



Trade and Globalization

San Rafael Public Library
September 25, 2019

Jon Haveman, Ph.D.
Executive Director, NEED



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.



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: 365 members**

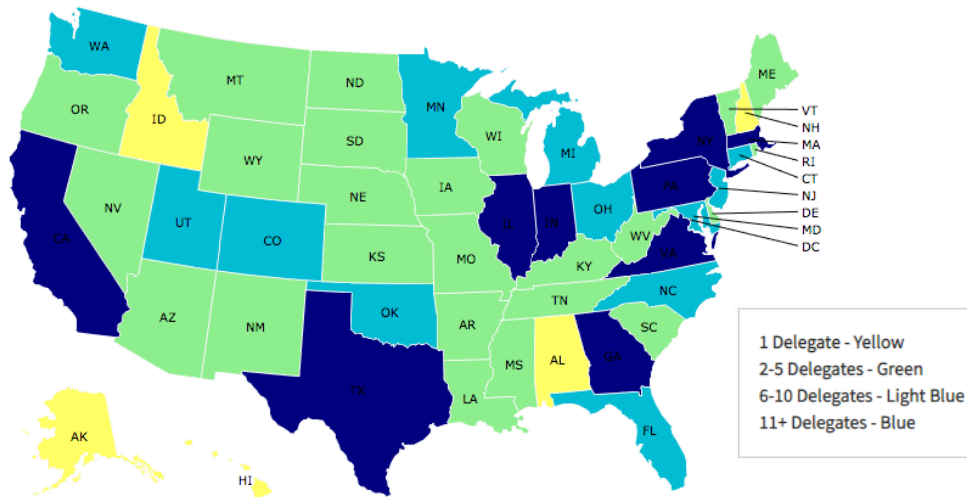
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 42 Ph.D. Economists**

- Aid in slide deck development



Where Are We?



Credits and Disclaimer

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

- Peter Eppinger, University of Tübingen
- James Lake, Southern Methodist University
- Michael Plouffe, University College London
- Swati Verma, ISID, New Delhi

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

- Alan Deardorff, University of Michigan
- Ed Leamer, UCLA

- **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).



Outline

- **Globalization**
- **International Trade**
- **Trade Deficit**
- **Trade Wars**



What is Globalization?

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

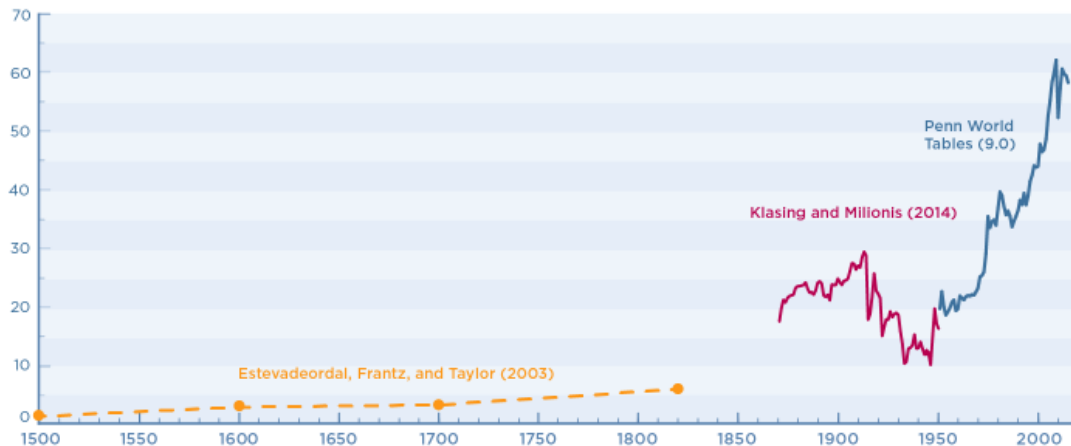
- Economies
- Cultures
- Populations

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

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

Trade has skyrocketed in the past century

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



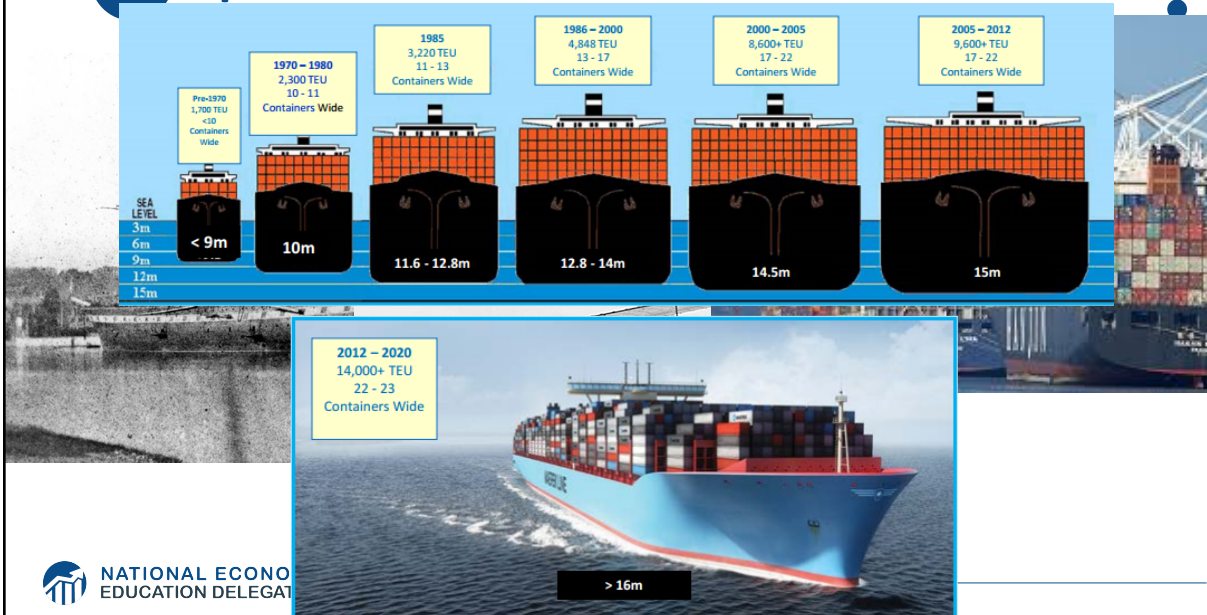
Note: This chart displays data from three sources. Data from 1500 to 1820 is the average of the upper and lower bound and only includes the years 1500, 1600, 1700, and 1820. Data not available from 1821-1869.

