

# **Economic Nationalism: U.S. Trade Policy vs. Brexit\***

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**\*Draws on S. McCorriston and I.M. Sheldon, “Economic Nationalism: US Trade Policy vs. Brexit”, *Ohio State Business Law Journal*, 14(1), 2020.**

# Overview

- What differences or parallels do we see between UK's Brexit and U.S. trade policy?
- What is the link between globalization and the rise of economic nationalism?
- How has response to this been reflected in trade policy?
- **Headline argument: common causes, common themes, different approaches, similar outcomes!**

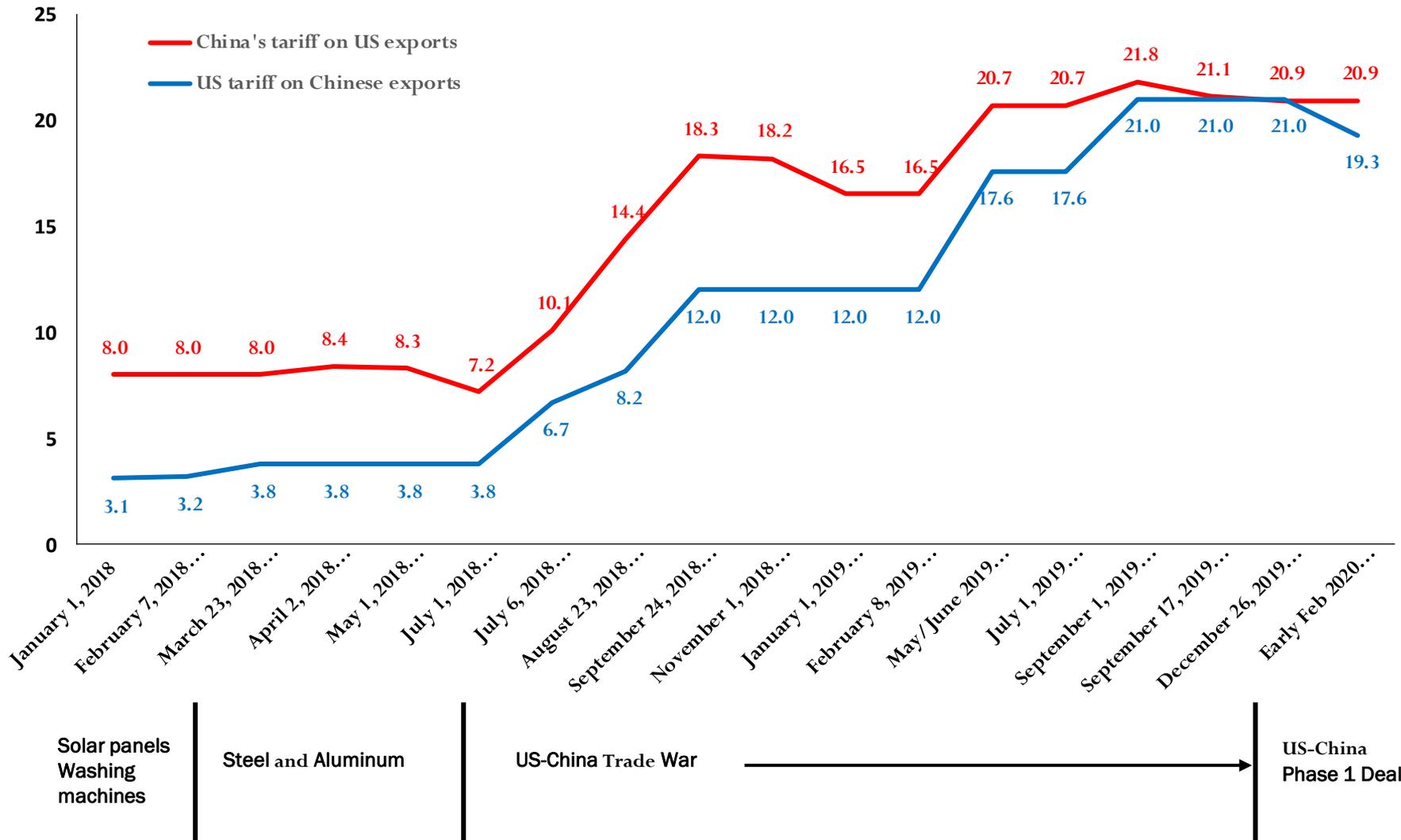
# Economic Nationalism

- “...is a policy bundle that substitutes protectionism for the main components of ‘embedded liberalism’: trade liberalization, redistribution and compensation for social groups negatively affected by global trade” (Colatone and Stanig, *AJPS*, 2018; *JEP*, 2020)
- Three main elements: (i) opposition to free trade and isolationism”; (ii) *laissez-faire* on domestic policy issues; (iii) strong nationalist stance

