

PubPol/Econ 541

Class 2

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

by

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Announcements

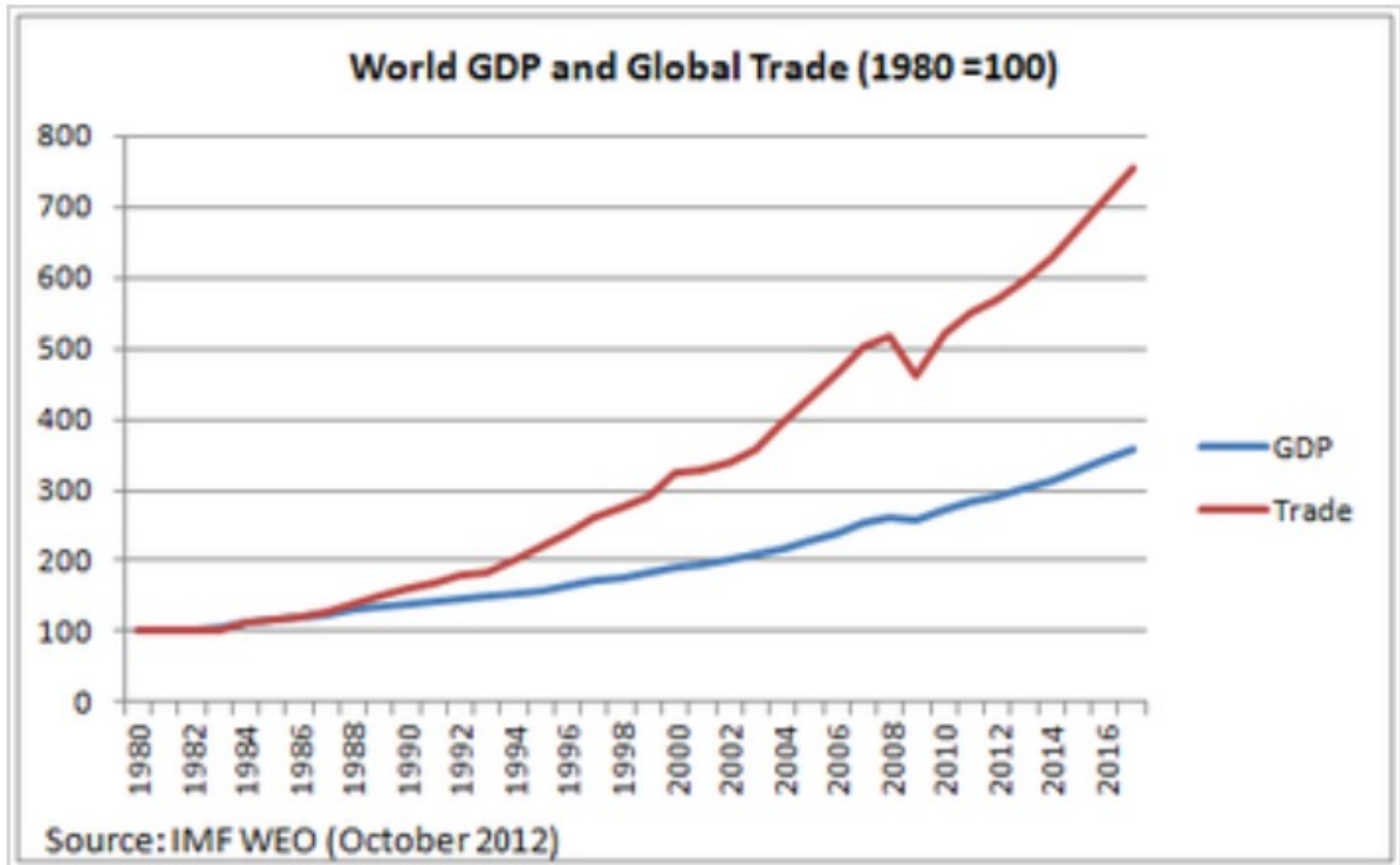
- Note that if I don't get through all of my slides, you should view them later. (But not the Aug 31 class.)
- Office hours:
 - Feel free to enter even if others are there
 - If you want a private meeting, email me to schedule
- Quiz 1 due Friday midnight.
 - Accepted until Saturday midnight with penalty
 - Covers material from last Thursday and today only.

Pause for News

State of Play: Other

- Outline
 - Background from KOM
 - Brexit
 - Pandemic and Trade
 - Other Disputes and Actions

World Trade Growth



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
 - 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, 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 January 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”

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 Brexit (Castle)

- What is the most problematic piece of the protocol?
- Why did they not just have a normal EU-UK border between Ireland and Northern Ireland?
- Why are sausages an issue?

