

Global Economic Relations in the Trump Era and After
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TRADE TENSIONS BETWEEN GIANTS: IS THE GLASS HALF FULL OR HALF EMPTY?

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Outline of presentation

1. Global context
2. Canada's approach to trade
3. Assessing impacts of US-China trade tensions
4. Assessing impacts of Phase 1 deal
 - Is the glass half-empty? Diversion effects
 - Or is the glass half-full? Potential opportunities
5. Conclusion and next steps



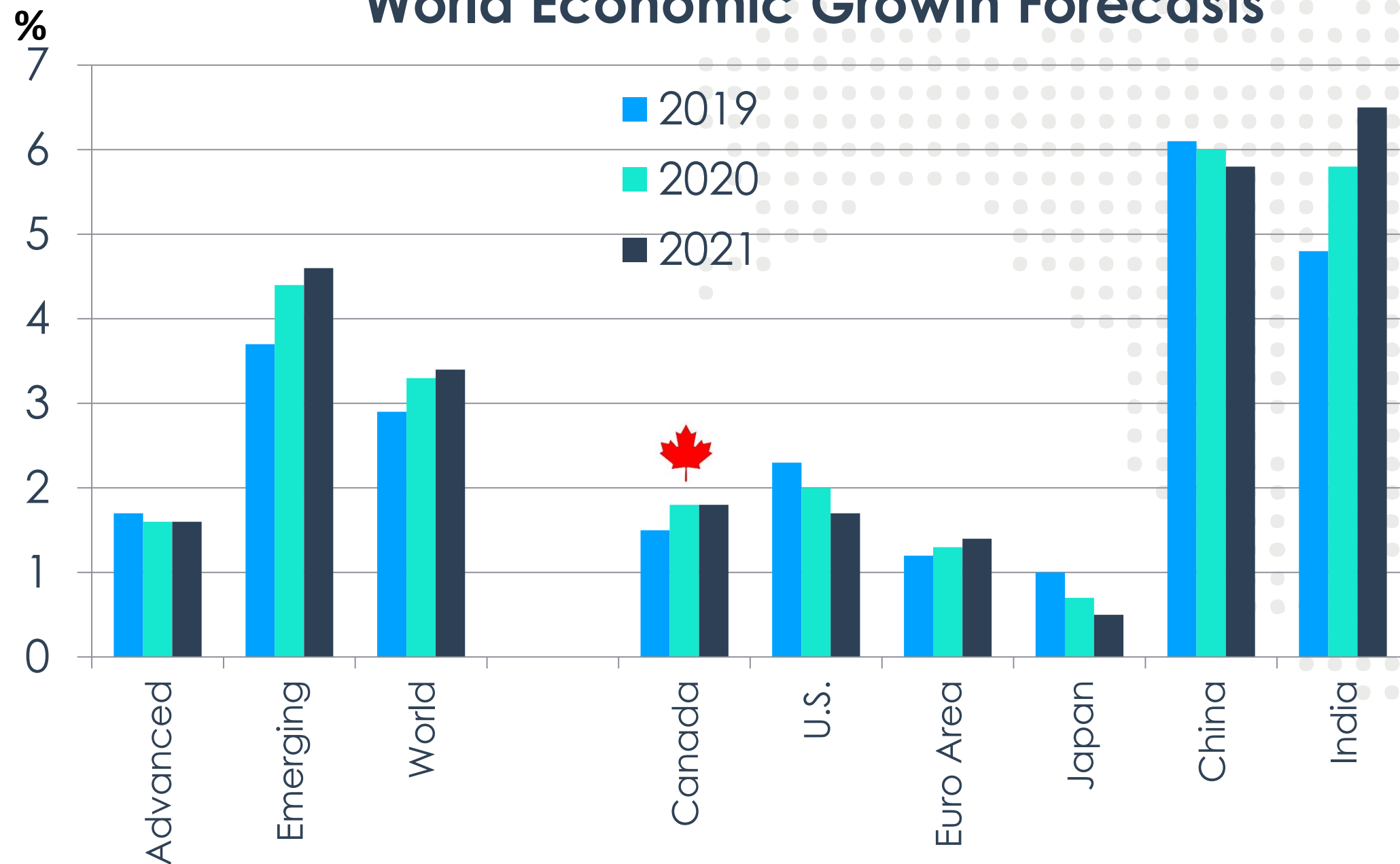
Global context

- **In Canada**
 - Importance of trade
 - Household debt
 - Productivity
- **Around the world**
 - Geopolitical tensions and their potential impacts
 - Trade tensions and their potential impacts
 - Changing financial conditions
 - Multilateral trading system



