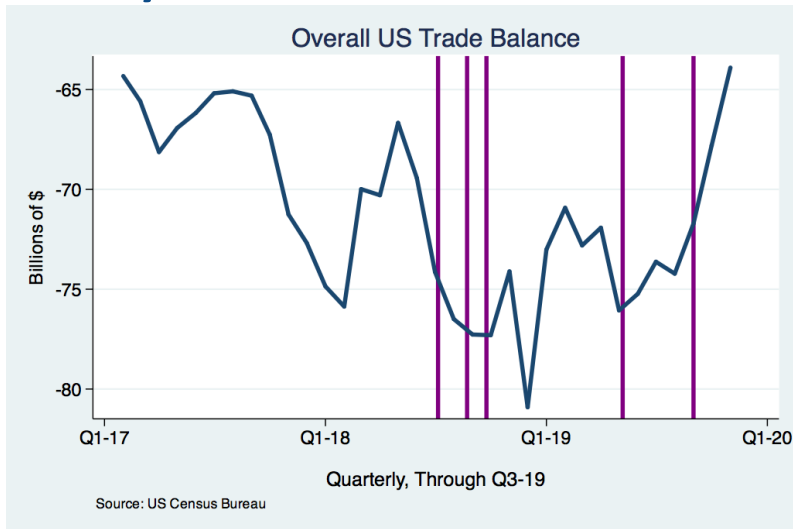
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Trade Deficit Effects: It's Working!



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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**



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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!
- **There appears to be an agreement, but we don't yet know what the details are.**



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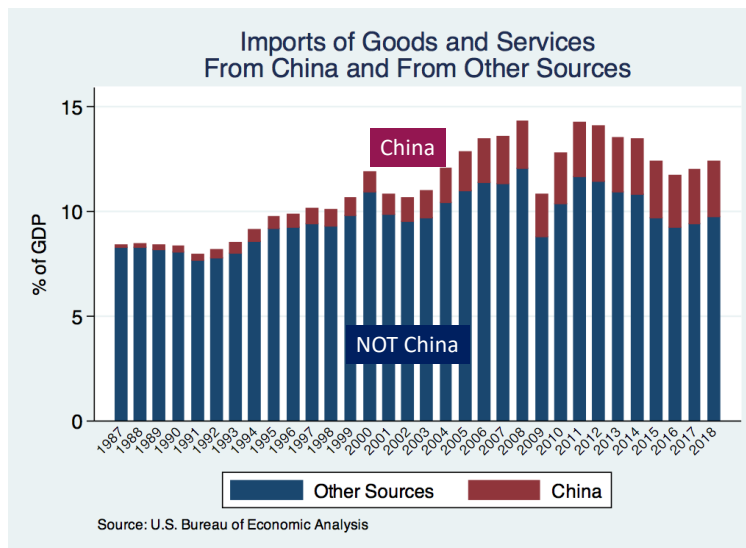
Trade Talks

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: 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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