


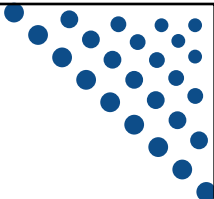
Trade and Globalization

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University of Michigan

Presentation to New Albany, OH, Kiwanis
February 10, 2022


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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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Outline

- **What is Globalization?**
- **Pros and Cons of Trade**
- **Effects of Tariffs**
- **Effects of the Pandemic**



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What Globalizations Is

- **Growth over time of many interactions between countries**
 - Trade
 - Global Value Chains
 - Foreign Direct Investment
 - Financial Flows
 - International Travel
 - Migration
- **I will focus here on trade**



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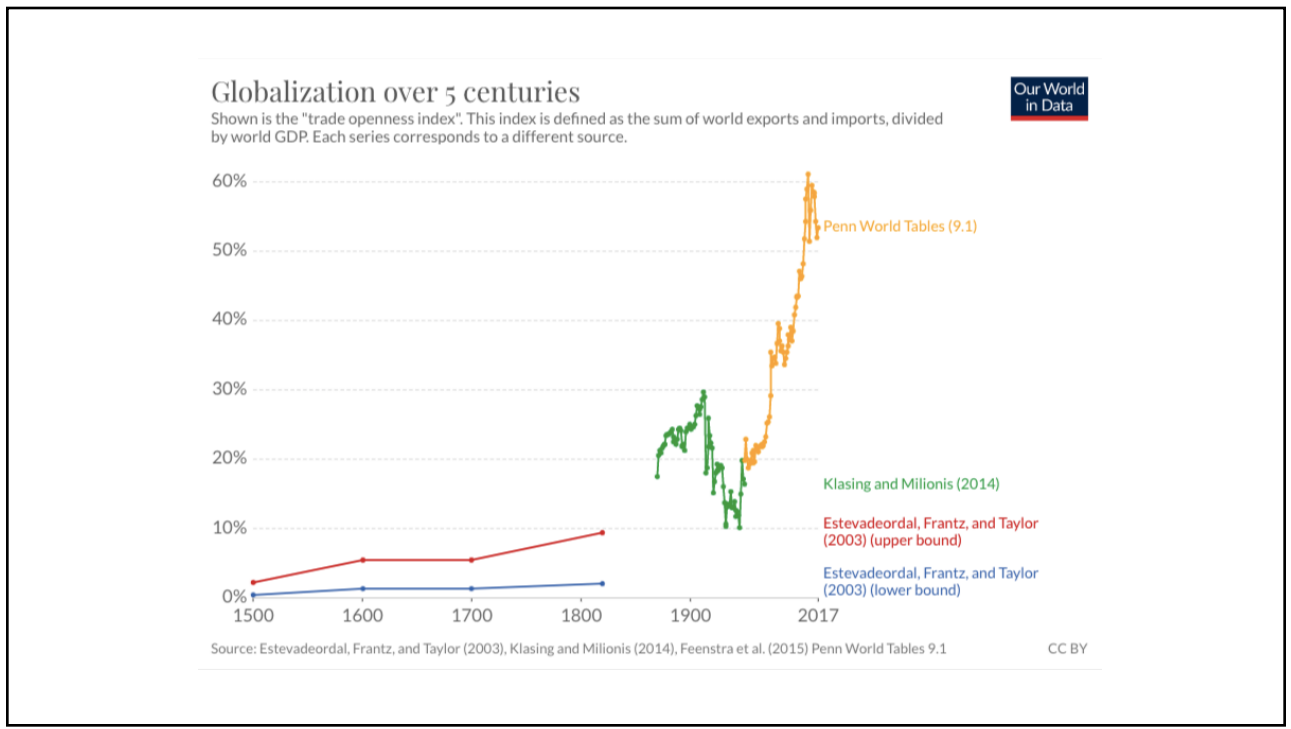
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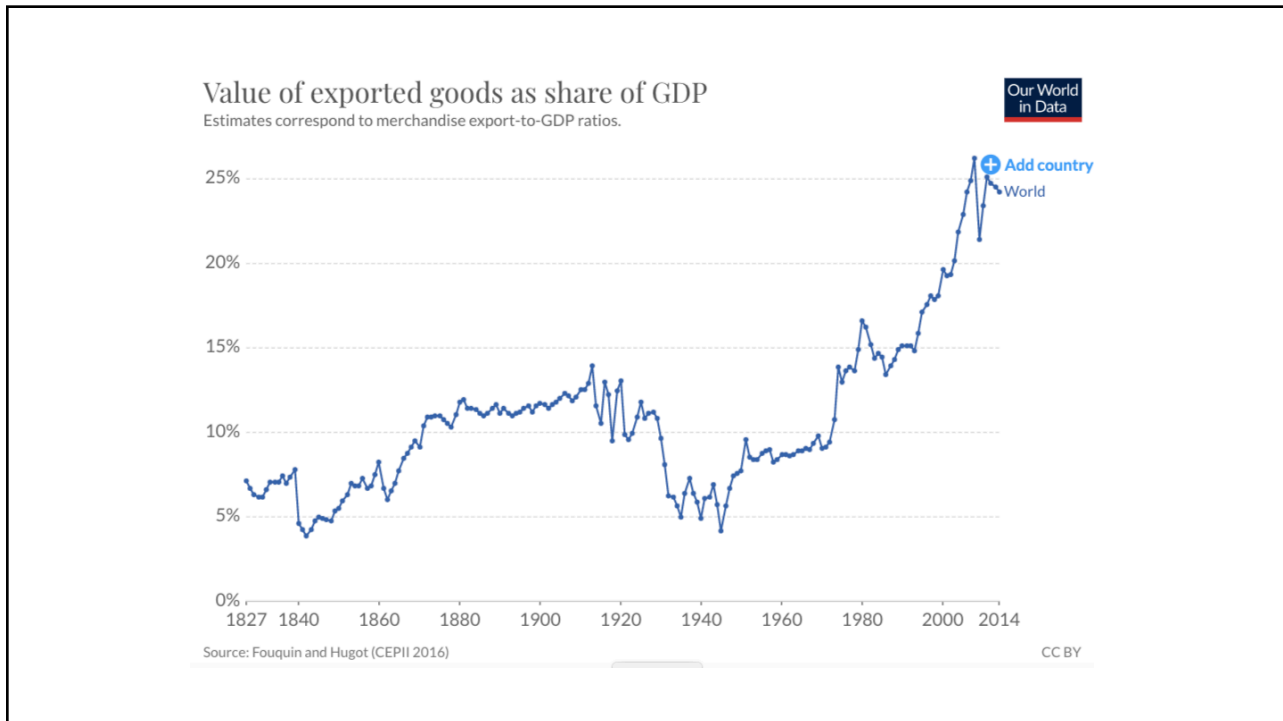
Trade

