

# The trade implications of Mr Biden for New Zealand

or what does the Chinese Century mean for New Zealand?

## More or less trade policy chaos?

After four years of United States trade policy side deals, backtracking, casual and haphazard trade policy bullying, trade wars, and trade policy unpredictability, what can we expect from Mr Biden on trade? And what does it mean for New Zealand?

In looking at the world of trade, we need to remember that big countries and small countries are different and have different roles and prospects. The United States is a big country, and we are a small one (see Nixon and Yeabsley 2002, for a fuller understanding).

## The United States has been a positive influence at the heart of the world trade system

The United States has led the way on trade policy. Over the last 80 years, the United States has made the greatest contribution to the development of international trade rules. They are the architects of the Bretton Woods Agreements that set up the post-war rules, institutions, and procedures to regulate international finance and world trade. The guiding mantra was “no more beggar thy neighbour policies”.<sup>i</sup>

While never being perfect trade policy citizens, the United States has moved the world closer to freer trade. Last century they played a pivotal role in the Uruguay Round that created the World Trade Organization (WTO) and encouraged the Chinese to join the WTO. In 2015, the United States played a critical part in eliminating export subsidies – a long-standing New Zealand public policy objective (2015 WTO Ministerial in Nairobi). The United States even seemed committed to the Trans Pacific Partnership (TPP).

## A sea change that was a long time coming

The seemingly abrupt change in trade policy triggered by the Trump Administration was a surprise.<sup>ii</sup> But the stance taken was retrogressive and no agent of progressive change, more a lightning rod for the United States poor economic performance and its inability to deliver gains to ‘middle America’. Trade has become the scapegoat for homegrown poor economic performance. Meanwhile, the real culprit, continued low productivity growth, was largely ignored by policymakers (Furman 2018). Don’t snigger! New Zealand has a low productivity problem as well, but it is not because of trade.

The United States has had good economic growth over the past six decades (averaging 3.9 percent); however, it has only managed 2.0 percent over the past two decades (The Economist 2010). Debt has also increased over the past 15 years.<sup>iii</sup>

## Forget the facts: it’s their fault

Mr Trump’s use of tariffs has been an abject failure. The US-China Business Council estimates that it has cost the United States 245,000 jobs. An escalation of the trade war would cost the United States economy US\$1.6 trillion over the next five years.<sup>iv</sup> Neither is the United States businesses decoupling from China. A recent survey showed that 80% of businesses involved in trading with China were not planning to relocate away from China (Bloomberg News 2020). Remember also that the tariffs on New Zealand steel and aluminium were imposed due to the *national security risk* that New Zealand clearly poses the United States. Yes, you read that right!

All politics is local!

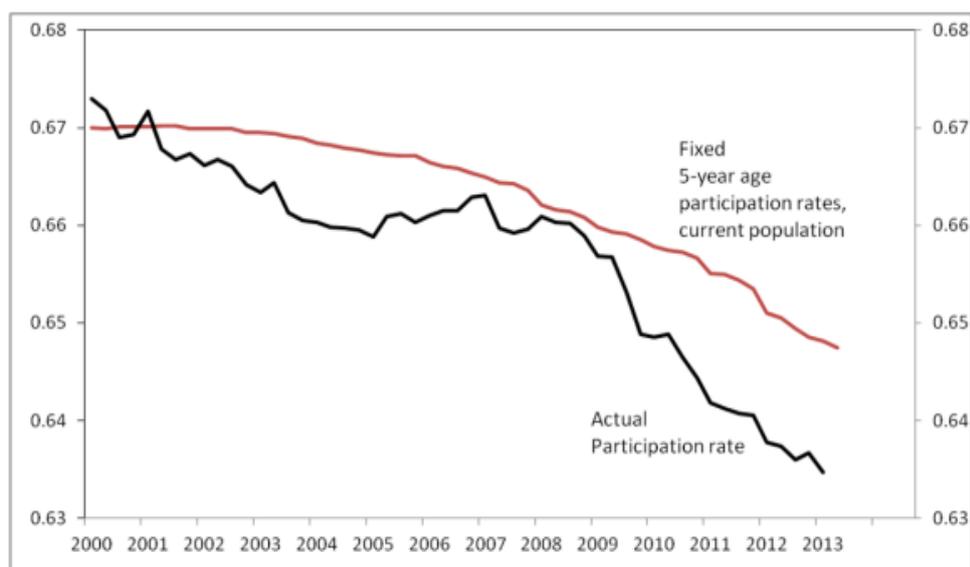
When Mr Biden looks at his election victory – it does not make great reading. Mr Biden won the popular vote by 7 million. But the reason he is in the White House is because of nearly 40,000 odd votes (that’s 0.6 percent of the vote difference) spread across three states Wisconsin, Arizona, and Georgia that meant he gained those states’ electoral college votes. This, of course, is an artefact thrown up by the electoral college system.<sup>vi</sup> It is also why he can’t move decisively and certainly not on trade.

