Questions for PubPol/Econ 541
Sep 4

The State of Play in International Trade and Trade Policy II: Other

KOM, Chs. 1-2:

- How much has trade grown over time, and why? (The book doesn't say a lot about why, but you should think about it.) **<a: US trade, X+M, as % of income grew from < 10% in 1960 to almost 30% in 2005. UK trade grew from a little over 20% in 1830 to over 40% in 1910, then fell but rose even further by 1995.>**
- Who gains from trade? All countries? All people within a country? **<a:Yes to the first, no to the second.>**
- What does the Gravity Model say that trade between two countries depends on? Why is the model useful? **<a: Proportional to the product of their incomes, and inverse to their distance apart. Useful as a benchmark to see situations that depart from it.>**
- Do national borders interfere with trade? **<a: Yes, as the example of BC trade with Canadian provinces and US states illustrates>**
- Why is trade in services growing? **<a: Mainly it seems to be due to reduced cost of long-distance communication, but reduced travel cost may matter as well.>**

BREXIT:

Kirkegaard, "The Brexit agreement: An economic guide for the perplexed," 2021.

- What UK objectives are mentioned here as having been achieved by the agreement? **<a: Increased national sovereignty, control over territorial waters, and end of rule of European Court of Justice.>**
- What aspects of UK-EU interactions will be adversely affected by the agreement? **<a: Trade in goods, trade in services, labor mobility, and regulations.>**
- What is the relevance of "rules of origin"? Of "minimal processing requirements"? **<a: For ROOs, UK products with inputs from outside may no longer enter EU tariff-free. And minimal processing may devastate the logistics and distribution sector.>**
- Is the UK now free to make its own regulations? **<a: Yes, but these may not be treated by EU as sufficient to justify trade, and may also lead to retaliatory tariffs if viewed as providing the UK firms an unfair advantage**

Colchester, Max and David Luhnow, "As Britain Gears Up for an Election, No One Is Talking About Brexit," ***Wall Street Journal*****, June 15, 2024.**

- What adverse effects of Brexit on the UK are mentioned here? **<a: Many: Scaring off business investment, feeding inflation, failing to stem immigration, made Britain's economy about 5% smaller.>**
- What part of the population thinks Brexit was worth the costs? **<a: Only 15%.>**
- Which party caused Brexit? **<a: The Conservatives, who held the vote, then negotiated the agreement(s).>**
- Why doesn't the Labor Party argue to reverse Brexit. Was its leader, Keir Starmer, in favor of it? **<a: Starmer campaigned to stay in the EU, but Labor's core working class voters voted for Brexit and Labor fears losing them.>**
- If it wanted to, could the UK just re-enter the EU on the same terms as before? **<a: No. (Implicitly here, it would have to apply and convince the EU it wouldn't just leave again later. And it would not be able to stay out of the eurozone, as it did before.>**
- Is there any political party in the UK campaigning to rejoin the EU? **<a: Yes, the Rejoin EU Party, which is fielding some candidates mostly in or near London.>**

Optional to Read:

Economist, "The story of a divorce: How Brexit happened," 2021.

- Why was the UK always more ambivalent about being in the EU than the continental countries? **<a: This mentions the histories that the latter sought to escape from, while the UK has a long list of reasons to be hesitant.>**
- What role did immigration play in the decision to leave? **<a: Unlike other EU countries, Tony Blair had not delayed free immigration from Eastern Europe, and the number of migrants from Poland and Romania soared. Brits who live in places where the immigrants were voted to leave.>**
- How did the leavers and remainers compare in numbers and locations? **<a: In numbers total they were very close (48/52) but each were concentrated in different places.>**
- What was the problem with the referendum's "binary choice"? **<a: The meaning of "leave" was not spelled out and could have been "soft" or "hard". Those who voted Leave didn't all want the same thing, so many were bound to be unhappy with whatever eventually occurred.>**
- What has been the most difficult issue to resolve and what was done? **<a: The choice between a hard border in Ireland or between Northern Ireland and Great Britain. The result, so far, is the latter.>**

Economist, "Brexit and Northern Ireland: Explaining What Is in the Windsor Framework," *the Economist*, June 27, 2023.

