



International Economic Challenges for the President-elect Trade, China, the Dollar and Pandemic Recovery

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International Economic Challenges for the President-elect



US Presidents rarely want to focus on foreign policy in their first year in office, and even more rarely prioritize international economic policy within that

- Trump was an exception
- Recovery from the pandemic, raising incomes of working people, and pursuing economic aspects of justice are the stated priorities of the President-elect's economics team
- Even disinterest, however, is a policy decision with respect to several issues, including China-US relations and trade
- Technocratic management at the working level remains possible in a limited number of areas

International Economic Challenges for the President-elect



Many of the most significant issues, however, are inescapably international

- Vaccine distribution and future pandemic management
- Climate change, including food and water security
- Regulation and supervision of digital industries
- Financial stability
- Adequate funding of government revenues
- Conflict with China

Others can be best addressed by including international aspects

- Simultaneous productivity slowdown
- Persistent unemployment and resultant scarring
- Racial and gender equality
- Poverty in Low- and Middle-Income Economies



Political constraints on US international economic policymaking

- Divided electorate and divided Congress
- Bipartisan (excessive) fear of threat from Chinese leadership
- Usual special interest lobbying on sectoral privileges
- Loss of reputational soft power
 - Intensified by self-harming response to COVID-19 pandemic
- Legacy of Trump Administration policies
 - Tariffs and other measures in place
 - Rhetorical escalation versus China
 - Distrust abroad of ability of USG to commit
 - Politicization and diminution of US civil service
 - Executive orders to unwind partially protected by courts

Exaggerated or overhyped constraints on US international economic policymaking



- Popular opinion against trade and/or globalization
 - Not supported by the public opinion data or voting behavior
 - The narrative of angered ‘losers from trade’ is false
- Lack of centralized authority for ‘competitiveness’ or foreign economic policy
 - When the President has a view, it can be carried out
- Special interest veto (in Congress) over international negotiations
 - Can be overcome with limited side payments (e.g., USMCA)
- Distrust of technocratic policy making
- Discipline of fiscal limits and international financial markets

Globalization is about more than stuff you can drop on your foot or eat



What the media and popular focus is on:



Even economists focus excessively on time series of trade volumes and global value chains for manufacturing when discussing 'globalization'

Globalization is about more than stuff you can drop on your foot or eat



- Globalization is a multi-layered web of connections
 - Trade in goods is only a small-ish, and may be the most resilient, part
 - Flows of investment, services, human capital, ideas, management practices, networks, infrastructure, and norms arguably matter more
 - Economic openness is primarily about the beneficial effects it has on your own society and on relations between nations
 - As well as opportunities for consumers and entrepreneurs
- Globalization has been corroding for the last fifteen-plus years
 - Becoming more frayed, uneven, with holes, not simply retreating
 - Post-American World Economy increases unevenness and uncertainty
 - Two-way causality with declining macroeconomic performance



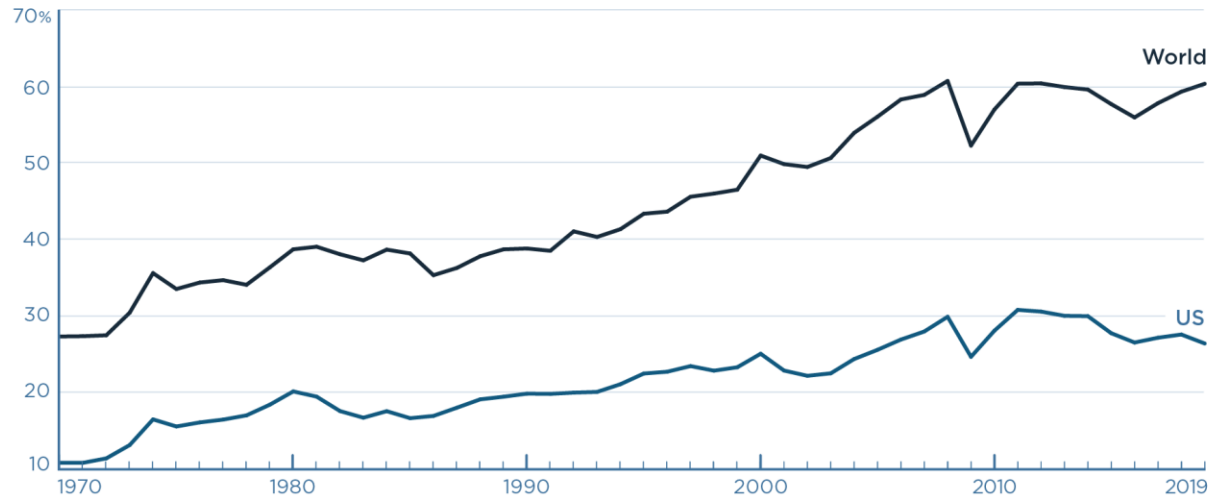
The impact of the Trump Administration international policy was pretty much what economic textbooks said would happen

- Tariffs were paid by the American consumer
 - Amiti, et al; Goldberg, et al; PIIIE;
- The trade deficit increased due to fiscal dissaving, while the tariffs had no effect
- Unilateral sanctions and threats just diverted trade from US
- Corruption and cascades of protection grew
- Reshoring did not take place, despite tax cuts and trade policy
- Restriction of immigration did not increase ‘good jobs’

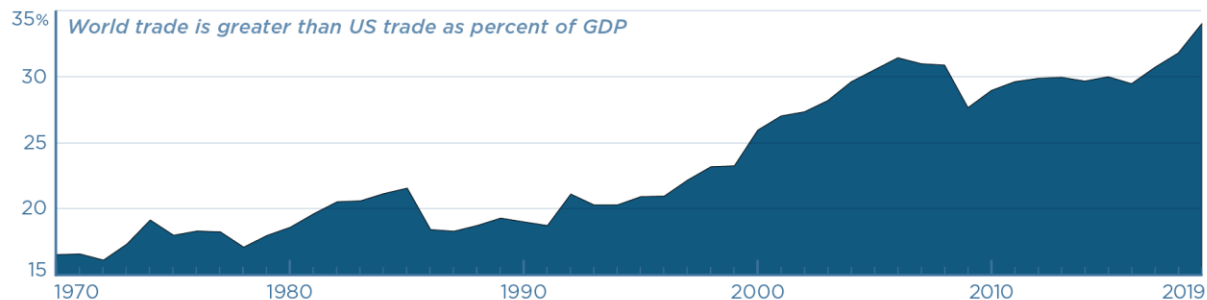
US trade openness diverges from the global trend



a. Trade as a percent of GDP



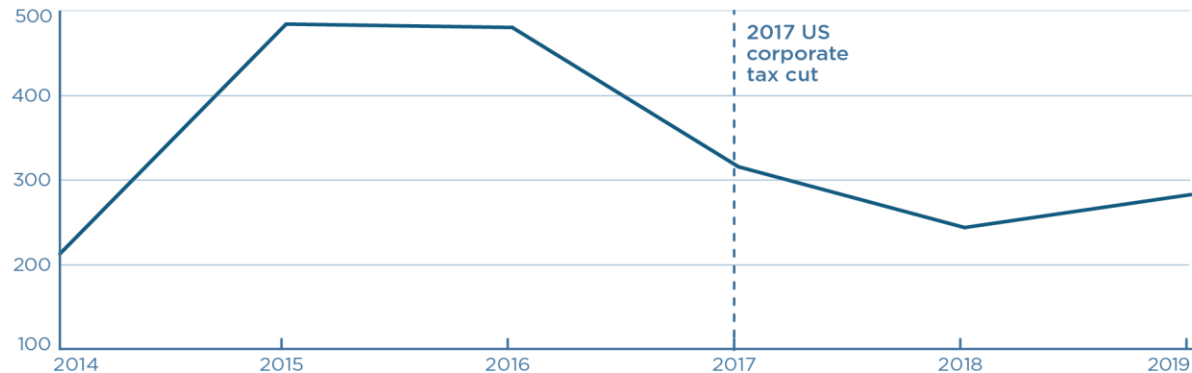
b. Difference between world and US trade as percent of respective GDPs



