

Return to Protectionism and Global Reallocations

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Road Map

- A. The Trade War: A Brief History**
- B. Effects on the US and China**
 - a. Trade Flows
 - b. Prices (i.e., Unit Values)
 - c. Employment, Welfare, Political Consequences
- C. Effects on Third (“Bystander”) Countries**
 - a. Trade Flows → Global Reallocations
- D. Concluding Thoughts: Implications for the Future of Globalization**
 - Trade Diversion?
 - Trade Creation/Expansion?
 - De-globalization?

Based On:

- *The Return to Protectionism*, with Pablo Fajgelbaum, Amit Khandelwal, and Patrick Kennedy. *The Quarterly Journal of Economics*, Feb. 2020.
 - *Update incl. 2019 Tariff Waves*
- *Global Reallocations in the 2018-19 Trade War*, with Pablo Fajgelbaum, Amit Khandelwal, Patrick Kennedy, and Daria Taglioni, Dec. 2021.

and many other:

- Amiti M, Redding SJ, Weinstein DE. 2019. The impact of the 2018 tariffs on prices and welfare. *J. Econ. Perspect.* 33(4):187–210
- Blanchard EJ, Bown CP, Chor D. 2019. *Did Trump's trade war impact the 2018 election?* NBER Work. Pap. 26434
- Bown CP. 2021. The US-China trade war and Phase One agreement. *J. Policy Model.* 43(4):805–43
- Bown CP, Kolb M. 2021. Trump's trade war timeline: an up-to-date guide. *Peterson Institute for International Economy*, Oct. 21. <https://www.piie.com/blogs/trade-investment-policy-watch/trump-trade-warchina-date-guide>
- Cavallo A, Gopinath G, Neiman B, Tang J. 2021. Tariff pass-through at the border and at the store: evidence from US trade policy. *Am. Econ. Rev. Insights* 3(1):19–34
- Chang PL, Yao K, Zheng F. 2021. *The response of the Chinese economy to the US-China trade war: 2018–19.* Work. Pap. 25-2020, Sch. Econ. Res., Singap. Manag. Univ., Singapore
- Che Y, Lu Y, Pierce JR, Schott PK, Tao Z. 2020. *Did trade liberalization with China influence US elections?* Work. Pap., Board Gov. Fed. Reserve Syst., Washington, DC
- Chor D, Li B. 2021. *Illuminating the effects of the US-China tariff war on China's economy.* NBER Work. Pap. 29349
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Reviewed in: Fajgelbaum, P. and A. Khandelwal: “The Economic Impacts of the US-China Trade War,” Annual Review of Economics, 2022.

A. The Trade War: A Brief History

War unfolded in several waves:

- Feb. 2020: Section 201 investigation → tariffs on washing machines and solar panels
- Shortly thereafter: Section 232 → aluminum and steel
- Five waves of tariff increases vis a vis China starting in July 2018, with China retaliating in each stage
- China cut its MFN tariffs for all countries except the US
- Eventually 450 billion of annual aggregate trade flows affected
- Jan. 2020: Countries agree to halt tariffs → Phase One Agreement
- But tariffs have remained in place as of today.

The Trade War: A Brief History (contd.)

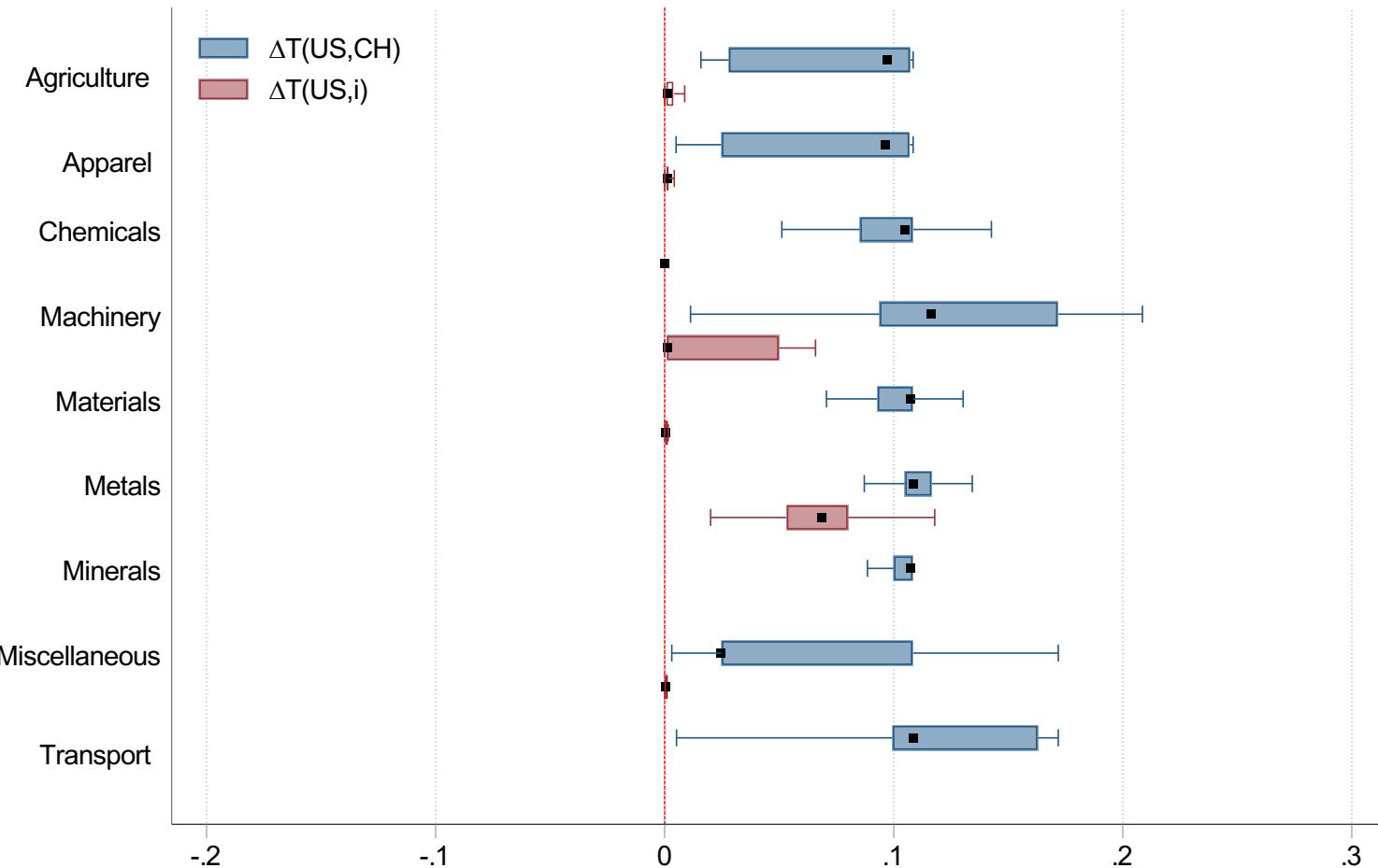
Some notable feature of this trade war:

- Unanticipated
- Initially targeted several countries. Later mainly China
→ US-China Trade War
- Biggest protectionist move since 1930 Smoot-Hawley legislation:

| | 2018-19 Trade War | 1930 Smoot-Hawley |
|--------------------------------------|--|-------------------------------------|
| US Imports Targeted (as % of GDP) | 2.6% | 1.4% |
| US Exports Targeted (as % of GDP) | 1% | 0.6% (Canada retaliation) |
| US Tariff Increases | 3.7% → 25.8% | 34.6% → 42.5% |
| # of Products Targeted | 75% of 10-digit IM and EX products | 27% of dutiable products |

