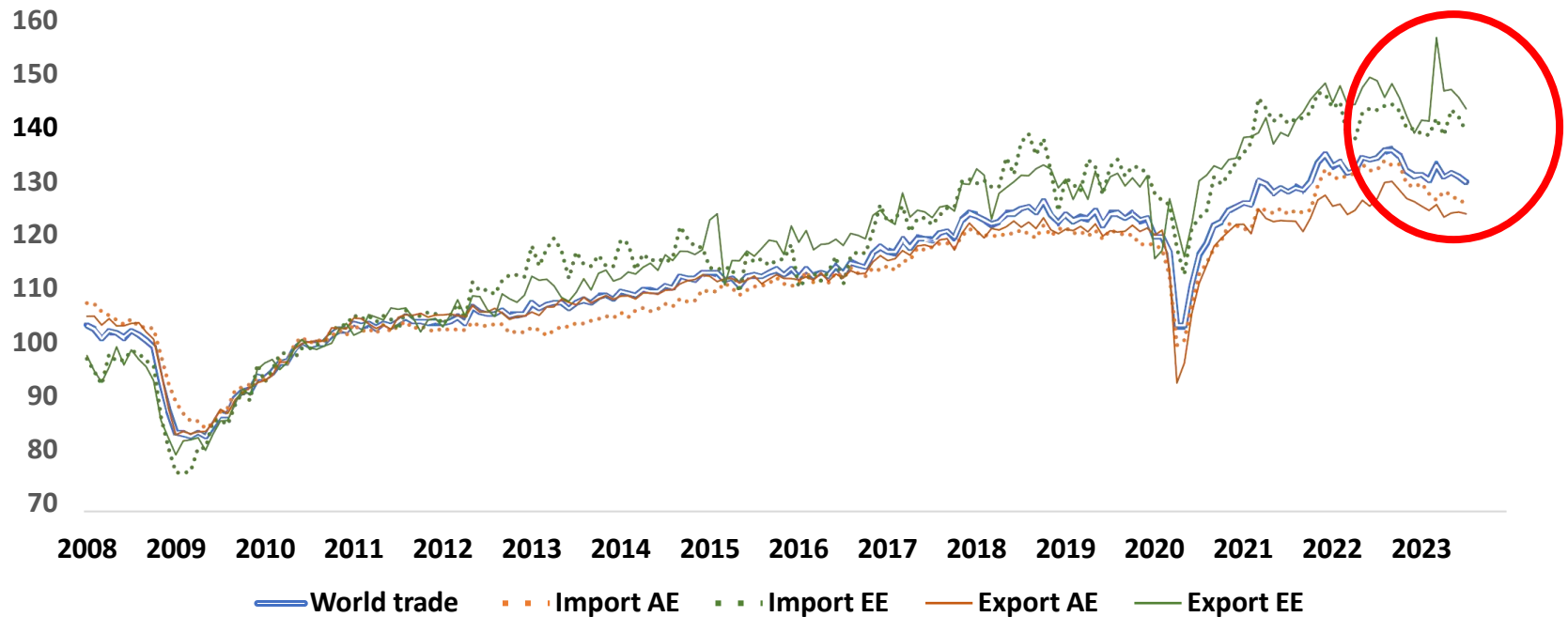


Global Economic Outlook

- ◇ **Pace of global recovery has moderated:**
 - **war in Ukraine**
 - **gloeconomic fragmentation, and increased trade barriers**
 - **tight monetary policy**
 - **diminishing savings stock**
 - **persistent manufacturing slowdown**
- ◇ **Global trade growth slowed down: 3.5% (5.1% in 2022) (IMF, 2023)**