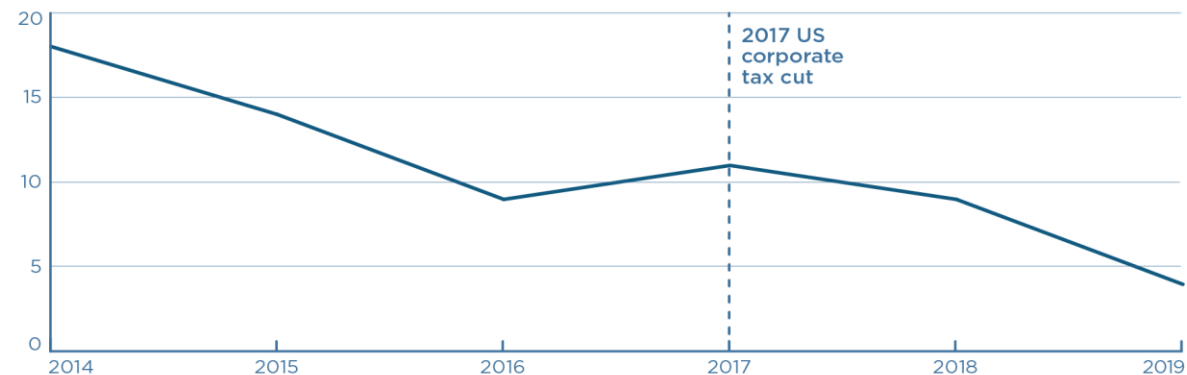


Foreign investment in the United States has declined despite a corporate tax cut in 2017

a. US foreign direct investment inflows, billions USD



b. Realized greenfield expenditures in the United States, billions USD



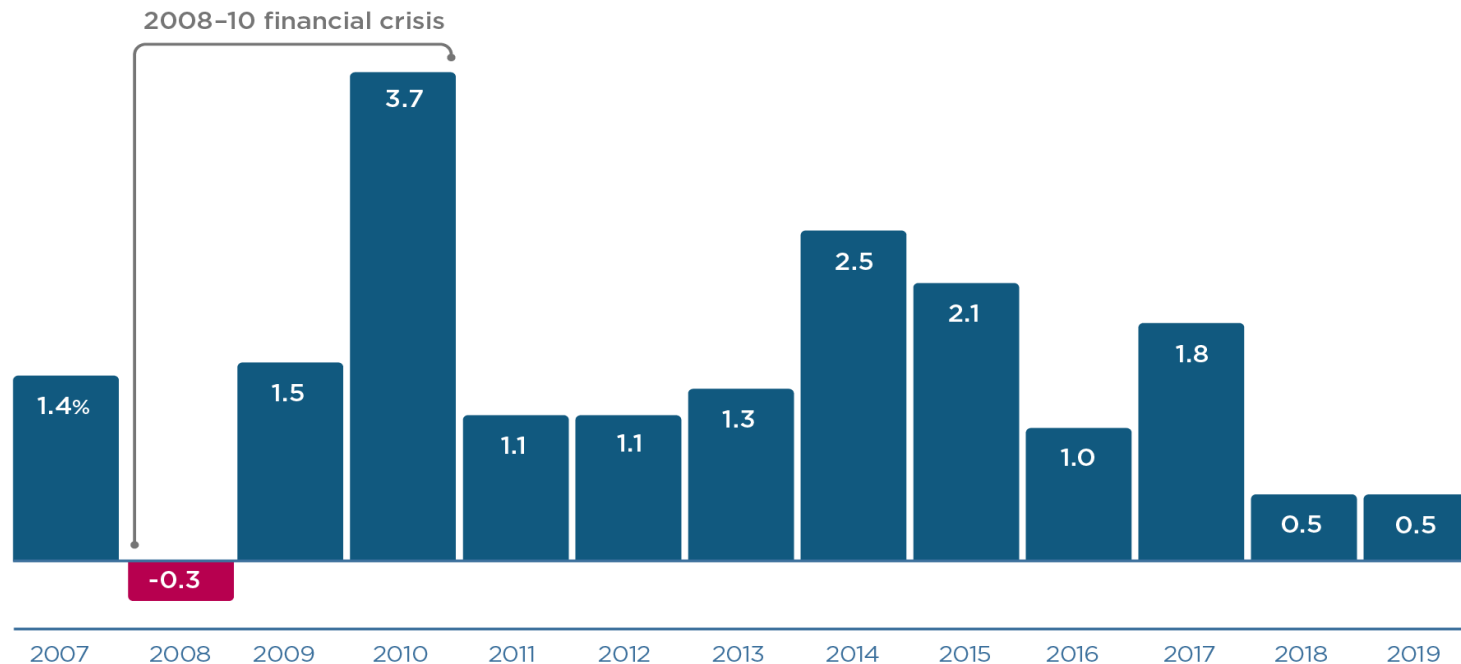
Note: Greenfield investment expenditures are foreign expenditures to either establish a new US business or to expand an existing foreign-owned US business.

Sources: United Nations Conference on Trade and Development; US Bureau of Economic Analysis.

Immigration into the United States is at its lowest level in a decade



Growth in US immigrant population, percent, 2007-19



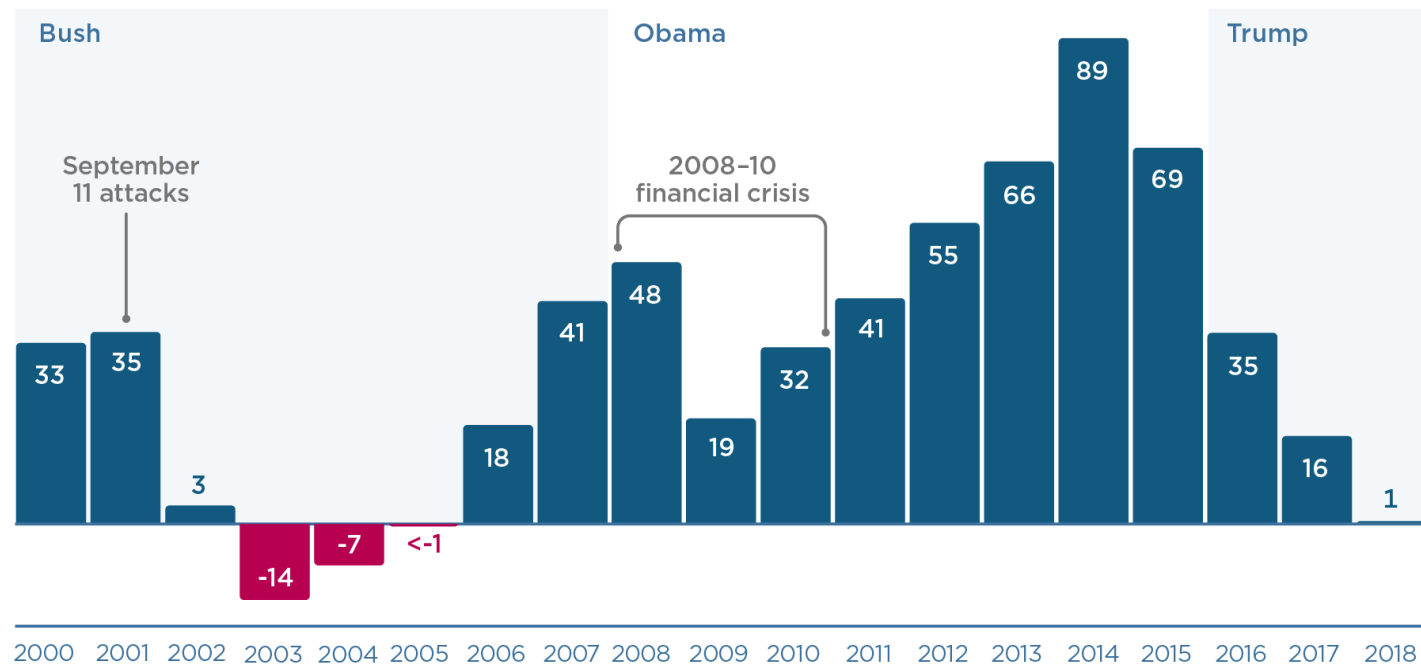
Note: Immigrants refer to people who are not US citizens at birth. This includes naturalized citizens, lawful permanent residents, temporary migrants (e.g., foreign students), humanitarian migrants (e.g., refugees and asylees), and unauthorized migrants. Data excludes population born at sea.

