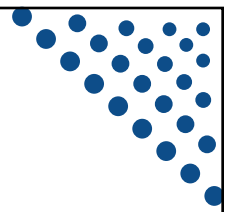


# Trade and Globalization

**Alan V. Deardorff**  
**University of Michigan**

*Presentation for San Jose Kiwanis*  
*January 10, 2022*



## 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.



## Outline

- **What is Globalization?**
- **Pros and Cons of Trade**
- **Trade Policies**
- **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
  - Migration
  - International Travel
- **I will focus here on trade**

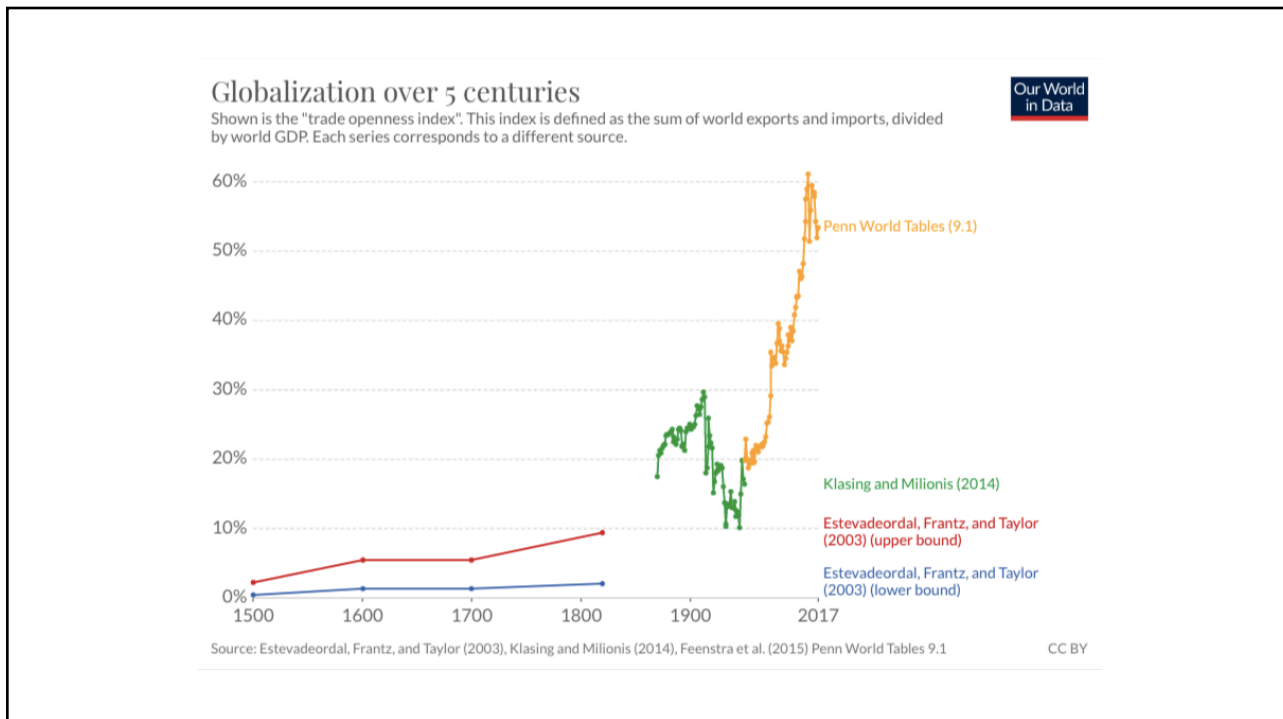
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# Trade

