

Challenges for the International Trade System

Tokyo, Japan, May 28, 2018

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- Useful to think of
 - Short-term challenges
 - Medium-term challenges
 - Long-term challenges

- **A. Short-run Challenges**

- The uncertainty caused by on-again off-again US-DPRK summit, US-China trade war, and US-world trade war
- Abuse of “national security” exception to trade policies
- Resurrection of illegal “voluntary” export quotas and non-market import expansion
- Blocking of WTO appellate body judges



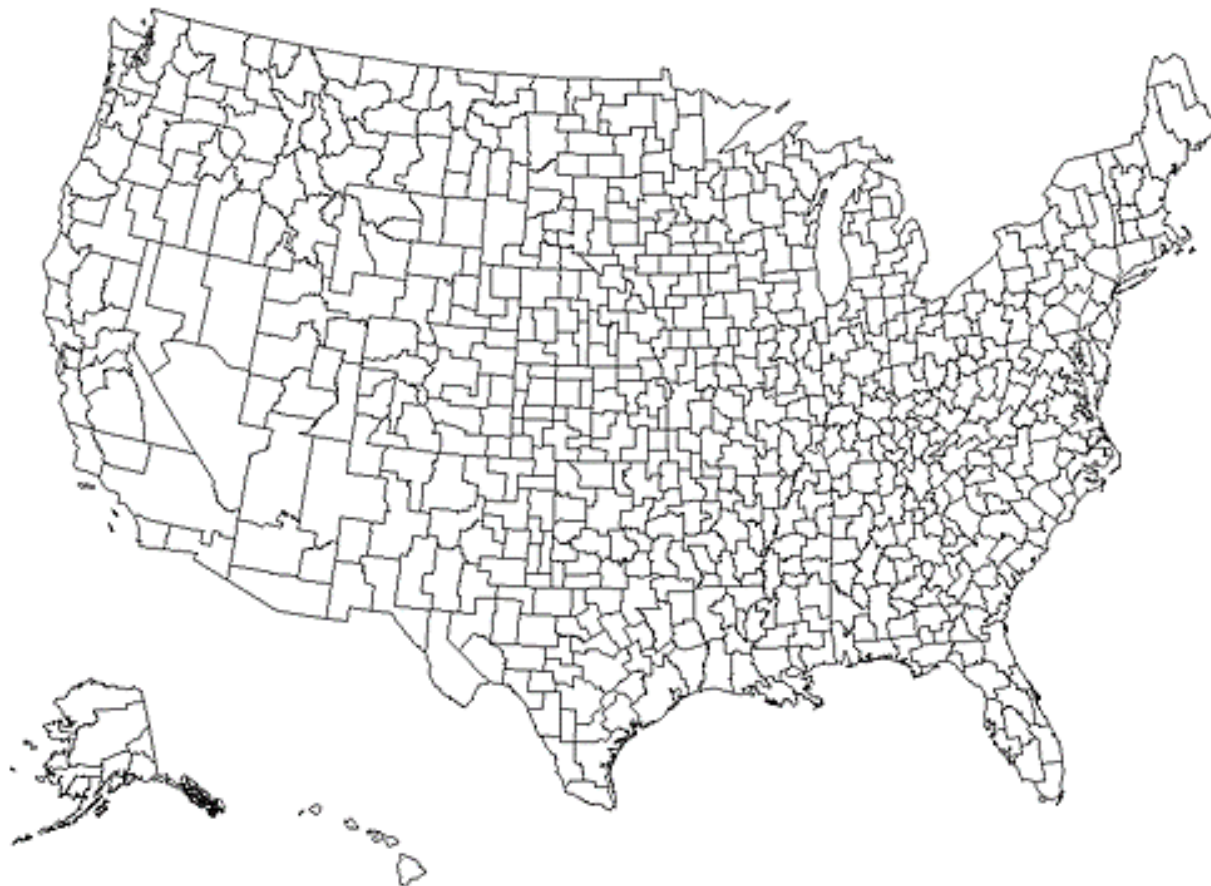
- **Trump's View:** In a US-China trade war, US will easily win because China's exports to the US are bigger than the reverse trade
- **Problems with the Trump's View:**
 - Trade balance in value added terms
 - Total sales by US companies to the Chinese are a lot closer to total sales by Chinese firms to the Americans
 - If US chooses to act outside the WTO, it will make it more likely for a future dominant power to do the same
- **Trade war will be mutually destructive**

