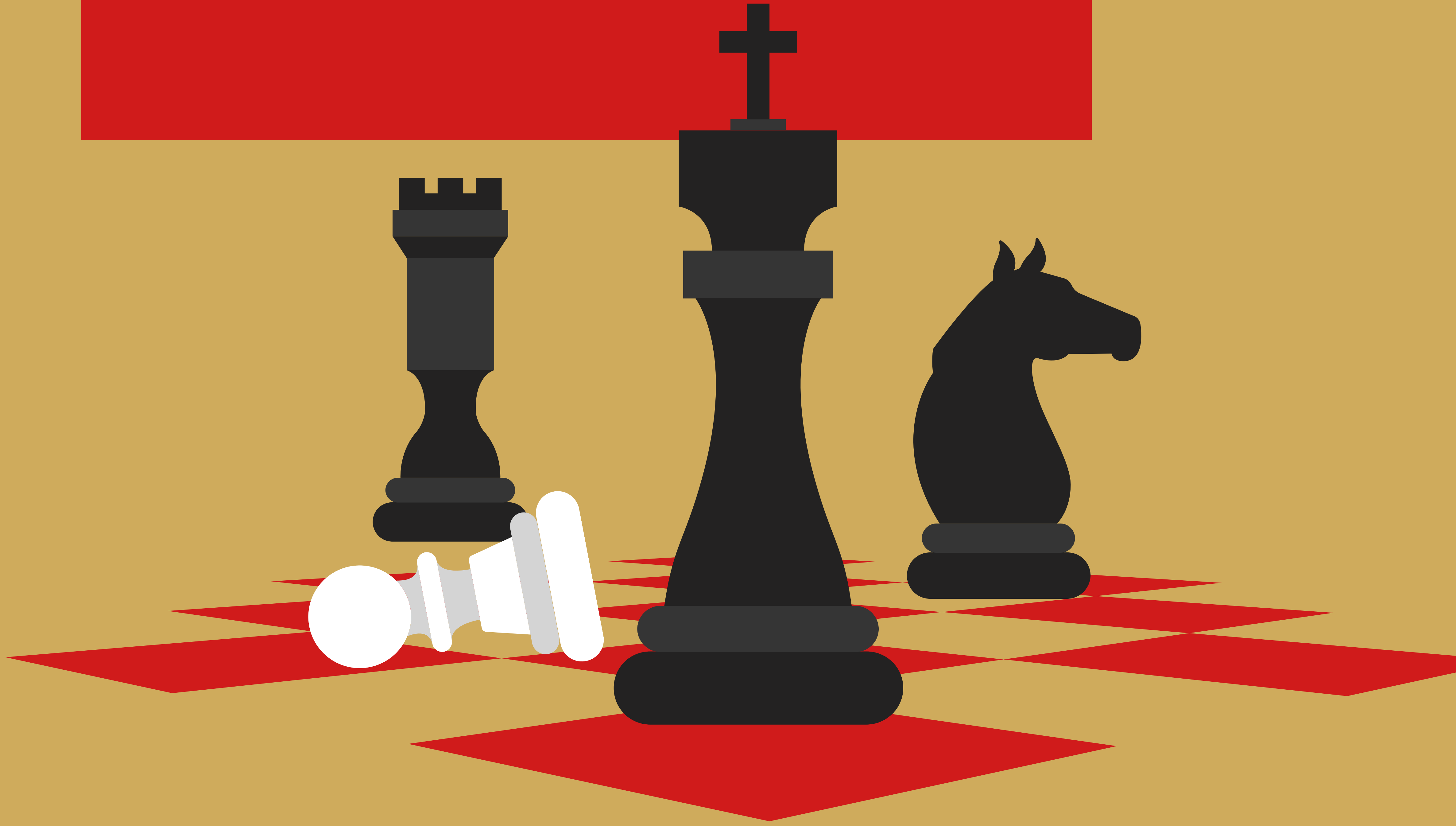
Trade Wars

An introduction



REGIONAL ECONOMIC INTEGRATION

Agreements between groups of countries in a geographic region to reduce and ultimately remove, tariff and non tariff barriers to the free flow of goods, services and factors of production between each other:

•Consistent with the predictions of international trade theory and the theory of comparative advantage
•Produce nontrivial gains from trade for all member-countries.
•Aim to reduce trade barriers more rapidly than can be achieved under the auspices of the WTO.

General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) seek to reduce trade barriers with a worldwide perspective

Some processes of regional economic integration

- January 1, 1993 - European Union (EU) effectively became the first single market with 360 million consumers.
  - Some Member-states of the EU have single currency Euro

- North American Free Trade Agreement (NAFTA) - Agreement between Canada, Mexico, and the United States. Now – USMCA (Jul, 2020)

- Mercosur – Agreement between Argentina, Brazil, Paraguay and Uruguay
- EFTA – Norway, Liechtenstein, Iceland and Switzerland
- Asian Pacific Economic Cooperation forum (APEC) – Possibility of creation of a pan-Pacific free trade area between 18 Pacific Rim countries, including the NATFA member states, Japan, and China.

OBJECTIVES OF REGIONAL INTEGRATION

1. To explore the economic and political debate surrounding regional economic integration, paying particular attention to the economic and political benefits and costs of integration

