

# International Issues

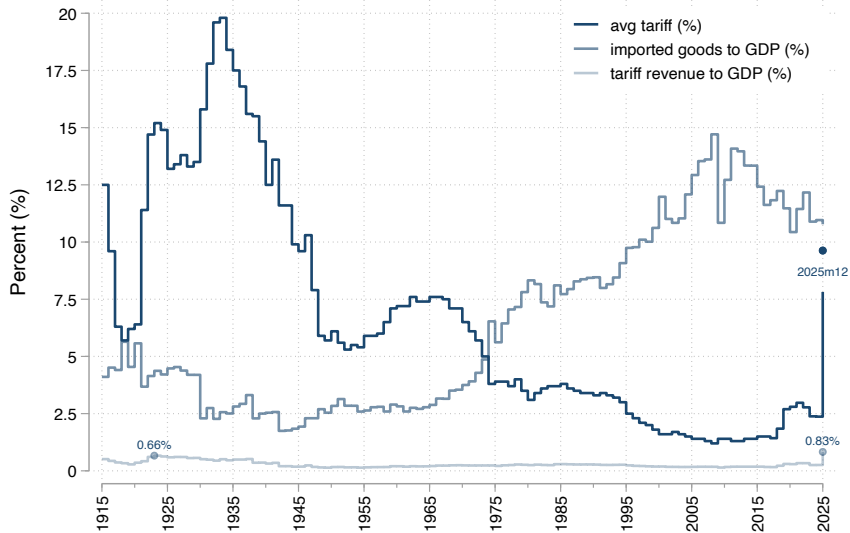
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# Motivation

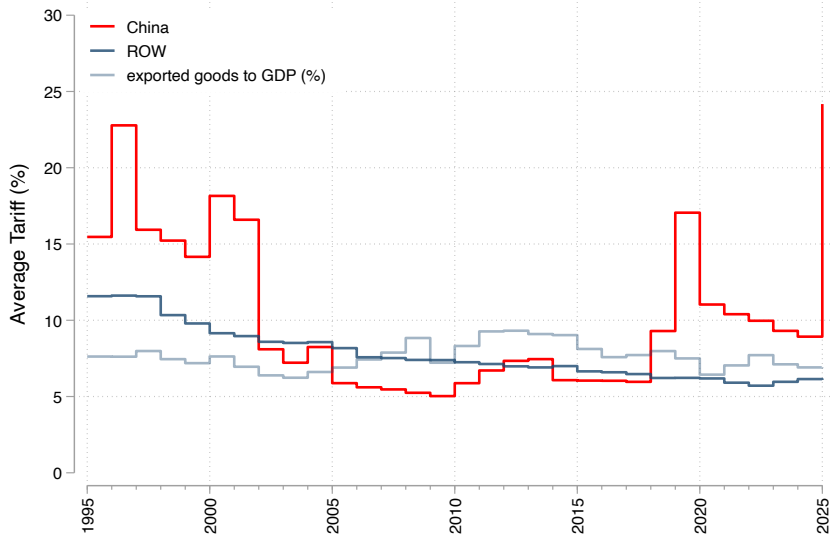
- For much of the period since the Second World War, tariffs appeared to be a largely settled issue in advanced economies
- Multilateral and regional trade liberalization under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) reduced the average import-weighted tariff in the United States to less than 2 percent by mid-2010s
- During 2018–2019, and again in 2025–2026, United States imposed tariff waves that raised protection to levels not seen since the Smoot–Hawley Tariffs of 1930s
  - IEEPA tariffs ruled unconstitutional by the Supreme Court, but the Trump administration plans additional tariffs, and levels of trade policy uncertainty remain high
- Concerns about national security and resilience of supply chains with rising geopolitical tensions
  - Russia–Ukraine
  - China–United States
  - Middle–East

