Osher Lifelong Learning Institute, Summer 2026

Contemporary Economic Policy

University of Hawaii, Manoa

Host: Geoffrey Woglom, Director
National Economic Education Delegation

Course Schedule

Contemporary Economic Policy

- Week 1 (7/2): Saving Social Security, Geoffrey Woglom, Amherst College
- Week 2 (7/9): **Trade & Globalization, Luisa R. Blanco, Pepperdine**
- Week 3 (7/16): Health Care Economics, Brandyn Churchill, American University
- Week 4 (7/23): Economics of Immigration, Luisa R. Blanco, Pepperdine University
- Week 5 (7/30): Federal Debt and Deficits, Robert Rebelein, Vassar College
- Week 6 (8/6): Climate Change Economics, Gary Yohe, Wesleyan University

Submitting Questions

- Submit questions in the chat. I will try to address questions after 10-15-minute intervals (at the different block stops noted in presentation). We will also do a verbal Q&A once the material has been presented.
- Slides will be available from the NEED website: https://needecon.org/delivered_presentations.php.

Trade and Globalization

Luisa R. Blanco, Ph.D., MBA
Pepperdine University, School of Public Policy

Outline

- Globalization
- International Trade
  - The Benefits and Costs of Trade
  - Offshoring
- Trade Policies
  - Trump I Tariffs
  - Trump II Tariffs
- Case Study - USMCA

Globalization

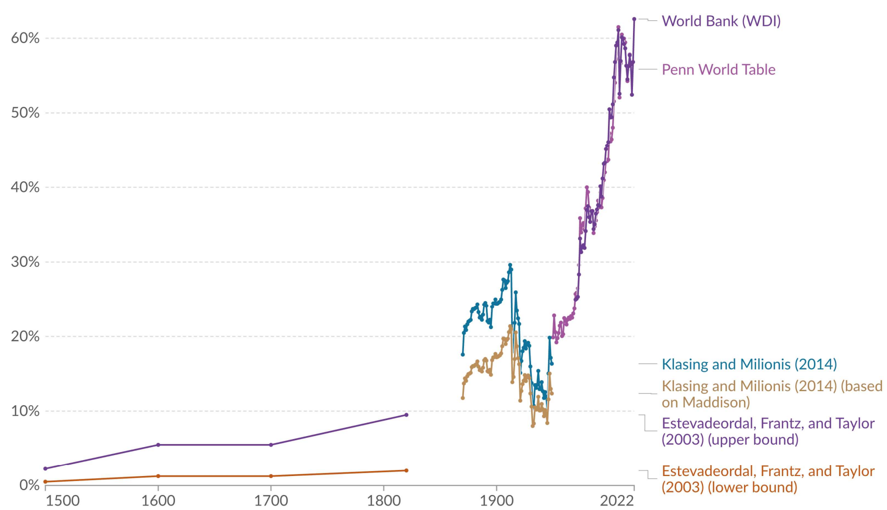
What is Globalization?

- **The growing interdependence of the world's:**
  - Economies
  - Cultures
  - Populations
- **Brought about by cross-border flows of:**
  - Goods and services
  - Technology
  - Investment
  - People
  - Information

Globalization over 5 centuries

Our World in Data

Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



Data source: Klasing and Milionis (2014) and other sources

OurWorldinData.org/trade-and-globalization | CC BY

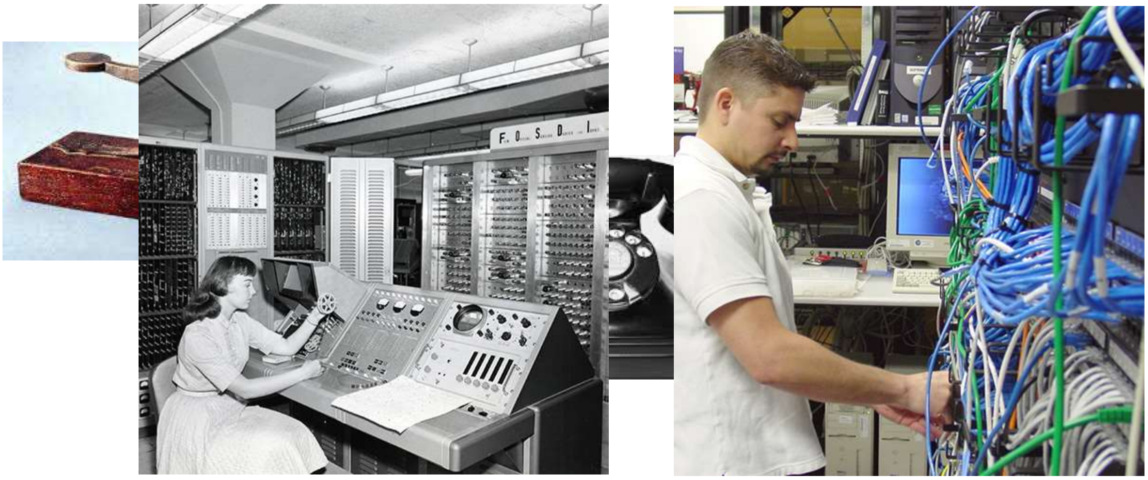
Source: https://ourworldindata.org/international-trade

What Drives Globalization?

- Transportation
- Technology
- International Cooperation

Transportation

Technology



International Cooperation

1995

World Trade Organization (WTO)

The modern trading system governed by rules is established, replacing the GATT.