# US Protectionism

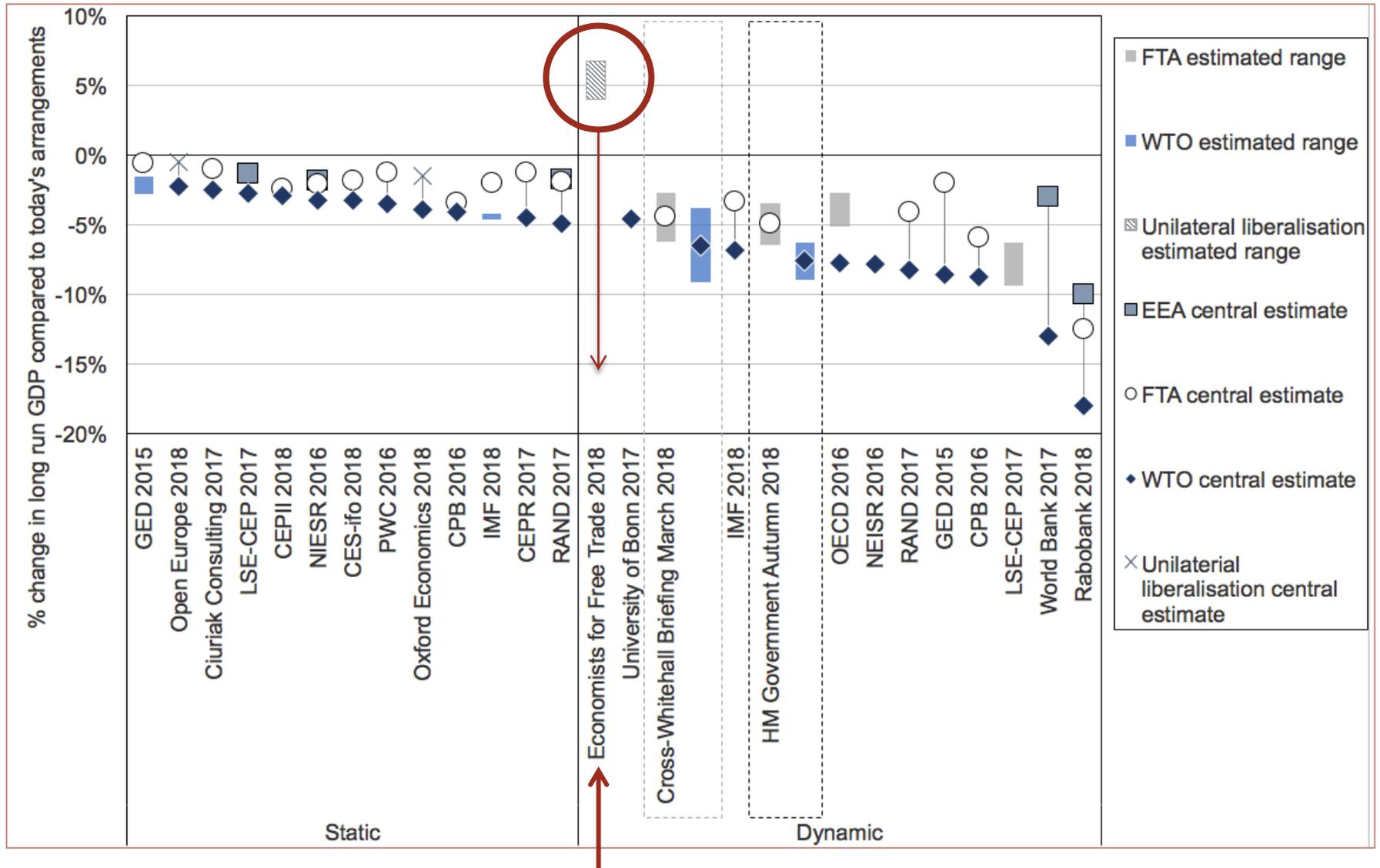
- U.S. has adopted “power-based” bargaining - escalation of tariffs in 2018 – provoking retaliation (Mattoo and Staiger, 2019)
- Amiti *et al.* (*JEP*, 2019): burden of tariffs borne by US consumers - deadweight losses of \$8.2 billion
- Tariffs targeted at electorally competitive counties - but retaliatory tariffs had negative impact on rural counties in Mid-Western states (Fajgelbaum *et al.*, *QJE*, 2020)
- Republican electoral losses in 2018 partly due to retaliatory tariffs (Blanchard, Bown, and Chor, 2019)
- Estimated net loss of 175,000 manufacturing jobs by mid-2019 (Cox and Russ, 2020)

