THE GLOBAL ECONOMY AND
THE FUTURE OF THE GLOBAL TRADE ORDER
CARLOS A. PRIMO BRAGA
JUNE 2018
OUTLINE

• The age of anxiety;
• The Global Financial Crisis (GFC) and reactions to globalization;
• Globalization: the role of geopolitical shocks, technology, macroeconomic disruptions, and changes in the rules-of-the-game;
• “Peak globalization” and the trade slow-down;
• The protectionist threat and the global trade order;
• Future scenarios.
CHANGE
REALITY?
SOURCE: WWW.DESVIANTES.COM.BR
“MAY YOU LIVE IN INTERESTING TIMES...”: SHIFTING CENTER OF ECONOMIC GRAVITY
SOURCE: ABLETT AND ERDMANN (2013)

The ten years from 2000 to 2010 saw the fastest-ever shift in the world’s economic center of gravity.

Shifts in the world’s economic center of gravity
AD 1–2025

*Calculated by weighting national GDP by each nation’s geographic center of gravity; a line drawn from the center of the earth through the economic center of gravity locates it on the earth’s surface. For detailed analysis, see Richard Dobbs et al., Urban World: Cities and the Rise of the Consuming Class, McKinsey Global Institute, June 2012, pp. 61–72.
Source: University of Groningen; McKinsey Global Institute analysis of data compiled by Angus Maddison.
China used more cement in the last three years than the U.S. used in the entire 20th century.

4.5 gigatons
(1901-2000)

6.6 gigatons
(2011-2013)

Sources: USGS, Cement Statistics 1900-2012; USGS, Mineral Industry of China 1990-2013
COMPUTATIONAL CAPACITY

“The Pentium IIs we used in the first year of Google performed about 100 million floating point operations per second. The GPUs we use today perform about 20 trillion such operations — a factor of about 200,000 difference — and our very own TPUs are now capable of 180 trillion (180,000,000,000,000) floating point operations per second.”

Sergey Brin
TECHNOLOGICAL EVOLUTION VS. HUMAN ADAPTABLENESS
SOURCE: ANALYSIS OF ERIC ‘ASTRO’ TELLER AS DESCRIBED IN FRIEDMAN (2016)
# THE AGE OF ANXIETY

*(complexity vs. cognitive capacity)*

*Source: Primo Braga (2016)*

<table>
<thead>
<tr>
<th></th>
<th>Known Unknowns</th>
<th>Unknown unknowns</th>
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<tbody>
<tr>
<td><strong>Risks</strong></td>
<td>Probabilities <em>(Brexit, Chinese hard-landing...)</em></td>
<td>...</td>
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<tr>
<td><strong>Uncertainty</strong></td>
<td>Black elephants <em>(Technological disruption, Ebola, Zika, Trump, corruption...)</em></td>
<td>Black swans <em>(geopolitical shocks, terrorism, ...)</em></td>
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</table>
PERCEPTIONS...
SOURCE: ONION (2016)
INTERNET SURVEYS -- SEPTEMBER 2016 VS MAY 2018

What was the worst year?

72,000 B.C. 26%
1348 23%
1492 9%
1836 9%
1837 8%
1877 8%
1876 8%
1943 12%
1968 4%
1919 3%
2003 3%
2016 10%

What was the worst year?

72,000 B.C. 23%
1348 7%
1492 2%
1836 2%
1837 2%
1877 2%
1876 2%
1943 10%
1968 3%
1919 4%
2003 4%
2016 10%
THE WORLD ECONOMY “POST” GLOBAL FINANCIAL CRISIS
THE CRISIS IN ONE GRAPH: FINANCIAL ASSETS IN THE USA

SOURCES: BLUNDELL-WIGNALL, ATKINSON AND LEE (2008), FEDERAL RESERVE, DATASTEAM, OECD.
GROWING INTERDEPENDENCE OF FINANCIAL MARKETS
SOURCE: MINOIU AND REYES (2011)

Figure 3. Network view of cross-border banking, 1980 and 2007

Panel A. Core-periphery
CRISES AND RECOVERY
SOURCE: WEF (2017)

Figure 1.1: The Pace of Global Recoveries since 1975
OECD real GDP; seasonally adjusted; rebased to 100 at trough of each slowdown

Source: OECD Quarterly National Accounts Dataset.
THE AGE OF EASY MONETARY POLICIES

Source: McKinsey (2013b)

Exhibit 1
Central banks pushed policy rates to ultra-low levels in 2009 and have held them there since
Main policy rates
%

SOURCE: US Federal Reserve; European Central Bank; Bank of England; Bank of Japan; McKinsey Global Institute analysis
EXPANSION OF BALANCE SHEETS: AN ACCIDENT WAITING TO HAPPEN??

Source: McKinsey (2013b)

Central bank balance sheets in the United States, the United Kingdom, the Eurozone, and Japan have expanded by $4.7 trillion since 2007.

Total assets on central bank balance sheets (end-of-period values) $ trillion, converted at 2Q13 constant exchange rate

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<th>07</th>
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<td><strong>Overall</strong></td>
<td>0.4</td>
<td>0.4</td>
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<td>2.4</td>
<td>2.9</td>
<td>2.9</td>
<td>8.7</td>
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</table>

% of GDP:

- 2007: 11
- 2008: 18
- 2009: 18
- 2010: 18
- 2011: 22
- 2012: 23
- 2013: 24

1. European Central Bank; excludes gold and foreign currency.
2. Total assets as share of combined GDP.

NOTE: Numbers may not sum due to rounding.

THE EURO: HAVE THE REPORTS OF ITS DEATH BEEN GREATLY EXAGGERATED?
A POLITICAL PROCESS
Figure 5. Spreads before and after Monetary Union

Sources: Datastream, OECD.
DEBT TO GDP RATIOS

General Government Debt to GDP Ratio (% of GDP)

Source: IMF

BloombergBriefs.com
"Spain is not Greece." Elena Salgado, Spanish Finance minister, February 2010.
"Portugal is not Greece." The Economist, April 2010.
"Greece is not Ireland." George Papaconstantinou, Greek Finance minister, November 2010.
"Spain is neither Ireland nor Portugal." Elena Salgado, Spanish Finance minister, November 2010.
"Ireland is not in 'Greek Territory.' "Irish Finance Minister Brian Lenihan. November 2010.
"Neither Spain nor Portugal is Ireland." Angel Gurria, Secretary-general OECD, November 2010.
"Italy is not Spain" - Ed Parker, Fitch MD, 12 June 2012.

"Spain is not Uganda" Spanish PM Rajoy. June 2012.
"Uganda does not want to be Spain" (Ugandan foreign minister) June 13, 2012.
THE ECB’S CALMING EFFECT

Recovery in Peripheral Bond Yields
10-Year Government Bond Yield

As of April 28, 2014
Source: Financial Times
GREEK ECONOMIC COLLAPSE

Source: FT

Real gross domestic product
(1 Q 2008 = 100)
## Stereotyping in Europe

### Who Is Trustworthy, Arrogant and Compassionate

*EU nation most likely to be named...

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<th>Least Trustworthy</th>
<th>Most Arrogant</th>
<th>Least Arrogant</th>
<th>Most Compassionate</th>
<th>Least Compassionate</th>
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<td>Czech Rep.</td>
<td>Germany</td>
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Source: PEW (2013)
G8 SUMMIT, NORTHERN IRELAND, 2013: AN OMEN...?

Source: International Herald Tribune (2013)
Figure 2.1. 2015 GDP Growth Forecasts and the Effects of an Oil Supply Shock

1. 2015 GDP Growth Forecasts
(Percents)

Legend:
- Red: Less than 0
- Pink: Between 0 and 2
- Coral: Between 2 and 4
- Beige: Between 4 and 5
- Light Blue: Between 5 and 6
- Dark Blue: Greater than or equal to 6
- White: Insufficient data
AN UPSIDE DOWN WORLD...

• Response to financial crisis (very low interest rates; several countries pursuing ZIRP);
• Non-conventional monetary policies:
  ▪ Quantitative easing (purchase of long-term G bonds)
  ▪ Heterodox credit easing (central banks purchase of private assets)
  ▪ Forward guidance (commitment to maintain low policy rates over the medium term)
  ▪ Negative interest rates
• According to some estimates more than $7 trillion in bonds all over the world now carry negative yield...
• Theory: (1) incentive for commercial banks to lend more; (2) expectation that costumers will borrow more, increasing spending and saving less; (3) to narrow credit spreads on private assets; (4) to foster inflation (helping to diminish real debt burden); and (5) to promote competitive exchange rate depreciation;
• Danger: if there is no transmission to the wider economy, negative rates lose their rationale; if there is transmission, then banks profitability and/or business model compromised...
INTEREST RATES AND DEBT

Source: BIS (2015)

Interest rates sink as debt soars

Lhs:
- Long-term index-linked bond yield
- Real policy rate

Rhs:
- Global debt (public and private non-financial sector)

Notes:
1. From 1998, simple average of France, the United Kingdom and the United States; otherwise only the United Kingdom.
2. Nominal policy rate less consumer price inflation.
3. Aggregate based on weighted averages for G7 economies plus China based on rolling GDP and PPP exchange rates.

Sources: IMF, World Economic Outlook; OECD, Economic Outlook; national data; BIS calculations.
THE EUROPEAN EXPERIENCE WITH NEGATIVE RATES
Source: Belch and Malkhozov (2016)

* Deposit rates for overnight loans on new deposits.
* Deposit rates offered by banks on new deposits, all accounts.
* Rates on new loans.
* Ten-year fixed mortgage rate minus 10-year interest rate swap.
* Copenhagen interest 1/N average (CITA) swap rates replaced Cibor in December 2012.

