

PubPol/Econ 541

Class 2

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

by

Alan V. Deardorff
University of Michigan
2023

Announcements

- Quiz 1 due Friday midnight.
 - Accepted until Saturday midnight with penalty
 - Covers material from last Wednesday and today only.

Pause for News

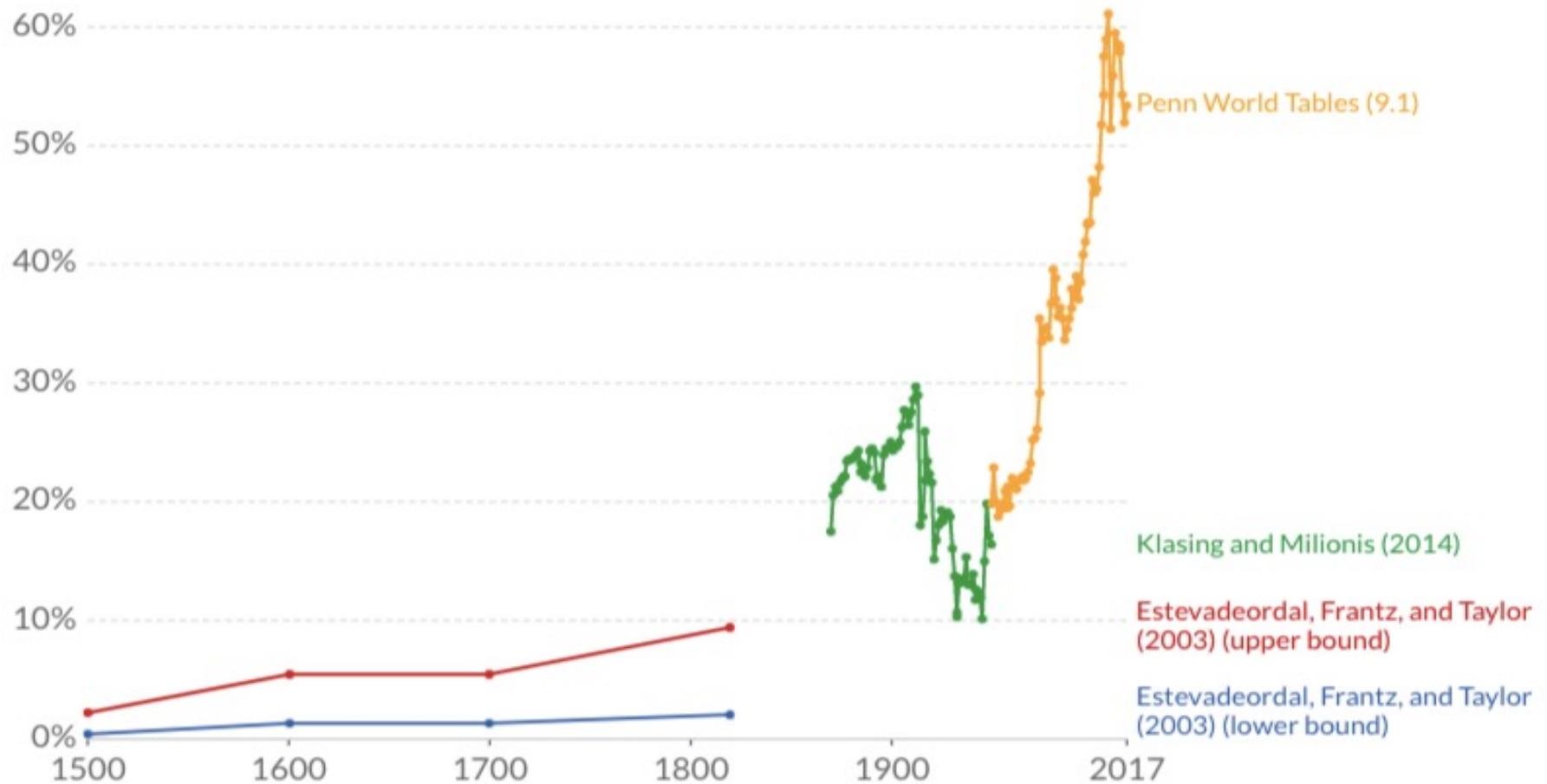
State of Play: Other

- Outline
 - Background from KOM
 - Brexit
 - China Trade Actions
 - Russia Sanctions
 - Green Subsidies
 - Other Disputes and Actions

