



# A turbulent time for trade

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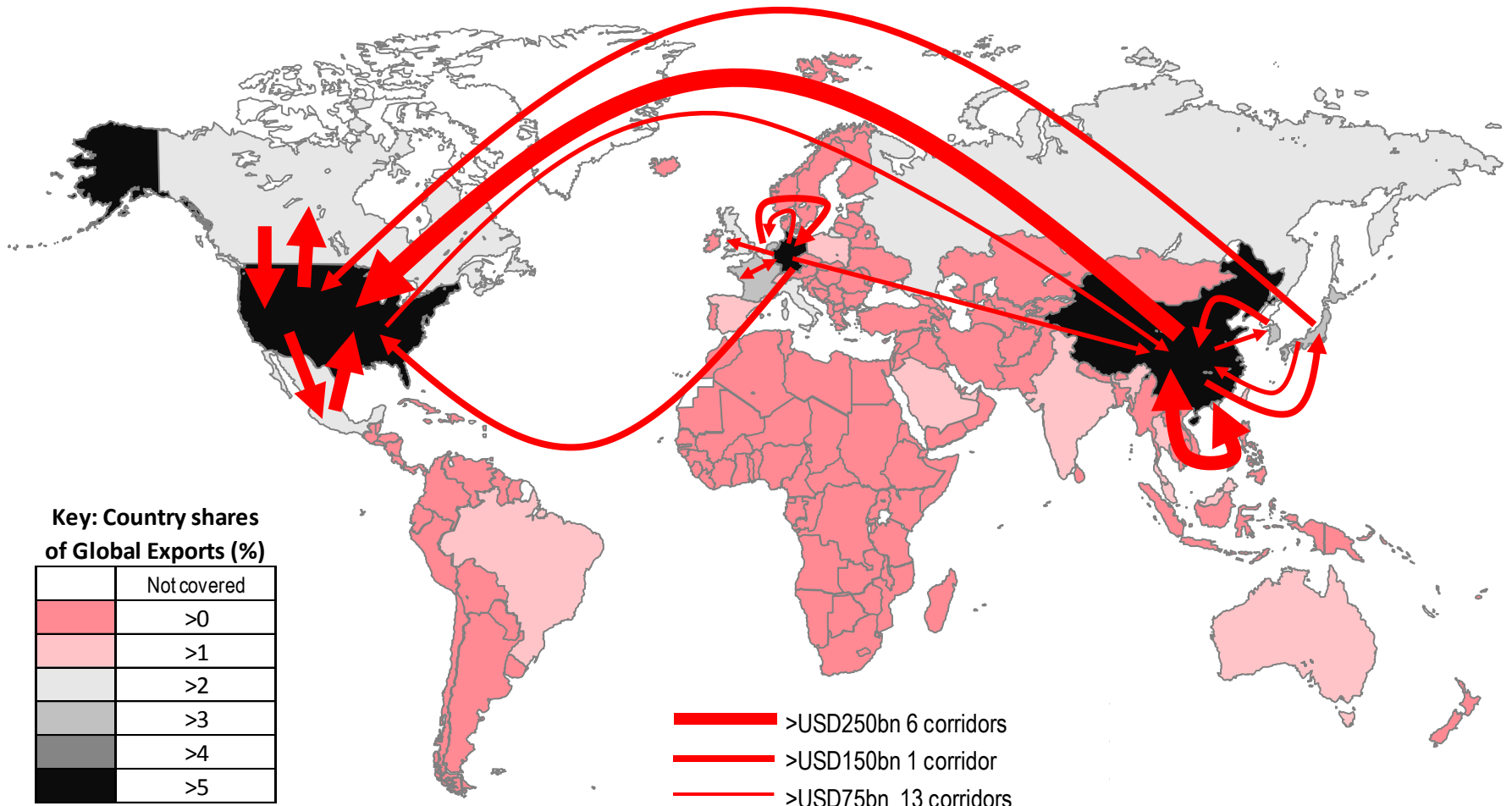
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1. A trade boom was disrupted by the financial crisis (2008-2009). World trade growth remains weak; some green shoots
2. Despite progress, several key trade liberalisation efforts have lately slowed or stalled
3. The US: taking a more aggressive, defensive trade stance. Multilateral & regional deals out of favour; bilateral deals ok
4. Less openness will not revive lost industrial employment
5. Protectionism could be costly
6. The UK: successful, outward-oriented EU member; what next?
7. Further trade liberalisation needed to offset and complement US and UK policy changes