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

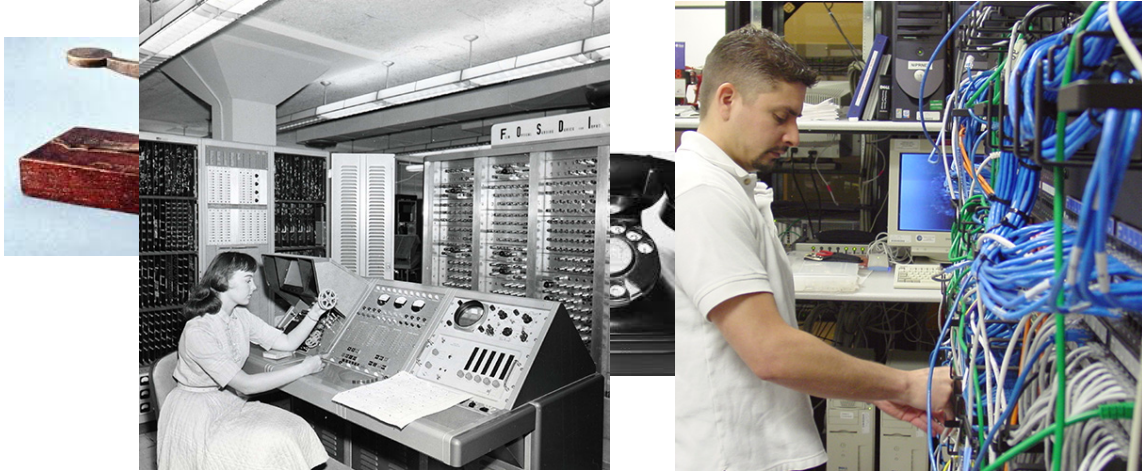
What Drives Globalization?

- Transportation
- Technology
- International Cooperation

Transportation



Technology



International Cooperation

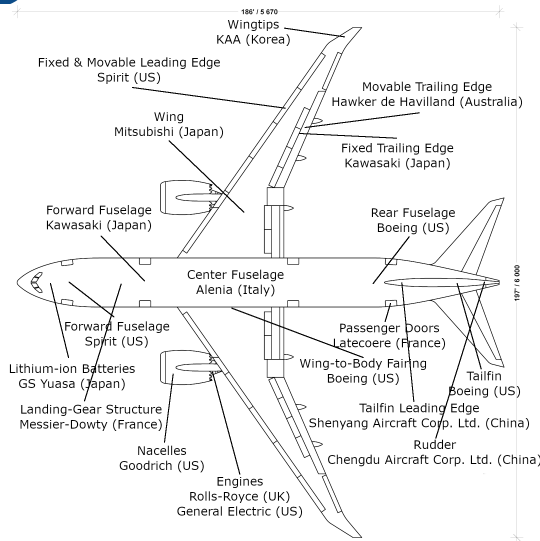


1995
World Trade Organization (WTO)

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

the
to
to

An example: The Boeing 787 Dreamliner



Parts and components from suppliers all over the world:

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

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.

International Trade

Exports and Imports



NATIONAL ECONOMIC
EDUCATION DELEGATION

15

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%



NATIONAL ECONOMIC
EDUCATION DELEGATION

16

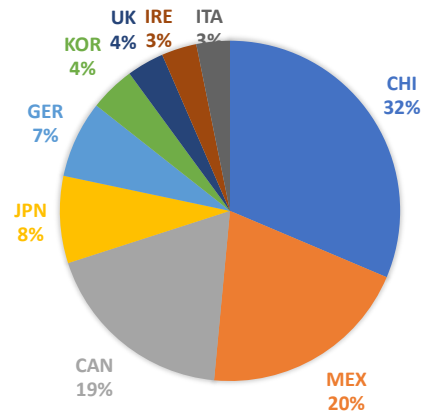
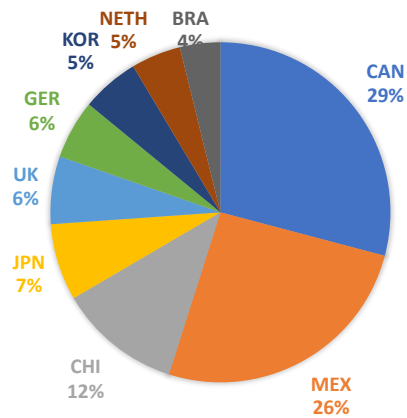
What do we Import? (\$2.4 Trillion)