# Tariff Escalation and the Trade War



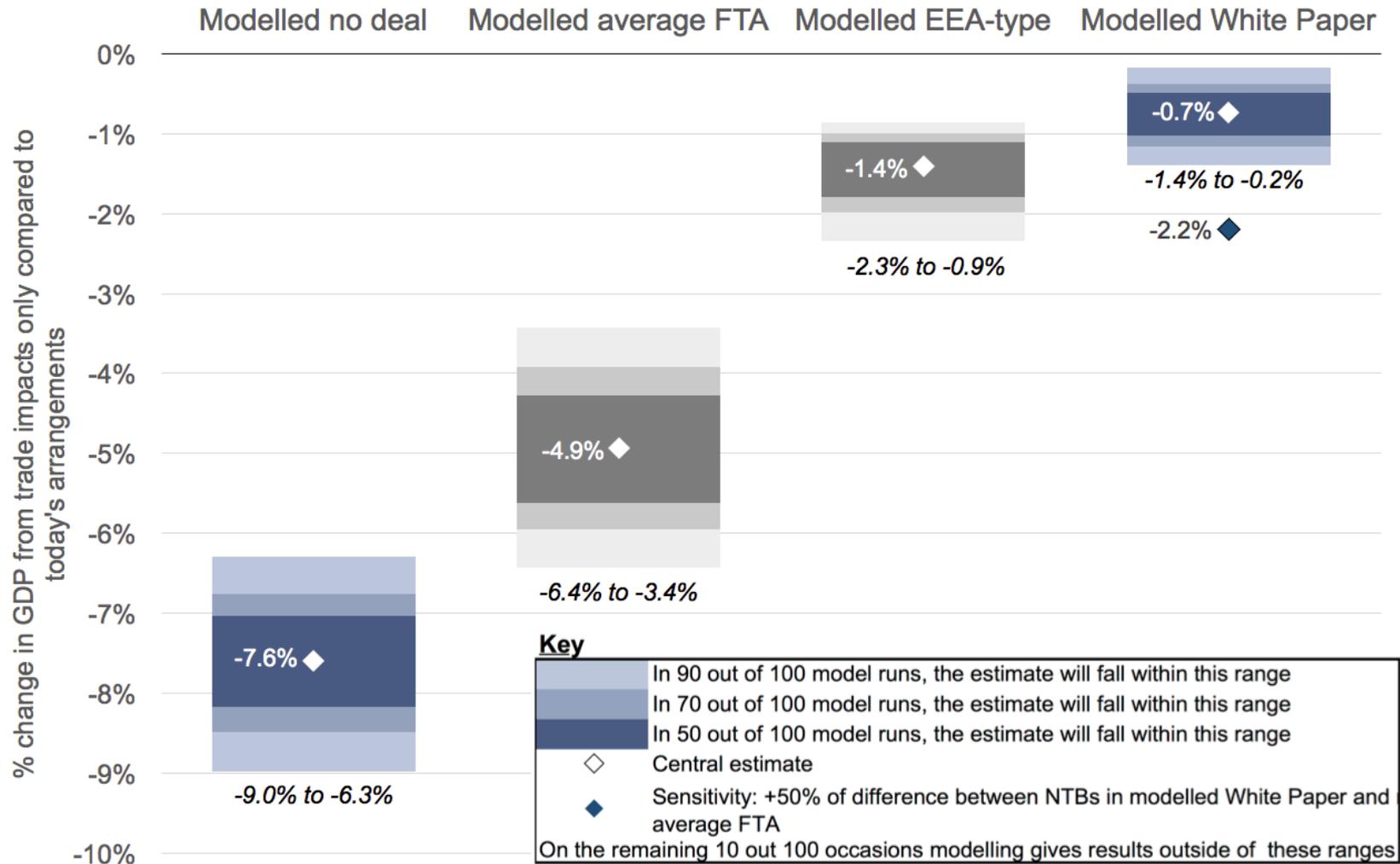
Source: Bown, (PIIE, 2019)