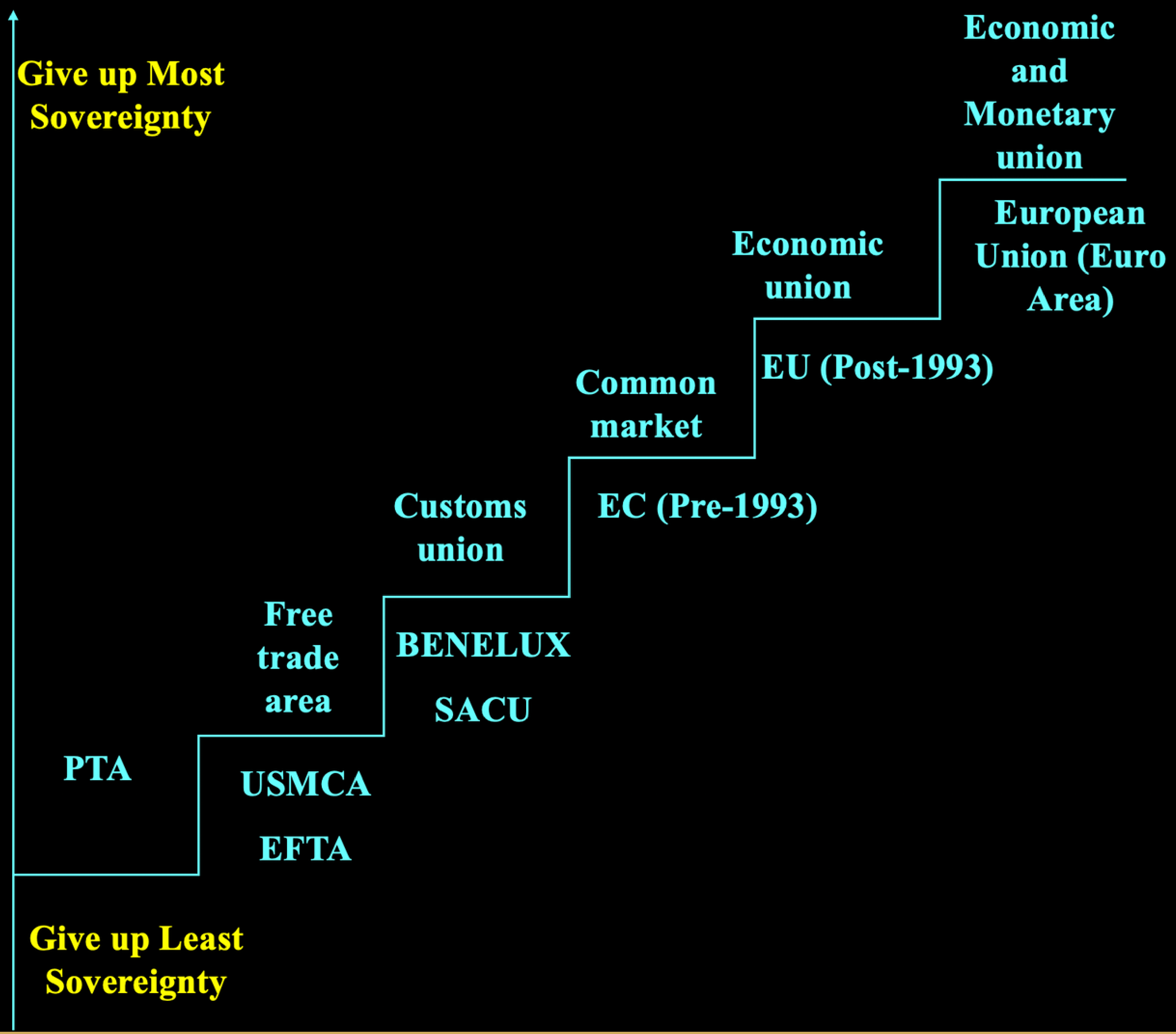
2. To review progress toward regional economic integration around the world

3. To map the important implications of regional economic integration for the practice of international business.

REGIONAL HARMONIZATION: ECONOMIC INTEGRATION

- To stimulate the exchange of economic wealth within regions and blocs
- Total trade tends to increase within a region of trading nations due to reduction of interstate controls.
- Enterprises are artificially encouraged to expand their operations into other markets within the region.
- To have an overall positive effect on trade by providing increased understanding within trading blocs and more cooperation among nations.
- To serve as barriers to outsiders.
- Each form implies more or less control and/or loss of sovereignty.
- All forms of integration require very careful point-by-point interstate negotiations.

HIERARCHY OF ECONOMIC INTEGRATION



LEVELS OF ECONOMIC INTEGRATION

Preferential Trade Area

Free Trade Area

Customs Union

Common Market

Economic union

Economic and Monetary Union

LEVELS OF ECONOMIC INTEGRATION

- Preferential Trade Area (PTA)

In a PTA some barriers to the trade of goods and services among member-countries are removed. There is what is called a positive list of products on which tariffs are to be reduced.

LEVELS OF ECONOMIC INTEGRATION

- Free Trade Area

In a free trade area most barriers to the trade of goods and services among member-countries are removed. In this case there is a negative list on which tariffs are not reduced or eliminated.

Free trade area/agreement (two or more countries)

- Free trade areas may be bilaterally or multilaterally negotiated

- Contents of the agreement can and do include the harmonization of many conditions that range from customs procedures, to rules of origin, to the range of products to be included (industrial, agricultural, complete exchange)

- Typically the nations involved agree to reduce or abolish mutual import duties and other restrictions which could include some non-tariff barriers (NT), often defining a time period during which duties are gradually changed

- A common internal tariff (CIT) system tends to improve the uniformity and transparency of existing interstate controls

LEVELS OF ECONOMIC INTEGRATION

- Customs Union

- One step further along the road to full economic and political integration
- Eliminates trade barriers between member-countries and adopts a common customs external tariff
- Establishment of a common customs external tariff policy necessitates significant administrative machinery to oversee trade relations with nonmembers
- Most countries that enter into a customs union desire greater economic integration
- The EU began as a customs union and has moved beyond this stage

Custom Unions

• Other customs unions include the Andean Pact (between Bolivia, Colombia, Ecuador, and Peru).

• The aims of the Andean Pact are to establish free trade between member- countries and to impose a common tariff, of 5 to 20 percent, on products imported from outside.

• A customs union abolishes most protectionism inside the union and sets up a common external tariff (CXT) system with regard tooutside countries.

• Includes common non-tariffs (CNT) as well.

• Sophisticated level of economic integration, butdoes not go so far as to harmonize the economic policy within the negotiated region.

LEVELS OF ECONOMIC INTEGRATION

•Common Market

- Like a customs union, the theoretically ideal common market has no barriers to and a common external trade policy.
- Factors of production also are allowed to move freely between member-countries.
- Thus labor and capital are free to move, as there are no restrictions on immigration, emigration, or cross-border flows of capital between member-countries.
- Hence, a much closer union is envisaged in a common market than in a customs union.
- The EU is currently a common market, although its goal is full economic union.

Common Market

•Other than the EU, no successful common market has been established, although several regional groupings have aspired to this goal.