Western Globalization in Historical Context

- **The first wave of globalization:**
  - Roots in the 1830s, height in 1870s, end in 1913
- **American trade policy protected industry, but not other sectors.**

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Interwar Isolationism

- **After WWI, many countries focused policy efforts internally.**
- **The Great Depression led to the highest levels of trade barriers in the 20th century.**
  - Embodied by the 1930 Smoot-Hawley Tariff
- **Eventual backlash over Smoot-Hawley led to the 1934 Reciprocal Trade Agreement Act.**

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Post-war Liberal Institutionalism

- **Initiated before World War II had ended**
  - Roots in the Atlantic Charter and Bretton Woods Conference
- **General Agreement on Tariffs and Trade (GATT)**
  - Nondiscrimination and reciprocity
  - Repeated multilateral negotiating rounds
- **GATT did create allowances for exceptions to nondiscrimination**
  - Generalized System of Preferences
  - Preferential/regional trade agreements
  - National security and remedies (antidumping and countervailing duties)

International Trade

Exports and Imports

- Exports: goods or services sold to another country
- Imports: goods or services bought from another country

US exports (2016 shares)				US imports (2016 shares)			
Goods		Services		Goods		Services	
Planes	4.5%	Bus/Fin/Ins	34%	Cars	8.2%	Bus/Fin/Ins	34%
Crude Petrol	4.3%	Travel	27%	Crude Petroleum	4.7%	Travel	24%
Cars	4.2%	Royalties	17%	Computers	4.1%	Transport	19%

What the US Trades: Composition of Exports and Imports, 2025

US EXPORTS

Goods	Share	Services	Share
Pharmaceutical preparations	**5.5%**	Business / financial / insurance	**43%**
Crude petroleum	**4.5%**	Travel	**17%**
Civilian aircraft engines	**3.5%**	Charges for use of IP (royalties)	**16%**

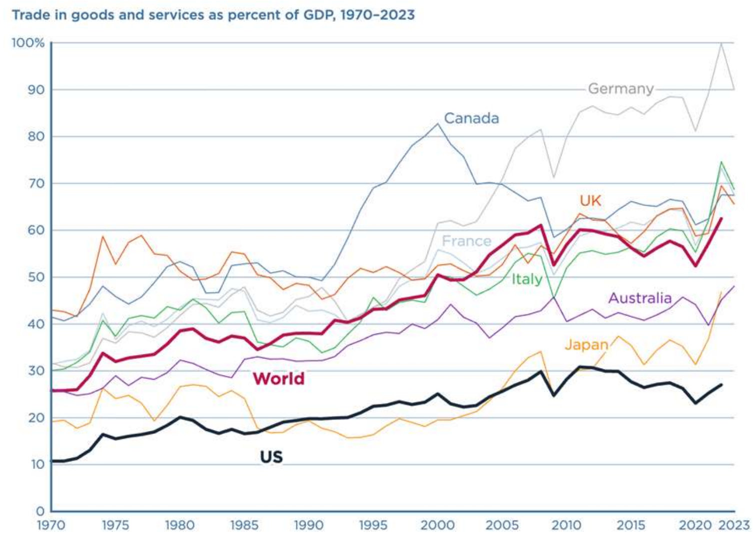
US IMPORTS

Goods	Share	Services	Share
Pharmaceutical preparations	**8.4%**	Business / financial / insurance	**42%**
Computers	**6.4%**	Travel	**21%**
Passenger cars	**5.3%**	Transport	**14%**

Shift since the mid-2010s: pharmaceuticals are now the largest US goods import and a top export, displacing cars and planes from the top spots.

Sources: U.S. Census Bureau and U.S. Bureau of Economic Analysis, FT-900 Annual Revision (2025 data), exhibits 2, 3, 6, 7; shares calculated by author.

Trade Openness Across Countries



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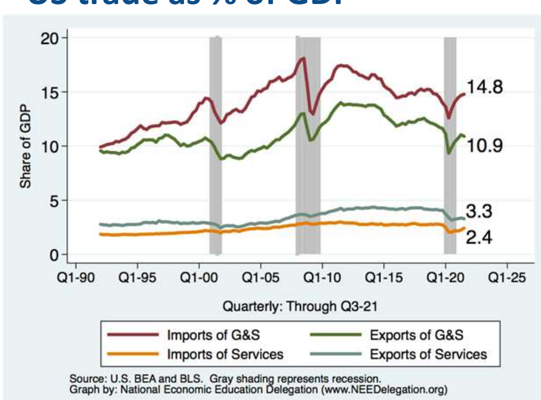
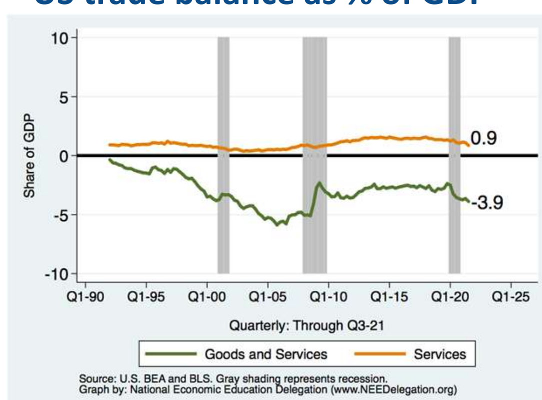
Source: https://www.piie.com/microsites/globalization/what-is-globalization

Importance of US Trade

- US trade as % of GDP



- US trade balance as % of GDP



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Why Do Countries Trade?

- **Competition**
- **Varieties**
- **Efficiency**

Why Might Efficiency Differ Across Countries?

