Trade Policy for Agriculture: How Politics is Trumping Economics

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This presentation is dedicated to Daryl F. Kraft (1945-2003), in recognition of his many valued contributions.

Today my concerns are How/Why is politics increasingly trumping economics? Trade wars
WTO bought to inaction in trade dispute resolution
If the WTO trade dispute resolution cannot function, how effective can the WTO be?
The economic case for trade is clear

- Specialization in production & trade according to the relative comparative advantage of regions/nations has benefits overall relative to autarky.

- The pie is larger (aggregate income is greater) enabling compensation to those who lose from adjustments.

- However, compensation tends to be politicized/political, can take many forms or even be minimal. Distribution of benefits involves both economic and political issues.
Trade provides economic benefits—but

*Compensation is important to public views of fairness (social acceptability) of trade

*The presence or lack of compensation policies & institutions are political issues

*Ability to fend off adjustment to trade through protection and support creates rents, a strong reason to engage in lobbying for protection, to retain or create exemptions & rents—a frequent political focus (e.g. EU agriculture; US sugar, timber; Can. dairy)
Earlier views of trade: sale of goods across borders is simpler than reality

* Reality: complex supply chains of raw, semi-process & final goods can cross borders at various stages of production. Services of ↑ importance

*Technology, investment and services are vital for economies of scale & specialization (eg N American auto industry).

Eg: transportation, research, technology: design, testing, adoption; information tech, insurance, financing & sales also basic & add to GDP and employment. In the case of NAFTA, parts cross back and forward across borders: complex supply chains are ignored in the Trump view of NAFTA but evident during disruption (EG recent GM strike)
Trade critics argue that employment is displaced by imports from low cost areas and by immigration as with:

- **UK**: immigration & national sovereignty dominated criticism of globalization & trade by Brexit supporters

- **US**: criticisms focused on manufacturing job reductions 1999-2011, relating this to China’s rapid industrialization & import competition (since then some recovery in US jobs; but income distribution trends suggest minor US redistribution from trade/growth gains).

- **Nationalism/populism/authoritarianism**, rejects globalization; tends to be increasing globally
Further, the groundswell of anger & resentment of those left behind by trade and growth, whipped up by nationalistic politicians, has been growing

US: “Trump Make America Great Again”;

Britain: Johnson “Brexit at any cost”;

EU: Yellow vest movement “Protest!”
But trade itself is not a major job destroyer---technology is:

- Jobs are disrupted and displaced by technological and institutional change, associated with economic growth, which may be fuelled by globalization and trade.
- Longstanding examples: US and Canadian agriculture and forestry,
- As these economies grew, capital (technology) substituted for labor,
- → fewer traditional jobs in agriculture & forestry;
  → requirements for more specialized skills.
  Also → higher profits, tax revenues & contributions to national income.
Technology is still substituting for labor in agriculture, forestry, manufacturing, retail & services---is now influencing white collar jobs (banks, finance, retail, stock-markets, health sciences...). Stages/Waves continue!

Technological & institutional changes led to

**Industrialization**, Machines displaced handwork; displaced cottage industries

**Automation**, proceeded to robotics, chips,

**Digitization**, internet, 3D copy processes, artificial intelligence,

All accelerated--but not directly caused--by globalization & trade
Current example: Who will keep their job at GM Oshawa in 2019?

“Amanda (software engineer) & Rebecca (line-worker) started at GM Oshawa 15 years ago & survived layoffs, government bailout & the company bankruptcy.”

“Today, they are living in the biggest shift the auto industry has seen since the invention of the assembly line.”

“Who will keep her job following the month long GM strike?”

(Bloomberg Businessweek 18/919).
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A “Trickle down” approach to compensation for those left behind by changing patterns of trade, technical change and growth is unlikely to be successful. Despite “trade adjustment programs,” in the US income distribution has become increasingly concentrated in the “top 1%” over time: the Gini coefficient for the top 1% has continually increased for years, most recently in 2018.

A new 2019 US study argues extreme concentration of US wealth and low tax incidence on US super-rich (Saez & Zuckman)
US: The Triumph of Injustice
(Saez & Zuckman)

Average effective tax rates of the 400 wealthiest families and the bottom 50 percent of U.S. households
Summing up: specialization & exchange gives more choice, lower input costs & lower costs of living

Although trade can create winner and losers, many benefits are broadly dispersed through lower costs of living from lower prices.

