

The Economics and Law of Global Interdependence

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Outline

- 1 Globalization
- 2 Globalization: a win-win solution?
- 3 Unilateralism
- 4 Weaponized interdependence
- 5 Conclusions

Learning outcomes

- Understand globalization as a process of growing interdependence
- Compare the political economy of economic integration and of the antiglobalization backlash
- Interpret unilateralism as a reaction to constraints on sovereignty
- Introducing the concept of weaponizing interdependence

Globalization 'is' interdependence

Globalization is a process of growing interconnection and interdependence among people, firms, organizations and institutions around the world.

It depends on forces that determine the costs and the opportunity of:

- 1 exchanging goods and services
- 2 exchanging ideas / communicating
- 3 doing *face-to-face* activities

Technology, societal forces, culture/ideology and international politics have affected all of them, in different ways over time.

Political economy of trade liberalization

Trade makes labor specialisation possible and profitable, raising real income and welfare for all parties.

Trade is not a 'zero-sum game' at the global level, it is welfare improving. Any limitation of trade *ipso facto* reduces general welfare, and it is tolerated as exception (Cohen 2020).

These tenets are the backbone of the international liberal order, as well as the basis of the GATT/WTO.

All WTO principles revolve around these: fair competition, reciprocity in liberalization, non-discrimination and national treatment clauses, most favourite nation clause, single undertaking, . . .

Interdependence in the liberal IPE tradition

In the liberal tradition in IPE literature, interconnected networks are considered as a fragmented polity where

there were multiple actors (rather than just states), multiple issues that were not necessarily hierarchically ordered, and force and the threat of force were not valuable tools of policy. (Keohane 2009)

Interdependence is expected to generate reciprocal vulnerabilities, as well as opportunities for cooperation and progressive self-enforcing entanglement.

Globalization after WWII

Economic globalization increased after WWII thanks to:

- ① greater political integration
- ② technological progress (lower transaction costs, more tradable products, greater information, faster labour mobility)

50-90 consumption - production *unbundling*

- sectoral specialization, industrial agglomeration in North; intra-industry trade North-North; inter-industry trade North-South

90-20 production - production *unbundling*

- slicing up of the value chain, offshore production (with MNC)
- task-based specialization; intra-industry trade North-South & global production networks; North-to-South knowledge transfer

now *service unbundling* but also *antiglobalization backlash*

The Great Unbundlings

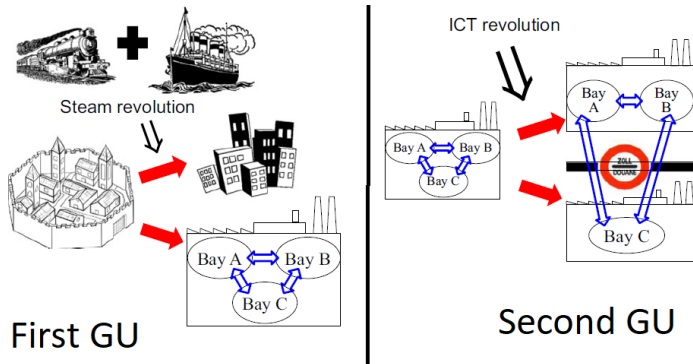


FIGURE 1: Schematic Illustration of Globalization's Two Unbundlings.

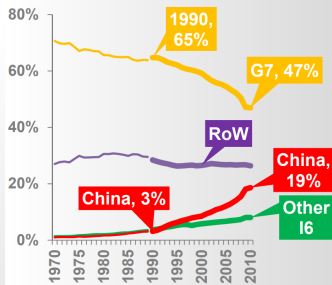
BALDWIN AND EVENETT: VALUE CREATION AND TRADE *JOURNAL OF REGIONAL SCIENCE*, VOL. 55, NO. 1, 2015, pp. 31–50

The great convergence

Da: Baldwin 2017 The great convergence

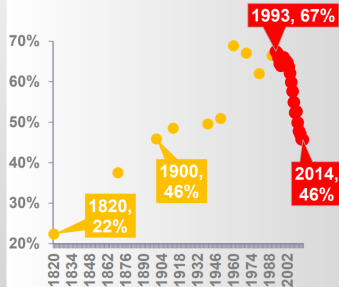
Manufacturing & GDP shares shifted from G7 to a few developing countries

Shares of world manufacturing



I6: China, Korea, India, Poland, Indonesia, Thailand

G7's share of world GDP



Offshoring production: trade-investment nexus

The development of dense global production networks characterizes the most recent phases of globalization.

The segmentation of the production process into stages and their allocation across the world is the fundamental force behind it.

Any company has to decide what stages to retain at “home” and how to connect (either via FDI or contracts) the stages sourced from different countries.

Offshoring production

Organization and location in GVCs; four sourcing options

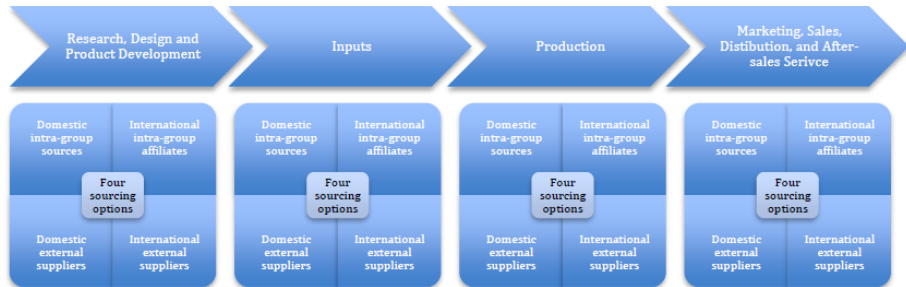
ORGANIZATION	LOCATION	
	DOMESTIC SOURCING	INTERNATIONAL SOURCING
<u>INTERNAL SOURCING:</u> sourced from within the enterprise or enterprise group	1) Domestic intra-group sources <i>Work performed within the enterprise or enterprise group within the compiling country (work sourced "in-house")</i>	3) International intra-group affiliates <i>Work performed within the enterprise or enterprise group outside the compiling country</i>
<u>EXTERNAL SOURCING:</u> sourced from outside the enterprise or enterprise group	2) Domestic external suppliers <i>Work performed outside the enterprise or enterprise group by non-affiliated enterprises within the compiling country (e.g., sourced from independent suppliers, service providers, contractors, etc.)</i>	4) International external suppliers <i>Work performed outside the enterprise or enterprise group by non-affiliated enterprises outside the compiling country (e.g., sourced from independent suppliers, service providers, contractors, etc.)</i>

Four sourcing options for any business function

Fonte: Sturgeon 2013, Report to Eurostat

Offshoring tasks

A simple four-stage value chain with four sourcing possibilities

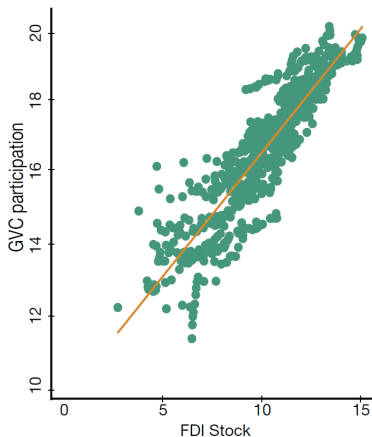


Fonte: Sturgeon 2013, Report to Eurostat

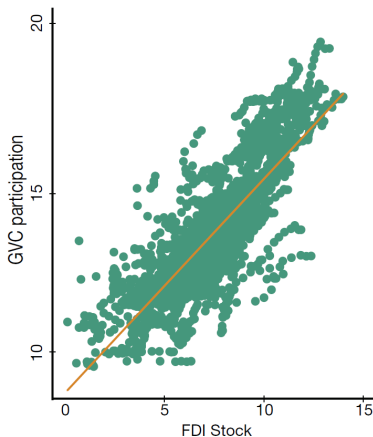
Trade and FDI

Figure IV.16. Correlation between levels of inward FDI stock and GVC participation

GVC Participation vs FDI Inward Stock
Developed countries - logs



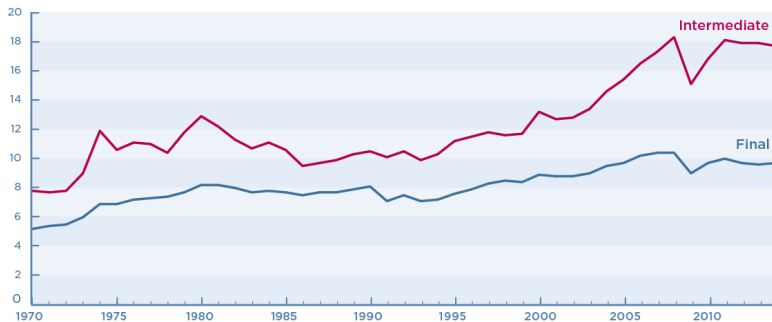
GVC Participation vs FDI Inward Stock
Developing countries - logs



Trade in Intermediates and GVC

Global supply chains dominate world trade

World trade in intermediate vs. final goods as percent of GDP (1970–2014)



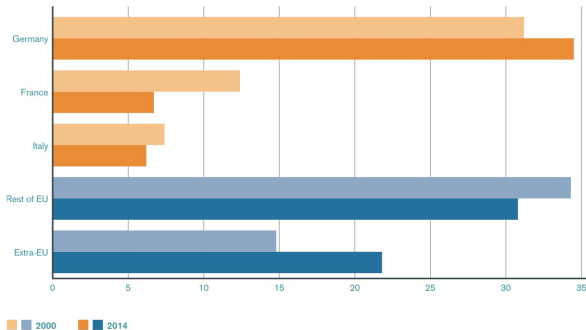
Source: Agustín Carstens, "Global market structures and the high price of protectionism," remarks at the Federal Reserve Bank of Kansas City's 42nd Economic Policy Symposium, Jackson Hole, Wyoming, August 25, 2018 (<https://www.bis.org/speeches/sp180825.pdf>).

VA in automotive exports

Chart 4.26

Value-added origin in EU exports of automotive products, 2000-2014

(Percentage share)



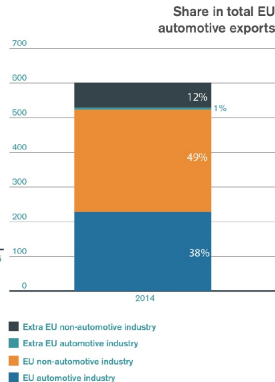
Source: UIBE GVC Index database.

Fonte: WTO, World Trade Statistical Review 2018, p 62-64

Chart 4.28

Geographical and sectoral origins of value added in EU exports of automotive products, 2014

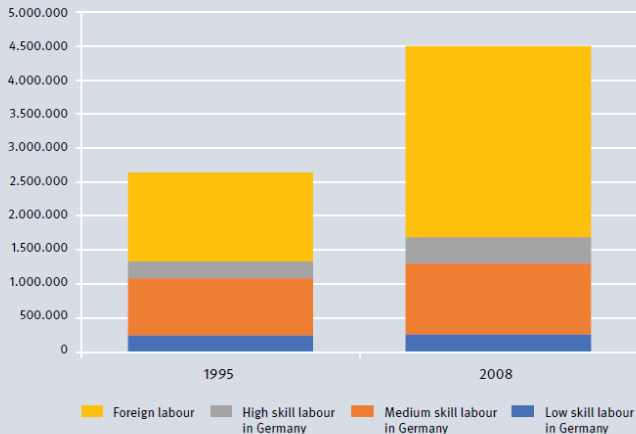
(US\$ billion and percentage share)



Source: UIBE GVC Index database.

Jobs in automotive exports

Figure 1.1
German Transport Equipment: Direct and Indirect Jobs, 1995 and 2008

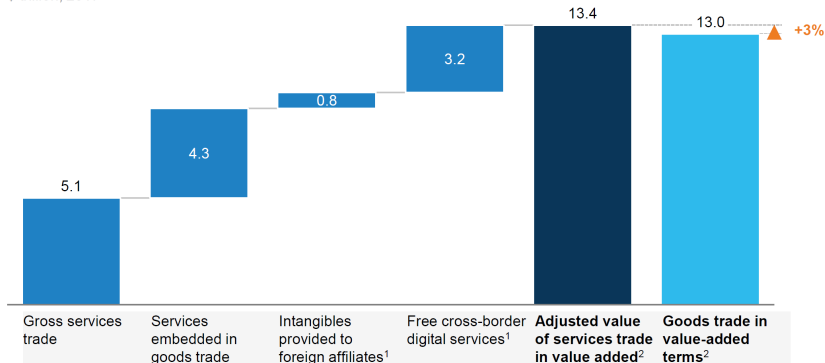


Source: UNIDO elaboration based on Timmer, Stehrer and de Vries (2013).