- B. Medium term Challenge: Three Sources of Trade Tensions Not Yet Well Understood
- (1) Rising US Trade Deficit from the Tax Cut
 - US Trade deficit = US investment – US savings
 - The tax cut will generate \$1 trillion extra fiscal deficit over next 10 years
 - Unlikely offset by a major cut investment or a major rise in private sector savings
 - Large trade deficit
 - -> Blame Japan, China, Korea, Germany, and other countries

- B. Medium term Challenge: Three Sources of Trade Tensions Not Yet Well Understood
- (2) Likely Rise of US interest rate
 - Exchange rate shocks around the world
 - Problematic for countries with foreign currency debt
 - Sudden reversal of global capital flows
 - Problematic for countries dependent on non-FDI types of capital flows
 - Economic difficulties -> demand for restricting imports -> rise of protectionism

- Medium term Challenge: Three Sources of Trade Tensions Not Yet Well Understood
- (3) Mis-placed Blame on Trading with China for Job Losses in the United States
 - Very common to think that trade with China has generated a net job loss in the United States
 - Autor, Dorn, and Hanson (2013)
 - Pierce and Schott (2016)

Commuting Zones for the United States, 2000

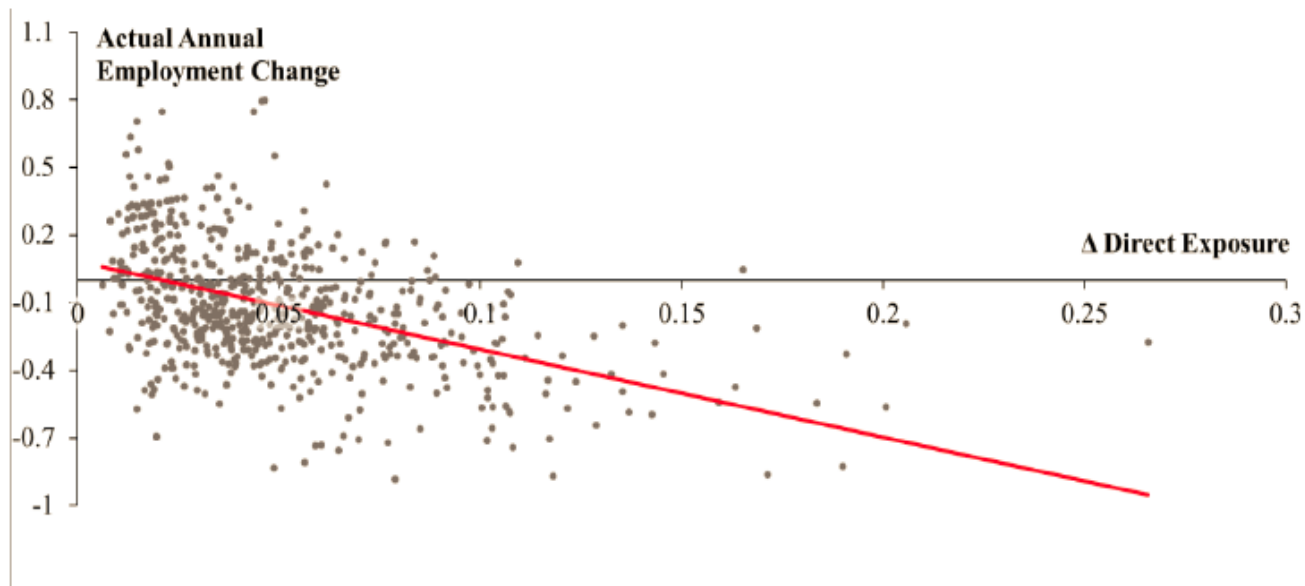


Source: U.S. Department of Agriculture, Economic Research Service.

Key result of Autor, Dorn, and Hanson:

Those CZs that have had the most exposure to imports from China also have experienced the biggest relative decline in local employment

**Figure 3: Employment Change against
the Direct Competition Exposure to China Imports across CZs**
(% of the working age cohort, 722 Commuting Zones)
2000-2014



What is missing in the ADH framework is a supply chain perspective

Downstream Effect

A significant part of the growth in US imports from China is imported intermediate inputs, which help downstream US firms to improve efficiency and potentially expand their employment.

