



## ***Osher Lifelong Learning Institute, Winter 2022*** **Contemporary Economic Policy**

Johns Hopkins University  
Fall, 2022

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

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### **Available NEED Topics Include:**

- US Economy
- Healthcare Economics
- 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
- Healthcare Economics

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## Course Outline: Johns Hopkins University

- **Contemporary Economic Policy**

- Week 1 (11/3): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 2 (11/10): Economic Inequality (Adina Ardelean, Santa Clara Univ.)
- Week 3 (11/17): Economics of Immigration (Jennifer Alix-Garcia, Oregon State Univ.)
- Week 4 (12/1): U.S. Economic Update (Jon Haveman, NEED)
- **Week 5 (12/8): Trade and Globalization (Adina Ardelean, Santa Clara Univ.)**
- Week 6 (12/15): Climate Change Economics (Sarah Jacobson, Williams College)




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## Submitting Questions

- **Please submit questions in the chat.**
  - I will try to handle them as they come up, but may take them in a bunch as time permits.
- **I will catch up on the questions in the chat before starting up again after the break.**
- **We will do a verbal Q&A once the material has been presented.**
  - And the questions in the chat have been addressed.



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**Contemporary Trade Issues**

OLLI, Johns Hopkins University  
December, 2022  
Adina Ardelean, Ph.D.



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**Outline**

- Globalization
- The Benefits and Costs of Trade and Offshoring
- Trade Policies



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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



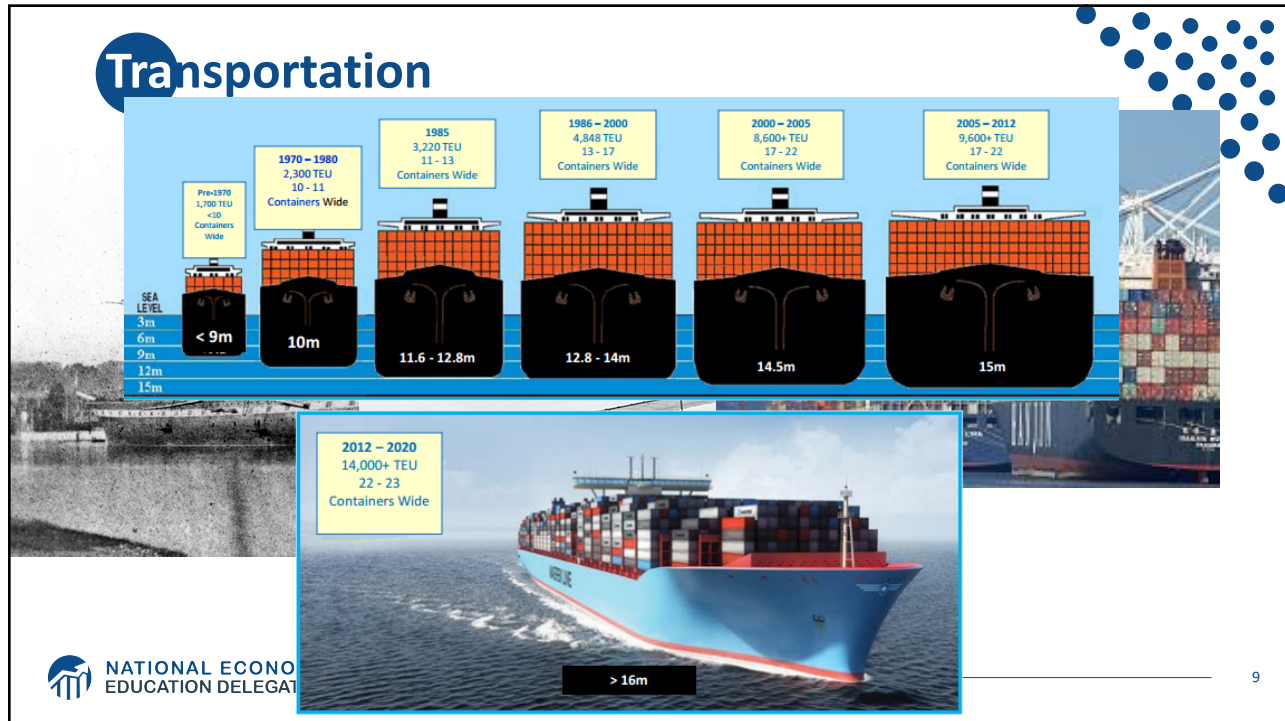
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## What Drives Globalization?