World Trade Growth

Globalization over 5 centuries

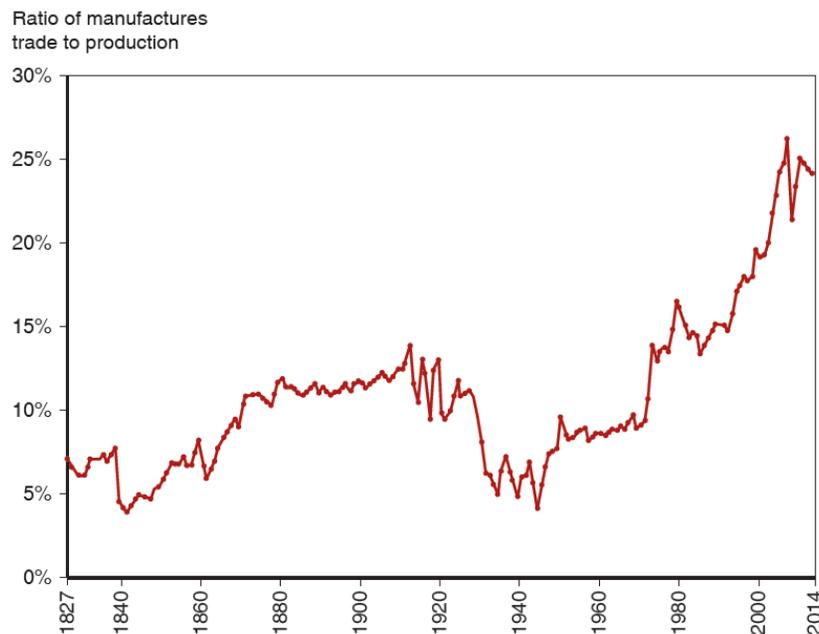
Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



Source: Estevadeordal, Frantz, and Taylor (2003), Klasing and Milionis (2014), Feenstra et al. (2015) Penn World Tables 9.1

CC BY

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).

