



# THE RETURN OF THE TRADE WARRIORS

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International Business Council Munich

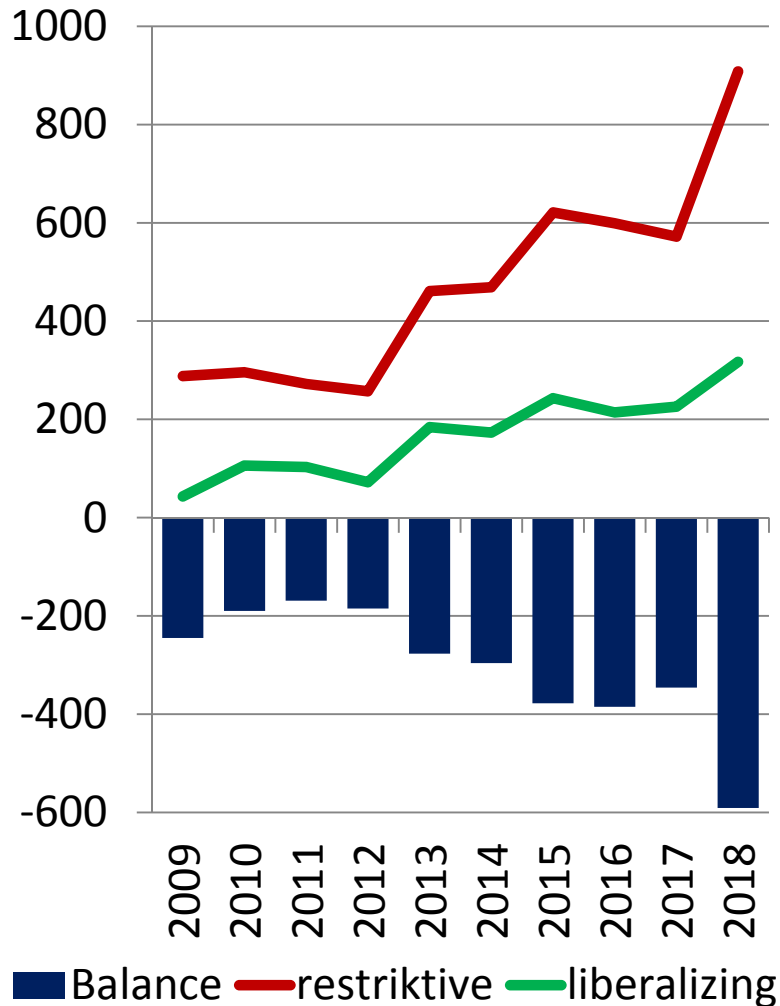
Marriott, Dec. 5th, 2018

# AGENDA

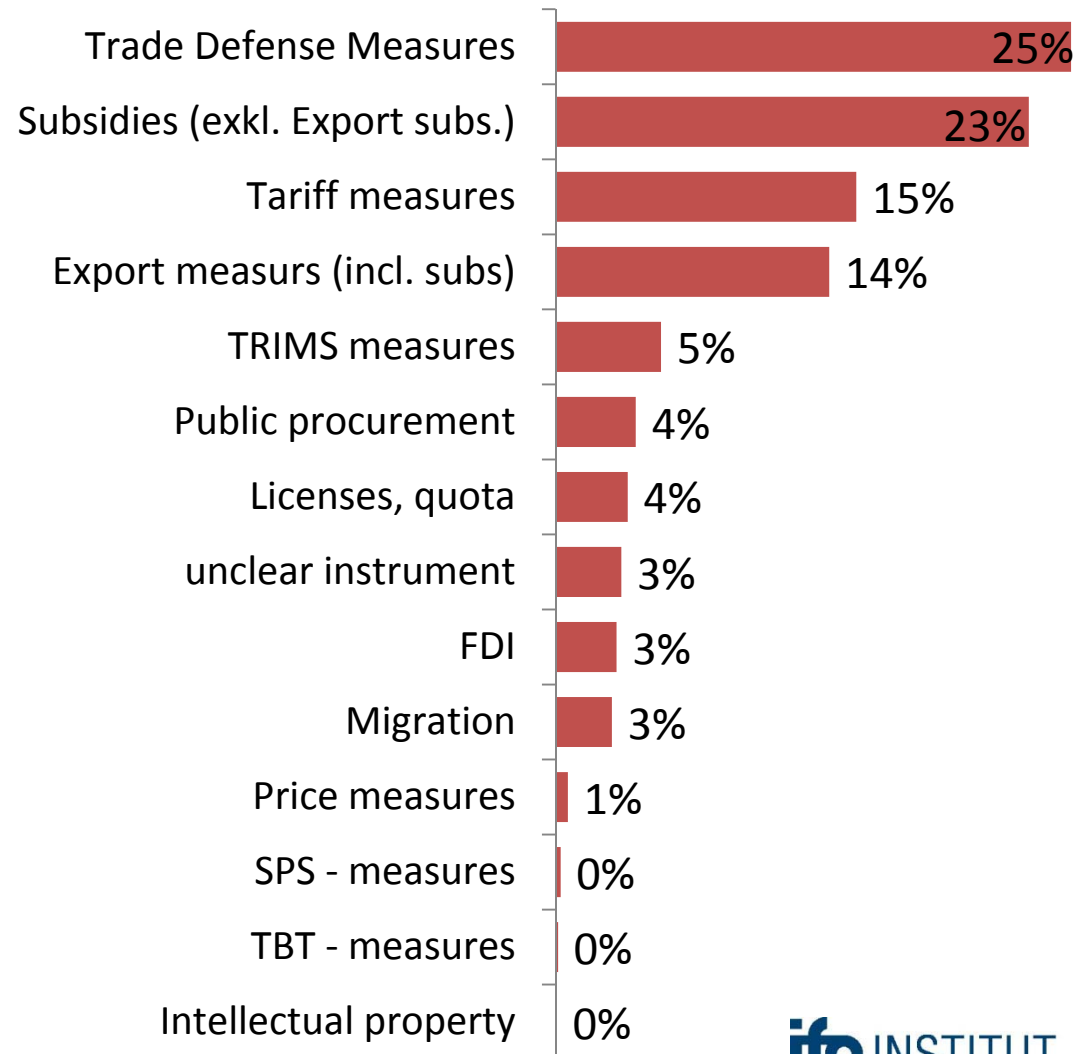
- The March of Protectionism
- Global Business Slowdown
- Trumpian trade policy

# NEW PROTECTIONISM: GLOBAL TRENDS

Number of measures, 2009-2018



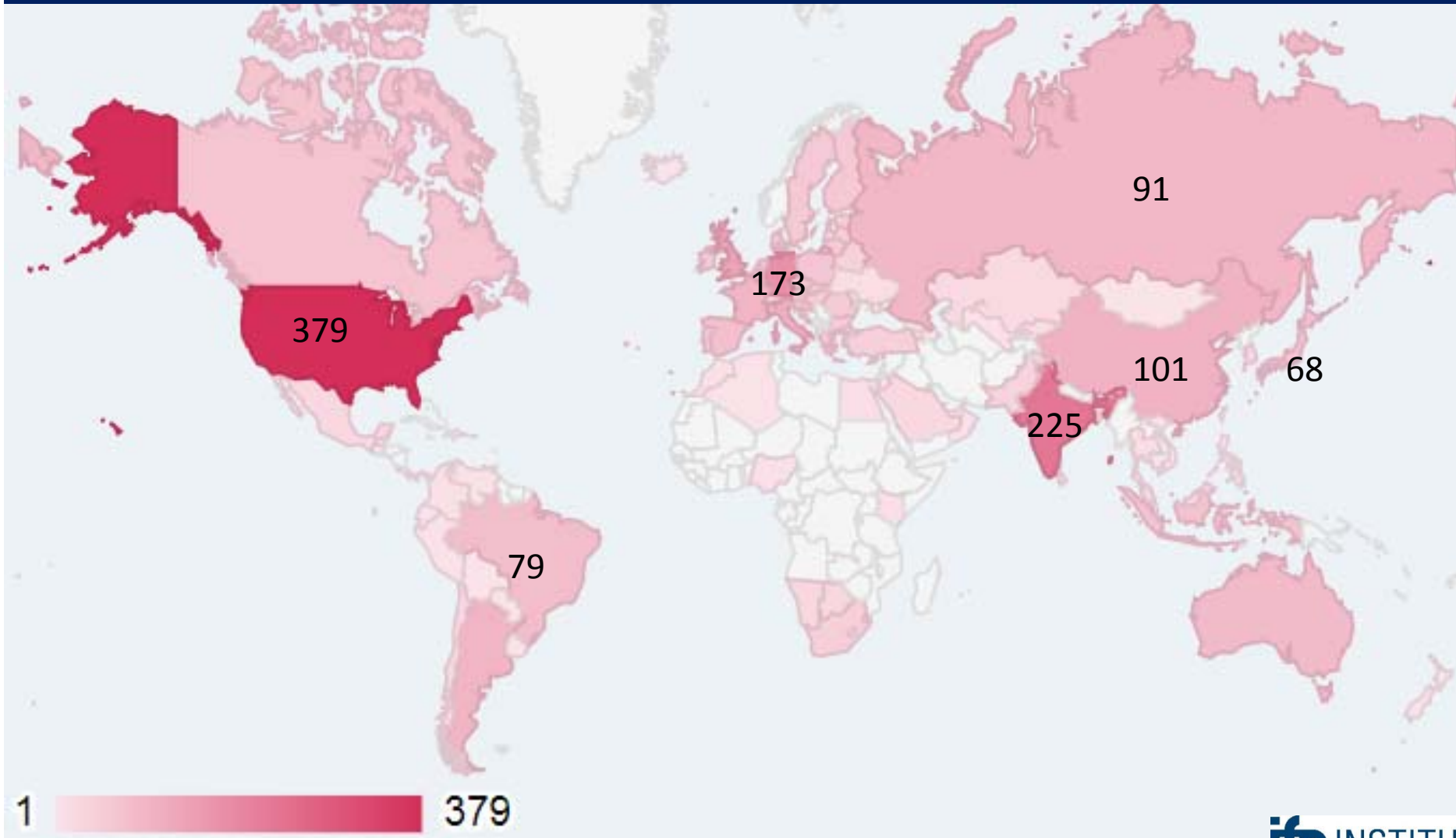
Type of measures, shares (%), 2009-2018



Source: Global Trade Alert, Nov 4, 2018; own illustration.