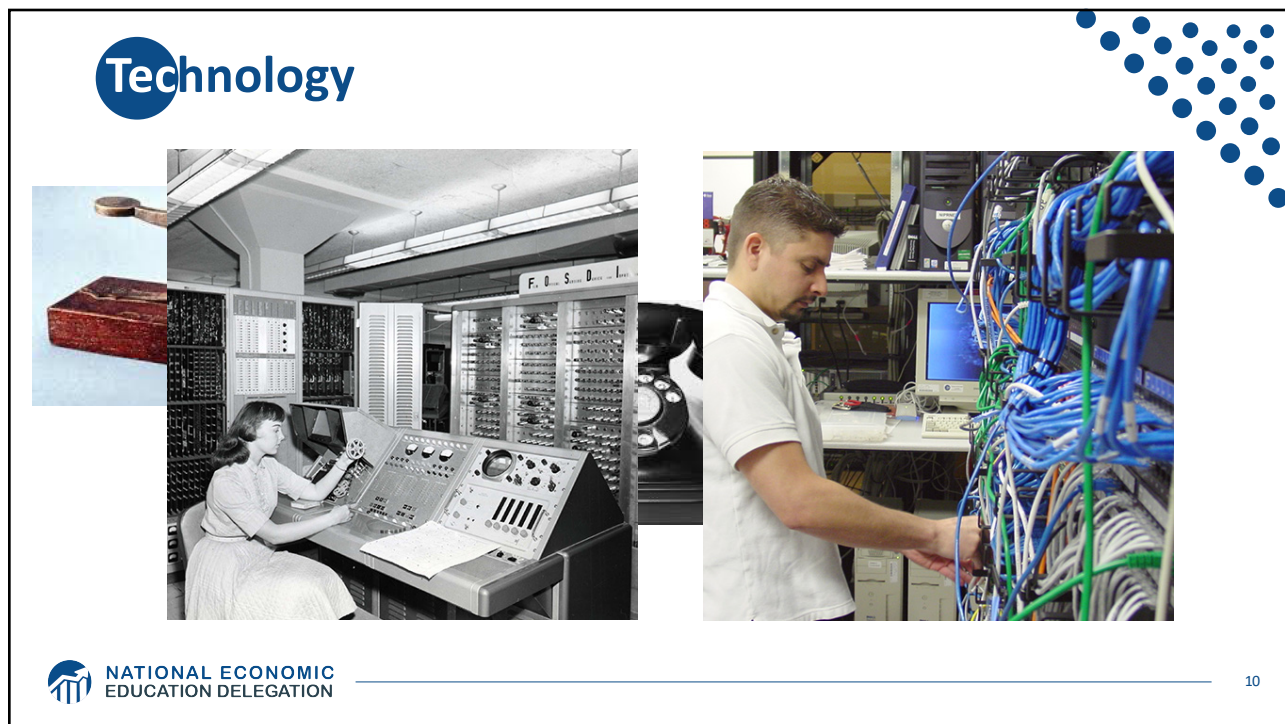
- **Transportation**
- **Technology**
- **International Cooperation**



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# International Cooperation



## 1995 World Trade Organization (WTO)

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

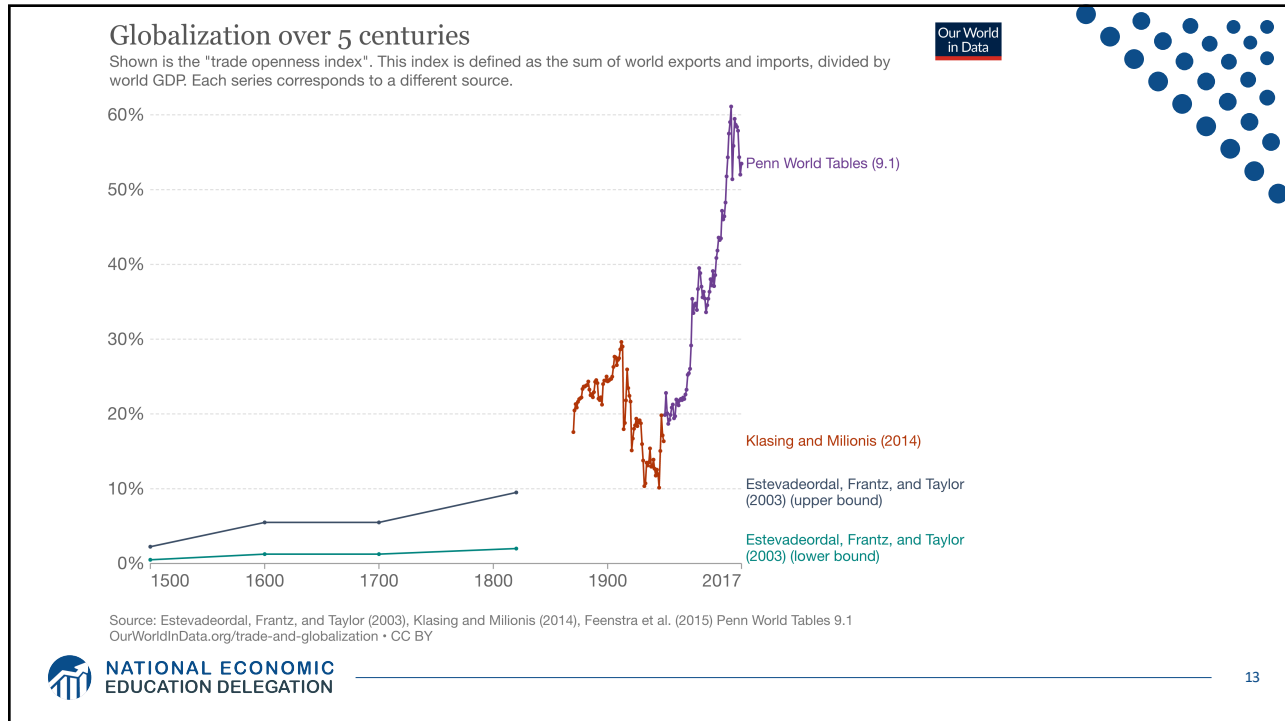
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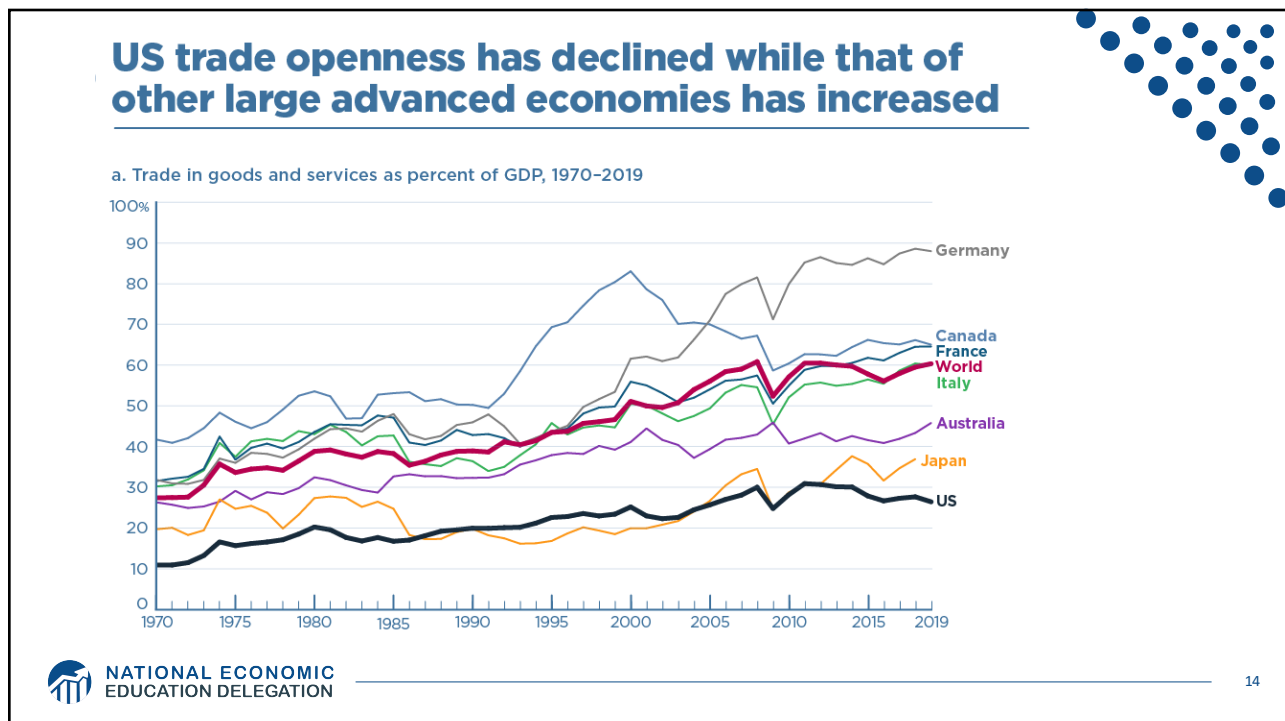
# International Trade

