



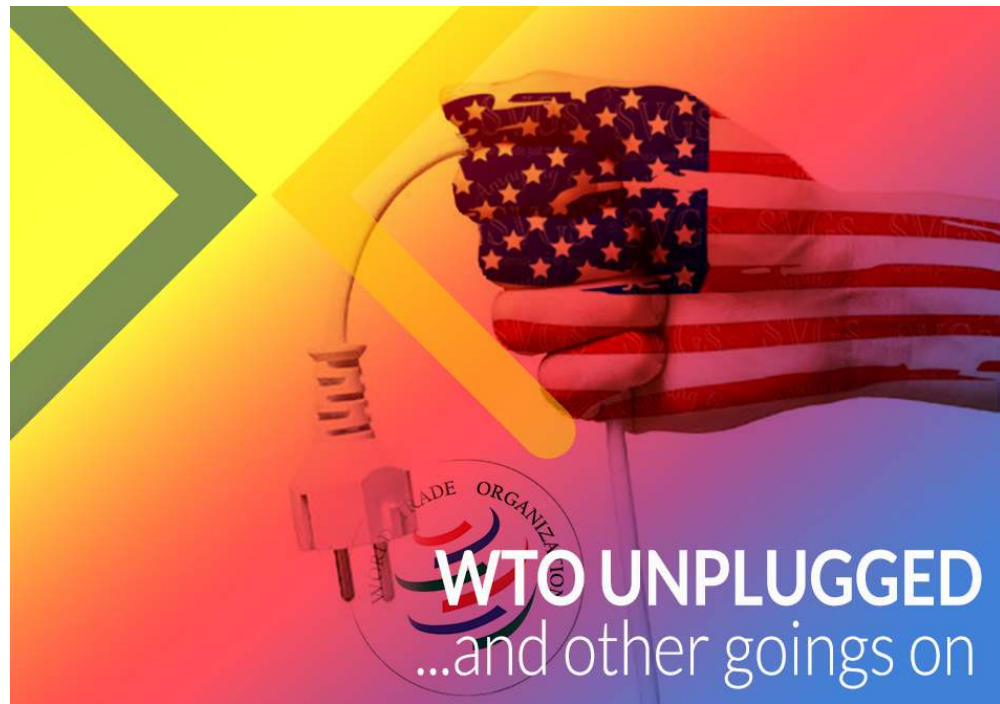
GLOBALISATION OUTLOOK

by Joe Zammit-Lucia

December 2019

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appellate process is out of
action**

**The current state of geopolitics
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the essential reform of the WTO
can move forward**



THE WTO IS OUT OF ACTION

As of December 11th, the WTO appellate body is out of action.

The US has refused to go along with the appointment of new judges effectively rendering the appellate body non-functional.

President Trump has made it clear throughout his term that he has no time for multilateral deals and even less time for WTO judges telling him what he can and cannot do. He prefers the idea that might is right and using the power of the large US market and the indispensable nature of the dollar to bend others to his will.

The reality has proven rather more difficult in practice. Both the re-negotiation of NAFTA and the endless to-and-fro with China have shown that, mighty as it still is, the USA will not always get its way. That trade conflict can hurt the US economy – at least in electoral cycle time frames – as well as hurting others.

That said, the WTO does need root and branch reform. In spite of endless, high quality technical papers having been produced, such reform still seems a distant dream. As always, the politics matter more, much more, than the technicalities.

And the current state of geopolitics does not offer much hope that any kind of reform can be agreed.

The EU, smaller economies and developing countries will likely be the most vulnerable

WHAT DOES THIS MEAN FOR THE TRADING BLOCKS?

1. THE USA

The US is obviously the driver of this emasculation on the WTO. It fits the current administration's desire to use its might to drive harder bargains with trading partners. As outlined above, how this will work out in practice remains to be seen.

2. CHINA

China has a good track record of talking up the multi-lateral rules-based order while not sticking to either the letter or the spirit of the rules. If others also start to feel free to bend the rules in the belief that there is no longer any way of enforcing them, China's particular way of gaming the system may no longer remain unique.

