



Trade and Globalization


Kell High School
September 17, 2019
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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.



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Who Are We?

- **Honorary Board: 44 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 364 members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 42 Ph.D. Economists**

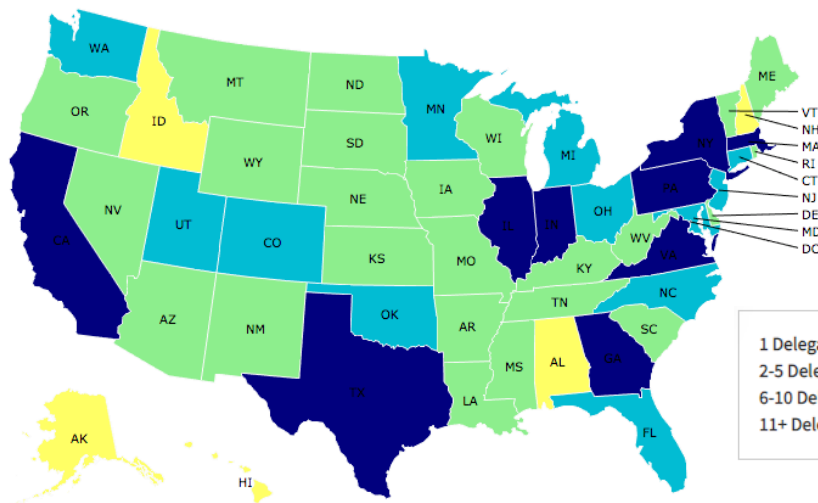
- Aid in slide deck development



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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**

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- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



Outline

- **Globalization**
- **International Trade**
- **Foreign Direct Investment**
- **Offshoring**



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



What Drives Globalization?

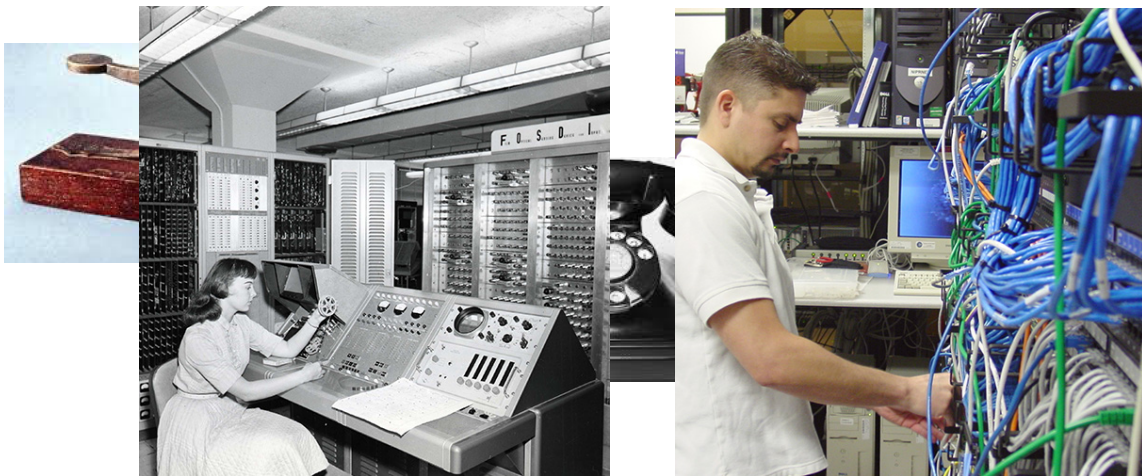
- **Transportation**
- **Technology**
- **International Cooperation**