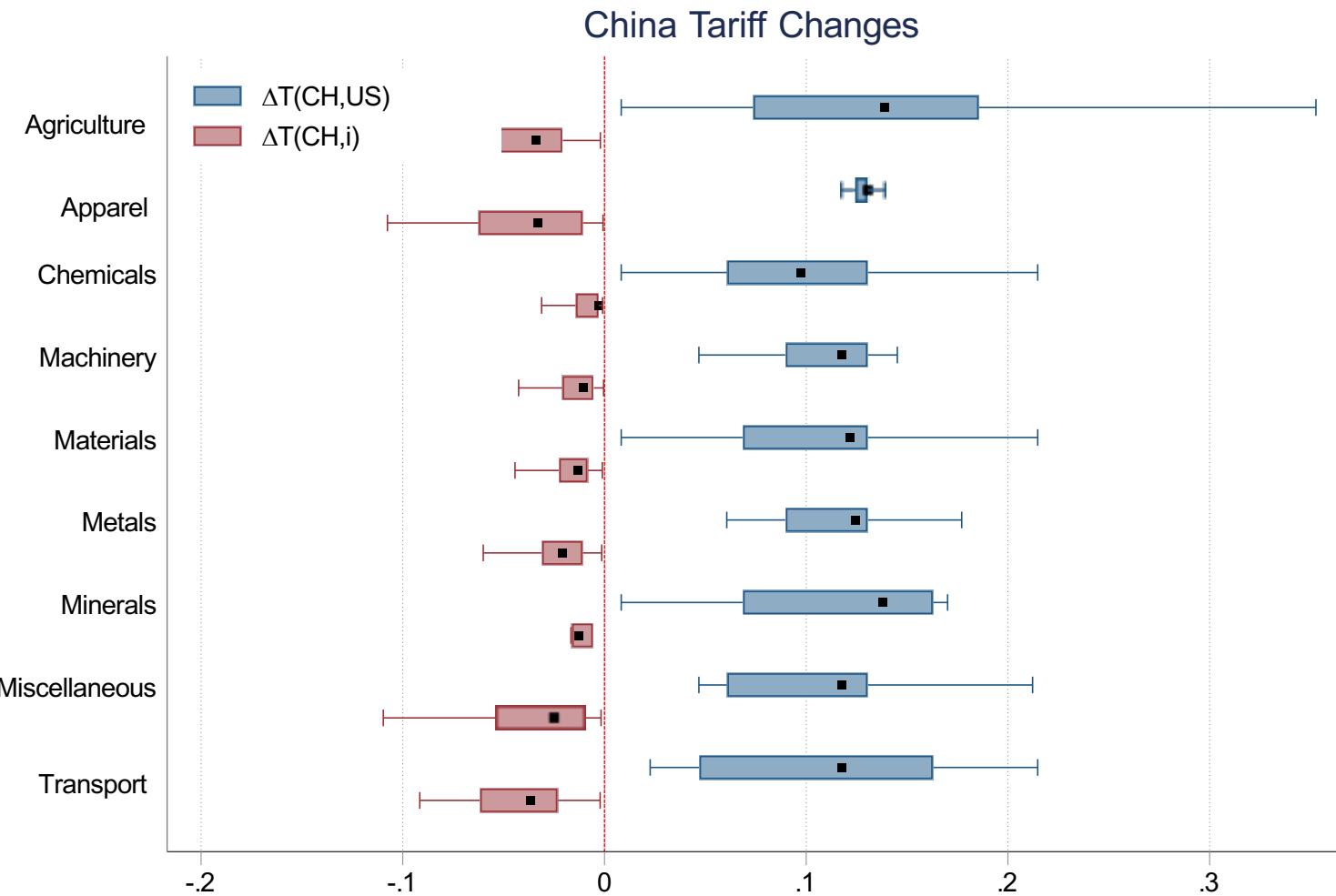
US Tariff Changes

ΔT_{CH}^{US} & ΔT_i^{US}



China Tariff Changes

ΔT_{US}^{CH} & ΔT_i^{CH}



B. Effects on the US and China

a. Trade Flows:

EX from US to CH, and EX from CH to US decline

b. Prices (Unit Values):

Complete pass-through of tariff to US import prices at the variety level

Not necessarily complete pass-through on consumer prices

Overall: Tariff incidence was mainly on the US

Similar results for China

c. Employment, Welfare, Politics:

Employment: No benefit to the US, potential loss in manuf. employment

Welfare: Loss of ca. 0.13% of GDP (relatively small)

BUT: Distributional effects (consumer loss: ca. \$114b or 0.6% of GDP)

Politics: Areas affected by retaliation mainly Republican

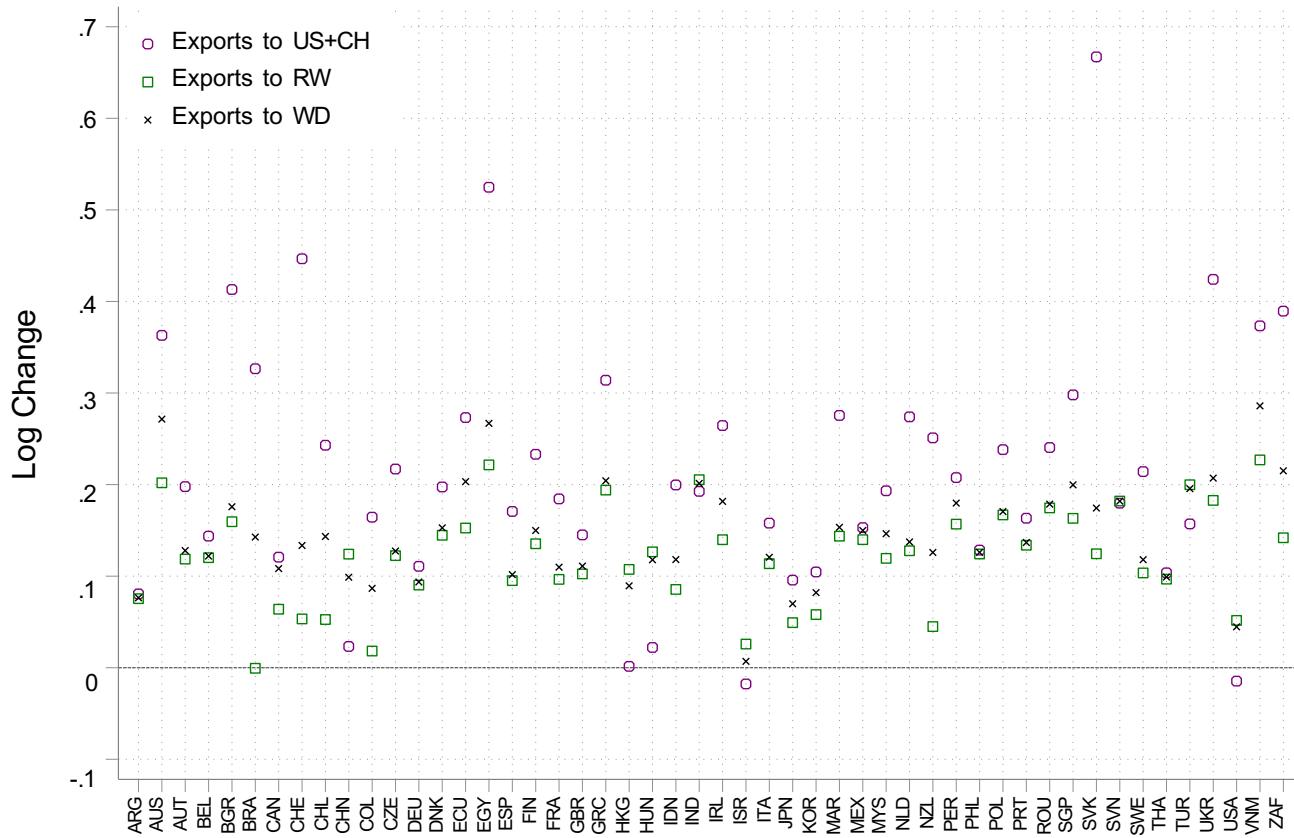
C. Effects on Bystander Countries

- Focus on long-run differences (2017-2019). Stop before COVID onset
- Exploit variation across HS6 products

