Dealing with the Complexity of International Trade

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Introduction

International commerce has been going on for centuries, with countries buying and selling from each other. Going back in time, we would recall that the Phoenicians were great at trade. that the Silk Road was extensive, that the British East India Company had a far reach.

The **Phoenicians** were among the greatest traders of their time and owed much of their prosperity to **trade**. At first, they traded mainly with the Greeks, **trading** wood, slaves, glass and powdered Tyrian purple. (Wikipedia)

The **Silk Road** was an **ancient** network of trade routes that connected the East and West. It was central to cultural interaction between the regions for many ...(Wikipedia)

British East India Company. The **British East India Company** (1600–1858) was originally a private **company** granted a trade monopoly with the **East** Indies by Queen Elizabeth I. Its success in extracting concessions from native rulers eventually led to its de facto control over much of modern **India** between 1757 and 1858. (Wikipedia)

Working towards free trade

The world has changed from these historic times. Much of what goes on today is in the form of bilateral trade agreements, regional and international agreements. Member countries of the international community have been working hard for decades in the General Agreements on Tariffs and Trade (GATT) to remove trade barriers and ensure that trade is conducted fairly. The GATT has now been transformed into the World Trade Organization (WTO). The International Monetary Fund has also been playing a crucial role in facilitating trade among countries and helping them deal with trade imbalances, both through technical and financial assistance. In this context, the balance of payments is a vital instrument. Nonetheless, trade imbalancesdooccur and the usual way to deal with these is to go through the negotiation channel and when this does not work to take up the dispute to the WHO which has resolution mechanism which has worked well over the years. At times, an imbalance is accepted as a basis for developing interdependence(case in point Germany and Russia). The imposition of tariffs is rare since the mechanisms just mentioned do work in improving trade relations between twoor among groups of countries. Renegotiation of trade agreements can be done at both the bilateral and multilateral levels.

Lessons learned

Trade wars are considered unnecessary given that one of the five basic reasons for the Great Depression was an escalation of trade frictions albeit a trade war.

American Economic Policy with Europe - As businesses began failing, the government created the Smoot-Hawley Tariff in 1930 to help protect American companies. This charged a high tax for imports thereby leading to less trade between America and foreign countries along with some economic retaliation.

(http://www.cland.k12.ky.us/userfiles/13/classes/441/5causesofthegreatdepression.pdf?id=8459)

Countries should thus carefully consider the options outlined above and not get into a trade war which can backfire.

Dealing with trade disputes caused by imbalances
A trade deficit is a situation where the value of goods imported is higher than that of those exported. At times, when the situation continues and keeps on growing, the deficit may be a cause for dispute.
Imposing tariffs generally does not work and can backfire as pointed out above. If there is an element of unfairness, the case can be taken to WTO for adjudication albeit resolution.

WTO dispute resolution gateway:
Resolving trade disputes is one of the core activities of the WTO. A dispute arises when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO. The WTO has one of the most active international dispute settlement mechanisms in the world. Since 1995, over 500 disputes have been brought to the WTO and over 350 rulings have been issued.
https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm

WTO is involved in an ongoing negotiations to improve its dispute resolution mechanisms
https://www.wto.org/english/tratop_e/dispu_e/dispu_negs_e.htm

Renegotiation as a strategy
Also, the countries concerned could renegotiate trade agreements which had been entered into. After the bickering between the USand Mexico over NAFTA, representatives from the two countries worked out a renegotiation deal recently. A similar renegotiation with Canada went on. S a result, NAFTA was replaced by USMCA.

NAFTA OUT and USMCA IN

https://newsnetwork.mayoclinic.org/discussion/treatment-options-should-be-carefully-considered-for-blocked-carotid-arteries/

https://www.thisisinsider.com/trump-us-mexico-canada-nafta-trade-deal-china-2018-10

USMCA in five hundred words: https://www.vox.com/2018/10/3/17930092/usmca-nafta-trump-trade-deal-explained

Neil Irwin in an article in The New York Times posits that 'In Trade Pacts, Signs Emerge of a Strategy'.

https://www.nytimes.com/2018/10/06/upshot/trump-trade-strategy-coming-into-focus.html

A caveat in the same article is quote "Taking an aggressive stance with traditional allies now seems to be just a warm-up for the main event: isolating China." Question is why a renegotiation could not be undertaken with China?

