



Assessing the Global Trade Outlook amid the Fog of Trade War

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The outlook for world trade is getting worse and worse



- Trade growth is slowing due to:
 - Weakening global demand
 - New protectionism
 - Impact of Coronavirus
- Sharp increase in RTAs but liberalization limited by tariff exceptions; nontariff barriers (e.g., sanitary/phytosanitary standards); differing tariff schedules and origin rules.
- US-China trade war and peace:
 - Penalty tariffs on > US\$425 billion in two-way trade as new normal.
 - New tariffs/high-tech restrictions dampening investment, disrupting supply chains.
 - Trade diversion from US-China deal.
- Rules-based multilateral trading system is being marginalized: near-term prospects for WTO reforms are dim.



World Trade in 2020: A Tougher Row to Hoe

Global trade and growth are slowing



	2015	2016	2017	2018	2019 ^c
World trade volume ^a	2.3	1.7	4.6	3.0	1.2
World output ^b	2.8	2.4	3.0	2.8	2.3

a. Average of merchandise exports and imports.

b. Real GDP at market exchange rate.

c. Estimate.

Source: WTO, Overview of Developments in the International Trading Environment, 2019.

MFN tariffs generally low, except in agriculture



Simple average MFN applied tariffs, 2018

	United States	Australia	European Union	Japan	China	Brazil
All products	3.4	2.5	5.2	4.4	9.8	13.4
Agriculture	5.3	1.2	12.0	15.7	15.6	10.1
Oilseeds	7.3	1.5	5.0	6.0	10.9	7.9
Dairy	19.6	3.6	43.7	95.1	12.3	18.3
Sugar	14.5	1.8	27.5	26.0	28.7	16.5
Non-agriculture	3.1	2.7	4.2	2.5	8.8	13.9
Transport equipment	2.9	3.4	4.7	0.0	12.3	19.0
Clothing	11.7	4.6	11.5	9.0	16.0	35.0

MFN=Most Favored Nation.

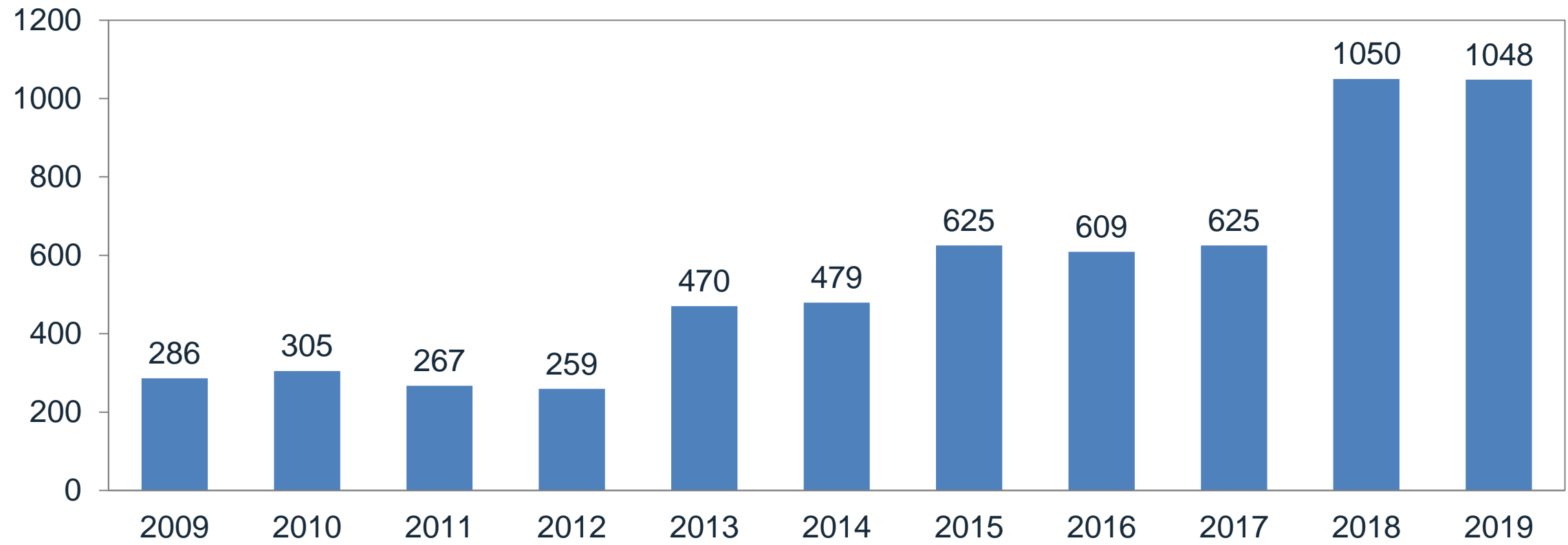
Note: Tariffs lower than US are in green.

