PubPol/Econ 541

Class 2

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

by

Alan V. Deardorff
University of Michigan

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Announcements

- I’ve extended to availability of the Getting-to-know-you survey through this Friday. If you haven’t filled it out, please do.
- Quiz 1 due Friday midnight.
  - Accepted until Saturday midnight with penalty
  - Covers material from last Wednesday and today only.

Pause for News

State of Play: Other

- Outline
  - Background from KOM
  - Brexit
  - China Trade Actions
  - Russia Sanctions
  - Other Disputes, Actions, and Events

World Trade Growth

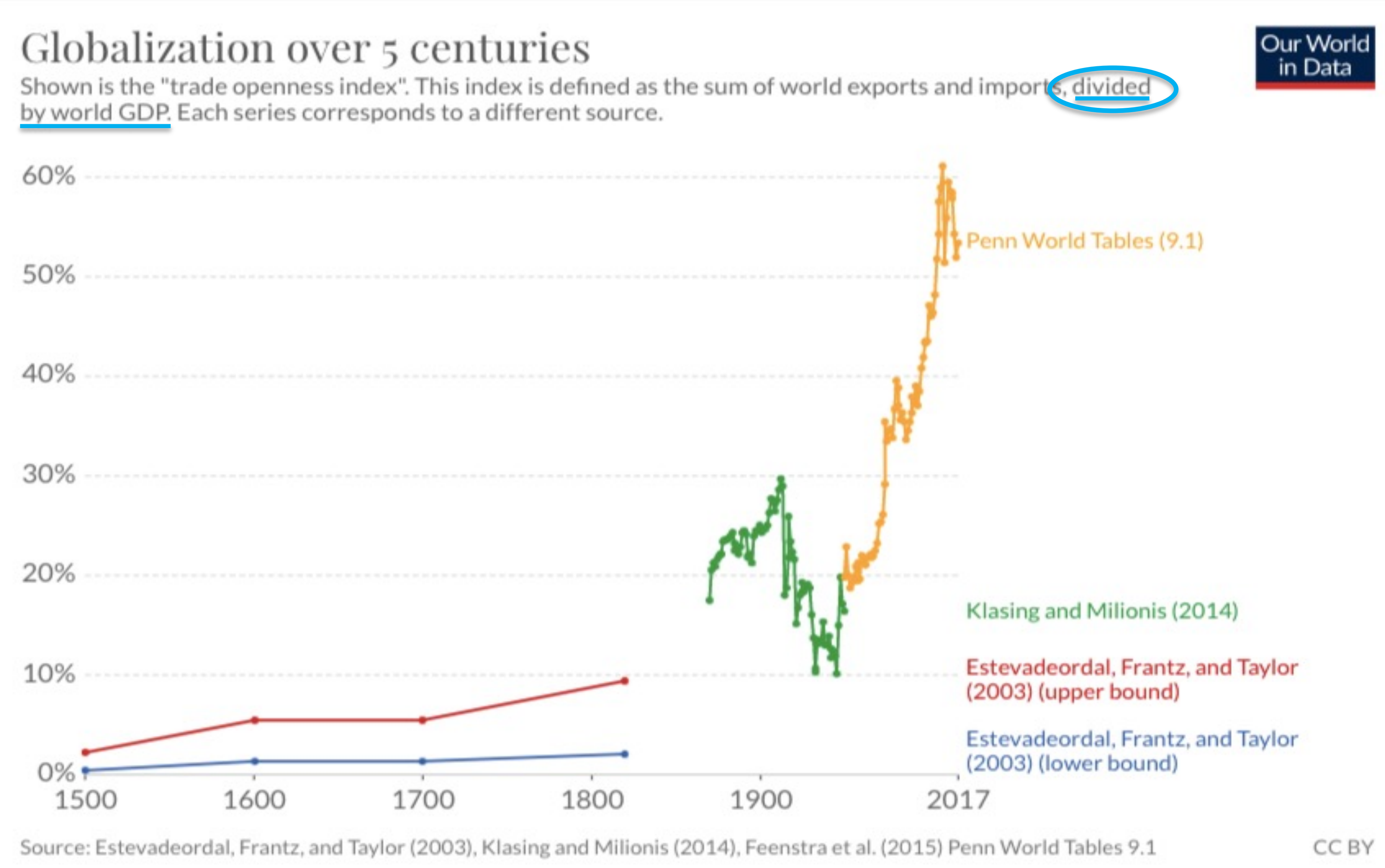
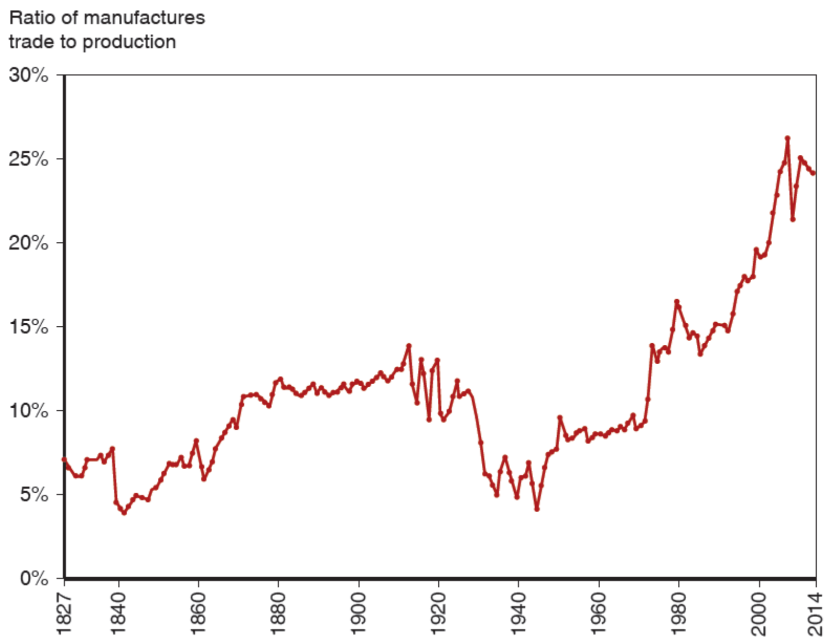