# 2016-2018: THE OFFENDERS

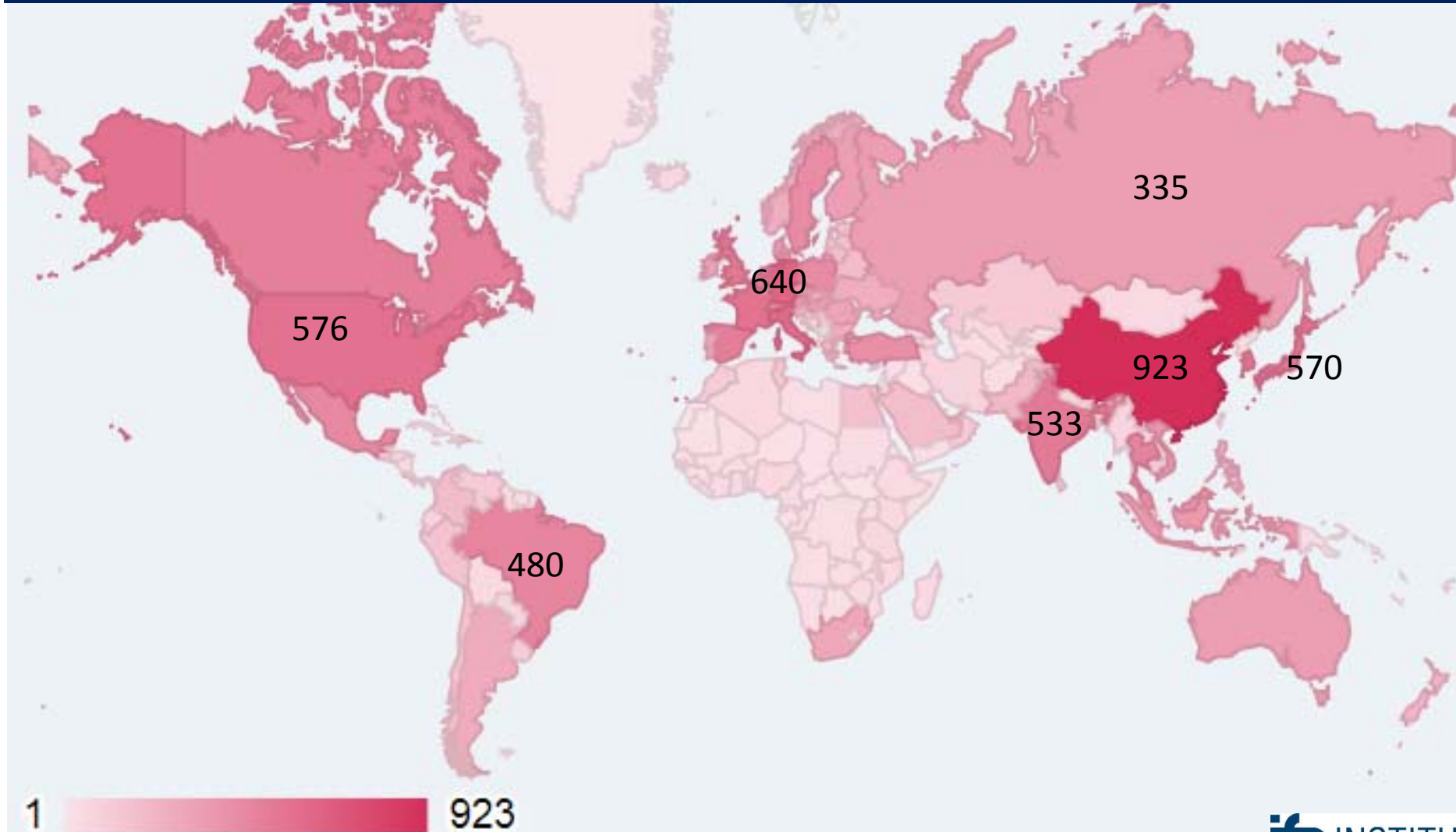
## Number of protectionist measures



Source : Global Trade Alert, Nov 4, 2018.

# 2016-2018: THE VICTIMS

Number of protectionist measures that affect a country



Source : Global Trade Alert, Nov 4, 2018.

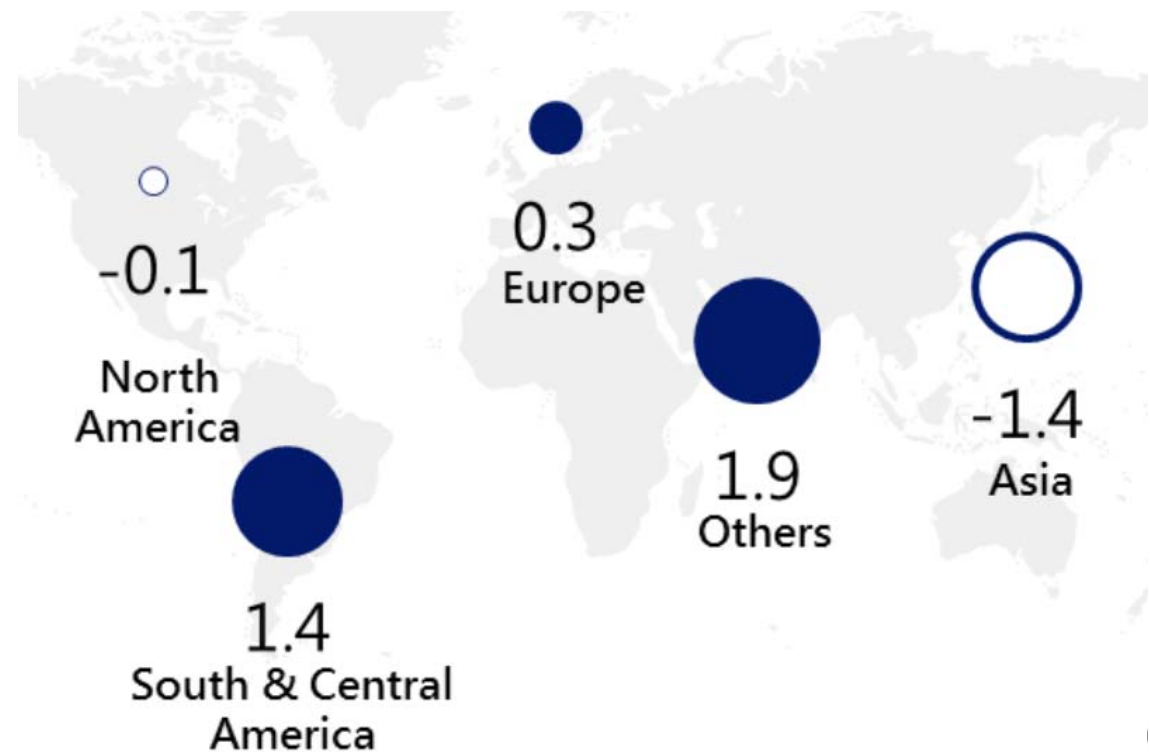
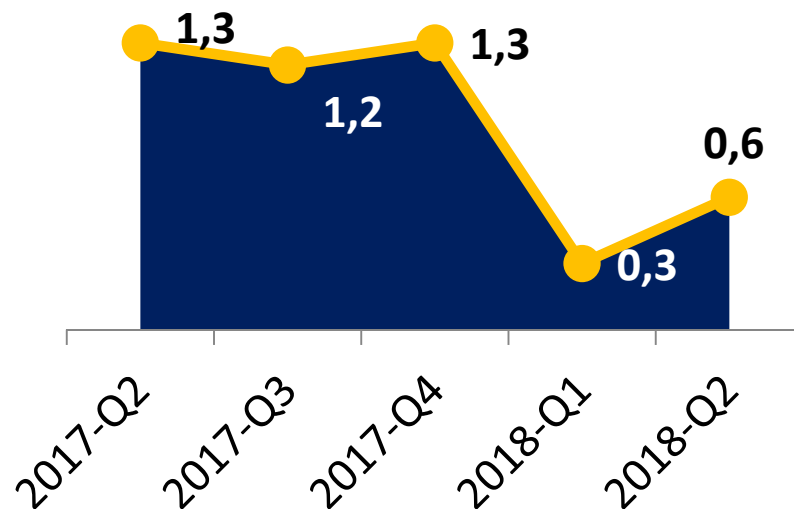
# AGENDA

- The March of Protectionism
- Global Business Slowdown
- Trumpian trade policy

# GLOBAL GOODS TRADE: WEAKER

Q-to-Q trade growth, %

Q-to-Q export growth, %, last quarter

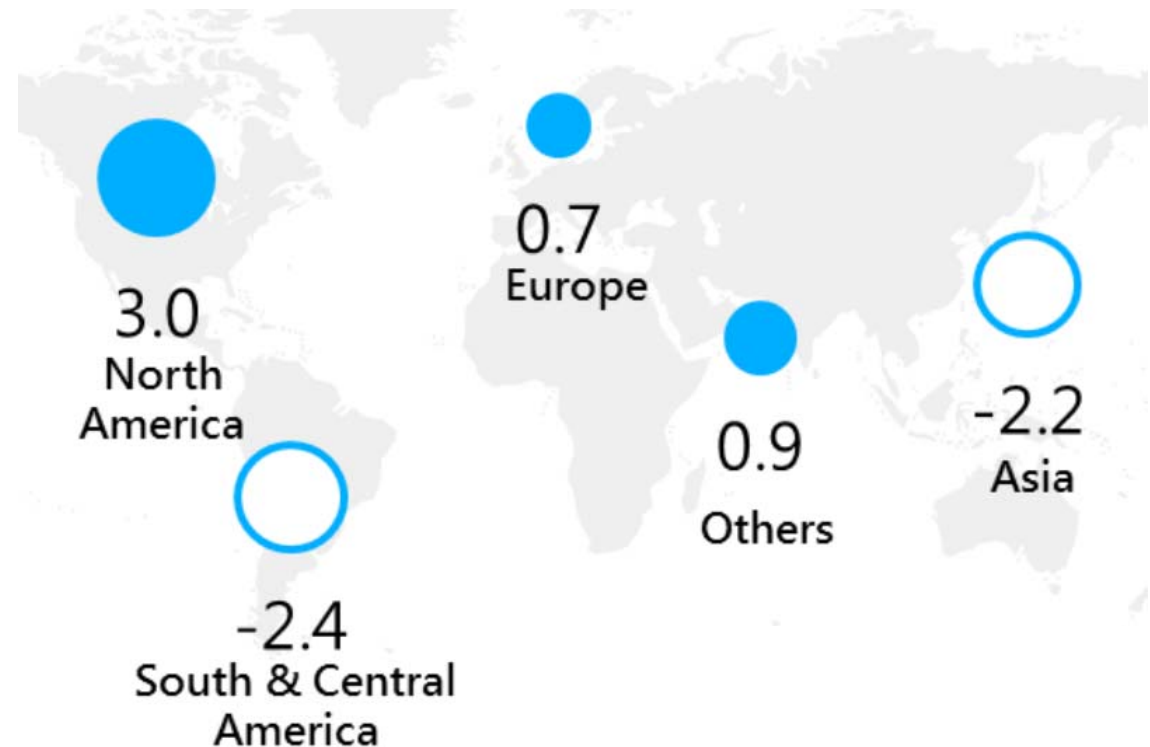
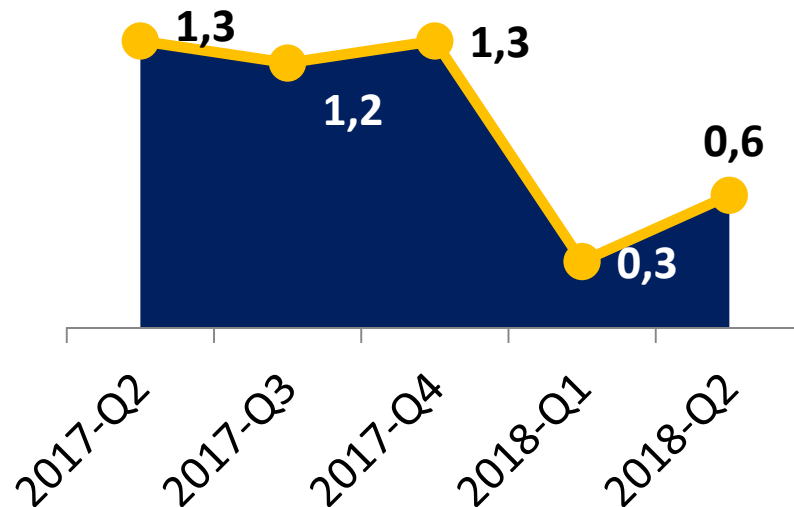


Source : World Trade Organization, Nov 4, 2018, own illustration.