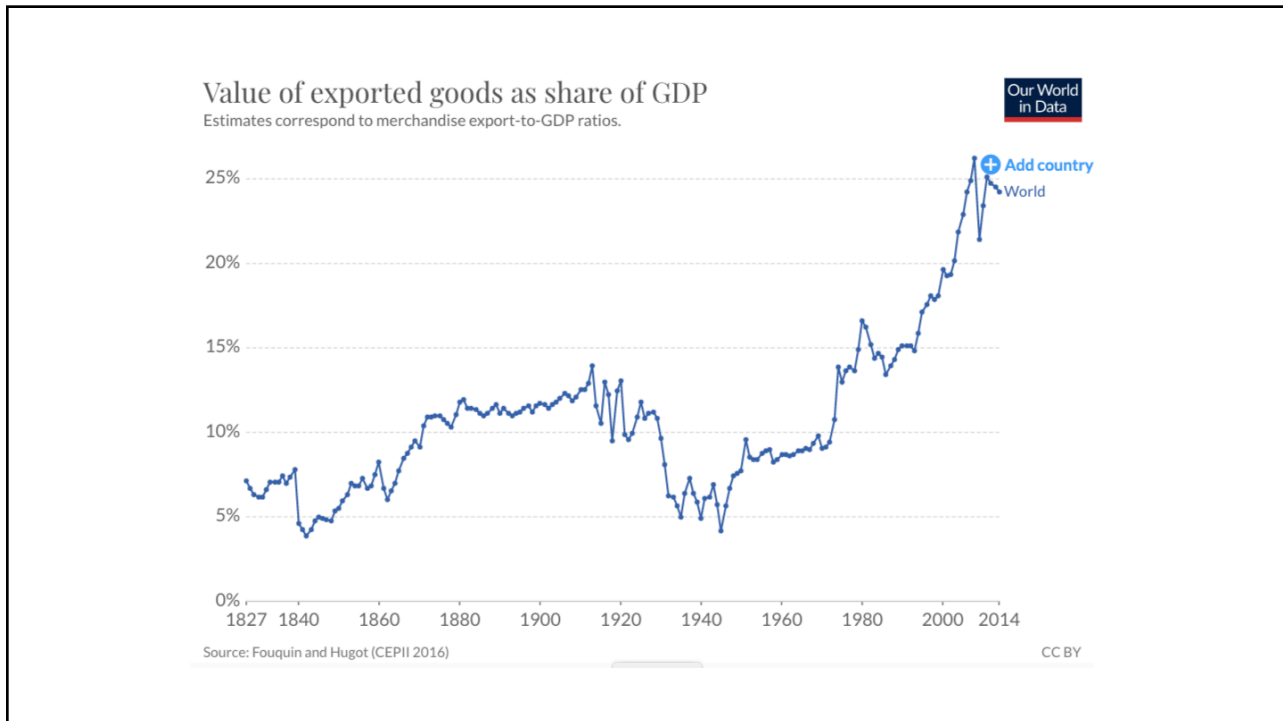
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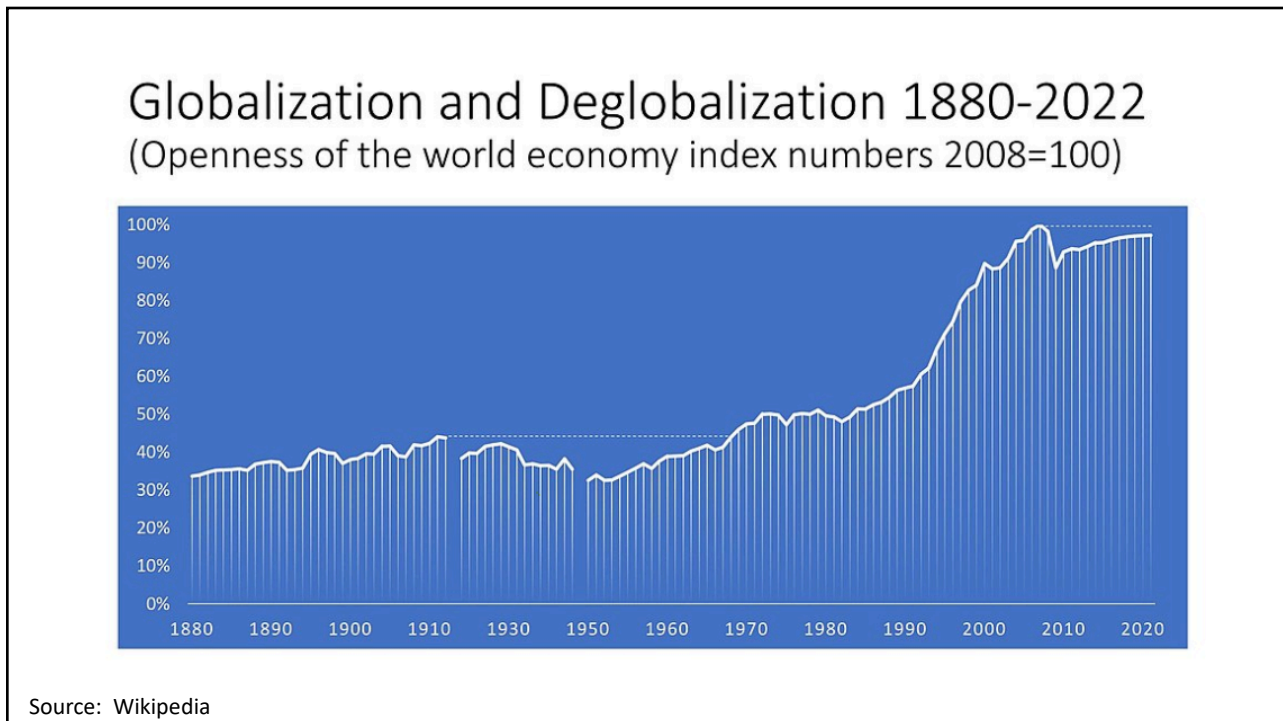
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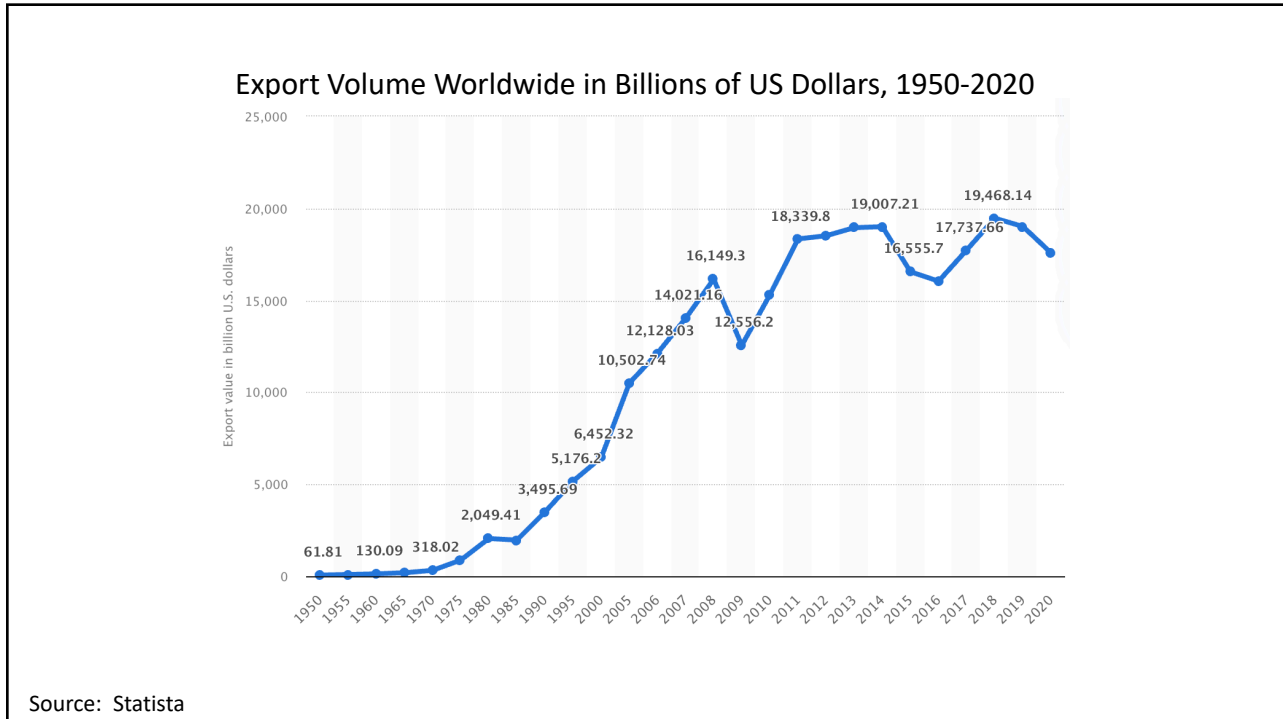
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# Global Value Chains