Global Economy

World Economic Growth Forecasts





Canada's approach to trade

- Importance of Trade for Canada
- Importance of Multilateral agreements – best option
- Regionalism – second best option
- ... but managed trade ...



Multilateral Trading System

- Modernizing and strengthening the WTO remains a policy priority for Canada.
- Canada is contributing to a number of important initiatives on WTO reform, including through our efforts in the Ottawa Group, which met for the fourth time on January 23 in Davos.
- More countries have signed on the idea proposed by CAN-EU on interim arrangement to resolve trade disputes
- Encouraging comments by President Trump in Davos, and hope that it will lead to full engagement on WTO reform.



Assessing impacts of trade diversion effects

- Theory versus reality
- Assessing impacts of US-China trade tensions
- New developments
 - US-China announced Phase 1 deal
 - US-Japan-EU announcement about new rules for industrial subsidies and ways to strengthen WTO rules on the subject
 - Geopolitics
 - Natural disaster





Assessing the economic impact on Canada of the U.S.-China trade tensions

- We use a dynamic Computable General Equilibrium (CGE) model with 57 sectors and 140 countries and regions.
- It can capture impacts on the Canadian economy even though the policy shock stems from a tariff confrontation between two other economies and is not targeted at Canada.
- Hypothetical scenario that the U.S. and China impose additional tariffs of 25% for all their respective imports up to 2030.
- Big economies but not dependent on trade as much as Canada.

