



# GLOBALISATION OUTLOOK

by Joe Zammit-Lucia

August 2019

*Let's not overstate the international trade slowdown – or its causes*



## PUTTING TRADE INTO PERSPECTIVE

Many column inches have been written by advocates of liberalized trade condemning the recent turn towards protectionism. Reading much of that increasingly shrill commentary, (including Mark Carney's [rhetoric](#) that the global economy could be 'shipwrecked') one could be forgiven for believing that the danger to human wellbeing from the current trade skirmishes is as bad as that from, say, climate change.

To put it all into perspective, the chart below from the [Financial Times](#) shows how international trade as a percentage of GDP soared in the post-war era. It started to flatten following the financial crisis – well before the Trump era.



*Was infinite growth in trade ever a likely prospect?*

*Politically, it is hard to see a way out of the self-feeding loop of low growth and increased protectionism*

In that context, it is worth asking some questions:

- Was it ever likely, or even possible, that international trade would just continue to grow, and grow, and grow *ad infinitum*? Or was there always going to be a natural limit? If so, what would determine that limit?
- How do we determine cause and effect?

The financial crisis was accompanied by a fall in international trade. The subsequent low growth world and increasing trade tensions likely feed off each other. Politically, it is difficult to see a way out of the loop.

- Given the changes in the nature of economies, the shift from goods to services, the potential rise of advanced manufacturing techniques, increasing concern about environmental damage, and many other factors, is it time to ask how these changes might, in themselves change the dynamics of cross-border trade in 21<sup>st</sup> century economies?

“Trade tensions are a symptom rather than a cause of the world’s underlying economic malaise.

An excessive focus on trade could deflect policymakers’ attention from other measures needed to ensure faster and more inclusive growth in a genuinely stable financial environment.”

Mohammed El-Erian  
Chief Economic Adviser, Allianz

*Germany suffers from the current trade climate.*

## GERMANY’S EXPORT FOCUSED ECONOMY PAYS THE PRICE

For years, Germany has doggedly stuck to its guns as an export-oriented economy. Some would say a beggar-thy-neighbour, mercantilist economy:

- It has benefited from relative currency devaluation through the Euro (the IMF estimates that Germany gets a whopping 8% to 18% advantage due to the Euro)
- It has dragged its feet in implementing policies to stimulate domestic demand
- Together with the Netherlands, it has consistently broken EU rules as regards the allowable current account surplus

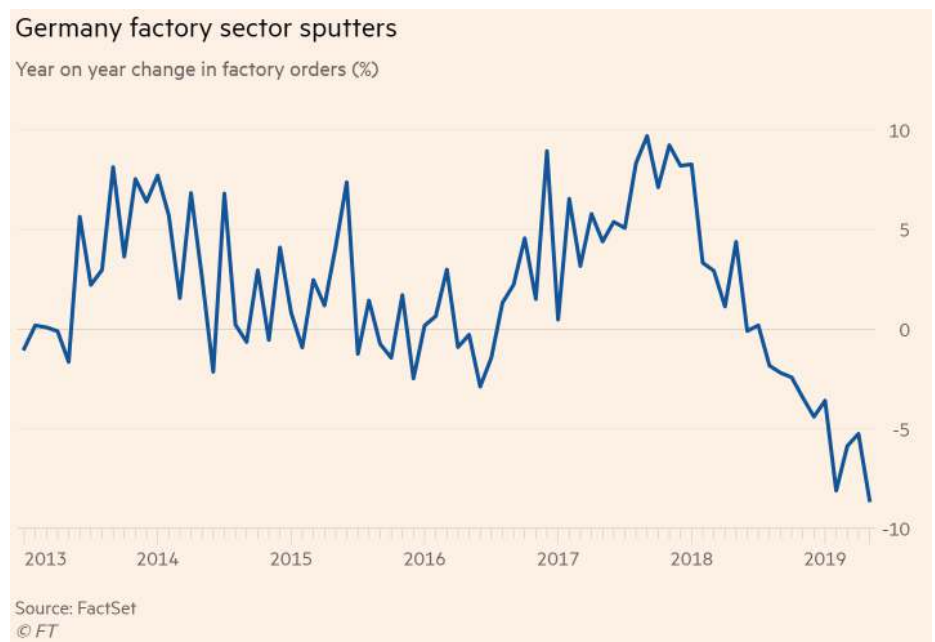
*14.5bn Euros off the Eurozone economy?*

Is it all now coming home to roost? The chart on the next page (again [from the FT](#)) suggests it might be.

