



Dealing with the complexity of international trade

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Note



- **This powerpoint presentation has all the key points on the subject; however the companion paper has more details and the background information; both of these are being published by CASA and will be available to you online**
- **Due credit to Dr. Donald Hsu for his encouragement and support**

International trade has been going on for a long time



- **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)**

International trade



- **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)**

International trade



- **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)**

The GATT



- **Fast forward: the General Agreement on Tariffs and Trade worked hard for decades to make trade easier among nations of the world, mainly for free and fair trade**

WTO



- **The World Trade Organization replaced the GATT with a broader mandate on the one hand facilitating negotiations among nations and on the other hand providing a mechanism for resolving conflicts in trade relations**

IMF



- **All member countries of the International Monetary Fund worked together to develop the key elements of measurement of international trade albeit the balance of payments (a) the current account: balance on goods, balance on services and balance on income (b) the financial account.**

IMF



- **For a thorough analysis, the balance of payments manual of the IMF is very helpful:**
<https://www.imf.org/external/pubs/ft/bopman/bopman.pdf>
- **The IMF also provides technical assistance as needed:**
www.imf.org

Re-education



- **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>**

The US and NAFTA



- **The new US Administration expressed issues about NAFTA.**
- **The US could have gone to the WTO, one possible choice to resolve the differences**
- **The other choice is to conduct a renegotiation which went on and worked out successfully**

The US and EU



- **The US expressed similar issues with the EU and the two parties agreed to conduct renegotiation which again worked out successfully**

The US and China



- **These two countries have been trading partners for a long time**
- **The US expressed issues on its trade relations with China**
- **Surprisingly no renegotiation on the table; obviously there are broader issues**

The US China trade



- **Given the foregoing two examples, one would have thought that a renegotiation would be undertaken, instead**
- **US imposed tariffs on imports from China**
- **China retaliated**
- **A trade war ensued**

Review of the situation



- **It would appear that politics got into the equation which could have been handled as pure economics; an article used the term ‘containment’**
- **Even if we factor politics in, relations among countries entail cooperation, competition and conflict simultaneously**
- **A recent study shows that US-China relations could work well on all three parameters with the use of proper conflict resolution mechanism**

Closer analysis



- **Many US companies either manufacture in China or use subcontract to get goods and ship them to the US**
- **Walmart addressed a memo to the US President; many US retailers took a stand against trade war**
- **In the end, the US consumers will face increase in costs of goods**
- **US farmers also took a stand against trade war and against subsidies**

More is at stake

- **US investment in China**
- **China investment in the US**



Balance of payments



- **Need to take a closer look: a deficit in goods can be offset by a positive difference in the exchange of services. One has to take into account the three elements of the current account: balance on goods, balance on services and balance on income.**
- **Further, a closer look has also to be taken at the financial account.**

US-China trade facts



- **Real eye opener:**

<https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

APEC 2018



- **The stance taken by the US shows that the issues involved go beyond trade as such including the ‘New Silk Road’ Project and the South China Sea**
- **China provided an explanatory note and took a conciliatory stand**

IMF forecast



- **The International Monetary Fund points out that as a result of the trade war, the economies of both the US and China will experience lower growth rate in 2019**

Interconnectedness of the economies



- **An article in The Week points out that as a result of the trade war, the stock markets in China experienced a down turn**
- **The article points out to what may be a related downward trend in the US stock markets**

G20 Buenos Aires 2018



- **It would appear that common sense prevailed as the leaders of the US and China agreed to put a halt to the trade war and work on the issues constructively (see companion paper for details)**

Lesson learned



- **It would make sense to look at how US Japan resolved their trade differences in the 90s, fundamentally, by negotiation**
- **As a result, a mutually beneficial interdependence has been growing and these two countries are good trading partners**

Conclusions



- **In this day and age, it makes sense to avoid trade wars, which in the past have been costly, in one instance leading to economic depression**
- **International trade does not have to be a zero sum game but a win win game overall**