

Questions for PubPol/Econ 541
Sep 6

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**

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.>**

Economist, "Buyers' Remorse: As Britons Grow More Unhappy With Brexit, What Happens Next?" *the Economist*, Jun 27, 2023.

- What are some reasons why public opinion in the UK has moved away from favoring Brexit? **<a: Demography (the old wanted it and are dying); results were disappointing; UK economic performance has been worse than others; migration has increased; promises, such as new trade deals, haven't happened.>**
- Are actions being discussed and taken to “soften” Brexit? **<a: Yes. The Windsor Framework; a new memorandum of understanding on financial regulation; veterinary agreement on food, etc., and many other ideas.>**
- Is the EU eager to make changes? **<a: Not really. It liked what it got: trade in goods but not financial services (UK's strength). And they don't want UK “cherry picking”.>**

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.>**

Booth, William, “Brexit is Boris Johnson’s singular achievement. How well is it working?” *Washington Post*, August 15, 2022.

- Is Johnson right in his claim that the UK has the G7’s “fastest growing economy,” and is that relevant? **<a: He’s right, but only because UK had the biggest drop with the pandemic.>**
- Do economists mostly see Brexit as having benefited the UK? **<a: No, the consensus is that it had a negative impact.>**
- Voters for Brexit wanted less immigration? How has that worked out? **<a: Immigration is most likely up, but the sources have changed to non-EU migrants. And there are extreme labor shortages.>**

CHINA TRADE ACTIONS:

Hille, Kathrin and William Langley, “China suspends 2,000 food products from Taiwan as Nancy Pelosi visits,” *Financial Times*, August 2, 2022.

- What prompted this action by China? **<a: Nancy Pelosi’s visit to Taiwan in early August.>**
- How does this trade action compare to others that China has used against Taiwan in the past? **<a: Much bigger. In the past it has targeted single products of particular importance for Taiwan’s ruling DPP party.>**
- Is the blockage said by China to be officially due to the Pelosi visit? **<a: No. It is said to be because companies failed to complete registration under new rules.>**
- Is sand important? **<a: It seems so. Taiwan gets 90% of its sand from China, and has suffered shortages in the past.>**
- Does Taiwan’s ruling DPP party favor independence from China? **<a: No, although China says that it has “independence elements.”>**

Michaels, Daniel, “EU Sues China in WTO Over Trade Retaliation on Lithuania,” *Wall Street Journal*, December 7, 2022.

- Why did China cut off imports from Lithuania? **<a: Because Lithuania supported Taiwan.>**
- Does the EU expect a finding in its favor in the WTO case? **<a: That’s not clear, as it says that the WTO is currently paralyzed. But the WTO is useful as a forum to publicize its grievances.>**

- Does China’s action apply only to its imports from Lithuania? <a: **No. It applies also to “Lithuanian elements of goods exported from other EU countries.”>**

Economist, "The Dragon Shows Its Claws: China hits back against Western sanctions", *the Economist*, July 23, 2023.

- What are some of the Chinese actions mentioned here? <a: **Export controls on metals; an unreliable entities” list; an anti-sanctions law; an anti-espionage statute; tightened data and cybersecurity rules; proposed ban on exports of ingot-casting technology.>**
- Why is the foreign relations act “hazy”? <a: **It vows to hold accountable anyone acting in a manner that is deemed “detrimental to China’s national interests...in the course of engaging in international exchanges.”>**
- Why does China “need to tread carefully”? <a: **It reimports products that use its exports; it may prompt the West to build its own capacity or seek substitutes; acting against foreign companies that operate in China could jeopardize jobs there.>**

Optional to Read:

Economist, "Surviving the Dragon: Australia Has Faced Down China’s Trade Bans and Emerged Stronger," *the Economist*, June 15, 2023.

- What prompted China’s actions against Australia? <a: **Its call for an inquiry into the origins of COVID-19.>**
- What were some of the actions taken by China? <a: **“Curbing shipments of everything from timber to coal, lobsters, barley and wine, on pretexts including exaggerated concerns about trade practices and pest infestations”.>**
- What allowed Australia to survive this better than most countries would have? <a: **China didn’t stop some crucial things it needed like iron ore, and Australia was able to find other markets for many products, sometimes because China shifted purchases to sources that then were unavailable to other purchasers.>**
- Did Australia respond by backing off or taking other actions to please China? <a: **This doesn’t say, but clearly not. Instead, they’ve shifted trade dependence somewhat away from China and formed closer ties to the West.>**

RUSSIA SANCTIONS:

Bown, Chad P. “Russia's war on Ukraine: A sanctions timeline,” Realtime Economic Issues Watch, Peterson Institute for International Economics, March 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 not 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**>

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.**>

Talley, Ian, Annie Linskey, and Joe Wallace, "U.S. Plans to Expand Sanctions, Export Controls on Russia," *Wall Street Journal*, May 19, 2023.