•Establishing a common market demands a significant degree of harmony and cooperation on fiscal, monetary, and employment policies.

•Achieving this degree of cooperation has proven very difficult.

•A common market also allows the free transfer of the factor endowments: capital, technology, management/know-how, labor, and intelligence, as well as products between member nations.

•Under certain crisis situations, such as massive unemployment or foreign exchange shortages, an individual nation may temporarily erect barriers to the free flow between itself and the other members.

LEVELS OF ECONOMIC INTEGRATION

• Economic union

- An economic union entails closer economic integration and cooperation than a common market.

- Involves the free flow of products and factors of production between member-countries and the adoption of a common external trade policy, among other policies.
- Such a high degree of integration demands a coordinating bureaucracy and those member-countries sacrifice significant amounts of their national sovereignties to that bureaucracy.

LEVELS OF ECONOMIC INTEGRATION

- Economic and Monetary Union

- Adoption of a common monetary policy and the adoption of a single currency

Regionalism Vs Multilateralism

- As defined by Winter, regionalism can be loosely defined as any policy designed to reduce trade barriers between a subset of countries regardless of whether those countries are actually contiguous or even close to each other.

- Regional Trading Arrangements on the other hand are based on the principle of discrimination as it goes for liberalization of trade within a group of country – a discriminating policy towards the rest of the world.

- This is against the most favoured nation treatment of WTO, which says that a country cannot discriminate among its trading partners.

Regionalism Vs Multilateralism

•Multilateralism on the other hand has been defined by Winter as a characteristic of the world economy or world economic system. Winters has defined multilateralism as a function of:

- The degree to which discrimination is absent and
- The extent to which the country's trading regime approximates free trade.

• Multilateralism is been pursued through multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

• Multilateralism practiced under GATT/WTO, is based on the principles of non-discrimination in trade. The principle is enunciated in article I ("General Most Favoured Nation Treatment, or MFN) and articles III ("National Treatment on Internal Taxation and Regulation", or NT) of GATT.

Glossary

•**Tariff** – A Tariff is a tax imposed by one country on the goods and services imported from another country to influence it, raise revenues, or protect competitive advantages.

•**Non-tariff barriers** – A non-tariff barrier is a way to restrict trade using trade barriers in a form other than a tariff. Non-tariff barriers include quotas, embargoes, sanctions and levies. Technical issues and bureaucracy could also be included in the category of non-tariff barriers.

•**Sanctions** – Economic sanctions are penalties levied against a country, its officials or private citizens, either as punishment or in an effort to provide disincentives for the targeted policies and actions.

Glossary

Sanctions Examples:

Economic sanctions include restrictions on U.S. imports from China's Xinjiang region imposed for human rights abuses committed against Uighurs. The U.S. and the European Union also imposed sanctions against Russia officials, industries, and companies following Russia's annexation of Crimea in 2014 and again in 2022 when Russia launched a full scale invasion of Ukraine.

Economic sanctions against apartheid-era South Africa were often credited as a contributing factor in the peaceful transition to majority rule there. Sanctions against Saddam Hussein's Iraq, on the other hand, failed to end his rule and were called by some a "humanitarian disaster".

Glossary

Dumping – Dumping is a term used in the context of international trade. It's when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market. We also have Environmental Dumping; Social Dumping and Exchange rate Dumping.

Anti-Dumping Duty – An anti-dumping duty is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced bellow fair market value.

Countervailing Duties – They are established when a foreign government provides assistance and subsidies, such as tax breaks, to manufacturers that export goods enabling those manufacturers to sale the goods cheaper than domestic manufacturers. It's an anti-subsidy instrument.