Sources: Migration Policy Institute (<https://www.migrationpolicy.org/programs/data-hub/charts/immigrants-countries-birth-over-time?width=1000&height=850&iframe=true>); 2019 data from U.S. Census Bureau.

New foreign student enrollments in US colleges fell in each year of Trump's term



Annual change in number of foreign students studying at US higher education institutions, thousands



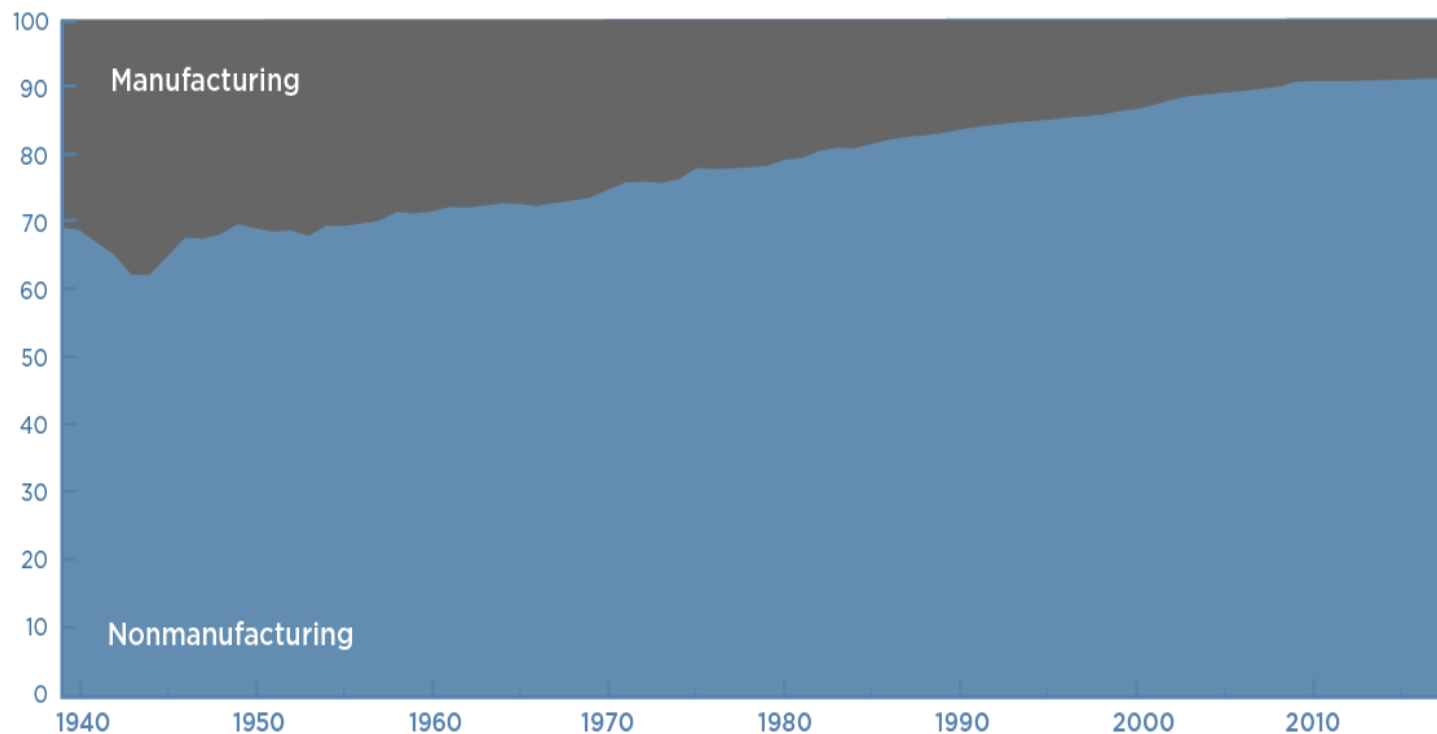
Note: Years refer to beginning of academic year.

Source: Institute of International Education (<http://www.iie.org/opendoors>).

Since World War II, American jobs have increasingly been in service-providing industries instead of manufacturing



US employment in manufacturing vs. non-manufacturing industries, excluding farm sector (1939–September 2018)



Note: Nonmanufacturing includes mining and logging, construction, private service-providing, and government employment. Annual values are averages of monthly data.

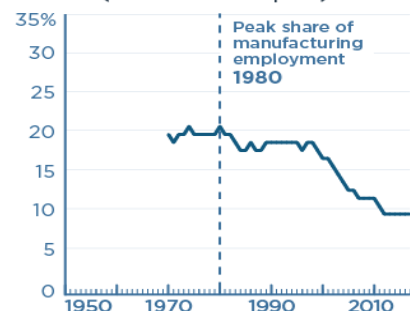
Sources: US Bureau of Labor Statistics, Current Employment Statistics.

Manufacturing trade surpluses may not prevent declining manufacturing employment

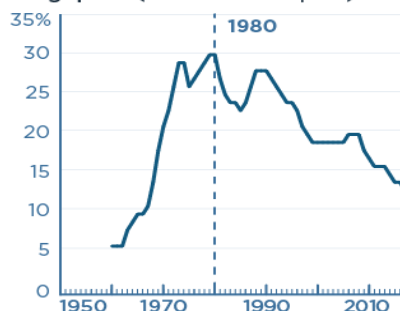


Manufacturing employment as share of total employment in countries with the largest manufacturing trade surpluses as percent of GDP

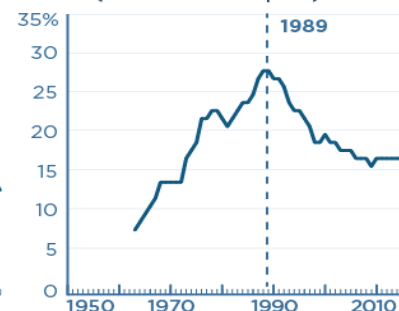
Ireland (11.6% trade surplus)



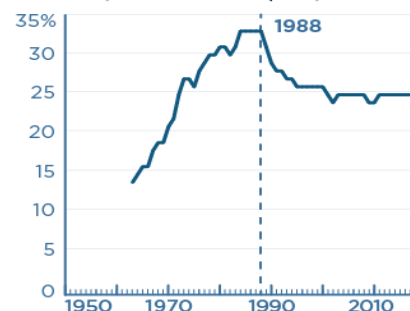
Singapore (9.1% trade surplus)



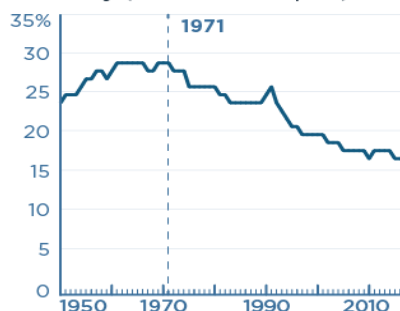
Korea (6.4% trade surplus)



Taiwan (5.7% trade surplus)



Germany (4.9% trade surplus)



Malaysia (4.4% trade surplus)



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Note: Manufacturing trade surpluses refer to average trade surpluses in manufacturing value-added as share of GDP, 1995–2011. Data are not available for all countries starting in 1950.