Services-manufacturing nexus

Services still embedded in goods ...

\$ trillion, 2017



¹ Higher-end estimate.

² In value-added terms. The value of services embedded in goods trade and the value of goods embedded in services trade have been removed.

fonte: McKinsey global Institute 2019 GLOBALIZATION IN TRANSITION: THE FUTURE OF TRADE AND VALUE CHAINS

GVC network

The network of trade and business relationship linking all countries is not random and its *topology* matters to understand interdependence and resilience.

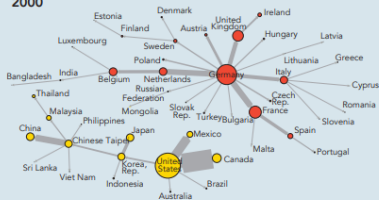
Asymmetries and specific shapes of the network (i.e. hub & spoke) are the results of country-specific, pair-specific, regional and and multilateral factors.

Advances in technology, political arrangements and legal frameworks contribute to shape its evolution.

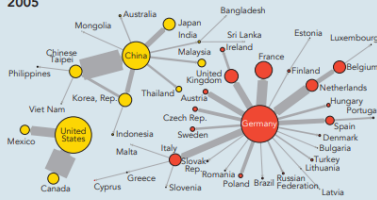
GVC network: A visual representation

The typology of foreign value added embedded in bilateral manufactured exports, 2000–15

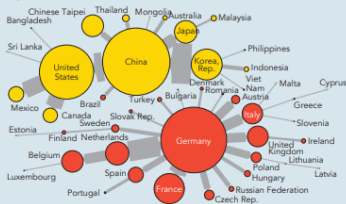
2000



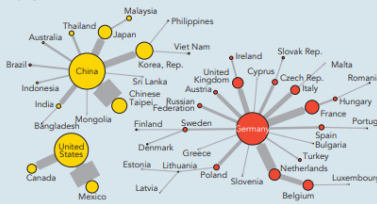
2005



2011



2015



■ Asia-Pacific ■ Europe

Fonte: WTO GVC report 2017

Source: Author's calculation based on Xiao and others' 2017 method and data from Asian Development Bank Inter-Country Input-Output Tables.

Gains from trade

At the theoretical level, globalization is a win-win solution, thanks to specialization and incentives.

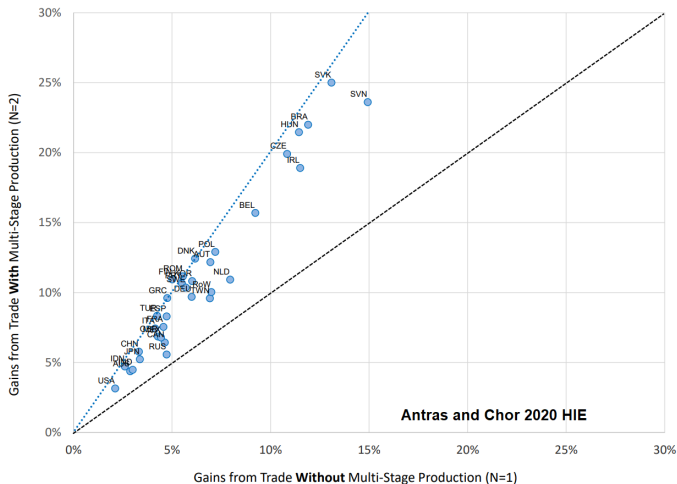
Participation in GVC increases the gains from trade with respect to a situation with trade in final goods alone. [▶ fwd](#)

This does not mean that everybody is better off and happy ...

Moreover, not all industries are mature yet and “winner takes it all” phenomena exist.

GVC, better with than without

Figure 6: Gains from Trade With and Without Multi-Stage Production



China, the BRIIS and the great convergence

Given the size of the BRIICS, the great convergence had an impact on:

- international production matrices
- geographical distribution (activities, jobs & VA)

Notably, not all stages of the GVC are equal in terms of VA [next slide].
This opens a sort of **rivalry for the “control” of the chain.**

Smile

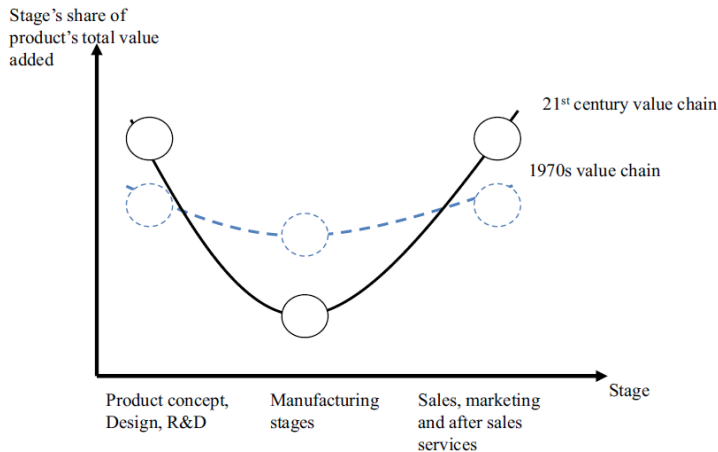


FIGURE 2: The Smile Curve gives Rise to the Impression That There are “Good” and “Bad” Stages in the Value Chain.

Positions in the GVCs

Place-specific factors determine what GVC stages are located where.

Some are associated with economic externalities:

- local knowledge and other amenities

Other with the degree of economic certainty:

- rule of law, no discrimination, IPR protection, . . .

Others with political measures:

- state subsidies, environmental and labour regulations

Clearly, there is a tension between the second and the third: state interventionism is a double-edged sword.

GVC determinants: economic certainty

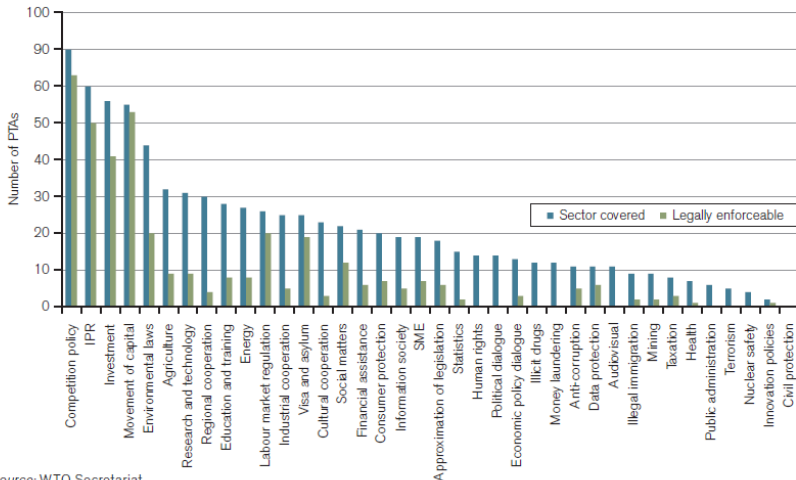
Firms make internationalization decisions based on institutional factors such as protection of IPR and investment, rule of law, freedom from coercion, protection from expropriation ...)

Those most involved in international business like deep and comprehensive economic agreements among states that include aspects “beyond the border” and credible dispute settlement mechanisms.

National institutions and international law are key drivers of globalization and of the ‘good’ interdependence.

Beyond the national border clauses

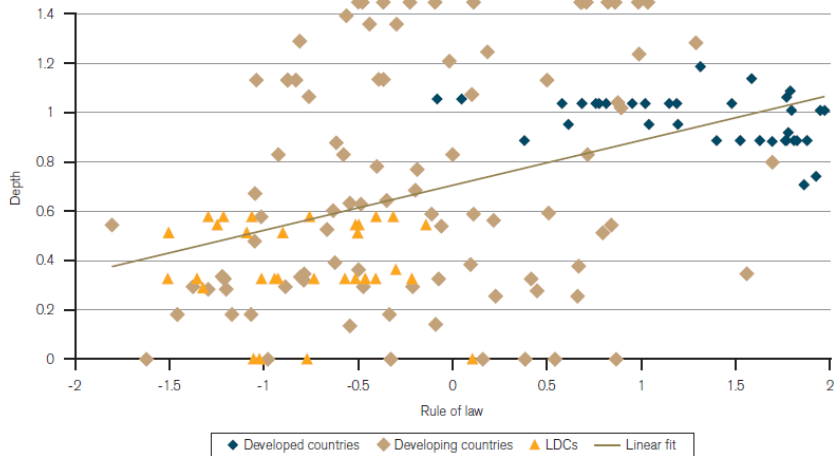
Figure D.8: Number of agreements covering WTO-X provisions



Source: WTO Secretariat.

Rule of law and trade agreements

Figure C.62: Rule of law and “deep” preferential trade agreements, 2010



Sources: Authors' calculation based on data from WGI and WTO Secretariat.

GVC determinants: economic externalities

Firms make internationalization decisions to exploit local externalities.

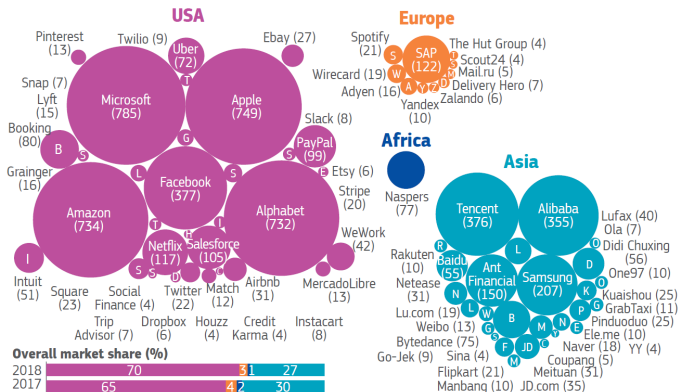
This explains the existence of public investment in R&D, Universities, and the like.

This is conducive to agglomerations at the task level, rather than sectoral.

If preserving a technological advantage provides a competitive edge, dynamic gains add to the static trade gains:

- this justifies political attempts to attract further resources from abroad and to prevent knowledge extraction

Market valuations of online platforms by continent, in billion US dollars (December 2018)



Source: Dr Holger Schmidt (TU Darmstadt/Netzoekonom.de)

Source: European Commission (2019) EU Industrial Policy After Siemens-Alstom

GVC determinants: political measures

Firms make internationalization decisions also on the basis of cost advantages that they can derive from locating in a given place.

Some cost advantages come from cheap labor.

Subsidised credit and energy, facilitated access to public procurements, low labour and environmental standards may provide advantages too.

To a certain extent, these measures impinge on fair competition and fair trade, altering welfare distribution.

The China syndrome

VOL. 103 NO. 6

AUTOR ET AL.: THE CHINA SYNDROME

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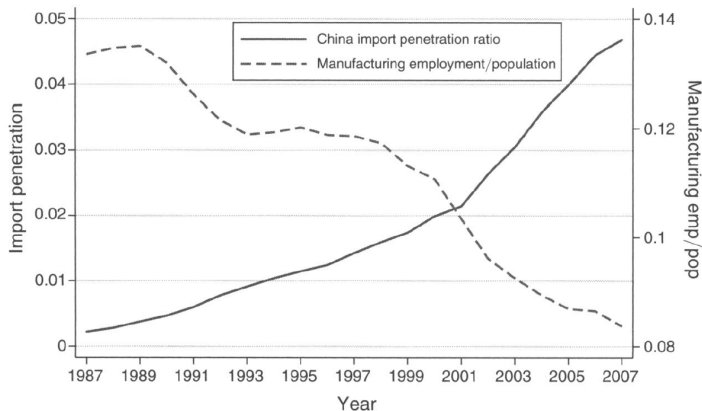


FIGURE 1. IMPORT PENETRATION RATIO FOR US IMPORTS FROM CHINA (*left scale*), AND SHARE OF US WORKING-AGE POPULATION EMPLOYED IN MANUFACTURING (*right scale*)

China syndrome: alleged effects

Several studies estimate the impact of competition from China on US:

- Closure of manufacturing plants (Bernard, Jensen, Schott 2006) and decline in employment (Acemoglu, Autor, Dorn, Hanson, Price 2016; Pierce, Schott 2016) in the most US trade-exposed industries;
- Lower employment and higher long-run unemployment, with differences across more or less trade-exposed local labor markets (Autor, Dorn, Hanson 2013);
- Lower lifetime incomes and greater job churning for workers in more trade-exposed industries (Autor, Dorn, Hanson, Song 2014)

China syndrome: alleged channels

Besides the size-related impact of the participation of China in the GVCs, other controversial issues have emerged:

- forced technological transfers
- limited reciprocation to foreign firms in China
- unfair competition on labor rights and standards
- exchange rate management

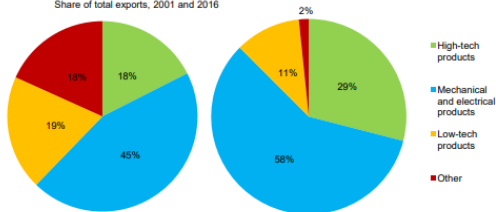
Moreover, China has “played the piano” and graduated along the technological ladder.

