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Dealing with the complexity of international trade

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Aim of academic paper to help the leaders think through the issues and explore possible negotiations and solutions

Food for thought: important principle: in computer science we experiment with possible new designs off line testing all the ramifications in varying scenarios leaving the online system to continue working; after multiple testing off line, when the results are good, we replace the online system with the new one; could this approach be used in international trade?

Revisiting principles of problem solving and decision making:

- a) The trial and error approach comes to mind along with the Science of Muddling Through and incrementalism
- b) Logical-rational approach
- c) Bully your way through albeit adversarial; does not always work; could potentially backfire; Machiavelli The Prince
- d) Use the tested principles from the Harvard Negotiation Project

<https://www.pon.harvard.edu/category/daily/batna/>

- e) Use the quiet diplomacy of the UN; work on resolving issues behind closed doors leaving existing systems to continue to work until solutions are reached albeit new and better way and these are announced
- f) Meet and discuss and agree on the rules of the 'game'; comparing the zero-sum game with that of the win-win

<https://www.decision-making-solutions.com/decision-making-theories.html>

https://en.wikipedia.org/wiki/Decision_theory#Heuristics

<https://outlier.ai/data-driven-daily/decision-theory/>

Introduction

International commerce has been going on for centuries, with countries buying and selling from each other. Going back in time, we would recall that the Phoenicians were great at trade. that the Silk Road was extensive, that the British East India Company had a far reach.

The **Phoenicians** were among the greatest traders of their time and owed much of their prosperity to **trade**. At first, they traded mainly with the Greeks, **trading** wood, slaves, glass and powdered Tyrian purple. (Wikipedia)

The **Silk Road** was an **ancient** network of trade routes that connected the East and West. It was central to cultural interaction between the regions for many ...(Wikipedia)

British East India Company. The **British East India Company** (1600–1858) was originally a private **company** granted a trade monopoly with the **East** Indies by Queen Elizabeth I. Its success in extracting concessions from native rulers eventually led to its de facto control over much of modern **India** between 1757 and 1858. (Wikipedia)

Working towards free and fair trade

The world has changed from these historic times. Much of what goes on today is in the form of bilateral trade agreements, regional and international agreements.

Member countries of the international community have been working hard for decades in the General Agreements on Tariffs and Trade (GATT) to remove trade barriers and ensure that trade is conducted fairly. The GATT has now been transformed into the World Trade Organization (WTO). The International Monetary Fund has also been playing a crucial role in facilitating trade among countries and helping them deal with trade imbalances, both through technical and financial assistance. In this context, the balance of payments is a vital instrument. Nonetheless, trade imbalances do occur and the usual way to deal with these is to go through the negotiation channel and when this does not work to take up the dispute to the WHO which has resolution mechanism which has worked well over the years. At times, an imbalance is accepted as a basis for developing interdependence (case in point Germany and Russia). The imposition of tariffs is rare since the mechanisms just mentioned do work in improving trade relations between two or among groups of countries. Renegotiation of trade agreements can be done at both the bilateral and multilateral levels.

Lessons learned

The most important one is perhaps that trade wars are considered unnecessary given that one of the five basic reasons for the Great Depression was an escalation of trade frictions albeit a trade war.

American Economic Policy with Europe - As businesses began failing, the government created the Smoot-Hawley Tariff in 1930 to help protect American companies. This charged a high tax for imports thereby leading to less trade between America and foreign countries along with some economic retaliation.

(<http://www.cland.k12.ky.us/userfiles/13/classes/441/5causesofthegreatdepression.pdf?id=8459>)

Countries should thus carefully consider the options outlined above and not get into a trade war which can backfire.

Dealing with trade disputes caused by imbalances

A trade deficit is a situation where the value of goods imported is higher than that of those exported. At times, when the situation continues and keeps on growing, the deficit may be a cause for dispute.

Imposing tariffs generally does not work and can backfire as pointed out above. If there is an element of unfairness, the case can be taken to WTO for adjudication albeit resolution.

WTO dispute resolution gateway:

https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm

Renegotiation as a strategy

Also, the countries concerned could renegotiate trade agreements which had been entered into. After the bickering between the US and Mexico over NAFTA, representatives from the two countries worked out a renegotiation deal recently. A similar renegotiation with Canada went on. As a result, NAFTA was replaced by USMCA.

NAFTA OUT USMCA IN

<https://newsnetwork.mayoclinic.org/discussion/treatment-options-should-be-carefully-considered-for-blocked-carotid-arteries/>

<https://www.thisisinsider.com/trump-us-mexico-canada-nafta-trade-deal-china-2018-10>

USMCA in five hundred words: <https://www.vox.com/2018/10/3/17930092/usmca-nafta-trump-trade-deal-explained>

Neil Irwin in an article in The New York Times posits that 'In Trade Pacts, Signs Emerge of a Strategy'.

