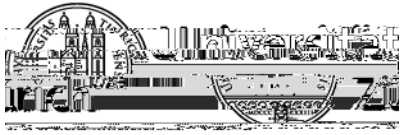


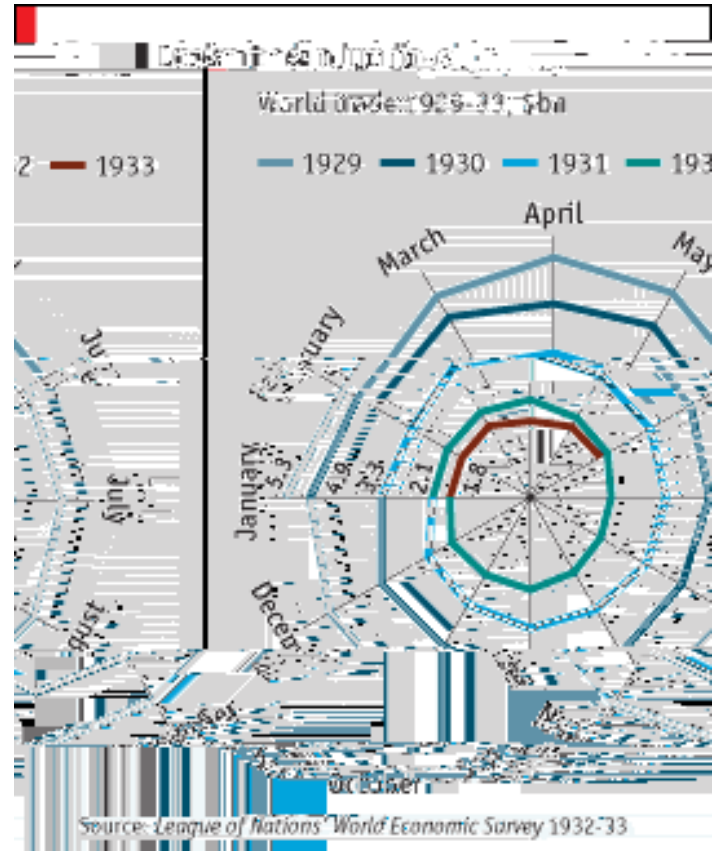
Trade Talks and Trade Wars: How High are the Gains and the Costs?

Prof. Ralph Ossa

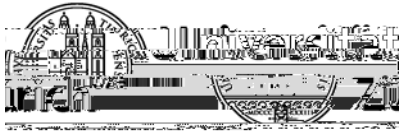
University of Zurich, Department of Economics



Will history repeat itself?



Source: *The Economist*



Today's presentation

Background:

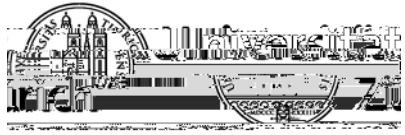
- Why are there gains from trade?
- How large are the gains?

Main questions:

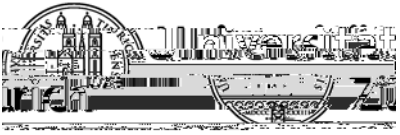
- Why are there trade wars and trade talks?
- How large are the losses and gains?

Controversies:

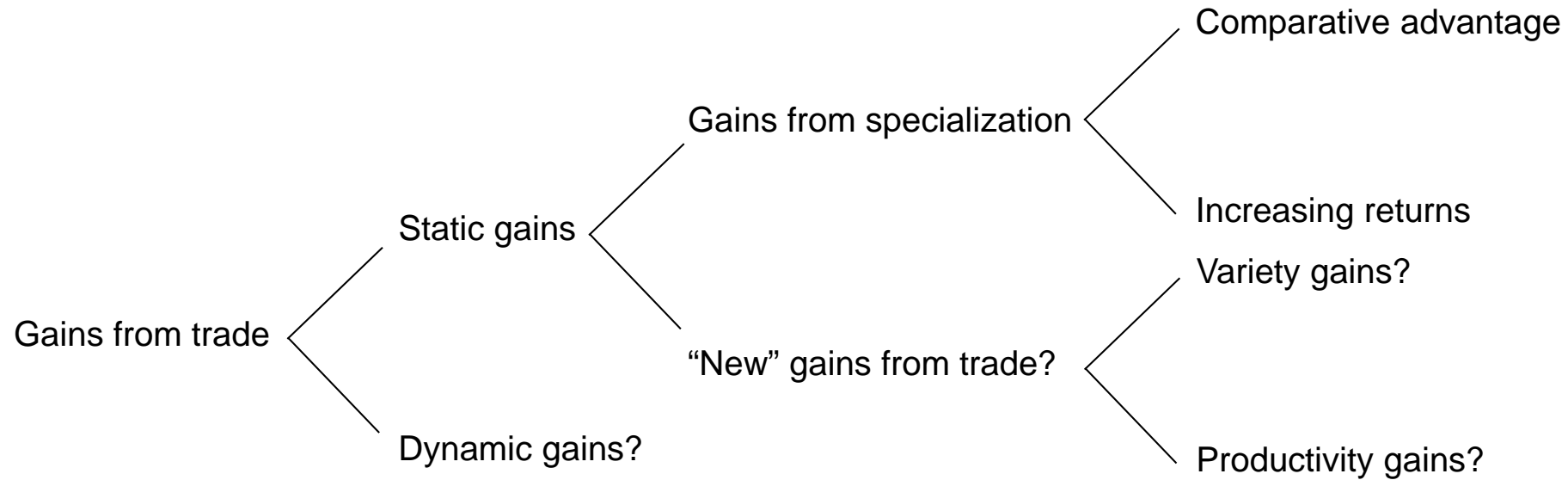
- What are the effects of unconventional trade policies?
- How should we think about distributional effects?