# U.S. Tariffs



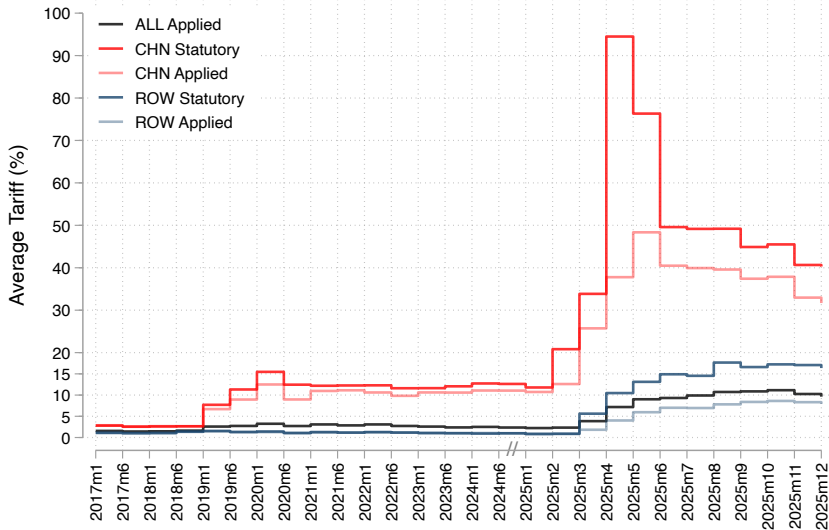
- Fajgelbaum and Khandelwal (2025) “Tariffs in 2025: Short-run Impacts on the U.S. Economy,” *Brookings Papers on Economic Activity*

# Foreign Tariffs



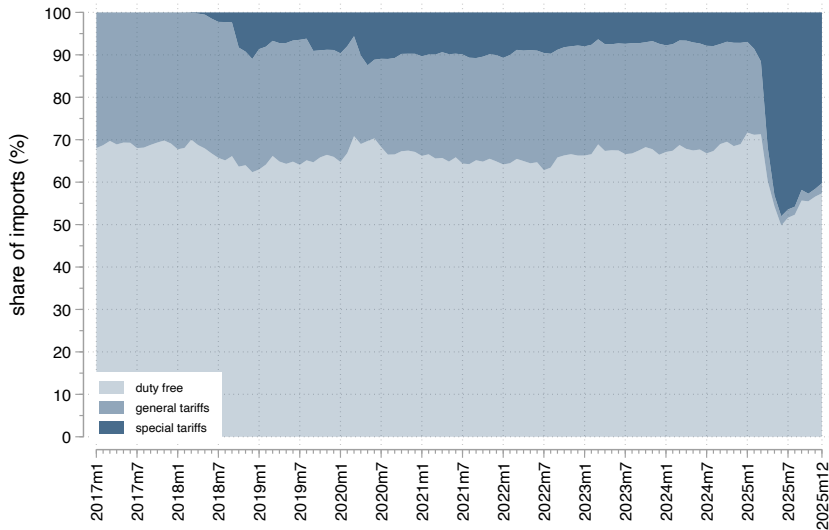
- Fajgelbaum and Khandelwal (2025) “Tariffs in 2025: Short-run Impacts on the U.S. Economy,” *Brookings Papers on Economic Activity*

# Applied v. Statutory U.S. Tariffs



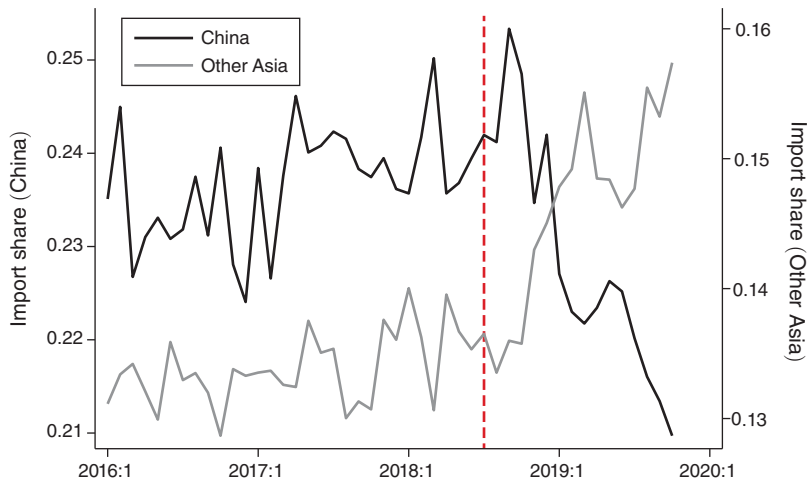
- Fajgelbaum and Khandelwal (2025) “Tariffs in 2025: Short-run Impacts on the U.S. Economy,” *Brookings Papers on Economic Activity*

