The Global Economic Outlook: Tilted to the Downside Risks

Ian Sheldon

sheldon.1@osu.edu
https://aede.osu.edu/research/andersons-program

Ohio Agribusiness Association Industry Conference
Columbus, OH
January 31, 2024
Global Economic Outlook

- Pace of global recovery has moderated:
  - war in Ukraine
  - geoeconomic fragmentation, and increased trade barriers
  - tight monetary policy
  - diminishing savings stock
  - persistent manufacturing slowdown

- Global trade growth slowed down: 3.5% (5.1% in 2022) (IMF, 2023)
Industrial Output

Year-over-year %

Source: IMF, October 2023
Outlook Tilted to Downside Risks

- Underlying inflation persists
- Financial market repricing
- Debt distress increases
- China’s growth slows further
- More volatile commodity prices due to climate and geopolitical risk (wider Middle East conflict)
- Geoeconomic fragmentation intensifies affecting trade, capital and technology movements, and international payments
Chinese Economic Growth

- Slower growth of 4.5% predicted for 2024
- China has suppressed domestic consumption, resulting in savings that need investing
- Ideological reasons for Chinese leadership not to boost consumption
- Overall, policy paralysis, apart from use of investment-led stimulus as in the past
- Increased output being exported—notably electric vehicles—expected to double share of world market (1/3) by 2030 (*The Economist*, Jan.2024)
Global Trade and Shocks

- Financial crisis and pandemic had significant impact on trade
- Compared to Great Depression, international trade has become more resilient to shocks
- Foreign policies and trade likely to have:
  - very specific effects (Russian invasion of Ukraine)
  - specific and global effects (attacks on merchant shipping in Red Sea)
Global Trade and Shocks

Source: Bergeijk, December (2023)
33 million metric tons of grain exported under Black Sea Grain Deal since July 2022

End of deal led to 33% reduction in Ukrainian exports by late-August 2023 (*Bloomberg News*) – and significant increase in shipping costs

Ukraine has developed humanitarian corridor for shipping – 153 vessels by late-November 2023

Access to Black sea critical – but ongoing Russian attacks on Ukrainian ports affecting grain market volatility
Black Sea Grain Export Routes

Share of grain exports, July 2022-July 2023

Source: Ukrainian Grain Association (grain exports); Institute for the Study of War and AEI’s Critical Threats Project (Russian-controlled areas)
Jake Steinberg/THE WALL STREET JOURNAL
Humanitarian Grain Corridor

Route taken by the cargo ship Joseph Schulte

*Crimea is annexed by Russia but this is not recognised by the international community.
Red Sea Attacks

- Houthi rebels based in Yemen have been firing drones and missiles at shipping in Red Sea

- Suez Canal handles 15% of world’s shipping traffic trade, accessed via 19-mile wide, Bab-el-Mandeb strait

- Shipments being re-routed around Cape of Good Hope - 60% drop in number of containers going through Suez Canal (British Chamber of Commerce)

- Maersk, which accounts for moving 20% of global trade, diverted all its ships in early-January

- Container rates have almost tripled since early-December (ING)
Red Sea Attacks
Impact on Shipping

Source: New York Times, January 2024
Red Sea Attacks

- Concern that conflict escalation in Middle East could lead to surge in energy prices, affecting global economic activity and inflation (World Bank, 2024)
- Potential to impact Ukrainian and Russian grain shipments to the Horn of Africa, which is expected to push up global corn and wheat prices
- With increase in oil prices, central banks may hold off cutting interest rates for longer than currently expected
- Reinforces expectation that some of world’s major economies may dip into recession this year
Transportation: Global Trade Flows

Source: Ben Brown, January 2024
Current US Trade Policy

- 2018/19 US tariffs still in place, with continued focus on “decoupling” from China

- Administration increasingly turning to industrial policy – objective being to “near/re-shore” parts of value chain (semiconductors)

- US also moving to regional trade dispute resolution rather than utilize WTO – long-running concerns over judicial overreach of Appellate Board

- Already used USMCA mechanism in three agricultural cases since 2021 – only three cases ever litigated under NAFTA
US “Decoupling” and China

- Value chains under stress due to US-China trade war, pandemic, and geopolitical shocks

- Available data point to “great reallocation” in supply chain activity (Alfaro and Chor, 2023)

- US direct sourcing from China has decreased – with Vietnam and Mexico gaining import share

- Switch to indirect sourcing as China steps up investment in both Vietnam and Mexico

- However, US import prices higher
Indirect Imports from China

US Import Market Share Change for Top 15 Importing Countries (2017-2022)

Source: Comtrade

Source: Alfaro and Chor (August 2023)
Current US Trade Policy

- Canadian dairy TRQs (twice) – key focus of case(s) on allocation of the quotas discriminates against US exporters – “a tempest in a teapot?” (Turland et al., 2023)

- Current GM crop dispute with Mexico – not only important economically, but fundamental to the credibility of SPS chapter of USMCA

- **Expectation:** panel likely to find against Mexico – precedent of 2006 WTO GM ruling against EU

- Unlike WTO dispute resolution system, panel findings cannot be appealed by either party – has more of a flavor of the original GATT-mechanism
US Corn Exports to Mexico

Source: US Census Bureau
Value of Ohio Corn Exports

Source: US Census Bureau