

# 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

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

# Pause for News

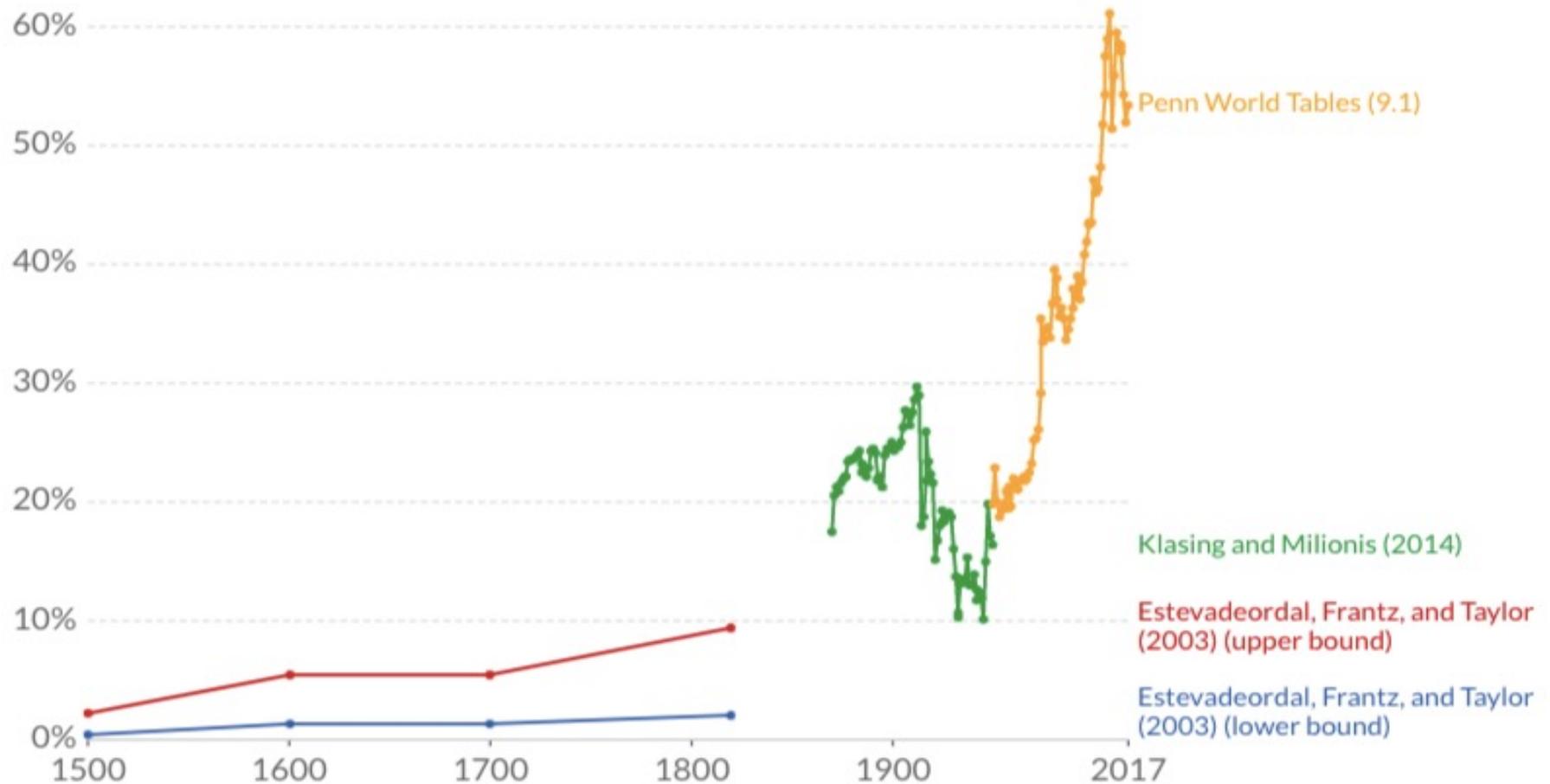
# State of Play: Other

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

# World Trade Growth

## Globalization over 5 centuries

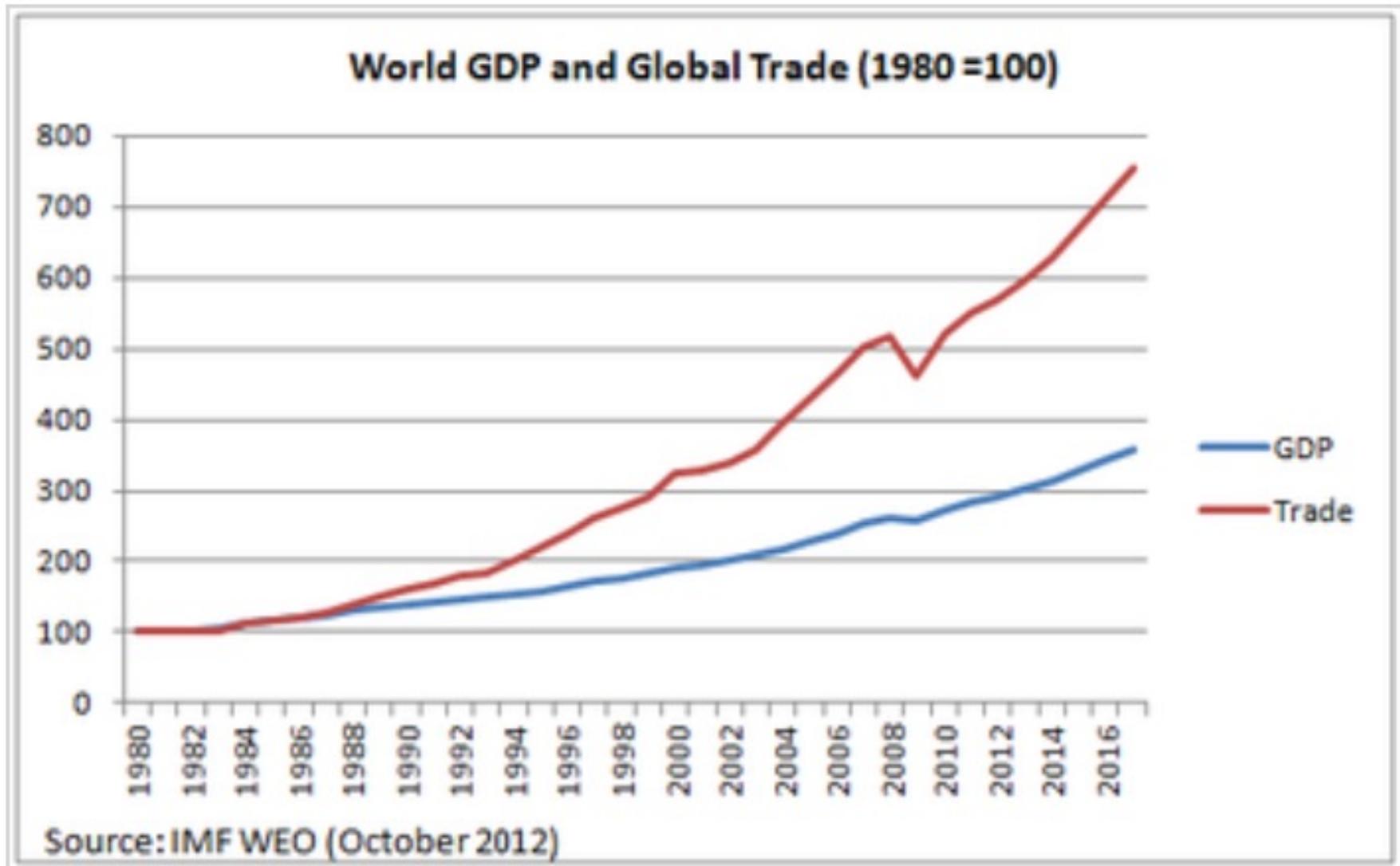
Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