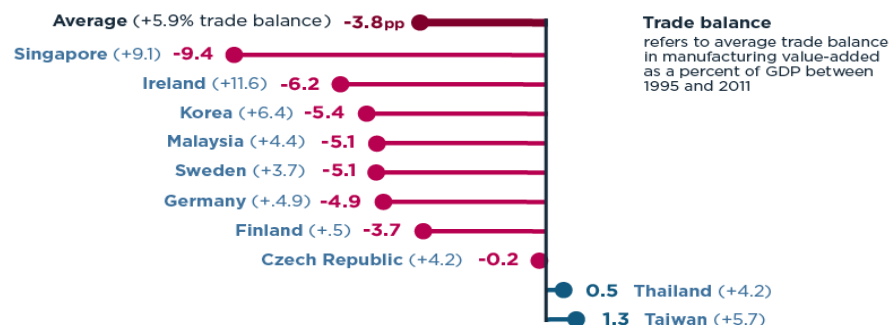
Sources: Calculations by Robert Z. Lawrence based on trade data from UN Comtrade database and manufacturing employment shares from the Groningen Growth and Development Center (GGDC) 10-Sector Database (Timmer, de Vries, and de Vries 2015, <http://www.gdgc.net/publications/memorandum/gd149.pdf>), International Labor Organization Department of Statistics, and The Conference Board International Comparisons of Manufacturing Productivity and Unit Labor Costs database.

Manufacturing employment declined more in countries with large trade surpluses than deficits

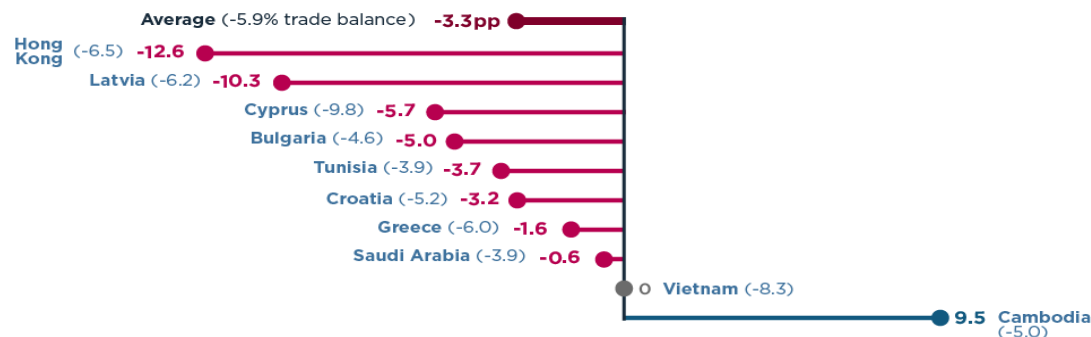


Percentage point change in manufacturing employment share of total employment, 1995–2011

a. Countries with largest average manufacturing trade surplus



b. Countries with largest average manufacturing trade deficit



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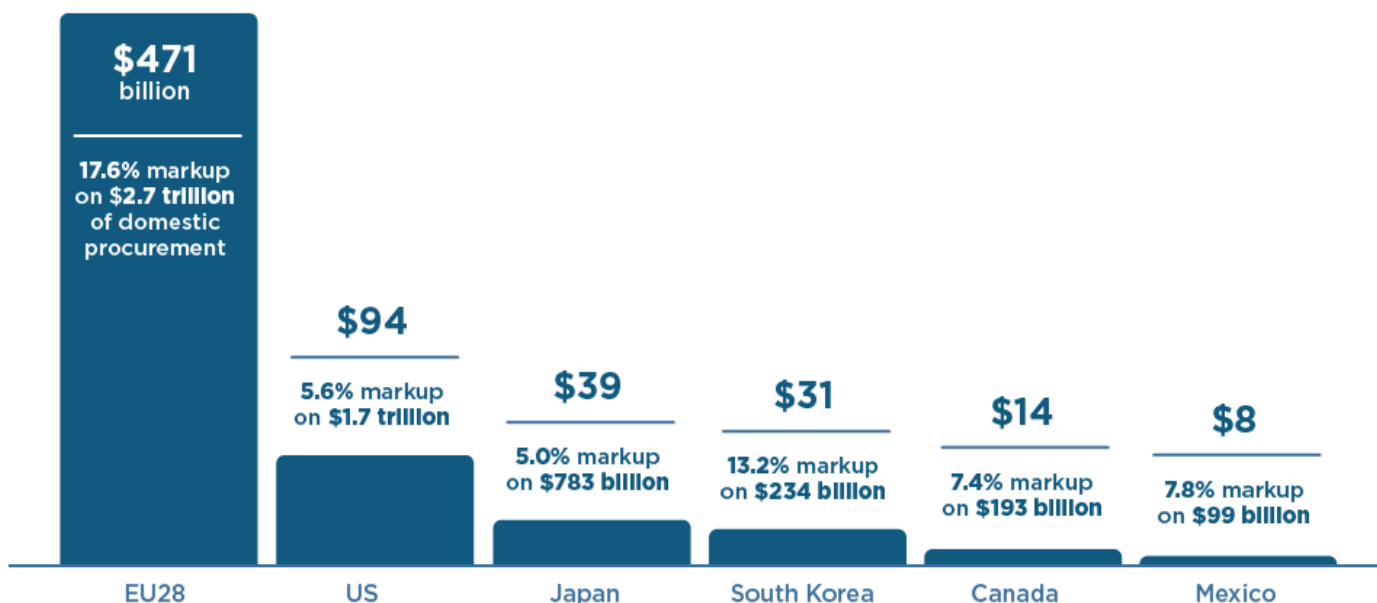
pp = percentage point

Sources: Calculations by Robert Z. Lawrence based on trade data from UN Comtrade database and manufacturing employment shares from the Groningen Growth and Development Center (GGDC) 10-Sector Database (Timmer, de Vries, and de Vries 2015, <http://www.ggdc.net/publications/memorandum/gd149.pdf>), International Labor Organization Department of Statistics, and The Conference Board International Comparisons of Manufacturing Productivity and Unit Labor Costs database.

“Buy American” and similar domestic purchase policies impose high costs on taxpayers



Additional cost of domestic procurement because imports were restricted, 2017, billions USD



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EU = European Union

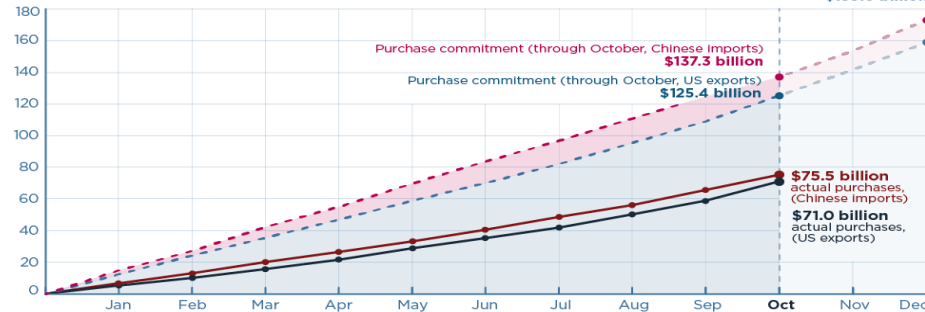
Sources: US Government Accountability Office, www.gao.gov/assets/700/699393.pdf (2019, figure 7, page 35); World Bank's World Development Indicators database; OECD Government at a Glance database, 2019; and Hufbauer and Jung's calculations for estimated markup using a computable partial equilibrium model.

