“Economic Nationalism: Reality or Rhetoric?”

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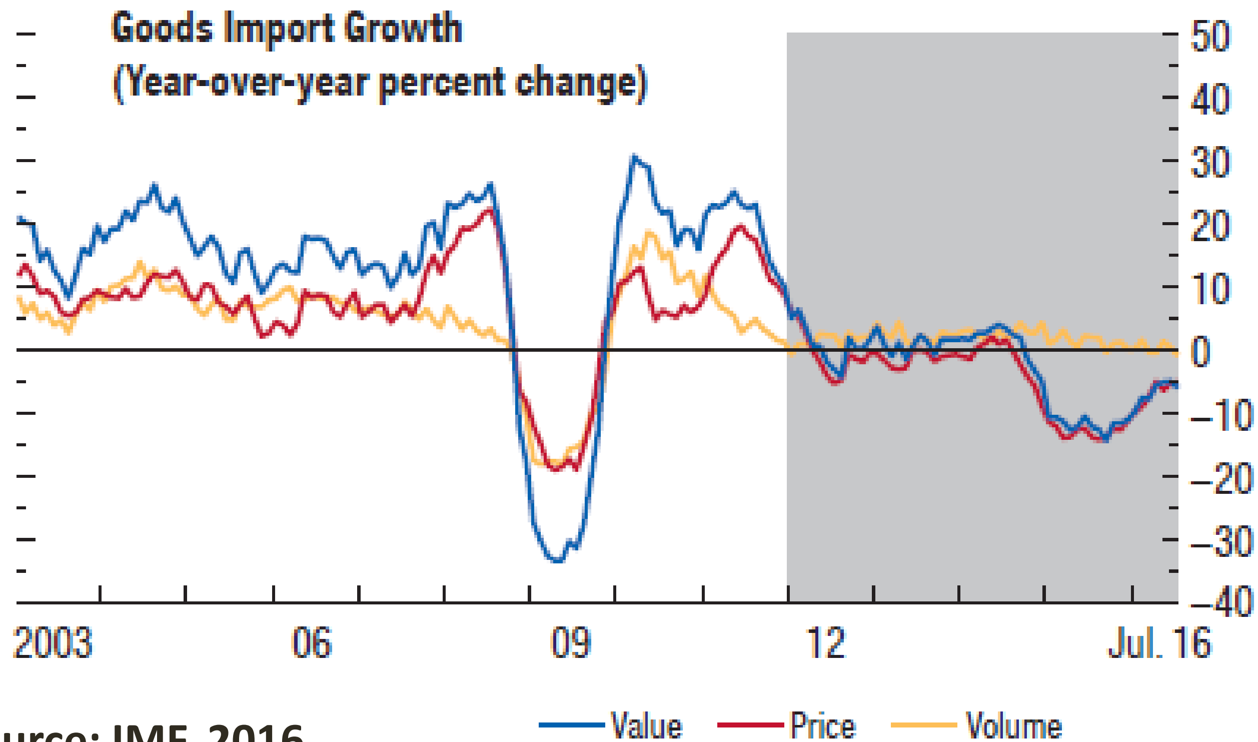
AAII – Columbus Chapter
November 8, 2017

Prospects for Global Trade

- **2012-15, slowdown in trade growth in both absolute terms and relative to GDP growth**
- **Trade growth fell for 85% of product lines, with sharpest slowdown in capital and intermediate goods**
- **Driven by weakness in economic activity and investment, and slowdown in growth of value chains**
- **Also slowdown in pace of trade liberalization and tendency towards protectionist measures**