Figure 2.5 The Fall and Rise of World Trade

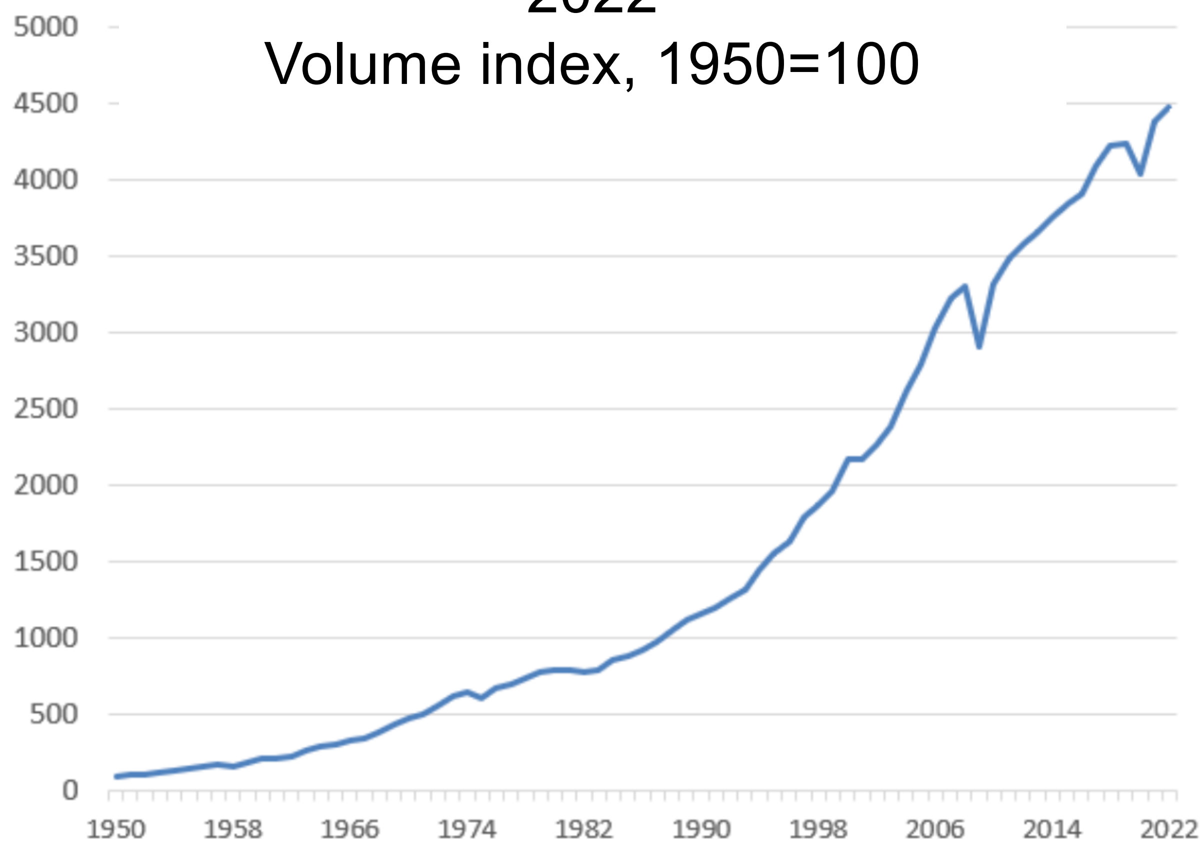


The ratio of world exports to world GDP rose in the decades before World War I but fell sharply in the face of wars and protectionism. It didn't return to 1913 levels until the 1970s but has since reached new heights.

Source: Michel Fouquin and Jules Hugot, "Trade Globalisation in the Last Two Centuries," Voxeu (September 2016).