➤ 2000:

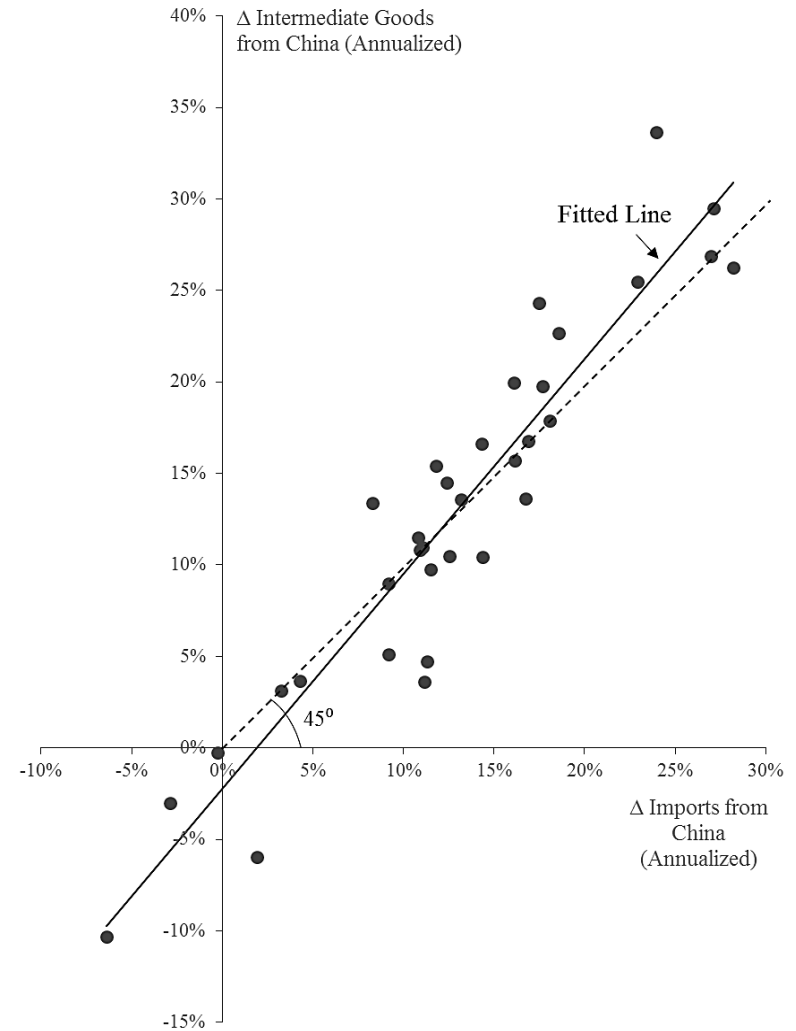
US imports of intermediate goods from China was US \$14.8 billion, accounting for 28.6% of that year's total imports from China.

➤ 2007:

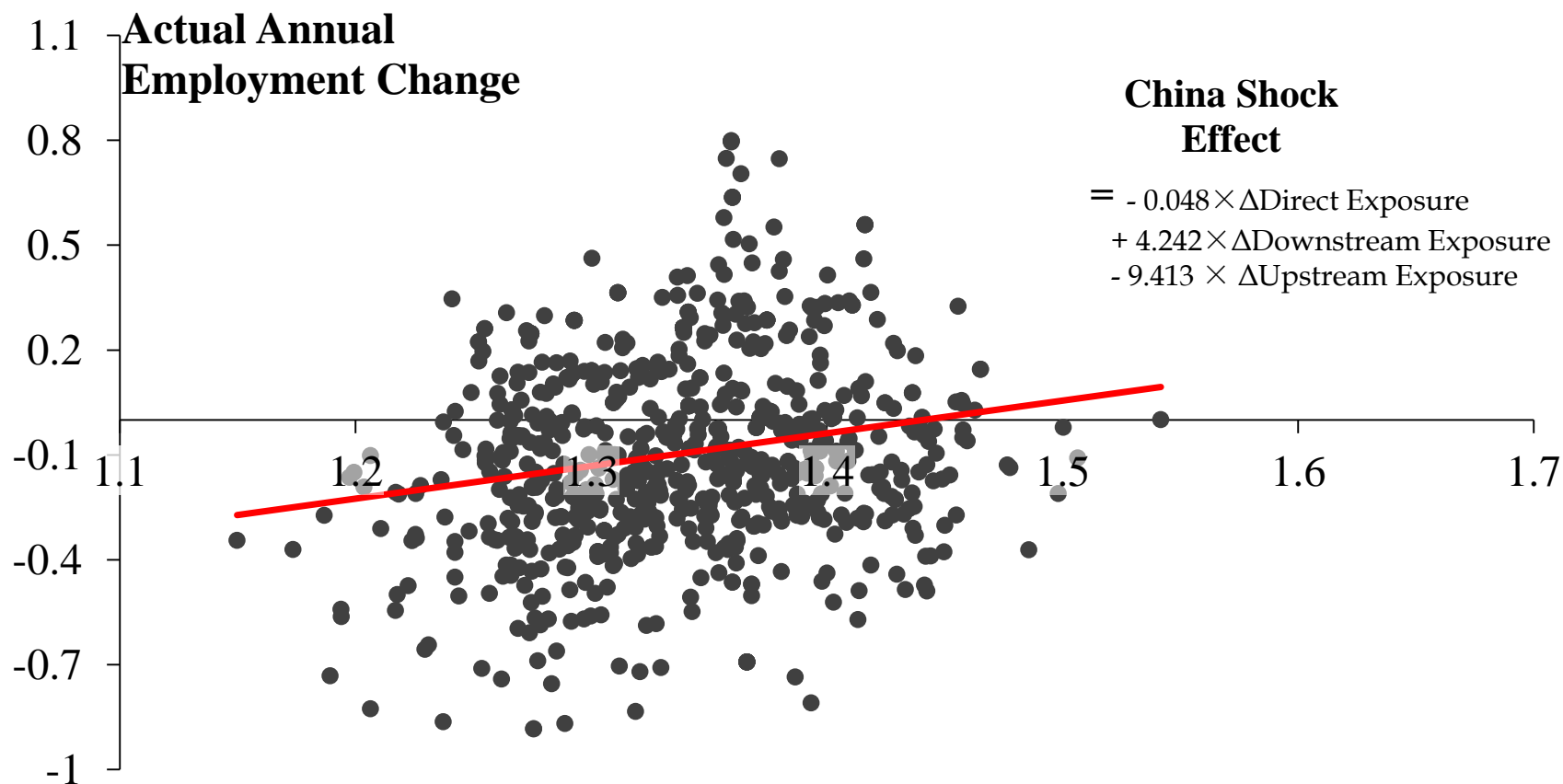
Imports of Chinese intermediate inputs almost tripled to 63.2 billion USD.

➤ 2014:

The number doubled again to 130.2 billion USD (and the share also rose to 37.5% of the total imports from China)

