



Osher Lifelong Learning Institute, Summer 2022
Contemporary Economic Policy

Rochester Institute of Technology
July-Aug, 2022

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
- Healthcare Economics

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Course Outline

- **Contemporary Economic Policy**

- Week 1 (7/11): Economic Update (Jon Haveman, NEED)
- Week 2 (7/18): Economic Inequality (Christopher Herrington VCU)
- **Week 3 (7/25): Trade and Globalization (Alan Deardorff, University of Michigan)**
- Week 4 (8/1): Economic Mobility (Jon Haveman, NEED)
- Week 5 (8/8): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 6 (8/15): Climate Change Economics (Jon Haveman, NEED)
- Week 7 (8/22): 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
Rochester Institute of Technology
July 25, 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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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 ...

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

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|--|--|--|--|--|
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Source: New York Times, April 7, 2022

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Scaling back activity

75 companies, including ...

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Source: New York Times, April 7, 2022

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Halting investments

96 companies, including ...



Abbott



AmerisourceBergen



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 ...



acer



Alibaba



ASUS



CLOUDFLARE



INTERNATIONAL PAPER



KOCH



Lenovo

Source: New York Times, April 7, 2022

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Effect of Sanctions

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

Outline

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

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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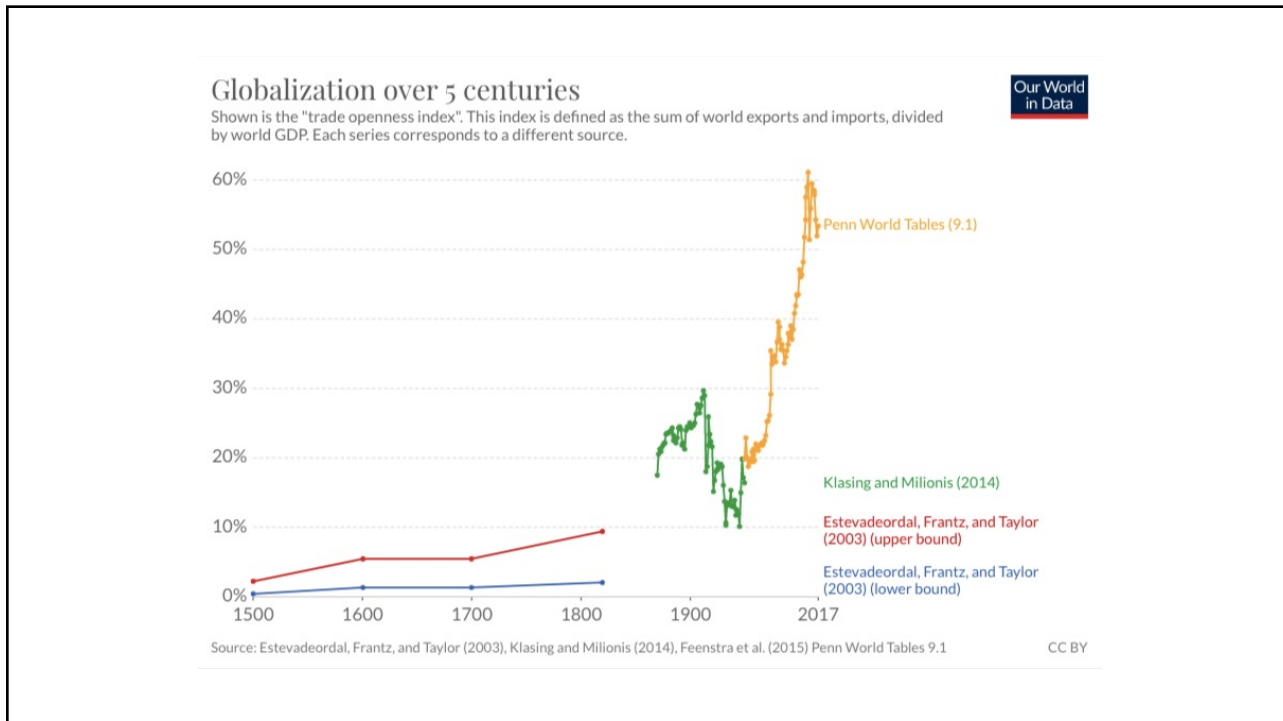
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Trade