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



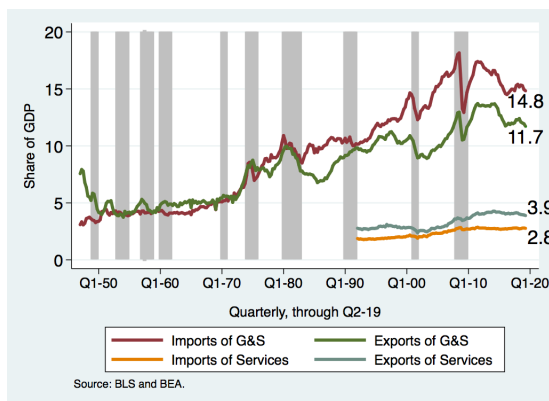
Exports and Imports

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

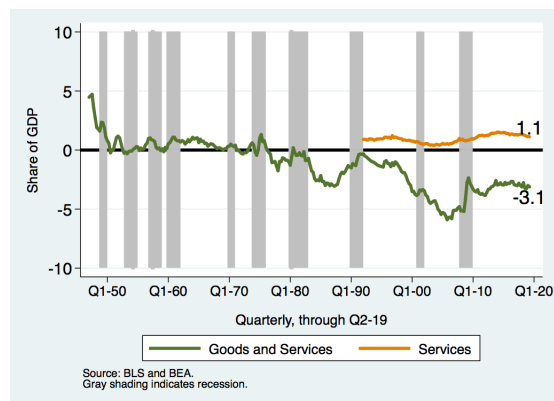
Exports of Services (2016)		Imports of Services (2016)	
Bus/Fin/Ins	34%	Bus/Fin/Ins	34%
Travel	27%	Travel	24%
Royalties	17%	Transport	19%

Importance of US Trade

- US trade as % of GDP

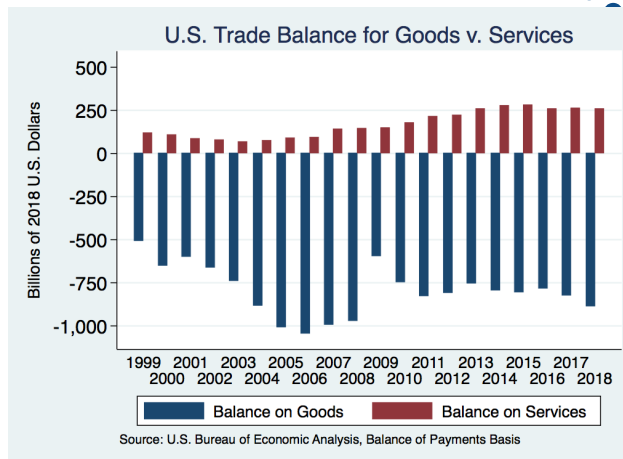


- US trade balance as % of GDP



U.S. Trade Deficits (2018)

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



Why Do Countries Trade?

- Competition
- Varieties
- Efficiency

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



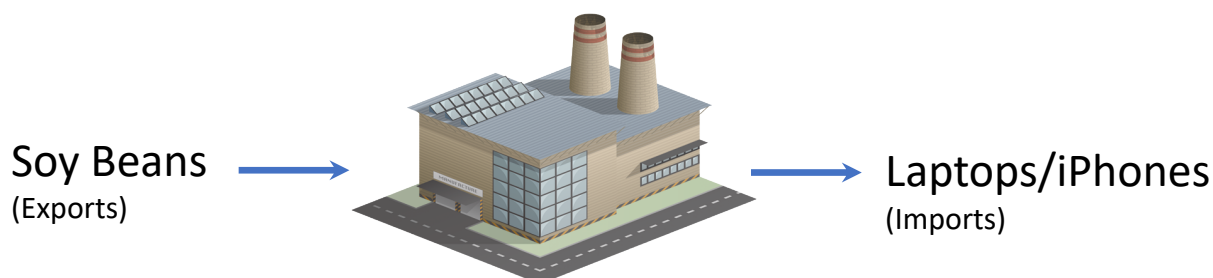
Trade Contributes to Growth

- **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.



How to Think About Imports

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



What Does 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.