World Trade Growth

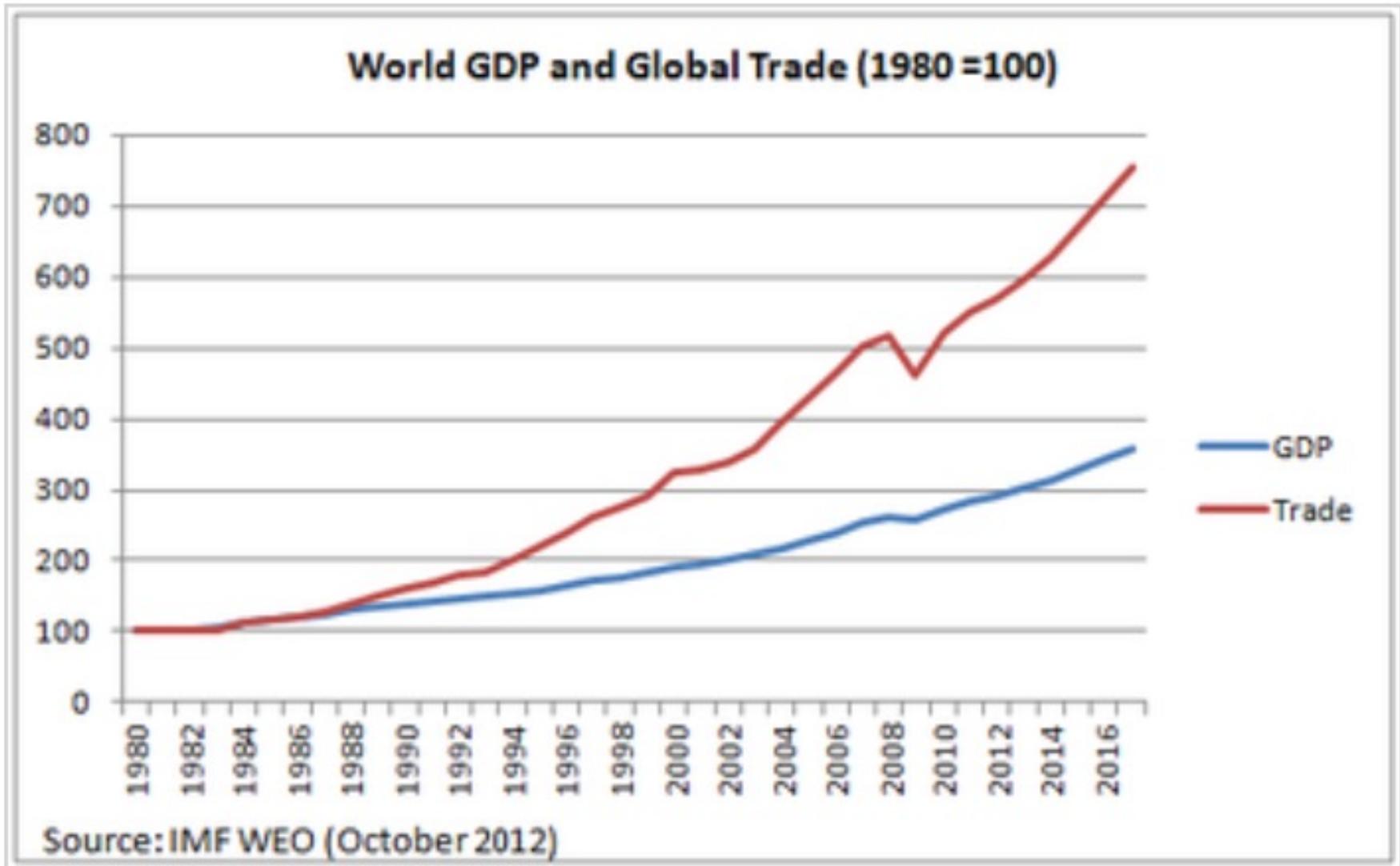
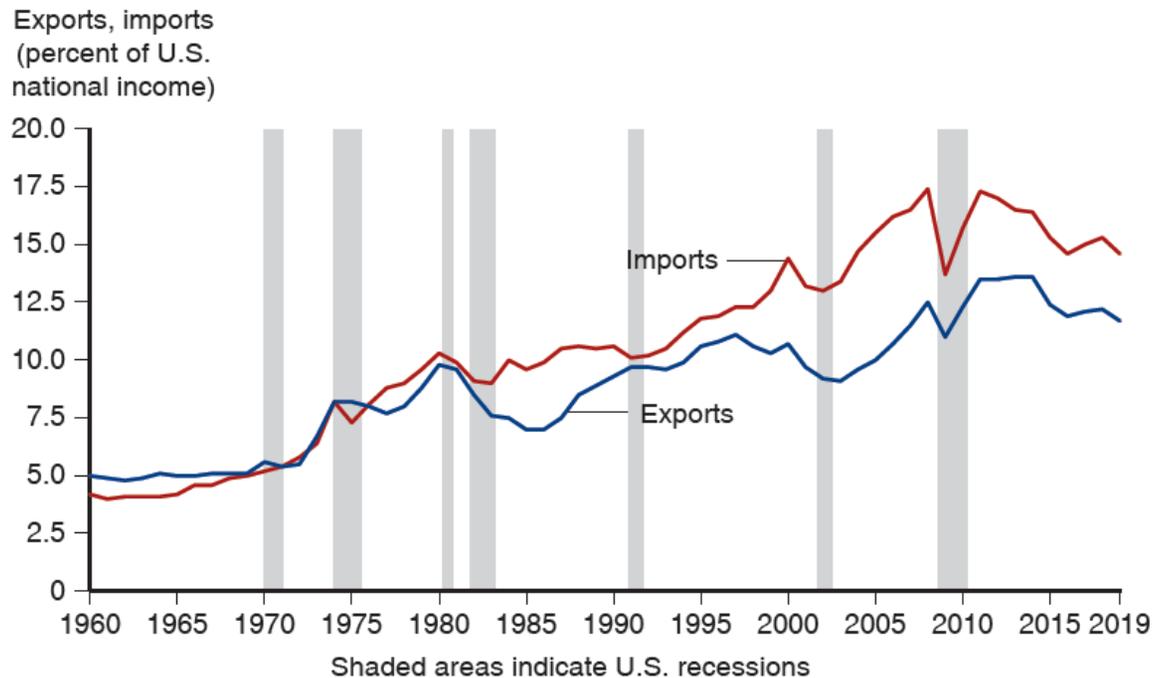