Global Trade and Shocks

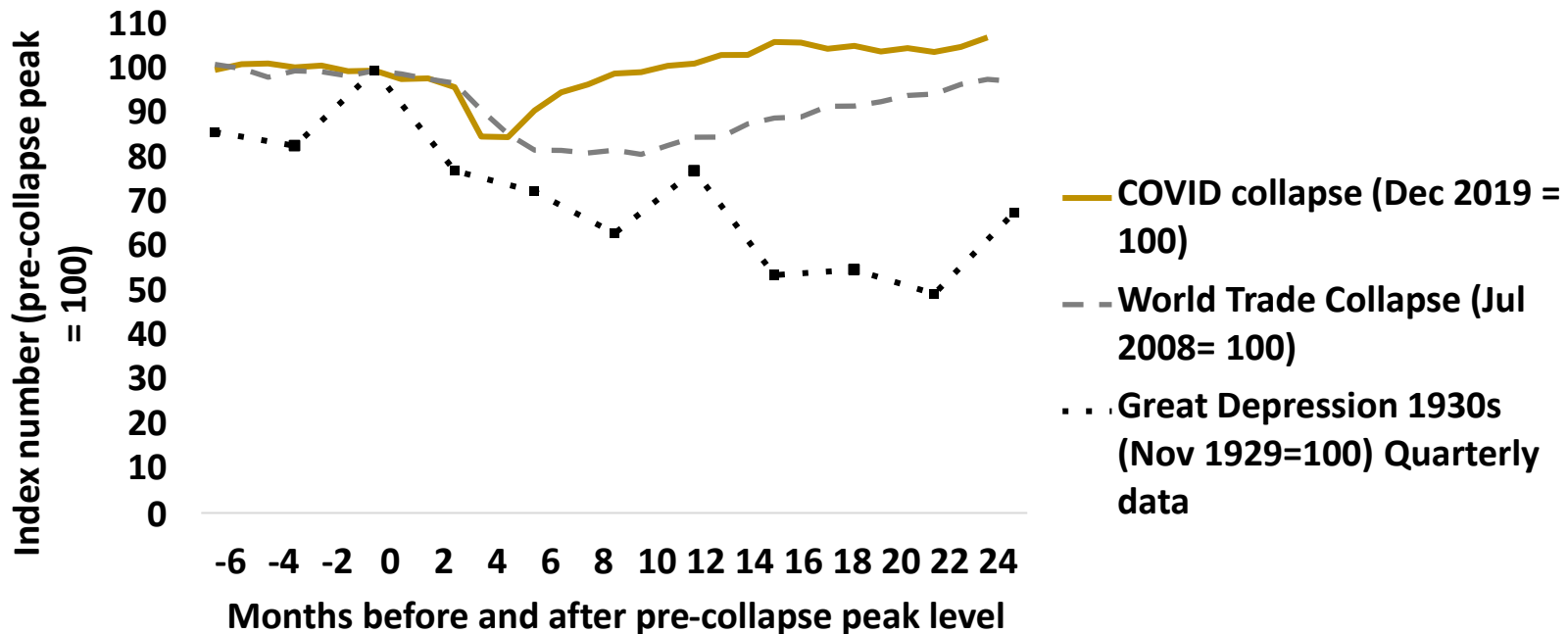


Source: Bergeijk, December (2023)

Global Trade and Shocks

- ◆ **Financial crisis and pandemic had significant impact on trade**
- ◆ **Compared to Great Depression, international trade has become more resilient to shocks**
- ◆ **Foreign policies and trade likely to have:**
 - **very specific effects (Russian invasion of Ukraine)**
 - **specific and global effects (attacks on merchant shipping in Red Sea)**

Trade Now More Resilient



Outlook Tilted to Downside Risks

- ◆ **Underlying inflation persists**
- ◆ **Financial market repricing**
- ◆ **Debt distress increases**
- ◆ **China's growth slows further**
- ◆ **More volatile commodity prices due to climate and geopolitical risk (wider Middle East conflict)**
- ◆ **Geoeconomic fragmentation intensifies affecting trade, capital and technology movements, and international payments**