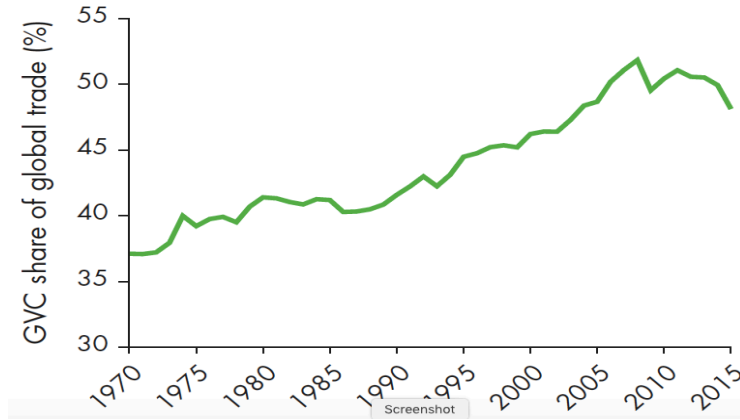
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## Growth of Global Value Chains, 1970-2015

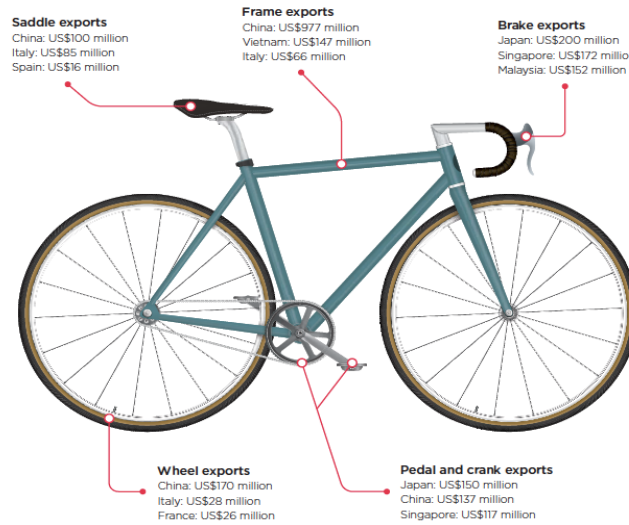
**Figure 1.2** GVC trade grew rapidly in the 1990s but stagnated after the 2008 global financial crisis



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	

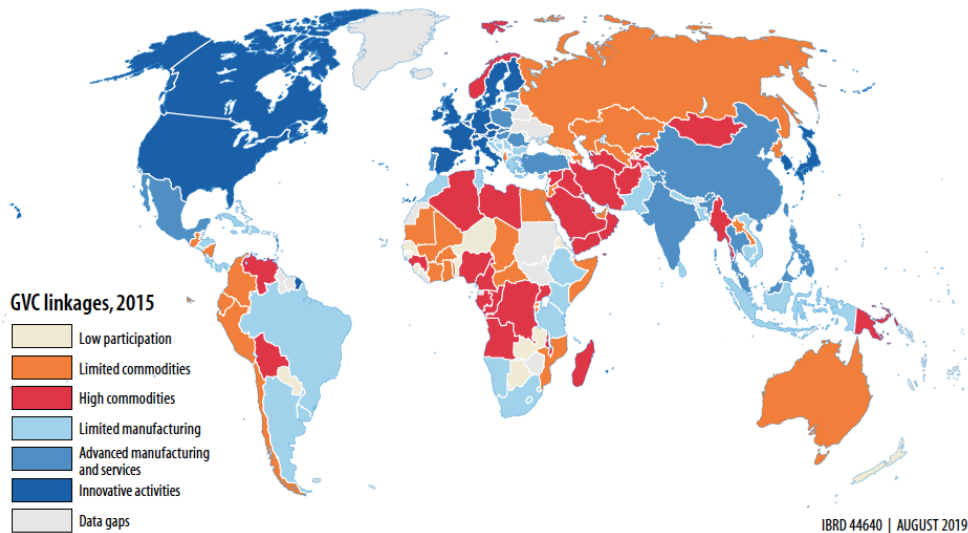
Source: Krueger 2020



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



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## Pros and Cons of Globalization

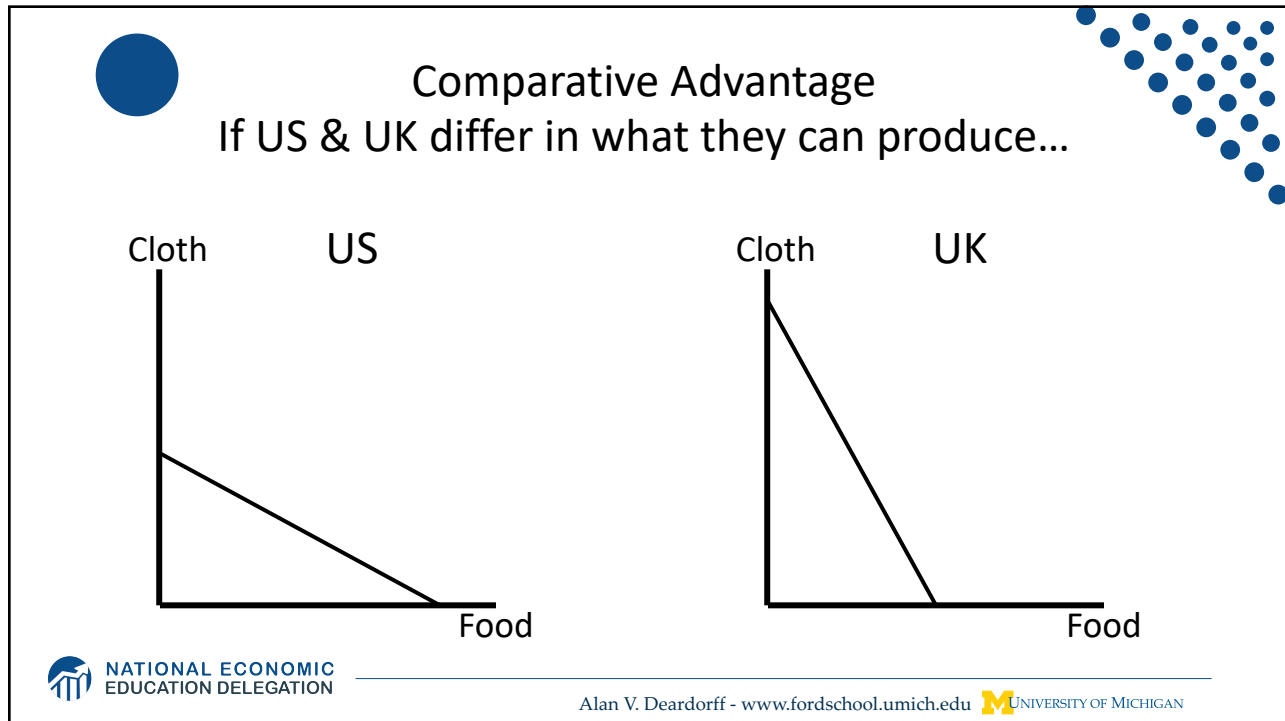
- **Pros and Cons of Globalization**

- Gains from Trade
  - Theory of Comparative Advantage
  - Other Sources of Gain from Trade
- Costs of Trade