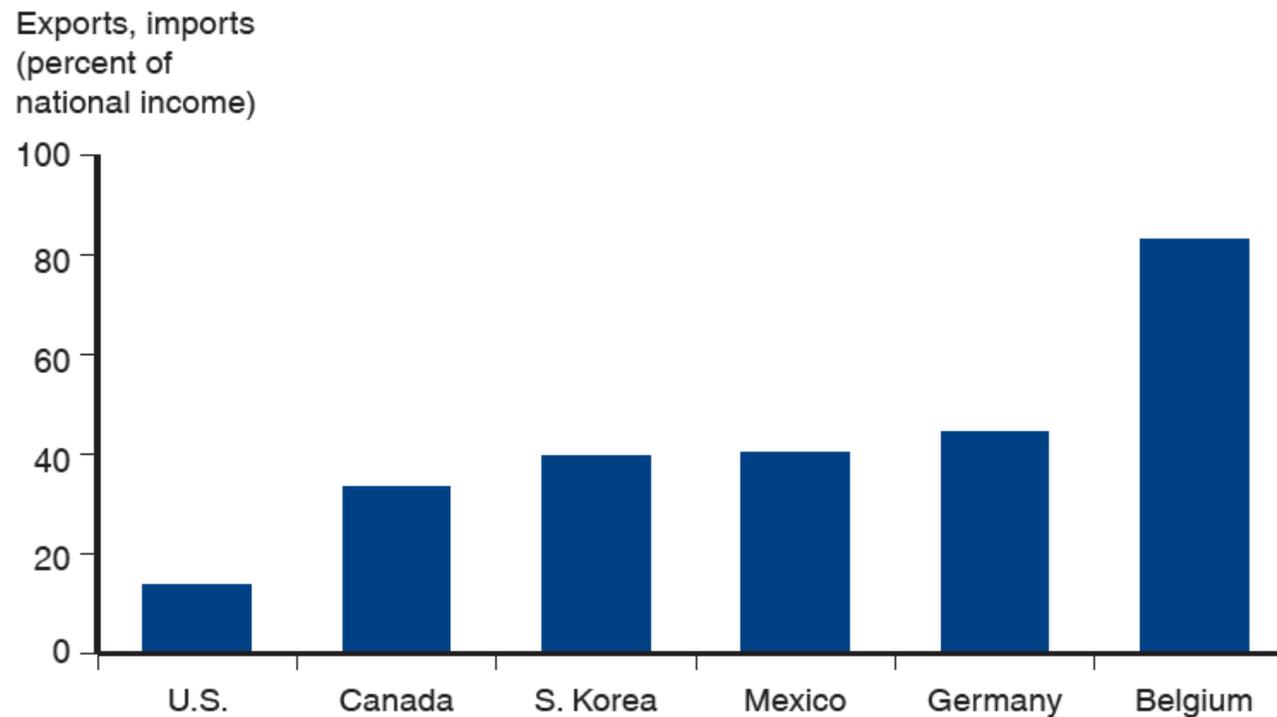
Figure 1.1 Exports and Imports as a Percentage of U.S. National Income