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

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

# 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)

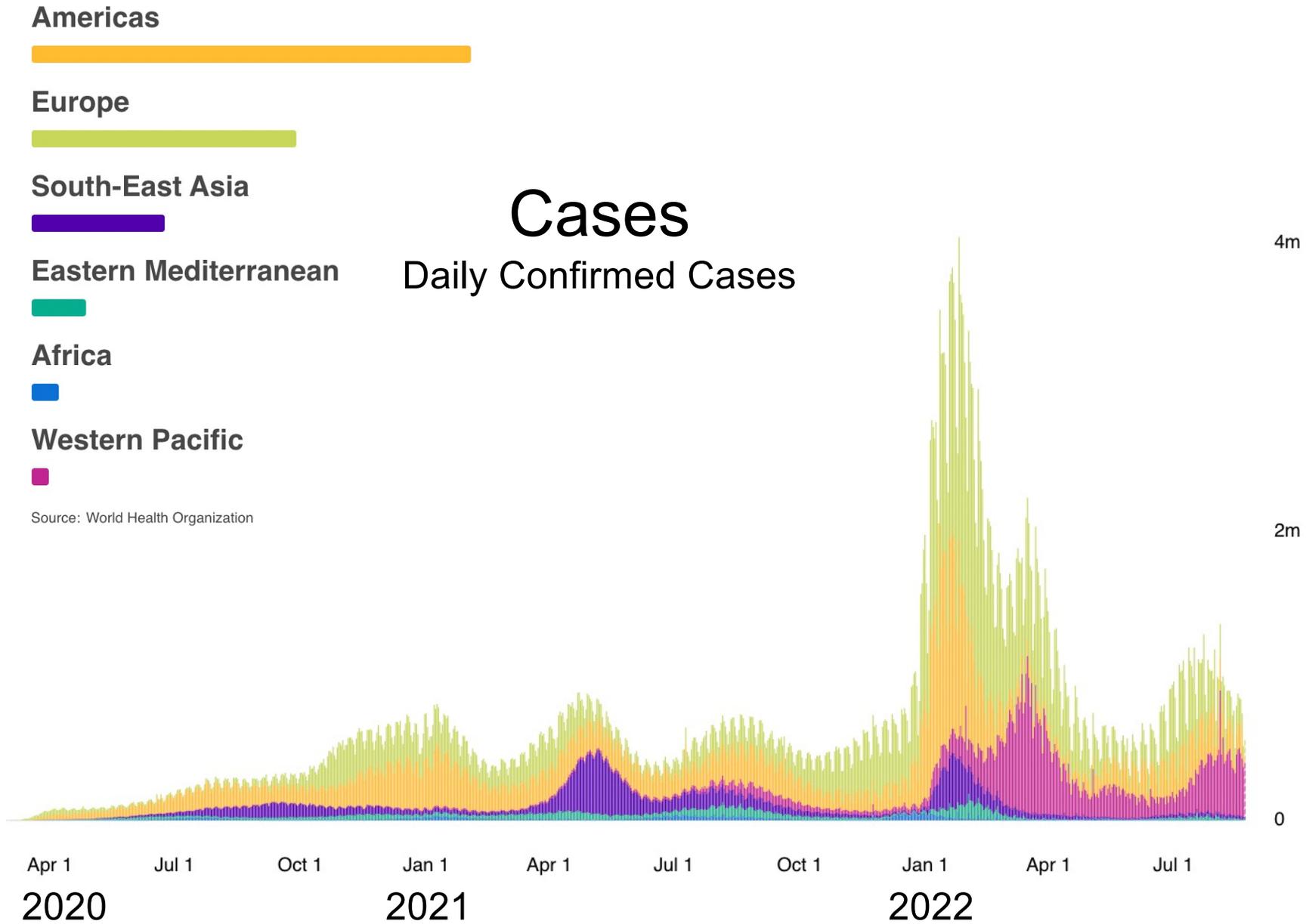
- What is the most problematic piece of the protocol?
- Why did they not just have a normal EU-UK border between Ireland and Northern Ireland?
- Why are sausages an issue?