Germany is braced for further damage if the US Administration slaps taxes on car imports. The negative impact on could be as much as 0.28% of German GDP, wiping 14.5bn Euros off the Eurozone economy even as growth in the Chinese economy, Germany's major export destination, starts to slow.

All that said, Germany defends its economic policies and [argues](#) that its economy is anything but a beggar-thy-neighbour one.

Believe whichever analysis suits you best.



However, Germany has more fiscal space than most to try to counter a recession. Assuming, that is, that it can overcome its ideological obsession against any kind of demand side stimulus.

### A US-CHINA WAR OF ATTRITION NOW SEEMS MORE LIKELY

*There were only ever three options for how US-China trade relations would evolve*

On August 1<sup>st</sup>, President Trump promised to slap, from September 1<sup>st</sup>, a 10% tariff on \$300bn of Chinese imports further escalating trade tensions. China responded by letting the renminbi slide, inviting accusations of currency manipulation.

Since then, the US has stepped back. The imposition of tariffs has been pushed back to December and some goods may be exempt.

In our [February edition](#) of this Globalisation Outlook and in a subsequent [article](#) for The Mint magazine, we put forward three options for how the US could deal with ‘the China problem’ when it comes to trade:

- Ignore the asymmetries and fudge a deal
- Re-write the WTO rule book
- Embark on a prolonged war of attrition

*Do US domestic political considerations now mitigate against early resolution?*

We also argued that the choice would eventually boil down to US domestic political considerations.

The way things have developed suggests that:

- A war of attrition is the most likely outcome and such a policy has bi-partisan political support in the US:

“This is a game of who is stronger and who can last longer – I hope it’s us.”

Chuck Schumer  
*Democratic Senate Leader*

- The main factor that could push to an early deal would be a significant US economic downturn before the 2020 presidential election coupled with a belief that a trade deal with China would actually resolve such a downturn. Currently, that possibility seems low.
- The US is also attempting to re-write the WTO rule book, most recently by challenging China’s right to continue claiming developing country status and the benefits that go with it:

“Since joining the WTO in 2001, China has continued to insist that it is a developing country...The US has never accepted China’s claim...and virtually every current economic indicator belies China’s claim.”

[Memorandum on Reforming Developing-Country Status in the World Trade Organisation](#)

While in our February edition, we listed political factors for and against a resolution of the US-China trade spat, it is becoming clearer that the

*Will the trade spat simply remain unresolved, or will it continue to escalate?*

factors mitigating against an early deal seem to be becoming more dominant.

President Trump has suggested that no resolution is likely until after the next presidential election in November 2020.

What remains to be seen is whether the situation will, until then, merely remain unresolved or will continue to escalate.

### ELIZABETH WARREN'S TRADE PLAN – A GAME CHANGER?

*Anyone who still believes that, post-Trump, international trade will revert to what it was before should think again*

Senator Elizabeth Warren has [published her views](#) on trade policy. Some key statements:

“I don’t think “free trade” deals...are good simply because they open up markets. Trade is good when it helps American workers and families...I want to invest in American workers and use our leverage to force other countries to raise the bar on everything from labor and environmental standards to anti-corruption rules to access to medicines to tax enforcement.”

*Ms Warren’s plan addresses many of the key issues bedeviling trade policy today*

Ms Warren’s plan highlights the fact that regulatory standards now represent the main issue in international trade.

The plan:

- Would require countries signing trade agreements with the US to sign up to acceptable standards **before** any trade deal is signed. This recognizes the abject failure of past agreements that simply hoped for improved standards as a result of trade agreements
- Eliminates investor-state dispute settlements
- Increased transparency by making draft agreements public and subject to public scrutiny and comment
- Recognising the distributional effects of trade, new agreements would need to provide benefits to regions not just aggregated national benefits

*There are only two options: significant reform, or wither and die*

The Warren plan has many similarities to the recommendations we put forward in our [book](#).