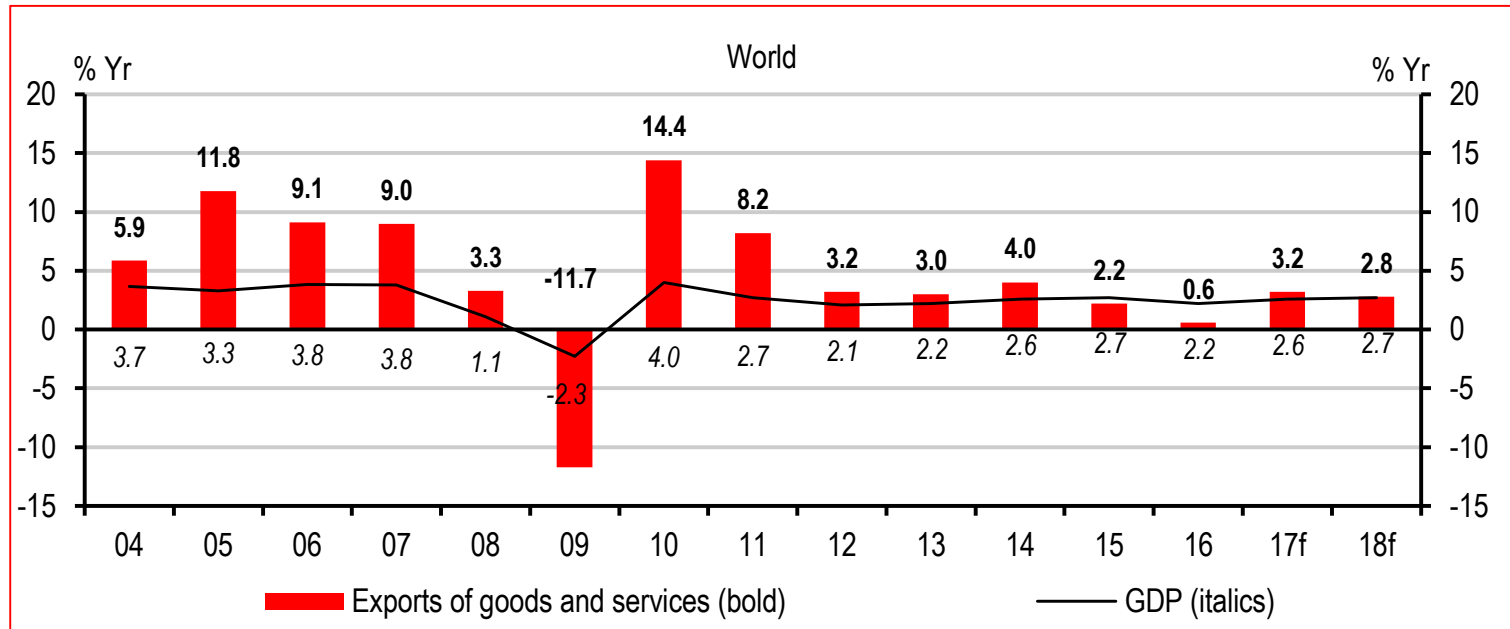
# 1a. Large trade corridors are still dominated by large trade partners

Global Export Shares and Main Corridors, 2015



Source: UNCTAD, HSBC. Note: the data refer to goods trade.

# 1b. GDP and trade growth: weak but with some green shoots



Export (goods & services) volume growth forecast			
% Year	2016	2017f	2018f
World	0.6	3.2	2.8
Developed	2	3.3	3.1
Emerging	-1.4	3	2.2
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USA	0.4	3.1	2.9
China	-7.5	3	1.0

Note: Weighted by nominal GDP, chain linked

Source for both charts: HSBC estimates as published in HSBC, *Global Economics Quarterly Q2 2017: Drivers and riders*

### Negotiating progress, but... what next?

#### Done deals

- Expansion of the **WTO's Information Technology Agreement** – duty free treatment for USD1.3trn in cutting edge electronics products [Entered into force July 2016, now being implemented] ✓
- **WTO Trade Facilitation Agreement** – cuts red tape at the border, could boost trade by perhaps USD1trn annually [Entered into force Feb 2017, now being implemented] ✓