Sources: Bloomberg; national data.
NEGATIVE YIELDS...

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<td>11%</td>
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<td></td>
<td></td>
<td>0%</td>
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% trading below 0% yield (Feb 2016)

Source: Bloomberg Finance LP, DB Global Markets Research
# Growth Forecasts (%)

**Sources:** WEO/IMF, several years.

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<th>Year (Forecast)</th>
<th>World</th>
<th>USA</th>
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<td><strong>2017</strong></td>
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<td>7.6</td>
<td>6.9</td>
<td>1.3</td>
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REASONS FOR OPTIMISM?
SOURCE: GOODMAN (2018)
THE PARADOX: INTERNATIONAL FINANCIAL MARKETS AND UNCERTAINTY...
SOURCES: PRIMO BRAGA (2017A); CONSTANTINESCU, MATTOO AND RUTA (2017); IRWIN (2017).

GROWING POLITICAL UNCERTAINTY

LOW VOLATILITY IN FINANCIAL MARKETS

**FIGURE ES3**: World import growth and policy uncertainty, from mid-2012 to 2016


**The Least Volatile Stock Market in Years**

Rarely have stock prices been as stable as they have been in 2017, according to a commonly used measure of expected stock market volatility.

Source: CBOT
VIX: THE RETURN OF VOLATILITY IN 2018...
SOURCES: HEISENBERG (2018); PRIMO BRAGA (2018)
Global debt continues to grow

Public sector debt
CORPORATE DEBT IN THE USA

SOURCE: MAULDIN (2018)
“THEORY IS WHEN YOU UNDERSTAND EVERYTHING, BUT NOTHING WORKS. PRACTICE IS WHEN EVERYTHING WORKS, BUT NOBODY UNDERSTANDS WHY. AT THIS STATION, THEORY AND PRACTICE ARE UNITED, SO NOTHING WORKS AND NOBODY UNDERSTANDS WHY.” (SOURCE: FISHER, 2011)
GLOBALIZATION: PERCEPTIONS, FACTS, AND TRENDS
GLOBALIZATION: AN EARLY OBSERVATION

“Before, the events that took place in the world were not linked. Now, they are all dependent on each other”

Polybius, Greek historian, in the 2\textsuperscript{nd} century BC
INTERNATIONAL TRADE AND ECONOMIC GLOBALIZATION: LONG-TERM TRENDS

SOURCES: CHASE-DUNN AND KWON (2010); WORLD DEVELOPMENT INDICATORS (2011)
THE KOREAN PENINSULA AS A METAPHOR
GLOBALIZATION 21ST CENTURY STYLE
SOURCE: MCKENZIE (2014)

We examine flows of goods, services, finance, and people, and data and communication that underlies them all.
Value and growth of cross-border flows

- **Goods**: $17.5 trillion, 11%
- **Services**: $4.4 trillion, 10%
- **Financial**: $4.0 trillion, 6%
- **People**: 194 million people, 2%

2012 value
Compound annual growth rate, 2002–12

- Goods: $17.5 trillion, 11%
- Services: $4.4 trillion, 10%
- Financial: $4.0 trillion, 6%
- People: 194 million people, 2%

Data and communication:

1. Measured by cross-border migrants; values from 2000 and 2010.
2. Measured by cross-border Internet stock traffic; values from 2005 and 2013.

SOURCE: Comtrade; IHS Economics & Country Risk; World Bank; Bank for International Settlements; IMF Balance of Payments; Telegeography; Web of Science, Thomson Innovation; McKinsey Global Institute analysis
## INTERNATIONAL CONNECTIVITY

*Source: McKinsey (2016B)*

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<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Score</th>
<th>Goods</th>
<th>Services</th>
<th>Finances</th>
<th>People</th>
<th>Data</th>
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DISTINCT VECTORS OF GLOBALIZATION

SOURCE: GREENBERG, HIRT, AND SMIT (2017)

Global flows of data have outpaced traditional trade and financial flows.

1 Trade and finance are inflows; data flows are a proxy to inflows, based on total flows of data.

Source: IMF Balance of Payments Statistics; TeleGeography, Global Bandwidth Forecast Service; UNCTAD; World Bank; McKinsey Global Institute analysis.
PERCEPTIONS ABOUT GLOBALIZATION
SOURCE: SMITH (2016)
GLOBALIZATION IN MOTION

- Disruptive technologies
- Geopolitical tensions
- Changing rules of the game (trade, investment, taxes, IPRs...)
- Macroeconomic shocks
GEOPOLITICAL SHOCKS
GLOBAL RISKS, 2018
SOURCE: WEF (2018)
RISK PERCEPTIONS: 2018 VS. 2017
SOURCE: WEF (2018)

Do you think that, in 2018, the risks presented by the following issues will decrease or increase compared to 2017?

- Political or economic confrontations/frictions between major powers:
  - 6% significantly decrease
  - 53% somewhat decrease
  - 40% no change
  - 19% somewhat increase
  - 19% significantly increase

- State-on-state military conflict or incursion:
  - 20% significantly decrease
  - 60% somewhat decrease
  - 19% no change
  - 19% somewhat increase

- Regional conflicts drawing in major power(s):
  - 19% significantly decrease
  - 58% somewhat decrease
  - 20% no change

- Erosion of multilateral trading rules and agreements:
  - 20% significantly decrease
  - 53% somewhat decrease
  - 20% no change

- Loss of confidence in collective security alliances:
  - 27% significantly decrease
  - 51% somewhat decrease
  - 16% no change

- Erosion of global policy coordination on climate change:
  - 14% significantly decrease
  - 26% somewhat decrease
  - 39% no change
  - 19% somewhat increase
  - 19% significantly increase
WARs AND DEATHS...
Source: Pinker and Mack (2014)
TERRORISM

Source: Institute for Economics & Peace (2014)

**Figure 1. Deaths from Terrorism, 2000–2013**
The number of people who have died from terrorist activity has increased fivefold since the year 2000.

**Figure 2. Terrorist Incidents, 2000–2013**
In 2013, 60% of all attacks occurred in five countries: Iraq, Afghanistan, Pakistan, Nigeria and Syria. However, the rest of the world suffered a 34% percent increase in terrorist incidents in 2013.

Source: GTD. Note: The dashed part of the trend line represents a change in data collection methodology for terrorist acts. The methodology change did not materially alter the trend as the increase in terrorism is evident, see methodology note in Appendix C for further details.
MILITARY BUDGETS

Source: Taylor (2015)

Largest defense budgets in 2014
in billions of dollars

The U.S. spends more than a third of the world
In 2014, United States’ defense budget was 4.5 times bigger than the next largest – China’s. In fact, the U.S. accounted for more than a third of the total defense spending worldwide.
THE NORTH KOREAN THREAT

RUSSIA: THE ROLE OF GEOPOLITICS

Source: Treisman (2016)

- The quest for restoring Russia’s rightful place in the world order;
- From the Reagan/Baker-Gorbachev detent to the Wolfowitz “doctrine”;
- Crimea/Ukraine crisis:
  - Response to NATO’s threat (Yanukovych’s ouster...); concerns about Sevastopol;
  - Imperial delusions (response to “the greatest geopolitical catastrophe of the century”...);
  - Improvisation (Putin as a gambler): no consistent plan for the region’s political future.
RUSSIA: THE ENERGY VARIABLE

Source: Husain et al. (2014)
East and South China Sea disputes

- Air Defense Identification Zone extending the country’s airspace (East China Sea – November 2013...);
- Diayou/Senkaku islands dispute;
- Nine-dash map...
- Deep water drilling around the Paracel islands;
- Reclamation projects in the South China Sea...
THE THUCYDIDES TRAP
Source: Kliman (2014)
WALL STREET AND GEOPOLITICAL SHOCKS

SOURCE: CEMBALEST (2014)
“Everyone has a plan ‘til they get punched in the mouth.”
TECHNOLOGICAL SHOCKS
The number of transaction workers in the United States across some major job types declined more than 50 percent between 1970 and 2010.

Decline in transactional jobs between 1970 and 2010

% workforce share decline for select highly automatable jobs

Index: 100 = 1972

1 Job types that can be scripted, routinized, automated (e.g., cashiers, receptionists, stock traders). Data are for the US private economy. Occupation data normalized in 1983 and 2003 to account for classification differences.

THE R&D INPUT LANDSCAPE, 2017

The size of the circles in this Chart reflects the relative amount of annual R&D spending by the indicated country. Note the regional grouping of countries by the colors of the balls. The horizontal axis reflects R&D spending as a percent share of the countries' GDP (gross domestic product). The vertical axis reflects the number of researchers (including scientists and engineers) per million population for the respective countries.
THE ENERGY REVOLUTION: THE US COMPETITIVE ADVANTAGE

Source: CEPS (2013)

Figure 6.5 Natural gas prices in the US, Europe and Japan, 1993-2012

THE OIL MARKET

Source: Leach (2015)

Demand/Supply Balance until 2Q15

- MB/d
- Implied Stock Ch.& Misc to Bal (RHS)
- Oil Demand
- Oil Supply

[Graph showing the balance between demand and supply of oil from 1Q09 to 1Q15]
U.S. AND SAUDI ARABIA

Source: Leach (2015)
THE US SPECIALIZES IN NEW HIGH-TECH SECTORS

The United States specializes in younger, more R&D intensive products
(relative technological advantage and R&D efforts by young and old innovation leaders in the United States, Europe and the rest of the world)

Note: R&D intensity is measured as the ratio of R&D spending to total sales, for firms established after 1975 (young leading innovators or “Yollies”) or before 1975 (“Ollies”). The relative technological advantage is calculated as the share of each region or country (say Europe) in the R&D of a particular sector (say the Internet) relative to the share of Europe in world R&D; values greater than 1 indicate the region is technology specialized in the sector.