Chinese Economic Growth



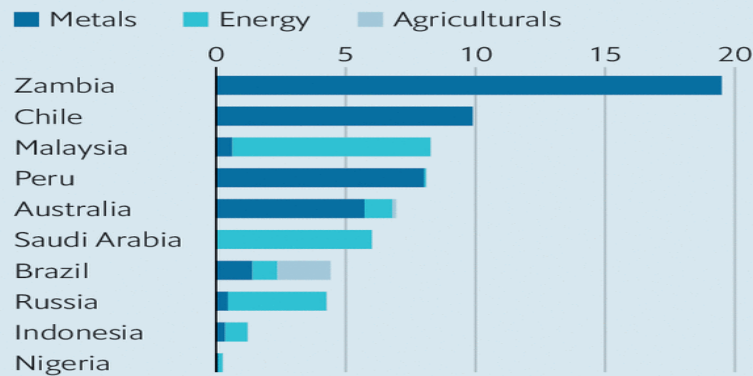
- ◆ **Slower growth of 4.5% predicted for 2024**
- ◆ **China has suppressed domestic consumption, resulting in savings that need investing**
- ◆ **Ideological reasons for Chinese leadership not to boost consumption**
- ◆ **Overall, policy paralysis, apart from use of investment-led stimulus as in the past**
- ◆ **Increased output being exported—notably electric vehicles—expected to double share of world market (1/3) by 2030 (*The Economist*, Jan.2024)**

Impact on Rest of World



Taking the lead

Commodity exports to China % of GDP, 2022



Exposure to China, total exports and Western-owned subsidiaries' revenues, % of GDP, 2020



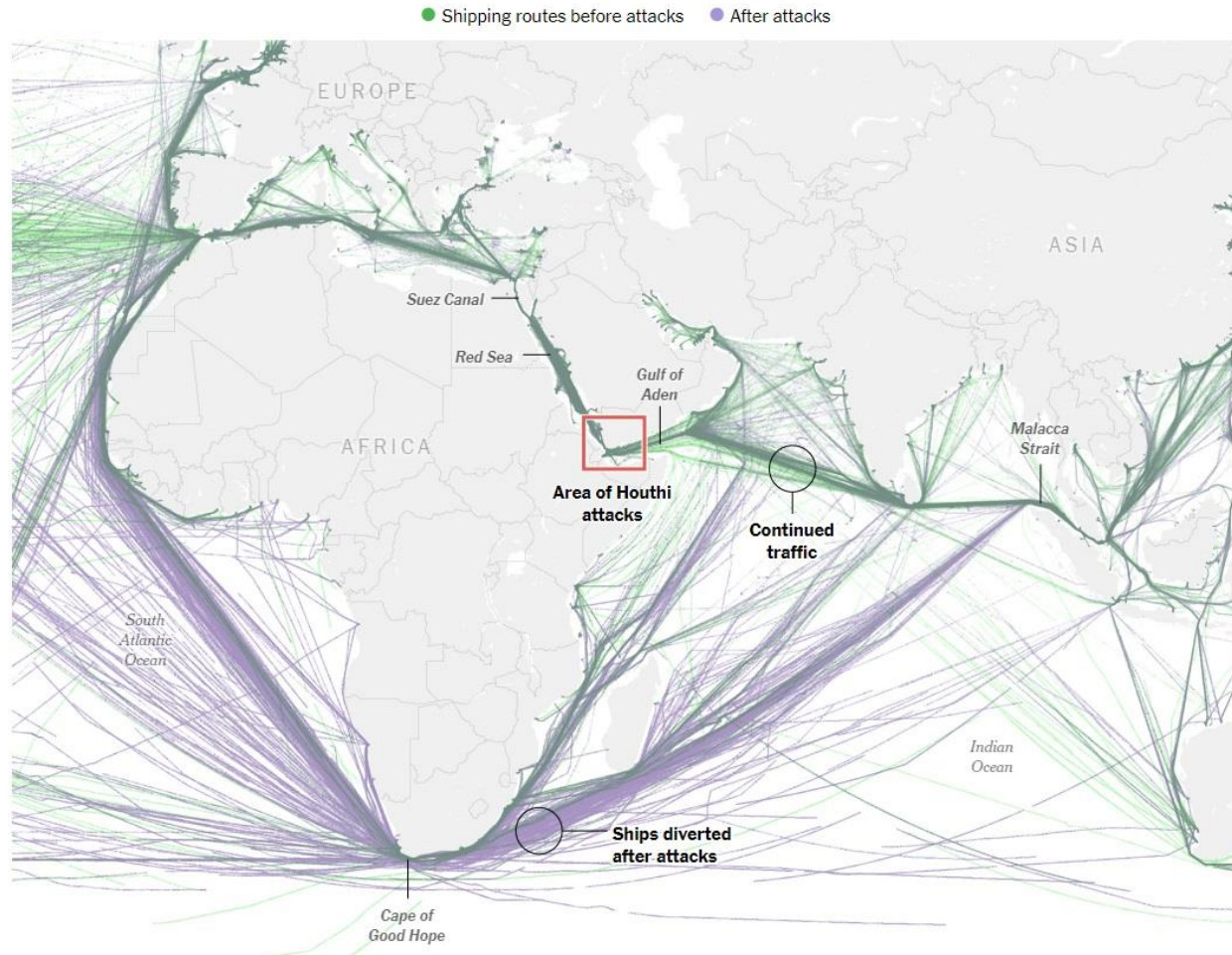
*Mainland China only †Including Hong Kong
Sources: Bloomberg; Capital Economics; Eurostat; IMF; OECD; *The Economist*