#### Advanced stage

- **EU-Canada Comprehensive Economic and Trade Agreement** [signed, provisional, ratification pending]
- **EU-Singapore Free Trade Agreement** [initialled, completion pending]
- **EU-Vietnam Free Trade Agreement** [published, completion pending]
- **Regional Comprehensive Economic Partnership**, 16 countries in Asia, incl China, India [talks ongoing]

#### Uncertain or on hold

- **WTO Environmental Goods Agreement** – duty free treatment for up to USD1trn in goods to promote economic sustainability and protect the environment [now in late stage negotiations: but uncertain]
- **Trade in Services Agreement**, EU + US and 16 partners [talks on hold]
- **EU-US Transatlantic Trade and Investment Partnership** [talks on hold]

#### DOA? Or potential phoenix?

- **Trans-Pacific Partnership**, 12 Pacific Basin countries incl US and Japan [signed, but US withdraws] ✗

**Brexit: Where does it fit?** Ultimately trade liberalising? An eventual US-UK bilateral deal? Others?

Source: WTO; HSBC, *A crucial juncture for global trade liberalisation*, 15 November 2016;  
TPP update from CNN, *Trump signs order withdrawing from TPP*, 23 January 2017.

## 2b. Regional Comprehensive Economic Partnership (RCEP)

- Participants: ASEAN 10, Australia, China, India, Japan, Korea, New Zealand; others?

### Objectives

- Facilitate trade and investment; enhance transparency
- Facilitate engagement of participants in supply chains

### Key policy reforms

- Progressively eliminate tariff and non-tariff barriers on substantially all trade
- Substantially eliminate restrictions and discriminatory measures in services
- Provide a "liberal, facilitative and competitive" investment environment
- Protection and enforcement for intellectual property rights
- Address anticompetitive practices

### Special provisions

- Support for developing countries; technical assistance; dispute settlement mechanism
- Complements **China's Belt and Road** infrastructure initiative

### Economic implications

- **Potential welfare gains for participants: about USD600bn, a boost in GDP of 1.8%**

Sources: East Asian Summit, *Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership* (Nov 2012); and P. Petri, M. Plummer, and F. Zhai, *The TPP, China and the FTAAP: The Case for Convergence*, East West Center (2014)

## 3a. US Trade Policy Agenda Basic Principles

**1. Overarching purpose of US trade policy:** “to expand trade in a way that is freer and fairer for all Americans“

**2. “Every action” US takes with respect to trade will be designed to:**

- increase US economic growth,
- promote job creation in the United States,
- promote reciprocity with our trading partners,
- strengthen our manufacturing base and our ability to defend ourselves, and
- expand our agricultural and services industry exports.

