US Disengagement from the Global Economy

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US Recent Trade Policy

- Trump administration trade policy: “America First”
  - Trade wars: China, EU
  - Industry protection (steel/aluminum, autos)
  - Damage to the WTO:
    - Froze the appellate system
    - Weaponized sections 201, 232, and 301 to justify widespread import tariffs/quotas (e.g., steel/aluminum tariffs)
  - US pulled out of TPP, new more protectionist USMCA and KORUS
- Biden administration/Congress: “Buy America”
  - Continue Trump tariffs: China as competitor/threat
  - National security argument to internalize global value chains
  - Re-engage with WTO and allies

US Global Disengagement: Longer Run

- Adam Posen (Foreign Affairs, May/June 2021), Martin Wolf (Financial Times, June 15, 2021)
  - Trends over past 20 years: US retreat from trade openness
- Increased trade barriers, move toward “managed” rather than “free” trade deals
- Downward trend in new foreign direct (“greenfield”) investment (Posen: \$13 billion in 2000, \$4 billion in 2019)
- Net immigration decline: weaker pull and push factors
- Political: trade incorrectly blamed for structural changes (e.g., falling employment in manufacturing, Krueger 2020)

Global Trends and Response

- Globalization expanded around the US
  - Dramatic rise in global trade share of GDP, 1990 – 2008
    - US trade share lower than global trade share
  - Decline 2008 – 2010 (financial crisis)
  - Global slow correction after 2010
  - US slower recover 2008 – 2010 gradual decline after 2010
- Many new trade agreements
  - Without US, 11 countries negotiated CPTPP to replace TPP, with more countries expressing interest (e.g., UK)
  - RCEP: 15 countries in E&SE Asia
  - Plethora of new EU bilateral trade deals
- Strong support for WTO

Simulation Model of US Disengagement

- Simulate global impact of US disengagement
- GLOBE multi-country, multi-sector CGE model
  - GTAP 10 database, 2014
- Scenario analysis: “What if” simulations
  - Conditional projections, not forecasts
- Model US withdrawal and global response using a tariff equivalent shock
  - Increase all tariffs by 30 percentage points
  - Actual trade policy changes are more nuanced

Simulation Model of US Disengagement

- Full employment and no trade productivity links
  - Very small GDP effects
- Balanced macroeconomic closure
- Global value chains - low import substitution elasticities
- Among trade partners, high substitution elasticities
- No consideration of:
  - Transition process over time: How do we go from “before” to “after”? How long is “after”?
  - Adjustment costs
  - No short run analysis of macro shocks; fixed trade balances
- The focus is on changes in the structure/volume of trade

Post War Development: Evolution of Interconnected Regional Economies (ICREs)

- In the post-war period, global foreign trade grew much faster than global GDP
- There was also rapid growth in productivity, associated with the growth of trade.
- Early post war, the world economy was dominated by the US: largest economy and hegemonic role in trade
- Europe recovered, grew rapidly, and became an interconnected regional economy (ICRE).
  - Deep economic and institutional integration

Interconnected Regional Economy (ICRE)

- ICRE can be defined as a collection of countries with a deep network of trade relations and higher trade shares within the ICRE than with countries outside the region
- North America also rapidly evolved as an ICRE, including the US, Canada, and Mexico
- In East Asia, the “Asian miracle” of rapid growth started in the 1960s. With the addition of Australia, New Zealand, China and the poorer countries, it evolved into an E&SE Asia ICRE
- **Three ICREs**: Europe, North America, and E&SE Asia
- See Robinson and Thierfelder (2019) JPM for more detail about ICREs; no other region qualifies (MERCOSUR, SACU, etc.)

Bilateral Trade by Region as Share of Global Trade, GTAP 10 Data 2014

	NAFTA	Europe	E-SE-Asia	Other	Total exports	Percent of global GDP
NAFTA	**5.5%**	**3.1%**	**2.9%**	**2.5%**	**14.0%**	**26.7%**
USA	2.4%	2.4%	2.4%	2.1%	9.4%	
Rest of NA	3.1%	0.6%	0.5%	0.5%	4.6%	
Europe	**3.6%**	**20.8%**	**4.5%**	**6.4%**	**35.2%**	**25.2%**
EU-27	2.8%	17.8%	3.5%	5.2%	29.3%	
United Kingdom	0.5%	1.7%	0.5%	0.6%	3.2%	
Rest of Europe	0.3%	1.4%	0.5%	0.5%	2.6%	
E-SE-Asia	**5.5%**	**4.9%**	**13.5%**	**5.8%**	**29.6%**	**27.5%**
Other	**2.8%**	**5.8%**	**6.2%**	**6.5%**	**21.2%**	**20.6%**
Total imports	17.3%	34.5%	27.0%	21.2%	100.0%	100.0%

Note: Exports from row to column.