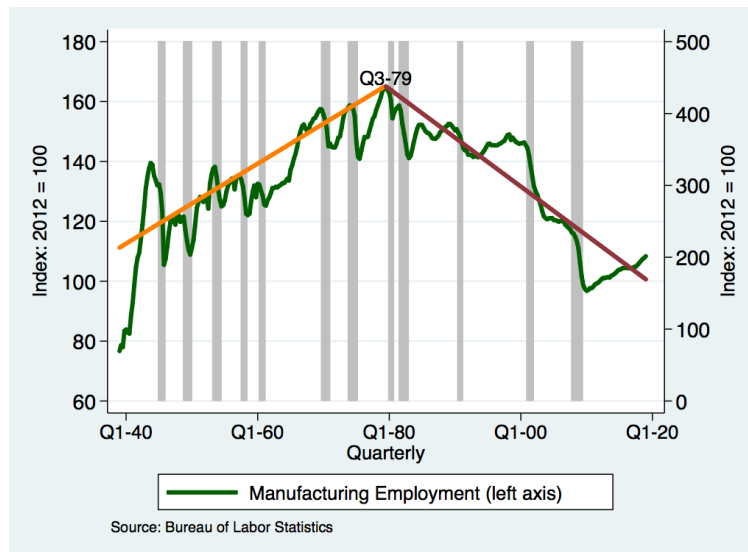


Why is the public turning against trade?

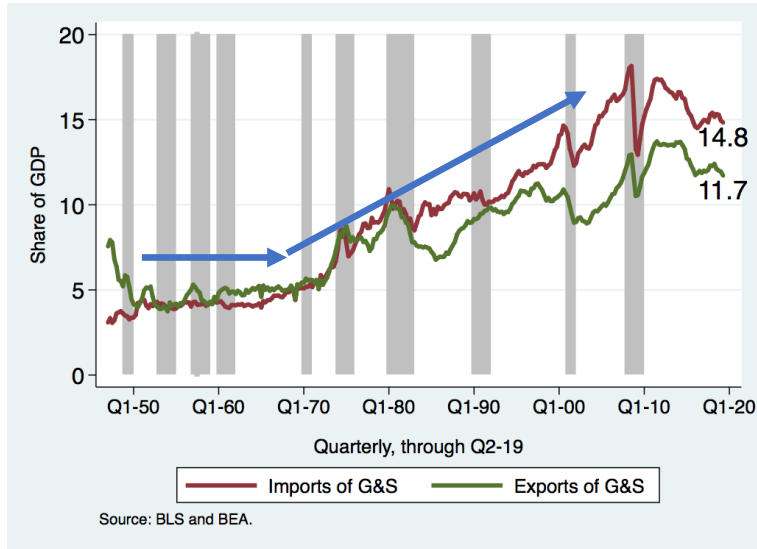
- **Gains from trade are very large for the economy, BUT**
 - Not always obvious to consumers. Why are prices lower at WalMart?
 - Not always that large per consumer: consumers might save \$50/year on some imported goods
 - For 300 million consumers, \$50/year would be \$15 billion per year savings to 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!)**



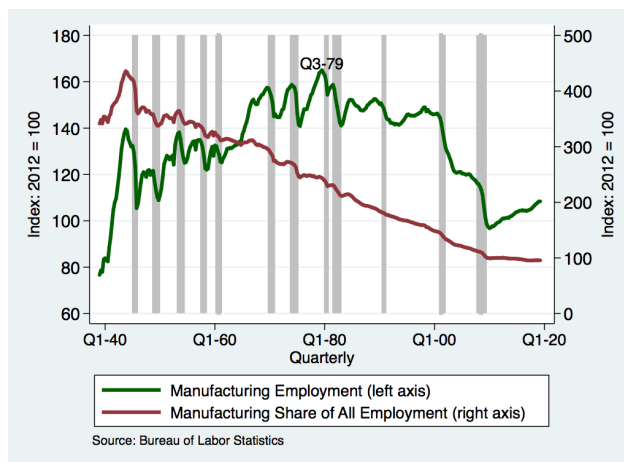
The Basic Issue: Inverted V of Jobs in Manuf.



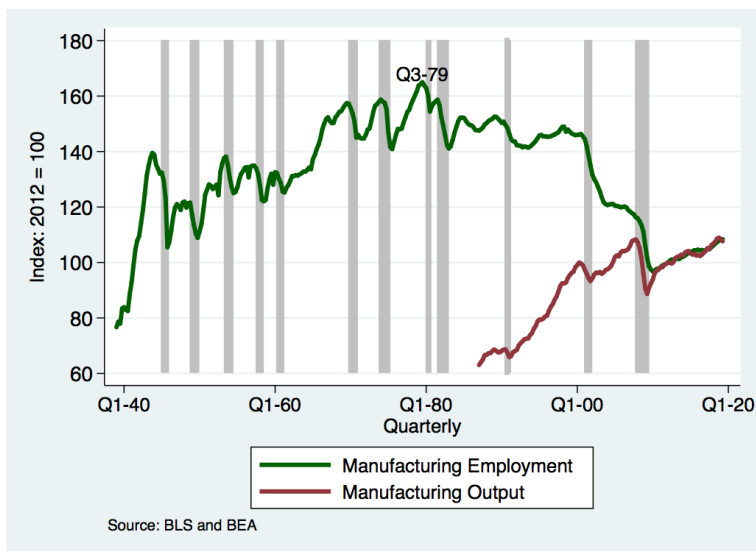
“International Trade is Surely a Contributor!”