# Questions on Brexit (Parker)

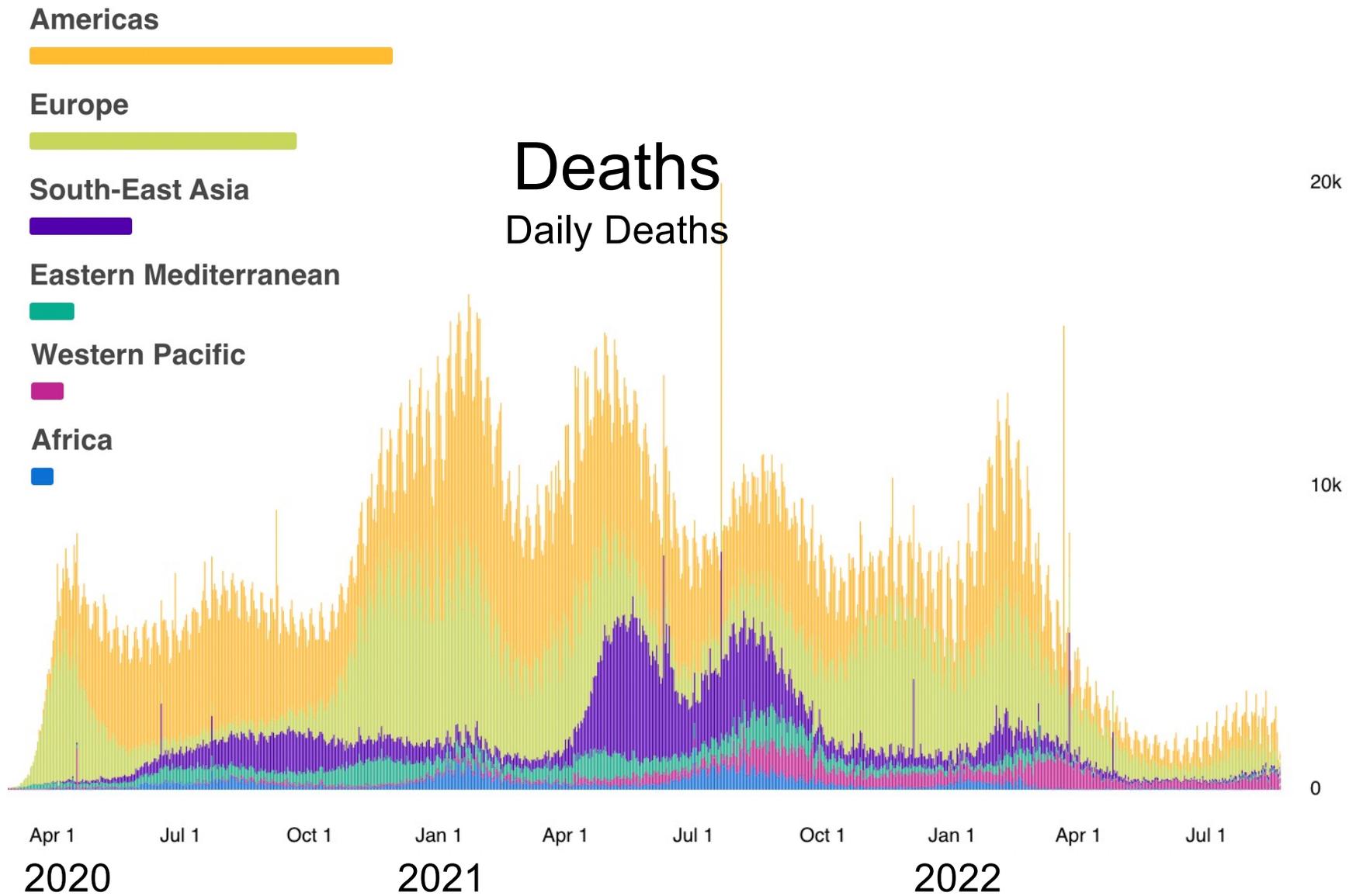
- What did the Northern Ireland Protocol do, to the extent that you can tell from this?
- What does this new law try to do?
- What motivates this? Are the people in Northern Ireland unhappy with it?
- Who objects to this, and why?
- Will the law take effect?

# Pandemic and Trade

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



Source: WHO Coronavirus Disease (COVID-19) Dashboard as of Aug 23, 2022



Source: WHO Coronavirus Disease (COVID-19) Dashboard as of Aug 23, 2022

# Pandemic and Trade

- Global trade dropped abruptly, 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)

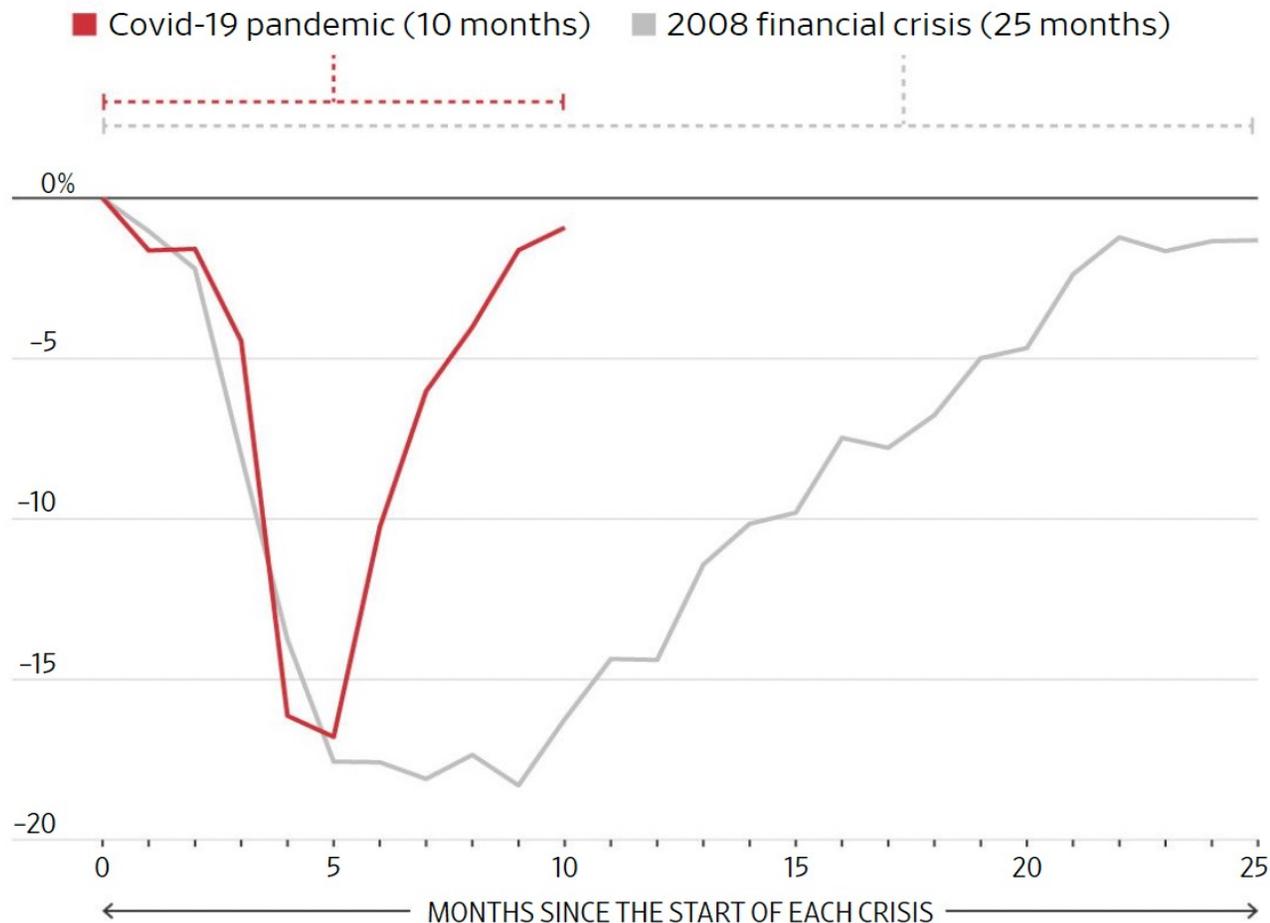
# Pandemic and Trade

- Trade then recovered just as abruptly
  - Much faster than after 2008 financial crisis
- Trade in goods then set records in 2021
- Trade in services resumed growth later, just recently surpassing pre-pandemic levels