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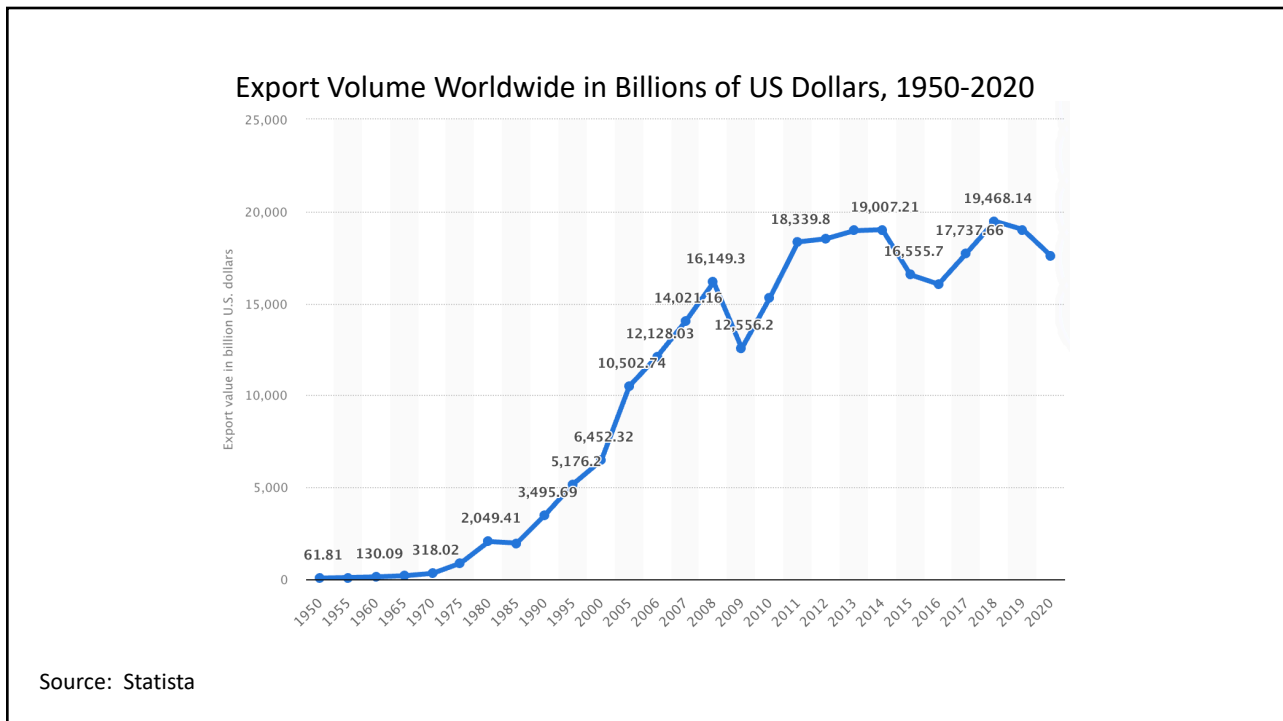
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