# GLOBAL GOODS TRADE: WEAKER

Q-to-Q trade growth, %

Q-to-Q import growth, %, last quarter

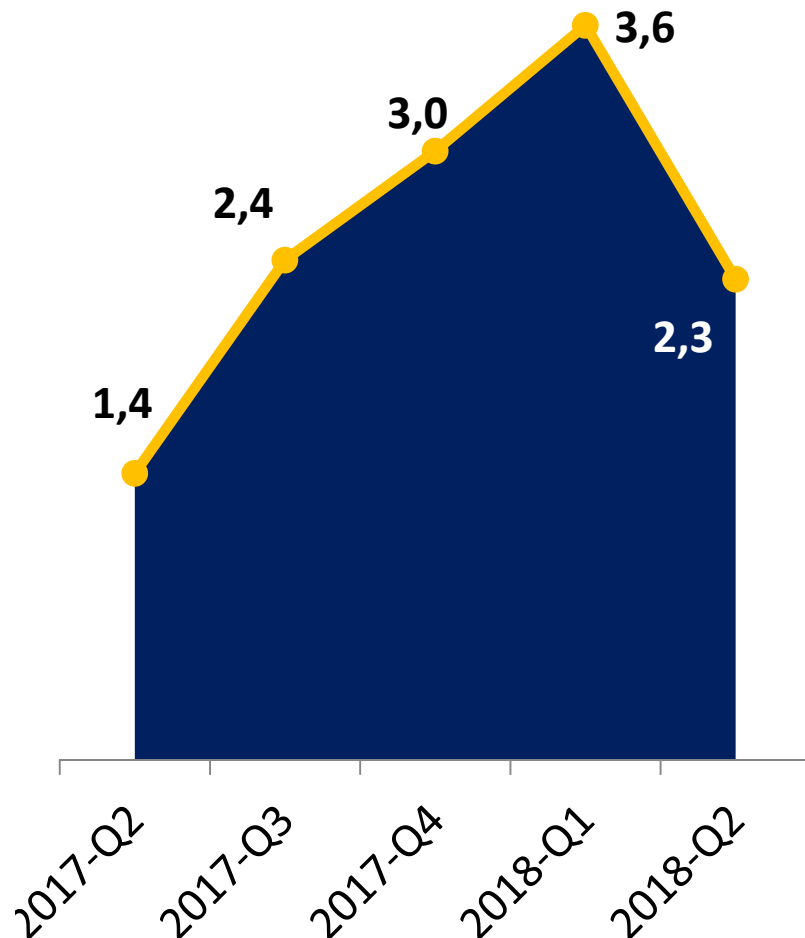


Source : World Trade Organization, Nov 4, 2018, own illustration.

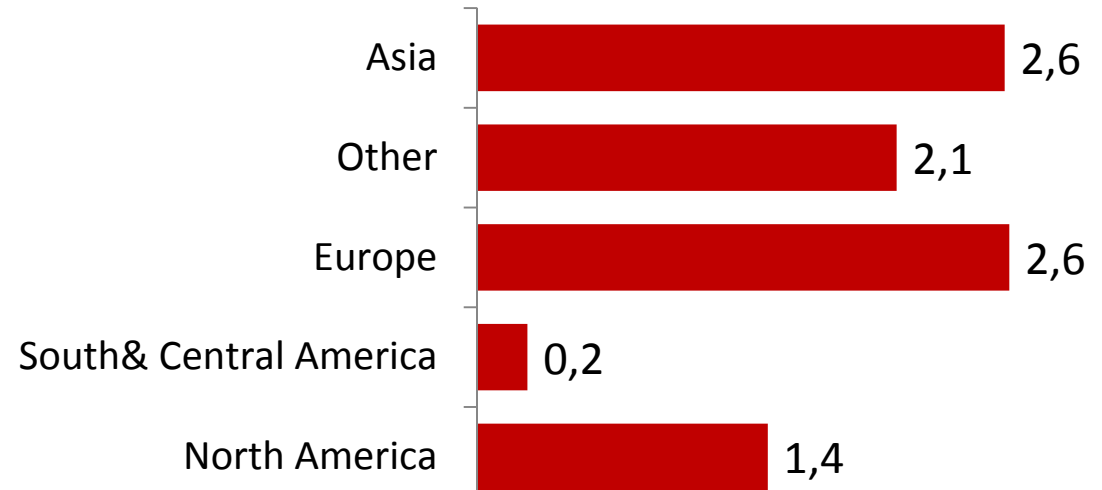


# GLOBAL SERVICES TRADE !

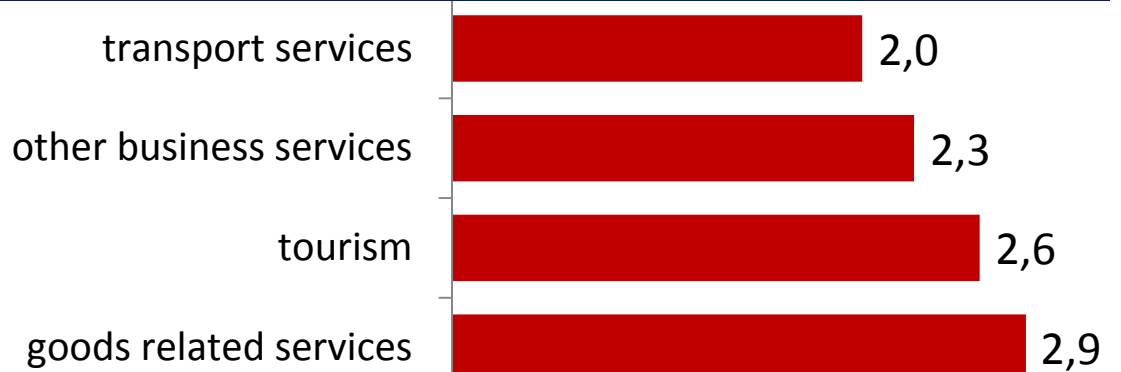
## Q-to-Q trade growth, %



## Q-to-Q growth, %, last data, by region



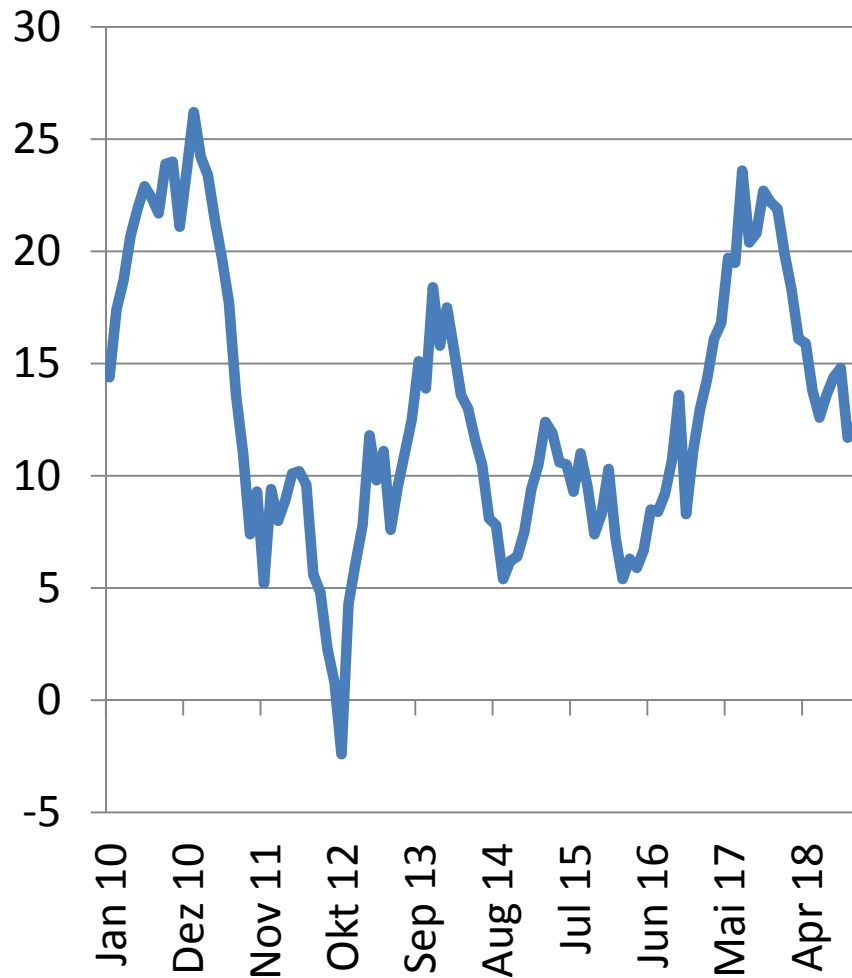
## Q-to-Q growth, %, last data, by sector



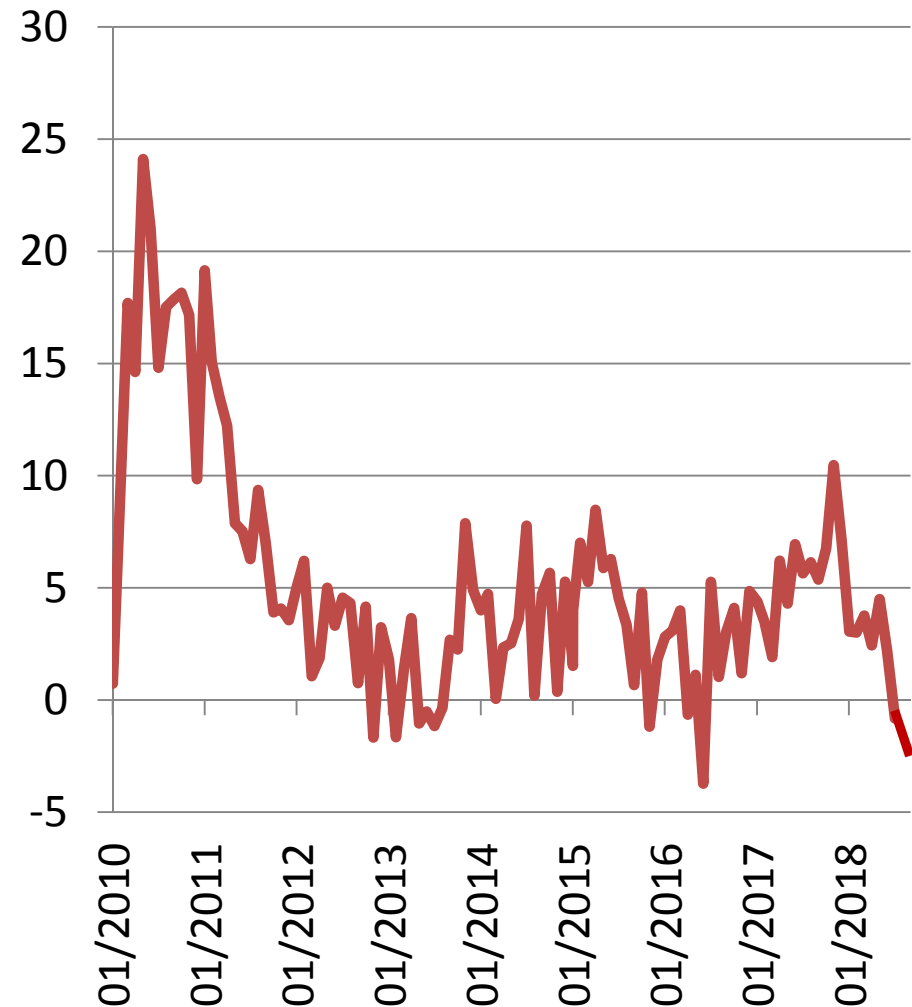
Source: World Trade Organization, Nov 4, 2018, eigene Darstellung.