Transportation



Technology



International Cooperation



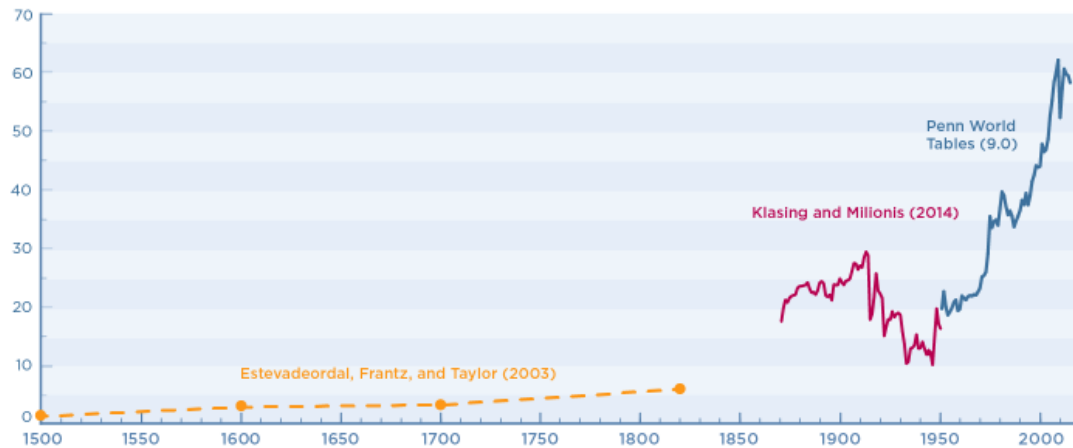
1995 World Trade Organization (WTO)

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

the
to
to

Trade has skyrocketed in the past century

World trade as percent of world GDP (1500–2014)



Note: This chart displays data from three sources. Data from 1500 to 1820 is the average of the upper and lower bound and only includes the years 1500, 1600, 1700, and 1820. Data not available from 1821-1869.

Sources: See chart, "Globalization over 5 centuries," at <https://ourworldindata.org/trade-and-globalization> for full citations.

International Cooperation – Ending?



2017 — 2018

President Donald Trump Repudiates Trading System

Trump withdraws from the Trans-Pacific Partnership (TPP), threatens to abandon NAFTA (then later negotiates a preliminary deal that adds new restrictions), and criticizes WTO rules as unfair to the United States. His administration imposes tariffs against China and US allies, which escalates into a tit-for-tat trade war.



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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.**



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Interwar Isolationism

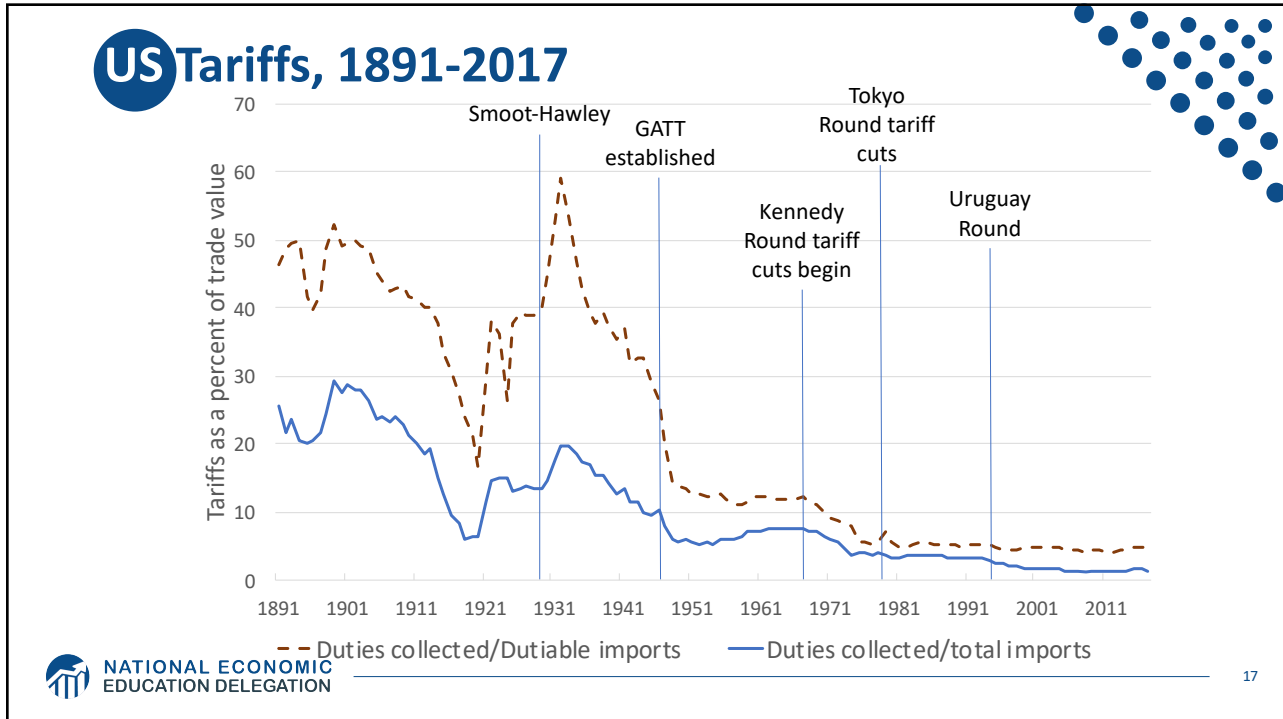
- **After WWI, many countries focused policy efforts internally.**
- **The Great Depression led to the highest levels of trade barriers in the 20th century.**
 - Embodied by the 1930 Smoot-Hawley Tariff
- **Eventual backlash over Smoot-Hawley led to the 1934 Reciprocal Trade Agreement Act.**



