



A Turbulent Time for Trade

19th of April 2017

In the first decade of the new millennium a trade boom occurred, in part thanks to a wave of trade liberalization during the 1990s and the founding of the World Trade Organization. This boom was disrupted by the financial crisis of 2008/2009. Since the global recession, world trade has remained weak despite the emergence of some recent green shoots. During the post-recession period, several liberalization efforts have stalled, the US has adopted a new nationalist trade policy agenda, populist trade sentiment has challenged liberalization efforts in parts of Europe, and the UK has voted to leave the European Union, among other surprising developments. In the 47th Session of the *INSME Academy* Dr. Lippoldt, Senior Trade Economist at HSBC Global Research, discussed potential sources of growth in this turbulent time for trade. A crosscutting theme in his presentation was the need for further liberalization to reinforce the emerging recovery in trade.

Firstly Dr. Lippoldt underlined that in the era of globalization new players are emerging, even though some areas such as North America, Western Europe and Japan still dominate large trade corridors. China has become the world's n°1 goods exporter. According to Dr. Lippoldt, countries such as Brazil and India underperform in global trade and have a great opportunity to engage more deeply and reap the benefits of international trade. Other emerging market countries like Indonesia, Turkey or South Africa also have a relevant untapped trade potential.

Concerning trade liberalization, before the Brexit vote there were a number of trade deals in advanced stages of negotiation or ratification. These were moving forward at the global level and represented an important source of potential growth in the years to come. Among them, the **WTO Trade Facilitation Agreement** has now entered into force (effective in February 2017), which is quite a notable achievement. This agreement is helping to tackle customs issues and red tape at the border in WTO member states. It represents an important development that should reduce the cost of trade globally by about 14%, once fully implemented in a few years' time. WTO estimated that implementation of the accord could boost merchandise trade by perhaps USD 1trn annually.

On a regional and bilateral level some progress has also been made, especially in Asia, the Pacific and Europe. Among the main proposed agreements, Dr. Lippoldt mentioned the **Regional Comprehensive Economic Partnership** (negotiations ongoing), a mega regional trade agreement covering the ten ASEAN countries and six of their free trade agreement partners, namely Australia, China, India, Japan, Korea, and New Zealand. The negotiations are progressing and aim to liberalize goods and services trade, while also offering improved conditions for trade-related investment. The accord should also improve transparency, protection for intellectual property rights, and facilitate the engagement of its participants in supply chains. It is an agreement that will be interesting for countries outside of Asia as well. Companies that establish a base in a member country would be free to buy and

sell across the vast area of Asia covered by the liberalized trade rules provided under the agreement. According to one estimate from the East-West Center in Hawaii, if the original negotiating objectives can be fulfilled, this partnership could boost regional GDP by about 1.8%.

Dr. Lippoldt then noted the change in trade policy in the United States. America had been a leading force in globalization over the decades since World War II and a major player in the development of the rules-based multilateral trading system. However, the new US administration has shifted emphasis to focus on trade practices in partner countries that are perceived as being unfair to US exporters. Invoking a more nationalist approach, the US is aiming to reduce trade deficits, promote US exports, and impose sanctions on partners whose abuses hurt US businesses and workers. By withdrawing from the recently completed Trans-Pacific Partnership, the US administration took a step back from pending regional liberalization. Instead, the US hopes to pursue trade liberalization via bilateral accords with likeminded partners such as Japan or the post-Brexit United Kingdom. The American authorities have also proposed a renegotiation of the North American Free Trade Agreement and signaled a willingness to withdraw in the event the talks fail.

At the same time, protectionism is a rising threat, advancing through numerous small-scale actions, in particular among the G20 countries. According to WTO data, Dr. Lippoldt noted that some 14 to 21 new protectionist measures have been launched by the G20 countries each month since late 2008. These are beginning to accumulate and are adding a burden that by now may affect more than 5% of global trade. In 2015, the B20 (business advisors to the G20 governments) estimated that removing these measures would boost global GDP by USD 423bn.

Brexit is a further development that may be expected to affect trade. The United Kingdom has been among the world's top trading nations, benefitting from its situation as a member of the European Union with deep historical ties to trade partners in many other countries. The Brexit referendum result puts at risk existing trade arrangements. A massive negotiating effort will be required to establish new bilateral trade agreements that maintain -- and preferably expand -- the current market access enjoyed by exporters and importers in the UK. Dr. Lippoldt pointed out that in the short to medium term there might be some disruption. It may take more than a decade to complete the various negotiations and see the early effects of the reorientation of UK trade policy. Among the new opportunities that might emerge, there could be liberalization vis-à-vis markets such as Australia, Canada, Japan, New Zealand and some of the emerging markets, in particular in Asia.

Globally, Dr. Lippoldt pointed out the increased potential for trade that is arising thanks to growth in the emerging markets. An HSBC study in 2012 found that through developments in demographics, technological catch up, and other factors, the world could witness massive growth in the middle class population: an increase of some 2.6bn new members of the middle class by the year 2050. Most of this increase will take place in the emerging markets (EMs). This will help to fuel tremendous growth in trade, as these countries strive to make the associated capital investment and as the levels of disposable income available to the EM consumers increase. Import demand can be expected in sectors ranging from industrial machinery to transportation equipment, ICT equipment to chemicals, and beyond.

In concluding his remarks, Dr. Lippoldt stated that the trade environment will remain turbulent in the near to medium term due to uncertainty with respect to trade policy in countries such as the US and UK, among others. In the long run, he foresees potential for robust growth in global trade, especially if reinforced through further liberalization.