US-China phase one tracker: China's purchases of US goods

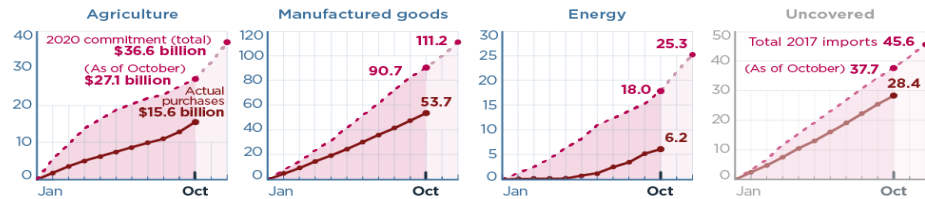
US exports and China's imports in 2020 of all goods covered by the phase one deal as of October 2020

a. US exports and China's imports of all covered goods in 2020, as of October, billions USD

2020 Purchase commitment (total, Chinese imports) **\$173.1 billion**
2020 Purchase commitment (total, US exports) **\$159.0 billion**



b. China's imports by product type, billions USD



c. US exports by product type, billions USD



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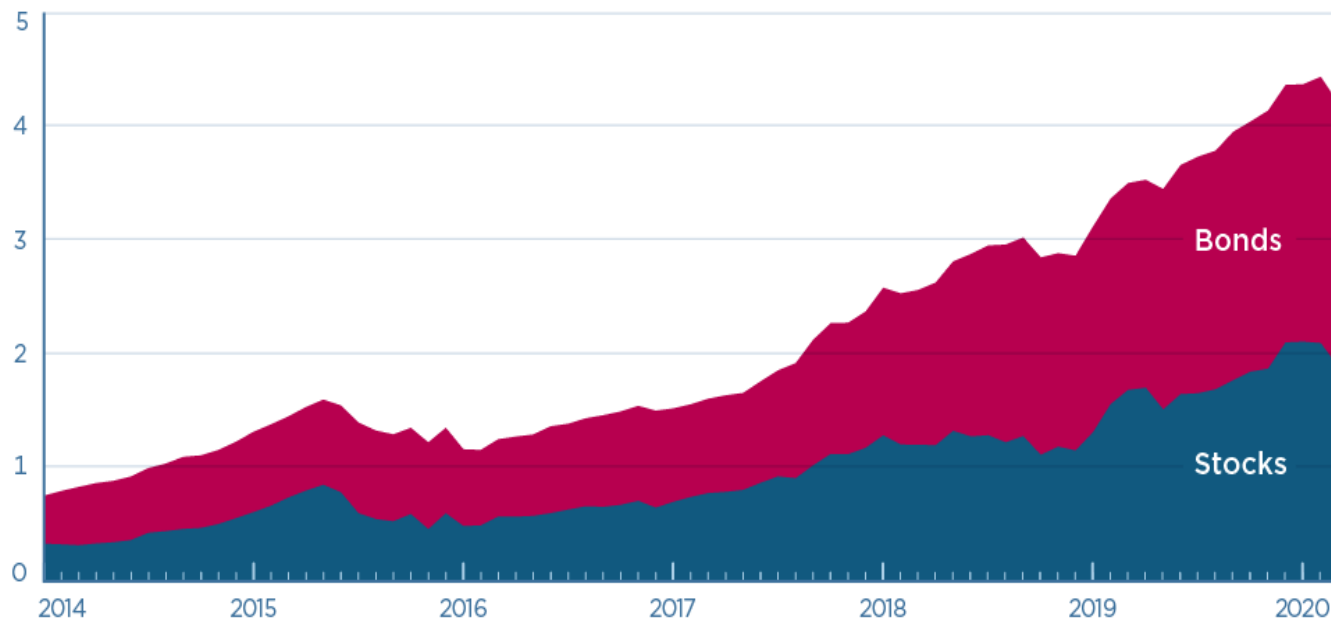
Note: Numbers may not sum to total due to rounding. "Uncovered" products refer to China's imports from the United States not addressed by Annex 6.1. Prorating the 2020 year-end target to a monthly basis is for illustrative purposes only. Nothing in the text of the agreement indicates China must meet anything other than the year-end target. Monthly purchase commitments are seasonally adjusted based on 2017 data.

Sources: Constructed by the author with US export data from US Bureau of the Census, Chinese import data from International Trade Centre (Trademap) for 2017 and from Chinese customs for 2020; and product categories set out in Annex 6.1 of Economic and Trade Agreement between the United States of America and the People's Republic of China.



Rising foreign investment in Chinese stocks and bonds shows deepening financial integration

Foreign portfolio investment in Chinese stocks and bonds, trillions of RMB



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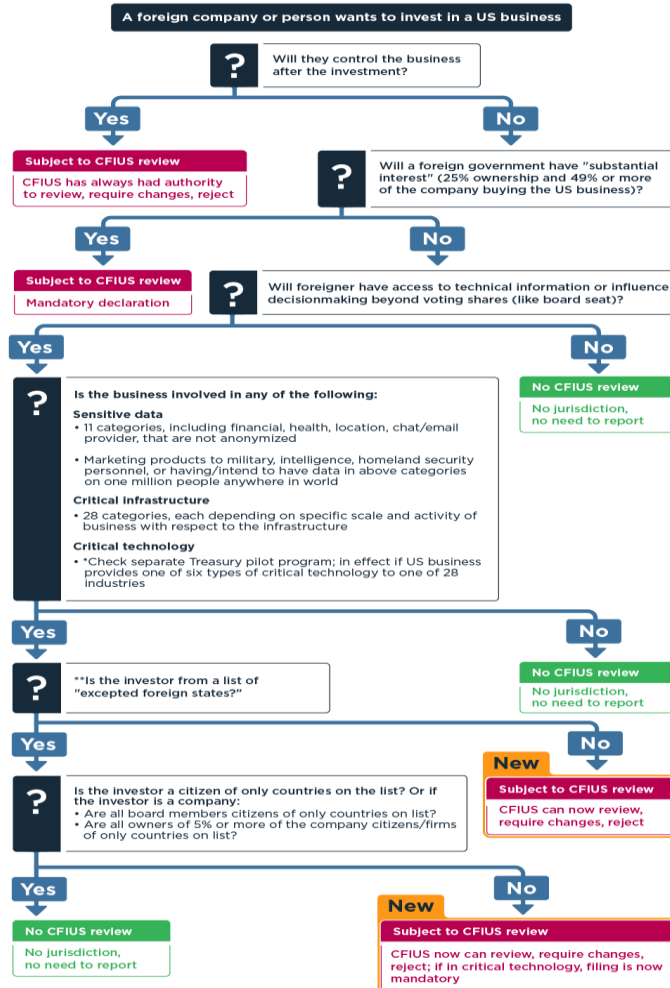


Source: People's Bank of China via Wind Financial Information.

[Wind Financial](#)

Complying with New Foreign Investment Rules Will Pose a Complex Challenge

Process for determining if investments are subject to CFIUS review, based on US Treasury proposal



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CFIUS = Committee on Foreign Investment in the United States
*One of the key types of technology depends on commerce lists not yet determined.
**List has not been released yet.