- What was disliked in the Northern Ireland Protocol, and by whom especially? **<a: Because it kept Northern Ireland in the EU single market, it required customs checks and restrictions on imports into Northern Ireland from the rest of the UK. It was disliked especially by the DUP – the Democratic Unionist Party, which insists on Northern Ireland remaining a part of the UK.>**
- How do "green lanes" help to fix this? **<a: They allow "trusted traders" of goods that will stay in Northern Ireland to face minimal (but not zero) customs checks.>**
- Are there any products that were banned before that now are permitted to trade? **<a: Yes. Mentioned are parcels, pets, sausages, plants, and seed potatoes.>**
- How is the role of the European Court of Justice changed? **<a: It now rules only over EU laws in Northern Ireland.>**
- What is the Stormont Brake? **<a: A provision that allows 30 members of the Northern Ireland assembly, from at least two parties, to ask the UK to veto changes in EU single-market rules.>**
- Does this "remove any sense of an Irish Sea border? **<a: PM Sunak said it does, but it does not.>**

CHINA TRADE ACTIONS:

White, Edward, "China bans export of rare earth processing technologies," *Financial Times*, December 21, 2023.

- Is China banning the export of rare earths? **<a: No. It's banning the export of technologies for processing them.>**
- Why is it doing this? **<a: China says it's for national security, but experts are sure it is retaliation against US curbs on exports of advanced computer chips.>**
- What has the US done to China that is mentioned here? **<a: In addition to the chip curbs and chip technology, US has also kept Chinese producers of batteries and EVs from accessing US subsidies.>**
- How important is China in the rare earths industry? **<a: 60% of mining, 90% of processing and refining.>**
- How has the market for rare earths changed and is likely to change? **<a: In the last 7 years, non-Chinese production has increased 4-fold while Chinese production has doubled. Demand is expected to grow 7-fold by 2040.>**

Winning, David, “China to Lift Tariffs on sn Wine, as Frosty Relations Thaw,” *Wall Street Journal*, March 28, 2024.

- When and why did China raise tariffs on Australian wine? **<a: More than 3 years ago, hence early 2021, in response to Australia’s PM calling for an international probe into the origins of Covid-19 in China. >**
- How did Australia’s wine trade respond? **<a: To China it nearly collapsed, but they expanded into other markets, such as Singapore and Vietnam.>**
- What prompted this removal of the tariffs? **<a: Election of a new PM in Australia, who visited Beijing and promised to drop Australia’s case against China in the WTO.>**
- Do other frictions between China and Australia remain? Is China dropping other trade policies against Australia that started at the same time? **<a: Frictions, yes: Australia’s expanding military alliance with US, and China’s death sentence against an Australian blogger and spy novelist.>**

Huang, Jiahui, “China to Impose Export Controls on Aviation Equipment, Technology,” *Wall Street Journal* , May 30, 2024.

- When will these new controls go into effect? **<a: July 1, 2024.>**
- What products do they cover? **<a: aircraft engines, gas turbine engines, astronaut helmet visors and a polyethylene fiber commonly used in bulletproof jackets, as well as various technologies, software and data used to develop them.>**
- Is this a ban on exports or a tax on exports? **<a: No. It’s a new requirement that exporters apply for an export permit.>**
- Is it targeted at US? **<a: No. It includes US, but US imports of these products are only about 1/7 of China’s exports of them.>**

RUSSIA SANCTIONS:

Bown, Chad P. “Russia's war on Ukraine: A sanctions timeline,” Realtime Economic Issues Watch, Peterson Institute for International Economics, June 14, 2022, last updated June 21, 2023.

- What prompted the sanctions to start and when? **<a: Putin ordered troops to Ukraine on Feb 21, 2022.>**
- What are some of the countries that announced that they would <u>not</u> use sanctions on Russia? **<a: India, Mexico, Brazil, China, Argentina, Indonesia, Turkey, S Africa, Serbia.>**
- What were the most recent actions reported here, and by whom? **<a: As of 7/23/23 when I looked at it, passing over the right-most dots, these were “The United Kingdom introduces new legislation banning” certain imports from and exports to Belarus, 6/8/23; and “The US Department of Commerce issues a temporary denial order suspending export privileges for the Aratos Group and its president for allegedly providing support to Russian intelligence services” 6/9/23>**

Sanger, David E., Alan Rappeport, Edward Wong, and Ana Swanson, "U.S. Expands Sanctions on Russia as G7 Leaders Gather," *New York Times*, June 12, 2024.

- Are the new sanctions targeted directly at US trade with Russia? **<a: No, but at fast-growing technological links between China and Russia.>**
- Has China participated in sanctions against Russia? **<a: No, but until recently it sat on the sidelines. Now it is engaging more actively in trade with Russia, buying oil (at a discount) and selling it dual-use products. So far it has not sold it weapons.>**
- What did President Biden expect the original sanctions (in 2022) to do? Did they? **<a: Weaken the ruble and hurt the Russian economy. No, at least not as much or as long as expected, partly due to help from China.>**
- How important is China for Russia's imports of machine tools and microelectronics? **<a: Very: 70% and 90% respectively.>**

Optional to Read:

Funakoshi, Minami, Hugh Lawson, and Kannaki Deka, "Tracking sanctions against Russia," Reuters, March 9, 2022, updated July 7, 2022. Read "Sanctions by Countries" only, pp. 1-11.