(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

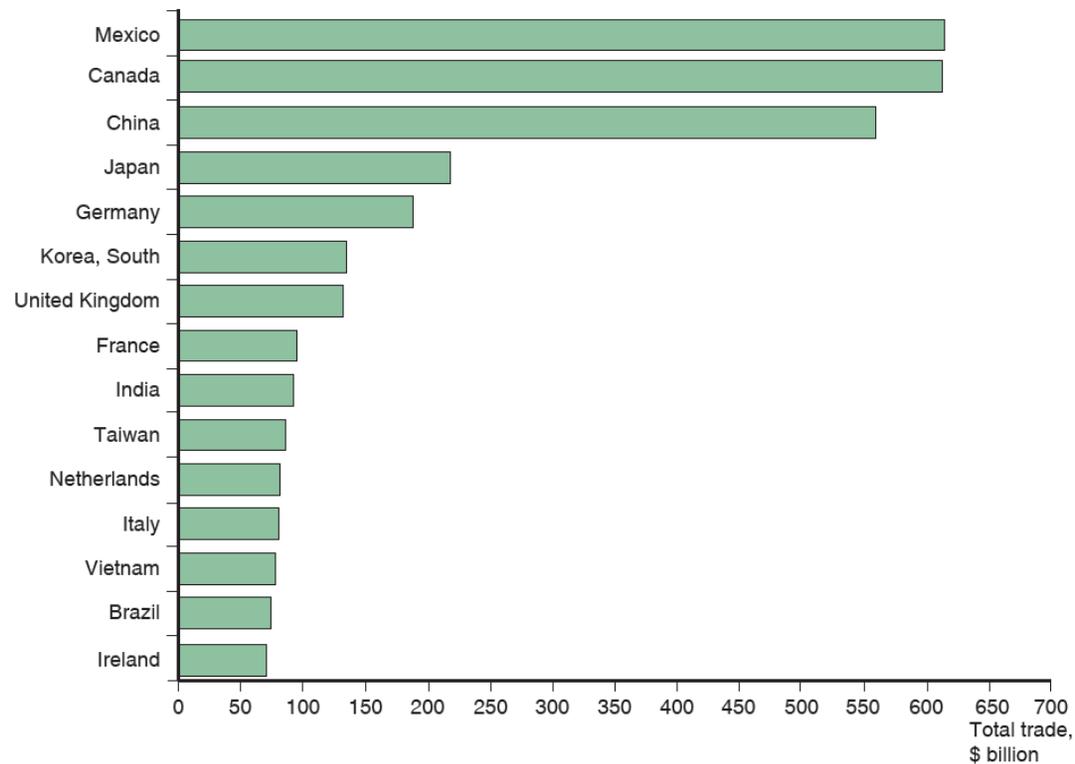
Figure 1.2 Average of Exports and Imports as Percentages of National Income in 2018



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

Source: World Bank

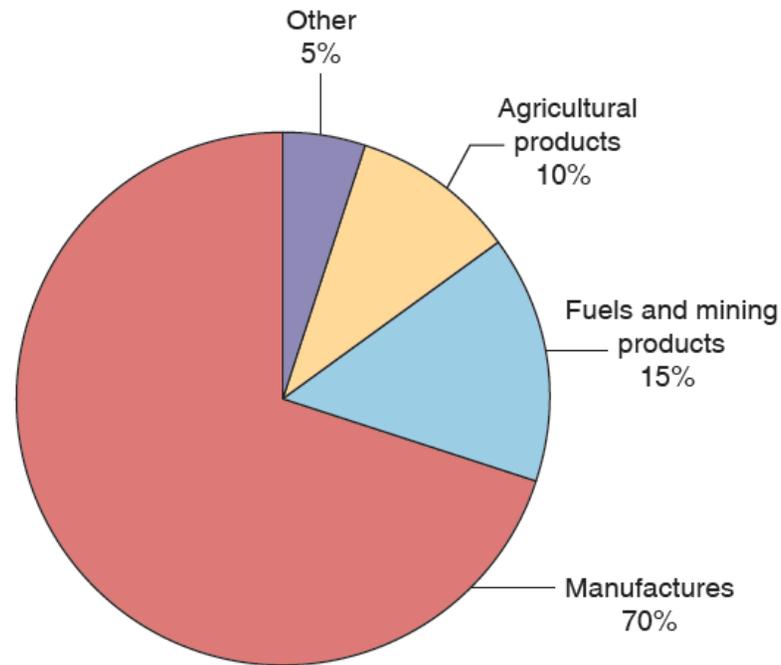
Figure 2.1 Total U.S. Trade with Major Partners, 2019



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

Source: U.S. Department of Commerce.