Trade Growth

Figure 1: World Trade in Volumes and Values



Source: IMF, 2016

Prospects for Global Trade

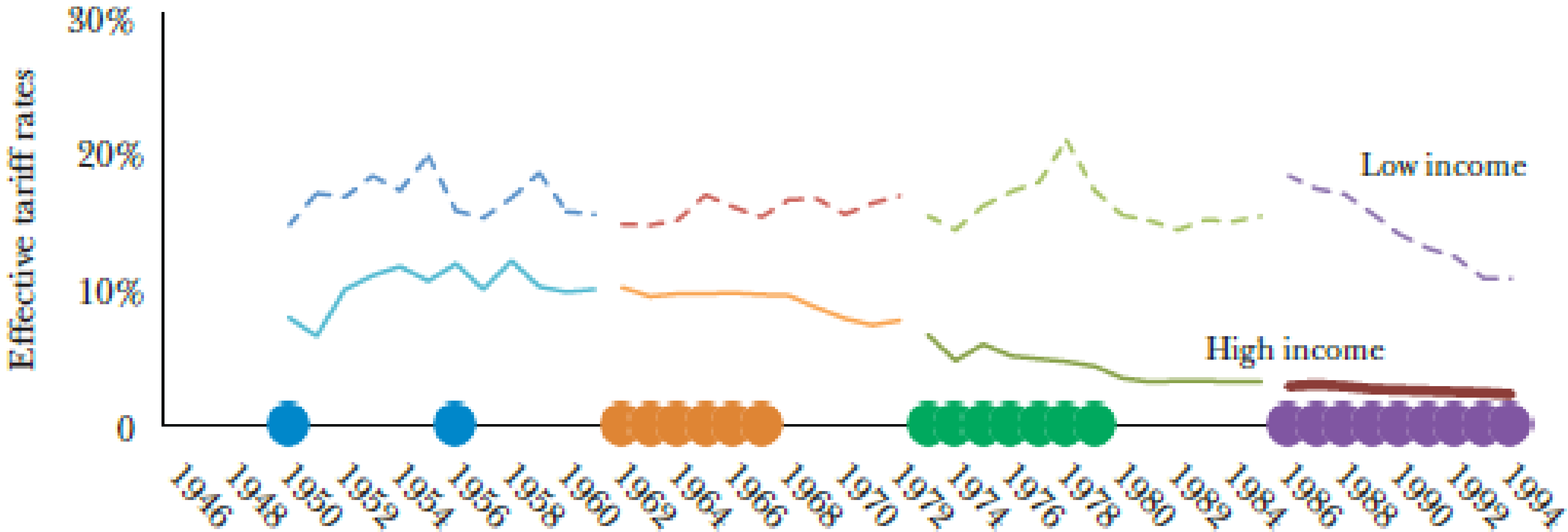
- Pace of economic activity picked up in past year, but avoiding trend to “economic nationalism” is critical
- In U.S. “America First” rhetoric seems to indicate desire to not lower or raise trade barriers - TPP not ratified, TTIP on hold, and NAFTA under renegotiation
- In UK, Brexit negotiations underway, but there is no clarity in what final agreement with EU will look like
- At same time, EU has signed trade agreement with Canada, and is currently negotiating one with Japan

Multilateralism and the GATT/WTO

- GATT set up in 1947 with goal of establishing rules-based world trading system and to facilitate trade liberalization
- Both goals largely achieved – trading system more-or-less universally accepted, and average OECD tariffs low
- GATT's successor, the WTO, has failed to complete Doha Round of trade negotiations begun in 2001
- Why has GATT "magic" stopped working

GATT – A Tariff-Cutting “Juggernaut”

