



Trade and Globalization

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Globalization

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Outline

- What is globalization?
- How has globalization evolved over time?
- Why do countries trade?
- What are the costs of trade?
- Policy solutions
- What's the future of globalization?



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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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Exports of goods and services add up to x% of world GDP.

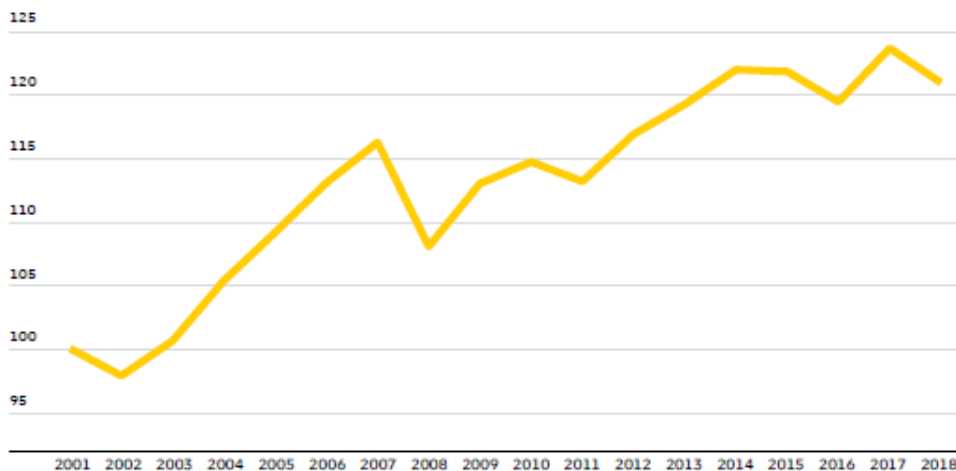
- 20, 30, 40, 50

The foreign operations of multinational firms around the world generate only about x% of global output.

- 10, 20, 30, 40

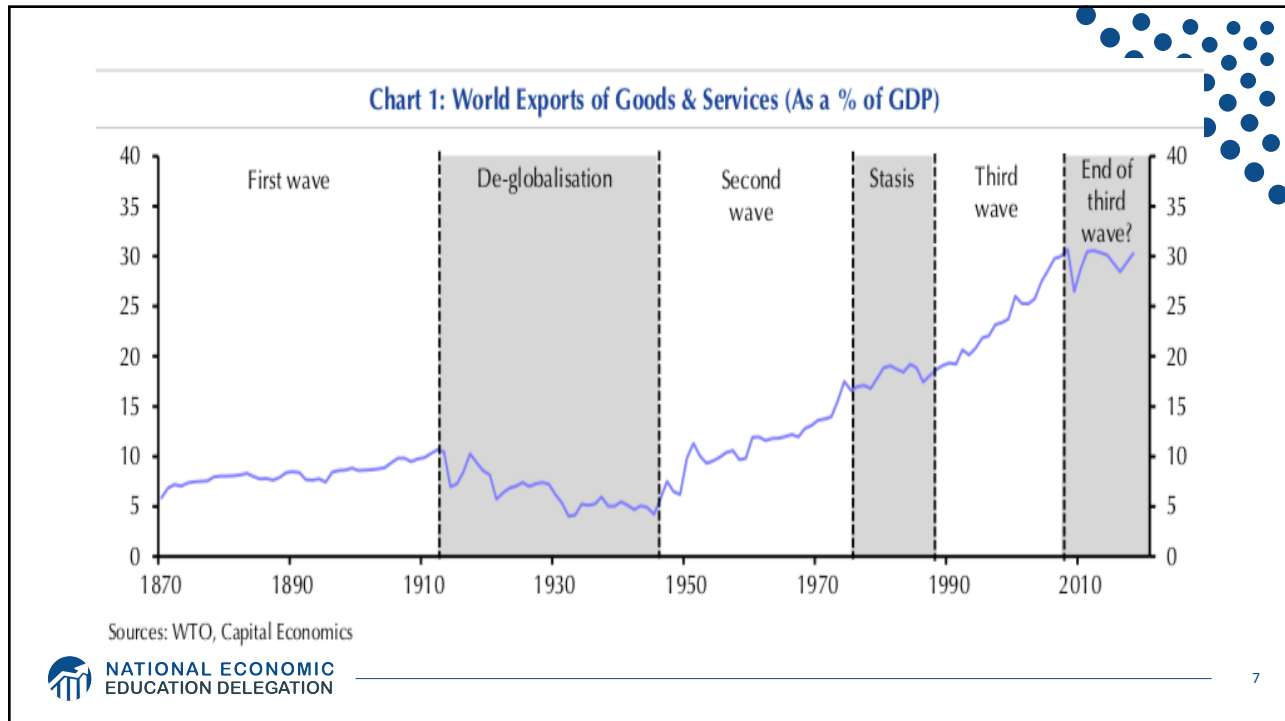
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FIGURE 1: DHL GLOBAL CONNECTEDNESS INDEX, 2001 - 2018

