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# **The New Normal in International Trade**

## **The Dialogue of Continents Reinventing Bretton Woods Committee**

Paris, France  
September 3, 2018

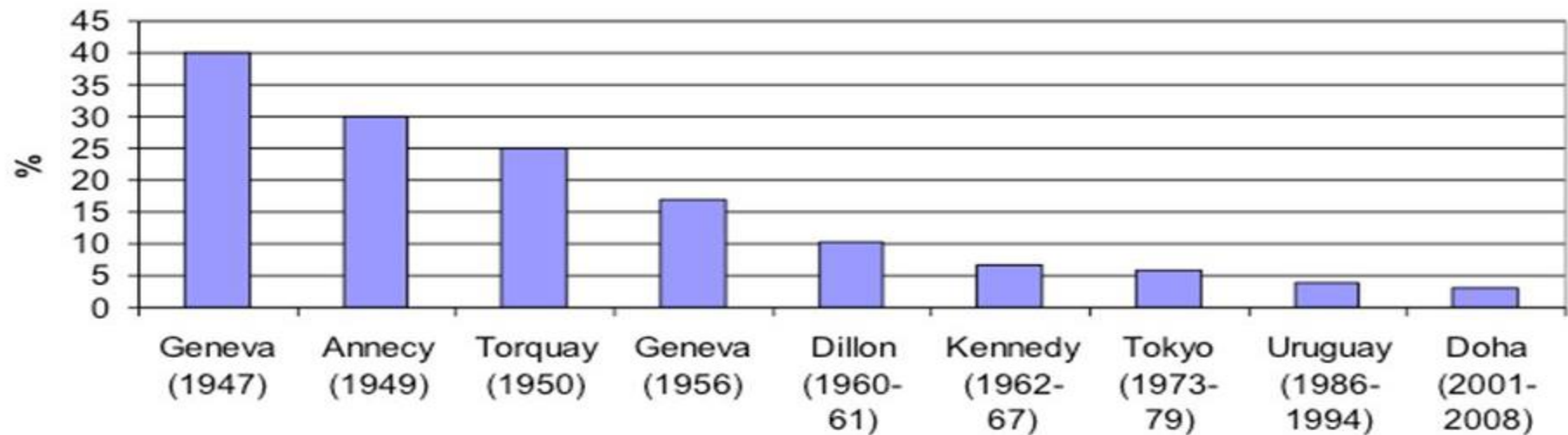
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Personal Representative of the Prime Minister for the G20  
Global Affairs Canada

# **I. “The Rules-Based System”**

# The Post-War Trade Regime – a Focus on Tariffs

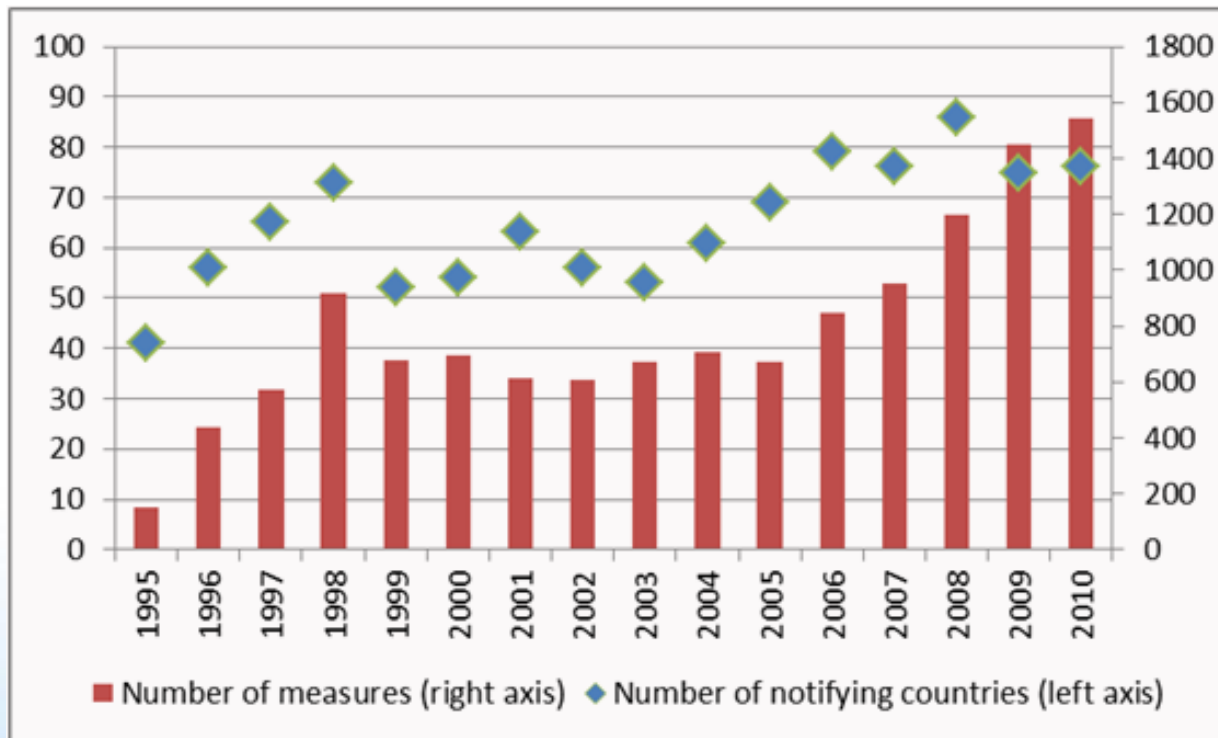
Tariff barriers have fallen in successive “rounds” of GATT negotiations

**Average tariffs for industrial goods  
after each round**



Note: Data are for the world average (estimate, 1947-50), France (1956-68) and the EC/EU (from 1968)  
Source: Wolf (2004), table 8.7; OECD (1998)

## But Non-tariff Barriers have grown in their stead

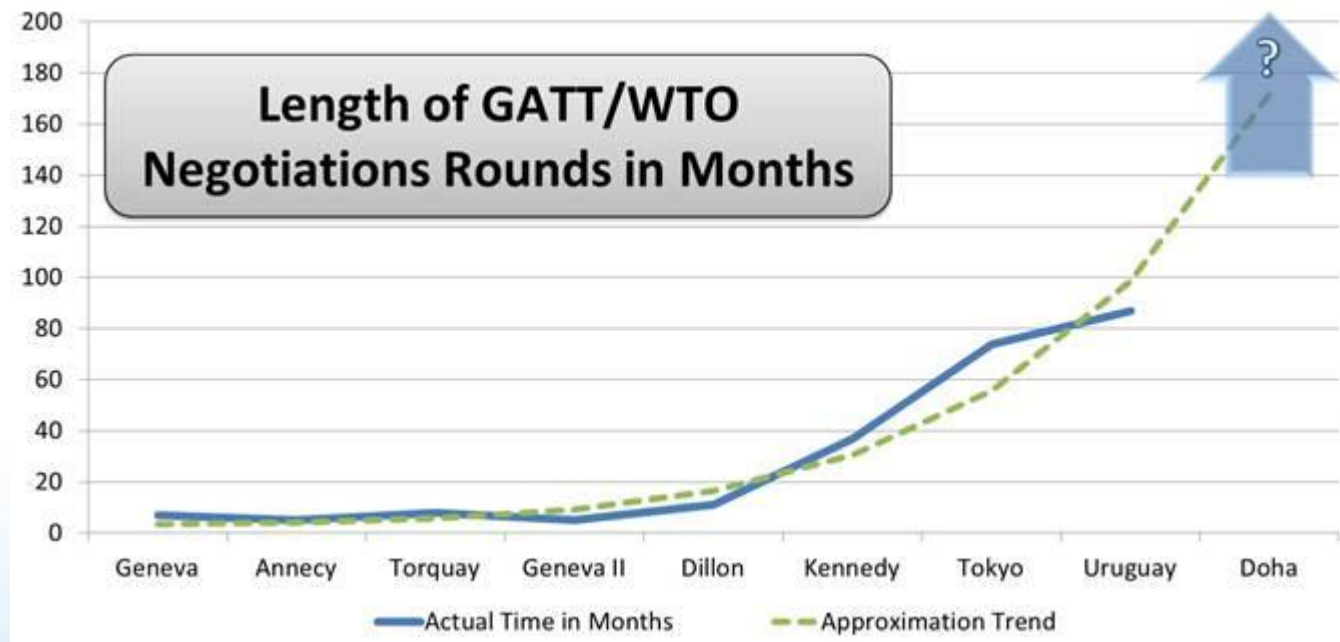


Technical Barriers to Trade notified to the WTO

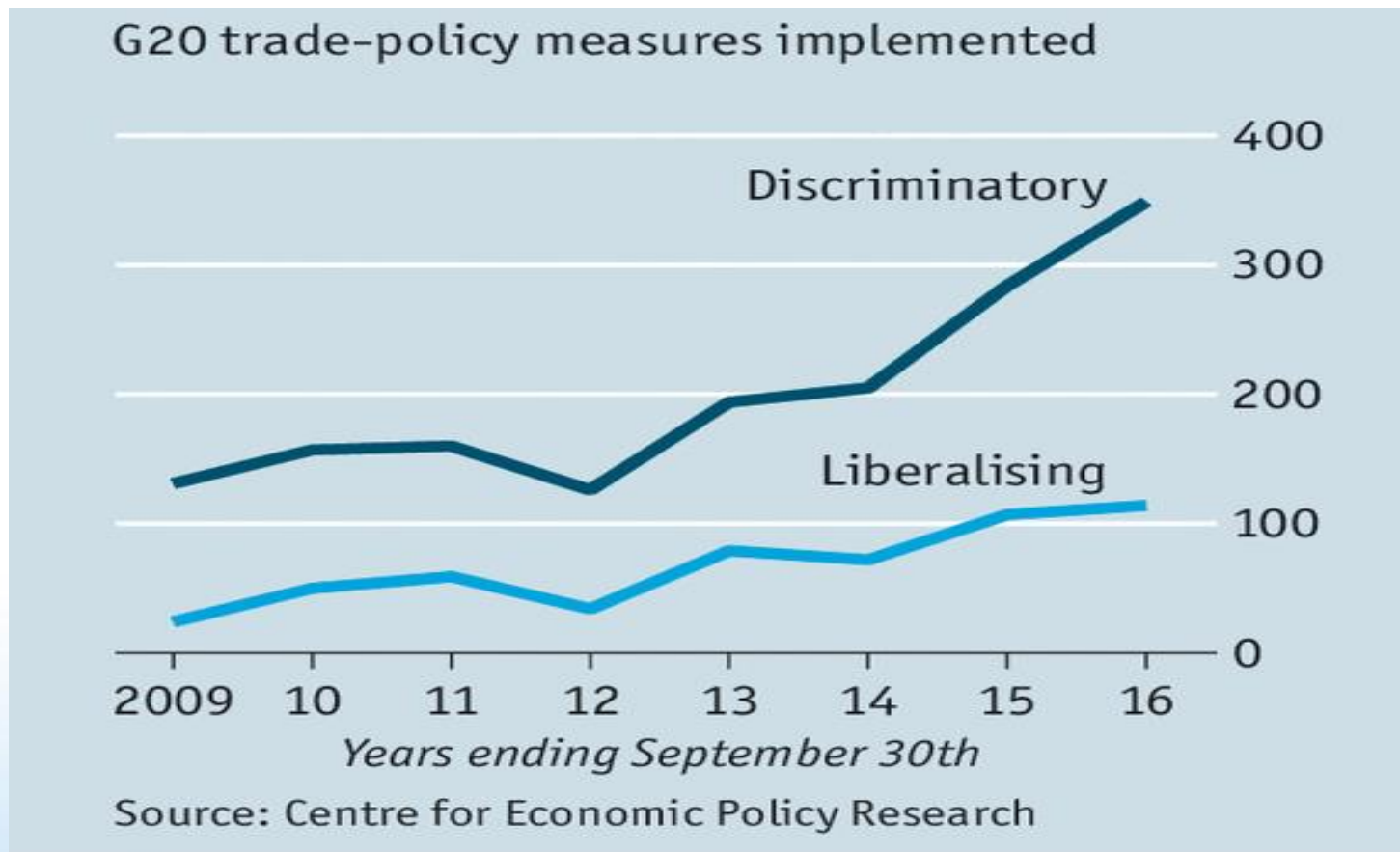
# Negotiations have moved Beyond the Border