Safeguard Measures – Measures can be taken when an industry is affected by an unforeseen, sharp and sudden increase of imports of a given product and local producers cannot reasonably be expected to adapt immediately to the changed trade situation. It differs from the anti-dumping and anti-subsidy instruments in that it does not deal with unfairly traded imports, thus applying to all countries exporting the product.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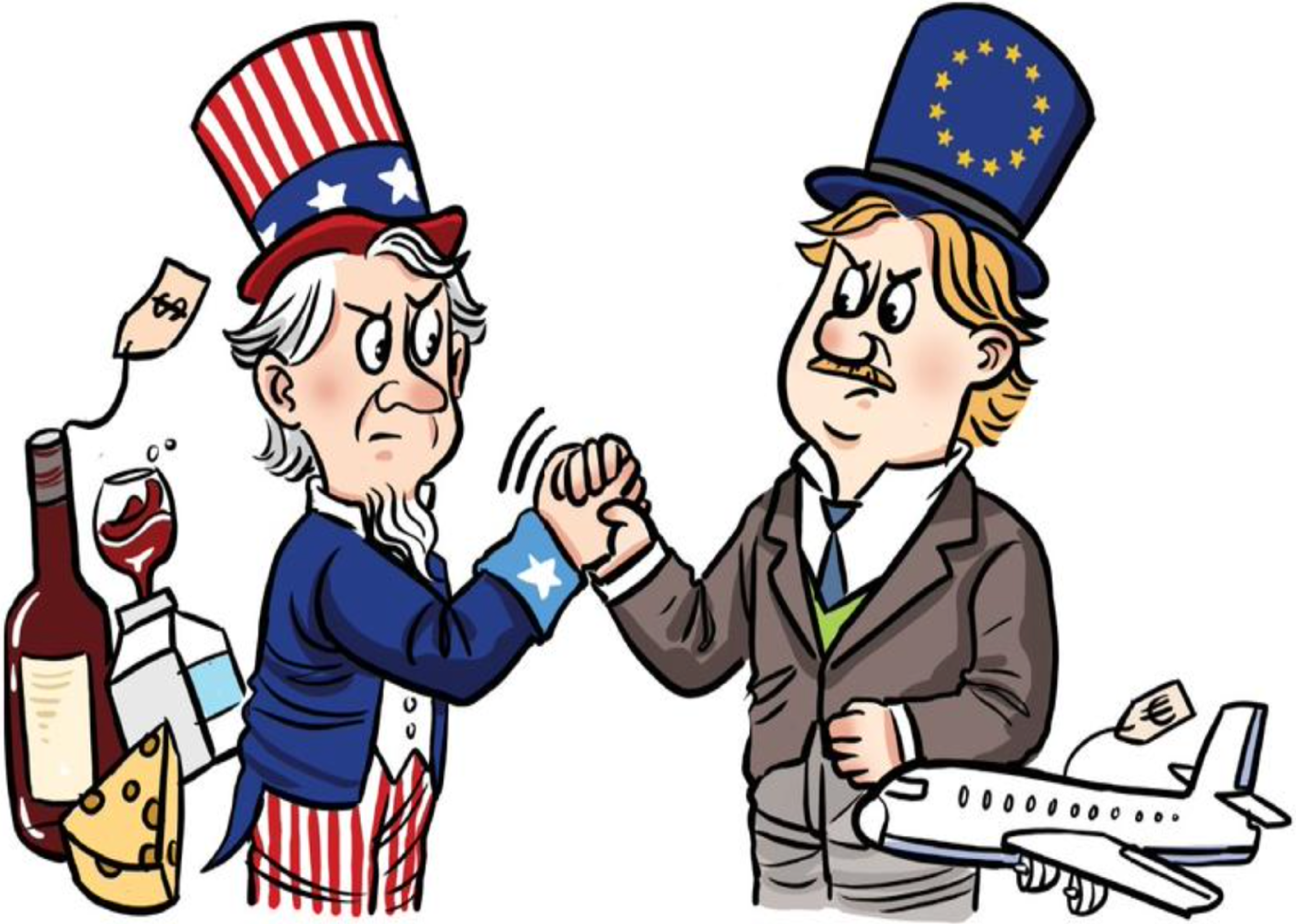
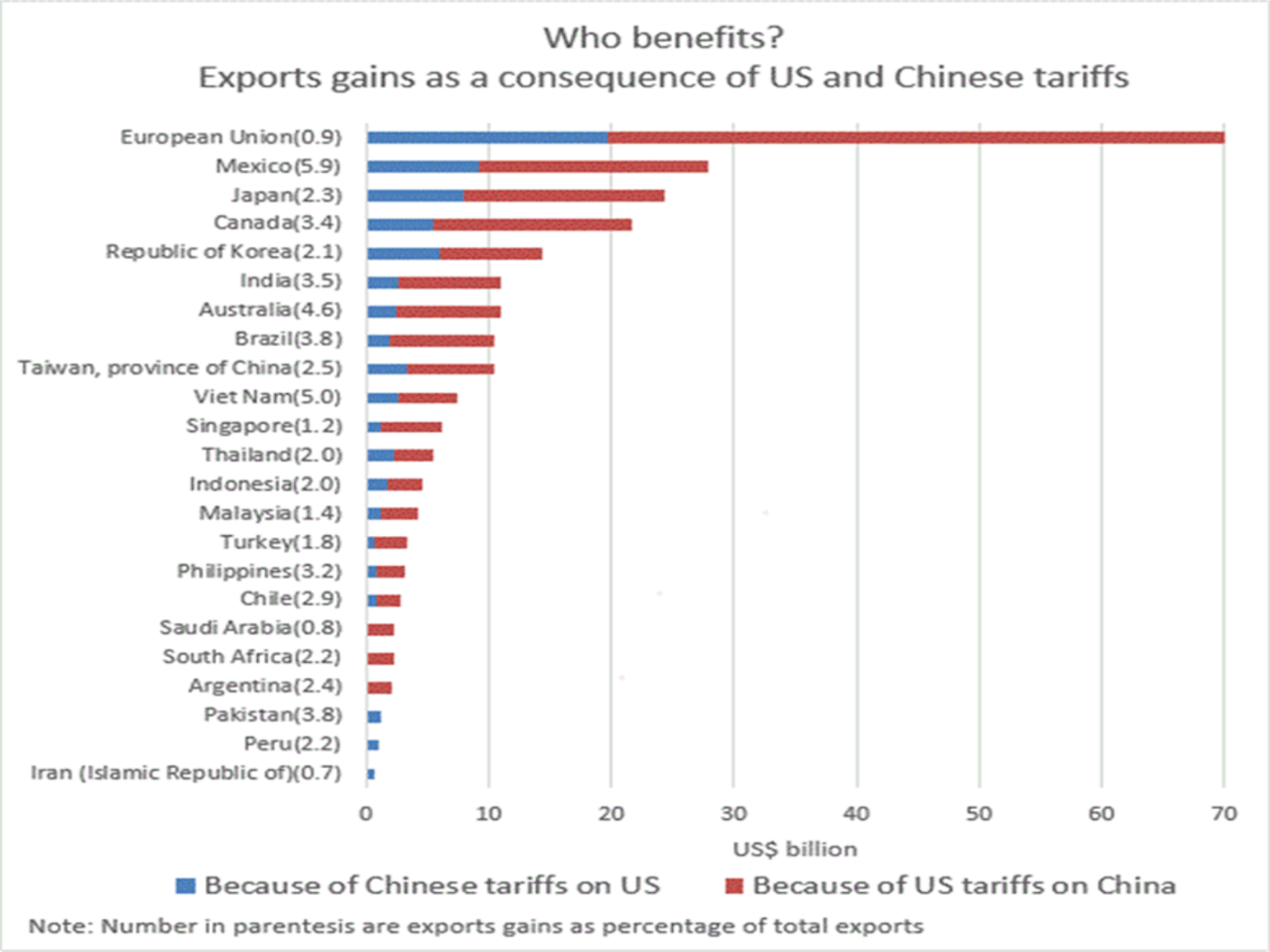
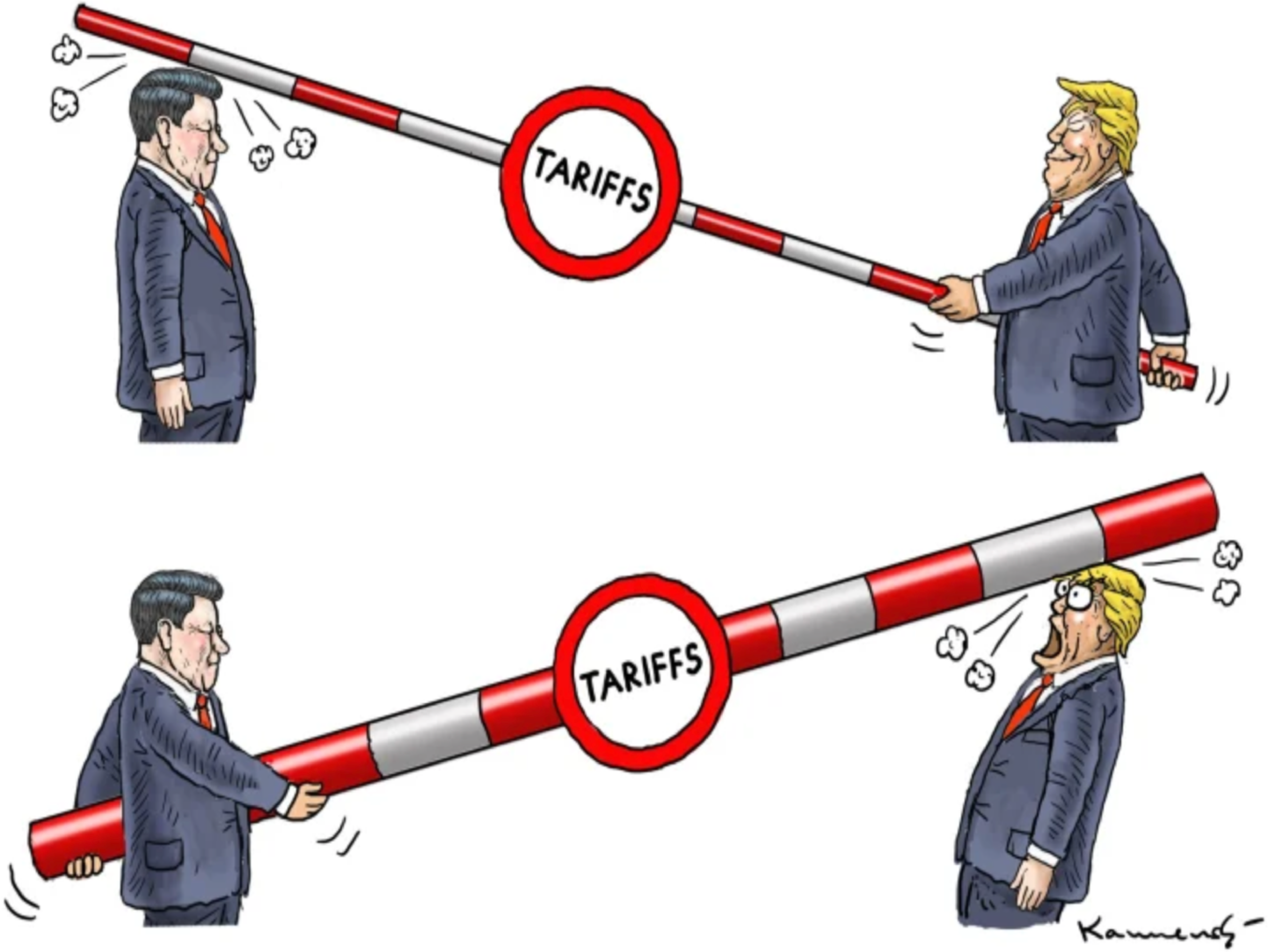
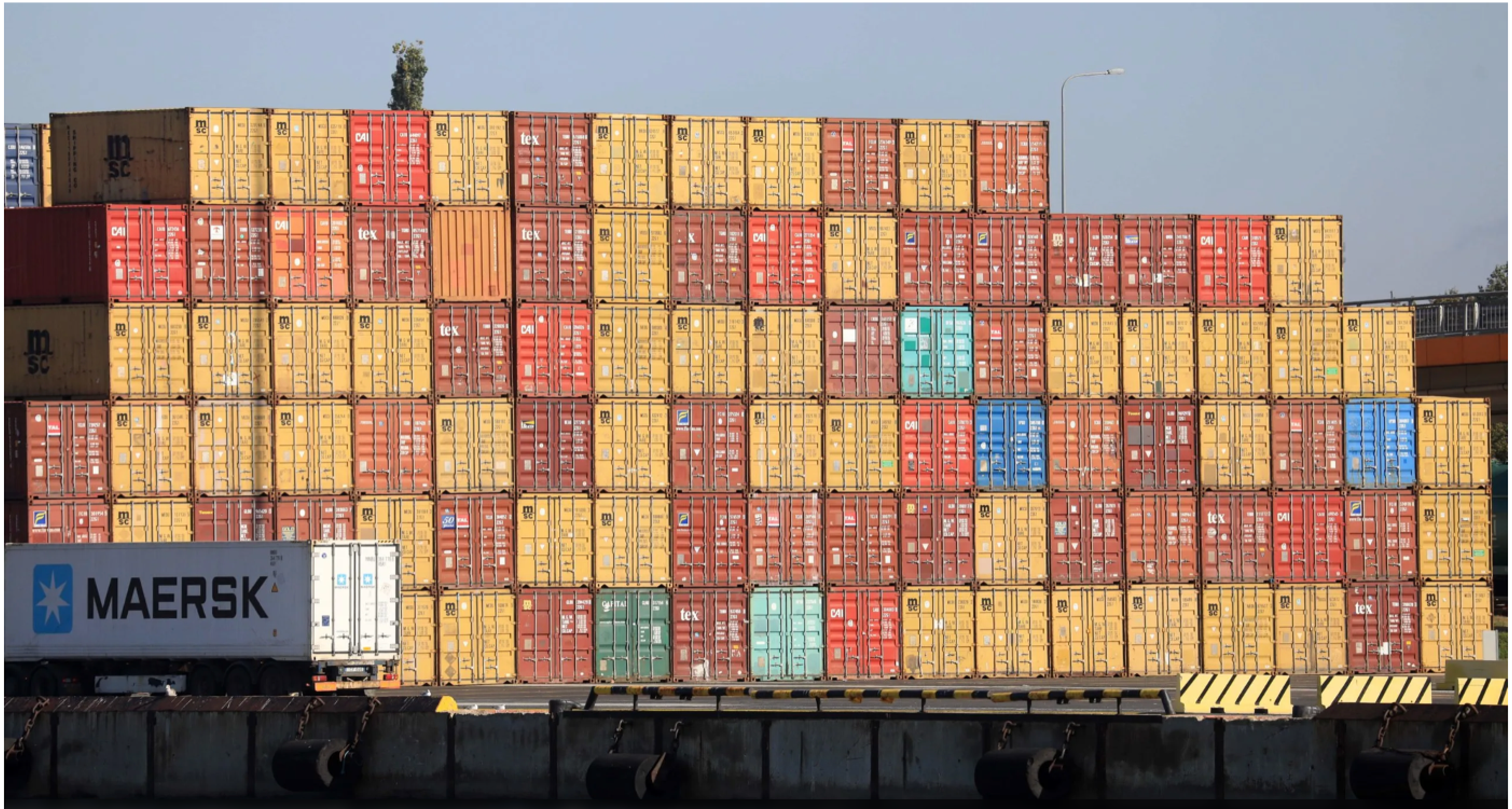