Source: WTO Tariff Profiles.

New protectionist measures spiked in 2018 and 2019

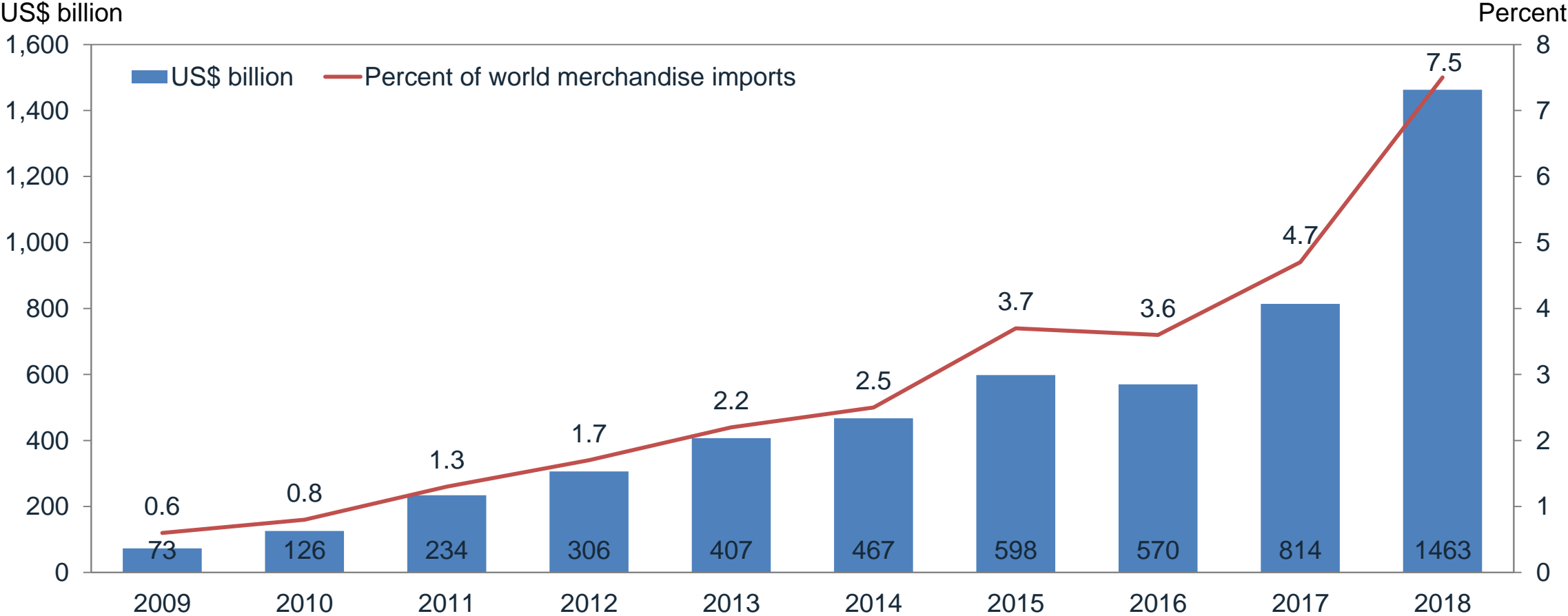


Number of discriminatory commercial policy interventions implemented Jan 1 to Nov of each year.



Source: the 25th Global Trade Alert report. Excludes trade remedy measures.