Figure 2: Effective Tariff Rates, 1946-1994

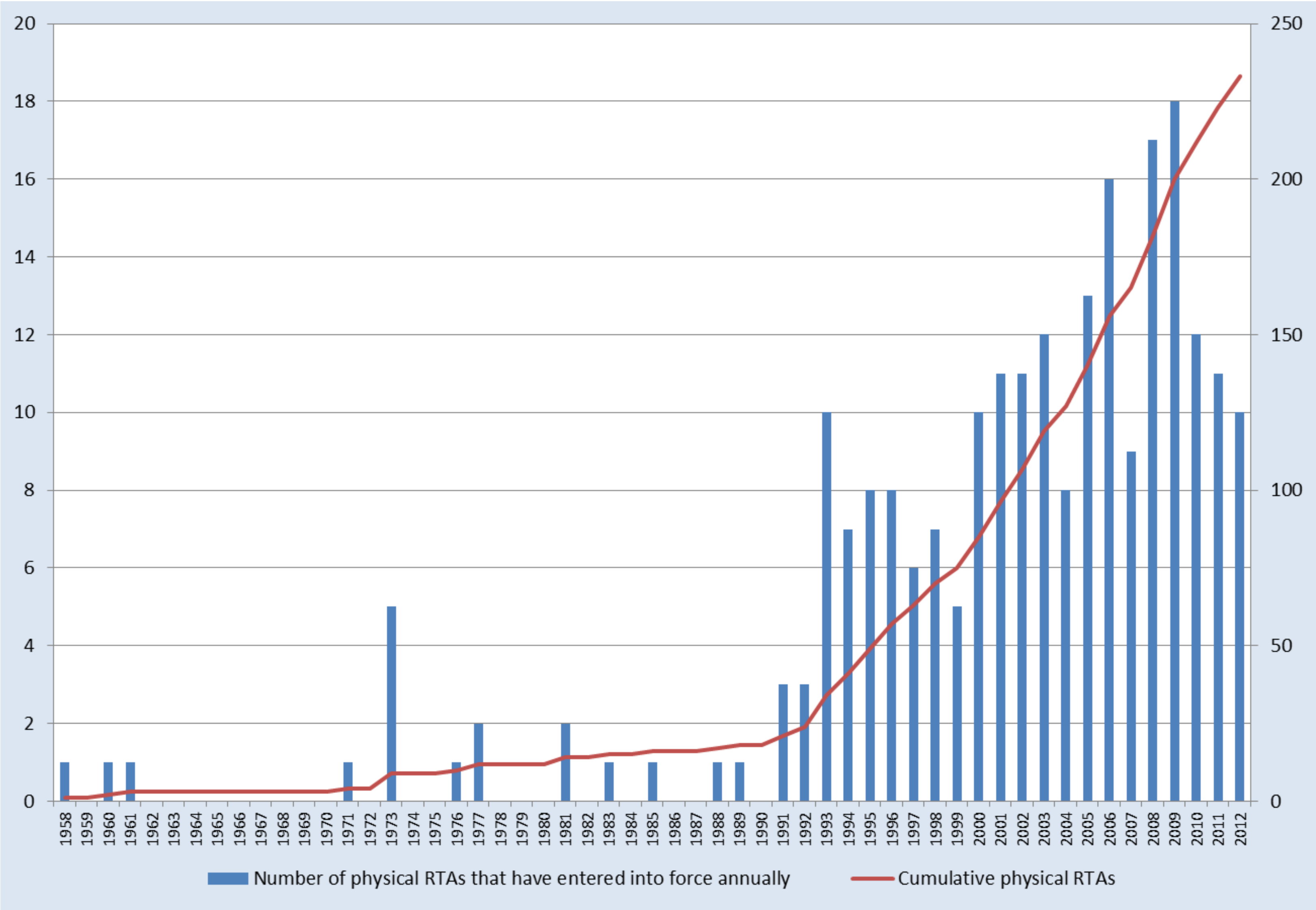


Source: Baldwin, 2016

Woes of WTO

- **Key Issues:**
  - Lost dominance of "Quad" (U.S., EU, Japan and Canada) – no longer "coalition of the willing"
  - Number of developing country members has shifted power in WTO - talks harder to complete
  - Regionalism has created challenges: significant increase in number of free trade agreements (FTAs) since 1990 – WTO no longer "only game in town"
  - Growth of offshoring has encouraged unilateral tariff-cutting by developing countries

Growth of FTAs



Source: WTO

U.S. Free Trade Agreements: Current Status

- Free trade agreements (FTAs): bloc of countries cooperating to reduce trade barriers, members maintaining their own external tariffs
- To date U.S. is member of 14 FTAs, e.g., NAFTA (1994) CAFTA (2005), and KORUS (2012)
- Account for 20 trading partners, e.g., Australia, Canada, Chile, Colombia, Mexico, Morocco, Peru, Singapore, and South Korea
- TPP not ratified, and TTIP on hold

Shallow vs. Deep Integration

- Success of GATT: “low-hanging fruit” picked through “shallow” integration (tariff-cutting)
- Developed countries moving away from tariff-cutting to “deep” integration
- Mega trade deals such as TPP and TTIP have emerged over past decade to deal with “behind the border” issues not covered by WTO disciplines
- Harmonization of standards relating to investment, intellectual property, labor, environment, state-owned enterprises, etc.