# FOCUS ON GERMANY

ifo export expectations, till 11/2018



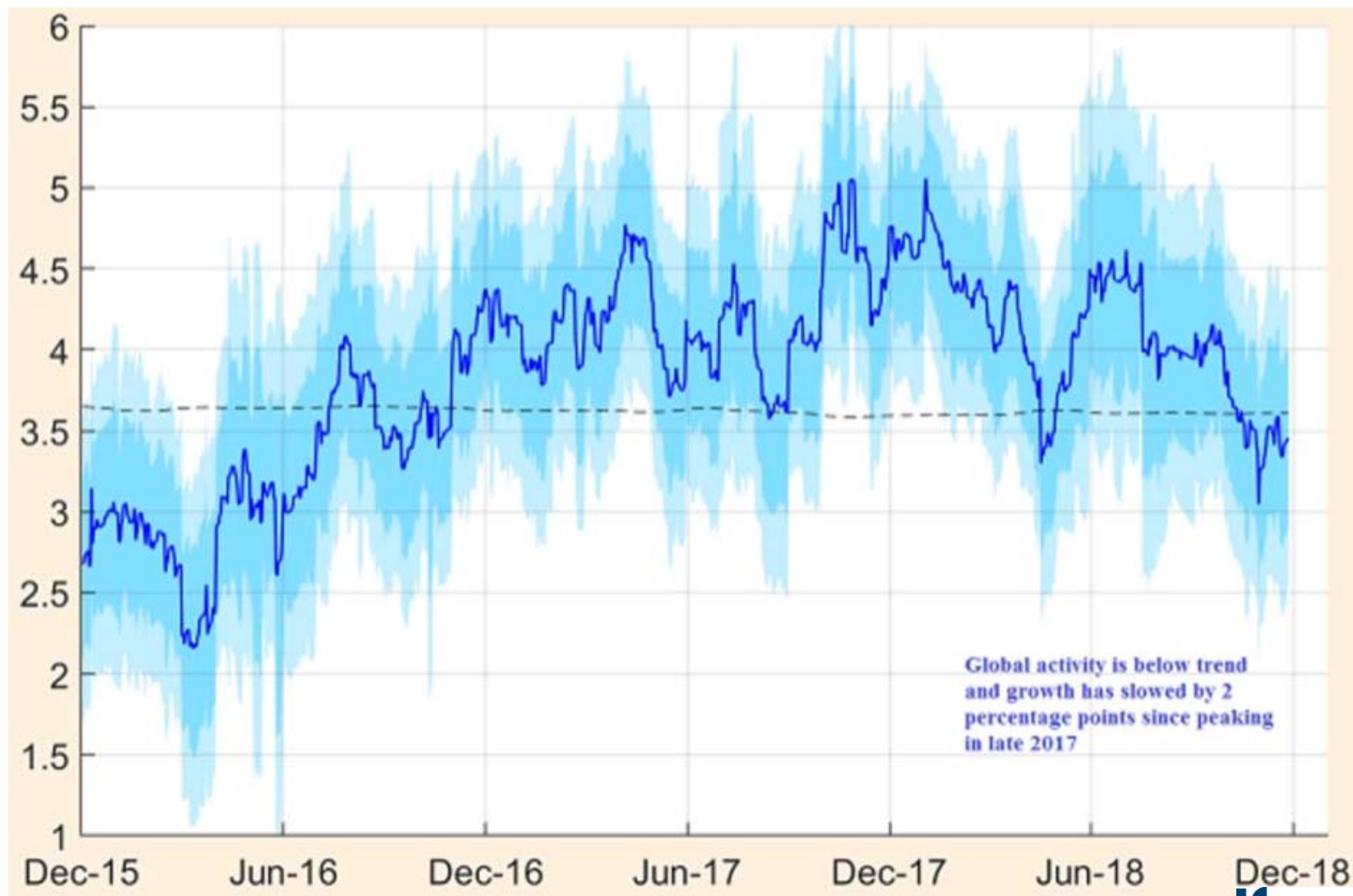
Real export growth, y-to-y, till 9/2018



Source: ifo Institute, Bundesbank, own illustration. Seasonally adjusted time series.

# GLOBAL GROWTH: NOWCAST

Strong deceleration (p.a. CAGR)



Quelle: Financial Times, Dec 12, 2018.

# AGENDA

- The march of protectionism
- Recent developments
- Effects of Trumpian trade policy

# TRUMP'S TRADE POLICY YEAR 2018

1

Washers  
and solar  
panels

- Imports worth 8.5 bn US-\$ of solar panels and 1.8 bn of washing machines
- **Safeguard tariffs** according to Art. XIX GATT
- Erga Omnes; right for compensation by trade partners
- China reacts temporarily with antidumping tariffs on sorghum

2

Steel &  
aluminium

- Feb. 2018: Steel and aluminium imports threaten **national security** of USA (Art. XXI GATT; US Section 232)
- „**nuclear option**“
- Tariffs of 25% on steel and of 10% on alu products (48 Mrd. US-\$)
- In force since June 1st against EU
- EU, CAN, CHN, MEX & TUR enact „**balancing tariffs**“ according to Art. XIX GATT on imports worth 23 bn US-\$

3

Autos

- Since May 2018 **Section 232 investigation**. Auto imports: 350 Mrd. US-\$

4

China /  
WTO

- Accusations: illegal subsidies, forced tech-transfer, insufficient protection of intellectual property
- **Countervailing duties** on 50 bn., retaliatory tariffs on 50 bn US-\$
- Since Sep. 25th: 10% on 200 bn.; 200 bn in preparation, retaliatory tariffs on 60 bn US-\$



# FROM NAFTA TO USMCA

Agreement with Mexico from Aug. 28 and with Canada from Sep. 30, 2018

## General observations

- Good news: NAFTA remains under a new acronym
- New red tape – higher costs
- Not a free trade agreement: **likely reduces trade between US, MEX, CAN**
- Perpetuates uncertainty: new revision clauses

## Autos

- **New rules of origin (RoOs)**
  - Regional value added (VA) content now 75% (instead of 62,5%)
  - 40-45% of VA in companies paying wages >16 USD/hour
- **Effects**
  - North America less attractive as a production platform (BMW!)
  - Perverse effects possible since US MFN tariff on autos just 2.5%
  - **Positive US VA effects only with higher auto tariffs**
  - Side letters for CAN and MEX set auto quotas

## Misc.

- **Copy & Paste from TPP** text: digital trade, labor regulation, environmental protection. Enforceable provisions
- Clause on FTAs with „non-market economies“
- Changes regarding protection of intellectual property (Copyright, GIs), tougher controls, Mexico opens up financial markets more, Canada: dairy

# ADJUSTMENT OF US-KOREA FTA

March 2018; in force since June 2018

## Autos

- Quota of US cars that can be exported to Korea without satisfying special Korean **safety regulations** increases from 25 000 to 50 000 p.a.
- Section 232 tariffs on cars still possible

## Steel & Aluminium

- Permanent waiver from Section 232 tariffs on steel & aluminium
- Quota: 70% of 2015-17 average
- Administered separately for each product (54!) and for each quarter
- **Zero flexibility** (no „quota swing“), massive bureaucracy, Korean exporters benefit from higher prices on US market

## Open questions

- Korea accepts an „inferior “ agreement to avoid a worse outcome (cancellation of KORUS).  
Can blackmail lead to sustainable cooperation?
- What, if the Korean trade surplus with the US does not fall?





# THE EU-US TRADE CONFLICT

# EU-USA ROSE GARDEN TRUCE (?)

Summit Trump-Juncker on Juli 25th in Washington



1. Zero tariffs, zero non-tariff barriers, zero subsidies on non-auto industries
  2. The EU is willing to import more LNG from the US
  3. Close dialogue about standards
  4. Reform of WTO; ending “unfair” trade practices (intellectual property, forced technology transfer, state owned enterprises, overcapacities, ...).
- **TTIP Light? Anti-China Alliance? Only talks on some regulatory issues?**



- No official mandate yet
- No negotiations on agri-food or on public procurement
- US Congress ?
- What does France think?



- No official mandate yet
- Zero auto tariffs “not enough”
- “EU as bad as China, just smaller”

# EU-US CURRENT ACCOUNT BALANCE

## Components and total, bn. USD, 2003-2017, BEA data



thebrexiteer   
@BrexiteerGB

Folgen

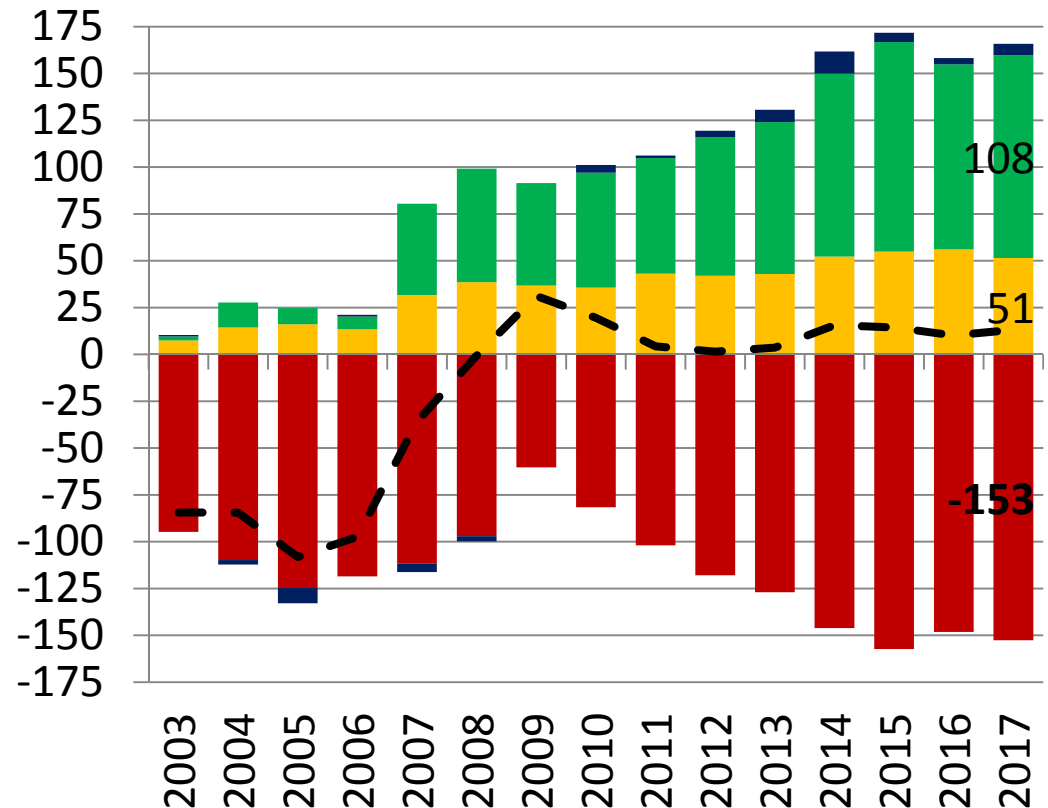
Donald Trump - "We love the countries of the EU. But the EU was set up to take advantage of the United States, to attack our piggy bank."