Challenge for tech firms in adv’ed countries: batteries, solar panels, ...

China: Graduation

Figure 2: Composition of Chinese exports

Share of total exports, 2001 and 2016

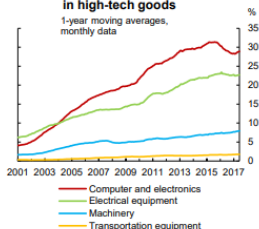


Source: China Customs via Haver Analytics

Last observation: 2016

Figure 5: China's share of the US market in high-tech goods

1-year moving averages, monthly data

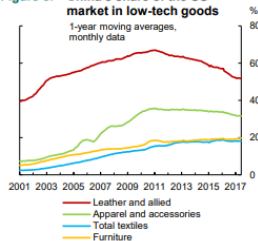


Sources: US Census Bureau,
Bank of Canada calculations

Last observation: Dec. 2016

Figure 6: China's share of the US market in low-tech goods

1-year moving averages, monthly data



Sources: US Census Bureau,
Bank of Canada calculations

Last observation: Dec. 2016

Globalization and its discontent 2.0

A backlash against globalization has emerge in dev'ed countries:

- free trade of goods (and services): too much competition?
- free movement of people: too much migration?
- national sovereignty in competition: erosion of preferences?
- dynamic gains: winner takes it all?

'Sovranist' & 'nationalist' narratives juxtapose *the people* and some political/economic *elite* (e.g. parties, European technocracy, MNEs, international finance, ...)

Even more moderate people claim greater room of manoeuvre for sovereign policies (even when it is internal politics to determine the retrenchment of the State and not international competition, e.g. UK).

Globalization and its discontent

Among the sceptical scholars, Dani Rodrik argued that conditions and preferences are so different across countries that political unification and global solidarity are impossible.

Short of common governance, globalization should be scaled back.

"We must acknowledge and accept the restraints on globalization that a divided global polity entails. The scope of workable global regulation limits the scope of desirable globalization. Hyper-globalization cannot be achieved, and we should not pretend that it can."

NB: Rodrik did not advocate isolationism and did not exclude that a single global market under a global political umbrella might be the best solution. He simply noticed that the world is not ready for it, yet.

Unilateralism and sovereignty

The response to such developments in the globalization process and to the growing concerns that adv'd countries need to protect their sovereign interests led to the adoption of more and more unilateral measures:

- trade defence measures
- FDI restrictions
- economic sanctions

On top of this, industrial policy came back to the fore. Tech backwardness appears as a higher risk than wrong cherry picking.

Trade defence v. Defence from trade

The use of trade defence measures has increased remarkably..

These tools are meant to address failures in compliance (lack of reciprocity or unfair trade practices), but more common is their use either to address national security interests or to “twist other countries’ arms” in negotiations.

Although rhetoric and legal discourses are seemingly consistent with the WTO principles, many measures are used in such a strategic way.

NB: Even the revision of regional PTAs can be driven by concerns for “managing” politically the distribution of gains among countries. The justification is noble, such as environmental and labour rights or national security interest, but the ultimate goals may be less so.

Trade defence measures

Figure 8: TBT notifications 1995 to 2018

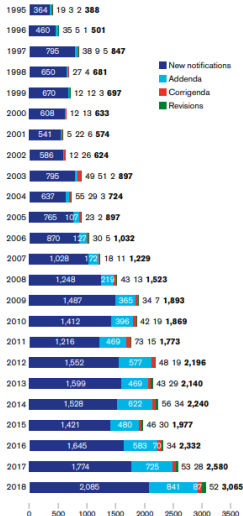


Figure 17: Trade coverage of import-restrictive and import-facilitating measures (US\$ billion)

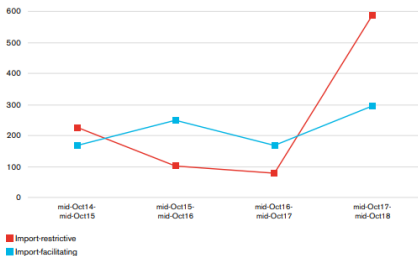
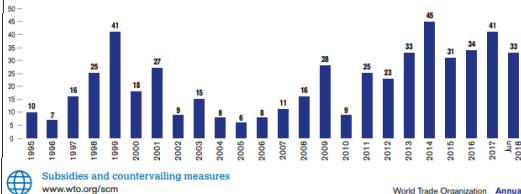


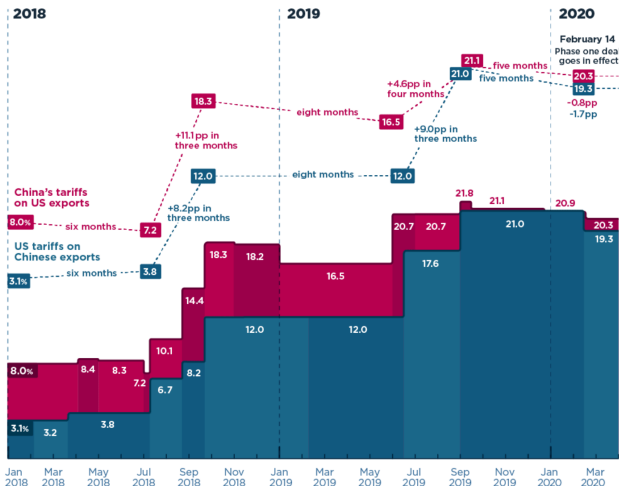
Figure 9: Countervailing initiations by reporting WTO member, 1 January 1995 to end-June 2018



China bashing: unfair trade

US-China Trade War Tariffs: An Up-to-Date Chart

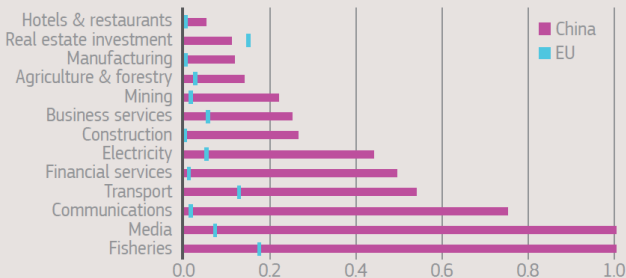
Average tariff rate, percent



China bashing: lack of reciprocity

Figure 6: Foreign investment restrictions higher in China than in the EU in all sectors but real estate

Foreign Direct Investment Restrictiveness Index (1=closed ; 0=open)

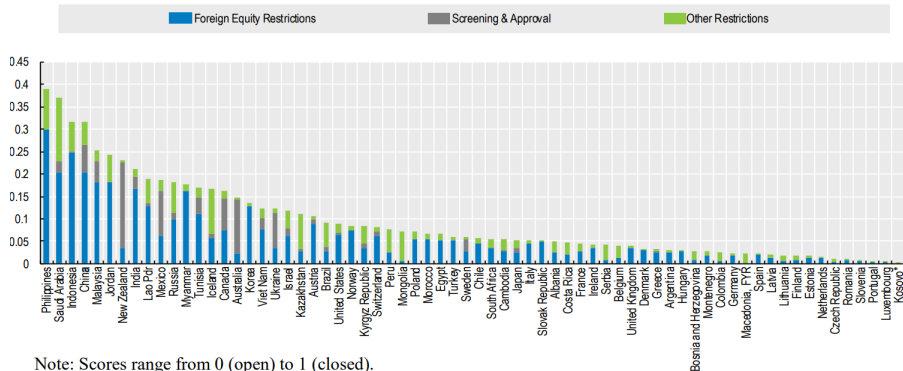


Source: Mercator Institute for China Studies (MERICS), 2018

Source: European Commission (2019) EU Industrial Policy After Siemens-Alstom

Heterogeneity in business opportunities

Figure 3. OECD FDI Regulatory Restrictiveness Index by type of restriction & country, 2017



Source: OECD FDI Regulatory Restrictiveness Index database.

This heterogeneity is the result of old-style “don’t obey, don’t object”.

The political economy of unilateral tariffs

If globalization is so nice, how come so many trade restrictions?

Using a partial equilibrium analysis, one can appreciate the political economy of trade protection.

- Specific groups and activities may be protected, even when this has negative repercussions on overall welfare (e.g. US steel tariffs and pension funds).
- Defence from unfair foreign competitors (e.g., antidumping and countervailing duties)
- Costs of adjustment in the short-term are too high (e.g. safeguards)

US protectionism

Table I The 2018 Trade War

Fajgelbaum et al (2020) The Return to Protectionism, *The Quarterly Journal of Economics*, Volume 135, Issue 1, February 2020, Pages 1–55
<https://doi.org/10.1093/qje/qjz036>

Tariff wave	Date enacted	Products	2017 imports	Tariff (%)		
		(# HS-10)	(mil US\$)	(%)	2017	2018
Panel A: Tariffs on U.S. imports enacted by the United States in 2018						
Solar panels	Feb 7, 2018	8	5,782	0.2	0.0	30.0
Washing machines	Feb 7, 2018	8	2,105	0.1	1.3	32.2
Aluminum	Mar–Jun, 2018	67	17,685	0.7	2.0	12.0
Iron and steel	Mar–Jun, 2018	753	30,523	1.3	0.0	25.0
China 1	Jul 6, 2018	1,672	33,510	1.4	1.3	26.2
China 2	Aug 23, 2018	433	14,101	0.6	2.7	27.0
China 3	Sep 24, 2018	9,102	199,264	8.3	3.3	12.9
Total		12,043	302,970	12.7	2.6	16.6

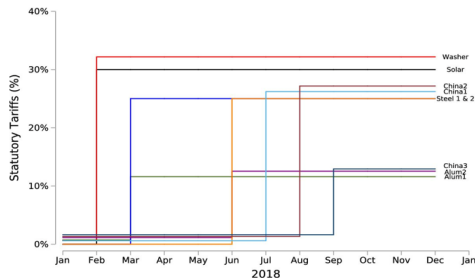
US protectionism

Figure I Trade War Timeline

Figure shows the unweighted average tariff rate of targeted import and export varieties

Fajgelbaum et al (2020) The Return to Protectionism, *The Quarterly Journal of Economics* Volume 135, Issue 1, February 2020, Pages 1–55
<https://doi.org/10.1093/qje/qjz036>

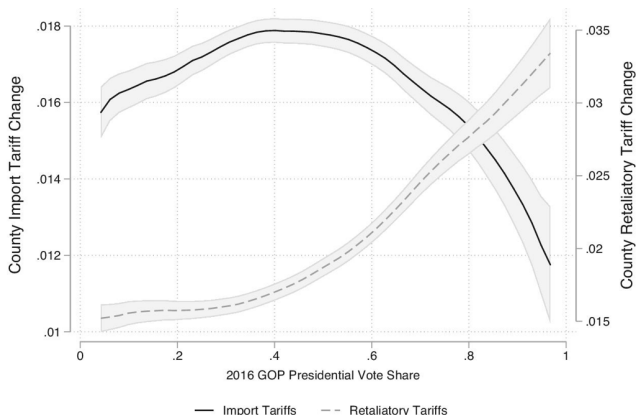
(A) Tariffs on U.S. Imports



US protectionism

Figure VII Tariff Changes versus 2016 Republican Vote Share

County-level import and retaliatory tariff changes against the 2016 Republican presidential two-party vote share.