- **Labor**
  - Skilled or unskilled
- **Technology**
  - Some countries have firms that produce some goods well
  - Other countries have firms that produce other goods well
- **Environment**
  - Cold/Warm Wet/Dry Sunny/Cloudy
- **Land**
  - Rocky, soil, fertile, barren
  - Tundra, desert, grasslands, forest

Comparative Advantage and Specialization

- **Comparative advantage**
  - Scarce resources: can't produce unlimited amounts of goods
  - Export goods where production advantage largest (or disadvantage weakest)
- **Non-econ example: Babe Ruth**
  - Top pitcher during 1916-1918. But best hitter of all time!
    - Scarce resources: training time
    - Post 1918, Babe Ruth specialized as hitter
- **Econ example: US-UK trade in 1951**
  - For same output, US used less resources than UK in each of 26 manuf sectors!
  - But, US net exporter to UK only for sectors where it's advantage largest
  - UK net exporter to US for goods where it's disadvantage weakest

Benefits of Specialization

- **For goods where US production advantage weakest…**
- **US can consume these goods by either**
  1. Importing them from UK
  2. Producing them *and* reducing production of goods exported to UK
- **Key point**
  - US can consume more of these goods by importing them from UK
- **Analogous story true for UK**
  - Trade increases size of economic pie for *both* countries

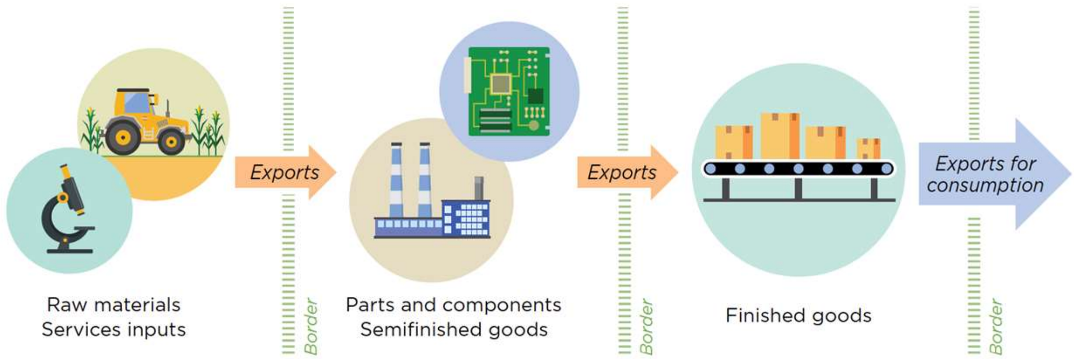
Every Country Has a Comparative Advantage…

- **Every country has a good or a set of goods that it is RELATIVELY better at producing.**
  - Those are the goods that it will export.
  - It will import the other goods.
- **There are exceptions.**
  - Varieties and competition
  - May find countries trading the same goods back and forth.

Global Value Chains (Offshoring)

What is Offshoring?

A global value chain breaks up the production process across countries. Firms specialize in a specific task and do not produce the whole product.



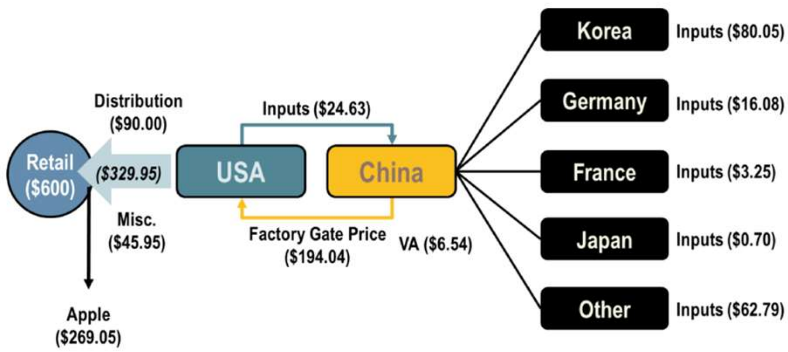
Source: World Development Report, 2020

Growth of Global Value Chains

PIIE **Source:** World Bank, World Development Report 2020: Trading for Development in the Age of Global Value Chains.

Source: https://www.piie.com/microsites/globalization/what-is-globalization

An Example: The iPhone 4



Value Creation and Capture, iPhone 4

Source: adapted from OECD (2011) "Global Value Chains: Preliminary Evidence and Policy Issues", Organization for Economic Co-operation and Development, DSTI/IND(2011)3, Paris, 2011.

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Source: The Geography of Transport Systems, 5th edition by Jean-Paul Rodrigue

What are the Gains From Trade? Recap

- **Mutually Beneficial Trade through Comparative Advantage:**
  - Scarce resources: can't produce unlimited amounts of goods
  - Produce and export goods where production advantage largest (or disadvantage weakest)
  - All countries can consume more and thus gains from trade.
- **Other Sources of Gains from Trade:**
  - Scaled up businesses
  - Lower prices through increased competition
  - Wider set of product varieties available and better quality
  - Efficient supply chains
  - Learning about foreign technology, business practices, etc.
  - Innovation

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Why is the public turning against trade?

- **Gains from trade are very large for the economy, BUT**
  - Not always noticeable by consumers. Why are prices lower at WalMart?
  - Not always that large per consumer: consumers might save $50/year on some imported goods
  - For 300 million consumers, $50/year would be $15 billion per year savings to the country!
- **Costs of trade are very high for some workers, regions, and groups, and these costs have not been sufficiently appreciated or addressed by policymakers (or economists!)**

Costs of Trade

- **Economic:**
  - When trade expands (or contracts)
    - Some firms lose market share or shut down
    - Other firms supplying inputs to those firms shrink or shut down
    - Workers in both lose jobs
    - And their **communities** lose customers
  - Macroeconomic cost: Vulnerability to foreign recession/inflation
  - Dependence on other countries' willingness to trade
  - Vulnerability to trade disruption
    - Crisis induced (earthquake, flood, disease, war)
    - Policy induced (sanctions, tariffs, export bans)
- **Non-economic**
  - Loss of cultural differences
  - Spread of invasive species and plant disease
  - Spread of human disease

