

The Hidden Costs of Protectionism

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Hidden Protectionism

- ▶ Tariffs and Quotas capture headlines
 - ▶ Easy to measure
 - ▶ CBS report documents trends (and surprises)
- ▶ NTMs are equally important
 - ▶ Trade nerds get it, but not generally discussed
 - ▶ Until Brexit...

Rules of Origin and Brexit



Pay in EUR

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Order Summary

Items:	EUR 98,78
Postage & Packing:	EUR 6,77
Import Fees Deposit:	EUR 22,17
Total:	EUR 127,72
Promotion Applied:	-EUR 6,77
Exchange rate guarantee fee: ▼	EUR 2,57

Order Total: EUR 123,52

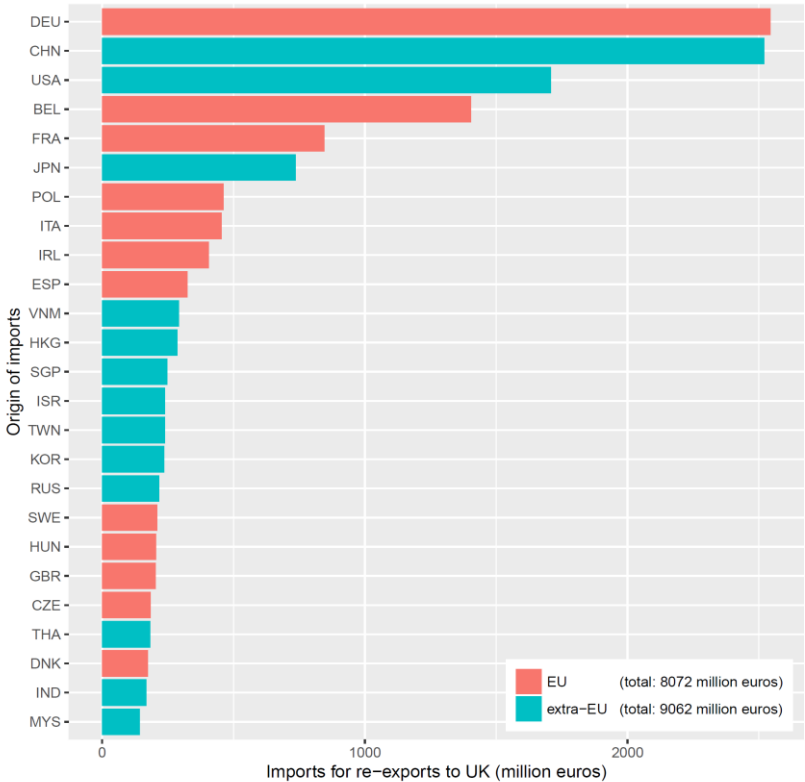
Brexit and Rules of Origin

- ▶ In order to enter UK/EU with zero tariff/quota require sufficient local content
- ▶ Percy Pigs
 - ▶ Produced in Germany
 - ▶ Shipped to UK tariff free
 - ▶ Repackaged, re-exported to Ireland
 - ▶ Hit with EU tariffs because too much content is EU not UK
- ▶ Trying to figure out the rules, paperwork, and waiting times is leading many firms (especially SMEs) to pause exporting