**3. How to accomplish?**

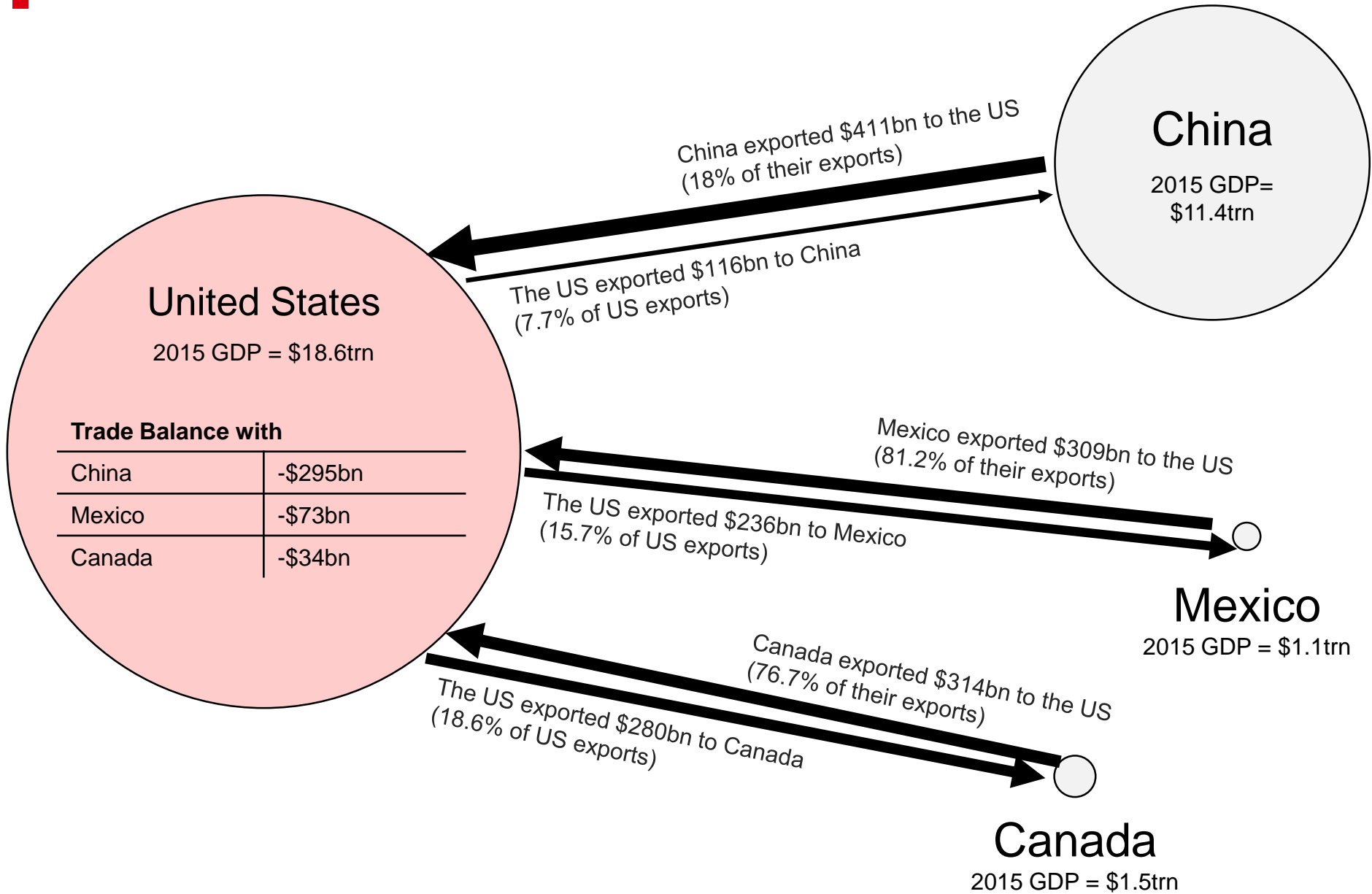
- Focus on bilateral negotiations rather than multilateral negotiations
- Renegotiate and revise trade agreements when goals are not being met
- Combat “unfair trade practices that disadvantage American workers, farmers, ranchers, and businesses in global markets.”

**Actions, so far:** TPP withdrawal, review violations, launch litigation, review NAFTA, toughen US customs

**Key objectives:** Break down unfair barriers, strictly enforce US trade laws, resist efforts by other countries to advance interpretations of accords that would weaken US rights and benefits or increase US obligations

Source: US Trade Representative (2017), “2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program”, page 1-2.

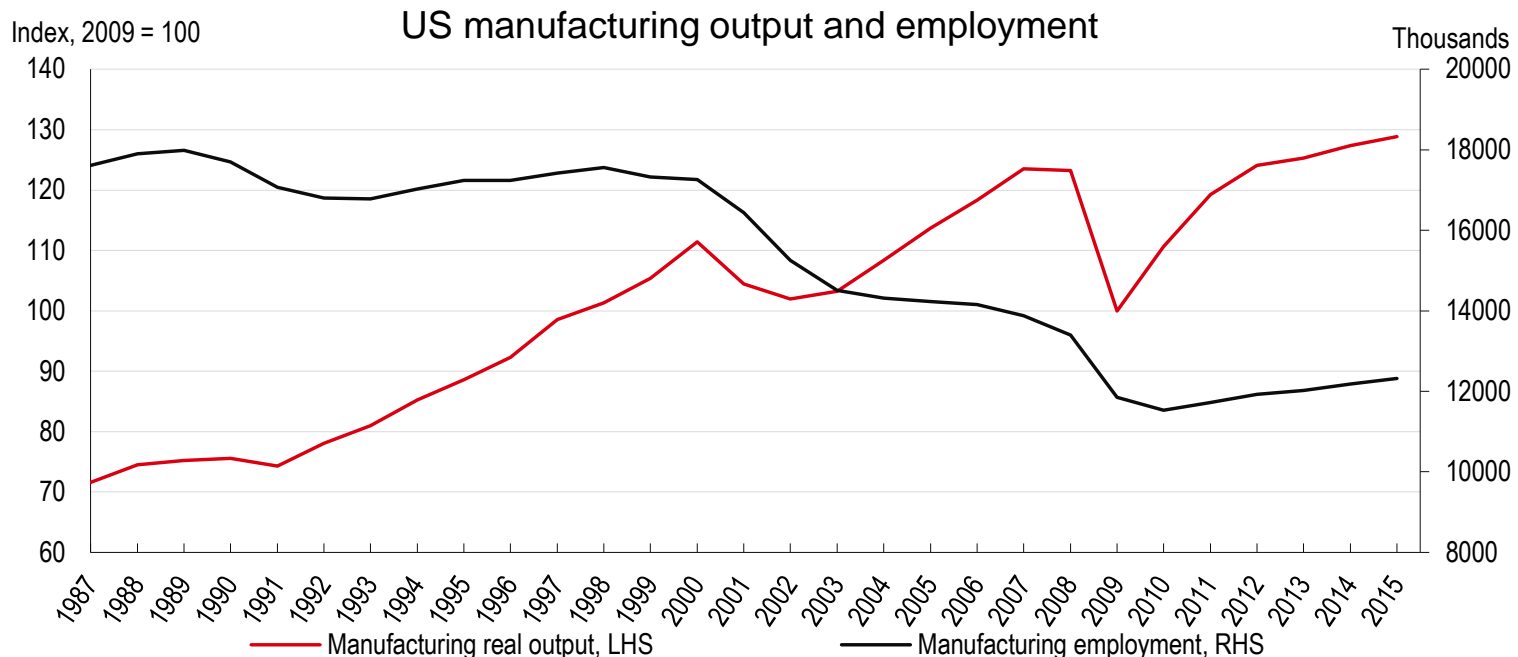
# 3b. US Goods Trade with Canada, Mexico and China, 2015