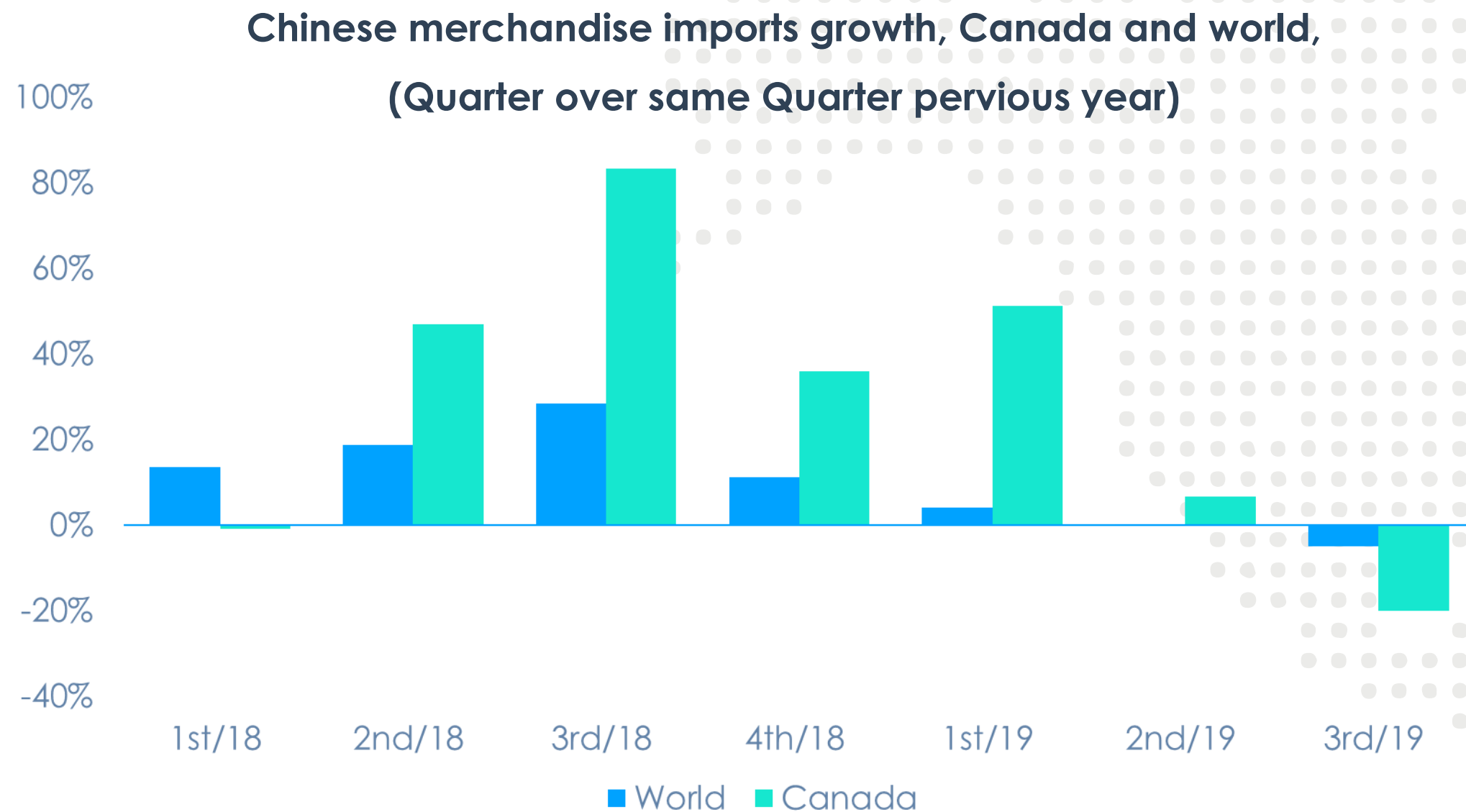


Potential Impact of Tariffs on GDP in 2019 and 2030, selected countries

	2019		2030	
	% Changes	US\$ Billion	% Changes	US\$ Billion
ASEAN	0.03	0.74	0.2	7.8
Australia	0.01	0.09	-0.06	-1.3
Brazil	0.02	0.67	0.02	0.5
 Canada 	0.12	2.38	0.2	4.5
China	-0.49	-66.19	-0.88	-194.4
EU_28	0.02	3.51	-0.04	-9
Japan	0.01	0.56	0.02	1.1
Mexico	0.14	2.11	1.4	25.1
USA	-0.36	-64.72	-0.52	-97.9
Total	-0.13	-115.8	-0.26	-279.2



Canadian exports to China have suffered as a result of bilateral and global tensions





The bar chart displays monthly sales data from 2016 to 2019. The y-axis represents sales in millions, ranging from 0 to 500. The x-axis shows the years 2016, 2017, 2018, and 2019. The data shows a general upward trend with significant fluctuations, peaking in early 2017 and early 2019.

Year	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
2016	200	150	230	225	110	170	270	110	45	110	90	220
2017	425	110	290	245	255	180	195	170	250	155	220	240
2018	120	240	230	310	225	210	165	350	160	140	95	135
2019	85	35	35	65	35	80						

The chart displays the daily number of U.S. deaths from COVID-19 in millions. The y-axis is labeled '\$ Millions' and ranges from 0 to 700. The x-axis shows years from 2016 to 2019. The chart shows a significant peak in deaths in early 2020, reaching nearly 700 million by late March, followed by a sharp decline and a smaller peak in late 2020.

Date	Deaths (Millions)
2020-03-01	80
2020-03-05	30
2020-03-10	70
2020-03-15	10
2020-03-20	10
2020-03-25	40
2020-03-30	10
2020-04-05	230
2020-04-10	310
2020-04-15	160
2020-04-20	160
2020-04-25	80
2020-05-01	10
2020-05-05	40
2020-05-10	20
2020-05-15	10
2020-05-20	10
2020-05-25	10
2020-06-01	30
2020-06-05	190
2020-06-10	260
2020-06-15	170
2020-06-20	10
2020-06-25	10
2020-07-01	30
2020-07-05	10
2020-07-10	10
2020-07-15	10
2020-07-20	10
2020-07-25	10
2020-08-01	10
2020-08-05	10
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2022-02-05	10
2022-02-10	10
2022-02-15	10