Trump's new NAFTA shows what he cares about

https://www.huffingtonpost.com/entry/trump-new-nafta_us_5bbbbf6ee4b028e1fe4068ab

A similar effort renegotiation was successfully undertaken between the US and EU, following clear misunderstanding.

The fundamental elements

Often, there is an undue attention to trade imbalance focusing mainly on trade of goods. Attention should shift to the balance of payment to have a more comprehensive picture, for instance a deficit in goods can be offset by a positive difference in the exchange of services. One has to take into account the three key elements of the current account: balance on goods, balance on services and balance on income. Even a trade imbalance in goods has to be more closely analyzed as in the case of China-US trade.

Not to be forgotten is the need for a close look at another key element of the balance of payments, which is the financial account.

For this thorough analysis, the balance of payments manual of the IMF is very helpful: https://www.imf.org/external/pubs/ft/bopman/bopman.pdf

By the way, the IMF also provides technical assistance as needed: www.imf.org

Gregory Mankiv in an article in The New York Times states that a refresher course on the subject may be timely:

http://gregmankiw.blogspot.com/2018/10/surprising-truths-about-trade-deficits.html

US China trade facts

The People's Republic of China

U.S. goods and services trade with China totaled an estimated $710.4 billion in 2017. Exports were $187.5 billion; imports were $522.9 billion. The U.S. goods and services trade deficit with China was $335.4 billion in 2017.

China is currently our largest goods trading partner with $635.4 billion in total (two way) goods trade during 2017. Goods exports totaled $129.9 billion; goods imports totaled $505.5 billion. The U.S. goods trade deficit with China was $375.6 billion in 2017.

Trade in services with China (exports and imports) totaled an estimated $75.0 billion in 2017. Services exports were $57.6 billion; services imports were $17.4 billion. The U.S. services trade surplus with China was $40.2 billion in 2017.
According to the Department of Commerce, U.S. exports of Goods and Services to China supported an estimated 911,000 jobs in 2015 (latest data available) (601,000 supported by goods exports and 309,000 supported by services exports).

Exports

- China was the United States' 3rd largest goods export market in 2017.
- U.S. goods exports to China in 2017 were $129.9 billion, up 12.4% ($14.3 billion) from 2016 and up 106.4% from 2007. U.S. exports to China are up 577% from 2001 (pre-WTO accession). U.S. exports to China account for 8.4% of overall U.S. exports in 2017.
- The top export categories (2-digit HS) in 2017 were: aircraft ($16 billion), machinery ($13 billion), miscellaneous grain, seeds, fruit (soybeans) ($13 billion), vehicles ($13 billion), and electrical machinery ($12 billion).
- U.S. total exports of agricultural products to China totaled $20 billion in 2017, our 2nd largest agricultural export market. Leading domestic export categories include: soybeans ($12 billion), cotton ($978 million), hides & skins ($945 million), coarse grains (ex. corn) ($839 million), and pork & pork products ($662 million).
- U.S. exports of services to China were an estimated $57.6 billion in 2017, 4.9% ($2.7 billion) more than 2016, and 339% greater than 2007 levels. It was up roughly 973% from 2001 (pre-WTO accession). Leading services exports from the U.S. to China were in the travel, intellectual property (trademark, computer software), and transport sectors.

Imports

- China was the United States' largest supplier of goods imports in 2017.
- U.S. goods imports from China totaled $505.5 billion in 2017, up 9.3% ($42.9 billion) from 2016, and up 57.3% from 2007. U.S. imports from are up 394% from 2001 (pre-WTO accession). U.S. imports from China account for 21.6% of overall U.S. imports in 2017.
- The top import categories (2-digit HS) in 2017 were: electrical machinery ($147 billion), machinery ($110 billion), furniture and bedding ($32 billion), toys and sports equipment ($26 billion), and plastics ($16 billion).
- U.S. total imports of agricultural products from China totaled $4.5 billion in 2017, our 4th largest supplier of agricultural imports. Leading categories include: processed fruit & vegetables ($1.1 billion), fruit & vegetable juices ($320 million), snack foods ($204 million), fresh vegetables ($181 million), and spices ($159 million).
- U.S. imports of services from China were an estimated $17.4 billion in 2017, 8.7% ($1.4 billion) more than 2016, and 47.6% greater than 2007 levels. It was up roughly 387% from 2001 (pre-WTO accession). Leading services imports from China to the U.S. were in the travel, transport, and research and development sectors.