Source: IMF, UNCTAD, HSBC

## 4. US manufacturing employment & output; US current account

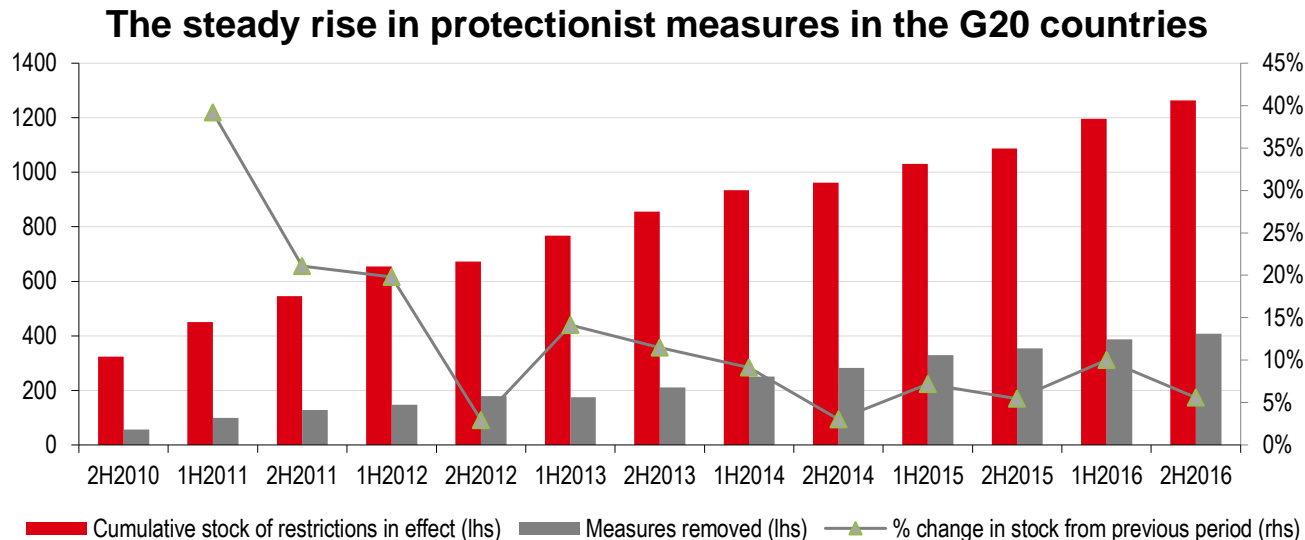
- US manufacturing output is reaching new highs and remains robust.
- Current account deficit declined 2006-2009, so did mfg employment.
- US manufacturing employment has declined, but this is largely a reflection of technological & structural change; associated with improvements in productivity.
- It is not primarily a matter of import competition (<25% of the job loss).



Source: Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org>; HSBC.