Trade Policy

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Trade Policies that Affect Globalization

- **Policies that Encourage It**
  - Tariff Reductions
  - Trade Agreements
  - Other
- **Policies that Discourage It**
  - Tariffs
  - Trade War

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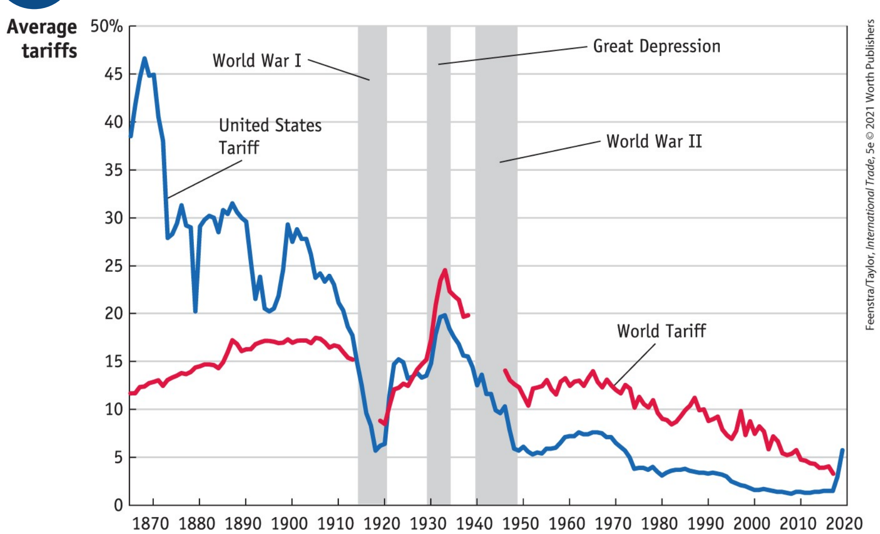
Tariff Reductions

Tariffs, 1860-2019



Source: International Economics, 5e | Feenstra/Taylor, Worth Publishers

The Role of Trade Agreements

- **Promote trade by**
  - Reducing tariffs
  - Blocking policies that discriminate against imports
- **They also do more, mostly to serve business interests:**
  - Permit anti-dumping duties to deter unfair competition
  - Protect intellectual property
  - Allow investor action against governments
- **Trade Agreements:**
  - EU, USMCA, Mercosur, AfCFTA, CPTPP, RCEP
- **There trade agreements have proliferated:**
  - The number of regional trade deals has grown dramatically, from only a few dozens in 1990 to hundreds in force today.

Institutions that Encourage Globalization

- **IMF/World Bank**
  - Policy advice to open markets (the ”Washington Consensus”)
  - Loans to countries conditional on
    - Reducing trade barriers
    - Permitting capital flows
- **GATT/WTO (World Trade Organization)**
  - Negotiate reciprocal trade liberalization
  - Settlement of trade disputes (usually about interfering with trade)
- **Bilateral Investment Treaties**
  - Better treatment of multinational corporations

WTO

- **Multilateral Trade Agreement**
  - 166 member countries
  - Headquarters: Geneva, Switzerland
- **First established in 1947 as G.A.T.T. (23 member countries)**
- **Last completed round of negotiations: Uruguay Round in 1994.**
- **Recently WTO is at ”crossroads”:**
  - Dispute settlement paralysis
  - Rulebook is outdated for 21st century trade
  - Geopolitical tensions
  - The erosion of US leadership
  - The rise of regionalism

Tariff Effects

Economic Effects of a Tariff on Prices

- **A tariff is a tax on imports. It causes**
  - A rise in the price of the imported good in the importing country
  - A fall in the price of the imported good in the exporting country
  - The quantity imported to fall
  - Revenue for the tariff-levying government
- **Almost always: the rise at home is much larger than the fall abroad**
  - That's especially true if importing country is small
  - But it's also true if importing country is as large as the U.S.
    - We learned this from Trump's tariffs in 2018.
    - Example: Trump's tariffs caused US prices to rise, with hardly any perceptible fall in prices abroad.

Effects of a Tariff on the Economy

- **The rise in price in the importing country causes**
  - A rise in price of competing goods produced there
  - Benefits to those producers
  - Harm to buyers of both the import and the competing goods
    - Including producers that use the higher-priced goods as inputs
      - Their prices also rise, hurting their buyers
  - Employment changes:
    - Increase in the protected industry
    - Decrease in industries that use the protected product as inputs

Effects of a Tariff on the Economy

- **Economists' cost-benefit analysis quantifies these and shows that**
  - Unless there are market distortions, the costs of a tariff always exceed the benefits
  - Even when distortions give potential for tariff to be net beneficial
    - It is just as likely to be net harmful
    - And there does exist another policy, not a tariff, that would be better
  - But
    - Costs of tariffs are spread over many buyers, and are small for each
    - Benefits of tariffs are concentrated for domestic producers and are large for each
    - That's often why we
      - Get tariffs
      - Find them very hard to remove

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Effects of a Tariff

- **If a tariff is on exports of only one country (e.g., China), then**
  - Some imports shift to another country
  - Price rises by less, to that other country's higher cost
- **Retaliation**
  - Other countries place tariffs on US exports
  - Trade war that started in 2018 continues and gets worse
- **Politics of tariffs**
  - Political forces favor tariffs
  - Tariffs were reduced during 1934-1995 only by slow reciprocal negotiation among countries