## Rapid Rebound

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

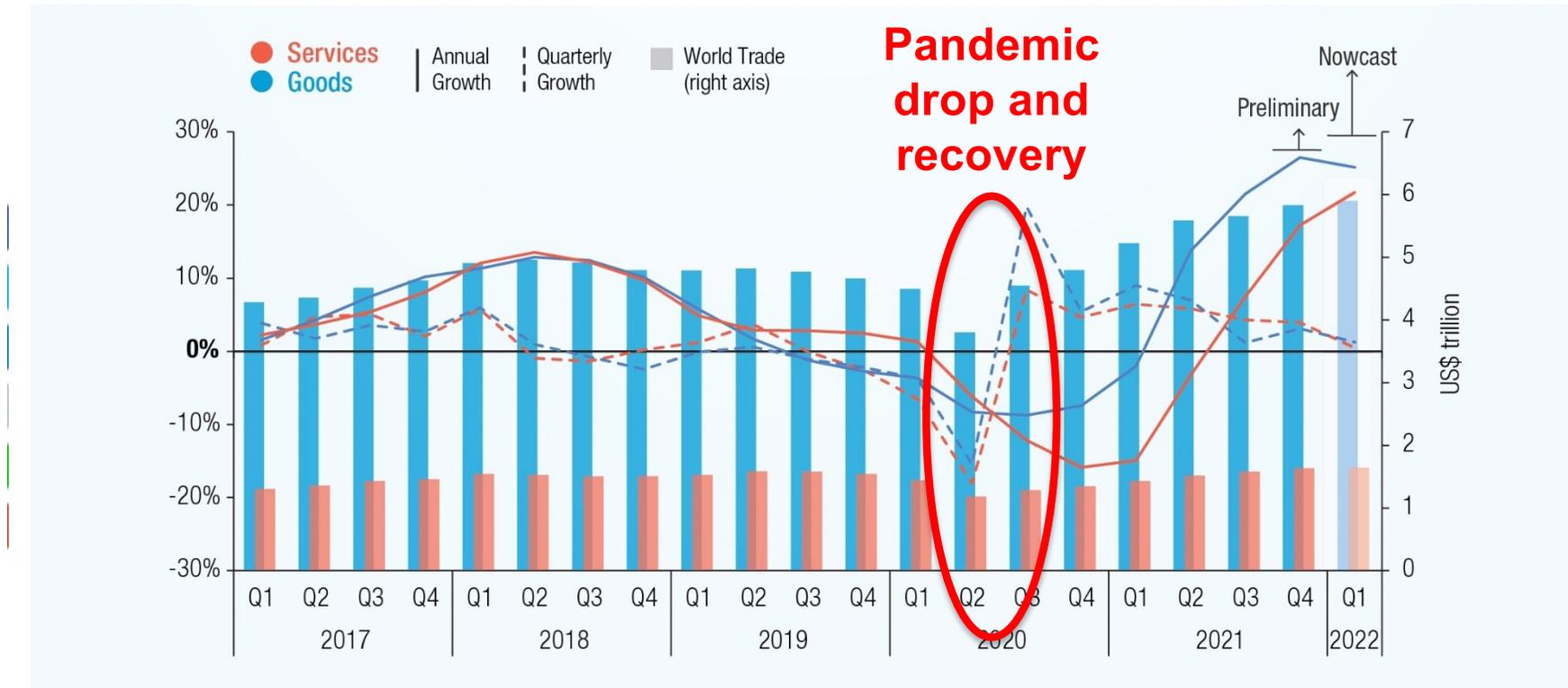
### World-trade volumes, change since the start of each crisis



Notes: Seasonally adjusted; at 2010 prices

Source: CPB Netherlands Bureau for Economic Policy Analysis

# Global trade trends and nowcast



Source: UNCTAD calculations based on national statistics.

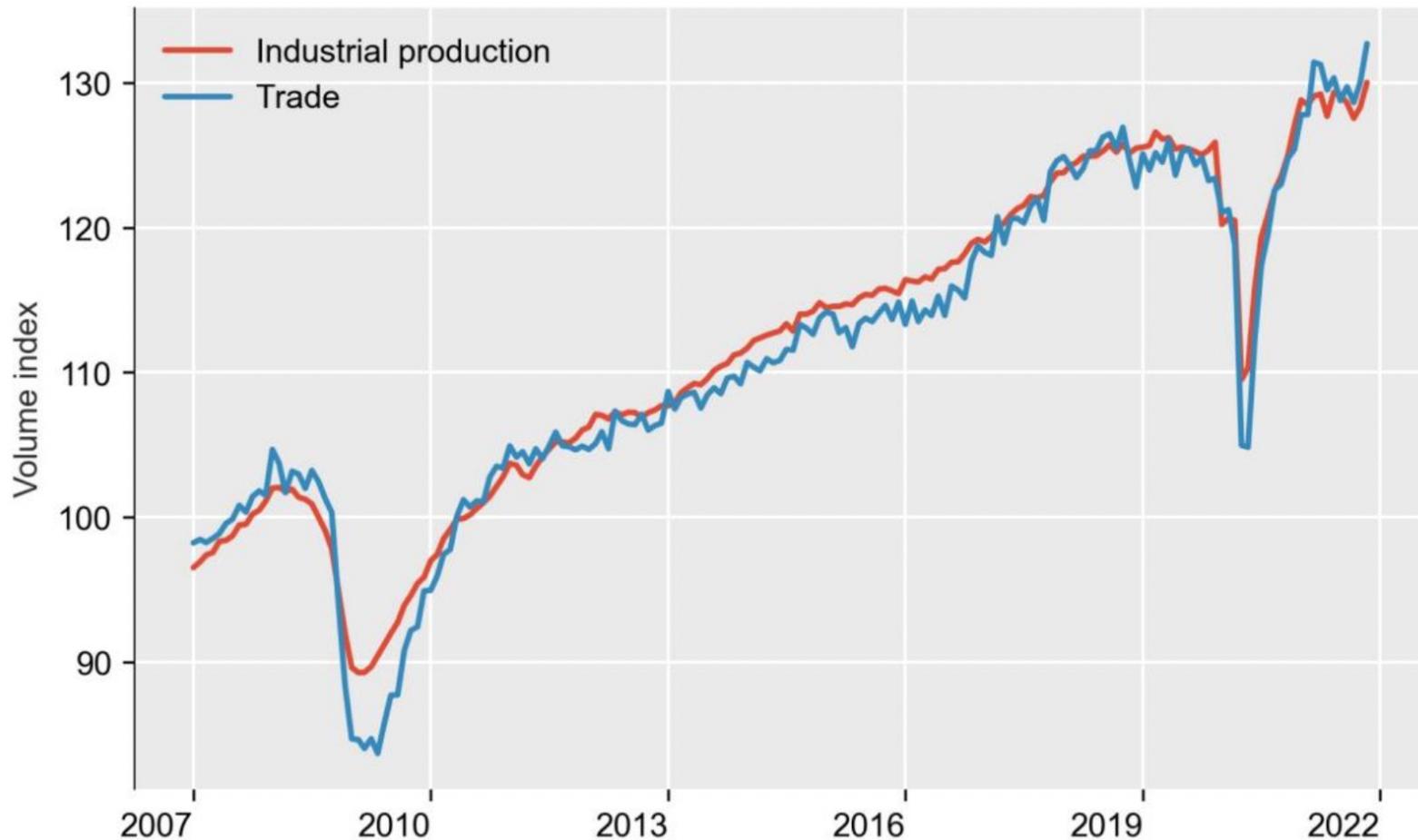
Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. Annual growth refers to the last four quarters. Figures for Q4 2021 are preliminary. Q1 2022 is a nowcast.

