

Osher Lifelong Learning Institute, Summer 2022 **Contemporary Economic Policy**

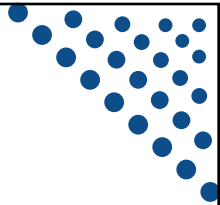
Casper College
Sep-Oct, 2022

Host: Jon Haveman, Ph.D.
National Economic Education Delegation



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Available NEED Topics Include:

- Healthcare Economics
- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy



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Course Outline

• Contemporary Economic Policy

- Week 1 (9/2): Economic Update (Geoffrey Woglom, Amherst College)
- **Week 2 (9/9): Trade and Globalization (Alan Deardorff, University of Michigan)**
- Week 3 (9/16): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 4 (9/23): The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)
- Week 5 (9/30): Economic Inequality (Chris Herrington, VA Commonwealth)
- Week 6 (10/7): Autonomous Vehicles (Jon Haveman, NEED)



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Submitting Questions

- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**



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Trade and Globalization

Alan Deardorff
University of Michigan





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Trade and Globalization

Alan V. Deardorff
University of Michigan

Presentation to Osher Lifelong Learning Institute
Casper College
September 9, 2022



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Impact of Russia-Ukraine War

- **How Russia-Ukraine war impacts globalization**
 - War itself disrupts trade, especially exports of
 - Ukraine: wheat
 - Russia: wheat, oil
 - Economic sanctions by governments disrupt
 - Financial linkages
 - Trade
 - Private companies stop dealing with Russia

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Impact of Russia-Ukraine War

- **Financial sanctions by US, EU, UK, and others**

- Frozen foreign-held assets of individuals, Putin and dozens of others
- Restrictions on Russia's Central Bank's use of international reserves
- Several Russian banks removed from the Swift international payments system
- Cut off many Russian banks from transactions and operations
- Long list of Russian companies banned or restricted
- Possible restrictions on Russia borrowing from IMF and World Bank



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Impact of Russia-Ukraine War

- **Trade sanctions by governments**

- Oil and other energy
 - o Germany puts Nord Stream 2 gas pipeline on hold
 - o US bans from Russia
 - o UK to phase out Russian oil by end of 2022
 - o EU to become independent from Russia by 2030
- EU bans steel imports from Russia
- US restricts exports to Russia, especially technology and military; later also to Belarus; later also luxury goods
- EU and UK impose export restrictions similar to US
- Ban on Russian air carriers by Canada, EU, US, UK
- G-7 to revoke Russia's most favored nation status
 - o Permits them to raise tariffs on Russian goods

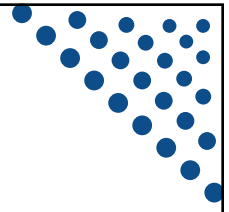


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Russia Sanctions, Gov't

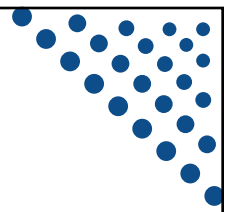


| Countries | | |
|-----------|-------------|-------------|
| Australia | Iceland | Singapore |
| Bahamas | Italy | Switzerland |
| Canada | Japan | Taiwan |
| EU | New Zealand | UK |
| Finland | Norway | US |
| France | Poland | |
| Germany | S Korea | |

Source: Funakoshi et al, "Updated July 7, 2022" but includes from July 29



Russia Sanctions, Gov't



| Russian Targets | | | | | | | |
|-----------------|----|--|-------------|----|--|-------------|----|
| Airlines | 2 | | Generals | 1 | | Oligarchs | 23 |
| Banks | 9 | | Government | 1 | | Retail | 1 |
| Cnt. Banks | 5 | | Lawmakers | 2 | | Ships | 5 |
| Commodity | 1 | | Lux. goods | 1 | | Sv with fnd | 1 |
| Companies | 19 | | Media | 2 | | Tax service | 1 |
| Economy | 3 | | Mil. Comps. | 14 | | Tech | 1 |
| Entities | 3 | | Mining | 2 | | Transit | 1 |
| Finance | 1 | | Oil | 2 | | | |
| Gas | 1 | | Oil imports | 6 | | | |

Source: Funakoshi et al, "Updated July 7, 2022" but includes from July 29



Russia Sanctions, Gov't

- Countries announcing they will not use sanctions against Russia:

| NOT using sanctions | |
|---------------------|--------|
| India | Feb 24 |
| Mexico | Mar 1 |
| Brazil | Mar 1 |
| China | Mar 2 |
| Argentina | Mar 4 |
| Indonesia | Mar 9 |
| Turkey | Mar 13 |
| S Africa | Mar 17 |
| Serbia | Apr 21 |

Source: Bown



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Impact of Russia-Ukraine War

- Private Companies Stop Dealing in Russia, per NBC News updated Mar 16:
 - Automotive: Ford, GM, Toyota, ...
 - Aviation: Airbus, Boeing, American, Delta, United, ...
 - Energy: BP, ExxonMobil, Shell
 - Equipment: Caterpillar, Honeywell, Deere
 - Food & Bev: Burger King, Coke, McDonalds, Starbucks, ...
 - Finance: Citigroup, Deutsche Bank, Vanguard, ...
 - Consumer goods: Proctor & Gamble, Unilever, Mars, ...
 - Leisure: Airbnb, Hilton, Expedia, ...
 - Logistics: DHL, FedEx, Maersk, UPS
 - Media: Netflix, Roku, Disney, ...
 - Payment services: Amex, Visa, Western Union, ...
 - And many more: Consulting, Retail, Technology



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Leaving Russia

253 companies, including ...

Source: New York Times, April 7, 2022

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Suspending activity

248 companies, including ...

Sold all stores May 20. Stores will operate under new brand.

Source: New York Times, April 7, 2022

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Scaling back activity

75 companies, including ...


BACARDÍ



CATERPILLAR



coinbase



JOHN DEERE


DOW


GE



Goldman Sachs

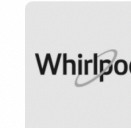

J.P.Morgan



Kellogg's


Mars


PEPSICO


PPG


Whirlpool


Yum!

Source: New York Times, April 7, 2022

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Halting investments

96 companies, including ...


Abbott


AmenisourceBergen


Baker Hughes


Cargill


COLGATE-PALMOLIVE


CREDIT SUISSE


DANONE


Johnson & Johnson


Mondelēz International


P&G


SIEMENS

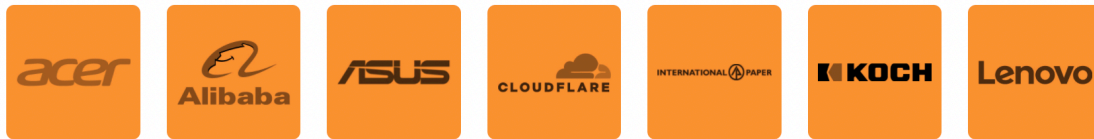

Unilever

Source: New York Times, April 7, 2022

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Staying the course

162 companies, including ...



Source: New York Times, April 7, 2022

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Effect of Sanctions

- **Too soon to know fully**

- Will they stop Russia?
 - o Clearly no, or at least not yet
 - o Sanctions in the past have only sometimes worked
- Will they reduce trade?
 - o They already have
 - o But Russia's role in trade is not large in most products
 - o Short-term effects are greater from the war itself

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Outline

- **What is Globalization?**
- **Pros and Cons of Trade**
- **Trade Policies**
- **The Role of Trade Agreements & WTO (if time)**



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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**