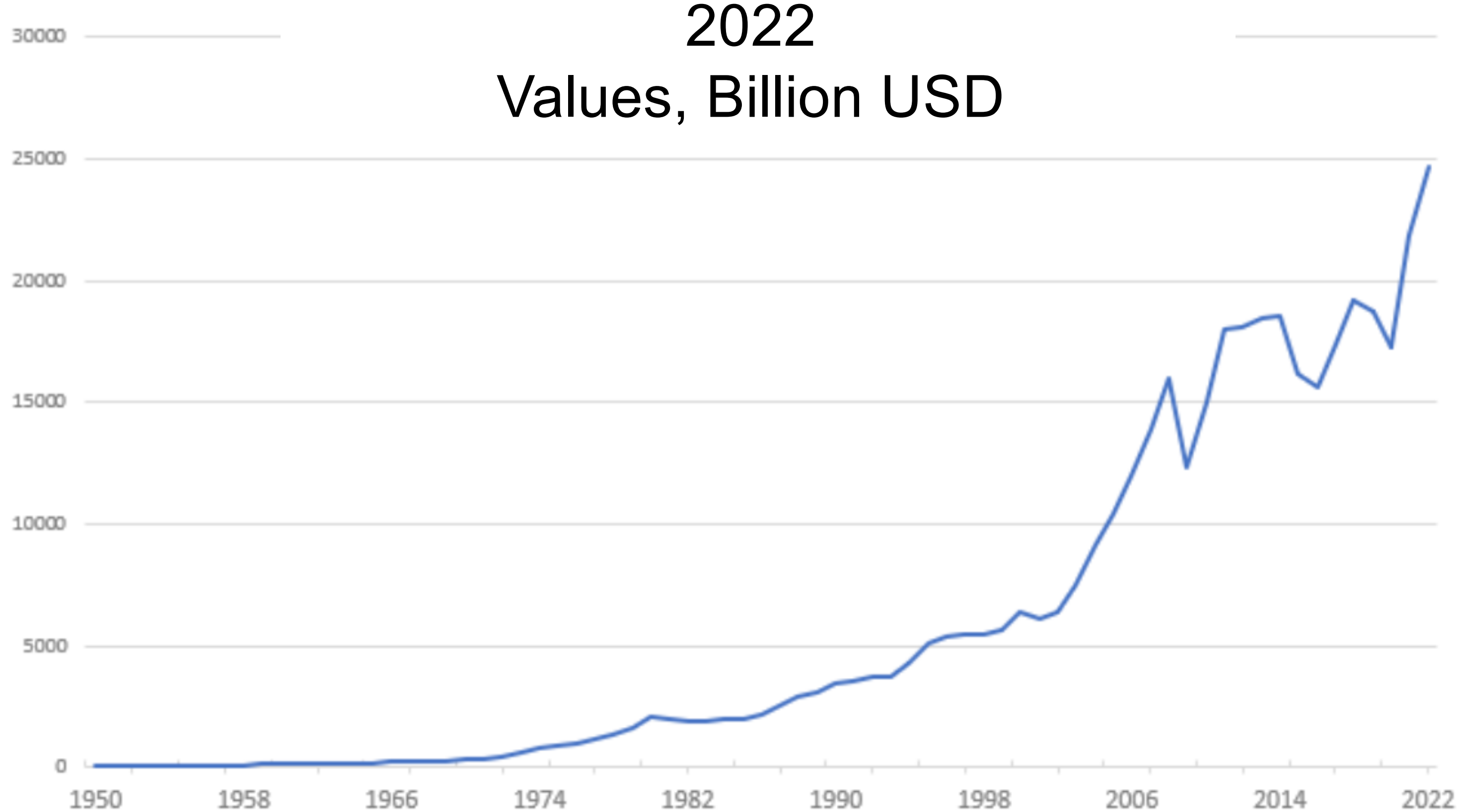
From KOM

Evolution of World Trade, 1950-2022
Volume index, 1950=100



Source: WTO

Evolution of World Trade, 1950-2022
Values, Billion USD



Source: WTO

World Trade Growth

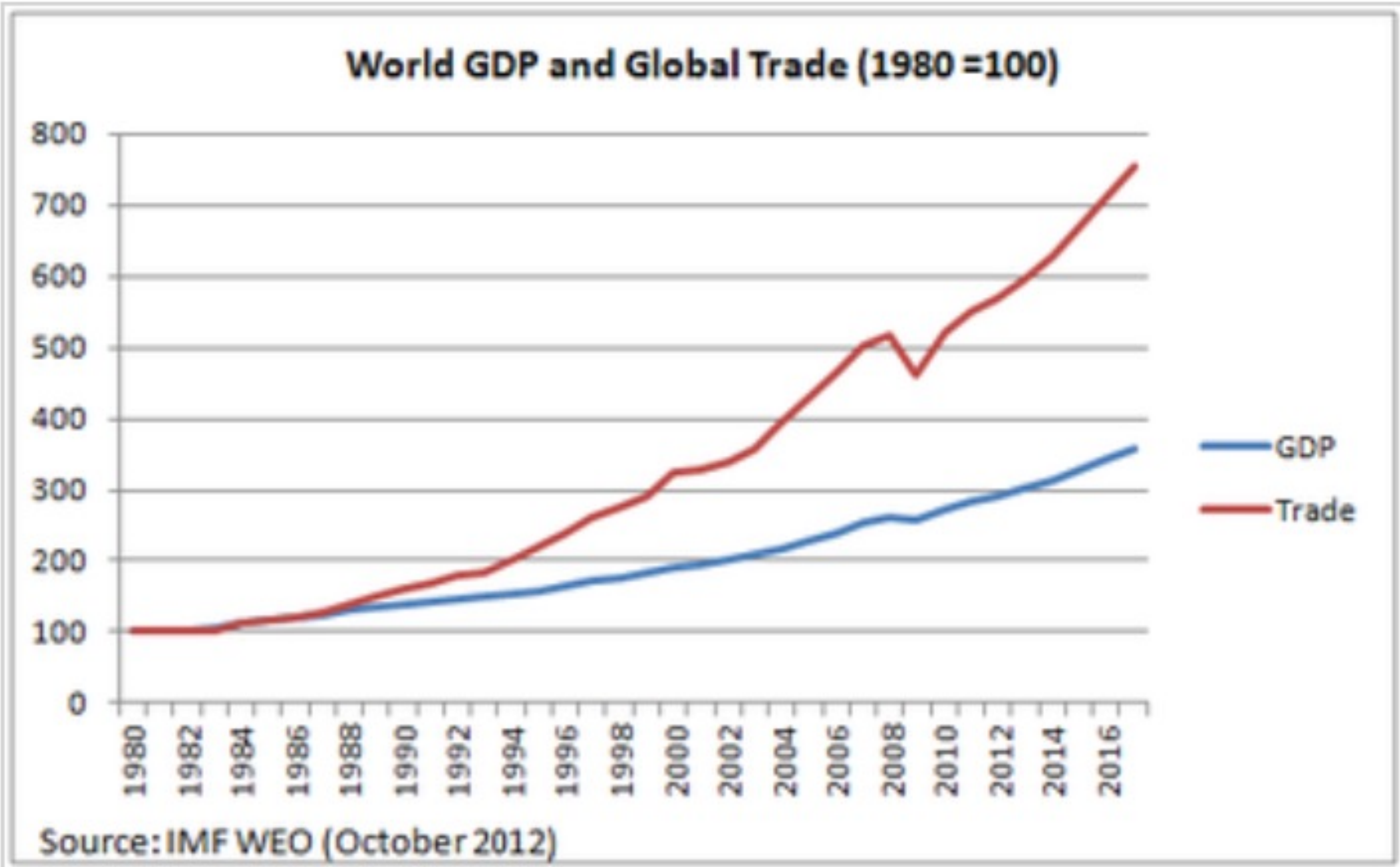
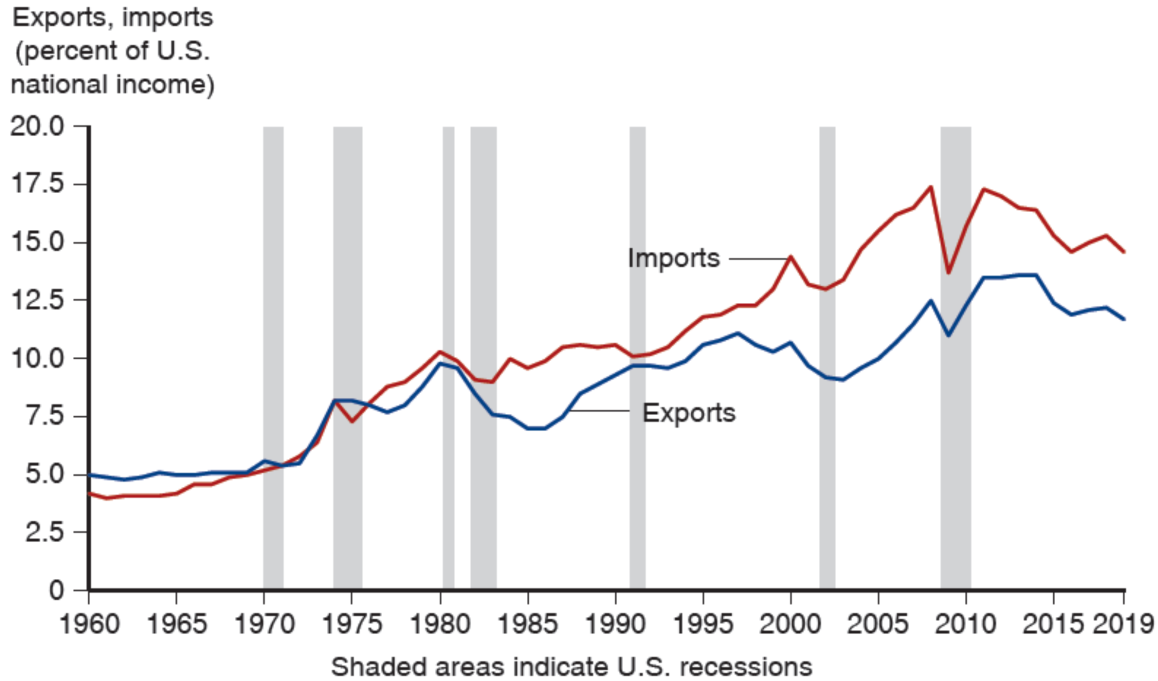