Source: Bruegel and World Bank staff calculations based on the Institute for Prospective Technological Studies R&D Scoreboard; see Chapter 5.
THE IMPACT OF ARTIFICIAL INTELLIGENCE

SOURCE: UBS (2017)

Technological revolutions

The path to human obsolescence?

• Alan Turing: “At some stage... we should have to expect the machines to take control.”

• AI evolution:
  • Artificial narrow intelligence (<2016)
  • Artificial general intelligence (around 2020?)
  • Artificial super intelligence (around 2050???)
INDUSTRIAL ROBOTS
(PER 10,000 WORKERS IN MANUFACTURING)
SOURCE: IFR (2018)

Leading countries

Followers
HYPE VS. REALITY: THE OTTO/UBER EXPERIMENT (20 OCTOBER 2016)

From Fort Collins, CO to Colorado Springs

2000 boxes of Budweiser travel 100 miles
ALEXA AND THE PARROT...

SOURCE: MOYES (2017)
PROBABILITY THAT “IT” WILL LEAD TO JOB LOSSES (2010 – 2030)
Source: Turner (2015)

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<th>Occupation</th>
<th>Probability (1= certain)</th>
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<td>Accountants &amp; auditors</td>
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<td>Telemarketers</td>
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THE POTENTIAL IMPACT OF ARTIFICIAL INTELLIGENCE/AUTOMATION
SOURCE: LEVY (2018)

• Parallels between the impact of globalization/offshoring and automation in the labor market: greater impact on jobs characterized by routine tasks (either in cognitive terms or physical terms: 39.2% of employment by 2000; 33.3% by 2016).
EXPECT THE UNEXPECTED
TECHNOLOGY AND THE LEGAL SYSTEM

David Slater vs. Wikimedia; Naruto’s selfie, Indonesia 2011...

The debate

- “Selfie” taken by a macaque (identified as a male, 6 years old, called Naruto);
- David Slater published the book “Wildlife Personalities” with the picture;
- Wikimedia published the picture without authorization and when Slater asked that the picture be deleted from the web, Wikimedia representatives argued that since the picture was a selfie by an animal the image was in public domain;
- PETA (an NGO) presented a petition in 2015 to a court in San Francisco asking that the copyright be granted to the macaque and that related revenues were allocated for the preservation of the species in Indonesia;
- This request was denied in 1/2016, but in 9/2017 an agreement was reached between Slater and the NGO so that 25% of the revenues generated by the use of the picture will be allocated to the preservation of macaques.
PEAK GLOBALIZATION?

Hypothesis: global trade will no longer grow faster than global GDP and as a consequence outward-oriented development strategies will become less appealing...
Global financial assets have grown to $225 trillion, but growth has slowed since 2007.

Global stock of debt and equity outstanding¹
$ trillion, end of period, constant 2011 exchange rates

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¹ Based on a sample of 183 countries.

THE DECLINE OF GLOBAL CAPITAL FLOWS
SOURCE: MCKINSEY (2017)

Global cross-border capital flows have declined 65 percent since the 2007 peak

% of global GDP
- 1990–2000: 5.3%
- 2000–10: 11.5%
- 2010–16E: 7.1%

1 Gross capital inflows, including foreign direct investment (FDI), debt securities, equity, and lending and other investment.

SOURCE: International Monetary Fund (IMF) Balance of Payments; McKinsey Global Institute analysis
FINANCIAL FLOWS HAVE NOT YET RECOVERED
SOURCE: GOPINATH (2017)
AN ALTERNATIVE READING OF FINANCIAL "DEGLOBALIZATION"
SOURCE: BIS (2017)

As a percentage of world GDP

Graph VI.B.1

1 Total cross-border claims (including inter-office positions) reported by banks in all reporting locations on borrowers worldwide. 2 Consolidated foreign claims (excluding inter-office positions) of banks headquartered in all reporting countries on borrowers worldwide. Foreign claims include both cross-border claims and the local claims of banks' overseas affiliates, but exclude claims on residents of banks' home countries. The split of local claims into local claims in local currencies and local claims in non-local currencies is derived by applying the share of local claims (all currencies) in foreign claims from the ultimate risk statistics to the total foreign claims value in the immediate borrower statistics. 3 Banks headquartered in CH, DK, GB, NO and SE. 4 Banks headquartered in AU, BR, CA, CL, HK, IN, KR, MX, PA, SG, TR and TW.

Sources: IMF, World Economic Outlook; BIS consolidated (immediate borrower and ultimate risk basis) and locational banking statistics.
FDI INFLOWS SINCE 2005
SOURCE: UNCTAD (2017)
INTERNATIONAL TRADE
## EVOLUTION OF WORLD TRADE (MERCHANDISE EXPORTS)

**SOURCE:** WTO (2013A)

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### Notes:
- Figures are significantly affected by including the mutual trade flows of the Baltic States and the CIS between 1990 and 2003.
- Beginning with 1998, figures refer to South Africa only and no longer to the Southern African Customs Union.
- Membership as of the year stated.

Note: Between 1973 and 1993 and between 1993 and 2003, export shares were significantly influenced by oil price developments.
### GLOBAL TRADE, 2017

**SOURCE:** WTO (2018)

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*a Secretariat estimates.
THE RISE OF GVCS
SOURCES: ICTSD AND WEF (2016); WORLD BANK ET AL. (2017); BALDWIN (2016)

• A globalized networked economy driven by investment flows and ICT has significantly impacted global trade;
• Nowadays, business-to-business intermediate trade accounts for roughly 2/3 of the trade in goods and 3/4 of the international services trade;
• In such an environment, it is important to track trade in value-added terms and to recognize the growing importance of services trade;
• In the GVC-centered world, the focus of globalization shifts from sectors of the economy to stages of production.
• The importance of “neighborhood” effects.
A NEW STAGE OF GLOBALIZATION
SOURCE: INOMATA (2017)

Source: Adapted from Baldwin 2013.
**THE SMILE CURVE**

SOURCE: AHMAD AND PRIMI (2017)

**FIGURE 3.1** The smile curve of the global value chain, 1970s and 2000s

Source: Author’s analysis based on Shih 1996 and Gereffi, Humphrey, and Sturgeon 2005.
RETHINKING BILATERAL TRADE BALANCES
(INTERDEPENDENCE AND COMPLEXITY)

2009 US trade balance in iPhones (in millions of US$)

Traditional measure:
-1,901
-1,001

Value added measure:
World
China: -73
Japan: -685
Korea, Rep. of: -259
Germany: -341
Rest of World: -543

GVCs: SOME BASIC CONCEPTS

SOURCES: UNCTAD (2013); PRIMO BRAGA (2013C)

- They are dominated by Northern transnational corporations (TNCs);
- They underscore the interdependence between trade and foreign-direct investment policies;
- Their dynamism is greatly influenced by a different array of trade policies involving logistics, trade facilitation, technical barriers to trade, rules of origin, and commercial services (e.g., transport and distribution services);
- These networks are prone to display “small-word” properties in the sense that local disturbances can have global effects and they can exhibit “tipping-point” characteristics beyond which systemic dislocation can be orders of magnitude greater than the size of initial shocks;
- Foreign value-added in exports can be used as a proxy of the upstream involvement of a country in GVCs, but to get a full picture of a country’s dependency on GVCs one should also look into the extent to which the relevant exports are integrated further into international production networks (downstream perspective).
GVCS: POLICY CONSIDERATIONS  
SOURCE: PRIMO BRAGA (2013C)

• Business as usual is not enough. In other words, to have proper fundamentals at macro level, reasonable infrastructure, a liberal trade policy, and a favorable investment and regulatory climate are necessary, but not sufficient conditions. Particularly with respect to GVC upgrading, the host country has to be able to offer an innovation eco-system that facilitates technology dissemination and skills upgrading. In this context, the quality of the intellectual property rights regime is a key variable;

• Not all GVCs are born equal in terms of their implications for industrial upgrading at country level. On the one hand, there is evidence that firms participating in GVCs associated with machinery and equipment tend to converge more rapidly to productivity patterns prevailing in industrialized countries than those associated with GVCs associated, for example, with textiles and clothing. On the other hand, targeting sectors with higher productivity pay-off will not necessarily bring sustainable development as these sectors may not generate enough job opportunities to unleash substantive structural transformation and economy-wide convergence;
GVCS: POLICY CONSIDERATIONS (CONT.)