# Duty Free



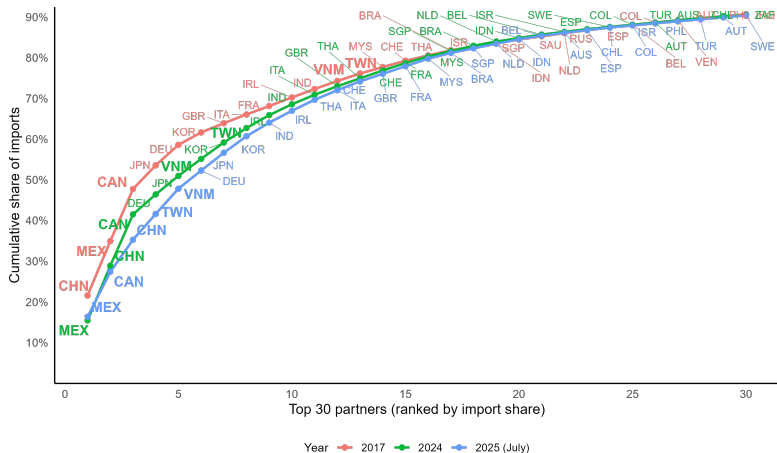
- Fajgelbaum and Khandelwal (2025) “Tariffs in 2025: Short-run Impacts on the U.S. Economy,” *Brookings Papers on Economic Activity*

# Great Reallocation of Imports



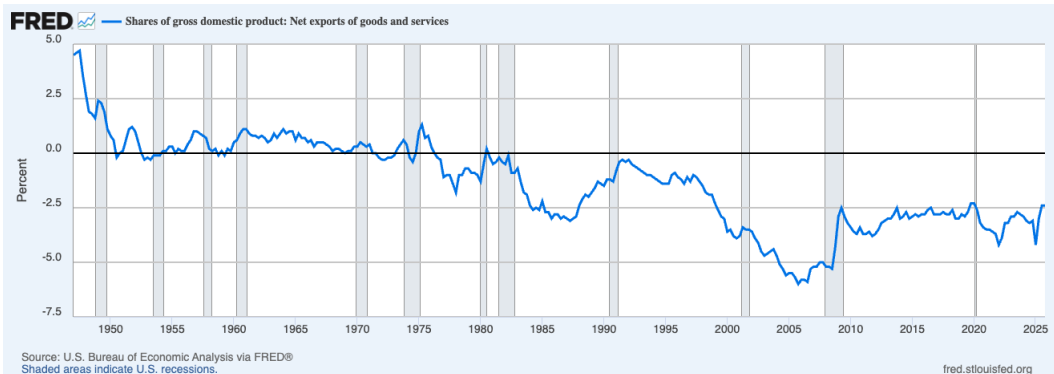
- Grossman, Helpman and Redding (2024) “When Tariffs Disrupt Global Supply Chains,” *American Economic Review*