Figure 1.1 Exports and Imports as a Percentage of U.S. National Income

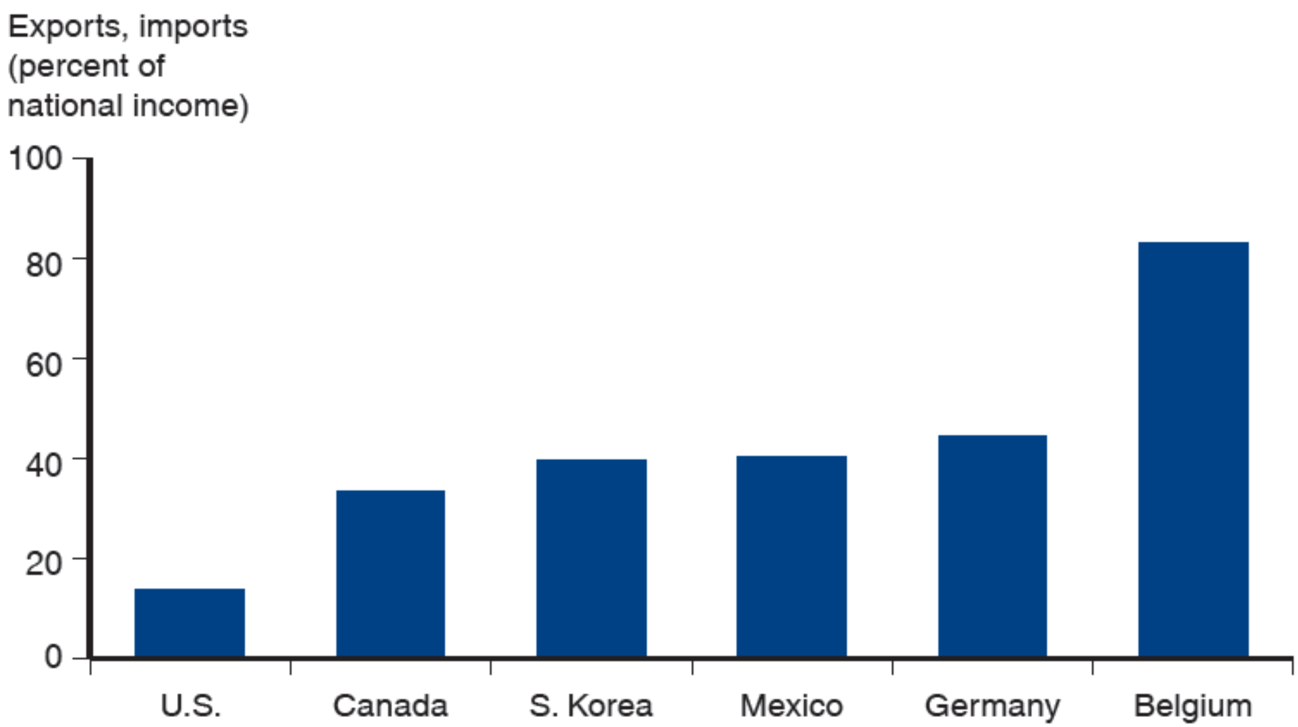


(Shaded areas indicate U.S. recessions.) Both imports and exports have risen as a share of the U.S. economy, but imports have risen more.