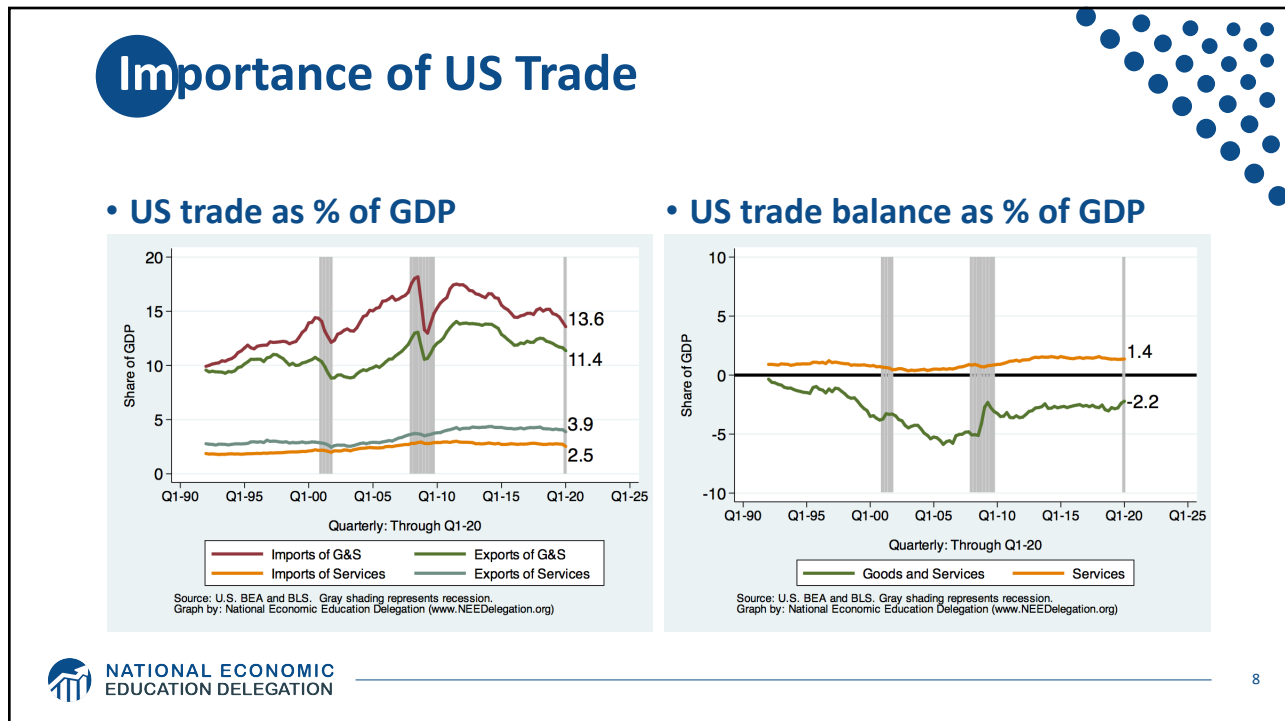


The DHL Global Connectedness Index retreated from its 2017 peak, but its 2018 level is still close to the all-time high.

