

Transport and International Trade

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Breaking Down the Determinants of Trade

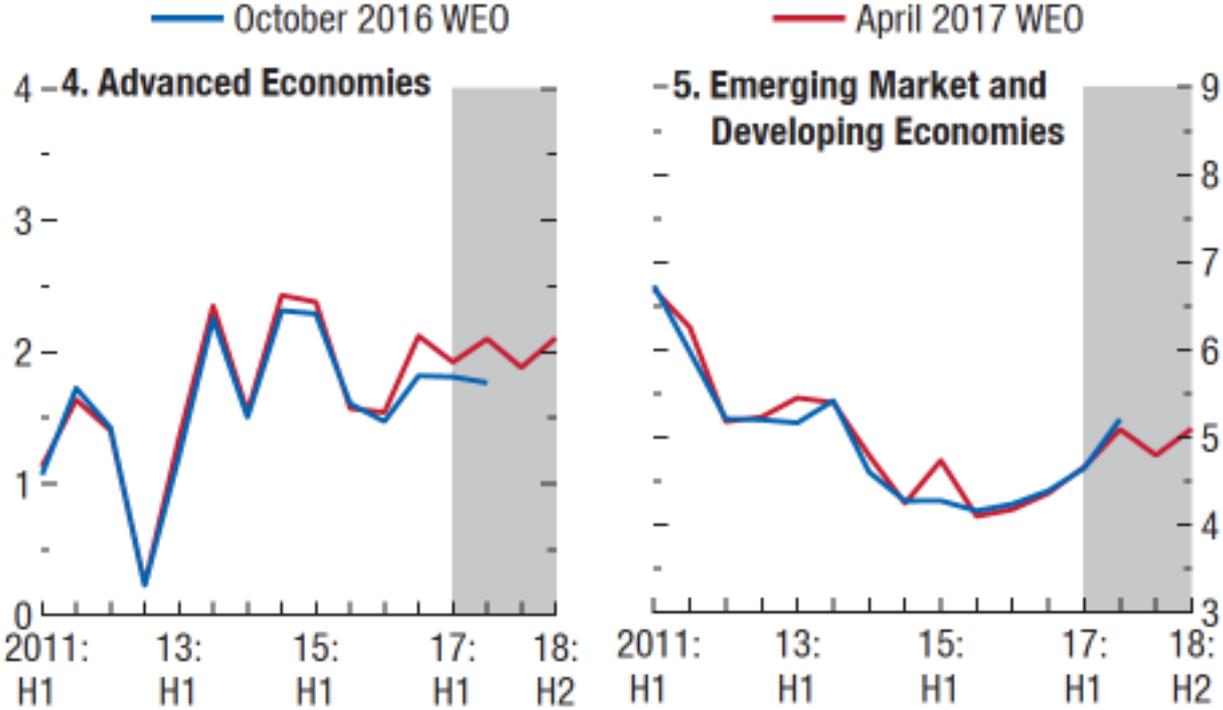
- Overall Economic Activity
 - *GDP*
- The Ratio of Trade/GDP
 - *holding policy constant*
- Changes in Policy

Overall Economic Activity

IMF World Economic Outlook, April 2017
Annual growth forecast

| | 2016 | 2017 | 2018 |
|-------|------|------|------|
| World | 3.1 | 3.5 | 3.6 |
| U.S. | 1.7 | 2.0 | 2.0 |