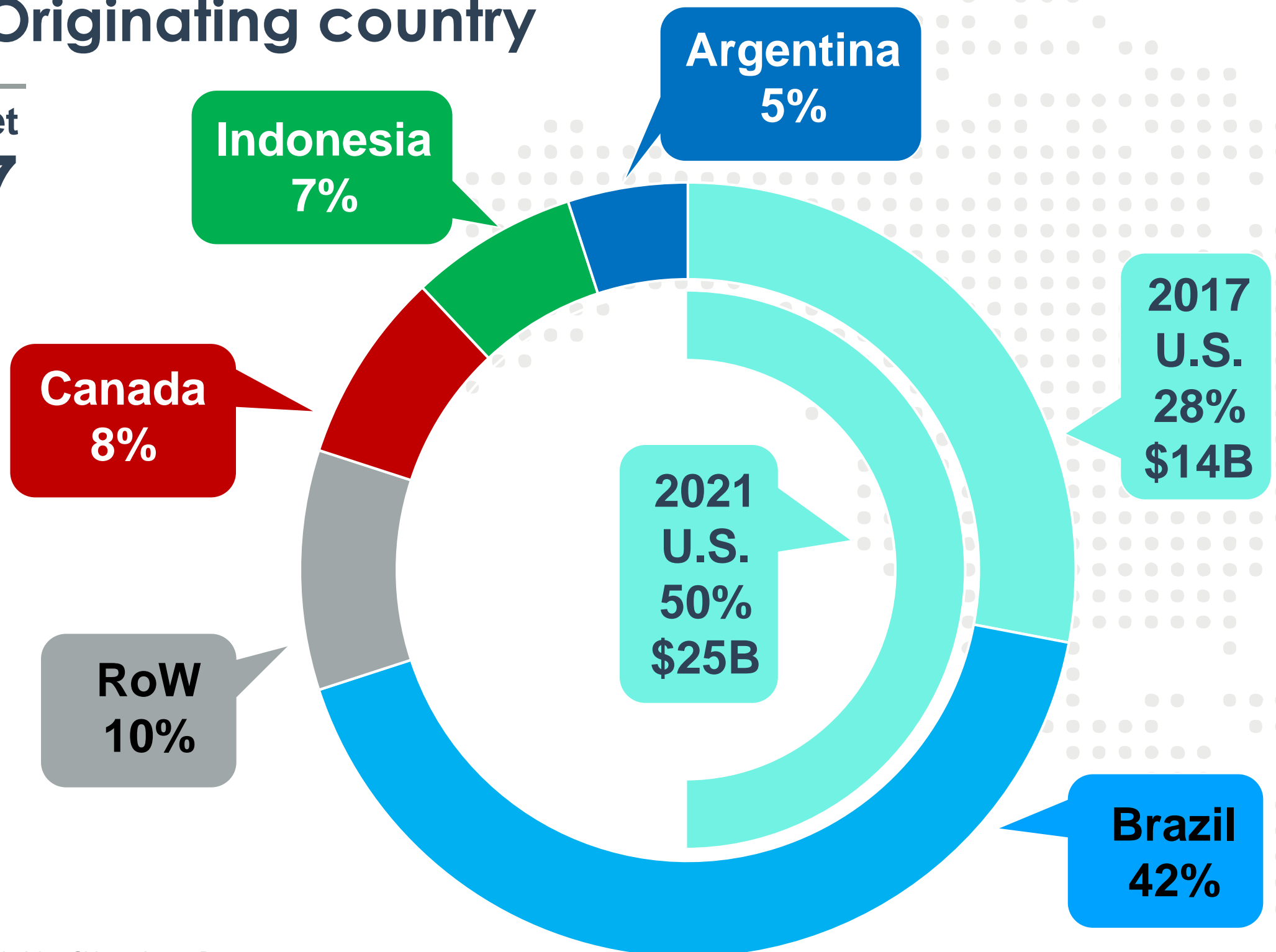
Potential Impacts of US-China Phase 1 deal

- Will trade diversion affect Canada?
- Are Canadian products competing against US products?
- Are there potential gains to be made elsewhere around the world?
- Will the US need to import Canadian products if they aren't able to supply enough to China in the short term?