The economic circumstances of ‘Main Street’ are different from those of ‘Wall Street’. The bad news

is that it is likely to get worse. So far, the forces of globalisation and digitalisation, ironically ignited and driven by United States companies, has accentuated social divisions; roughly 8% of prime-age men — many white, working-class and lacking a college degree — have exited the labour market altogether. And possibly 30% of prime work-age males in the United States will be out of work by the mid-century (see Figure 1). This will have a major impact on the middle class incomes they wish to preserve and improve.

### Figure 1 Tanking labour force participation rates before Trump arrived in office

Share of civilian population age 16 and over



Note: Participation rates are held constant at 2000 (peak year of participation rate) values for 5-year age groups, and the total is reweighted by the age-specific population of each age group.

Source: Figure 12 from Bailey and Bosworth (2013)

### The Chinese are marching to a different trade policy tune!

Western observers struggle to interpret Chinese trade policy strategies. For example, what is the “dual circulation strategy” announced under the 14<sup>th</sup> 5-year plan (2021–2025)?

While there are various views, some writers suggest that it spells bad news for trade since it signals more self-reliance by China. Others caution against this and look for the double meaning.

Scratching below the surface of Chinese trade policy, we find seemingly contradictory policies at play. Possibly, the Chinese have borrowed from **Marx’s dialectical**<sup>vii</sup> approach – they have found an easy marriage between what appear to be opposing concepts.

On policies that might be seen as ‘either/or’, the answer might be: ‘and’, e.g. does China believe in a world where WTO rules exist, or does it want to pursue its own trade interests and make its own rules? The answer is yes to both. Do they want to

‘make China great again’ through aggressive promotion of domestic firms, or do they want to promote international trade? The answer, again, is yes to both.

There is some concern that the Chinese might have overplayed their hand, but they are in a politically and economically strong position, while the United States has been floundering around with a misfiring economy. The following table sets out the political and economic climate each large trader faces.

**Table 1 Elephants in the room: a summary of trade and political positions**

	United States	China
Trade and trade policy	Inward looking policies that reversed decades long trade policy leadership. Engaging in trade wars with China and ‘friends’.	Pursuing seemingly conflicting trade policy strategies. Encouraging trade selectively.
Domestic and international politics	Politically divided. International position weakened – less trust by allies.	Politically cohesive. Conducting a more abrasive trade and diplomatic policy.
Economic and trade outcomes	Struggling to deliver to key voters in middle America. Trade blamed.	Continued strong economic growth. Emphasis shifting to distributional issues.

Source NZIER

**Where has globalisation worked well and not so well<sup>viii</sup>**

What has helped the Chinese economy has been its ability to trade manufacturing goods with few tariffs impeding their sale. Globalisation has created manufacturing opportunities for those countries that could scale up production at low cost. Ironically, the low tariff world manufacturers now enjoy is in large measure an outcome of the lead role the United States played in driving successive rounds of liberalisation at the WTO’s predecessor, the GATT.