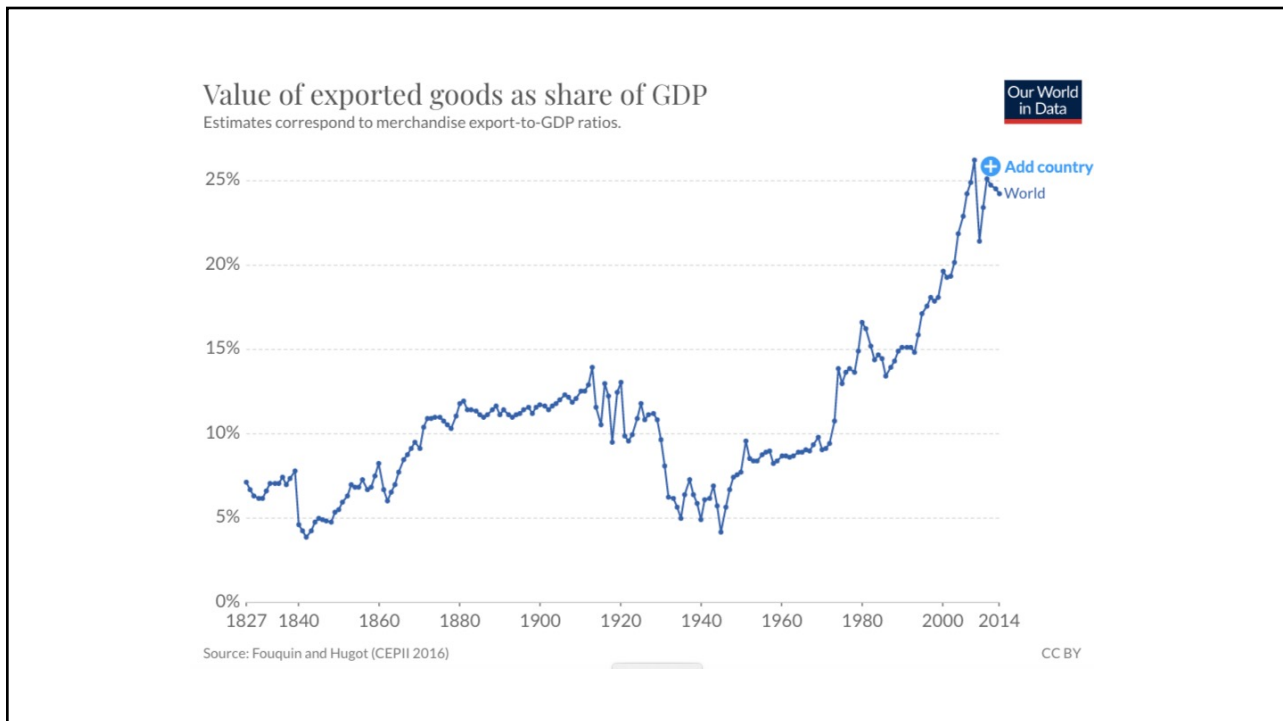


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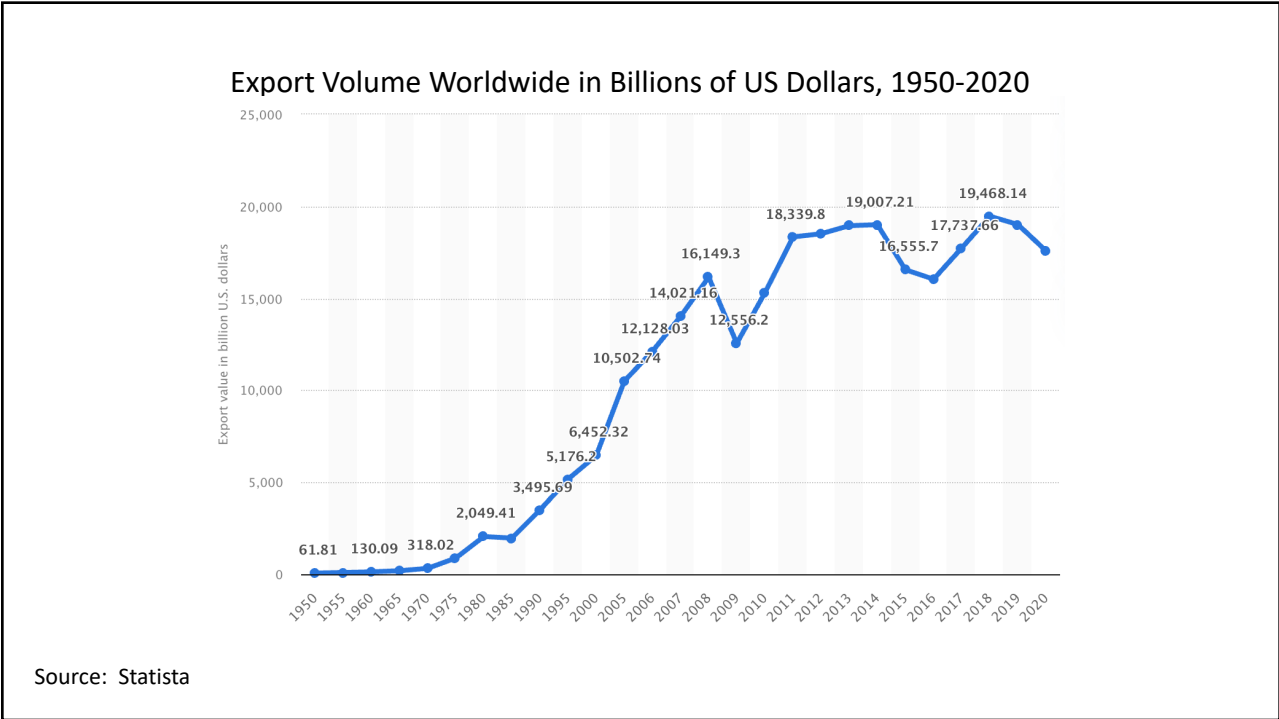
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Global Value Chains

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Effects on Economies

• Supply Chains

- Globalization has created long and complex international supply chains



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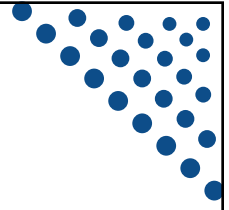
NAFTA and the Auto Supply Chain



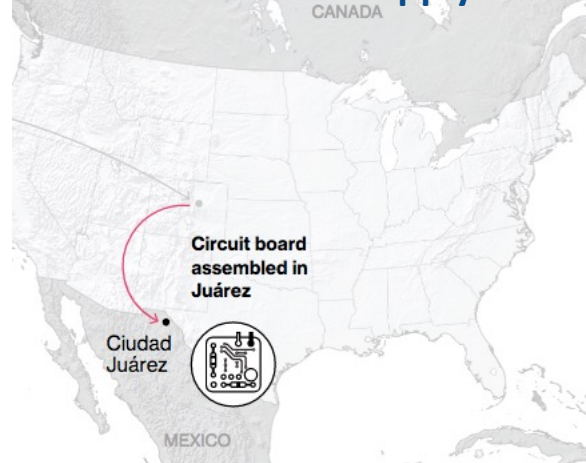
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