# Brexit and “Free” Trade



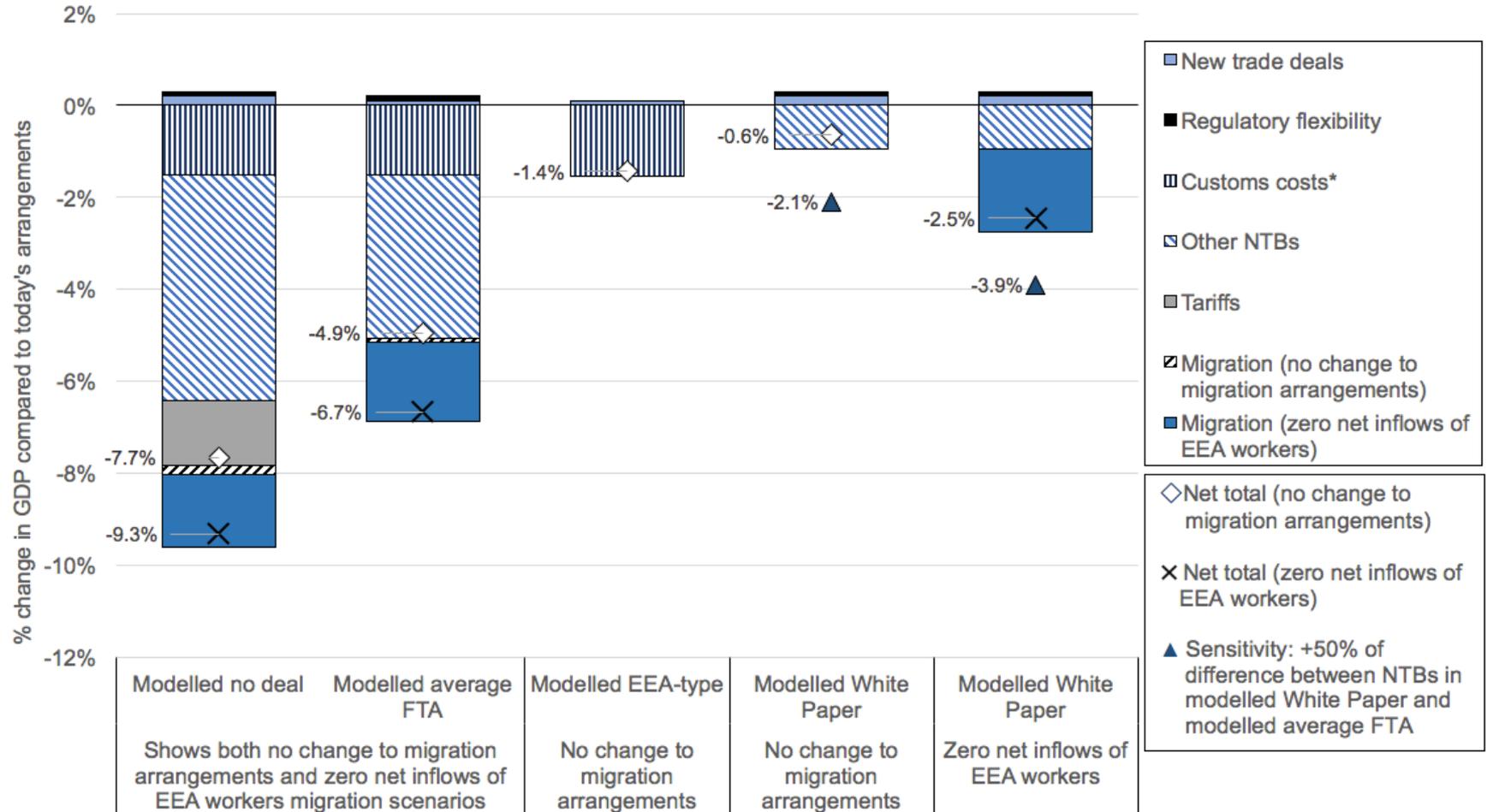
Source: H.M. Government (2018)

