News: Apr 10-16

• US does not declare China a currency manipulator -- WSJ: 4/15 | Proquest | WP: 4/12
  – The US Treasury Department, required to issue a report on countries that manipulate their currencies to the disadvantage of the US, included criticism of China in its report but declined to declare China a currency manipulator.
  – During his campaign, President Trump had said he would declare China a currency manipulator as soon as he took office. More recently, and after his meeting with China's President Xi, Trump has said he would not do this. This continues a two-decade precedent, in that the US has never declared any country to be a currency manipulator.
  – Whether that decision was motivated by the fact that China has not, in fact, intervened to reduce the value of its currency in recent months is not clear.

• Trump nominates members of the board of the Export-Import Bank -- WSJ: 4/14 | Proquest | NYT: 4/14 | Proquest
  – Having hinted in his campaign that he would get rid of the United States Export-Import Bank, which makes loans to foreign buyers of US exports, Trump has now nominated two former Congressmen as members of its board, one to be its president.
  – The nominee for president of the board, Scott Garrett, was a member of the Tea Party aligned Freedom Caucus and a fierce opponent of the Ex-Im Bank. Trump himself has now reversed his position, saying that "Actually, it's a very good thing. And it actually makes money; it can make a lot of money."
  – The Bank was shut down briefly in 2015 by Congress, then reopened. But since then it has lacked a quorum on its board and was therefore unable to approve large loans. These nominations, if approved, will change that.

• Trump tells China that it will get a better deal on trade if it helps restrain North Korea -- WSJ: 4/13 | Proquest | NYT: 4/12 | Proquest
  – "I explained to the President of China that a trade deal with the U.S. will be far better for them if they solve the North Korean problem!" tweeted Trump.
  – Trump had earlier threatened to disavow the "One China" policy if China did not restrain North Korea, but had to back off from that.
  – Without such help from China, Trump has indicated that the US will act alone against North Korea. This is upsetting to South Korea, which would certainly bear the brunt of any response to that.
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<table>
<thead>
<tr>
<th>Test Type</th>
<th>Date</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midterm No. 1</td>
<td>Monday, February 20</td>
<td>8:30-9:50 AM</td>
<td>1120 Weill Hall</td>
</tr>
<tr>
<td>Midterm No. 2</td>
<td>Monday, March 27</td>
<td>8:30-9:50 AM</td>
<td>1120 Weill Hall</td>
</tr>
<tr>
<td>Final Exam</td>
<td>Tuesday, April 25</td>
<td>8:00-10:00 AM</td>
<td>1120 Weill Hall</td>
</tr>
</tbody>
</table>

**Office Hours for the Final Exam**

**Prof Alan Deardorff**

Thursday 4/20, 2-3 PM  
Friday 4/21, 9-10 AM

**GSI Morris Hamiton**

OH: Sunday 4/23, 11 AM - 1 PM, Angell Hall G115  
Review session: Sunday 4/23, 1-2:30 PM, Angell Hall G115  
OH: Monday 4/24, 11-12 PM, Lorch 351A
NOTE: You will get two points for correctly recording:
  ○ your name and UMID number, both on the exam booklet and on the scantron sheet so that the computer can read it,
  ○ **AND** your **FORM NUMBER** on the scantron so that the computer can read it.
(In other words, you will lose two points if you don't do all of this.)

The final exam is cumulative covering all of the material since the start of the course through the end. I intend to give roughly equal treatment to each lecture topic, including the outside readings and assigned news items. Thus, the exam covers:

  ○ All assigned portions of Gerber (see syllabus on line),
  ○ All of the readings assigned from Jan 9 through Apr 17, (including the pieces marked as "Other Views" but not those marked as "Optional"),
  ○ You should also be familiar with the news that we will have discussed in class, including those items identified on the Major News Items page for weeks: Jan 9 through Apr 16.

---> Regarding the emphasis that will be placed on lectures versus readings and on other particular parts of the material, you are responsible for lectures plus all of the reading. I intend to make studying all of that worth your while by including on the exam at least a few questions on material that was not covered in lecture, both from the text and from the readings.
Outline: Environment, Labor Standards, and Trade

• The Issues
• Environment
  – Examples
  – Policies
  – International Problems
  – Role of the WTO
• Labor Standards
  – Fundamental ILO Conventions
  – United States Role
  – Issues
The Issues

• Environment
  – Does trade hurt the environment?
  – Does international competition weaken environmental laws?

• Labor Standards
  – Does trade hurt workers?
  – Does international competition weaken labor standards?