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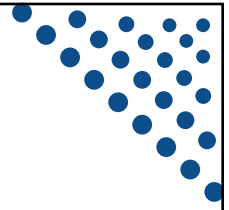
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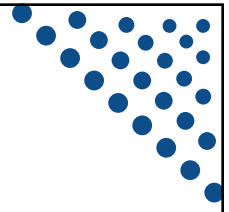
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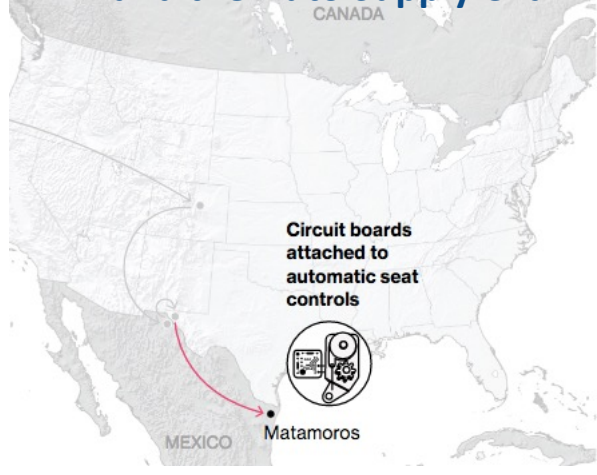
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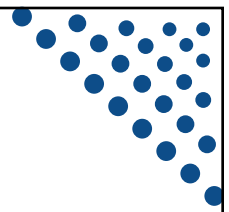
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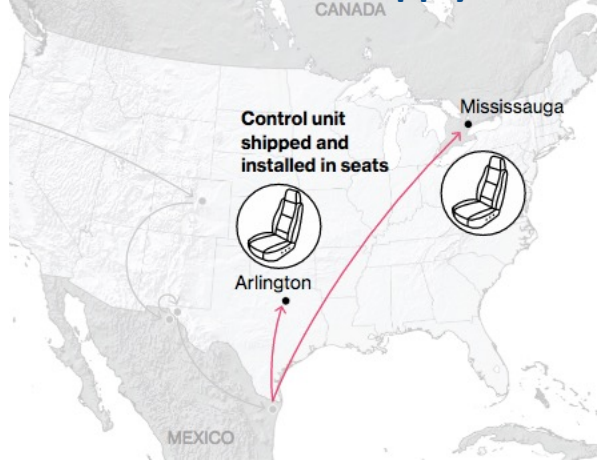
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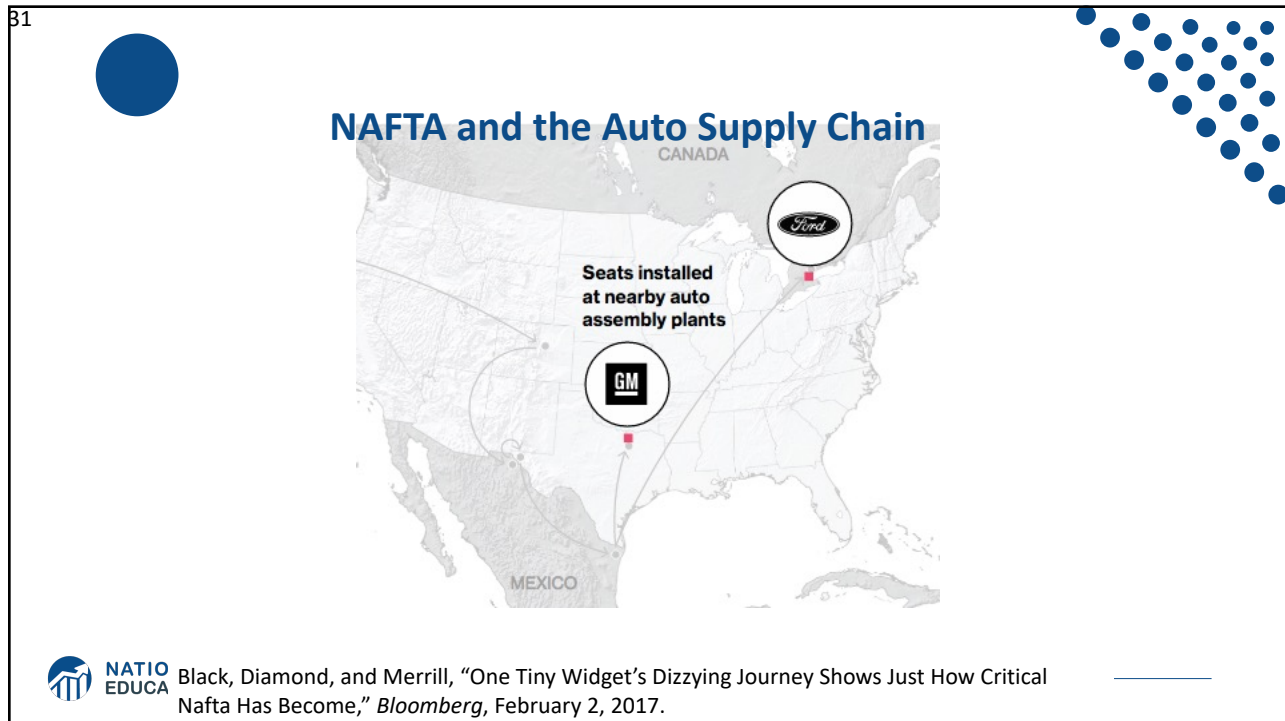
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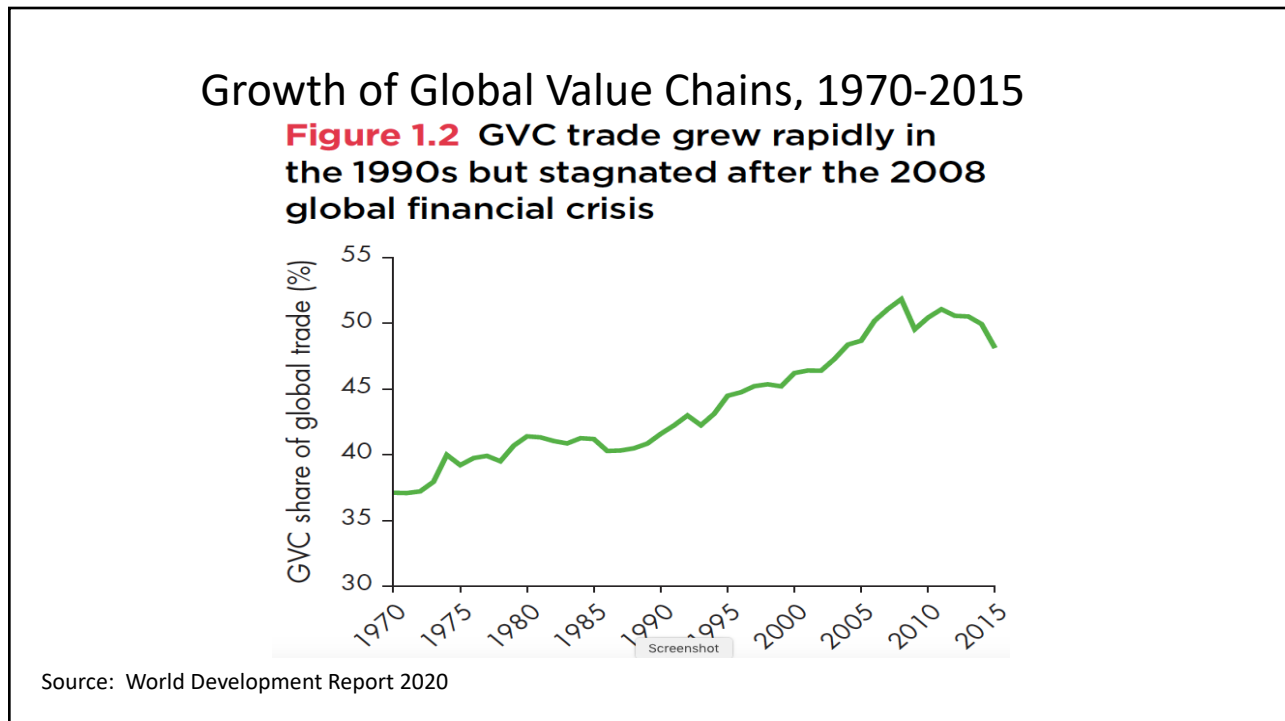
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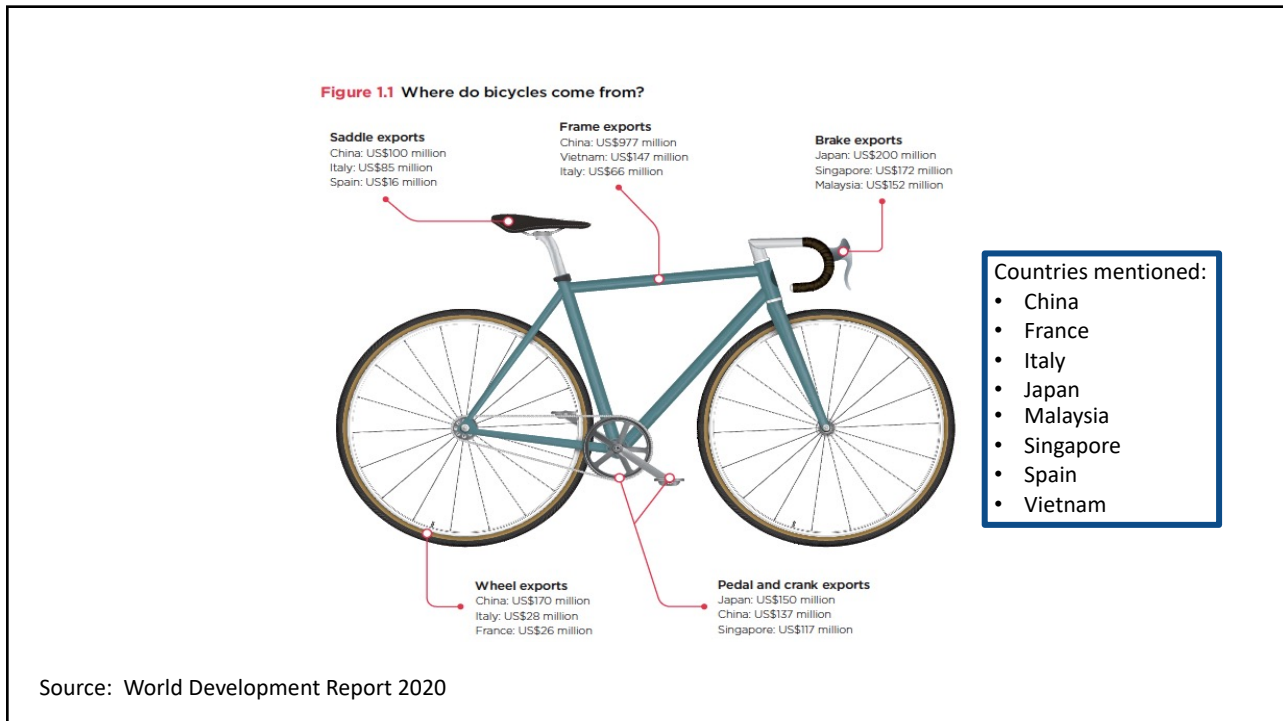
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Supply Chains

- Example: The iPhone assembled in China from parts:

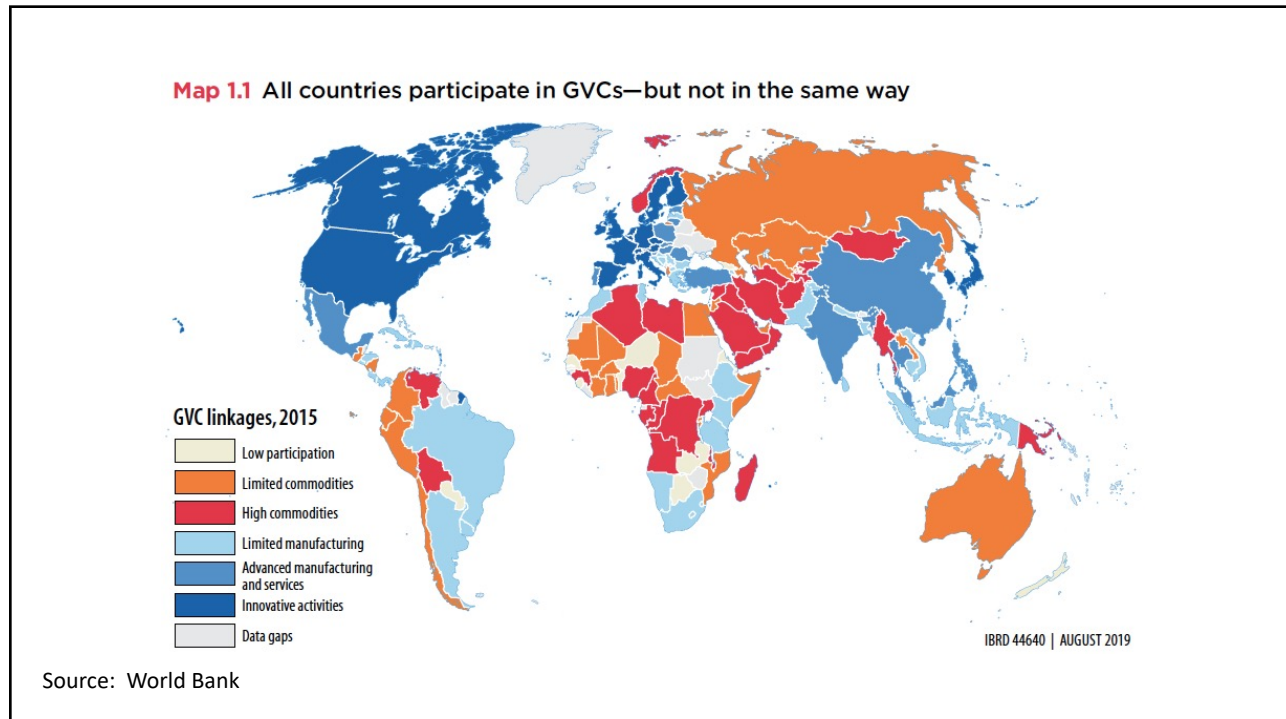
| Part | Come from |
|--------------------------------|---|
| Accelerometers | Germany, the US, South Korea, China, Japan, and Taiwan. |
| Audio chips | US, UK, China, South Korea, Taiwan, Japan, and Singapore. |
| Batteries | Samsung (South Korea), which has factories in eighty countries. |
| Cameras | 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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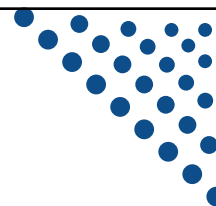
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Pros and Cons of Globalization

- **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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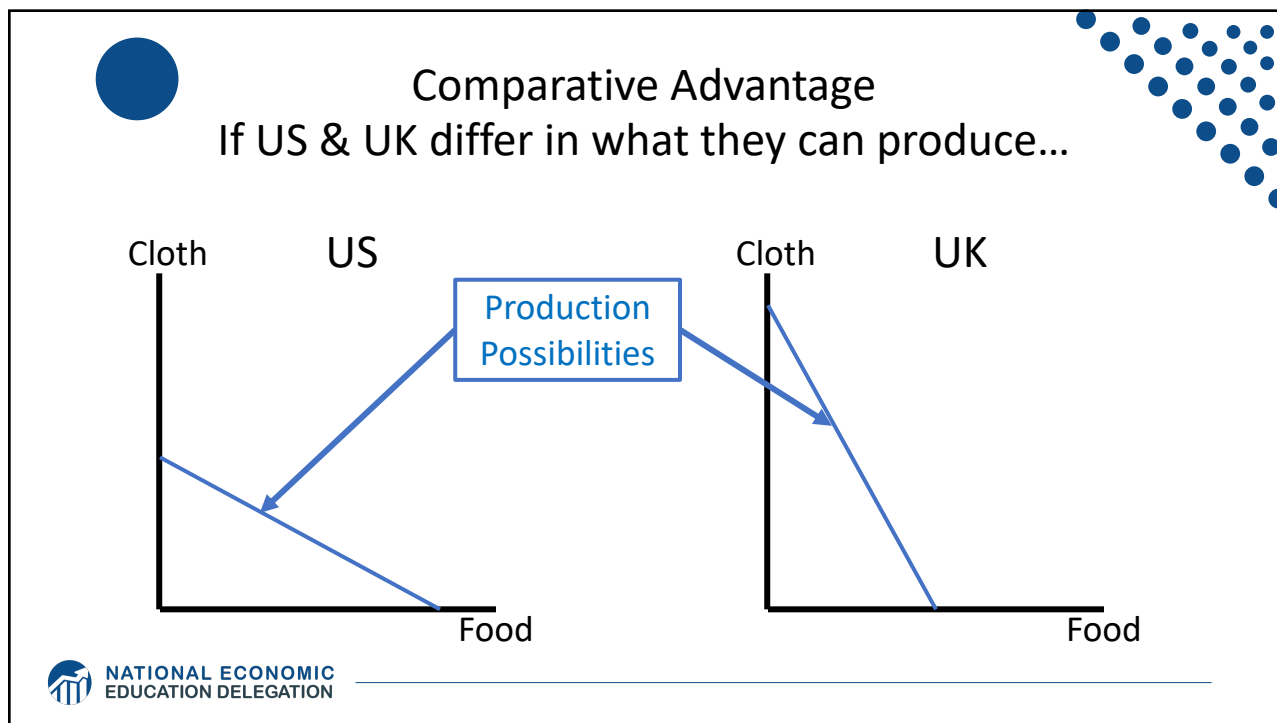
Comparative Advantage

- **The Theory of Comparative Advantage says:**
 - Countries can gain,
 - 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
 - By doing that, ALL countries can
 - Get more of everything, if that's what they want, and therefore
 - Gain from trade
- **Illustration with a graph of just 2 countries & 2 goods**