Exports and Imports





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## What do we Export? (\$1.51 Trillion in 2019)

Rank	U.S. Export Product	% of Total Exports
1	Machinery and appliances	13.7%
2	Mineral fuels and oils, and products	13.2%
3	Electrical machinery and equipment	10.8%
4	Vehicles and their parts	8.68%
5	Instruments and apparatus	6.71%



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Source: The Observatory of Economic Complexity at MIT

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## What do we Import? (\$2.37 Trillion in 2019)

Rank	U.S. Import Product	% of Total Imports
1	Machinery and appliances	15.7%
2	Electrical machinery and equipment	13.9%
3	Vehicles and their parts	13%
4	Mineral fuels and oils, and products	8.34%
5	Pharmaceutical products	5.35%



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Source: The Observatory of Economic Complexity at MIT

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## Top US Trade Partners (Goods, 2019)

### • Top 5 US export destinations

Rank	Export Destination	% of Total Exports
1	Canada	16.8 %
2	Mexico	15.6 %
3	China	6.82 %
4	Japan	4.61 %
5	Germany	3.91 %

### • Top 5 US import sources

Rank	Import Source	% of Total Imports
1	China	18.1 %
2	Mexico	15.2 %
3	Canada	13.2 %
4	Japan	5.6 %
5	Germany	5.47 %



## Global Value Chains (Offshoring)

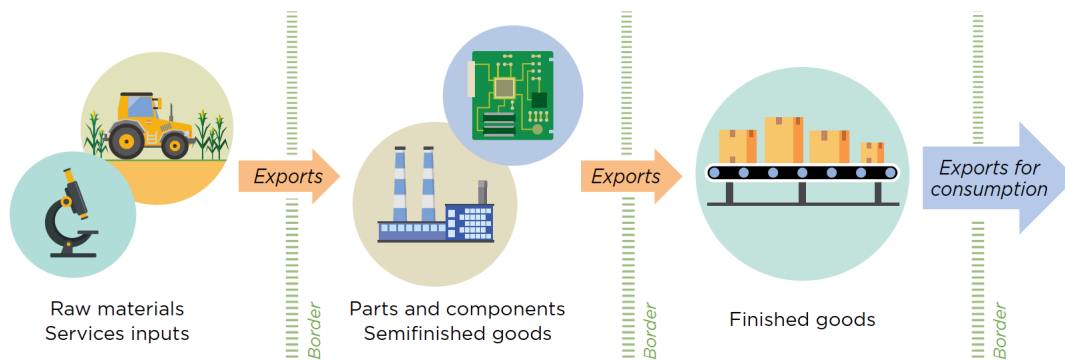


# Offshoring – A New Form of Globalization



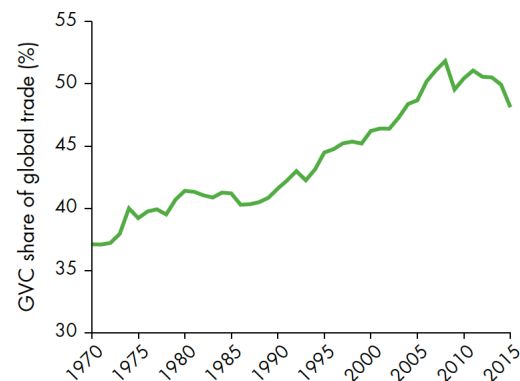
## What is Offshoring?