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
 - Preferential/regional trade agreements
 - National security and remedies (antidumping and countervailing duties)





International Trade

Exports and Imports

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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%

What do we Export? (\$1.6 Trillion)

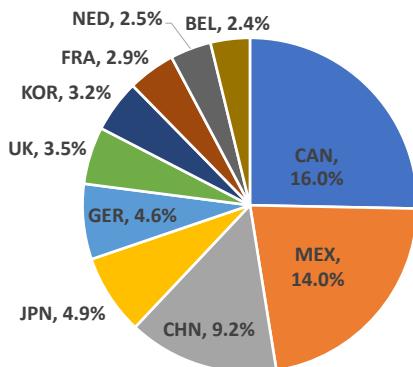
Rank ↕	US Export Product	2017 Value (US\$) ↕	Change ↕
1	Processed petroleum oils	\$77.8 billion	+25.6%
2	Cars	\$53.6 billion	-0.5%
3	Automobile parts/accessories	\$44.9 billion	+4.5%
4	Integrated circuits/microassemblies	\$38.1 billion	+9.1%
5	Mobile phones, other phone system devices	\$34 billion	+0.5%
6	Electro-medical equipment (e.g. xrays)	\$26.5 billion	+0.2%
7	Computers, optical readers	\$25.3 billion	+4.2%
8	Petroleum gases	\$22.3 billion	+67.8%
9	Crude oil	\$21.8 billion	+131.6%
10	Soya beans	\$21.7 billion	-5.3%

What do we Import? (\$2.4 Trillion)

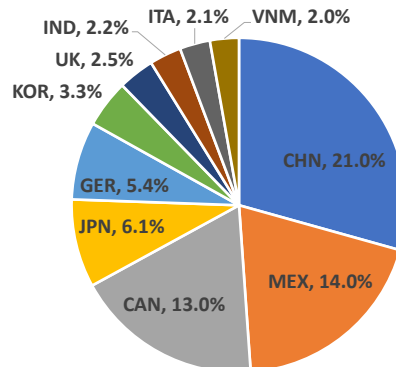
Rank ↕	US Import Product	2017 Value (US\$)	Change ↕
1	Cars	\$179.6 billion	+3.9%
2	Crude oil	\$139.1 billion	+23.4%
3	Phone system devices including smartphones	\$113.1 billion	+5.4%
4	Computers, optical readers	\$85 billion	+6.4%
5	Automobile parts/accessories	\$66.6 billion	-0.3%
6	Medication mixes in dosage	\$65 billion	-5.9%
7	Processed petroleum oils	\$48 billion	+10.9%
8	Integrated circuits/microassemblies	\$33.5 billion	+8%
9	Trucks	\$26.5 billion	+8.4%
10	Blood fractions (including antisera)	\$26 billion	+27.5%

Top US Trade Partners (Goods, 2016)