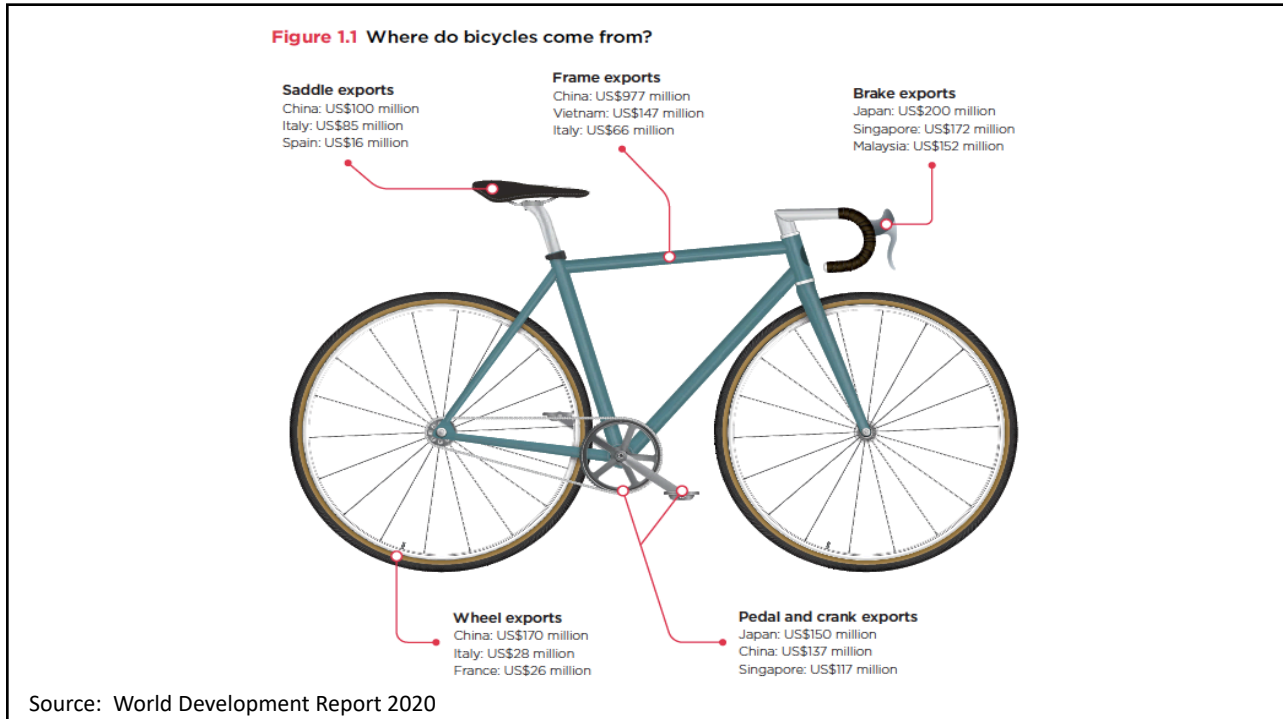
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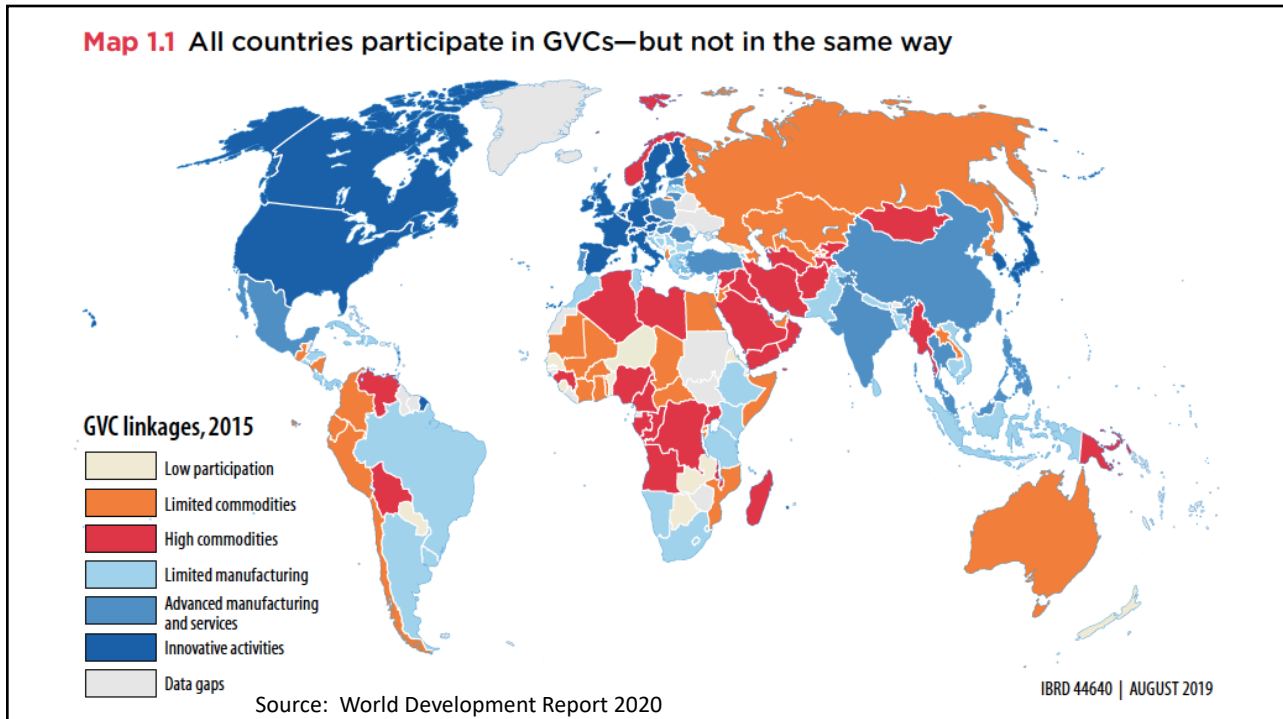
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