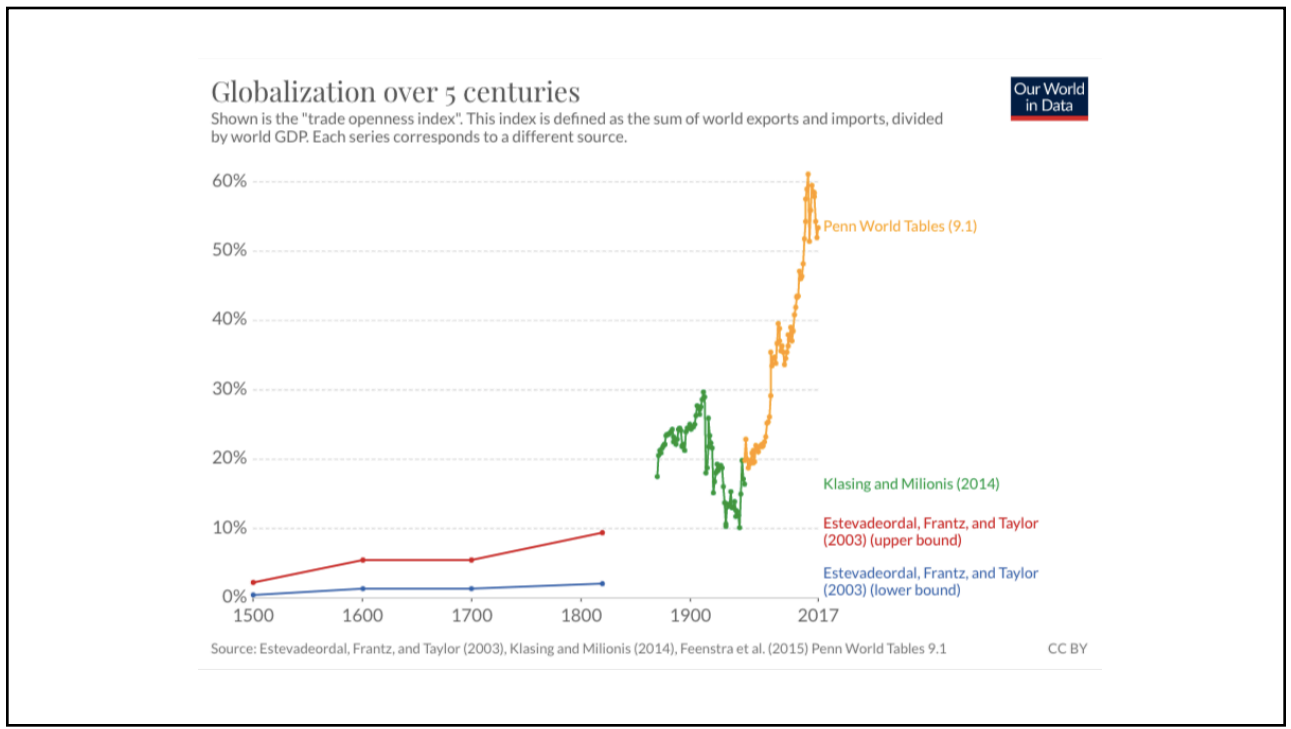
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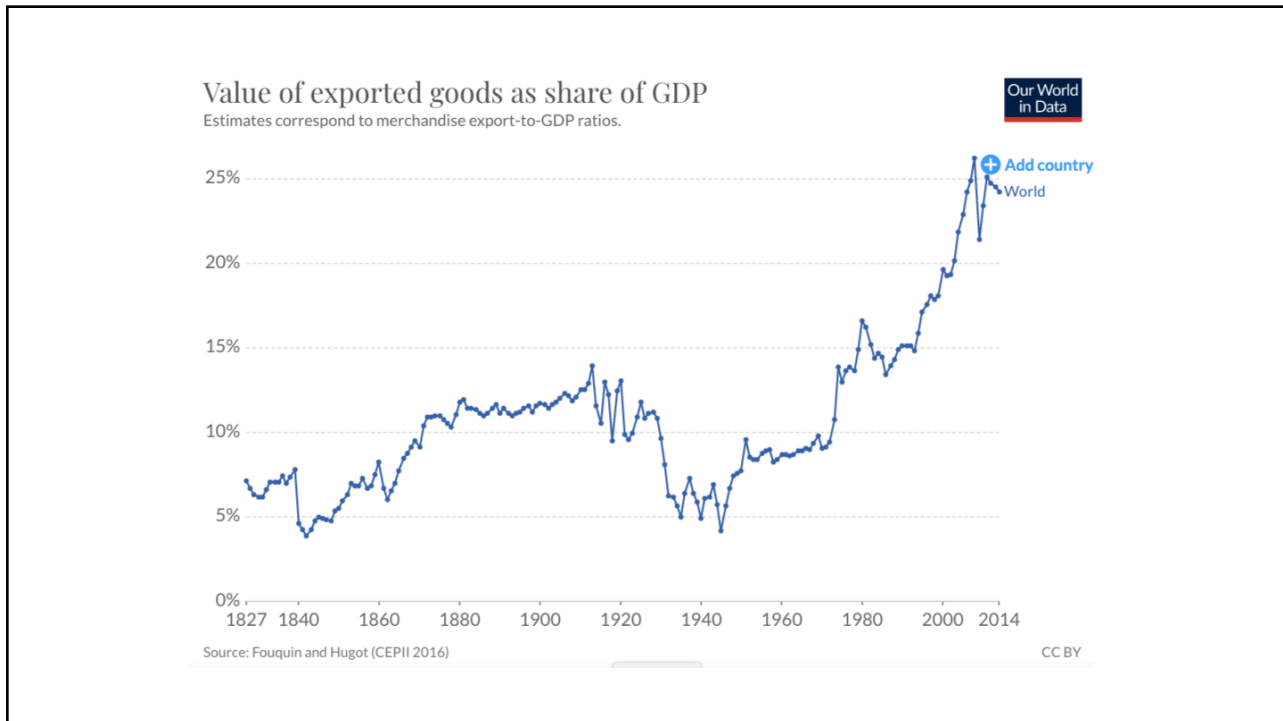
Trade

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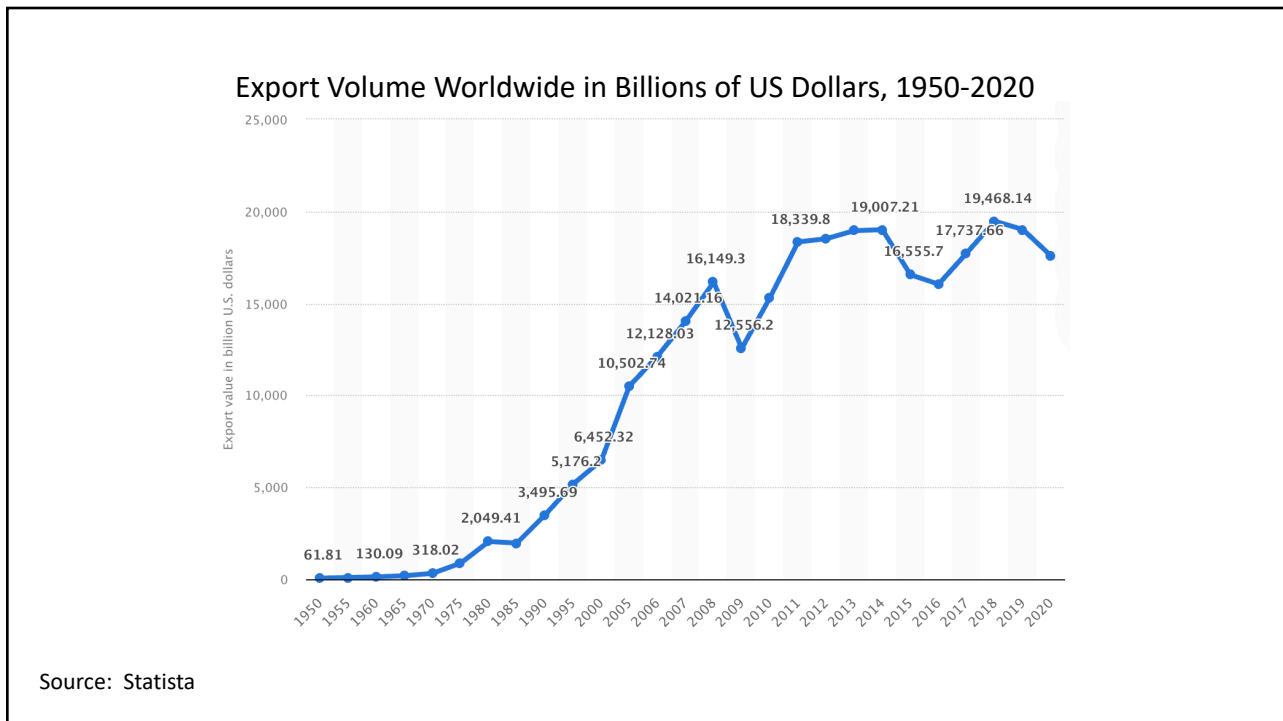
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Global Value Chains



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Effects on Economies

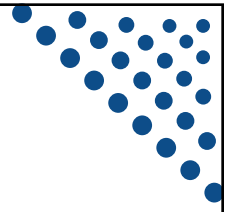
- **Supply Chains**
 - Globalization has created long and complex international supply chains



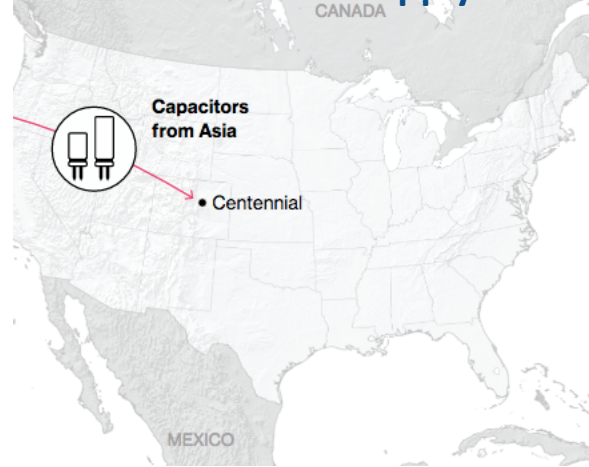
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NAFTA and the Auto Supply Chain

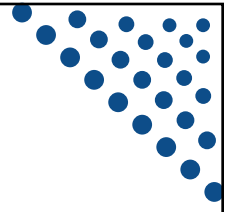


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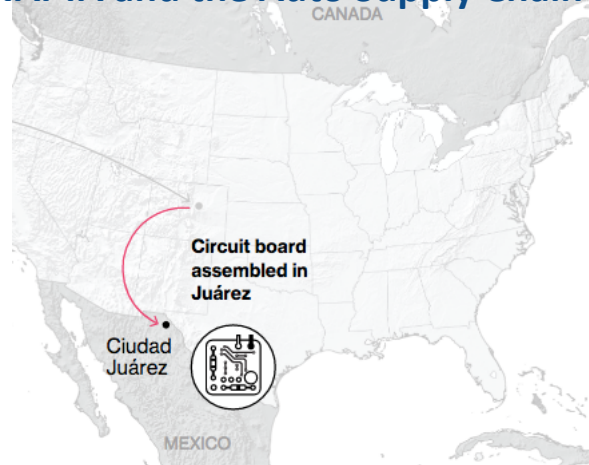
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