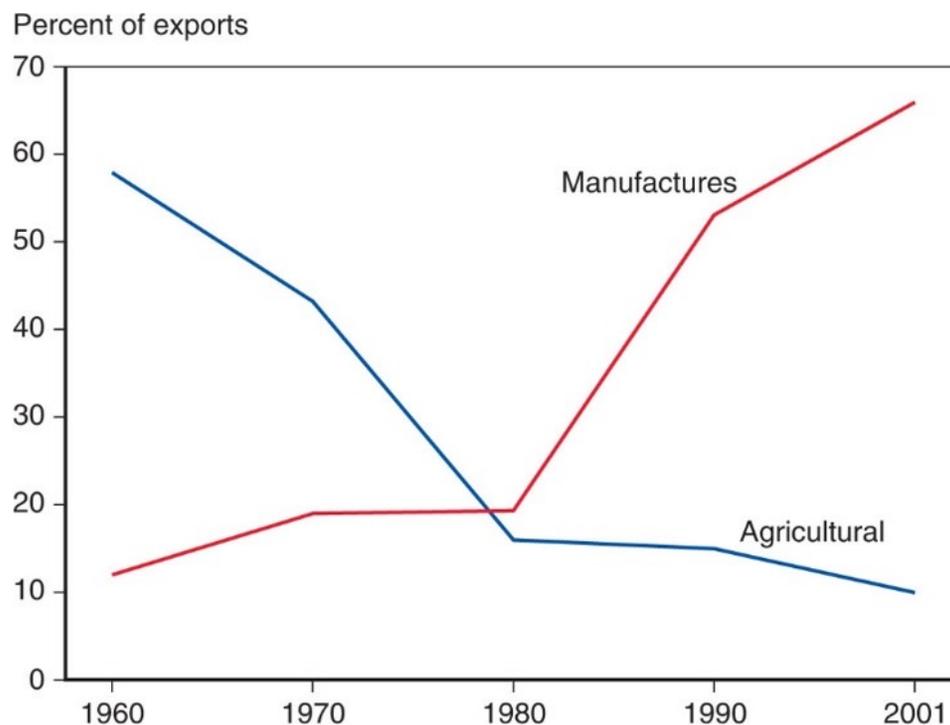
Figure 2.6 The Composition of World Trade, 2017



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

Source: World Trade Organization.

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.

Pause for Discussion

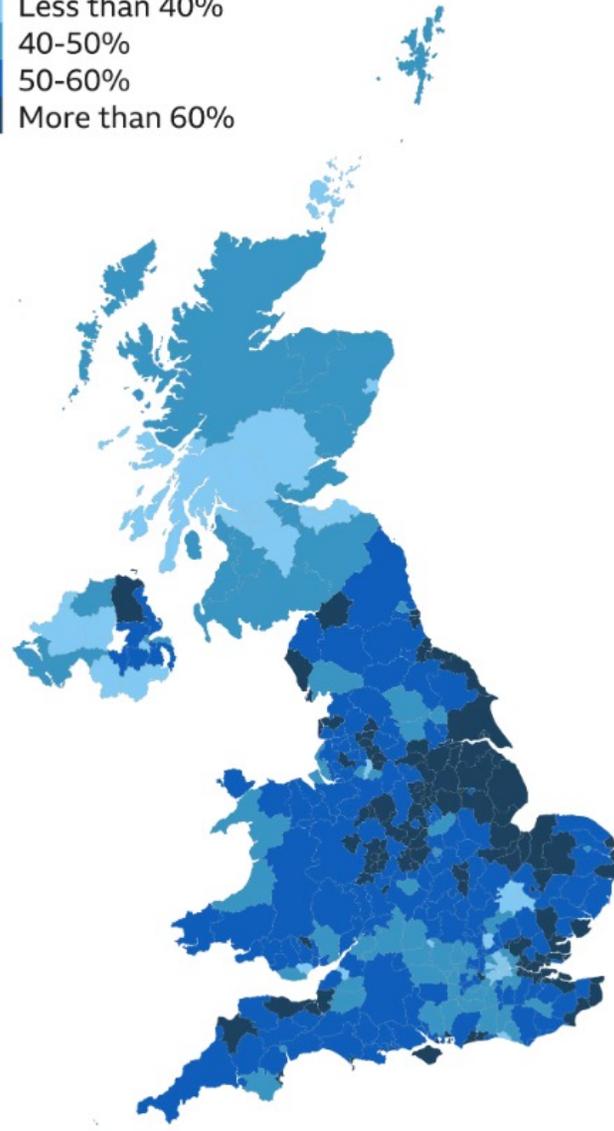
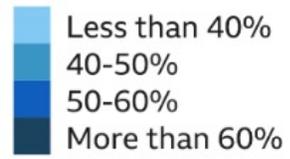
Questions from KOM

- How much has trade grown? why?
- Who gains from trade?
- What does 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 opposed to immigration from EU
 - Remain:
 - Scotland, Northern Ireland
 - Young
 - London

Leave share of the vote



4% of Gibraltar also voted to Leave

Source: Electoral Commission

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
 - Must pass through customs checks
 - These often include 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
 - Replaces N.I. Protocol
 - Signed March 24, 2023
 - Creates “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
 - Bans on parcels, pets, sausages, plants, and seed potatoes scrapped.
 - 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 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 Economist. “Brexit and Northern Ireland”

- What was disliked in the Northern Ireland Protocol, and by whom especially?
- How do “green lanes” help to fix this?
- What is the Stormont Brake?
- Does this “remove any sense of an Irish Sea border?”

