

By Invitation

How important is America to global trade?

Size matters in light of Trump's tariff wars and the likely damage may be less than feared. But the loss of US leadership will not be measurable by numbers alone.



Danny Quah

For The Straits Times

America is simply no longer that important.

To be sure, this year has seen US President Donald Trump's trade tantrums rattle the world. In the wake of Mr Trump's tariffs on US\$50 billion (S\$68.7 billion) of China trade, China's machinery manufacturers and semiconductor factories have suffered, and America's automakers and soya bean producers have bled jobs and income.

His proposed 25 per cent tariffs on imported auto parts and steel and aluminium could destroy hundreds of thousands of jobs in America alone. Economists recall the extreme outcome of the Smoot-Hawley tariffs imposed by the US in the 1930s which reduced global trade by over 60 per cent.

However, there is another way to look at Mr Trump's latest tariff measures, and let us take his action to its logical conclusion.

When all is over, the pain inflicted on other countries might not be that great from America's retreating into autarchy, refusing to engage in economic exchange with all others.

WHAT THE NUMBERS SAY

Yes, world trade is a vital part of economic activity on our planet. But consider the numbers: For all the attention that it attracts, China's total trade with the United States in 2015 amounted to only 5 per cent of China's gross domestic product (GDP), on a sharp downward trend from 10 per cent in 2000 and 8 per cent in 2010.

For Australia, Brazil, France, India, Indonesia, Italy, Japan, Russia and Britain? Between 2010 and 2015, only 2 to 4 per cent of their respective GDPs. Even Germany's trade with the US during this period came to just 4 to 5 per cent of its GDP. Across the Group of 20, the median value of US trade relative to the given nation's GDP

was just 3.2 per cent in 2010; 3.6 per cent in 2015. These numbers are not significantly large. Adjustment will be painful, but not existential. When needed, all these nations can adapt.

Where trade with the US assumes great importance is in Canada and Mexico. For America's northern neighbour, the ratio of its trade with the US from 2010 to 2015 hovered in the low 30 per cent (and even then, that was already down from a whopping 54 per cent in 2000). In 2015, Mexico's trade with the US came to 46 per cent of its GDP.

But Canada and Mexico are striking not just by the sheer importance of US trade for them, but in how extraordinarily unusual they are in this regard compared with the rest of the world.

Singapore is one of the world's most open economies. Some years its total trade to GDP ratio exceeds 400 per cent; since 1980 that ratio has dipped below 300 per cent only once. How critical is US trade for Singapore? Decades back the answer would have been: Hugely.

In 1980, Singapore traded over six times more with the US than with China; as late as 1990 Singapore still traded 40 per cent more with the US than even with Malaysia.

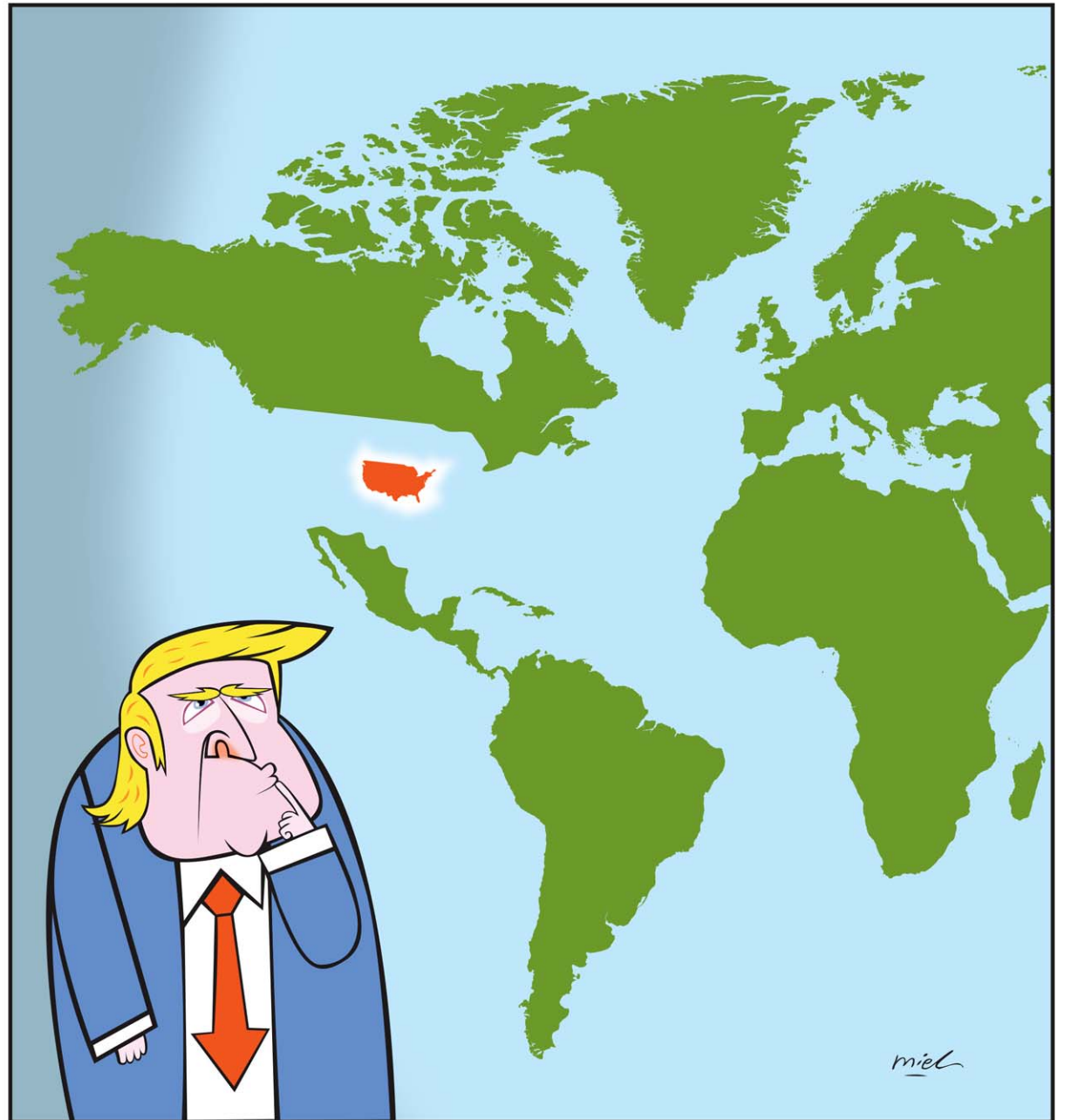
But America's significance in Singapore trade has fallen away dramatically since those halcyon days. In 2010, Singapore's trade with China was 20 per cent more than with the US; with Malaysia, 33 per cent more than with America. And that decline has only grown. By 2015, Singapore's trade with China was 57 per cent, and that with Malaysia 23 per cent greater than its trade with the US.