Pandemic and Trade

- Cases and deaths
- Changes in trade
- Changes in trade policies

Americas



Europe



South-East Asia



Eastern Mediterranean



Africa

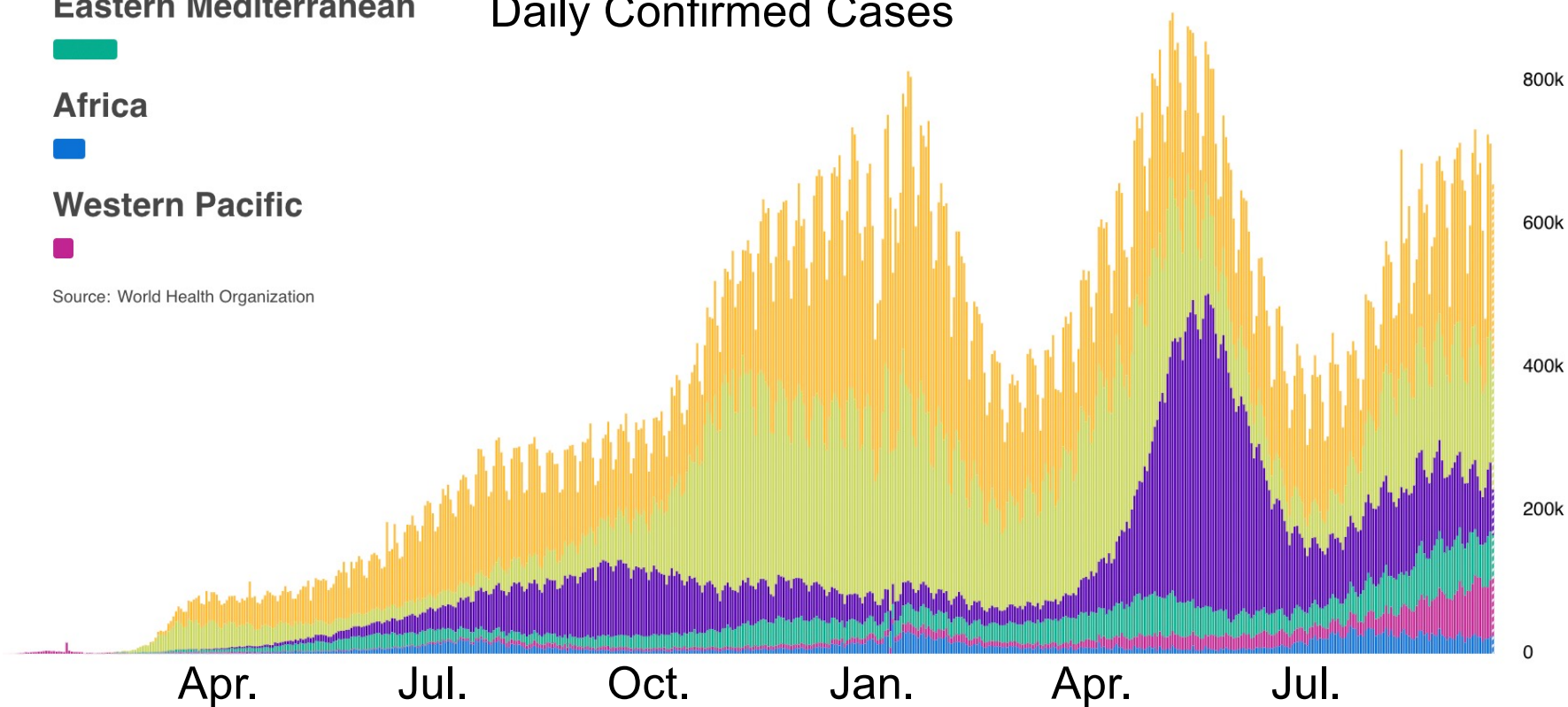


Western Pacific



Cases

Daily Confirmed Cases



Source: WHO Coronavirus Disease (COVID-19) Dashboard as of Aug 29, 2021

Americas



Europe



South-East Asia



Eastern Mediterranean



Africa



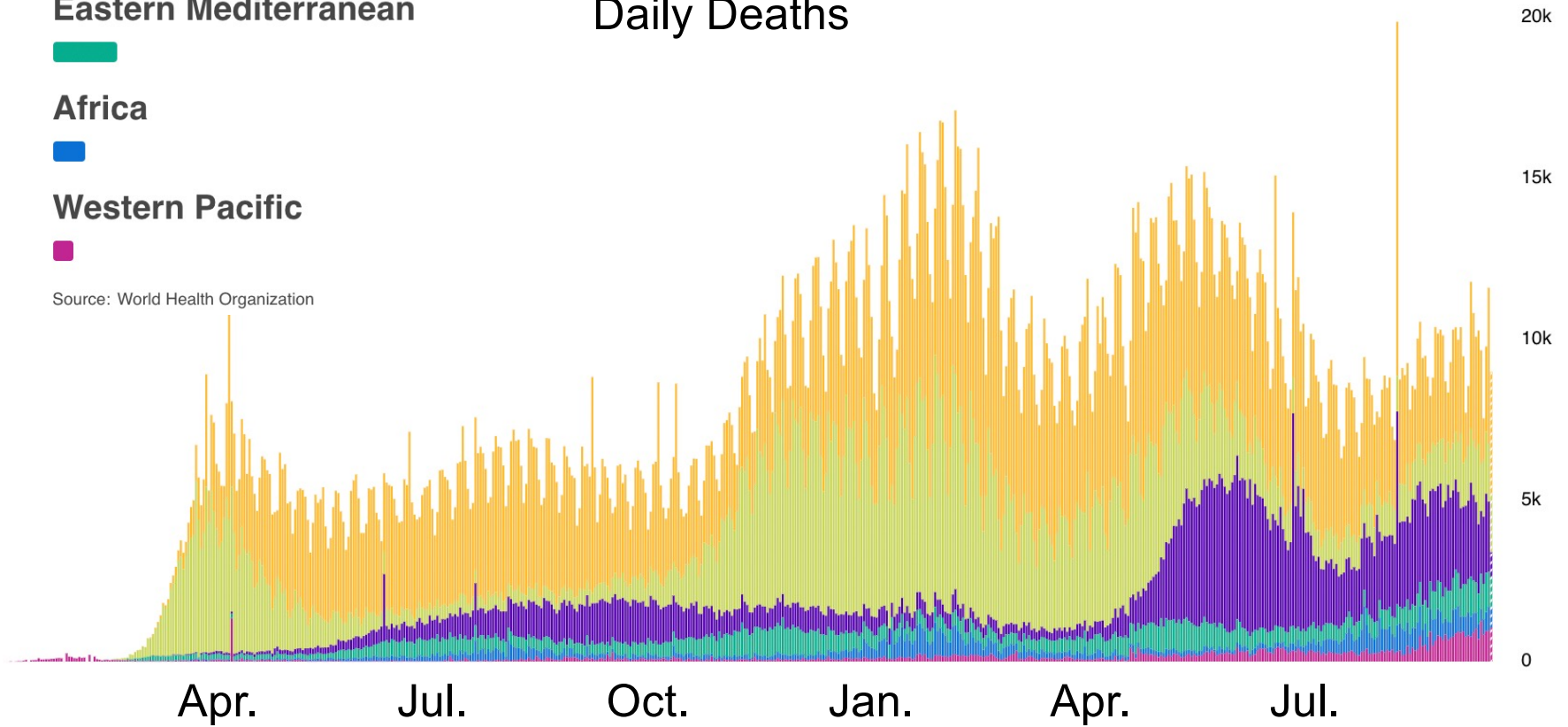
Western Pacific



Source: World Health Organization

Deaths

Daily Deaths

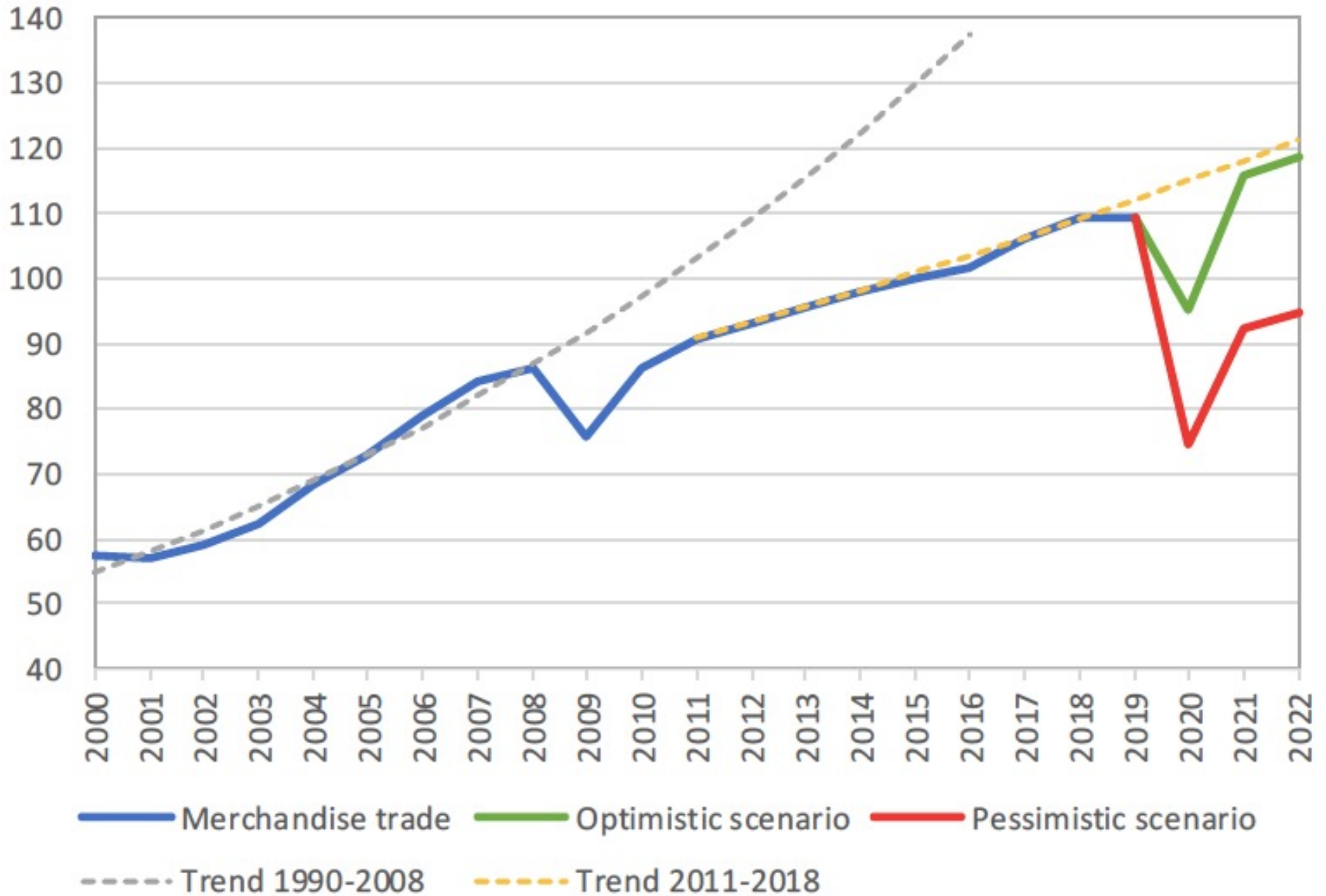


Source: WHO Coronavirus Disease (COVID-19) Dashboard as of Aug 29, 2021

Pandemic and Trade

- Drop in trade, due to
 - Factory shutdowns, first in China, then elsewhere, cutting supply
 - Supply chains interrupted, cutting supply even from factories not shut down
 - Incomes fell as jobs were lost, cutting demand
 - Some shipping, and most air transport, stopped due to virus (much normally rides with passengers)

Figure 1 WTO forecast: The Greater Trade Collapse of 2020 (2015 = 100)



Source: WTO (2020). Notes: Trade volumes are an average of exports and imports; Figures for 2020 and 2021 are projections.