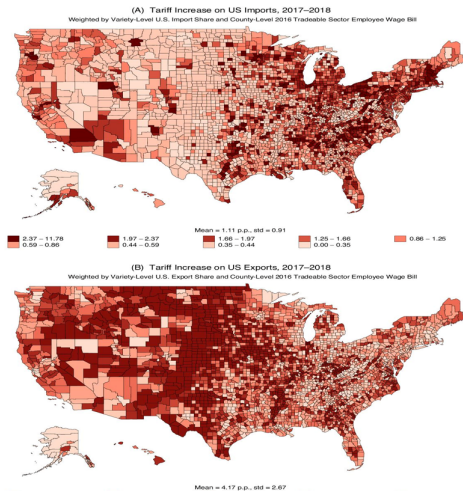


Fajgelbaum et al 2020 The Return to Protectionism, *The Quarterly Journal of Economics*, 135, 1, February 2020, 1–55, <https://doi.org/10.1093/qje/qjz036>

US protectionism & retaliation

Figure V Regional Variation in U.S. and Retaliatory Tariffs

Figure shows county-level exposure to U.S. import tariff changes (Panel A) and retaliatory tariff changes (Panel B) due to the trade war, weighted by variety-level 2013–17 U.S. trade shares and by 2016 county-level tradeable sector employee wage bill. Darker shades indicate higher tariff exposure. Values indicate percentage point tariff increases.

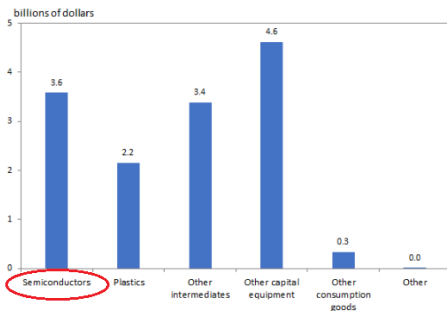


Fajgelbaum et al (2020) The Return to Protectionism, *The Quarterly Journal of Economics*, Volume 135, Issue 1, February 2020, Pages 1–55
<https://doi.org/10.1093/qje/qjz036>

The political economy of unilateral tariffs

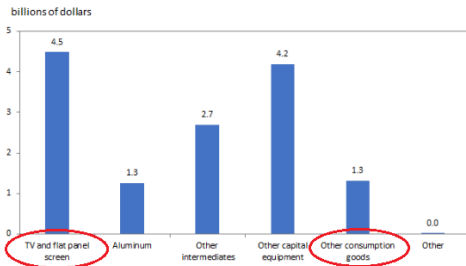
The changes in tariff schedules over time reflect the functioning of lobbying and political pressures.

Figure 2a US imports from China subject to Section 301 tariffs added to list on June 15



Source: Authors' calculations using US import data from USITC Dataweb. Industry categories are defined using Harmonized System sections as follows: Semiconductors (8541, 8542) and Plastics (29).

Figure 2b US imports from China dropped from original April 3 Section 301 list on June 15



Source: Authors' calculations using US import data from USITC Dataweb. Industry categories are defined using Harmonized System sections as follows: TV and flat panel screen (8528) and Aluminum (76). Import

Fonte: PIIE

The political economy of unilateral tariffs

On September 11, 2009, President Obama approved relief for domestic producers by increasing tariffs on new Chinese tire imports for 3 years.

Box 2 Summarizing the cost to US consumers of protection against Chinese tire imports, 2011

Annualized cost to consumers for switching from imported radial car tires from China to tires from other foreign countries, in million dollars (table 3)	716.00
Annualized cost to consumers for switching from imported radial light truck tires from China to imported tires from other foreign countries, in million dollars (table 3)	100.70
Annualized cost to consumers for the safeguard tariff's impact on the price of US-made tires, in million dollars (table 4)	295.00
Total cost to consumers, in million dollars (excluding the tariff revenue collected from consumers)	1,111.70
Total jobs saved by tariffs, September 2009–11 (figure 5)	1,200
Annualized cost to consumers per manufacturing job saved by the safeguard tariffs on Chinese tire imports, in thousand dollars (\$1,111.7 million cost divided by 1,200 jobs)	926.5

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, International Trade Commission, authors' calculations.

Hufbauer and Lowry 2012 US Tire Tariffs: Saving Few Jobs at High Cost. PIIE Policy Brief PB12-9, APRIL 2012

Table 6 Loss of US retail jobs due to higher tire prices resulting in less US household purchasing power

Annual employment in the retail sales trade, in millions of jobs ¹	14.73
Annual US retail sales, in trillion dollars ²	\$4.20
Jobs in retail sales created per \$1 billion of US retail sales annually	3,507
Annualized higher consumer spending on AOC tires plus higher cost of US tires, in million dollars ³	\$1,111.70
Less: additional income to tire builders saved by the safeguards (1,200 workers with annual salaries of \$40,040 each), in million dollars ⁴	\$48.10
Annual net loss of purchasing power by US households as a result of tire safeguards to US consumers, in million dollars	\$1,063.60
Calculation of lost retail jobs in the United States due to higher tire prices (3,507 jobs times \$1.064 billion in lost consumer purchasing power)	3,731

1. Taken from the BLS Current Employment Statistics for the retail trade sector in December 2011.

2. Combined sum of the Census Bureau's total monthly retail sales statistics (excluding food services) for 2011.

3. Taken from box 2, line 4.

4. Employment data comes from figure 5, whereas salary data comes from the BLS Occupational Employment Statistics information for the position of tire builders (SOC 519197) under the rubber product manufacturing industry (NAICS 326200). We assume that, in the absence of safeguards, some 1,200 tire builders would be unemployed and have no income.

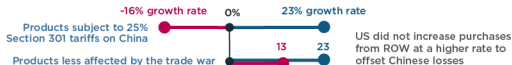
Sources: US Bureau of Labor Statistics, US Census Bureau, authors' calculations.

The political economy of unilateral tariffs: ouch

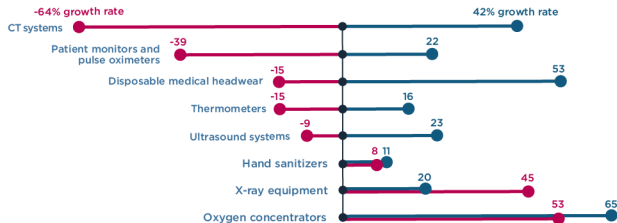
Tariffs disrupted medical supplies critical to US coronavirus fight

US import value growth rate for medical products, 2017–2019

● From China ● From rest of world (ROW)



Subject to 25% Section 301 tariffs on China



PTA clauses: USMCA and America first

The USMCA requires more 'domestic content' and higher average wages at Mexican facilities for the goods to be imported without duties in the US.

The US and Mexico agreed to a binational panel process to review claims that either country is violating freedom of association and collective bargaining rights and to issue recommendations to remediate the violations. ...

Trade is assumed to be adversely affected unless the respondent can demonstrate otherwise (reverse proof).

Unilateralism as a failure of multilateralism?

The US have long questioned the WTO DSS system:

“For more than 20 years, successive Administrations and the U.S. Congress have voiced significant concerns that the Appellate Body has failed to function according to the rules agreed by the United States and other WTO Members” according to Ambassador Robert Lighthizer. “Unfortunately, the conduct of the Appellate Body has converted the WTO from a forum for discussion and negotiation into a forum for litigation. President Trump is committed to a trade agenda that benefits all Americans, and a reassessment of the WTO and its role is a key part of that agenda.” (February 2020).

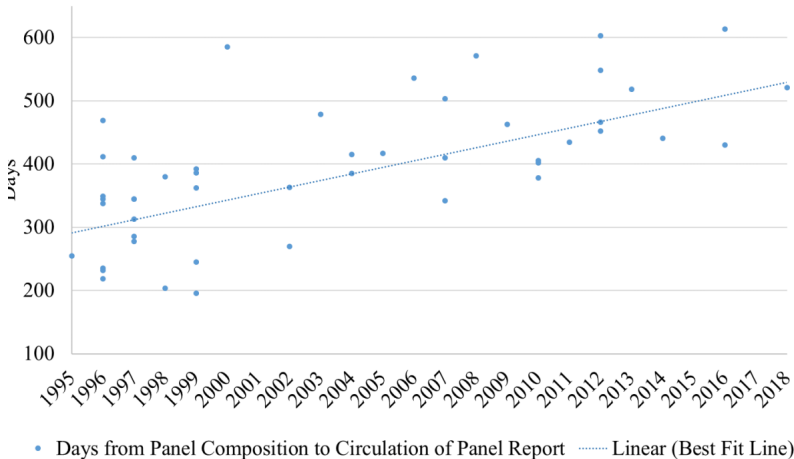
Source: USTR report on the appellate body

The USTR accuses the AB of engaging in ultra vires actions.

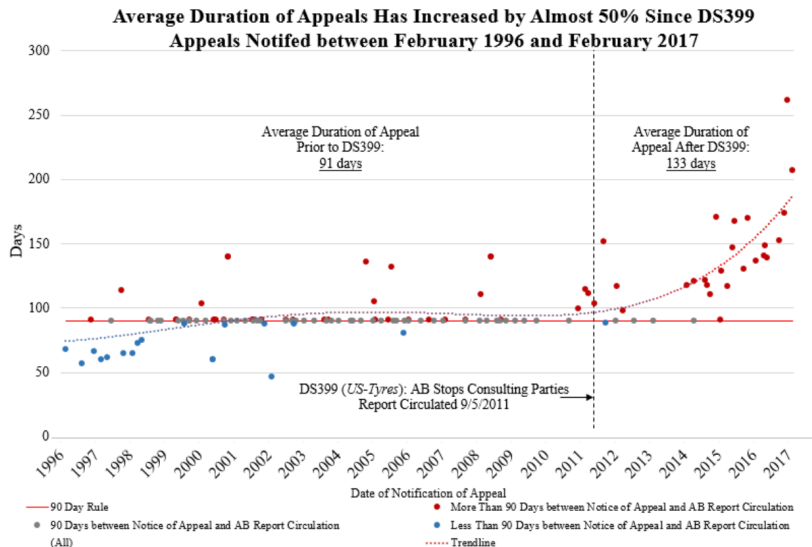
On these and other grounds, the US has blocked the appointment of the WTO AB judges.

WTO DSS effectiveness

Average Duration from Panel Composition to Panel Report Increased by More than 80% for U.S. Offensive Cases (1995-2018)

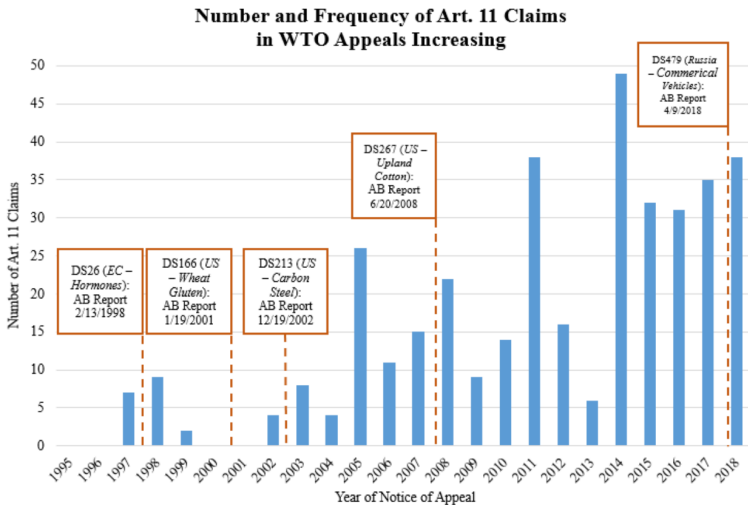


WTO DSS effectiveness



WTO DDS - Art 11: facts finding in appeals

II. Analysis: The Appellate Body's Failure to Follow WTO Rules



WTO and trade remedies

A sensitive area is trade remedies: the USTR report has a section “Appellate Body Errors in Interpreting WTO Agreements Raise Substantive Concerns and Undermine the WTO”, and 4 of the 5 alleged errors regard this category. Two on antidumping duties, one about countervailing duties, and one about safeguard tariffs.