- **Tokyo Round (1973-79)**
  - Focus was on non-tariff barriers (NTBs) to trade
    - Produced six legal codes that dealt with NTBs, covering
      - customs valuation procedures
      - import licensing
      - technical standards for products
      - subsidies and countervailing duty measures
      - government procurement
      - anti-dumping duty procedures
  - Average tariff reductions of about 35% of industrial nations' tariffs (comparable to Kennedy Round)
    - Tariffs were reduced in proportion to the size of the tariffs

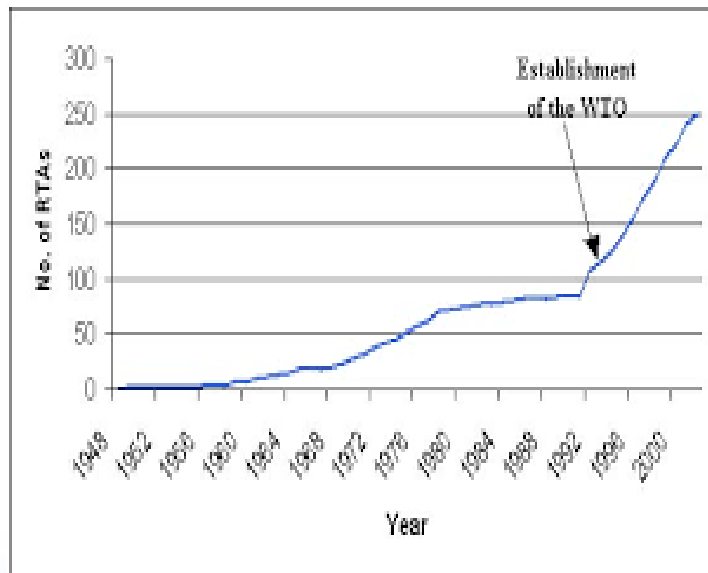
## ...but Multilateral Agreement is More Elusive



## ...and barriers continue to rise

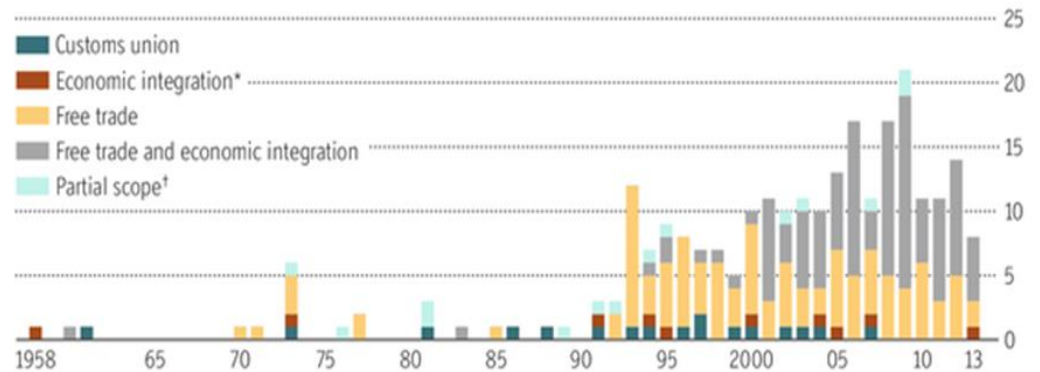


# Increasingly, countries look to go further, faster with friends in the neighbourhood



## Strength in numbers

Newly signed preferential trade agreements  
Number, by type of agreement



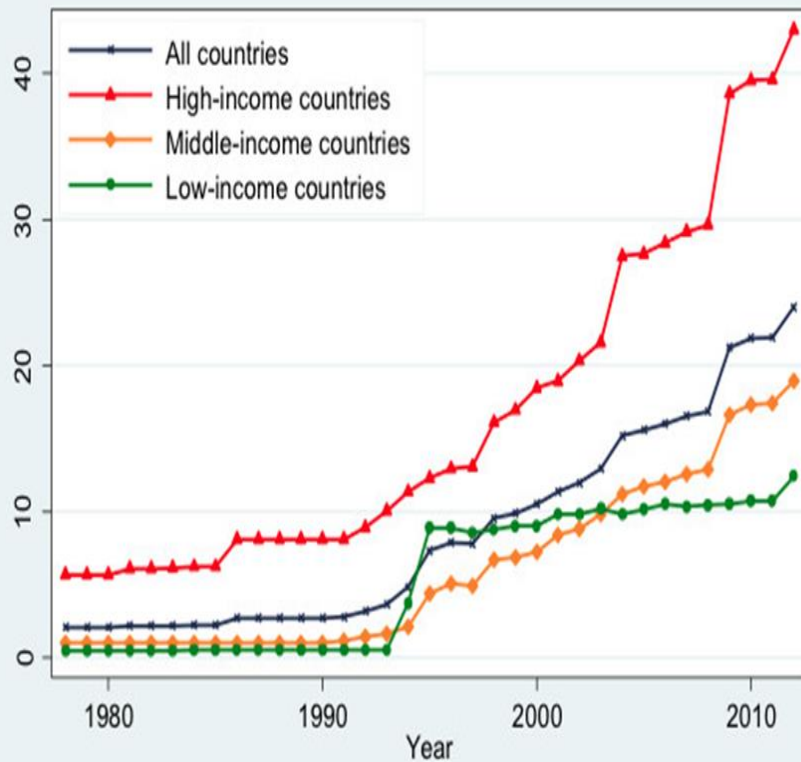
Sources: Arvind Subramanian;  
Martin Kessler; World Trade Organisation

\*Includes joint customs union and partial-scope agreements  
†Covering only certain products

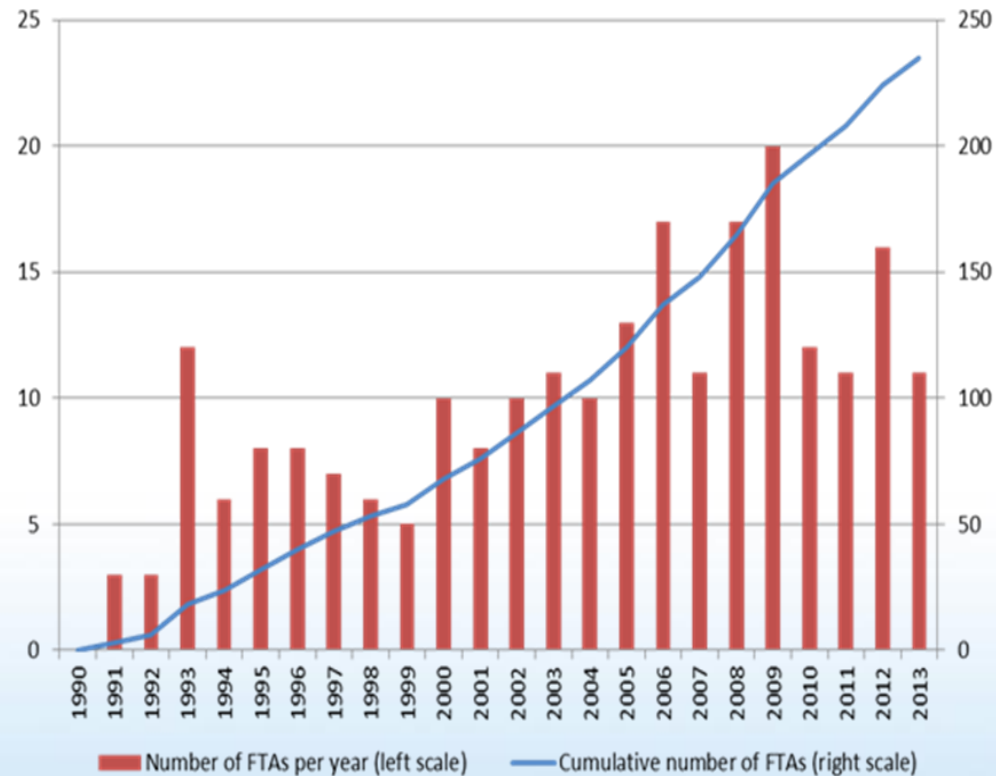


# In All Regions, at all Levels of Development

Average Number of Regional Trading Partners per Country



FTAs Notified to the GATT/WTO  
(by year in force)



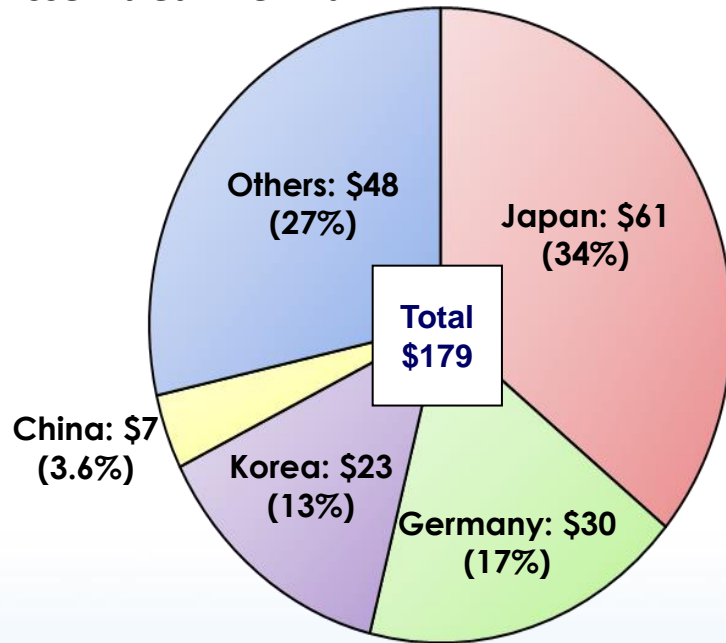
# The advent of Value Chains...

