THE TRADE SLOWDOWN, TRADE DISTORTIONS, AND THE TPP
*Implications for Developing Countries*

Session-4

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The Trade Slowdown, Trade Distortions, and the TPP

Implications for Developing Countries

Simon J. Evenett

October 2015
Agenda in this presentation

• What key recent developments in the world trading system are of interest to developing countries?

• Focus in this presentation on:

  1. The Global Trade Slowdown.
  2. Trade distortions as if the real world really mattered.
  3. The Signing of TPP.
The Global Trade Slowdown

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October 2015
Export volumes flat

Source: CPB World Trade Monitor, latest data available (July 2015)
Export prices down

Source: CPB World Trade Monitor, latest data available (July 2015)
It’s not just a commodity price story

Source: CPB World Trade Monitor, latest data available (July 2015)
Regional price variation probably reflects commodity composition of exports

Source: CPB World Trade Monitor, latest data available (July 2015)
Doubts about one leading explanation: Changing Chinese sourcing patterns

Source: Constantinescu, Mattoo, and Ruta (18 January 2015).
Trade Distortions—with a special focus on the LDCs

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The LDC export boom before the crisis

USD billions

Worldwide total LDC exports

Pre-crisis trend
Impact of foreign trade distortions and trade reforms on a LDC exporter

- LDC Exporter $i$
- Exporter $k$
- Importer $j$

Traditional market access barrier

Bailed out non-exporting firms

Export incentives
Trade distortions faced by LDC exporters

- Tariff increase: 117, 21%
- Non-export subsidies (state aids): 84, 15%
- Export tax or restriction: 82, 14%
- Export subsidy: 53, 9%
- Local content requirement: 41, 7%
- Migration limit: 37, 7%
- Other: 326

- Rest of World: 168
- Japan: 102
- USA: 64
- LDCs: 27
- Russia: 25
- Brazil: 20
- China: 16
- Argentina: 12
- EU28: 9
- India: 10
- Rest of World: 0
- G20: 100
More LDC exports to third markets face subsidised foreign rivals

Higher share is better news for LDCs
LDC trading partners responsible for most adverse export incentives

<table>
<thead>
<tr>
<th>Rank</th>
<th>Trading partner</th>
<th>Number of adverse export incentives</th>
<th>Number of products (tariff lines) covered</th>
<th>% tariff lines exported by LDCs covered by these schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brazil</td>
<td>3</td>
<td>347</td>
<td>75.93</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>6</td>
<td>262</td>
<td>57.33</td>
</tr>
<tr>
<td>3</td>
<td>India</td>
<td>23</td>
<td>239</td>
<td>52.30</td>
</tr>
<tr>
<td>4</td>
<td>Uruguay</td>
<td>7</td>
<td>89</td>
<td>19.47</td>
</tr>
<tr>
<td>5</td>
<td>Egypt</td>
<td>1</td>
<td>44</td>
<td>9.63</td>
</tr>
<tr>
<td>6</td>
<td>Thailand</td>
<td>1</td>
<td>33</td>
<td>7.22</td>
</tr>
<tr>
<td>7</td>
<td>Colombia</td>
<td>1</td>
<td>4</td>
<td>0.88</td>
</tr>
<tr>
<td>8</td>
<td>EC</td>
<td>1</td>
<td>3</td>
<td>0.66</td>
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<tr>
<td>9</td>
<td>USA</td>
<td>1</td>
<td>2</td>
<td>0.44</td>
</tr>
<tr>
<td>10</td>
<td>Switzerland</td>
<td>1</td>
<td>1</td>
<td>0.22</td>
</tr>
</tbody>
</table>

G-20 members indicated in red.
Foreign trade distortions reduced LDC exports by 31% during 2009-2013

- Export loss $bn
- Export gain $bn

Graph showing billions of US dollars for 2009 to 2013:
- 2009: 40
- 2010: 50
- 2011: 60
- 2012: 70
- 2013: 20

- Worldwide total LDC exports
- Pre-crisis trend
- LDC exports absent crisis-era trade distortions

Pre-crisis trend:
- 2000: 100
- 2013: 450

LDC exports absent crisis-era trade distortions:
- 2000: 50
- 2013: 110
How should outsiders react to the signing of TPP.

Reasons not to panic:

1. We don’t know all the details yet.
2. Ratification still has to take place.
3. Date coming into force is, even on the most optimistic accounts, not before 2017.
4. Long phase-in times for some products.
5. Lots of products enter major TPP members are zero tariffs and are bound there by WTO obligations (see next slide).
Many imports into the larger TPP members haven’t faced tariffs for years

<table>
<thead>
<tr>
<th>TPP member</th>
<th>Percent of imported merchandise goods where TPP member gave up tariffs after Uruguay Round</th>
<th>Percent of imported agricultural goods where TPP member gave up tariffs after Uruguay Round</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>18.8</td>
<td>31.3</td>
</tr>
<tr>
<td>Canada</td>
<td>35.8</td>
<td>46.1</td>
</tr>
<tr>
<td>Japan</td>
<td>55.9</td>
<td>34.1</td>
</tr>
<tr>
<td>USA</td>
<td>47.4</td>
<td>30.2</td>
</tr>
</tbody>
</table>

## TPP inflicts small losses on outsiders

<table>
<thead>
<tr>
<th>TPP Outsider</th>
<th>Loss in GDP (2007 US$ billion)</th>
<th>Loss as % of GDP</th>
<th>Number of days of economic growth needed to make up loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-34.7</td>
<td>-0.2</td>
<td>11.2</td>
</tr>
<tr>
<td>India</td>
<td>-2.7</td>
<td>-0.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-2.2</td>
<td>-0.1</td>
<td>11.3</td>
</tr>
<tr>
<td>Korea</td>
<td>-2.8</td>
<td>-0.1</td>
<td>18.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>-2.4</td>
<td>-0.1</td>
<td>63.6</td>
</tr>
<tr>
<td>Russia</td>
<td>-1.4</td>
<td>0.0</td>
<td>N.A.</td>
</tr>
<tr>
<td>Europe</td>
<td>-3.7</td>
<td>0.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Sources: For second and third columns see figure 2.5 of http://www.pecc.org/state-of-the-region-report-2014/265-state-of-the-region/2014-2015/595-chapter-2-can-rcep-and-the-tpp-be-path-ways-to-ftaar. To calculate the data in the fourth column the GDP growth forecasts from this week’s *World Economic Outlook* were used along with the baseline GDP reported in the source for columns two and three.
Implications for Developing Countries

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Recommendations

1. Follow trade slowdown carefully. Key questions are:
   - How much of it is commercial policy-induced as opposed to other more macroeconomic drivers?
   - How much commercial policy will change as a result of the slowdown.
     - Will excess capacity in key commodity sectors trigger trade distortions as they are in steel?

2. Spread of state export incentives is worrying—suggests larger distortions on export side than previously thought.

3. Don’t overreact to TPP—follow the signatories’ performance to see if there evidence that binding behind-the-border policies pays.
   - Binding and reform are related but distinct policy choices.