*A global value chain breaks up the production process across countries. Firms specialize in a specific task and do not produce the whole product.*

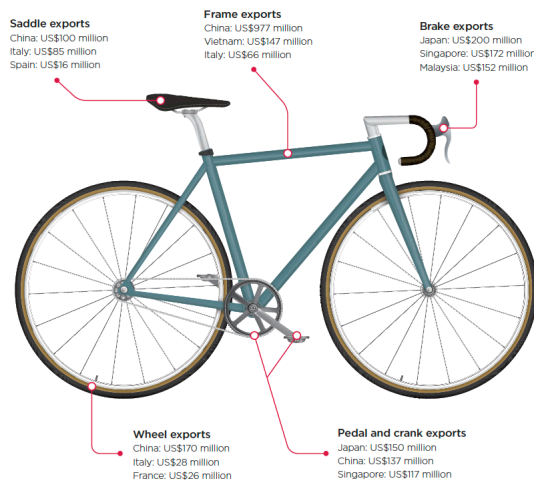


## Related to Trade

- **Offshoring overlaps with trade because it**
  - ... typically involves imports of intermediate goods (components) or services
- **Still: Offshoring is important by itself**
  - Hard to imagine almost any manufactured consumer good in the US without offshoring (imported inputs)
  - Has distinct implications for US firms, employment, and welfare



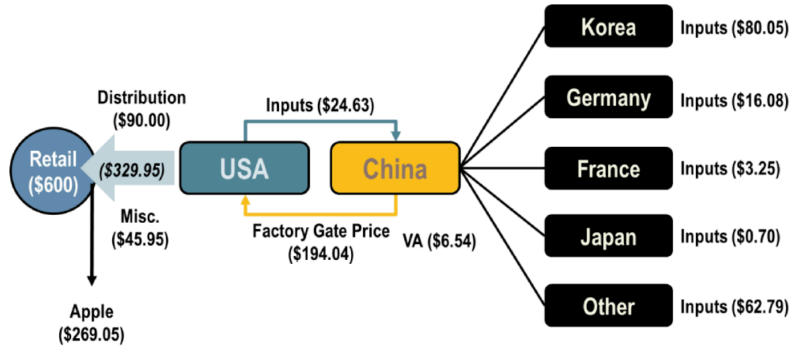
## An Example: Bicycles



Source: WDR 2020 team, using data from UN Comtrade database. See appendix A for a description of the databases used in this Report.

- **Parts and components from suppliers all over the world:**
  - China
  - Japan
  - Italy, France, Spain
  - Malaysia
  - ...

## An Example: The iPhone 4



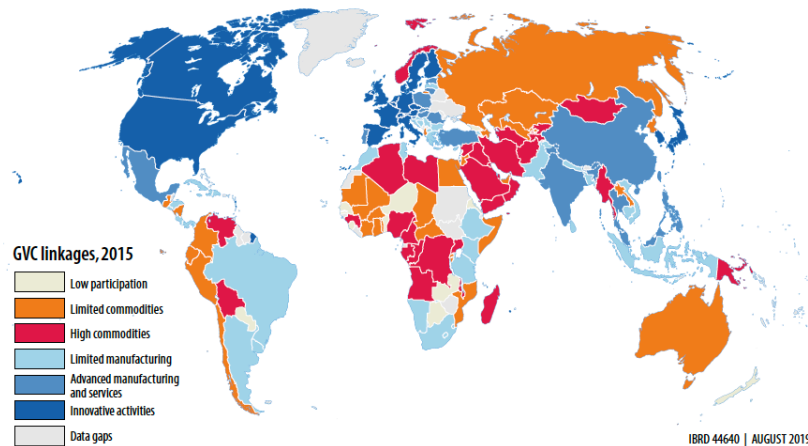
Value Creation and Capture, iPhone 4

Source: adapted from OECD (2011) "Global Value Chains: Preliminary Evidence and Policy Issues", Organization for Economic Co-operation and Development, DSTI/IND(2011)3, Paris, 2011.

Source: The Geography of Transport Systems, 5th edition by Jean-Paul Rodrigue

## How Much Offshoring Has Happened?

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



Source: WDR 2020 team, based on the GVC taxonomy for 2015 (see box 1.3).

IBRD 44640 | AUGUST 2019

Source: World Development Report, 2020

## 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!
    - Scarce resources: training time
    - 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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## Comparative Advantage - Summary



- **Every country has a good or a set of goods that it is RELATIVELY better at producing.**
  - Those are the goods that it will export.
  - It will import the other goods.
- **There are exceptions.**
  - Varieties and competition
  - May find countries trading the same goods back and forth.

## Trade Contributes to Growth

- **EFFICIENCY:**
  - Allocates production across countries efficiently so that countries can specialize in what they are best at producing.
  - Most productive firms expand and export
- **Varieties**
  - More choice for consumers.
  - Better inputs for our production.
- **Competition**
  - Brings in cheaper goods.
    - Makes consumers better off.
- **Economies of Scale**
  - Trade makes some industries bigger, more cost efficient. Lowers prices.