SOURCE: PRIMO BRAGA (2013C)

• GVCs do not respond well to piece-meal approaches to policy change. In other words, it is important to adopt a “whole of the supply chain” approach addressing, for example, border management constraints, technical barriers to trade, and transport and distribution services. Actually, one of the main levers for GVC upgrading can be a well-designed policy of services liberalization since GVCs are particular sensitive to the quality of commercial services available to its nodes;

• GVCs can suffer from “bullwhip” effects (reflecting quicker adjustments in production and inventories), reacting faster to external demand shocks than is the case for arm’s length trade. As a consequence, disruption and recovery can occur at a much faster pace than usual and it is important not to overreact to these shocks;

• GVCs greatly increase the premium on coherence of domestic policies. If trade and investment policies are not consistent, this will constrain the chances of expansion and upgrading.
GVC participation rate and LPI score

- Singapore
- Belgium
- Netherlands
- United Kingdom
- Hong Kong, China
- Sweden
- Malaysia
- Germany
- Korea, Republic of
- France
- China
- Switzerland
- Russian Federation
- Saudi Arabia

GVCS AND LOGISTICS
SOURCES: WORLD BANK AND UNCTAD
Backward GVC integration ratio: Share of foreign VA embodied in a country’s gross exports

Brazil and other LAC countries

Figure 1. Backward GVC participation ratios, cross-country comparison for 2011

Figure 3. Backward and forward GVC participation ratios in Latin American countries (1995-2011)

Note: The rest of the world (ROW) category here denotes all the remaining countries in the OECD TVA sample. Source: OECD Trade in Value Added Database.
## THE INNOVATION ECOSYSTEM AND TRADE REGIMES

*Source: Primo Braga (2014)*

<table>
<thead>
<tr>
<th>Innovation model vs. Integration style</th>
<th>Inward oriented</th>
<th>Outward oriented (among top 29 countries in the MGI index)</th>
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<td>Top down (government led)</td>
<td>Brazil (36.33; 37%), India (36.17; 36%), Chile (40.58), Argentina (37.66; 39%)</td>
<td>Mexico (36.82; 44%), Turkey (36.03)</td>
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<tr>
<td>Bottom up (private sector-led: more than 50% R&amp;D done by enterprises)</td>
<td>South Africa* (37.60; 59%)</td>
<td>Switzerland (66.59; 59%), Germany (55.83; 64%), USA (60.31; 45%), China* (44.66; 59%), Russia* (37.20; 56%), South Korea (53.51; 63%), Japan (52.23; 51%), France (52.83; 63%)</td>
</tr>
</tbody>
</table>

Numbers in parenthesis are the scores in the Global Innovation Index and GVC participation rates when available. Sources: Cornell University, INSEAD, WIPO (2013); UNCTAD (2013)

*South Africa is just at the margin of the 50% threshold for R&D sources of financing*

*The role of SOEs in China and the effect of the energy sector in Russia may distort the figures for these countries*
TRADE REGIMES AND EXPORTING FIRMS: THE CASE OF BRAZIL
Source: Canuto et al. (2015)

Figure 2. Brazil's relative lack of exporting firms

Number of exporting firms per capita versus GDP per capita (average 2006–2010)*

Entry rates versus total number of exporters (average 2006–2010)*

Entry rates versus survival rate of new exporters (average 2006–2010)*

Distribution of Export Value among Exporting firms (%)

Charts and data from World Bank (2014); Data source: Exporter dynamics database
EMBRAER: A BRAZILIAN EXCEPTION...
THE FUTURE OF GLOBALIZATION:
PROTECTIONIST THREAT AND THE
CHANGING RULES OF THE GAME
Trade and GDP growth

**Figure 1** Average growth rates in trade and GDP

Selected periods (percent)

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<th>GDP in constant prices</th>
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<td>2014</td>
<td>6</td>
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Note: Total trade is the sum of exports and imports of goods and services.

Source: IMF World Economic Outlook

---

Trade-income elasticity

**Figure 1** World trade-GDP ratio and trade-income elasticity, 1970-2015

Note: Merchandise exports only, world GDP and trade at constant 2005 prices; dollar figures for GDP are converted from domestic currencies using official exchange rates. Long-term elasticity is based on 10-year rolling period from 1960-1970 to 2000-2015 (2015 is based on forecasts).

Source: WTO and authors' calculations
THE “GOOD” OLD DAYS:
‘THE 1990-2005 PERIOD WAS SPECIAL’ ARGUMENT

1. Re-integration of Central and Eastern European nations with Western Europe;
2. Re-integration of China into the global economy;
3. Policy reform/liberalization around the globe;
4. Technological advances – leading to a great expansion in the use of so-called global value chains (ICT, containers...);
THE “SLUMP” IN TRADE OF THE LAST FEW YEARS

Chart 2: Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2018
% change and ratio

Sources: WTO and UNCTAD for trade, consensus estimates for GDP.
HOW TO UNDERSTAND THE TRADE DECLINE?


- Demand-side explanations versus production-side explanations

- Immediately after the onset of the GFC: market-driven, fostered by macro problems?
  - Impact of the financial crisis/credit financing and global economic slow-down;
  - Euro area crisis;

- The “secular stagnation” hypothesis (“sick recoveries and immovable core unemployment”; excessive savings/“new economy”);

- Geo-political frictions and growing uncertainty (impact on investments);

- Structural components (consolidation of GVCs; Chinese rebalancing...);

- Technological shocks (incentives for reversing offshoring);

- Trade-policy driven:
  - The ghost of the Great Depression
    - The lure of trade protectionism in tandem with the populist “wave” (the Trump effect...);
    - The threat of “currency wars”;
  - Global governance failure (the Doha impasse...).
RESORT TO DISCRIMINATORY ACTIONS

SOURCE: GTA (2017)
NOT YOUR “FATHER’S” PROTECTIONISM
SOURCE: GTA (2017)
THE USA AS A TARGET

SOURCE: GTA (2017)
TRADE SLOW-DOWN: STRUCTURAL VARIABLES
SOURCE: VAN ARK (2017)

Imports have fallen as a share of global GDP as demand moves toward less-tradable goods and global supply chains consolidate.

Decomposition of change in import intensity of global demand, annual log-points times 100, period averages.

- Due to product fragmentation
- Due to composition of final demand

Note: Change in ratio of imports to world GDP due to changes in production structures (as measured by changes in global import intensities of production) and due to changes in final demand structures (as measured by changes in the shares of demand for final output).

GLOBALIZATION AND GLOBAL REAL INCOME
SOURCE: MILANOVIĆ (2016)

Who Has Gained from Globalization
The global 1% and the Asian middle class.

REAL INCOME GAINS IN PERCENTAGE, 1988 TO 2008
100% -

80 -

60 -

40 -

20 -

0 -

Poorer

GlobaL PoPulaTioN By income DistribUTioN PerCeNTiLe

Wealthier

Asian middle class

U.S. and Western lower middle class

Top 1%

Top 2–5%

Source: Harvard Business Review

Note: Incomes are real, PPP-adjusted, in 2005 dollars.
Source: Branko Milanović
THE POPULIST WAVE

• Financial crises typically put a strain on democracies; votes for populist/far-right parties tend to increase significantly in their aftermath; the fragmentation of the political system tends to increase; these political developments tend to foster uncertainty and to delay recovery.

• The aftermath of the GFC has coincided with a “wave” of influential “populist” politicians around the world (Viktor Orban, Hungary; Jaroslaw Kaczynski, Poland; Recep Erdogan, Turkey; Geert Wilders, The Netherlands; Rodrigo Duterte, The Philippines; Nigel Farage, UK; Marine Le Pen, France; Donald Trump, USA...). The Macron victory in France was perceived by some as evidence that this trend is loosing strength, but the recent results of the Austrian and Italian elections suggest otherwise;

• Common characteristics: nationalism, anti-globalization rhetoric, anti-migration, mistrust of multilateral institutions, multinationals, and intellectual elites. Emphasis on the wisdom of the common man/woman and resentment against the establishment. Often combined with an autocratic style;

• Simple solutions for complex problems (and disregard for fiscal constraints, the LAC experience...).
Figure 2: Far-right and right-wing populist votes in European elections

Notes: The figure shows the vote shares of far-right and right-wing populist parties in the European Parliamentary elections 2004, 2019, and 2014. These 9 EU countries are also included in the main analysis. The figure is for illustration only, since electoral data from the European Parliament are not used in the remainder of the paper. The grey columns show averages.
DISPOSABLE INCOME IN EUROPE
FONTE: COYLE (2017)
BREXIT: THE OUTCOME OF THE REFERENDUM

Brexit: intentions to vote...

Source: YouGov

Final result: some questions

- 52% in favor of Brexit... Immigration being the critical variable (level vs. rate of change)
- Initial economic impact: pound depreciation, postponement of investment decisions, the role of London as a financial center...
- Political impact: Scotland and Northern Ireland...;
- Parallels with the GFC (Lehman Brothers-style shock)? Exaggeration...
  - In 2008, investors were fleeing from most high-risk financial assets since there was no clarity on the “degree of contamination.” Today the problem is better defined;
  - Central Banks are better prepared to handle the situation;
  - Financial sector is better capitalized.
VOTES FOR BREXIT

SOURCE: SAMPSON (2017)

BREXIT, POPULATION AND AGE (ENGLAND AND WALES)

SOURCE: MCGILL (2016)
BREXIT, EDUCATION AND INCOME (ENGLAND AND WALES)
SOURCE: MCGILL (2016)
BREXIT, IMMIGRANTS AND MARITAL STATUS (ENGLAND AND WALES)
SOURCE: MCGILL (2016)
BREXIT POSSIBLE SCENARIOS
SOURCE: HSBC (2017)

• George Osborne, ex-Chancellor of the Exchequer: “greatest act of protectionism” in Britain’s history (2016);

• In reality, difficult to predict the impact since we are entering “uncharted waters.” Never before, a member has left the European Union. The vision (Theresa May’s speeches at Lancaster House, 1/17/17, and Florence, 9/22/17):
  • Exit the EU Single market;
  • Exit the EU Customs Union (including the CET and Common Commercial Policy);
  • Negotiate a new FTA with the EU and after BREXIT with other countries;
  • End the jurisdiction of the European Court of Justice.