Trade Balance

- The U.S. goods trade deficit with China was $375.6 billion in 2017, a 8.2% increase ($28.6 billion) over 2016.
- The United States has a services trade surplus of an estimated $40.2 billion with China in 2017, up 5.8% from 2016.

Investment

- U.S. foreign direct investment (FDI) in China (stock) was $107.6 billion in 2017, a 10.6% increase from 2016. U.S. direct investment in China is led by manufacturing, wholesale trade, and finance and insurance.
- China's FDI in the United States (stock) was $39.5 billion in 2017, down 2.3% from 2016. China's direct investment in the U.S. is led by manufacturing, real estate, and depository institutions.
- Sales of services in China by majority U.S.-owned affiliates were $55.2 billion in 2015 (latest data available), while sales of services in the United States by majority China-owned firms were $5.7 billion.

Source: Office of US Trade Representative

Trade war with China

The US imposed tariffs on goods it imports from China which led to retaliation. An escalation is going on. Again, as pointed out above, renegotiation of the US and Mexico and with the EU have been successful and it is expected that similar renegotiation between the US and Canada will be successful. It does make sense therefore to have a renegotiation between the US and China rather than a trade war.Already, American farmers have been hit hard and a subsidy to them by the US Government has been deemed to be unacceptable by the farmers who prefer regular trade; also such subsidy may be in contravention of principles of international trade and a case can be made at the WTO.

Protectionism is usually an exception to the principle of free trade but can be done on a limited basis; protectionism on a total scale regarding trade with a particular country is against the principle of free and fair trade and again a case can be made at the WTO, considering in particular that other cases of imbalance has been dealt with by negotiation.

Trade war looms over summit of global finance chiefs

https://www.cnn.com/2018/10/08/economy/imf-bali-world-bank/index.html

Trump rips up the trade playbook to take on China

https://www.cnn.com/2018/10/09/politics/us-china-trade-war-trump/index.html

Pompeo in China: https://www.youtube.com/watch?v=3xFtjYfzYjI

US China dispute is not about trade deficit:

https://www.cnbc.com/2018/10/09/us-china-trade-war-is-not-about-the-trade-deficit-barclays-says.html

More on trade war with China (Google News)

https://news.google.com/stories/CAAqYQgKIltDQklTUGpvSmMzUnZjbmt0TXpZd1NqRUtFUWp2cll1QmpZQU1FVUMySm8wbE9CMDFFaHhVY25WdGNDZHpJSFJ5WVdSbElIZGhjaUIzYVhSb0lFTm9hVzVoS0FBUAE?hl=en-US&gl=US&ceid=US:en

The New York Times reports: China Once Looks Tough on Trade; Now Its Options are Dwindling

https://www.nytimes.com/2018/09/18/business/china-trade-war-retaliate.html

Walmart reportedly warns … trade war will hit regular Americans hard

https://www.aol.com/article/finance/2018/09/21/walmart-reportedly-warns-trumps-trade-war-will-hit-regular-americans-hard/23534829/

https://www.youtube.com/watch?v=yriHP6HOFl8

Extensive coverage in the media shows that American retailers arebeing hit hard and in turn they will pass on the increase to American consumers; the end result may be a further shrinkage of retail in the US and perhaps even the demise of retail as we have known it for decades. Tt is true that the retail industry may need to be re-invented in light of the growth of online shopping led by Amazon. Walmart has made a case with the US Government. Similar action is endorsed by Macy's, Target among many others. Acloser look at the trade imbalance with China shows that many of the high volume of goods imported by the US come from US companies manufacturing in China and subcontract by US companies to Chinese manufacturers.