## Why Do Firms Engage in Offshoring?

- **Main motive for offshoring: Costs savings**
  - Firms benefit from international specialization along global value chains
- **Typically US firms seek cheap labor → Prime offshoring destinations: Low-wage countries like China (14%) and Mexico (10% of US imports of intermediate goods in 2011)**
- **Classic examples:**
  - Automotive parts offshored to Mexico
  - Call centers offshored to India
- **But also: Access to raw materials, intermediate goods, or specific technologies → EU (20%) and Canada (17%)**



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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!)**



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## Costs of Trade

- **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



## Trade Policy



## Trade Policies that Affect Globalization

- Policies that Encourage It
  - Tariff Reductions
  - Trade Agreements
  - Other
- Policies that Discourage It
  - Tariffs
  - Trade War



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# Trade Policies Encouraging Globalization



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# Tariff Reductions

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## Tariffs, 1860-2019

Average tariffs

50%

45%

40%

35%

30%

25%

20%

15%

10%

5%

0%

1870 1880 1890 1900 1910 1920 1930 1940 1950 1960 1970 1980 1990 2000 2010 2020

World War I

United States Tariff

World War II

Great Depression

World Tariff

Feenstra/Taylor, International Trade, 5e © 2021 Worth Publishers

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Source: International Economics, 5e | Feenstra/Taylor, Worth Publishers

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# Trade Agreements

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## The Role of Trade Agreements

- **Promote trade by**
  - Reducing tariffs
  - Blocking policies that discriminate against imports
- **They also do more, mostly to serve business interests:**
  - Permit anti-dumping duties to deter competition
  - Protect intellectual property
  - Allow investor action against governments
- **Recent U.S. Trade Agreements:**
  - KORUS (March 15, 2012)
  - USCA: renegotiation of NAFTA (July 1, 2020)

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## NAFTA (now USMCA)



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## NAFTA

- **Went into effect on January 1, 1994.**
- **Overall trade and cross-border investment has increased.**
- **Tight integration of North American supply chains.**
- **The effect on jobs and wages:**
  - At most 5% of annual job churn, ~ 200,000 jobs
  - 188,000 new jobs each year due to increased exports to Mexico.
  - New jobs pay 7-15% more than the import-competing jobs.
  - No significant effect on US wages in the manufacturing sector.
- **Increased imports benefited consumers and US firms, raising their productivity.**
- **Modest positive impact on U.S. GDP.**



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Source: Hufbauer et al. (2014) "NAFTA at 20: Misleading Charges and Positive Achievements", PIIE

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- **Stricter environmental policies and requirements for wages**
- **Encouraged digital trade and curbed state-owned enterprises**
- **Additional requirements for autos to qualify for NAFTA's low tariffs:**
  - The North American content requirements in cars increased from 62.5% to 75%.
  - 70% of producer's steel and aluminum purchases must originate in North America
  - A certain percent of qualifying vehicles must be produced by employees making an average of \$16 per hour.
- **Increased U.S. access to Canadian dairy market by about 3.6%.**
- **Eliminated investor-state disputes between US and Canada.**

