

Trade, FDI and Debt

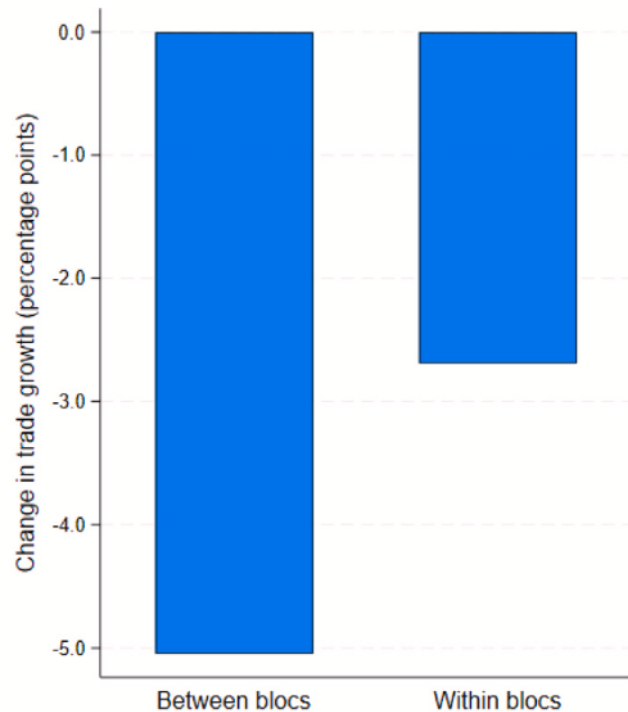
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Prepared for the Federal Reserve Bank of Chicago
October 10, 2025

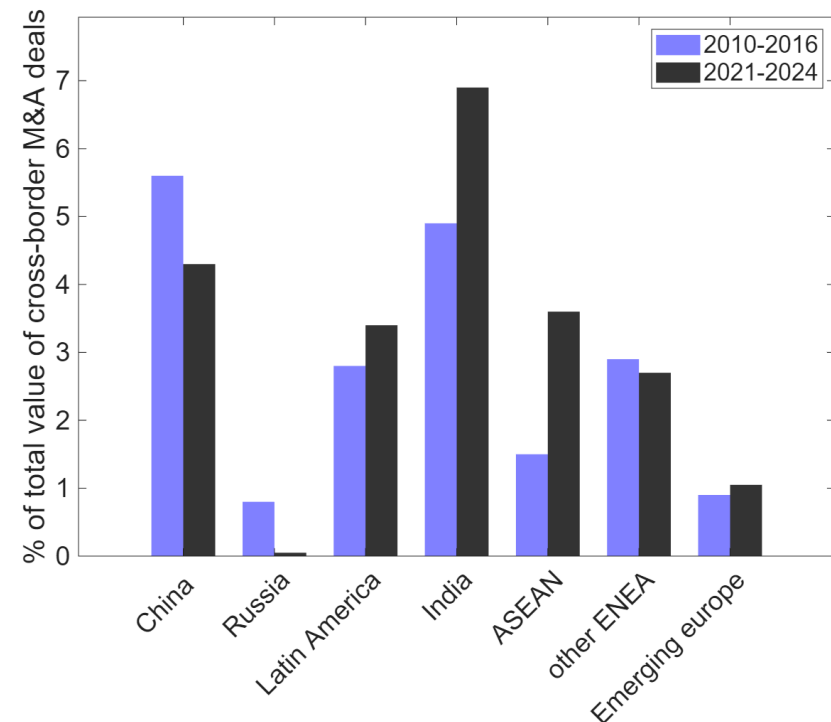
Price increases in response to tariffs has been less than originally forecast. Why?

- Trade just not that important – and there are good domestic substitutes for most imported goods
- Front-running of expenditures by consumers and firms mean that the price increases are yet to come (surge in imports)
- Firms absorb the tariff by reducing their markups
 - Margins on many imported goods are large (alcohol); change in markups varies by distance and by good quality (Chen and Juvenal '20)
 - Elimination of *de minimis* exemption on shipments (August 2025)
 - Impact on small businesses

Shift in trade blocs



Decline in trade growth between traditional blocs
[diff growth rates (2022-2024) – (2017-2022)]
Gopinath et. al, JIE 2025



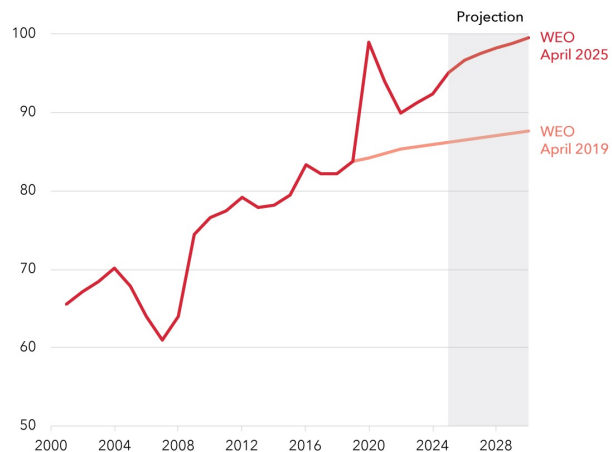
US acquisitions in EMEs

Declining M&As by US in China and Russia and increase in India and ASEAN as MNEs reconfigure production networks
Chari, Gibson and Tesar (work in progress)

Rising public debt... problems in France

Global public debt is high and likely to keep rising

Global public debt, percent of GDP



Sources: World Economic Outlook April 2025; IMF staff calculations.

IMF

Concern levels converge

Cost of insuring French debt now the same as in Italy

— FRANCE 5-YR CDS — ITALY 5-YR CDS