• Top 10 US export destinations

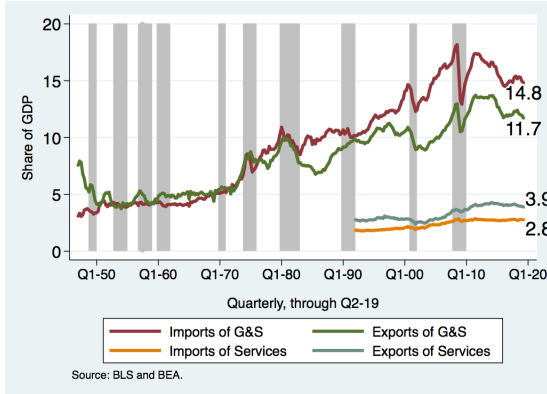


• Top 10 US import sources

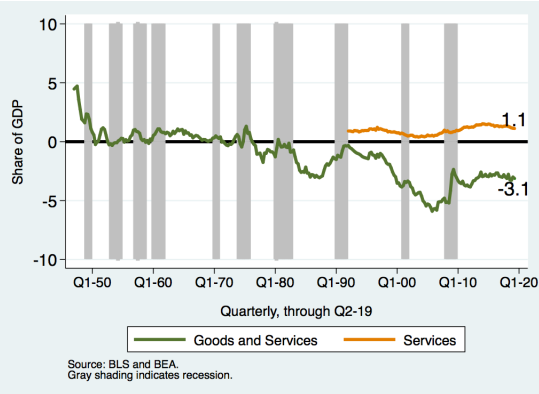


Importance of US Trade

• US trade as % of GDP



• US trade balance as % of GDP



U.S. Trade Deficits

- Overall, a nearly \$570 Billion trade deficit (3% of GDP)
- Goods trade deficit over \$891 Billion
- Services trade *surplus* of about \$270 Billion



Why Do Countries Trade?

- **Competition**
- **Varieties**
- **Efficiency**



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



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



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



Trade Contributes to Growth

- **EFFICIENCY:**
 - Allocates production across countries efficiently so that countries can specialize in what they are best at producing.
- **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.

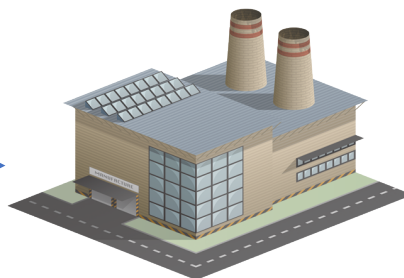


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How to Think About Imports

- **Think about international trade as the introduction of a new technology.**

Soy Beans
(Exports)



Laptops/iPhones
(Imports)



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What Does 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.



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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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Distributional Impacts of Trade: Basic Insights

- **Previous slides**

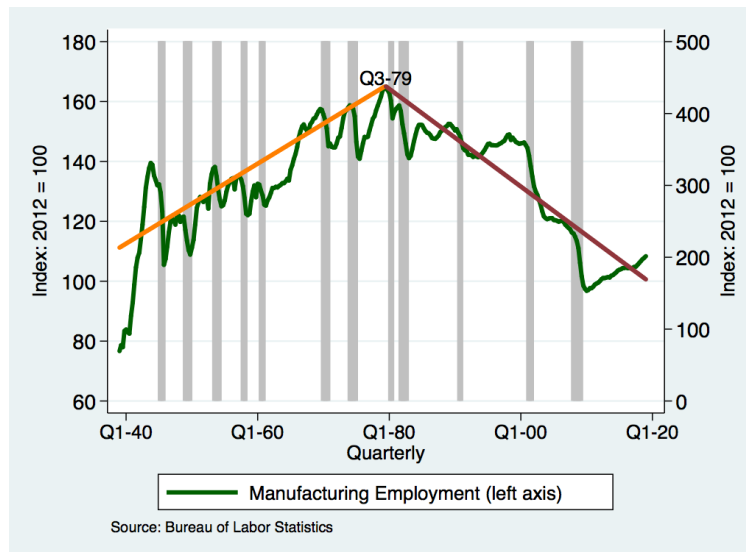
- Trade increases “the size of the pie” for each country
- Ignores how trade impacts distribution of the pie in each country