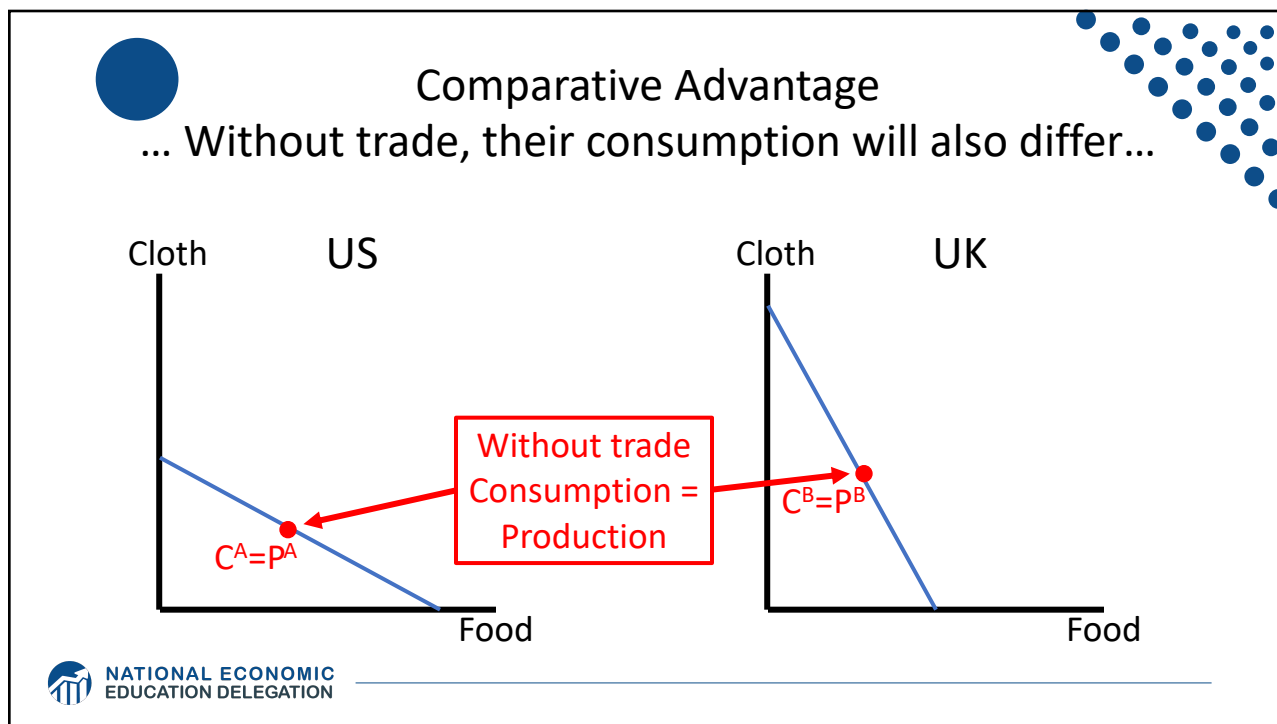


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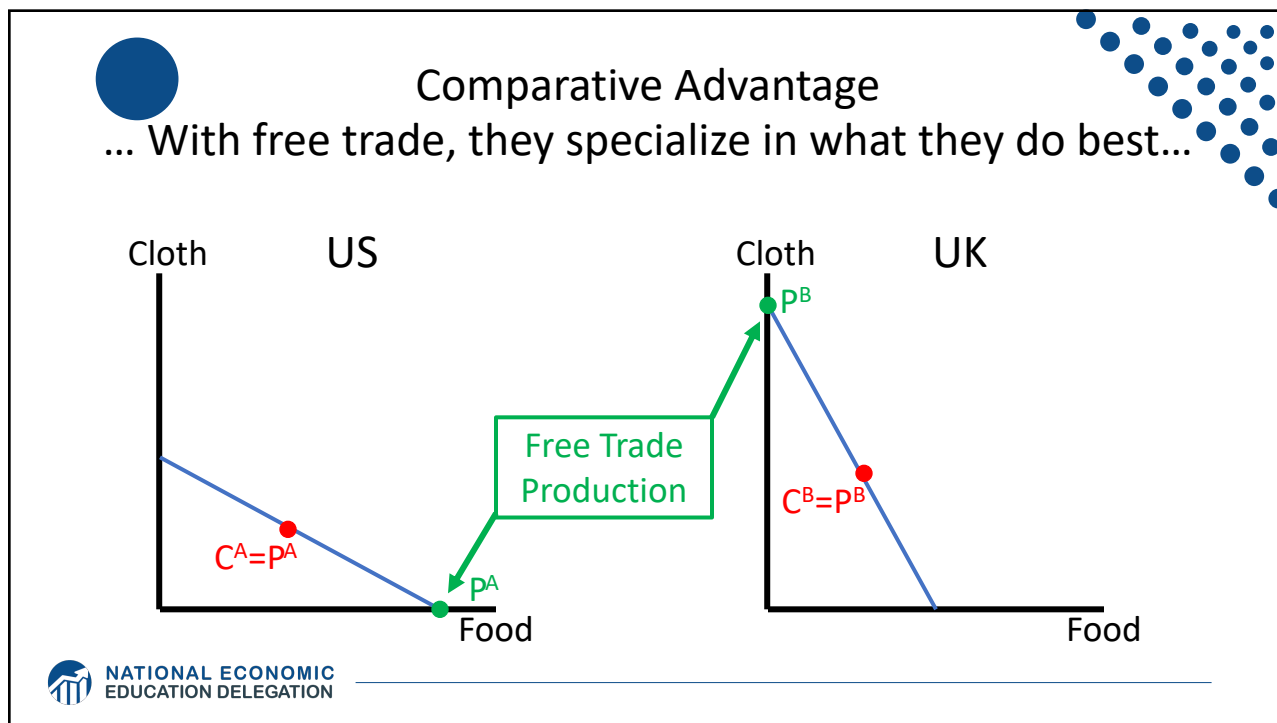
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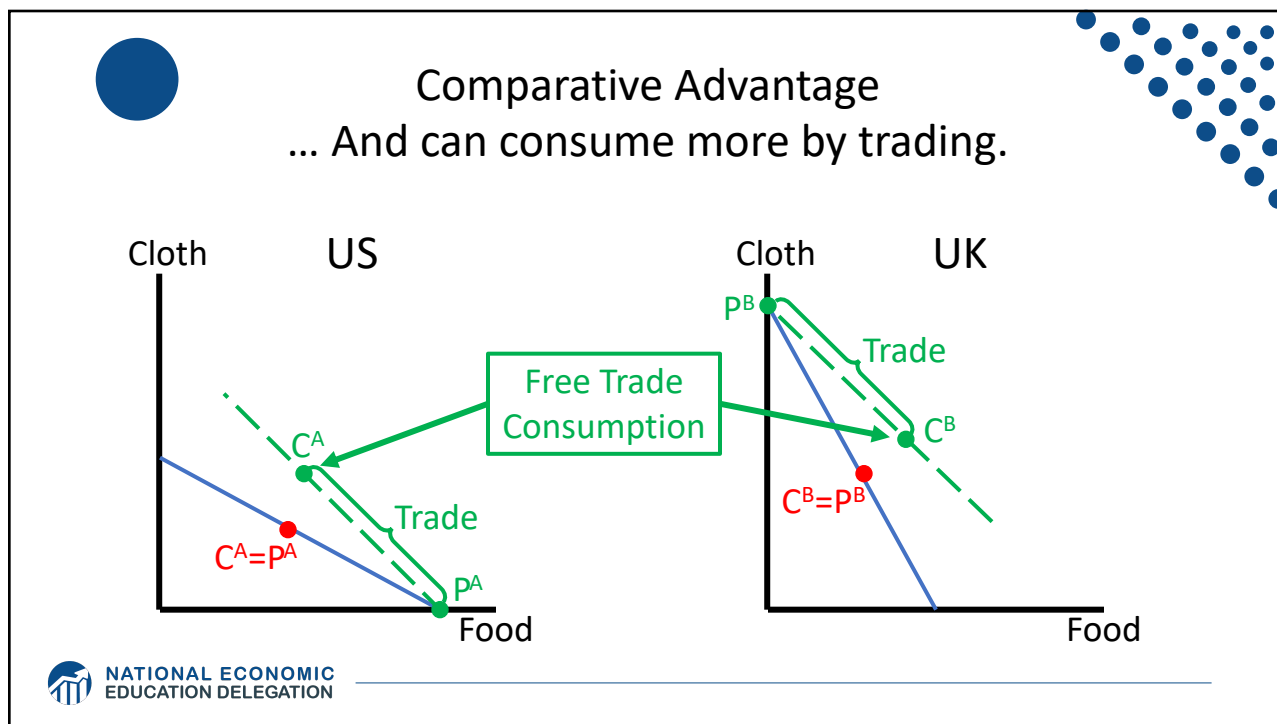
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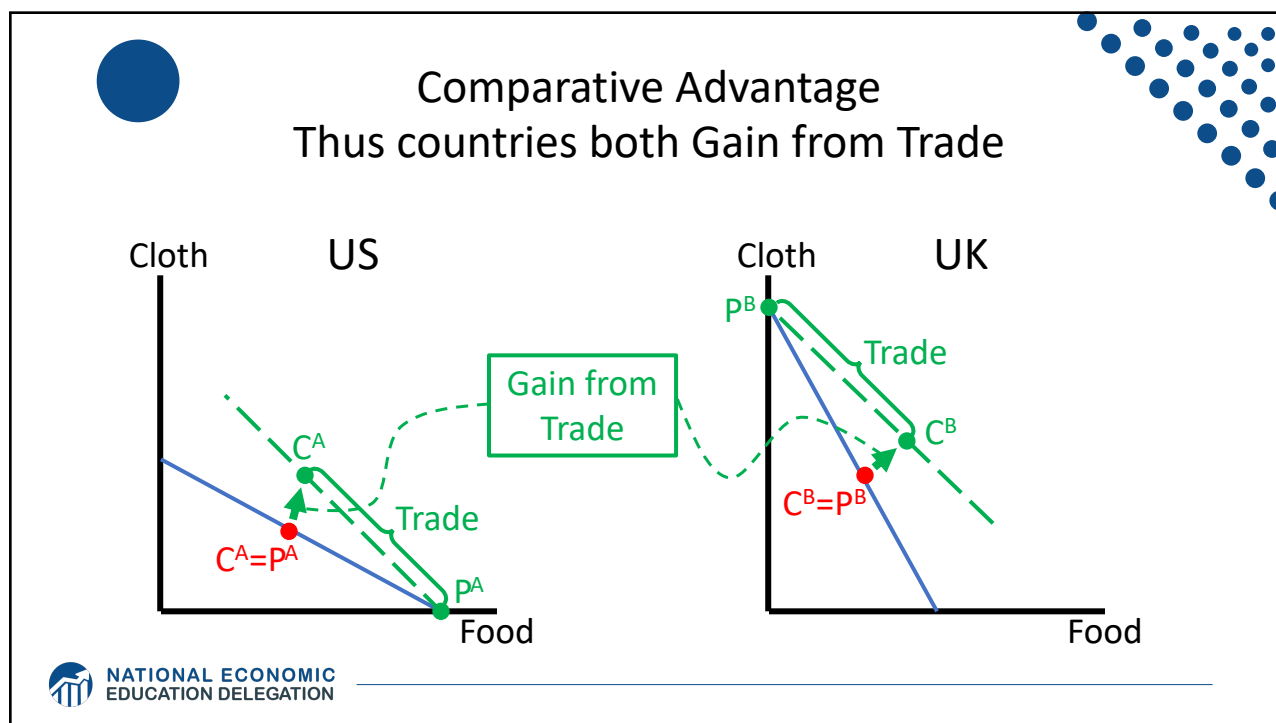
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Generality of Comparative Advantage