Source: GTAP v10, 2014

Bilateral Trade by Region as Share of **NET** Global Trade

	NAFTA	Europe	E-SE-Asia	Other	Total exports
NAFTA	0.0%	5.1%	4.8%	4.2%	14.1%
Europe	5.9%	0.0%	7.4%	10.5%	23.8%
E-SE-Asia	9.1%	8.1%	0.0%	9.7%	26.8%
Other	4.6%	9.6%	10.3%	10.7%	35.2%
Total imports	19.6%	22.8%	22.5%	35.1%	100.0%

The US and ICREs

- NAFTA accounts for only 14% of world trade
  - Europe first with 35% and E&SE Asia second with 30%
- US is no longer hegemonic in the world trading system
- Europe is much less dependent on other regions – trade within the ICRE accounts for 20% of global trade
- Net Trade
  - US still 14% of world trade
  - Europe 24% of world trade
  - E&SE Asia 27% of world trade

Export Shares by Countries/Regions to ICREs

	ICRE				
	NAFTA	**Europe**	**E-SE-Asia**	**Other**	**Total**
United States	25.6%	26.0%	26.1%	22.2%	100.0%
Rest of North America	66.4%	13.8%	9.8%	10.0%	100.0%
EU-27	9.7%	60.6%	11.8%	17.9%	100.0%
United Kingdom	14.1%	51.6%	15.8%	18.5%	100.0%
Other Europe	10.0%	51.8%	18.3%	19.8%	100.0%
Japan	18.7%	12.6%	51.6%	17.1%	100.0%
China & Hong Kong	24.0%	20.1%	31.0%	24.9%	100.0%
Other High-income Asia	12.2%	12.4%	59.9%	15.4%	100.0%
Other Southeast Asia	14.3%	16.7%	53.6%	15.4%	100.0%
Other South Asia	20.3%	42.7%	14.4%	22.6%	100.0%
India	16.1%	25.6%	21.7%	36.6%	100.0%
Other Africa	8.2%	29.7%	28.3%	33.8%	100.0%
South Africa Customs Union	9.0%	25.4%	25.6%	40.1%	100.0%
Latin America	22.9%	19.5%	24.7%	32.9%	100.0%
Russia & Former Soviet Union	5.0%	45.3%	18.7%	30.9%	100.0%
Middle East & North Africa	11.3%	20.4%	39.4%	28.9%	100.0%

US Disengagement Scenarios: CGE Analysis

- **All scenarios include:**
  - US increases tariffs by 30 percentage points against all partners
    - No tariff increase among non-US countries/regions
  - Long-run adjustment: full employment of resources
    - No productivity losses (e.g., due to disruption of value chains)
  - No change in country/region trade balances
- **US disengagement scenarios:**
  1. No policy response by any country to US disengagement
  2. All trade partners withdraw from US
  3. US disengagement, non-US integration: scenario 2 and a non-US global FTA

Real Exports (percent change row to column)
Scenario 3: US Disengagement, non-US Integration

	NAFTA	Europe	E-SE-Asia	Other	Total
United States	-7.05	-6.24	-10.12	-8.30	-7.92
Rest of North America	-15.44	8.84	10.51	6.89	-7.31
EU-27	-15.20	-0.45	4.39	0.06	-1.22
United Kingdom	-14.82	1.51	7.13	2.05	0.20
Other Europe	-17.79	-1.23	1.13	0.00	-2.22
Japan	-18.59	2.00	2.46	-1.50	-2.21
China & Hong Kong	-16.03	2.68	-0.57	4.40	-2.39
Other High-income Asia	-16.25	-0.30	0.21	1.29	-1.70
Other Southeast Asia	-13.42	5.34	0.78	6.58	0.40
Other South Asia	-7.34	11.87	14.20	11.89	8.30
India	-12.81	6.48	6.19	5.92	3.10
Other Africa	-14.34	5.58	5.12	2.09	2.64
South Africa Customs Union	-13.15	3.84	3.78	0.51	0.96
Latin America	-14.21	4.63	6.67	0.45	-0.56
Russia & Former Soviet Unio	-15.87	0.22	4.05	-2.48	-0.71
Middle East & North Africa	-16.19	2.10	2.59	1.53	0.06
Total	-14.31	0.30	1.05	0.70	-1.94

US Disengagement and Trade

- Long-run trade diversion around the US requires only moderate adjustment in export shares by others
- Small impact on global trade volume
- Countries closely tied to the US are the most strongly affected: Rest of North America
  - Decline in exports to the US dominates, but some export growth to other regions and total exports decline
- EU-27, with very high within-region trade shares, is the ICRE member least effected
- Biggest growth in exports is to East and Southeast Asia ICRE
- Results are conservative - ignore the efficiency losses arising from moving value chains away from the US

US Real Output – percent change

	US Disengagement and:		
	Scenario 1	Scenario 2	Scenario 3
	No global response	Global response	Global response and non-US FTA
Agriculture	-1.70	-1.92	-2.67
Mines	-3.08	0.97	1.24
Light-mfg	-1.63	-3.72	-4.08
Petro-gas-dist	-4.19	-6.74	-6.76
Chemicals	-4.80	-1.69	-1.59
Comp-E-mfg	-5.57	-3.35	-2.68
Elec-Equip-mfg	-4.10	-2.59	-2.79
Auto-mfg	-5.13	-8.54	-9.72
Trnsp-mfg	-6.79	-4.09	-3.89
Othr-mfg	-3.04	-2.39	-2.45
Construction	-0.62	-5.59	-5.93
Services	0.79	1.01	1.10

US Disengagement - Conclusion

- Major changes in the structure of production in the US
  - Agriculture and industry lose, services gain
  - All manufacturing sectors lose when the US disengages
  - Indirect linkages through intermediate inputs: deindustrialization
- Disengagement hurts both imports and exports
  - Non-traded service sectors gain
- US disengagement
  - Hurts US manufacturing and agriculture
  - Rest of the world adjusts with modest trade diversion and very little change in global trade volume