Source: UNCTAD,  
February 17, 2022

Class 2: The State of Play II:  
Other

## Figure 1. Volume of world trade and industrial production

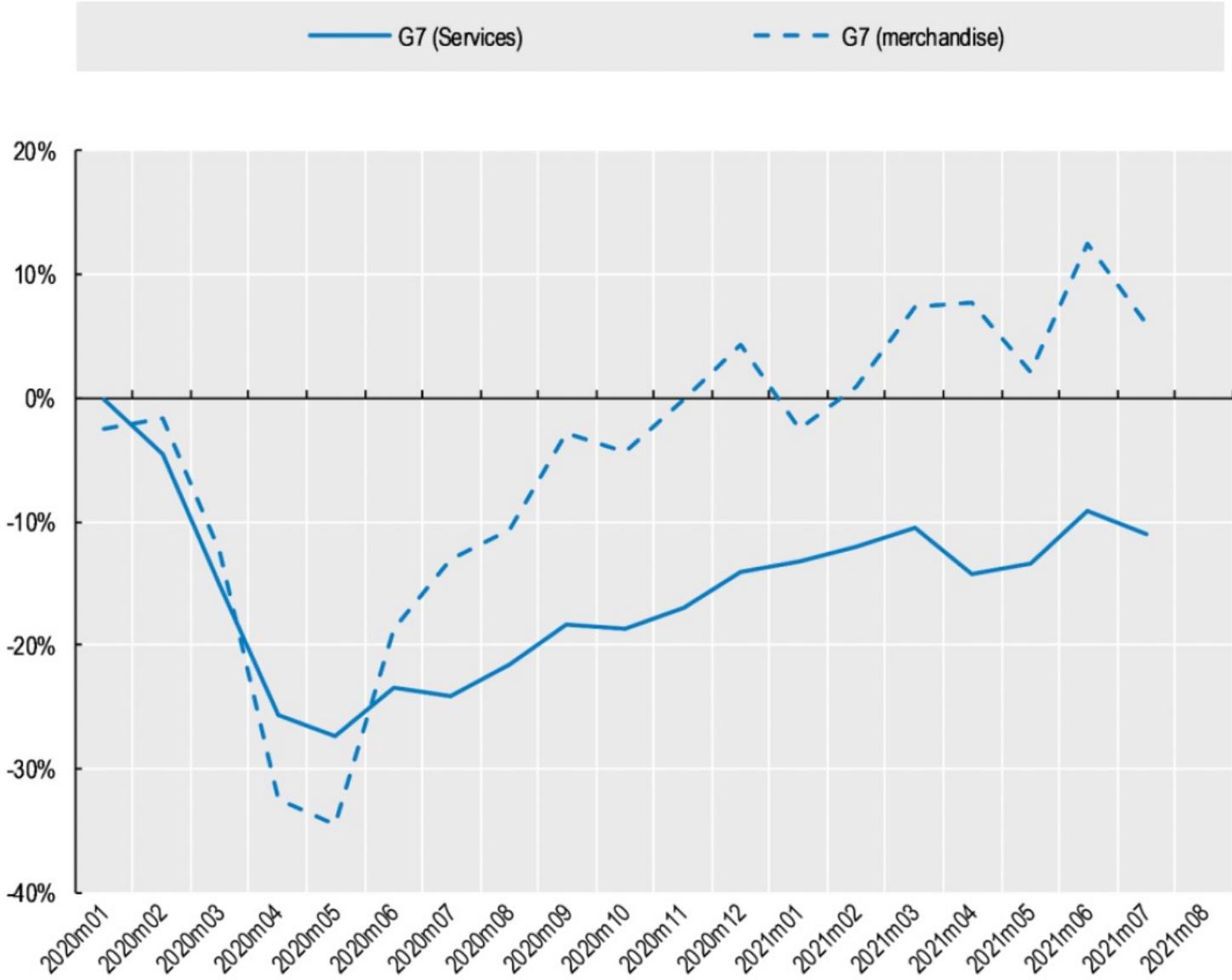
Seasonally adjusted (2010=100)



Source: OECD calculations based on CPB World Trade Monitor.