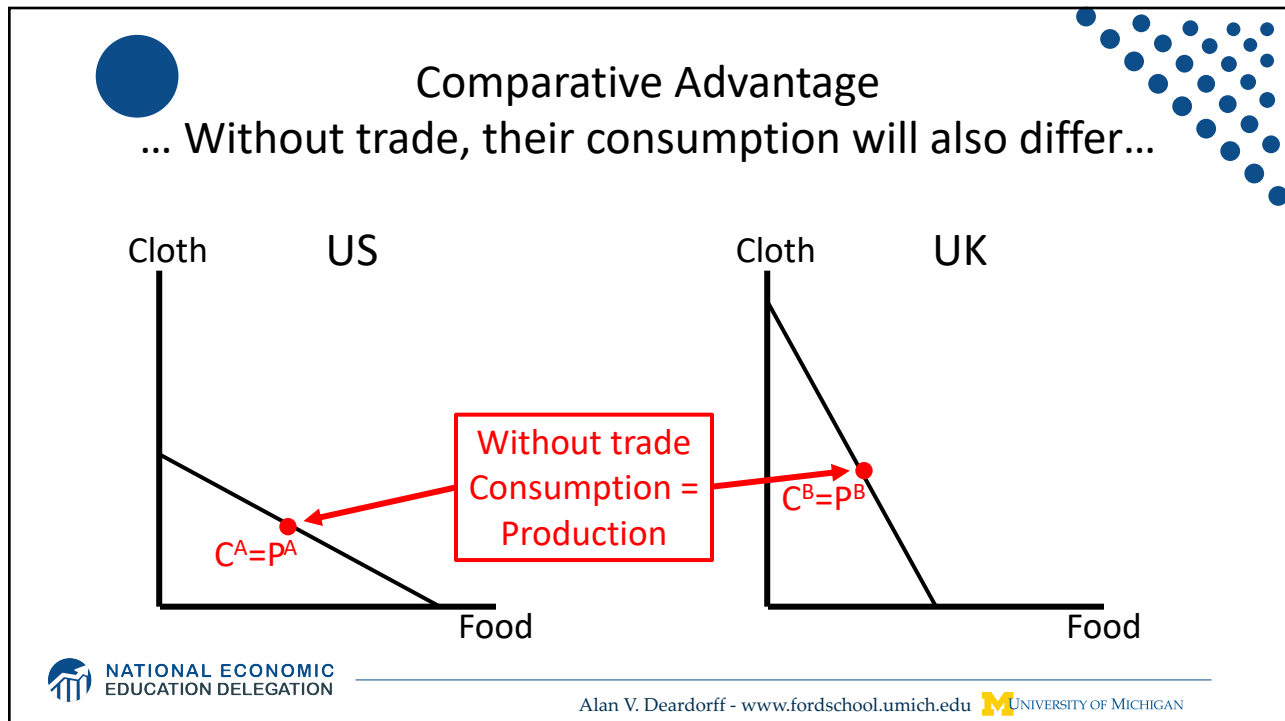
# Gains from Trade

## Theory of Comparative Advantage

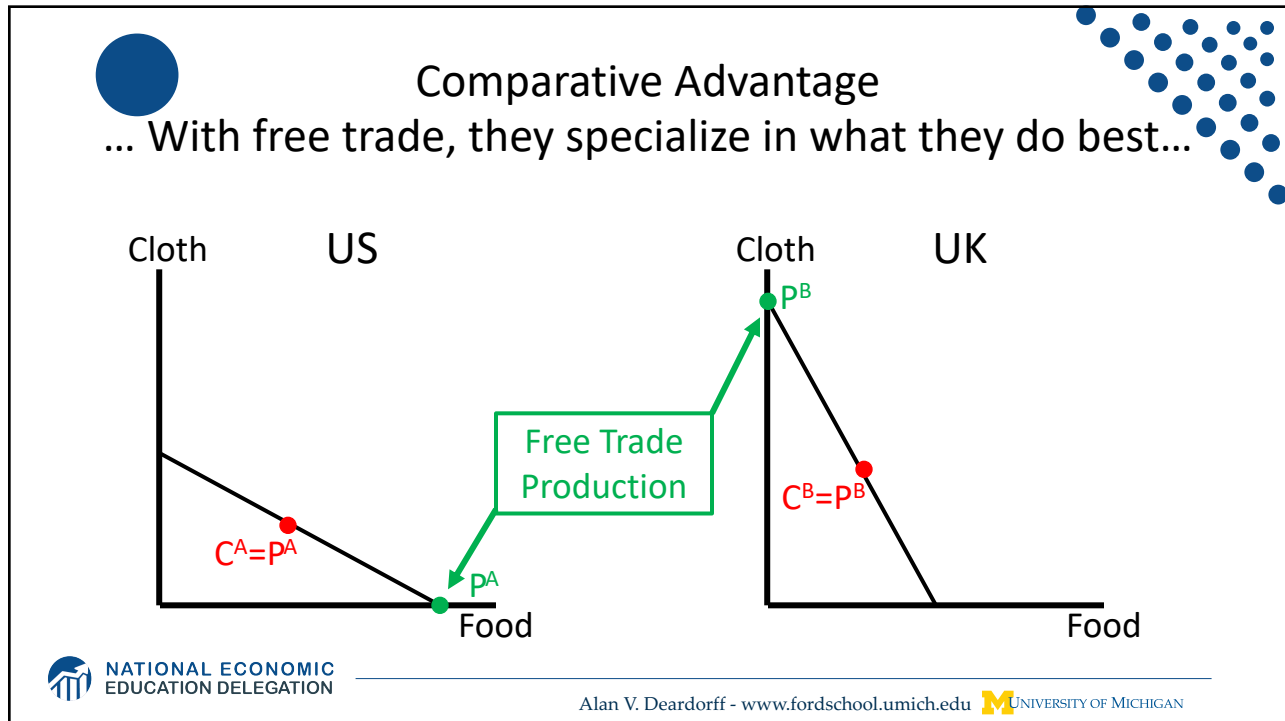




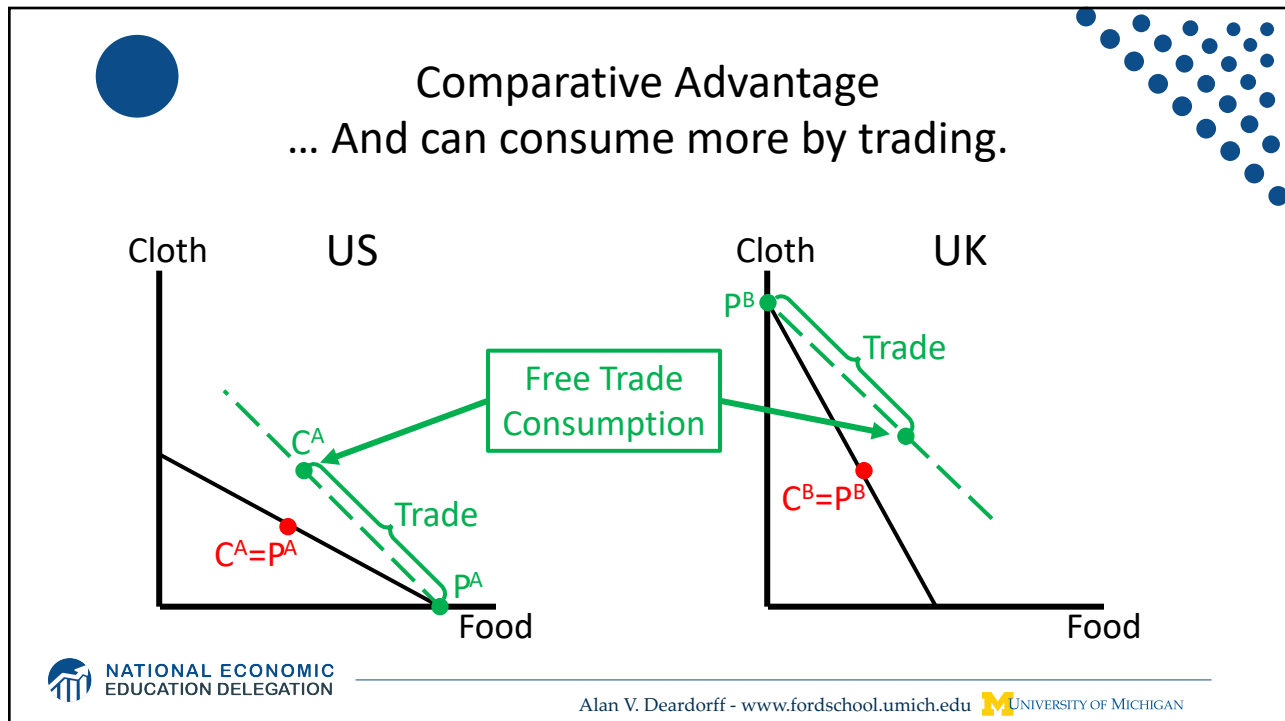
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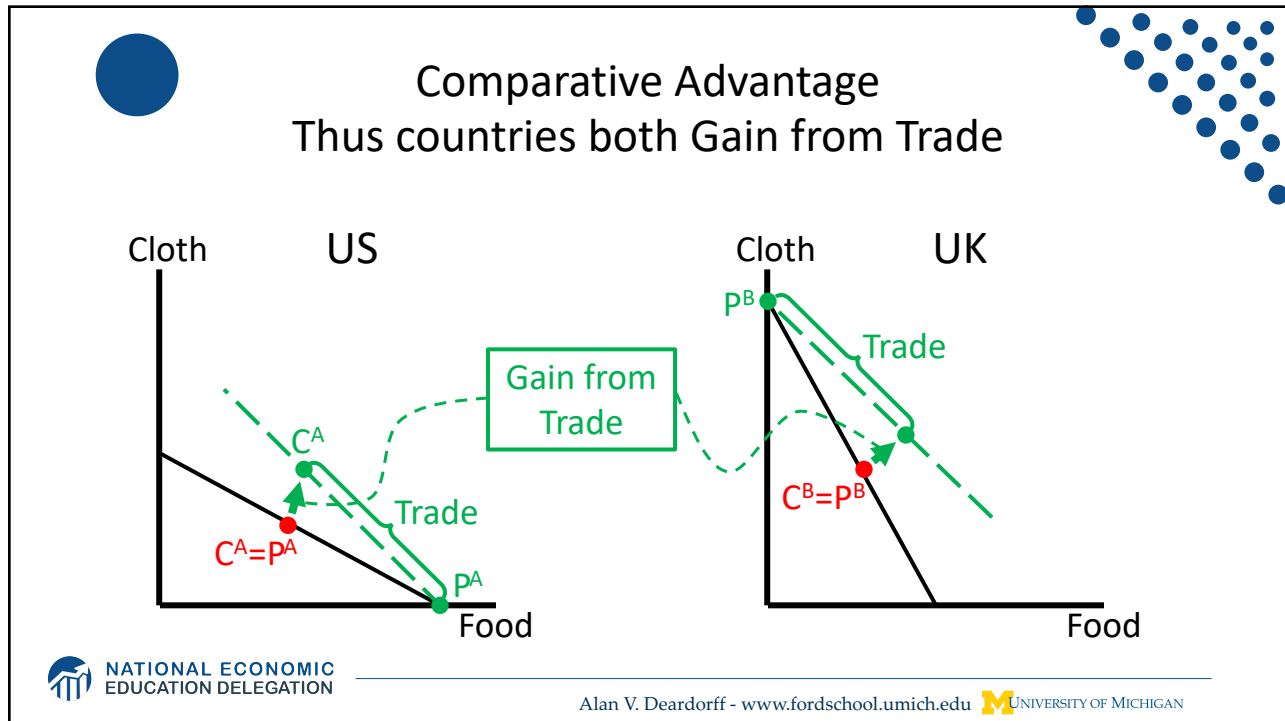
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## Other sources of Gain from Trade

- **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 source parts from cheapest sources)
  - (That's really just the others, but within industries and firms.)
- **Technology** (producers access foreign technologies)

## Costs of Trade

## But there are Costs

- **Economic:**
  - When trade expands (or contracts)
    - o Some firms lose market share or shut down
    - o Their workers lose jobs
    - o Their communities lose customers and other firms shrink
  - Vulnerability to foreign recession/inflation
- **Non-economic**
  - Dependence on other countries
  - 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



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# Policies that Encourage Globalization