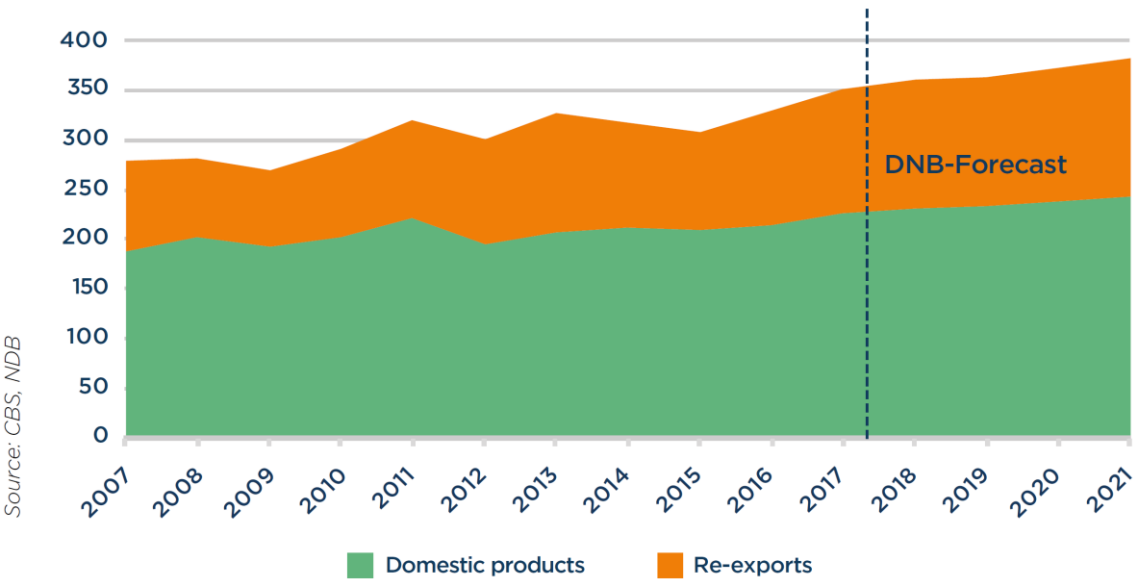


Dutch Re-exporting

- ▶ 2016, 44% of exports were re-exports
 - ▶ UK: 49% of exports; €39.2 billion
- Figure 4: Origin of imports for re-exports to the UK, 2017