Typical semiconductor production process spans multiple countries: 4+ Countries, 4+ States, 3+ trips around the world, 25,000 miles travelled, 100 days TPT, 12 days in transit

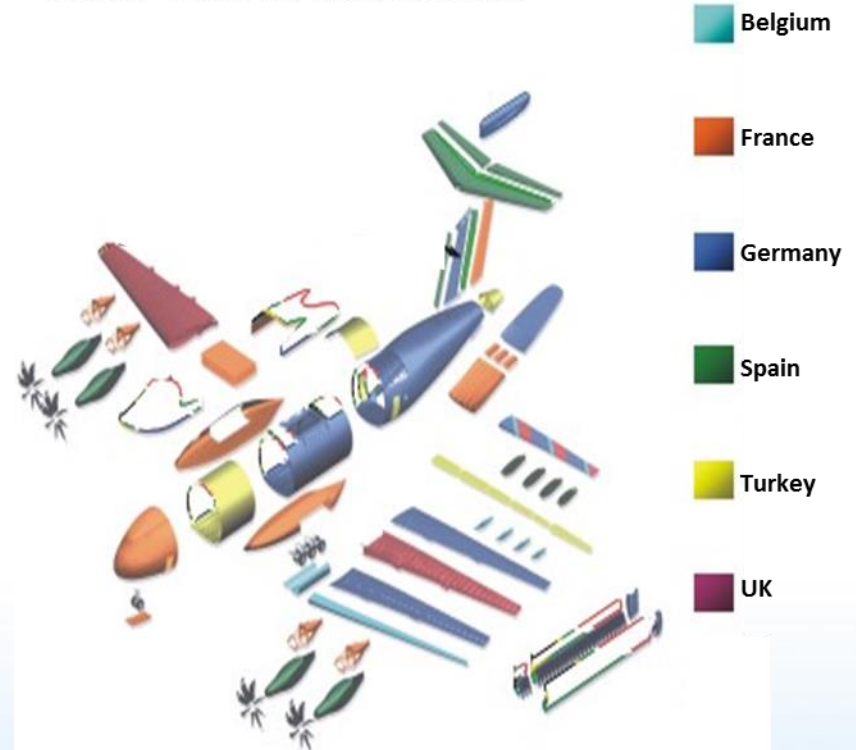


# ...Regional and Global Supply Chains...

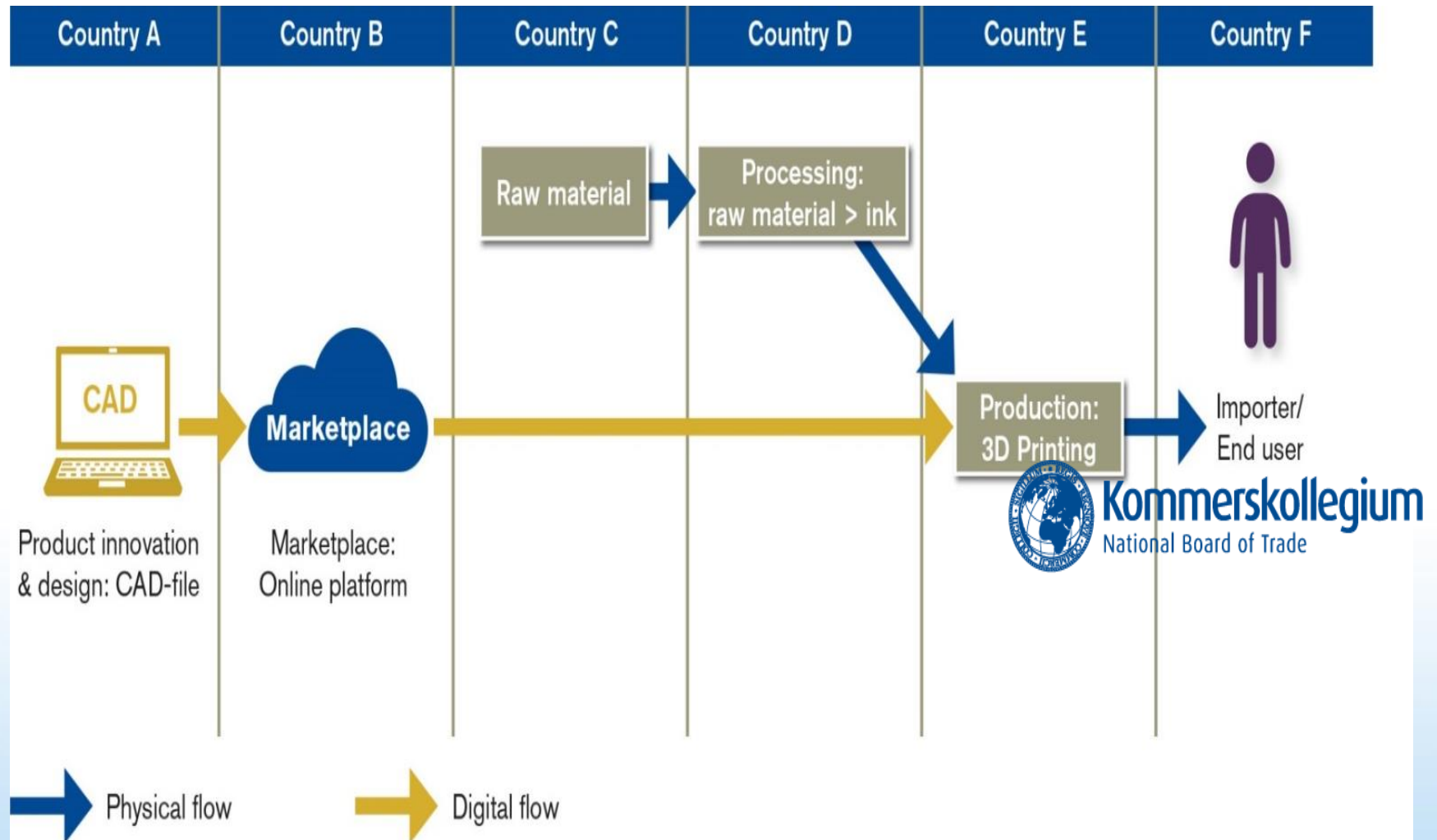
Value of Components and Labour of an iPod Assembled in China



