Trump and Globalization

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Protectionism and nativism played a central role in Trump's campaign

- Labeled NAFTA as worse deal ever, Korean U.S. Trade Agreement as a "horrible" deal
- Alleged that trade agreements were unfair to US
 - Lead to large trade deficits
 - Contributing to plight of American workers
- Demanded US abandon TPP, renegotiate NAFTA, questioned WTO, raised prospect of 45% tariff on China, 20% tariff on Mexico
- What has been "accomplished"?
- What have been the effects so far?
- What are likely to be long term effects?

"Accomplishments"

• Left TPP

- A flawed trade agreement, with little economic benefits to US
- Controversial IPR and investment provisions
- Other 11 countries going forward without the US, and without noxious provisions insisted on by US
- Increased opportunities for China to exercise influence in region
- Began renegotiating NAFTA—talks gridlocked
 - Unreasonable demands—"agreement to be renegotiated every five years", "half of auto to be made in US to be eligible for zero tariff"
 - Possible area of agreement—repeal of chapter 11 (investment agreement)
 - But US big corporations insist provision be retained
 - Beyond updating (e.g. new digital issues—using TPP template) not clear where negotiations will go
 - Has not built the wall with Mexico—and no agreement with Mexico for paying for it

"Accomplishments"

- Korea (KORUS)
 - Complained about goods deficit, even though there is a services surplus offsetting more than one third of that amount (large auto deficit-Korea produces cars Americans like, but not vice versa—not a problem of trade barriers)
 - Aggressive US economic stance tamed by realities of security concerns.
- WTO
 - Blocked appointment of new judges
 - Complained about use of "litigation" rather than "negotiation"
 - Contributed to deadlock in WTO—stalemate at Buenos Aires

"Accomplishments"

China

- Has not raised tariffs to 45%
- Has brought a number of cases (including first "self-initiated" case since 1991, and first national security case (section 232) in 35 years)
- During campaign, accused China of exchange rate manipulation, in office, did not

In short: rhetoric remains fierce, but

No real accomplishment

No trade war

Underlying flawed hypotheses

- Neo-mercantilism
 - "because US is better than others" should export more of all goods
 - Only reason that this is not so is unfair trade practices
 - Failed to understand principle of comparative advantage
 - Exception: exchange rate manipulation
 - But China has been intervening mainly to increase value of exchange rate
 - Trump views out of date
- Obsessed with bilateral trade deficits
- Sees trade balance in goods as different from that in services
- Thinks of trade as zero sum
- Ignores the importance of the rule of law
 - Contributes to certainty in economic transactions

Why Trump is likely to fail in meaningful trade renegotiations (e.g. NAFTA)

- Overestimates US bargaining power
 - Large costs to US of failure to achieve agreement
 - In some cases (China), government has more levers than the US
- Underestimates legal constraints
 - Implementing legislation would have to be repealed
 - WTO tariffs would benefit Mexico
 - Leaving WTO would take another vote of Congress



- Underestimates political constraints in all countries
 - Opens up questions which had been "settled"—investment agreement
 - At time of NAFTA few knew of its importance
 - Now widespread opposition from academics, civil society, some members of Congress
 - "Regulatory takings" provisions create new property rights system—opposed even by Clinton Administration even as it was pushing NAFTA
 - Canada, Mexico, and Trump favor repeal or major reforms—but big business adamant that any agreement include strong ISDS provision
 - Large vested interests affected by any renegotiation—winners and losers
 - If trade agreement is viewed to be an America First unfair trade agreement, may be difficult to get ratification in other countries
 - Longstanding opposition to many trade agreements
 - Ratification will be difficult if agreement is viewed as unfair, even if country overall gains
 - Poorest workers in Mexico, corn farmers, hurts, American farmers gained
 - Ultimatum game shows importance placed on perceptions of fairness
 - No trust that Trump has any concept of fairness—and would sign on to any agreement that is ultimately fair (America First rhetoric deeply harmful)
- All negotiations based on trust—there has been an erosion of trust