Chinese Imports of Oilseeds: Top Originating country

Chinese Market
2017





Are CAN products competing against US products on Chinese market? - Oilseeds -

2017 U.S. Exports of Oilseeds to the WORLD = \$28.8B

Canola	CANADA Exports \$2B to China		NO
	U.S. Exports \$0 to China		
Soybean	CANADA Exports \$886M to China		Maybe
	U.S. Exports \$14B to China		
Colza/ Mustard Oil	CANADA Exports \$548M to China		Not Really
	U.S. Exports \$0.26M to China		
Animal Feed	CANADA Exports \$289M to China		Not Really
	U.S. Exports \$0.18M to China		
Medicinal / Industrial	CANADA Exports \$122M to China		Not Really
	U.S. Exports \$69M to China		



Chinese soybean imports: Projected Market Changes ...

Potential Diversion Effect for soybeans

	2017		2020		2021		Diversion Effect	
	US\$ B	Market Share (%)	US\$ B	Market Share (%)	US\$ B	Market Share (%)	US\$ B	(%)
Total Chinese Demand	39.7		39.7		39.7			
Non-US Supply	25.7	64.8	18.6	46.9	14.6	36.7	-11.2	-43
Brazil	21.0	52.8	15.2	38.3	11.9	29.9	-9.1	
United States	14.0	35.1	21.1	53.1	25.1	63.3	11.2	80
Argentina	2.7	6.8	1.9	4.9	1.5	3.8	-1.2	
Uruguay	1.0	2.6	0.7	1.9	0.6	1.5	-0.4	
Canada	0.9	2.3	0.6	1.6	0.5	1.3	-0.4	
Rest of World	0.2	0.5	0.1	0.3	0.1	0.3	-0.1	



Potential opportunities for Canadian soybeans ...

US Soybean Exports: Projected Changes

	US\$ M			Market Shares (%)			Supply Change (2021)	
	2017	2020	2021	2017	2020	2021	US\$ M	(%)
US Supply	21,532	21,532	21,532	100	100	100	0.0	0.0
Supply Exl. China	9,307	3,072	-473	43	14	-2	-9,780	-100
China	12,225	18,459	22,005	56.7	85.7	102.2	9,780	80
Mexico	1,590	525	-81	7.4	2.4	-0.4	-1,670	
Japan	976	322	-50	4.5	1.5	-0.2	-1,025	
Indonesia	922	304	-47	4.3	1.4	-0.2	-968	
Netherlands	776	256	-39	3.6	1.2	-0.2	-815	
Canada	173	57	-9	0.8	0.3	0.0	-182	

Opportunities
For Canada



Overview of other Canadian export products potentially affected by US-China deal (\$US)

- **FISH:** The US is projected to increase its 2021 exports to China by \$711M. Potential markets for Canadian fish (\$22M): Japan, South Korea and the Netherlands.
- **CRUSTACEANS:** The US is projected to increase its 2021 exports to China by \$278M leaving room for Canada to fill some of the gap. Potential markets for Canadian crustaceans (\$70M): Hong Kong, Vietnam and Japan.
- **WHEAT:** The US is projected to increase its 2021 exports to China by \$283M. Potential markets for Canadian grains (\$77M): Mexico, Japan, the Philippines and Nigeria.
- **LEGUMINOUS VEGETABLES (PULSES):** The US is projected to increase its 2021 exports to China by \$21M. Potential markets for such Canadian products (\$16M): Mexico, India, Italy and Spain. **CANADA: Dominant Player in Chinese market**
- **PORK:** The US is projected to increase its 2021 exports to China by \$1.4B. Potential markets for Canadian pork (\$135M): Japan, Mexico and South Korea.



Conclusion

- Canada must continue to diversify its exports to ensure good economic growth in the future.
- U.S. and China trade tensions have global implications:
 - On global economic growth
 - On trade flows
- The long term solution must be a reform of the multilateral system.
- Renewed need for trade diversification
- Next steps: impacts on global value chains, modelling managed trade combined with market behaviour