International econ-challenges for the President-elect: trade, China, the dollar, and pandemic recovery

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10. December 2020
Successes of Globalization

- Population growth/explosion
  - First 10000 years:
  - 1970 – 2020: 50 years another

- Poverty reduction

Over the last 12,000 years

- 4 billion people in 1975
- 4 billion people in 2020
Successes of Globalization

- Population growth/explosion
  - First 10,000 years: 4 billion people
  - 1970 – 2020: 50 years another 4 billion people

- Poverty reduction
Globalization **Tensions**: 

- Internal Tensions  
  - Inequality, insecurity, ...  
  *Agnus Deaton*

- Divergence in preferences  
  - Food, privacy, environment  
  *Dani Rodrik*

- The “China Shock”  
  - Expectation: disruption would be procession, diffused by well functioning labor market  
  - Realization: disruption was fast and concentrated difficult to cope with adjustment  
  *David Autor*

- Technology  
  - Intellectual Property Right Protection

- International institutions: Is the WTO still effective?  
  - Negotiating trade deals  
  - Conflict resolution (sidelined by Trump administration)  
    - Developing countries (including China) has little obligation
The **Interdependence** in 21\(^{st}\) Century

- Open borders remain (even in light of COVID)

- Global public goods: Climate, Health – dominating factor?

- Importance of networks
  - “weaponization of networks” and scale – Henry Farrell

- Importance of geopolitics
  - US-China relationship
  - All about regional integration (creating zone of influence)
The **Choice for US/Europe**

**US-China**
- One world (multilateralism) vs. bi-polar world (US vs. China)
  - China 2025 “self-sufficiency”
  - Regional zones of influence,
- “conflict and cooperate” depending on the area (technology, climate, ...)

**US-Europe**
- Prepared for common US/European standard in
  - Climate
  - Finance (transatlantic financial area)
  - Privacy/data
  - Food standards?
- Power in the hands of US Congress (not president’s administration)
- What choice should Europe take?
  - Stalwart of multilateralism
  - Transatlantic focus (still largest part of world economy)
Poll Results

1. Is the declining Net International Investment Position of the U.S. concerning?
   a. Yes, a lot
   b. Yes, a little
   c. Not a concern

2. Should the U.S. ‘decouple’ West’s high-tech sector from China?
   a. Yes, urgently
   b. Yes, selectively
   c. No (with a couple of limited exceptions)
   d. No, we should increase technological interaction with China

3. Will the US join CPTPP or a trade agreement with EU, by 2025?
   a. Yes, CPTPP or its successor
   b. Yes, whatever they call an EU-US deal this time
   c. Both
   d. Neither

4. Impact of rising EU standards ⇒ (taxes) on carbon be on the US?
   a. Contribute to rising US standards/price of carbon
   b. Contribute to US temporizing and free-riding on decarbonization efforts
   c. Provoke a trade war (beyond mere friction) between the EU and US
   d. Trade war then a rise in US standards
International Economic Challenges for the President-elect
Trade, China, the Dollar and Pandemic Recovery

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December 10, 2020
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; PIIE;

- 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

![Diagram showing trade as a percent of GDP for the world and the US over time.]

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

![Diagram showing the difference between world and US trade as percent of GDP over time.]

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.

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

Growth in US immigrant population, percent, 2007-19

2008-10 financial crisis

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.

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.

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.

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

- Average (+5.9% trade balance) -3.8pp
- Singapore (+9.1) -9.4
- Ireland (+1.6) -6.2
- Korea (+6.4) -5.4
- Malaysia (+4.4) -5.1
- Sweden (+3.7) -5.1
- Germany (+4.9) -4.9
- Finland (+5.5) -3.7
- Czech Republic (+4.2) -0.2

Trade balance refers to average trade balance in manufacturing value-added as a percent of GDP between 1995 and 2011

b. Countries with largest average manufacturing trade deficit

- Average (-5.9% trade balance) -3.3pp
- Hong Kong (-6.5) -12.6
- Latvia (-6.2) -10.3
- Cyprus (-9.8) -5.7
- Bulgaria (-4.6) -5.0
- Tunisia (-3.9) -3.7
- Croatia (-5.2) -3.2
- Greece (-6.0) -1.6
- Saudi Arabia (-3.9) -0.6

Vietnam (-8.3)

9.5 Cambodia (-5.9)

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

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Markup</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU28</td>
<td>$471</td>
<td>$2.7 trillion</td>
</tr>
<tr>
<td>US</td>
<td>$94</td>
<td>$1.7 trillion</td>
</tr>
<tr>
<td>Japan</td>
<td>$39</td>
<td>$783 billion</td>
</tr>
<tr>
<td>South Korea</td>
<td>$31</td>
<td>$234 billion</td>
</tr>
<tr>
<td>Canada</td>
<td>$14</td>
<td>$193 billion</td>
</tr>
<tr>
<td>Mexico</td>
<td>$8</td>
<td>$99 billion</td>
</tr>
</tbody>
</table>

Sources:
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

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. Prioriting the 2020 year-end target to a monthly basis is for illustrative purposes only. Nothing in the text of the agreement indicates China must reallocate anything other than the year-end target. Monthly purchase commitments are seasonally adjusted based on 2017 data.

