



NAFTA 2.0, TRADE POLICY AND TRADE BARRIERS

Gabriel Felbermayr

FAST TRACK USA – TRUMP, TRADE & TRENDS

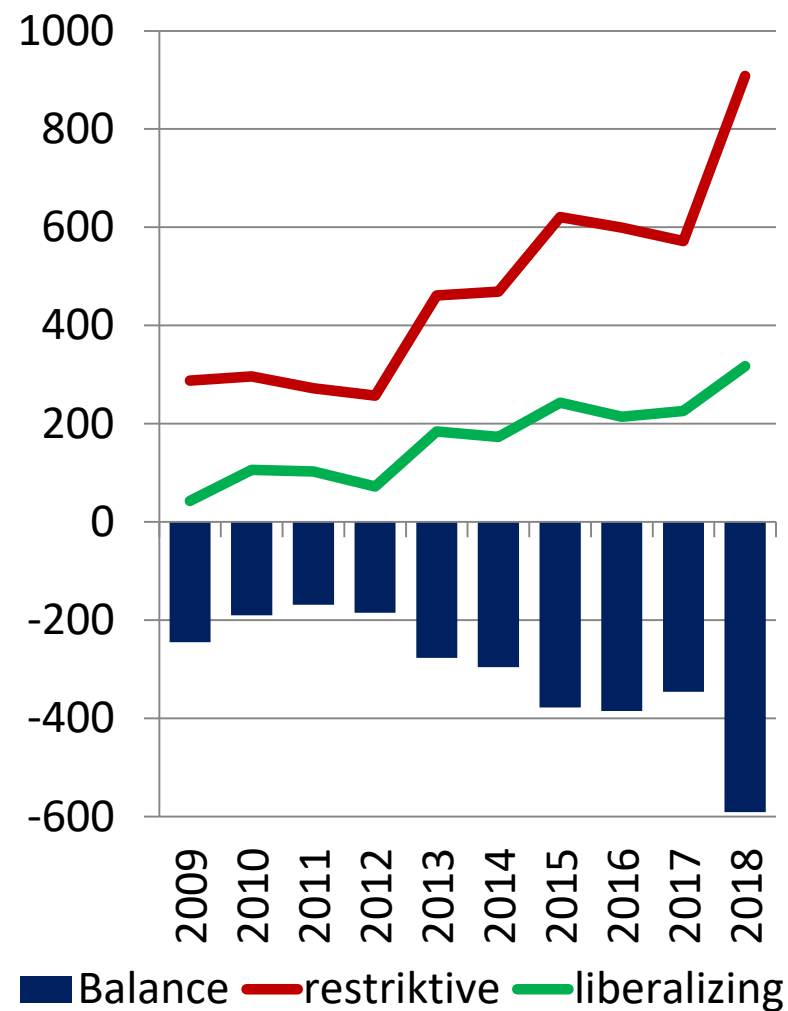
Vienna, Nov. 6th, 2018

AGENDA

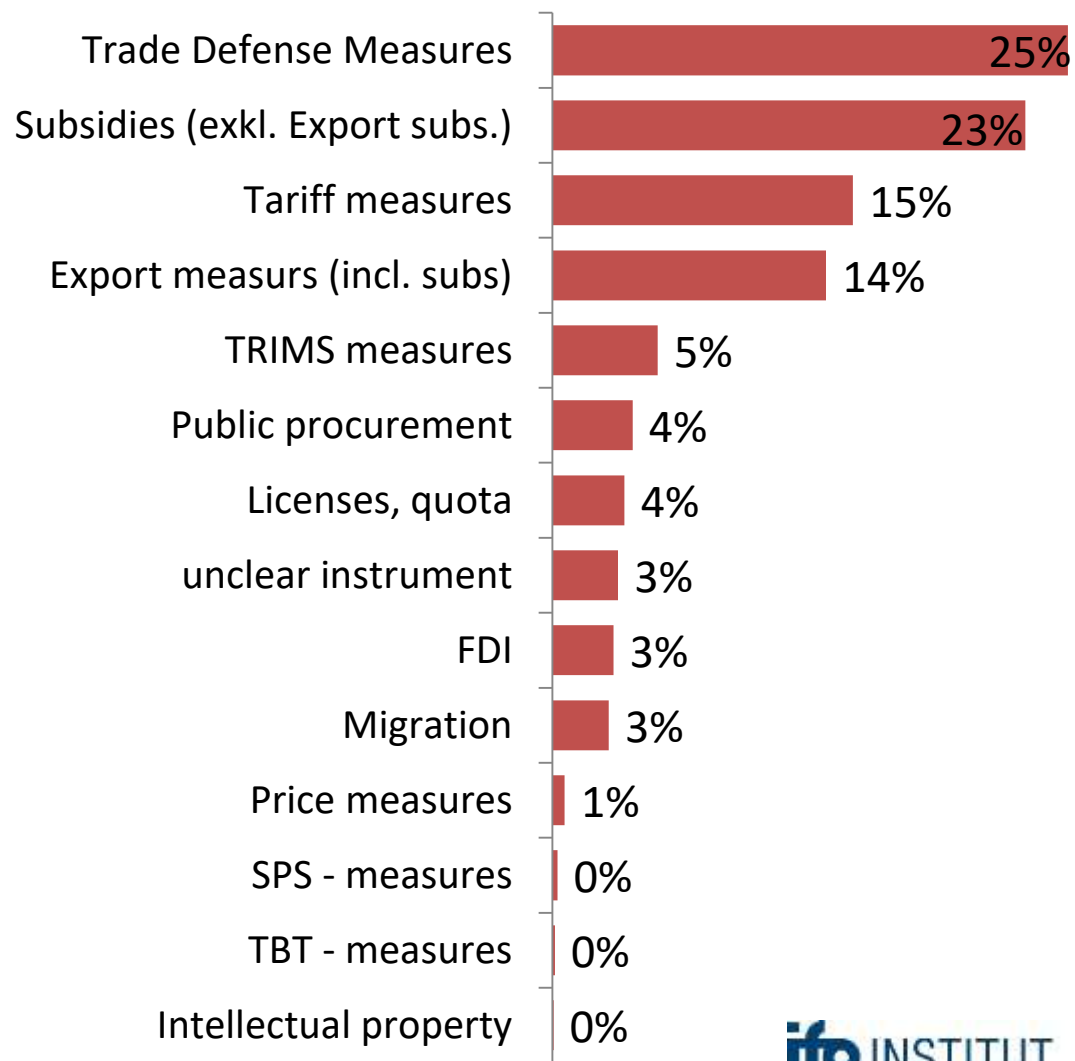
- The march of protectionism
- Recent developments
- Effects of Trumpian trade policy