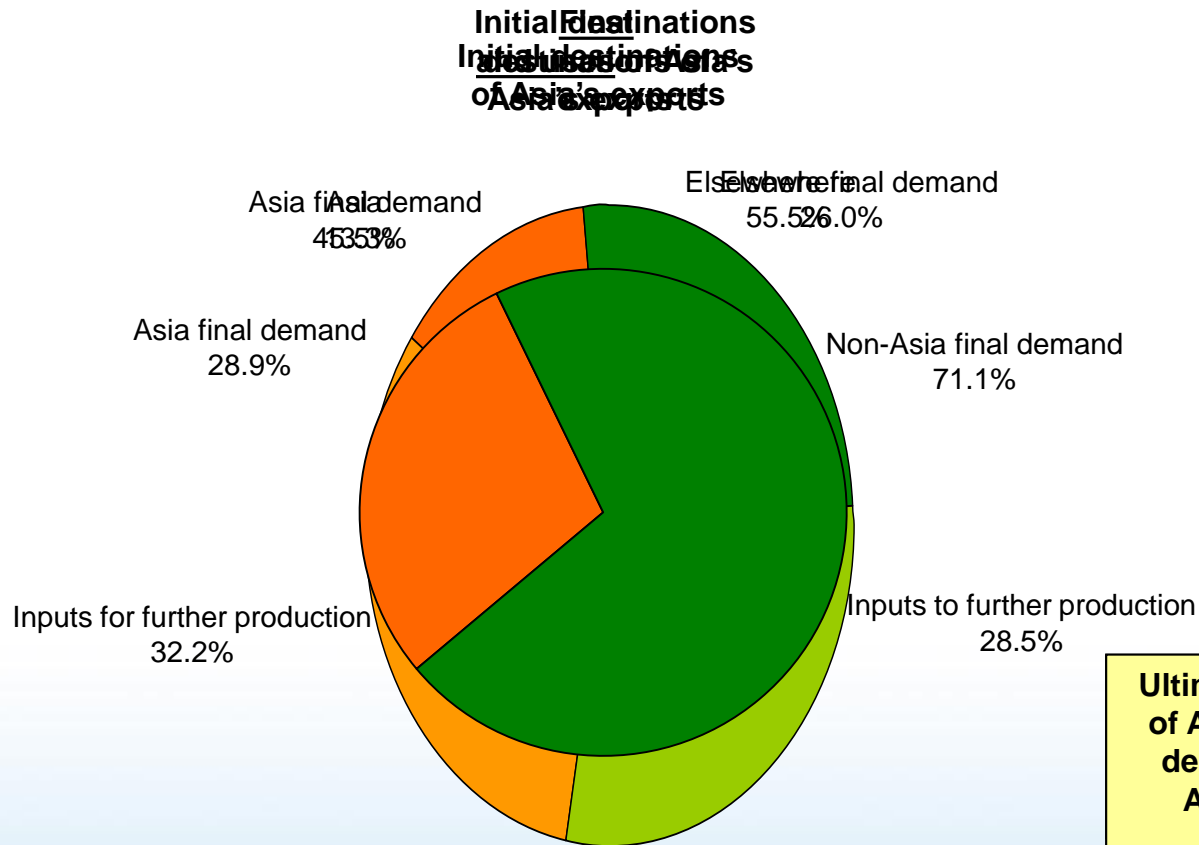
Supply Chain for Airbus A400M



# ...and the Digitalization of Trade Have Accelerated the Trend

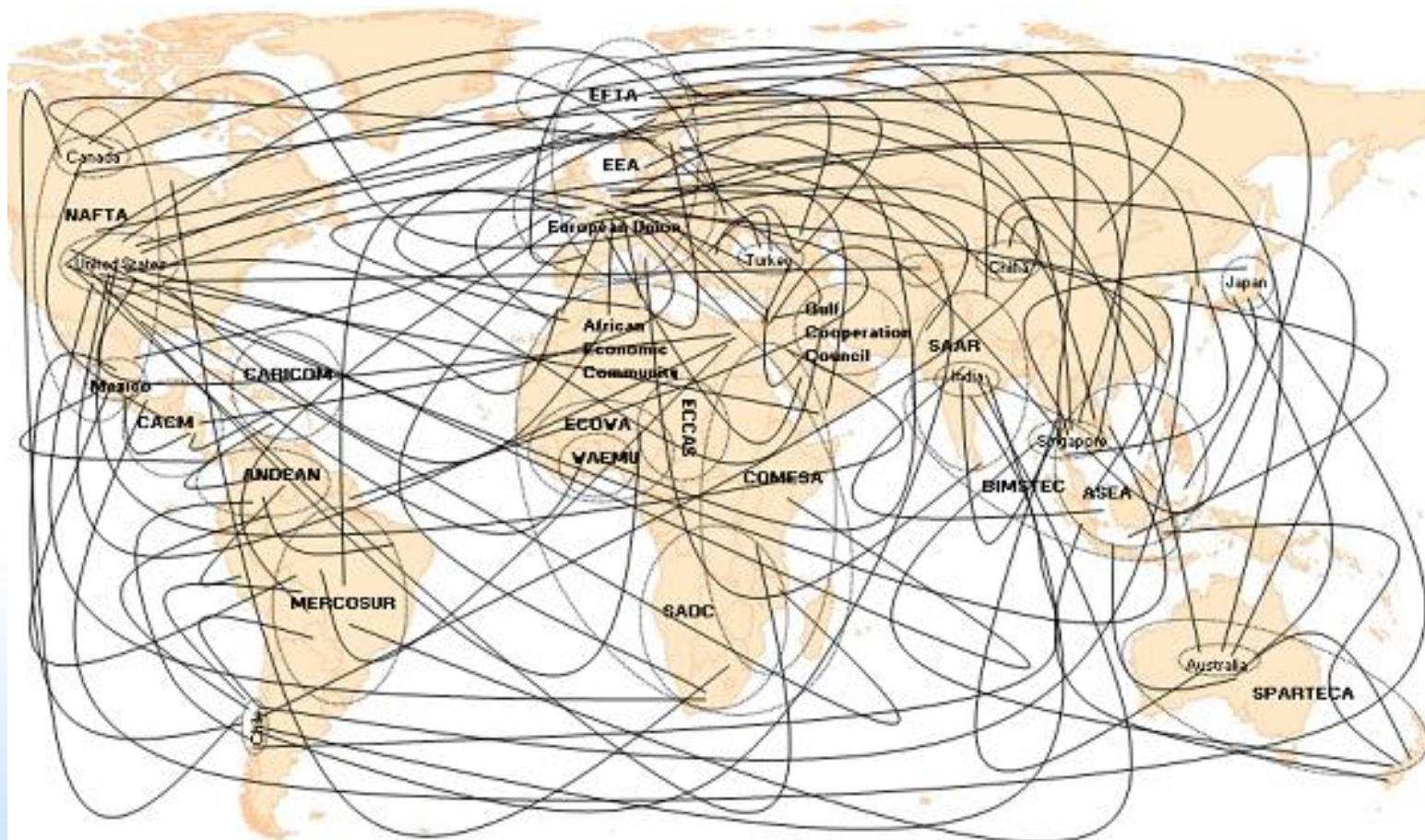


# It's not just about imports and exports



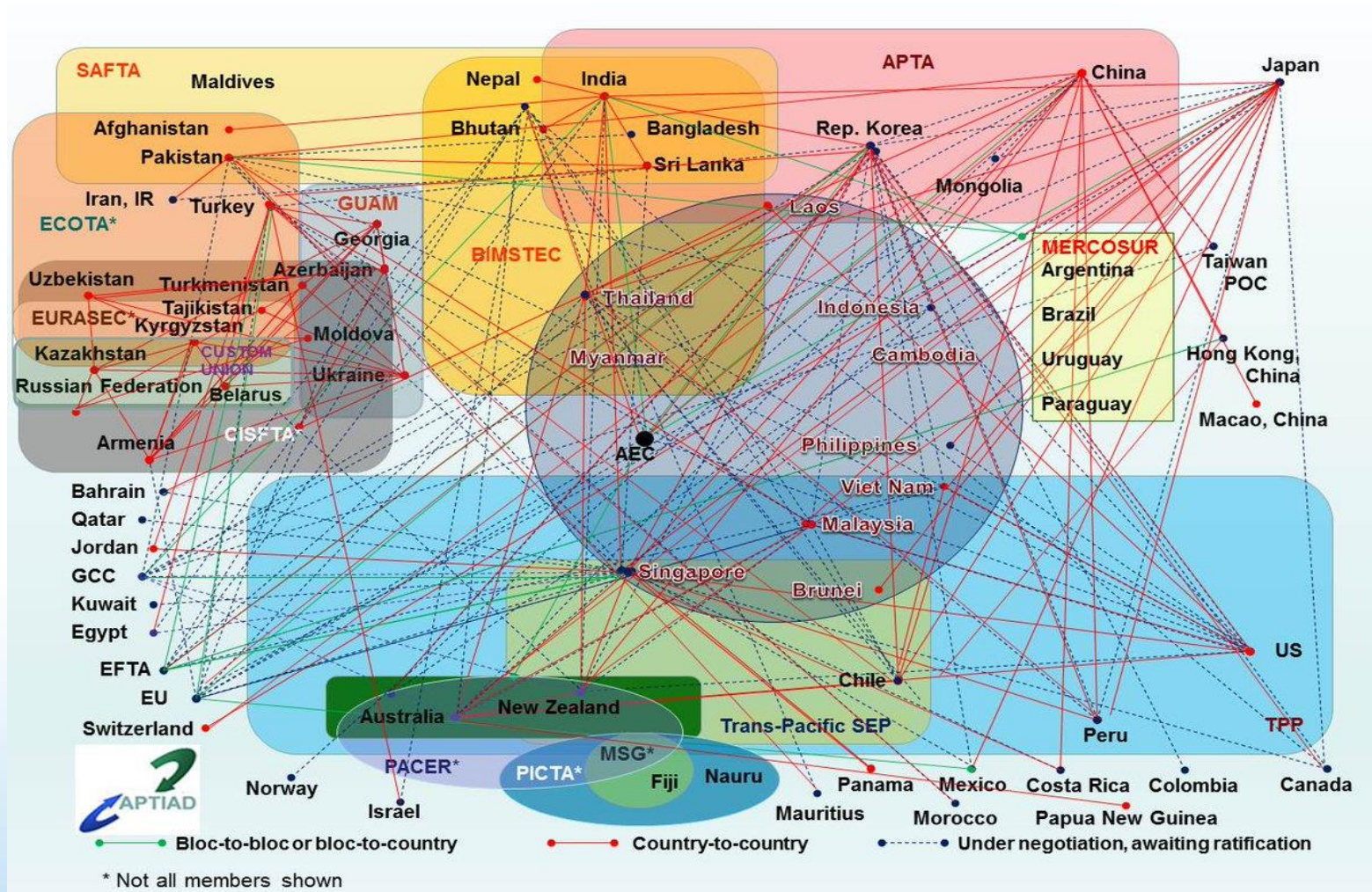


# The Infamous Spaghetti Bowl...



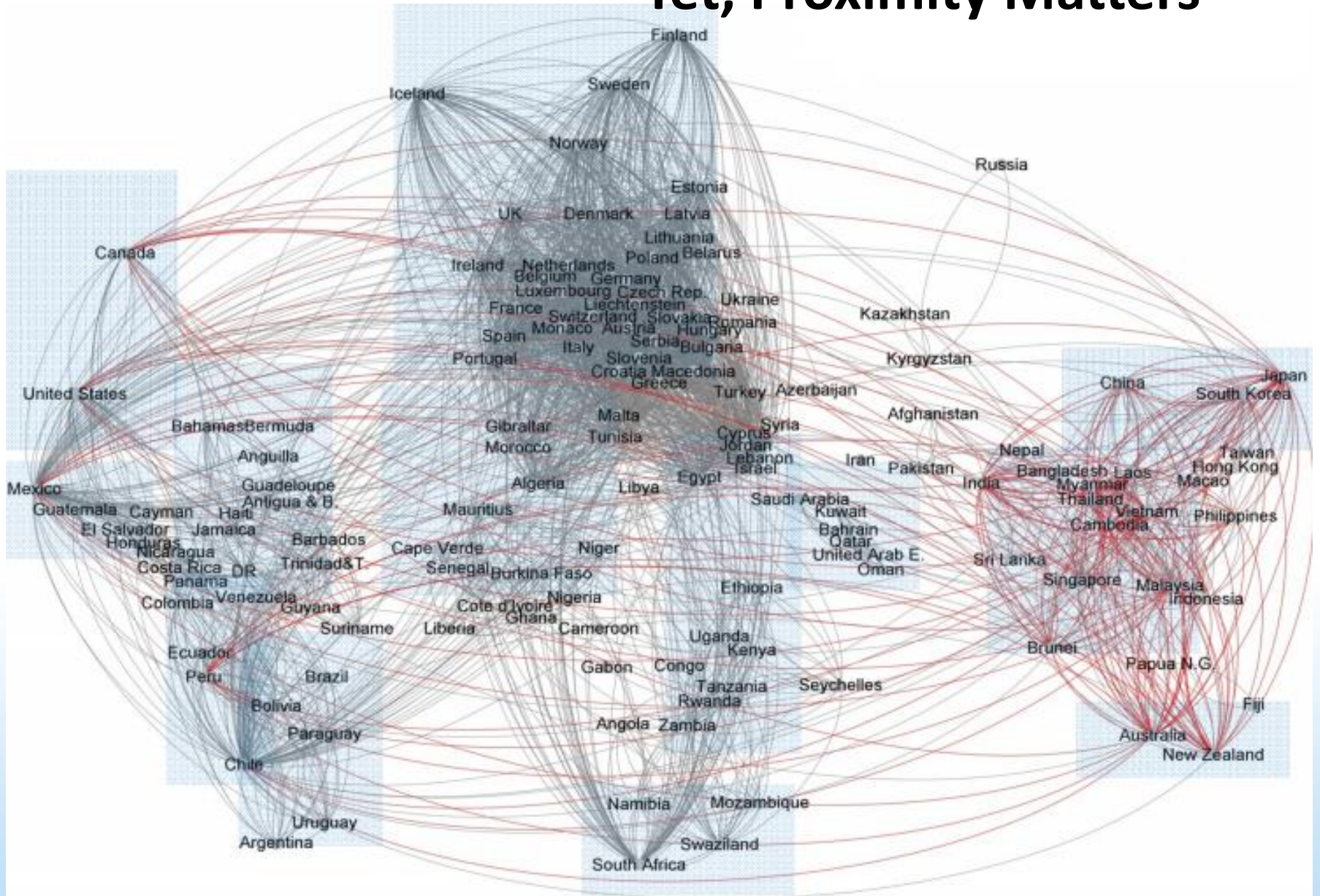


# An ASEAN View





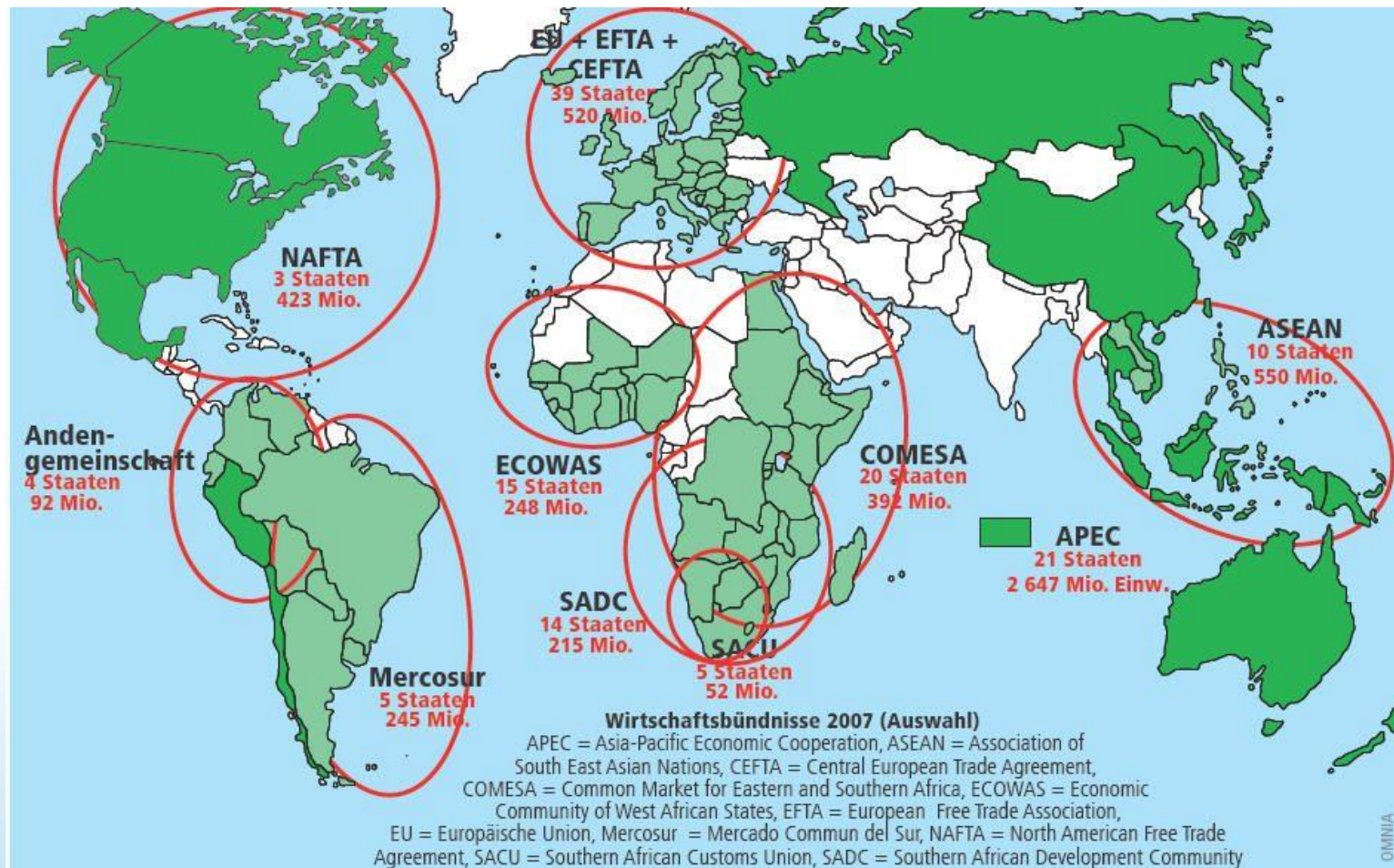
## Yet, Proximity Matters



IDB Integration and Trade Sector based on INTrade.