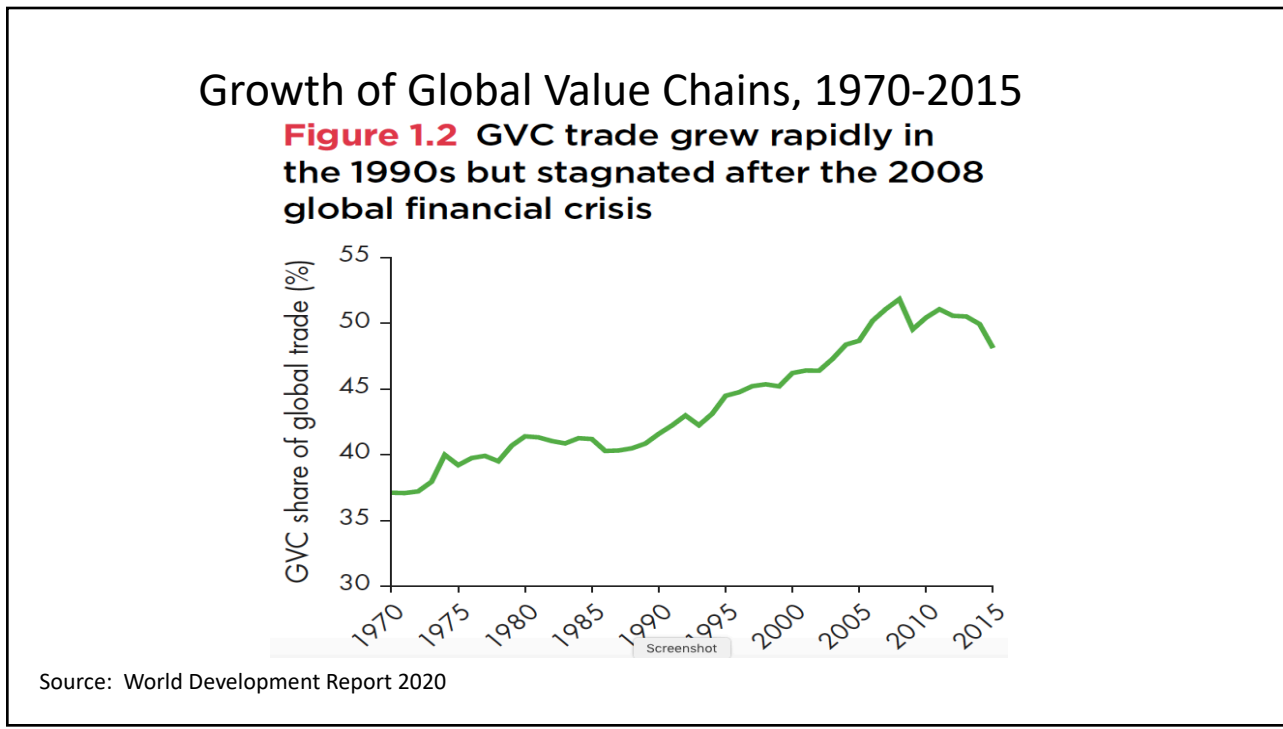
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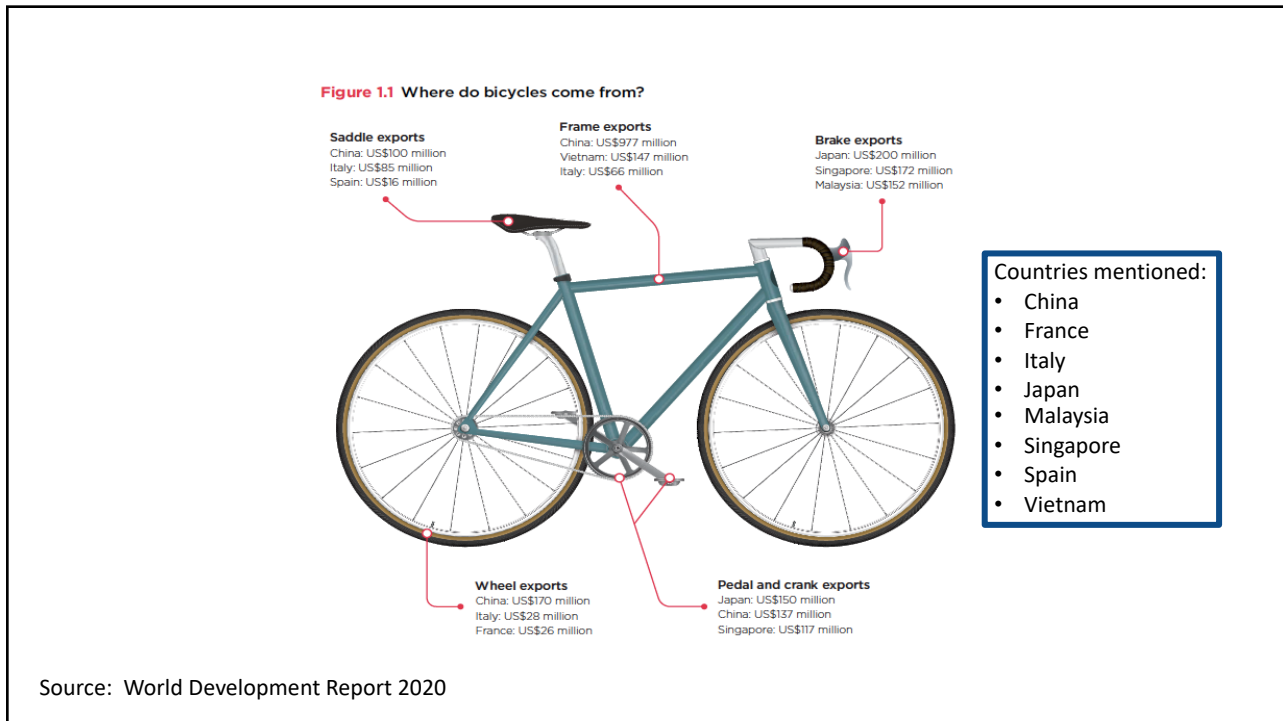
Global Value Chains