# Figure 2. Services trade was hit harder and has been slower to recover than goods trade

Exports of services and merchandise relative to same month in 2019. G7 economies

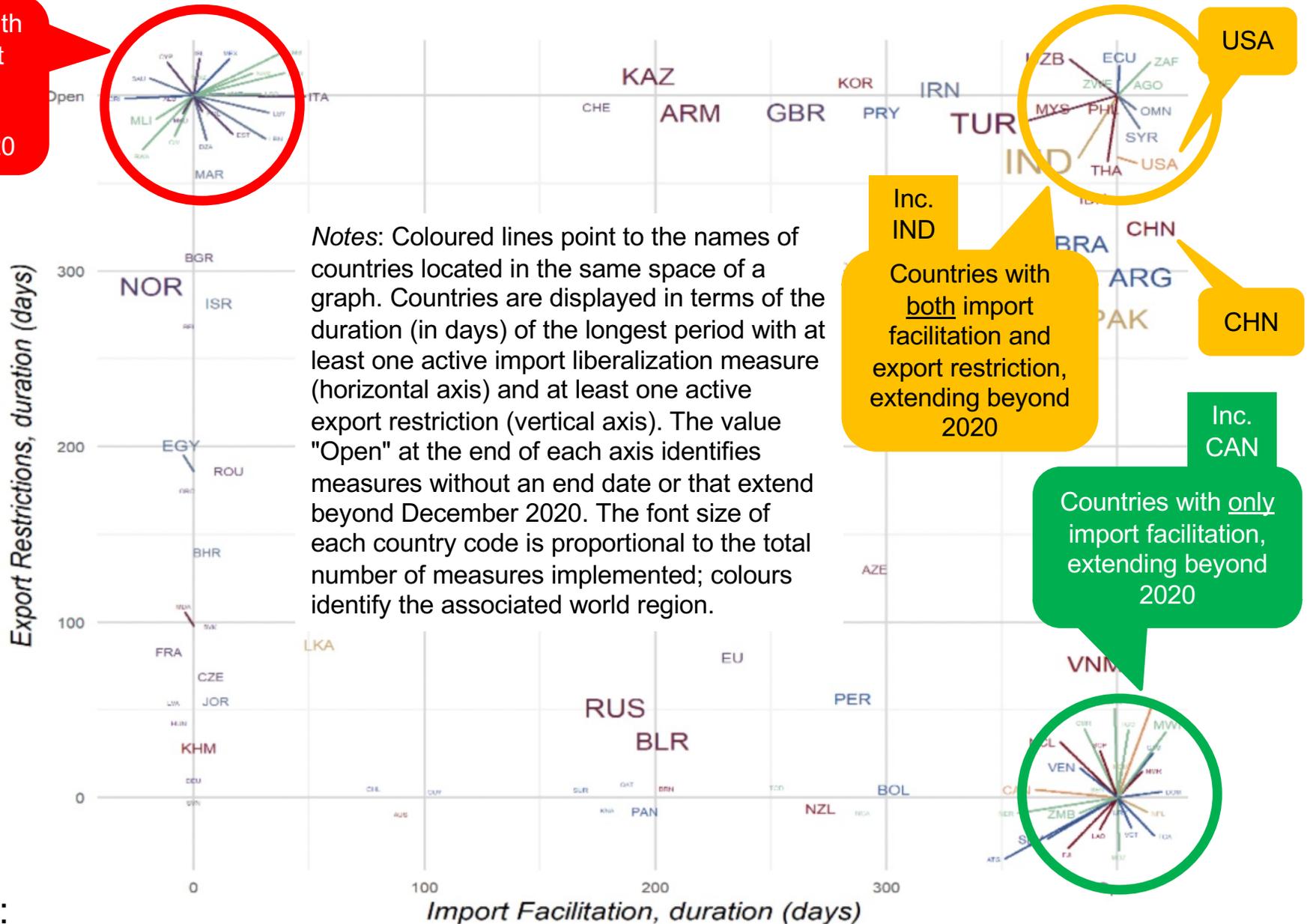


Source: OECD calculations using WTO data in current USD.

# 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?**



Countries with only export restriction, extending beyond 2020

Inc. ITL

Inc. IND  
Countries with both import facilitation and export restriction, extending beyond 2020

Inc. CAN  
Countries with only import facilitation, extending beyond 2020

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 were stranded on board
  - Countries raced to be first with vaccine
  - Increased desire for self-sufficiency
  - Concerned about reliance on China for PPE
  - Trade in education suffered
  - Price of oil became negative
  - Countries with vaccines restricted exports

# Pause for Discussion

# Questions on Pandemic (OECD)

- How did the response of trade during the pandemic compare to that of the earlier global financial crisis?
- In what products did trade actually grow?
- What happened to the cost of ocean shipping, and why?

# Questions on Pandemic (GDPC)

- This is a summary of a larger report by whom? What countries did it study?
- What sorts of measures did the countries use during the pandemic?
- Which of these countries intervened most, and which least?
- What conclusion does the report draw about the role of international rules?

# China Trade Actions

- China has banned imports of meat several times over health concerns
  - 2020: Meats from Brazil over concerns about Covid-19 cases in processing plants
  - 2020: beef from Ireland after 1 mad-cow case
  - Sep 2021: beef from Brazil after 2 mad-cow cases.
  - Sep 2021: beef from cattle under 30 months from UK after 1 mad-cow case

# China Trade Actions

- 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
- Unprecedented? No.
  - Halted salmon from Norway in 2010
  - Blocked agricultural imports from Australia in 2019

# China Trade Actions

- In June, China banned a fish, grouper, from Taiwan saying it was tainted by chemicals and drugs.
- Last year China banned pineapples and wax apples from Taiwan saying they brought in pests.



# China Trade Actions

- In August, 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 is a “huge expansion” compared to China’s earlier uses of economic levers

# Pause for Discussion

# Questions on China Trade Actions

- 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?

# Russia Sanctions

- Russia's invasion of Ukraine on Feb 24, 2022 prompted economic responses
  - Economic sanctions by governments
    - Financial linkages
    - Trade
  - Private companies stopped dealing with Russia

# Russia Sanctions, Gov't

- Financial sanctions by US, EU, UK, and others
  - Frozen foreign-held assets of individuals, Putin and dozens of others
  - Restrictions on Russia's Central Bank's use of international reserves
  - Several Russian banks removed from the Swift international payments system
  - Cut off many Russian banks from transactions and operations
  - Long list of Russian companies banned or restricted
  - Possible restrictions on Russia borrowing from IMF and World Bank

# 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

Russian Targets							
Airlines	2		Generals	1		Oligarchs	23
Banks	9		Government	1		Retail	1
Cnt. Banks	5		Lawmakers	2		Ships	5
Commodity	1		Lux. goods	1		Sv wlth fnd	1
Companies	19		Media	2		Tax service	1
Economy	3		Mil. Comps.	14		Tech	1
Entities	3		Mining	2		Transit	1
Finance	1		Oil	2			
Gas	1		Oil imports	6			

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

# Russia Sanctions, Gov't

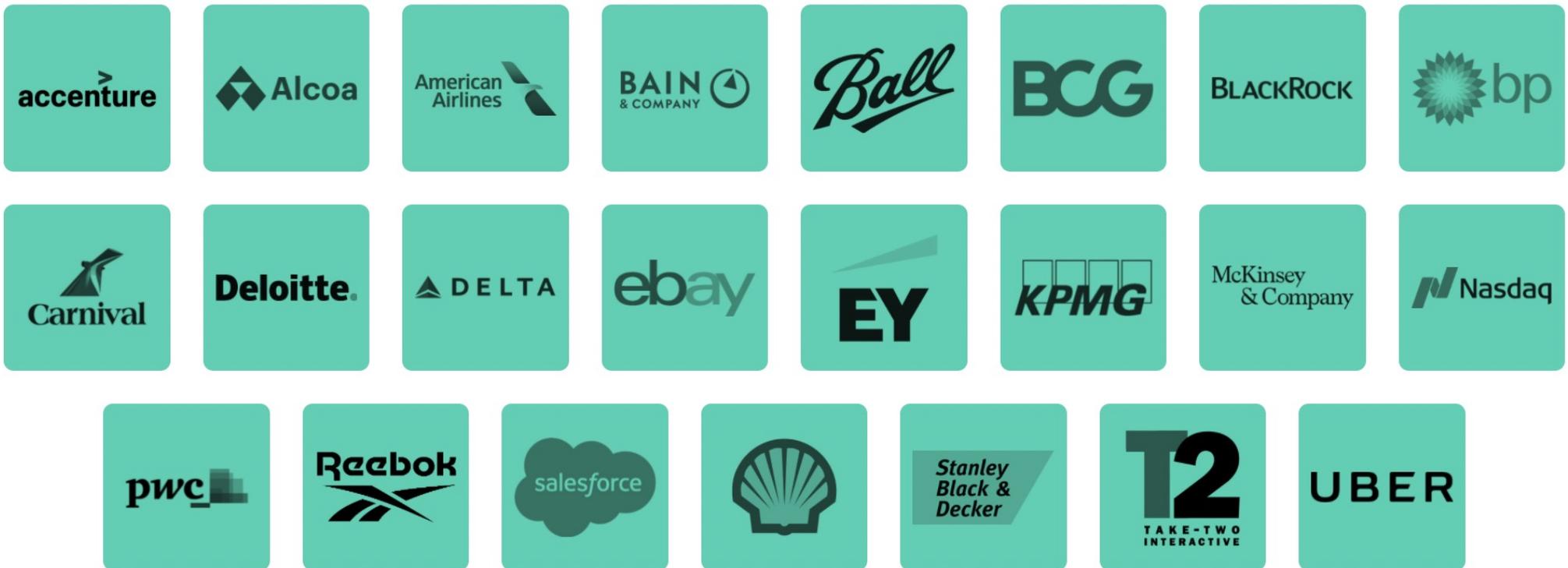
- Countries announcing they will not use sanctions against Russia:

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

# Russia Sanctions, Private

Leaving Russia  
253 companies, including ...