Main Insights

- US-China trade declines (as shown in earlier work)
- Many countries increase exports to the US (substitute for China)
- But they also increase their exports to the rest of the world
- As a result, global trade INCREASES!
 - not just trade diversion, but trade creation
- Effects heterogeneous across countries
- Pre-existing specialization patterns explain only a small part of the response
- Winners: countries with deep trade agreements and FDI stock
 - countries already well integrated in the trade system

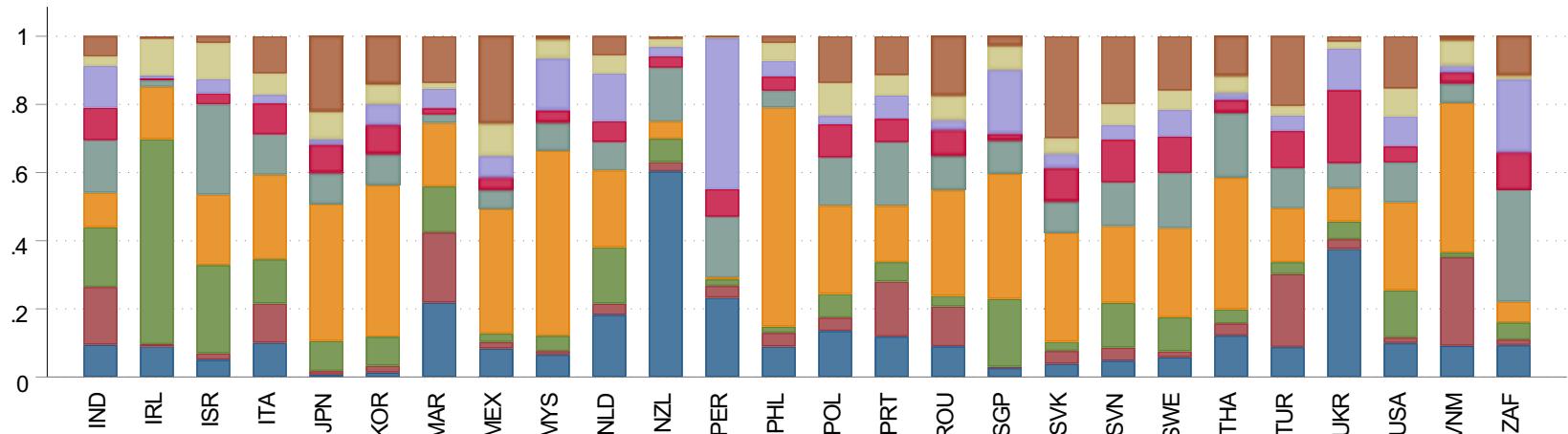
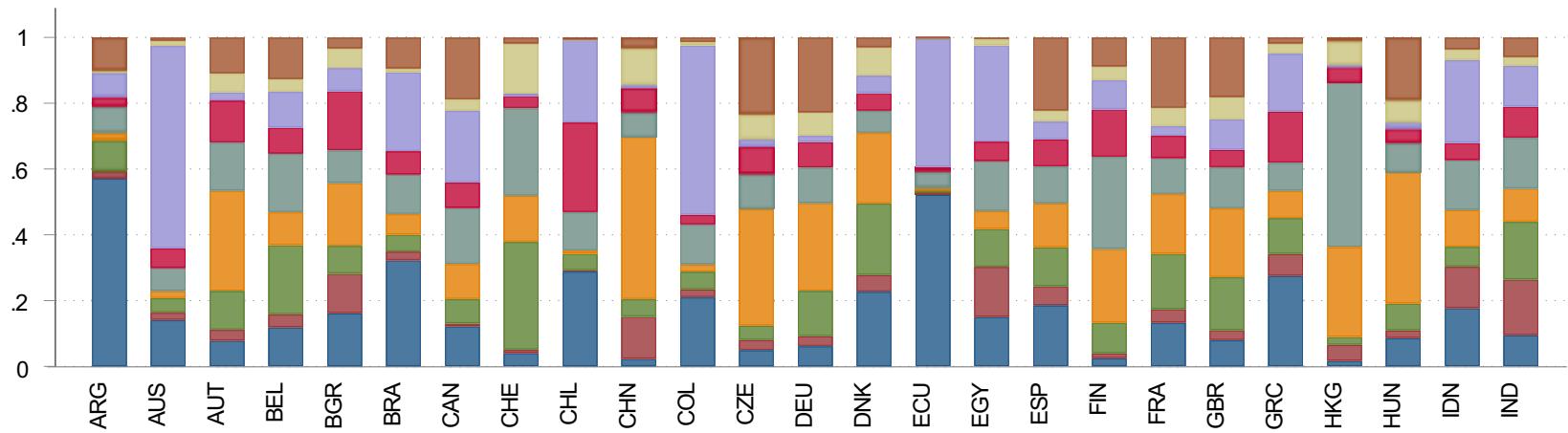
Heterogeneous Export Growth, 2016/17 vs. 2018/19



- Part of this variation could be due to trade war. Possible drivers?
 - Specialization in products targeted by the trade war?
 - Substitution patterns with US/China?
 - Supply elasticities?

Countries' Pre-War Export Baskets

Agriculture Apparel Chemicals Machinery Materials Metals Minerals Miscellaneous Transport