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Supply Chains

• Example: The iPhone assembled in China from parts:

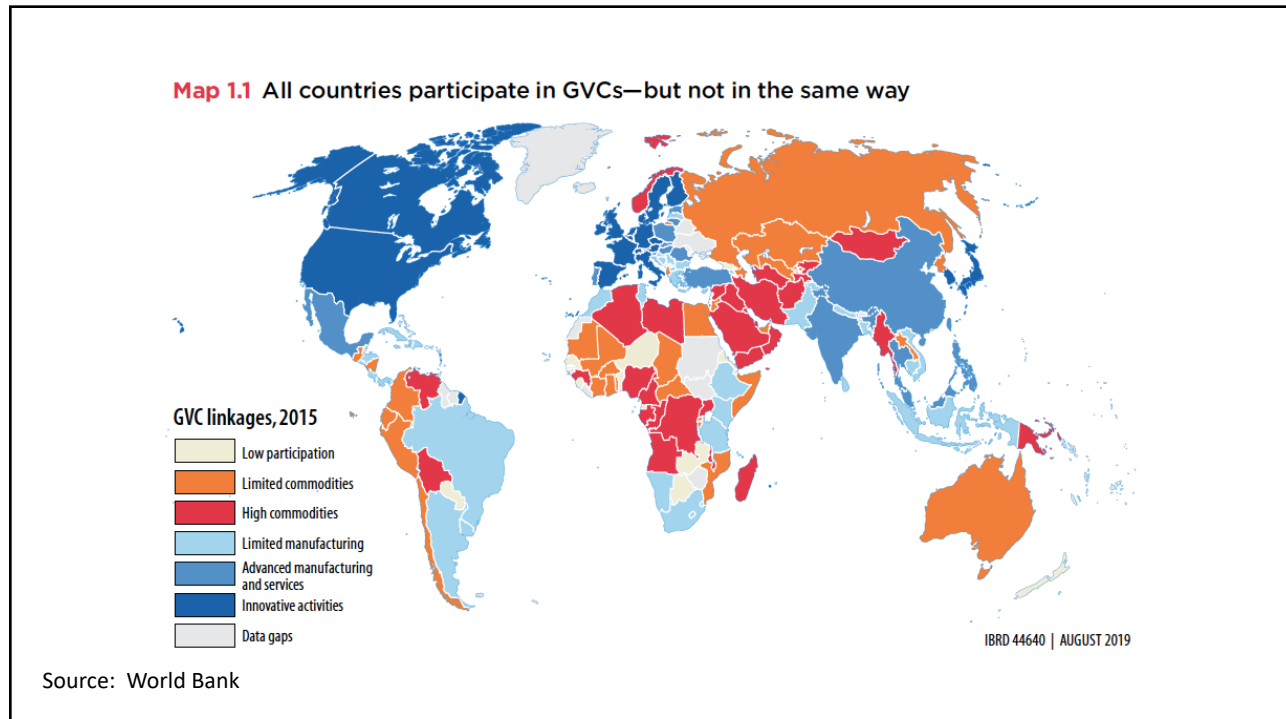
Part	Come from
Accelerometers	Germany, the US, South Korea, China, Japan, and Taiwan.
Audio chips	US, UK, China, South Korea, Taiwan, Japan, and Singapore.
Batteries	Samsung (South Korea), which has factories in eighty countries.
Cameras	Qualcomm (US) and Sony (Japan), both with plants in many countries
Chips for 3G/4G/LTE networking	Qualcomm (US)
Compasses	AKM Semiconductor (Japan) with plants in the US, France, England, China, South Korea, and Taiwan.
Glass screen	Corning (US) with plants in twenty-six countries.
Gyroscopes	Switzerland
... and many more	