This process has also allowed agricultural trade to boom despite its long time special (worse) treatment in trade rules since trade is not a zero-sum game thanks to the concept of gains from trade. Booming exports by Asian economies created growing import markets for food. This has been highly successful for New Zealand since it created a double dividend. Our wages may not have increased dramatically, but we could buy more with our dollar (courtesy of cheap imports of consumer products). Combine this with the durable and growing demand

These have been classified into the approach taken to trade and trade policy, the degree of domestic consensus, and the economic situation faced by citizens in each country.

A key issue is that the political discourse in the United States blames trade for its declining economic influence. In comparison, trade is a key plank in China’s growth plans.

for agricultural products (see NZIER 2020a, 2020b), and the New Zealand economy has performed strikingly well.

Looking more widely, the services sector has internationalised to a degree. But the results are patchy, with countries often loath to see foreign insurance or telcos establish themselves.

Where globalisation hasn’t worked so well has been on people movement. Barriers to people movement have arguably increased recently, throwing sand into the wheels of further interconnectivity. Further fear of being ‘overrun’ by foreigners has driven wild politics and gestures like Brexit and Mr Trump’s wall.

**What will be the trade impact of Mr Biden?**

The first issue is compared to what? It seems unrealistic to compare the current United States Administration on trade to the 1990s or 2000s.

Events have overtaken us; we now live in a multipolar world where domestic interests heavily impact trade issues.

There is also a measurement problem since more trade occurred between the United States and China in the last quarter of Mr Trump’s Administration than in any other quarter in United States history. Rhetoric does not always match results. Small open traders are more concerned about the active flouting of rules by major powers – breaking WTO rules and applying trade rules that suit themselves.

The baseline for New Zealand improvement in trade policy approaches is about improved consistent action that supports international trade policy rules. If Mr Biden can do that, there will be an improvement in the overall trade policy environment.

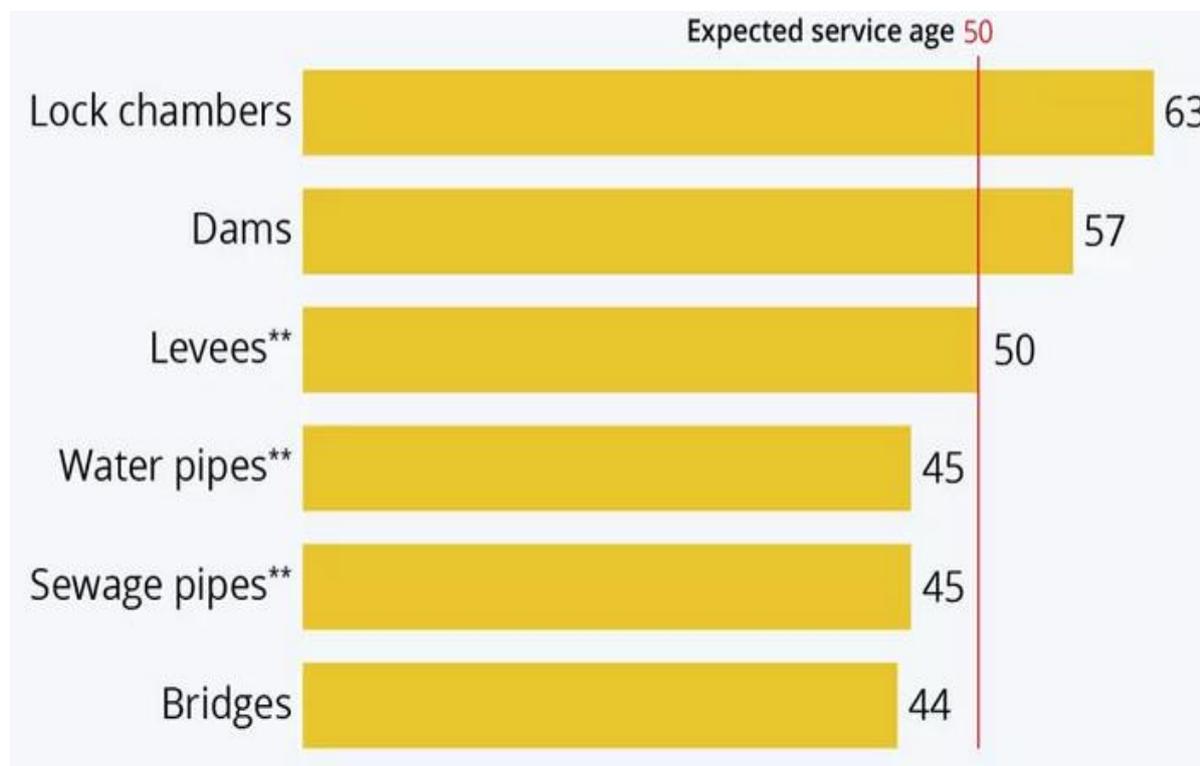
Unfortunately, Mr Biden and the Democrats are known for their sluggish approach to embracing trade as a positive feature of any recovery. They have always been trade sceptics. There is no sign (yet) they are going to move on aluminium and steel tariffs or make the WTO more workable (by lifting the United States embargo of Appellate Body candidates).