Source: U.S. Bureau of Economic Analysis, research.stlouisfed.org

From KOM

Figure 1.2 Average of Exports and Imports as Percentages of National Income in 2018

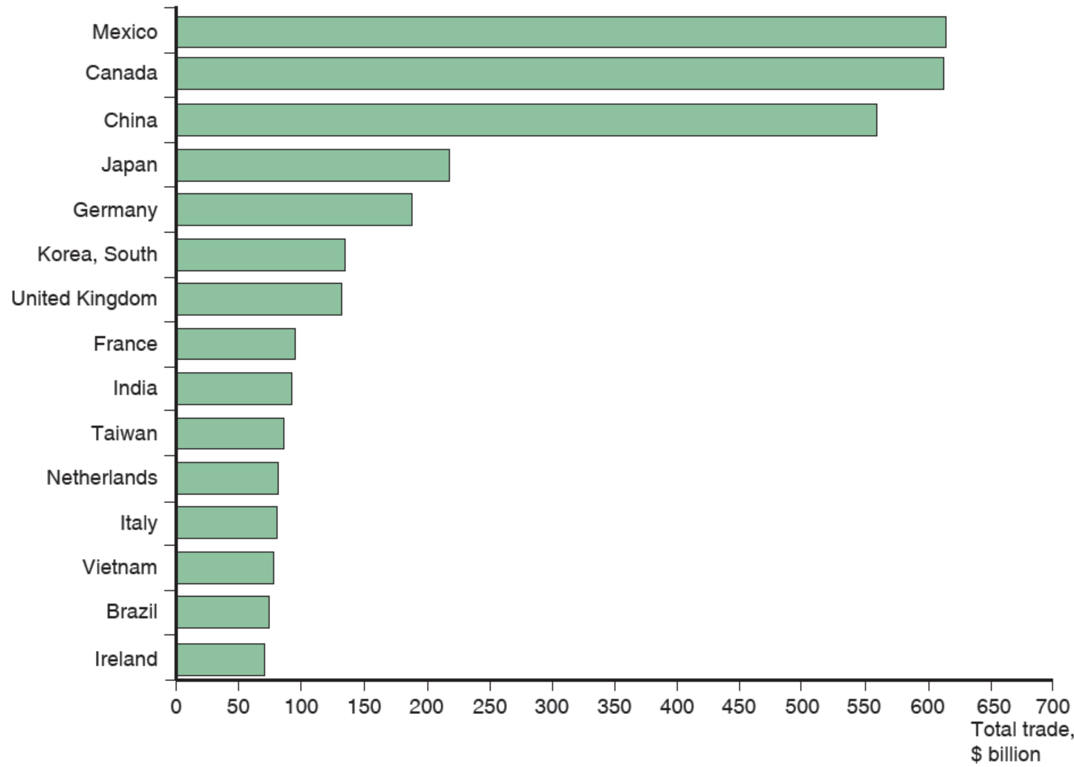


International trade is even more important to most other countries than it is to the United States.

Source: World Bank

From KOM

Figure 2.1 Total U.S. Trade with Major Partners, 2019

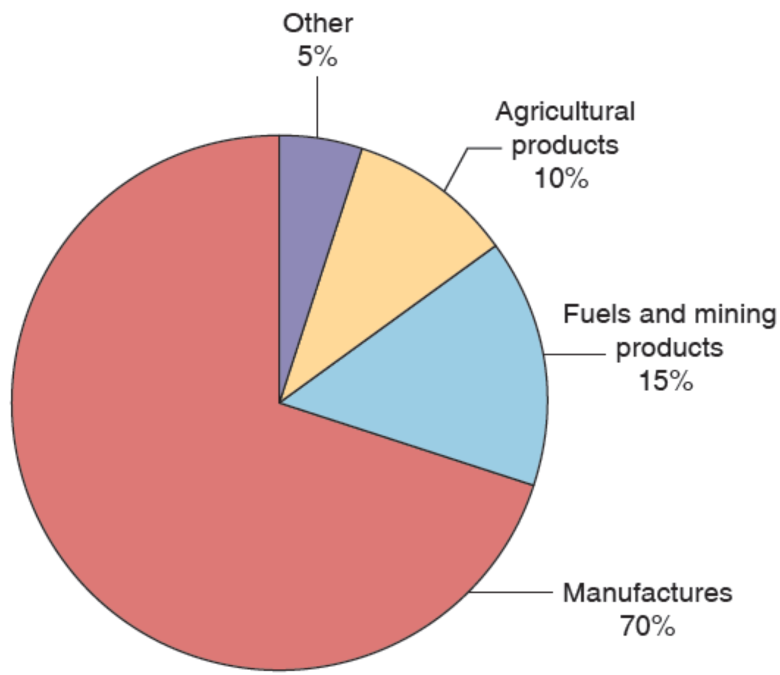


U.S. trade—measured as the sum of imports and exports—is mostly with 15 major partners.

Source: U.S. Department of Commerce.

From KOM

Figure 2.6 The Composition of World Trade, 2017

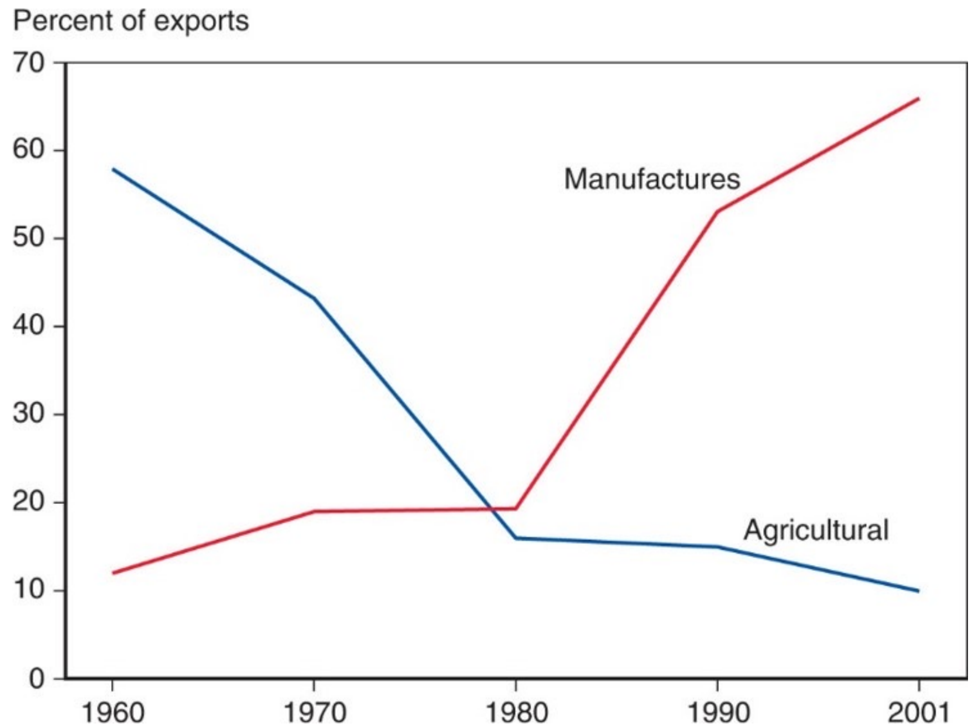


Most world trade is in manufactured goods, but minerals—mainly oil—remain important.