"And you know what? We can't let that happen."

08:25 - 28. Juni 2018

Juncker - "I have tried to show that – goods trade, services, and investment income taken together – we are actually in a balanced situation and the US has even a surplus."

ARD Interview, 29. Juli 2018



■ Sekundäreinkommen ■ Primäreinkommen

■ Dienstleistungen ■ Güter

— -Leistungsbilanz

# LONG RUN COSTS OF US TARIFFS

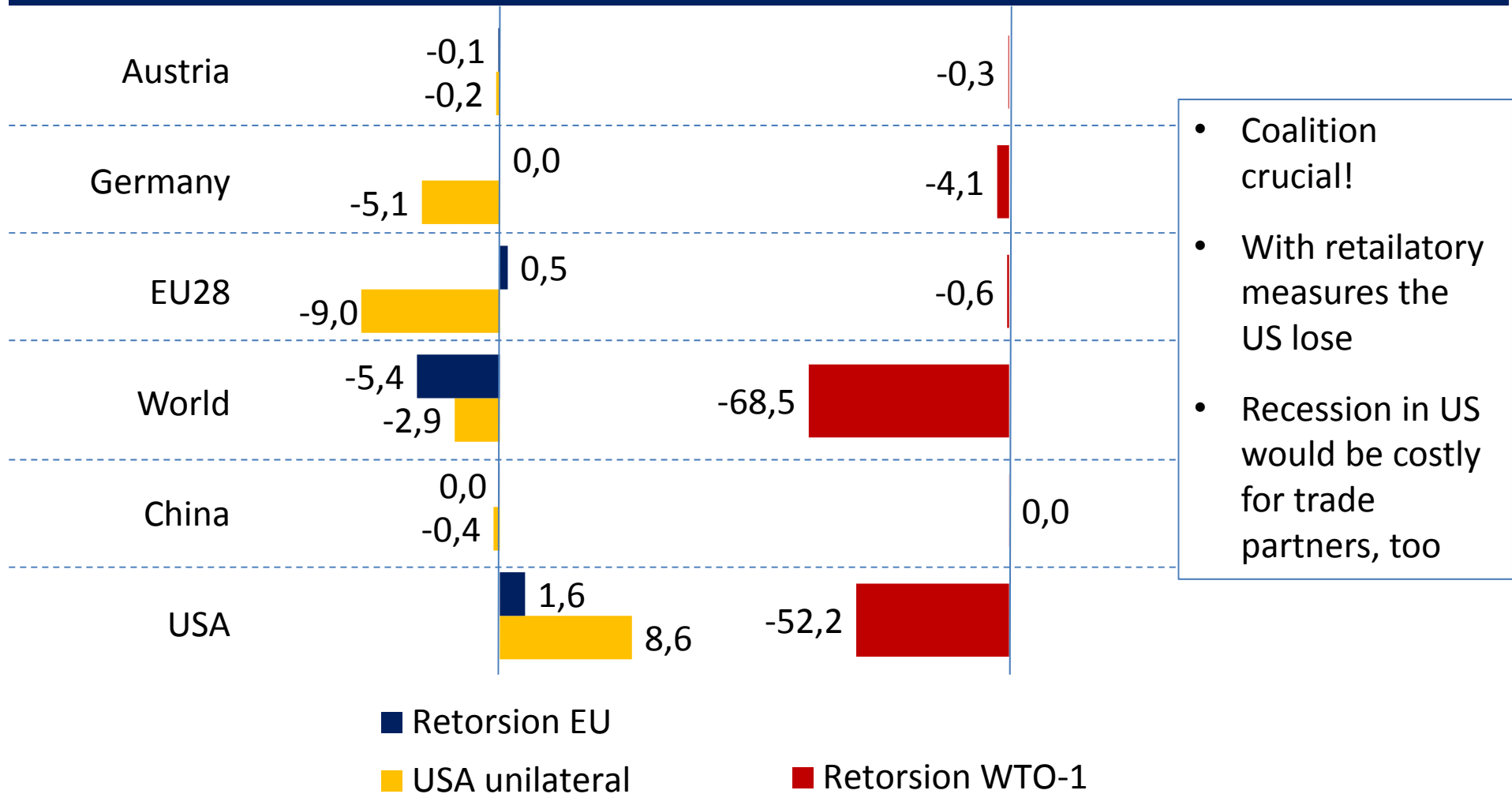
Effects on real GDP, Euro mn., unilateral measures without retaliation

	Steel, Alu		Autos		Steel, Alu and Autos	
	Mio. €	% of GDP	Mio. €	% of GDP	Mio. €	% of GDP
EU28	-509	0.00	-8528	0.06	-9037	-0.06
<b>Germany</b>	<b>-37</b>	<b>0.00</b>	<b>-5043</b>	<b>-0.16</b>	<b>-5080</b>	<b>-0.16</b>
Japan	-153	0.00	-4256	-0.10	-4409	-0.10
Mexico	-991	-0.10	-3685	-0.39	-4676	-0.49
Canada	-2881	-0.21	-3230	-0.23	-6110	-0.44
South Korea	-77	-0.01	-2262	-0.18	-2338	-0.18
China	-237	0.00	-1679	-0.02	-1917	-0.02
United Kingdom	-198	-0.01	-586	-0.02	-784	-0.03
Italy	-6	0.00	-579	-0.03	-585	-0.03
Hungary	9	0.01	-213	-0.19	-203	-0.18
France	-74	0.00	-133	-0.01	-207	-0.01
<b>Austria</b>	<b>-46</b>	<b>-0.01</b>	<b>-192</b>	<b>-0.05</b>	<b>-239</b>	<b>-0.07</b>
India	-203	-0.01	-72	0.00	-275	-0.01
Russia	-414	-0.04	-46	0.00	-460	-0.04
USA	2878	0.02	5739	0.03	8617	0.05
World (42 countries)	-3500	-0.01	-18778	-0.03	-22278	-0.04

Source: ifo calculations.

# DO RETALIATORY TARIFFS MAKE SENSE ?

GDP effects, Euro bn, 25% US tariffs on cars and steel, retaliatory tariffs on selected US products covering same trade volume



Source: Felbermayr & Steininger, 2018.