- **Basic insights from trade theory**

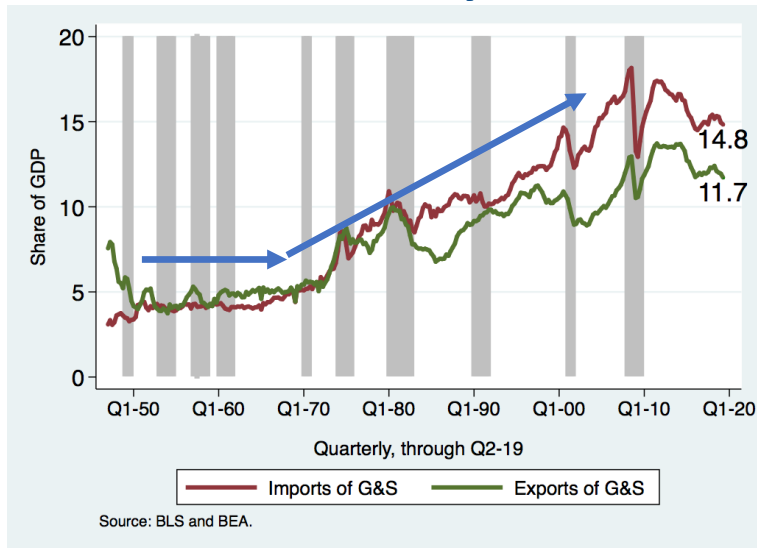
- If trade decreases demand for a factor, it generally loses from trade
 - o Factors “stuck” in import-competing locations/industries
 - o Mobile factors but used intensively in import-competing locations/industries
- If trade increases demand for a factor, it generally benefits from trade
 - o Factors “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



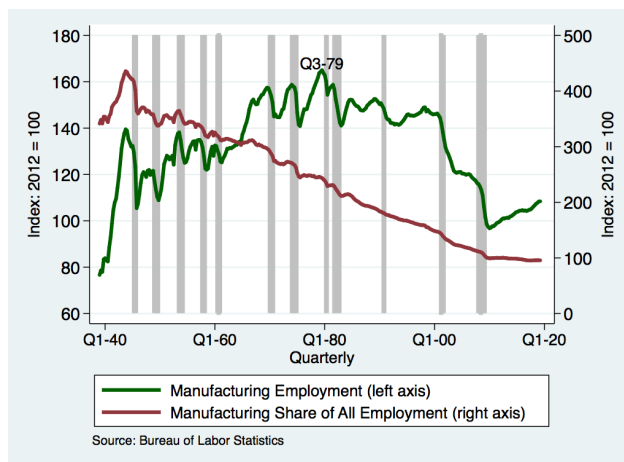
The Basic Issue: Inverted V of Jobs in Manuf.



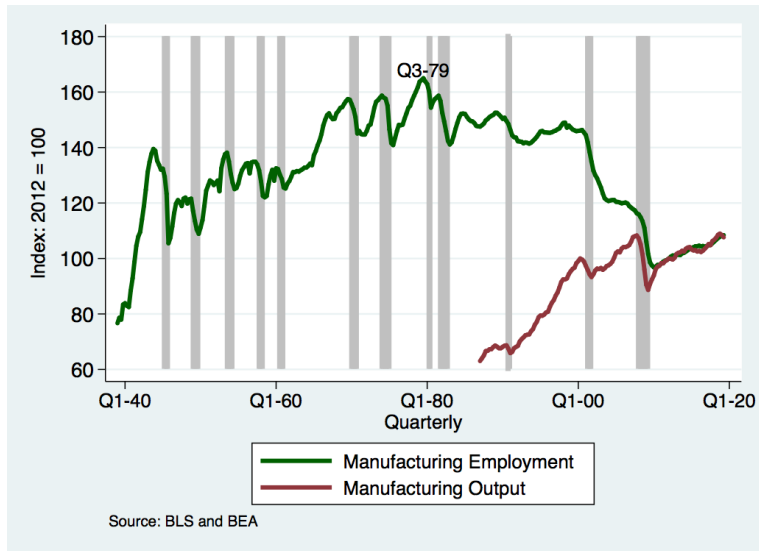
“International Trade is Surely a Contributor!”



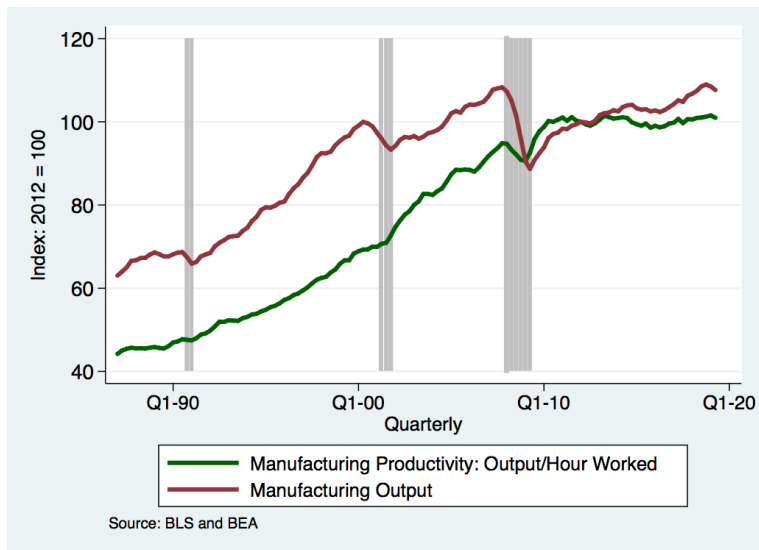
But There is No V in the Fraction of Jobs in Manufacturing



