



Avenues of Growth: Global Trade



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Since the start of the year, projections for global growth have been ratcheted downward (Chart 1). Leaders at the European Central Bank (ECB) and the U.S. Federal Reserve (Fed) have promised to keep rates low in order to facilitate growth. As a result, global rates for the G-20 face downward pressure and debt levels can be expected to rise, as these low rates support more debt financing. This development merits closer scrutiny. As distant (1929-1939 Great Depression) and recent (2007-2009 Great Recession) U.S. history demonstrates, an extended period of low rates can create systemic imbalances. The world economies need to make a concerted effort to grow their way out of this low-rate environment.

Global free trade is one way to juice economic growth. If trade barriers can be reduced or eliminated, countries can specialize in producing products for which a comparative advantage exists. Subsidies should only be utilized to benefit those emerging economies or industries who need temporary assistance. The goal should be a level playing field.

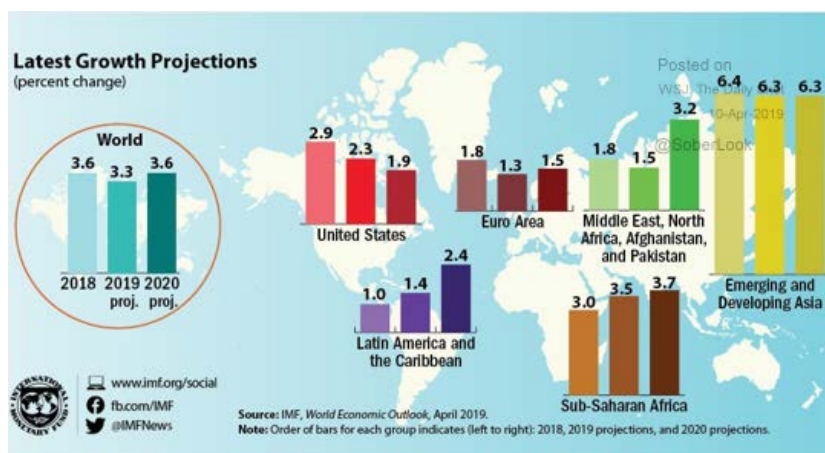


Chart 1. Latest Growth Projections

So what is the proverbial cog in the wheel? The different political and economic systems in place for each country. Some countries are command economies with the government owning some or all resources and means of production, while others are laissez-faire economies with private citizens owning most of the resources and means of production. In order for trade to be fair between these types of countries, trade agreements must be brokered and not just one-and-done. They must be continuously updated to create a win-win situation for each country's economic goals. Additionally, there must be consideration as to the economic, social, and governance ethics that are represented by each trading partner. Goals are varied and complex.

The President's 2019 Trade Policy Agenda, as outlined by the Office of the U.S. Trade Representative, is characterized by three points¹:

1. Inheriting a deeply flawed global trading system;
2. Making U.S. trade policy work better for American workers; and
3. Pursuing new trade deals and stronger enforcement to continue rebalancing America's trade relationships.

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resources... "of our limited make the most"

To facilitate free or equitable trade to the greatest extent possible, the U.S. needs to focus primarily on two things in the short-term.

Firstly, Congressional approval of the **United States-Mexico-Canada Agreement** (USMCA), which will replace the North American Free Trade Agreement (NAFTA). Key issues addressed include labor, the environment, currency manipulation, intellectual property, and digital trade.¹ Terms of this agreement need to be re-worked so that all three countries can move toward a modern version of the original agreement. The President's mantra, "Make America Great Again," does not need to entail making all economic goods and services in America or making all other countries into America's image. Instead, each economy should specialize in what it does best and we should help each other to make the most of our limited resources, whether those resources are capital or intellectual. Canada and Mexico remain two of our largest trade partners.² Visit <http://bit.ly/chart-US> to view an interactive chart.

Secondly, completion of an amended trade agreement with China is necessary for the well-being of the American economy. China is notorious for its pirating of intellectual as well as technological property. Also, there are suspicions of ongoing cyber-security espionage. Additionally, electronic spyware that is rumored to be located within Chinese products sold overseas. Much to America's chagrin, the trade terms have been in favor of China for a very long time. And now, because of a change in the Constitution, President Xi faces no term limits and could make moves to fundamentally change China as we know it. Only time will tell how everything shakes out.

For now, the focus remains on how to improve the job prospects for Americans and level the playing field to benefit to all countries who wish to trade.

¹ <http://bit.ly/2GoS3RI>

² <https://www.census.gov/popclock/world>