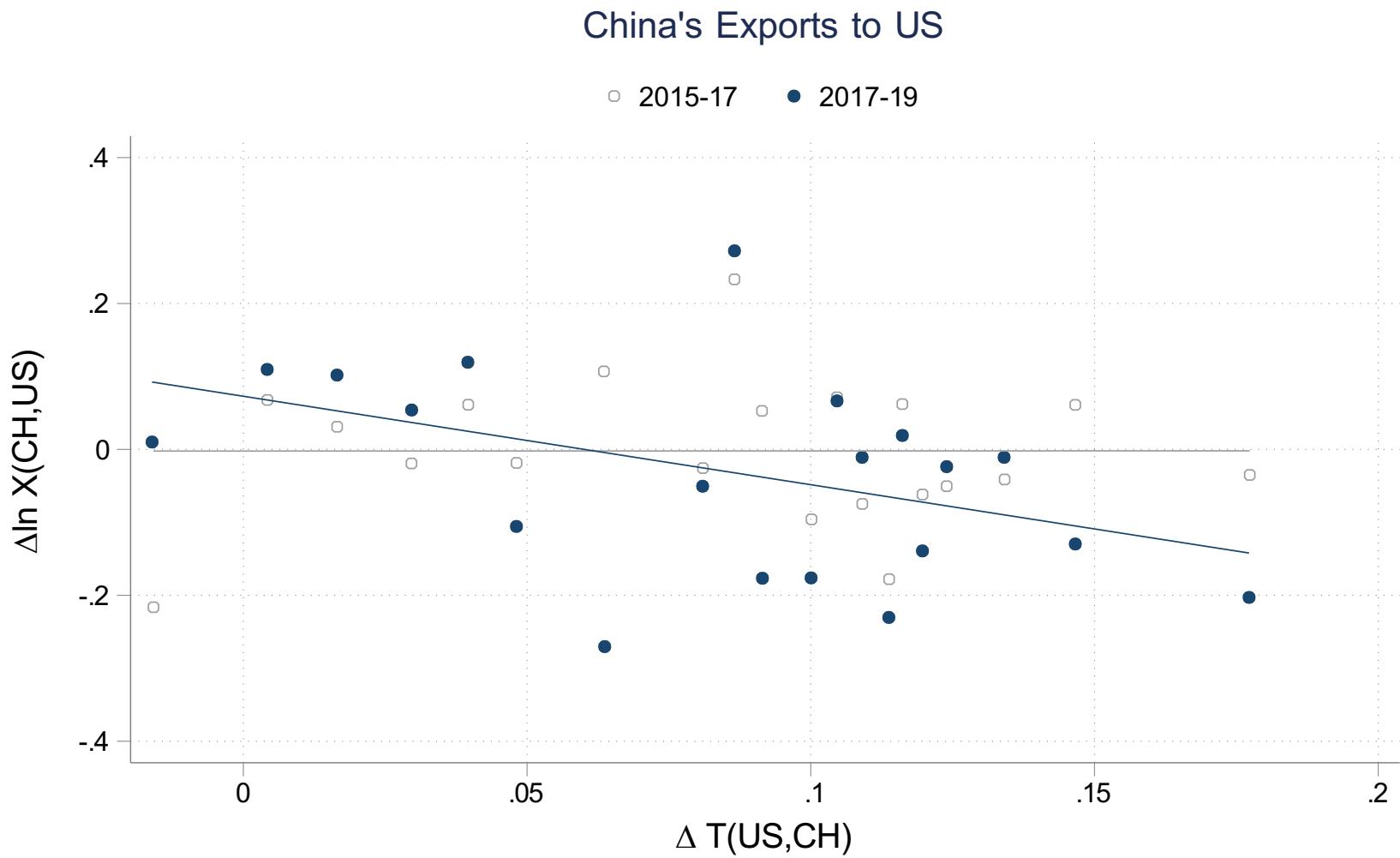


Implications of Export Responses to US Tariffs on China

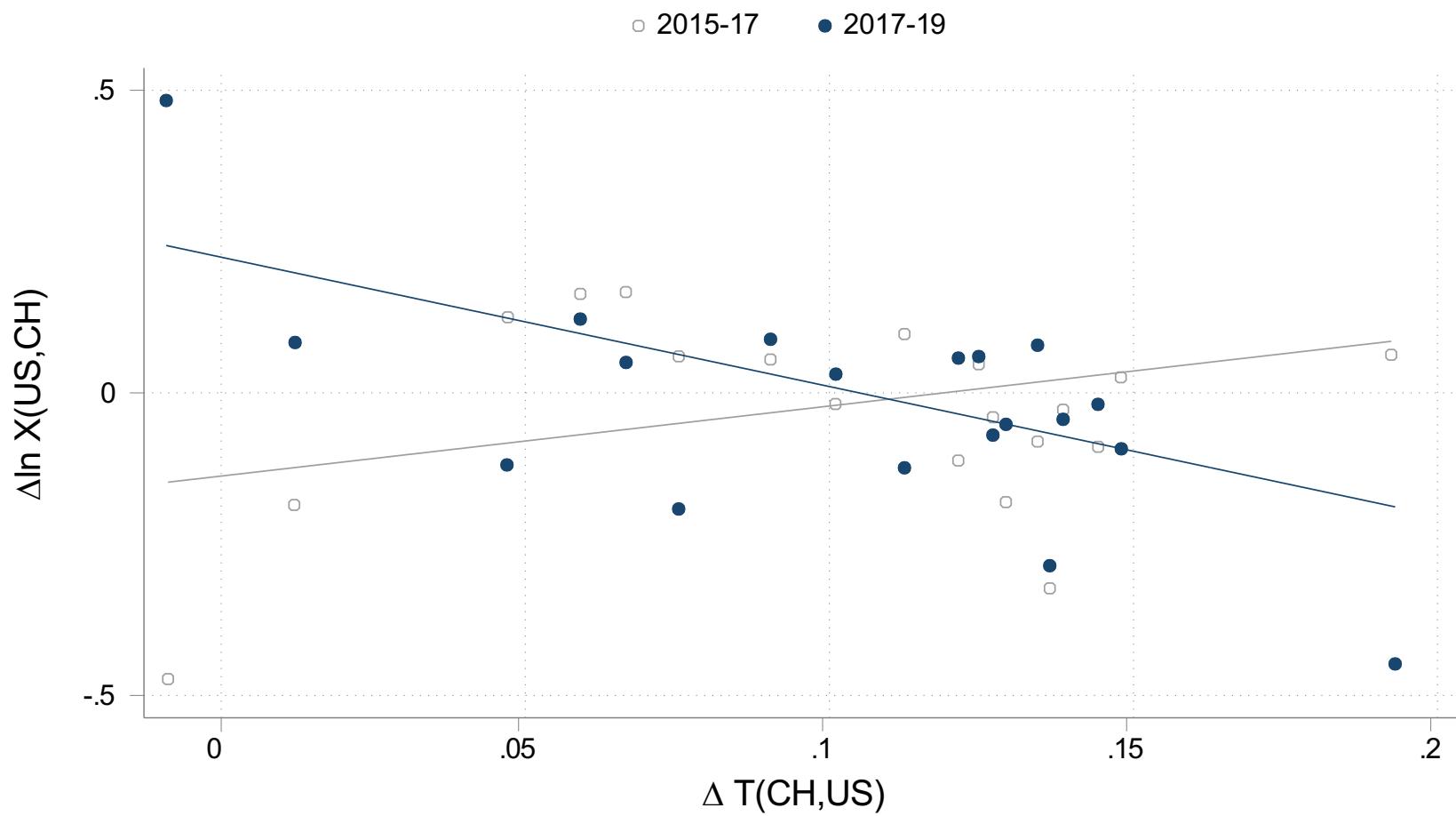
| | | Exports: |
|----------------|--|--|
| | Decrease to US | Increase to US |
| Increase to RW | China Complement (+) sloping supply | China Substitute (-) sloping supply |
| Decrease to RW | China Complement (-) sloping supply | China Substitute (+) sloping supply |