# Patterns of Import Reallocation

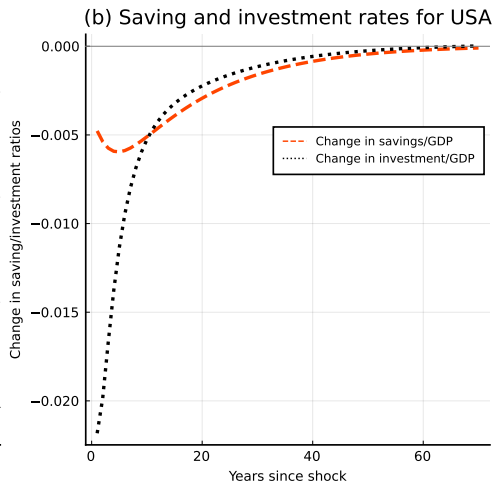
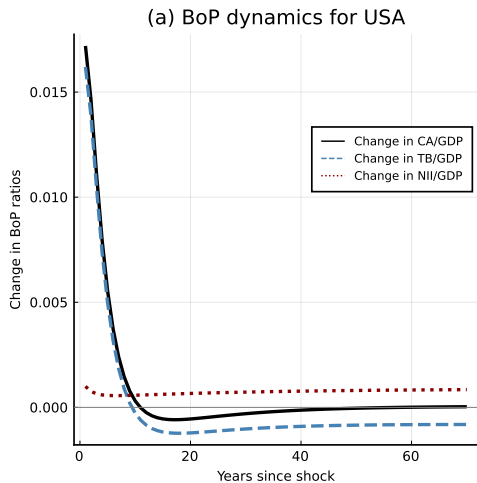


- Alfaro and Chor (2025) “An Anatomy of the Great Reallocation in U.S. Supply Chain Trade,” Harvard University
- U.S. remains indirectly exposed to China through imported inputs in third countries (Baldwin and Freeman 2023)