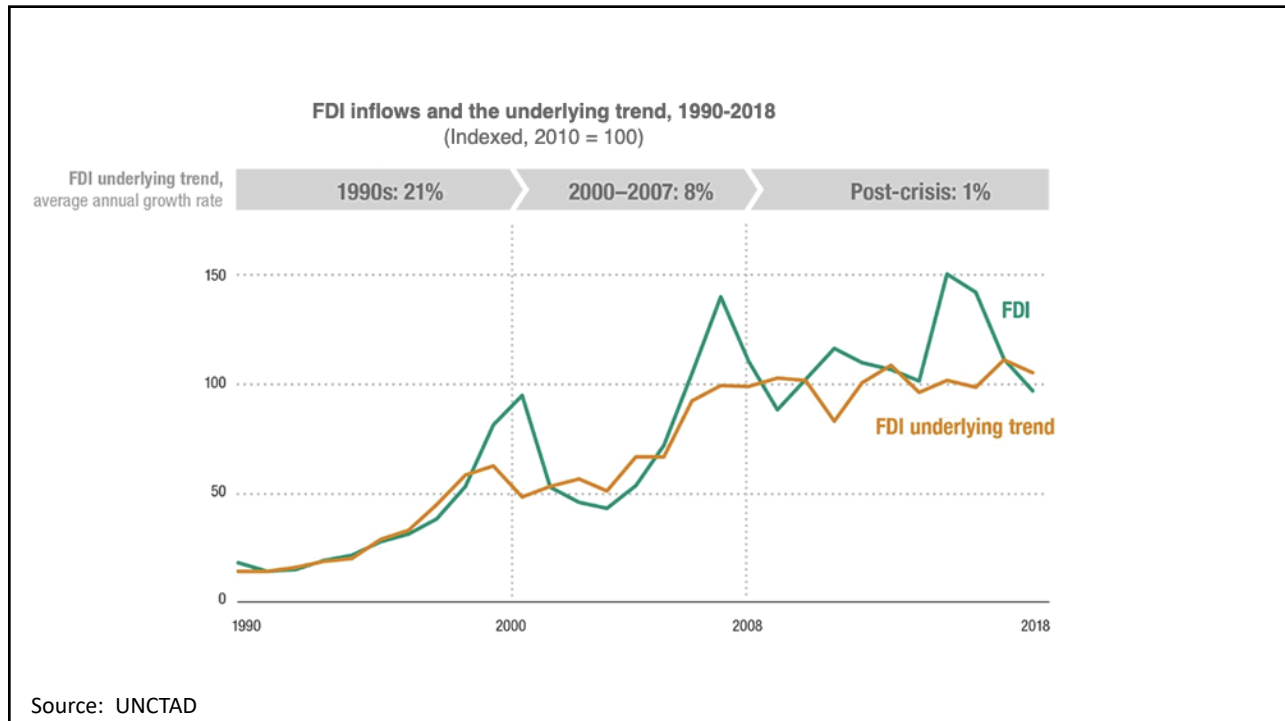
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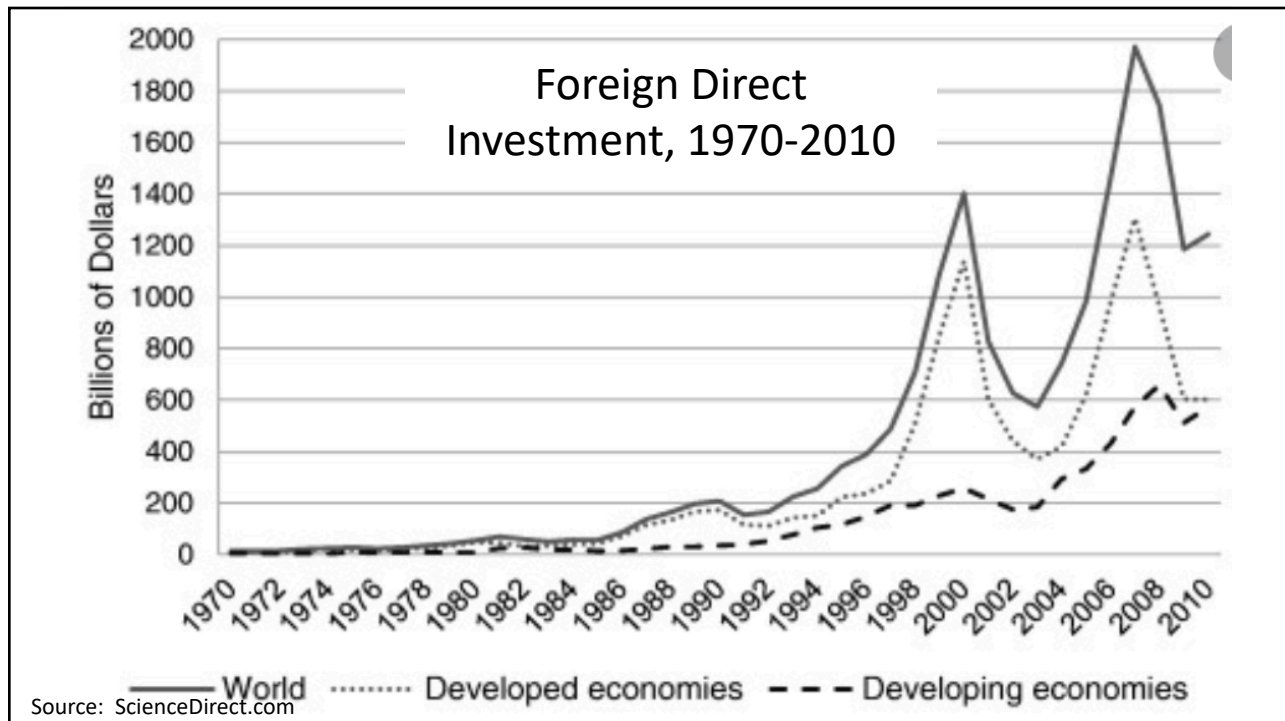