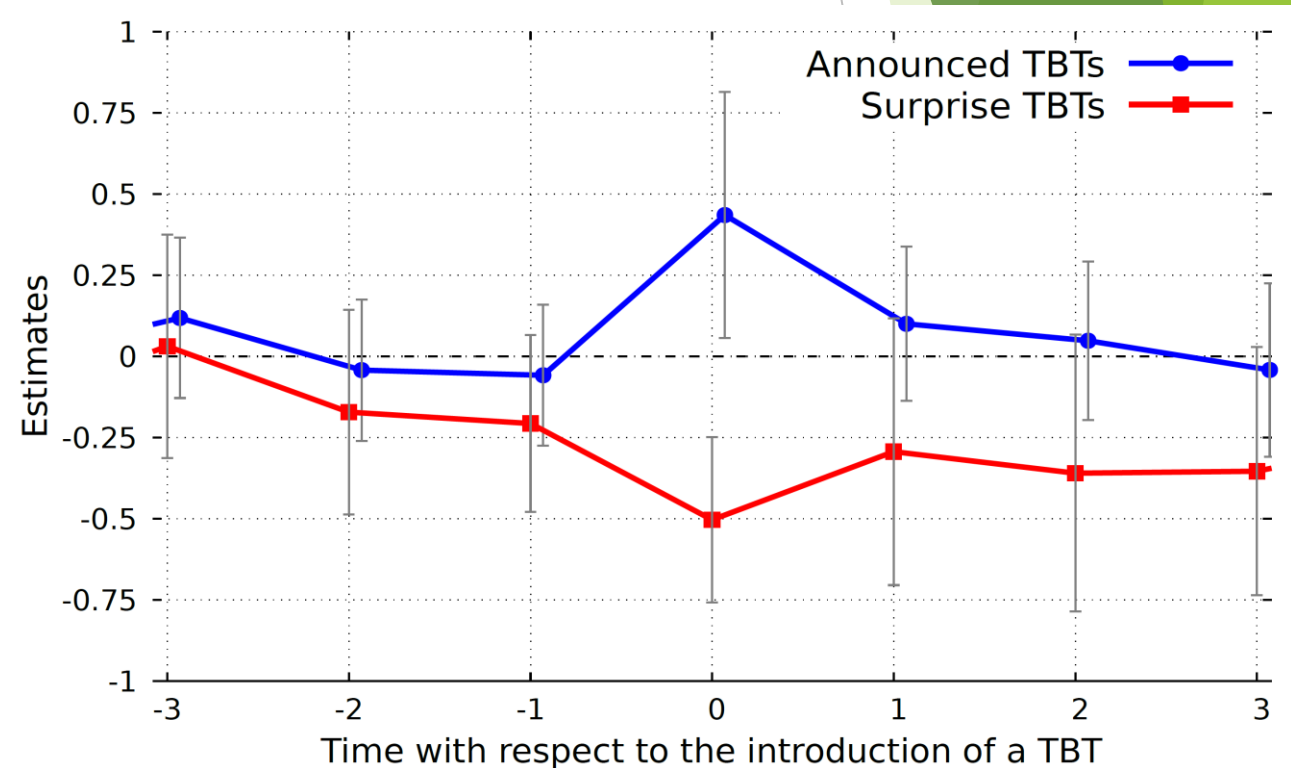


Volume of Dutch export goods in billion kilos



Uncertainty itself is a barrier

- ▶ Irene Iodice (2020): compares announced technical barriers to surprise ones
- ▶ Surprise ones have negative trade effects approx. 50% drop in value of exports
- ▶ Announced ones increase exports ~ 48%
- ▶ Uncertainty is as bad as the regulation
- ▶ Trump was all about uncertainty



Brexit Redux (and Re-redux and Re-re-redux...)

- ▶ Consent Mechanism: Every 4 years, N. Ireland votes on Irish Protocol
- ▶ Scheduled reassessment of key provisions
 - ▶ Organic products 2023
 - ▶ Aluminium & battery quotas 2027
 - ▶ Access to waters (🐟) and energy in 2027 (annual discussions!)
- ▶ This is just the known unknowns
 - ▶ Regulatory divergence will lead to litigation, retaliation, negotiation

Hidden Costs

- ▶ Countries that trade more innovate more
 - ▶ *Competition*: innovate to stay alive
 - ▶ *Inputs*: innovate to use new inputs
 - ▶ *Diffusion*: exposure to ideas generates new ideas
- ▶ Bagayev, Davies, Kogler (2019):
 - ▶ Decompose products into the patents used to make them
 - ▶ Look at trade in patents as embodied in products they represent

Dutch Exports by Technology (2018)

CPC4	Description	Billions	% of Exports
A61F	Filters Implantable into Blood Vessels	9.50	5.13
A61B	Diagnosis; Surgery	8.40	4.55
A61K	Preparations for Medical Purposes	6.80	3.7
A62C	Firefighting	6.60	3.58
B29C	Shaping or Joining of Plastics	6.30	3.44
A23L	Foods and Non-alcoholic beverages	5.30	2.89
	New Plants or Non-Transgenic Processes for Obtaining		
A01H	Them	5.30	2.87
A61M	Devices for Introducing Media Into/Onto the Body	5.20	2.8
A01G	Horticulture	4.60	2.49
A43B	Characteristic Features of Footwear	3.70	2.02