There is, of course, the usual qualification to these numbers; the point that is often made is that a great deal of our trade with other countries eventually ends up in America anyway. The story is that other places import mostly just to re-export to the US, after a bit of value-adding. Thus, America's pullback from the world's trading system will, as an arithmetic proposition, have a larger effect than has just been described.

However, the upper bound on such impact is only as large as the size of the United States' total imports. Big as that number is, in 2017, it amounted to only 3 per cent of the world's total GDP.

What's more, as America continues on a journey towards economic autarchy, an equally profound change would be the US dollar no longer remaining the world's reserve currency.

This would mean that the US will find cheap secure financing no longer so readily available for either its government or the American



people. America will have to learn – as all other nations have – to live within its means.

The conclusion from this is that America's markets used to be hugely important to global trade. But their centrality has waned considerably. The power in Mr Trump's trade wars to shake the world is not anywhere as large as memory from two to three decades back might suggest. The repercussions from Trump tariff tantrums can be controlled and confined if the rest of the world manages things right. America is simply no longer that important – at least in the numbers of economics.

Does this mean, however, that America is inessential to the global system more generally? No.

RULES-BASED FOUNDATION

In the world today, small nations like Singapore are able to thrive and adopt a consistent, principled stance in foreign policy, insisting on, among other things, autonomy and self-determination.

We can do this because we know we can depend on a firm foundation of international laws and a rules-based order that the US built. This is the international system for which it has provided both gentle scaffolding and hard protection in the so-called American Century.

The passing of the American Century will be a loss to many

countries which have benefited from it. But we certainly cannot force the US to maintain the system if – as Mr Trump suggests – America no longer finds that system gainful for itself.

America needs to come around to the view that what is good for the world is still good for America.

If not, what is the alternative?

Difficult as it is, small nations and others that are like-minded need to build their own refreshed international system, one that provides sufficient inclusive space for us all. The form of this new international system might differ from that of the last 70 years, but we must not think America's order had a monopoly on inclusiveness or mutual economic success.

BUILDING A NEW ORDER

There is also sometimes a mystique associated with the rules-based order that says only certain nations can be reliable stewards of that system. But in truth, the rules allowing small states to thrive are in essence the same rules that dictate good behaviour in school sports: No one is left out; everyone has an equal shot at winning. The rules are transparent and cannot be changed mid-stream. Everyone should compete to win, but it's okay that there are winners and losers afterwards. Winners are gracious, and neither bully nor behave with arrogance. Those who don't

succeed do not seek to overturn outcomes through violence.

There is nothing uniquely American about this. The rules-based system can be one that works for all, both great powers and small states, with or without American leadership.

Going forward, we cannot exclude improbable friends with whom we can together rebuild an international system based on mutual respect and transparent rules. Systems very different from America's display economic performance – sustaining growth while trying to keep inequality under control – not markedly worse and in many cases significantly better than in the US itself. Examples include China and the Scandinavian nations.

America used to describe the great power rivalry between it and all others as choosing between “on the one hand, rule of law, and the other, arbitrary use of power”.

Given how Mr Trump has normalised what was previously unacceptable, the choice between America and others is no longer a daunting one, if ever it should have been.

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