End of Regionalism for U.S.?

- **TPP, signed in October 2015 covering US and 11 other countries not ratified by U.S.**
- **Forgoing expected $130 billion increase in U.S. GDP by 2030 (Petri and Plummer, 2016)**
- **TTIP negotiations between U.S. and EU will likely not be concluded**
- **TTIP estimated to increase GDP/capita in long run by 4.9% in U.S., and average of 3.9% across EU member countries (Felbermayr *et al*., 2015)**

Wider Consequences of No TPP

- TPP had potential to impact future of Asia-Pacific trading system - template for regional integration
- Provided model for consolidating existing FTAs – i.e., way out of Asia-Pacific *noodle bowl*
- "….an American failure to ratify TPP would bring about the very thing critics of trade deals complain about: a more empowered China and bad terms for U.S. goods and services…" (Singapore Prime Minister)
- Happening when growth in global trade slower than GDP growth for first time in 15 years (IMF, 2016)

NAFTA Renegotiations

- Administration's negotiating objectives emphasize improved market access as well as "deep integration"
- Resembles TPP – so why drop the latter?
- Potential gains from deeper integration, but also poses risks of higher trade barriers in North America
- Seems to be lack of understanding of North American value chains – notably in automobile sector
- Misguided attempt to address U.S. trade deficit?

NAFTA Renegotiations

- Following end of talks on October 17, two issues represent key threat:
  - Proposal of 5-year “sunset” clause – will generate uncertainty, reducing trade and investment
  - Change in *rules-of-origin* in automobile sector – risk manufacturers go offshore and incur U.S. tariff
- U.S., Canada, and Mexico have indicated they are willing to leave NAFTA if unsatisfied with negotiations

Cost of Backing Away From Regionalism

- U.S. has small share of total number of FTAs (14/267)
- U.S. has low average agricultural tariffs compared to some of its export markets, e.g., Japan
- By their nature, FTAs discriminatory against non-members, placing U.S. exporters at disadvantage, e.g., EU-Canada FTA, and EU negotiating FTA with Japan
- Failure to ratify TPP, and not pushing TTIP – U.S. locked out of significant "hub and spoke" market connections

Brexit – Creating Uncertainty

- UK Treasury (May 2016) focused on near-term impact of UK leaving EU over two-year period
- Evaluated combined effects of *transition* to new trading arrangement, *uncertainty* and feedback from changing *financial conditions*
- Two scenarios: “shock” assuming UK negotiates bilateral agreement with EU, and “severe shock”, assuming default to WTO membership
- Ignores additional downside risks of financial crisis and/or “sudden stop” due to current account deficit

Brexit – Creating Uncertainty

Table 1: Immediate impact of BREXIT on UK after 2 years		
	"Shock"	Severe shock"
GDP	-3.6%	-6.0%
Inflation rate (% points)	+2.3	+2.7
Unemployment rate (% points)	+1.6	+2.4
Sterling exchange rate index	-12%	-15%

Source: UK Treasury (May, 2016)

Brexit – An Object Lesson?

Table 2: Effect on UK trade/FDI/productivity/GDP after 15 years

	EEA	Bilateral	WTO
Trade (%)	-9	-19	-24
FDI (%)	-10	-20	-26
Productivity (%)	-2.8	-6.0	-7.7
GDP level (%)	-3.4 to -4.3	-4.6 to -7.8	-5.4 to -9.5

Source: UK Treasury (May, 2016)

Economic Nationalism: Reality or Rhetoric?

- Brexit and U.S. not ratifying TPP - both examples of rhetoric becoming reality
- U.S. views on NAFTA, along with trade threats to China - further evidence of U.S. economic nationalism
- Negative attitude to WTO - signals lack of respect for U.S.'s international obligations
- Attitudes to liberalized global markets creating uncertainty for investment choices