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## European Union

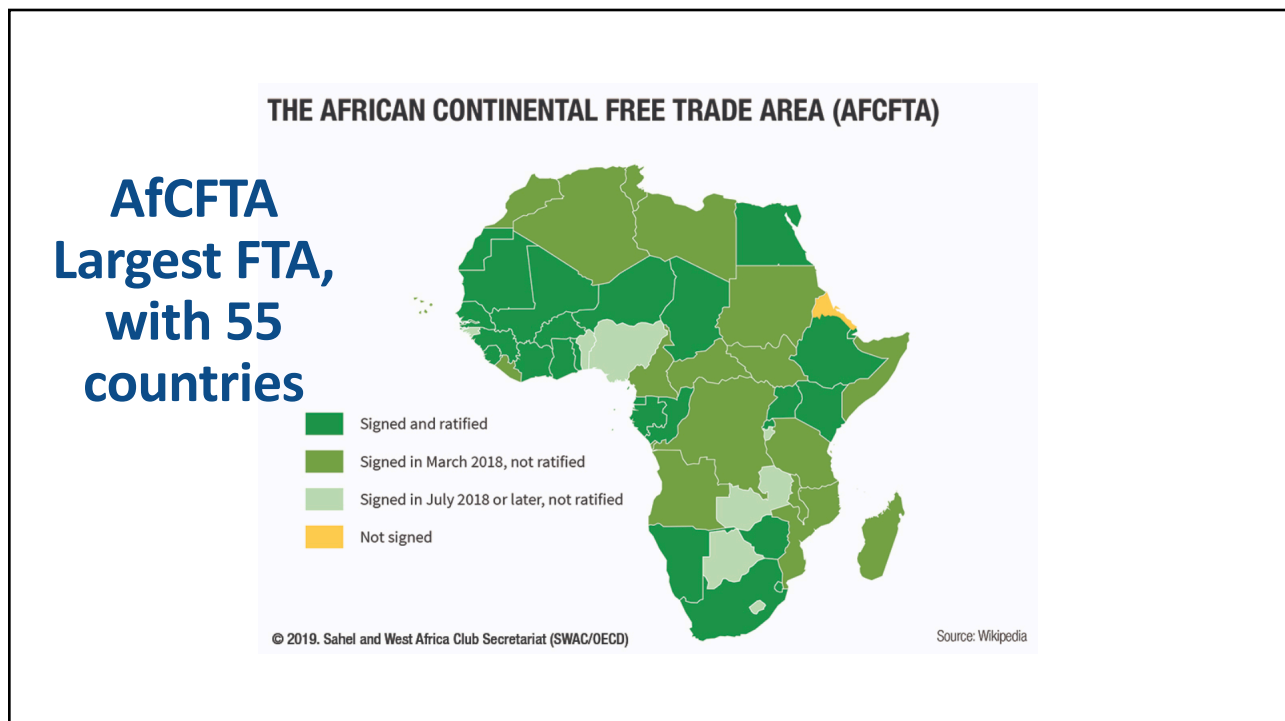


Source: Europa.eu

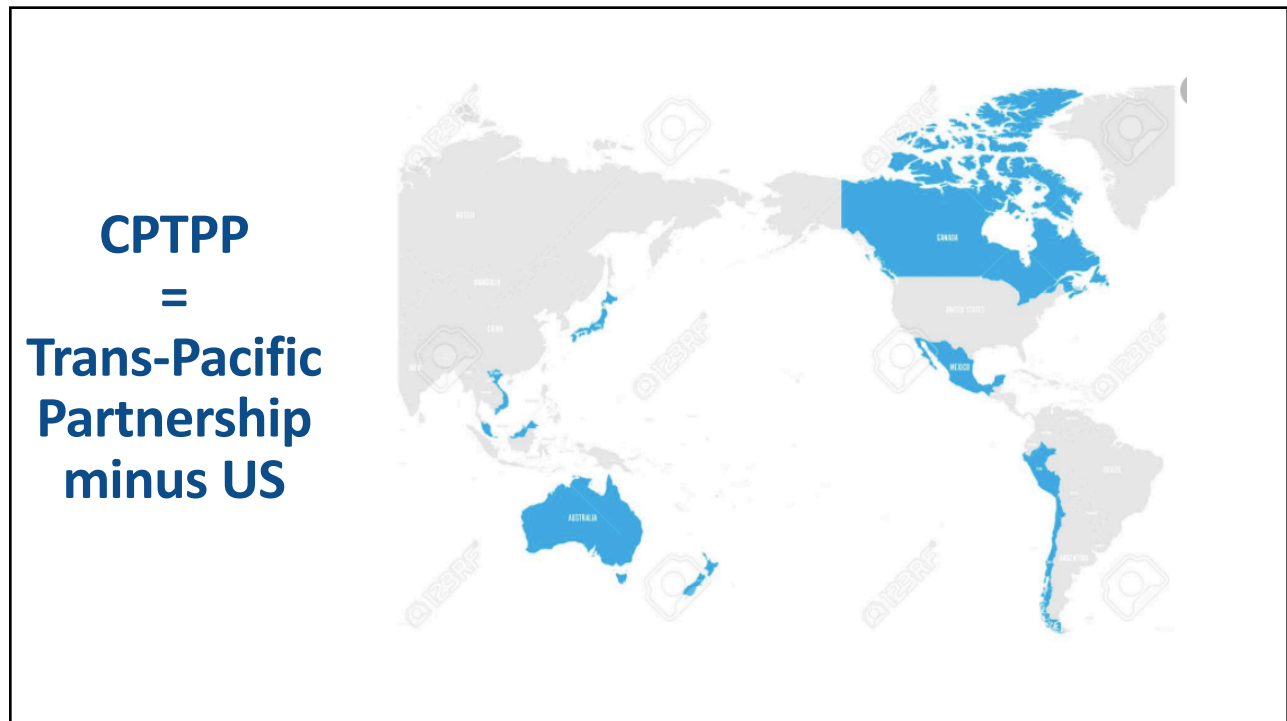
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## Other Policies to Encourage Globalization

- **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)**

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

- **Bilateral Investment Treaties**

- Better treatment of multinational corporations

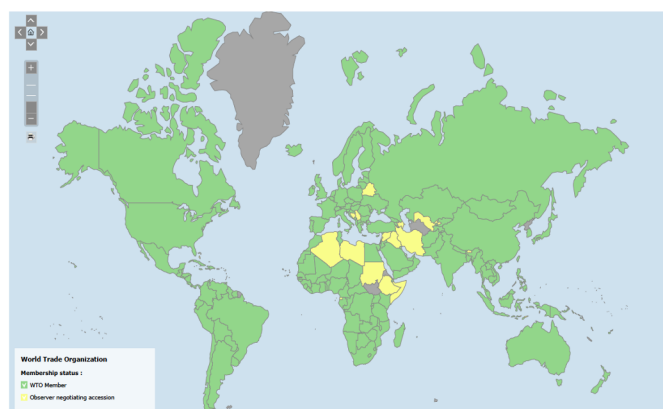


- **Multilateral Trade Agreement**

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

- **First established in 1947 as G.A.T.T. (23 member countries)**

- **Last completed round of negotiations: Uruguay Round in 1994.**





# Trade Policies Discouraging Globalization

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# Trump's Tariffs and Trade War

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## Recent U.S. Tariffs

- **Trade Act of 1974**
  - Section 201 (surges): solar cells, washing machines
  - Section 301 (non-market activity): China forced technology transfer
- **Trade Expansion Act of 1962**
  - Section 232 (national security): steel and aluminum
- **Trade Act of 1930**
  - Anti-dumping and countervailing duties (cover about 80% of steel from China)



