International Political Economy (SOCS-SHU 222)

A STATE-CENTERED APPROACH TO TRADE POLITICS

Instructor: JING QIAN

NYU SHANGHAI 上海纽约大学

SOCS-SHU 222: International Political Economy
Guest Lecture Series

The Facts and Economic Impacts of the **US-China Trade War**

Date: Thursday, Feb 27, 2025
Time: 9:45 - 11:00 AM
Location: E403
Speaker: Sifan Xue, Assistant Professor in Economics, National School of Development, Peking University

In 2018, the United States initiated a trade war with China, marking a sharp break from decades of economic integration and globalization.
This mini-lecture will provide:

- An overview of the key developments in the China-US trade conflict
- Insights from academic research in economics
- Broader implications of the trade war in other areas.

Host by Jing Qian, Assistant Professor Faculty Fellow of Political Science, NYU Shanghai

Guest Lecture Alert!

- Note of room change: E403
- Required and suggested readings posted
- Attendance & Participation

What does the “state” want?

Society-Based

- Distributional Consequences
- Winners and Losers
- Political Institutions

State as a ``container''

State-Based

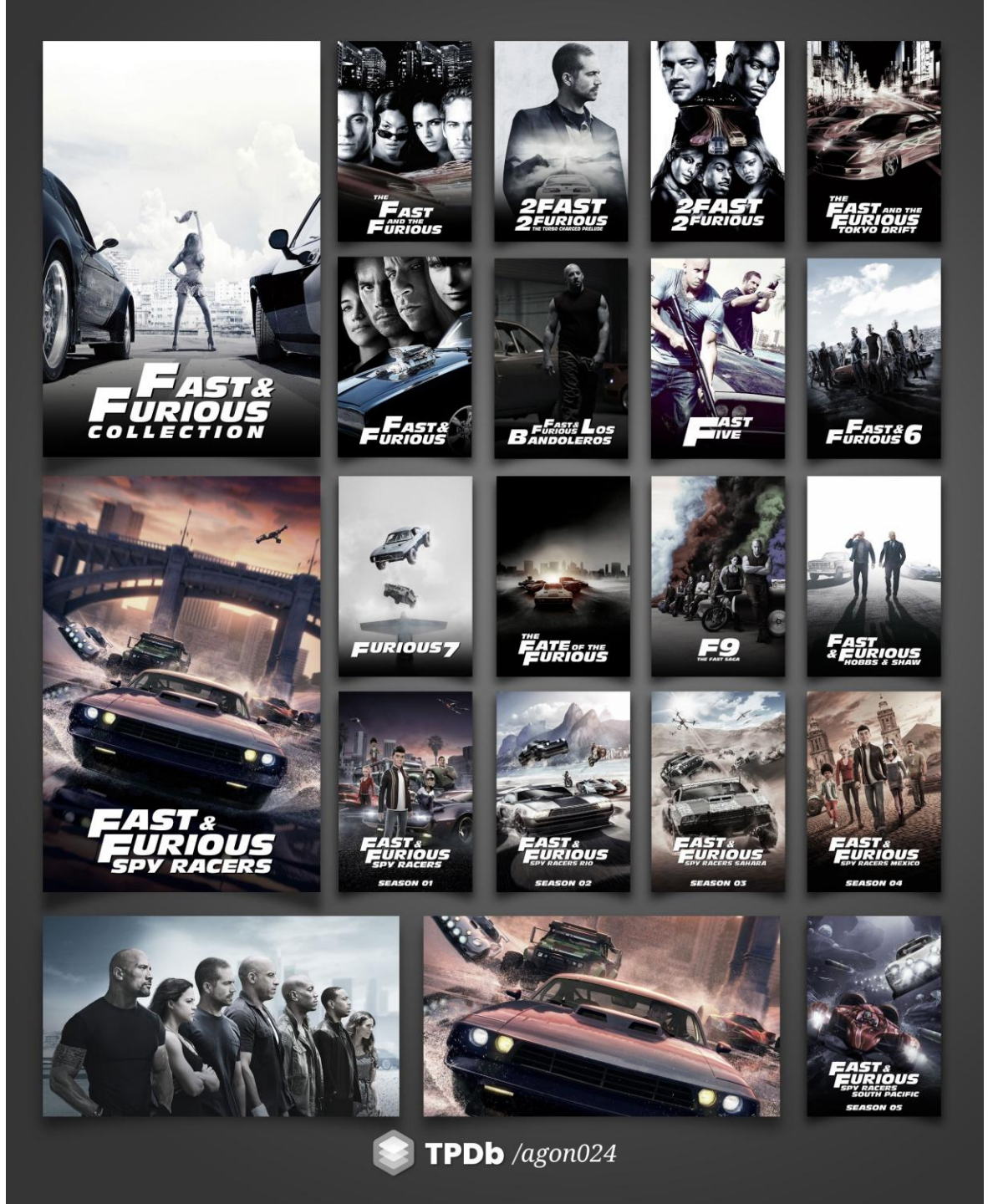
- Overall welfare
- Relative power
- Competitiveness*