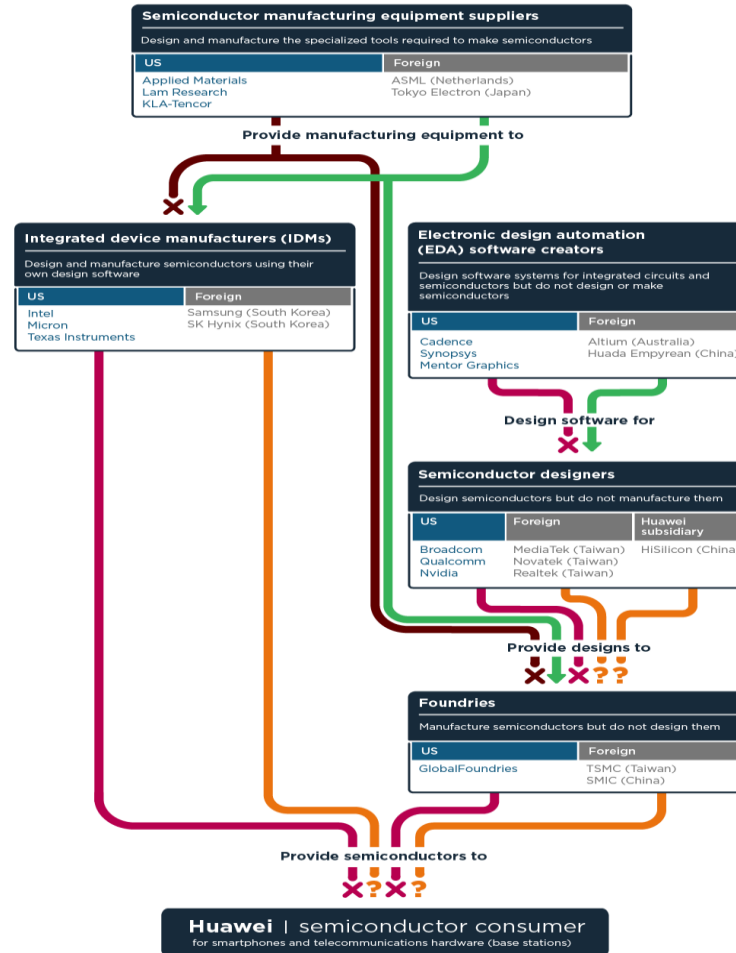
Note: The information provided does not constitute legal advice. Based on US Treasury proposal released on September 17, 2019.

Source: US Treasury (<https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>).

The US is trying to use export controls to restrict Huawei's access to semiconductors

Effect of 2019 and 2020 export controls on semiconductor supply chains

- US firms cannot sell to Huawei or HiSilicon as a result of 2019 export controls
- US firms cannot sell to foreign firm if it sells to Huawei as a result of 2020 export controls
- Foreign firms cannot sell to Huawei using US inputs as a result of 2020 export controls but can sell to Huawei using non-US inputs
- Sales currently unconstrained by US export controls



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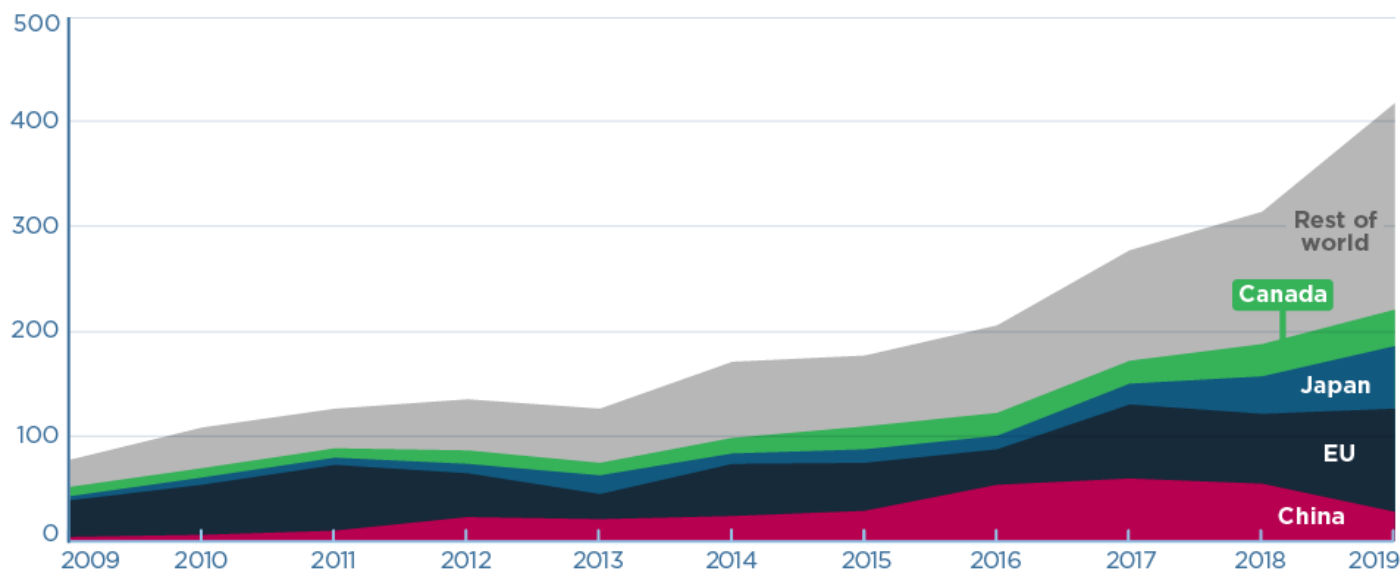


Note: Examples of companies are illustrative.
Source: Constructed by the author.

Fewer Chinese investments in the US are raising national security concerns



Committee on Foreign Investment in the United States (CFIUS) covered transactions by investor nation, 2009–19



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EU = European Union

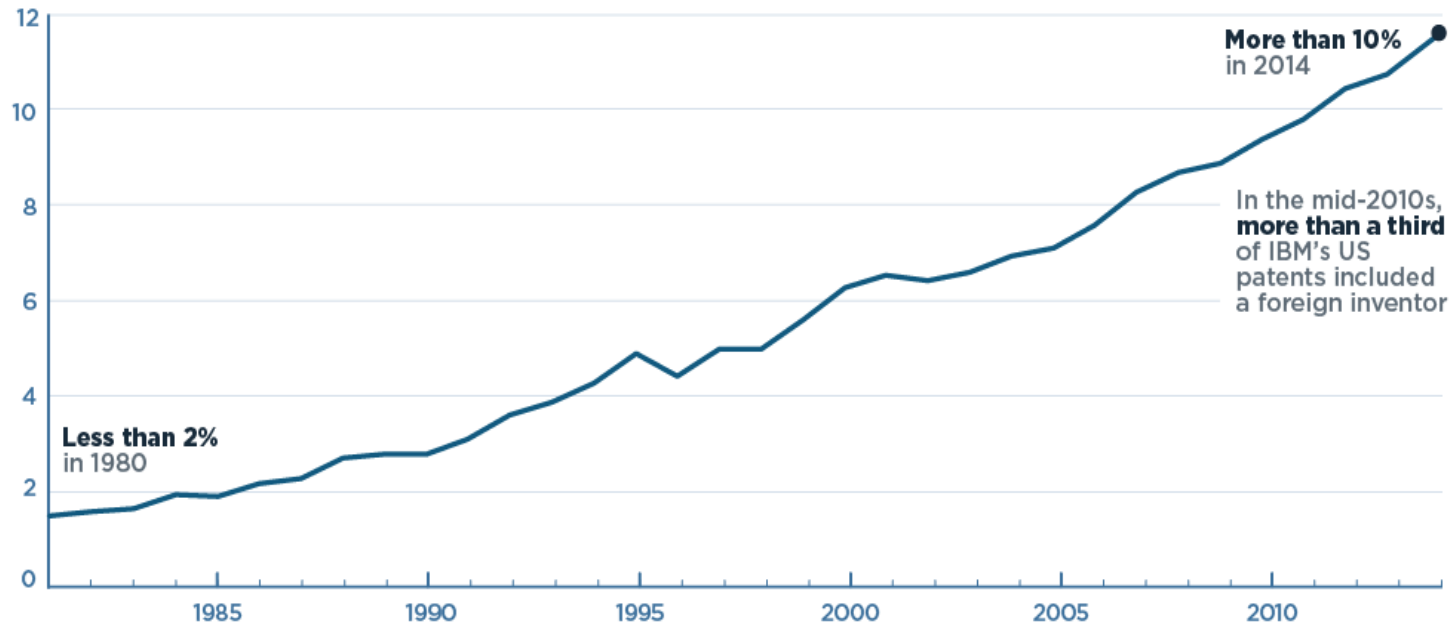
Note: CFIUS covered transactions combine notices, the traditional way of notifying CFIUS of a transaction, and declarations filed under a critical technologies pilot program. Some covered transactions involve multiple notices and declarations.