NEW PROTECTIONISM: GLOBAL TRENDS

Number of measures, 2009-2018

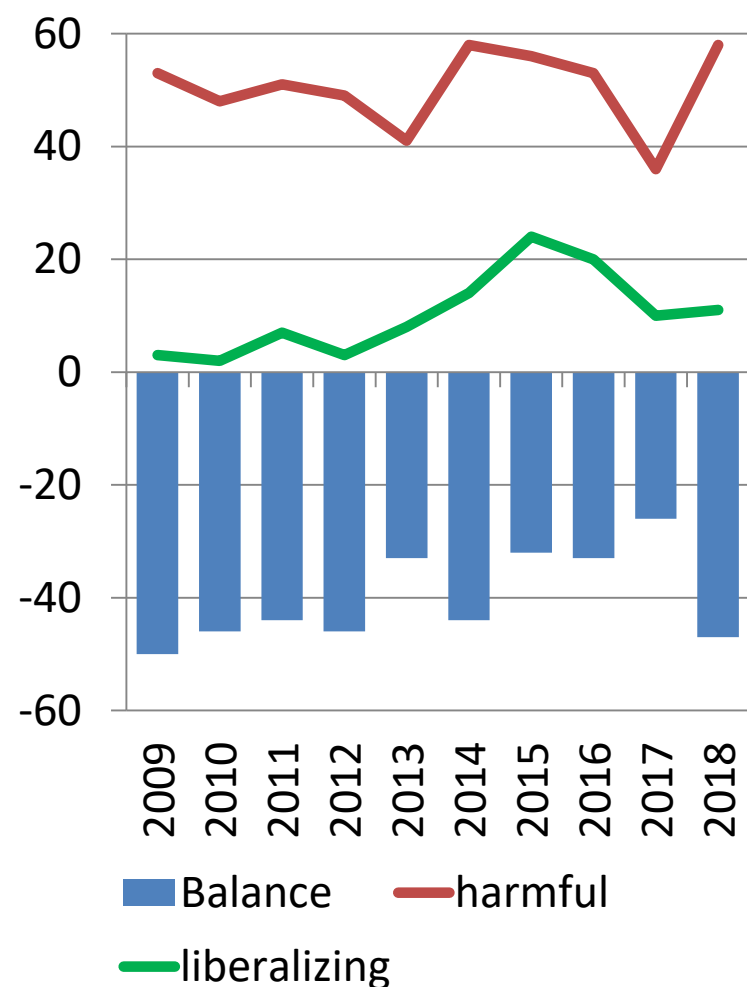


Type of measures, shares (%), 2009-2018

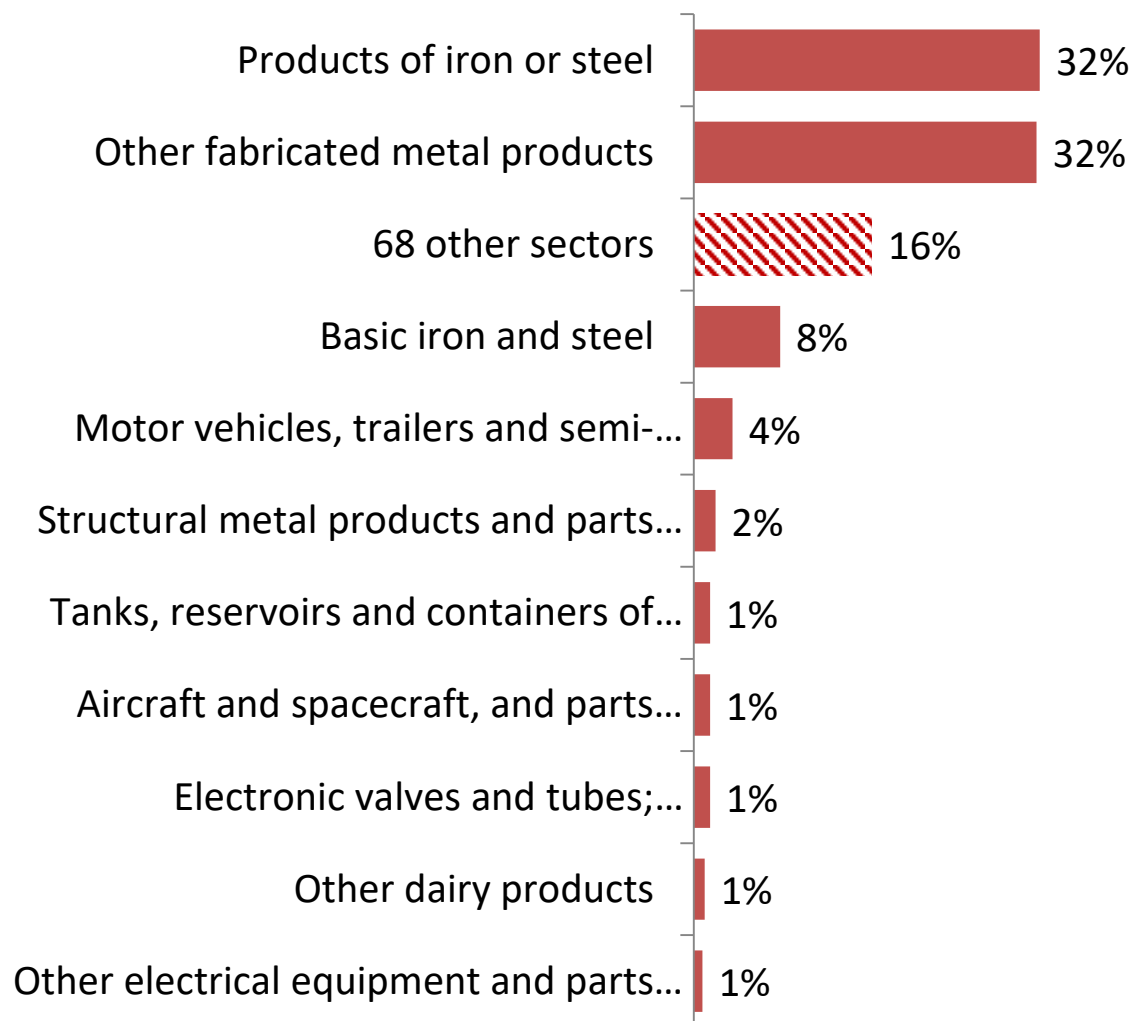


US MEASURES AFFECTING AUSTRIA

Number of protectionist measures, 2009-2018

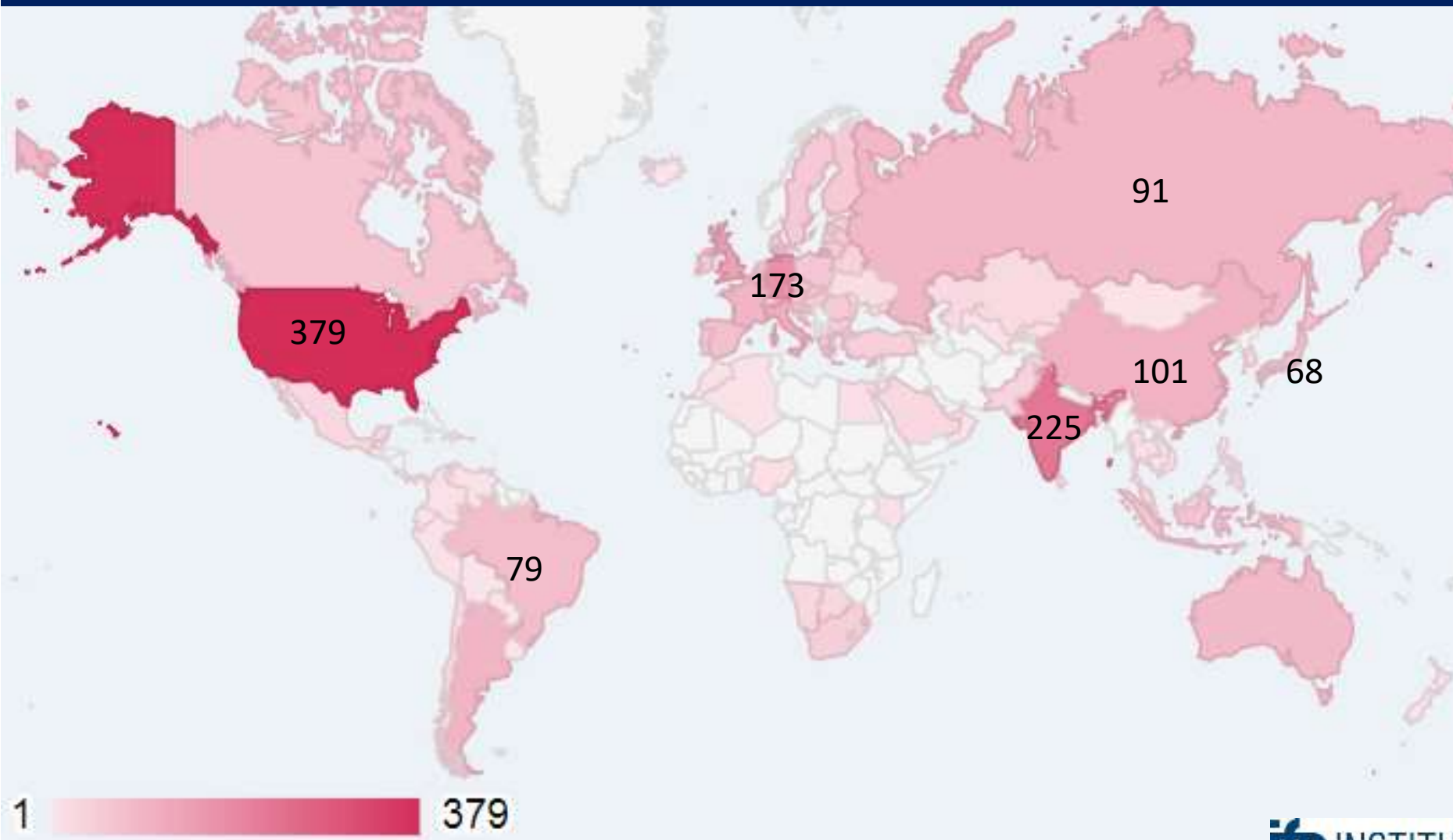


Sectoral distribution of protectionist measures, 2009-2018



