

## US-China deal won't pull world trade out of the doldrums

The agreement between the US and China won't deliver enough stimulus for world trade to show a decent recovery in 2020



Donald Trump and Chinese Vice Liu He sign 'phase one' of a US-China trade agreement in January

The data for November and December 2019 is yet to be released, but the chances are that world trade in goods fell by half of one per cent last year. That's the first year of contraction since 2009.

One reason for this is, of course, the trade war. Trade between the US and China was \$90bn lower during the first eleven months of last year than over the same period in 2018, a drag on world trade of half a percentage point. Imports from other countries will have offset this so the damage will have been somewhat lower.

Besides this direct effect, the trade war has also created a lot of uncertainty, especially in the trade-intensive manufacturing sector. This helps to explain why world growth in industrial production last year was just a quarter of that of 2018. Consequently, industrial production supplied hardly any stimulus for world trade in 2019.

Now that there is a deal, one could reason that this year could see the opposite happen. The agreement supports trade directly so long as the Chinese live up to their commitment to import \$76 billion more from the US in 2020. And the truce between China and the US can support trade

indirectly by increasing business confidence which could lead to a recovery of industrial production

But, I don't have high hopes that these effects will be significant, not least because the trade war barriers aren't being lifted by much; the American tariff increases stay in place for the most part.

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Another reason for caution is that a significant part of the tariff increases only came about during the course of 2019. This means that trade flows in the first part of 2020 run up against higher trade barriers than last year, a drag for world trade,

As for China's commitment to import an extra \$200 billion of US goods, of which there should be some \$76bn this year, one should realise that a share of these imports will come at the expense of Chinese imports from other countries.

Together, the positive impulses from the deal on US-China trade and the negative impulse from earlier tariff increases feeding into 2020 deliver a boost to world trade of - at best - \$20bn, only a growth of 0.1%. And even that could well be too optimistic given the official Chinese statements that the extra imports depend on the development of Chinese demand.

On the other hand, aren't we missing a big confidence boost from the deal since the truce reduces the chance of new tariff hikes by the US? Well, the ink on the deal was barely dry before President Trump had returned to making trade threats, this time in an attempt to strongarm the European Union into opening its agricultural markets to the US and to encourage Europe to co-operate with American policy on Iran. No surprise there, as tariff threats have become a favourite tactic of the president to help create leverage in foreign policy. The prospect of further trade conflicts is never far away while he is in the White House.

So there is little reduction in uncertainty for markets to enjoy. In line with this, I expect business to continue their 'wait and see' approach with regards to investments, which implies only modest growth of industrial production. Therefore growth in world trade will be limited to around half of one per cent. That is pretty dismal compared to the 1.8% growth seen on average during the 2010s.