Below we also address the political aspects of China's trade policy.

3. THE EU

The EU prides itself on being a stickler for the rules. In practice, it also has outstanding judgements against it (*eg.* on GMOs) that it has done nothing about. That said, the EU is likely to feel particularly vulnerable if there is a breakdown of the rules-based system. Its legalistic approach to everything makes the potential development of a Wild West trading environment something it may find difficult to deal with.

4. SMALLER COUNTRIES

Smaller countries with less leverage than the three big trading blocks – and the UK will be one of those countries if and when it leaves the EU – will be particularly vulnerable. Developing economies will also be significantly disadvantaged.

FOR CHINA TRADE IS POLITICAL

US-China 'phase one' trade deal may be unlikely to happen

China has reacted with anger at the US Senate's decision to move forward with legislation that supports Hong Kong protestors and the President's signing it into law.

It has been reported that senior Chinese officials have suggested that the Senate's decision makes it very unlikely that a 'phase one' deal – disappointing as it is – will be signed before year end. Economically, the

phase one deal is not particularly meaningful, but President Trump may consider it an important political signal of 'success' for the 2020 election.

Hence his attempt at conciliatory wording towards China as he signed the legislation.

"China will have to take strong countermeasures to defend our national sovereignty, security and development interests if the US insists on taking the wrong decisions."

Geng Shuang
Spokesman for China's foreign ministry

"The nature of this is extremely abominable and harbours sinister intentions."

"China strongly urges the US to correct mistakes and change course."

China's foreign ministry. As reported.

Globalist cheerleaders have no answer for how to trade with China while also sticking to Western principles and values

Western democratic nations will have to grapple with the issue that trade with China involves political gagging of anything to do with China's behavior and geopolitical ambitions – be it Hong Kong, Taiwan, Uyghur repression, human rights violations, the South China Sea, or anything else that China, and China alone, considers simply 'internal matters'.

It is possible that China will also consider issues like intellectual property protection and its sliding back on climate change commitments as necessary for its own development and therefore also out of bounds for any kind of push-back or criticism.

So far, we can see no clarity on how the West will handle the conflict between its desire to trade with China and the impossibility of sticking to its own principles and values in doing so.

Maybe those many commentators who keep urging further cooperation with China have a pat answer. We haven't seen it yet.

"I sometimes despair at the proposition that some countries will buy your country's goods or accept its investment only if you hold your tongue, no matter how badly their governments behave. They can kill journalists, incarcerate tens or hundreds of thousands of people, and try to impose warped values on others, yet remain insulated from criticism..."

At least for some time to come, democratic leaders will have to deal with a large and powerful world player that has no regard for human rights or global rules."

Lord Chris Patten in Project Syndicate. Nov 29, 2019

Is Macron right that ‘the period of European naivety is over?’

At least the US Senate has stood up for its principles – and dragged President Trump along with it kicking and screaming. Europe, on the other hand seems utterly supine.

From facilitating the Russian pipeline, to allowing China’s Belt and Road Initiative to control strategic European assets, to its continued silence regarding Chinese oppression and rule-breaking, Europe is starting to give the impression that its much vaunted values matter little when money and trade are at stake.

In March, President Macron stated that “The period of European naivety is over.”

We shall see.

US STEEL TARIFFS ARE A MESS

It has been suggested that those firms with political influence in Washington are getting advantageous treatment over import waivers

When the US imposed tariffs on imported steel, it also provided the possibility for companies to apply for waivers for tariff exclusions if they wished to import steel unavailable in the US. Other companies could also submit objections to any waiver application by a competitor.

This waiver process has turned into an almighty mess.

"As of March 2019, the government had received 51,345 requests for waivers and 19,543 objections. Delays had piled up, and commentators pointed out that a disproportionate share of the objections had come from just three US companies – US Steel, Nucor, and AK Steel – and applied to a volume of steel 169% above their combined capacity. As of September 2018, the average number of waiver requests per firm was 43, with one firm filing as many as 2,563. After almost a year, the Department of Commerce had approved just 59% of applications with no objections, and under 1% of those with objections. Although national security had been the purported rationale for the tariffs, far more imported steel from China received exemptions than did steel from Canada or Mexico."¹

There have been suggestions that some firms that have undue influence in the administration are getting waivers while others are not.