2016-2018: THE OFFENDERS

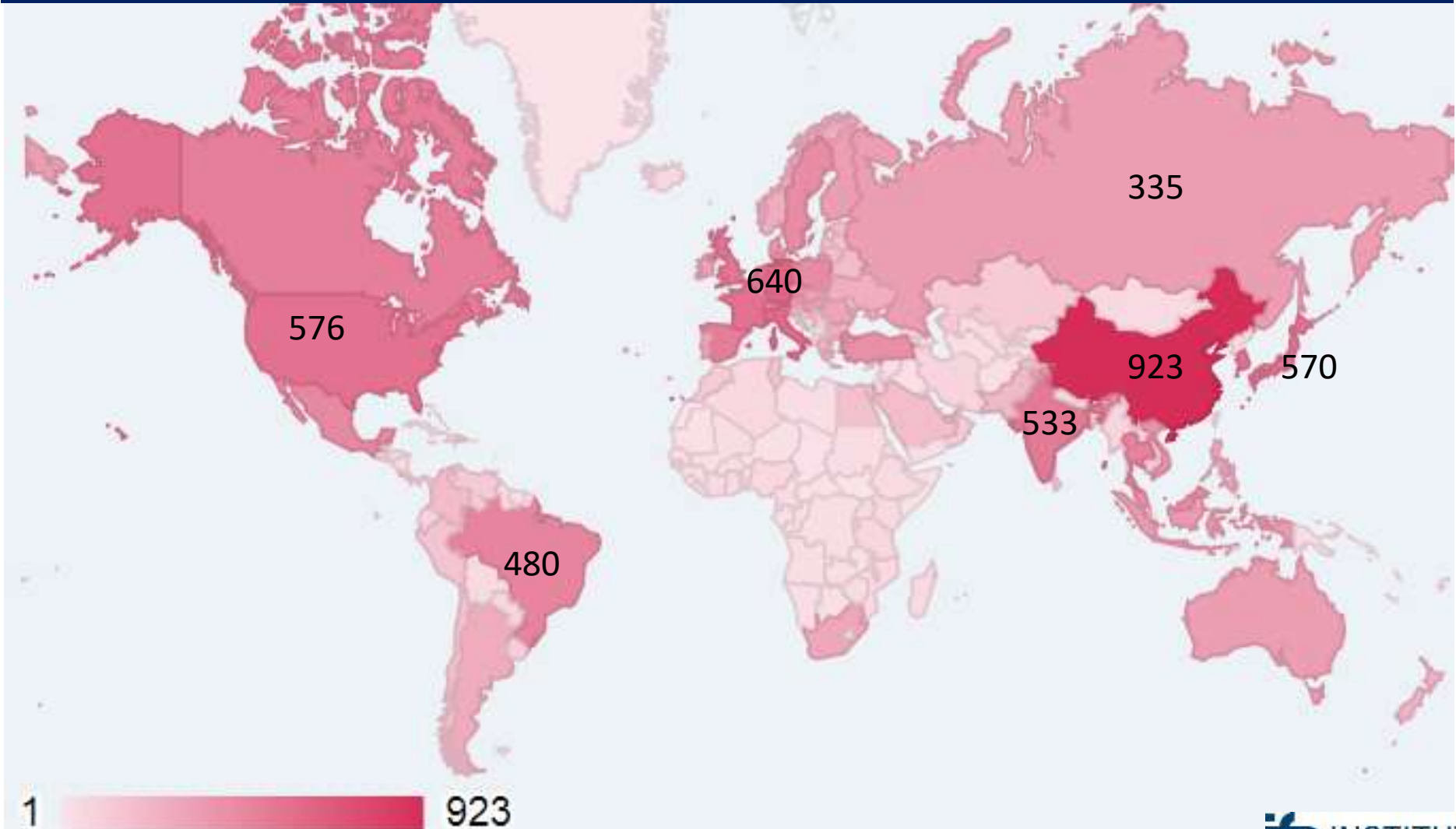
Number of protectionist measures



Source : Global Trade Alert, Nov 4, 2018.

2016-2018: THE VICTIMS

Number of protectionist measures that affect a country



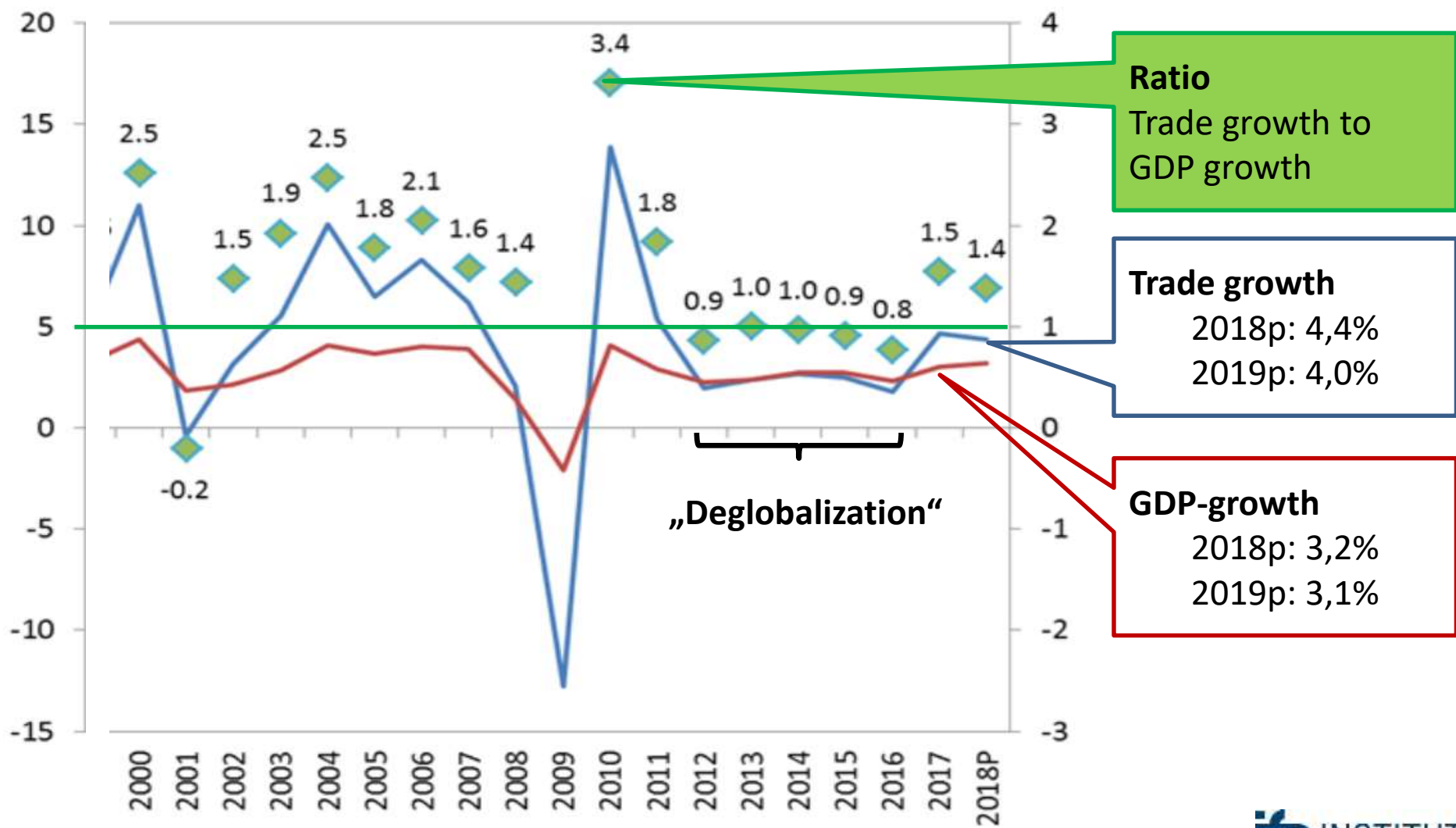
Source : Global Trade Alert, Nov 4, 2018.