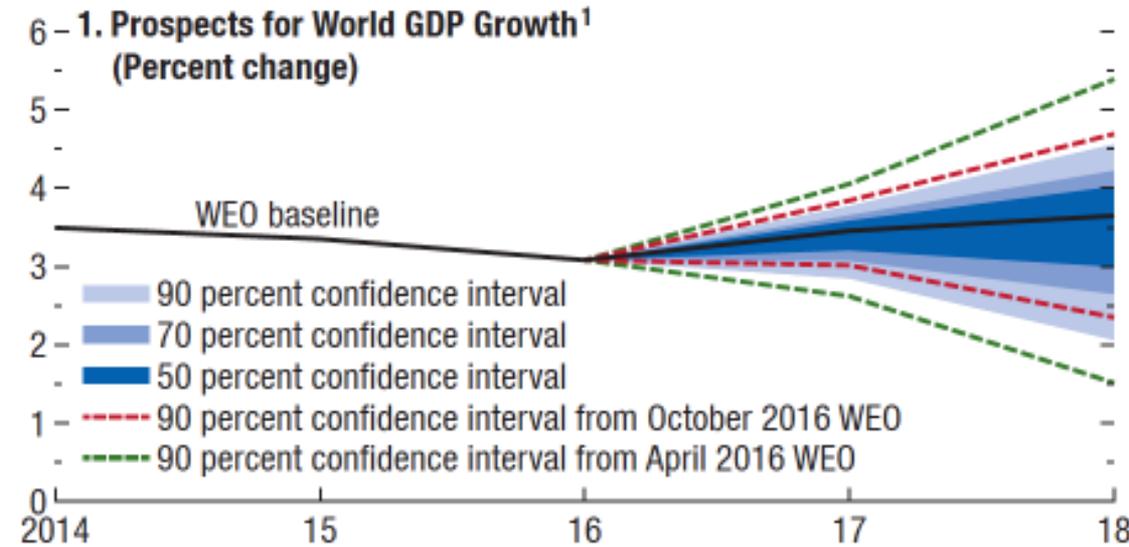
GDP Growth
(Annualized semiannual percent change)



Caveats

Figure 1.19. Risks to the Global Outlook

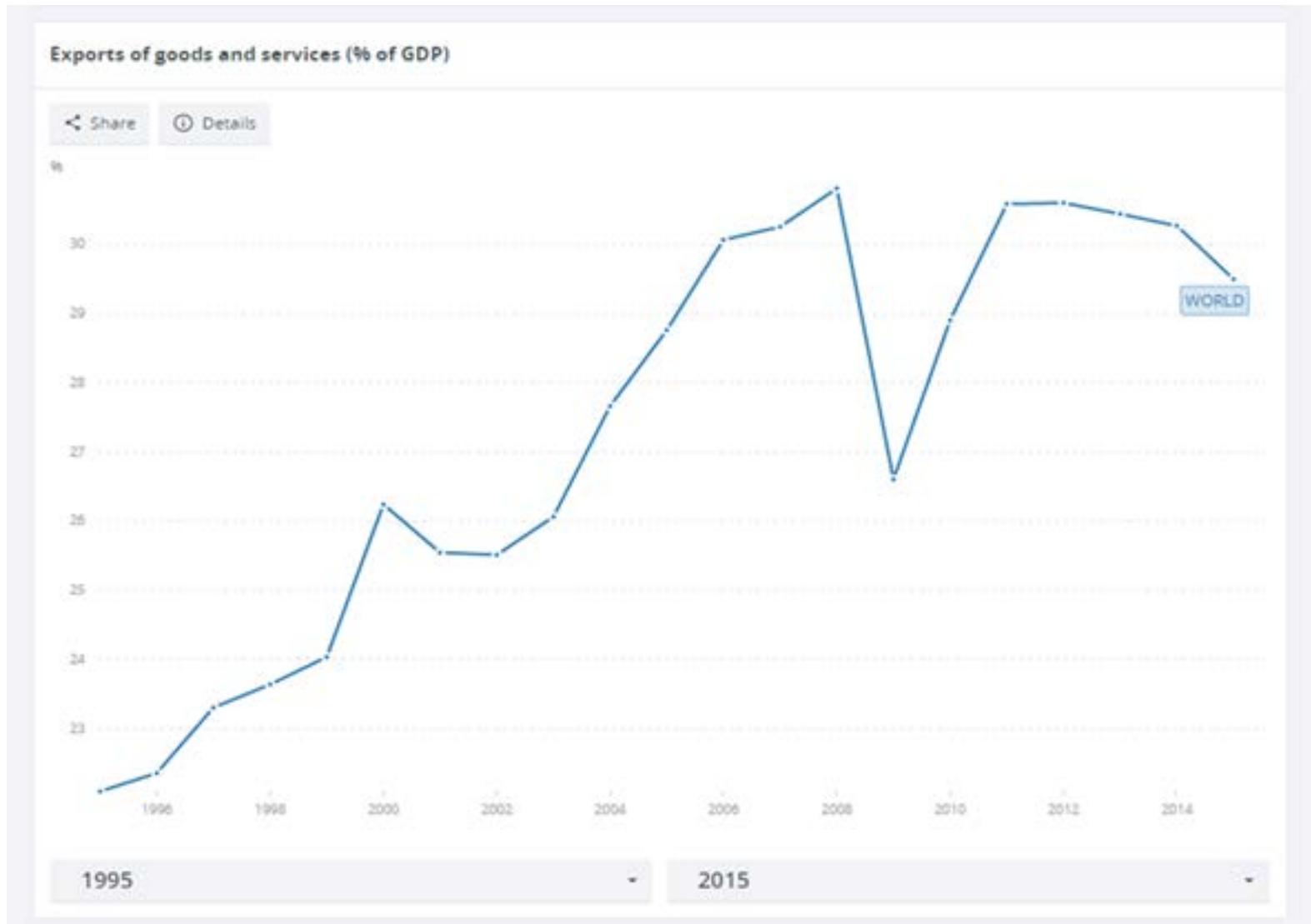
A fan chart analysis suggests that risks to the global growth outlook remain skewed to the downside.