- Are sanctions reported by any poor countries or from Africa or Latin America? **<a: No, with the exception perhaps of Bahamas.>**
- What are the most common targets of sanctions? **<a: Oligarchs, companies, and military complex.>**

OTHER DISPUTES AND ACTIONS:

EU Carbon Tarif:

Hancock, Alice and Harry Dempsey, "Aluminium Companies Complain About EU Carbon Border Tax Loophole," *Financial Times*, July 9, 2023.

- What is CBAM? **<a: The EU's proposed Carbon Border Adjustment Mechanism, which would tax imports based on their carbon emissions so as to offset the increased cost of EU producers subject to its emissions trading system.>**
- What is the loophole that aluminum producers are complaining about? **<a: "Offcuts" of aluminum that are remelted can be imported with no tax, even though they are from aluminum that was made with carbon emitting methods.>**
- What are some other concerns and might they apply more broadly than aluminum? **<a: "lack of rebates for exports containing imported aluminium that had been taxed" (Yes); "finished products such as cars or cans containing highly polluting aluminium being allowed in without paying for emissions generated in metal production" (Yes); "loss of the sector's free**

emission allowances" (not sure what this means); "domestic producers facing soaring costs needed a level playing field." [Producers using aluminum?] (Yes); "it punishes producers in less developed nations that are economically reliant on exports to the bloc" (Yes).>

- Will CBAM go into effect, and if so when and how? **<a: They are consulting on details until July 11, so presumably this is not certain. If it does go into effect, it will start without charging in October, then start collecting taxes in 2026. It does not cover everything, by any means, as initially it only covers "seven different sectors including aluminium, iron, steel, fertilizer and hydrogen.>**

Mooney, Attracta, "US examines carbon pricing on imports, climate envoy says," *Financial times*, July 1, 2024.

- Who is quoted here, and what is his role in the US government? **<a: John Podesta, the most senior US climate diplomat.>**
- What is said to be the purpose of any policy? **<a: To "combat Chinese industrial competition and cut emissions" and to "fight against 'freeriding'.>**
- Is this a response to any policy by US trading partners? **<a: Apparently, as it's in the context of the EU carbon border adjustment mechanism.>**
- What products are of most concern? **<a: Steel and aluminium, cement, glass, fertiliser.>**
- Which political party in the US is calling for this? **<a: Both, apparently, as this cites both a Republican and a Democrat senator.>**
- How does the US compare to others in the carbon intensity of our production? **<a: Less carbon intensive than the worst (China, India, Russia), but worse than the EU.>**
- Does China have any policy to limit carbon emissions? **<a: China has a "carbon permit pricing system" that it may expand. .>**

Optional to Read:

Financial Times Editorial Board, "The EU's Pioneering Carbon Border Tax," *Financial Times,*, January 11, 2023.

- What does CBAM plan to do? **<a: "requires firms in the bloc to pay tariffs on some carbon-intensive imports linked to the domestic carbon price under its Emissions Trading System (ETS).".>**
- What is "carbon leakage," and how would CBAM stop it? **<a: Carbon leakage is the movement of carbon-intensive activities abroad to avoid the carbon price, then import those products back into the EU. CBAM would tax them, making that not worth doing.>**
- What are its purposes? **<a: To level the playing field for EU producers who pay their carbon price; to prevent 'carbon leakage"; and to induce other countries to price carbon.>**
- What are some objections to CBAM? **<a: The need for export rebates (perhaps WTO illegal); a wave of cheap imports diverted from the EU to other countries; hardship for developing countries that cannot manage to**

price carbon; WTO challenges, retaliation, and a "hodgepodge" of carbon border taxes with varying rules.>

- How might companies avoid the tax in ways that undermine its benefits? **<a: Produce finished products abroad, not subject to the tax; send only the cleanest products to the EU.>**

Shipping Disruptions:

Financial Times Editorial Board, "Global trade shudders over blockages in the Suez and Panama canals," *Financial Times,*, December 20, 2023.