Source: World Trade Organization.

From KOM

Figure 2.7 The Changing Composition of Developing-Country Exports



Over the past 50 years, the exports of developing countries have shifted toward manufactures.

Source: United Nations Council on Trade and Development.

From KOM

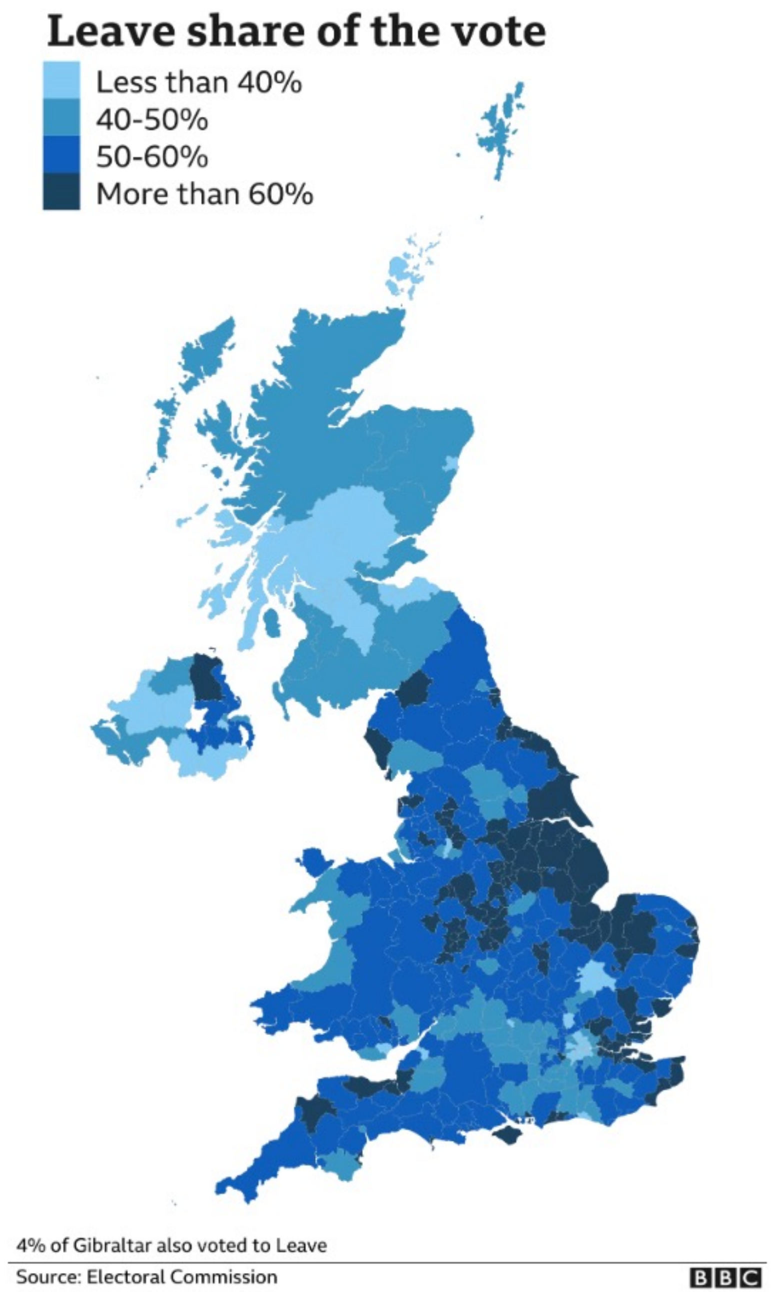
Pause for Discussion

Questions from KOM

- How much has trade grown? why?
- Who gains from trade?
- What does the amount of trade between two countries depend on?
- Why is the gravity model useful?
- Do national borders interfere with trade?
- Why is trade in services growing?

Brexit

- Brexit Timeline
  - Jun 23, 2016: Referendum
    - UK votes to leave EU (Vote: 52-48)
    - Leave:
      - England, Wales
      - Old people
      - People opposed to immigration from EU
    - Remain:
      - Scotland, Northern Ireland
      - Young people
      - London


Leave share of the vote
Less than 40%
40-50%
50-60%
More than 60%
4% of Gibraltar also voted to Leave
Source: Electoral Commission
BBC

Brexit

- Brexit Timeline
  - Jun 23, 2016: Referendum
    - UK votes to leave EU (Vote: 52-48)
  - Mar 29, 2017: EU exit provision triggered
    - UK PM initiates 2-year exit process
  - 2019: Several extensions asked and given
  - Jan 31, 2020: UK leaves EU
    - Transition period (policies unchanged) thru 2020
  - Dec 31, 2020: Transition period ends

Brexit

- The Brexit Agreement
  - Reached Dec 24, 2020
    - EU Ambassadors approved Dec 28
    - UK MPs approved Dec 30
    - Signed Dec 30
    - Effective provisionally Jan 1, 2021
    - Entered into force May 1, 2021, after ratification
  - Title: "Trade and Cooperation Agreement"

Brexit

- The Brexit Agreement
  - Features:
    - Free Trade Agreement for goods, but with rules of origin (no longer customs union)
    - Some limited mutual market access for services
  - Not included:
    - Free movement of persons
    - UK subject to European Court of Justice
    - UK subject to EU regulations

Brexit

- Northern Ireland (N.I.) Protocol
  - Part of the Brexit Withdrawal Agreement from Dec 24, 2020
  - Avoids hard border between N.I. (part of UK) and Ireland (EU member country) by
    - Keeping N.I. in EU customs union
    - Adding customs checks, etc., between N.I. and Great Britain (the rest of UK: England, Scotland, Wales)
  - Reason: To avoid re-igniting the “Troubles”