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



And Manufacturing Output Keeps on Growing



Not That Trade Has Been Absolved of all Ills:

DISTRIBUTIONAL IMPACTS

Intuition on Distributional Impacts

• Jobs

- U.S. imports more of some goods
 - o Reduces jobs on those industries
- U.S. exports more of other goods
 - o Creates jobs in those industries
- ***Are there different kinds of workers in these different industries?***
- ***Creates adjustment costs***

• Prices

- LOWERS the price on imported products
- RAISES the price on exported products
- ***Who buys which products?***



Understanding Adjustment Costs

• FIRMS

- Searching for new workers
- Training
- Adjusting to the new employees/integration
- Firing costs/severance pay

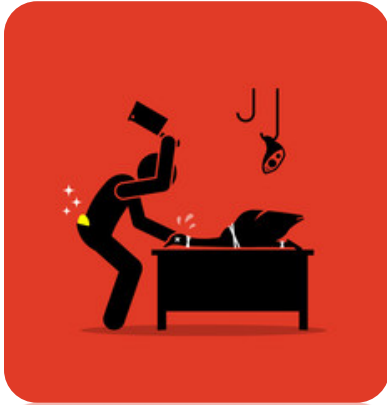


• WORKERS

- Psychological costs of leaving a job, friends
- Loss of firm-specific or industry-specific skills
- Search costs for a new job
- Relocation costs (e.g. moving to a new location)



Why Adjustment Costs Matter



- Undermine popular support for trade...
- ...which threatens to “kill the goose that lays the golden egg”.
- Adjustment costs reduce welfare.
- Adjustment costs suggest potential for efficiency gains through adjustment assistance.



NATIONAL ECONOMIC
EDUCATION DELEGATION

Not That Trade Has Been Absolved of all Ills:

TRADE DEFICIT



NATIONAL ECONOMIC
EDUCATION DELEGATION

36

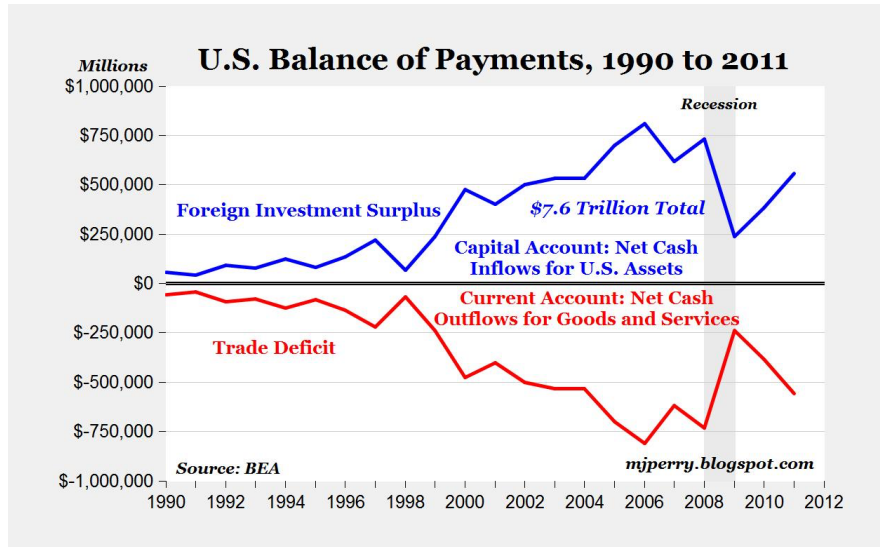
Another Problem: Trade Deficit

- **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

How to Think About the Trade Deficit

- **A trade deficit is when:**
 - **VALUE** of imports exceeds the **VALUE** of exports.
- **Why does this happen?**
- **International transactions include:**
 - Imports and exports of goods and services
 - ALSO: imports and exports of assets (investments)
 - Current Account
 - Capital Account
- **The TRADE DEFICIT only looks at the Current Account**