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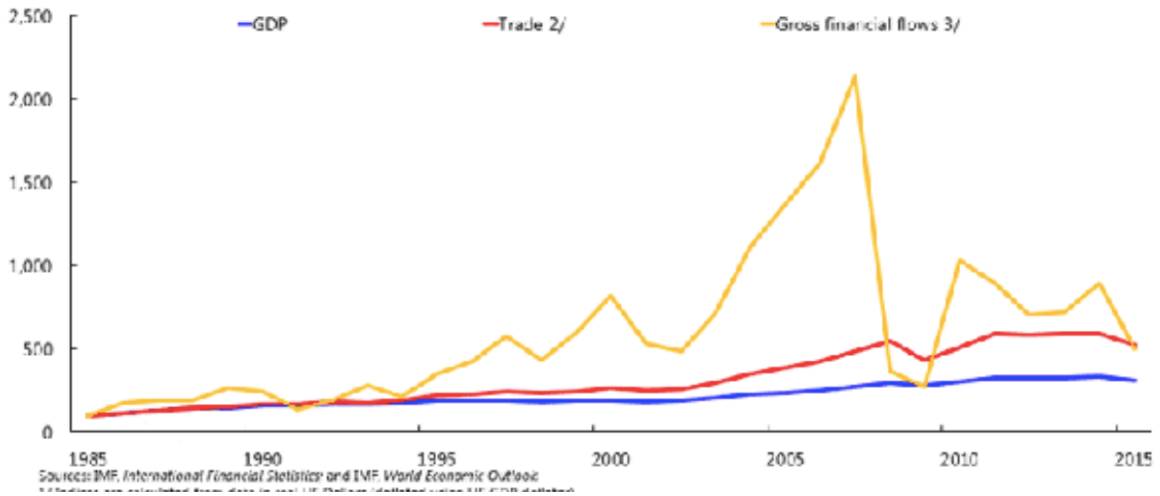
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Figure 7: Global capital flows peaked before the GFC