And Manufacturing Output Keeps on Growing



And Manufacturing Productivity is on the Rise



Another Problem: Trade Deficit

- **Massive Trade Deficit**
 - 2.9% of US GDP
 - \$893 Billion in 2018 for goods
- **Massive Trade Deficit with China**
 - 2/3 of US Trade Deficit

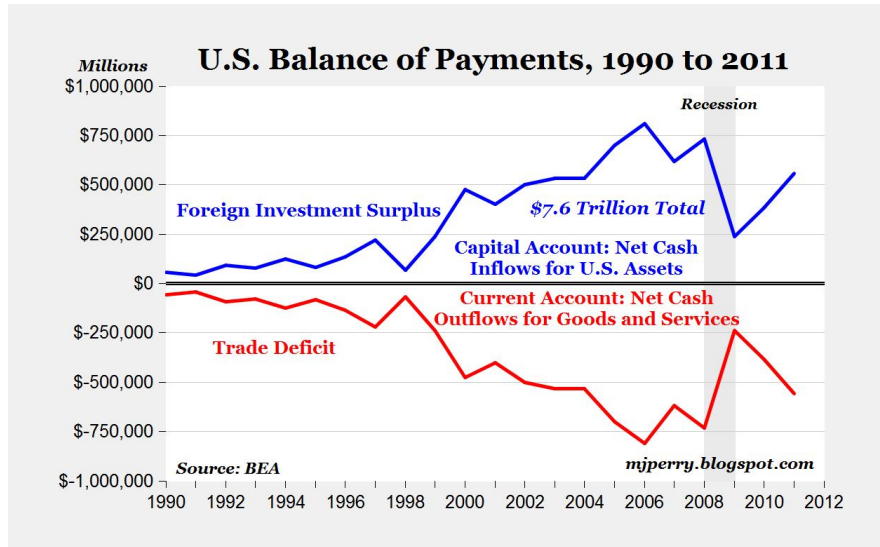


How to Think About the Trade Deficit

- **A trade deficit is when:**
 - **VALUE** of imports > **VALUE** of exports.
- **Why does this happen?**
- **International transactions include:**
 - Imports and exports of goods and services
 - ALSO: imports and exports of assets (investments)
 - Current Account
 - Capital Account
- **The TRADE DEFICIT only looks at the Current Account**



Trade and Investment Flows Balance Out

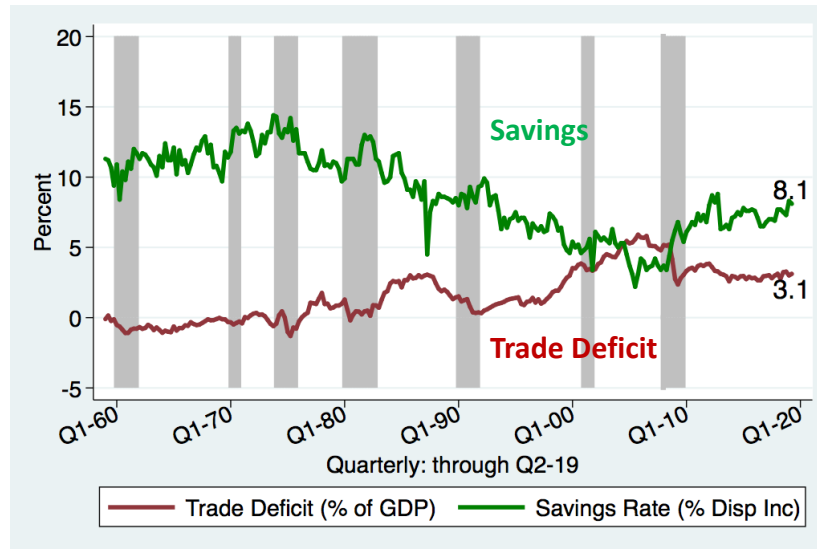


Balanced Budgets & Increased Savings

- Reducing federal borrowing would reduce pressure on trade deficits.
- More savings would mean more domestic investment and less borrowing from abroad.