Who benefits?
Exports gains as a consequence of US and Chinese tariffs
European Union(0.9)
Mexico(5.9)
Japan(2.3)
Canada(3.4)
Republic of Korea(2.1)
India(3.5)
Australia(4.6)
Brazil(3.8)
Taiwan, province of China(2.5)
Viet Nam(5.0)
Singapore(1.2)
Thailand(2.0)
Indonesia(2.0)
Malaysia(1.4)
Turkey(1.8)
Philippines(3.2)
Chile(2.9)
Saudi Arabia(0.8)
South Africa(2.2)
Argentina(2.4)
Pakistan(3.8)
Peru(2.2)
Iran (Islamic Republic of)(0.7)
0
10
20
30
40
50
60
70
US$ billion
Because of Chinese tariffs on US
Because of US tariffs on China
Note: Number in parentesis are exports gains as percentage of total exports


TARIFFS
TARIFFS

China's trade attack on Lithuania exposes EU's powerlessness

Companies from several EU countries that depend on Lithuanian supply chains are now finding they face blockades at Chinese ports.



Beijing has stopped all imports of Lithuanian goods, impacting supply chains across Europe I Petras Malukas/AFP via Getty Images

No firepower

For now, the EU's solution is to turn to its usual mindset: Let the trade department handle it, and see what the World Trade Organization can do about it.

In neither case is there much ammunition available.

"What China is taking is a political step, and their goal is very clear, which is to threaten other member states in the EU not to follow the Lithuanian example by developing relations with Taiwan," Andrius Kubilius, former Lithuanian prime minister and currently a member of the European Parliament, told POLITICO. Noting the political support that Lithuania has received from the EU, he added that "trade issues take time."

EU Trade Commissioner Valdis Dombrovskis, from fellow Baltic country Latvia, has vocally supported Lithuania and has vowed to launch an investigation into whether Chinese measures are in line with WTO rules that the world's second-biggest economy has signed up to.

However much he might wish to help, though, his options are limited.

For the world's biggest trade bloc, its usual trade defense instruments such as safeguards or anti-dumping measures do not cover the gray economic zone in which China is targeting Lithuania. The EU also doesn’t have a bilateral trade agreement with China through which it could remedy the tensions.

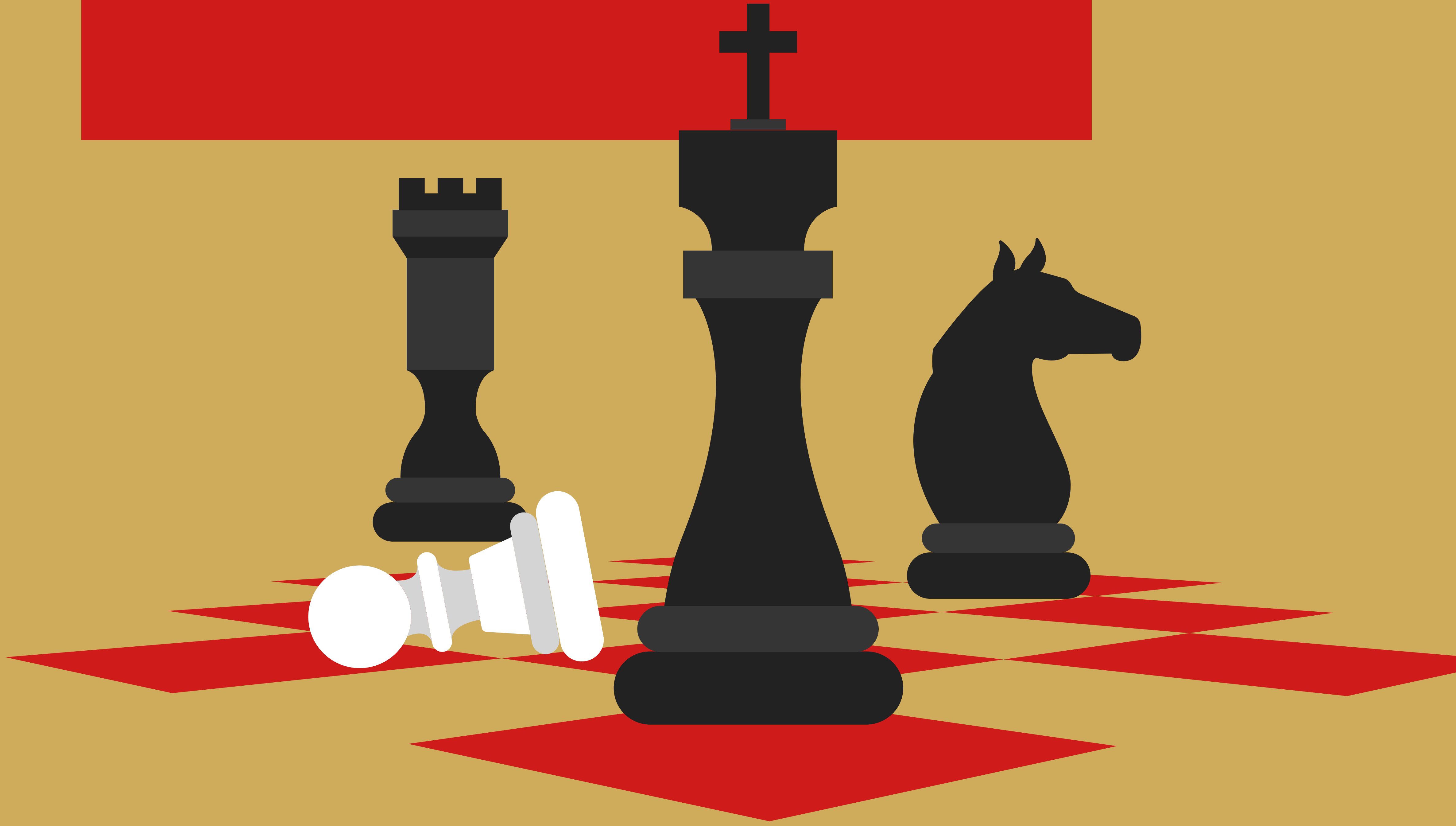
The next-best option is to wait for the anti-coercion instrument that Dombrovskis proposed only this month. The instrument, designed to tackle exactly this type of geopolitically motivated trade tensions, allows the EU to strike back against trade challengers via goods, services and intellectual property rights.