State as the strategic actor

Political Institution: Legislative Representation

Proportional Representation **vs.** **Malapportionment**

6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There's no way
like the
American Way

VS

Similar:

- Language
- Foreign policy
- Legal traditions
- …

But…

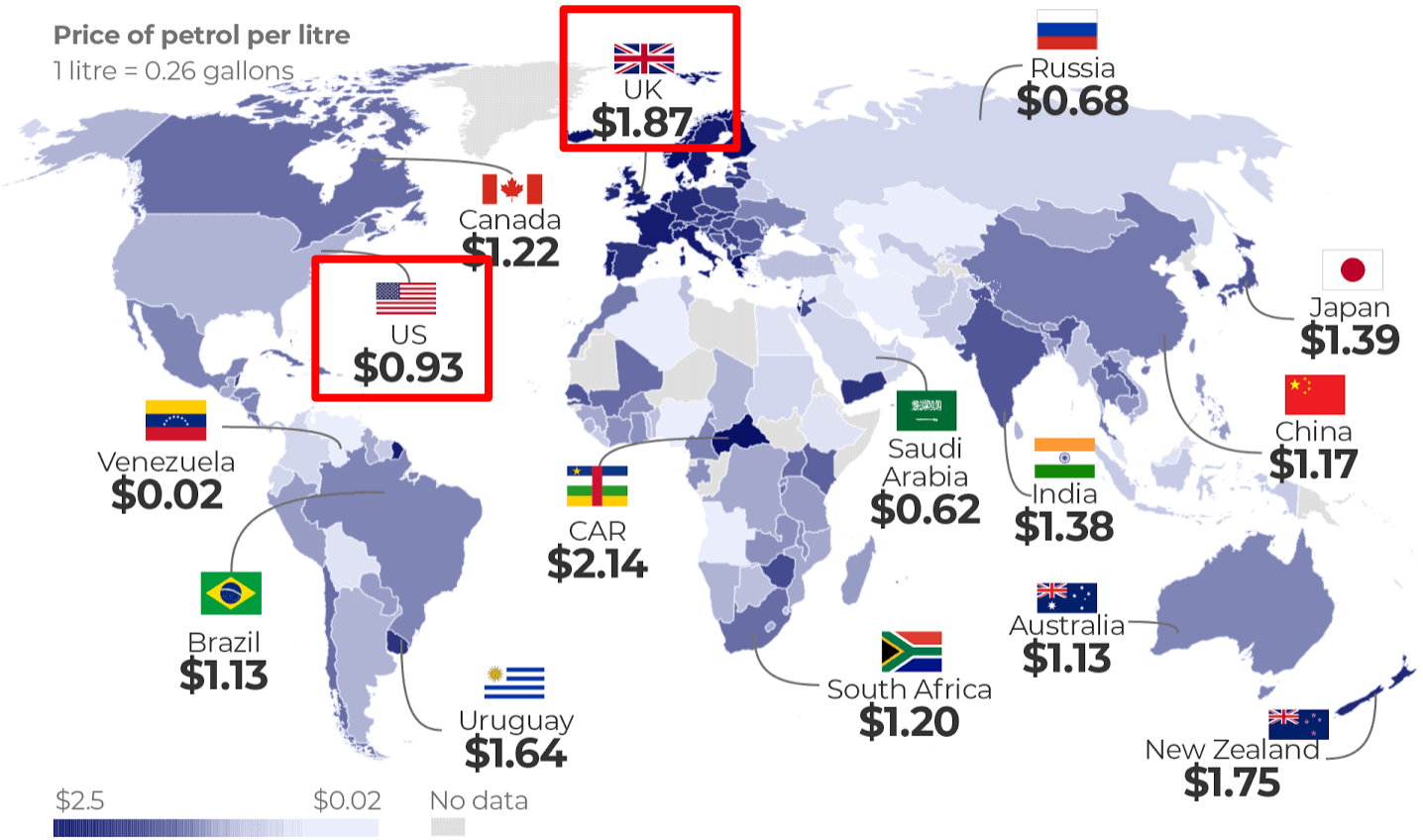
- Car Culture???