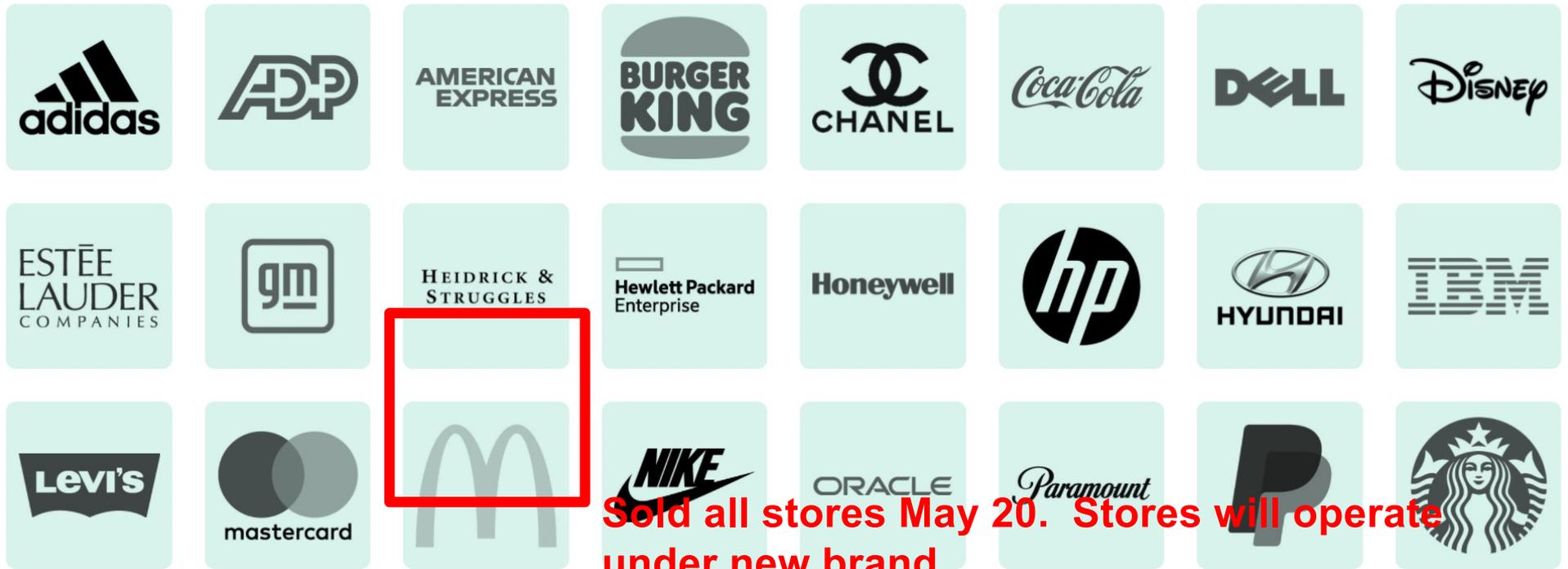


Source: New York Times,  
April 7, 2022

# Russia Sanctions, Private

## Suspending activity

248 companies, including ...

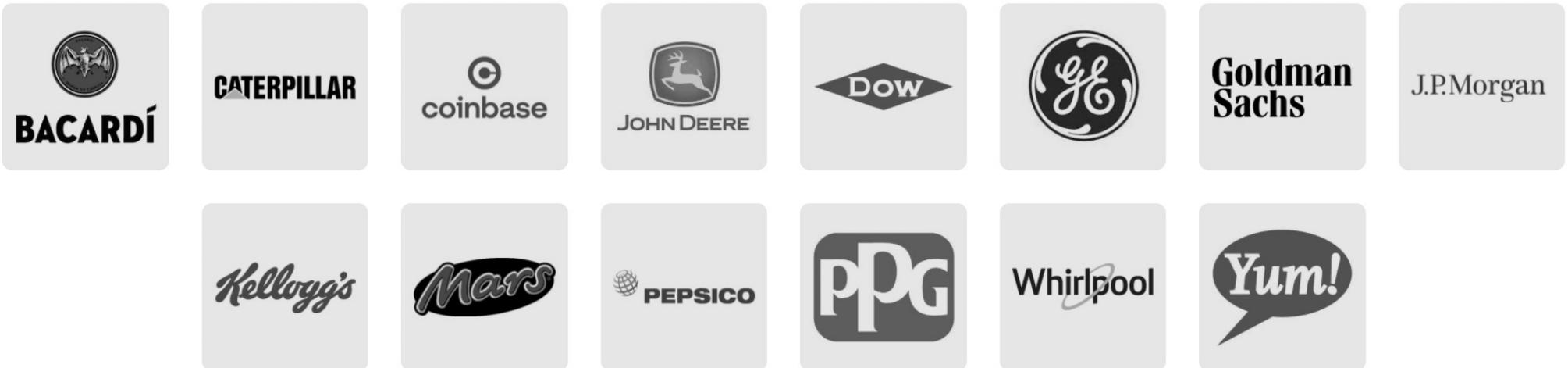


Source: New York Times, April 7, 2022

# Russia Sanctions, Private

## Scaling back activity

75 companies, including ...

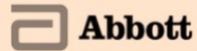
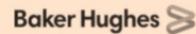
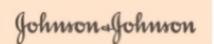


Source: New York Times,  
April 7, 2022

# Russia Sanctions, Private

## Halting investments

96 companies, including ...

The logo for Abbott, featuring a stylized 'A' icon followed by the word 'Abbott' in a bold, sans-serif font.The logo for AmerisourceBergen, featuring a stylized bird-like icon above the text 'AmerisourceBergen'.The logo for Baker Hughes, featuring the text 'Baker Hughes' followed by a stylized 'B' icon.The logo for Cargill, featuring the word 'Cargill' in a bold, serif font with a stylized 'C' icon above it.The logo for Colgate-Palmolive, featuring a stylized 'CP' icon above the text 'COLGATE-PALMOLIVE'.The logo for Credit Suisse, featuring the text 'CREDIT SUISSE' followed by a stylized 'CS' icon.The logo for Danone, featuring the word 'DANONE' in a bold, sans-serif font with a stylized 'D' icon above it.The logo for Johnson & Johnson, featuring the text 'Johnson & Johnson' in a cursive font.The logo for Mondelēz International, featuring the text 'Mondelēz International' in a bold, sans-serif font.The logo for P&G, featuring the letters 'P&G' in a bold, serif font.The logo for Siemens, featuring the word 'SIEMENS' in a bold, sans-serif font.The logo for Unilever, featuring a stylized 'U' icon above the word 'Unilever' in a cursive font.

