US International Agricultural Trade: Collateral Damage from Trade Wars and Macro policy

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Post WW II: Trends in Trade and Regional Integration

• In the post-war period, global foreign trade grew much faster than global GDP
• There was also rapid growth in productivity, associated with the growth of trade
• Early post war: world economy was dominated by the US: largest economy, hegemonic role in trade
• Europe recovered, grew rapidly, and became an interconnected regional economy (ICRE)
  • Deep economic and institutional integration
Global trade outpaced global output

**World merchandise export, constant $2010**

Source: World Trade Organization, World Bank

**World merchandise export vs GDP (1960=1)**

Source: World Trade Organization, World Bank
US tariffs have never been lower

![Graph showing U.S. Average Tariff Rates (1821-2016)]

Tariffs are low in most of the world

Where Global Tariffs Are Highest And Lowest
Average weighted tariff rate applied across all products in 2016 (%)

- <2.51
- 2.51–4.77
- 4.77–7.10
- 7.10–9.62
- >9.62

Canada 0.8%
Mexico 4.4%
United States 1.6%
Gabon 16.9%
Brazil 8.0%
Russia 3.4%
China 3.5%
India 6.3%

Source: World Bank
Role of the WTO

• GATT established after WW II to provide a forum for international trade negotiations
• Evolved into the WTO with the Uruguay Round that went into effect in 1994
• The WTO is NOT a “trade deal”
• It is an organization established to provide an institutional framework for negotiating trade agreements and providing a mechanism for adjudicating trade disputes
Role of the WTO

• GATT/WTO system has been very successful in facilitating rapid growth of world trade, with enormous benefits for participants
  • Rules based international trade system

• Agricultural trade was largely excluded from GATT because domestic agricultural policy in Europe and the US represented delicate political compromises that trade policy might disrupt

• Uruguay Round brought agriculture trade policy into play within the WTO system
  • Associated with rapid expansion of agricultural trade
Large rise in agricultural trade, particularly post-2000

**World agricultural export, constant $2010**

Source: World Trade Organization, World Bank

**US agricultural trade, constant $2010**

Source: World Trade Organization, World Bank
WTO and Agriculture

• WTO system is largely functioning for agriculture
  • Lots of scope for improvement in market access that can be addressed under the WTO
  • Lots of non tariff barriers (NTBs) that need work
  • Many multilateral issues (e.g., standards, role of subsidies)
• Regional trade agreements (RTAs) can also address agricultural issues
  • Perhaps better: easier to negotiate than multilateral agreements (e.g., failure of the Doha Round)
Trade Wars and Agricultural Trade

  • US: Steel/aluminum tariffs, Autos/Parts threatened

• Public statements that the WTO is “unfair” to US
  • Threats to “leave” the WTO and/or operate outside its rules
  • Potential withdrawal of the US from global trade system

• US Operating outside the rules-based WTO system leaves agriculture exposed to policy reactions by other countries
  • Reversion to trade-distorting agricultural policies by countries is possible if WTO fails
  • Agriculture is an “easy” target for retaliation in a trade war (e.g., Chinese tariffs on US soybeans)—collateral damage
Macro Forces and Agricultural Trade

• US reduction in taxes is leading to major increase in federal deficit
  • Potentially larger than Reagan and Bush Jr. tax cuts

• In the past, the increased federal deficits led to increased borrowing from abroad
  • Interest rates went up, exchange rate appreciated
  • Foreign trade deficit increased dramatically

• Exchange rate appreciation hurts exports, and so hurts agriculture—collateral damage from macro policies