This anti-coercion instrument will, however, probably face years of discussions before it is agreed by the EU institutions.

A senior Lithuanian official acknowledged the lack of options for the EU, beyond the paralyzed WTO and soft diplomacy.

"In the long run, the EU needs to find a sustainable solution to restore trade flows and let third countries that do not respect the international rules-based trading system know that there will be a firm reaction on the EU level in the event of economic coercion action against one member state," the official said.

Trade Wars



European Union – Trade Challenges

EU resorts to bluff in its trade conflict with China

European allies are keen to talk about standing with Lithuania against Beijing, but have few trade cards to play.

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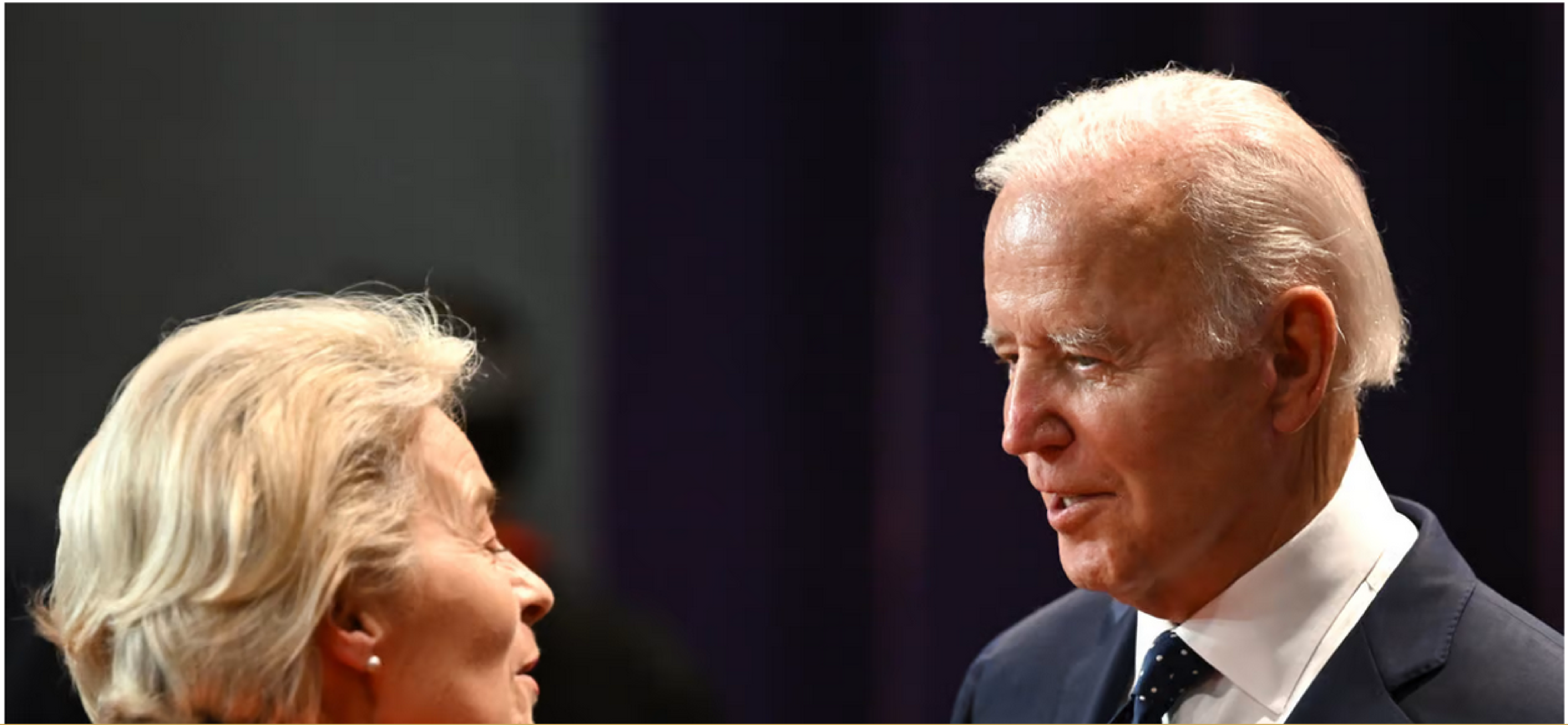
Trade war threatens to overshadow EU-US summit

A dispute over Washington's subsidies for electric cars is likely to mire efforts to reset the transatlantic relationship.



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EU plans subsidy war chest as industry faces 'existential' threat from US

European industry is on an emergency footing thanks to high gas prices and new lavish subsidies for American rivals.

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Berlin warms to France's 'Buy European' plans as global trade rules erode

Germany fears losing industrial champions because of unfair competition from state-backed US and Chinese rivals.

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FROM POLITICO PRO

China stands to win a transatlantic trade war, EU minister says

'A subsidy rally is a very dangerous game,' says Czech trade minister.

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A New European Economic Defense Tool ?

•"At a time of rising geopolitical tensions, trade is increasingly being weaponised and the EU and its Member States becoming targets of economic intimidation. We need the proper tools to respond."