- What is said to be the main purpose of the sanctions? <a: **To target things needed for Russia’s military-industrial complex. There’s no mention of inflicting damage per se, or inducing Russia to stop its war.**>
- Do the sanctions seem to be working? <a: **From this it seems they are not, as for example those on diamonds seem to have prompted growth.**>

GREEN SUBSIDIES:

Wall Street Journal Editorial Board, "The Green Subsidy War Accelerates," *Wall Street Journal*, February 5, 2023.

- In what sense was the IRA a response to what the EU was doing? <a: **The EU was implementing a carbon border tax that would have taxed imports from the US.**>
- What does the IRA do that the EU objects to? <a: **Subsidies for cars assembled in North America and using batteries and battery minerals from the US or its FTA partners, and subsidies for industries such as carbon capture and wind power that will draw away EU companies to the US.**>
- What is the name of the proposed EU policy, and what will it do? <a: **It’s called the Green Deal Industrial Plan and it will provide subsidies to Europe’s green industries and exempt France and Germany for a limited time from being prohibited to provide subsidies themselves.**>
- Do the Wall Street Journal editors approve? <a: **Not at all. They say this will hurt everyone.**>

Economist, "Green Protectionism: How the EU Should Respond to American Subsidies," *the Economist*, March 23, 2023.

- What two actions is the EU considering to respond to the US subsidies that the Economist mentions, and how do they view them? **<a: Good: speed up permits and to invest in skills. Bad: domestic production targets for green-related products.>**
- Is the EU right to think that US subsidies will hurt the EU, according to The Economist? **<a: No. It stands to gain from “cheaper technology and a greater choice of suppliers.”>**
- What does this say the EU can and should do? **<a: Ensure that green tech has better access to finance; bear some of the risks of investing in renewables; upgrade public infrastructure, including electricity grids; give poor households subsidies to make their homes more eco-friendly.>**

Optional to Read:

Ewing, Jack and Melissa Eddy, "As U.S. Races Ahead, Europe Frets About Battery Factory Subsidies," *New York Times*, May 31, 2023.

- What is Northvolt, and what is the issue here? **<a: Northvolt is a battery company in Sweden that Germany is trying to persuade to invest there instead of in the US, where it would benefit from US subsidies.>**
- Instead of engaging in a “subsidy race,” what does the former EU trade commissioner say should be done? Can you tell what that would mean? **<a: “Jointly invest in the green transition and not compete against each other.” I can’t.>**
- How does the US respond to criticism from the EU? **<a: By saying that all will benefit from the US subsidies by having “lower prices for car buyers and ... more emission-free vehicles on the road.”>**
- Is there a way mentioned that this dispute might be resolved, at least partially? **<a: Yes, by interpreting the IRA as permitting “allowing cars made from European battery materials and components to qualify for U.S. tax credits.” Biden thinks that is permitted by the IRA.>**
- What is the Critical Raw Materials Act? **<a: Proposed EU legislation to encourage production of battery materials in the EU.>**

OTHER DISPUTES AND ACTIONS:

Japan-South Korea Trade Dispute:

Davies, Christian and Kana Inagaki, "Japan and South Korea Resolve Trade Dispute as Leaders Hail ‘New Era’," *Financial Times*, March 16, 2023.

- What were the disputes in 2015 and 2019 about? **<a: Sexual slavery in 2015, forced labor in 2019, in both cases against Japanese companies operating in Japan-occupied Korea before and during World War II.>**

- What actions had South Korea and Japan taken in the 2019 dispute? **<a: Seoul scrapped an intelligence sharing deal, Japan imposed export controls on chemicals needed by Korea's chip industry, and South Korea lodged a complaint about these at the WTO.>**
- How has this dispute been resolved? **<a: All that is mentioned is that South Korean companies will contribute to compensation for the victims of forced labor, and that business lobbies from both countries will pay into funds for future cooperation between the countries. Apparently South Korea also got some unspecified things that it wanted, but mainly they needed to end it due to concerns about US-China relations and North Korea's actions.>**

US-Mexico on GM Corn:

Swanson, Ana and Linda Qiu "U.S. To Challenge Mexican Ban on Genetically Modified Corn," *New York Times*, March 6, 2023.