• Some possible scenarios with respect to trade:
  • BREXIT extended – additional transition period after March 2019;
  • Hard BREXIT – back to WTO rules;
  • Soft BREXIT – Norway style...
BREXIT AND FUTURE TARIFFS

SOURCE: HSBC (2017)

Potentially significant impact on the competitiveness of the auto-industry and agribusiness

Impact on the costs of imports can be substantial

6. The UK's exports are subject to tariffs of varying levels

7. Import tariffs could push up on inflation, exacerbating the effect of a fall in sterling
<table>
<thead>
<tr>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Political underpinnings (the most murderous region of the world has now become a peaceful one...)</td>
<td>• Peace in the region has nothing to do with the EU, but with the US (NATO)</td>
</tr>
<tr>
<td>• The most advanced experiment in mega regionalism</td>
<td>• A project doomed to fail, because you cannot have monetary union without fiscal and political union</td>
</tr>
<tr>
<td>• Concept is OK, implementation can be improved upon (Eurobonds, etc.)</td>
<td>• An elite-driven project that is increasingly out of touch with European voters...</td>
</tr>
<tr>
<td>• Even in Greece, support for the euro remains strong...</td>
<td>• The experiment has lost political legitimacy.</td>
</tr>
<tr>
<td>• Europe is the solution, not the problem...</td>
<td>• The Italian political crisis will be the critical test...</td>
</tr>
</tbody>
</table>
### Stereotyping in Europe

**Who Is Trustworthy, Arrogant and Compassionate**

*EU nation most likely to be named...

<table>
<thead>
<tr>
<th>Views in:</th>
<th>Most Trustworthy</th>
<th>Least Trustworthy</th>
<th>Most Arrogant</th>
<th>Least Arrogant</th>
<th>Most Compassionate</th>
<th>Least Compassionate</th>
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</thead>
<tbody>
<tr>
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<td>Germany</td>
<td>France</td>
<td>France</td>
<td>Britain</td>
<td>Britain</td>
<td>Germany</td>
</tr>
<tr>
<td>France</td>
<td>Germany</td>
<td>Greece</td>
<td>France</td>
<td>France</td>
<td>France</td>
<td>Britain</td>
</tr>
<tr>
<td>Germany</td>
<td>Germany</td>
<td>Greece/Italy</td>
<td>France</td>
<td>Germany</td>
<td>Germany</td>
<td>Germany</td>
</tr>
<tr>
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<td>Germany</td>
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<tr>
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<td>Greece</td>
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<td>Spain</td>
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<td>Czech Rep.</td>
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<td>Greece</td>
<td>Germany</td>
<td>Germany</td>
<td>Slovakia</td>
<td>Germany</td>
</tr>
</tbody>
</table>

PEW RESEARCH CENTER Q44a-Q46b.
USA: A LITTLE BIT OF HISTORY

“THE GREAT RULE OF CONDUCT FOR US IN REGARD TO FOREIGN NATIONS IS, IN EXTENDING OUR COMMERCIAL RELATIONS, TO HAVE WITH THEM AS LITTLE POLITICAL CONNECTION AS POSSIBLE.” George Washington

AMERICANS DO NO GO “ABROAD IN SEARCH OF MONSTERS TO DESTROY.” John Quincy Adams

Global leadership post-WWII (in the context of the Cold War): “THE MOST TERRIBLE RESPONSIBILITY THAT ANY NATION EVER FACED.” Harry Truman

“RELUCTANT SHERIFF” VS. “INDISPENSABLE NATION” (Madeleine Albright)
Evolving attitudes towards globalization:

- From the 1960s to the 1980s, growing international competition and the impact of labor-saving technology led to an increase in the demand for protectionism in the USA, particularly, in the case of labor-intensive industries;
- The USA began to experience deficits in its balance of trade around 1971 and in current-account from 1992 on;
- Gradually firms that were more exposed to international competition began to adjust (or “died”), exploring internationalization and becoming more pro-trade. The adjustment of labor, however, was more difficult and led to the creation of an “army” of displaced workers that either have to accept lower-paying jobs or to face unemployment;
- Employment in vulnerable industries declined dramatically: they employed 1 out of 18 workers in manufacturing around 1977; by 2015, the relation was 1 for each 130 workers in manufacturing...
EMPLOYMENT IN PROTECTION-SEEKING INDUSTRIES IN THE USA
SOURCE: VANGRASSTEK (2017B)

Employees in an Industry per 10,000 Non-Farm Jobs in the United States

Source: Calculated from the Census of Manufactures (for employment by industry in 1977-2007), the Annual Survey of Manufactures (for employment by industry in 2015), and Bureau of Labor Statistics (total non-farm jobs) data at http://www.bls.gov/ces/.

Note that the comparability of data for the periods before and after 1997 is complicated by the transition that year from the Standard Industrial Classification (SIC) to the North American Industry Classification (NAIC) nomenclature. While the categories appear to cover the same territory, it is possible that some SIC categories may be slightly broader or narrower than some of the corresponding NAIC categories. Data for apparel are based on SIC 23 and NAIC 315; data for primary metals are based on SIC 33 and NAIC 331; data for textiles are based on SIC 22 and NAIC 313 and 314; data for paper are based on SIC 26 and NAIC 322; data for leather are based on SIC 31 and NAIC 316; and data for glass are based on SIC 321-323 and NAIC 3272.
The growing internationalization of American enterprises and the adoption of multilateral (WTO) and preferential disciplines/rules of engagement (e.g., NAFTA) diminished the demand for protectionist measures from the private sector (mainly after the 1990s) even though the USA became much more import-intensive over the last 40 years;

The Chinese expansion: 2.4% of global GDP (1995) to 14.9% by 2015 (for the USA, the figures are 24.4% and 24.6% respectively). The Chinese component of the American trade deficit evolved from 17.1% (2000) to 37.6% (2016);

The Obama era: political “vetocracy” (in the Congress, the opposition – the Republican party – found it more appealing to paralyze the Executive than to advance a common agenda). At the same time, the interest demonstrated by President Obama with respect to trade-related issues (as measured by the number of citations on trade in documents of the Executive) was the lowest in the last 4 decades. Only in his second mandate, there was an attempt to revitalize the trade agenda (TPP, TTIP, “fast-track authority”…)

Key issues explored in the 2016 Presidential campaign by Donald Trump: growing economic inequality; white voters “left-behind” by globalization; the Chinese threat; and “arguments” about the negative impact of international trade on the USA.
THE WIDENING GAP
SOURCE: PIKETTY, SAEZ, AND ZUCMAN (2017)

A tale of two countries
The share of U.S. pre-tax income accruing to the bottom 50 percent and top one percent of income earners, 1962-2014

Note: The unit is the individual adult and incomes within married couples are split equally.
THE “CHINESE THREAT”
SOURCE: BRADSHIER E RUSSEL (2017)

United States total annual trade with China

Exports to China
Imports from China

China enters the W.T.O.

U.S. annual trade deficits with China
Exports minus imports

China enters the W.T.O.

Source: Census Bureau
TRUMP AND THE “DEPLORABLES”
SOURCE: THE ECONOMIST (2016)

Vitality and the vote
United States, health metrics against swing to Donald Trump, by county

Sources: Atlas of US Presidential Elections; Census Bureau; IPUMS; Institute for Health Metrics and Evaluation; The Economist

*Weighted index of obesity, diabetes, heavy drinking, physical exercise and life expectancy, 2010–12
TO BLAME INTERNATIONAL TRADE AS THE MAIN CAUSE OF DISLOCATION IS A MISTAKE

SOURCE: LIPPOLDT (2017)

USA – current account as % PIB – deficits driven by low savings rate

USA – Employment in manufacturing – the role of technology

THE U.S. CURRENT ACCOUNT
SOURCE: CRS (2018)

Trends in the U.S. current account as a share of GDP

The saving-investment balance and the current account

Figure 8. U.S. Current Account Balance, 1980-2017

Table 2. Current Account Balances and Savings/Investment for Selected Major Economies, 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Account Balance, % of GDP</th>
<th>Ratio of Gross National Savings to Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>8.1%</td>
<td>141.7</td>
</tr>
<tr>
<td>Japan</td>
<td>3.6%</td>
<td>115.3</td>
</tr>
<tr>
<td>Russia</td>
<td>2.8%</td>
<td>111.9</td>
</tr>
<tr>
<td>China</td>
<td>1.4%</td>
<td>103.1</td>
</tr>
<tr>
<td>France</td>
<td>-1.1%</td>
<td>95.2</td>
</tr>
<tr>
<td>India</td>
<td>-1.4%</td>
<td>95.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>-1.4%</td>
<td>92.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-1.7%</td>
<td>95.1</td>
</tr>
<tr>
<td>United States</td>
<td>-2.4%</td>
<td>88.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-3.6%</td>
<td>79.0</td>
</tr>
</tbody>
</table>

Sources: IMF, World Economic Outlook database, October 2017.
Notes: Data for 2017 are estimates.
TRUMP’S AGENDA FOR “FAIR TRADE”: THE CANDIDATE’S PLATFORM
SOURCE: LIPPOLDT (2017)

1. Withdraw from the Trans-Pacific Partnership, which has not yet been ratified.

2. Appoint tough and smart trade negotiators to fight on behalf of American workers.

3. Direct the Secretary of Commerce to identify every violation of trade agreements a foreign country is currently using to harm our workers, and also direct all appropriate agencies to use every tool under American and international law to end these abuses.