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DYNAMICS OF GLOBAL GOODS TRADE

Yearly growth in goods trade, GDP growth, and their relation

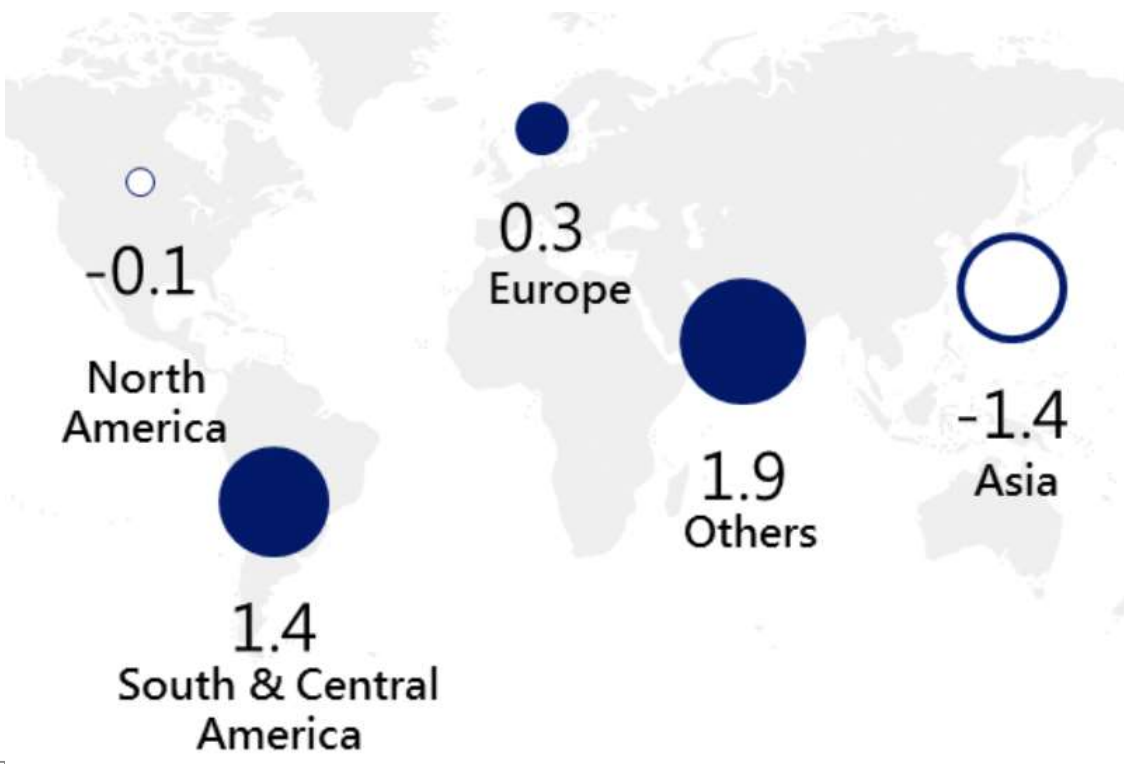
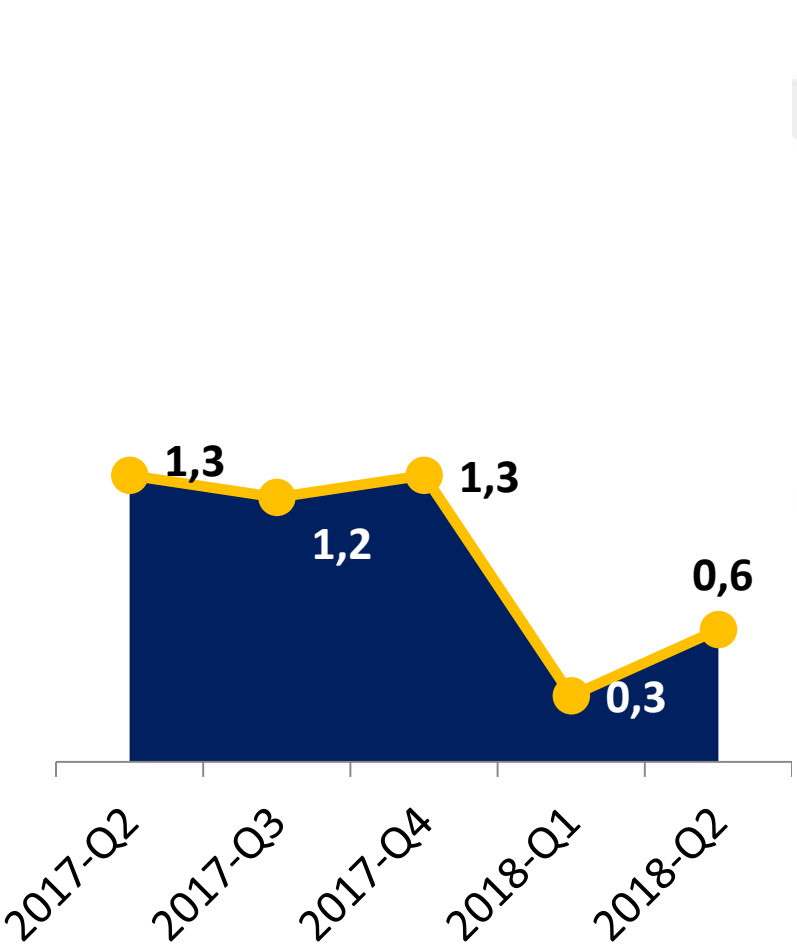


Source : World Trade Organization, Nov 4, 2018, own illustration.