Why??? → **Gas Price**

OIL

Highest and lowest petrol prices

Many countries are facing a **rise in fuel prices** largely brought on by tight supply and surging demand. The **average price of gasoline is $1.20** per litre.



Most expensive petrol

$2.56	Hong Kong	$2.02	Denmark
$2.18	Netherlands	$1.99	Monaco
$2.14	CAR	$1.99	Greece
$2.11	Norway	$1.97	Finland
$2.03	Israel	$1.97	Iceland

Cheapest petrol

$0.02	Venezuela	$0.34	Kuwait
$0.06	Iran	$0.40	Nigeria
$0.23	Syria	$0.42	Turkmenistan
$0.26	Angola	$0.46	Kazakhstan
$0.33	Algeria	$0.46	Ethiopia

Source: globalpetrolprices.com | September 30, 2021

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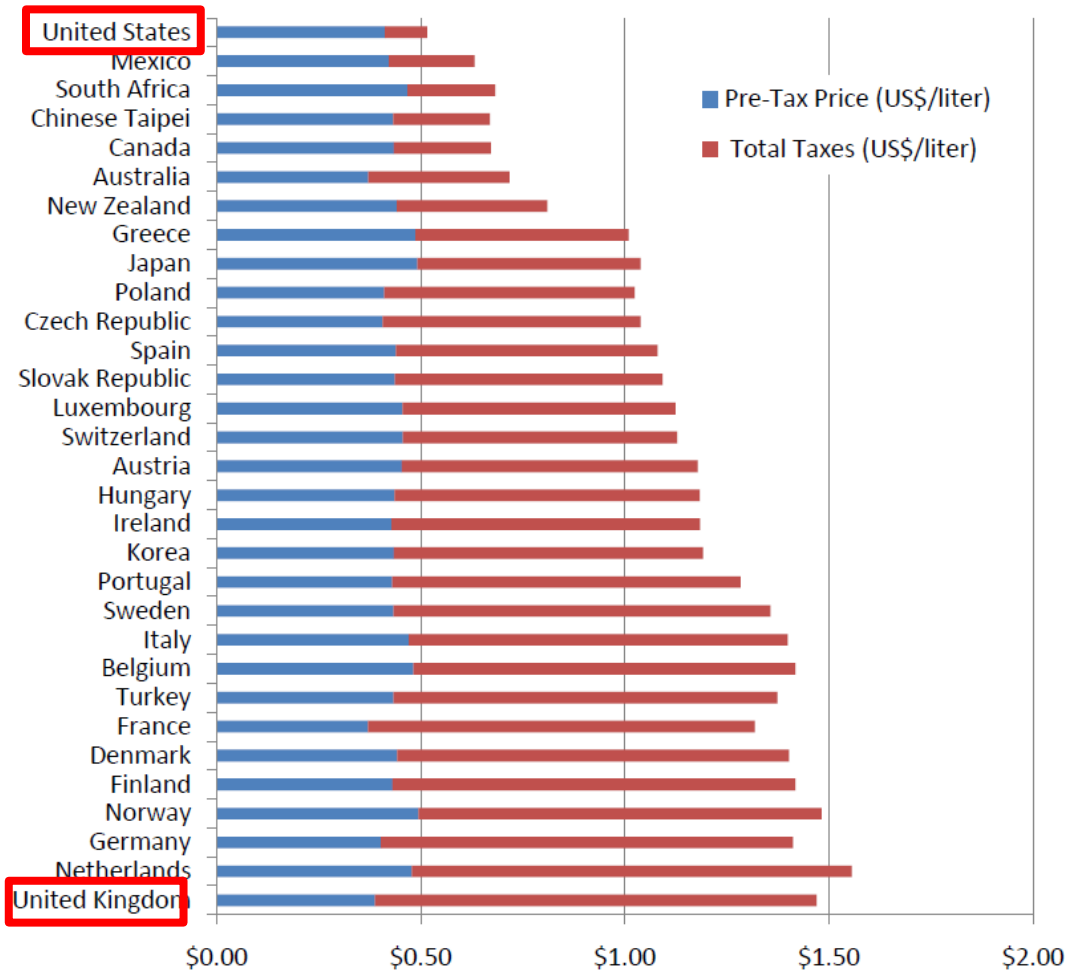
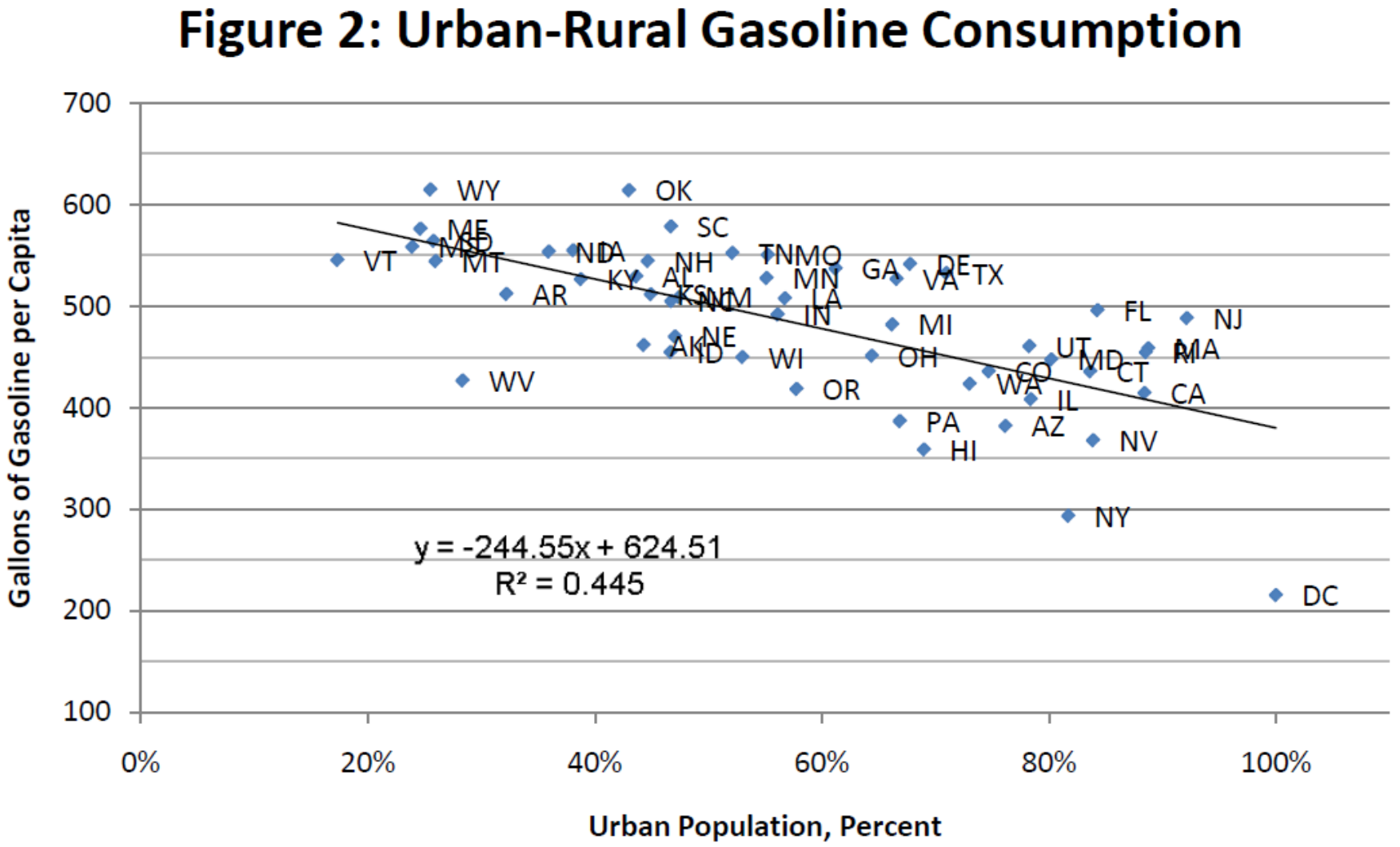
Gas prices are similar before tax!