## 5. Protectionism is not the cure, but it does weigh on trade

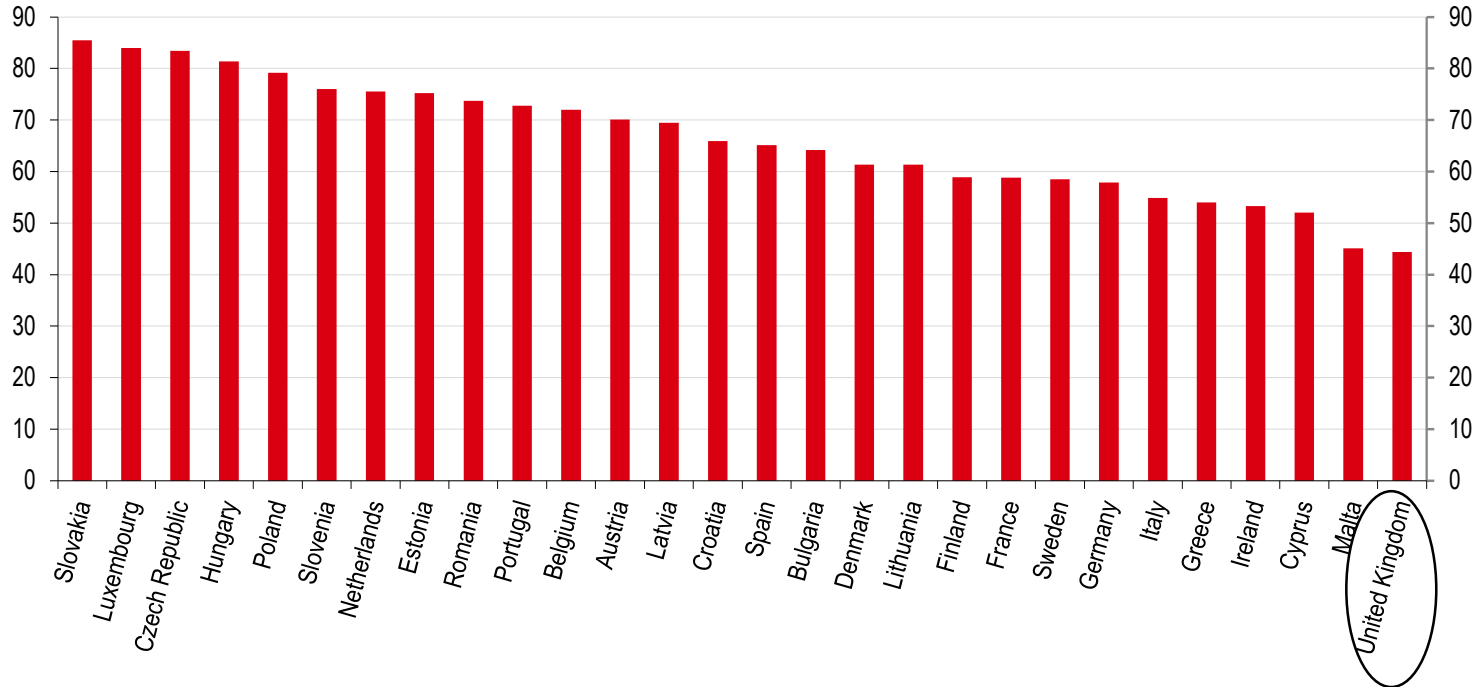
- Since the Great Recession, US and other G20 countries implemented **between 14 and 21 new measures per month**, a pace that far exceeds expiration or removal of such measures.
- Collectively, these actions are a burden; **affect perhaps more than 5% of global trade; per the B20 (2015), removing these measures could boost global GDP by USD423bn.**
- As of mid-January 2017, Global Trade Alert estimates **5,436 measures in place (since 2008)**
- Such actions may be legal, can be appropriate – but this is not always the case.
- BUT they raise the cost to trade, in some cases impeding trade entirely for products.



Source: Global Trade Alert; OECD/UNCTAD/WTO (2016), B20 (2015); HSBC calculations. Note: These data refer to policy interventions by G20 governments that discriminate against foreign commercial interests and were implemented after November 2008.