Questions on Economist. “Buyers’ Remorse”

- What are some reasons why public opinion in the UK has moved away from favoring Brexit?
- Are actions being discussed and taken to “soften” Brexit?
- Is the EU eager to make changes?

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 Trade Actions

- In December 2021, China halted trade with Lithuania in response to Lithuania allowing Taiwan to set up an office there representing “Taiwan” rather than “Taipei”
 - Action extends to goods from other countries with parts from Lithuania
 - EU response: December 2022, EU filed a formal complaint at the WTO

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

- Assigned Economist article from July 2023 says “
 - “in response to new Western sanctions against China, ‘new volleys from Beijing are coming thick and fast.’”

China Trade Actions

- Assigned Economist article from July 2023 says “
 - “in response to new Western sanctions against China, ‘new volleys from Beijing are coming thick and fast.’”
- Western actions:
 - “Blocking “western chip companies [from selling] Chinese customers cutting-edge semiconductors and the machines to make them.”

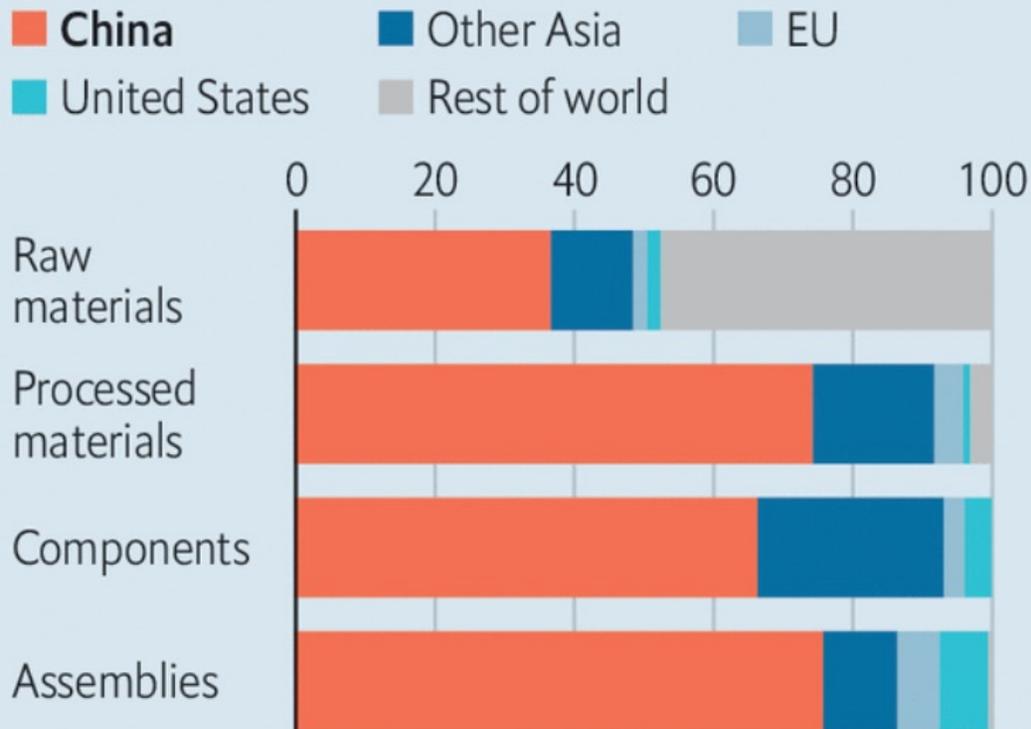
China Trade Actions

- China actions:
 - Export controls on 2 metals 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

Hard to unplug

Worldwide lithium-ion-battery production

By supply-chain stage and location, March 2023, %



Source: European Commission Joint Research Centre

Pause for Discussion

Questions on Hille & Langley, “China Suspends 2,000...”

- Is the blockage said by China to be officially due to the Pelosi visit?
- Is sand important?
- Does Taiwan’s ruling DPP party favor independence from China?

Questions on Michaels, “EU Sues China in WTO...”

- Why did China cut off imports from Lithuania?
- Does the EU expect a finding in its favor in the WTO case?
- Does China’s action apply only to its imports from Lithuania?