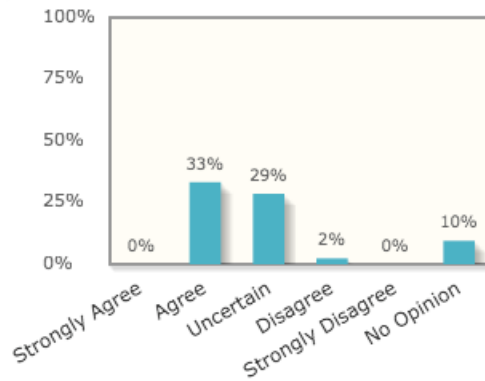
US Savings and the Trade Deficit



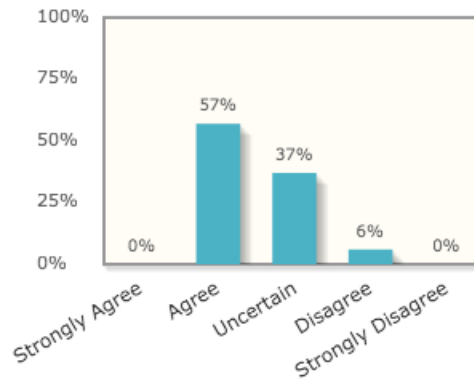
General Agreement Among Economists

If the US reduced its fiscal deficit, then its trade deficit would also shrink.

Responses



Responses weighted by each expert's confidence



Trade With China: 63% of US Trade Deficit

U.S. Trade Deficit With China

The U.S. trade deficit with China was **\$419 billion** in 2018.

Total U.S. imports from China: **\$540 billion**

Total U.S. exports to China: **\$120 billion**

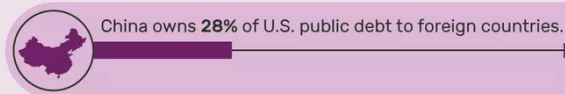


Largest U.S. Imports

- \$77 billion in computers
- \$70 billion in cell phones
- \$54 billion in apparel and footwear

Largest U.S. Exports

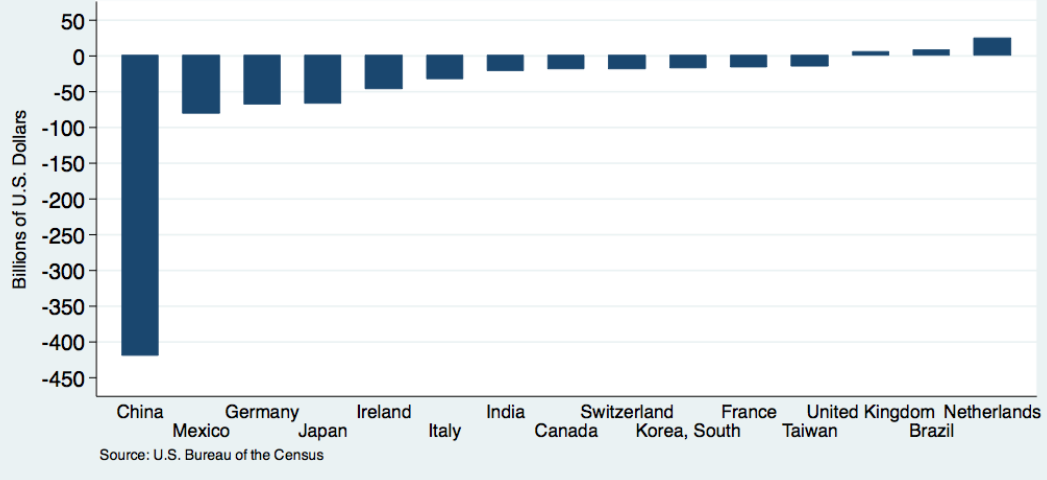
- \$16 billion in commercial aircraft
- \$12 billion in soybeans
- \$10 billion in autos



the balance

Bilateral Trading Relationships

Bilateral U.S. Trade Balance in 2018



Thank you!

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