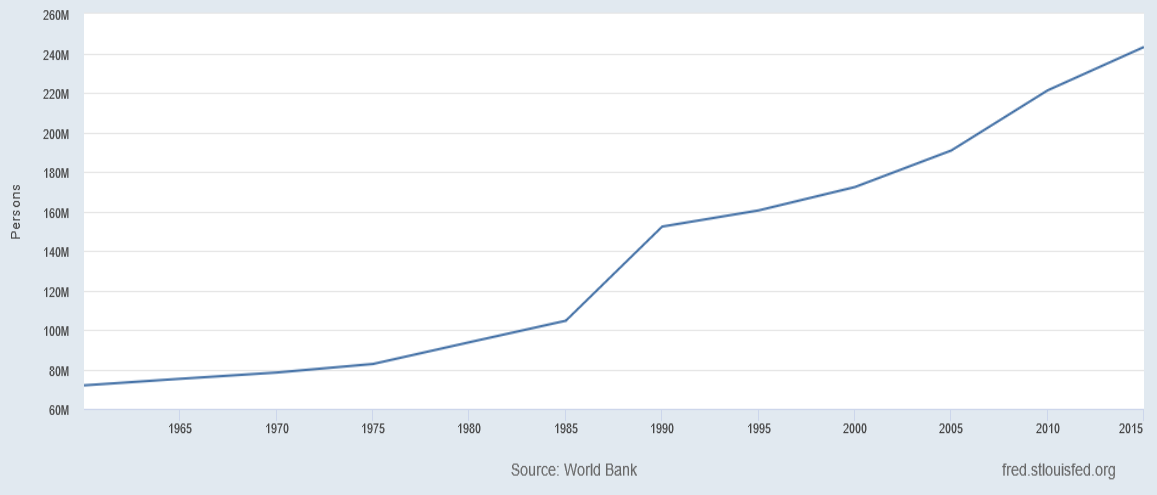
Evolution of global GDP, trade in goods and services, and financial flows
(indices; 1985=100) 1/