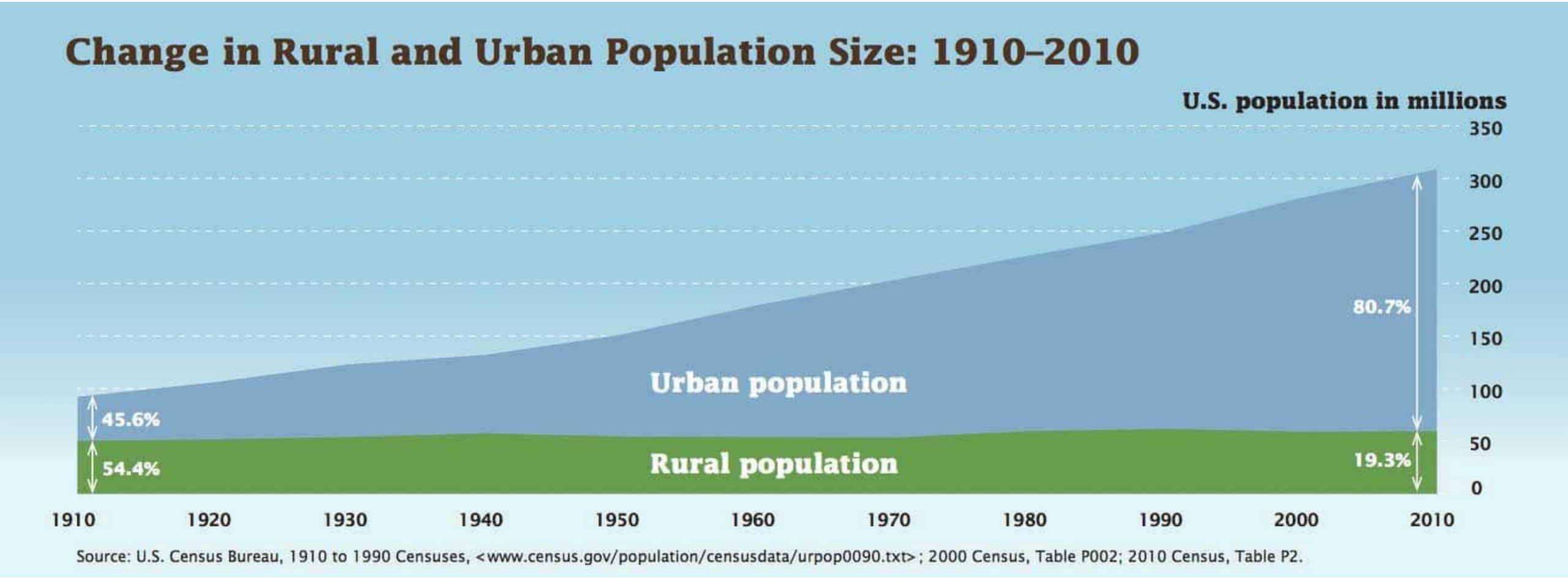
Figure 1: Comparative Gasoline Prices and Taxes
(Unleaded Gasoline, 1Q2005)



Who needs the most gasoline per capita? Urban v Rural



Much More Urban Population



Polity Outcome?

- We've got Interests & Incentives
- Now, to get the policy outcome,…
- We filter the interests/incentives through a domestic political institution:

Malapportionment!

