RoW Economics of Trump

- US rejection of liberal internationalism => return to protectionism and isolationism of 1920s-30s.
- Threatens RoW reversion to 1920s & 30s imperialism.

- Replacement of GATT/WTO reciprocity + MFN principles with power-based bargaining in trade, etc.
  - US gain, RoW loss; all lose in meta-game.

- Threatens trade wars as in 30s. US loses, RoW loses more.
  - Smaller countries lose much more.
  - Smaller countries incentive to join bigger neighbors, acquiesce in imperialism.

- Bigger picture: loss of cooperation on migration, environment. Again, RoW loses more.
1920s & 30s Perspective

- Global depression of 30s worsened by trade wars, escalated by US Smoot-Hawley Tariff of 1930.

- No natural experiment possible. Back of envelope partial equilibrium simulations suggest a few percent of GDP effect for US. Probably underestimated. No RoW calculations known to me.

- Hypothesis: relatively closed markets in 20s incentivized imperialism.

  - Ideas (liberal internationalism) of Montesquieu, developed in Hume, Smith,… -> Cordell Hull & start of reciprocity & MFN -> GATT.
GATT/WTO vs. Power Bargaining

- Trump’s ‘great deals’ vs. WTO reciprocity = equal exchange of market access.

- Suppose Nash bargaining over tariffs, where threat point is Nash equilibrium tariffs.
  - Big countries have high Nash tariffs, suggests big countries do better with NB tariffs.
    => Trump may be right. RoW loses, US gains.

- But, value of restraint via rules in sub-games of a meta-game. Liberal internationalism, value of ‘rule of law’.
  - => Trump is wrong, all lose.
Trade War

• Biggest threat of Trump is a big trade war, end of WTO era.

• R. Ossa (AER, 2014, 4104-46) simulates Nash eq. tariffs for 8 large regions (US, EU, Japan, India, China, Brazil, RoW), 33 mfg. and ag. sectors, using 2007 data. (Upward bias likely.)

• Ricardian gravity model.

• All goods final. (Downward bias, multiplier 1.6-2.5 based on several IO liberalization applications.)
US Nash tariffs approx. 60%, Smoot-Hawley average. Smaller countries in RoW surely lose \textit{much} more — gravity => smaller countries more naturally open. Order of magnitude larger losses likely (AY 2016 FTA analysis).
Bigger Picture

• WTO is most successful international institution. Rule of law on trade policy disputes.

• International externalities of migration, refugees, environment (climate change) are more powerful than trade policy externalities. How can we succeed if we stupidly mess up the easier stuff?

• Again, US relatively advantaged in Prisoners’ Dilemma. US behind 2 oceans, with friendly neighbors North and probably South. RoW likely to suffer much more.