Source: IMF WEO, April 2017

- This was before U.S. 2017 Q1 number disappointed last week
 - GDP grew at 0.7 percent annual rate
 - Weakest quarter since 2014:1

Trade/GDP



A challenging time for transport



Intermodal Association of **North America** reported a decline of 2.1 percent in total intermodal volumes for the year 2016 compared with 2015. The total of 17.1 million shipments was the first full-year decline since 2008.

Policy Uncertainty

Financial Times, January 31, 2017, Peter Navarro:

“It does the American economy no long-term good to only keep the big box factories where we are now assembling ‘American’ products that are composed primarily of foreign components... We need to manufacture those components in a robust domestic supply chain that will spur job and wage growth.”

Near withdrawal from NAFTA

- President Trump was reportedly on the verge of signing the order for withdrawal last week
- Opted for renegotiation after conversations with Mexican and Canadian leaders

EXECUTIVE ORDER

NOTICE OF WITHDRAWAL FROM NAFTA

By the authority vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy.

It is the policy of the United States to pursue free, fair, and reciprocal trade agreements that increase America's economic growth, decrease America's trade deficit, raise American wages, maintain the integrity of America's borders, and strengthen the manufacturing and defense industrial bases of the United States. The North American Free Trade Agreement (NAFTA), signed into law in December of 1993, has not met any of these conditions.

Instead, NAFTA has led to a massive transfer of wealth, an exodus of factories from our shores, successive waves of illegal immigration, and a surge in the United States trade deficit. While the United States ran a small trade surplus in goods with Mexico in 1994, it now runs an annual deficit in excess of \$60 billion. America's cumulative trade deficit in goods with Mexico since NAFTA's enactment in 1993 now exceeds one trillion dollars.

While Americans were promised 200,000 new jobs from NAFTA by 1995 alone, the United States has lost more than 700,000 jobs and wages have stagnated. As United States foreign direct investment in Mexico has sharply increased, tens of thousands of factories and manufacturing establishments in the United States have closed, with many relocating to other NAFTA countries. At the same time, Canada has continued to exploit the American dairy and lumber industries.

It is the policy of this Administration to renegotiate, or withdraw from, every trade agreement that does not serve the interests of the United States.

Practical Lessons

- The administration faces a steep learning curve on benefits of trade.
- Congress has a big say
- Ultimate trade policies in a state of flux
- Likely to be heavily influenced by full trade team (not yet in place).
- On NAFTA experience last week, intense lobbying effort by manufacturing and especially agricultural sector seemed to make a critical difference