Export levels are now above their pre-pandemic peak

Merchandise world trade volumes, seasonally adjusted

— World trade (2010=100)

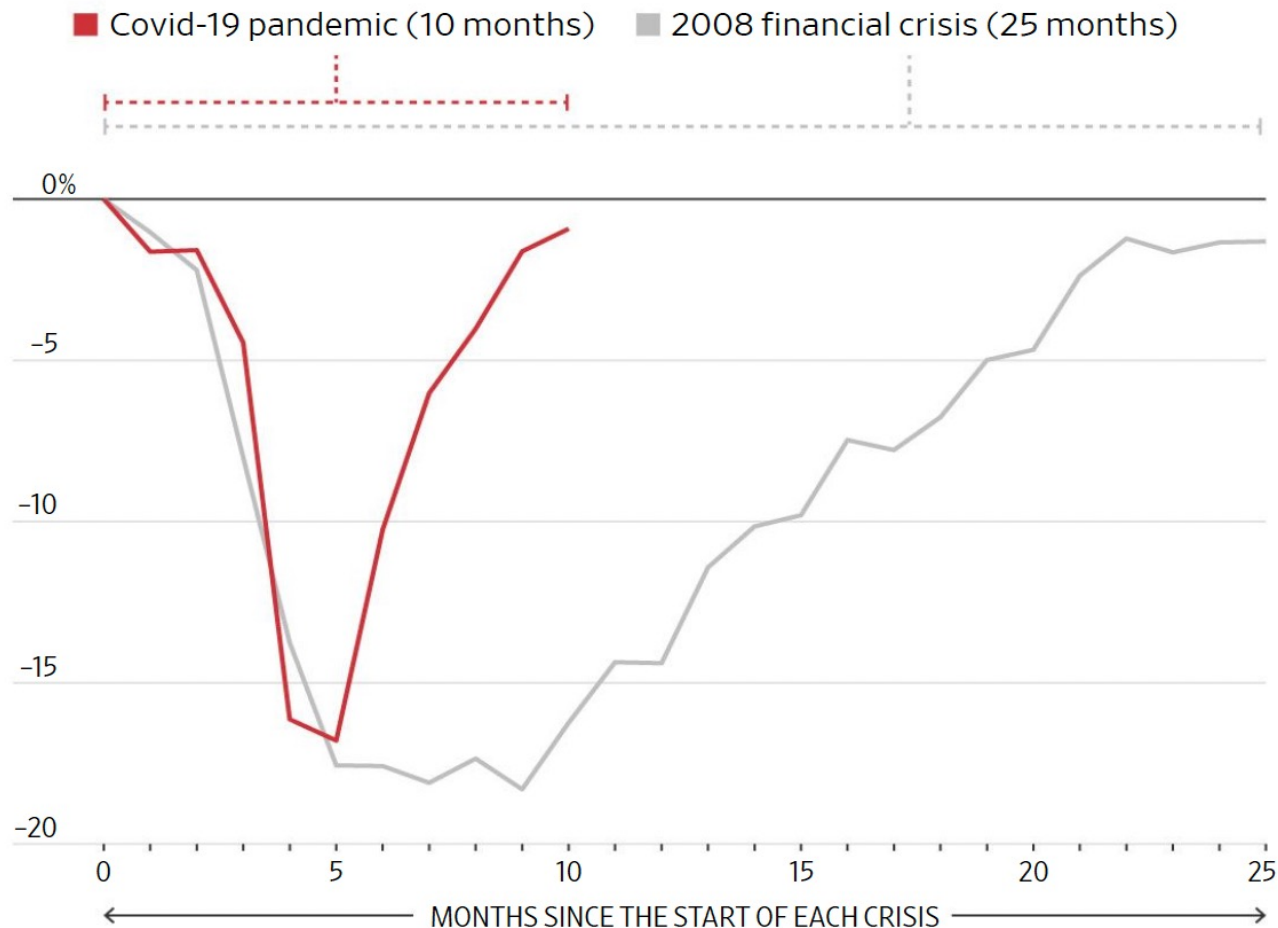


Source: FT 8/25/21

Rapid Rebound

Global trade flows rebounded more quickly in 2020 than in the aftermath of the global financial crisis, with China leading the way.