Trade and Investment Flows Balance Out

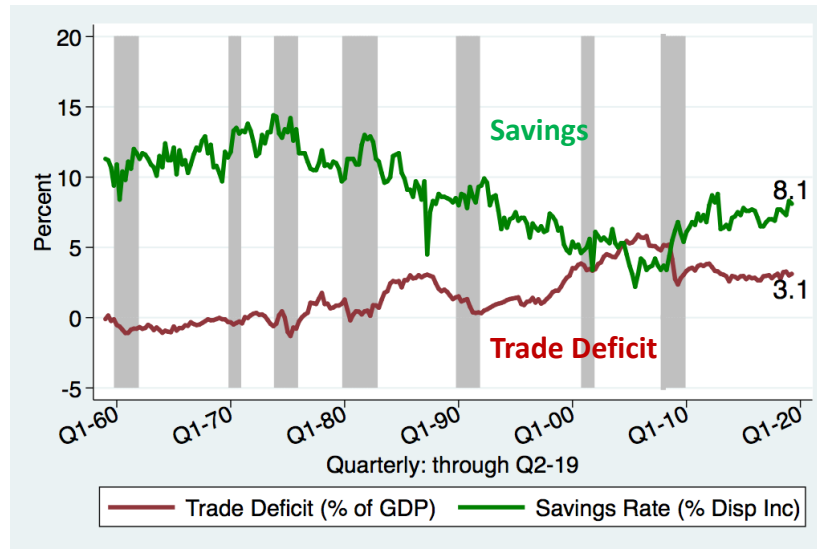


Balanced Budgets & Increased Savings

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



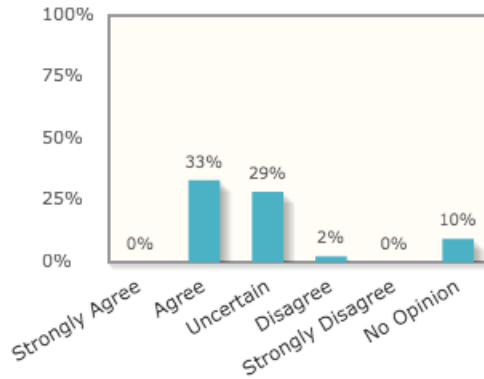
US Savings and the Trade Deficit



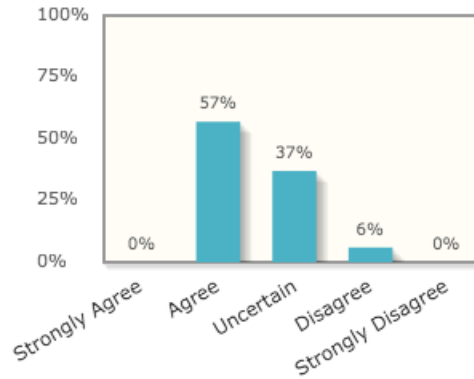
General Agreement Among Economists

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

Responses



Responses weighted by each expert's confidence



Trade With China: 63% of US Trade Deficit

U.S. Trade Deficit With China

The U.S. trade deficit with China was **\$419 billion** in 2018.

Total U.S. imports from China: **\$540 billion**

Total U.S. exports to China: **\$120 billion**

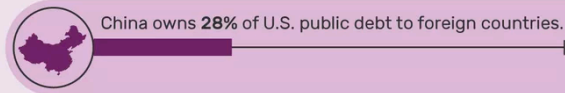


Largest U.S. Imports

- \$77 billion in computers
- \$70 billion in cell phones
- \$54 billion in apparel and footwear

Largest U.S. Exports

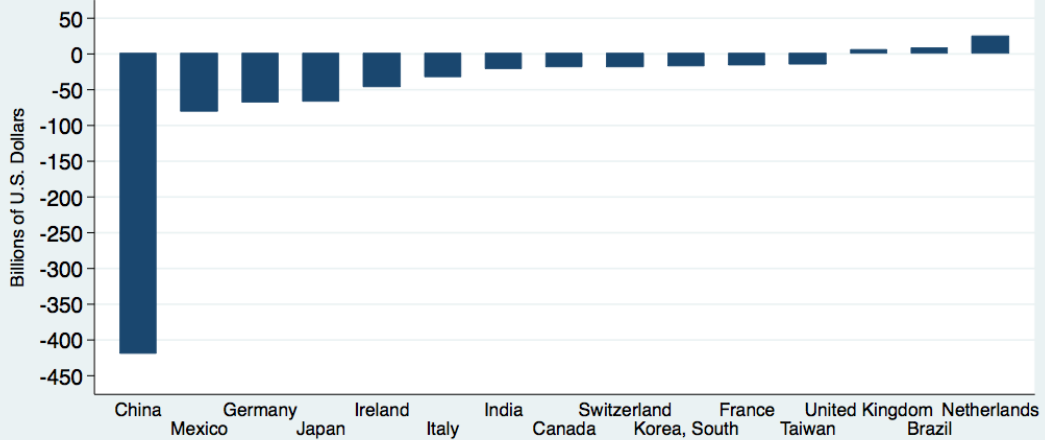
- \$16 billion in commercial aircraft
- \$12 billion in soybeans
- \$10 billion in autos



the balance

Bilateral Trading Relationships

Bilateral U.S. Trade Balance in 2018



Policy Solutions



NATIONAL ECONOMIC
EDUCATION DELEGATION

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**

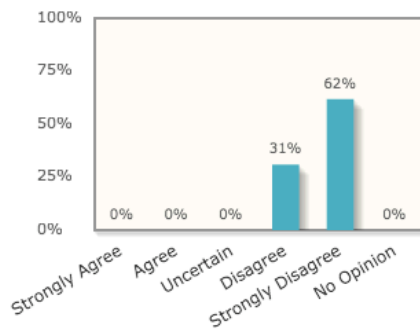


NATIONAL ECONOMIC
EDUCATION DELEGATION

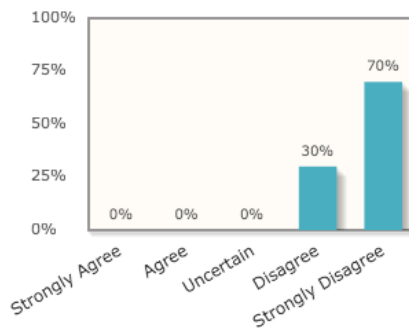
General Consensus of Economists on Tariffs

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

47

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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

U.S. Trade Policy: China, et al.