US China trade facts: https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china

APEC Meeting November 2018

Pence and China's Leader Stake Out Dueling Positions at Trade Meeting. President Xi Jinping of China and Vice President Mike Pence pushed back against criticism of each of their countries' trade practices in speeches Saturday at an Asia-Pacific trade summit in Papua New Guinea, while seeking to assure allies of their commitment to the region. Xi and Pence spoke before what is likely to be a tense meeting between President Donald Trump and the Chinese leader at the Group of 20 conference in Argentina this month.
https://www.wral.com/world-news-at-a-glance/18003922/?comment_order=forward

More details: According to the LA Times (Gerry Shih), Vice President Mike Pence and Chinese President Xi Jinping delivered dueling speeches that offered a window into how the two governments are seeking a truce over tariffs — but remain fundamentally at odds over economics, diplomacy and the race for global influence and primacy.

Pence, taking the stage shortly after Xi at the Asia-Pacific Economic Cooperation summit in Papua New Guinea, launched a pointed and wide-ranging criticism of China, not just over its commercial practices but also over its transcontinental infrastructure projects and military activity in the South China Sea.

Reiterating U.S. commitment to Asia, Pence saved his most pointed words for Xi's flagship foreign policy initiative — the infrastructure investment plan known as the Belt and Road Initiative — as he warned countries about accepting Chinese loans for port and transportation projects scattered from Pakistan to Indonesia.

"We don't drown our partners in a sea of debt. We don't coerce or compromise your independence," Pence said. "We do not offer a constricting belt or a one-way road."

The United States "offers a better option," he said as he unveiled a new regional transparency initiative and $60 billion in U.S. investments for the region.

The Trump administration has voiced a far harder line against China and its growing footprint and rising assertiveness, spurring talk on both sides of the Pacific of a new cold war. But the U.S. president's absence was conspicuous this week at two major Asian summits where Xi, instead, dominated the limelight.

The Chinese president delivered a more conciliatory address as he warned that "confrontation, whether in the form of a hot war, cold war or trade war, will produce no winners."

He dismissed criticism of his Belt and Road Initiative as a debt "trap" and instead positioned himself as a leader of the developing world who could help lift up poor countries in its orbit."Many of the entrepreneurs present here are witnesses, contributors and beneficiaries of China's reform and opening up, and have formed an indissoluble bond with China," said Xi, who appeared to make an oblique jab at U.S. criticisms of human rights abuses in Asia by defending alternative models of development."We should be less arrogant and prejudiced," he said. "What kind of road a country takes, only the people of that country can decide."

In Trump's absence, Pence and national security advisor John Bolton have spoken forcefully about the U.S. agenda in Asia, with Pence sharply rebuking de facto Myanmarleader Aung San Suu Kyi over the treatment of Rohingya Muslims in her country.Pence acknowledged that the spillover from U.S.-China competition is "felt" by many Asian countries, and reiterated that the U.S. wanted a better relationship with Beijing.The two governments are hoping when the two leaders meet in Argentina in a few weeks to thrash out a deal that could at least freeze escalating tariffs."China knows where we stand," Pence said. "As the president prepares to meet with President Xi at the G-20 Summit in Argentina, we believe that progress could be made."But Pence took a hard line against Chinese expansionism in Asia as he announced a plan to redevelop a naval base in Papua New Guinea with Australia.He vowed that the U.S. Navy would continue to sail through waters claimed by China in freedom-of-navigation operations. A series of operations this year led to a near-collision in September when a Chinese destroyer cut off a U.S. warship near the Spratly Islands in the South China Sea, where the Chinese military has deployed missile systems.