The US claims that trade remedies should be less constrained by judicial decisions. In fact, the use of trade remedies by US has been under attack: between 2002 and 2019, two-thirds of the disputes (accounting for 30% to 60% by import coverage) filed against the US were about these remedies.

Unilateralism as strategic autonomy?

States look to turn the increasing dependence of businesses on global markets and supply chains into leverage (see next).

Cohen 2020: “*trade is treated as an **extension of national security**; sanctions, embargos, and blockades are **levers of power** in international relations.*”

- Saudi Arabia and the United Arab Emirates v. Qatar
- Japan retaliated against South Korean court decisions authorizing suits against Japanese companies for forced labor during WWII by restricting access to key chemicals needed by South Korea's semiconductor industry and removing South Korea from its list of trusted trade partners. South Koreans responded by boycotting Uniqlo
- US and India block of Chinese tech companies (Huawei, ZTE) from buying key American components

National security buzzword

The USA invoked both its national security laws and the national security exception to the GATT Article XXI to impose steel and aluminum tariffs on its trading partners.

Russia invoked the same GATT provision for its blockade of Ukraine.

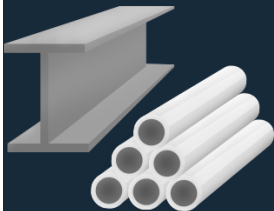
Saudi Arabia and the United Arab Emirates did the same for their blockade of Qatar.

First disputes over Article XXI in the GATT's history to reach the WTO DSS.

National security buzzword



Fonte: PIIE



FEBRUARY 16, 2018

NATIONAL SECURITY INVESTIGATION RESULTS

The Department of Commerce releases its reports finding imports of steel and aluminum products threaten US national security under the rarely-used Section 232 of the Trade Expansion Act of 1962. Even though the investigations began in April 2017, this is the first time the public learns which steel and aluminum products could potentially be hit by new tariffs.

MARCH 1, 2018

STEEL AND ALUMINUM TARIFFS ANNOUNCEMENT

Trump announces forthcoming tariffs on all trading partners of 25 percent on steel and 10 percent on aluminum under national security grounds. These would go further than the Commerce Department recommendations, covering an estimated \$48 billion of imports, mostly from allies such as Canada, the European Union, Mexico, and South Korea. Only 6 percent of the imports covered derive from China, due to prior US imposition of antidumping and countervailing duties.

Unilateralism as strategic autonomy?

Cohen (2020): *“The intermingling of economics and national security is not new. Each of these stories has analogs in the recent and distant past. Some might even argue that the intermingling is a return to historical norms, but the rapid **cascading of national security claims** is a notable break from the past few decades of relative trade peace.*

Lawyers, domestic and international, had sought to channel the parrying between economic and security logics into a carefully choreographed dance of legal rules and dispute settlement mechanisms, but the dance increasingly looks more like a wrestling match.”

Anything is a security issue? Slippery slope

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China-U.S. Trade Issues

Wayne M. Morrison

Specialist in Asian Trade and Finance

December 15, 2015

... not just in the US

In the past, the EU was able to conduct an **international economic policy that was reasonably insulated from geopolitical concerns**. Its construction - with economic powers given to EU-level bodies and most security and foreign policy instruments left at the MS level - reflected this assumption. This separation between the economic and the geopolitical spheres was always fragile. **It now looks outdated.**

BRUEGEL
PUBLICATION
ALERT

THE THREATS TO THE EUROPEAN UNION'S ECONOMIC SOVEREIGNTY

Memo to the High Representative of the Union for Foreign Affairs and Security Policy
By Jean Pisani-Ferry and Guntram Wolff

Economics used to play a limited role in foreign policy, which was about wars, conflicts and human disasters – and how to avoid them. But neither China nor the United States now separates economics from geopolitics.

The competition between them is simultaneously an economic competition and a security competition. This is a threat to the multilateral system the European Union has relied on for nearly seven decades and to the EU's separation of external economic relationships from geopolitics.

The role of the High Representative and of the future Commission will be to redefine for the EU its concept of economic sovereignty and the instruments it needs to defend and promote it.

... not just in the US

SPAIN-NETHERLANDS NON-PAPER ON STRATEGIC AUTONOMY WHILE PRESERVING AN OPEN ECONOMY

I. CONCEPT

The EU Strategic Agenda 2019-2024 sets forth that “the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests, uphold its values and way of life, and help shape the global future”; and the European Council Conclusions of 1-2 October 2020 stressed the need to achieve “strategic autonomy while preserving an open economy”.

For a long time, the concept of strategic autonomy was linked to European security and defence, and comprised three dimensions: political (strategy), operational (capabilities) and industrial (equipment). However, the COVID-19 pandemic and other recent geoeconomic and geopolitical developments have placed a broader debate on the table, revealing the risks of asymmetric dependencies in strategic sectors.

International business and national security

National security concerns affected international business also in the investment dimension.

On the one hand, countries try to negotiate new investment agreements, on the other hand, they protect themselves from:

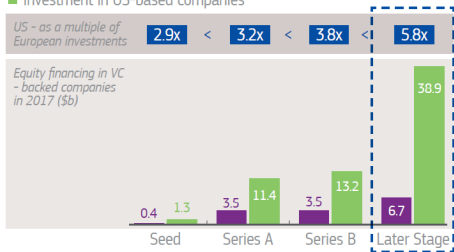
- hostile takeovers
- forced technological transfer
- strategic infrastructures
- telecommunication
- emerging companies

Financing start-ups to draw knowledge

Figure 10: Funding gap between the US and Europe is widening in later stages...

Investments in Europe and US by stage focus in 2017, in billion US dollars

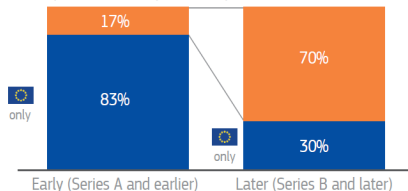
- Investment in Europe-based companies
- Investment in US-based companies



Source: Dow Jones VentureSource

...and non-European investors are filling the void
European company financing rounds

- European rounds with European and Non-European investors
- European rounds only with European investors



Source: CB Insights

Source: European Commission (2019) EU Industrial Policy After Siemens-Alstom

FDI & national security



Commissione europea - Comunicato stampa

Controllo degli investimenti esteri: nuovo quadro europeo in vigore da aprile 2019

Bruxelles, 5 marzo 2019

Oggi il Consiglio dell'Unione europea ha approvato un nuovo quadro per il controllo degli investimenti esteri diretti nell'Unione europea, concludendo così l'iter legislativo della proposta.

Nel commentare la decisione del Consiglio, il Presidente della Commissione europea, Jean-Claude Juncker, ha dichiarato: *"La decisione di oggi dimostra che l'UE è in grado di agire rapidamente quando sono in gioco gli interessi strategici dei nostri cittadini e della nostra economia. Grazie al nuovo quadro per il controllo degli investimenti, siamo ora molto più preparati a garantire che gli investimenti provenienti da paesi terzi vadano effettivamente a vantaggio dei nostri interessi. Mi sono impegnato a lavorare per un'Europa che protegga, nel commercio come in altri settori; con l'entrata in vigore della nuova legislazione manteniamo una parte fondamentale della nostra promessa."*

US to expand scrutiny of foreign investments

New measures aim to protect critical technology from countries including China



Strategic technologies and sectors. EU

Figure 4. Strategic technologies and sectors for the EU economy and their interlinkages



Industrial and Competition Policies. EU

President von der Leyen 2020 State of the Union Speech

*We presented our new industry strategy in March to ensure industry could lead the **twin green and digital transition**. The last six months have only accelerated that transformation - at a time when the global competitive landscape is fundamentally changing. This is why we will update our industry strategy in the first half of next year and **adapt our competition framework** which should also keep pace.*

Sanctions: basics

Sanctions are restrictive measures issued to bring about a change in the conduct of those targeted.

They can be individuals, governments, entities, companies, groups and informal organisations (such as terrorist groups).

Certain measures are imposed in implementation of Resolutions adopted by the UN Security Council under Chapter VII of the UN Charter, and have to adhere to such Resolutions.

Sanctions: basics

They include diplomatic sanctions (i.e. the interruption of diplomatic relations), freezing of assets, restrictions on admission of listed persons, arms embargoes, embargoes on other equipment (i.e. if used for internal repression or against misuse of equipment, technology or software), other economic sanctions (.e.g export and import restrictions, flight bans, bans on the provision of financial services, investment bans).

Economic and trade sanctions are justified at WTO level under the security exceptions in Article XXI of GATT (and Article XIV bis of the GATS).

EU sanctions

In the EU, restrictive measures are a tool of the EU's Common Foreign and Security Policy (link).

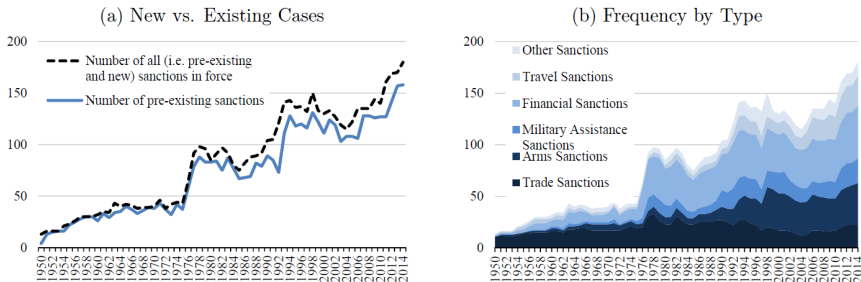
Besides implementing UNSC sanctions, the EU can reinforce them as well as apply its own autonomous measures, in particular when UN ones are not possible.

The measures foreseen in Council decisions are either implemented at EU level (interrupting or reducing economic relations with a third country, including freezing funds and resources) or at national level (e.g. arms embargoes or restrictions on admission).

The introduction and implementation of sanctions must be in accordance with international law (e.g. HR, fundamental freedoms) and with WTO agreements.

Felbermayr et al (2019) - Global Sanctions Data Base

Figure 1: Number of Sanctions over Time



Panel (a): number of sanctions in force inherited from last year, and number of total (inherited plus new) sanctions in force per year. Panel (b): number of sanctions by type (trade sanctions, arms sanctions, military assistance sanctions, financial sanctions, travel sanctions, and other sanctions), stacked.

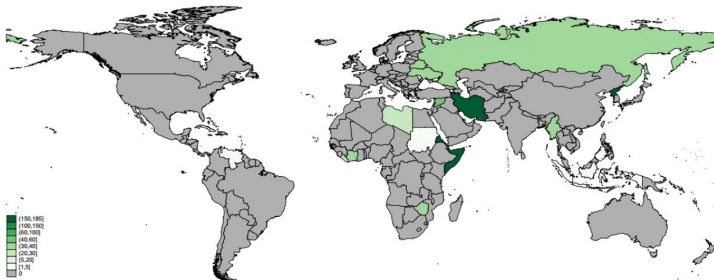
Felbermayr, Cyropoulos, Yalcin, & Yotov 2019

Felbermayr et al (2019) - Global Sanctions Data Base

Figure 4: Sanctioned and Sanctioning Countries in 2015

(a). Sanctioned Countries in 2015

Felbermayr, Cyropoulos, Yalcin, & Yotov 2019

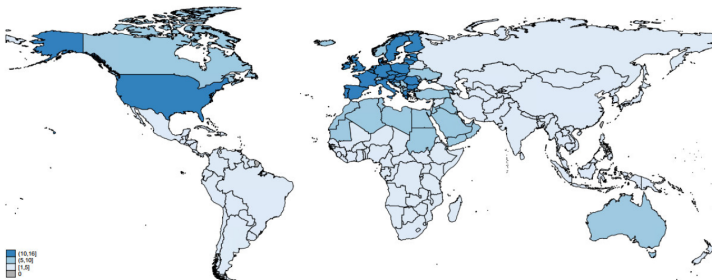


Note: This map illustrates all countries that were involved in trade sanctions in 2015. Targeted countries with sanctions are represented in green with a darker scale indicating a larger number of sanctioning countries.

Felbermayr et al (2019) - Global Sanctions Data Base

(b) Sanctioning Countries in 2015

Felbermayr, Cyropoulos, Yalcin, & Yotov 2019



Note: This map illustrates all countries that imposed trade sanctions on other countries in 2015. A darker blue scale indicates the increasing number of imposed sanction by respective countries.