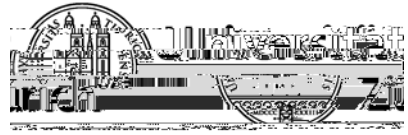


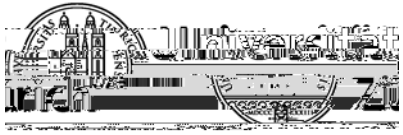
Gains from Trade



Sources of gains from trade

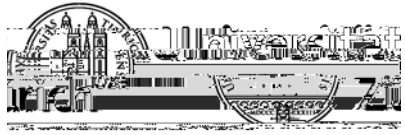




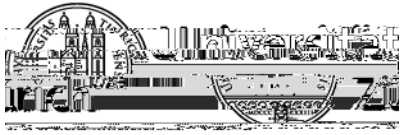


Summary

- There are large static gains from trade
- They mainly capture gains from specialization
- We don't know much about the magnitude of dynamic gains



Trade Wars and Trade Talks



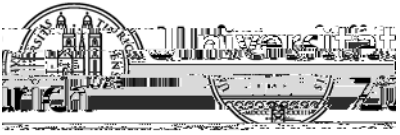
What do trade negotiators negotiate about?

Paul Krugman famously argued that trade negotiations make no economic sense:

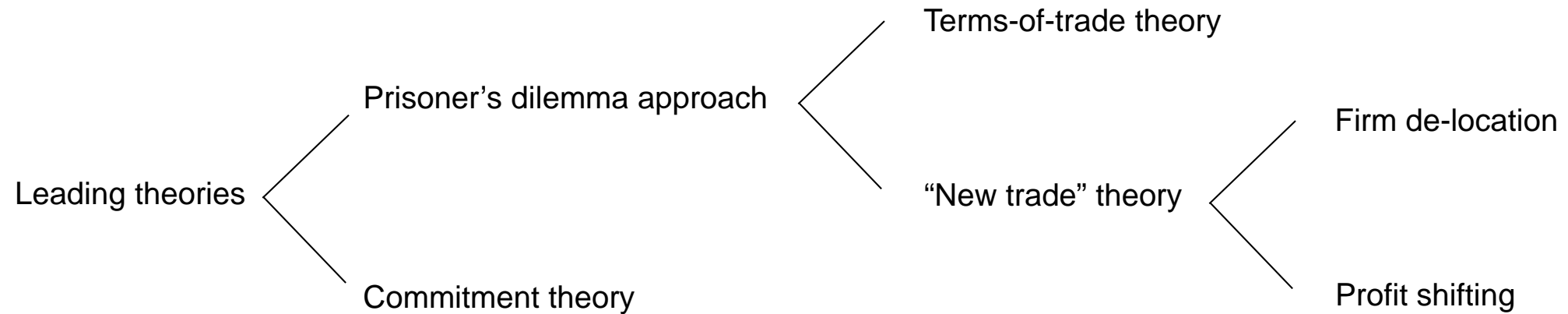
- *“If economists ruled the world, there would be no need for a World Trade Organization. The economist's case for free trade is essentially a unilateral case - that is, it says that a country serves its own interests by pursuing free trade regardless of what other countries may do.”*

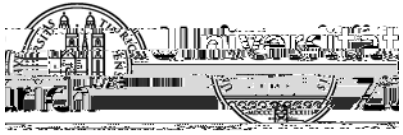
- *“To make sense of international trade negotiations, one needs to remember three simple rules about the objectives of negotiating countries:*
 - 1) *Exports are good.*
 - 2) *Imports are bad.*
 - 3) *Other things equal, an equal increase in imports and exports is good.*

In other words, GATT-think is enlightened mercantilism.”



Theories of trade wars and trade talks

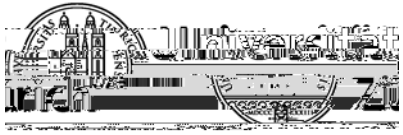




How costly would be a trade war?

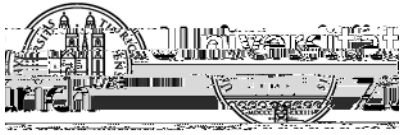
➡ Almost 1/4 of the gains from trade
➡

Source: Ossa, R. 2014. Trade Wars and Trade Talks with Data. American Economic Review.