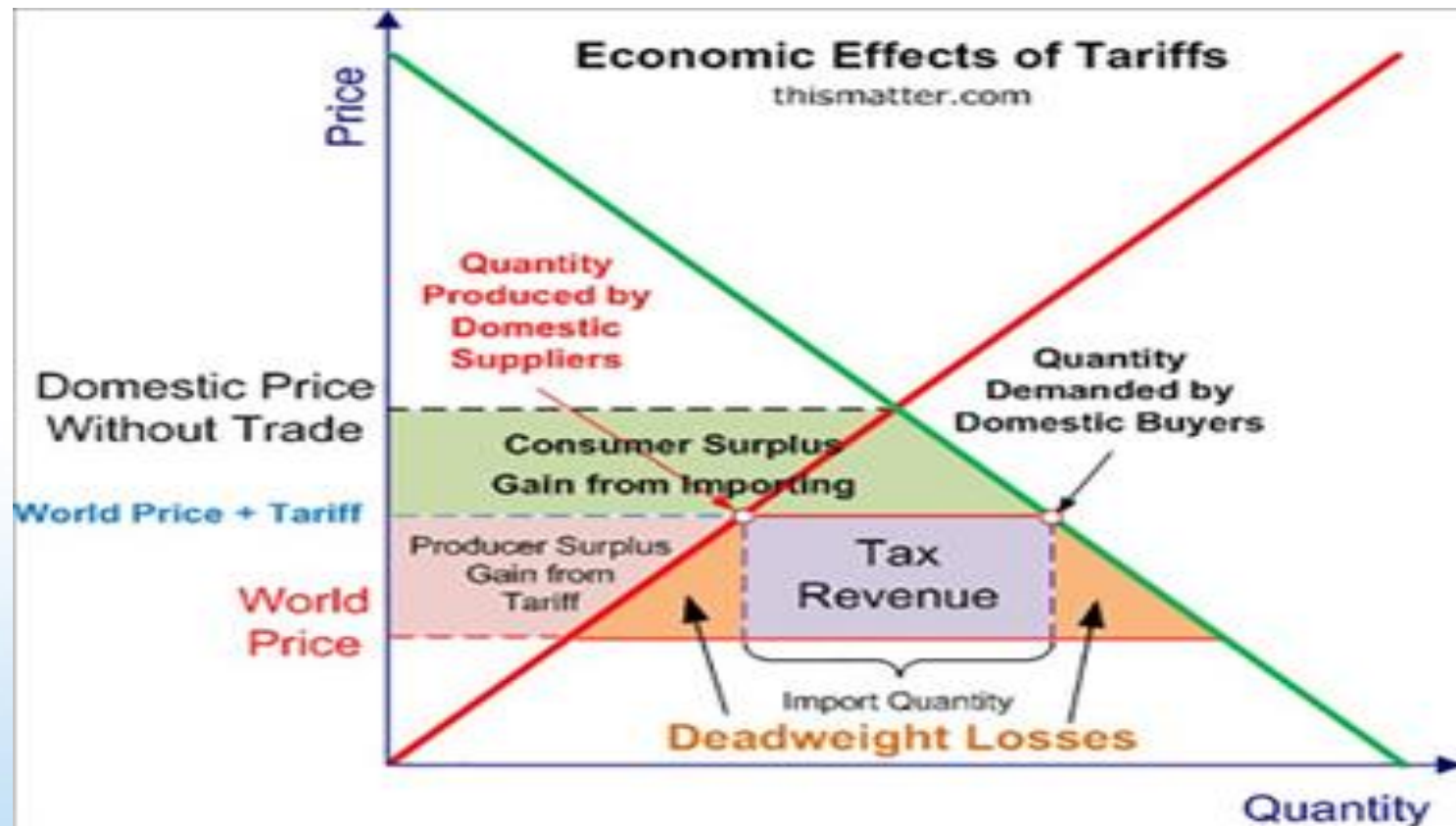
# Regionals and Mega-Regionals



## **II. Unilateral Measures**

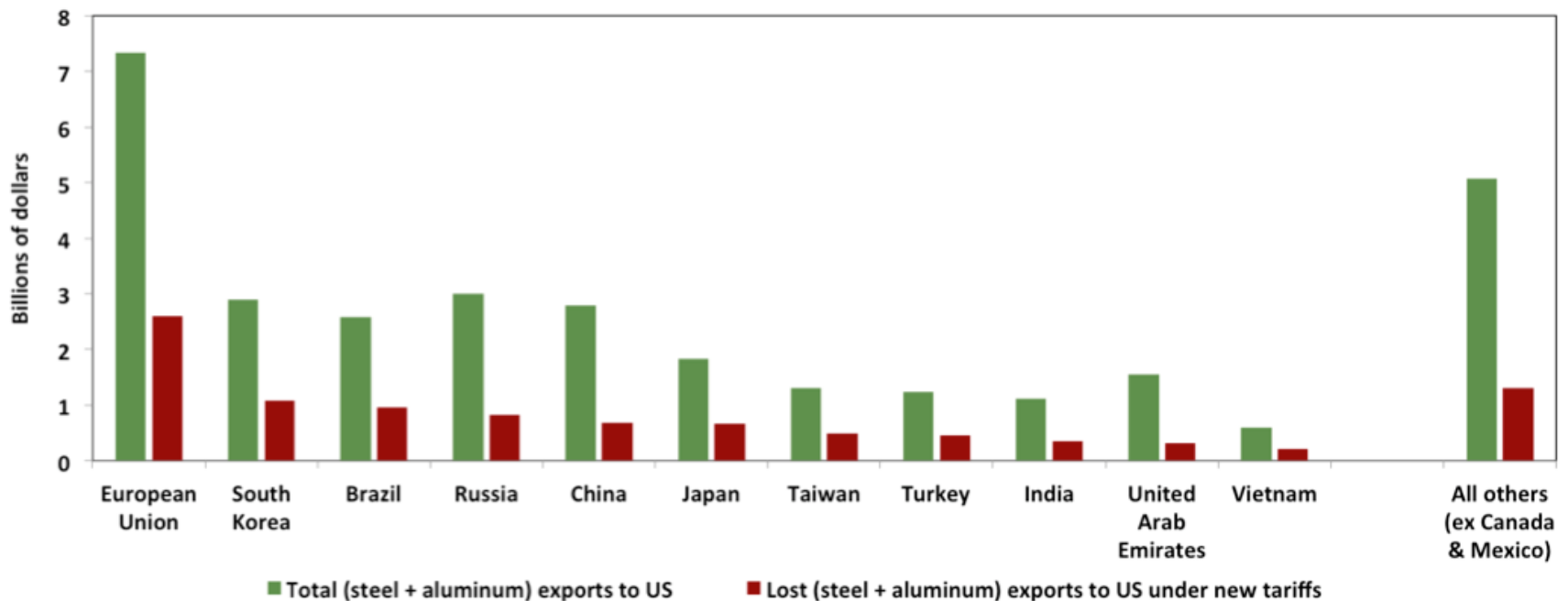
### **The Return of the Tariff**

# Losses to Consumers and Governments



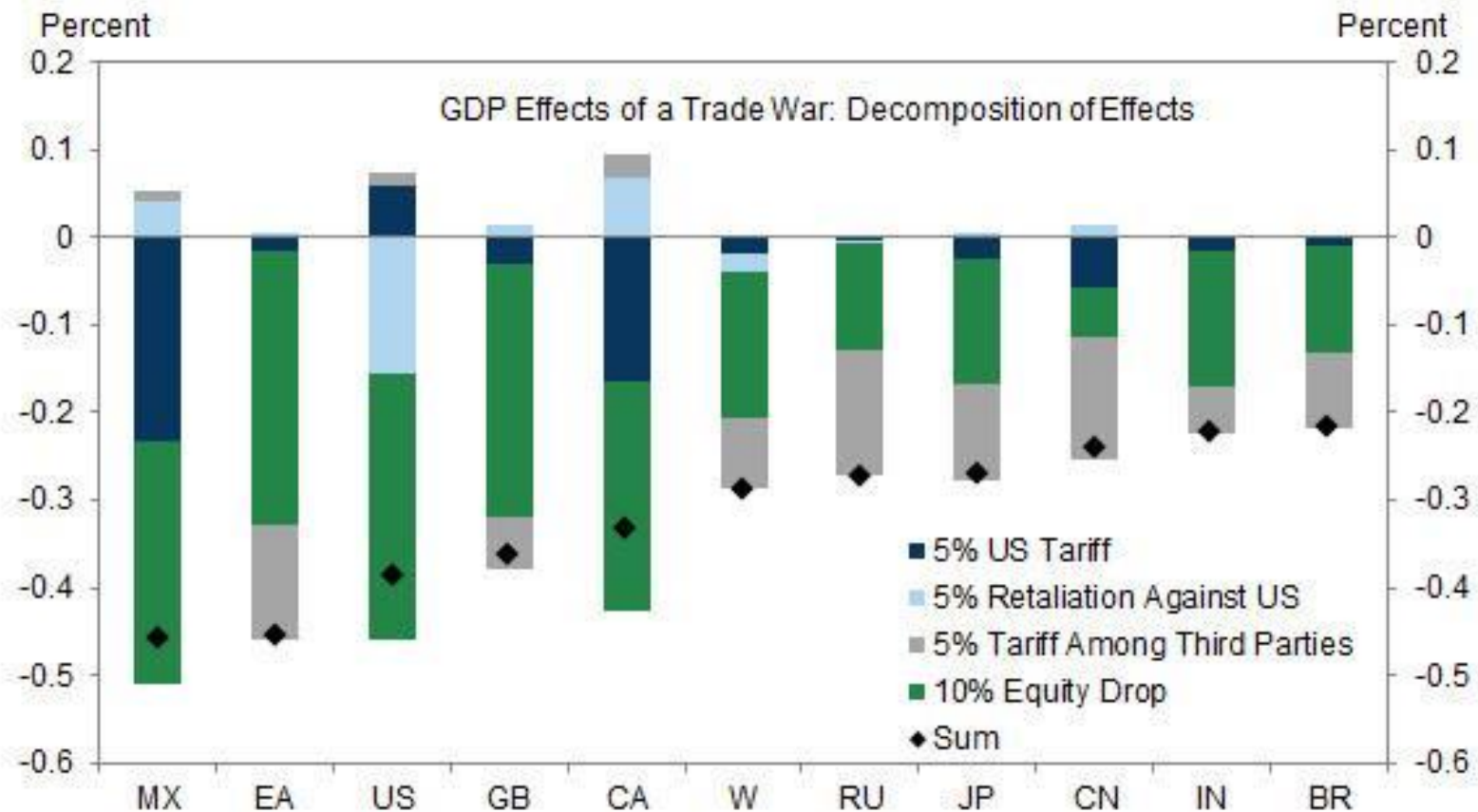
## ...and to targeted countries

US allies like the European Union will be most impacted by the new steel and aluminum tariffs