Sources: Author's calculations based on data from US Department of the Treasury, CFIUS reports and tables, <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius/cfius-reports-and-tables>.

US Multinational Corporations Are Increasingly Using International Teams for Inventions



Percent of US patents granted to US MNCs with inventors from more than one country



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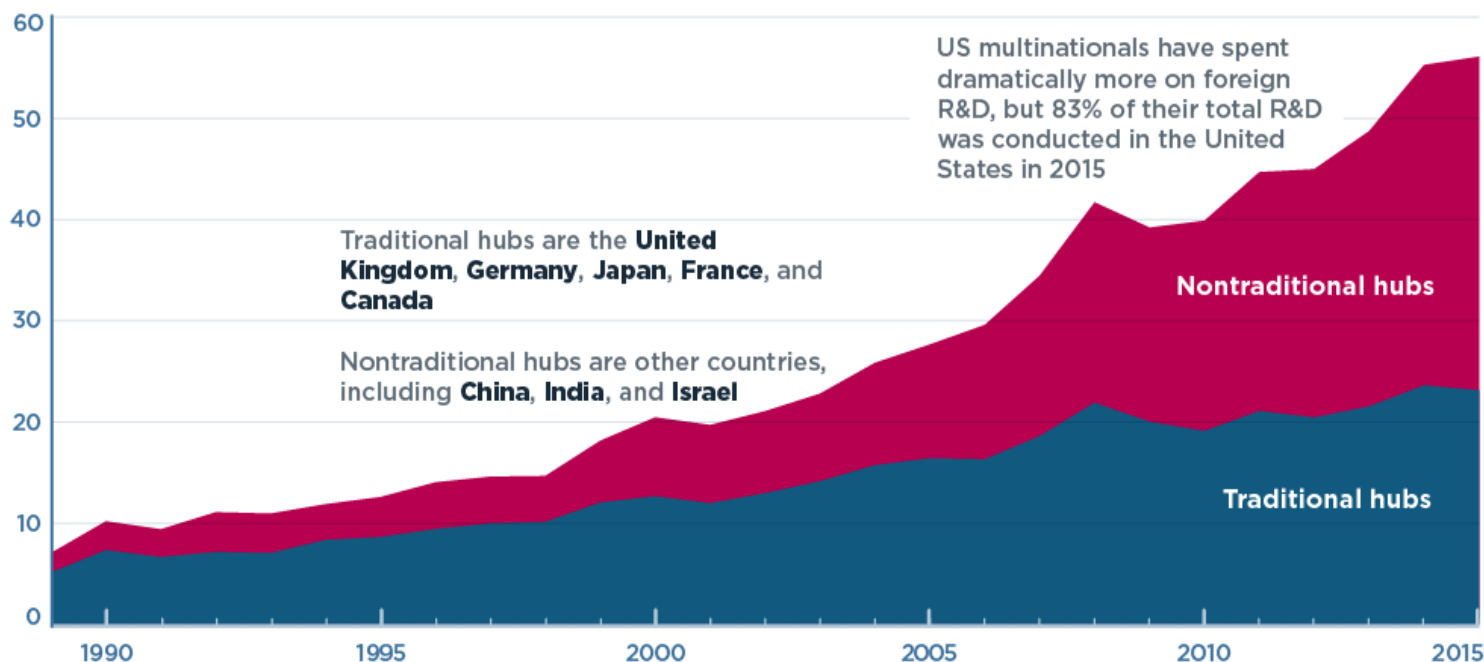
MNC = multinational corporation

Source: PIIE Policy Brief, *The Rise of Global Innovation by US Multinationals Poses Risks and Opportunities*.

US Multinational Corporations Have Shifted Foreign R&D towards Nontraditional Locations



R&D expenditures of US MNC foreign affiliates, billions of US dollars



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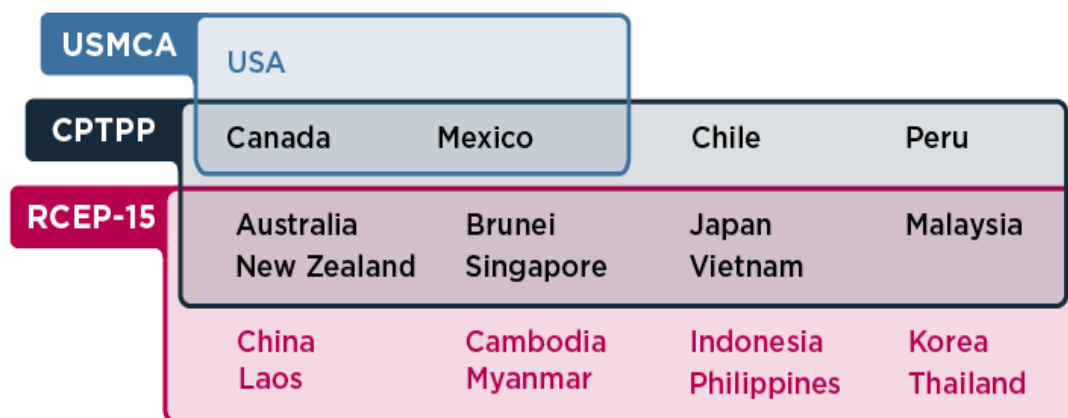
MNC = multinational corporation; R&D = research and development

Source: PIIE Policy Brief, *The Rise of Global Innovation by US Multinationals Poses Risks and Opportunities*.

Regional trade agreements will reorient East Asian economies away from the US



Trade agreement membership in the Asia-Pacific region



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USMCA = United States-Mexico-Canada Agreement; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership

Note: India was originally part of RCEP-16 negotiations, but opted out, leading to the formation of the RCEP-15.

Sources: data.worldbank.org; authors' simulations.

Meanwhile, on the dollar...



Net official flows of selected economies with trade surpluses, 2019 and 2020 (billions of dollars)

Economy	Net official flows		Current account surplus
	2019	2020	2019
Hong Kong	6	8	22
Korea	19	28	60
Singapore	110	101	63
Switzerland	16	193	80
Taiwan	16	21	65
Thailand	17	23	38

Note: Data for 2020 are the sum of net official flows for the first and second quarters plus the change in foreign currency reserves in the third quarter, expressed at an annualized rate. Official flows include reserve flows and other acquisitions of foreign assets by the central bank or general government minus any official borrowing in foreign currency.