Source: Krueger 2020, International Trade (What Everyone Needs to Know), p. 254

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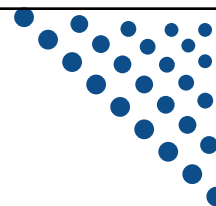
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Pros and Cons of Globalization

- **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

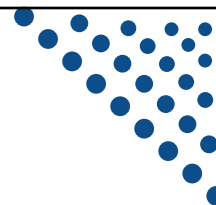
Theory of Comparative Advantage



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Comparative Advantage



- **The Theory of Comparative Advantage says:**
 - Countries can, by producing
 - More than they need of what they do relatively best, and
 - Less than they need of what they do relatively worst
 - And exporting the extra to other countries in exchange for what they need
 - All countries can
 - Get more of everything if that's what they want, and
 - 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 can source parts from cheapest or best sources)
 - (That's really just the above, but within industries and firms.)
- **Technology** (producers get access foreign technologies)



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Costs of Trade



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But there are Costs

- **Economic:**

- When trade expands (or contracts)
 - o Some firms lose market share or shut down
 - o Other firms supplying inputs shrink or shut down
 - o Workers in both lose jobs
 - o Their communities lose customers
- Macroeconomic cost: Vulnerability to foreign recession/inflation

- **Non-economic**

- Dependence on other countries willingness to trade
- Loss of cultural differences
- Vulnerability to trade disruption
 - o Crisis induced (earthquake, flood, disease)
 - o Policy induced (sanctions, tariffs, export bans)



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Trade Policies that Affect Globalization

- **Policies that Encourage It**

- Tariff Reductions
- Trade Agreements
- Other

- **Policies that Discourage It**

- Trump's Tariffs
- Trade War
- I'll focus on these



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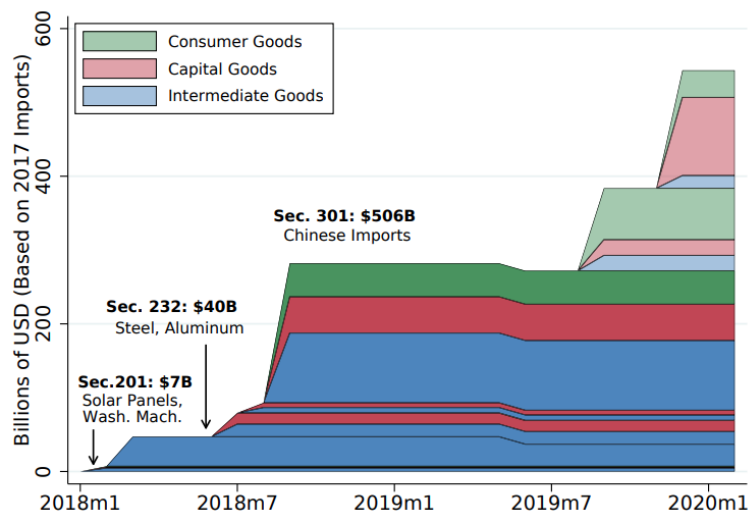
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Trump's Tariffs and Trade War