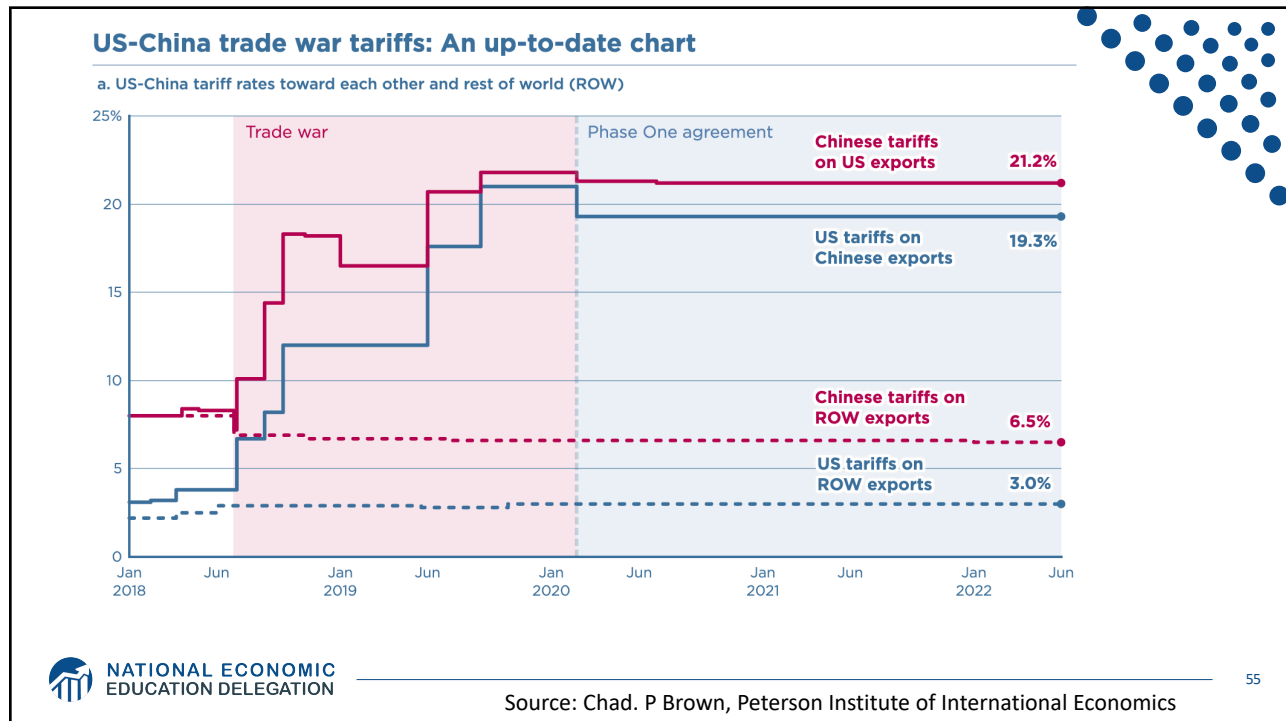
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## US Trade Policy: Retaliation

- **National security tariffs on steel & aluminum**
  - EU, CAN, MEX, CHN have retaliated with tariffs
  - Proportionate to their US exports of steel & aluminum
  - Targeted retaliation
    - Industries reliant on foreign markets (e.g. pork)
    - Farmers (fruits & nuts), household goods (ketchup, mowers)
    - Politics: KY bourbon, WI ginseng & Harleys, CA Levi jeans
- **Unfair trade practices tariffs on China**
  - EX: Soybeans and cars (largest and 3<sup>rd</sup> largest US exports to China), chemicals, medical equip, oil



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## Effects of Tariffs - Prices

- **Tariffs are taxes on imports.**
- **Tariffs raise prices in the importing country.**
  - Final goods (consumers)
  - Intermediate goods (producers who use imported inputs)
  - Rising prices distort consumption and production decisions
- **Tariffs can lower prices of the imported good in the exporting country.**
  - The rise in the importing country is much larger than the fall abroad.
  - It depends on the size of the importing country.
  - Trump's tariffs caused US prices to rise, without any fall in prices abroad.

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## Effects of Tariffs – Producers and Workers

- **The price increase in the importing country:**
  - benefits domestic producers of the tariffed good.
  - harms buyers of the higher-priced good
    - o Households
    - o Firms that use the good as input: which raises the price of other goods, hurting their buyers
  - increases employment in the protected industry
  - decreases employment in industries that use the protected product as input.
- **Tariffs lower overall welfare, while generating very large gains for small groups**
- **Tariffs are generally considered to be an inefficient way to help those people who are hurt by trade**



## Effects of Tariffs – Washing Machines

- **In 2018, President Trump imposed global safeguard duties on washing machines.**
- **The price of washing machines increased in the U.S by 12%.**
- **The prices of dryers (bundled with washing machines) also increased, even if they were not subject to tariffs.**
- **The estimated effects:**
  - Main beneficiaries: Whirlpool (reported 200 new jobs added).
  - Consumers lost \$1.55 billion.
  - Tariff revenue increased by about \$82 million.
  - The consumer cost per job “created” was about \$817,000 per year.
- **LG and Samsung relocated washing machine production to the U.S.**
  - LG: Clarksville, Tennessee, 2019 – 600 new jobs
  - Samsung: Newberry, South Carolina, 2018 – 1,000 new jobs