GLOBAL GOODS TRADE: WEAKER

Q-to-Q trade growth, %

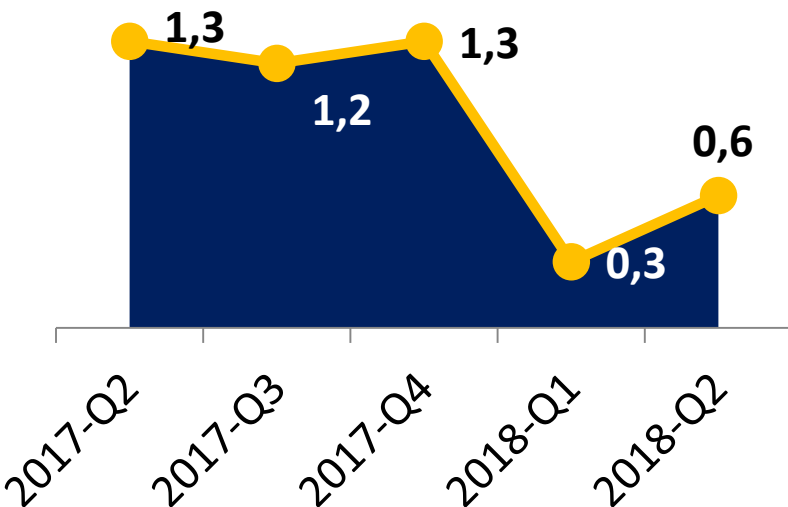
Q-to-Q export growth, %, last quarter



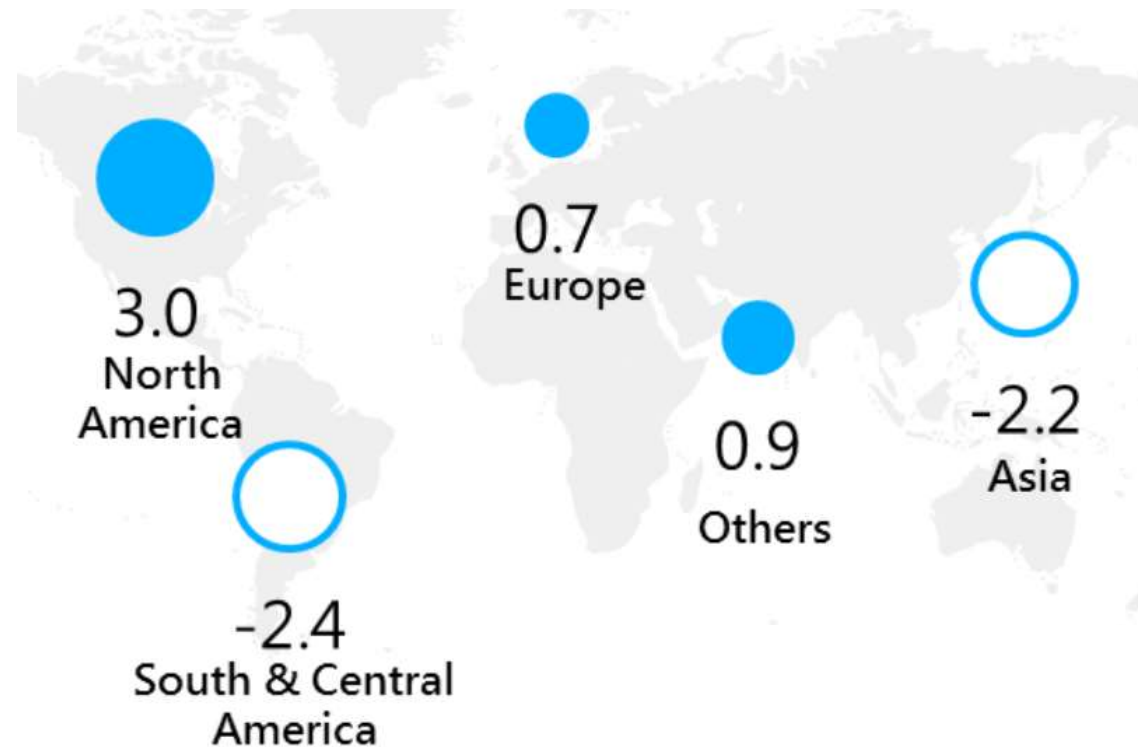
Source : World Trade Organization, Nov 4, 2018, own illustration.

GLOBAL GOODS TRADE: WEAKER

Q-to-Q trade growth, %

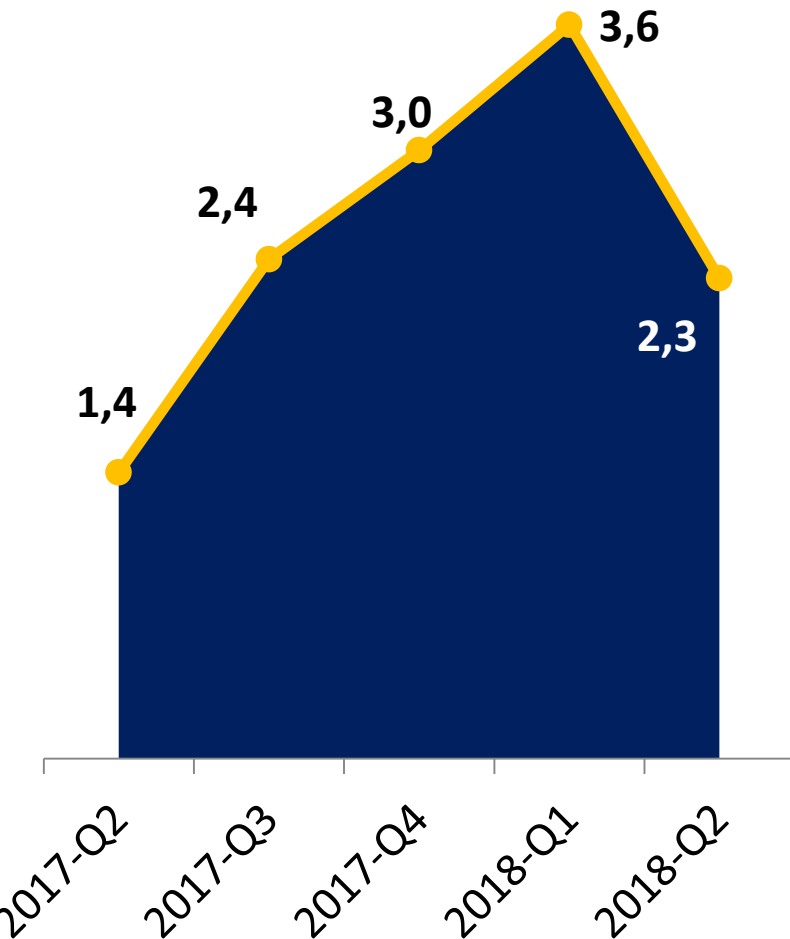


Q-to-Q import growth, %, last quarter

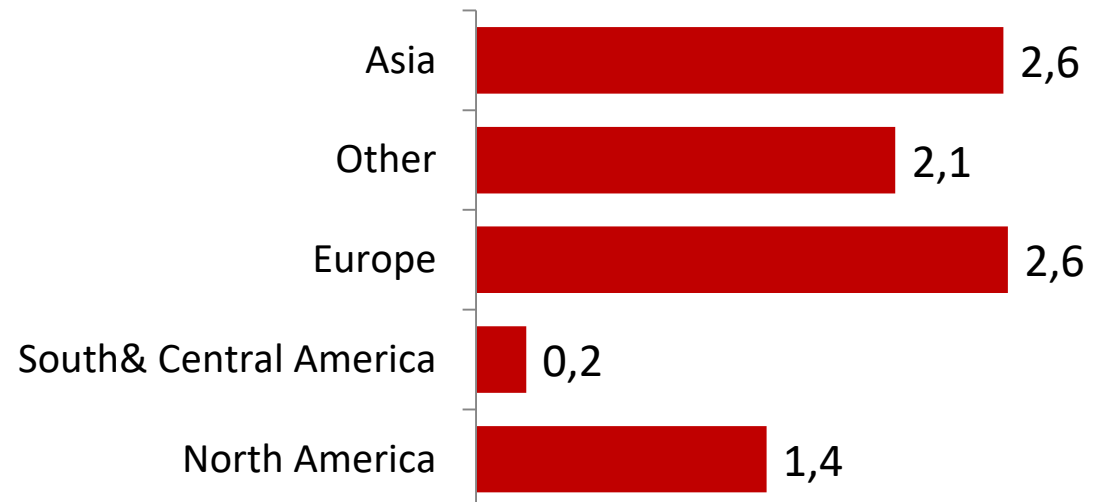


GLOBAL SERVICES TRADE !

