

Trade and Globalization

Mihai Paraschiv
Assistant Professor of Economics
State University of New York at Oswego

Oswego High School
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What is globalization?

- **Economic globalization involves the flow of goods, services, and investment across international borders**
- **Presentation roadmap**
 - A brief history of globalization and the United States
 - International trade and the American economy
 - Foreign direct investment (FDI) in the United States
 - Offshoring and its effects



Western globalization in historical context

- **The first wave of globalization**
 - Roots in the 1830s, height in 1870s, end in 1913
- **American trade policy protected industry, but not other sectors**



Interwar isolationism

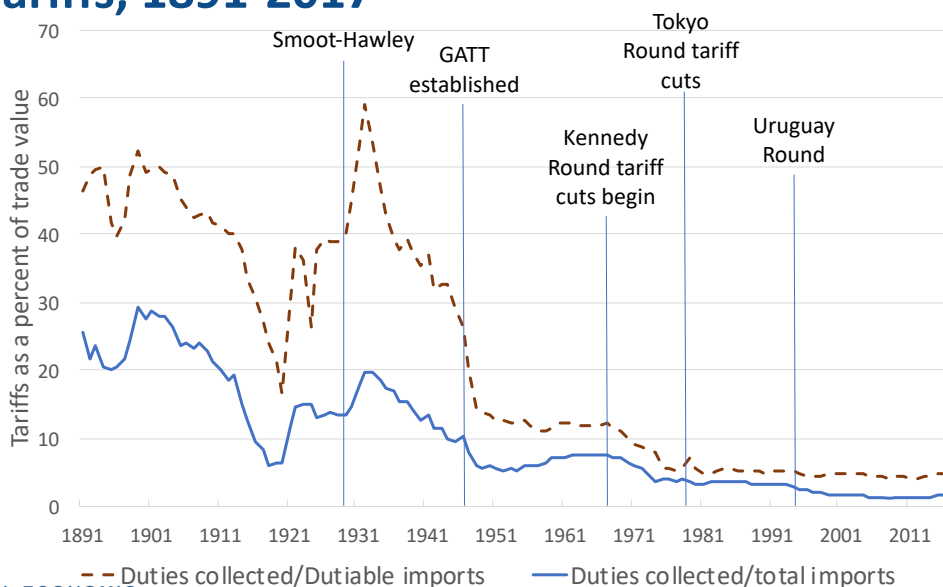
- **After WWI, many countries focused policy efforts internally**
- **The Great Depression led to the highest levels of trade barriers in the 20th century**
 - Embodied by the 1930 Smoot-Hawley Tariff
- **Eventual backlash over Smoot-Hawley led to the 1934 Reciprocal Trade Agreement Act**



Post-war liberal institutionalism

- **Initiated before World War II had ended**
 - Roots in the Atlantic Charter and Bretton Woods Conference
- **General Agreement on Tariffs and Trade (GATT)**
 - Nondiscrimination and reciprocity
 - Repeated multilateral negotiating rounds
- **GATT did create allowances for exceptions to nondiscrimination**
 - Generalized System of Preferences (towards developing)
 - Preferential/regional trade agreements (towards less-restricted trade)
 - National security and remedies (antidumping and countervailing duties)

US Tariffs, 1891-2017



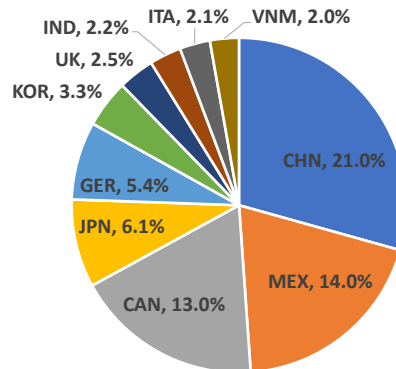
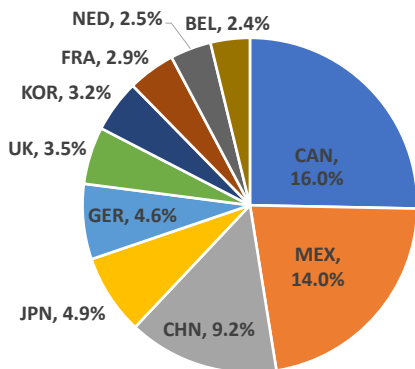
Exports and imports

- Exports: goods or services sold to another country
- Imports: goods or services bought from another country

US exports (2016 shares)				US imports (2016 shares)			
Goods		Services		Goods		Services	
Planes	4.5%	Bus/Fin/Ins	34%	Cars	8.2%	Bus/Fin/Ins	34%
Crude Petroleum	4.3%	Travel	27%	Crude Petroleum	4.7%	Travel	24%
Cars	4.2%	Royalties	17%	Computers	4.1%	Transport	19%

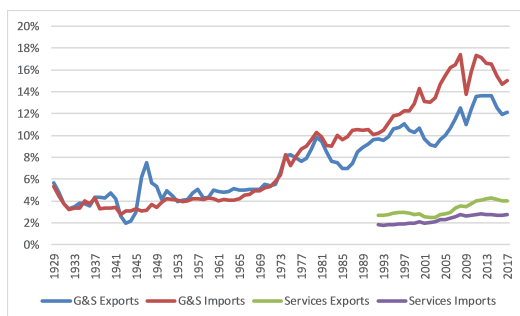
Top US trade partners (goods, 2016)