## ...and thus on GDP

**Exhibit 7: The Anatomy of a Trade War**



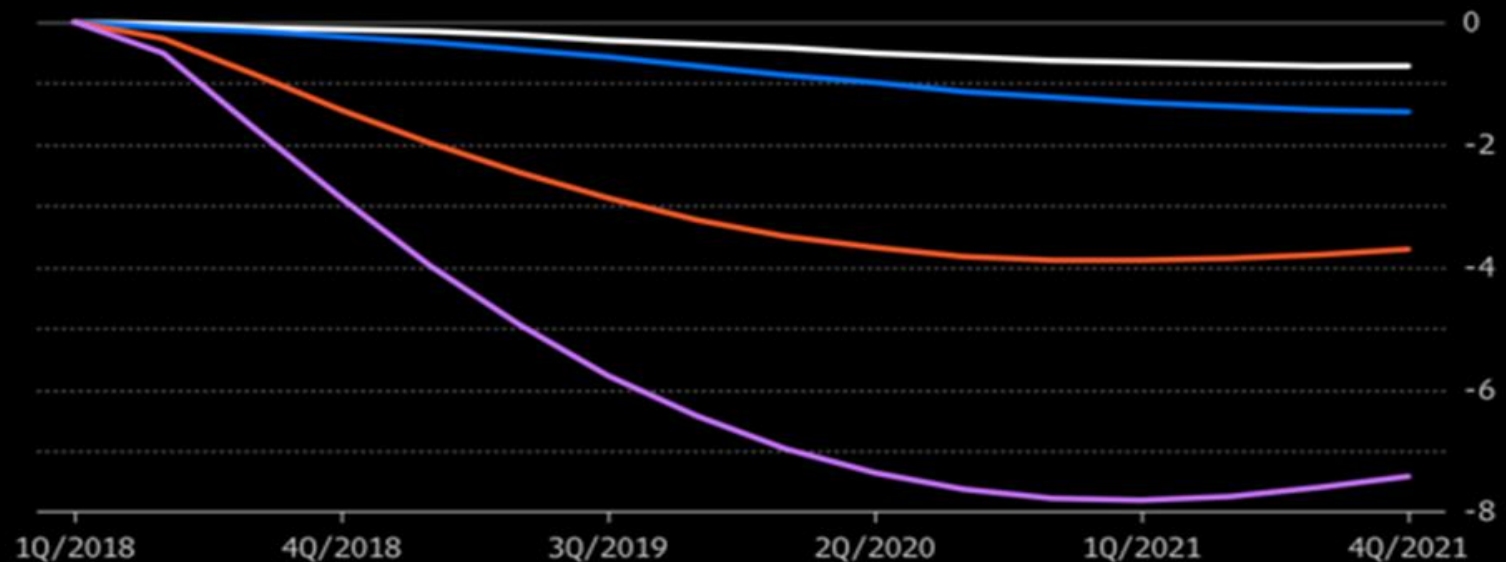
Source: Goldman Sachs Global Investment Research

# A Global Projection

## Bilateral Tariffs

A Trump trade war may cost \$470 billion by 2020

■ World GDP at 10% tariff ■ ... at 20% tariff ■ World trade at 10% tariff ■ ... at 20% tariff

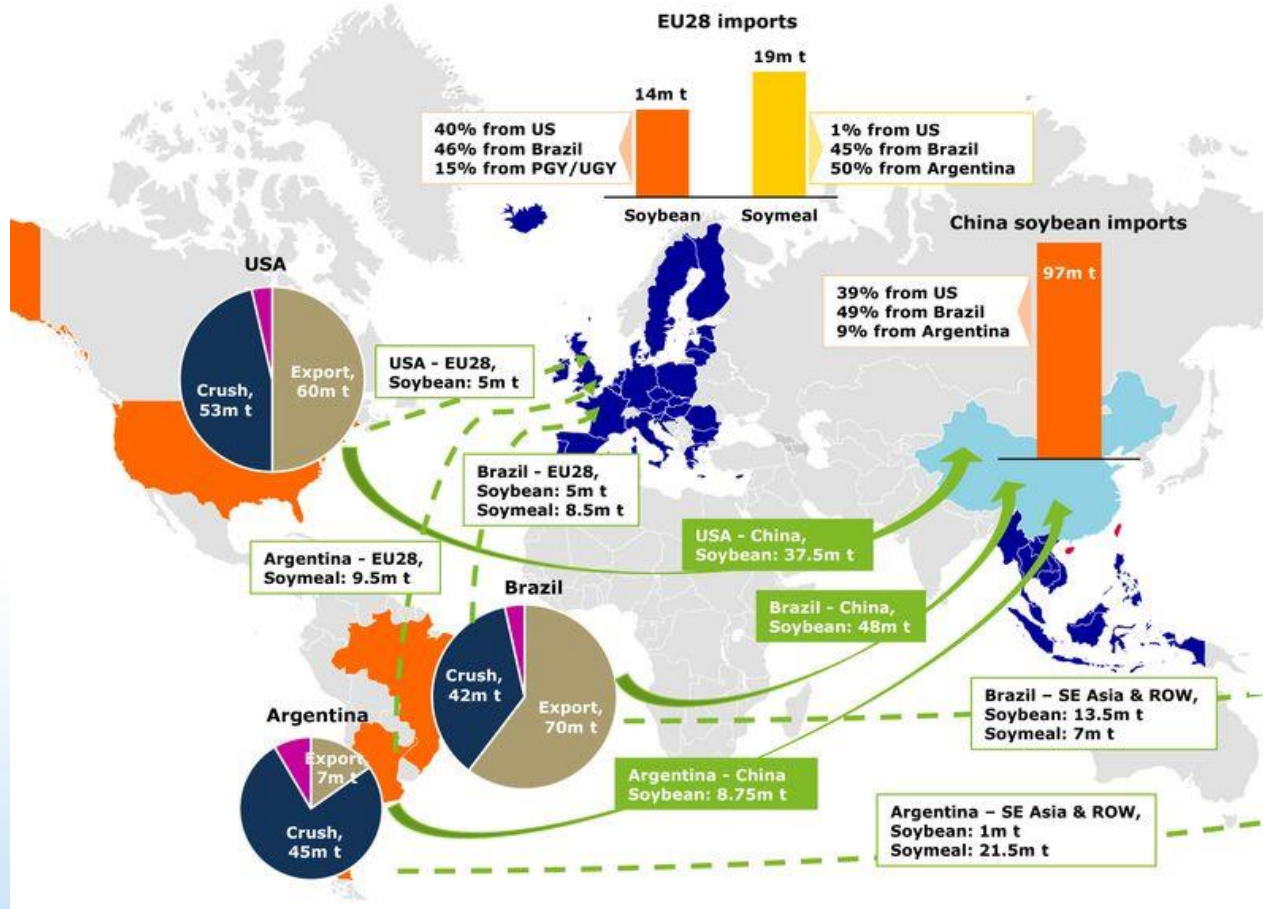


Note: Y-axis shows deviation from baseline in percent  
Source: Bloomberg Economics

**Bloomberg**

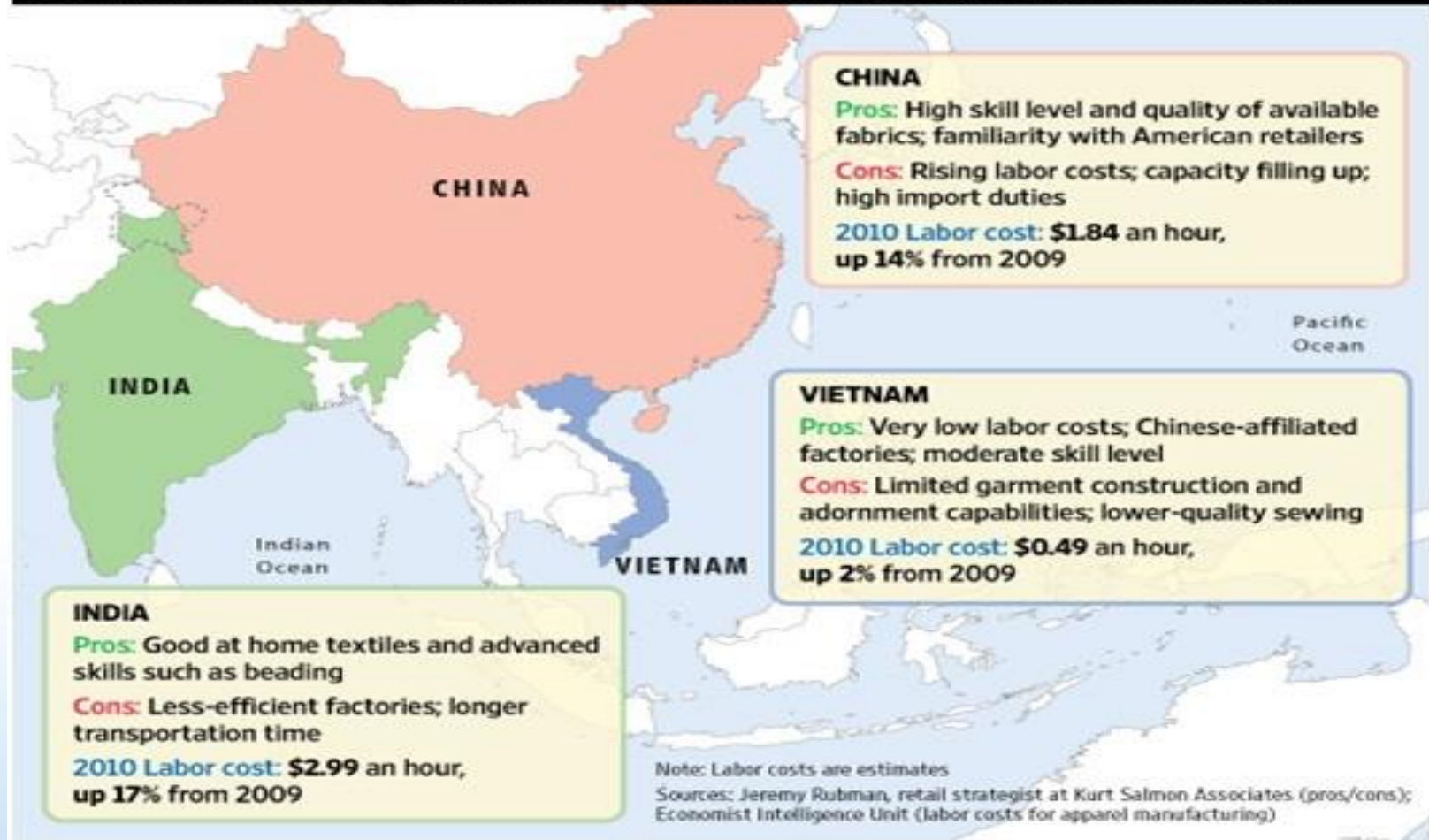


# Supply and Demand Disruptions - Soyabeans



# Supply Diversions could be long-term

## Sizing Up Options | Looking Outside China for Garment Production

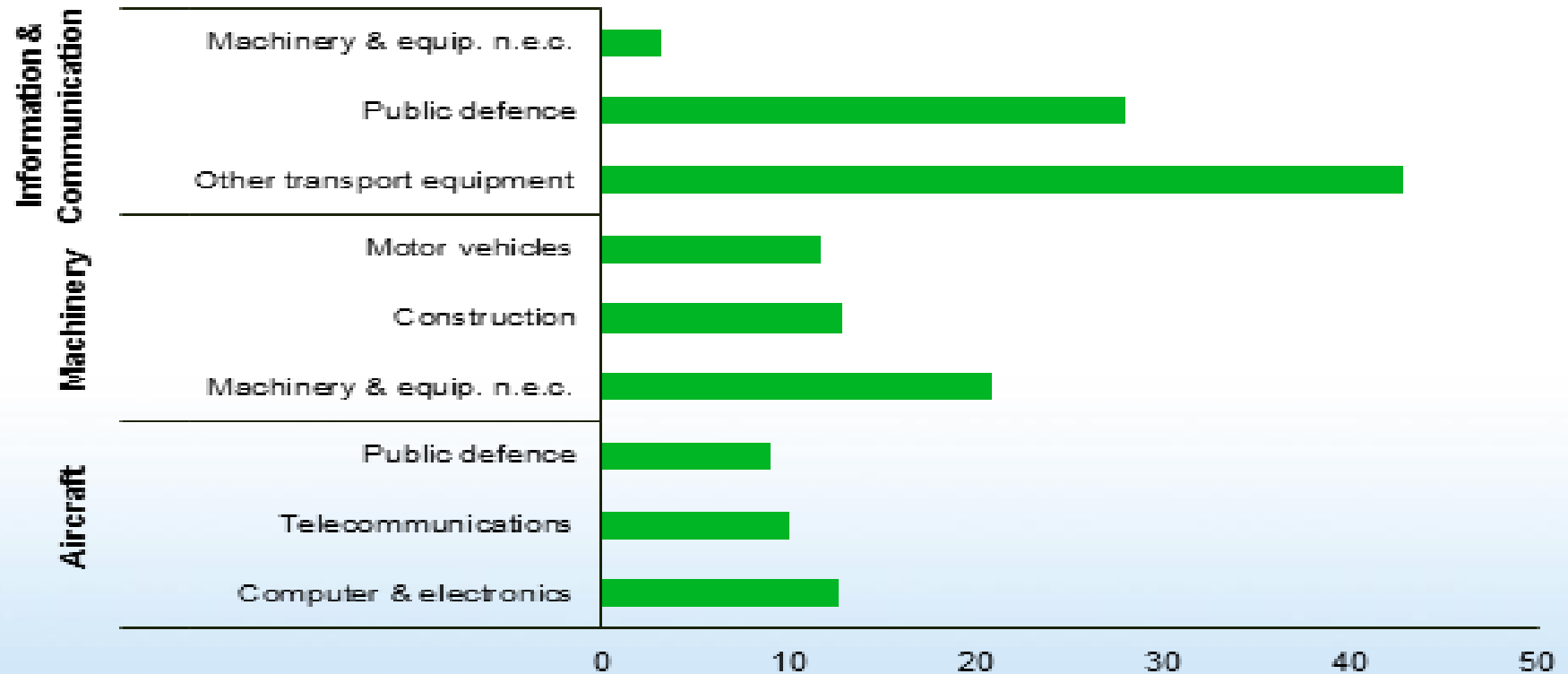




# Disruptions in Intermediate Goods Trade

## CHART 3: U.S. MANUFACTURERS COULD FACE SUPPLY CHAIN DISRUPTIONS

U.S. Manufacturers Import Dependency on China (share of industry imports, %)