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NAFTA and the Auto Supply Chain

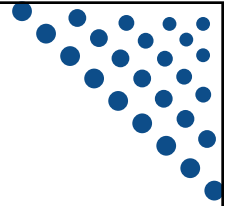


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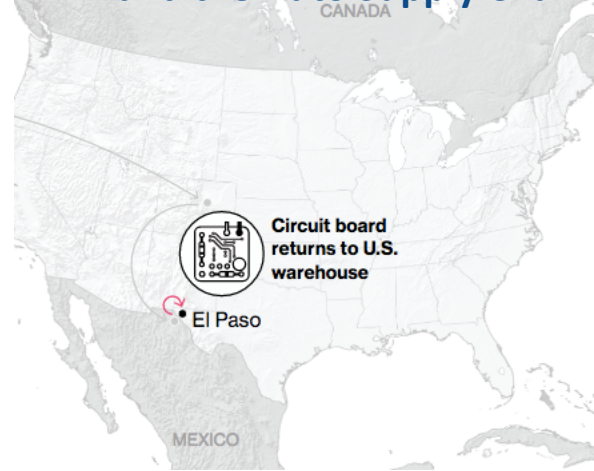
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NAFTA and the Auto Supply Chain

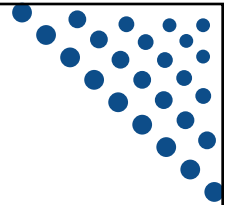


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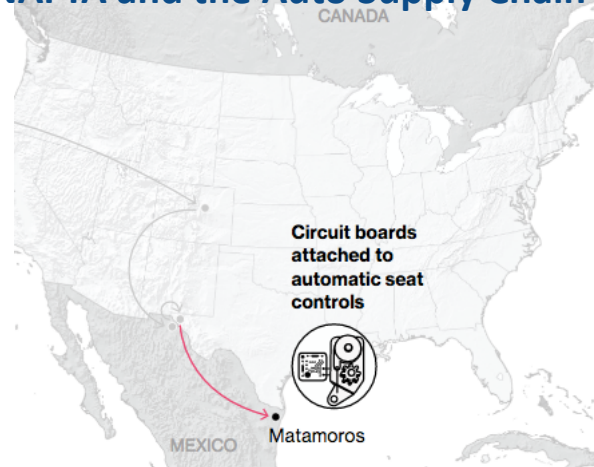
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NAFTA and the Auto Supply Chain

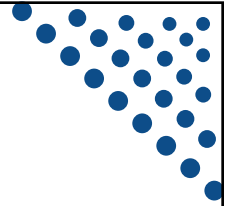


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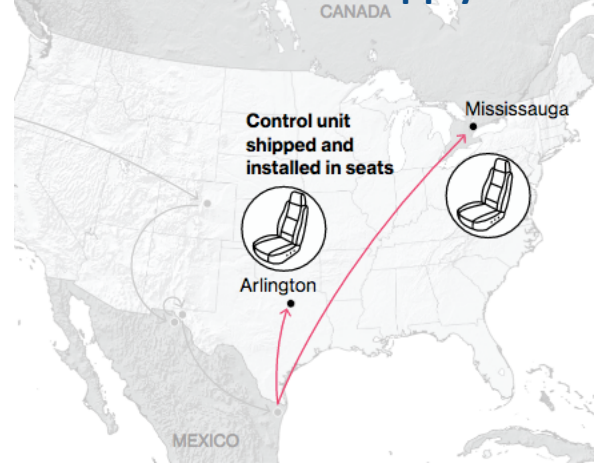
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NAFTA and the Auto Supply Chain

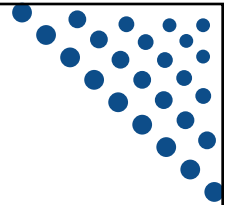


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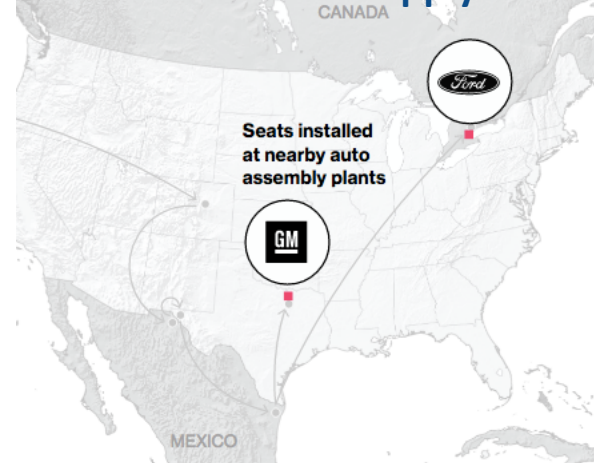
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NAFTA and the Auto Supply Chain



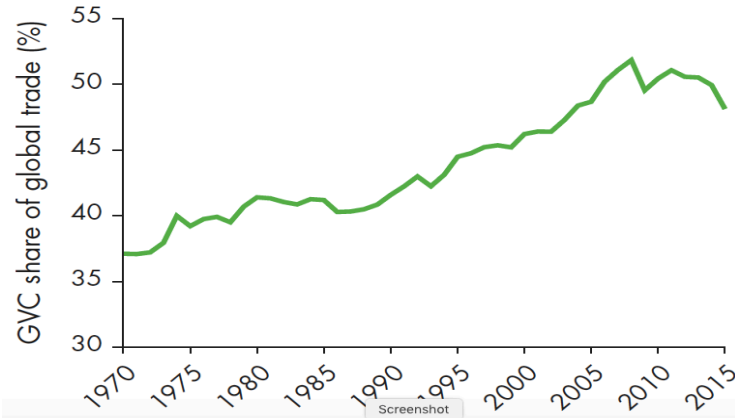
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Growth of Global Value Chains, 1970-2015

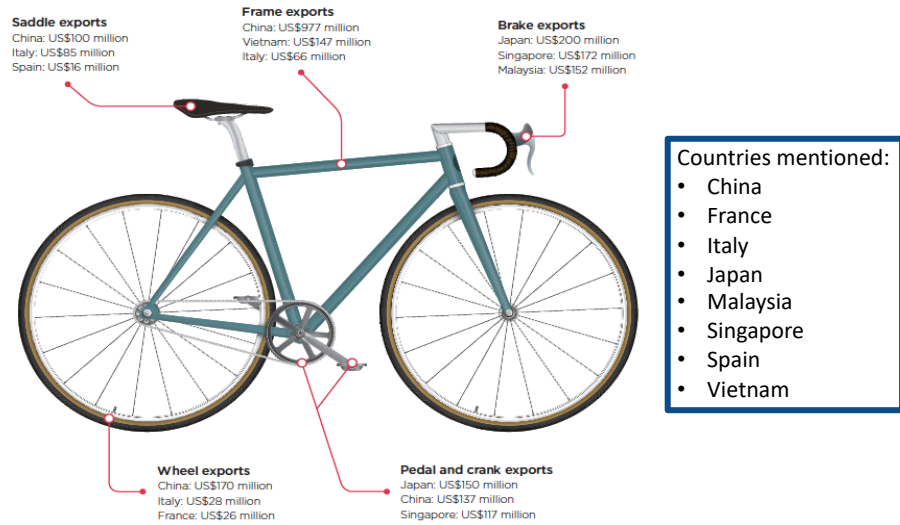
Figure 1.2 GVC trade grew rapidly in the 1990s but stagnated after the 2008 global financial crisis



Source: World Development Report 2020

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Figure 1.1 Where do bicycles come from?



Source: World Development Report 2020

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Supply Chains

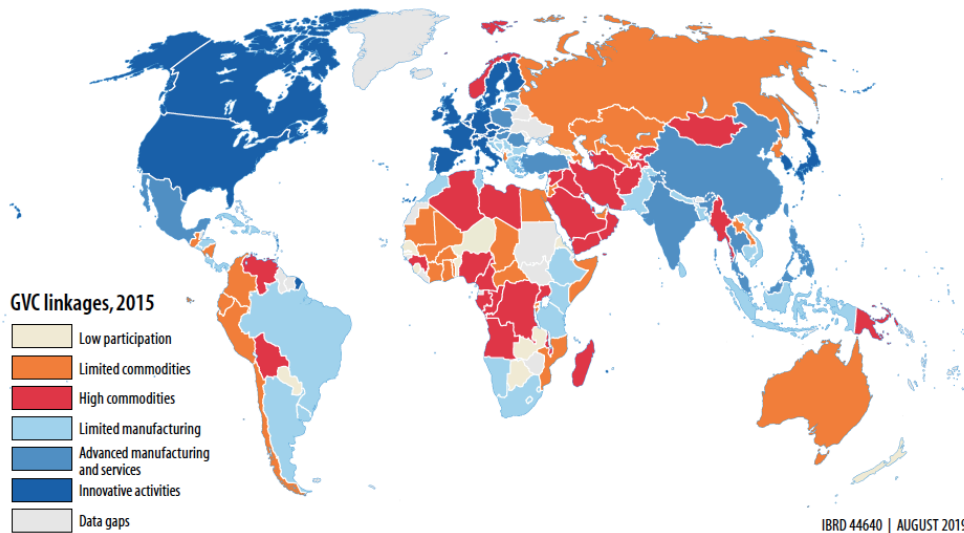
• Example: The iPhone assembled in China from parts:

| 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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Map 1.1 All countries participate in GVCs—but not in the same way