Felbermayr et al (2019) - Global Sanctions Data Base

Sanctions appear to have little if any effect, at least in terms of their own goals. This can be explained as follows:

- sanctions inadequate for the specific objective
- fostering rallies behind the flag
- interferences by the allies of the target
- interferences by the allies of the sender

The higher the costs of economic sanctions to the target(s) and the lower the costs of sanctions to the sender(s), the higher the probability that sanctions succeed.

Felbermayr et al (2019) - Global Sanctions Data Base

Using structural gravity model of trade and the GS database, they find that the average impact of economic sanctions on trade is insignificant, but specific types of sanctions are effective (arms yes, travel bans no).

Trade sanctions are effective in impeding international trade.

The effects vary across country pairs within the same sanction (e.g., USA-Iran vs. China-Iran) and also within pairs according to the direction of trade flows (e.g., Turkey-Iran vs. Iran-Turkey).

Country-specific sanctions on Iran have mostly negative and significant effects, but some estimates are not statistically significant (e.g., Turkey-Iran and China-Iran) due to sanction waivers, or have even positive impact (e.g., United Arab Emirates-Iran), reflecting sanction evasion.

Effects of sanctions - Haass 1998

Also according to Haass (1998) sanctions alone do not achieve the desired results if the goals are too large.

Unilateral sanctions are rarely effective.

Time inconsistency: sanctions fatigue (as international compliance diminishes) at odds with hard-to-lift sanctions.

Sanctions may produce unintended and undesirable consequences such as health problems (Venezuela), mass migration (Haiti), alteration of access to arms in case of civil conflicts (former Yugoslavia), shift towards nuclear weapons (Pakistan), support for authoritarian leaderships.

Sanctions with and without humanitarian exceptions differ.

Sanctions and welfare redistribution

According to Gharibnavaz and Waschik (2018), international sanctions against the Iranian economy had a limited, but highly heterogeneous effect on welfare.

Aggregate Iranian welfare fell by 15%, but rural households twice as much than urban households.

Government faced a fall in real revenues of about 40%, due to the effects of sanctions on the oil sector.

Haidar (2017) finds that, between 2006 and 2011, Iranian non-oil exporters changed the destination of two-thirds of their exports to non-sanctioning countries after sanctions were imposed in 2008. Exporting firms reduced prices and increased quantities when exporting to a new destinations, thus reducing welfare.

Towards targeted and “smart” sanctions

The need to address terrorism and to reduce the humanitarian problems created by indiscriminate and nationwide measures led to sanctions targetting specific people and organizations.

This approach is functional and it follows a political economy logic: it may erode political support for the authorities responsible, an essential factor in plutocratic states.

As the costs of sanctions fall on the sender, smart measures are less likely to erode the political willingness to engage in them.

EU Global Human Rights Sanctions Regime

It took 8 years after the United States introduced the so-called Magnitsky Act to sanction human rights violators, freeze their assets, and ban them from entering the country.

On December 7, 2020, the Council adopted a decision and a regulation establishing a global human rights sanctions regime.

The framework allows the EU to target **individuals, entities and bodies** responsible for, involved in or associated with serious human rights violations and abuses worldwide. This separates EU's reaction to individuals perpetrators from that to their countries.

Unanimity will still be required. If sanctions can work only when they lead other foreign policy measures, the disconnect could be counterproductive. Not clear if GHRS regime will relate to other EU sanctions frameworks. [▶ \(link\)](#)

Aside. EU - Russian federation

According to the European Parliamentary Research Service (Sanctions over Ukraine. Impact on Russia. Briefing 2018), the main differences between EU and US sanctions were:

- EU sanctions allowed previously existing activities to continue, US ones do not;
- due to EU's dependence on Russian gas, energy sanctions applied only to the oil sector (the US ones applied to both);
- EU and US lists of sanctioned persons and companies differed

Aside. EU - Russian federation: estimated effects

Effects at mid-2018, according to EPRS:

- limited impact on internal political support for Mr Putin
- sharp economic decline in mid-2014, but the meltdown on global oil markets contributed highly to the recession
- limited impact on persons subject to sanctions (compensated internally with government contracts)
- failure to diplomatically isolate Russia. East-Asia and ME partners
- cut off important supplies of weapons and equipment, but domestic defence industry adapting
- problems to develop new oil and gas fields, no effects on energy trade
- concessions in Ukraine and no effects on Crimea

For alternative estimates see: Dreger, C., J. Fidrmuc, K. Kholodilin, and D. Ulbricht (2016). Between the hammer and the anvil: The impact of economic sanctions and oil prices on Russias ruble. Journal of Comparative Economics 44(2), 295-308.

Globalization as an antidote to unilateral measures?

According to Smeets (2018), the effectiveness of sanctions is jeopardized by interdependence:

The effectiveness of sanctions is further reduced today due to a growing interdependency between markets and a 'shrinking world'. It becomes hard to single out products that can effectively hurt the country being sanctioned and without repercussions for countries taking these punitive measures.

Moreover, Smeets notes:

The simplified approach ... assumes that the target country has little scope to escape from the sanctions. The growing interdependency of markets and the emergence of Global Value Chains, the increased role of services trade, e-commerce and the role of Foreign Direct Investment as an alternative way to penetrate markets complicate matters.

Weaponized interdependence (Farrell & Newman 2020)

Farrell and Newman (2020) reconsider the relation between interdependence and unilateralism, and come to opposite conclusions.

Countries are interconnected, but not all countries play the same role.

Pivotal countries exploit their influence on the partners, short of engaging in direct conflict.

Interdependence can be **leveraged**, *under certain circumstances*, with the view to extorting information and resources, to forcing behaviour and to inducing compliance.

Incidentally, Smeets recognises that “the position and role of third parties and their involvement in the sanction episode is of critical importance”, which resonates well with Farrell’s and Newman’s point.

Weaponized interdependence

Weaponized interdependence is subtle. Farrell and Newman (2020):

The topography of the economic networks of interdependence intersects with domestic institutions and norms to shape coercive authority.

Our account places networks such as financial communications, supply chains, and the internet at the heart of a compelling new understanding of globalization and power.

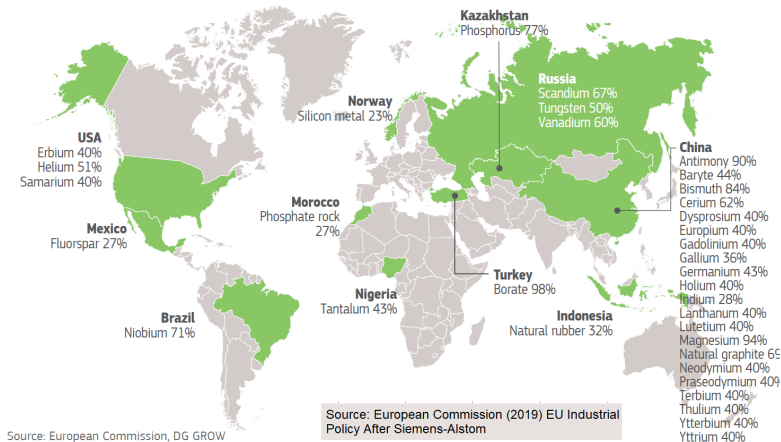
The interaction between the position in the network and local & international institutions is key: one needs **regulatory, sanctioning or jurisdictional sway** over a hub to leverage interdependence.

Consider the SWIFT case and INSTEX. Think about the efforts to internationalize the use of Renmimbi.

GVCs and interdependence: Raw materials

Figure 7: European value chains are vastly dependent on foreign suppliers of critical raw materials

Non-EU countries accounting for largest share of EU supply of critical raw materials, according to 2017 review



Source: European Commission, DG GROW

GVCs and interdependence: Raw materials

EUROPEAN
RAW MATERIALS
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Funded by the
European Union



Establish an agile and inclusive
stakeholder consultation
process



Support EU industrial policy to
mitigate regulatory and
financing bottlenecks



Set up a Raw Materials
Investment Platform (RMIP) to
help leverage investment in a
pipeline of key projects



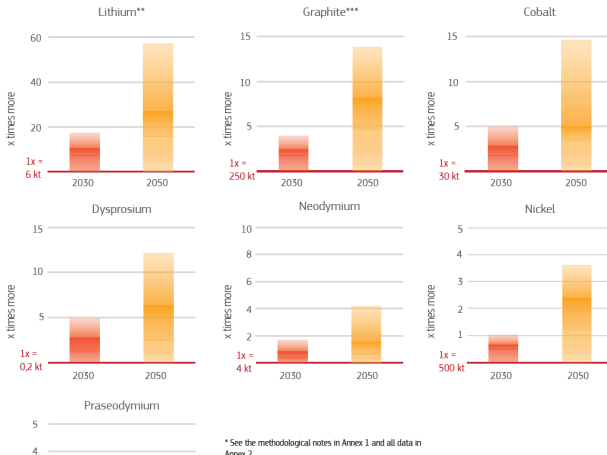
Foster a deeper strategic
awareness, including public
acceptance of and forward-
looking perspective on the role
of raw and advanced materials
in the transition to the Green
and Digital Economy

The European Raw Materials Alliance (ERMA) announced on 3 September 2020, as part of an Action Plan on Critical Raw Materials. 2020 List of Critical Raw Materials.

GVCs and interdependence: Raw materials

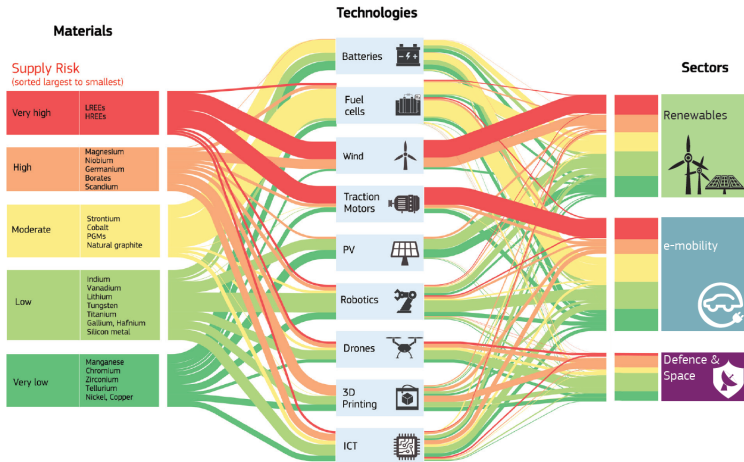
Figure 1. Combined critical raw materials use in different technologies in the EU in 2030 and 2050

Additional material consumption batteries, fuel cells, wind turbines and photovoltaics in **renewables and e-mobility only** in 2030/2050 compared to current EU consumption* of the material in **all applications**



GVCs and interdependence: Raw materials

Figure 2. Semi-quantitative representation of flows of raw materials and their current supply risks to the nine selected technologies and three sectors (based on 25 selected raw materials, see Annex 1 – Methodological notes)



GVCs strategic technologies and sectors: USA

On April 8, 2021 the Senate Foreign Relations Committee announced the "Strategic Competition Act of 2021". It includes:

- \$100 million for a "Digital Connectivity and Cybersecurity Partnership" which would promote secure telecommunications and digital infrastructure in developing markets and promote U.S. exports
- \$15 million to help U.S. companies exit the Chinese market, diversify their supply chains, and identify alternate markets.
- \$300 million for the "Countering Chinese Influence Fund"

GVCs, strategic technologies and sectors. EU

Figure 4. Strategic technologies and sectors for the EU economy and their interlinkages



National security: from Global to EU value chains?

The European Commission acknowledges the risks associated with too long and too dispersed global value chains.

In its New Strategic Agenda 2019-2024, it states:

- In a world where common rules and standards are increasingly questioned, it will be vital to promote a level playing field, including in the area of trade.
- This means ensuring fair competition within the EU and on the global stage, promoting market access, fighting unfair practices, extraterritorial measures and security risks from third countries, and **securing our strategic supply chains**.

National security: from Global to EU value chains?

Press release | 13 March 2020 | Brussels

COVID-19: Commission sets out European coordinated response to counter the economic impact of the Coronavirus*

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COVID-19 is a severe public health emergency for our citizens, societies and economies with infections in all Member States. It is also a major economic shock to the EU. The Commission therefore presents today an immediate response to mitigate the socio-economic impact of the COVID-19 outbreak, centred on a European coordinated response.