Q-to-Q trade growth, %



Q-to-Q growth, %, last data, by region

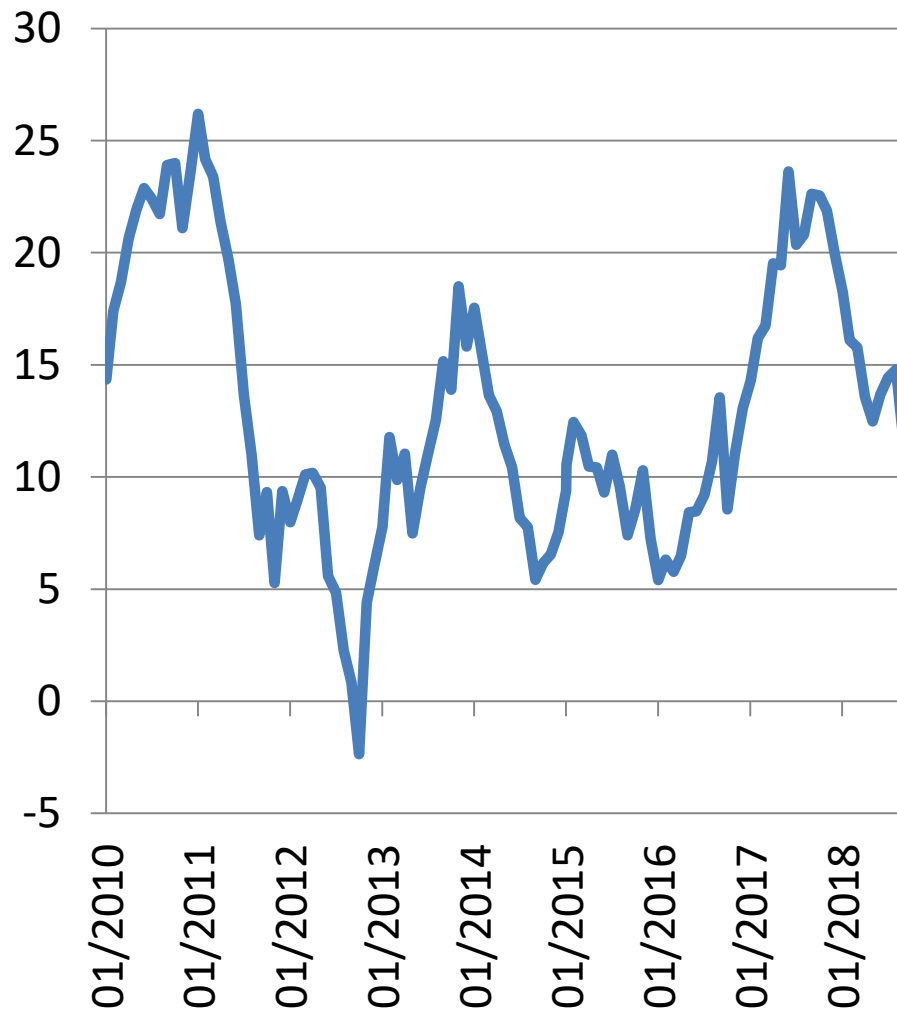


Q-to-Q growth, %, last data, by sector

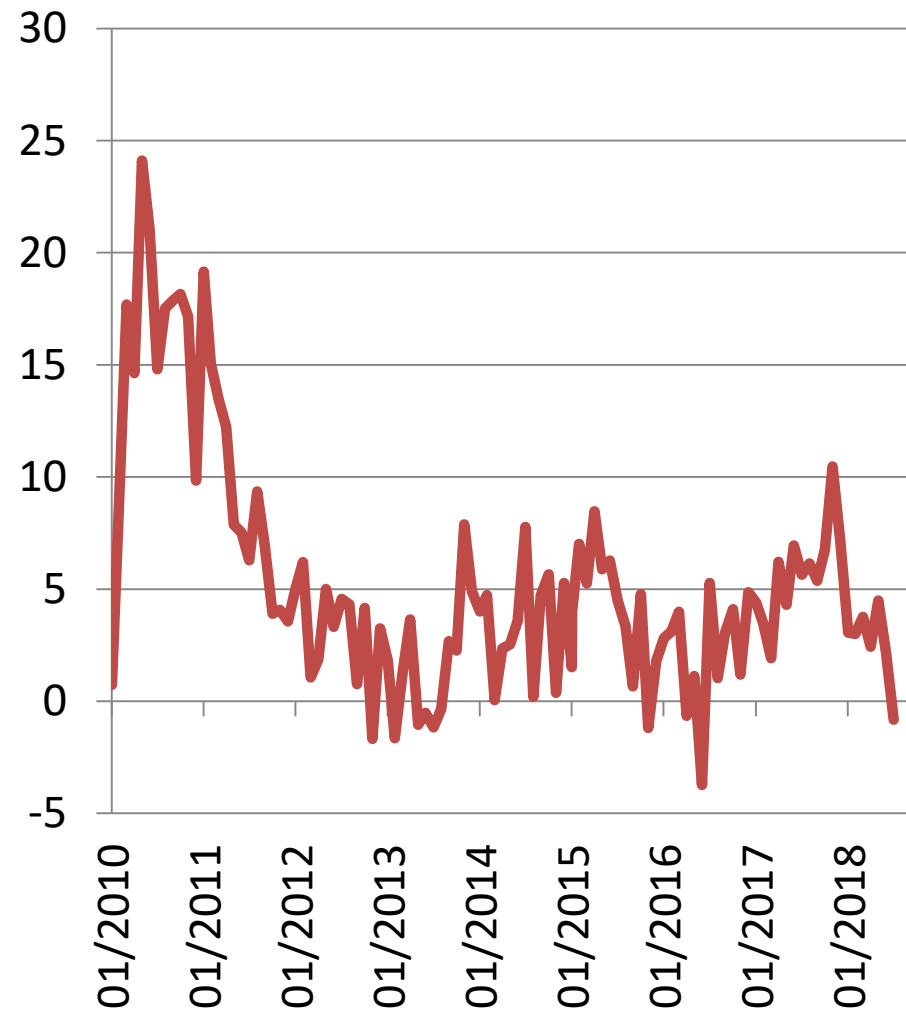


FOCUS ON GERMANY

ifo export expectations, till 10/2018



Real export growth, y-to-y, till 8/2018



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THE 4 BATTLE GROUNDS OF DJ TRUMP

1

Washers
and solar
panels

- Imports worth 8.5 bn US-\$ of solar panels and 1.8 bn of washing machines
- **Safeguard tariffs** according to Art. XIX GATT
- Erga Omnes; right for compensation by trade partners
- China reacts temporarily with antidumping tariffs on sorghum

2

Steel &
aluminium

- Feb. 2018: Steel and aluminium imports threaten **national security** of USA (Art. XXI GATT; US Section 232)
- „**nuclear option**“
- Tariffs of 25% on steel and of 10% on alu products (48 Mrd. US-\$)
- In force since June 1st against EU
- EU, CAN, CHN, MEX & TUR enact „**balancing tariffs**“ according to Art. XIX GATT on imports worth 23 bn US-\$

3

Autos

- Since May 2018 **Section 232 investigation**. Auto imports: 350 Mrd. US-\$

4

China /
WTO

- Accusations: illegal subsidies, forced tech-transfer, insufficient protection of intellectual property
- **Countervailing duties** on 50 bn., retaliatory tariffs on 50 bn US-\$
- Since Sep. 25th: 10% on 200 bn.; 200 bn in preparation, retaliatory tariffs on 60 bn US-\$

FROM NAFTA TO USMCA

Agreement with Mexico from Aug. 28 and with Canada from Sep. 30, 2018

General observations

- Good news: NAFTA remains under a new acronym
- New red tape – higher costs
- Not a free trade agreement: **likely reduces trade between US, MEX, CAN**
- Perpetuates uncertainty: new revision clauses

Autos

- **New rules of origin (RoOs)**
 - Regional value added (VA) content now 75% (instead of 62,5%)
 - 40-45% of VA in companies paying wages >16 USD/hour
- **Effects**
 - North America less attractive as a production platform (BMW!)
 - Perverse effects possible since US MFN tariff on autos just 2.5%
 - **Positive VA effects for US only if Section 232 tariffs on autos become a reality**

Misc.

- **Copy & Paste from TPP** text: digital trade, labor regulation, environmental protection. Enforceable provisions
- Stricter RoOs in textile sector
- Changes regarding protection of intellectual property (Copyright, GIs), tougher controls, Mexico opens up financial markets more, Canada: dairy

ADJUSTMENT OF US-KOREA FTA

March 2018; in force since June 2018

Autos

- Quota of US cars that can be exported to Korea without satisfying special Korean **safety regulations** increases from 25 000 to 50 000 p.a.
- Section 232 tariffs on cars still possible

Steel & Aluminium

- Permanent waiver from Section 232 tariffs on steel & aluminium
- Quota: 70% of 2015-17 average
- Administered separately for each product (54!) and for each quarter
- **Zero flexibility** (no „quota swing“), massive bureaucracy, Korean exporters benefit from higher prices on US market

Open questions

- Korea accepts an „inferior “ agreement to avoid a worse outcome (cancellation of KORUS).
Can blackmail lead to sustainable cooperation?
- What, if the Korean trade surplus with the US does not fall?

EU-USA ROSE GARDEN TRUCE (?)

Summit Trump-Juncker on Juli 25th in Washington




OBJECTIVES

1. Zero tariffs, zero non-tariff barriers, zero subsidies on non-auto industries
2. The EU is willing to import more LNG from the US
3. Close dialogue about standards
4. Reform of WTO; ending “unfair” trade practices (intellectual property, forced technology transfer, state owned enterprises, overcapacities, ...).

➤ TTIP Light? Anti-China Alliance?

