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 slowing down in 2024: 3.3% (historical average of 4.9%) (IMF, 2024)
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)
Impact on Rest of World

Taking the lead

**Commodity exports to China**
% of GDP, 2022
- Metals
- Energy
- Agriculturals

<table>
<thead>
<tr>
<th>Country</th>
<th>Metals</th>
<th>Energy</th>
<th>Agriculturals</th>
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<tbody>
<tr>
<td>Zambia</td>
<td>0</td>
<td>5</td>
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<tr>
<td>Chile</td>
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<td>2</td>
<td>8</td>
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<tr>
<td>Malaysia</td>
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<td>3</td>
<td>7</td>
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<tr>
<td>Peru</td>
<td>0</td>
<td>1</td>
<td>9</td>
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<tr>
<td>Australia</td>
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<td>2</td>
<td>7</td>
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<tr>
<td>Saudi Arabia</td>
<td>0</td>
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<td>8</td>
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<tr>
<td>Brazil</td>
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<tr>
<td>Russia</td>
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<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0</td>
<td>1</td>
<td>7</td>
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<tr>
<td>Nigeria</td>
<td>0</td>
<td>1</td>
<td>7</td>
</tr>
</tbody>
</table>

**Exposure to China, total exports and Western-owned subsidiaries' revenues**, % of GDP, 2020
- Goods exports*
- Services exports†
- Affiliates’ revenues in China†

<table>
<thead>
<tr>
<th>Country</th>
<th>Goods exports*</th>
<th>Services exports†</th>
<th>Affiliates’ revenues in China†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0</td>
<td>2</td>
<td>8</td>
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<tr>
<td>Netherlands</td>
<td>0</td>
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<td>France</td>
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<td>Italy</td>
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</tr>
<tr>
<td>Spain</td>
<td>0</td>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>

*Mainland China only  †Including Hong Kong
Sources: Bloomberg; Capital Economics; Eurostat; IMF; OECD; The Economist
Global Trade and Shocks

- Financial crisis and pandemic had significant impact on global trade

- *But* - 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)
Black Sea Grain Exports

- From July 2022, 33 million metric tons of grain exported under Black Sea Grain Deal

- 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

- Russian attacks on Ukrainian ports, and Ukrainian attacks on Russian naval vessels, 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
Ukrainian Grain Export Routes

Figure 1. Danube Ports Have Become Key to Ukrainian Exports

<table>
<thead>
<tr>
<th>Month</th>
<th>Danube ports</th>
<th>BSGI</th>
<th>Rail</th>
<th>Truck and Ferry Boats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-23</td>
<td>20%</td>
<td>53%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Feb-23</td>
<td>23%</td>
<td>53%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Mar-23</td>
<td>31%</td>
<td>51%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Apr-23</td>
<td>31%</td>
<td>52%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>May-23</td>
<td>50%</td>
<td>41%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Jun-23</td>
<td>38%</td>
<td>39%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Jul-23</td>
<td>61%</td>
<td>10%</td>
<td>24%</td>
<td>14%</td>
</tr>
<tr>
<td>Aug-23</td>
<td>65%</td>
<td>11%</td>
<td>24%</td>
<td>14%</td>
</tr>
</tbody>
</table>
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 firing missiles at shipping in Red Sea – bulk carrier already sunk

- 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 risen significantly since early-December
Red Sea Attacks
Red Sea Attacks

Rubymar sinking – with 41,000 tonnes of fertilizer on board
Impact on Shipping

Figure 3. Daily Freight Capacity in the Red Sea Falls by 66 Percent Below the Expected Level

Note: The daily freight rate capacity in the Red Sea until January 11, 2024, comes from Fleetmon (2024) and the expected freight capacity from the Kiel Institute of the World Economy (Hinz and Rauck, 2024).
Impact on Shipping Costs

Figure 4. Drewry World Container Index Increased by 75 Percent Since December 2023

Note: The Drewry World Container Index is a composite index of the major shipping lines from Drewry (2024). The dataset covers January 18, 2023, to January 18, 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 could dip into recession this year
Current US Trade Policy

- 2018/19 US tariffs still in place, with continued focus on “decoupling” from China, and potential for significant tariff increases post-President election

- 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

Hofusan industrial park in Nuevo León
Indirect Imports from China

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

Source: Comtrade

Source: Alfaro and Chor (August 2023)
Retaliatory Tariffs

Retaliatory tariffs against U.S. agricultural exports first began in mid-2018

Section 232
- Canada
- China
- EU
- India
- Mexico
- Turkey

Section 301
- China

Notes: EU=European Union. In October 2021, the United States and the EU reached agreements to address global steel and aluminum excess capacity that include replacement of Section 232 tariffs with a tariff-rate quota and lifting of the EU’s retaliatory tariffs.
Impact of Retaliatory Tariffs

China’s retaliatory tariffs resulted in largest losses for U.S. agricultural exports in mid-2018 to the end of 2019

U.S. dollars (billion) vs. Percent

- China: Estimated U.S. agricultural export losses 2018–2019 (left axis)
- Canada: Estimated U.S. export reduction due to retaliatory tariffs (right axis)
- Mexico: Estimated U.S. export reduction due to retaliatory tariffs (right axis)
- European Union: Estimated U.S. export reduction due to retaliatory tariffs (right axis)
- India: Estimated U.S. export reduction due to retaliatory tariffs (right axis)
- Turkey: Estimated U.S. export reduction due to retaliatory tariffs (right axis)

Notes: Estimates are based on the 2017 value of targeted agricultural commodities and the duration of tariffs imposed from mid-2018 through the end of 2019. Total estimated U.S. agriculture export losses do not include the trade losses on U.S. exports to China from April–June 2018 due to Section 232 retaliatory tariffs on $2 billion worth of products.

Impact of Retaliatory Tariffs

Losses in export value resulting from retaliatory tariffs were concentrated in the Midwest

Estimated trade losses, U.S. dollars (million)

- 0–50
- 50–100
- 100–250
- 250–500
- 500–750
- 750–1,000
- 1,000–1,250
- Over 1,250

Notes: Totals calculated over selected commodities as reported in appendix of the USDA, Economic Research Service report “The Economic Impacts of Retaliatory Tariffs on U.S. Agriculture,” published January 11, 2022. Annualized losses estimated for retaliatory tariffs that were in place from June 2018 through December 2019.

Current US Trade Policy

- Canadian dairy TRQs (twice) – allocation of 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

- Mexico is leading importer of US corn, and if ban were fully implemented, could result in losses of $13.6 billion to industry over 10-year period (World Economic Perspectives, 2022)

- Would also see significant increase in non-GM corn price in Mexico, with implications for food security
US Corn Exports to Mexico

Source: US Census Bureau
Value of Ohio Corn Exports

Source: US Census Bureau
Current US Trade Policy

- If panel rules in favor of Mexico – disruption to global corn market, depressing US and world prices

- If panel rules in favor of US, but Mexico continues with policy, US can apply retaliatory tariffs, with potential of escalating into broader trade conflict

- **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