Questions on Economist, “Dragon Shows Its Claws...”

- What are some of the Chinese actions mentioned here?
- Why is the foreign relations act “hazy”?
- Why does China “need to tread carefully”?

Russia Sanctions

- Russia's invasion of Ukraine on Feb 24, 2022 prompted economic responses
 - Economic sanctions by governments
 - Financial linkages
 - 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
 - Ban or reduced imports of oil and other energy
 - Impose price cap on permitted oil exports
 - Revoke Russia's most favored nation status for tariffs

Russia Sanctions, Gov't

- Trade sanctions by governments
 - Oil and other energy
 - Germany puts Nord Stream 2 gas pipeline on hold
 - US bans from Russia
 - UK to phase out Russian oil by end of 2022
 - EU to become independent from Russia by 2030
 - EU bans steel imports from Russia
 - US restricts exports to Russia, especially technology and military; later also to Belarus; later also luxury goods
 - EU and UK impose export restrictions similar to US
 - Ban on Russian air carriers by Canada, EU, US, UK
 - G-7 to revoke Russia's most favored nation status
 - Permits them to raise tariffs on Russian goods

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 site?

Green Subsidies

- The “Green Subsidy War” started with the US Inflation Reduction Act of 2022
 - IRA does several things, but mostly it invests government funds in green production
 - EU was initially in favor, since US was finally acting against climate change
 - But then they saw that it was protectionist

Green Subsidies

- Why is the IRA protectionist?
 - Consumer tax credit (up to \$7,500) for purchase of electric vehicles, conditional on
 - Assembled in North America
 - Battery components made in North America
 - Using battery materials extracted in US or a country with US FTA
 - Subsidies for wide range of industries to produce in US, will entice investment from EU.

Green Subsidies

- EU's Proposed Responses:
 - Green Deal Industrial Plan
 - Offers €250 billion subsidize Europe's green industries
 - Permits member countries to use subsidies for green projects until 2025.
 - Members are normally prohibited from using subsidies.
 - Critical Raw Materials Act
 - Calls for the EU to process at least 40 percent of the raw materials that the car industry needs within its own borders
 - How will it do this? That's not clear to me.

Pause for Discussion

Questions on WSJ Editors: “Green Subsidy War...”

- In what sense was the IRA a response to what the EU was doing?
- What does the IRA do that the EU objects to?
- Do the Wall Street Journal editors approve?

Questions on Economist: “Green Protectionism...”

- What two actions is the EU considering to respond to the US subsidies that the Economist mentions, and how does the Economist view them?
- Is the EU right to think that US subsidies will hurt the EU?
- What does this say the EU can and should do?

Other Disputes and Actions

- Disputes
 - Japan-South Korea Trade Dispute
 - US-Mexico on GM Corn
 - EU-China Green Tech
 - EU Carbon Tariff
 - Japan-Australia LNG
 - India laptops
 - US-EU cheese beef

Pause for Discussion

Questions on Davies & Inagaki: “Japan and South Korea...”

- What were the disputes in 2015 and 2019 about?
- What actions had South Korea and Japan taken in the 2019 dispute?
- How has this dispute been resolved?

Questions on Swanson & Qiu: “U.S. To Challenge Mexican...”

- Has it been legal to grow GM corn in Mexico?
- Is GM corn safe?
- Is the herbicide that GM corn depends on safe?
- Why can the US challenge this ban, and under what international agreement?
What will happen if it does?

Questions on Bounds & Hancock: “Brussels to Curb Imports ...”

- What imports from China are to be curbed?
- How is the curb implemented?
- Is it all such imports from China that are targeted?
- Is this action permitted by the WTO?
- How has China responded to this proposal?

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?

Questions on Lebrun: “Japan Accuses Australia ...”

- Is this a case of either country imposing a trade barrier or otherwise using a trade policy?
- Why does Japan care so much about this? Is it just defending the financial needs of its companies?
- Does Australia agree that this imposes a hardship on Japan?

Questions on Roy:

“Importing Laptops Into India ...”

- How does this policy discourage imports?
- What are the acknowledged motives for this policy?
- At whom is the policy aimed?

Questions on Peterson: “The U.S. Has a Beef ...”

- What is a protected geographical indication?
- Does the US reject the legitimacy of these restrictions?
- What does the US object to?
- What other disputes between the US and EU are mentioned?