IBRD 44640 | AUGUST 2019

Source: World Bank

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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 gain,
 - o By producing
 - More than they need of what they do relatively best, and
 - Less than they need of what they do relatively worst
 - o And exporting the extra to other countries in exchange for what they need
- By doing that, ALL countries can
 - o Get more of everything, if that's what they want, and therefore
 - o Gain from trade

- **Illustration with a graph of just 2 countries & 2 goods**

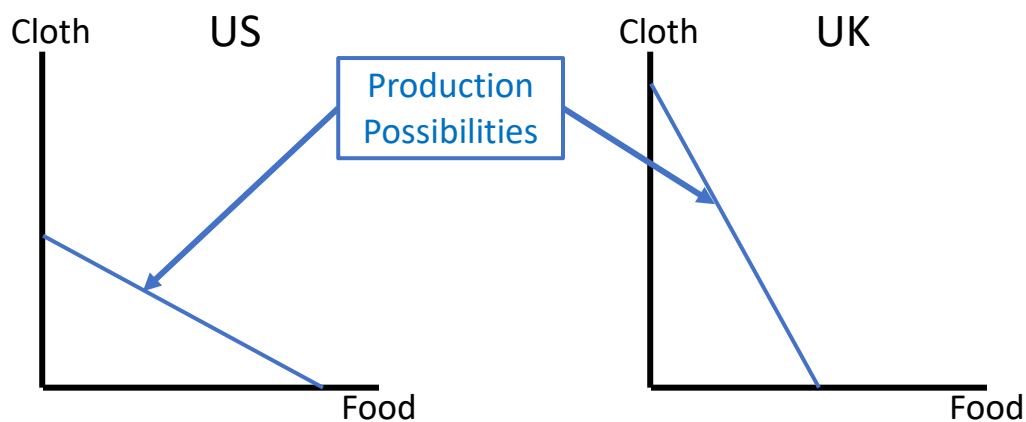


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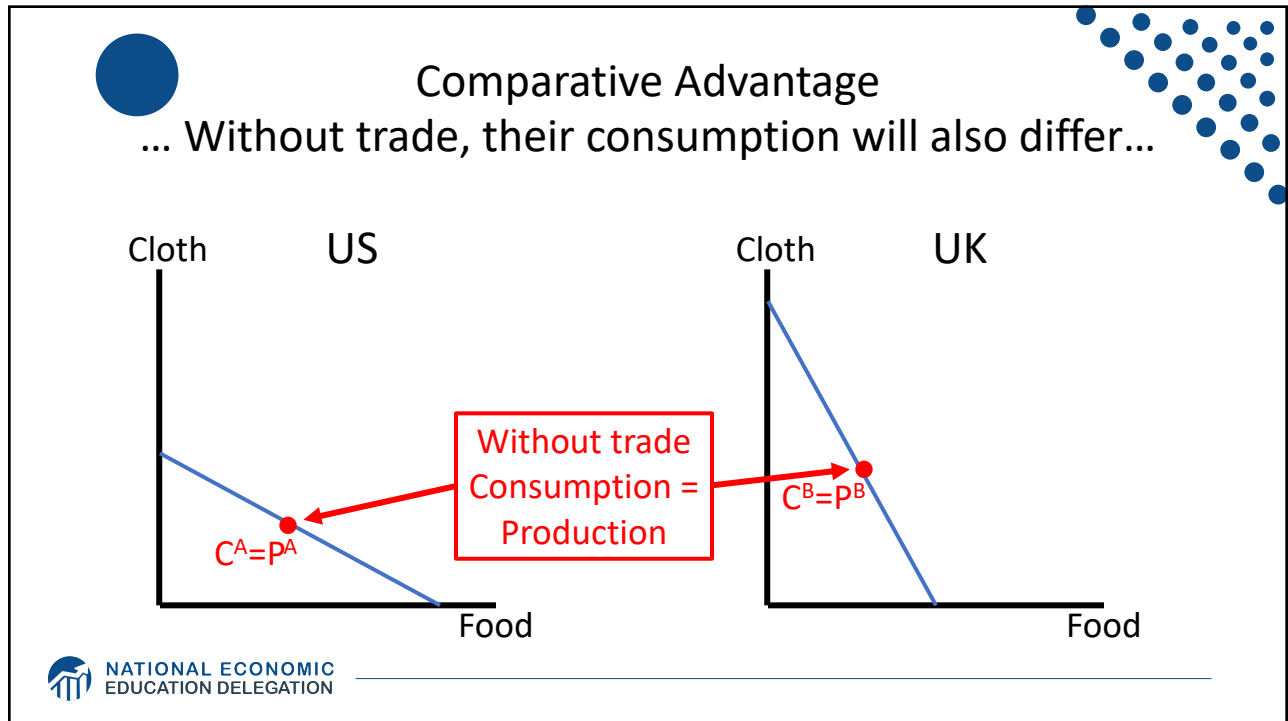


Comparative Advantage If US & UK differ in what they can produce...