## 6a. UK has an outward trade orientation

### Share of intra-EU exports in each EU country's total goods exports (%), 2015



- Most UK goods exports go to destinations outside of the EU (but nearly 60% benefit from EU prefs)
- UK services exports also have substantial shares going to non-EU countries – eg, 24% of UK services exports go to the United States

Source: Eurostat (2016), <http://ec.europa.eu/eurostat/tgm/download.do?tab=table&plugin=1&language=en&pcode=tet00036>; OECD; HSBC, *Brexit: Five questions on the UK's international trade*, 6 July 2016

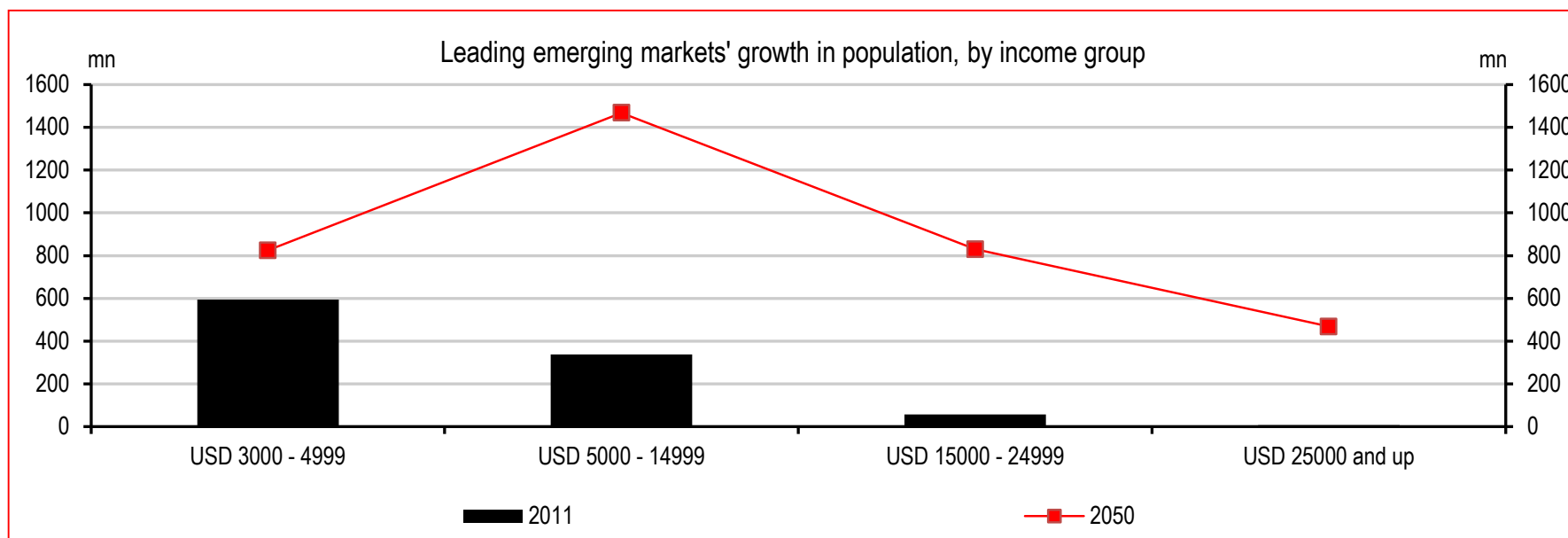
Note: The underlying data series is tet00036. The EU shares shown here do not include trade with the EU's third-country preferential trade partners.

## 6b. United Kingdom under Brexit

- **29 March 2017: UK PM notifies EU of Brexit intention via letter, references Article 50**
- **Potentially costly in the short to medium term**
  - Reduced EU and EU preferential partner market access
  - UK-EU trade costs could rise, especially non-tariff barriers (regulatory and customs); could affect, e.g., UK financial services or German auto sales; Ireland: large share of trade with UK
  - Adjustment costs could be high during transition: increased exposure of workers and firms to import competition; some weak firms close; best firms grow
- The costs of Brexit policy turbulence may be greatest on the UK economy and EU
- Through the medium term, possible weakening of aggregate demand in UK due to the policy changes could affect export prospects for UK trade partners.
- **In the long term (e.g., 10+ years), UK negotiation of free trade agreements may result in improved global market access, drive adjustment in UK, stimulate growth**
- Leaner and more competitive UK economy, with new export and import opportunities
- UK-US bilateral free trade agreement? Australia, Canada, New Zealand, too? Others in Asia?
- Complementary policies have key role to play: infrastructure, education, job placement assistance, research support, social safety net, among others.

Sources: HSBC, UK counts down to Brexit, 29 March 2017; HSBC, *My Brexit holiday wish list*, 22 November 2016; HSBC, *Trade Flash: PM May's Brexit roadmap*, 18 January 2017 .