**Are there any trade benefits of Mr Biden’s election?**

The first potential benefit for trade is, ironically, a **domestic policy** action. The bipartisan \$1.2 trillion Infrastructure Bill could focus United States attention on what it needs to do: deliver jobs and distribute the economic gains across the United States economy and its people more evenly. The need for such action is apparent from the following graph.

**Figure 2 Age of United States infrastructure**

Average age of selected types of infrastructure in the US 2020/21 (in years)



Source: American Society of Civil Engineers, US Army Corps of Engineers in Elliot (2021)

Delivering an infrastructure dividend to the domestic electorate is one way to marry the problem of ageing infrastructure with a public works jobs programme.<sup>ix</sup>

This could be positive on two fronts:

- It will increase the economic activity in the United States and take the heat off trade being seen as the cause of their economic plight
- It may increase imports into the United States, improving prospects for trade.

The United States also needs to do something about its productivity with further investment in education – but this is a much longer term issue.

On the **international** front, re-establishing some of the United States trade credentials on the world stage would be beneficial.

Showing a steady hand on the tiller of United States trade policy will be a relief to its friends and improve confidence that the previous Administration was an aberration. This is likely to be the biggest direct trade benefit – since it increases United States trade policy certainty.

Regarding the WTO, we would like to see Mr Biden steady the WTO by re-engaging on the dispute settlements regime. Rather than block appointments as it has done since 2017, a constructive dialogue is required between WTO partners that result in concrete actions to unblock the Appellate Body system. In this way, trade disputes can be resolved (Erken 2019). As already canvassed, prospects look slim.

Mr Biden needs to front up at APEC. Not that he can in person given the pandemic, but a strong showing at APEC will inject new life into the process and bolster confidence that the United States is ready and willing to engage constructively with the Chinese and other APEC members. Stepping back from the trade war with China – however marginally – will be an important positive signal to the region.

One positive signal is that the United States has agreed to host APEC in 2023. This is an important signal of intent. The ‘soft’ rules of the APEC economic architecture are not likely to cut across the United States policy agenda – which is focused elsewhere.

The two mega agreements (The Regional Comprehensive Economic Partnership or RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP) present the United States with difficult ‘hard’ rule challenges. Like the European Union, Brazil and India, the United States is on the outside looking in, while the Chinese are in RCEP and are applying to get into the CPTPP. While we would like the United States to reconsider its position on the CPTPP, this could be problematic prior to a United States midterm or even Presidential election.

Leadership on climate change would be a huge bonus. There must be some optimism given the United States re-engagement with the Paris Agreement. Not only did Mr Biden re-join the Paris Agreement, but he made a strong statement affirming United States commitment during his inauguration speech. This gives us hope that the United States will play a leading role in bringing down emissions.

This is a signal that goes beyond the direct impact on the world’s weather. It shows that this Administration sees the benefits of restricting countries’ power to act alone.