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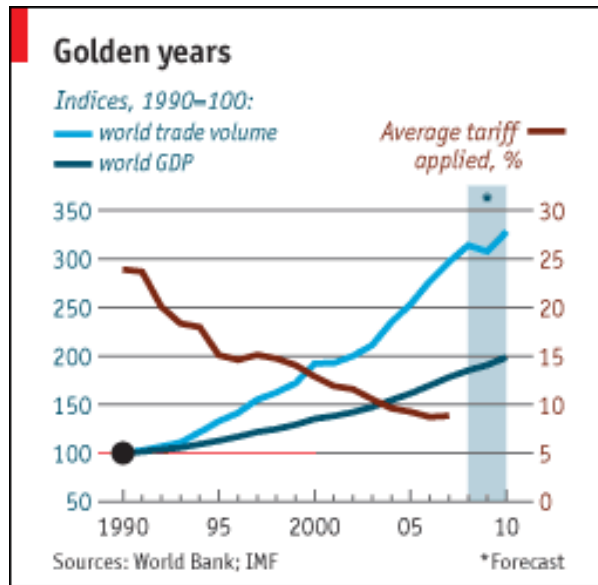
# Tariff Reductions

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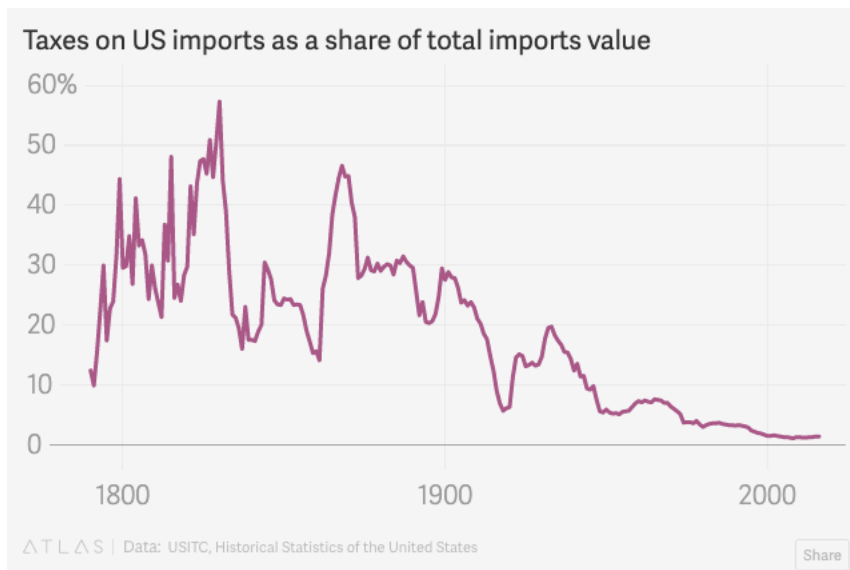
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Source: Economist

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Source: Quartz 2018

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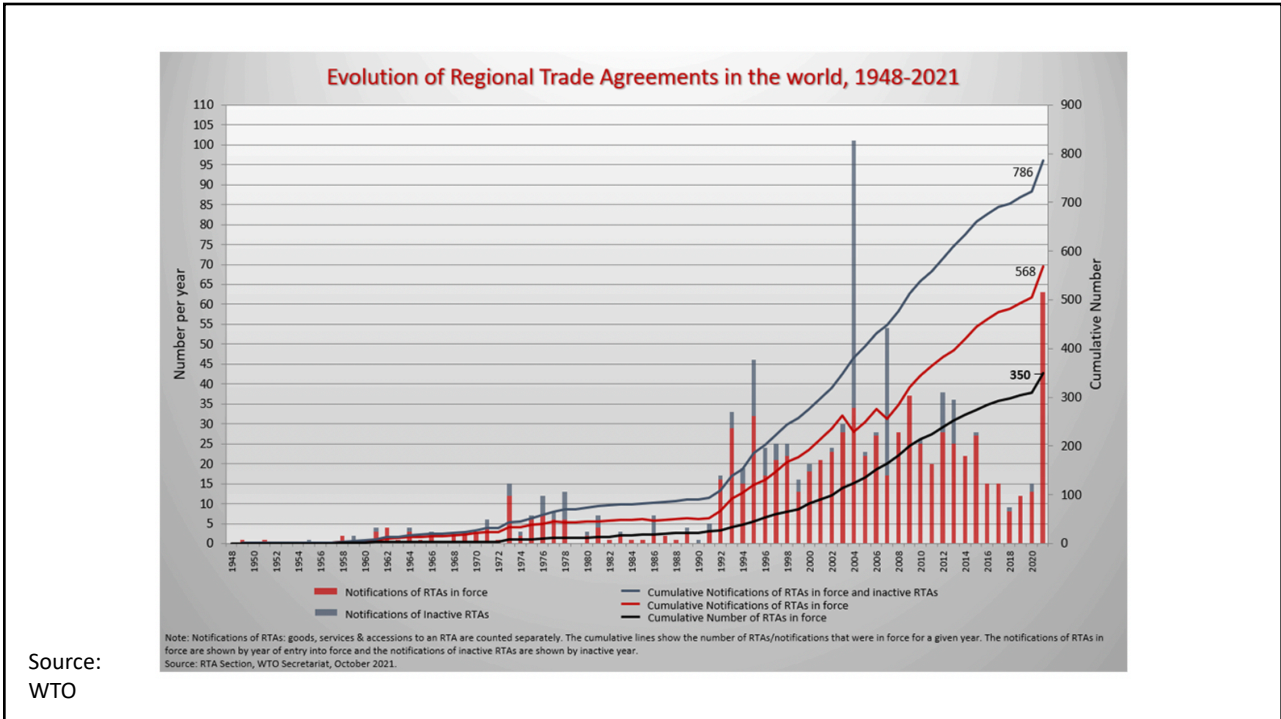
# Trade Agreements



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Source:  
WTO

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# European Union



Source: Europa.eu

33

# NAFTA (now USMCA)



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**MERCOSUR**



A map of South America where the Mercosur member states are highlighted in various colors: Brazil is green, Paraguay and Uruguay are pink, Argentina is blue, and Chile and Peru are orange. Other South American countries are shown in grey.

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**CPTPP**  
**=**  
**Trans-Pacific Partnership**  
**minus US**



A world map showing the member states of the CPTPP (Trans-Pacific Partnership minus the US) highlighted in blue. These include Canada, Mexico, Japan, Australia, and several Southeast Asian nations. Other countries are shown in grey.