Brexit

- The N.I. Protocol Was Contentious
  - Trade within UK between N.I. and Great Britain was costly and cumbersome
    - Had to pass through customs checks
    - These often included checks for satisfying EU regulations (health & safety, etc.)
  - PM Johnson in June 2022 (before he stepped down) submitted a bill to “rip up” the Protocol

Brexit

- PM Rishi Sunak negotiated Windsor Framework with EU
  - Replaced N.I. Protocol
  - Signed March 24, 2023
  - Created "green lanes" for goods that will not cross the border into Ireland
    - For "trusted traders"
    - Require minimal (but not zero) checks
  - "Red lanes" for goods destined for Ireland still have full controls

Brexit

- Other features of Windsor Framework
  - Scrapped bans on parcels, pets, sausages, plants, and seed potatoes.
  - Made medicines approved by the UK freely available in Northern Ireland.
  - Jurisdiction of the ECJ (European Court of Justice) now only applies to EU laws.
  - “Stormont brake”:
    - Allows Northern Ireland Assembly (Stormont) to ask UK to veto EU rules

Brexit

- Public Opinion
  - 2016: Vote to leave: 52%
  - 2023 Poll: Up to 60% wish that Britain had remained in the EU

Pause for Discussion

Questions on Brexit (Kirkegaard)

- What UK objectives are mentioned here as having been achieved by the Brexit agreement?
- What aspects of UK-EU interactions will be adversely affected by the agreement?
- What is the relevance of
  - “rules of origin”?
  - “minimal processing requirements”?

Questions on Colchester and Luhnow. “As Britain Gears…”

- What adverse effects of Brexit on the UK are mentioned here? What part of the population thinks Brexit worth the costs?
- Which party caused Brexit?
- Why doesn’t the Labor Party argue to reverse Brexit. Was its leader, Keir Starmer, in favor of it?
- If it wanted to, could the UK just re-enter the EU on the same terms as before?

China Trade Actions

- China responded to Australia’s 2020 call for inquiry into origins of Covid-19
  - Massively curbed imports of
    - Timber, coal, lobsters, barley, wine and other products
    - Due to “concerns about trade practices and pest infestations”
  - Australia’s exports suffered briefly but recovered
    - Exporters found other markets
  - China has now removed tariff on Australian wine

China Trade Actions

- In August 2022, in response to US House Speaker Nancy Pelosi visiting Taiwan
  - China
    - Blocked imports from hundreds of Taiwanese food producers
    - Suspended exports of natural sand
  - This was a “huge expansion” compared to China’s earlier uses of economic levers

China Trade Actions

- China actions:
  - Export controls on 2 metals (gallium and germanium) for advanced tech
  - “Unreliable entities list” of companies undermining China’s interests
  - Export control law and anti-sanctions law
  - Ban of semiconductors from American chipmaker Micron
  - Proposed ban on exports of ingot-casting technology used in making solar-panel wafers
  - Export controls on aviation equipment & technology

Pause for Discussion

Questions on White, “China bans export of rare …”

- Is China banning the export of rare earths?
- Why is it doing this?
- What has the US done to China that is mentioned here?
- How important is China in the rare earths industry?
- How has the market for rare earths changed and is likely to change?

Questions on Winning, “China to Lift Tariffs …”

- When and why did China raise tariffs on Australian wine?
- How did Australia’s wine trade respond?
- What prompted this removal of the tariffs?
- Do other frictions between China and Australia remain? Is China dropping other trade policies against Australia that started at the same time?

Questions on Huang, "China to Impose Export …"

- When will these new controls go into effect?
- What products do they cover?
- Is this a ban on exports or a tax on exports?
- Is it targeted at US?

Russia Sanctions

- Russia's invasion of Ukraine on Feb 24, 2022 prompted economic responses
  - Economic sanctions by governments
    - On financial linkages
    - On trade
  - Private companies said they would stop dealing with Russia

Russia Sanctions, Gov’t

- Sample financial sanctions
  - Several Russian banks removed from the Swift international payments system
  - Cut off many Russian banks from transactions and operations
- Sample trade sanctions
  - Banned or reduced imports of oil and other energy
  - Imposed price cap on permitted oil exports
  - Revoked Russia’s most favored nation status for tariffs

Russia Sanctions, Gov't

Countries		
Australia	Iceland	Singapore
Bahamas	Italy	Switzerland
Canada	Japan	Taiwan
EU	New Zealand	UK
Finland	Norway	US
France	Poland	
Germany	S Korea	

Source: Funakoshi et al,
"Updated July 7, 2022"
but includes from July 29

Russia Sanctions, Gov't

- Countries announcing they will *not* use sanctions against Russia:

NOT using sanctions	
India	Feb 24
Mexico	Mar 1
Brazil	Mar 1
China	Mar 2
Argentina	Mar 4
Indonesia	Mar 9
Turkey	Mar 13
S Africa	Mar 17
Serbia	Apr 21

Source: Bown

Pause for Discussion

Questions on Bown, “A sanctions timeline”

- What prompted the sanctions to start and when?
- What were the most recent actions reported here, and by whom?
- How useful did you find the interactive timeline on the Bown website?

Questions on Sanger et al., "U.S. expands sanctions …"

- Are the new sanctions targeted directly at US trade with Russia?
- Has China participated in sanctions against Russia?
- What did President Biden expect the original sanctions (in 2022) to do? Did they?
- How important is China for Russia's imports of machine tools and microelectronics?

Other Disputes, Actions, and Events

- EU carbon tariff
- Shipping disruptions
- Forced labor import ban
- EU deforestation import ban
- Vietnam market-economy status
- EU-MERCOSUR FTA

Pause for Discussion

EU carbon tariff

Questions on Hancock & Dempsey: “Aluminium Companies …”

- What is CBAM?
- What is the loophole that aluminum producers are complaining about?
- What are some other concerns, and might they apply more broadly than aluminum?
- Will CBAM go into effect, and if so when and how?

CBAM

- I asked Google, “Did CBAM go into effect?”
  - It’s AI answerd: “Yes, the European Union's Carbon Border Adjustment Mechanism (CBAM) entered into its transitional phase on October 1, 2023. The full implementation of CBAM is scheduled to begin on January 1, 2026.
  - No mention of July 11.