We hope that re-joining will signal impetus for much more robust, stable, sustainable and effective national policy and regulation in the United States. That’s the less glamorous stuff.

### **Any downside to the election of Mr Biden?**

There is not the same apprehension at the election of Mr Biden versus the election of Mr Trump. However, there is a danger that we may expect too much of Mr Biden on trade. In the past, we have always been wary of the United States Administrations who tended to spray trade policy promises around like confetti, knowing full well that most of these promises would be vetoed by Congress. While this is not the case currently, expecting too much of Mr Biden needs to be watched. In short, Mr Biden and his Democrats have not been noted in the past for embracing trade.

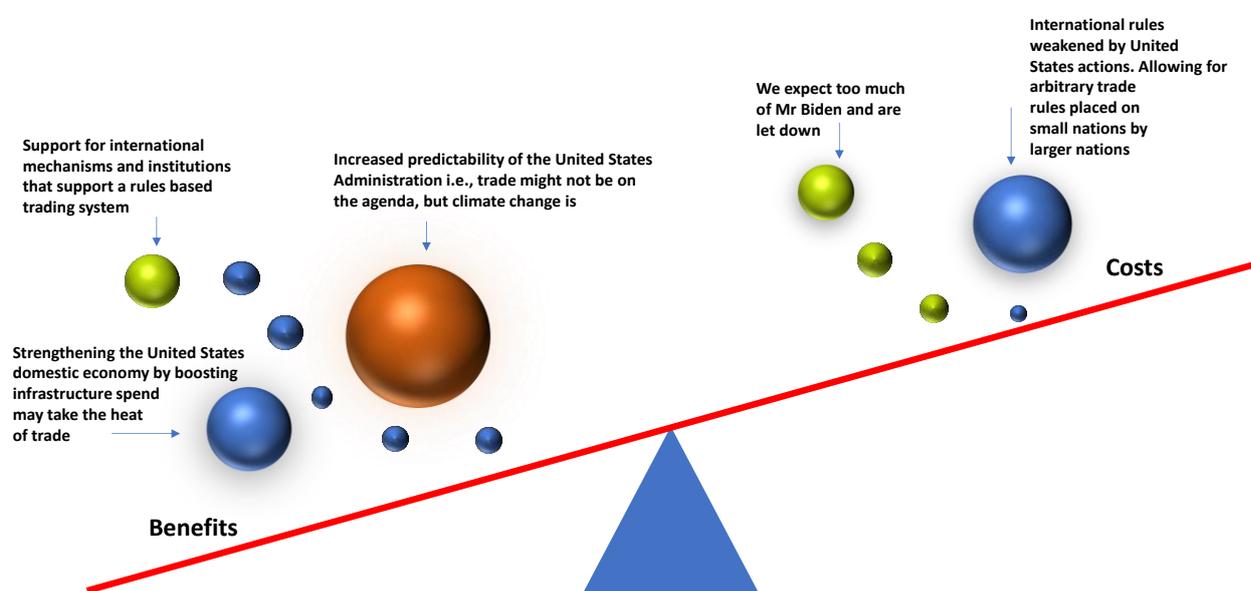
More worryingly are the chances that the United States or other trading nations may unilaterally impose trade barriers on smaller countries. This is against a backdrop where the United States has

severely undermined the international rules-based system that it created.

### Do the benefits of Mr Biden outweigh the costs?

We think they do, albeit using the previous Administration as a very low benchmark. The following figure sets our view of what Mr Biden may bring.

Figure 3 Costs and benefits of Mr Biden



Source: NZIER

### What does it mean for New Zealand?

What we are hoping for from Mr Biden is a positive trade ‘wind’ that improves trade policy cooperation internationally. However, it is more likely to be a trade zephyr, and there is no sign of a coherent and constructive trade policy that acknowledges increasing Chinese impact on world trade.