## Effects of Tariffs – Solar Panels

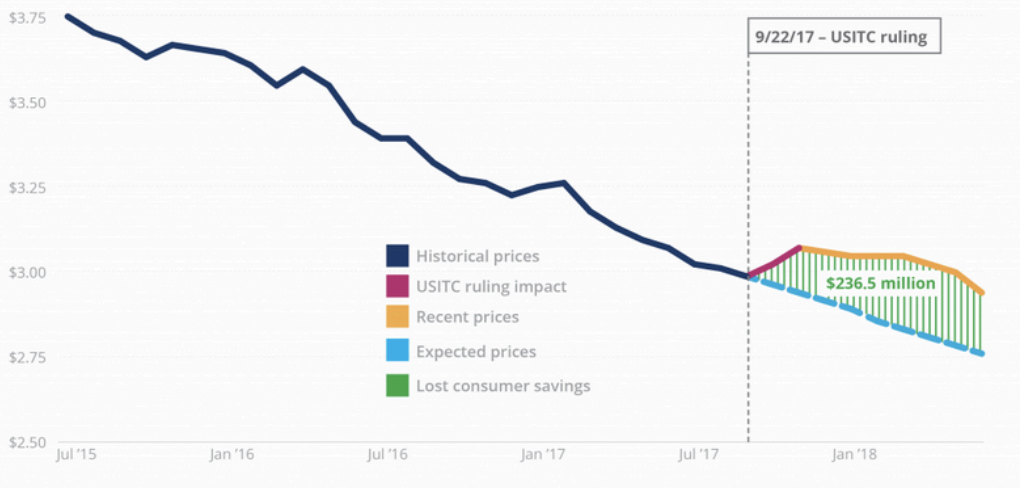
- **In 2018, President Trump imposed global safeguard duties on solar panels at the request of US companies that faced intense import competition from China.**
- **US-based companies benefited:**
  - Suniva (Chinese-owned manufacturing in Georgia),
  - SolarWorld (German-owned, later French-owned),
  - 14 US manufacturing firms: CBS Solars
- **Consumers were hurt by higher prices of solar panels**
- **Solar panel installers were hurt, led by Solar Energy Industry Association:**
  - Loss of jobs and delay and cancellations of investment in solar energy



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Impact of Solar Tariff on Residential Prices (in Dollars per Watt)

energysage



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# Effects of Tariffs

- Tariffs invite retaliation, lowering demand for our exports.
- Import protection can increase U.S. employment, but the change is more than offset by employment loss due to higher input prices in other industries and retaliation.


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# US Trade Policy in Practice: Winners and Losers

- National security tariffs on steel & aluminum
  - Winners: US steel producers (Nucor, United States Steel, AK Steel) & workers
    - o BEA: 140,000 jobs in steel producing industries
  - Losers #1: US consumers, including steel-consuming US firms
    - o BEA: 2 million jobs in US industries where steel >= 5% of inputs
  - US industries targeted by foreign retaliation

Industry	Countries	Share of US exports
Pork	China, Mexico	44%
Apples	China, Mexico, India	37%
Nuts	China, India	12%
Whiskies (e.g. KY bourbon)	EU, Canada, Mexico	53%
Mineral water, coffee, ketchup	Canada	About 50%

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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 Tariffs

- **If economists are so opposed to tariffs, why are they used?**
  - National Security
  - Government revenue
  - Infant Industry
  - Strategic trade policy
  - Political Economy of Protection





## 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**



## Summary

- **Trade and growth are positively related.**
- **Gains from trade can be widespread (lower prices for consumers) and 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 to help those hurt by trade can be more efficient and save gains from trade.**



## The Future of Globalization?

- **Globalization Reversal or Slowbalization?**

- During 2022 IMF and World Bank Spring Meetings:
  - o **Jerome Powell, Fed Chairman** noted that it is unclear if the world is witnessing a reversal of globalization, but the pace of globalization is certainly slowing down.
  - o **Kristalina Georgieva, IMF Managing Director** argued that it is too early to “buy a coffin” for globalization. The world has achieved so much because of the integrated global economy, and it is irresponsible to make the world poorer.

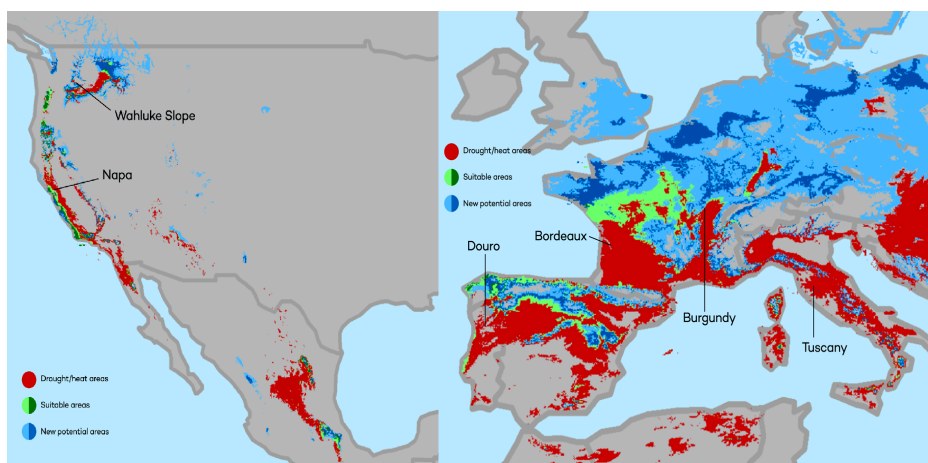
- **A New Global Map:**

- Globalization is good overall but needs to be more agile and resilient to shocks:
  - o Less reliance on single sources by firms
  - o Greater protections for those who are hurt.
- Europe’s embrace of “open strategic autonomy” or U.S.’s “friendshoring”



## Climate Change: Sarah Jacobson

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



**Thank you!**

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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