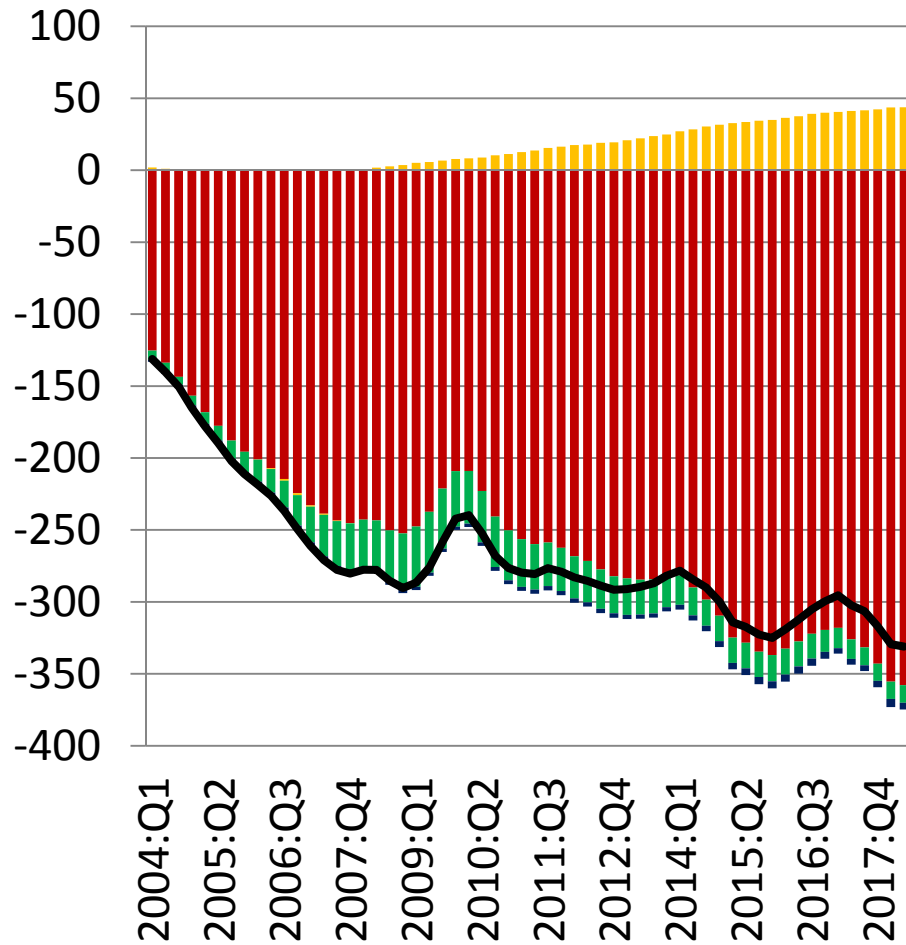
# US-CHINA RIVALRY



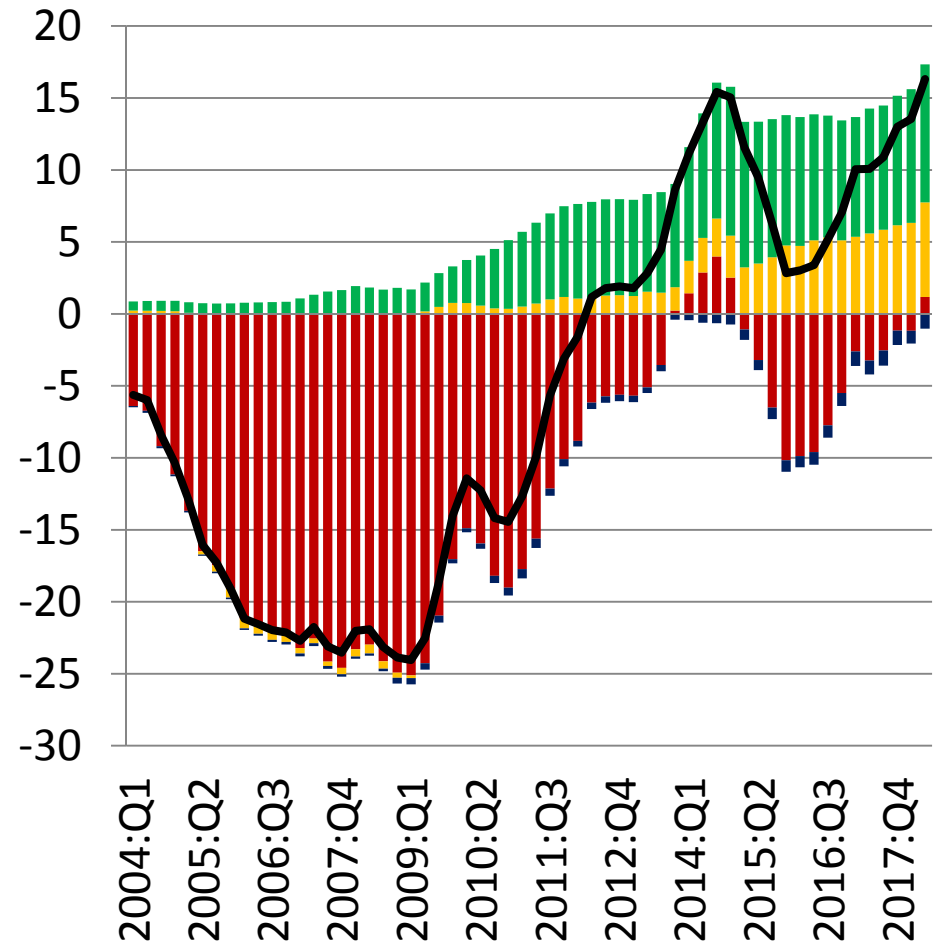


# CA BALANCE W/ CHINA: US vs. GERMANY

US (BEA), USD bn



Germany (BuBa), EUR bn

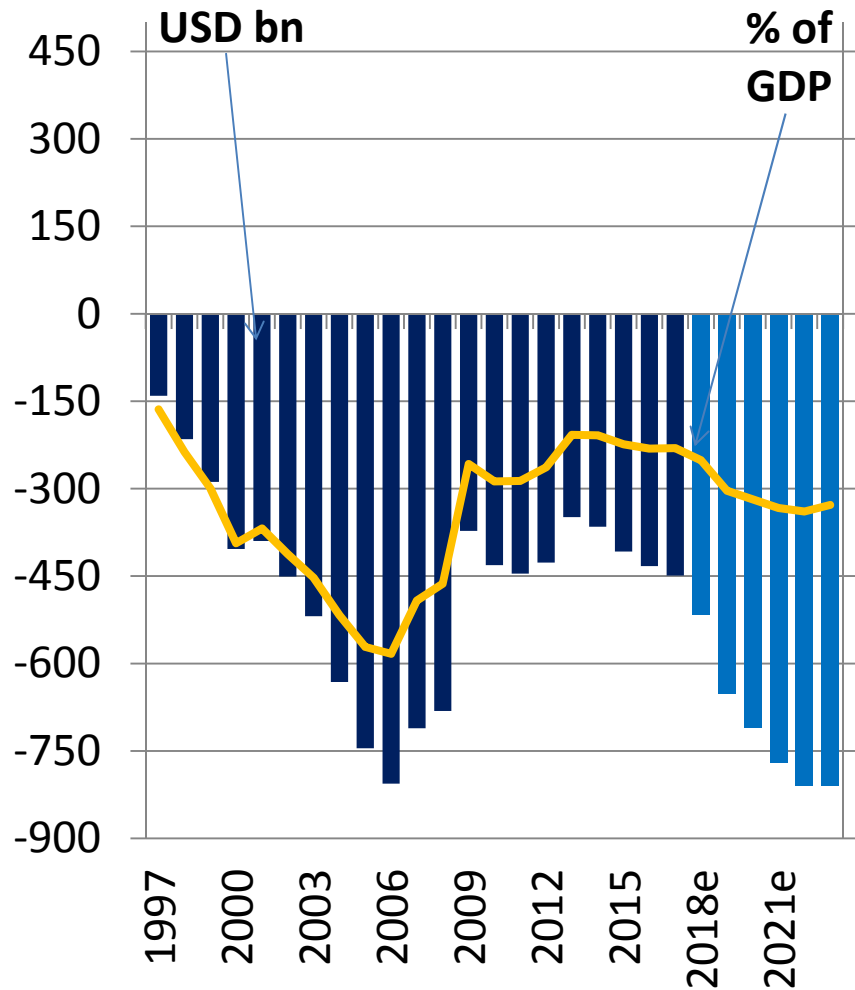


■ Secondary income ■ Primary income ■ Services ■ Goods — Current Account

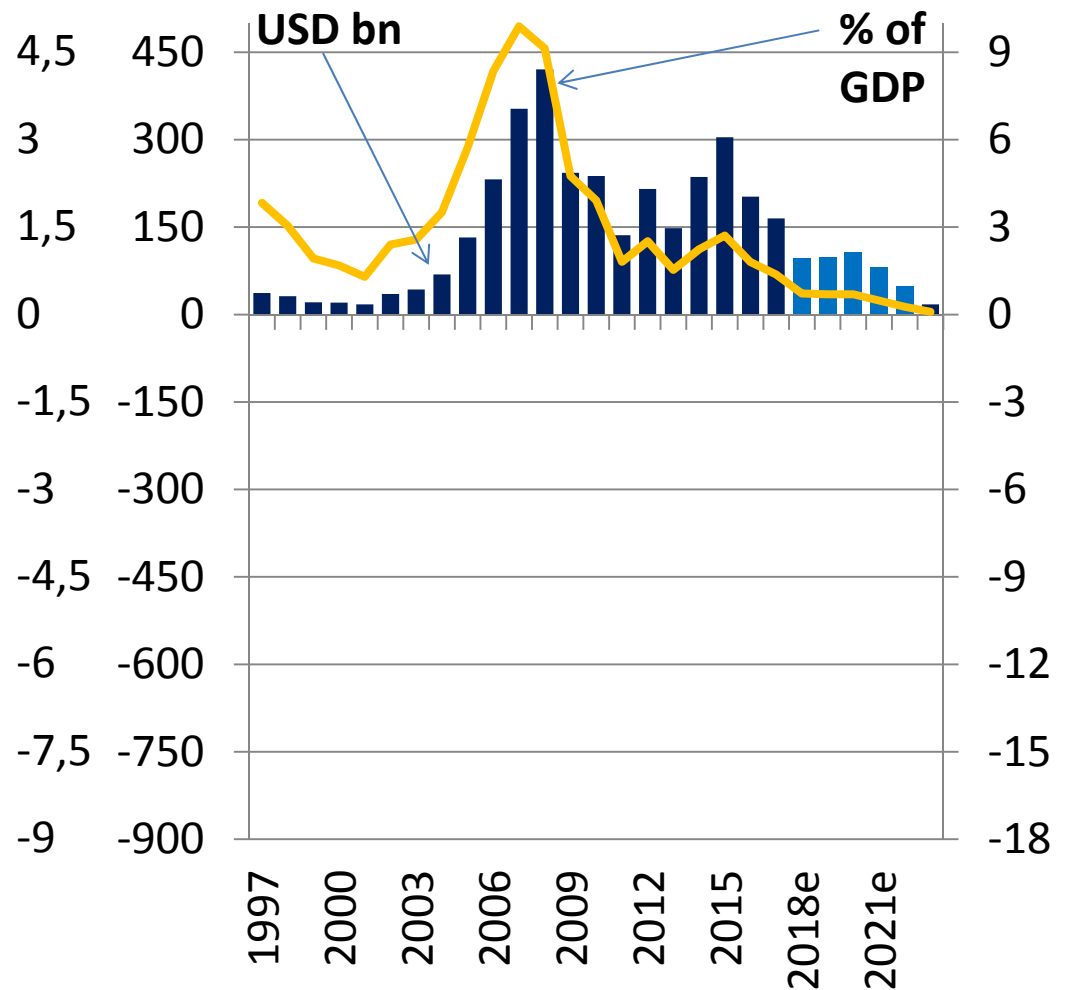
Source: US BEA & Bundesbank, Oct. 2018; last four quarters.

# CHINA REBALANCES, US DOES THE OPPOSITE

## US current account balance



## Chinese current account balance

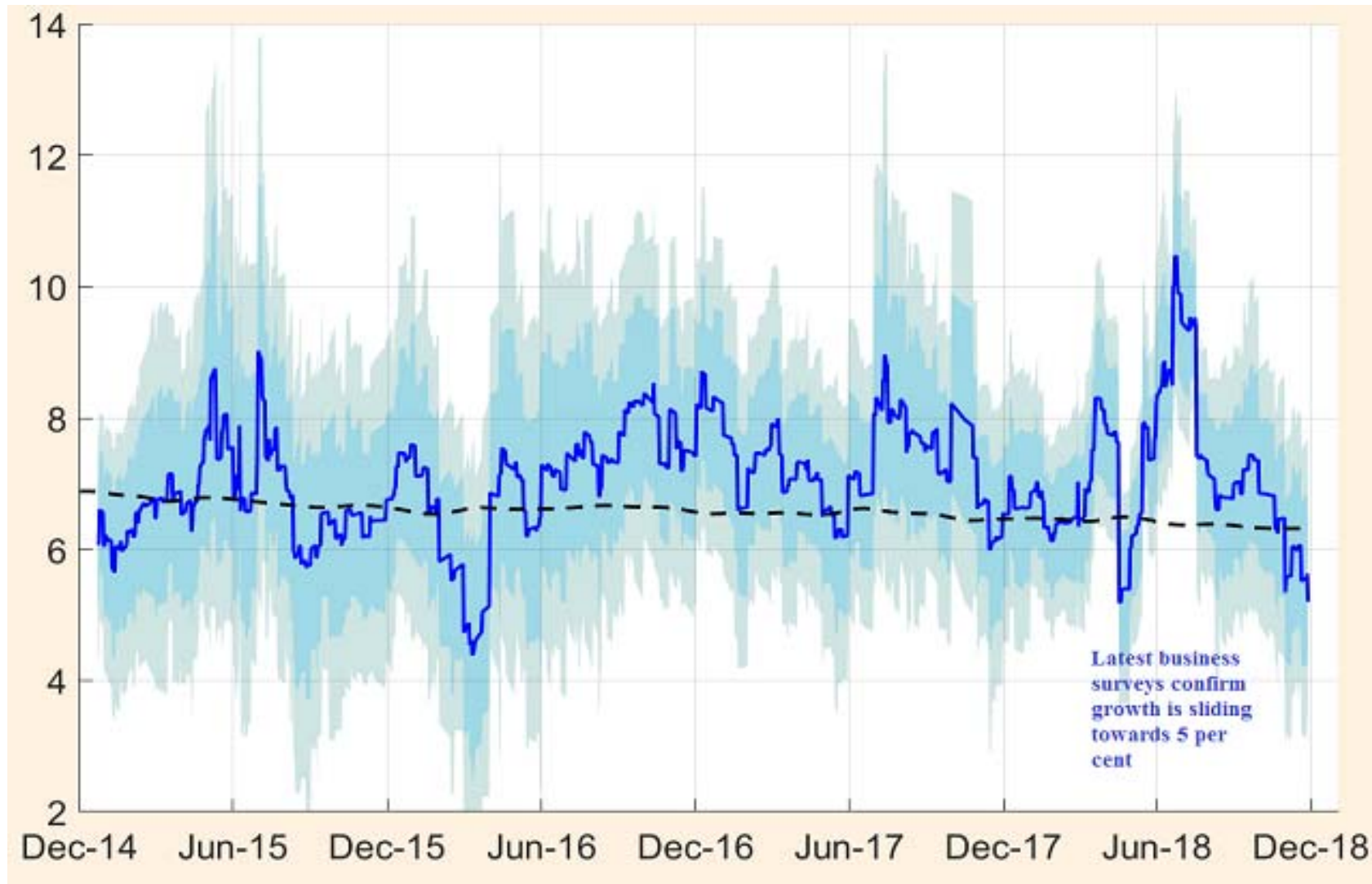


Source: IMF, Oct. 2018.



