


Trade and Globalization


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1

1



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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2

2

Who Are We?

- **Honorary Board: 47 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: 500+ 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



3

Credits and Disclaimer

- **The original slide deck was authored by:**

- Peter Eppinger, University of Tübingen
- James Lake, Southern Methodist University
- Michael Plouffe, University College London
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- **The original slide deck was reviewed by:**

- Alan Deardorff, University of Michigan
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4

Outline

- **Why do we trade?**
 - Comparative Advantage
- **Who gains and loses from trade?**
- **Impact of trade wars**
 - U.S. and China (2018 onwards)

5

Why do we trade?

True Story:

I recently bought a shirt from the mall with the label “Made in Bangladesh”.

Wouldn't it be easier to make the shirt locally?



6

Why do we trade?

Cost:

- Import from China saves us on average 10% in price.
- iPhone 12 production cost in China \$373!
- How much would it cost to make an entire iPhone 12 in the USA?



7

Why do we trade?

Warren Buffett famously eats breakfast at McDonald's everyday.

Would it make more sense for him to make his own breakfast everyday if he could make it better/cheaper himself?



8

Why do we trade?



Key Concepts

Comparative Advantage:

- The ability to make something **relatively** efficiently
- Different countries may have different comparative advantage due to differences in labor, weather, resources, etc.

Export (i.e. selling to other countries):

- Each country **exports** the products they have comparative advantage in producing



Winners and Losers from Trade

Consumers:

Producers/Businesses:



Winners and Losers from Trade

Consumers:

- Lower Prices
- New Varieties (US vs. Japanese cars)
- Quality (German engineering)



11

Winners and Losers from Trade

Businesses:

- **US industries that use imported input/parts**
 - US manufacturing industries buy steel from Brazil, Mexico, China, etc.
- **US exporters**
 - New Markets (China is the largest buyer of US corn, soybeans, etc.)
- **US importers**
 - Job losses (25% of manufacturing jobs lost between 1990-2007 due to trade with China)
 - Psychological costs

Question: Is trade the main reason for the decline in US manufacturing?



12

Winners and Losers from Trade

Net Effect of Trade:

- Benefits for U.S. consumers: \$100,000 per lost manufacturing job
- Costs of trade are very high for some workers
- Net effect of trade is **positive**.

13

US China Trade War



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.

14

US China Trade War



Key Concepts

Tariffs:

- Taxes on foreign products
- Foreign products become more expensive to U.S. consumers
- President Trump’s tariffs covered 12.6% of U.S. imports.
- China, Canada, EU, South Korea and Mexico were the biggest targets.

Trade deficit:

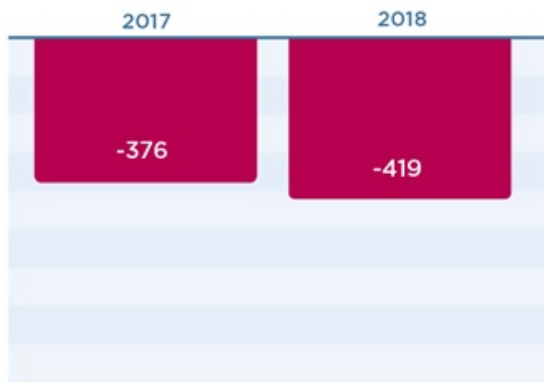
- Exports < Import



US China Trade War

US goods trade deficit, billions of dollars

China



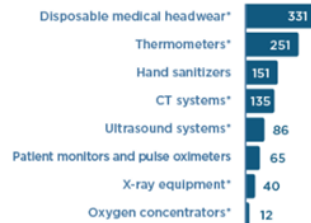
Source: Peterson Institute for International Economics



US China Trade War

US tariff on Chinese medical equipment

Subject to 25% Section 301 tariffs on China



Subject to 7.5% Section 301 tariffs on China



17

US China Trade War

Other U.S. tariffs (e.g. steel)

Winners:

- US producers (United States Steel, AK Steel) & workers

Losers:

- US consumers/steel-consuming US firms
- 2.4 million jobs in US industries where steel \geq 5% of inputs
- 140,000 jobs in steel producing industries
- Also, US exports of soybean, corn, etc. to China decreased due to retaliatory tariffs from China



18

US China Trade War

Effect on the U.S. economy

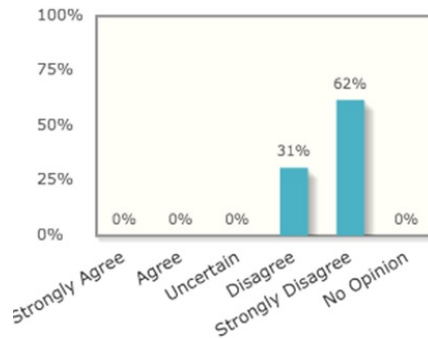
- Loss of **\$1.4 billion** real income per month in 2018 (Amiti, Redding, and Weinstein, 2018, [NBER Working Paper 25672](#))
- Decrease in consumption growth by 3.8% (and job growth) in the top 25% of counties that were hit by Chinese retaliation (Waugh, 2019, [NBER Working Paper 26353](#))



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



Trade Summary

- **Why countries trade**
 - Comparative advantage (i.e. ability to produce something relatively efficiently)
- **Winners and losers of trade**
 - Winners: US consumers, US exporters, US businesses that use imported inputs
 - Losers: US businesses who compete with imports from other countries
 - Net effect of trade is positive.
- **US-China Trade War**
 - Recent studies suggest that US-China trade war had a negative impact on the U.S. economy.



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21

Thank you!

Any Questions?

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22

22