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

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Global Business Association
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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

But “Free” Trade is Costly

<table>
<thead>
<tr>
<th>Modelled no deal</th>
<th>Modelled average FTA</th>
<th>Modelled EEA-type</th>
<th>Modelled White Paper</th>
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<tr>
<td>-9.0% to -6.3%</td>
<td>-1.4%</td>
<td>-2.3% to -0.9%</td>
<td>-1.4% to -0.2%</td>
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**Key**

- In 90 out of 100 model runs, the estimate will fall within this range.
- In 70 out of 100 model runs, the estimate will fall within this range.
- In 50 out of 100 model runs, the estimate will fall within this range.

Central estimate:
- Sensitivity: +50% of difference between NTBs in modelled White Paper and average FTA.

On the remaining 10 out 100 occasions modelling gives results outside of these ranges.

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

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)
Spatial Effect of China “Shock”

(Autor et al., American Economic Review, 2013)
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))

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Source Autor et al. (NBER, 2017)
The UK: Brexit and Globalization

Source: Colantone and Stanig (APSR, 2018)
Brexit Vote

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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