Red Sea Attacks



- ◆ **Houthi rebels based in Yemen have been firing drones and missiles at shipping in Red Sea**
- ◆ **Suez Canal handles 15% of world's shipping traffic trade, accessed via 19-mile wide, Bab-el-Mandeb strait**
- ◆ **Shipments being re-routed around Cape of Good Hope - 60% drop in number of containers going through Suez Canal (British Chamber of Commerce)**
- ◆ **Maersk, which accounts for moving 20% of global trade, diverted all its ships in early-January**
- ◆ **Container rates have almost tripled since early-December (ING)**

Impact on Shipping



Note: To show the changing paths of ships that regularly traverse the Red Sea, 3,461 cargo vessels recorded at entrances to the Red Sea in the last three months are shown. Shipping routes before the attacks show ship positions from Nov. 1, 2023 to Nov. 15, and positions from Jan. 1, 2024 to Jan. 15 are shown after the attacks. Source: Spire Global

Red Sea Attacks



- ◆ **Concern that conflict escalation in Middle East could lead to surge in energy prices, affecting global economic activity and inflation (World Bank, 2024)**
- ◆ **Potential to impact Ukrainian and Russian grain shipments to the Horn of Africa, which is expected to push up global corn and wheat prices**
- ◆ **With increase in oil prices, central banks may hold off cutting interest rates for longer than currently expected**
- ◆ **Reinforces expectation that some of world's major economies may dip into recession this year**



Current US Trade Policy

- ◆ **2018/19 US tariffs still in place, with continued focus on “decoupling” from China**
- ◆ **Administration increasingly turning to industrial policy – objective being to “near/re-shore” parts of value chain (semiconductors)**
- ◆ **US also moving to regional trade dispute resolution rather than utilize WTO – long-running concerns over judicial overreach of Appellate Board**
- ◆ **Already used USMCA mechanism in three agricultural cases since 2021 – only three cases ever litigated under NAFTA**



Current US Trade Policy

- ❖ **Canadian dairy TRQs (twice) – key focus of case(s) on allocation of the quotas discriminates against US exporters – “a tempest in a teapot?” (Turland et al., 2023)**
- ❖ **Current GM crop dispute with Mexico – not only important economically, but fundamental to the credibility of SPS chapter of USMCA**
- ❖ **Expectation: panel likely to find against Mexico – precedent of 2006 WTO GM ruling against EU**
- ❖ **Unlike WTO dispute resolution system, panel findings cannot be appealed by either party – has more of a flavor of the original GATT-mechanism**