4. Tell NAFTA partners that we intend to immediately renegotiate the terms of that agreement to get a better deal for our workers. If they don’t agree to a renegotiation, we will submit notice that the US intends to withdraw from the deal. Eliminate Mexico’s one-side backdoor tariff through the VAT and end sweatshops in Mexico that undercut US workers.

5. Instruct the Treasury Secretary to label China a currency manipulator.

6. Instruct the US Trade Representative to bring trade cases against China, both in this country and at the WTO. China’s unfair subsidy behavior is prohibited by the terms of its entrance to the WTO.

7. Use every lawful presidential power to remedy trade disputes if China does not stop its illegal activities, including its theft of American trade secrets - including the application of tariffs consistent with Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.

IMPORTED INPUTS INTO U.S. EXPORTS
SOURCE: CRS (2018)

Figure 2. Import Content of U.S. Exports, by Industry

"Foreign value added" share of U.S. gross exports in...

Notes: Import content of exports is defined as “the share of imported inputs in the overall exports of a country, and reflects the extent to which a country is a user of foreign inputs.” Data for 2011 is the most recent data available.
### Top U.S. Trading Partners

**Source:** CRS (2018)

#### Figure 6. Top U.S. Trading Partners, Ranked by Total Trade, 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
<th>Total Trade (exports + imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
<td>$710.9</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td>$680.6</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td>$622.7</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td>$285.9</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td>$237.8</td>
</tr>
<tr>
<td>U.K.</td>
<td></td>
<td></td>
<td>$232.8</td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
<td>$154.9</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
<td>$125.7</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
<td>$119.8</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
<td>$96.5</td>
</tr>
</tbody>
</table>

**Source:** Bureau of Economic Analysis.

**Notes:** Data on a balance of payments basis.
THE INAUGURAL ADDRESS, JANUARY 20, 2017

“Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families.

We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs.

Protection will lead to great prosperity and strength.”

Donald J. Trump
US TARIFF RATES: HISTORICAL TRENDS

[Graph showing historical tariff rates from 1821 to 2016]
U.S. TRADE POLICY: INSTITUTIONAL CONSTRAINTS

SOURCES: WOLFF (2017), VANGRASSTEK (2017A)

• Significant asymmetry: elaborate procedures to enter into trade agreements (consultations with Congress; reports from ITC; reports from private sector advisory bodies and opportunity for public comments…) versus “vacuum” of procedures in the case of exit of a non-ratified trade agreement (e.g., TPP) or limited procedures in the case of a ratified one (e.g., NAFTA). Consequence: trade actions are appealing for an Executive searching for quick “results”;

• Trade Promotion Authority (TPA) is scheduled to expire on July 1, 2018. In practice, unless an extension of TPA is granted by Congress (the Trump asked for an extension in March 2018), any new bilateral trade agreement negotiated by the Trump administration had to be concluded by March 31, 2018 (the President has to inform Congress 90 days before he signs an agreement)…
Figure 11. Congressional Requirements and Timeline for TPA Procedures

Source: CRS In Focus IF10038, Trade Promotion Authority (TPA), by Ian F. Fergusson.
CURRENCY MANIPULATION

• Criteria for bilateral engagement – rules from the US Treasury Department:
  • “(1) An economy has a significant trade surplus with the United States if its bilateral trade surplus is larger than $20 billion (roughly 0.1 percent of U.S. GDP) with the United States last year;
  • (2) An economy has a material current account surplus if its surplus is larger than 3.0 percent of that economy’s GDP;
  • (3) An economy has engaged in persistent one-sided intervention in the foreign exchange market if it has conducted repeated net purchases of foreign currency that amount to more than 2 percent of its GDP over the year.”

• October 2016: China, Mexico, India, and Italy failed (1); Japan, Germany, and South Korea failed (1) e (2); Taiwan and Switzerland failed (2) and (3). No country currently fails all 3 criteria, in theory a necessary condition to begin “enhanced bilateral engagement” and eventually to declare a country a currency manipulator.
DATA FOR THE ANALYSIS OF CURRENCY MANIPULATION

<table>
<thead>
<tr>
<th>Country</th>
<th>Bilateral Goods Surplus with United States (USD Bil., Trailing 4Q) (1)</th>
<th>Current Account Balance (% of GDP, Trailing 4Q) (2a)</th>
<th>Current Account 3 Year Change in Balance (% of GDP) (2b)</th>
<th>Current Account Balance (USD Bil., Trailing 4Q) (2c)</th>
<th>Net Foreign Exchange Intervention</th>
<th>Purchases (% of GDP, Trailing 4Q) (3a)</th>
<th>Purchases (USD Bil., Trailing 4Q) (3b)</th>
<th>Purchases (USD Bil., Trailing 2Q) (3c)</th>
<th>Purchases 8 of 12 Months (3d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>357</td>
<td>1.3</td>
<td>-0.1</td>
<td>155</td>
<td>-2.7</td>
<td>-311</td>
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<td>Japan</td>
<td>69</td>
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<td>Mexico</td>
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<td>Germany</td>
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<td>1.4</td>
<td>51</td>
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<td>No</td>
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<tr>
<td>Brazil</td>
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<td>2.3</td>
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<td>Memo : Euro Area</td>
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<td>0.8</td>
<td>357</td>
<td>0.0</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Sources: Haver, National authorities, U.S. Census Bureau, and U.S. Department of the Treasury staff estimates

*In assessing the persistence of intervention, Treasury will consider an economy that is judged to have purchased foreign exchange on net for 8 of the 12 months to have met the threshold.
TRUMP: THEORY AND PRACTICE

• Pulled the plug on TPP under the President’s constitutional foreign affairs power;

• NAFTA: initial Mexican focus, in view of trade deficit (more than US$60 billion/year). Negotiations have, however, become increasingly tense for all countries involved. Review (focus on rules of origin) – important to note that NAFTA termination would have a significant impact on US firms (40% of US imports from Mexico are intermediate products produced in the US; 1.1 million American jobs depend upon exports to Mexico). Sectors that are particularly sensitive to NAFTA-changes: auto industry (40% of US light vehicles exported in 2015 went to NAFTA partners; 75% of the value of US automotive parts exports were shipped to NAFTA partners); agriculture; medical devices; textile & clothing; “sunset clause”...

• AD e CVD: the USA is likely to increase these actions (that in the past affected as much as 8% of Chinese exports to the USA, mainly steel);

• Multilateral constraints – WTO bindings: on average the USA can increase its tariffs by only 1% vs. threats of 35%-45% tariffs... Alternative, to use arguments based on national security;

• Negative attitudes towards the WTO (DDA, S&D treatment, DSB...).
LEGAL ACTIVISM
SOURCE: VANGRASSTEK (2017B)

Average Annual Number of Investigations Initiated in Each Administration

Note: All data are for the full calendar years shown, including presidents' first year in office (when they are sworn in on January 20). Data for the Ford administration begin with the entry into force of the Trade Act of 1974 (January 3, 1975). Data for the Trump administration are annualized, based on activity during January-September, 2017. Data for antidumping and countervailing duties are based on products rather than partners (e.g. if simultaneous petitions are filed against imports of a given product from three countries that is counted as one petition rather than three).
THE DANGER OF THE NATIONAL SECURITY ARGUMENT
• Section 232 (Steel and Aluminum)
  • March 1, 2018: Trump announces forthcoming steel (25%) and aluminum (10%) tariffs
  • March 8, 2018: Trump issues formal steel and aluminum tariff proclamations, initially exempting Canada and Mexico
  • March 22, 2018: Trump issues revised formal steel and aluminum tariff proclamations, ongoing negotiations with Canada, Mexico, EU, South Korea, Argentina, Australia and Brazil
  • March 23, 2018: Trump’s steel and aluminum tariffs go into effect;
  • April 2, 2018: China imposes retaliation on $3 billion of US exports for Trump’s steel and aluminum tariffs
• Implications for the WTO!!!
SECTION 301 AND “TIT-FOR-TAT”

• Section 301 (China/IP)
  • “March 22, 2018: Trump administration releases Section 301 investigation report, President Trump indicates remedy forthcoming is (1) tariffs of up to $60 billion on China, (2) WTO dispute, (3) new rules on investment
  • April 3, 2018: Trump releases list of 1,333 products ($46.2 billion of US imports from China) subject to forthcoming 25% tariffs
  • April 4, 2018: China publishes list of 106 products ($49.8 billion of China’s imports from US) subject to forthcoming 25% tariffs as retaliation for Trump’s Section 301 tariffs
  • April 5, 2018: Trump instructs USTR to consider whether an additional $100 billion of US imports from China should be subject to new tariffs”

• Provisory truce in May;
• Echoes from the 30s...
A “TRADE WAR”? 
SOURCE: BOWN (2018)

US Section 301 against China: targeted products

An eventual Chinese retaliation

Figure 1 US imports from China in 2017 subject to Trump's proposed Section 301

Figure 2 US exports to China in 2017 subject to China's tariff retaliation
THE “TRUMP” EFFECT
SOURCES: PRIMO BRAGA (2016B); VANGRASSTEK (2017B)

Alternative scenarios:

• (1) – Redesigning traditional US trade policy approach: withdraw from TPP (loss of face and of potential economic gains); TTIP DOA; NAFTA adjustments (annual revisions; Section 201 implementation act...); legal offensive at the WTO (legal disputes...); push for bilateral deals...