Source: New York Times,  
April 7, 2022

# Russia Sanctions, Private

## Staying the course

162 companies, including ...



Source: New York Times,  
April 7, 2022

# Pause for Discussion

# Questions on Russia Sanctions

- Are sanctions reported by any poor countries or from Africa or Latin America?
- What are the most common targets of sanctions?
- How useful did you find the interactive timeline on the Bown site?

# Other Disputes and Actions

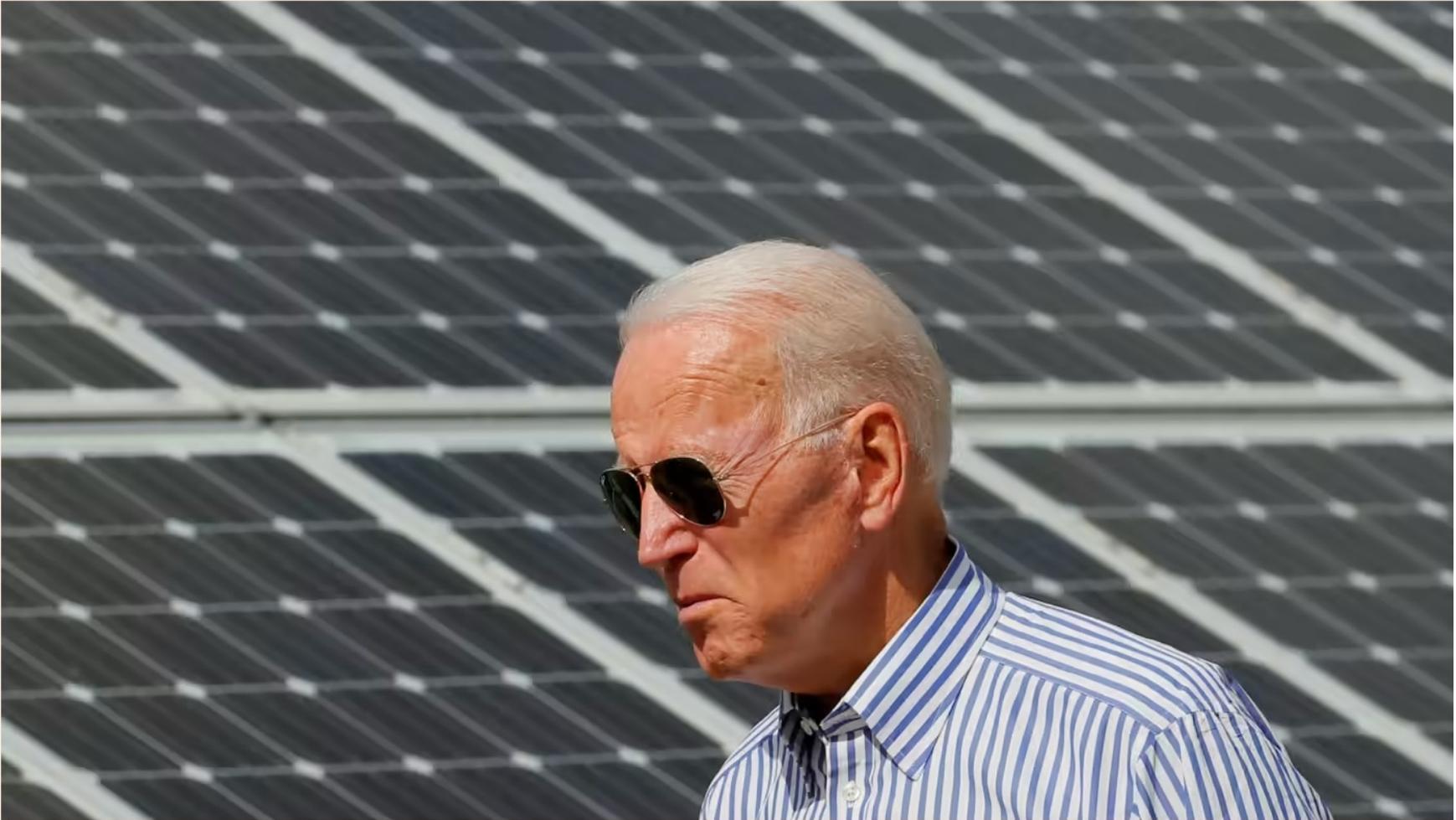
- Disputes
  - IPEF
  - Solar Panels
  - Baby Formula
  - Digital Services Tax
  - Avocados
  - Softwood Lumber

# Pause for Discussion

# Questions on Other: Economist on IPEF

- How much will the IPEF cut tariffs? Why?
- What are the “4 pillars” of the IPEF?
- Though not mentioned in those 4 pillars, what are some of the topics that this will address?
- Why does the Economist not view this as “too vague to amount to anything”?

# Solar Panels



President Joe Biden's decision will temporarily block tariffs on solar modules and cells from Cambodia, Malaysia, Thailand and Vietnam © Reuters

# Questions on Other: Politi & Brower on Solar Panels

- Why did we have the tariffs on solar panels that Biden is suspending?
- Against what countries and for how long is Biden suspending the tariffs?
- Why might Biden's move be subject to legal action?
- What other action has Biden taken to shift supplies of solar panels to the US?

# Baby Formula Shortage



Empty shelves in the baby formula aisle of a store in Pinole, California, on Tuesday © David Paul Morris/Bloomberg

# Questions on Other: Baby Formula Shortage

## Masters:

- What is said here to have contributed to the shortage?
- Why wasn't the shortage immediately made up for with imports?

## WSJ Editorial:

- What did Biden do about it?
- What does this editorial view as the real problems?

# Digital Services Tax



# Questions on Other: Agyemang on Digital Service Tax

- What are digital services taxes, and who is mentioned here as having introduced them?
- What is the tax overhaul “orchestrated” by the OECD, and what would it do?
- Who agreed to the global deal, and who has yet to ratify it?
- What is the new agreement mentioned here?
- In return, what is the US doing?

# Questions on Other: Hayashi on Digital Service Tax

- What are the details of Canada's proposed tax?
- Under what US law is the US investigating the digital tax?
- What, if any, is the connection of this digital services tax with the OECD global tax agreement?

# Avocado Ban



# Questions on Other: Medina on Avocado Ban

- What was the reason for the ban?
- How long did it last?
- How was it resolved?
- Can you tell what is the value of US imports of avocados from Mexico, and from what part of Mexico?
- What do drug cartels have to do with this?

# Softwood Lumber



Class 2: The State of Play II:  
Other

# Questions on Other: WSJ on Softwood Lumber

- Does this say what the legal basis for US tariffs on Canadian lumber is?
- Why is the timing of this considered bad?
- Could US production meet US demand if there were no imports?