Sources: Author's calculations based on data from Bloomberg, IMF, and national central banks and statistical agencies.

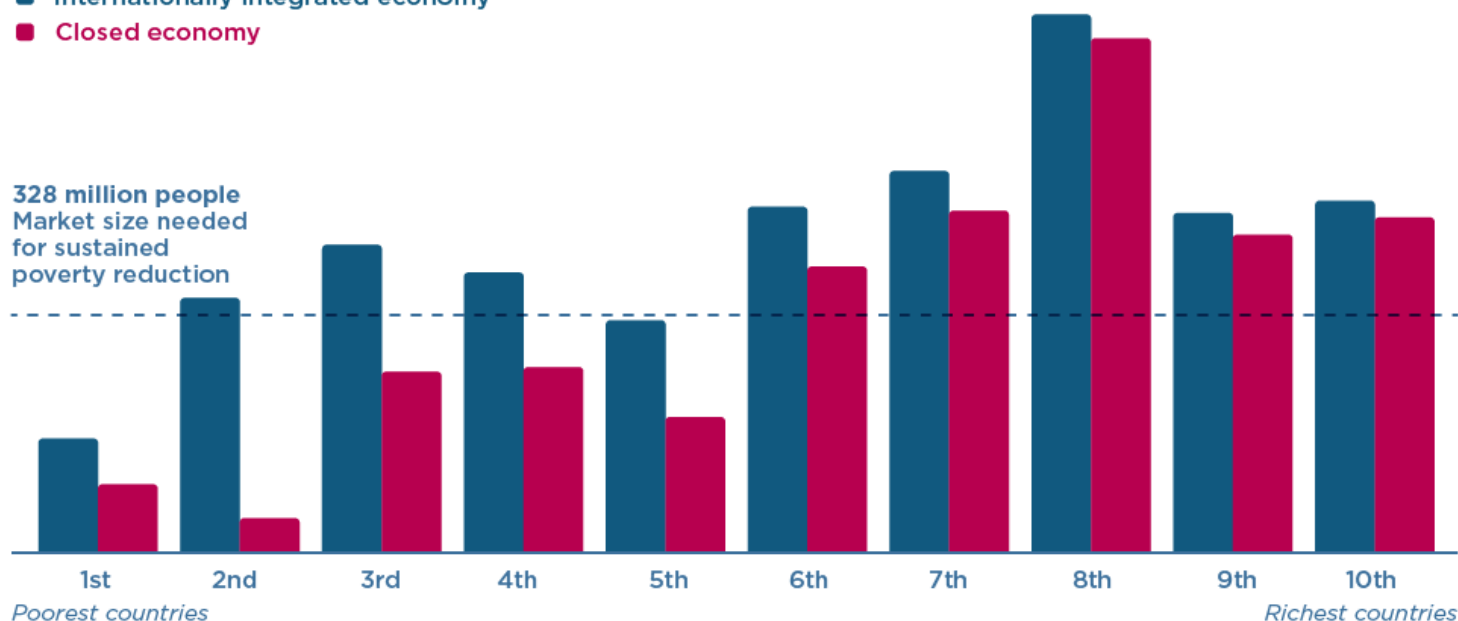
International integration provides a path for smaller, low-income nations to reduce poverty



Estimated market size by deciles of GDP per capita, millions of people

■ Internationally integrated economy
■ Closed economy

328 million people
Market size needed
for sustained
poverty reduction



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Note: Period of 2011–15 only. Bars show averages from sustained poverty reduction sample. Averages are weighted by 2011 population. Market size is in units of people outside the middle class, i.e., those consuming less than \$11 per day, purchasing power parity in 2011 US dollars.

Source: Authors' calculations, see figure 6 in Pinelopi Goldberg and Tristan Reed's NBER working paper, "Income distribution, international integration, and sustained poverty reduction."



Can the President-Elect's stated priorities of creating good jobs, growing manufacturing, security from China, and enforcement of U.S. values abroad be achieved through international economic policy?

- To some degree, but some of these goals are better pursued with means other than those yet proposed
- Cooperation with allies as stated is good, but needs to have actual common pursuits with mutual benefits
- International economic policy can better serve other purposes in the US self-interest than things like 'Buy American'

The United States Wins More WTO Cases than China in US-China Trade Disputes



WTO disputes between China and United States, 2002-19

United States as complainant (23 cases total)



China as complainant (16 cases total)



	Wins	Losses	Split decision
	20	0	0
	5	1	3

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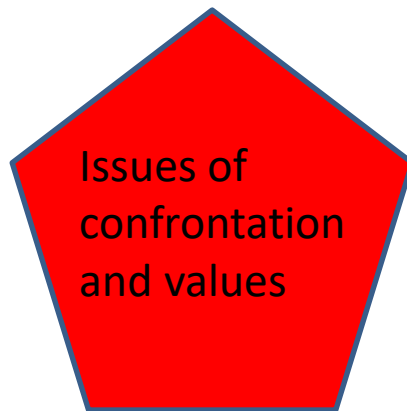
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Note: "Wins" include rulings in favor of the complainant and cases that were settled via or during consultation.

Sources: World Trade Organization (WTO); US Trade Representative's Trade Policy Agenda and Annual Report (various issues). Updated November 21, 2019.

The three-buckets view of China-US relations



Issues of
economic
commerce and
integration



- Trump approach: Prioritize middle economic bucket and ignore the other two
- Potential Biden approach: Use middle economic bucket to (try to) incentivize compliance on the other two
- Better potential approach: Prioritize left and right buckets for policy, try to depoliticize/insulate the middle bucket from policy as ballast for other two



International cooperation is attainable, but on the model of simultaneous common effort

- Biden saying treat allies as allies is a necessary start
- Plenty of room for ‘mutually binding and beneficial changes in government behavior’ (Obstfeld and Posen (2020))
 - Agree on simultaneous contributions to common goal
 - Or agree on common abstention from specific behaviors
 - Avoid attempts to have mirroring or contingent complementary behaviors on the 1978/1985 model of summitry
 - Avoid numerical targets or complex policy rules
- Successes of this type include: 2009-10 Vienna Initiative and G20 on trade, 2012 currency agreement for China+G7, March-April 2020 central bank swap lines, recent plurilateral vaccine/PPE agreements

What if the US/PRC are unreliable after 2022 or 2024?



- The degree of US adherence to international commitments between 1945-68 and 1979-2012 was historically unusual
- Can the system work after hegemony or amidst rising international conflict? Without internally unified polities? Amidst persistently slow productivity and wage growth?
- Yes, but it has to be built to be more modular, resilient to withdrawal from or inconsistency of China and US
 - Principled plurilateralism as a way forward
 - Less reliance on (overwhelming the) international institutions, more reliance on variable geometry deals of limited scope
 - Nordhaus clubs on climate as another model
 - Take advantage of the mistaken political salience of trade in heavy stuff made by men to make progress elsewhere
 - Focus policy opportunism on deliverables and preventing bads

A policy agenda for Rebuilding the Global Economy



Biden Administration should start by

- Countering vaccine nationalism
- Joint EU-Japan-US approach on industrial subsidies in trade
- G20 commitment to no pre-mature austerity and BEPS
- High fence, small garden, approach to tech controls
- Increasing immigration to limit of current legislation
- Negotiating modus vivendi for EU which moves faster on decarbonization than US
- Debt restructuring and SDR increase



Rebuilding the Global Economy

A series outlining policy priorities and solutions



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Take advantage of some of the bad news



- COVID-19 has shown up the usual assumptions about which governments govern best (starting with U.S.)
- Secular stagnation has changed the limits on fiscal policy and the risk of currency conflict
- Economic nationalism has shown much of its harms
- CCP overreach has, too