- Top 10 US export destinations
- Top 10 US import sources



Importance of US trade

• US trade as % of GDP



• US trade balance as % of GDP



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!
 - o Scarce resources: training time
 - o 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

Benefit 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

Other benefits from trade

- **Increased variety of goods**
 - US cars different than Japanese cars
- **Increased competition**
 - Competition by foreign firms reduces price-setting power of domestic firms
- **Economies of scale**
 - For some industries, production costs fall with increased production
- **Reallocate resources to more productive firms**
 - Countries have some high, some low productivity firms
 - With better foreign market access or more foreign competition...
 - high productivity firms grow, low productivity firms shrink
 - Overall productivity increases in each country

Distributional impacts of trade: basic insights

- **Previous slides**

- Trade increases “the size of the pie” for each country
- Ignores how trade impacts distribution of the pie in each country

- **Basic insights from trade theory**

- If trade decreases demand for a factor, it generally loses from trade
 - o Factors “stuck” in import-competing locations/industries (FairTrade Program)
 - o Mobile factors but used intensively in import-competing locations/industries
- If trade increases demand for a factor, it generally benefits from trade
 - o Factors “stuck” in exporting locations/industries
 - o Mobile factors but used intensively in exporting locations/industries
- Trade benefits consumers via lowers prices of imported goods
 - o Some consumers may benefit more than others



Distributional impacts of trade: unemployment

- **Generally, trade theory has nothing to say about unemployment**

- Trade is primarily about reallocating resources
- Some sectors expand, other sectors decline
 - o Labor, capital, land etc. move from import-competing to exporting sector
- Typical assumption in trade theory models ...
 - o this reallocation happens “costlessly” and immediately

- **However, recent empirical evidence suggests otherwise**

- Workers can face very large costs of moving between sectors or locations
- Rising exposure to import competition can ...
 - o Increase unemployment, reduce labor force participation



What do the data say? Trade hurts some people

- **Some parts of US highly exposed to import competition**
 - Workers tend to be “stuck” in these locations and/or industries
 - So they suffer
- **Effects of Chinese import competition 1990-2007**
 - Higher unemp, lower labor force participation & wages in exposed locations
 - Accounts for nearly 25% of manuf employment decline
- **Effects of NAFTA-led US tariff cuts on Mexico**
 - For workers without a college degree
 - Up to 8% point lower 1990s wage growth in highly exposed locations
 - Up to 17% point lower 1990s wage growth in highly exposed industries



What do the data say? Trade benefits some people

- **Trade liberalization raises wages at “most globalized” firms**
 - Wages higher because
 - lower tariffs on imported inputs used by firm
 - lower tariffs on products sold by exporting firms



What do the data say?

Trade lowers prices for consumers

- **Effect of import surge from China 2000-2007**
 - Prices would be about 10% higher without this import surge
 - Benefits for U.S. consumers of \$100,000 per lost manufacturing job
- **Do rich or poor benefit more from lower import prices?**
 - Evidence is mixed



US trade policy in practice: Congress

- **Constitution gives Congress exclusive power over trade policy**
 - Frequently passes “Miscellaneous tariff bills” (MTB)
 - o Temporarily remove tariffs on thousands of products
 - o Sept 2018 MTB: chemicals, footwear, toasters, 1600 other products
 - Tariff Act of 1930 implemented the Smoot-Hawley tariffs
 - o 50% increase in US tariffs
 - o Highest US tariffs over 1828-2018 period
- **Congress has delegated much authority to the Executive**
- **Main historical uses of Executive authority**
 - Negotiating reciprocal trade agreements (e.g. WTO and FTAs)
 - o 1934 Reciprocal Trade Agreements Act, now “trade promotion authority”
 - Temporary trade barriers (TTBs) via Tariff Act of 1930



US trade policy in practice: Congress & WTO

- **Congress passed legislation committing US to WTO rules**
 - 1994 Uruguay Round Agreements Act
 - WTO built on 1947 GATT rules
- **Basic rule: Most Favored Nation (MFN) principle**
 - Impose same tariff, the “MFN tariff”, on all WTO members
 - Committed to upper bounds on these MFN tariffs
 - Average 2017 US MFN tariff (upper bound or applied): 3.4%



US trade policy in practice: Congress & WTO

- **Key exceptions to principle of MFN tariffs**
- **Free Trade Agreements (FTAs, e.g. NAFTA)**
 - Eliminate tariffs between FTA members (for nearly all products in US FTAs)
 - Other rules: non-tariff barriers, product standards, trade disputes
 - US trade with FTA partners: 35% of imports, 42% of exports
- **Below MFN tariffs for developing countries**
 - “GSP” program & other similar programs
- **TTBs**
 - TTB tariffs can violate non-discrimination and upper bounds



US trade policy in practice: bureaucracy

- **Until recently, most frequent use of new US tariffs: TTBs**
 - Anti-dumping duties (AD)
 - Tariffs imposed on foreign firms selling below fair value
 - Countervailing duties (CVD)
 - Tariffs imposed on foreign firms receiving foreign government subsidies

- **ADs and CVDs processes managed by bureaucracy**
 - Congress delegated this power in Tariff Act of 1930
 - Department of Commerce and USITC both have veto power
 - USITC: US International Trade Commission
 - ADs and CVDs imposed on 928 occasions 1980-2016
 - Sep./2018: USITC rules against ADs in the Boeing-Bombardier CS100 dispute
 - Aug./2018: AD on large diameter welded pipe from Canada & other countries
 - Sep./2018: CVD on Vietnamese laminated woven sacks