Trade also leads to added profits, taxes and GDP. Adjustment costs are fairly location/sector specific.

But compensation to those who lose depends on institutions & reflects existing policies & politicians.
Expect gains from trade to be greater, the greater are existing trade distortions.

But also expect costs of adjustment (lost rents) to be greater in these cases.

Protecting rents gives incentives to lobby against trade (eg US sugar, cotton, lumber; CAN dairy, poultry).

The political market requires resources & votes. Politics has trumped Economics here.
Reactions to technology, unfair income distributions and the desire to protect economic rents are not the only challenges to international trade.

The back-bone of international trade governance, the WTO, is currently being undermined.
First, the strong economic case for free trade is increasingly being attacked:

“..the stockpile of trade restrictions introduced by WTO members since 2008 continues to grow. Only 20 per cent of the restrictions put in place have been rolled back....the pace of removal of these measures needs to be accelerated... continued vigilance and action....required ” (Roberto Azevêdo, WTO Director General, 2016).
"Mounting trade tensions, increases in trade restrictive measures and continuing economic uncertainty" created real challenges for trade in 2018: **trade growth:**

- 4.6% (2017),
- 3% (2018),
- 2.7% - 2.5% (2019, projections).

Robert Azevedo, DG, WTO 2019; IMF 16/10/19
But worse, from early 2018 Mr. Trump has led an unprecedented US attack on the principles of the WTO, including:

- Widely applied US S 232 tariffs on imports of aluminum, steel ostensibly due to threats to US national security → expanded trade war. Protection & Retaliation!

- Escalation & wider US tariff attacks have hurt other exporters, led to large transfers for protected US sectors & disadvantaged other exporters, including Canada.

- Overall → punitive effects globally on producers, exporters, consumers & trade
US Trade war with China: Political & Economic Interests & clashes

• From July 2018, US instigated series of escalating tariffs/trade restrictions on China citing: growing trade deficit, unfair trade practices, theft of intellectual property & forced transfer of intellectual property to China; met with retaliation, & escalated

• Days ahead of the 13th round of US-China trade talks (October 2019), US Commerce Department banned US firms from software and hardware sales to 20 important Chinese Artificial Intelligence firms----& black-listed 8 firms growing whose products “facilitate surveillance” in Xinjiang

• This ban “hits at the heart of China’s AI ambitions“ (Economist)
The on and off again US-China trade war saga continues: From the Wall Street Journal (12 October 2019) it was reported that:

“U.S. and China took an initial step” re the derailed trade agreement with Washington saying on Friday it would shelve a planned increase in tariffs on goods imported from China, Beijing would buy $40-50B U.S. of agricultural products”
The saga continues:

On October 16, 2019

Mr. Trump claimed success in Stage 1 negotiations for a prospective US-China Trade Agreement.

Details remain to be seen. But a “managed trade” agreement between the US and China would hurt 3rd country exporters like Canada.
Are Trump tariffs WTO legal?

- Not in accord with WTO principles of equal & fair treatment of all WTO members
- The appeal to “national security” is hardly credible
- Tariffs are increasingly being applied for political reasons: eg. to threaten Mexico demanding action to “reduce or eliminate the number of illegal aliens” crossing into the U.S.,”(May 31 2019)
- Having serious international effects on trade & increasing the likelihood of recession
As well, US (Mr. Trump) claims the WTO dispute settlement system is unfair to the US, citing

- Some cases go against US interests & legislation
- The process takes too long

**BUT** the US actually is the only country to be assured of a position on the 7 person roster of arbitrators (The Appellate Body)

**Timing being lengthened by the US itself** (Mr. Trump’s refusal to agree to any new nominees to the Appellate Body since he became US President).
Considerable irony in the US determination to veto appointments to the Appellate Body since the election of Mr. Trump:

The panel process in the longstanding US complaint of EU Airbus subsidies reported (in early October 2019) in favor of the US, enabling the US plan to propose punitive legal US tariffs on specific EU countries and export products.