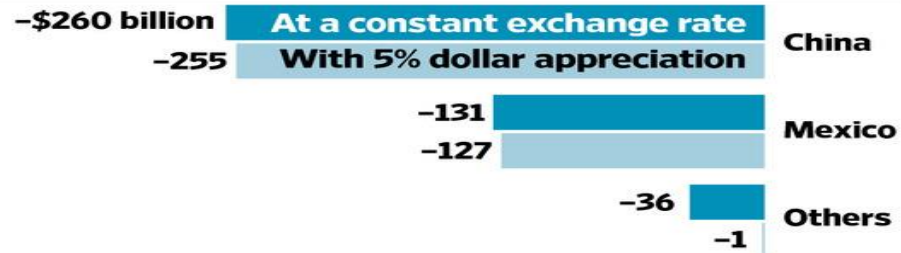
Source: World Input-Output Database (2014), TD Economics

# Impact on Third Countries

## Trade Ripples

The impact on U.S. trade of Donald Trump's threat to impose 45% tariffs on Chinese imports would require higher tariffs elsewhere as well—an estimated 35% on Mexican goods and 10% from the rest of the world—to offset product diversion to other countries. The unrest would also likely drive up the value of the dollar.

### U.S. imports from



### U.S. exports to

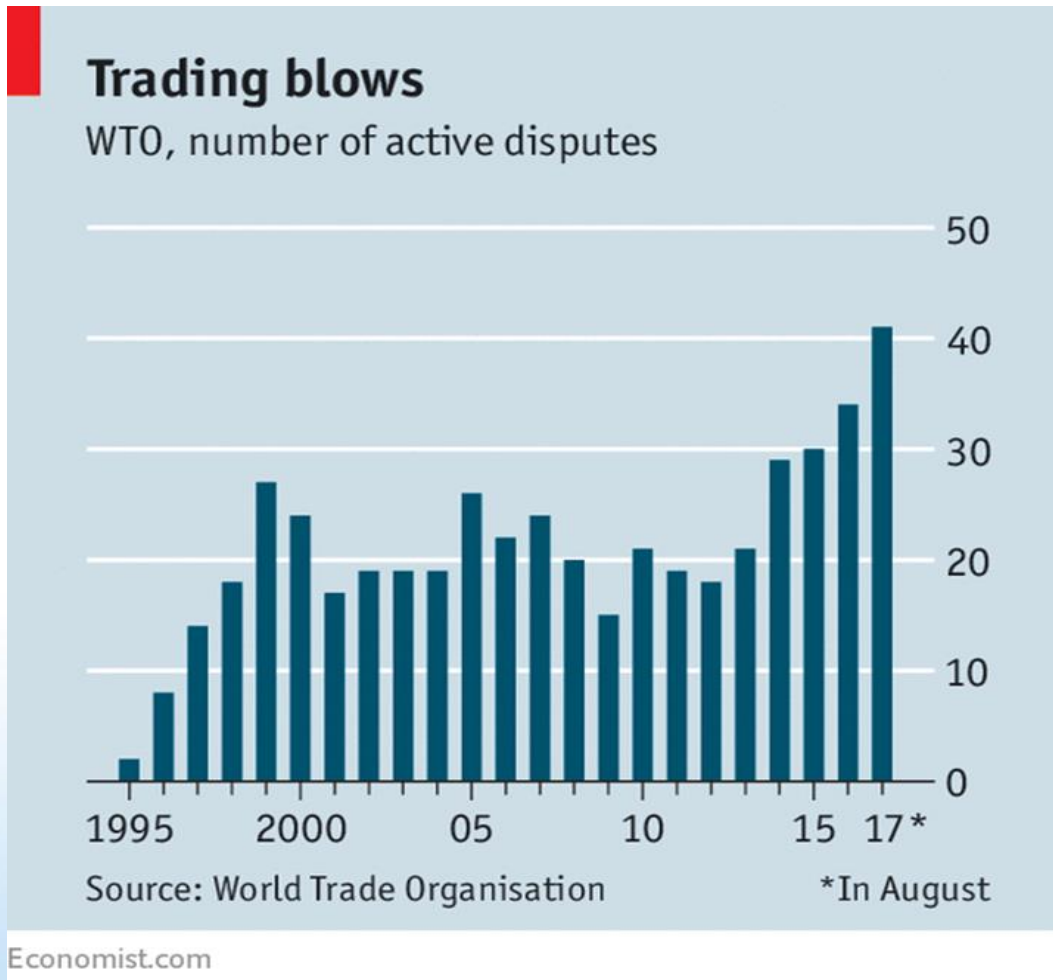


Source: Projections by Peter Petri, Brandeis University

THE WALL STREET JOURNAL.

### **III. Current and Future Rules**

# Resort to the Rules is Ongoing



**China: 7 disputes brought to the WTO as complainant since November 2016 [5 since President Trump was sworn in on January 20, 2017]**

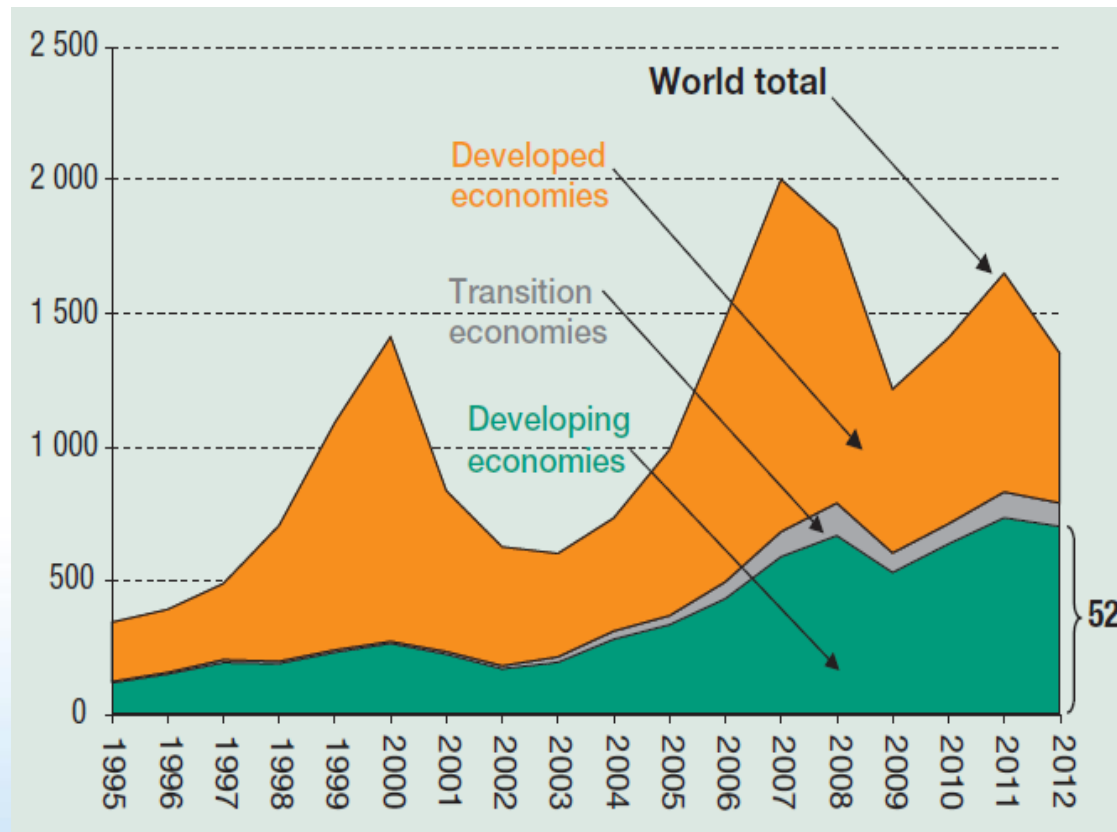
**USA: 11 disputes brought to the WTO as complainant since November 2016 [8 since President Trump was sworn in on January 20, 2017]**

**But the process is stalled**

# A 21<sup>st</sup> Century Agenda is needed: Investment

- Over 80% of world trade is linked to the production networks of multinational firms.
- Firms, investment, and employment will gravitate to facilitatory environments:
  - Open investment policies
  - Predictable and transparent regulation
  - Competitive services industry
  - Labour costs balanced to value-added production

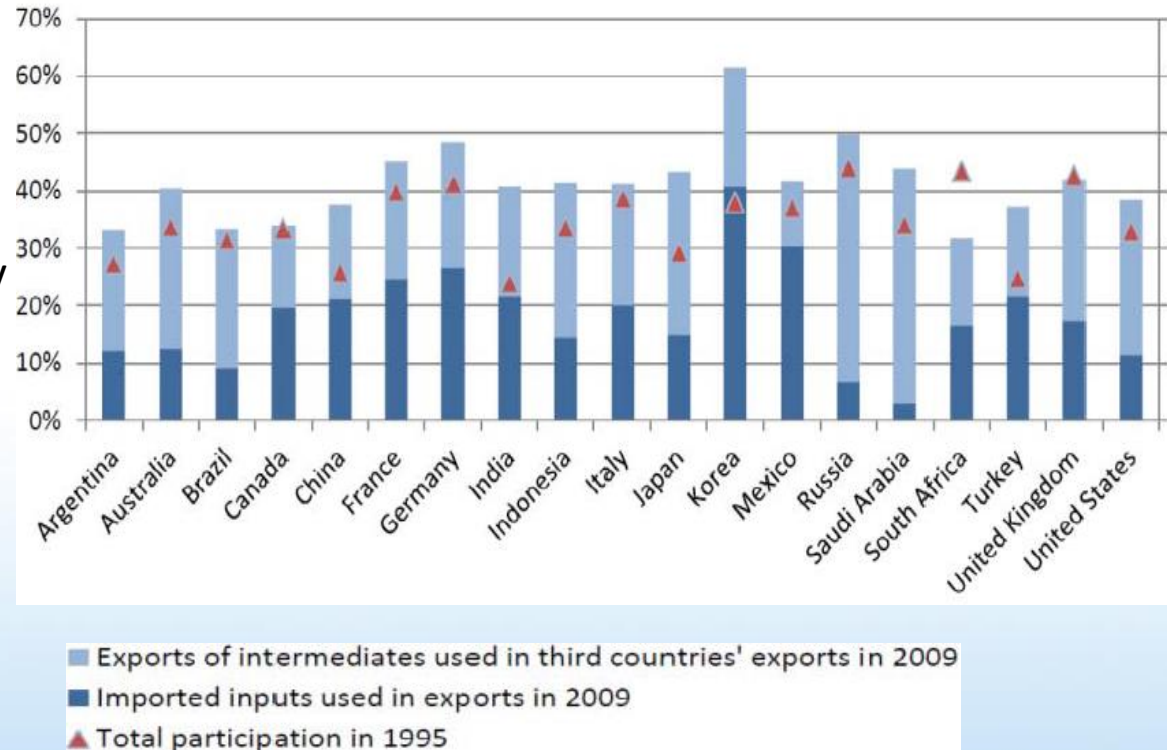
FDI Inflows, Global and by Group of Economies  
(USD Billions)