• (2) -- (1) + unilateral actions: using Commerce Acts of 1962 (Section 232 (b)) and of 1974 (Sections 122, 201, e 301); eventually declaring China a currency manipulator irrespective of rules; from tweaking NAFTA to major changes (e.g., “a sunset clause”...); skirmishes at the WTO (e.g., negative attitudes towards the DSB; potential for conflict around Article XXI – the national security rationale for trade interventions...).

• (3) – Shock treatment: (2) + USA out of NAFTA (Chapter 22) + out of the WTO + reviewing existing bilateral agreements...; “revolution” in the global architecture of world economy.

Conclusion: increased potential for trade conflicts and the end of “Pax Americana”...
GLOBAL GOVERNANCE
GLOBAL GOVERNANCE
SOURCE: BOUGHTON AND BRADFORD (2007)

“Global governance is a process of cooperative leadership that brings together national governments, multilateral public agencies, and civil society to achieve commonly accepted goals.”

• Dominance model of global governance: few countries seating at the top of the global economic pyramid invited others to participate without ceding much control;

• Is the system out of date?
  • Center of economic power has drifted/emergence of new regional powers;
  • Fragmentation of specialized agencies/lack of coherence/lack of comprehensive system of oversight.
WORLD (DIS)ORDER

• International government organizations (IGOs) began to be set up by governments in the XIX century to address transnational problems and to engage in sovereign sensitive activities (e.g., surveillance, dispute resolution...);

• Current structure set up after WW II under the leadership of the U.S.; Economic priorities: how to finance postwar reconstruction, stabilize exchange rates and discipline trade protectionism to foster trade, and to avoid balance of payments crises;

• Bretton Woods (Mount Washington Hotel, New Hampshire, June 30- July 22, 1944): 750 delegates from 44 countries

• J.M. Keynes vs. Harry Dexter White:
  • British plan: the creation of an agency to which countries would delegate monetary powers. An automatic clearing house in which no national currency would have a central role and no conditionalities would be imposed upon deficit countries.
  • US plan: the new institution would use the U.S. dollar (and gold) as its main unit of account. Transfers would be made on a discretionary basis and the institution would have the power to set conditions.
WORLD (DIS)ORDER (CONT.)

• Original main pillars:
  • Global/country financial imbalances (IMF);
  • Resource transfers/development (WB and Regional Development Banks);
  • Trade (GATT/WTO);
  • Security (UN/Security Council).

• Since then ad hoc groupings have emerged over time to complement these institutional structures: G7/8, G20...

• Dominance model of global governance: few countries seating at the top of the global economic pyramid invited others to participate without ceding much control;

• WW III (Cold War): American exceptionalism vs. “aberration” of Communism;

• “End of history”: spread of democracy and free markets would create a just, peaceful, and inclusive world...
WORLD (DIS)ORDER (CONT.)

SOURCE: ADAPTED FROM KISSINGER (2014); PRIMO BRAGA (2017A)

• Power is in flux;
• Economic globalization (interdependence) vs. nation-state based political structures (winners vs. losers);
• Nature of the state is being challenged (failed states; non-state actors, WW IV= war on terrorism?; the EU experiment...);
• Absence of an effective platform for cooperation among great powers... (US vs China);
• Skepticism of the Trump administration with respect to multilateral solutions;

Key challenges: how to achieve equilibrium while restraining the “dogs of war”; how to preserve the multilateral trade order?
A functional international order is required:
• (i) to avoid great-power confrontation;
• (ii) to sustain economic prosperity and proper rules of the game (e.g., to minimize trade frictions), as well as related international institutions;
• (iii) to check international aggression and tyranny;
• (iv) to facilitate the provision of global public goods (e.g., addressing climate change).
A LIBERAL INTERNATIONAL ECONOMY CANNOT COME IN EXISTENCE AND BE MAINTAINED UNLESS IT HAS BEHIND IT THE MOST POWERFUL STATE(S) IN THE SYSTEM.”

Robert Gilpin
G7 IN CANADA, JUNE 2018: “FRENEMIES”...
“VOICE” REFORM IN THE BRETTON WOODS INSTITUTIONS
AN EXAMPLE: WORLD BANK “VOICE REFORM”
IBRD REALIGNMENT => 75% EW + 20% FC +5% DC
AN INCREASE OF DTC VOTING POWER OF +3.13% IN PHASE 2 (2010)
SOURCE: DEVELOPMENT COMMITTEE (2010)

Economic Weight (EW)

• Global GDP blend converted at market exchange rates (60%) and PPP exchange rates (40%), three-year average (2006-2008)

For Developed Countries

• Threshold of 90%, i.e. if shareholding is more than 10% below EW, shareholding is brought up to 90% of EW

For DTCs

• *No Threshold* (100% allocation of shares to bring shareholding to EW).
• *PPP Booster*: A minimum increase of +10% in shareholding percentage for members whose GDP share on a PPP-only basis is at least 30% above their shareholding, calculated after allocation of shares based on EW
**FINANCIAL CONTRIBUTIONS (FC)**

**IDA13-15 contributions**

*Eligible members: IDA ratio* above 1.0 = higher of (a) share of IDA13-15 contributions/ share of donors’ IBRD shareholding, or (b) share of IDA13-15 contributions/ notional IDA burden share.

*Allocation of additional shares:* +2.0% of IBRD shareholding. Allocate at least 500 shares, but capped at a +10% shareholding increase for smaller shareholders (below 5,000 shares held)

**Historical IDA contributions (one-time recognition)**

*Eligible members: Historical IDA ratio* above 1.0 = share of IDA0-15 contributions/ share of donors’ IBRD shareholding, calculated separately for Developed Countries and for DTCs.

*Allocation of additional shares:* +1.0% of shareholding. Additional recognition of +0.5% of shareholding for donors with historical IDA ratio over 2.0, when calculated for all donors

**IDA16 pledges from DTC donors**

*Current IDA donors* are allocated shares to maintain voting power if increasing their IDA16 contributions by at least 50% over IDA15.

*New IDA donors* are allocated shares to maintain voting power if contributing to IDA16 at their notional IDA burden share
Protecting the voting power of the Smallest Poor members

*Eligible members*: Low-income/lower middle income countries < 0.4% shareholding (WDI July 2009, not limited to IDA-only members).

*Allocation of up to 250 shares* to address voting power dilution

Recognition of DTC contributions to IDA, including for IDA13-15, historical IDA contributions, and future contributions for IDA16 (see under FC above)
**IBRD VOTING POWER REALIGNMENT/2010: RAISING DTC VOTING POWER FROM 42.6% (2008) TO 47.19%**

**SOURCE: DEVELOPMENT COMMITTEE (2010)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Pre-Reform</th>
<th>Rank</th>
<th>Post-Phase 2 Voice Reform</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>16.36%</td>
<td>1</td>
<td>15.85%</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>7.85%</td>
<td>2</td>
<td>6.84%</td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>4.48%</td>
<td>3</td>
<td>4.00%</td>
<td>4</td>
</tr>
<tr>
<td>France</td>
<td>4.30%</td>
<td>4</td>
<td>3.75%</td>
<td>5</td>
</tr>
<tr>
<td>UK</td>
<td>4.30%</td>
<td>4</td>
<td>3.75%</td>
<td>5</td>
</tr>
<tr>
<td>Italy</td>
<td>2.78%</td>
<td>5</td>
<td>2.64%</td>
<td>8</td>
</tr>
<tr>
<td>Canada</td>
<td>2.78%</td>
<td>5</td>
<td>2.43%</td>
<td>9</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>2.78%</td>
<td>5</td>
<td>2.77%</td>
<td>7</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2.78%</td>
<td>5</td>
<td>2.77%</td>
<td>7</td>
</tr>
<tr>
<td>China</td>
<td>2.78%</td>
<td>5</td>
<td>4.42%</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>2.78%</td>
<td>5</td>
<td>2.91%</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.07%</td>
<td>12</td>
<td>2.24%</td>
<td>10</td>
</tr>
</tbody>
</table>
NEW INSTITUTIONS

• Contingency Reserve Arrangement, 2014 ($100 billion; China’s participation at $41 billion; Brazil, India, Russia at $18 billion each; South Africa at $5 billion) to forestall short-term balance of payments pressures needs (alternative to the IMF?);

• New Development Bank (NDB), 2014: the BRICS answer to the Western dominated World Bank? With a start-up capital of US$ 50 billion ($10 billion in cash and $40 billion in callable capital; to be eventually raised to $100 billion in 5 years), even under very optimistic assumptions the new bank would need 20 years to reach annual lending levels similar to those currently provided by the World Bank;

• A relevant parallel initiative:
  • Asian Infrastructure Investment Bank (AIIB): Chinese-led organization ($50 billion capital) to help underwrite infrastructure projects in Asia (challenging/complementing the ADB and the WB?; fostering frictions in the Western alliance since the UK, France, Germany, and Italy willing to join in spite of US concerns...)
THE FUTURE OF THE GLOBAL TRADE ORDER
THE ROAD FROM THE GATT TO THE WTO

SOURCES: WTO, DIFFERENT PUBLICATIONS; PRIMO BRAGA (2015B)