- Has it been legal to grow GM corn in Mexico? **<a: Apparently not, as mentioned late in the article. The new ban is not on growing, but on importing.>**
- Is GM corn safe? **<a: Yes, according to most scientists, at least those consulted by the US. >**
- Is the herbicide that GM corn depends on safe? **<a: It poses no risk to human health, according to the US EPA, but it can hurt other plants and therefore pollinators like bees and butterflies. >**
- Why can the US challenge this ban, and under what international agreement? What will happen if it does? **<a: The USMCA, where countries agreed to base policy on science. There will be consultations and perhaps a formal dispute, which could lead to the US putting tariffs on imports from Mexico.>**
- Is the reason for Mexico's ban that it disagrees with the science? **<a: Not in what is reported here. Instead, it wants tortillas made of domestically produced corn (thus implicitly to protect farmers, and ensure biodiversity.>**
- How has Mexico responded, so far? **<a: To permit GM imports for animal feed and industrial use, but not for human consumption.>**
- What is likely to happen to the Mexican corn market from this? **<a: Since Mexican farmers currently produce only about 2/3 of demand, the price will rise.>**

EU-China Green Tech:

Bounds, Andy and Alice Hancock, "Brussels to Curb Imports of Chinese Green Tech," *Financial Times*, March 15, 2023.

- What imports from China are to be curbed? **<a: Products for "green technologies," and only for purchases by EU governments and by consumers subsidized by the EU.>**
- How is the curb implemented? **<a: All this says is that they will be "marked down," which seems to mean that in some sort of point system for deciding government procurement, they will lose points.>**

- Are all such imports from China targeted? **<a: No just those where China has a more than 65% market share, but that's true of many.>**
- Is this action permitted by the WTO? **<a: There is concern that it is not, since WTO prohibits discrimination, which this is.>**
- How has China responded to this proposal? **<a: By asking that the EU submit a written proposal to the WTO for discussion.>**

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.>**

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.>**

Japan-Australia LNG:

Lebrun, Sylvan, "Japan Accuses Australia of Betrayal in Fight Over Natural-Gas Exports", *Wall Street Journal*, July 11, 2023.

- Is this a case of either country imposing a trade barrier or otherwise using a trade policy? **<a: No. It’s about an environmental policy (new LNG facilities must be carbon-neutral) that will prevent new Japan terminals from operating and exporting LNG to Japan.>**
- Why does Japan care so much about this? Is it just defending the financial needs of its companies? **<a: No. Japan relies heavily on natural gas for a third of its electricity, and 40% of its natural gas comes from Australia. So this could really hurt it if that expansion of supply is cut off.>**
- Does Australia agree that this imposes a hardship on Japan? **<a: No. It says that the companies can either buy carbon offsets or store carbon underground.>**

India laptops:

Roy, Rajesh, "Importing Laptops into India Will Now Require a Permit," *Wall Street Journal*, August 4, 2023

- How does this policy discourage imports? **<a: Apparently mainly by making the import process “onerous.” This doesn’t say on what basis the permits will be granted and whether that will directly reduce imports, or if it’s just a matter of red tape. And it doesn’t say whether the permits will be needed by consumers, or by companies that sell to them.>**
- What are the acknowledged motives for this policy? **<a: “Digital security” due to “concerns about security of hardware”; and boosting local manufacturing.>**
- At whom is the policy aimed? **<a: China, with whom India has been at odds since a border skirmish in 2020.>**

US-EU cheese beef:

Peterson, Kristina, “The U.S. Has a Beef with Europe—Over Cheese,” *Wall Street Journal*, August 8, 2023.

- What is a protected geographical indication? **<a: A name that is considered associated with a geographical location and therefore cannot be used on a product produced elsewhere.>**
- Does the US reject the legitimacy of these restrictions? **<a: Not in general, as we also limit use of some, such as Idaho potatoes and Florida oranges.>**
- What does the US object to? **<a: restriction of use of words that have gone into common use.>**
- What other disputes between the US and EU are mentioned? **<a: poultry, tariffs on steel and aluminum, and differing approaches to genetically modified crops.>**