- **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.)

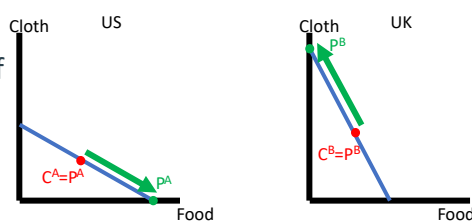
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Generality of Comparative Advantage

• 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



Pause

- **Pause for**

- Questions
- 5-Minute Break

- **Next: Trade Policies**



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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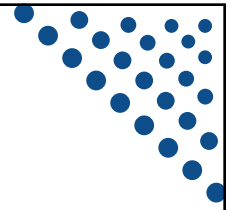
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Policies that Encourage Globalization



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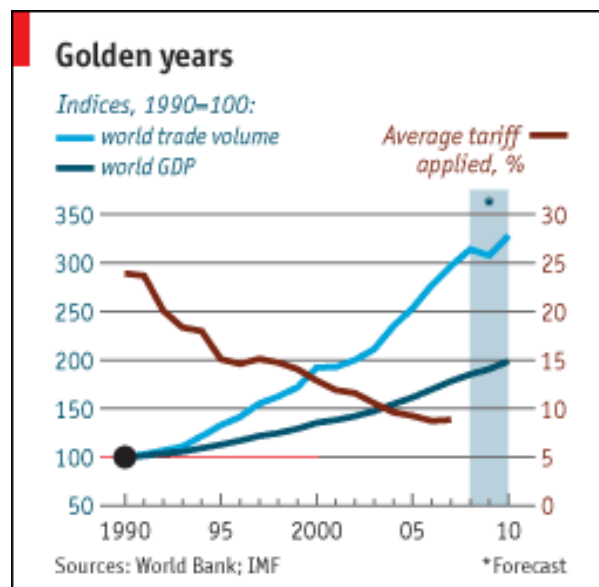
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Tariff Reductions

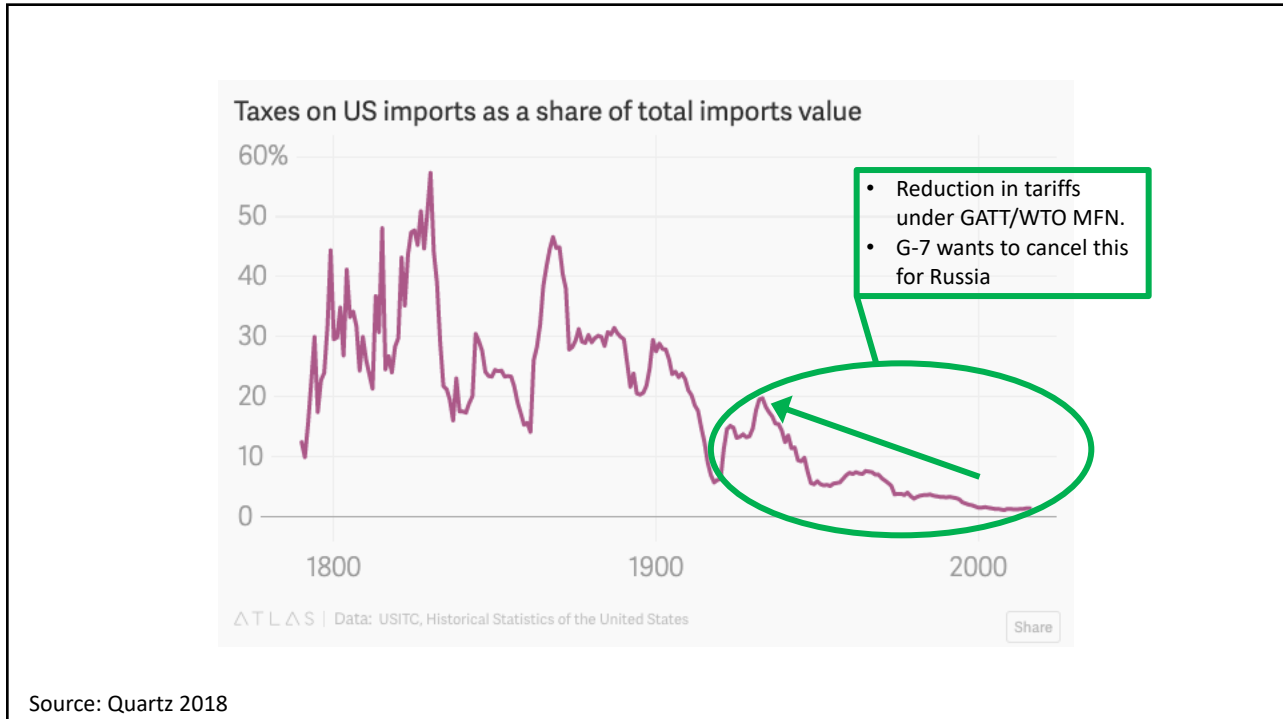
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Source: Economist

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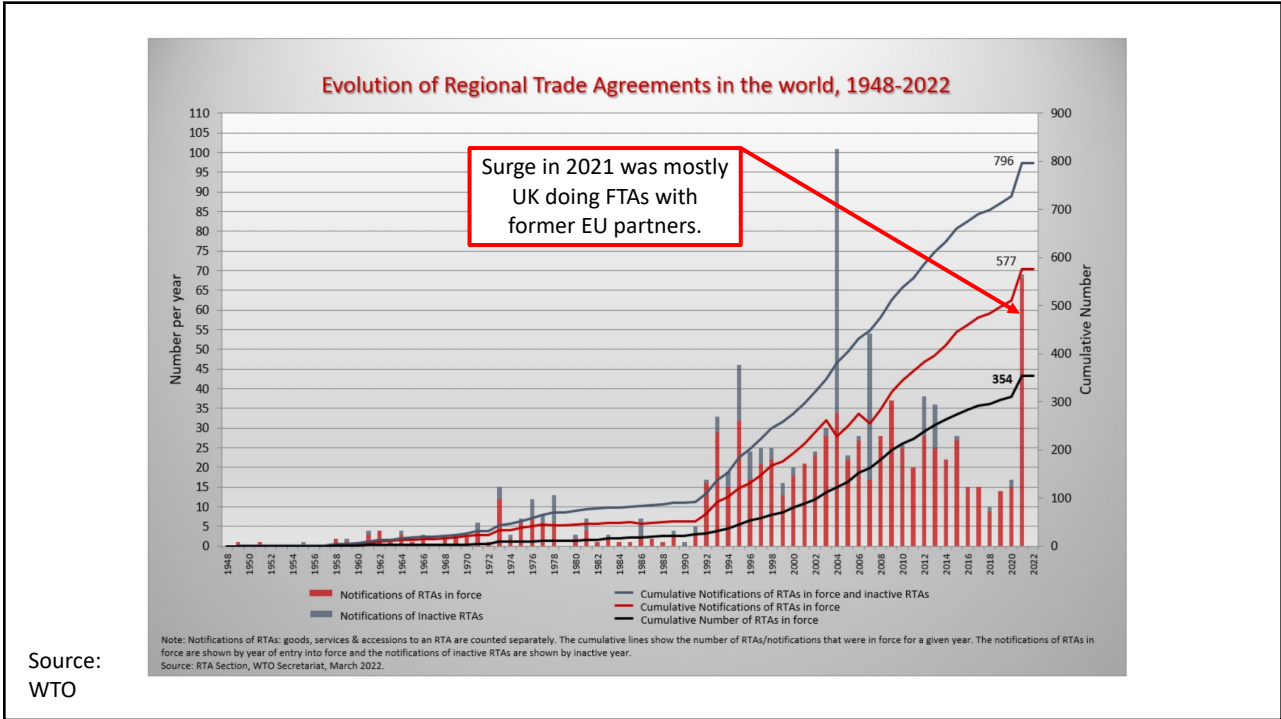