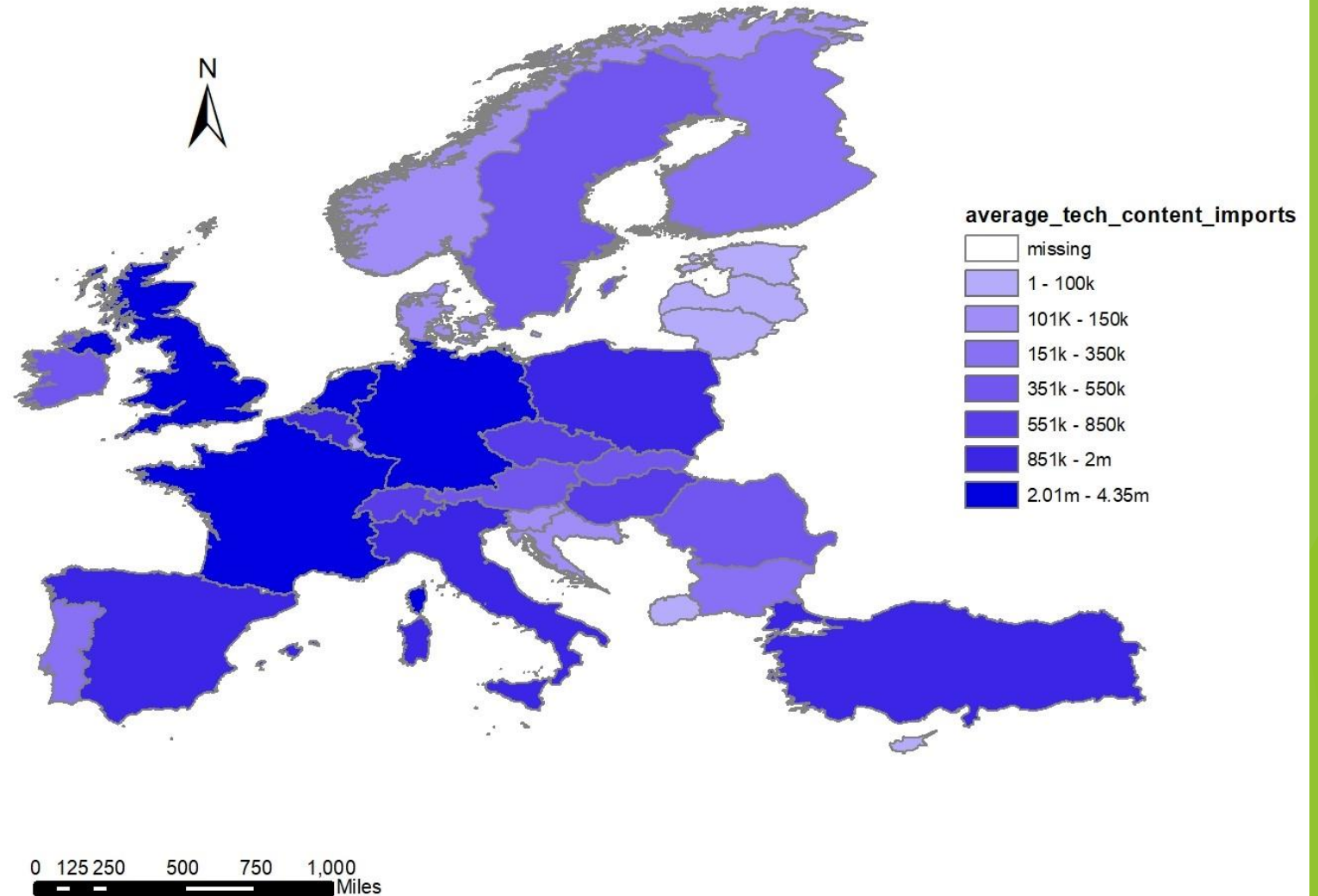
Dutch Imports by Technology (2018)

CPC4	Description	Billions	% of Exports
A61F	Filters Implantable into Blood Vessels	8.76	4.61
A61K	Preparations for Medical Purposes	8.46	4.45
A61B	Diagnosis; Surgery	7.58	3.99
A61M	Devices for Introducing Media Into/Onto the Body	6.16	3.24
A62C	Firefighting	5.48	2.88
A43B	Characteristic Features of Footwear	5.39	2.83
B29C	Shaping or Joining of Plastics	5.16	2.71
C07D	Heterocyclic Compounds	5.04	2.65
A23L	Foods and Non-alcoholic beverages	4.81	2.53
C07C	Acyclic or Carbocyclic Compounds	4.11	2.16