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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
  - Reducing trade barriers
  - 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



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# Policies that Discourage Globalization

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# Trump's Tariffs and Trade War

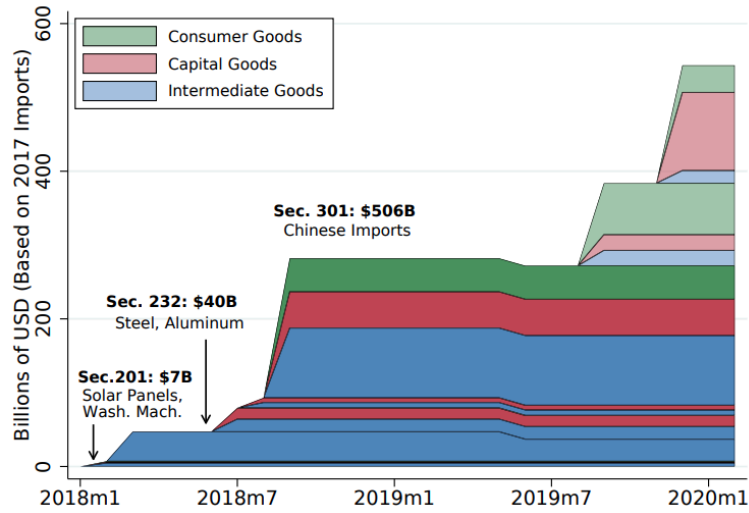
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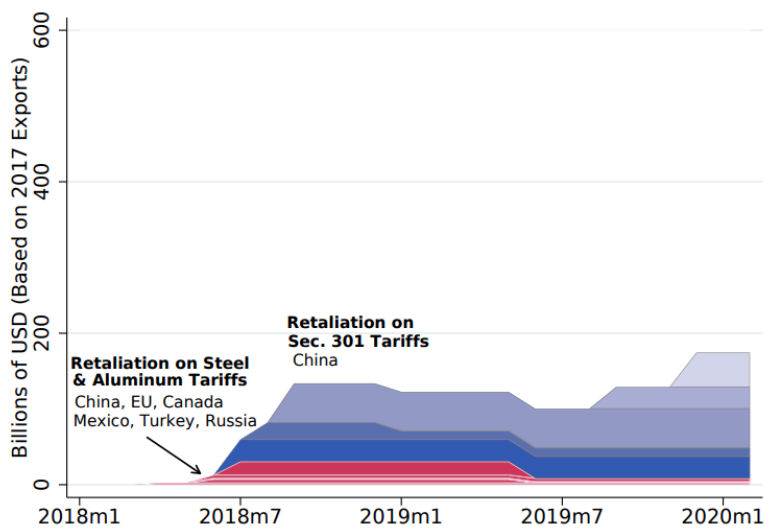
**Figure B1: Composition of New U.S. Import Tariffs: 2018-2019**



Source:  
Flaan &  
Pierce  
2020

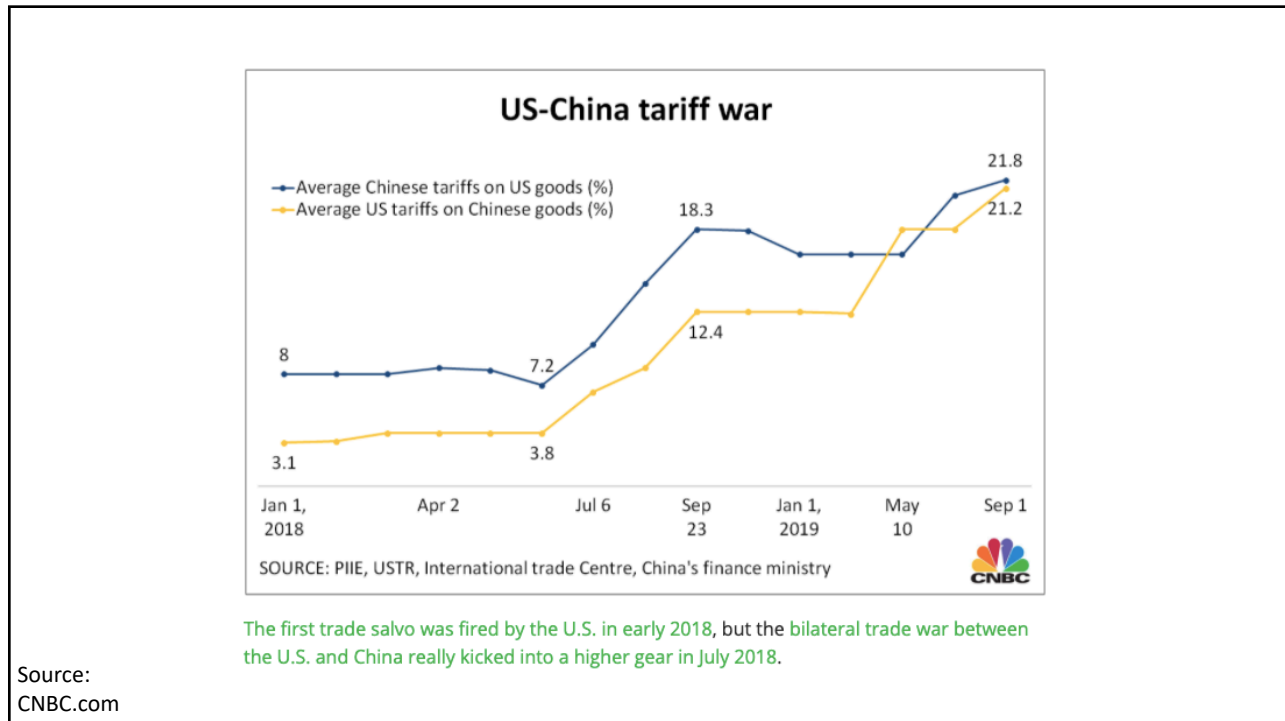
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**Figure 3: Timeline of Retaliatory Tariffs on U.S. Exports: 2018-2019**