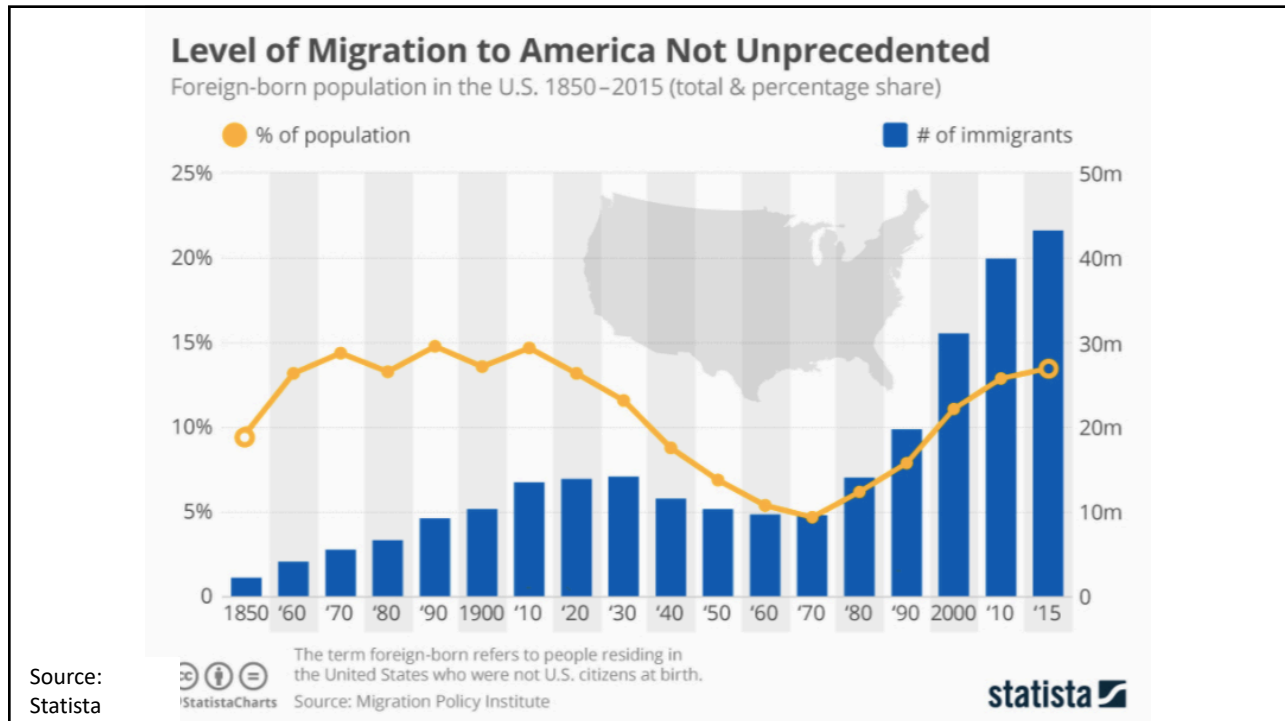
Source: Obstfeld 2017

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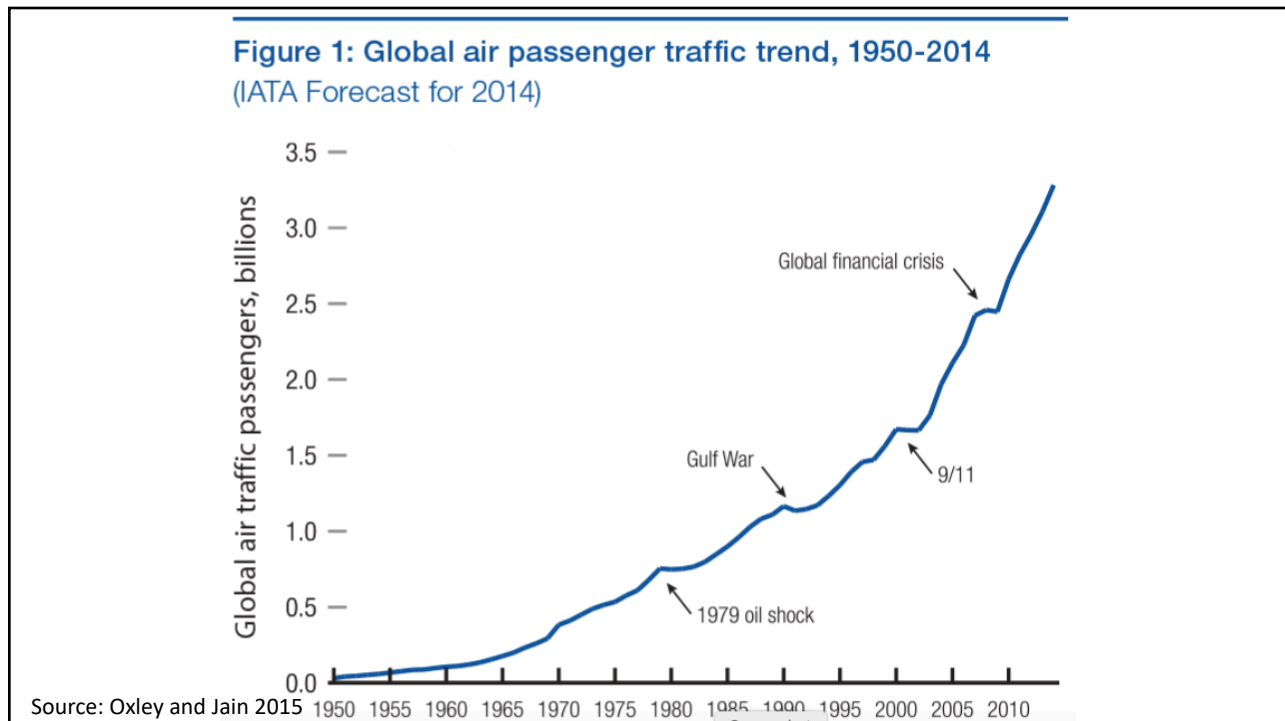
FRED — International Migrant Stock, Total for World



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Poll

Trade with other countries...

- Is good / is bad
- Creates jobs / destroys jobs / does not make a difference
- Increases wages / decreases wages/ does not make a difference
- Decreases prices / increases prices/ does not make a difference



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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 and Specialization

- **Comparative advantage**
 - Scarce resources: can't produce unlimited amounts of goods
 - Export goods where production advantage largest (or disadvantage weakest)
- **Non-econ example: Babe Ruth**
 - Top pitcher during 1916-1918. But best hitter of all time!
 - o Scarce resources: training time
 - o Post 1918, Babe Ruth specialized as hitter
- **Econ example: US-UK trade in 1951**
 - For same output, US used less resources than UK in each of 26 manuf sectors!
 - But, US net exporter to UK only for sectors where it's advantage largest
 - UK net exporter to US for goods where it's disadvantage weakest

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Benefits of Specialization

- For goods where US production advantage weakest...
- US can consume these goods by either
 1. Importing them from UK
 2. Producing them *and* reducing production of goods exported to UK
- Key point
 - US can consume more of these goods by importing them from UK
- Analogous story true for UK
 - Trade increases size of economic pie for *both* countries



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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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What Does the Data Say?

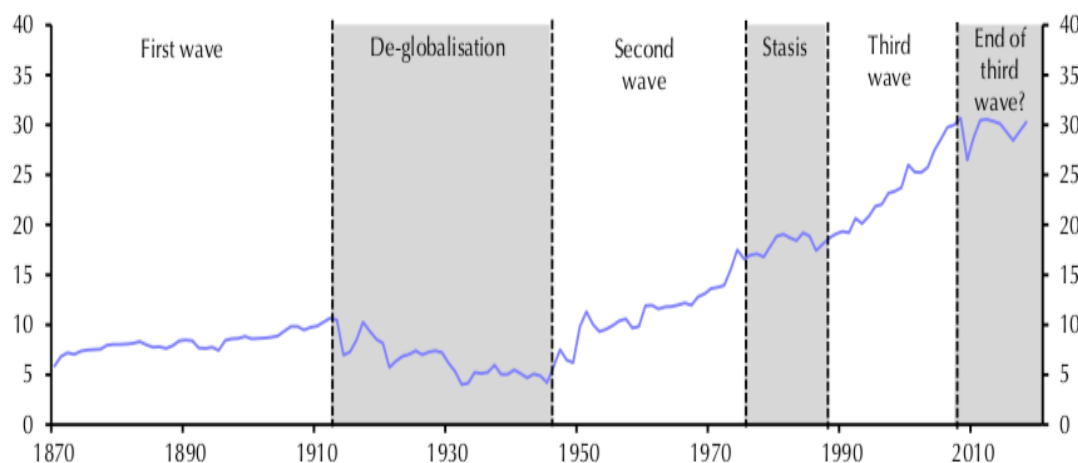
Trade Lowers Prices for Consumers

- **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.