- Same logic applies to Chinese tariffs on US

Data Plots

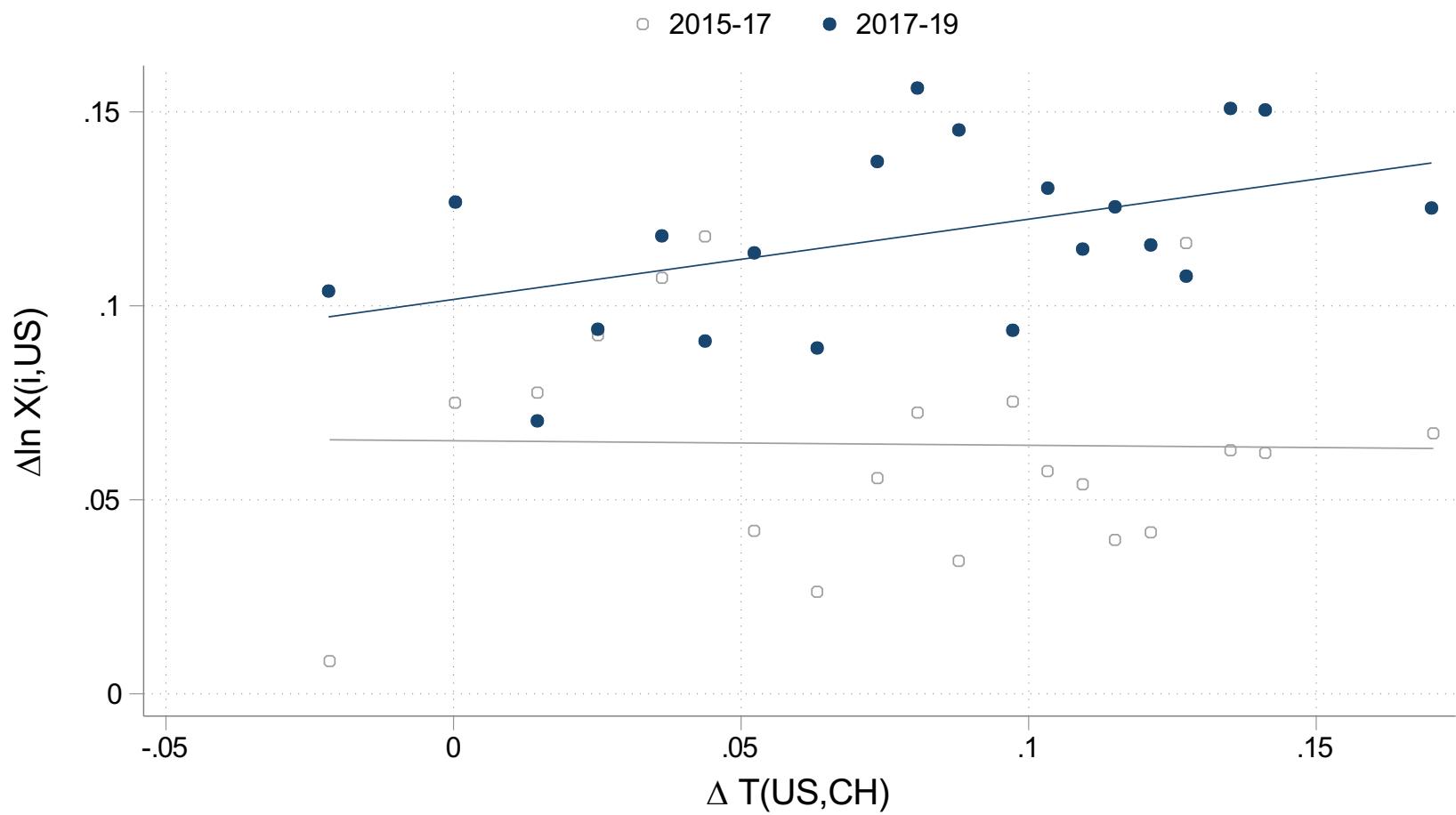


US Exports to China



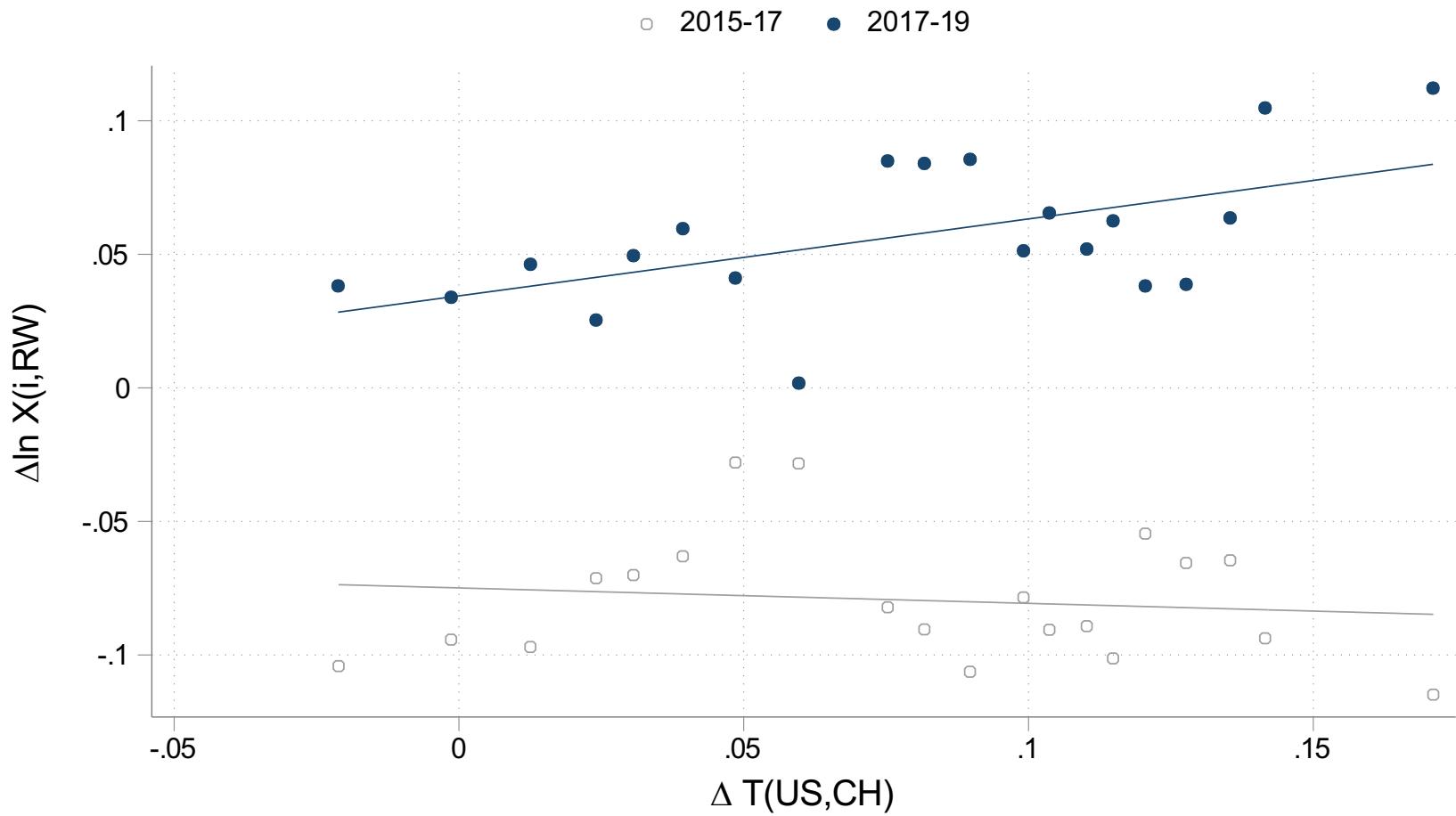
Pre-period: $\beta=1.15$ (0.41). Post-period: $\beta=-2.14$ (0.37).