- All but the two C's are also top 10 in exports - Re-exporting

Technological Content of Imports

- ▶ Europe, US are major exporters of technology
- ▶ Same are also major importers
 - ▶ China imports far more than it exports (Global Value Chains)
- ▶ Developing nations (esp. Africa) are almost not involved



Diffusion is what increases innovation

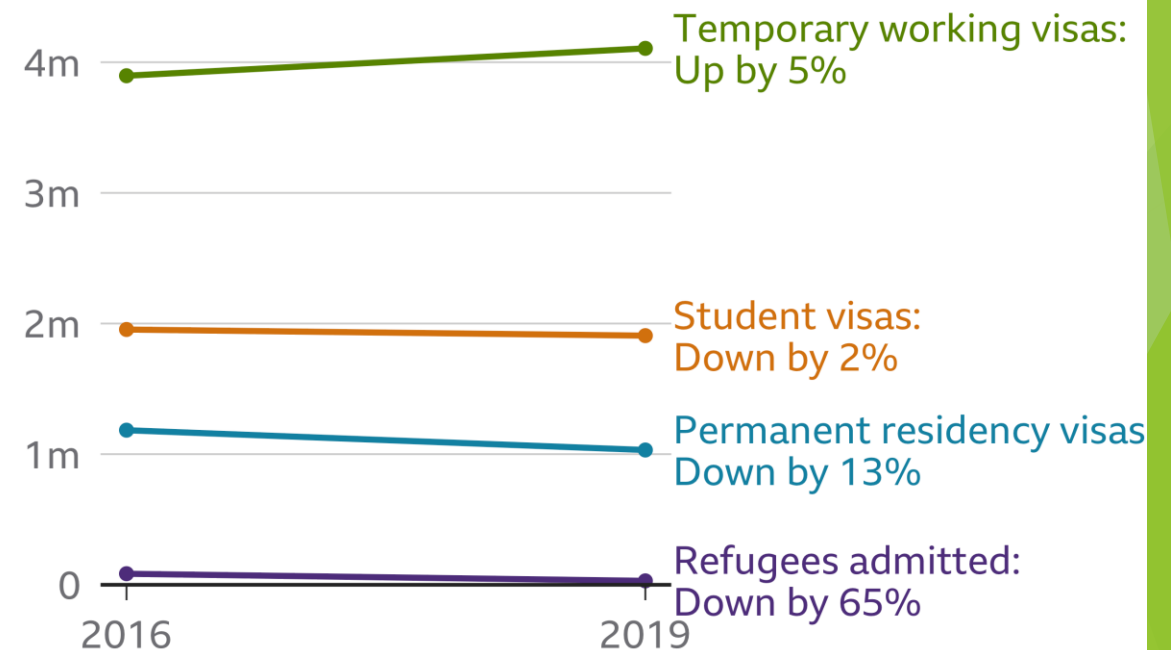
- ▶ A 10% increase in exposure to foreign patents by trade ***increases*** local innovation by 0.7%
- ▶ A 10% increase in import competition ***lowers*** local innovation by 0.5%
 - ▶ Measuring trade in technology allows us to differentiate diffusion from competition and overturns the prior thinking
 - ▶ Think what this means for Covid-19
 - ▶ Swift innovation
 - ▶ Distribution of vaccines

Social connections matter

- ▶ Not only does trade increase innovation but so do social connections

- ▶ Inventors on patents
- ▶ Migration of workers
- ▶ Student exchanges
 - ▶ Erasmus+ after Brexit
 - ▶ Exchanges Increase Trade

- ▶ Trump's immigration war
- ▶ Brexit



Note: Most recent data is for 2019, before the coronavirus outbreak

Summary

- ▶ Protection can be difficult to identify
 - ▶ Uncertainty can be as big a barrier as regulation
- ▶ Protectionism hits the interlocking puzzle of trade, value chains, FDI, innovation, migration, growth, health, environment, and inequality
- ▶ Fight to understand what protectionism is and what its impacts are is just beginning.



Thank You!

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