- What is interfering with shipping through the Red Sea? **<a: Attacks on ships by Houthi militants.>**
- Why does this raise the cost of shipping? **<a: Higher insurance costs if they continue through Red Sea, higher time and fuel costs if they divert around Cape of Good Hope.>**
- What is limiting traffic through the Panama Canal? Does this say why this is happening? **<a: Low water levels due to drought, but it doesn't say why drought matters.>**
- Are these disruptions as bad as the pandemic? **<a: Not at all, judging from the graph.>**

Optional to Read:

Lerman, Rachel, Hannah Dormido, Jeanne Whalen, Luis Melgar, and Laris Karklis, "See how the Key Bridge collapse will disrupt the supply of cars, coal and tofu," March 27, 2024 at 8:15 a., *Washington Post*, March 27, 2024.

- Is the Port of Baltimore, closed by the bridge collapse, the largest in the US? **<a: Far from it: it is 17th in 2021.>**
- Is it largest for any one product? **<a: Yes, cars to and from Europe.>**
- Is there any form of ocean transport that it does not serve? **<a: Apparently no, as it includes bulk carriers, containers, and passengers.>**
- Why have East Coast ports been growing in importance? **<a: Because the US has been trying to rely less on China, which uses the West Coat.>**

Forced labor import ban:

Swanson, Ana, "U.S. Bans Imports From 3 Chinese Companies Over Ties to Forced Labor," *New York Times*, June 11, 2024. [3p]

- What US law caused this list to be created, and when? **<a: The Uyghur Forced Labor Prevention Act from 2022.>**
- How many Chinese companies are on the list, and when were most of them added? **<a: 68, including these 3. Not many were put on it right after the law was passed, but close to half were added this year.>**
- Where in China does it use policies that the US regards as forced labor? **<a: In Xinjiang, where the ethnic Uyghurs live. But the workers may be**

transferred to other regions, including eastern China, to work. US claims that is not voluntary.>

EU Deforestation import ban:

Economist, "The forest for the trees: How EU do-goodery risks harming Africa's small farmers," ***The Economist*****, July 4, 2024.**

- What does the EU's new "deforestation regulation" do? **<a: It bans imports of products that have been grown on land that has been deforested since 2020.>**
- When does it go into effect? **<a: The end of 2024.>**
- Why is this a problem, and for whom? **<a: It will require identifying and documenting where products such as cocoa a and coffee were grown. This can be done, called "geo-location," but it will be costly for small farmers in Africa and will likely take more time than is available. >**
- What challenge does this create for supply chains? **<a: Products from different farms are typically mixed together, so that the location of a batch will be hard to say. Supply chains will have to track this or perhaps stop this mixing.>**
- Is the EU helping with this problem? **<a: It has pledged "just" €70m to the cause of deforestation, and says that help for small farmers is a priority.>**
- Is there an alternative approach to this problem? **<a: One has been suggested: Use satellite imagery to identify fields where trees have been cut down, allowing governments to stop cultivation there.>**

Vietnam market-economy status:

Lakshmi, A. Anantha, "US rejects Vietnam's bid for 'market economy' status in blow to trade ties," ***Financial Times*****, August 3, 2024.**

- Does this explain how market-economy status matters? **<a: No, except to say that market economy status for Vietnam would have increased their exports and lowered price in the US. I'll need to explain the importance in class.>**
- What does Vietnam do that this says should deprive it of market-economy status? **<a: Mostly government intervention in the markets, including in pricing of goods and currency.>**
- Is it only the US that classifies Vietnam as a non-market economy? **<a: No. The EU does too.>**
- Who in the US made this decision, and on what basis? **<a: The Commerce Department, based on "thorough evaluation of comments from US domestic industries and the Vietnamese government.">**
- Was this a partisan issue in the US? **<a: Apparently not, as both Republican and Democratic senators agreed.>**

EU-MERCOSUR FTA:

Pooler, Michael, Andy Bounds, and Ciara Nugent, "EU inches closer to trade deal with South America," ***Financial times*****, August 6, 2024.**

- How many countries will be in this FTA if it succeeds? **<a: 27 from the EU and 5 from MERCOSUR (Brazil, Argentina, Uruguay, Paraguay and Bolivia).>**
- When was agreement reached "in principle" to do this? **<a: 2019.>**
- What countries in the EU currently object to this? Is that enough to stop it? **<a: France and Austria object, but it only needs a majority of the 27 in favor.>**
- What are some of the concerns in the EU? **<a: Environmental damage and unfair competition, especially for farmers.>**
- What are some of the concerns in the MERCOSUR countries? **<a: That EU restrictions on climate and deforestation will nullify the deal; that it will curb the use of protected food names; and protection for the car industry.>**