• Role of the WTO in both
  – Do WTO rules
    • Limit countries’ abilities to raise standards?
    • Or lead them to reduce standards (“race to the bottom”)?
  – Should trade policy be used to improve standards?
  – Should trade policy be used if countries’ standards or policies differ?
Outline: Environment, Labor Standards, and Trade

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Environment

• The problem: Externalities
  – Externality is: Cost or benefit of an activity that is not borne by the actor.
  – Examples: Pollution, global warming, destruction of species

• The issues:
  – How should externalities be dealt with?
  – Is doing this made harder or easier by trade and trade policy, or by the WTO?
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Environment: Examples

• Pollution along the Mexican border
  – Caused by production, for export to U.S.
  – Stimulated by
    • Maquiladoras (Firms given special tariff treatment on processing for U.S. firms)
    • NAFTA

• U.S. laws struck down by GATT / WTO
  – Tuna-dolphin case
  – Shrimp-turtle case

Fishing for these… hurts these
US laws banned imports
Struck Down by GATT/WTO!
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Environment: Policies

• How to deal with a negative externality
  – Regulate: Prohibit or limit activity
  – Tax: Make activity more costly
    • By setting tax equal to cost to others, we “internalize” the externality.
  – Hybrid: Tradable licenses
    • Number of licenses set by regulation
    • Market determines who uses licenses
    • = “cap and trade”
Environment: Policies

• What is the “Optimal” level of a negative externality?
  – It is **not** zero!
  – It is found by equating
    • marginal benefit (of reducing externality) to
    • marginal cost (of reducing externality)
Environment: Policies

- What is the “Optimal” level of a negative externality?

![Graph showing marginal cost and benefit curves with optimal pollution level.]
Environment: More Examples

- Air pollution
- Water pollution
- Acid rain
- CO₂ emission (global warming)
- Destruction of rain forest
- Destruction of species
  - Endangered (sea turtles)
  - Favored (dolphin)
- Overuse of natural resources (over-fishing)
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Environment: International Problems

• Cross-border Externalities
  – Contrast with local externalities
    • Local government has ability and incentive to act
  – Cross-border: No incentive to incur a local cost in order to limit harm to foreigners.
  – Need international agreement
  – Example:
    • CFCs (Chloroflorocarbons) that caused the hole in the ozone.
    • Dealt with by Montreal Protocol (1987)
Environment: International Problems

- **Effects on Competitiveness**
  - Pollution tax raises costs of
    - Exporters
    - Import-competitors
  - If foreign firms are not taxed, this is viewed as unfair
  - Countries with weak regulations become “pollution havens”
    - But Jones says there is little evidence that this happens – it’s not worth it
  - “Race to the bottom”: Countries compete by lowering their environmental standards
  - Solution (?): International agreement for all to tax equally
    - Called “harmonization”
Environment: International Problems

• Differences in Optimal Policy
  – Optimal policy may depend on a country’s income
  – Poor countries can’t afford strict regulations
  – The environment is “income elastic” or a “superior good” – that is, countries demand more of it as their incomes rise.
  – Thus taxes on local pollution **should not** be the same
Environment: International Problems

• Example: Internal memo by Larry Summers when at World Bank:

  “‘Dirty’ Industries: Just between you and me, shouldn’t the World Bank be encouraging MORE migration of the dirty industries to LDCs?”

  [He goes on to give several reasons.]
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Environment: Role of the WTO

• Does WTO permit limits on imports for environmental reasons?
  – Yes, if the imports themselves would do damage inside importing country.
  – No, for damage done abroad.
  – Any policy must not discriminate.
  – May not limit imports based on process by which they were produced.
Policy Options

• Use WTO (These options are not in fact permitted, and they are **not** good ideas)
  – Treat environmental violations as trade violations
    • Some environmentalists would like this, because the WTO has “teeth”
  – Define environmentally harmful production of exported goods as “unfair,” and permit AD & CVD
Policy Options

• Carbon Tariff
  – If some but not all countries
    • use carbon tax or cap-and-trade to raise price of carbon
    • to fight global climate change
  – Then many would advocate a carbon tariff on exports of goods from non-participating countries
  – Problem:
    • Benefits (to world) of reducing carbon may be the same
    • But the costs (to the country) are not
Policy Options

• Carbon Tariff:  Arguments for and against
  – Krugman is for
    • Failure to use them will cause consumer substitution toward cheaper products made in countries that do not tax or restrict carbon emissions
    • Should be legal under WTO, as “border tax adjustments” used when countries taxation systems differ
  – China (per Reuters) is against
    • Calls carbon tariffs “protectionist”
    • Predicts use of carbon tariffs would cause trade war
    • Says not legal under WTO
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Labor Standards

• What are they?
  – Formal list of “conventions” (189) and “recommendations” (204) regarding treatment and conditions of labor, established by The ILO = International Labour Organization