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Trade Agreements

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NAFTA (now USMCA)



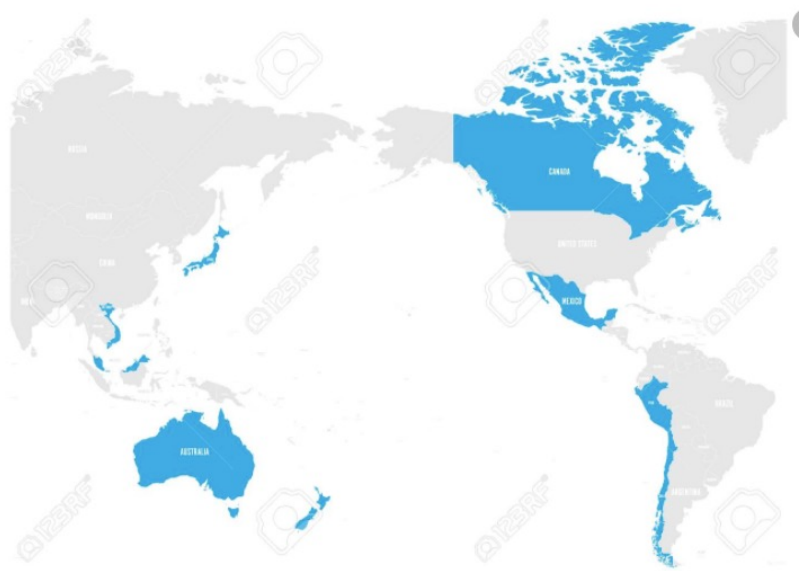
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MERCOSUR



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CPTPP
=
Trans-Pacific Partnership
minus US



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RCEP
=
Regional Comprehensive Economic Partnership



- AUSTRALIA
- BRUNEI
- CAMBODIA
- CHINA
- INDONESIA
- JAPAN
- LAOS
- MALAYSIA
- MYANMAR
- NEW ZEALAND
- PHILIPPINES
- SINGAPORE
- SOUTH KOREA
- THAILAND
- VIETNAM

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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
 - Reducing trade barriers
 - 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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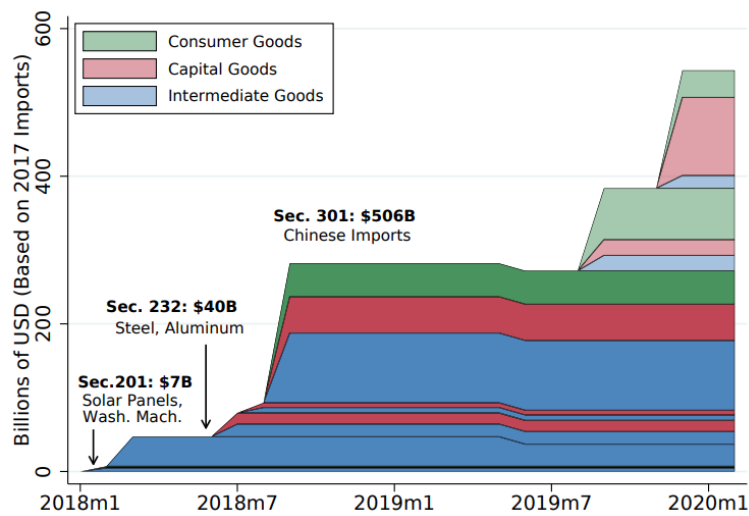
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Trump's Tariffs and Trade War



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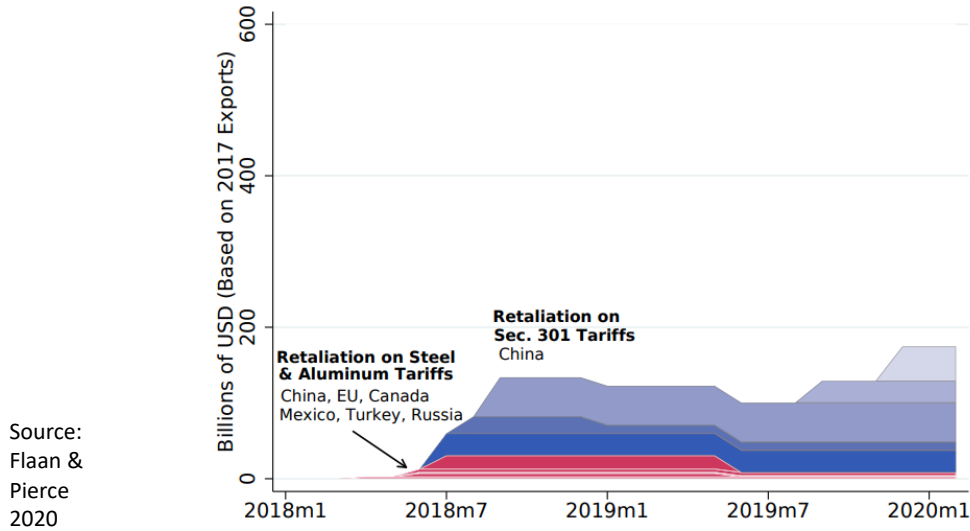
Figure B1: Composition of New U.S. Import Tariffs: 2018-2019



Source:
Flaan &
Pierce
2020

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



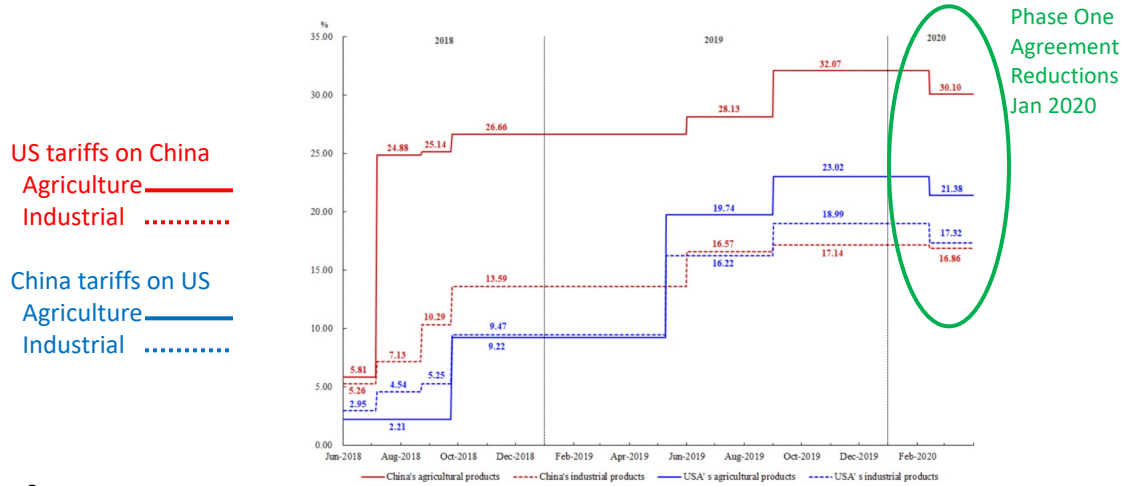
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Source: CNBC.com The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