SUPPLY CHAINS MAY NOT BE ALL THEY ARE CRACKED UP TO BE

Complex supply chains are all very well – when they work.

¹ <https://www.project-syndicate.org/commentary/trump-market-intervention-distorting-outcomes-by-anne-krueger-2019-11>

Supply chains for essential medicines seem to have broken down

The search for efficiency has led to increasingly complex global supply chains and a consequent reduction in resilience whenever something goes wrong.

It has now been reported that the UK National Health Service “is running short of dozens of lifesaving medicines including treatments for cancer, heart conditions and epilepsy.”² The reasons for these shortages have not been explained.

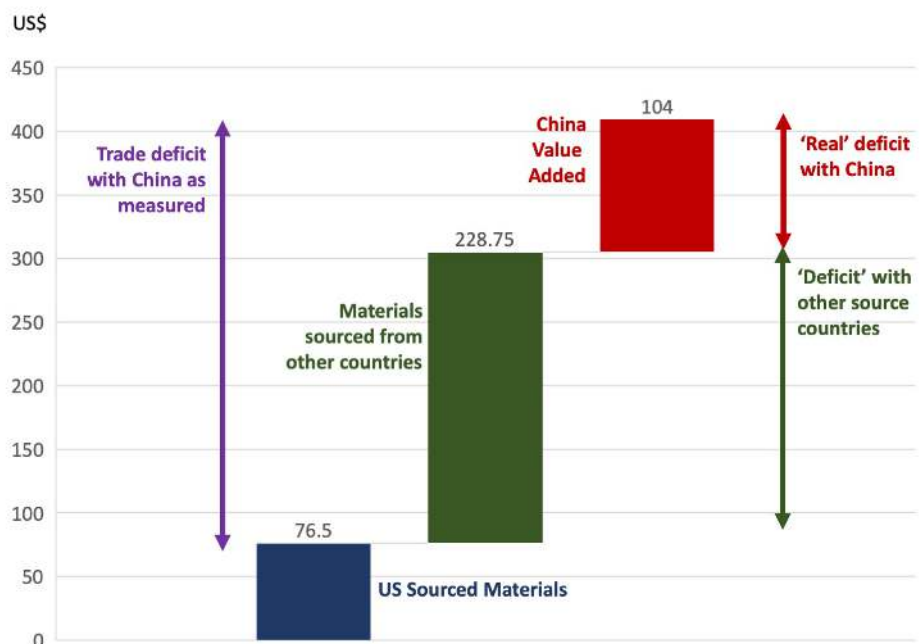
The pharmaceutical business is one of the most globalized and efficient. Yet if it cannot guarantee seamless supplies of essential medicine, something has gone badly wrong.

HOW SHOULD WE CALCULATE TRADE DEFICITS/SURPLUSES?

Standard trade statistics mis-allocate trade deficits and surpluses

Dr. Yuqing Xing, Professor of Economics and the Director of Asian Economic Policy at the National Graduate Institute for Policy Studies in Tokyo, uses a breakdown of value added for the iPhone to argue that the way that trade statistics are calculated is erroneous.

How iPhone X contribution to the measured US-China trade deficit fails to reflect where value is created



Source: RADIX graphic using data from “How the iPhone widens the US trade deficit with China” by Yukung Xing. <https://voxeu.org/article/how-iphone-widens-us-trade-deficit-china>

As the above graphic shows, much of the value added in an iPhone is sourced from other countries (Japan, South Korea, etc) and imported into China for assembly.

² <https://www.theguardian.com/society/2019/nov/18/revealed-nhs-running-short-of-dozens-of-lifesaving-medicines>

US trade statistics, however, calculate all value added that originates outside the US as originating from the country that exports the final assembled product. This overestimates the US-China trade deficit and underestimates the deficit between the US and other countries.

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.

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