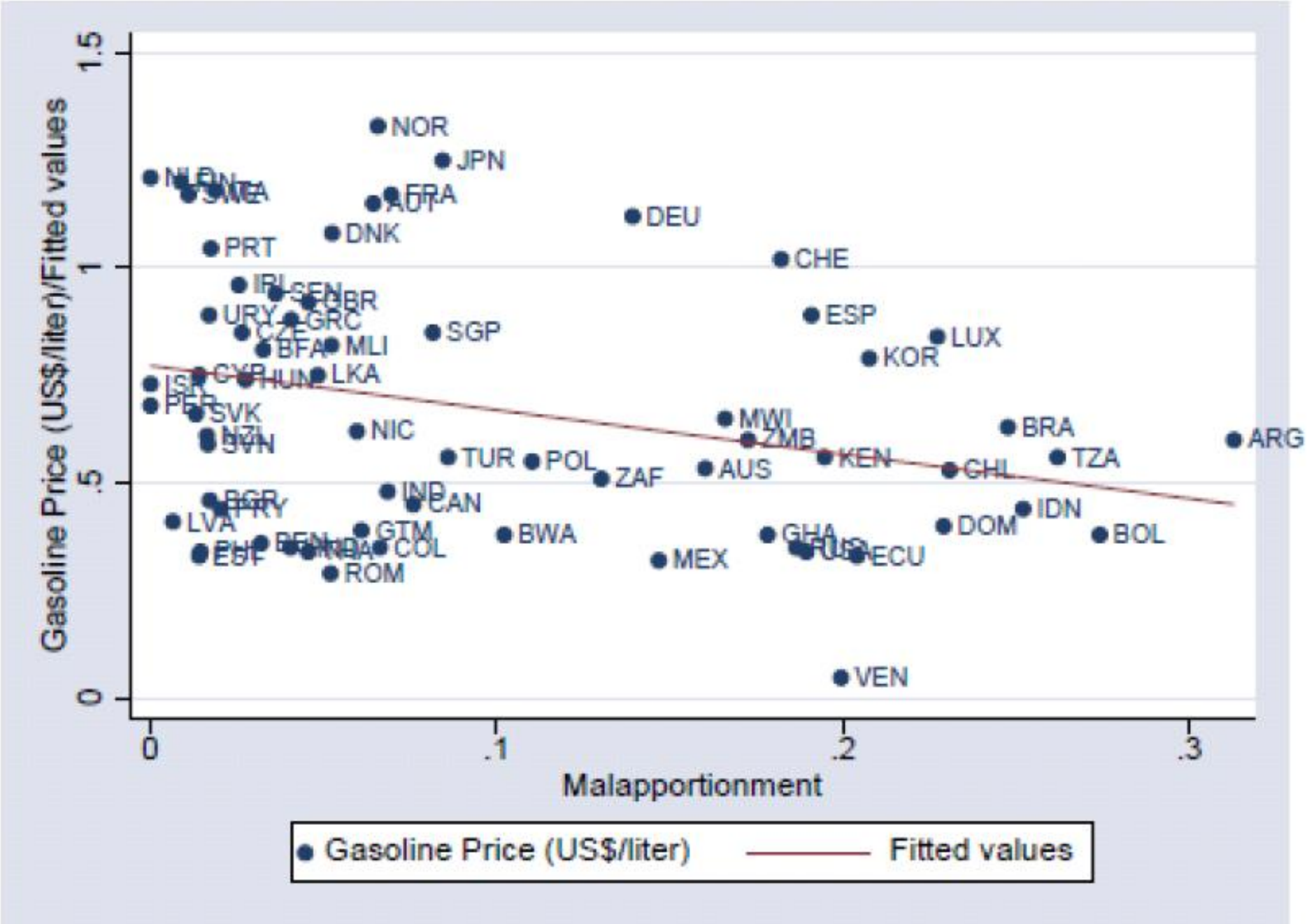
Why it's the case in the US?

Malapportionment tends to weigh RURAL preferences more than URBAN

(i.e., Proportional representation tends to weigh URBAN preferences more than RURAL)

Does this have an effect on NATIONAL policy?

Figure 6: Malapportionment and Gasoline Prices



A State-Centered Approach to the Politics of Trade

READING ASSIGNMENT:

Oatley Chapter 5

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Why Protection?

Society-Based

- Protection is welfare decreasing
- (Trade is mutually beneficial)
- Protection due to interest groups influence

State-Based

- Protection could be welfare **enhancing**
- (Under certain circumstances)
- Protection even w/o interest-group demands

Why Protection?