# But “Free” Trade is Costly



Source: H.M. Government (2018)

# “Free” Trade Does Not Necessarily Mean Reducing Costs of Trade

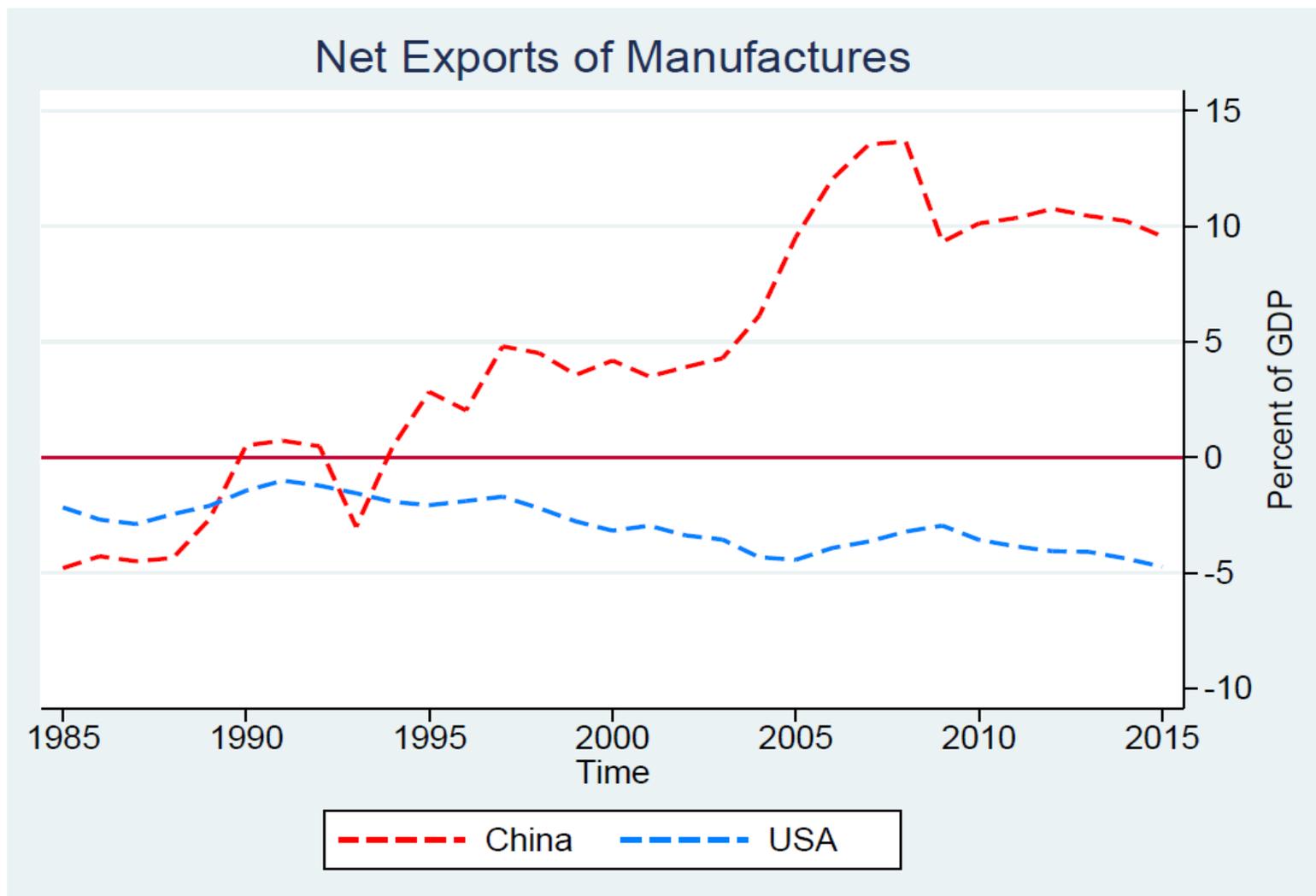


Source: H.M. Government (2018)

# Common Causes

- Increase in globalization has impacted on vulnerable regions and communities likely dominated by manufacturing
- With lack of appropriate compensation mechanisms, this has been reflected in the rise in political support for economic nationalism
- Do we observe this in Presidential election and vote for Brexit in 2016?

