Global implications of trade tensions

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Trade has been an engine of income growth around the world in the post-War years. The goal of trade openness was universally accepted and pursued by the multilateral regime (GATT-WTO) for nearly seven decades. Trade restrictions have been significantly reduced and tariffs worldwide are in an all-time low. That situation is under threat now because, under the present rules-based system, it would be hard for USA to limit the augmented tariffs to China alone. The next round of tariffs might witness upward adjustment in tariffs globally, restricting global trade with consequent adverse impact on output growth, which is already under stress since the global financial crisis (GFC) of 2008-09. Thus the International Monetary Fund (IMF) predicts that the effects of this trade war will not be limited to US and China. With US-China tariffs affecting global exports-imports with significant disruptions to value chain integration of cross-border production, the adverse impacts will transcend US-China trade and engulf major economies and regions of the world. So IMF lowered the projected growth rate for the global economy in 2018 and 2019 to 3.7 per cent from its earlier projection of 3.9 per cent. Likewise, global trade growth is projected to decline to 4.0 per cent in 2019 from 5.2 per cent in 2017. WTO's World Trade Outlook Indicator (WTOI) is showing a decline in the first quarter of 2019 and a sharper slowdown is predicted should the trade tensions remain unresolved.

The projection for China's growth in 2019 was lowered from 6.4 per cent to 6.2 per cent. US growth is projected to slow down from 2.9 per cent in 2018 to 2.5 per cent in 2019. It is unlikely that the tit-for-tat (TFT) tariffs will be limited to US and China. The Bank of England has predicted that if this trade war ends up being global with all the major countries/trading blocs imposing tariffs on others by around 10 per cent, GDP growth is likely to slow down by 2.5 per cent over 3 years due to tighter financial conditions and greater uncertainty. These projections will have to be revised if the current US-China trade talks end without a resolution by the end-February 2019 deadline and the US administration makes good on the threat of augmented tariffs on the last list of some 3000 products. Just when the world was beginning to believe that TFT tariffs are a thing of the past, the ghost of the 1930s has begun to haunt the global community. Because protectionism has apparently caught the fancy of the Trump administration with as much zeal as is its disregard of the science of climate change.

WHAT IS IN IT FOR BANGLADESH: If the latest TFT tariffs augur ill for the world economy it would be counter-intuitive to believe that Bangladesh stands to gain out of this. In the long run, there is little doubt that the entire world community stands to lose if the current trade spat ends up becoming a trade war. Nevertheless, there might be short-term wrinkles that could be taken advantage of, particularly for Bangladesh's apparel sector. Even before these developments China was losing competitiveness in low-cost (basic) garments and the switch to lower-cost suppliers was already happening. Around 97 per cent of the demand for clothing in the US is met by imports, with China's share at 41 per cent, followed by Vietnam (12 per cent) and Bangladesh (7.0 per cent). If tariffs on apparel imports from Chinese rise to

25 per cent that could cut Chinese exports by almost $15 billion, while could then be shared among the most dynamic apparel exporters – Bangladesh among them. Since it is inevitable that the tariffs will make the affected goods more expensive, both retailers and customers will possibly look for less expensive sources. Import tariffs on consumer goods are almost fully passed on to consumers. Apparel retailers would therefore want to source their products from lower cost suppliers so that retail prices do not rise by the full extent of the tariffs. Bangladeshi garments manufacturers are already benefiting from the initial spillover effects – their exports to the US increased by 14 per cent ($1.48 billion) during July-September 2018.

If the current US administration lasts a second term beyond 2020, China will most certainly lose substantial market share to countries like Bangladesh and Vietnam. If this trend persists, Bangladesh's RMG sector gets a new lease of life for further expansion but, in the process, we will have to sustain few more years of export concentration in a mono-product export basket because export diversification will lose more steam.

Footwear, which has essentially the same global production and sourcing structure like apparels, is also a sector that could get traction in Bangladesh's export basket as China, the largest source of footwear imports in USA, begins to dismantle its production capacities directed to US market. Both in apparel and footwear, no other export market compares in size to the US market. Bangladesh, India, Vietnam, Laos and Cambodia, are likely sources to substitute for whatever market loss China suffers. This is where courting foreign investment becomes an even stronger imperative for Bangladesh. Even if new markets open up, success in gaining access will require collaboration with foreign investors who bring technology, management, and access to markets, besides capital. Bangladesh's new Government is sounding appropriate note of urgency in mobilising FDI and we would like to point out that RMG and footwear are the two leading export sectors that are ripe for attracting substantial foreign investment either through relocation or fresh investment. Support policies, in principle and practice, must be made right to seize the opportunity that beckons Bangladesh to become a leading player in two – not just one – export products.

If the trade tensions morph into a full-scale trade war, there will be no winners. How do we see Bangladesh's export prospects if, as global experts predict, future growth of global trade and output sustains deleterious impacts from the aftermath of the trade war? Popular perception would suggest that would dampen the prospects of Bangladeshi exports in general if its main export markets and the world economy are in recessionary mode. Against this argument is the theoretical construct that Bangladesh is still a small economy in the global marketplace and gaining market share even in a contracting world economy will leave enough space for substantial export growth, as was the case in the aftermath of the GFC when our exports showed enough resilience to sustain growth in a contractionary environment. So even in a shrinking global economy, Bangladesh's export prospects may face challenges but may not be written off.

Finally, we can take some solace from an unknown future which promises a thread of optimism. It is all too possible that USA turns a page with a new Democratic administration in 2020, one that will certainly turn the current tariff policy around 1800 and is likely to restore mainstream trade policies of the past. The world will then return to its past trading world order with resumption of trade and investment openness and, quite appropriately, an overhaul of the multilateral trading system that WTO represents. For the Bangladesh economy, that should present opportunities to be seized, as in the past.