- Car tariffs from 10 to 0%
- No negotiations in agri-food area
- No negotiations on public procurement
- US Congress ?
- What does France think?

- 
- Zero auto tariffs “not enough”
 - “EU as bad as China, just smaller”

LONG RUN COSTS OF US TARIFFS

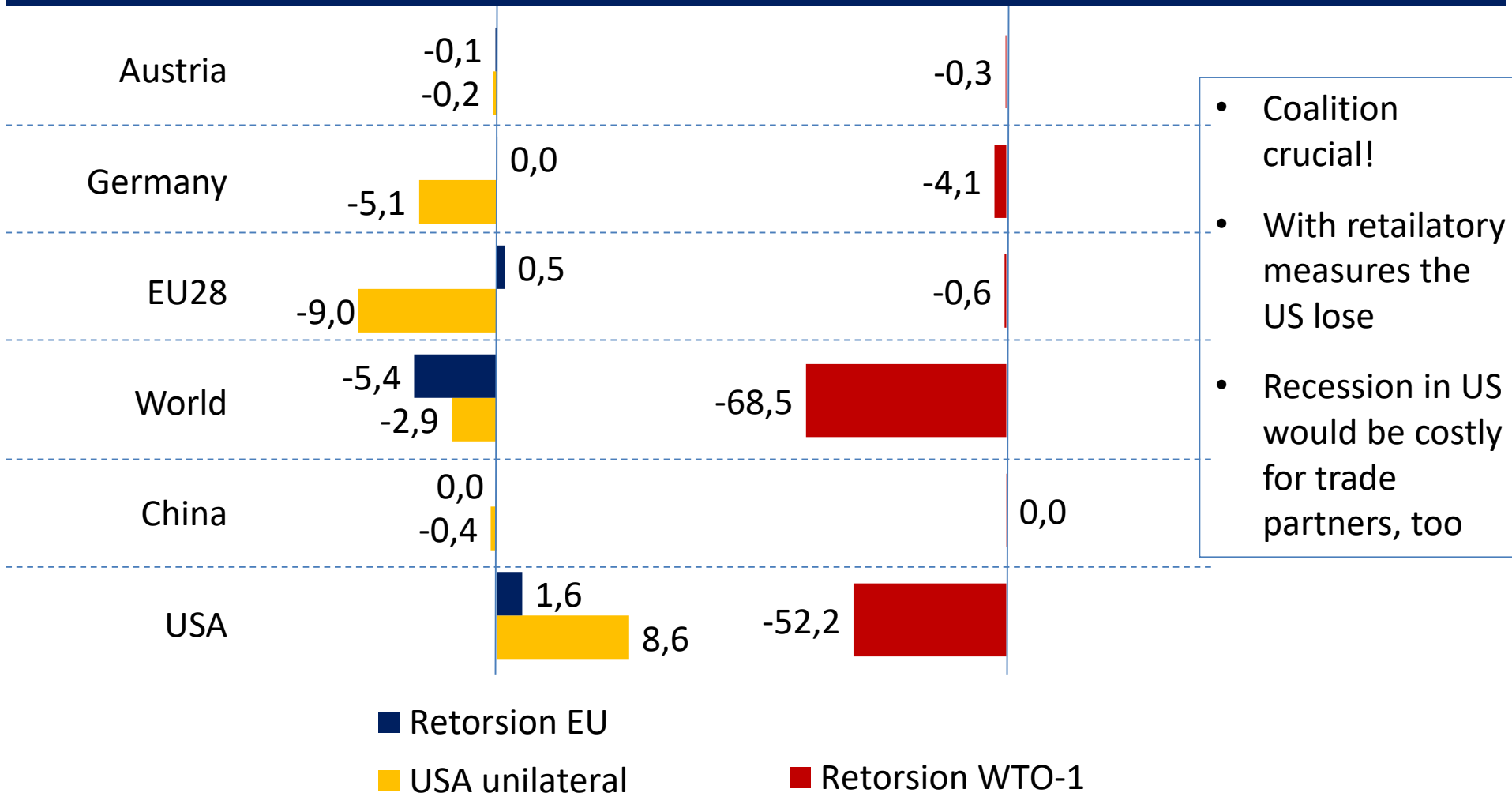
Effects on real GDP, Euro mn., unilateral measures without retaliation

	Steel, Alu		Autos		Steel, Alu and Autos	
	Mio. €	% of GDP	Mio. €	% of GDP	Mio. €	% of GDP
EU28	-509	0.00	-8528	0.06	-9037	-0.06
Germany	-37	0.00	-5043	-0.16	-5080	-0.16
Japan	-153	0.00	-4256	-0.10	-4409	-0.10
Mexico	-991	-0.10	-3685	-0.39	-4676	-0.49
Canada	-2881	-0.21	-3230	-0.23	-6110	-0.44
South Korea	-77	-0.01	-2262	-0.18	-2338	-0.18
China	-237	0.00	-1679	-0.02	-1917	-0.02
United Kingdom	-198	-0.01	-586	-0.02	-784	-0.03
Italy	-6	0.00	-579	-0.03	-585	-0.03
Hungary	9	0.01	-213	-0.19	-203	-0.18
France	-74	0.00	-133	-0.01	-207	-0.01
Austria	-46	-0.01	-192	-0.05	-239	-0.07
India	-203	-0.01	-72	0.00	-275	-0.01
Russia	-414	-0.04	-46	0.00	-460	-0.04
USA	2878	0.02	5739	0.03	8617	0.05
World (42 countries)	-3500	-0.01	-18778	-0.03	-22278	-0.04

Source: ifo calculations.

DO RETALIATORY TARIFFS MAKE SENSE ?

GDP effects, Euro bn, 25% US tariffs on cars and steel, retaliatory tariffs on selected US products covering same trade volume



- Coalition crucial!
- With retaliatory measures the US lose
- Recession in US would be costly for trade partners, too

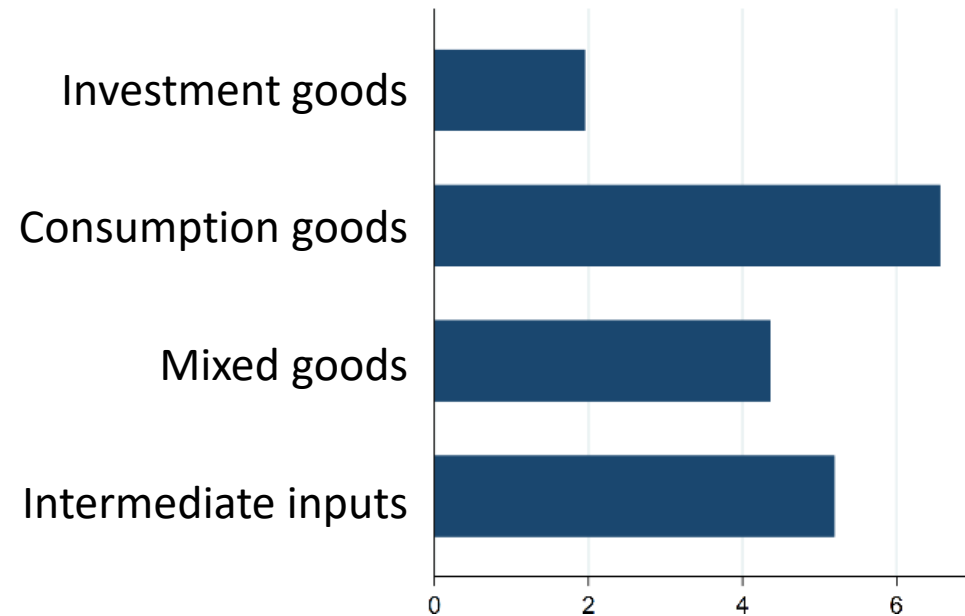
CHINA – USA: CHINA PAYS THE COSTS

A question of tax incidence

„Punitive tariffs“ of US are chosen such that the tax incidence of tariffs is beneficial for the US (goods with low *export supply elasticity* and high *import demand elasticity*)

- Chinese producers bear a large share of the tax burden
- **US prices for consumers and producers go up by less than the full tariff rate**
- **Positive welfare effects for the US** (high revenue effects, small price effects) – as long as China does not retaliate
- **Small effects on the trade balance** even without considering trade diversion effects
- **Incidence different for steel & aluminium!**