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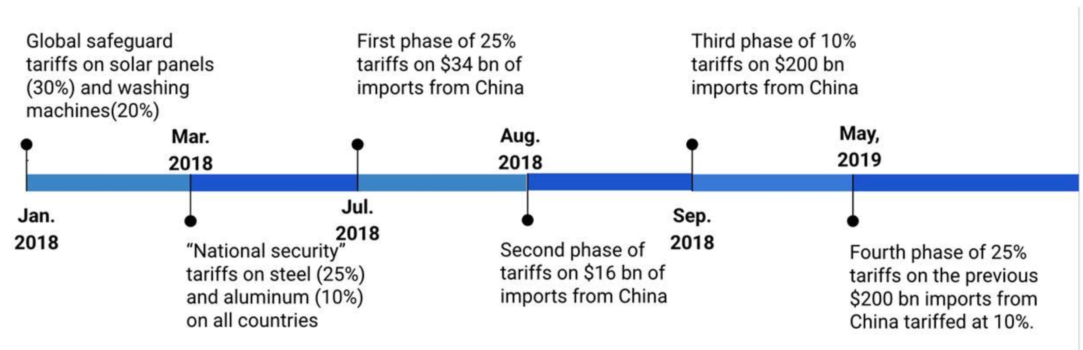
Possible Economic Arguments for Tariffs

- **Possible arguments for tariffs**
  - National Defense – strategic resource. Do we need the capacity to make our own computer chips, just in case?
  - "Infant" Industry
  - Unfair trade practices of exporting countries

Trump I Tariffs and the Trade War

Trump I Tariffs & Trade War



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Tariffs on Washing Machines

- The **price of washing machines** increased in the U.S. by 12% the next month.
- The **price of dryers** (bundled with washing machines) also increased by 12%, even if they were not subjected to tariffs.
- Consumers lost $1.5 billion annually.
- Annual **tariff revenue** increased by about $82 million.
- 1,800 **new jobs** reported
- The consumer cost per job "created" was about $817,000 per year.
- Coincides with LG and Samsung opening plants in the U.S.
  - LG: Clarksville, Tennessee in 2019: 600 new jobs
  - Samsung: Newberry, South Carolina, 2018: 1,500 new jobs

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Source: Flaaen, Hortacsu and Tinterlnot (2020) "The Production Relocation and Price Effects of US Trade Policy: The Case of Washing Machines", American Economic Review, 110(7)

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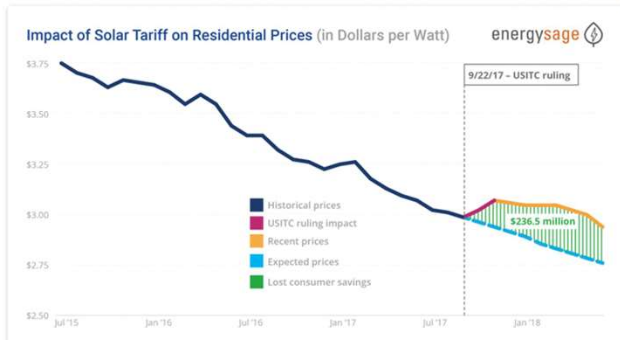
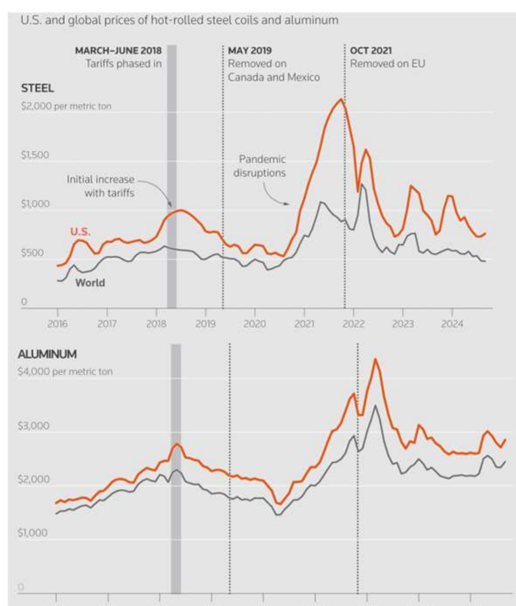
Tariffs on Solar Panels

- Consumers were hurt by higher **prices of solar panels**:
  - Solar prices increased by 43-57% compared to the global average.
- U.S.-based companies that supported the tariffs:
  - First Solar (U.S.), Suniva (Chinese owned), SolarWorld Americas (acquired by SunPower, San Jose, CA)
- According to the Solar Energy Industries Association:
  - 62,000 workers were laid off or never hired
  - 10.5 gigawatts of solar capacity lost
  - $19 billion in private sector investment lost
- Foreign companies build factories in the U.S.:
  - Hanwha (South Korea) in Whitfield County, GA
  - JinkoSolar (China) in Jacksonville, FL



Tariffs on Metals

- The **price of steel and aluminum** increased shortly after the tariff.
- The **domestic production** increased (steel production increased by 6 million metric tons and aluminum by 350,000 metric tons in 2019 compared to 2017).
- The **number of jobs** in iron, steel and aluminum mills rose temporarily by 6% and 5%, respectively from 2017 to 2019.
- **Downstream industries** (e.g. auto) faced higher input costs.
- Several studies estimated that the increased costs driven by tariffs may have resulted in 75,000 fewer manufacturing jobs.