# Economic Nationalism and Globalization: China “Shock” and the U.S.



(Autor *et al.*, *Annual Review of Economics*, 2016)



# Electoral Impact of China “Shock”

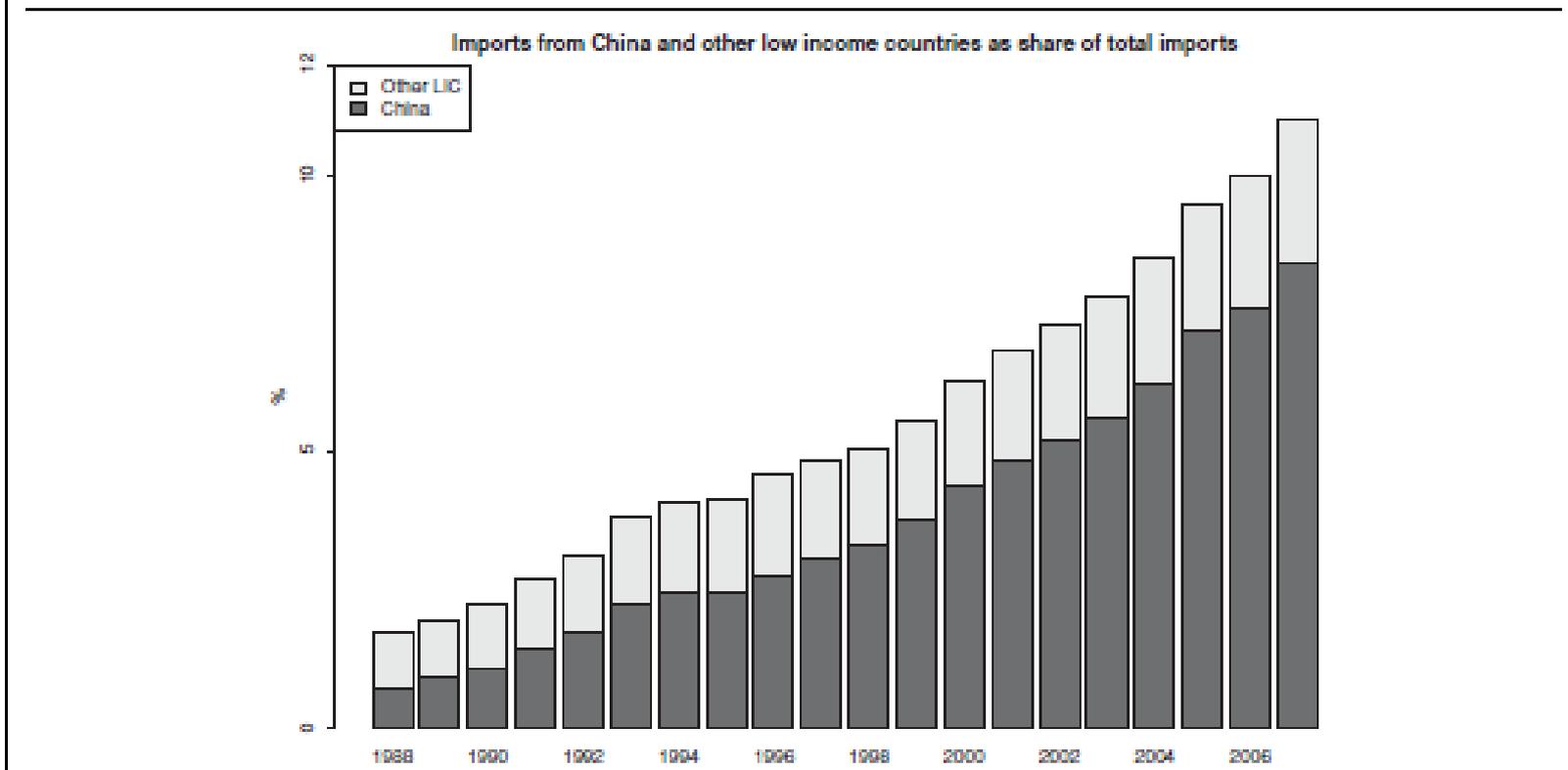
Table 6: Exposure to Chinese Import Competition and Presidential Elections, 2000-2008 and 2000-2016, 2SLS Estimates. (Dependent Variable: Change in Percentage of Two-Party Vote Obtained by Republican Candidate, 2008 (McCain) or 2016 (Trump) vs 2000 (Bush))