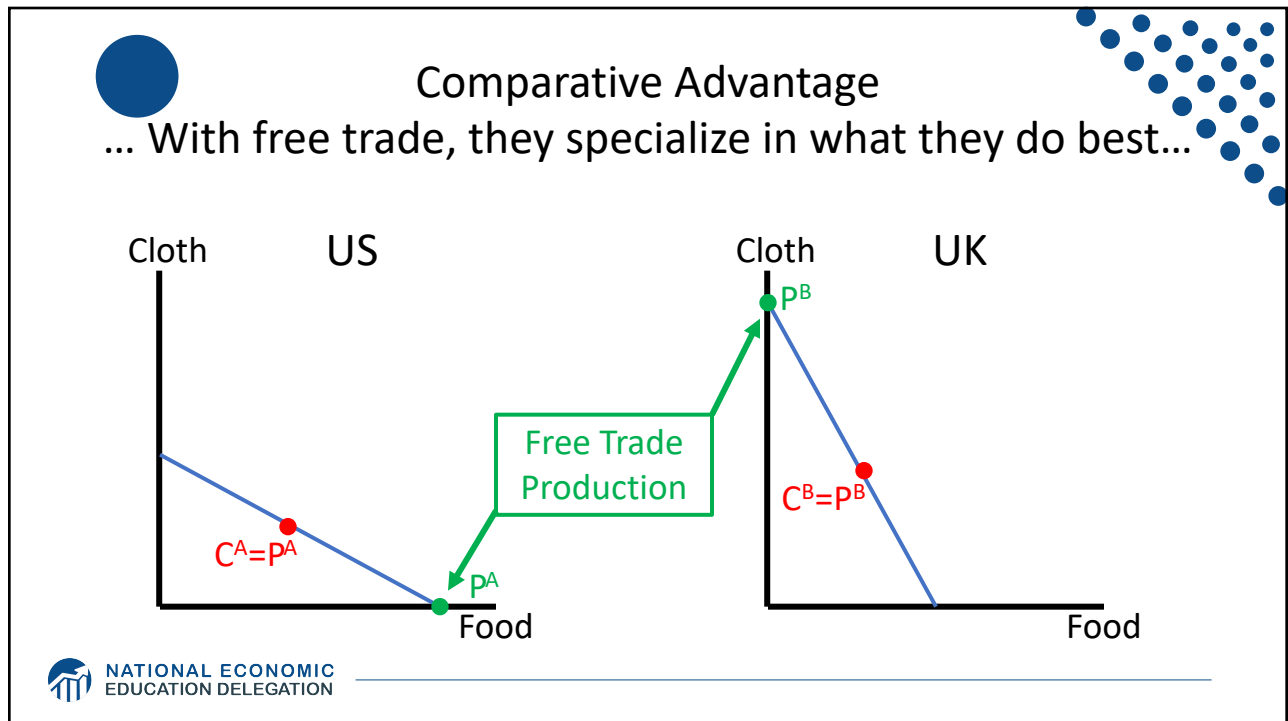


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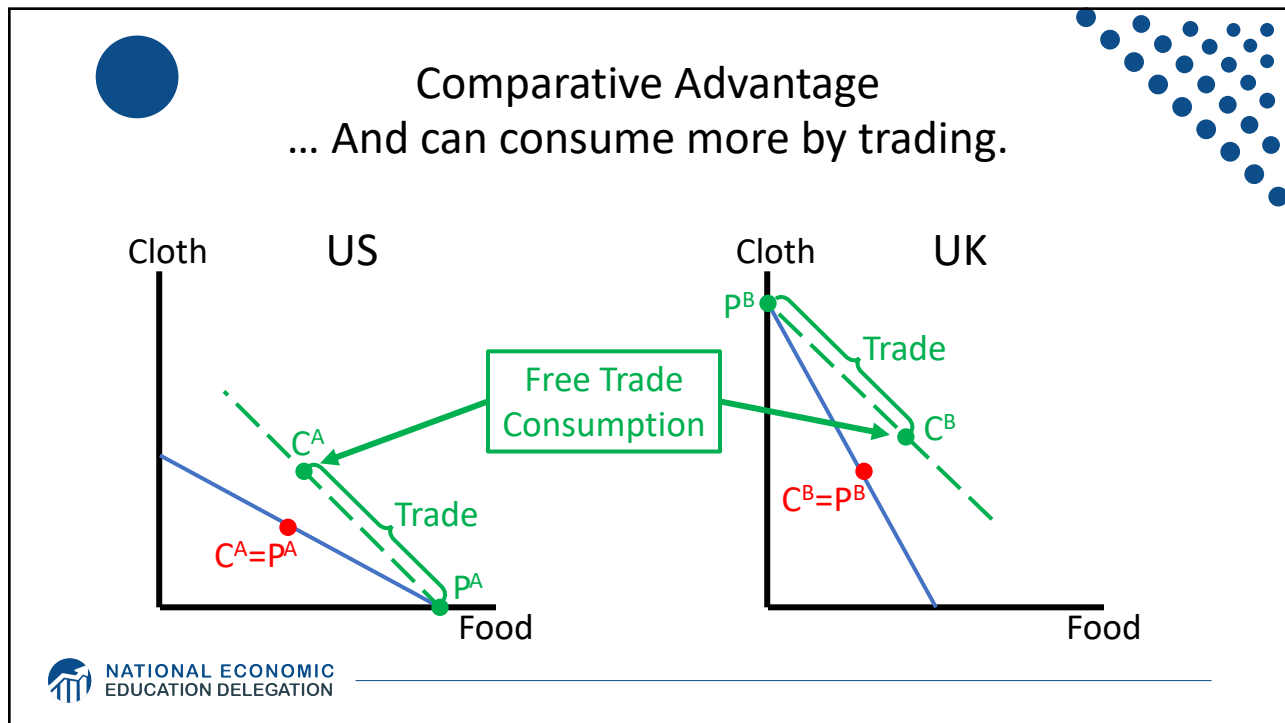
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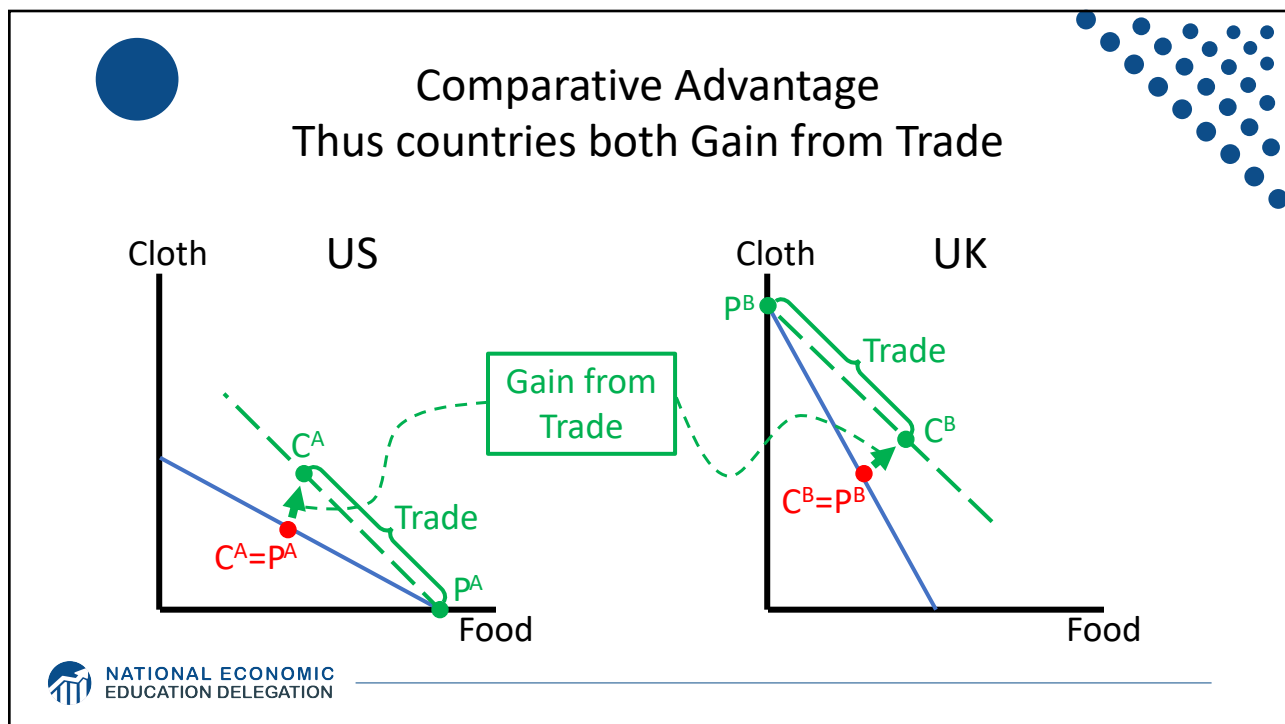
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Generality of Comparative Advantage

- **The Theory of Comparative Advantage requires:**

- “Perfect competition” (i.e., all buyers and sellers are very small)
- Absence of market “distortions” (externalities, etc.)
 - i.e., reasons why supplies and demands don’t reflect true costs and benefits

- **The Theory of Comparative Advantage does not require:**

- Any limit on numbers of goods, factors, and countries
- That only final goods are traded (thus consistent with supply chains)
- That factors (labor, capital) be immobile between countries
 - (However, the gains from trade then accrue to countries including their mobile-factor owners.)



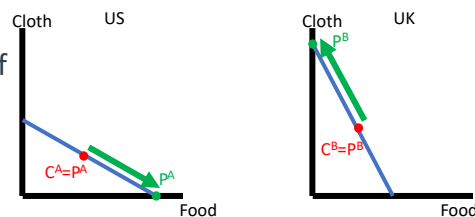
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Generality of Comparative Advantage

- **But note:**

- Nothing in the theory says that everyone in each country gains
- Opening to trade requires
 - Some industries to shrink or disappear while others expand
 - Firms and workers in shrinking industries
 - Certainly lose during the transition
 - May be permanently worse off
 - In example, losers are producers of
 - Cloth in US
 - Food in UK



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Gains from Trade

Other Sources of 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, both consumers and firms, 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 to those firms shrink or shut down
 - o Workers in both lose jobs
 - o And their **communities** lose customers
- Macroeconomic cost: Vulnerability to foreign recession/inflation
- Dependence on other countries' willingness to trade
- Vulnerability to trade disruption
 - o Crisis induced (earthquake, flood, disease, war)
 - o Policy induced (sanctions, tariffs, export bans)

- **Non-economic**

- Loss of cultural differences
- Spread of invasive species and plant disease
- Spread of human disease



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Pause

- **Pause for**
 - Questions
 - 5-Minute Break
- **Next: Trade Policies**



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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



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Policies that Encourage Globalization



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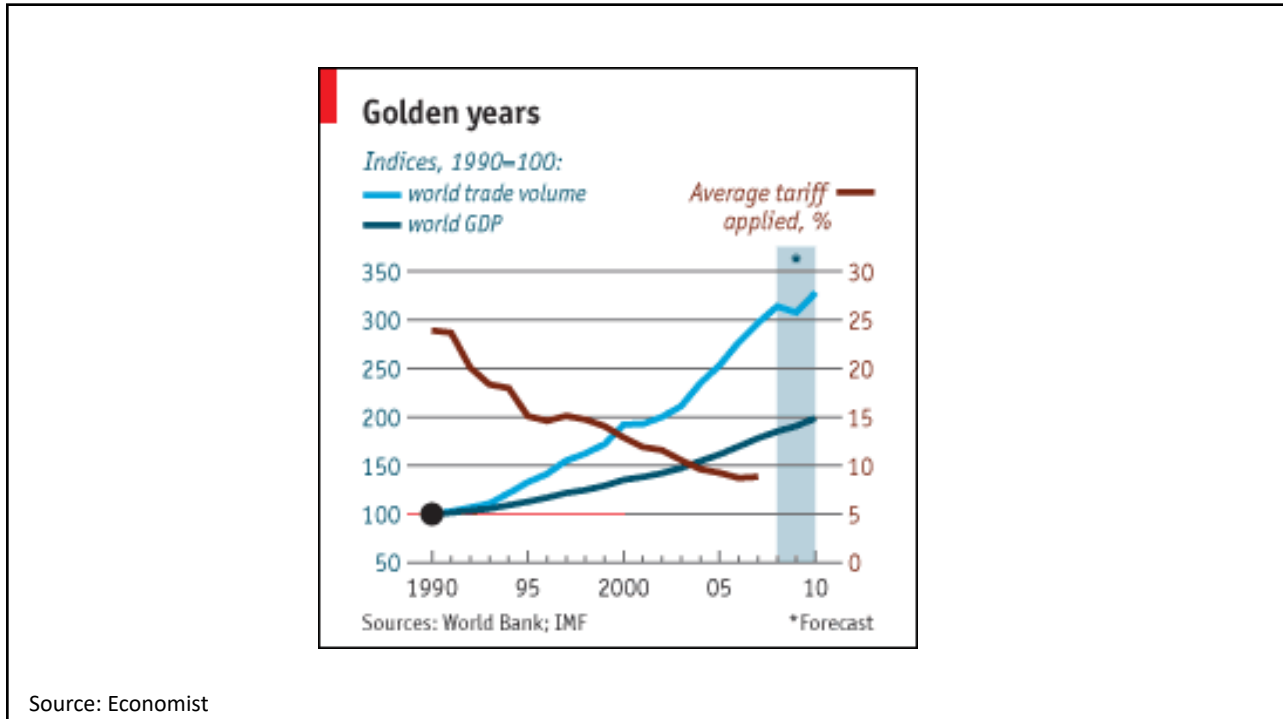