- Bretton Woods and the ITO;
- GATT 1947: 23 “contracting parties” agree to tariff deal;
- GATT a treaty, not an organization;
- “Member-driven” – “weak” secretariat;
- 1994: Uruguay round concludes; WTO created and came into force 1 January 1995;
- GATT 1994: 128 members with very different obligations;
- 2001: Doha Development Agenda (DDA) launched;
- Bali Ministerial, 2013: 9th MC, some signs of progress (TFA);
- 2017: 164 members; DDA still ongoing, but “no light at the end of the tunnel...” and some key member(s) have already stated that it is dead!
- Expectations for the 11th MC (Buenos Aires) were subdued and as expected no major decisions were taken (not even a Ministerial Declaration...)
WTO: MULTILATERAL TRADE ROUNDS ARE JUST THE TIP OF THE ICEBERG...
THE WTO AS A DISPUTE SETTLEMENT FORUM AND AS A MONITORING BODY

• **Trade Policy Review Mechanism**- Periodic review of trade policies

• **Settlement of disputes under the DSU**
  1. Consultations, good offices, conciliation and mediation
  2. Panel proceedings
  3. Appeal Body
  4. Consideration and adoption of Panel/AB reports by the DSB
     If the report concludes that a measure is inconsistent with a covered agreement the Panel (AB) must recommend that the Member concerned bring the measure into conformity with that agreement.
     Adoption of Panel (AB) reports by the DSB is automatic.
  5. Implementation of reports by members
     ▪ Compliance
     ▪ Negotiation of compensation (voluntary, mutually acceptable)
     ▪ Authorization of retaliatory action (suspension of concessions/obligations)
WTO DISPUTE SETTLEMENT FLOW CHART
THE DISPUTE SETTLEMENT SYSTEM (DSS) STRENGTHS

SOURCE: SACERDOTI (2016)

• Some positive aspects of the DSS:
  ▪ “The high number of cases introduced (the 500 mark was reached in November 2015; of these only 282 have been brought to litigation in the end) and the very high proportion of cases resolved effectively by the removal of measures found to be in breach of WTO obligations (some 90% of those brought to adjudication);
  ▪ The effective functioning of its multi-stage procedure (from consultation to implementation, through a double-stage adjudication phase), which is meant to solve specific, mostly bilateral disputes, but at the same time to give guidance to all interested members and to take into account the multilateral dimension of the trading system;
  ▪ The participation of both major trading powers and small developing countries (signaling the importance of the DSS also for small players and developing economies in ensuring access of their products to the larger economies’ markets);
  ▪ The development of a balanced and consistent case law, sensitive to non-trade concerns such as environment protection and health, which recognizes on one hand the need to uphold market access obligations, and on the other hand the existence of evolving non-trade values and policies – domestic and international – that need to be safeguarded as part of the domestic policy space of WTO Members.”
**CONCERNS ABOUT THE DSS**

**SOURCE: SACERDOTI (2016)**

• “The increasing number of cases brought to panels and the increasing complexity of disputes and sophistication of arguments made is extending the length of proceedings beyond reason, especially at the panel stage, and is putting strain on the limited resources of the Secretariat.

• The willingness of losing respondents to promptly comply with the decisions appears to be decreasing, in that effective implementation, while usually performed, requires on average more time. Alternatives to compliance (such as compensation), which appear to be on the rise, may tilt the system towards the protection of the interests of major trading nations, who may be able to pay-off weaker members while maintaining their import restrictions;

• WTO Members appear to be unable to agree on further liberalization (notably in services) and on adding new rules to the multilateral system to face new issues (such as the green economy, environmental subsidies or electronic commerce). This leads to a possibly problematic role of “gap filling” and “law-making” for the DSS, for which it was not intended.

• The parallel massive increase of regional trade agreements (RTAs), to which WTO Members are increasingly turning (including “mega-RTAs” such as the TPP and the TTIP), risks reducing the relevance of the WTO and therefore possibly of its DSS, which moreover might find competitors in the dispute settlement mechanisms of RTAs.

• On several recent occasions the initiation of a case by a country against another country has been immediately followed by the initiation of a separate case by the respondent in the previous case against the first country (notably between the United States and China and between Argentina and the United States and the European Union). Although there is no evidence that the second case was a kind of tit for tat response to the first one, this belief has been informally expressed as a sign of an abuse or political strategic use of the DSS, contrary to its purpose.”
### Table 3. WTO Disputes Involving the United States

<table>
<thead>
<tr>
<th>Selected Trading Partners</th>
<th>U.S. as Complainant (# of Disputes)</th>
<th>U.S. as Respondent (# of Disputes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>European Union</td>
<td>19</td>
<td>33</td>
</tr>
<tr>
<td>Canada</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>Korea</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Mexico</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>India</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Argentina</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Brazil</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>All others</td>
<td>35</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>117</strong></td>
<td><strong>136</strong></td>
</tr>
</tbody>
</table>

**Source:** WTO. [https://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm](https://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm).

**Notes:** Includes cases since 1995 as of March 2018. Trading partners sorted by number of cases initiated by the United States. Data do not include cases with U.S. participation as a third party.
THE PROLIFERATION OF PREFERENTIAL TRADE AGREEMENTS

• From around 70 active PTAs (1990) to more than 300 currently...
• Number of PTAs per country: on average a country was involved in 2 PTAs around 1990, nowadays the average is around 12 plus... (WTO 2011)
• More importantly, the USA became a key player in the PTA game (disillusion with multilateral trade system or strategic behavior?) Will the Trump administration maintain such a trend?
• Beyond the expansion in numbers we also see a trend to go beyond GATT-style PTAs, covering also NTBs, regulations, SOEs, IPRs, FDI and ISDS ... (i.e., pursuing deep integration)
• Can PTAs be multilateralized or can their negative effects be minimized?
THE CHANGING TRADE ENVIRONMENT

Evolution of Regional Trade Agreements in the world, 1948-2015

- Notifications of RTAs in force
- Notifications of Inactive RTAs
- Cumulative Notifications of RTAs in force and inactive RTAs
- Cumulative Number of Physical RTAs in force

Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.

Source: WTO Secretariat
• PTAs offer a fast-track option for trade liberalization but are complementary to the WTO;

• Respond to new realities of international trade (GVCs, interaction between FDI and trade);

• Driven by geo-political considerations either to contain the new mega-trader (China) from a Western perspective; or to pave the way for new China-centered production networks from a Chinese perspective.
“On November 11, 2017, eleven of the original TPP twelve signatories announced that they would be willing to go ahead with a new agreement – the so-called Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – that builds upon the TPP text. There was also a decision to suspend 20 sensitive provisions of the original agreement, on topics such as express shipments, investor rights, and IPRs. Actually, 11 of the suspended provisions are related to IPRs, reflecting the controversial character of some of the rules of the original TPP as discussed above. The suspension of these provisions, rather than simply eliminating them, suggest that the CPTPP partners want to keep the door open for an eventual return of the United States to the agreement in the future.”

Comprehensive Economic and Trade Agreement (CETA), Canada-EU (provisional application as of 21/September/2017): only 2 chapters focus on traditional market access issues (tariffs and government procurement). The main focus is on regulatory issues, trade facilitation, “mutual recognition” and regulatory equivalence (SPS...).
SCENARIOS
THE CHINA FACTOR

Source: Financial Times, July 31, 2013
FIGURE 0.2 Productive gains from reallocating labor and capital are almost exhausted

Source: Based on research by David Bulman and Aart Kraay for this study.
HIGH CHINESE INVESTMENT AND CONCERNS ABOUT FINANCING

Chinese Investment as a share of GDP, %

Average 1970-1990, 28%

Average 1991-2003, 35%

Average 2004-2008, 40%

Average 2009-2013, 45%

CHINESE DEBT EVOLUTION

SOURCE: BUTTIGLIONE ET AL. (2014)
CHINA: NPLS
FONTE: KROEBER (2017)

Figures for commercial banks (excluding policy banks and rural credit cooperatives)
REMEMBER

Nowadays, what happens in China will not stay in China...
**MACRO EXTERNAL SCENARIOS**

<table>
<thead>
<tr>
<th>HICs -- economic recovery</th>
<th>(1) Unicorn</th>
<th>(4) New dynamism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secular stagnation</td>
<td>(2) Perfect storm</td>
<td>(3) MOSS</td>
</tr>
<tr>
<td></td>
<td>Commodity prices (-)</td>
<td>Commodity prices (+)</td>
</tr>
<tr>
<td></td>
<td>China hard-landing</td>
<td>China soft-landing</td>
</tr>
</tbody>
</table>
LONG TERM SCENARIOS: GROWTH AND INTERNATIONALIZATION

- **Polarization** (global governance crisis, nationalism on the rise, geopolitical tensions)
- **Shared affluence** (combined with ongoing technological disruptions, ecological pressures, migration challenges...)
- **Depression** (recurrent financial crises, xenophobia on the rise, unemployment, appeal of autocratic solutions, military confrontation...)
- **MOSS** (secular stagnation, growing inequality, populism, anxiety...)
CONCLUDING REMARKS

• Have we reached “peak globalization”? YO

• Danger ahead: a new protectionist wave driven by mercantilistic strategies (USA) and the unintended consequences of policy decisions driven by “globalization fears” (e.g., BREXIT);

• The Trump administration doesn’t support the USA playing the role of the “indispensable” nation to foster a stable global order; the danger of retrenchment driven by domestic politics and Trump’s skepticism about multilateral solutions/institutions is real…;

• The relative economic weight of China is expected to continue to increase, but the related “commodity super-cycle” has come to an end;

• Revealed preference for plurilateral cooperation outside the WTO (e.g., mega-preferentials and TiSA…);

• Multinational corporations will increasingly focus on “glocal” strategies;

• Can the private sector help building “bridges” back to the WTO (plurilateral solutions?)

• Who will lead?
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