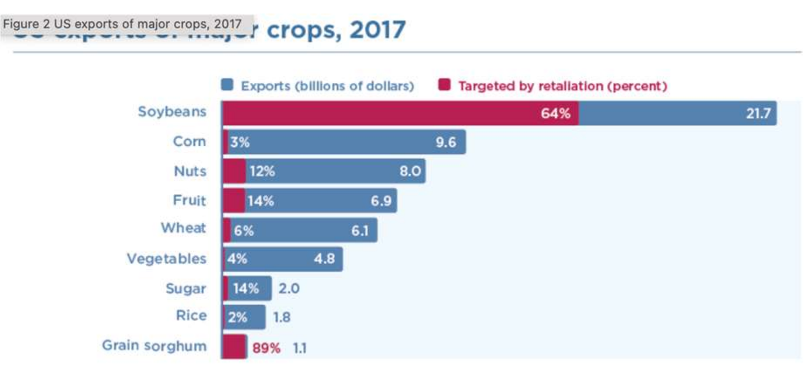
Tariffs on Metals - Retaliation

- The EU, Canada, Mexico, and China have retaliated with tariffs proportionate to their U.S. exports of steel & aluminum
- US industries targeted by foreign retaliation:

Industry	Countries
Pork	China, Mexico
Apples	China, Mexico, India
Fruits and Nuts	China, India
Whiskies (e.g. KY bourbon)	EU, Canada, Mexico
Mineral water, coffee, ketchup	Canada
Motorboats, yachts, motorcycles (Harley-Davidson)	EU

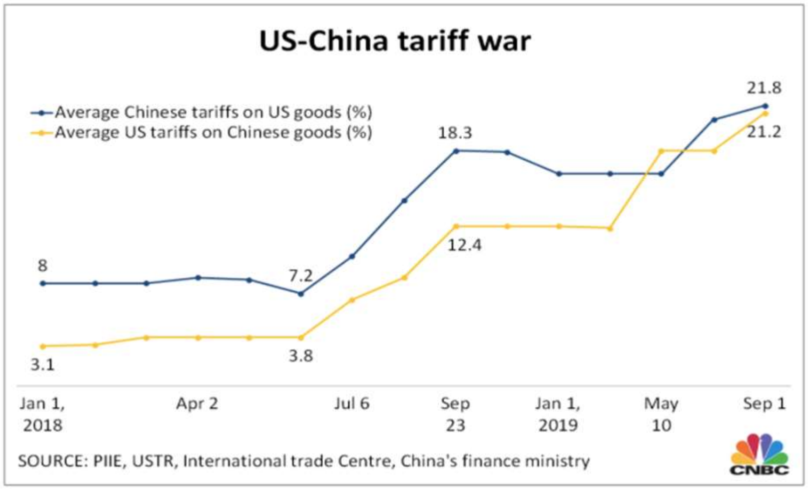
Subsidies to American Farmers

Figure 2 US exports of major crops, 2017



- $12 billion subsidy to help American farmers for their lost export sales.

US-China Tariff War – Tariff Rates



Source: CNBC.com

The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

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U.S - China Trade War

- Tariffs were fully-passed through to US import prices, but only partially to retail prices: retail margins decreased, and American consumers still paid **higher prices**.
- Net decrease in **manufacturing employment** due to tariffs (the negative effects of higher input prices and retaliatory tariffs outweighed the benefits to protected industries)
- Overall lower **aggregate real income** in both U.S. and China (small magnitudes relative to GDP)
- A 2024 study found that the **tariffs failed to provide economic help to the heartland**:
  - import tariffs had " neither a sizable nor a significant effect on US employment in regions with newly-protected sectors" and foreign retaliation "by contrast had clear negative employment impacts, particularly agriculture."

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US Trade Balance with China and the World

Deficit

Source:
FT 1/4/25

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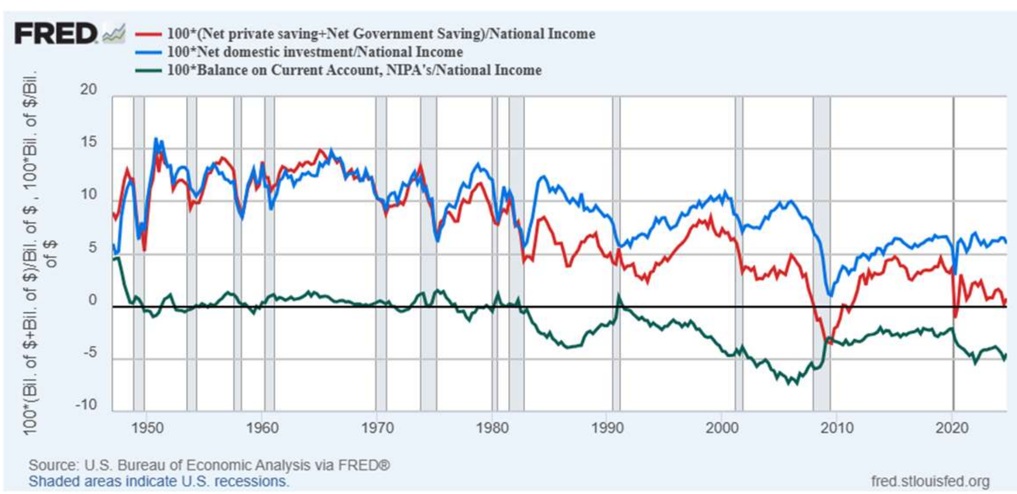
History of Saving, Investment and Trade Balance



Persistent Trade Deficits Start in the 1980s

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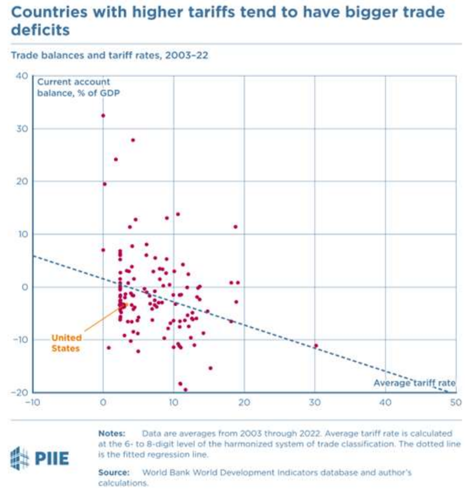
Effects of a Tariff

- **Do tariffs reduce a trade deficit?**
  - Trump thinks so, but the US deficit grew under him (see above)
  - A trade deficit equals **Expenditure minus Income or Savings minus Domestic Investment**
  - There is no reason for tariffs to reduce expenditure
  - And unless in a recession, also no reason for tariffs to raise income
  - Tariffs reduce imports but also reduce exports.
  - So NO!