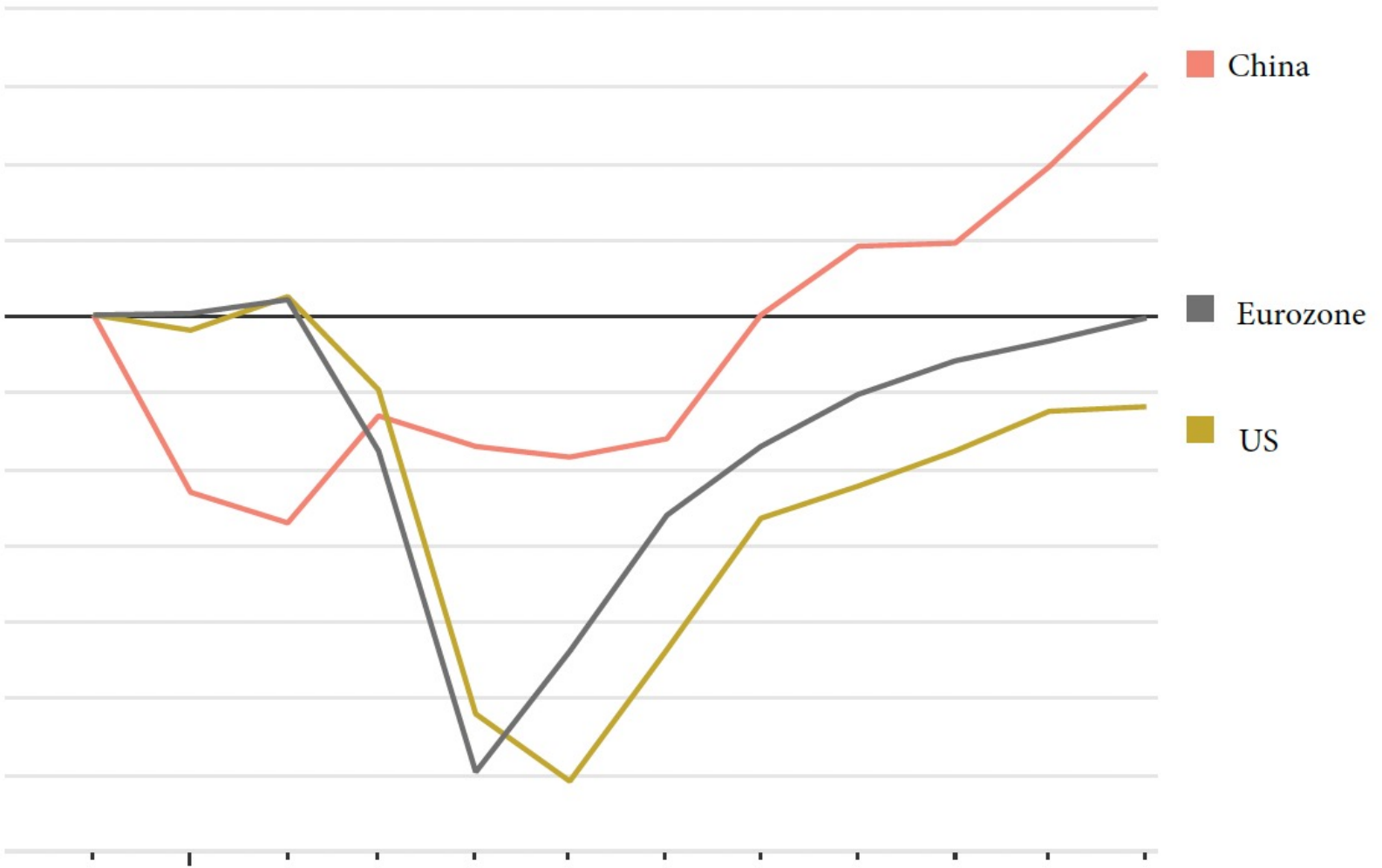
World-trade volumes, change since the start of each crisis



Notes: Seasonally adjusted; at 2010 prices

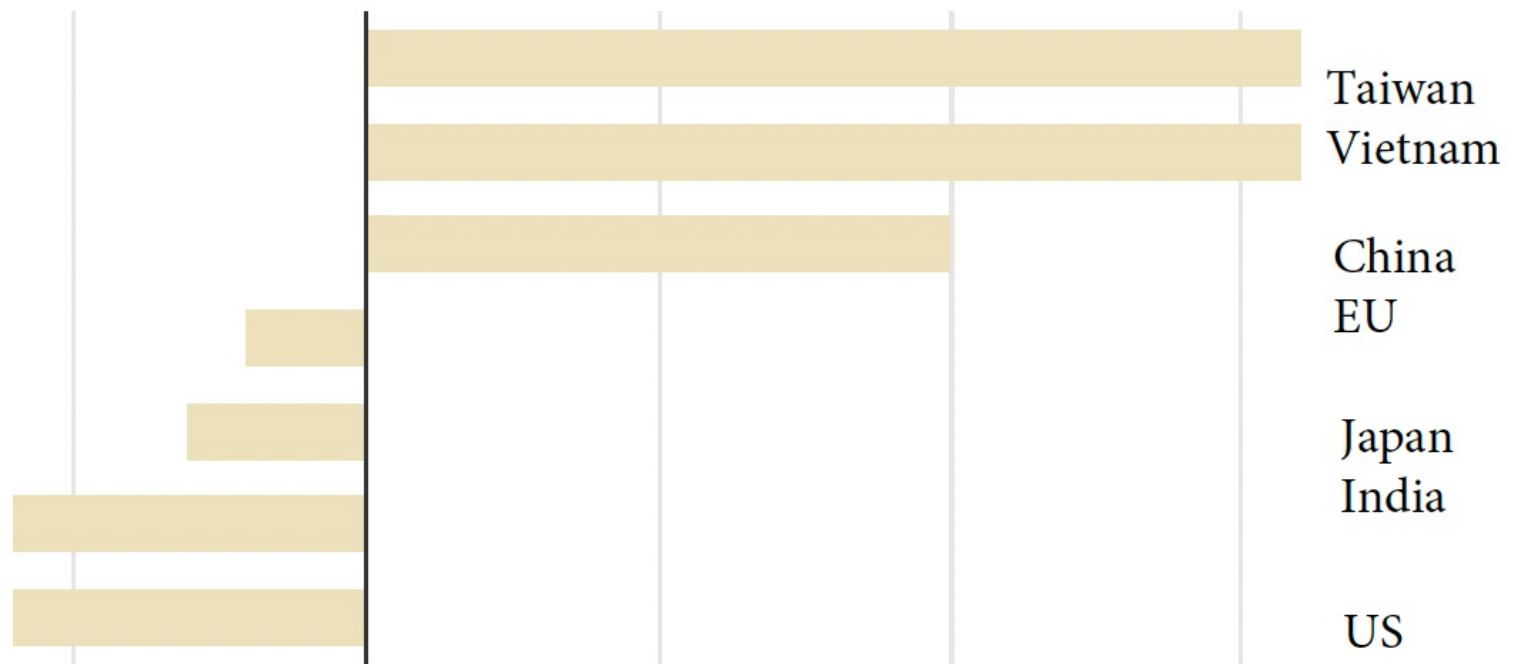
Source: CPB Netherlands Bureau for Economic Policy Analysis