Some have criticized the plan as being over-ambitious and impractical. No trade agreements will ever be achievable under this plan, they have argued.

Maybe, maybe not. But Ms Warren's plans does highlight, and tries to address, the key policy issues associated with international trade. Absent something fairly radical along the lines of Ms Warren's plan, we will remain stuck in the same mire and the backlash against international trade will only grow.

Globalization and the nature of international trade agreements will either be transformed, or they will stall and wither. It remains to be seen which will prevail.

### THE EU - MERCOSUR TRADE DEAL

*The EU - Mercosur trade deal has been 20 years in the making...*

*Will the EU27 ratify it?*

The EU has signed a trade deal with MERCOSUR claiming that the agreement will wipe up to 4bn Euros in annual customs duties on EU exports.

It is worth noting that the trade agreement was 20 years in the making with negotiations starting in 1999.

It remains to be seen whether the agreement will be ratified by the EU27 parliaments or whether the farming lobby will scupper it.

"We're not afraid of competition. We're not afraid of free trade. Most of my animals go abroad to Italy or Spain. We just want consistency.

They can't say we must preserve the European countryside and then ask us to compete on price with giant ranches or feeding lots.

They can't ask us to observe the highest possible standards of animal and food hygiene and then tell us to risk infection from meat or animals from countries with different standards and weaker controls.

They can't complain about Brazil threatening the environment by destroying its rain forests and then ease restrictions on imports on beef grown in rain-forest land that is still being cleared every day"

**Daniel Courval**  
**President of Calvados beef farmers (as [quoted](#))**

Irish Farmers' Association President, Joe Healy, also took aim at the deal saying that it would devastate European farmers and accusing the EC of hypocrisy by agreeing to a trade deal with countries that have no regard to labour and environmental standards.

But...

### ...there are safeguards

Are these criticisms fair?

The preliminary deal includes a section on sustainable development with safeguards for labour and environmental standards as well as clauses allowing action in relation to health and safety.

What remains to be seen how well those safeguards can be enforced given the evolving political climate in Latin America – particularly in Brazil and Argentina.

### A UK-US TRADE DEAL?

*John Bolton puts forward the same approach to a UK-US trade deal as we have suggested in our book*

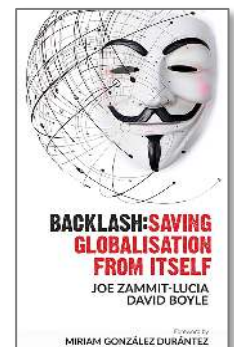
The potential for a UK-US trade deal has been much in the news as the UK approaches the ‘do-or-die’ date of October 31<sup>st</sup>.

How, and how quickly, could such a deal be done?

We have previously suggested:

“replacing the all-encompassing trade deal with a sector-by-sector approach starting with those sectors where regulatory standards are close, and tariffs are low, non-existent, or not material. Other sectors can, if appropriate, be added later.”

[Backlash: Saving globalization from itself](#)  
[Joe Zammit-Lucia and David Boyle \(2018\)](#)



John Bolton, US National Security Adviser now suggests:

“The ultimate end-result is a comprehensive trade agreement covering all trading goods and services.

But to get to that you could do it sector by sector, and you could do it in a modular fashion. In other words, you could carve out some areas where it might be possible to reach a bilateral agreement very quickly, very straightforwardly.”

**John Bolton**

We shall see whether the UK government would be willing to follow such an approach – assuming the country exits the EU.

## About RADIX

RADIX is a non-aligned think tank for the radical centre of contemporary politics. Its aim is to re-imagine the way government, institutions and societies function based on open-source, participative citizenship. To kick-start the thinking that is needed for politics to embrace technology, innovation, social and cultural change.

Contact: [hello@radix.org.uk](mailto:hello@radix.org.uk) [www.radix.org.uk](http://www.radix.org.uk)

© Copyright Radix Group Ltd. All rights reserved.