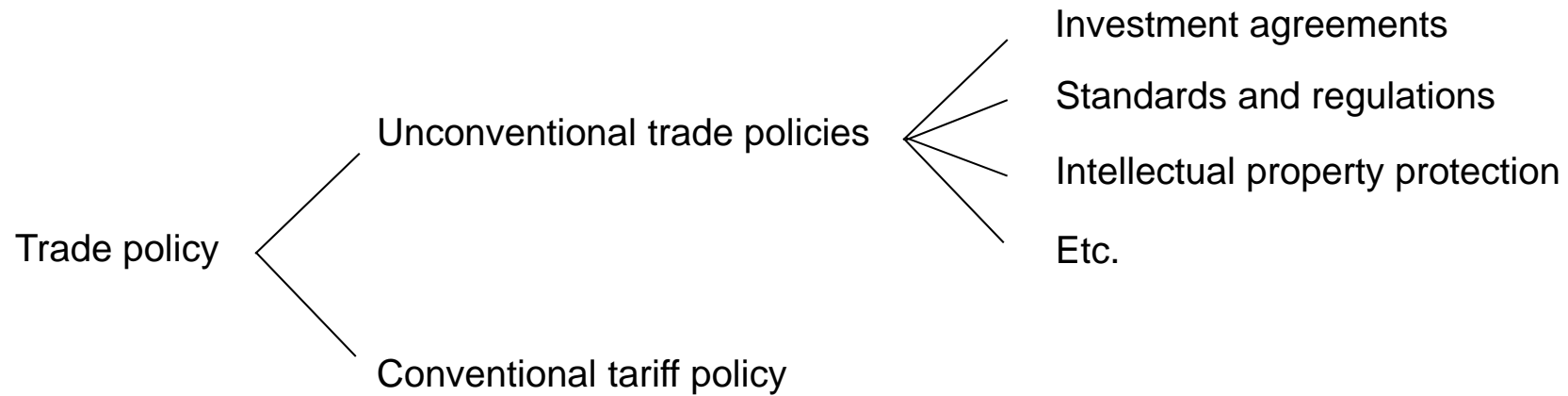


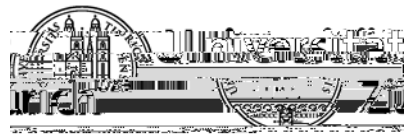
Why have trade agreements become so controversial?

- There is a revival of classic protectionism which blames foreign trade (and immigration) for domestic problems
- But there are also reasonable concerns about complex unconventional trade policies which go beyond simple tariff policy
- Moreover, it has become clear that trade has economically significant effects on inequality, especially trade with China

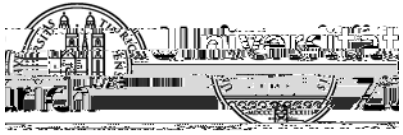


Unconventional trade policies



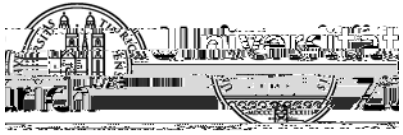


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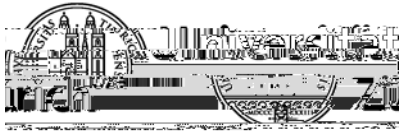
Intellectual property protection

- While TRIPS was preceded by many IPR agreements, it is the first to be backed by a potent dispute settlement mechanism
- Many argue that it is a bad deal for developing countries since it raises local prices, does not significantly boost global innovation, and inhibits imitation
- However, developing countries now account for around half of global GDP and stronger IPR protection is likely to encourage technology transfers by multinationals
-



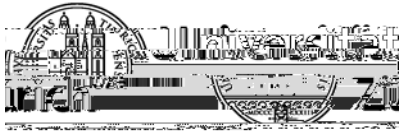
Trade and inequality

- It is well known from standard trade theory that trade liberalization typically generates winners and losers even though the winners win more than the losers lose
- Such distributional effects have received a lot of attention lately especially because the rapid rise of China had measurable effects in the US
- While I believe that this is a very important discussion, we should not forget that trade is just one of many shocks hitting the economy
- Moreover, the “China shock” was an unprecedented event in economic history which lifted hundreds of millions of people out of poverty



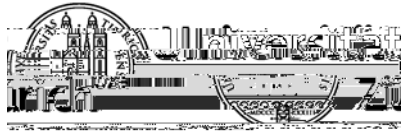
Summary

- Why are trade agreements controversial despite the large gains from trade and the large losses from trade wars?
- One reason is that they include many unconventional trade policies whose welfare effects are still poorly understood
- Another reason is that trade liberalization tends to increase income inequality within countries as the “China shock” revealed



Conclusion

- There are large gains from trade: In total, around 1/4 of world GDP; on average, around 1/3 of country GDP
- Overall, the WTO's tariff policy is a success: 85% of the possible gains from tariff negotiations have been reaped in past negotiations
- Modern trade agreements go far beyond tariff policy and more work is needed to reliably assess their welfare effects



Thank you!