We can then look forward to robust growth that can assist us with the challenges that we face. New Zealand is in a strong economic position (see NZIER 2020b), and the outlook also looks robust (see, for example, NZIER 2020a). For New Zealand, the domestic reforms of the 1980s, the rise of China, disciplines on agricultural trade, and the diversification and the responsiveness of the economy means that we can look forward with confidence.

New Zealand is no longer attached to the world trading system in the way it was before. Gone are the days where European bureaucrats could wipe billions off our export receipts overnight by upping the subsidies given to European farmers. While dependence on the Chinese market is high, it is still not as high as our total dependence on the British market for over a century. Furthermore, every country in the world is in the same position – we are all trading with China.

A mitigating factor may be signing the UK-NZ trade agreement, which seems imminent – but we will need to see the fine detail and the exclusions and what it means for dairy and meat.

For our trade policy, what does the election of Mr Biden mean? **More of the same.** The concerted open plurilateralism set out by the Government still holds. Concerted open plurilateralism is all about New Zealand being creative and trying to carve out

a place for new international rulemaking, e.g. the Digital Economy Partnership Agreement (now with Korea – G20 partner – formally looking to accede and Canada in the wings).<sup>x</sup>

By shaping rules, whether digital or on climate change (e.g. our leadership of the Agreement on Climate Change, Trade, and Sustainability or ACCTS negotiations with the Swiss, Norwegians et al.), we are looking to be innovative and remain relevant.

But in a world where the majors might continue ignoring or breaking the rules, not to mention acts of coercion, this type of strategy comes under pressure.

International rules are critical, and this is where we want the United States help since this is where the international rules deliver results. Unfortunately, this is where the United States has been found wanting in the recent past.

It is also part of New Zealand's role to keep calling out bad behaviour from the major powers. Care needs to be taken that we do not take sides in disputes – our role is to support the system.

This is all about keeping on and keeping on. It sounds boring, but the role of our trade policy has not changed (see Nixon and Yeabsley 2001). The natural role for a small player like New Zealand is:

- To ensure that we have a domestic consensus on trade policy. The near signing of the TPP and the public backlash associated with the United States accession to that agreement is a wake-up call
- To ensure that trade agreements need to be economically coherent
- To be useful to the process by:
  - Coming up with constructive and useful initiatives to bring parties together
  - Being flexible and not taking hard-line positions
  - Targeting issues that do not directly impact New Zealand and act as an honest broker
  - Allowing negotiators to be innovative. Being innovative also means flying novel ideas and making mistakes.

In other words, **stick to our knitting**; act as a small grown-up country.

New Zealand cannot set the international agenda, but we can be useful to the trade policy process. Working the corridors of international negotiations is what we are known for and what we are good at. And as recent economic results show, it does us good.

We need to keep at it.

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- i World trade is a diffuse mechanism that has externalities between countries. This means the behaviour of one affects the others. Absent rules, individual countries pursuing their interests can harm others. Similar remarks can be made about Climate Change.
  - ii Especially as the usual rules in the US have the Democrats dragging their heels on trade while the Republicans push for relaxation to assist business.
  - iii Debt to GDP ratio has tripled over the past 15 years.
  - iv <https://www.reuters.com/article/us-usa-trade-china-jobs/u-s-china-trade-war-has-cost-up-to-245000-u-s-jobs-business-group-study-idUSKBN29J2O9>
  - v Former Speaker of the United States House of Representatives Tip O'Neil is most closely associated with this statement. [https://en.wikipedia.org/wiki/All\\_politics\\_is\\_local](https://en.wikipedia.org/wiki/All_politics_is_local)
  - vi While various commentators are getting worked up about it, this deal was one of the compromises that allowed the negotiators in Philadelphia to produce the union that became the United States of America.
  - vii Marxist dialectic is a form of study. It purports to be a reflection of real-world behaviour.
  - viii To understand the impact on New Zealand see: Murray, Nixon and Yeabsley (2017).
  - ix We would also argue that the United States needs to support its soft infrastructure such as improving educational outcomes.
  - x In the first week of November, the Chinese announced they want to join the Digital Economy Partnership Agreement.