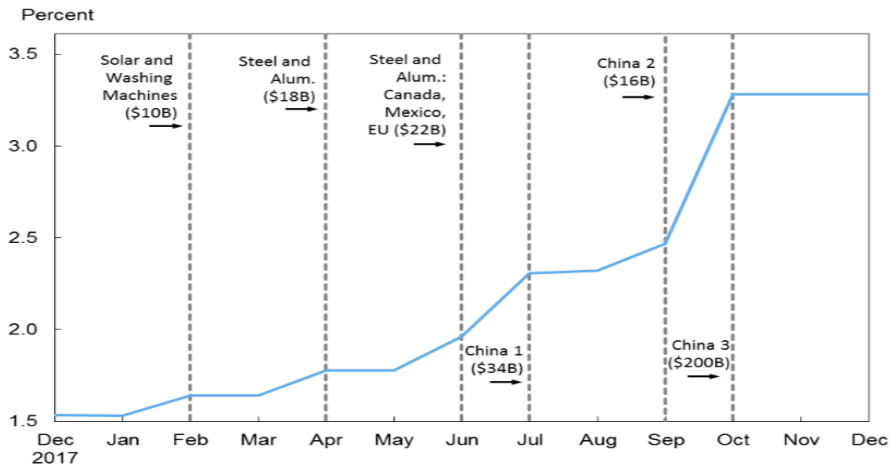
Trump's Trade Strategy

- **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



Policies Have Been Raising U.S. Tariffs

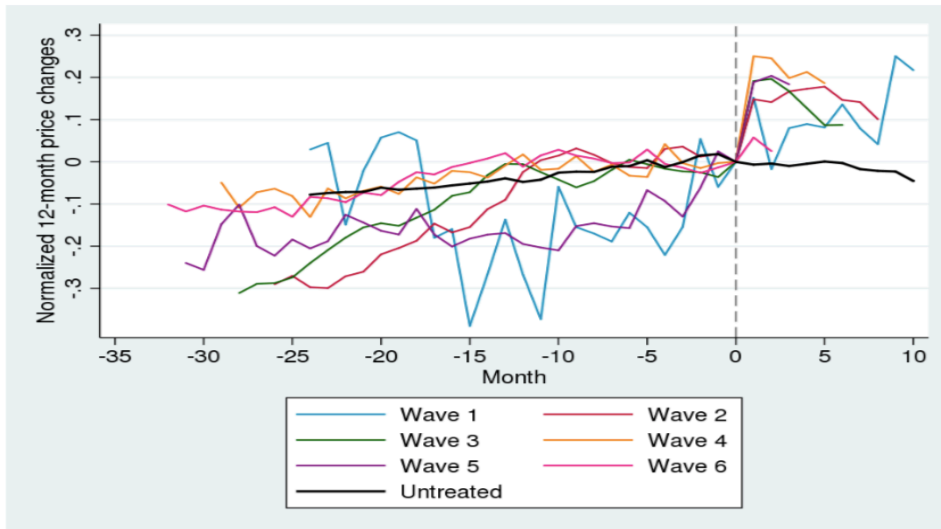
Figure 1: Average Tariff Rates



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

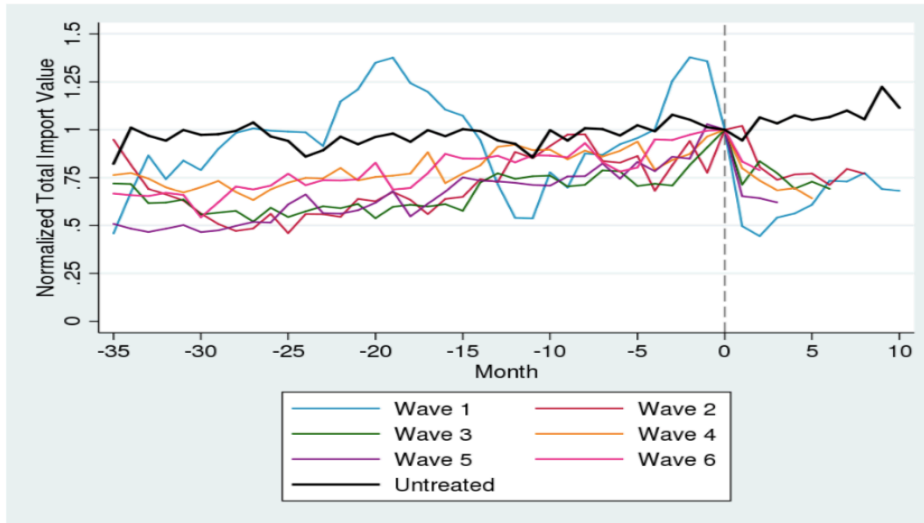
Raising Import Prices

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



Reducing Imports

Figure 4: Total Import Values by Tariff Wave

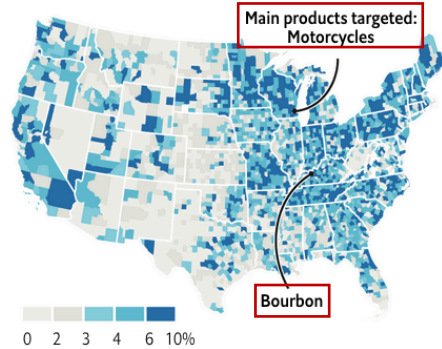


Tariff Increases on U.S. Exports: EU vs China

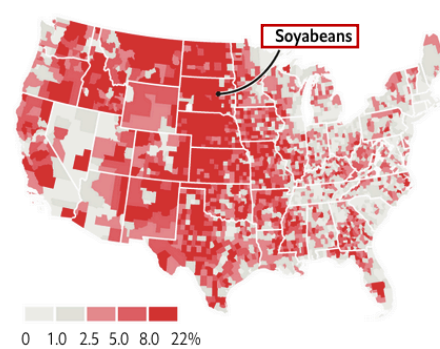
America's trading rivals have aimed tariffs at Trump voters:
Europe in the Rust Belt, China in the Great Plains