<https://www.nytimes.com/2018/10/06/upshot/trump-trade-strategy-coming-into-focus.html>

A caveat in the same article is quote “Taking an aggressive stance with traditional allies now seems to be just a warm-up for the main event: isolating China.” Question is why a renegotiation could not be undertaken with China?

A negotiation has been in progress with on and off and no resolution with actual tariffs being imposed and additional ones threatened, rattling the retailers and consumers as well as the farmers, not to forget the stock markets.

Trump’s new NAFTA shows what he cares about

https://www.huffingtonpost.com/entry/trump-new-nafta_us_5b5bbf6ee4b028e1fe4068ab

A similar effort renegotiation was successfully undertaken between the US and EU, following clear misunderstanding.

Often, there is an undue attention to trade imbalance focusing mainly on trade of goods. Attention should shift to the balance of payment to have a more comprehensive picture, for instance a deficit in goods can be offset by a positive difference in the exchange of services. One has to take into account the three key elements of the current account: balance on goods, balance on services and balance on income. Even a trade imbalance in goods has to be more closely analyzed as in the case of China-US trade.

Not to be forgotten is the need for a close look at another key element of the balance of payments, that is the financial account.

For this thorough analysis, the balance of payments manual of the IMF is very helpful: <https://www.imf.org/external/pubs/ft/bopman/bopman.pdf>

By the way, the IMF also provides technical assistance as needed: www.imf.org

Gregory Mankiv in an article in The New York Times states that a refresher course on the subject may be timely:

<http://gregmankiw.blogspot.com/2018/10/surprising-truths-about-trade-deficits.html>

Trade war with China

The US imposed tariffs on goods it imports from China which led to retaliation. An escalation is going on. Again, as pointed out above, renegotiation of the US and Mexico and with the EU have been successful and it is expected that similar renegotiation between the US and Canada will be successful. It does make sense therefore to have a renegotiation between the US and China rather than a trade war. Already, American farmers have been hit hard and a subsidy to them by the US Government has been deemed to be unacceptable by the farmers who prefer regular trade; also such subsidy may be in contravention of principles of international trade and a case can be made at the WTO.

Protectionism is usually an exception to the principle of free trade but can be done on a limited basis; protectionism on a total scale regarding trade with a particular country is against the principle of free and fair trade and again a case can be made at the WTO, considering in particular that other cases of imbalance has been dealt with by negotiation.

Trade war looms over summit of global finance chiefs

<https://www.cnn.com/2018/10/08/economy/imf-bali-world-bank/index.html>

Trump rips up the trade playbook to take on China

<https://www.cnn.com/2018/10/09/politics/us-china-trade-war-trump/index.html>

Pompeo in China: <https://www.youtube.com/watch?v=3xFtjYfzYjl>

US China dispute is not about trade deficit:

<https://www.cnbc.com/2018/10/09/us-china-trade-war-is-not-about-the-trade-deficit-barclays-says.html>

More on trade war with China (Google News)

<https://news.google.com/stories/CAAqYQgKIItDQkITUGpvSmMzUnZjbmt0TXpZd1NqRUtFUWp2cll1QmpZQU1FVUMySm8wbE9CMDFFaHhVY25WdGNDZHpJSFJ5WVdSbElIZGhjaUIzYVhSb0IFTm9hVzVoS0FBUAUE?hl=en-US&gl=US&ceid=US:en>

The New York Times reports: China Once Looks Tough on Trade; now Its Options are Dwindling

<https://www.nytimes.com/2018/09/18/business/china-trade-war-retaliate.html>

Walmart reportedly warns ... trade war will hit regular Americans hard

Insert a summary of Walmart's letter

<https://www.aol.com/article/finance/2018/09/21/walmart-reportedly-warns-trumps-trade-war-will-hit-regular-americans-hard/23534829/>

<https://www.youtube.com/watch?v=yriHP6HOFI8>

A negotiation has been in progress with on and off and no resolution with actual tariffs being imposed and additional ones threatened, rattling the retailers and consumers as well as the farmers, not to forget the stock markets.

Extensive coverage in the media shows that American retailers are being hit hard and in turn they will pass on the increase to American consumers; the end result may be a further shrinkage of retail and perhaps even the demise of retail as we have known it for decades. It is true that the retail industry may need to be re-invented in light of the growth of online shopping led by Amazon. Walmart has made a case with the US Government. Similar action is endorsed by Macy's, Target among many others. A closer look at the trade imbalance with China shows that many of the high volume of goods imported by the US come from US companies manufacturing in China and subcontract by US companies to Chinese manufacturers.

More lessons learned, a little bit of history

The trade imbalance between the US and Japan was resolved by bilateral negotiation and the ensuing interdependence created enduring peace between the two countries.