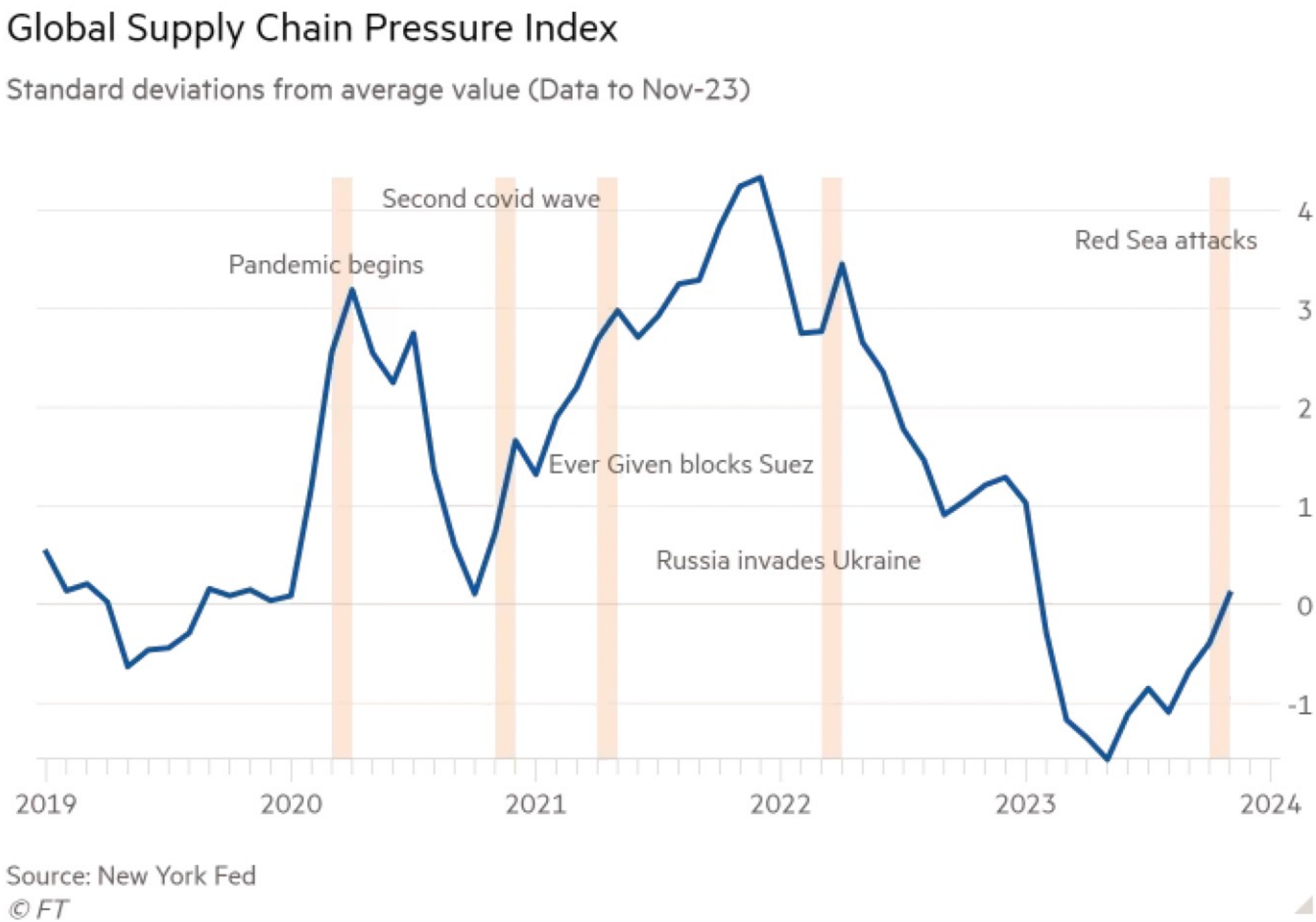
Questions on Mooney: “US examines carbon pricing …”

- What is said to be the purpose of any policy?
- Is this a response to any policy by US trading partners?
- What products are of most concern? Which political party in the US is calling for this?
- How does the US compare to others in the carbon intensity of our production?
- Does China have any policy to limit carbon emissions?

Shipping disruptions

Questions on FT Editors: “Global trade shudders…”

- What is interfering with shipping through the Red Sea?
- Why does this raise the cost of shipping?
- What is limiting traffic through the Panama Canal? Does this say why this is happening?
- Are these disruptions as bad as the pandemic?


Global Supply Chain Pressure Index
Standard deviations from average value (Data to Nov-23)
Second covid wave
Pandemic begins
Red Sea attacks
Ever Given blocks Suez
Russia invades Ukraine
4
3
2
1
0
-1
2019
2020
2021
2022
2023
2024
Source: New York Fed
© FT

Forced labor import ban

Questions on Swanson: "U.S. Bans Imports From 3 …"

- What US law caused this list to be created, and when?
- How many Chinese companies are on the list, and when were most of them added?
- Where in China does it use policies that the US regards as forced labor?

EU deforestation import ban

Questions on Economist: "The forest for the trees"

- What does the EU's new "deforestation regulation" do?
- When does it go into effect?
- Why is this a problem, and for whom?
- What challenge does this create for supply chains?
- Is the EU helping with this problem?
- Is there an alternative approach to this problem?

Vietnam market-economy status

Questions on Lakshmi: “US rejects Vietnam’s bid …”

- Does this explain how market-economy status matters?
- What does Vietnam do that this says should deprive it of market-economy status?
- Is it only the US that classifies Vietnam as a non-market economy?
- Who in the US made this decision, and on what basis?
- Was this a partisan issue in the US?

EU-MERCOSUR FTA

Questions on Pooler et al.: “EU inches closer to trade deal …”

- How many countries will be in this FTA?
- When was agreement reached “in principle” to do this?
- What countries in the EU currently object to this? Are they enough to stop it?
- What are some of the concerns in the EU?
- What are some of the concerns in the MERCOSUR countries?