Bystanders' Exports to US



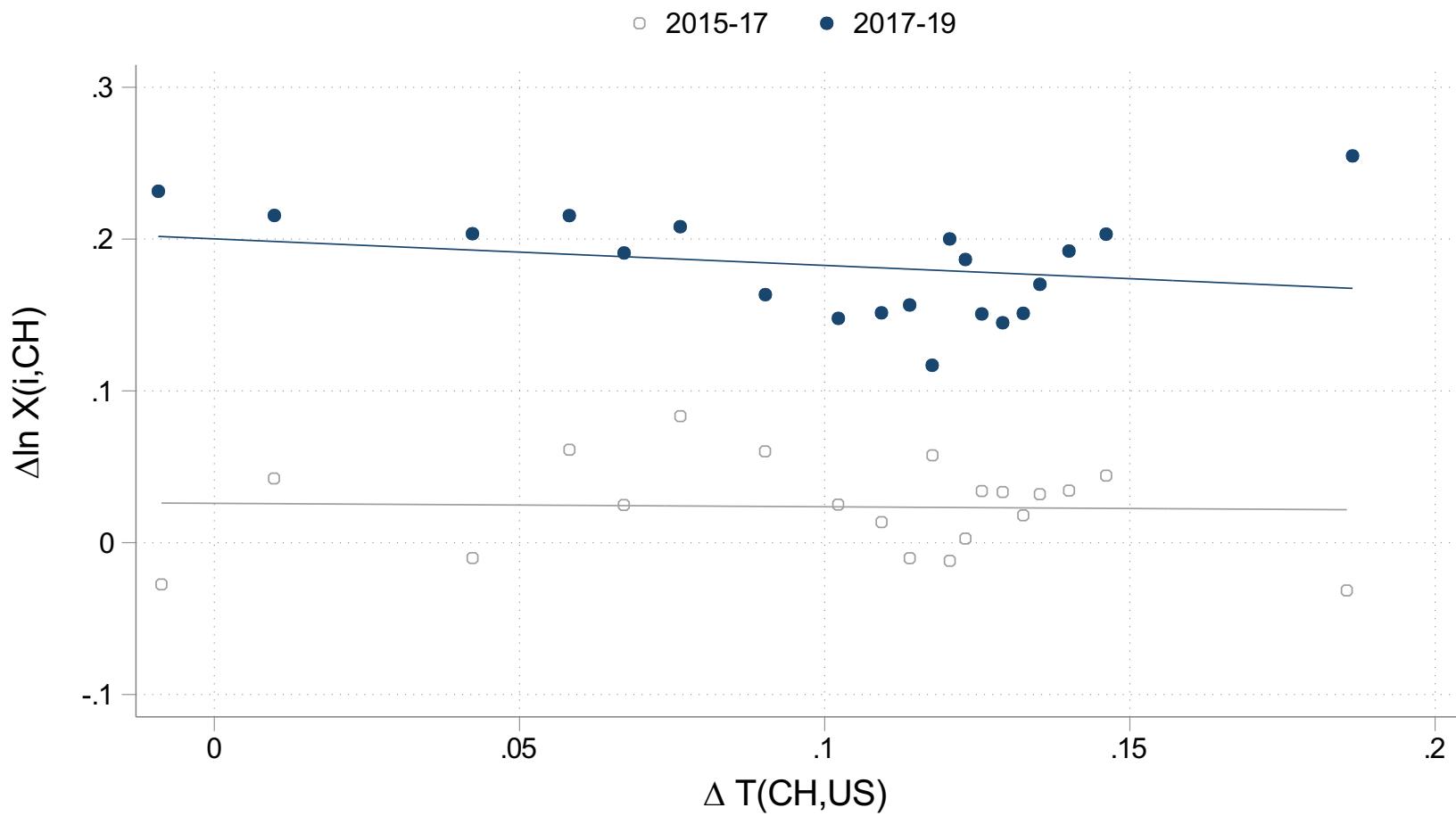
Pre-period: $\beta=-0.01$ (0.11). Post-period: $\beta=0.21$ (0.09).

Bystanders' Exports to RW



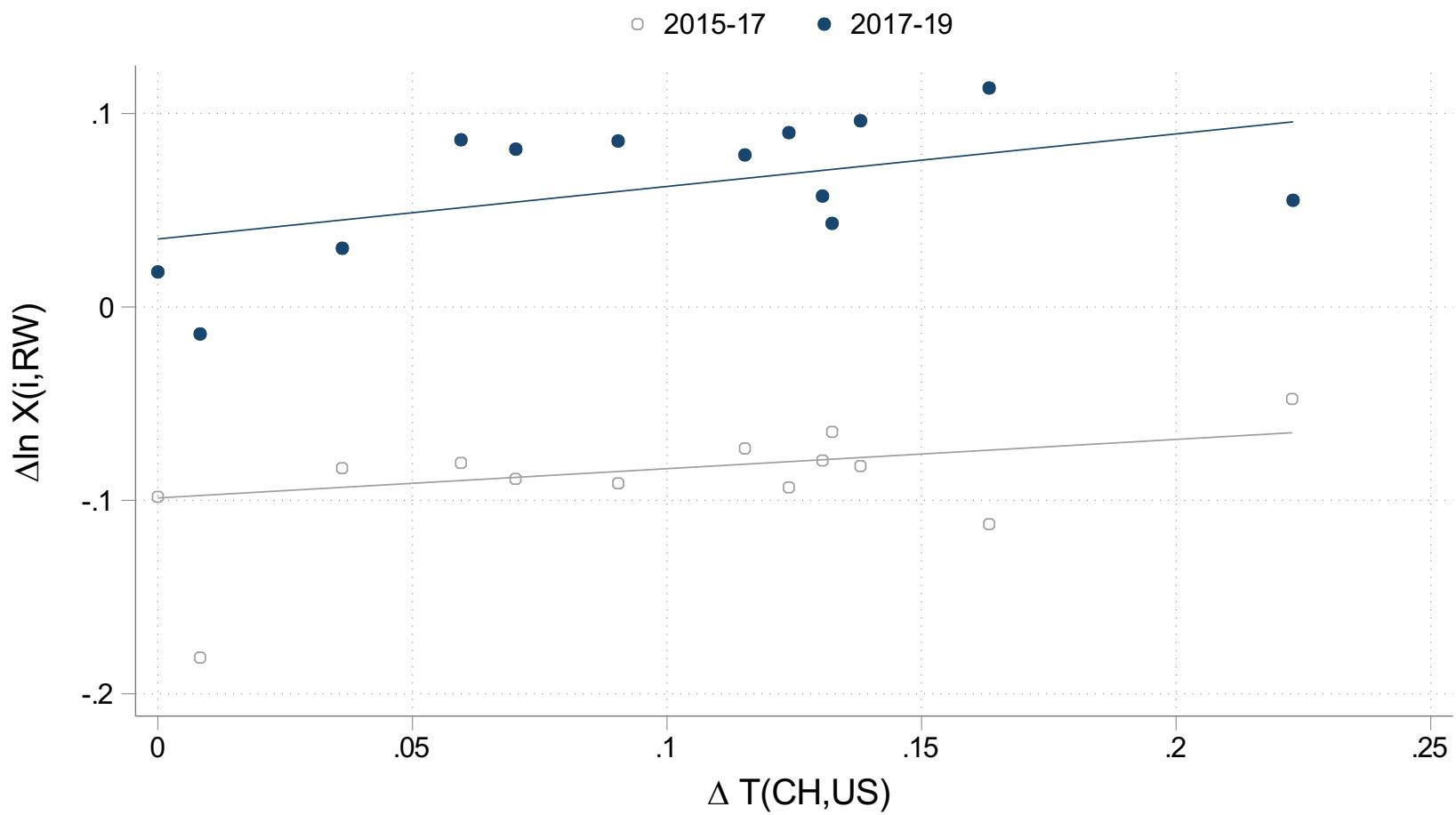
Pre-period: $\beta = -0.06$ (0.07). Post-period: $\beta = 0.29$ (0.07).