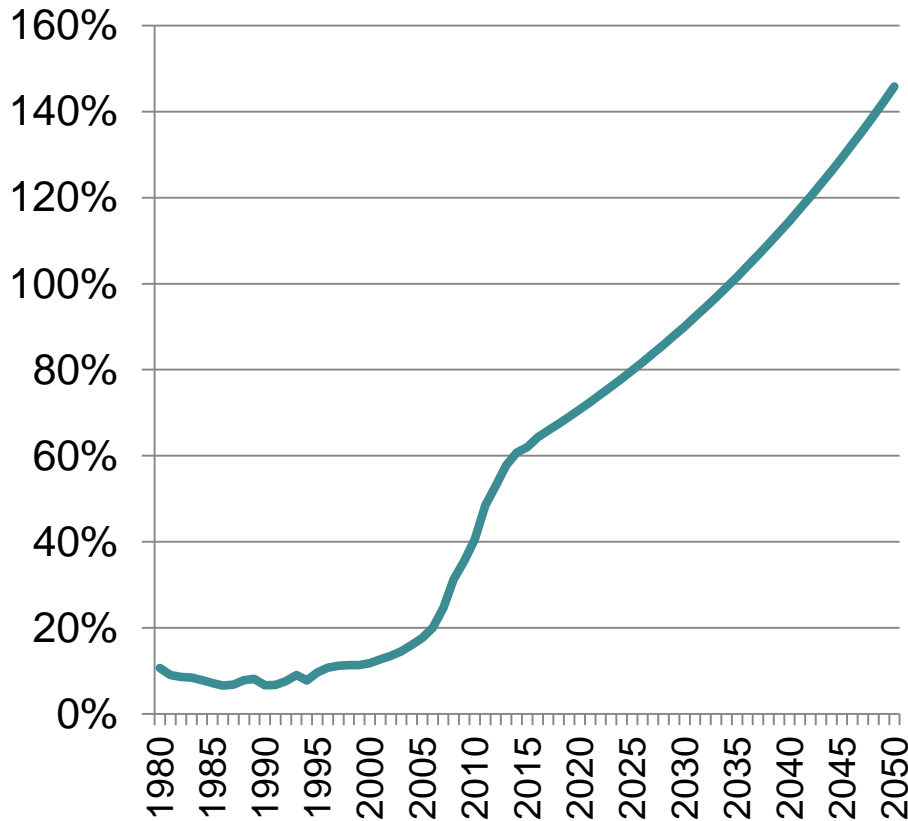


Actual Annual Employment Change against **Total Effect of the China Shock**
(% of the working age cohort, 722 Commuting Zones)
2000-2014

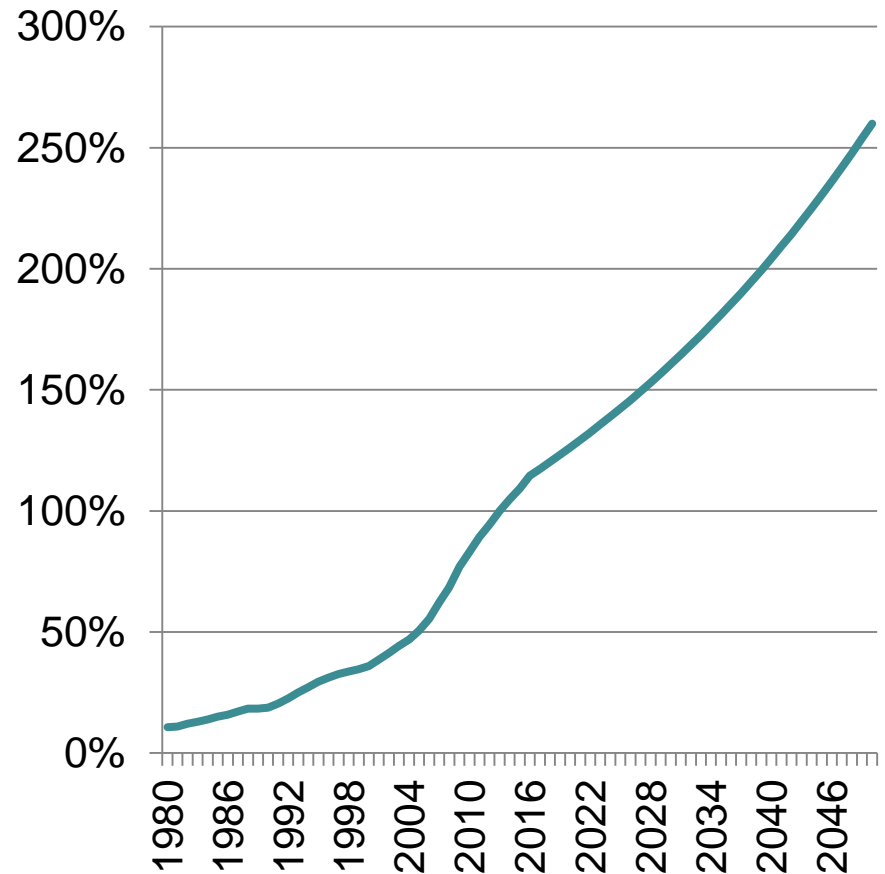


C. Long-run Challenge: Rise of China Relative to the United States

China GDP (% of US GDP, Current prices USD)



China GDP (% of US GDP, PPP current prices)



- Dealing with the long-run challenge
 - Rise of China relative to the United States
 - Implications for world trading system
 - Will China respect the current set of rules?
 - Do US actions of late make it more or less likely for China to respect the existing rules?
 - Can China be encouraged to defend and improve the existing rules rather than to upend them?

Proposal:

Enhanced 3+10 Cooperation

- “3+10” = China, Korea, Japan + ASEAN
- Can be a champion and leader for an open and rule-based global trading system
 - Sensible competition rules
 - Sensible constraints on RTAs that do not impede global and regional value chains
 - Stronger protection of intellectual property rights
 - Skill upgrading/ re-training/ education programs