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Source: Peterson Institute for International Economics (PIIE)

Trump I Tariffs & Trade War

- **Summary**
  - Trump placed tariffs of 25% on steel and 10% on aluminum
  - Trump placed multiple tariffs on China exports, covering at least ¾ of their exports to US
  - On request, he exempted some products and firms
  - Imports from China fell while imports from others rose
  - US trade deficit did not shrink
  - Data show no fall in foreign export prices, so tariffs were paid by US buyers

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Trump II Tariffs

Trump II Tariff Actions and Plans

- "To me the most beautiful word in the dictionary is 'tariff'"

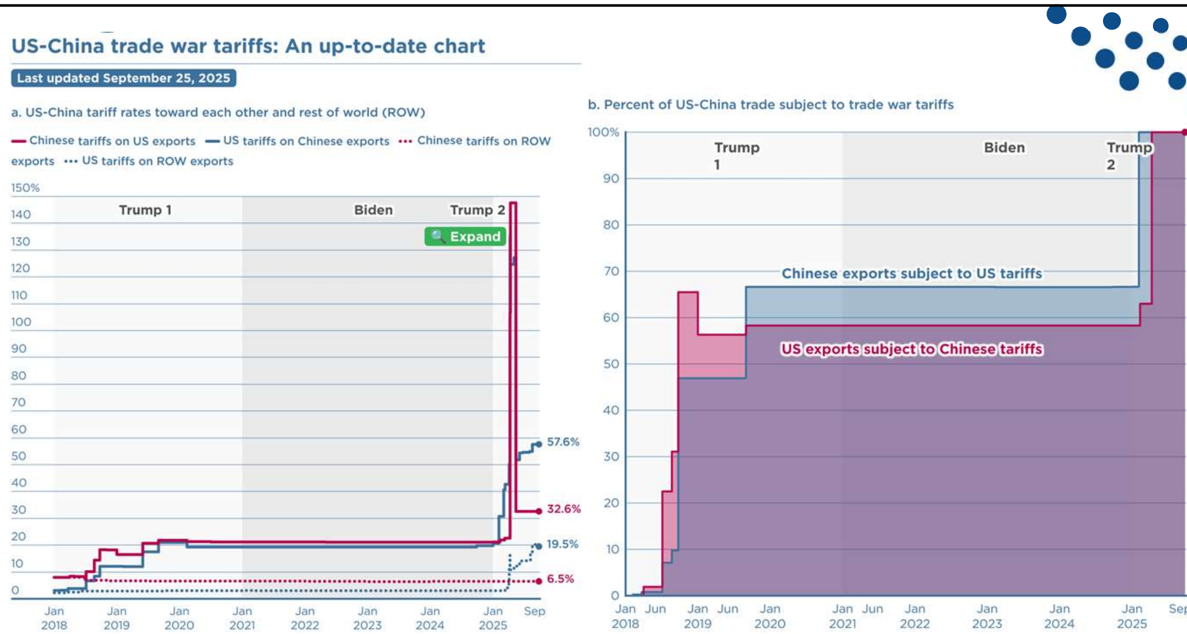
Trump's trade war timeline 2.0: An up-to-date guide

Filter by category: •Fentanyl and immigration •Trade deficits •Venezuela sanctions •Brazil sanctions •Russia sanctions •Unfair trade •Aircraft •Aluminum •Autos •Auto parts •Copper •Cranes •Critical minerals •Drones •Lumber •Medical •Pharmaceuticals •Polysilicon •Robotics •Seafood •Semiconductors •Shipbuilding •Steel •Trucks •Wind turbines •Retaliation •Deal

Filter by country: Australia Austria Brazil Cambodia Canada China European Union France India Indonesia Italy Japan Malaysia Mexico Nicaragua Philippines South Korea Spain Thailand Turkey United Kingdom Vietnam World

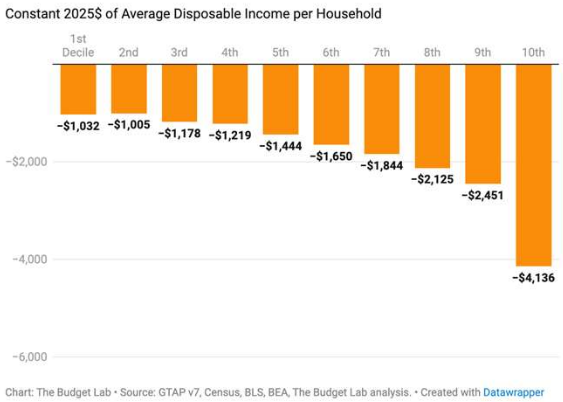
Reciprocal Trade and Tariffs

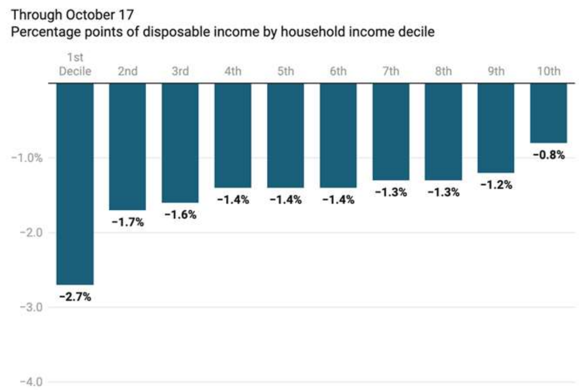
- Trade deals with China, Vietnam, EU, South Korea, ,Japan