## 7a. The expanding emerging market middle class = economic opportunity



- **Population:** By 2050, across 17 emerging markets\*, we anticipate an increase of more than 2.6 billion members of the middle class
- **HSBC Trade forecast, increased EM import demand through 2030:**
  - a) products: industrial machinery, transportation equipment, ICT equipment, chemicals (among others);
  - b) destinations: Argentina, China, India, Indonesia, Egypt, Korea, Malaysia, Mexico, Saudi Arabia, Turkey, UAE, Vietnam (among others).

\*Argentina, Brazil, China, Colombia, Egypt, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Saudi Arabia, Thailand, Turkey

Source: Chart and 2050 population: UN, World Bank, HSBC, *Consumer in 2050*, 15 October 2012.

HSBC 2030 import demand: HSBC Global Connections, <https://globalconnections.hsbc.com/united-kingdom/en/tools-data/trade-forecasts> (December 2016).

## 7b. Export growth rates: a hard Brexit (no UK-EU preferences) and a protectionist US scenario (10% tariff on large EMs, with retaliation) HSBC

<u>Goods exports</u>	Country	Baseline forecast; no policy change (annual growth rate, 2016-2030)	US protection & hard Brexit forecast (annual growth rate, 2016-2030)
	US	5.5%	4.6%
	Canada	6.9%	7.4%
	Mexico	6.9%	4.3%
ASEAN countries	Indonesia	8.3%	8.0%
	Singapore	6.5%	6.2%
	Malaysia	8.4%	8.5%
	Vietnam	10.4%	10.2%
	Japan	4.1%	4.1%
	Korea	6.9%	7.3%
	China	8.2%	8.2%
	UK	4.3%	3.2%
	Germany	3.9%	3.6%
	France	4.2%	3.9%
	Global	6.3%	6.0%

Source: HSBC and Oxford Economics: <https://globalconnections.hsbc.com/united-kingdom/en/tools-data/trade-forecasts>.

Note: This table reflects revised growth rates calculated using the latest HSBC-Oxford Economics data (Nov. 2016) for the period 2016-2030.

## 7c. GDP growth rates under two alternative scenarios

<b><u>GDP growth</u></b>		<b>Baseline forecast: no policy change (2016-30, annual growth rate)</b>	<b>US protectionism and hard Brexit scenario (2016-30, annual growth)</b>	<b>GDP difference: between baseline and alternative scenario, as of 2030</b>
<b>Country</b>				
US		1.6%	1.5%	-0.7%
Canada		1.8%	1.8%	0.0%
Mexico		3.0%	2.9%	-1.4%
ASEAN countries	Indonesia	4.6%	4.5%	-0.7%
	Singapore	2.0%	2.0%	-0.3%
	Malaysia	4.1%	3.9%	-1.6%
	Vietnam	5.6%	5.5%	-1.4%
Japan		0.5%	0.5%	-0.8%
Korea		2.3%	2.2%	-0.2%
China		5.4%	5.3%	-0.4%
UK		1.7%	1.4%	-3.8%
Germany		0.9%	0.9%	-0.2%
France		1.2%	1.2%	-0.1%

Source: HSBC and Oxford Economics: <https://globalconnections.hsbc.com/united-kingdom/en/tools-data/trade-forecasts>.

Note: This table reflects revised growth rates calculated using the latest HSBC-Oxford Economics data (Nov. 2016) for the period 2016-2030. Due to small differences in rounded growth rates, a GDP difference may still emerge even where the baseline and alternative growth rates appear similar.

## 8. On the horizon

- **Global trade remains weak, but with some green shoots.** Global economic institutions and regional agreements under pressure.
- **The current US & UK trade policy environment looks turbulent.** The US is considering changes in trade and taxation; UK exit from EU is a system-wide change but replacement regime is unclear.
- **HSBC long range forecasts had anticipated robust growth** in US & UK exports. Emerging markets were expected to gain in relative importance, with high value-added products like industrial machinery and scientific/medical apparatus in demand. Now greater uncertainty.
- **The new US trade policy agenda may offer some possibilities for trade liberalisation.** Possible new bilateral trade accords (e.g., UK, Japan) or perhaps at the WTO (e.g., services or improved protection for intellectual property rights (e.g., trade secrets)).
- **The new UK trade policy agenda offers the prospect of improved market access in distant markets, increased trade costs locally**
- **Some other trade prospects advancing: EU bilaterals? RCEP?**

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