	(1)	(2)	(3)	(4)	(5)	(6)
<i>A. Δ Net Republican Vote Share 2000-2008</i>						
Δ CZ Import Penetration, 2000-2008	0.53 (0.52)	1.54 * (0.73)	1.60 * (0.73)	5.61 ** (1.31)	3.61 ** (1.05)	2.03 * (0.86)
<i>B. Δ Net Republican Vote Share 2000-2016</i>						
Δ CZ Import Penetration, 2000-2008	2.75 ** (0.98)	3.86 ** (1.48)	3.68 ** (1.40)	4.48 ** (1.69)	2.54 * (1.06)	2.18 * (0.95)
Estimation Method	OLS	2SLS	2SLS	2SLS	2SLS	2SLS
F-statistic First Stage		187.6 **	203.3 **	70.8 **	78.3 **	75.2 **

Source Autor *et al.* (NBER, 2017 )

# The UK: Brexit and Globalization

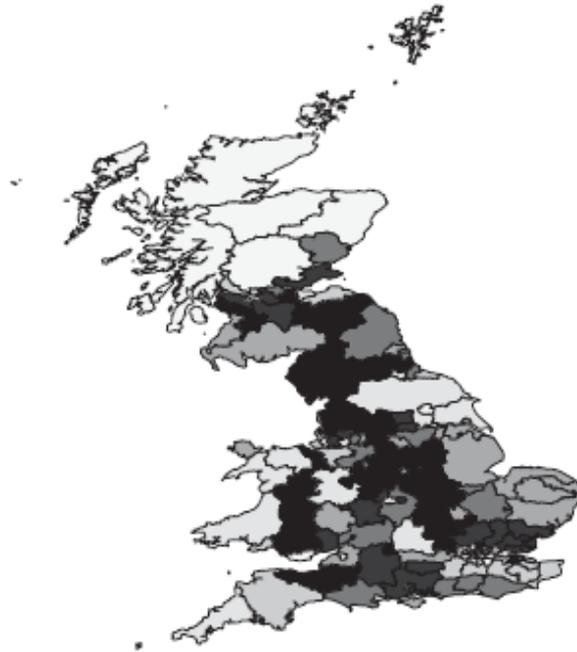
**FIGURE 1. Evolution of the Relative Importance of Imports from China and other Low Income Countries in the United Kingdom.**



Source: Colantone and Stanig (*APSR*, 2018)

# Brexit Vote

FIGURE 2. Strength of the Import Shock Across NUTS-3 Regions



Note: Darker shades correspond to stronger import shock.

FIGURE 3. Vote Share of the Leave Option Across NUTS-3 Regions.



Note: Darker shades correspond to stronger support for the Leave option.

Source: Colantone and Stanig (*APSR*, 2018)

# Brexit Vote

- Colantone and Stanig (*APSR*, 2018)
- Globalization main driver of Leave vote
- Globalization hit regions in UK dominated by manufacturing and facing range of other challenges, e.g., relative income growth had been weak, safety net structure has been reduced, etc.
- Immigration: did not play major role in determining vote

# Trade Policy and Economic Nationalism

- Driven by common causes: responses appear different in U.S. v. UK
- UK doing so inadvertently by foregoing benefits of large EU market and “deep” integration
- But common to both narratives is interplay between globalization and inequality
- Trump and Brexit (and rise in populism across the EU) reflect this