Source: Peterson Institute for International Economics (PIIE)

Effects of Tariffs on Households





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Source: [Yale Budget Lab]

Effects of a Tariff

- **Government revenue**
  - Could Trump's proposed tariffs replace the US income tax?
  - NO!
  - Researchers estimates that all 2025 tariffs to date would raise about $2.7tr over 10 years if they stayed into effect.
  - US federal income tax revenue in 2023 was $2.18tr
  - So, his tariffs would collect MUCH less than the income tax.

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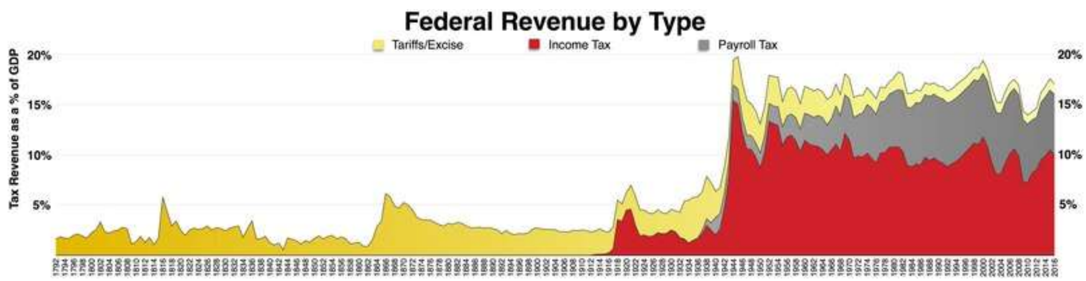
History of the Source of Federal Revenues



1913; Sixteenth Amendment. The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived…
1930; Smoot Hawley Tariff.
1935; Social Security and Payroll taxes.

https://en.wikipedia.org/wiki/File:Federal_taxes_by_type.pdf

Summary

- **Trade and growth are positively related.**
- **Gains from trade are large but spread thin across millions of consumers while losses are highly concentrated on a few workers, firms, and communities.**
- **Tariffs reduce trade overall, thus imposing widespread losses to both producers (who use imported inputs) and consumers (who buy lower-priced imported goods).**
- **More direct policies to help those hurt by trade can be more efficient and save gains from trade.**

The Future of Globalization?

- **Geopolitics overrides Economics:**
  - Countries prioritize national security and strategic competition over free trade
  - The rules-based system of the World Trade Organization is being challenged.
- **The Rise of Regional Trade Blocs:**
  - We'll see trade expansion within regional blocs (e.g. North America, Europe, Southeast Asia) because of geopolitical tensions and a shift towards resilience of global supply chains.
- **New Technology Makes "Local" Possible:**
  - AI is revolutionizing manufacturing and design which will erode the old advantage of cheap labor making it possible to produce closer to the consumer.

Case Study - USMCA

USMCA AFTER THE JULY 1, 2026 JOINT REVIEW

What ‘Not Renewed’ Means

United States

Did not agree to renew USMCA “in its current form” — citing shortcomings and trade deficits (USTR)

Canada

Reaffirmed “unwavering support” for the agreement and its renewal; support in writing since June 1

Mexico

Signed a letter requesting a 16-year extension; sees no immediate change to how the agreement operates

The agreement remains fully in force. The July 1 outcome triggered annual joint reviews through 2036 — and the three countries can confirm a 16-year extension at any time.

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North America Is the United States’ Top Trade Relationship

$872B US–Mexico goods trade in 2025 — Mexico the largest US partner since 2023

$716B US–Canada goods trade in 2025 — the second-largest partnership

1/3 of all US goods exports go to Mexico and Canada (~15% each)

Sources: U.S. Census Bureau (FT-900, 2025 annual, Exhibit 13); Brookings/Dallas Fed.

Integrated Production: One Regional Factory

30¢

of every $1 of manufactured goods the US imports from Mexico is estimated to be returning US-produced content

Comparative advantage at work

Labor-intensive stages locate in Mexico; capital-intensive production concentrates in the US — supply chains cross the border multiple times.

Autos as the test case

A typical arrangement: frame produced in northern Mexico, US-made engine, final assembly in central Mexico — sold worldwide.

Competitiveness stakes

8 of the 10 cheapest models in the US are made abroad; automakers warn USMCA changes could imperil affordable models (WSJ, April 2026).

Sources: de Gortari (Dallas Fed); Atlantic Council; Brookings; Wall Street Journal.

NATIONAL ECONOMIC EDUCATION DELEGATION

Market Access, Investment — and What the Annual Reviews Put at Stake

MARKET ACCESS

38% of Mexico's imports came from the US (2025)

59% of Canada's merchandise imports came from the US (2025)

INVESTMENT RELATIONSHIPS (YEAR-END 2024)

$732.9B Canadian FDI in the US — 3rd-largest source

+44% growth in the US investment position in Mexico, 2020–2024 ($159B)

The takeaway: integration this deep is what the annual reviews now put on the table each year. A well-defined, structured review process — with the US working closely with Canada and Mexico — is what sustains a framework that benefits all three economies.

Sources: DataMéxico; Statistics Canada; U.S. Bureau of Economic Analysis. From: Blanco, "What 'Not Renewed' Means," Wilson Center (2026).

Thank you!

Any Questions?

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