# A 21<sup>st</sup> Century Agenda: Enabling Value Chains

- To thrive, GVCs also require an enabling environment:
  - Trade and services infrastructure
  - Supportive business conditions
  - Sound fiscal and monetary policies
  - Good governance

Vertical Specialization of G20 (1995 vs. 2009)



# A 21<sup>st</sup> Century Agenda: Further Elements

## Trade and the Environment

- Subsidization of renewables and remedies
- Extractive industries and natural resource management
- Climate pricing and taxation



## Digital Economy

- Privacy protection
- Cross border data flows
- Digital currency



## State Capitalism

- SOEs
- Sovereign Wealth Funds
- Subsidization and remedies

## Inclusion: SMEs, Labour, Gender

# A Multi-Speed WTO?

- Whether through plurilaterals, special and differential treatment or other mechanisms, commitments among the willing can be undertaken in a functioning WTO -- will not be identical for all

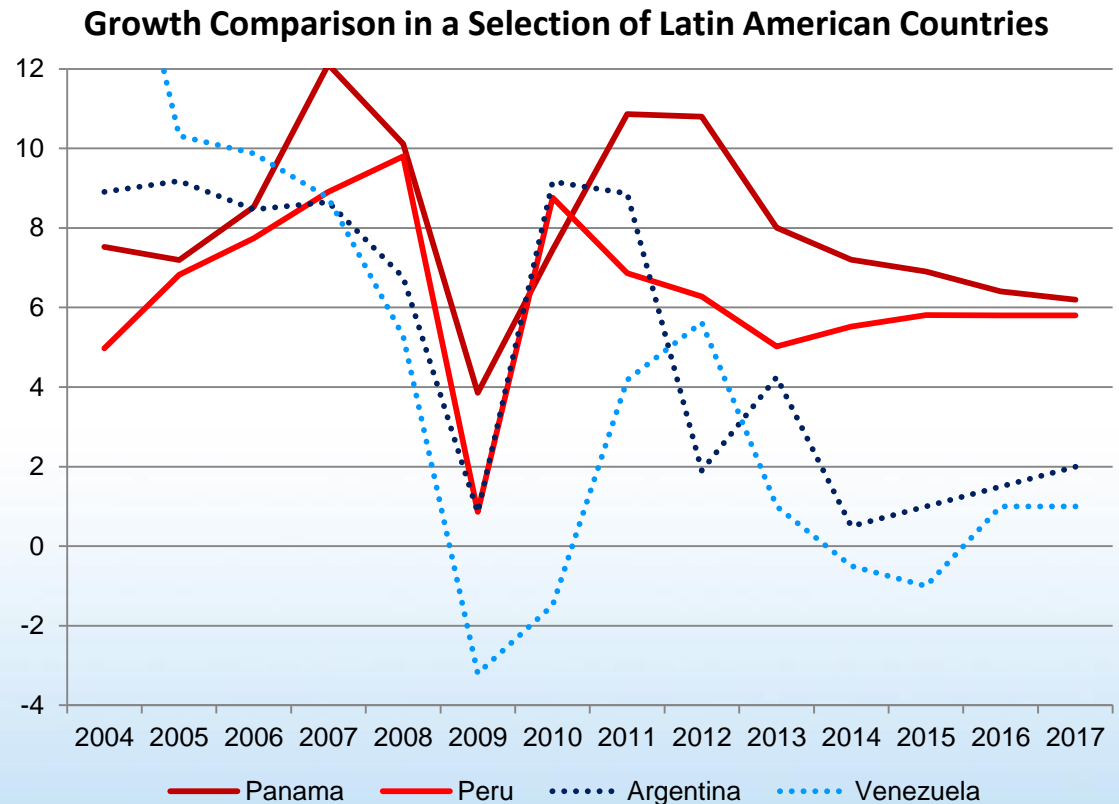




# Beyond the WTO: Coherence in a Development Agenda

## Structural Dimension

- Growth does not increase by trade alone
- Integration particularly important for small markets

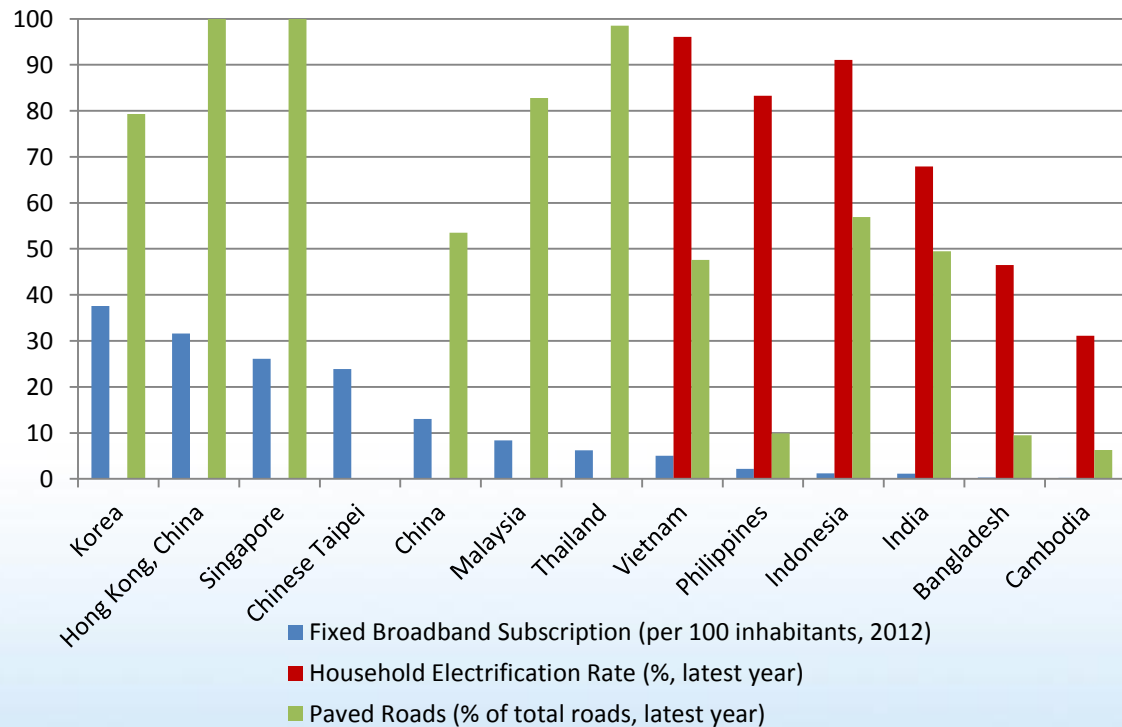


# Coherence in a Development Agenda (2)

## Structural Dimension

- Good domestic economic governance is essential:
  - Enabling sectors: finance, transport, communications, energy
  - Education
  - Open labour markets
  - physical infrastructure

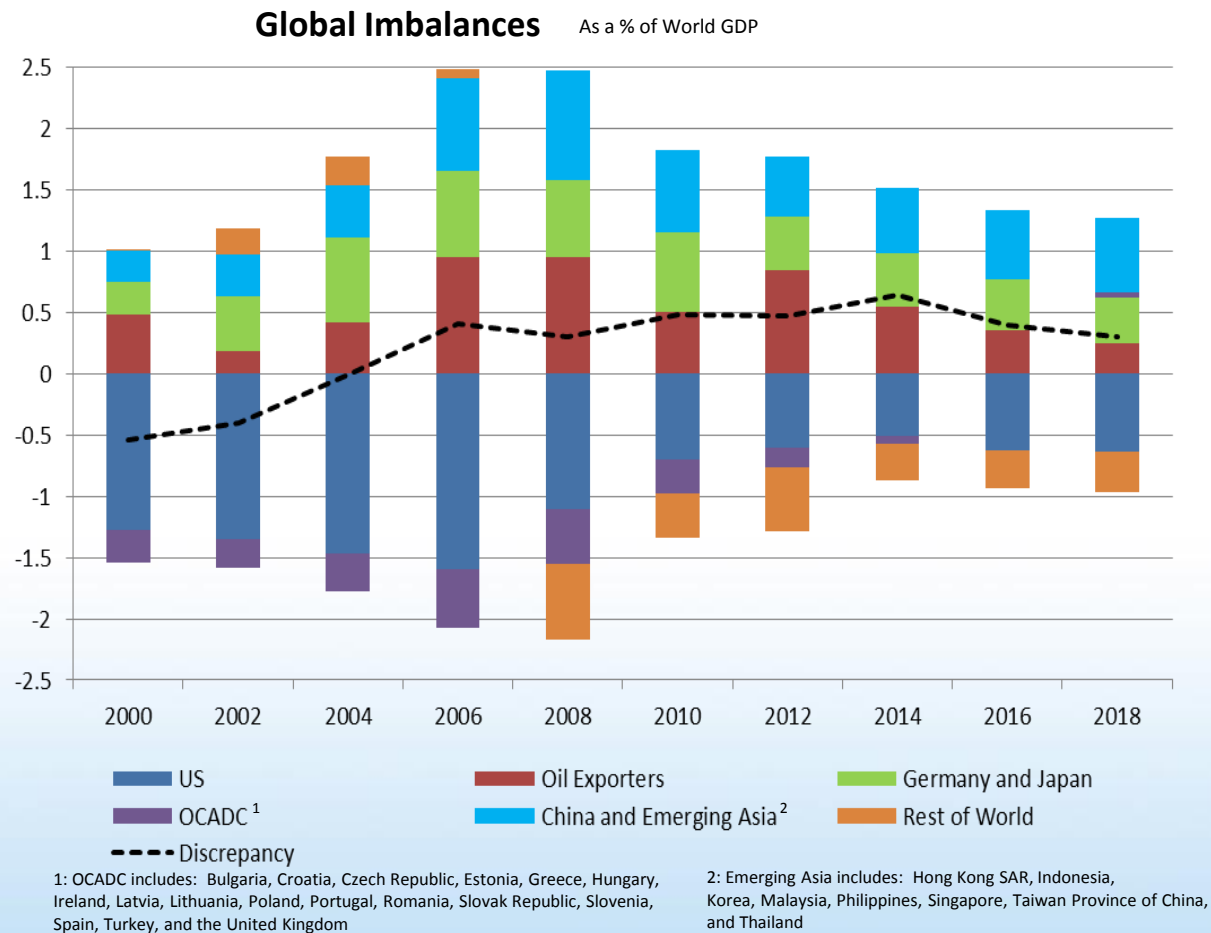
Physical Infrastructure in Asia and Pacific



# Coherence in a Development Agenda (3)

## Macro Dimension

- Trade openness must also be accompanied by sound macroeconomic policies:
  - Appropriate fiscal and monetary policies
  - Deep and liquid financial markets
- Cross-cutting issues require better coordination between Bretton Woods institutions:
  - Global imbalances
  - Currency manipulation
  - Capital controls



# Current Developments

- US-EU; US-China
- NAFTA
- G7; G20; APEC
- Middle Power conversations
- IMF, WB