Infant Industries

Infant-Industry Case

- Long-run welfare gains created by a new industry will be greater than the short-run losses of social welfare
- “infant” industries – like children who need the “protection” of their parents until they grow strong
- Comparative advantages are DYNAMIC

Infant Industry Argument 1: Fixed costs & Economies of scale

- Economies of scale refers to the decreased per-unit-cost as output increases.
- The initial investment of capital is diffused (spread) over an increasing number of units of output
- ➔ The marginal cost of producing a good or service *decreases* as production increases

Example

- Suppose an industry requires an initial investment of $1000
- With 100 customers, the Average Fixed Cost is $10
- With 200 customers, the Average Fixed Cost becomes $5
- This results in a lower average total cost

Fixed Cost / Start-up Costs

- **No economies of scale:**
  - If costs increase proportionately to the quantity of all input factors
- **Diseconomies of scale:**
  - If costs increase by a greater amount than the quantity of all input factors
- **Economies of scale:**
  - If costs decrease by a greater amount than the quantity of all input factors

A Different Way to Approach “Returns to Scale”

- Where all inputs increase by a factor of 2, new values for output should be:
  - Twice the previous output = ?
    - a constant return to scale
  - More than twice the previous output = ?
    - an increased return to scale
  - Less than twice the previous output = ?
    - a decreased return to scale

Formal Notation

- Y is output, K is capital, L is labor, F is the production function:
  - Y=F(K,L)
- Suppose we double our inputs:
  - 2K, 2L
- F(2K,2L) = ???
  - How much does Y increase?
- If F(2K,2L) = 2F(K,L) ➔ We have _____ returns to scale
  - CONSTANT
- F(2K,2L) **>** 2F(K,L) ➔ We have _____ returns to scale
  - INCREASING
- If F(2K,2L) **<** 2F(K,L) ➔ We have _____ returns to scale
  - DECREASING

Slightly More Abstract Notation

- Y is output, K is capital, L is labor, F is the production function, a is the increase in inputs
- $Y=F(K,L)$
- If $F(aK,aL)=aF(K,L)$ ➔ Constant returns to scale
- If $F(aK,aL)>aF(K,L)$ ➔ Increasing returns to scale
- $F(aK,aL)<aF(K,L)$ ➔ Decreasing returns to scale

Bringing the two sets of concepts together?

You can have increasing returns to scale if…

$$Y=F(K,L) + \text{start up costs}$$

And/or if investments in inputs generate disproportionately high increases in outputs

Start-up costs are high

Infant Industry Argument 2: Economies of Experience

- Efficient production requires specific skills that can only be acquired through production in the industry
  - Experienced management
  - Skilled workers
  - Network of suppliers

Why can’t markets efficiently educate / train the workforce?

- Trained people may leave the firm, taking their skills elsewhere
- Missing market:
  - “Futures market for labor”
- Externalities from education?

Economies of Scale and/or Experience can lead to:

- Oligopoly, market power
- Barriers to entry
- First mover advantages

Suppose an industry where market-demand supports only one firm (high-tech – e.g., aircraft)

European firm

US firm	PRODUCE	NOT PRODUCE
PRODUCE	– 5, – 5	100, 0
NOT PRODUCE	0, 100	0, 0

What are the two EQUILIBRIA?

Equilibrium

An outcome where no player has an incentive to deviate from his or her chosen strategy given the strategies of the other players.

Now suppose the US moved first, but Europe offers a subsidy…

European firm

US firm	PRODUCE	NOT PRODUCE
PRODUCE	– 5, 5	100, 0
NOT PRODUCE	0, 110	0, 0

Thank You!

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Take-away

- Malapportionment
- Why does the state intervene?
- Infant Industries
- Economies of Scale
- Increasing returns to scale
- Economies of experience
- First mover advantages
- Equilibria

Homework

- How to use the society-based vs state-based approach to understand the US-China trade war?

The New York Times

Trump Slaps Steep Tariffs on Foreign Washing Machines and Solar Products

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Workers installing solar panels in New Mexico. President Trump has approved solar tariffs for the next four years, a trade action aimed at Chinese imports. Sergio Flores/Bloomberg

By Ana Swanson and Brad Plumer
Jan. 22, 2018

THE HILL

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ENERGY & ENVIRONMENT

Biden doubles tariffs on Chinese solar panel components

BY RACHEL FRAZIN - 12/11/24 4:35 PM ET

A worker secures mounting straps as construction continues with solar panel installation at the Gemini solar project in Southern Nevada Las Vegas, NV. (Brian van der Brug/Los Angeles Times via Getty Images)