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



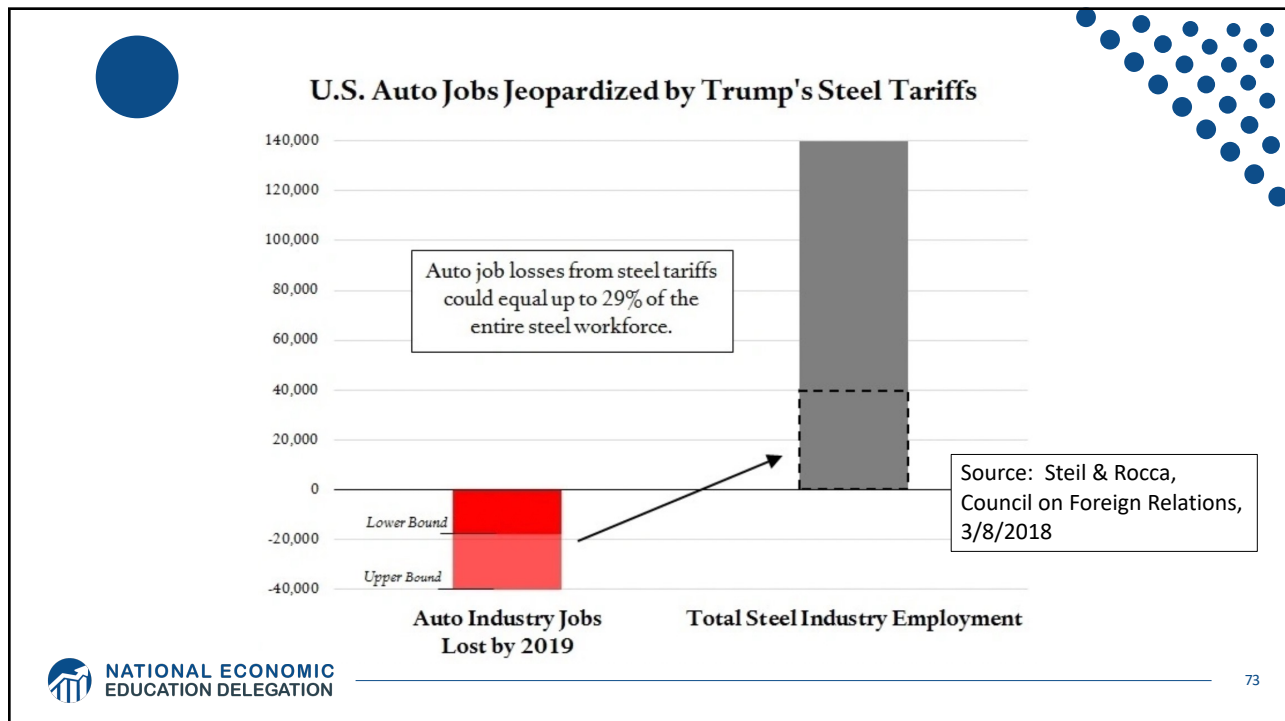
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Effects of a tariff

- **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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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)

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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

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Arguments for tariffs



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



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The Role of Trade Agreements

• Trade Agreements (both WTO & FTAs)

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



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The Role of Trade Agreements

• WTO

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

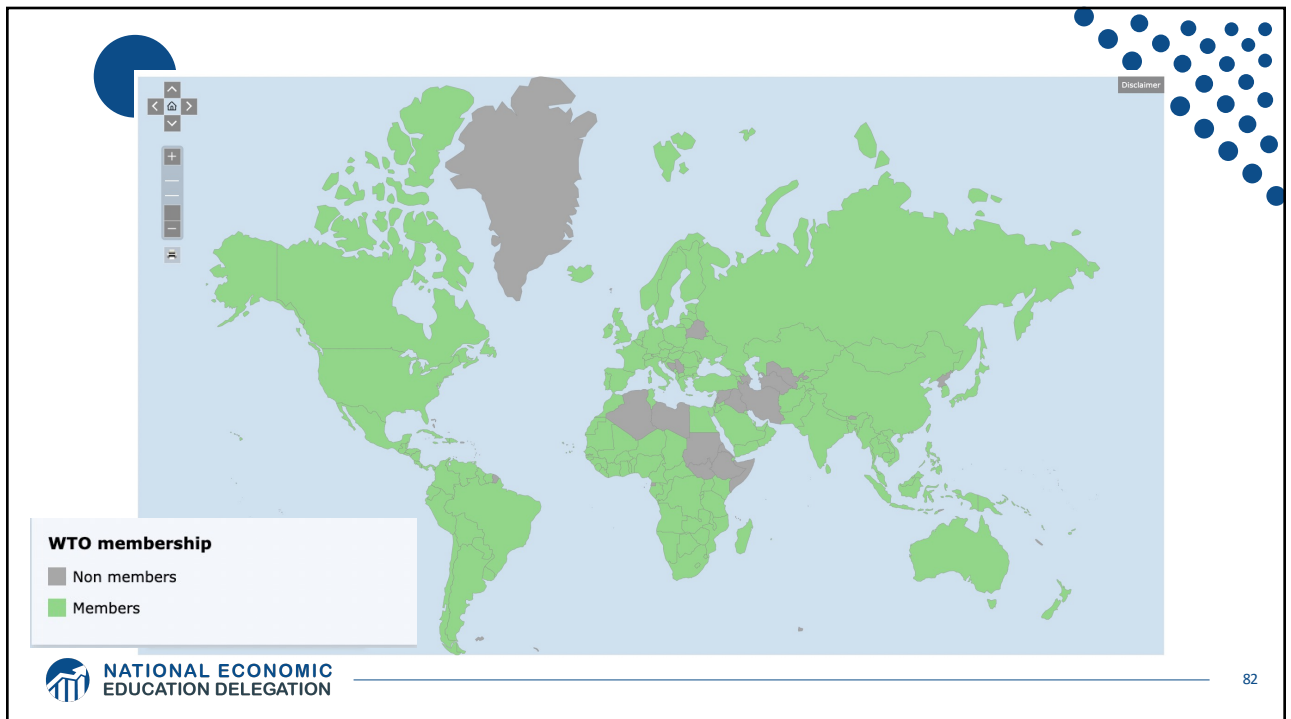


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The Role of Trade Agreements

• 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



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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



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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
 - President Trump blocked appointments to Appellate Body
 - 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.
 - We still think globalization is good overall,
 - But we're learning that it needs to include
 - Reduced reliance on single sources
 - Greater protections for those who are hurt.

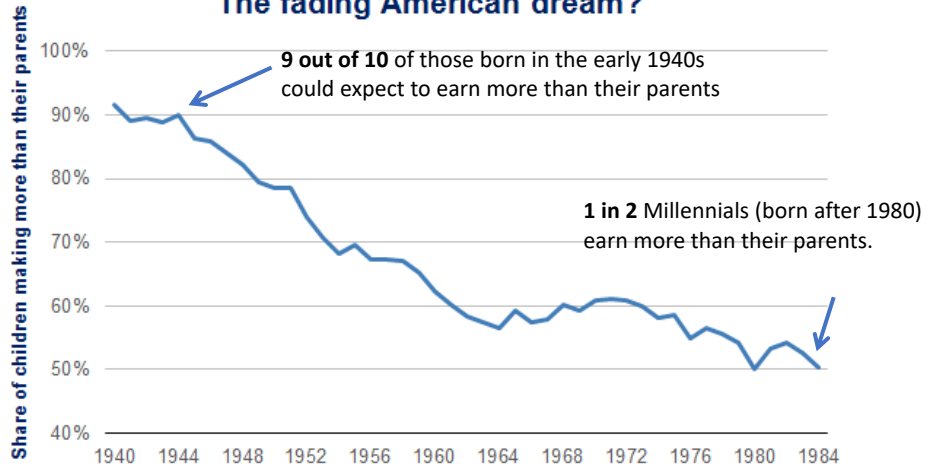


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Mobility: Jon Haveman

The fading American dream?



Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"



BROOKINGS

Thank you!

Any Questions?

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