Bystanders' Exports to China



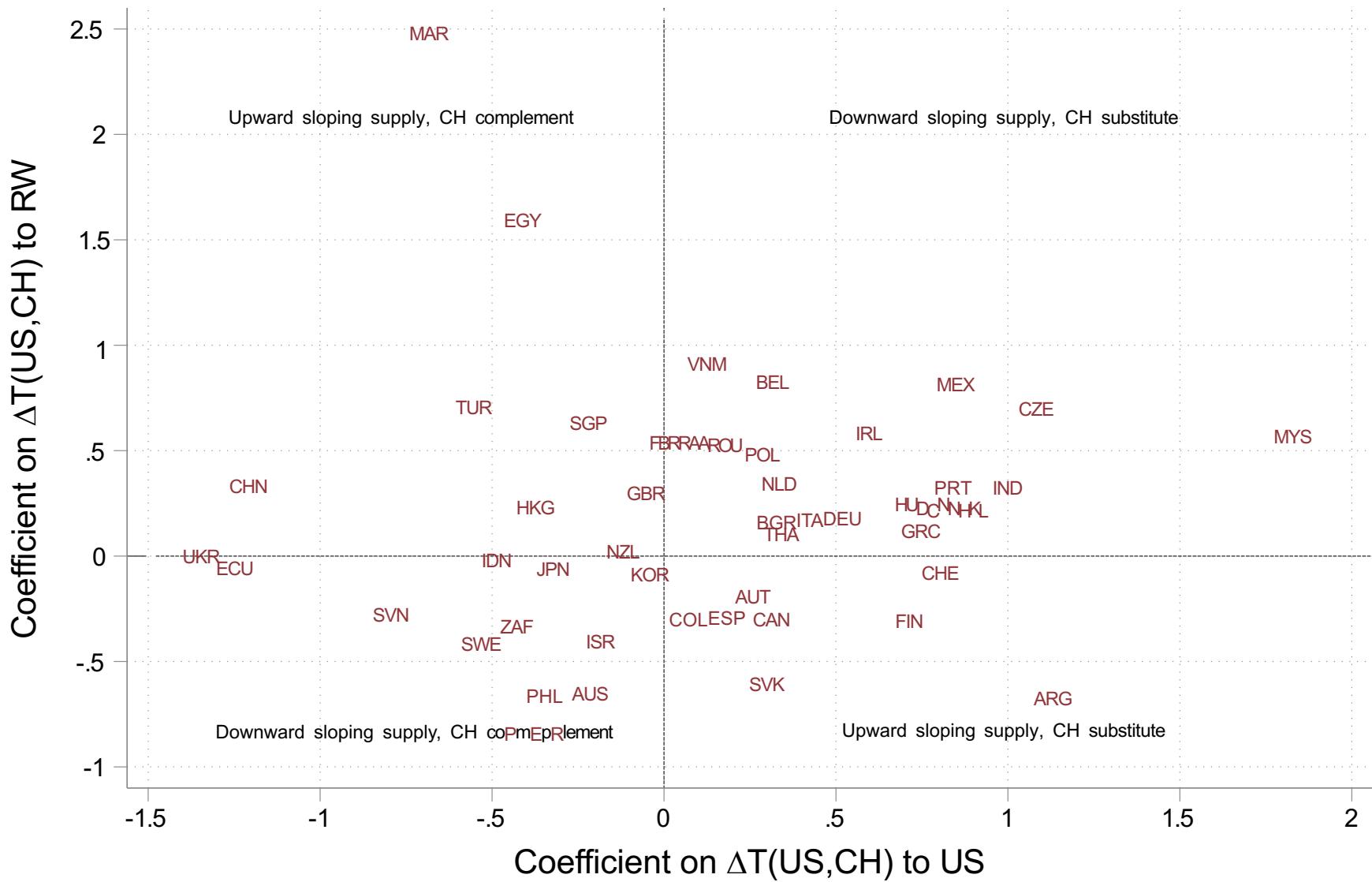
Pre-period: $\beta=-0.03$ (0.16). Post-period: $\beta=-0.19$ (0.17).

Bystanders' Exports to RW

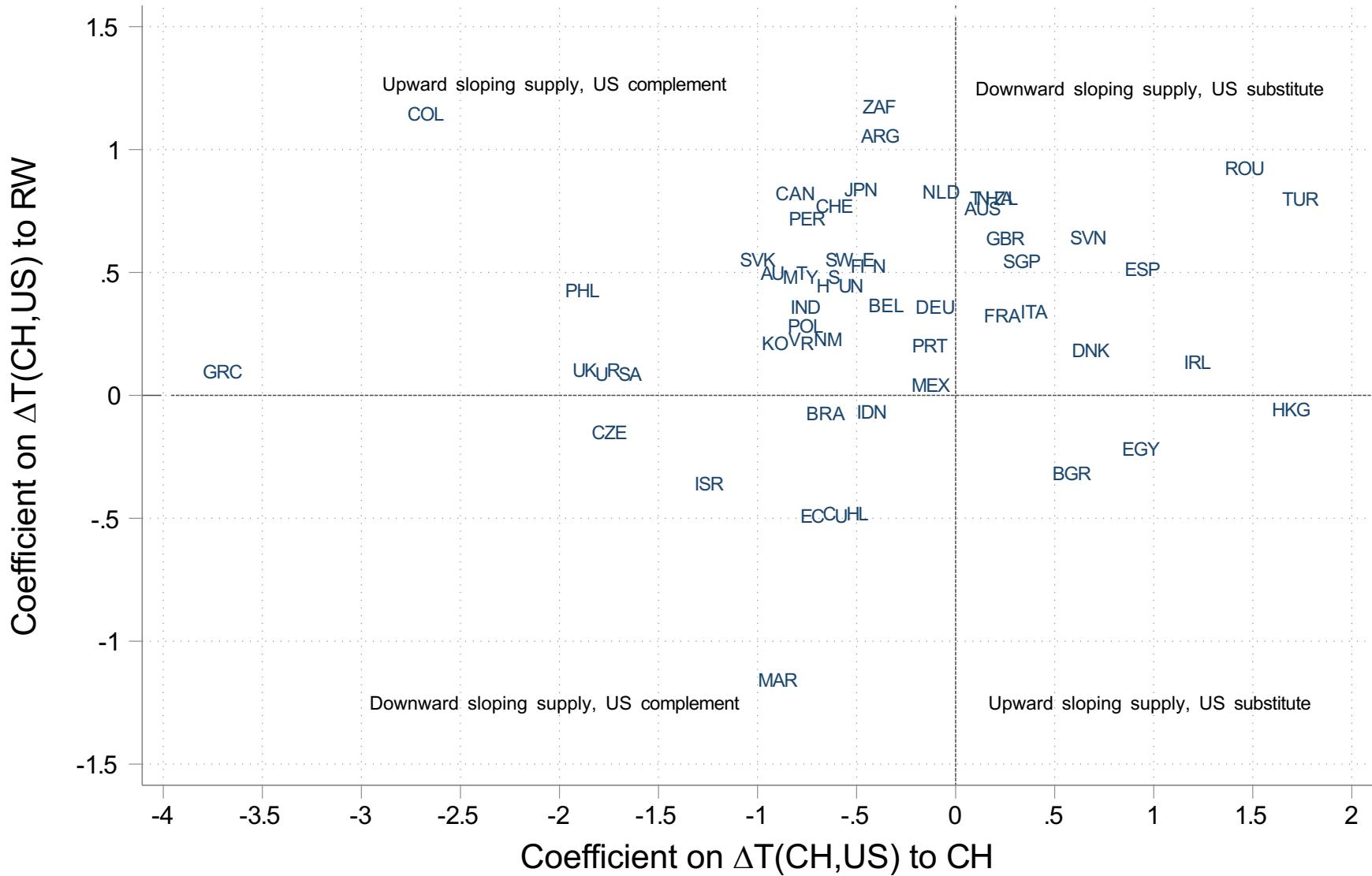


Pre-period: $\beta=0.14$ (0.06). Post-period: $\beta=0.30$ (0.07).