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Chart 1: World Exports of Goods & Services (As a % of GDP)



Sources: WTO, Capital Economics



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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!)**



Intuition on Distributional Impacts

- **Jobs**
 - U.S. imports more of some goods
 - Reduces jobs on those industries
 - U.S. exports more of other goods
 - 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?***

The 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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Policy Solutions



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Tariffs

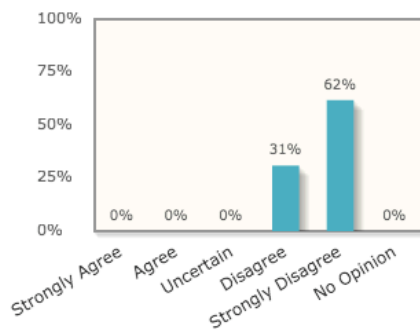
- Tariffs temporarily reduce imports of particular goods
- Tariffs raise prices
 - Final goods (consumers)
 - Intermediate goods (producers who use imported inputs)
 - Rising prices distort consumption and production decisions
- Tariffs invite retaliation, lowering demand for our exports
- In the long 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



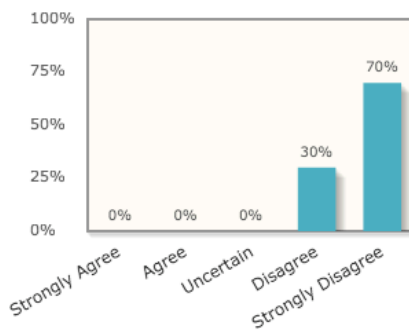
General Consensus of Economists on Tariffs

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



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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Globalization's Future?



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International Cooperation – Ending?

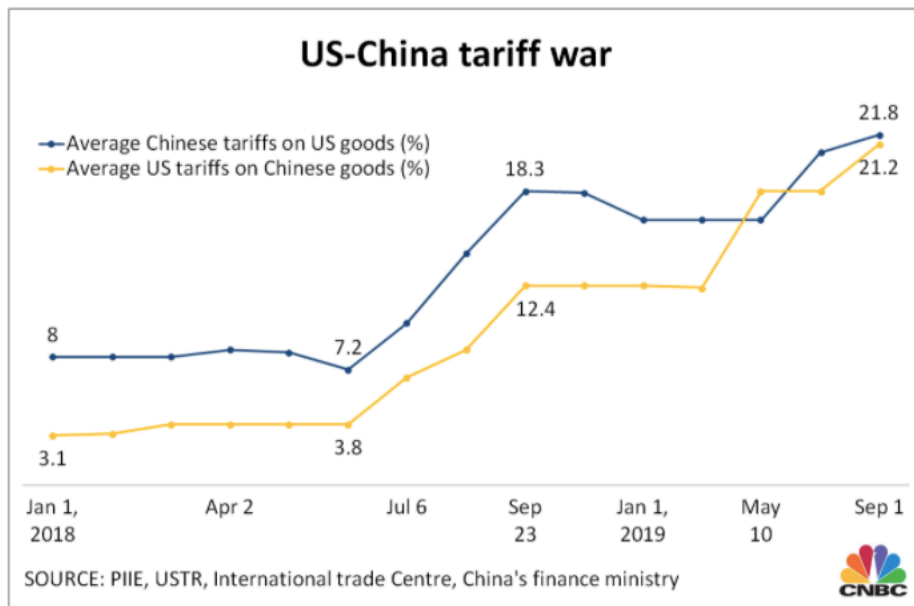


2017 — 2018

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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Source: CNBC.com

The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

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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**



Largest U.S. Imports

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

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



Largest U.S. Exports

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

China owns **28%** of U.S. public debt to foreign countries.



the balance

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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
 - ALSO: imports and exports of assets (investments)
 - Current Account
 - Capital Account
- **The TRADE DEFICIT only looks at the Current Account**

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Bilateral Trade Deficits are Unimportant

- **Natural result of an overall trade deficit.**
- **Likely result from specialization.**
- **Can be exaggerated by mismeasurement of bilateral trade flows.**
 - Value added vs total value
- **Are unlikely to be a result of foreign country's trade policies.**



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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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Discussion

- **The question is, will we continue on the path of further building up local-global economies, where local actors are mainly global competitors, or will this COVID-19 disruption lead to the resurgence of the global-local economy, where across the globe, there is a greater emphasis on local actors in each geographic area?**



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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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Trade Summary

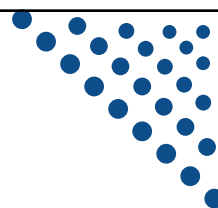
- **Trade and growth are positively related.**
- **Gains from trade can be widespread (lower prices for consumers).**
- **Losses from trade can be highly concentrated.**
- **Tariffs reduce trade overall, thus imposing widespread losses to both producers (who use imported inputs) and consumers (who buy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



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Thank you!



Any Questions?

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