US “Decoupling” and China

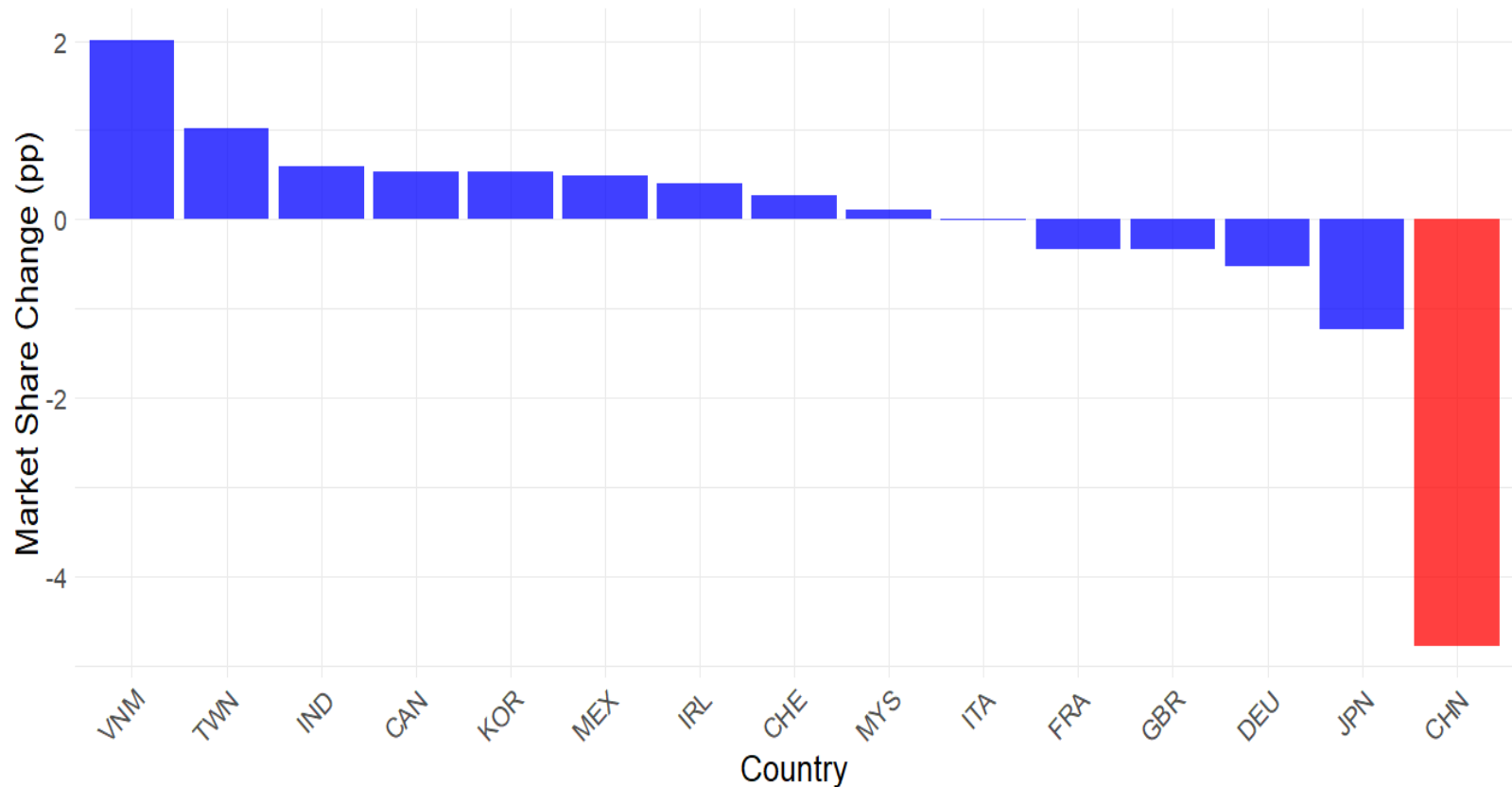


- ◆ **Value chains under stress due to US-China trade war, pandemic, and geopolitical shocks**
- ◆ **Available data point to “great reallocation” in supply chain activity (Alfaro and Chor, 2023)**
- ◆ **US *direct* sourcing from China has decreased – with Vietnam and Mexico gaining import share**
- ◆ **Switch to *indirect* sourcing as China steps up investment in both Vietnam and Mexico**
- ◆ **However, US import prices higher**

Indirect Imports from China

US Import Market Share Change for Top 15 Importing Countries (2017-2022)

Source: Comtrade



Source: Alfaro and Chor (August 2023)