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

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

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

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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.

A foreign company or person wants to invest in a US business?

Will they control the business after the investment?

Subject to CFIUS review?

CFIUS has always had authority to review, require changes, reject.

Will a foreign government have "substantial interest" (25% ownership and 40% or more of the company buying the US business)?

Subject to CFIUS review?

Mandatory declaration.

Will foreigners have access to technical information or influence decisionmaking beyond voting shares (like board seats)?

Is the business involved in any of the following:

- Sensitive data
  - IT categories, including financial, health, location, chat/email provider, that are not anonymized
  - Marketing products to military intelligence, homeland security personnel, or having/ intend to have data in above categories

- Critical infrastructure
  - 28 categories, each depending on specific scale and activity of business with respect to the infrastructure

- Critical technology
  - Check whether Treasury pilot program: in effect if US business provides one of six types of critical technology to one of 28 industries.

"Is the investor from a list of "excepted foreign states"?

Subject to CFIUS review?

CFIUS can now review, require changes, reject.

Is the investor a citizen of only countries on the list? Or if the investor is a company:

- Are all board members citizens of only countries on list?
- Are all owners of 5% or more of the company citizens/firms of only countries on list?

Subject to CFIUS review?

CFIUS now can review, require changes, reject; if in critical technology, filing is now mandatory.

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CFIUS = Committee on Foreign Investment in the United States.

*One of the key types of technology depends on commercial kits 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.

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 Hikvision as a result of 2019 export controls.**
- **US firms cannot sell to foreign firms 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 commissioned by US export controls.**

**Semiconductor manufacturing equipment suppliers**

- **US:** Applied Materials, Lam Research, NXP Semiconductors
- **Foreign:** ASML (Netherlands), Tokyo Electron (Japan)

**Integrated device manufacturers (IDMs)**

- **US:** Intel, Micron, Texas Instruments
- **Foreign:** Samsung (South Korea), SK Hynix (South Korea)

**Electronic design automation (EDA) software creators**

- **US:** Cadence, Synopsys, Mentor Graphics
- **Foreign:** Cadence (US), Synopsys (US), Mentor Graphics (US)

**Semiconductor designers**

- **US:** Broadcom, Qualcomm, Nvidia
- **Foreign:** Mediatek (Taiwan), Renesice (Taiwan), Realtek (Taiwan)

**Foundries**

- **US:** TSMC (Taiwan)
- **Foreign:** SMIC (China)

**Huawei | semiconductor consumer**

For smartphones and telecommunications hardware (base stations).
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

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.

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

In the mid-2010s, more than a third of IBM’s US patents included a foreign inventor.

Less than 2% in 1980

More than 10% in 2014

MNC = multinational corporation

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

US multinationals have spent dramatically more on foreign R&D, but 83% of their total R&D was conducted in the United States in 2015.

Traditional hubs are the United Kingdom, Germany, Japan, France, and Canada.

Nontraditional hubs are other countries, including China, India, and Israel.

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

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

Trade agreement membership in the Asia-Pacific region

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...

<table>
<thead>
<tr>
<th>Economy</th>
<th>Net official flows 2019</th>
<th>Net official flows 2020</th>
<th>Current account surplus 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>6</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td>Korea</td>
<td>19</td>
<td>28</td>
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<tr>
<td>Singapore</td>
<td>110</td>
<td>101</td>
<td>63</td>
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<tr>
<td>Switzerland</td>
<td>16</td>
<td>193</td>
<td>80</td>
</tr>
<tr>
<td>Taiwan</td>
<td>16</td>
<td>21</td>
<td>65</td>
</tr>
<tr>
<td>Thailand</td>
<td>17</td>
<td>23</td>
<td>38</td>
</tr>
</tbody>
</table>

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

Poorest countries

1st
2nd
3rd
4th
5th
6th
7th
8th
9th
10th
Richest countries

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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)

- 11 Ruling favoring complainant
- 9 Settled via/during consultation
- 3 Pending

China as complainant (16 cases total)

- 4 Ruling favoring complainant
- 1 Ruling favoring respondent
- 3 Split decision
- 7

### Wins, Losses, Split decision

<table>
<thead>
<tr>
<th>Country</th>
<th>Wins</th>
<th>Losses</th>
<th>Split decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

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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 confrontation and values
- Issues of economic commerce and integration
- Issues of cooperation

- 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

• counterering 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

https://www.piie.com/microsites/rebuilding-global-economy
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