Cumulative trade coverage of import-restrictive measures rose sharply since 2017



Source: WTO Secretariat, https://www.wto.org/english/news_e/news19_e/dgra_12dec19_e.htm



RTA liberalization won't provide much relief

- Number of RTAs in force now >300, up from 83 in 2000.
- Differ widely in scope of coverage and depth of liberalization.
- RTAs achieved incremental tariff reform; some new rulemaking; but very little new farm trade reforms.
- Low utilization rates for RTA preferences.
- Australia benefiting from RTAs with China and Japan but tariff preferences being eroded by China/Japan deals with US and EU.



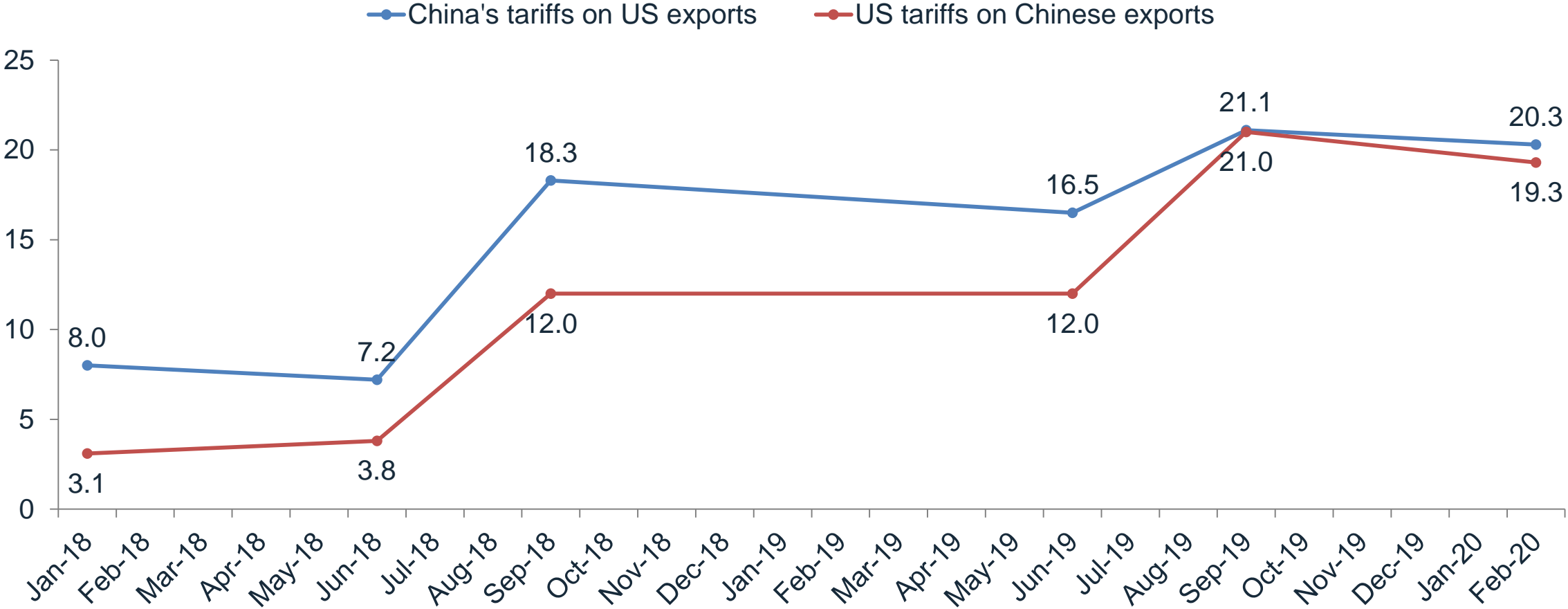
Trade War and Peace: A Double Whammy on World Trade

Farm trade side-swiped by Trump's trade policy



- Trump trade policy focused on protecting US manufacturing and reshoring of overseas production.
- Prompted foreign retaliation... against competitive US farm exports.
- Withdrawal from TPP hurt US farm exporters.
- US tariffs on Steel and Aluminum led Canada, China, India, Mexico, and European Union to retaliate against US farm exports.
- US-China trade war hit US farm exports particularly hard.