The Commission will use all the instruments at its disposal to mitigate the consequences of the pandemic, in particular:

- To ensure the necessary supplies to our health systems by preserving the integrity of the Single Market and of production and distribution of value chains;
- To support people so that income and jobs are not affected disproportionately and to avoid permanent effect of this crisis;

EU value chains: no bullet-proof

CORONAVIRUS

Vast queues, as EU struggles with closed borders



EU value chains: no bullet-proof

NEWS

WORLD

Serbian President Labels European Solidarity ‘Fairy Tale’, Says Only China Can Assist in Coronavirus Response

By ZACHARY EVANS | March 16, 2020 5:02 PM



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“Extraterritorial” effects of tariffs

Tariffs cannot be extraterritorial. But intertwined GVCs produce effects through the entire trading system.

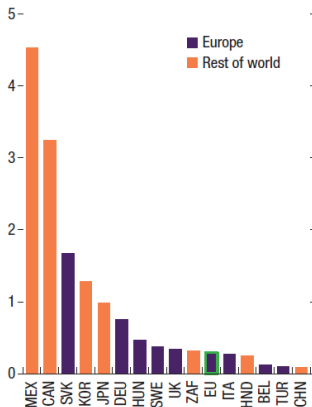
The Trump administration launched a Section 232 probe of foreign autovehicles in May 2018 and the investigation found that these were “weakening the internal economy”. Trump threatened to impose 25% tariffs against foreign, e.g. European, cars.

A negotiating tool to gain leverage during the ongoing negotiations.

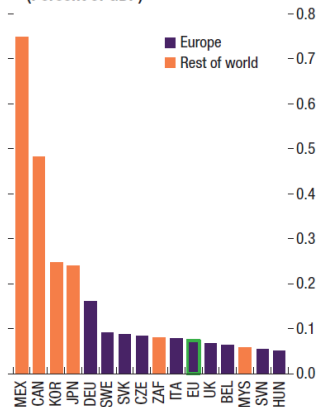
US tariffs and their effects through GVC

Figure 10. Impact of US Car Tariffs

1. Car and Car Parts Gross Exports to the United States, 2017
(Percent of GDP)



2. Distribution of Losses from United States Tariffs on Imports of Car and Car Parts Using Value-Added Exports
(Percent of GDP)

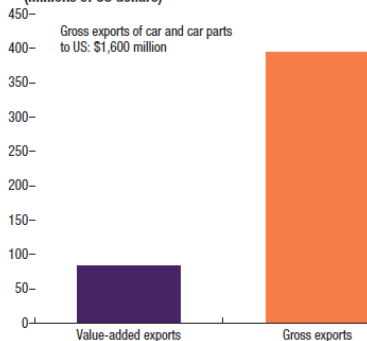


Fonte: Huidrom et al 2019, IMF
Departmental Paper No. 19/10

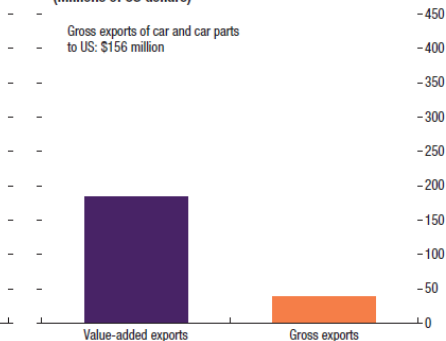
US tariffs and their effects through GVC

Figure 11. Losses Resulting from US Car Tariffs

1. Slovak Republic
(Millions of US dollars)



2. Czech Republic
(Millions of US dollars)



Fonte: Huidrom et al 2019, IMF
Departmental Paper No. 19/10

Sources: EORA database; UN COMTRADE; and IMF staff calculations.

Note: The scenario assumes a 25 percent tariff imposed on US imports of cars and car parts. The purple bars denote losses estimated using value-added exports, whereas the orange bars denote losses estimated using gross exports.

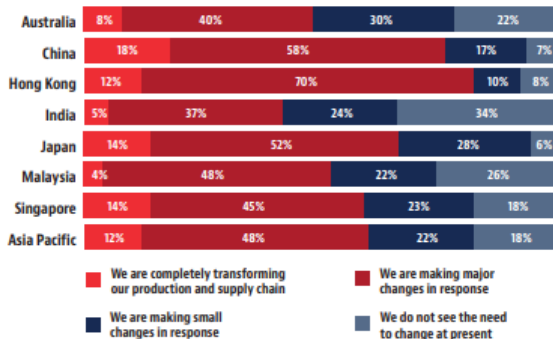
Businesses care for this

**Baker
McKenzie.**

What impact is the ongoing trade war between the United States and China having on how you manage your production and supply chain?

THE AGE OF HYPERCOMPLEXITY

Asia Pacific Business and Legal Macrotrends



Businesses care for this

Aprile 2021

Con questo numero

Il Sole 24 ORE

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Commenti

Gli utili di Bankitalia sono garanzia d'indipendenza

Fabrizio C. Colombo



Il presidente della Banca d'Italia ha appena detto che la Banca d'Italia è un'istituzione pubblica e non un'azienda. Ma è proprio questa sua natura pubblica a garantirle l'indipendenza. E questa indipendenza è la garanzia che la Banca d'Italia può svolgere il suo ruolo di garante della stabilità del sistema finanziario italiano e europeo. La Banca d'Italia è un'istituzione pubblica e non un'azienda. Ma è proprio questa sua natura pubblica a garantirle l'indipendenza. E questa indipendenza è la garanzia che la Banca d'Italia può svolgere il suo ruolo di garante della stabilità del sistema finanziario italiano e europeo.

UNARINASCENTALE
DEVI SAPERE
PRICE RISE
DI UNO SU TRE
CON IL CAPELLO DI MAND
AL POLITICO DI TURNO

pubblici, impegnandosi a raggiungere obiettivi precisi e misurabili. La Banca d'Italia è un'istituzione pubblica e non un'azienda. Ma è proprio questa sua natura pubblica a garantirle l'indipendenza. E questa indipendenza è la garanzia che la Banca d'Italia può svolgere il suo ruolo di garante della stabilità del sistema finanziario italiano e europeo.



Manovre speculative sui costi crescenti delle materie prime

Le imprese e il mercato

Anna Mareschi Tanti

C'è un'idea che si sta diffondendo tra gli analisti e gli imprenditori: che le materie prime sono diventate un elemento di instabilità per il sistema economico. Questo perché le materie prime sono diventate un elemento di instabilità per il sistema economico. Questo perché le materie prime sono diventate un elemento di instabilità per il sistema economico.

Il curioso caso del sistema monetario: negletto, ma efficace

Governance

Marco Cini

La moneta è un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro. È un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro. È un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro.

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Commenti

Covid, Suez e Stati Uniti: catene (meno globali) del valore e ruolo delle Pmi

Commercio Internazionale

Paolo Pini



Un cargo ship in navigazione. Fonte: Reuters/Contrasto

Il commercio internazionale è un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro. È un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro. È un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro.

Un nuovo paradigma di business per un futuro più equo e sostenibile

Modelli e obiettivi delle aziende

Regenerative Society Foundation

Il business è un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro. È un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro. È un sistema di regole che governa il modo in cui le imprese e gli individui si relazionano tra loro.

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L'EDITORIALE DELLA SETTIMANA

Il Sole 24 ORE

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Retaliatory avalanches

Any assessment of the costs of unilateral trade restrictions requires to take into account possible retaliation by the targeted countries.

If justified and proportionate, retaliatory measures are consistent with WTO rules, until the dispute is settled and the wrongdoing corrected.

The choice of the products to retaliate is unconstrained: political economy of retaliation.

Retaliation may be a response but it may also be an excuse.

Retaliatory avalanches



MARCH 7, 2018

EU THREATENS TO REBALANCE IN RESPONSE

The European Union announces its planned retaliatory response if it were to be hit with tariffs. This includes filing a formal World Trade Organization (WTO) dispute, safeguard restrictions of its own, and a “rebalancing” of trade with the United States through almost immediate imposition of its own 25 percent tariff on \$3.4 billion of US exports such as cranberries, Harley Davidson motorcycles, blue jeans, and bourbon.

Fonte: PIIE

US protectionism & retaliation

Table I The 2018 Trade War

Fajgelbaum et al (2020) The Return to Protectionism, *The Quarterly Journal of Economics*, Volume 135, Issue 1, February 2020, Pages 1–55
<https://doi.org/10.1093/qje/qjz036>

Tariff wave	Date enacted	Products	2017 imports		Tariff (%)	
		(# HS-10)	(mil US\$)	(%)	2017	2018
Panel B: Retaliatory tariffs on U.S. exports enacted by trading partners in 2018						
China	Apr–Sep, 2018	7,474	92,518	6.0	8.4	18.9
Mexico	Jun 5, 2018	232	6,746	0.4	9.6	28.0
Turkey	Jun 21, 2018	244	1,554	0.1	9.7	31.8
European Union	Jun 22, 2018	303	8,244	0.5	3.9	29.2
Canada	Jul 1, 2018	325	17,818	1.2	2.1	20.2
Russia	Aug 6, 2018	163	268	0.0	5.2	36.8
Total		8,073	127,149	8.2	7.3	20.4

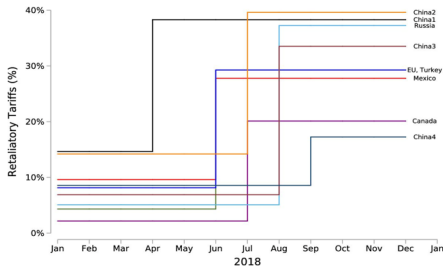
US protectionism & retaliation

Figure I Trade War Timeline

Figure shows the unweighted average tariff rate of targeted import and export varieties

Fajgelbaum et al (2020) *The Return to Protectionism*, *The Quarterly Journal of Economics*, Volume 135, Issue 1, February 2020, Pages 1–55
<https://doi.org/10.1093/qje/qjz036>

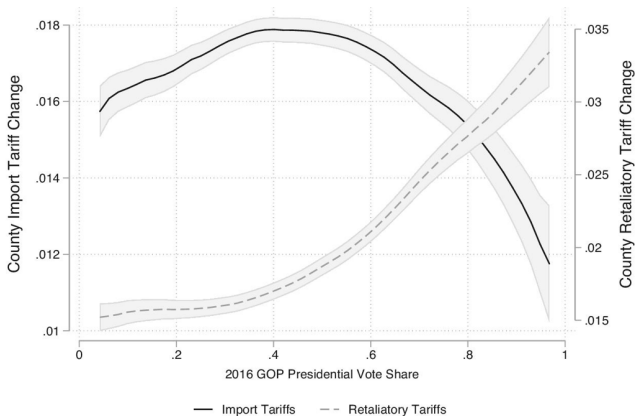
(B) Retaliatory Tariffs on U.S. Exports



US protectionism

Figure VII Tariff Changes versus 2016 Republican Vote Share

County-level import and retaliatory tariff changes against the 2016 Republican presidential two-party vote share.

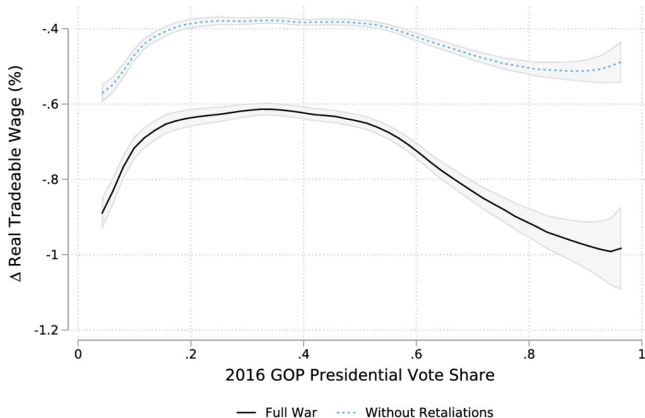


Fajgelbaum et al 2020 The Return to Protectionism, The Quarterly Journal of Economics, 135, 1, February 2020, 1–55, <https://doi.org/10.1093/qje/qjz036>

US protectionism & retaliation

Figure VIII Model-Simulated Tradeable Real Wage Impact versus 2016 Republican Vote Share

Figure plots model-simulated county-level tradeable real wage changes due to the trade war against the 2016 Republican presidential two-party vote share



Fajgelbaum, et al (2020)
The Return to
Protectionism, *The
Quarterly Journal of
Economics*, 135, 1, 1–
55, <https://doi.org/10.1093/qje/qjz036>

Sanctions & Interdependence: Crozet and Hinz 2019

Crozet and Hinz (2019) estimate the impact of sanctions on Russia over the conflict in Ukraine on the 37 sanctioning countries. Costs in terms of export losses.