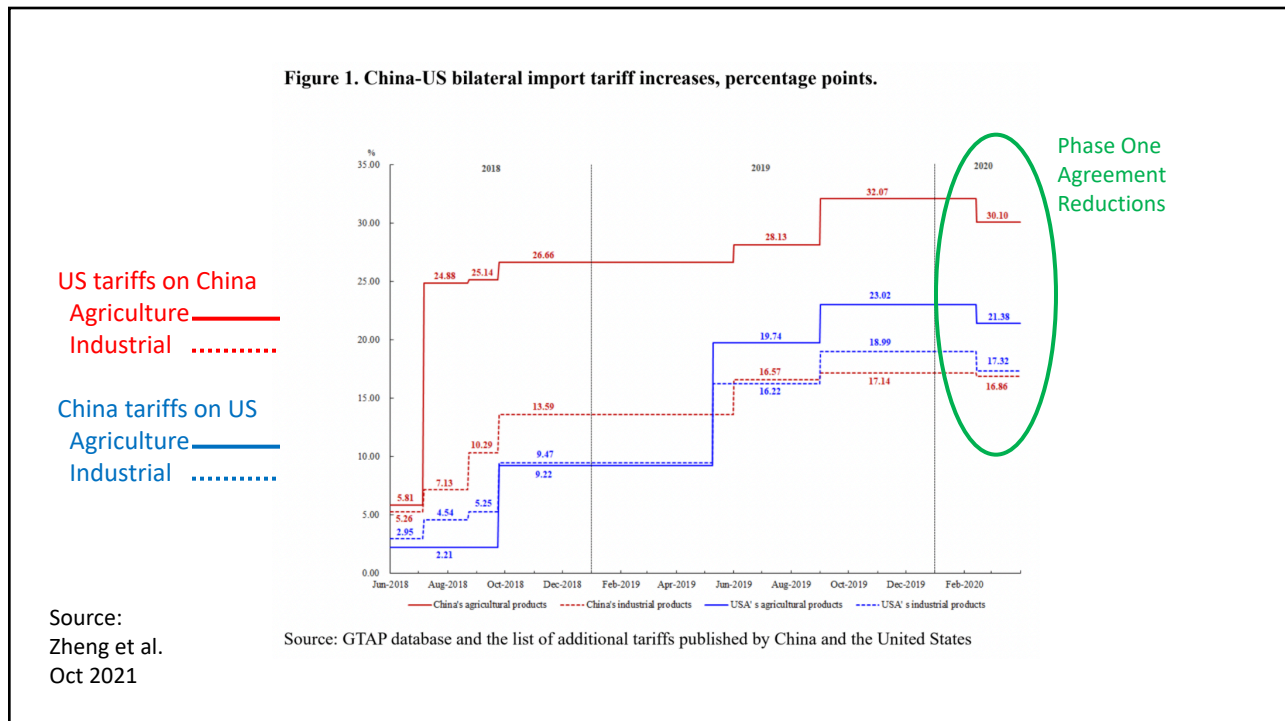


Source:  
Flaan &  
Pierce  
2020

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# 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 the import and the competing goods
  - o Including producers that use the higher-priced goods as inputs
- 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 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



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## Effects of a tariff

- **If the tariff is on exports of only one country (e.g, China)**
  - Buyers shift to imports from other, more costly, countries (e.g., Vietnam)



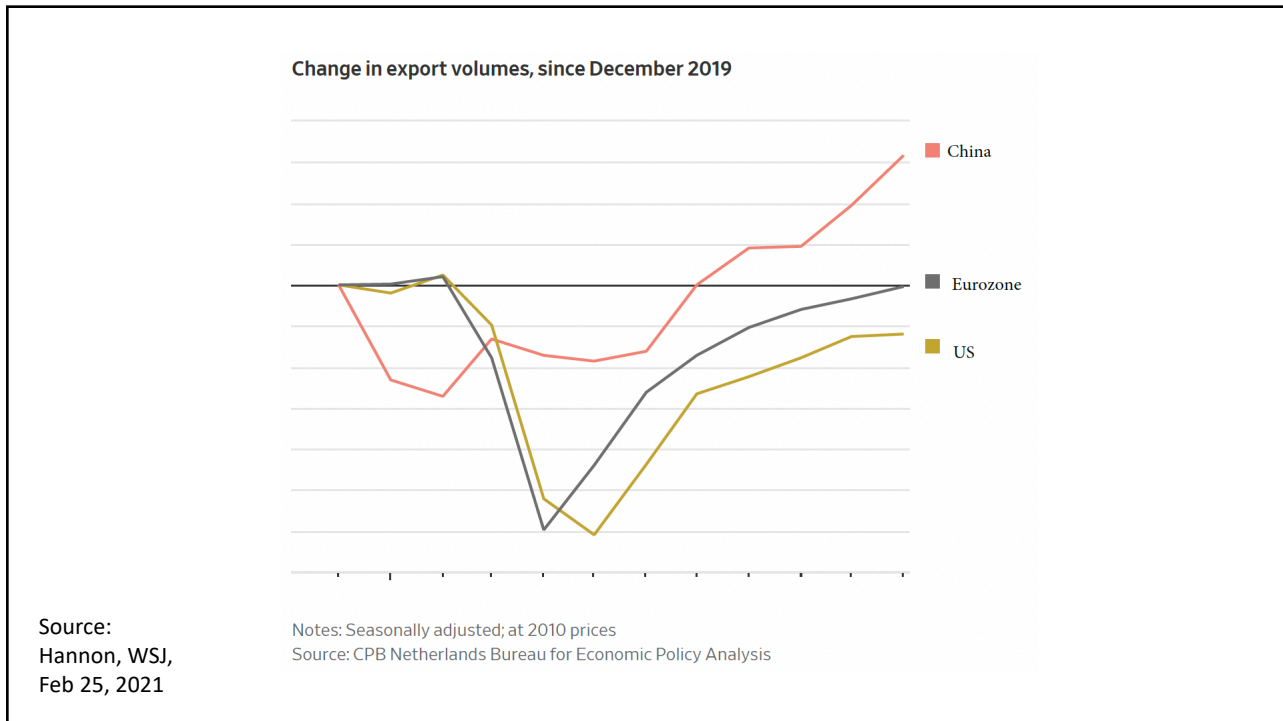
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## Effects of the Pandemic

- **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




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## Effects of the Pandemic on 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



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# Globalization's Future?

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## Globalization's Future?

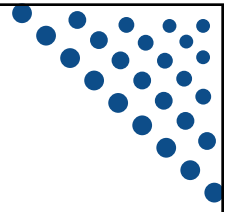
- **Will trade, travel, etc. come back?**
  - Yes, partly
- **Will it reach the previous trend**
  - Probably not.
  - It didn't after the financial crisis
- **Will attitudes change?**
  - Yes.
  - Firm's will try to limit exposure
  - Consumers will learn to live differently
- **Will economists' view of globalization change?**
  - I think so.
  - We still think globalization is good, but it should include greater protections

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**Thank you!**



# Any Questions?

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