Tariff Reductions

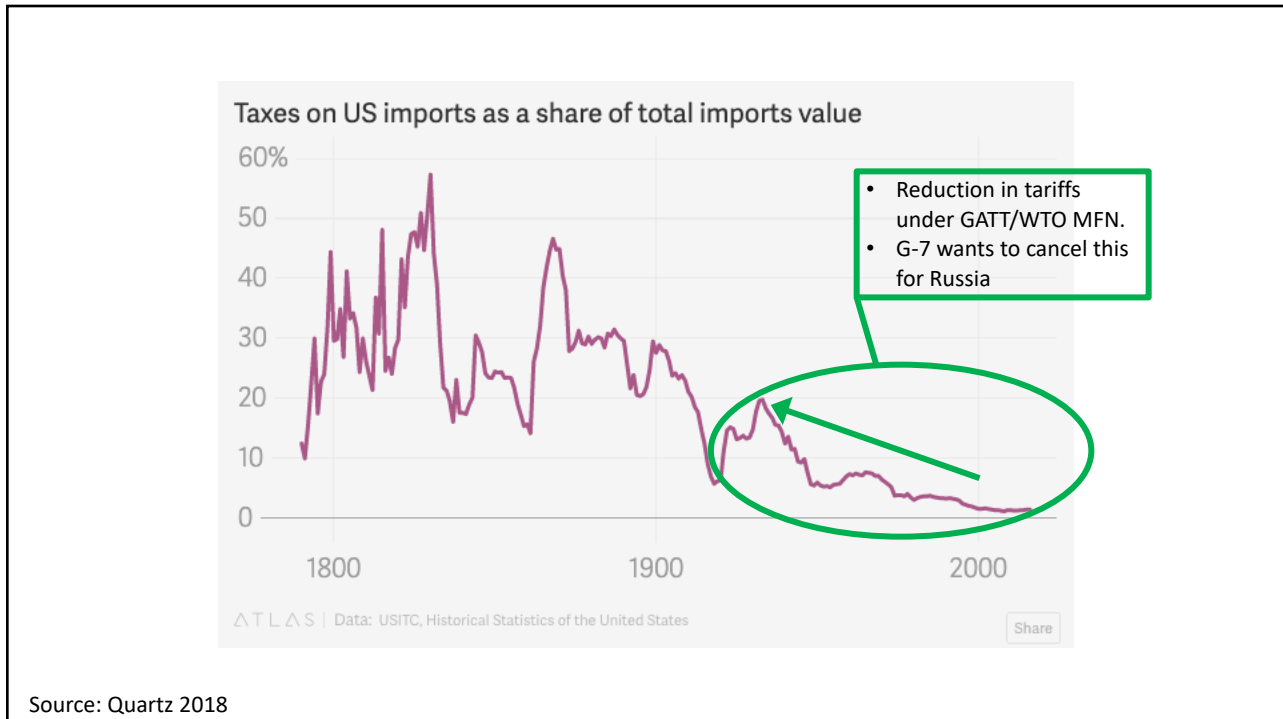


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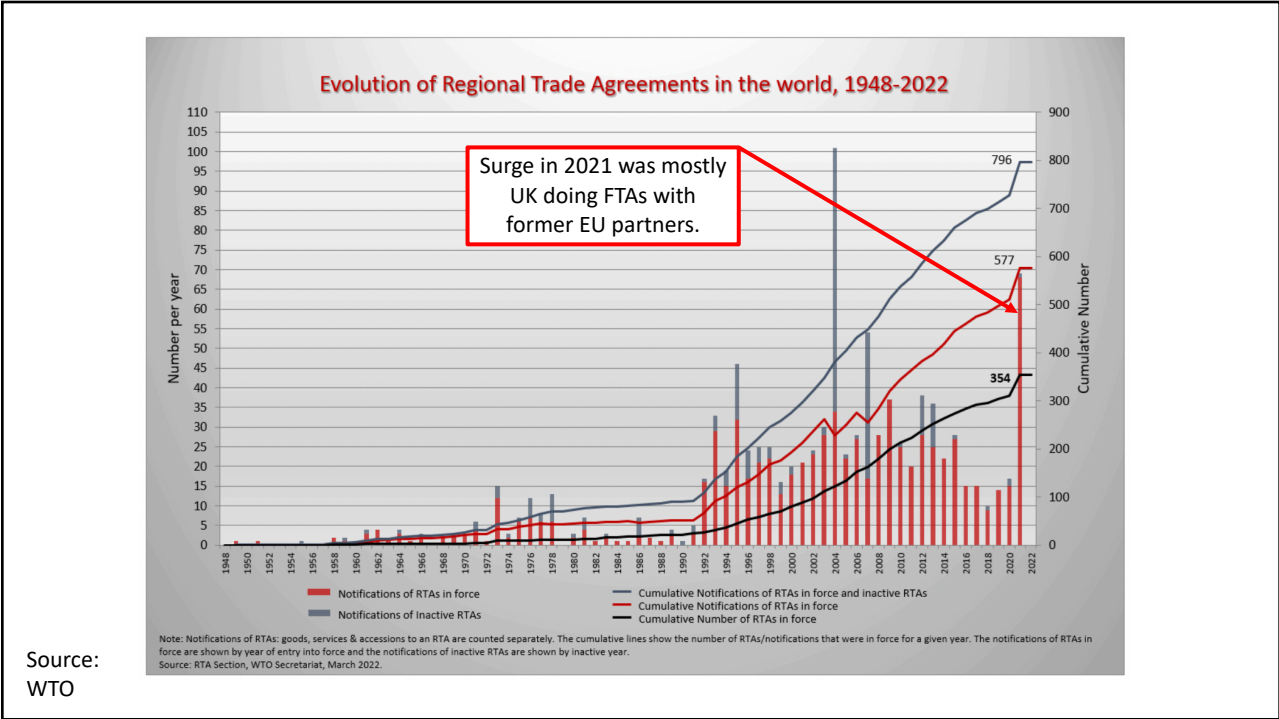


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Trade Agreements

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Source:
WTO

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European Union



Source: Europa.eu

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NAFTA (now USMCA)



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RCEP
=
**Regional
Comprehensive
Economic
Partnership**



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Other Policies to Encourage Globalization

- **IMF/World Bank**

- Policy advice to open markets (the "Washington Consensus")
- Loans to countries conditional on
 - o Reducing trade barriers
 - o Permitting capital flows

- **GATT/WTO (World Trade Organization) [More on this later, if time]**

- Negotiate reciprocal trade liberalization
- Settlement of trade disputes (usually about interfering with trade)

- **Bilateral Investment Treaties**

- Better treatment of multinational corporations

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Policies that Discourage Globalization



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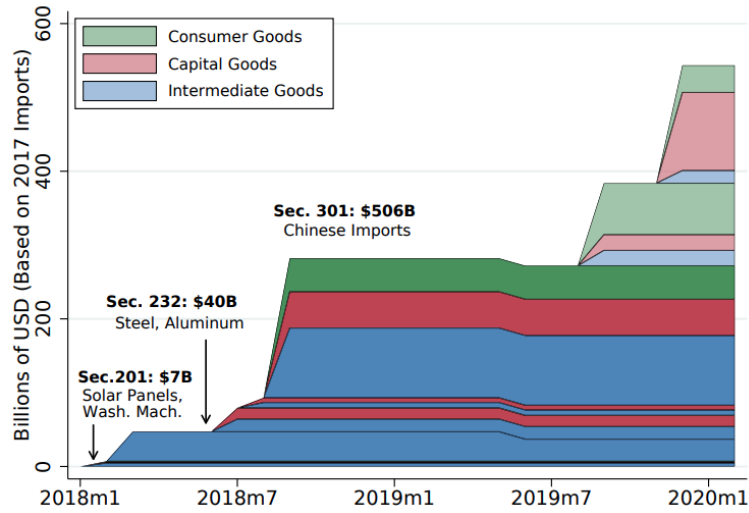
Trump's Tariffs and Trade War



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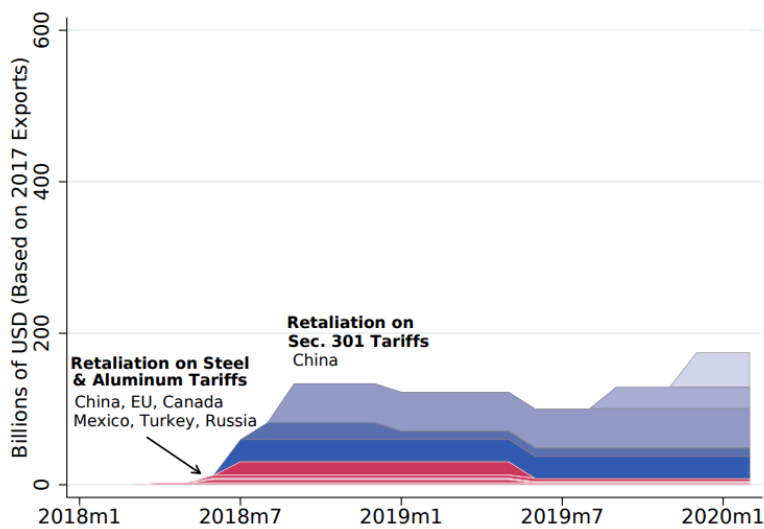
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Figure B1: Composition of New U.S. Import Tariffs: 2018-2019