First approach: a traditional GE model of trade for counterfactual analysis.

- Losses for Russia are US\$ 53bn (7.4% of predicted total exports) from 2014 to 2015. Western sanctioning countries lost US\$ 42bn (92% by EU countries), 0.3% of exports.
- The bulk of the impact came, surprisingly, from non-targeted products: an unintended, self-inflicted cost.

Second approach: using firm-level French customs data, they show that Western exports dropped because of the increase in country risk, raising the cost of financing and securing international trade relations.

	Total <i>Loss</i> in \$ bil. in %		Embargoed <i>Loss</i> in \$ bil. in %		Non embargoed <i>Loss</i> in \$ bil. in %	
Russian Federation	-53.47	-10.10	0.01	1.02	-53.48	-10.13
Sanctioning countries	-42.37	-14.19	-5.41	-44.85	-36.96	-12.90
European Union	-38.79	-14.96	-3.74	-42.60	-35.05	-14.00

Note: Observed and predicted values, and absolute losses are exports between implicated countries in billions of USD. Relative losses are in percent of predicted exports.

Table 1: Export losses by type of goods and country group

Source: Crozet and Hinz 2019.

Methodology: gravity model of trade

Let trade between origin country o and destination country d at time t be described by an Armington-type gravity structure as in Head and Mayer (2014), so that

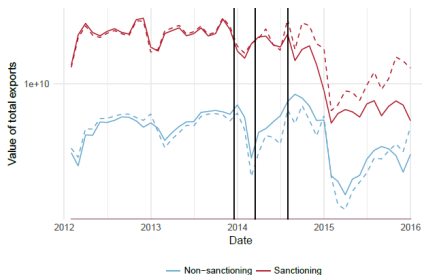
$$X_{odt} = \frac{Y_{ot}}{\Omega_{ot}} \cdot \frac{X_{dt}}{\Phi_{dt}} \cdot \phi_{odm}, \quad (1)$$

where $Y_{ot} = \sum_d X_{odt}$ is the value of production, i.e. all exports, in o at time t , $X_{dt} = \sum_o X_{odt}$ is the value of expenditure, i.e. all imports, in d time t . Ω_{ot} and Φ_{dt} are the respective multilateral resistance terms, such that

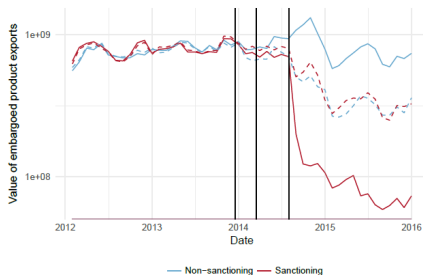
$$\Omega_{ot} = \sum_{l \in d} \frac{X_{lt}}{\Phi_{lt}} \cdot \phi_{olm} \quad \text{and} \quad \Phi_{dt} = \sum_{l \in o} \frac{Y_{lt}}{\Omega_{lt}} \cdot \phi_{ldm}.$$

ϕ_{odm} subsumes all seasonally-varying bilateral trade barriers and facilitators, which we allow to vary at the month-level denoted by subscript m (as opposed to t for year-month).

(a) Total exports to Russia



(b) Embargoed product exports to Russia



Source: Crozet and Hinz 2019.

Figure 1: Predicted vs. observed total value of exported goods to Russia from sanctioning and non-sanctioning countries by type of products. Solid lines display observed trade flows, dashed lines predicted flows. Confidence intervals for aggregate numbers are not provided in this draft for technical reasons.

Figure 3: Composition lost exports to Russia of embargoed and non-embargoed products by country

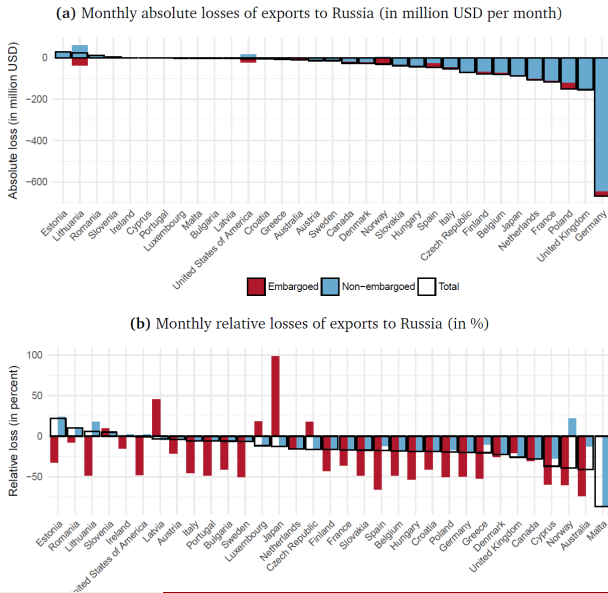


Table 2: Impact on French firms' monthly export values and export probability

Panel A - Embargoed products				
Time-span	(1)	(2)	(3)	(4)
	2012-2014		2012-2015	
Estimator	PPML	LPM	PPML	LPM
Dep. var.	x_{idkt}	$x_{idkt} > 0$	x_{idkt}	$x_{idkt} > 0$
Russia × Dec '13 - Feb '14	-0.157 (0.127)	-0.028 (0.018)	-0.166 (0.132)	-0.043 ^c (0.024)
Russia × Mar '14 - Jul '14	-0.553 ^b (0.253)	-0.073 ^a (0.019)	-0.594 ^b (0.254)	-0.105 ^a (0.025)
Russia × Aug '14 - Dec '14	-1.824 ^a (0.370)	-0.267 ^a (0.020)	-1.863 ^a (0.364)	-0.376 ^a (0.026)
Russia × Jan '15 - Jun '15			-2.111 ^a (0.324)	-0.415 ^a (0.028)
Russia × Jul '15 - Dec '15			-2.598 ^a (0.392)	-0.419 ^a (0.028)
$\hat{\Theta}_{dk't}$	-0.002 (0.028)	0.010 ^a (0.004)	-0.010 (0.027)	0.012a (0.004)
Sample size	88632	88632	118176	118176
R ²	-	0.628	-	0.579

The probability of exporting is reduced by 0.073 in period 2 and 0.267 in period 3. The % differences between the estimated average probabilities of exporting to Russia in presence of the treatment and the ones when the treatment dummy is set to zero are 19.7% and 75.8% for periods 2 and 3.

Source: Crozet and Hinz 2019

With the help of your friends. Hair (2017)

Haidar (2017) studies the impact of Western-imposed sanctions on exports of Iranian firms.

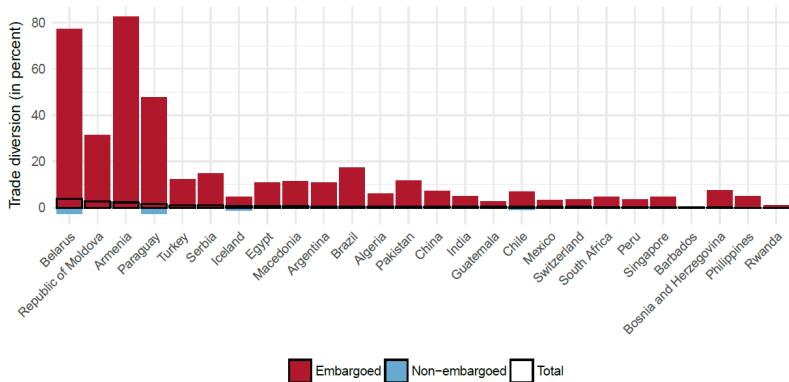
He shows that two-thirds of Iranian exports were deflected to non-sanctioning countries.

Effects are however heterogeneous among firms with larger exporters more likely to deflect; same difference holds for the firms' core and homogeneous products.

Deflection tends to involve destination countries in which the firms are already active.

With the help of your friends: Russia

(c) Distribution of relative trade diversion



With the help of your friends. Besede et al (2017)

Besede et al. (2017) address the effect of sanctions on financial flows using German balance of payments statistics over 10 years for 20 different sanctions regimes.

Sanctions do have an immediate effect, and domestic investors sell assets held in the sanctioned countries. Investors in targeted countries reduce their engagement with Germany too.

Affected German investors become more active on third markets in case of EU sanctions, but not in case of UNSC sanctions: they try and circumvent EU sanctions.

Secondary sanctions

When applying unilateral sanctions, countries may try to compel others to join. This occurs through the threat of secondary sanctions.

Sanctions hitting overseas firms violating the terms of domestic legislation (US: Cuba, Iran, Venezuela and Libya).

Jack Lew, then US Treasury secretary, in 2016 defined them as: “measures threaten to cut off foreign individuals or companies from the U.S. financial system if they engage in certain conduct with a sanctioned entity, even if none of that activity touches the United States directly”.

According to the US, secondary sanctions are not extraterritorial: companies are free to choose between access to the US and to the targeted market. Yet, banks do not have a real choice.

Secondary sanctions: US - Iran

In the case of Iran, US sanctions included financial/banking sanctions, plus restrictions on oil exports, since 2011. US targeted sanctions were directed to deprive Iran's international financial system of access to international finance.

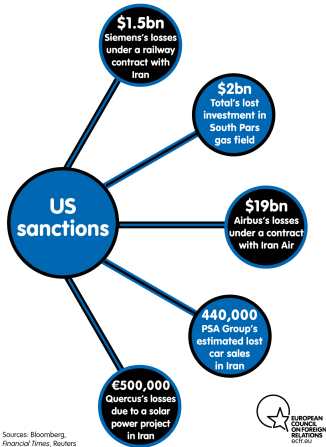
To this end, measures were applied to US-based financial institutions engaging deals with Iran, but also to non-US financial institutions dealing with banks targeted by the US.

These overseas institutions would be excluded from doing business in the US and from making transactions in USD. Even trade flow were affected: paying for transactions is hard if banks are disconnected.

NB: The US Congress disconnected Iranian banks from the Belgium-based SWIFT in 2012 and the EU passed a similar regulation.

EU losse due to US secondary sanctions on Iran

Estimated cost of US sanctions for European companies: select losses



Geranmayeh and Rapnouil (2019)

EU response to secondary sanctions: INSTEX

In January 2019 the EU created a special purpose vehicle (INSTEX) to trade with Iran without using the international banking system.

The INSTEX is a payment system parallel to Swift.

Some EU companies sell and some buy from/to Iran: their payments are entirely exchanged between EU companies (the same on the Iranian side). To the extent that trade is balanced, all sides can complete transactions without actual flows of funds across the EU-Iranian border.

Ingenuous as it may seem, INSTEX has to focus only on pharmaceutical products, medical devices, food and other humanitarian goods, not to incur in other trade-related US sanctions. Limited share of possible trade deals. Size depends also on the number of EU countries joining the vehicle.

So far, too little and too unbalanced to make the tool meaningful: as of January 2020, no transactions through INSTEX had occurred.

NB: Some EU countries tried preferential arrangements with the US through exemption requests, undermining the credibility.

EU strategic autonomy

From the NL-ES non-paper on EU strategic autonomy

Moreover, to guarantee the strategic autonomy of Europe's economy, it will also be necessary to act in the following spheres:

- Reinforcing the resilience of market infrastructures and strengthening the sovereignty of economic policies. In this context, making rapid progress in the negotiations on the Regulation on digital operational resilience for the financial sector will be key.
- In the payments market, cross-border, competitive, safe and innovative EU payment solutions must be further promoted, to minimize the risks of an excessive dependency on foreign means of payment and technology.

24 March 2021

Conclusions

- Interdependence is part and parcel of globalization
- Its appreciation depends on its perceived benefits
- Unilateral severance of economic ties and weaponized interdependence are the results of the growing concerns for the distribution of welfare gains and for the protection of national interests (however defined)
- A genuine adherence to the multilateral liberal order is the premise, not the consequence, of a globalized economy.
- Current political situation does not bode well for globalization as we know it.