Change in export volumes, since December 2019



Notes: Seasonally adjusted; at 2010 prices
Source: CPB Netherlands Bureau for Economic Policy Analysis

Share of global exports 2020, percentage change from a year earlier

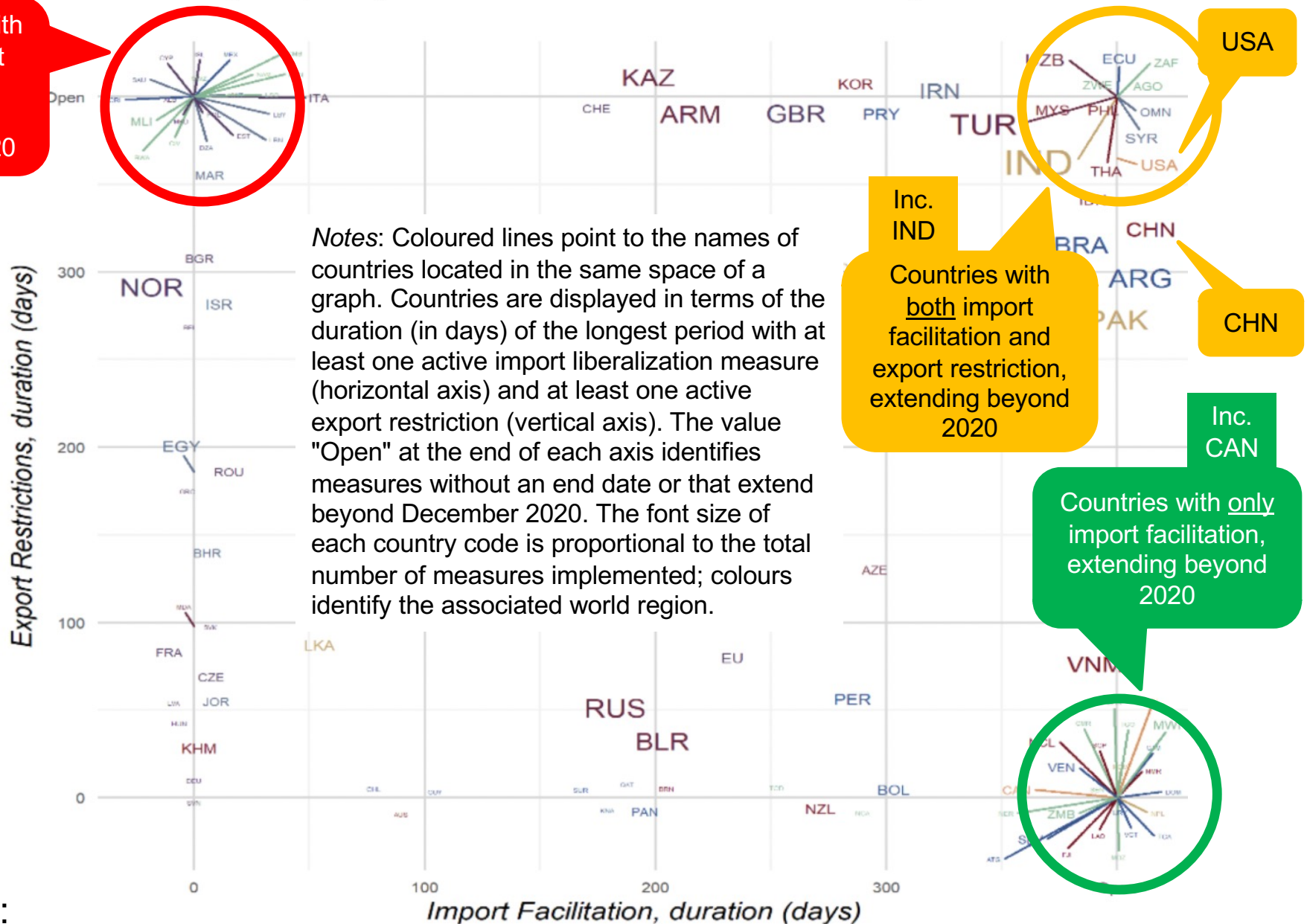


Source: United Nations Conference on Trade and Development

Pandemic and Trade

- Effects on policies
 - Export bans to keep in tools to fight virus
 - Import bans to keep out virus
 - Tariff reductions (just a few, to help needed access, mostly on medical supplies)
 - A group of countries committed to “keeping supply and trade links open” for “essential goods, especially medical supplies”

Figure 2 Trade policy responses: Who did what for how long?