# Implications for Trade Imbalance?

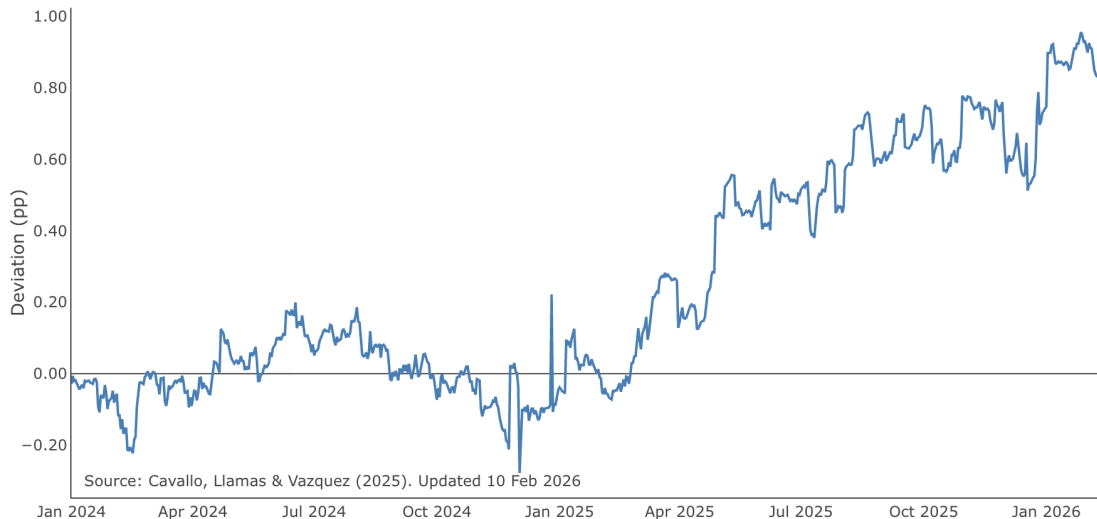


# Implications for Trade Imbalance?



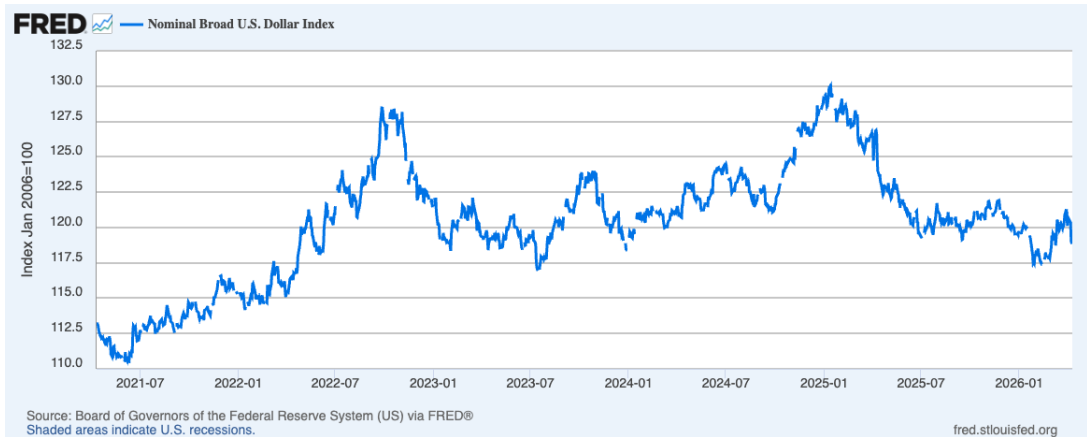
- Kleinman, Liu, Redding and Yogo (2026) “Neoclassical Growth in an Interdependent World,” Stanford University

# Impact on Price Level?



- Cavallo, Llamas and Vazquez (2026) “Tracking the Short-Run Price Impact of US Tariffs,” Harvard University

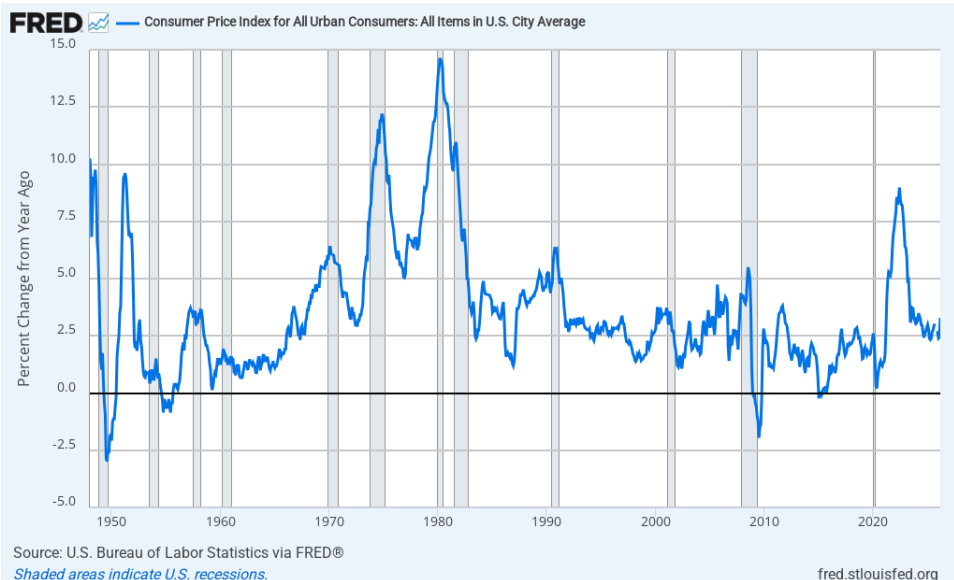
# Dollar Exchange Rate



# Oil Price



# U.S. Inflation



# Conclusions

- Return of protectionist trade policies and heightened concerns about the resilience of supply chains have returned trade policy to the center stage
- A central insight from neoclassical economics is that international trade operates like an improvement in production technology
  - Trade generates mutual aggregate welfare gains but creates winners and losers within countries
- Recent U.S. tariffs
  - Incidence has largely fallen on U.S. firms and consumers rather than foreign exporters
  - Led to a great reallocation of patterns of import sourcing
  - Modest impact on level of U.S. consumer prices
- Looking ahead the evolution of U.S. consumer prices is likely to be more driven by
  - Conflict in the Middle East and oil prices
  - Movements in the dollar exchange rate
  - Federal Reserve policy priorities

Thank You