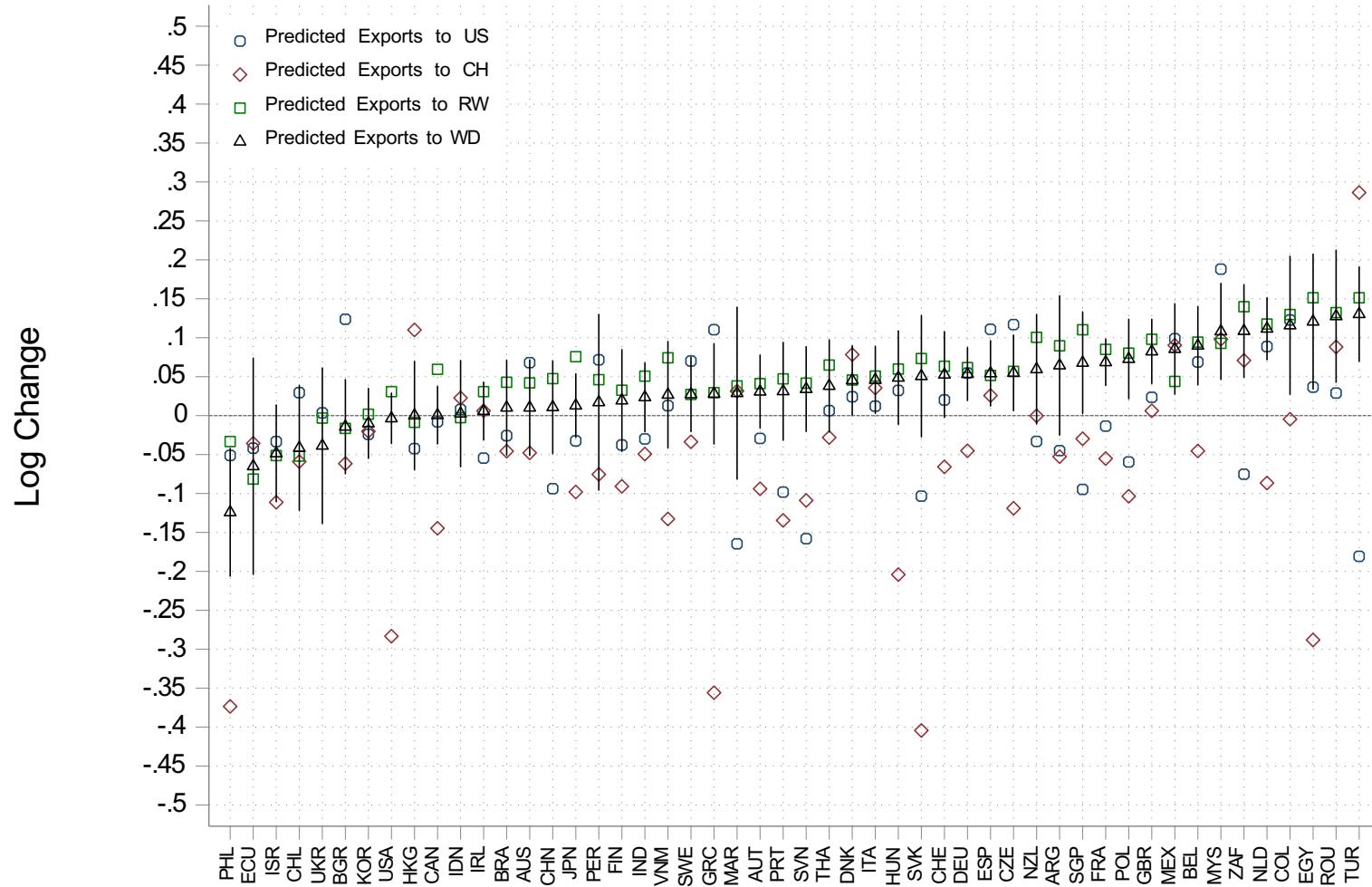
CH Substitutability and Supply Slope



US Substitutability and Supply Slope

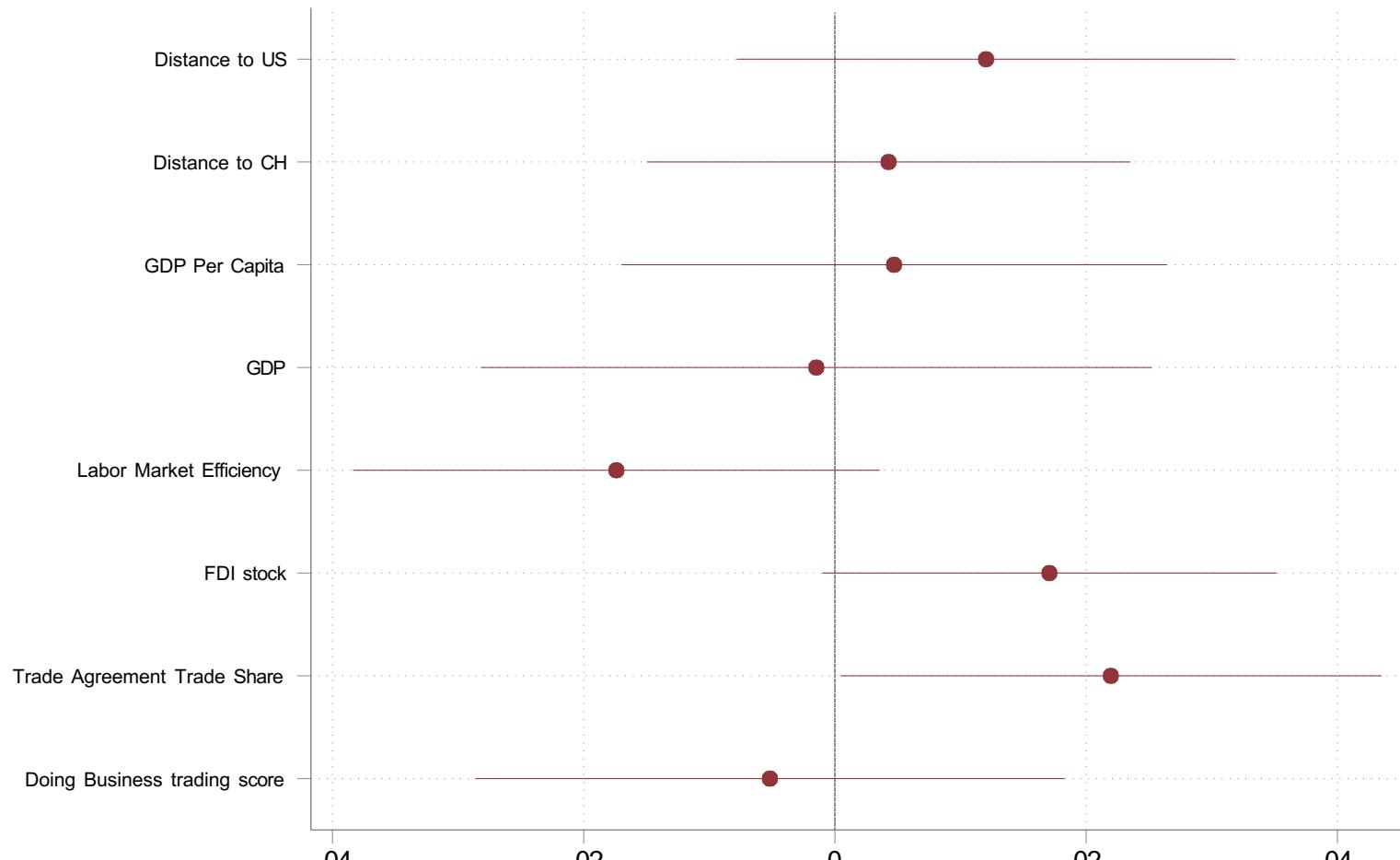


Predicted “Winners”



Correlates

Correlating “winners” to various country characteristics



N = 48, 10/90 error bars

Net Global Trade

Aggregating Responses

| from ↓/to → | US | CH | RW | World |
|-------------|-----------------|------------------|----------------|-----------------|
| US | | -28.3% (4.2%) | 3.1% (2.2%) | -0.4% (2.0%) |
| CH | -9.4% (3.0%) | | 4.8% (4.8%) | 1.1% (3.6%) |
| RW | 2.2% (1.3%) | -4.6% (1.6%) | 6.5% (0.7%) | 4.6% (0.6%) |
| World | -0.6% (1.1%) | -7.5% (1.5%) | 5.8% (0.8%) | 3.5% (0.6%) |

D. Concluding Thoughts

Implications for the Future of Globalization

- Counterintuitive results on trade war effects on bystander countries
- Trade war → Increase in global trade
- Possible explanation: Countries/Firms willing to pay the fixed costs of major supply chain reallocation to take advantage of opportunities
- No evidence of de-globalization. But shift of trade flows towards other countries → relocation
- HOWEVER: Analysis predates COVID and Ukraine.
- Global environment very different today. Future highly uncertain.
- Open question: Did the trade war create the political conditions that enable the Ukrainian evasion?

THANK YOU!