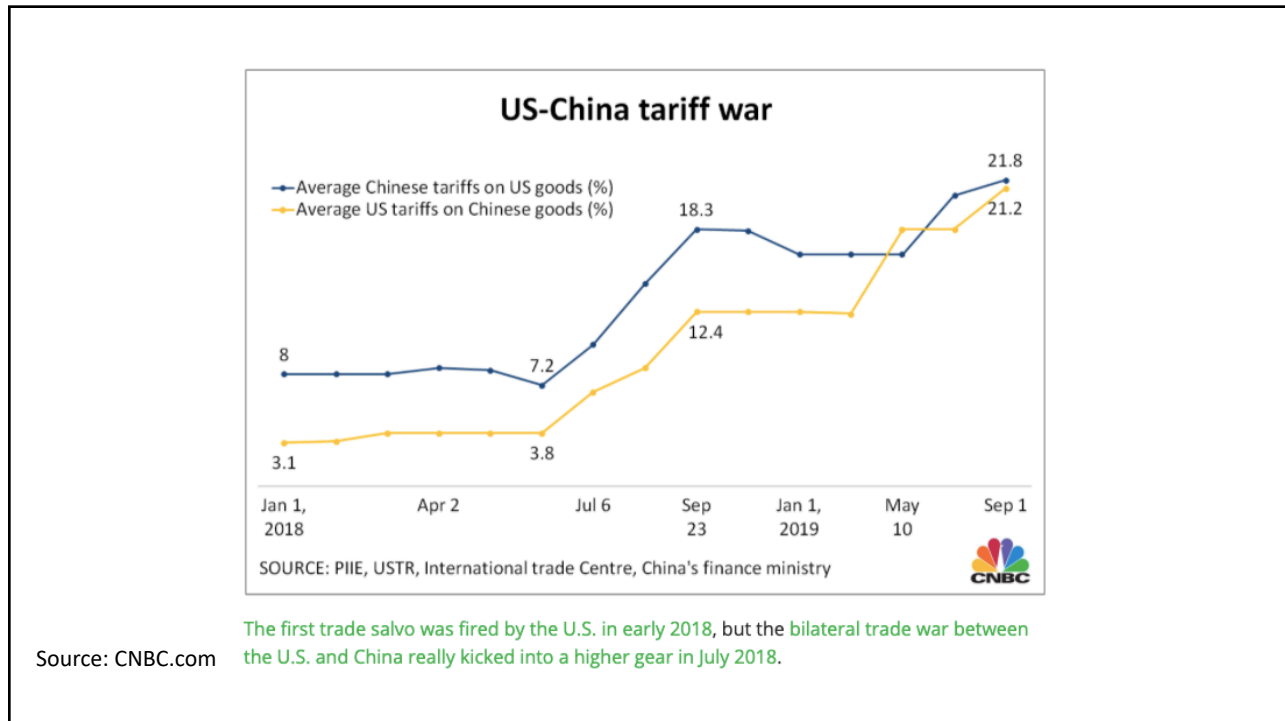


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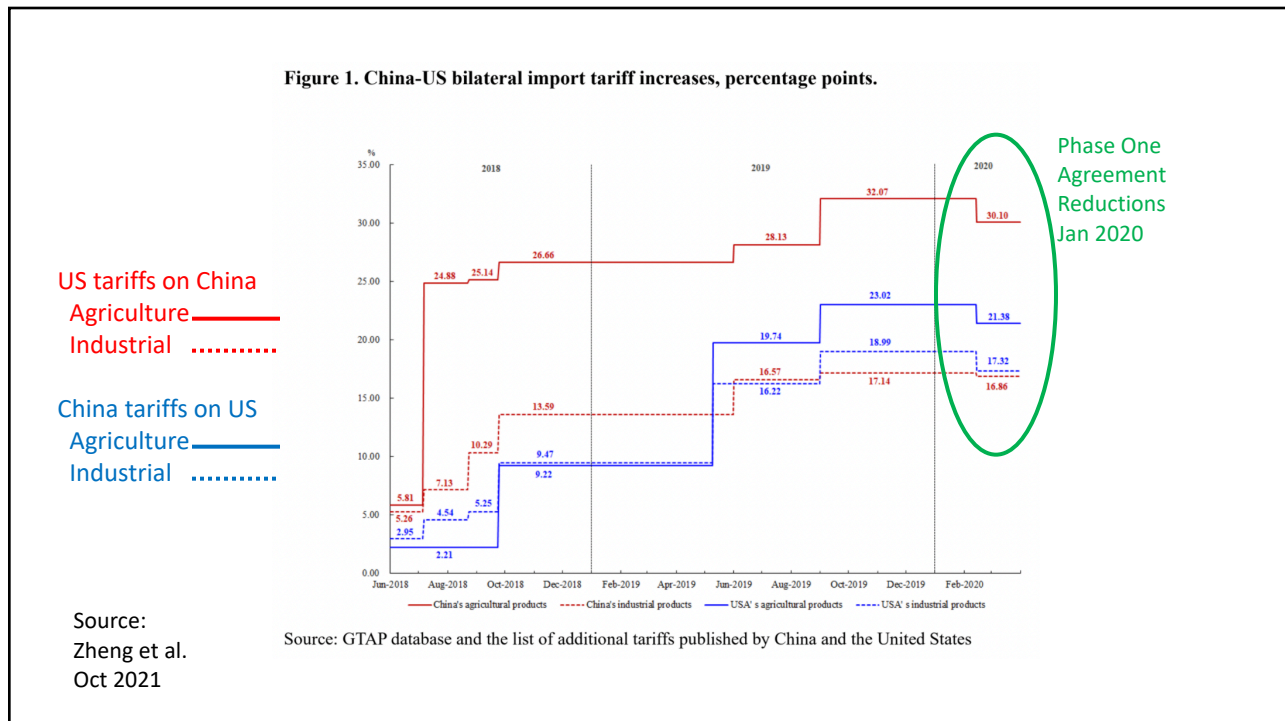
Figure 3: Timeline of Retaliatory Tariffs on U.S. Exports: 2018-2019




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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 as large as the U.S.
 - Example: Trump's tariffs caused US prices to rise, with hardly any perceptible fall in prices abroad.

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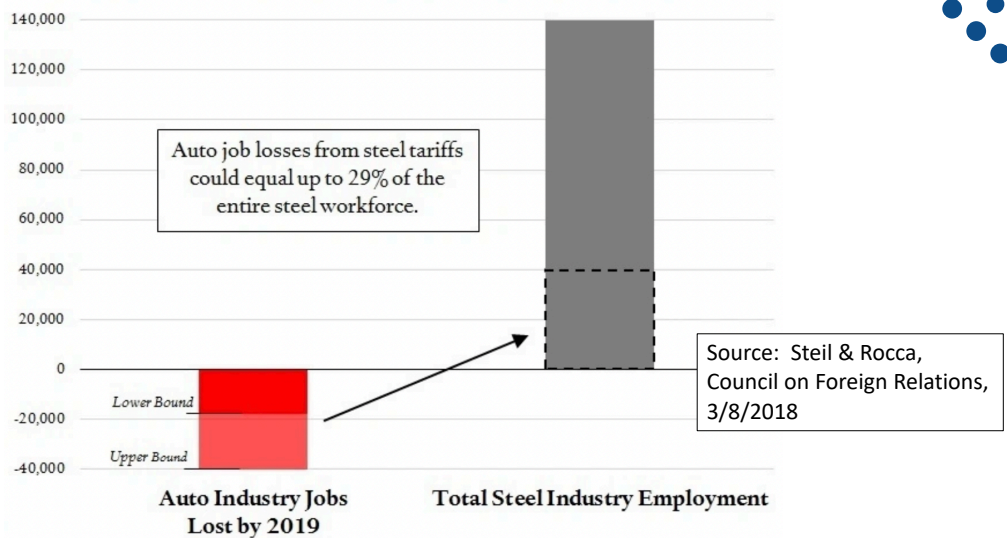
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Effects of a tariff

- **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 the protected product as inputs
 - Example: Trump's 25% tariff on steel
 - o Helped US steel firms and their workers
 - o Hurt US auto firms and workers
 - and many other industries that use steel

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U.S. Auto Jobs Jeopardized by Trump's Steel Tariffs



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Effects of a tariff

- **The fall in price in the exporting country causes**
 - Harm to sellers there
 - Benefit to buyers there
 - Shift of sales to other countries
- **If the tariff is on exports from only one country (e.g, China)**
 - Buyers shift to imports from other, more costly, countries (e.g., Vietnam)



Arguments for and against tariffs

- **If economists are so opposed to tariffs, why are they used?**
- **Arguments for protection**
 - Many have been used, both past and present
 - Some are potentially valid, but better policies exist
 - See the list in my Glossary of International Economics