# GROWTH IN CHINA: NOWCAST

Strong deceleration (p.a. CAGR)

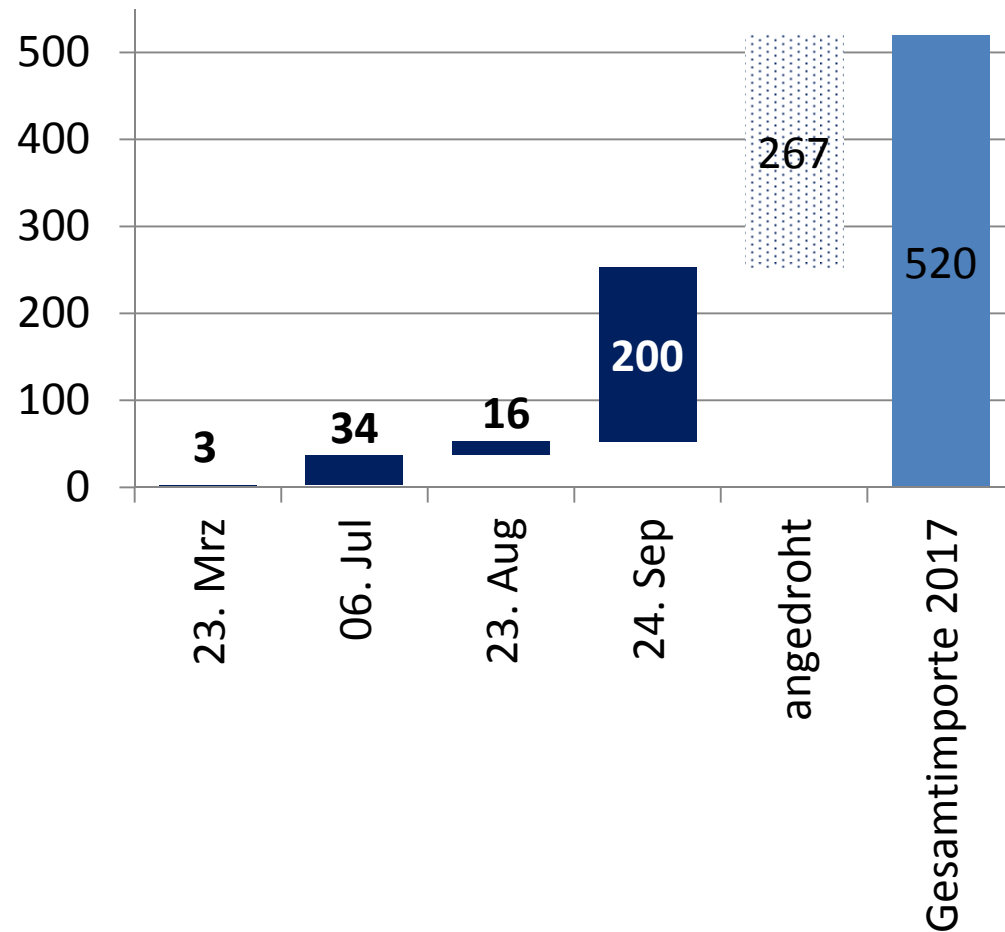


Quelle: Financial Times, Dec 12, 2018.

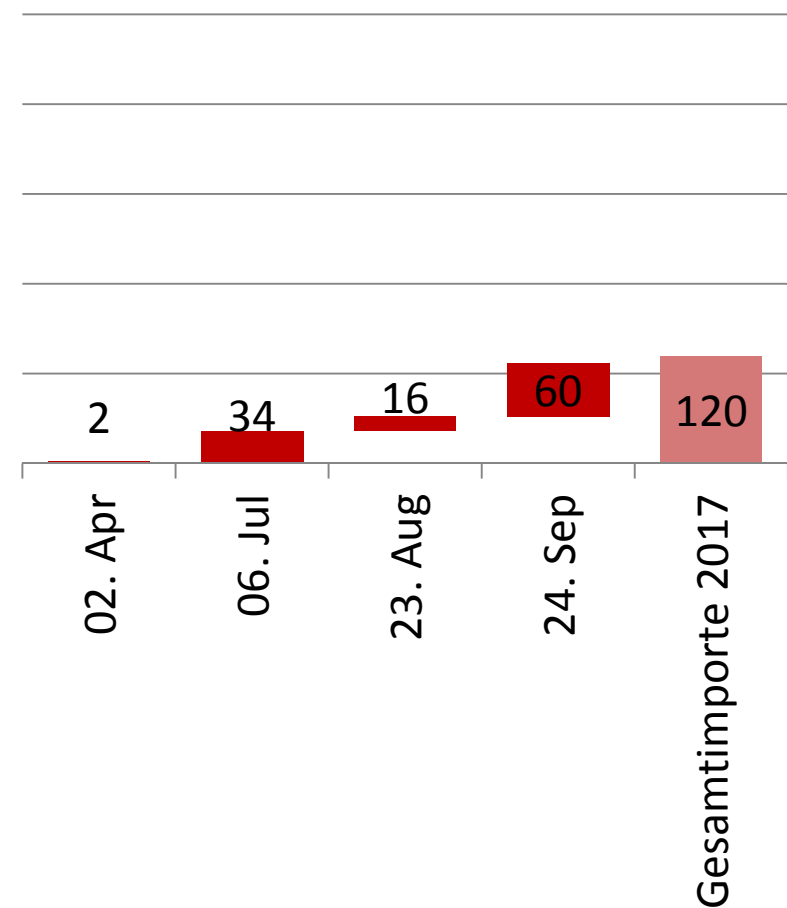
# AFFECTED TRADE VOLUME

bn. USD, 2017

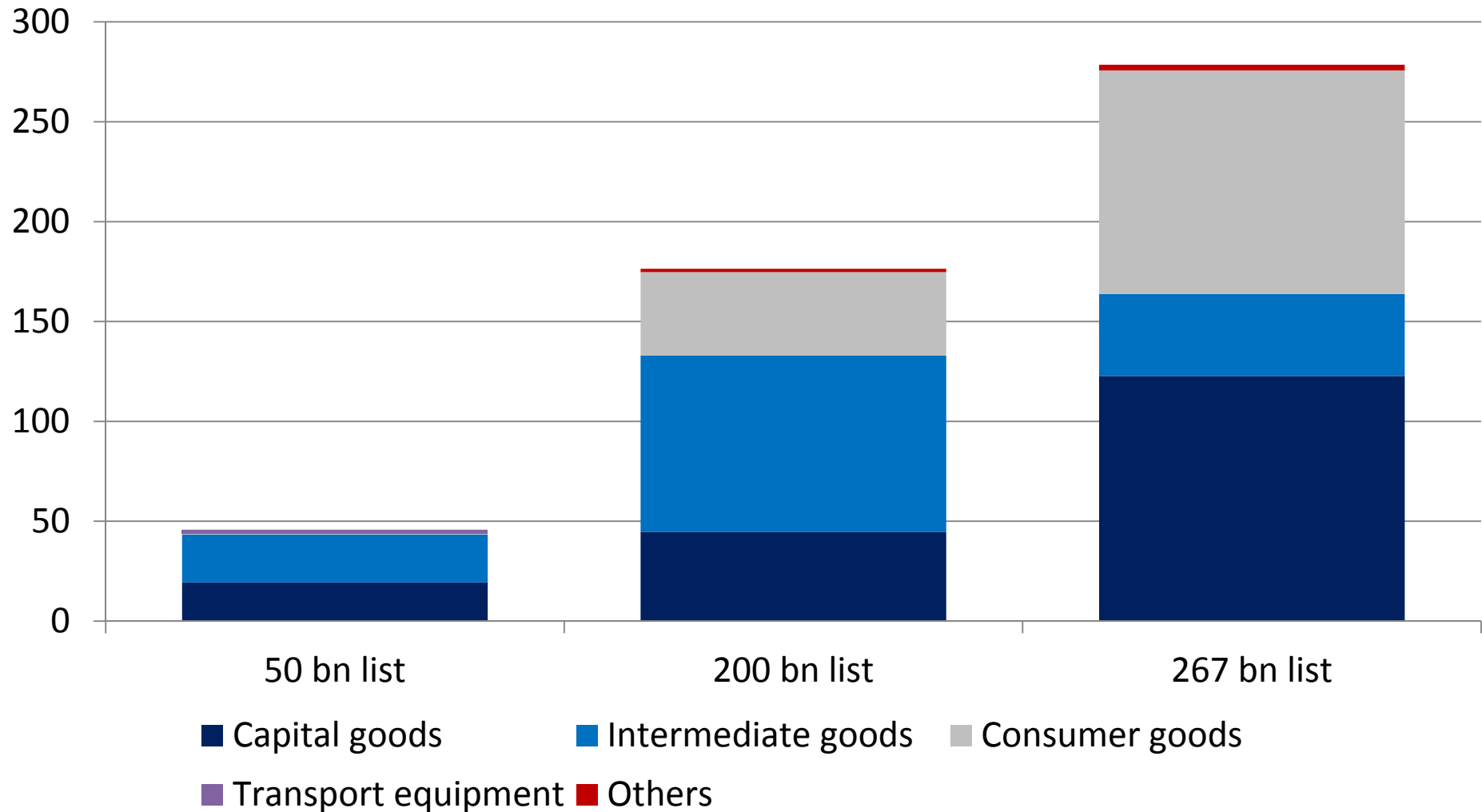
## CHN->USA



## USA->CHN



# WHICH GOODS ARE AFFECTED?



Source : Chad Bown (2018), own illustration.