Source:
Evenett
et al.

- East Asia and Pacific
- ECA: W. Eur. and Balcans
- Middle East and North Africa
- South Asia
- ECA: E. Eur. and C. Asia
- Latin America and Caribbean
- North America
- Sub-Saharan Africa

Pandemic and Trade

- Other effects
 - Seamen stranded on board
 - Countries race to be first with vaccine
 - Increased desire for self-sufficiency
 - Concern about reliance on China for PPE
 - Trade in education suffers
 - Price of oil became negative
 - Countries with vaccines restrict exports

Pause for Discussion

Questions on Pandemic (Hannon)

- How does the response of world trade to the pandemic compare to what happened due to the world financial crisis of 2008?
- Did trade recover the same in different parts of the world?
- Why has some shipping been difficult?

Questions on Pandemic (Kuchler)

- What is COVAX? Is it reaching its goal?
- What problem does this new “market place” attempt to solve?
- Are trade barriers an issue for vaccines, and if so, by whom?
- Why are rich countries continuing to order more shots than needed to vaccinate everyone?

Other Disputes and Actions

- Disputes
 - Buy American
 - Digital tax
 - Airbus-Boeing
 - Softwood lumber
 - Australia-China
 - China-EU investment

Pause for Discussion

Buy American



Questions on Other: Buy American (Biden)

- What, according to this, should be the objective of federal procurement?
- Who is responsible for overseeing this process?
- Are agencies permitted to not buy American?

Digital Tax



The new rules aim to tax a company based on where its consumers are located rather than where it has offices or employees © FT montage

Questions on Other: Digital Tax (H&H)

- Why are countries taxing digital services?
- What is the US saying it will do, and to whom?
- Does this policy originate with the Biden administration?

Airbus-Boeing



Questions on Other: Airbus-Boeing (Michaels et al.)

- Are the tariffs only now being suspended? And for how long will they be suspended?
- When did the dispute start, and when were the tariffs first levied?
- What will the US and EU try to achieve during this 5-year suspension, and why?
- How, if at all, has the WTO been involved?
- On what products did the US and EU place tariffs?

Softwood Lumber



Questions on Other: Softwood Lumber (Kaplan)

- What is the core issue in this dispute?
- When did the dispute start? Has it been just a single ongoing dispute?
- Who levied the tariffs and how high have they been?
- Why is there pressure in the US to remove the tariffs?
- Who wants to keep the tariffs and why?

Australia-China

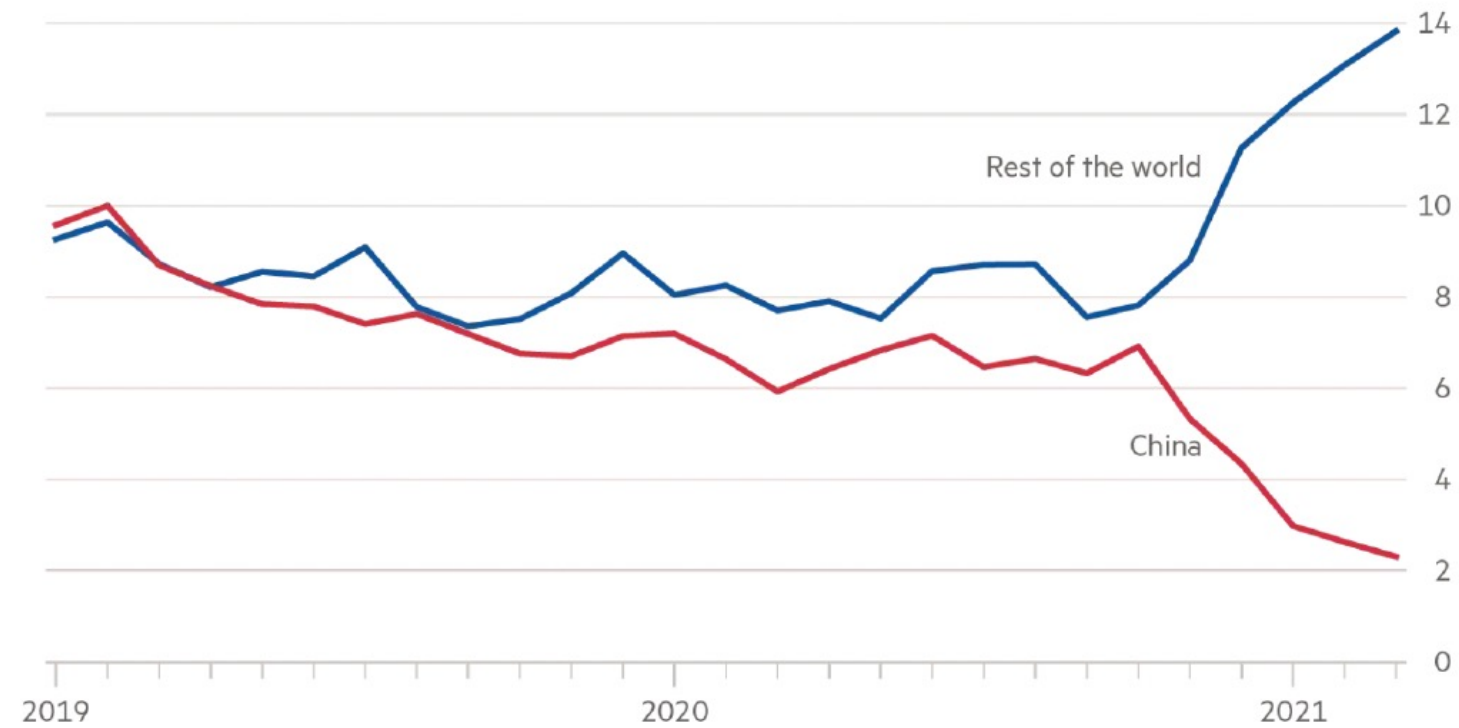


Questions on Other: Australia-China (Smyth)

