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Trade Outlook 2019: Mostly Cloudy

By Evan Rogerson

SYNOPSIS

Prospects for global trade in 2019 are overshadowed by policy uncertainty and the weakening of the system of multilateral rules. The few more positive developments include the launch of broad plurilateral negotiations on electronic commerce and the continuing active commitment of middle-sized economies to the multilateral system.

COMMENTARY

THE GLOBAL trade outlook continues to be a sombre one, as the effect of policy tension and uncertainty make themselves felt. The latest World Trade Organisation (WTO) Trade Outlook Indicator, published on 19 February 2019, stands at 96.3 on a base of 100, its lowest reading since March 2010. The WTO warns that it could drop further if trade conditions continue to deteriorate. So far this year there are few signs of a lasting improvement in the policy environment.

Certainly markets have lifted on the news that the US has postponed the imposition of 25% tariffs due on 1 March. This reflects apparently encouraging progress in bilateral trade talks with China. It would be premature, though, to celebrate the end of the US-China trade war. It is more likely to be a fragile truce.

Trump Effect & Outlook in the West

President Trump is looking for a success, with next year's election coming up and US agriculture and industry feeling the impact of the current tariffs. On the other side US actions, current and threatened, are hurting China's already slowing export sector and economic growth.

The talks may produce undertakings from China on a range of US concerns including

intellectual property and technology transfer. Even so, enforceability will become an issue. Both sides need breathing space.

However the trade confrontation is a manifestation of deeper systemic and geopolitical stresses that will not be eased by soundbite diplomacy. These stresses are sending tremors throughout the region, such as the Huawei controversies, which in turn raise the level of tension. US concerns with China's rise will not dissipate quickly and it is unlikely that the Chinese government will agree to make deep changes in its key economic structures and industrial policies.

In the Western Hemisphere the environment is equally unpromising. At present Brexit looks headed for delay, but a no-deal exit cannot be ruled out. The negative effects would be serious not just for the United Kingdom but for all its trading partners. Irish, Dutch and Danish meat could face steep tariffs; Spanish fruit and vegetables could rot in customs queues.

Brexit Spillovers?

Even with an eleventh-hour agreement there are a vast number of issues still to be resolved, such as the terms for extending existing EU trade agreements to the UK. This is not a question of simple rollovers, as Japan has made clear. The impact could also extend well beyond Europe, for example to Kenya's vital horticultural sector.

The Brexit follies exacerbate an already difficult European economic and political situation. There is little doubt that they have contributed to the disturbing rise of nationalist politics across the continent.

The collective security of the multilateral trade rules has never been more relevant and important. Unfortunately they have never been as weakened as they are today. The multilateral negotiating function of the WTO is trapped in the wreckage of the Doha Round and handicapped by big-power standoffs.

The dispute settlement function is threatened by the impending collapse of the appeals system because of US opposition to replacing retiring Appellate Body members. Cases invoking national security as a justification for raising tariffs risk embroiling it in a lose-lose political outcome.

And the longstanding tensions between emerging and developed economies have moved centre stage, with strongly opposing positions staked out by the US on one side and India, China and South Africa on the other.

Seeking a Middle Ground

The argument over the respective responsibilities of emerging and developed economies in the trading system has simmered for years. It was a major reason for the failure of the WTO's Doha Round, and it has become another aspect of the US-China confrontation.

At present developing-country status in the WTO is self-designating. Recent US proposals to establish a system of categories for eligibility have brought the issue to

the boil and united a range of developing countries besides China, the main target, in opposition. It is hard to see consensus emerging on new rules or criteria in this area.

On the contrary, it could be another polarising element in the mix for the 2020 WTO Ministerial. Efforts are being made by other governments to seek middle ground on this and other divisive issues. A recent study commissioned by Sweden and co-authored by the present writer points toward a more pragmatic issue- and sector-based approach. It is available here: <https://bit.ly/2TvOc8l>

Brighter Spots

One brighter spot in the prevailing gloom is the launch of a broad plurilateral negotiation in January on Electronic Commerce. This is notable for bringing together a broad range of participants, developing and developed, including the US and China, to negotiate rules on this key growth sector.

Of course there are significant challenges for the negotiators. China, a last-minute recruit, can be expected to take a hard line on data localization. India, a big player in the sector, has so far stayed out. However the coverage of any eventual agreement will be significant. So is the achievement of those governments who worked to get the process launched, among which Singapore was a leader.

The activism of middle-sized economies in defence of the multilateral trading system is another brighter spot. Led by Canada, they are playing an irreplaceable role in the WTO reform discussion. How far this will be able to go in the absence of buy-in by the majors is unclear, but it sends a strong signal of commitment to multilateralism.

An even stronger signal would be progress in the WTO negotiations on fisheries subsidies. Even the modest aim of banning subsidies to illegal, unreported and unregulated fishing has so far proved out of reach, despite being agreed in the UN Sustainable Development Goals. The negotiators have set a deadline of the end of this year. Meeting it will be a key test of the system's ability to deliver.

In these areas and in their regional initiatives economies in the Asia-Pacific region are helping to keep the lights on for co-operative and constructive trade policies. It is vital that they continue to do so.

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