Sharp increase in US-China trade war tariffs



Source: Chad P. Bown, "US-China Trade War Tariffs: An Up-to-Date Chart," February 14, 2020, <https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart>

US trade deals subsequently focused on removing foreign retaliation against US farmers



- Secured deal with Mexico and Canada to establish VERs on steel in return for dropping their retaliation on US pork and other farm exports.
- US-Japan deal restored most TPP farm tariff preferences; added new country-specific quotas.
- US-China deal includes Chinese commitments to increase farm imports from the US over two years by a cumulative total of \$32 billion above 2017 baseline levels.

Chinese purchase commitments under US-China trade deal



Purchases of US exports (US\$ billion)

	2017 Baseline	2019 Actual	2020 Targets	2021
Agriculture	20.9	14.8	33.4	40.4
Energy	7.60	3.80	26.1	41.5
Manufactures	50.2	50.2	83.1	95.0
Goods, subtotal	78.7	68.8	142.6	176.9
Services	55.4	57.1	68.2	80.5
Total, goods and services	134.1	125.9	210.8	257.4

Source: Chad Bown, "Unappreciated hazards of the US-China phase one deal," PIIE Trade and Investment Policy Watch, January 21, 2020.

China will have to manage trade to meet purchasing targets in US-China trade deal



- Reduce penalty tariffs to encourage imports from US.
- Pressure firms to “Buy American”.
- Divert purchases from other markets, including Australia.
- Price effects in US market could be significant if China substantially increased purchases.
- But targets are unreachable:
 - Near-term supply constraints for US exports of LNG and soybeans.
 - Crude oil/refinery mismatch.
 - Weaker demand due to African swine flu.
 - Coronavirus disruptions.

Trump diverts US tariff revenues from US-China trade war to subsidize US farmers



- Big pay-outs to US farmers under new “Market Facilitation Program”: up to US\$12 billion in 2018 and US\$16 billion in 2019.
- Soybean farmers got about 76% of 2018 MFP payments.
- Corn and soybean farmers should get about US\$5 billion each from 2019 MFP.
- US farm trade aid could exceed US Aggregate Measure of Support (US\$19.1 billion annually).

The great US tariff giveaway: 2018-2019



Product	HTS	Market facilitation program payments (US\$ billion)	
		2018	2019
Corn	1005	0.14	5.12
Soybeans	1201	7.50	4.77
Wheat	1001	0.26	1.64
Cotton	5201	0.53	1.22
Sorghum	1007	0.31	0.29
Other products		1.02	1.30
Total		9.76	14.34

Source: Congressional Research Service R45310, updated Dec 6, 2019; and Glauber (2019)

- And Trump plans more giveaways during the 2020 election campaign.
- Hard to achieve global cuts in farm subsidies when US is increasing support!



Dim Prospects for WTO Reforms

The WTO is in crisis



- WTO rulebook needs updating: rules largely unchanged from 1990s.
- Existing WTO rules are being abused, circumvented, or ignored:
 - US-China trade war violates WTO obligations on a grand scale;
 - National security exemption of GATT Article XXI grossly misapplied;
 - US blocking Appellate Body (AB) appointments to force change in WTO dispute settlement rules/procedures.
- WTO AB has been idled:
 - Allows disputing parties to block panel rulings.
 - Encourages unilateral enforcement actions like in US-China trade war.
 - Discourages new rulemaking negotiations.

WTO negotiations are adrift



- WTO negotiations have been unproductive for two decades: Doha Round failed but Plan B hasn't worked well either.
- WTO initiatives on services, environmental goods, fisheries subsidies, and digital trade hampered by:
 - differing levels of ambition;
 - special treatment for developing countries;
 - data privacy/access to data concerns.
- Impasse over dispute settlement undercuts enforcement of WTO obligations.

Limited prospects for WTO Ministerial in June 2020



- Big initiative for the WTO Ministerial is Fisheries Subsidies pact; hard sell with top subsidizers (China, India, EU).
- Breakthrough on dispute settlement crisis unlikely; US officials like the status quo.
- Little chance for Cairns Group proposals for farm subsidy reforms.
- Leadership by US/China/EU/Japan essential but hard to do amid trade war threats.
- Progress on trade reform may depend on evolution of CPTPP and other RTAs.
- Going forward, US demands for “rebalancing” WTO obligations will dim outlook for WTO reform. Can the WTO survive a second Trump term?