Arguments for tariffs

Arguments for Protection

| | |
|--|---|
| <p><u>Balance of payments</u></p> <p><u>Cultural</u></p> <p><u>Decreasing cost</u></p> <p><u>Domestic distortions</u></p> <p><u>Employment</u></p> <p><u>Environmental protection</u></p> <p><u>Externalities</u></p> <p><u>Fairness</u></p> <p><u>Foreign investment</u></p> <p><u>Graham's</u></p> <p><u>Income redistribution</u></p> <p><u>Infant industry</u></p> <p><u>Labor standards</u></p> | <p><u>Monopoly</u></p> <p><u>National defense</u></p> <p><u>Noneconomic objectives</u></p> <p><u>Optimal tariff</u></p> <p><u>Patriotism</u></p> <p><u>Pauper labor</u></p> <p><u>Revenue</u></p> <p><u>Second-best</u></p> <p><u>Self-sufficiency</u></p> <p><u>Strategic industry</u></p> <p><u>Strategic trade policy</u></p> <p><u>Sunset industry</u></p> <p><u>Terms of trade</u></p> |
|--|---|

Government Revenue

Distribution

Infant Industry

National security

Strategic trade policy

Source: Deardorff's *Glossary of International Economics*

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Arguments against tariffs

- **Arguments against tariffs**
 - Economic gains from trade (see above)
 - Tariffs prompt retaliation
 - Some valid arguments for tariffs depend on information that is either
 - o Unavailable, or
 - o Available only from the protected industry
 - Even when net beneficial, tariffs are politically hard to remove
 - **Lower tariffs and greater trade reduce the likelihood of war**

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Skip to Conclusions

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The Role of Trade Agreements

- **Countries have negotiated trade agreements throughout history**

- At least back to the 1500's between the Ottoman Empire and the powers of Europe
- The first "free trade agreement" (FTA) was between Britain and France in 1860, soon followed by many more
 - o Removed tariffs on trade with each other
- US used "reciprocal trade agreements" starting in 1934 to reduce tariffs and dig out of the Great Depression
- US led negotiation of multilateral agreements via
 - o GATT (General Agreement on Tariffs and Trade) 1948
 - o WTO (World Trade Organization) 1995

The Role of Trade Agreements

- **Trade Agreements (both WTO & FTAs)**

- Promote trade by
 - o Reducing tariffs
 - o Blocking policies that discriminate against imports
- But they also do much else, mostly to serve business interests:
 - o Permit anti-dumping duties to deter competition
 - o Protect intellectual property (patents, etc.)
 - o Allow investor action against governments

The Role of Trade Agreements

- **WTO**

- 164 member countries
- Includes
 - China since 2001
 - Russia since 2012
 - Not Iran, N. Korea
- Headquarters Geneva, Switzerland



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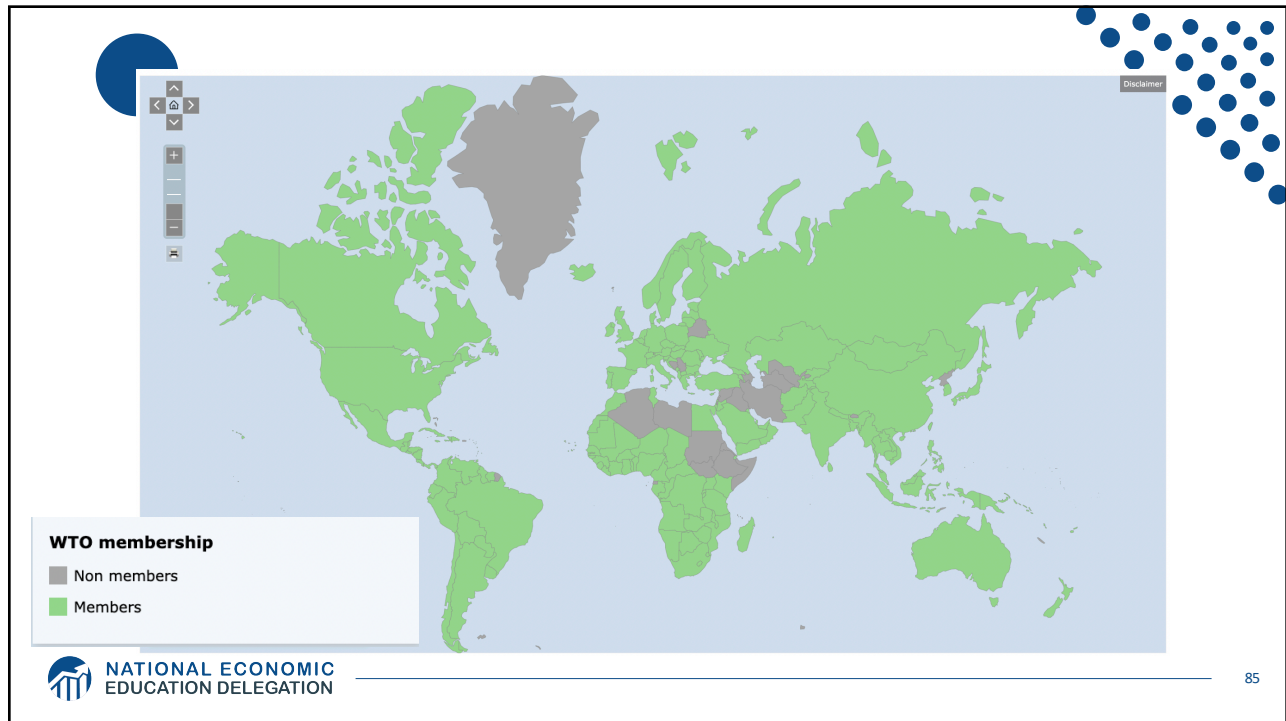
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The Role of Trade Agreements

• The WTO has

- Three Parts:

1. GATT (Still exists, as largest part of WTO)
 - limits tariffs
 - Permits exceptions (anti-dumping, etc.)
2. GATS = General Agreement on Trade in Services
3. TRIPs Agreement = Trade Related aspects of Intellectual Property Rights

- Two Basic Principles

1. Most Favored Nation (Don't discriminate among exporters)
2. National Treatment (Don't discriminate against imports)

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The Role of Trade Agreements

• The WTO's Main Functions

- Negotiation of reduced trade barriers
 - Tariffs (GATT did this well; WTO did not)
 - Removal of other barriers
- Dispute settlement
 - Countries bring cases against others
 - WTO “panels” and “Appellate Body” decide

The Role of Trade Agreements

• WTO Negotiation

- Ministerial Meetings
 - Held every ~2 years 1996-2017
 - Next #12 was delayed,
 - But is happening now, through tomorrow, in Geneva
 - Agreements
 - Multilateral
 - None on tariffs
 - A few on other measures (e.g., export subsidies in agriculture)
 - Plurilateral
 - Information technology
 - Telecoms
 - Financial services

The Role of Trade Agreements

• WTO Dispute Settlement

- There have been 612 cases initiated since 1995 (as of 6/15/22)
- About 90% have been decided in favor of the complainant, both by US (132) and against US (168)
- The mechanism has been unable to decide cases since December 10, 2019 when
 - o President Trump blocked appointments to Appellate Body
 - o President Biden has not changed this



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Globalization's Future?



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Globalization's Future?

- **Will trade, travel, etc. come back?**
 - Yes, but only partly.
 - They've been hit hard by financial crisis, trade war, pandemic, and now war
- **Will attitudes change?**
 - Yes.
 - Firm's will try to limit exposure ("just in case" instead of "just in time")
 - Consumers will learn to live differently
 - Reported July 20: Biden administration wants "friend-shoring." No mention yet of policies.
- **Will economists' views of globalization change?**
 - I think so.
 - o We still think globalization is good overall,
 - o But we're learning that it needs to include
 - Reduced reliance on single sources
 - Greater protections for those who are hurt.

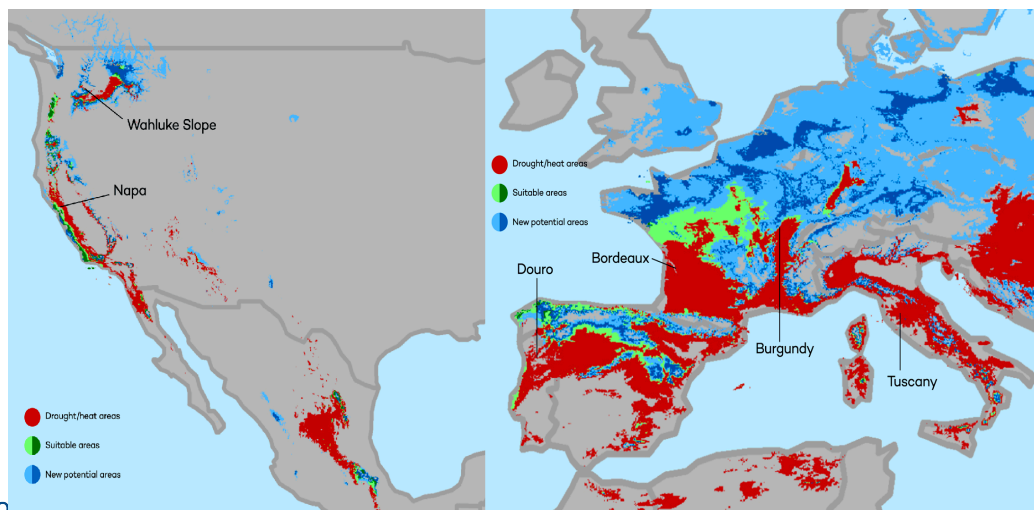


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Climate Change Economics: Sarah Jacobson

The changing map of the world's wine-growing regions.



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Thank you!

Any Questions?

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