- What prompted the dispute between Australia and China?
- What has China done to Australia?
- Has Australia retaliated with trade restrictions against China?
- How have Australian exporters and Chinese importers adapted?
- If trade has not fallen, has any harm been done?

Non-coal Australian exports included in China sanctions but diverted

Annualised 3-month moving average (A\$bn)



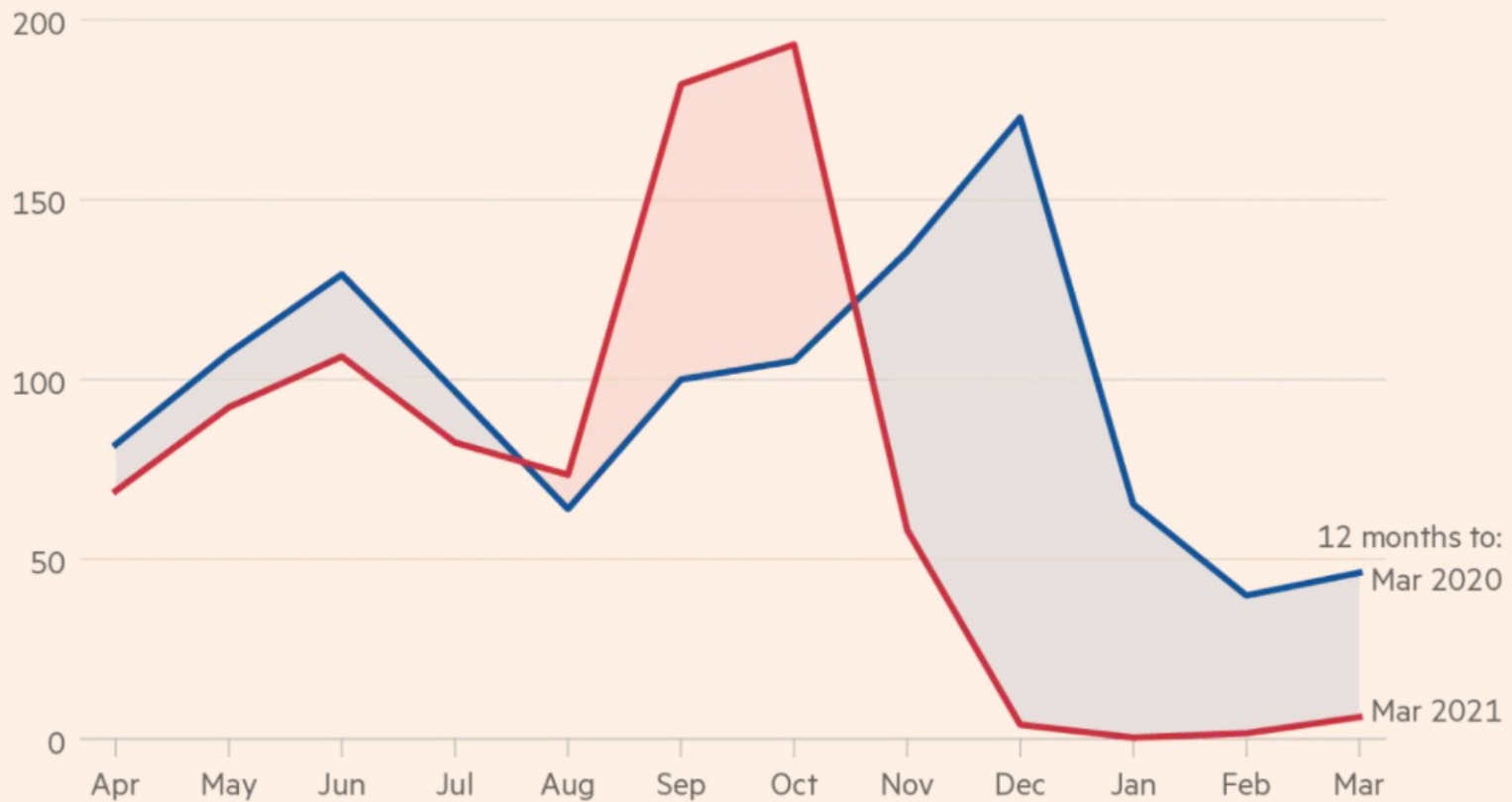
Includes successfully diverted Australia exports barley, cotton, seafood, copper and timber

Source: Lowy

© FT

Steep decline in exports of Australian wine to mainland China

Value of exports to mainland China in past 12 months (A\$m)



Source: Wine Australia
© FT

China-EU Investment Agreement



Questions on Other: China-EU Investment (E&M)

- What does the agreement do?
- Why is this more a victory for China than for the EU?
- What is the only constituency in the EU that is mentioned here as supporting the agreement?
- How long did these negotiations take, and what prompted them to finish when they did?