These include 8 “Fundamental ILO Conventions”
  – Numbers in parentheses below: numbers of countries that have ratified the conventions (as of 12/2/2016) out of 187 members
Labor Standards: Fundamental ILO Conventions

1. Freedom of Association
   a. Right to Organize (154)
   b. Right to Collective Bargaining (164)

2. Abolition of Forced Labor
   a. Forced Labor (178)
   b. Abolition of Forced Labor (175*)
Labor Standards: Fundamental ILO Conventions

3. Equality
   a. Discrimination (174)
   b. Equal Remuneration (173)

4. Elimination of Child Labor
   a. Minimum Age (169)
   b. Worst Forms of Child Labor (180*)
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Labor Standards: Fundamental ILO Conventions

*Fundamental Conventions ratified by U.S.:

**ONLY:**

- Abolition of Forced Labor
- Worst Forms of Child Labor
Labor Standards: Fundamental ILO Conventions

• United States
  – Has not ratified many of the conventions
  – But… in spite of that, US enforces many labor standards through its trade laws
Labor Standards: Found in U.S. Trade Law

- Freedom of Association
- Right to Organize and Bargain Collectively
- Forced Labor
- Minimum Age for Employment
- Acceptable Conditions of Work
  (not “Fundamental” in ILO)
  - Minimum wage
  - Hours of work
  - Safety and Health
  - Enforcement
U.S. Labor Standards

• US pushes labor standards in trade agreements
  – Side agreement in NAFTA & was included in TPP
  – Purpose is to
    • Improve labor conditions abroad
    • Protect labor standards in the US
  – Do they work? No, says Porter
U.S. Labor Standards

• Porter:
  – US labor standards are
    • Among the lowest in OECD countries
    • Weaker than in EU
    • Also weak in US:
      – Unions
      – Safety net
  – Could a trade agreement help?
    • Porter says yes: the TTIP with EU could harmonize labor standards in US up to EU levels
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Labor Standards: Issues

Should labor standards be promoted?

• Of course?
• Yes, but only if it will help the people involved
• What if the true purpose is to help workers in rich countries?
Labor Standards: Issues

Effect of labor standards:

\[ L = \text{labor} \]
\[ w = \text{wage} \]

Diagram:
- S (supply) curve
- D (demand) curve
- Intersection point indicating equilibrium wage and labor
Labor Standards: Issues

Effect of labor standards: Minimum wage

raises wage

But lowers employment

And creates unemployment
Labor Standards: Issues

Effect of labor standards:

Legislating Better conditions

Lowers wage

And lowers employment

Raises costs of employers, thus lowers the benefit of hiring labor. Thus shifts demand curve down
Labor Standards: Issues

Should trade policies be used for labor standards?

• NO, say
  – Trade economists
  – Trade lawyers
  – Developing countries (even some of their labor unions)
  – MNEs
  – Most Republicans
Labor Standards: Issues

Should trade policies be used for labor standards?

- YES, say
  - Most Democrats
  - US unions
  - Many NGOs
    (NGO=non-governmental organization)
Labor Standards: Issues

Should trade policies be used for labor standards?

• PRO (assuming standards themselves are good):
  – Trade is the only tool we have (ILO is “toothless”)
  – WTO already does this in TRIPs
  – It is wrong to benefit from abuse of labor
Labor Standards: Issues

Should trade policies be used for labor standards?

• **CON:**
  – Slippery slope to enforcing harmful labor standards
  – Trade restrictions make countries poorer, hurting their workers
  – Trade restrictions cost everybody
  – Incentive for protectionist claims of low labor standards
Labor Standards: Issues

Are trade policies used to enforce labor standards?

• No, not in the WTO in the way some would like (by limiting imports from weak-standard places)

• But US is including them in FTAs.
Labor Standards: Issues

What to do when labor standards are violated

• Example: Fires in garment factories in Bangladesh and Pakistan (see Bhagwati)
• Stop buying the brands who manufactured there?
  – No. That just destroys the jobs of poor-country garment workers.
• Hold local governments responsible?
  – Yes. They need pressure to enforce labor standards.
Labor Standards: Issues

• UM response to Bangladesh fire (from University Record, 4/12/14):
  – President Mary Sue Coleman announced Tuesday that U-M will adopt the recommendation of the President's Advisory Committee on Labor Standards and Human Rights that all U-M licensees either sign and abide by a worker safety initiative called the Accord on Fire and Building Safety in Bangladesh or demonstrate that they have an equivalent safety plan.
  – Accord on Fire and Building Safety in Bangladesh
    • calls for public reporting, independent fire and building safety inspectors at factories, and a commitment to workers in improving factory safety practices.
Next Time

• Final Exam: Tue, Apr 25, 8:00-10:00 AM