Price effects on imports from China, in %



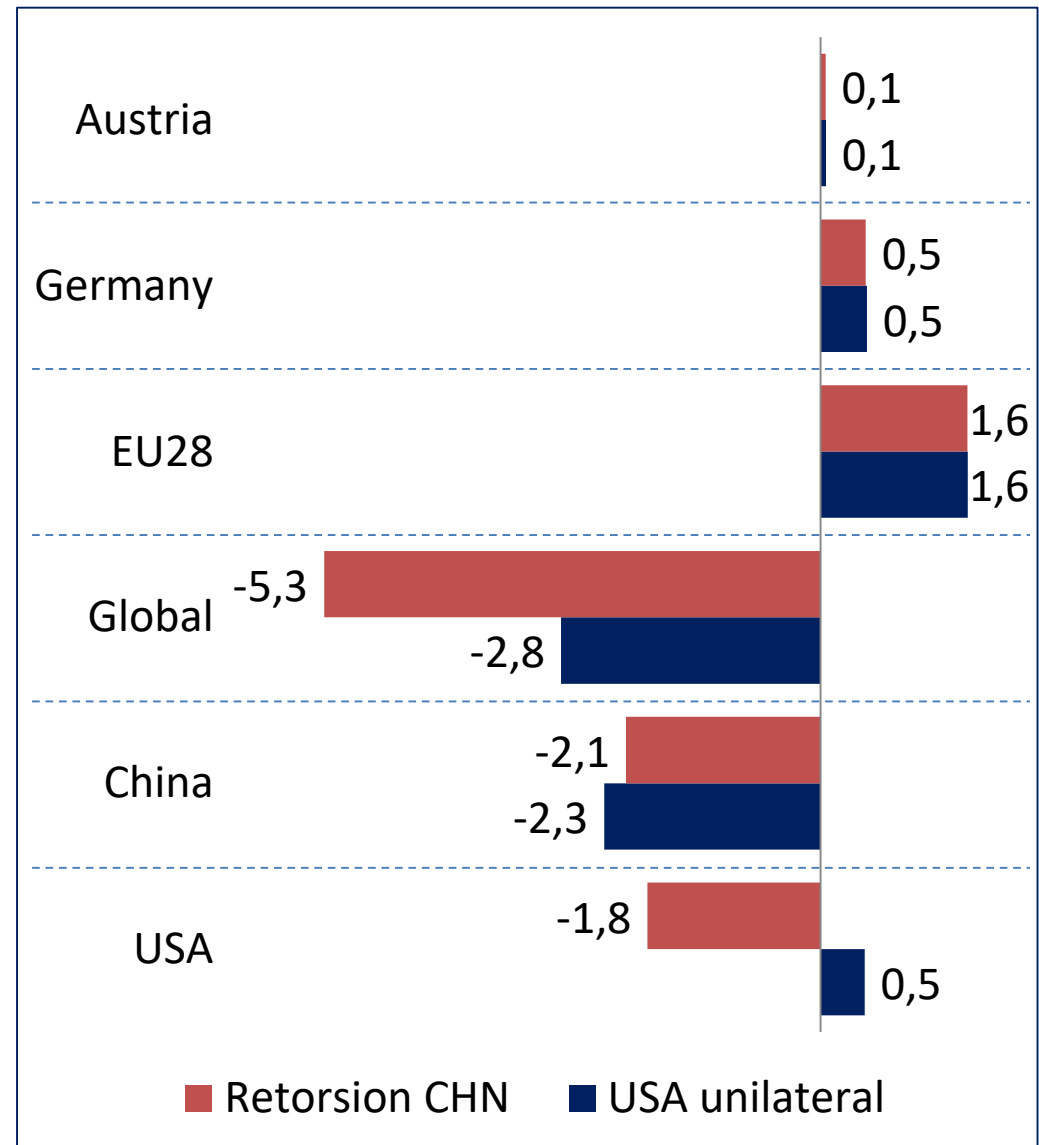
- **Bilateral deficit goes down by about 60 bn USD**
- **Effect on US inflation very moderate: 0,1-0,2 %-Punkte**

CHINA – USA: WHEN TWO DO BATTLE ...

Example simulation

- **USA: 25% Tariffs on 60 bn. USD of electronics imports (and steel) from China**
- **China reacts with retaliatory tariffs**

- China not affected much: Chinese exports contain lots of foreign value added
- When US and China keep competitors from each other out, suppliers from third countries may benefit
- Moreover: if China makes concessions, EU profits, too ...



WTO REFORM ?

1

Surveillance & enforcement of rules

- **Too many countries notify measures** – subsidies, TBT & SPS measures – too late and incompletely
- Few possibilities, to exert pressure and to **penalize** non-complying countries

2

New rules

- WTO-law offers little possibilities to address urgent questions in areas such as **international data traffic**, and is not very tough in the area of **services**
- Rules on **subsidies** and **state owned enterprises** are relatively weak

3

Reform of dispute settlement mechanisms

- Fundamental US skepticism regarding international „tribunals“ of all sorts: sovereignty concerns
- **Appellate Body** creates law beyond the existing rules (created 1994)
- ... results from (2) and is in conflict with (1)

But an exit of the USA from the WTO is not likely: WTO also covers services and IPR!

TRUMP'S PROBLEM: TARIFFS DO NOT REALLY CHANGE THE TRADE BALANCE

FOX NEWS ✓
@FoxNews

Folgen

#Trump says US is like a 'piggy bank that everybody is robbing' on trade

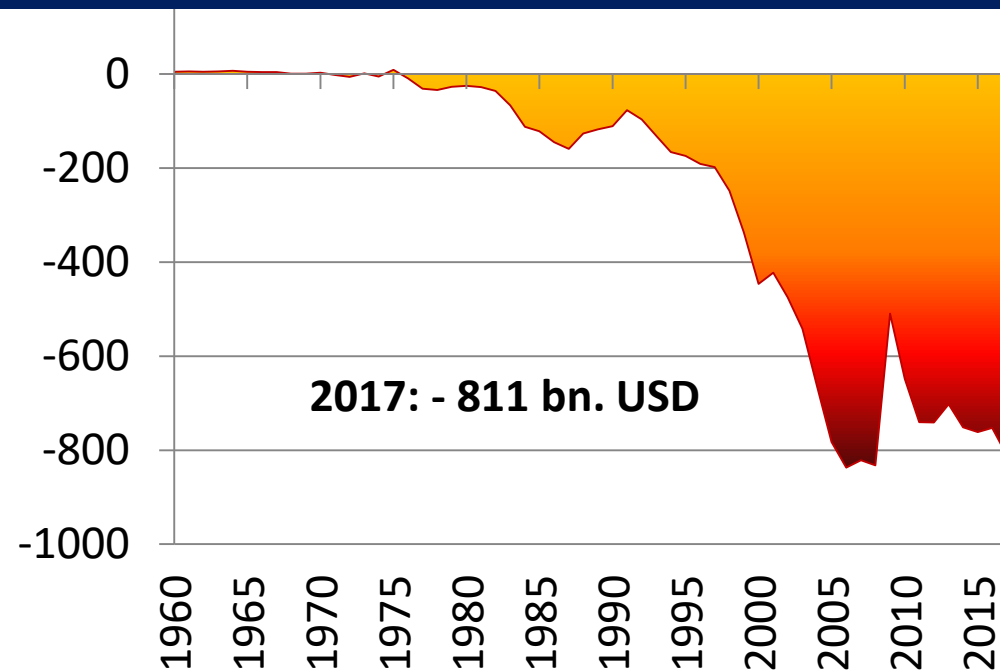
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Trump says US is like a 'piggy bank that everybody is robbing' on trade
President Trump used a press conference at the G7 summit in Canada to double down on his tough stance on trade, telling reporters that the United States is like "th..."

foxnews.com

Balance of US trade balance, bn. USD



... FOR THIS YOU'D NEED A **RECESSION** ...



Thanks for your attention

Gabriel Felbermayr

FAST TRACK USA – TRUMP, TRADE & TRENDS

Vienna, Nov. 6th, 2018