•Creation of EU Anti-Coercion Instrument Proposal – 8 December 2021 (EU Commission)

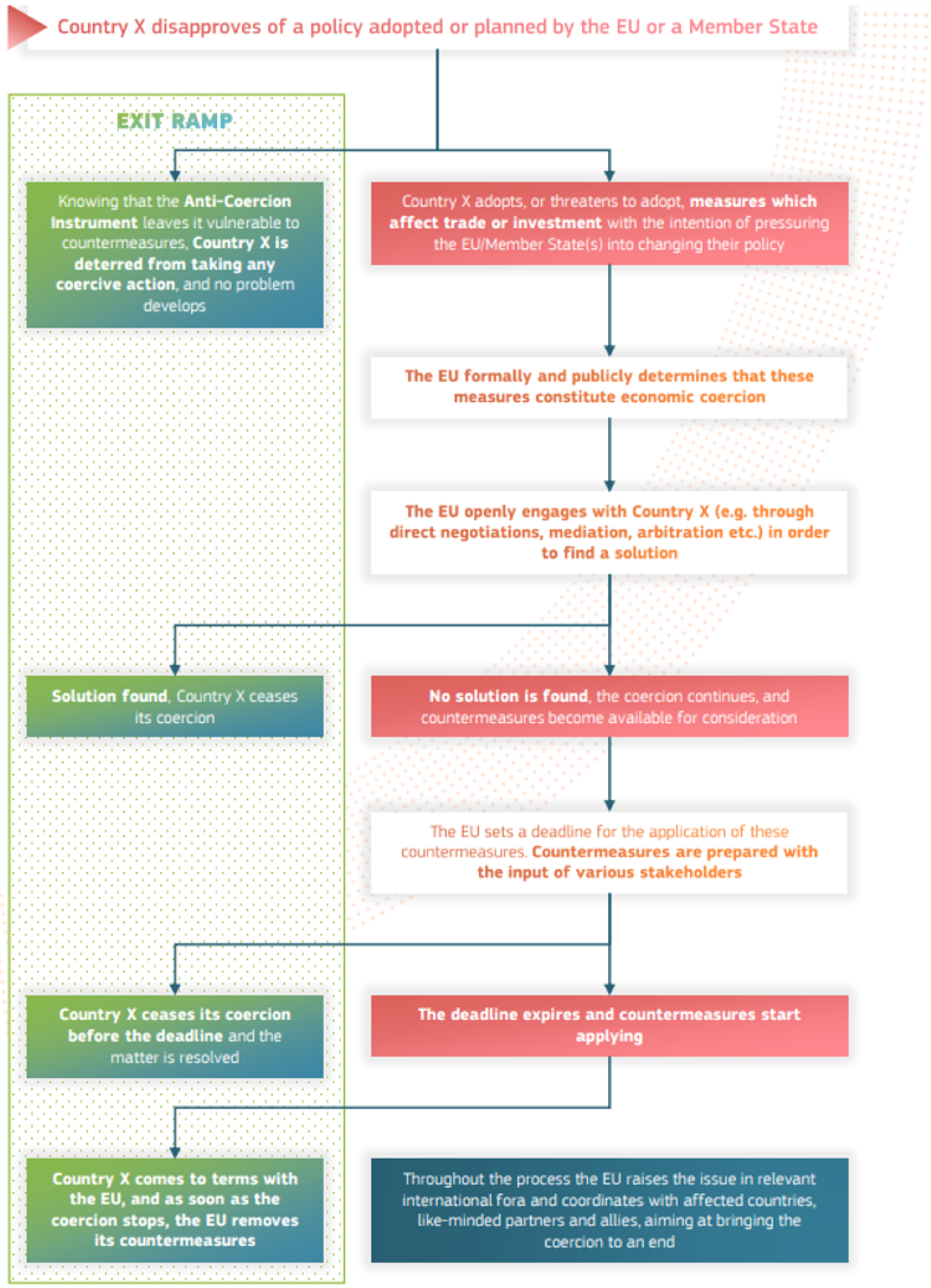
EU Anti Coercion Instrument (ACI)

- The EU proposal on anti-coercion is meant to give the EU a possibility to act against economic coercion from countries outside the EU.

- Economic coercion refers to a situation where a third country is seeking to pressure the Union or a Member State into making a particular policy choice by applying, or threatening to apply, measures affecting trade or investment against the Union or a Member State.

ACI – What Can it Do ?

- the suspension of tariff concessions
- imposition of new or increased customs duties
- introduction or increase of restrictions on the importation or exportation of goods.
- the exclusion from public procurement of goods, services or suppliers
- Etc., etc….


Country X disapproves of a policy adopted or planned by the EU or a Member State
EXIT RAMP
Knowing that the Anti-Coercion Instrument leaves it vulnerable to countermeasures, Country X is deterred from taking any coercive action, and no problem develops
Country X adopts, or threatens to adopt, measures which affect trade or investment with the intention of pressuring the EU/Member State(s) into changing their policy
The EU formally and publicly determines that these measures constitute economic coercion
The EU openly engages with Country X (e.g. through direct negotiations, mediation, arbitration etc.) in order to find a solution
Solution found, Country X ceases its coercion
No solution is found, the coercion continues, and countermeasures become available for consideration
The EU sets a deadline for the application of these countermeasures. Countermeasures are prepared with the input of various stakeholders
Country X ceases its coercion before the deadline and the matter is resolved
The deadline expires and countermeasures start applying
Country X comes to terms with the EU, and as soon as the coercion stops, the EU removes its countermeasures
Throughout the process the EU raises the issue in relevant international fora and coordinates with affected countries, like-minded partners and allies, aiming at bringing the coercion to an end

Potential Problems with the ACI

- Opinions are divided as regards the severity of countermeasures and the manner of establishing when they should be imposed.

- The proposal empowers the EU to suspend international obligations without going through the WTO´s dispute settlement process. There is a risk that it could be inconsistent with the rules of the WTO.

- Without a very clear case of economic coercion, the EU could be accused of the same, which affects its credibility as an actor in the multilateral arena.

Potential Problems with the ACI

- If other countries use similar instruments and arguments for suspending international obligations, this risks affecting the legitimacy and efficiency of a system that has contributed to economic integration for a long time.