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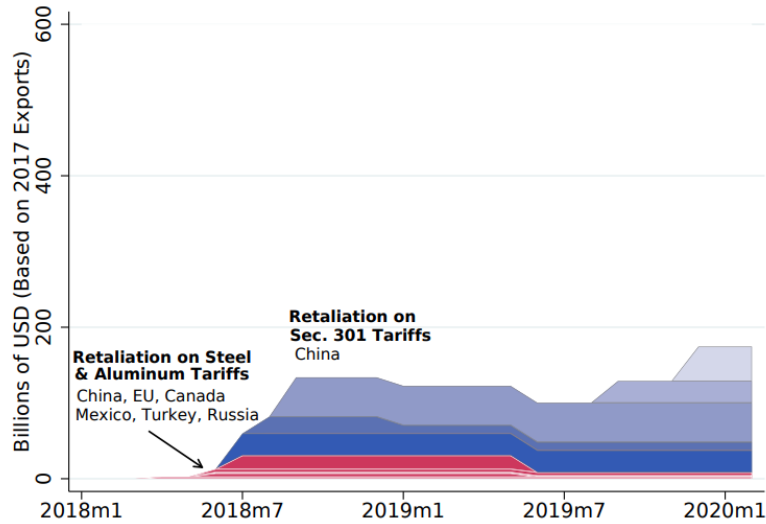
Figure B1: Composition of New U.S. Import Tariffs: 2018-2019



Source: Flaan & Pierce 2020

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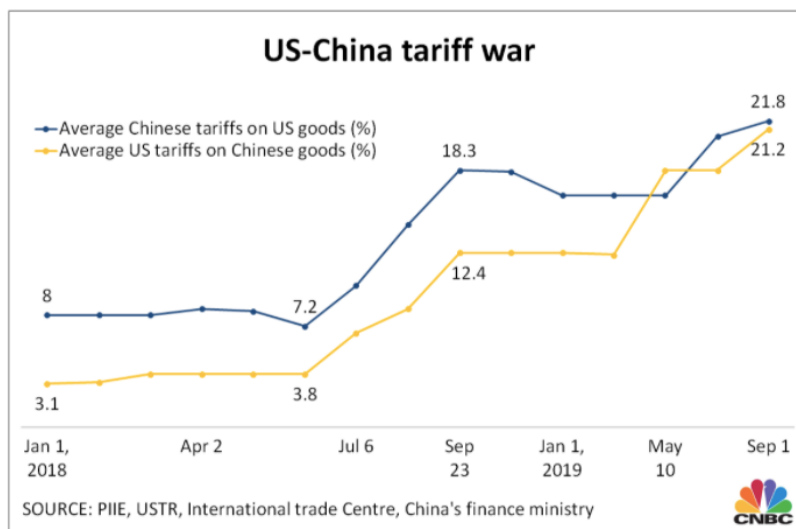
Figure 3: Timeline of Retaliatory Tariffs on U.S. Exports: 2018-2019