Share of counties' exports affected by retaliatory tariffs, %

The EU's tariffs



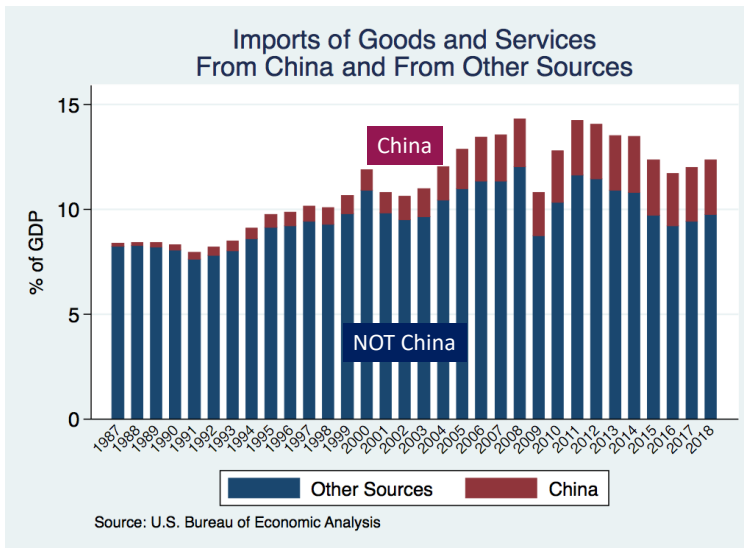
China's tariffs



The China Problem



China: The Problem? The Solution?



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
- **Dec 15, 2019:** The rest of Round 4 of tariffs planned



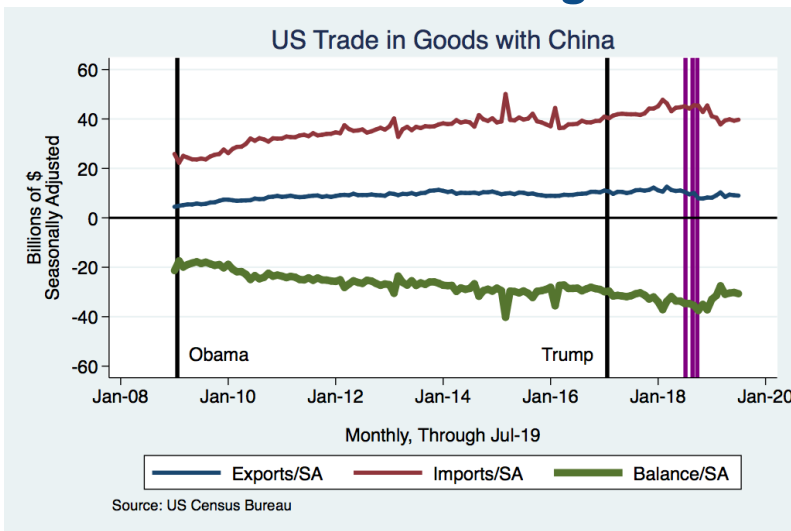
China Tariffs

Did it work?

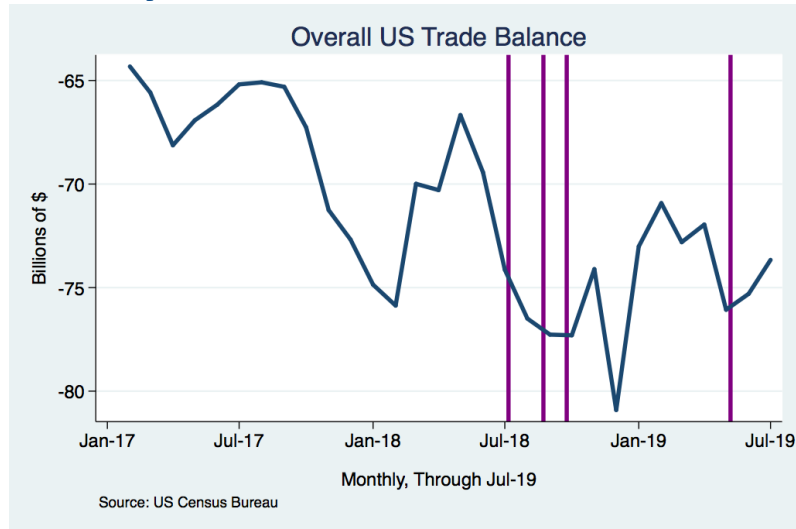
- Certainly not yet

- So far he's gotten only very minor concessions from China
- Even the talks have faltered

Trade Deficit Effects: It's Working!



Maybe....Maybe Not...



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



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**



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.**
- **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.
 - They come with lots of baggage, including retaliation.
 - Permanent loss of access to foreign markets.
 - Permanent alteration of supply chains.



Thank you!

Any Questions?

www.NEEDelegation.org

Jon Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: Info@NEEDelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Follow NEED: www.NEEDelegation.org/friends.php



NATIONAL ECONOMIC
EDUCATION DELEGATION