

Seven shockwaves in the global trade system

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Tour of the global trade horizon

- **Seven shockwaves** reverberating through the global trade system
 - Existing rules-based system has delivered immense benefits
- **Remarkably stable system undergoing dramatic transformation**
 - Course corrections to fix old mistakes
 - New approaches to account for new realities
 - Old system passing away; new trade landscape starting to emerge
 - Need to ensure we don't blow it – beneficial aspects of trade must be retained

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1. A rockier road for China

- China has faced a mostly benign and welcoming external environment
- US welcomed/facilitated China's integration/WTO membership
- Western political leaders/policy elites expected three things...
- Previous assumptions seem hopelessly naïve
- Today China's integration seen in US as strategic miscalculation that requires redress
- Key question: what is China's assessment? We still can't be sure

2. Faith in “free” trade has been battered

- Hasn't worked out like economic textbooks
- Worker centric trade policies

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3. Pandemic and the war in Ukraine

- Expose risk and vulnerability brought by trade
- Both business and government are retrenching/pendulum swing

4. Intensifying geopolitical rivalries: Trade is no longer just about trade

- Geopolitical considerations intertwined with trade: do we just trade with “friends”?
- Bifurcated supply chains

5. Role of technology in economic and military pre-eminence

- Creates a rationale for expanding layers of trade and investment restriction
- Undercuts economic efficiencies; innovation flows from interaction

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6. The US embrace of industrial policy

- Previously a pejorative, but today ...
- Philosophical dissonance
- Past success, but can US industrial policy succeed?
- Creates friction with partners the US needs

7. Climate change and “values”

- Already messily spilling over into the trade realm: Climate tariffs
- Trade increasingly conducted among countries with common climate policies
- Values: trade agreements now include provisions on indigenous rights, inclusivity, etc..

New landscape for trade

- Objective of trade no longer purely economic; now seen as tool to advance non-economic objectives
- Position of less developed economies more tenuous
- Trade becomes less global, more fragmented, and increasingly contentious
- Trade governance increasingly bypassed - more retaliatory trade actions
 - Trade rules and previous norms of “good” behavior will be observed **only when convenient**. The post-war **spirit of cooperation in trade has largely collapsed**, increasingly replaced by unapologetic **domestic-centric trade policies** pursued irrespective of collateral damage on partners or the wider system
- Bottom line: let's think deliberately about new world, let's not stumble into it