Source: Flaan & Pierce 2020

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US-China tariff war

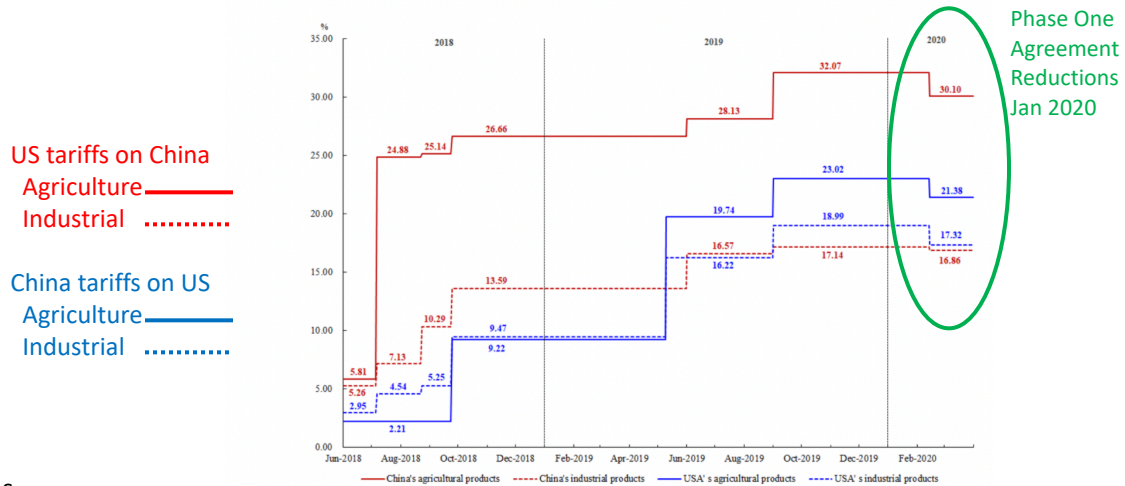


The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

Source: CNBC.com

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Figure 1. China-US bilateral import tariff increases, percentage points.



Source:
Zheng et al.
Oct 2021

Source: GTAP database and the list of additional tariffs published by China and the United States

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Effects of Tariffs

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Effects of a tariff

- **A tariff is a tax on imports. It causes**
 - A rise in the price of the imported good in the importing country
 - A fall in the price of the imported good in the exporting country
 - The quantity imported to fall
 - The revenue of the tariff-levying government to rise
- **Almost always: the rise at home is much larger than the fall abroad**
 - That's especially true if importing country is small
 - But it's also true if importing country is large, such as U.S.
 - Example: Trump's tariffs caused US prices to rise, with hardly any perceptible fall in prices abroad.



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Effects of a tariff

- **The rise in price in the importing country causes**
 - A rise in price of competing goods produced there
 - Benefits to those producers
 - Harm to buyers of both the import and the competing goods
 - o Including producers that use the higher-priced goods as inputs
 - Their prices also rise, hurting their buyers
 - Employment changes
 - o Increase in the protected industry
 - o Decrease in industries that use imports as inputs
 - Example: Trump's 25% tariff on steel
 - o Helps US steel firms and their workers
 - o Hurts US auto firms and workers
 - and many other industries that use steel



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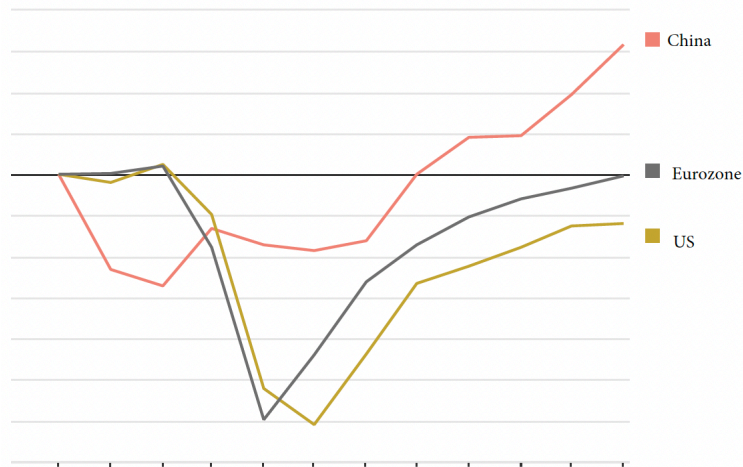
Effects of the Pandemic

• Effects of the Pandemic on Economies

- Travel halted
- Stock markets fell but came back strongly
- Factories shut down
- Supply chains were interrupted
- Trade plummeted but came back



Change in export volumes, since December 2019



Source:
Hannon, WSJ,
Feb 25, 2021

Notes: Seasonally adjusted; at 2010 prices
Source: CPB Netherlands Bureau for Economic Policy Analysis

The Pandemic and Globalization

- **Trade and Covid-19**

- Globalization helped it spread
- Trade in PPE and medical supplies helped to fight it
- Trade in vaccines is essential globally
- Trade policies have often interfered

Globalization's Future?

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' views of globalization change?**
 - I think so.
 - o We still think globalization is good,
 - o But we're learning that it needs to include greater protections for those who are hurt.



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Thank you!

Any Questions?

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