“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

<table>
<thead>
<tr>
<th></th>
<th>“Shock”</th>
<th>Severe shock</th>
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<tbody>
<tr>
<td>GDP</td>
<td>-3.6%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Inflation rate (% points)</td>
<td>+2.3</td>
<td>+2.7</td>
</tr>
<tr>
<td>Unemployment rate (% points)</td>
<td>+1.6</td>
<td>+2.4</td>
</tr>
<tr>
<td>Sterling exchange rate index</td>
<td>-12%</td>
<td>-15%</td>
</tr>
</tbody>
</table>

Source: UK Treasury (May, 2016)
# Brexit – An Object Lesson?

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

<table>
<thead>
<tr>
<th></th>
<th>EEA</th>
<th>Bilateral</th>
<th>WTO</th>
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<tbody>
<tr>
<td>Trade (%)</td>
<td>-9</td>
<td>-19</td>
<td>-24</td>
</tr>
<tr>
<td>FDI (%)</td>
<td>-10</td>
<td>-20</td>
<td>-26</td>
</tr>
<tr>
<td>Productivity (%)</td>
<td>-2.8</td>
<td>-6.0</td>
<td>-7.7</td>
</tr>
<tr>
<td>GDP level (%)</td>
<td>-3.4 to -4.3</td>
<td>-4.6 to -7.8</td>
<td>-5.4 to -9.5</td>
</tr>
</tbody>
</table>

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