A similar EU complaint against US subsidization of Boeing was still in process / report expected shortly, likely with similar counter-productive effects.
It is now generally agreed that uncertainty and the increased costs from Mr. Trump’s tariff wars are contributing to slower global growth, affecting manufacturing, displacing/crowding out farm products trade, threatening employment levels, and increasing the likelihood of recession.
More irony: US exports will finally have access to some of the 2017 Trans-Pacific Partnership tariffs (to Japan) through a separate agreement with Japan.

In 2017: Immediately on taking office, Mr Trump formally withdrew the USA from the multilateral TPP: “a very poor deal!” Under pressure from US farmers for better access to the lucrative Japanese market, in early October 2019 Mr. Trump announced agreement with Japan to finally provide the US with some TPP tariff provisions, at least for the Japanese market.
And Mr. Trump’s actions re NAFTA must at least be mentioned: Disdain by the current US Administration for trade agreements initially threatened discard of the 3-nation NAFTA trade pact “the worst trade agreement ever!”
While the renewed CUSM /USMCA version of NAFTA has higher costs & distributes relatively more benefits to the US, it will retain major features of this important pact for Canada and Mexico (dispute settlement).
Are China’s actions in bypassing Canada’s canola imports WTO-legal?

√ Appear discriminatory, hard to prove: China suffering severe effects of African swine flu virus on their pig population → less feed use (soy)

√ Further, claims of pests/ mislabeling, suggested by some dubious, are hard to disprove.

√ Canadian Reaction? Persuasion? Tough line ? (4 MLI proposals)

√ Discard the WTO system? Too valuable to discard!

Patient and careful negotiation is called for.
WTO process of dispute settlement is under attack: Trade war & managed trade displacing WTO rules

• “..current impasse in process for appointing Appellate Body members is putting…dispute settlement process under severe strain…the importance of finding a solution…cannot be overstated ” (Roberto Azevêdo, 2019)

• WTO works by consensus; Mr. Trump’s block on these appointments now where (without procedural changes) new appeals will not be possible by December 2019

• One option—discard the system? No!
Useful to remind ourselves of the virtues of the GATT and its successor, the WTO (I)

The GATT was introduced (1947-48) to aid in economic recovery from (and future avoidance of) the wars and depressions of previous years. Succeeded by the WTO on January 1, 1995 upon the conclusion of the Uruguay Round Trade Agreements.

Agriculture was essentially omitted until the URAA (1986-1994). Why?

- During and after WWI & II food security was a dominant focus
- **Agricultural protectionism** was rampant! By 1980’s mountains of butter & lakes of wine distorted world market prices; dumped “food aid” penalized LDC agriculture & efficient exporters.
Useful to remind ourselves of the reason for and virtues of the WTO (II)

- The Agreement on Agriculture of the Uruguay Round effectively brought agricultural trade issues into the new permanent body of the WTO from January 1995.
- But many members tabled statements of duties/quotas re TRQ with room for future cuts; farm protectionism was still strong & healthy.
- The next big push: the Doha Round (1997-2015), had some but limited success in deleting protectionism and fostering development (but was finally successful in agreements to phase out agricultural export subsidies which have had severe impacts on agricultural trade.)
WTO (III). Principles of the WTO (Summary):

1. **Non-discrimination**: treating all members equally, as MFN
2. **National treatment**: Treating foreigners & locals equally
3. **Freer trade**: gradually, through negotiation
4. **Predictability**: through binding & enforceable commitments
5. Promoting **fair competition**, **transparency**
6. Encouraging **development & economic reform**

These Principles shouldn’t be sacrificed

They are worth much effort to retain
A case for early education on B & C of trade & trade barriers

*Social and economic costs of retaliation, balkanization, & economic depression apparently forgotten.

*High school teachers, curricula and parents need to realize the importance of learning from history in this regard.

*After all: "Those that fail to learn from history, are doomed to repeat it." (Winston Churchill).
The WTO does more than dispute settlement—but dispute settlement is at the heart of settling disputes & enforcement of rules that back up its principles. Fixing the current impasse will require concerted global effort by Members before the next Ministers meeting (Kazakhstan) June 2020)
Loss of the WTO would:

- Be a huge step backward to a more fragmented & divisive world,
- Give a less fair trading environment,
- Lower levels of growth and income,
- Destroy gains from trade,
- Harm trade-dependent countries & sectors: consumers, farmers, agricultural processors, traders.

Retaining and strengthening the WTO is important!

Thank you for your attention.

Comments and suggestions are welcome.

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