Trump policies will lead to increased deficits

- And this is so even if he succeeded in renegotiating trade agreements
 - If he succeeded, would increase aggregate demand and shift composition of output towards net exports
 - But since economy is close to full employment, Fed may raise interests rates in offsetting way, lowering investment
- Fails to grasp basic economics
 - Trade deficit is determined by macroeconomics—gap between national investment
 - Increased fiscal deficit associated with tax cuts will lead to increase in trade deficit
 - Even more so if "promises" of increased investment materialized
 - Adjustments of exchange mechanism

Lowered standard of living

- From distortions associated with trade policy
 - Increased costs of intermediate goods undermines "competitiveness"
 - Increases costs of final goods lowers standards of living
- Large costs associated with deglobalization
 - Job destruction may outpace job creation
 - May be significant adjustment costs
- Costs may be borne disproportionately by those who bore costs of globalization
 - As a consequence of increase in exchange rate, increased trade deficit
 - As a consequence of destruction of global supply chains
 - Costs increased further as a result of distortions associated with new tax bill
 - Adjustment costs associated even with the few "distortions" that have been eliminated
- Even if benefits of globalization were oversold and distributive costs underestimated, Trump has oversold deglobalization

Global response

- Basic US position—global trade agreements have been unfair and US got snookered in trade negotiations—looked at with derision
 - Trade agreements have actually been unfair to developing countries and emerging markets
 - US got most of what it wanted
 - US got larger tariff concessions than it gave
 - But it may have wanted the wrong thing: agenda set by large multinational corporations
 - Still, majority of US believe NAFTA has been good for US economy
- Workers in US were disadvantaged
 - Trade lowered demand for especially unskilled labor
 - And trade agreements weakened workers' bargaining power
 - Especially investment agreements—which gave away one of country's most important comparative advantages
 - By investing abroad received even more property rights protection than investing in US

Seizing new opportunities and shifting global politics

- TPP 11 moves ahead—without some of provisions US had demanded
- New emphasis on other trade alliances—Pacific Alliance
- Possibility of creating new alliances—Free Trade Area of Americas
 - US agricultural subsidies major stumbling bloc
- Shift to plurilateral agreements ("coalitions of the willing")
 - While these initiatives may lead to some trade creation, there will be some trade diversion, at expense of US
- Trump's anti-Mexican stance may result in election of Obrador
- America First rhetoric and other Trump actions undermine ability of US to take leadership role
 - Especially in advancing rule of law and democratic institutions
 - Especially given Trump's affinity for authoritarian leaders

China likely to big winner in global landscape

- Position already increasing—Asian Infrastructure Investment Bank
 - Republican opposition to recapitalization of World Bank helped create conditions for creation of new multilateral institutions, NDB and AIIB
- President Xi's speech at WEF 2017 emphasizing China's commitment to multilateral system
 - Not likely to be same kind of globalization
 - Less emphasis on labor and environment
- Timing of US withdrawal for global leadership couldn't have been worse—as China is expanding influence, e.g. through One Belt-One Road Initiative
 - And President Xi asserting China's role in global leadership

Concluding comments

- World would in any account have been moving towards a multi-polar world
 - Diminished role of US in global economy, especially with rise of emerging markets
- Trump has hastened that trend
 - Undermining one of US core strengths, its soft power
- But just as the rule of law is important for the functioning of any economy, an international rule of law—the rules based international trading system—is important for the functioning of the global economy
 - There can be large gains from trade, if globalization is well managed
 - We may not have managed it well, but the response should be to manage it better, not to destroy the rules based system in a return to the law of the jungle

Concluding comments

- While Trump was wrong in claiming that the trade agreements were unfair to the US, there is little doubt that globalization contributed to the weakening of wages of America's skilled workers.
 - Both Parties, as a whole, paid insufficient attention to the distributive consequences of globalization—or other aspects of economic policy.
 - The belief that policies that lead to higher growth would "trickle down" enough to offset such adverse effects was based on little more than blind faith.
- Learning this lesson—if in fact we do—may be the only silver lining in this dark cloud hanging over the global horizon.