Pence himself flew earlier this week over the Spratlys in Air Force Two in what he told the Washington Post amounted to a "freedom-of-navigation mission in and of itself.""We will continue to fly and sail wherever international law allows and our national interests demand," Pence said in his address Saturday. "Harassment will only strengthen our resolve."

http://www.latimes.com/world/asia/la-fg-pence-xi-jinping-apec-summit-20181117-story.html

Inter-connectedness of the economies

There is a no doubt that the US China trade war has already caused a slowdown of the Chinese economy. The effect is also being felt in the stock markets in China. The stock markets of the US and China have a fair degree of connectedness. The recent uneasiness of the stock markets I the US could be partly political (large wins by the Democrats in the midterm elections) but could also be the effect of the slowdown of the Chinese stock markets as pointed out in an article in The Week:**https://www.google.com/search?source=hp&ei=RQr4W9zmCoSKggf5haOICg&q=trade+war+as+china+slows+will+US+markets+suffer&btnK=Google+Search&oq=trade+war+as+china+slows+will+US+markets+suffer&gs_l=psy-ab.3...2651.39840..49208...2.0..0.505.5184.34j14j1j5-1......0....1..gws-wiz.....0..0j35i39j0i131j0i67j0i131i67j0i10j0i20i263j0i22i30j0i22i10i30j0i13j0i8i13i30j33i22i29i30j33i299j33i160.ZlCosR9FvyI**

Stance at the G20 2018 Buenos Aires (Nov 30-Dec1)
Ahead of the meeting, CNBC (Dr. Michael Ivanovitch) states that "When Trump and Xi meet, trade is the only bilateral deal they can talk about, thatChina would do well for itself, and its claim of a constructive role in the world economy, by agreeing to a prompt and meaningful reduction of its systematic and excessive trade surpluses with the U.S. and that Washington should deal with its structural and systemic trade disputes with China in World Trade Organization forums. The U.S. can also solve some of those issues through its own regulations." CNBC states further that breaking that deadlock during next Friday's U.S.-China summit could involve the following steps.
First, China — with its systematic, excessive and growing trade surpluses — should act according to the rules of international trade adjustment to promptly and meaningfully narrow its trade gap with the U.S. Large volumes of U.S. farm and energy products are now ready to go to China.
Second, Washington should address the structural and systemic trade complaints against China in World Trade Organization forums, in its own trade regulations and with strictly reciprocal measures. That would cover the cases of intellectual property protection, forced technology transfers, illegal export subsidies, etc.

- CNBC urges a de-link of trade from war and peace; no progress should be expected on any political and security problems at the core of U.S.-China confrontation.

https://www.cnbc.com/2018/11/26/trade-is-the-only-bilateral-deal-trump-and-xi-can-discuss-commentary.html

More on the subject: https://www.cnbc.com/2018/11/26/trade-war-will-still-be-a-problem-for-markets-after-g20-summit.html

Good news out of the G20
Looks like common sense is prevailing, dialogue is possible:
https://www.google.com/search?source=hp&ei=79oDXIDKDY2O5wLZ-KSgCw&q=US+China+G20+nrws&btnK=Google+Search&oq=US+China+G20+nrws&gs_l=psy-ab.3..33i160l2.4273.13700..15395...0.0..0.163.1655.16j2......0....1..gws-wiz.....0..0j35i39j0i131j0i22i30j33i22i29i30.V3hP85c_OQ4

According to the BBC: **US President Donald Trump and his Chinese counterpart Xi Jinping have agreed to halt new trade tariffs for 90 days to allow for talks, the US says.**
At a post-G20 summit meeting in Buenos Aires, Mr Trump agreed not to boost tariffs on $200bn (£157bn) of Chinese goods from 10% to 25% on 1 January.

China will buy a "very substantial" amount of agricultural, industrial and energy products, the US says.
Meanwhile, Beijing says the two sides agreed to open up their markets.
The BBC report also provides a more comprehensive picture of the deal
https://www.bbc.com/news/world-latin-america-46413196

One more important point
The IMF conducted its own analysis and points out that the US China trade war will hurt the economic growth of both countries next year, just around the corner:
https://www.cnn.com/2018/10/08/economy/imf-world-economic-outlook/index.html
Conclusion: more lessons learned, a little bit of history
The trade imbalance between the US and Japan was resolved by bilateral negotiation and the ensuing interdependence created enduring peace between the two countries. A similar undertaking could definitely resolve the ongoing differences between the US and China. Good international relations among nations involve cooperation, competition and conflict all at the same time; key question is how to play on all the fronts in a win win game. Fact is a super power competition is going on.