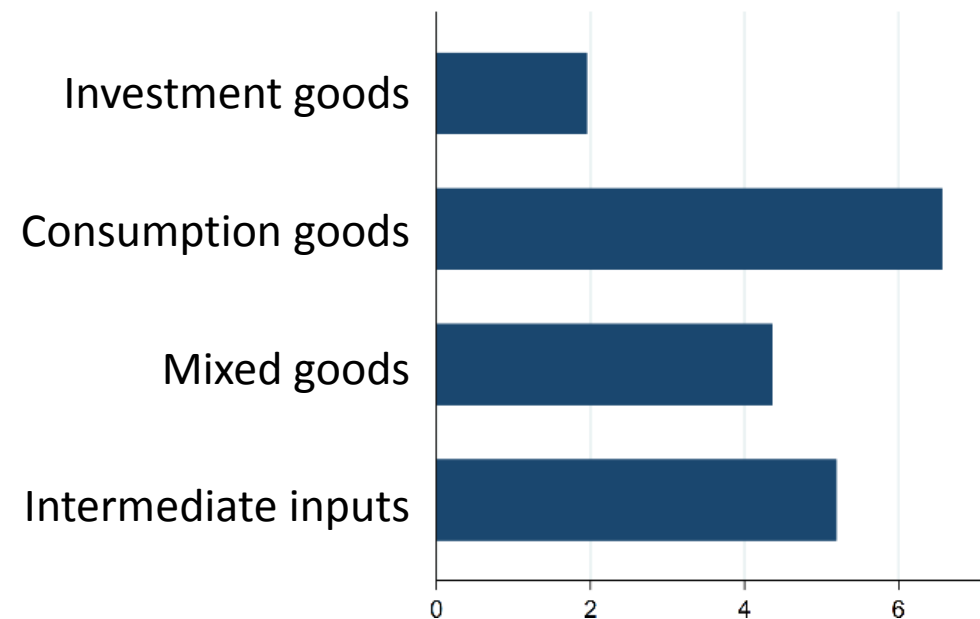
# CHINA – USA: CHINA PAYS THE COSTS

## A question of tax incidence

„Punitive tariffs“ of US are chosen such that the tax incidence of tariffs is beneficial for the US (goods with low *export supply elasticity* and high *import demand elasticity*)

- Chinese producers bear a large share of the tax burden
- **US prices for consumers and producers go up by less than the full tariff rate**
- **Positive welfare effects for the US** (high revenue effects, small price effects) – as long as China does not retaliate
- **Small effects on the trade balance** even without considering trade diversion effects
- **Incidence different for steel & aluminium!**

## Price effects on imports from China, in %



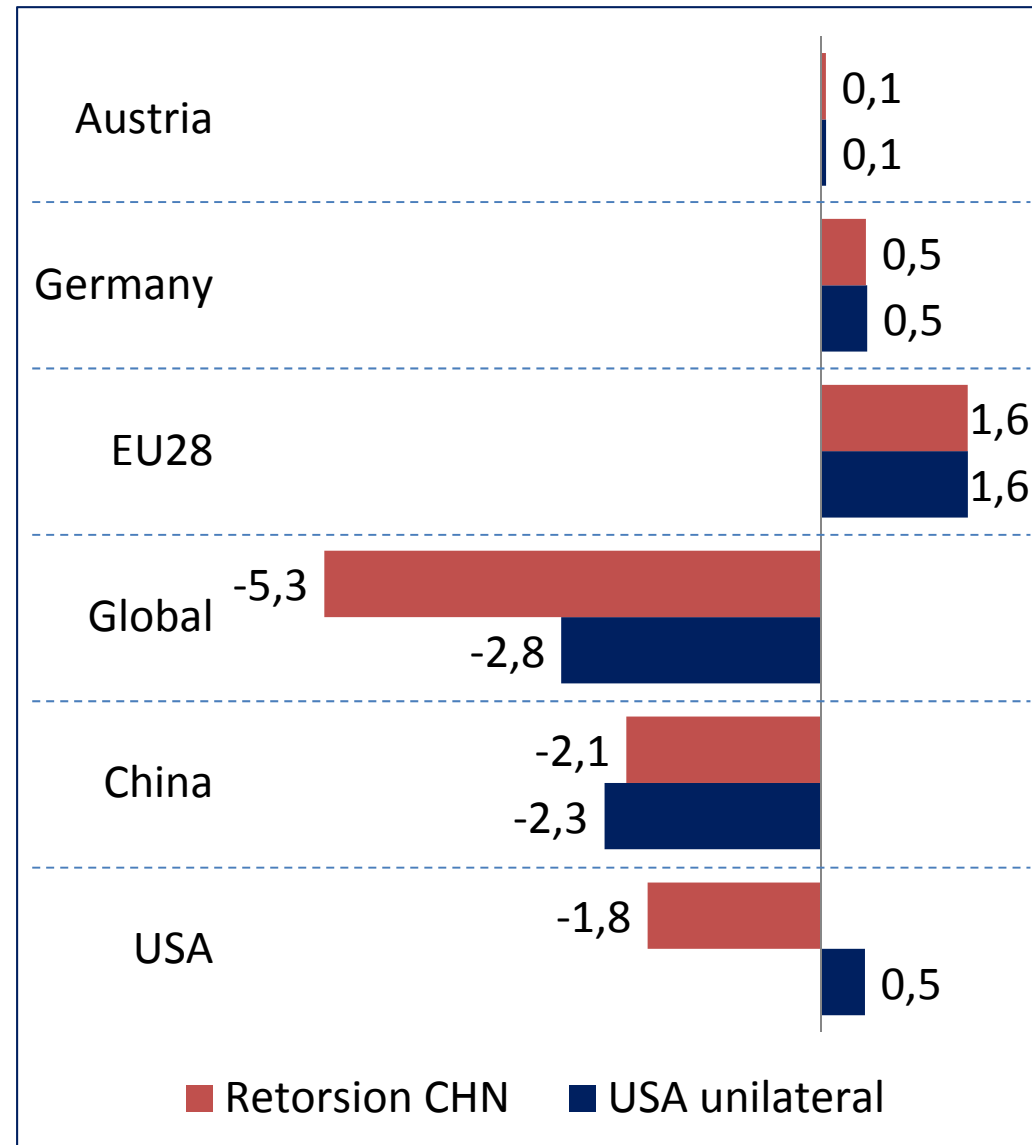
- **Bilateral deficit goes down by about 60 bn USD**
- **Effect on US inflation very moderate: 0,1-0,2 %-Punkte**

Source: Ryczek-Zoller & Felbermayr, 2018. Scenario: 25% additional tariff on imports of 250 Mrd. US-\$ (12% of total US imports).

# CHINA – USA: WHEN TWO DO BATTLE ...

## Example simulation

- **USA: 25% Tariffs on 60 bn. USD of electronics imports (and steel) from China**
  - **China reacts with retaliatory tariffs**
- China not affected much: Chinese exports contain lots of foreign value added
  - When US and China keep competitors from each other out, suppliers from third countries may benefit
  - Moreover: if China makes concessions, EU profits, too ...



# THE STEAKHOUSE TRUCE?

**Buenos Aires, 2.12.2018**

- China takes back auto tariffs from 15+25% to 15%: good for German car manufacturers in the US?
- China returns to the US soy bean market?
- Trump does not increase tariffs from 10% to 25% on Jan 1, 2019
- Negotiations (about what exactly?)
  
- Not more than a truce, if at all
  - A deal in 90 Tagen? When does that window close?
  - Geostrategic rivalry between China and US sure to continue. Issue is technology leadership
  - Washington requests not less from Beijing than to give up their economic model





# WTO REFORM ?

1

Surveillance & enforcement of rules

- **Too many countries notify measures** – subsidies, TBT & SPS measures – too late and incompletely; no enforcement of rules
  - Transform WTO secretariate into a „commission“ with stronger rights?

2

New rules

- Rules needed on **international data traffic**, digital trade, digital services, **stronger rules on subsidies** and **state owned enterprises**
  - **Unanimity?**
  - **Special and differential treatment for developing countries?**

3

Reform of dispute settlement mechanisms

- Fundamental US skepticism regarding international „tribunals“ of all sorts: sovereignty concerns
- **Appellate Body** creates law beyond the existing rules (created 1994)
- ... results from (2) and is in conflict with (1)

**But an exit of the USA from the WTO is not likely: WTO also covers services and IPR!**



# TRUMP'S PROBLEM: TARIFFS DO NOT REALLY CHANGE THE TRADE BALANCE



Fox News  
@FoxNews

Folgen

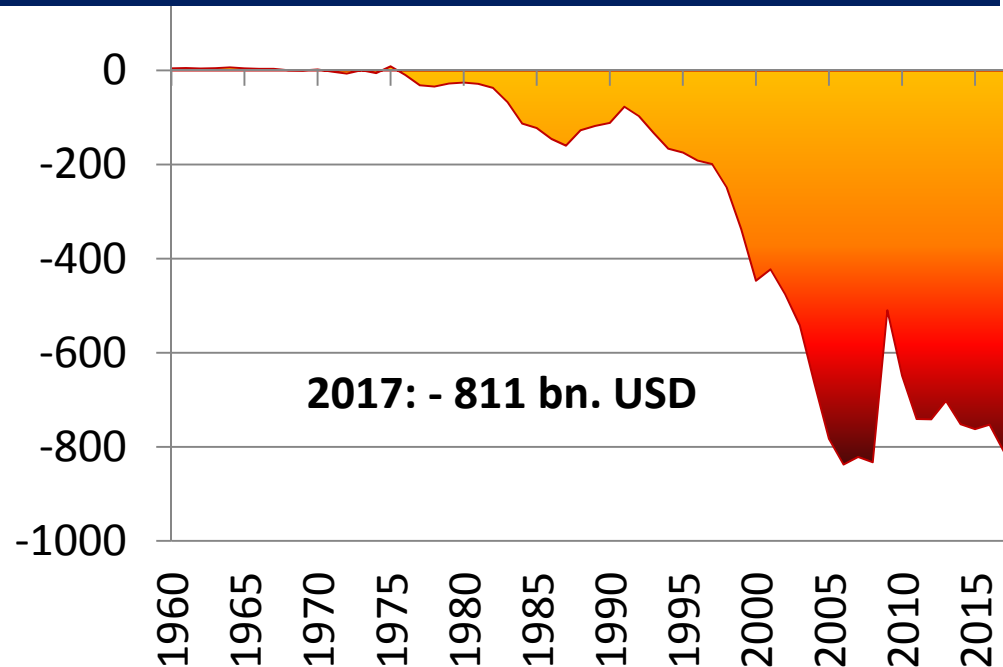
#Trump says US is like a 'piggy bank that everybody is robbing' on trade

Tweet übersetzen



Trump says US is like a 'piggy bank that everybody is robbing' on trade  
President Trump used a press conference at the G7 summit in Canada to double down on his tough stance on trade, telling reporters that the United States is like "th...  
foxnews.com

## Balance of US trade balance, bn. USD



... FOR THIS YOU'D NEED A **RECESSION** ...



**Thanks for your attention**

**Gabriel Felbermayr**

The Future of Transatlantic Relations

Hamburg, Nov. 16th, 2018