

# Supply Chains and Global Trade in the Post-COVID Era

MIKE PEARSON

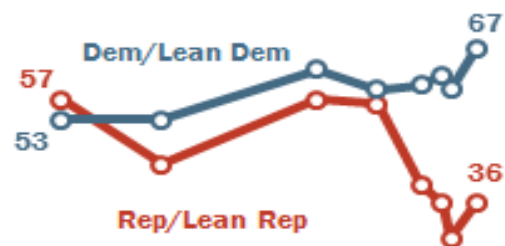
US DRY BEAN CONVENTION

AUGUST 4<sup>TH</sup>, 2024

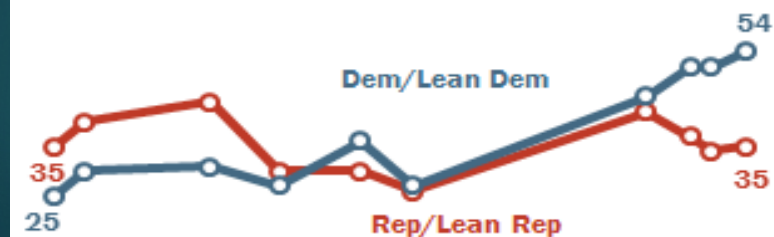
SAVANNAH, GEORGIA

## Continued partisan divides in views of the impact of free trade agreements

% who say free trade agreements have been a *good thing* for the U.S.



% who say free trade agreements have definitely/probably *helped* their financial situation



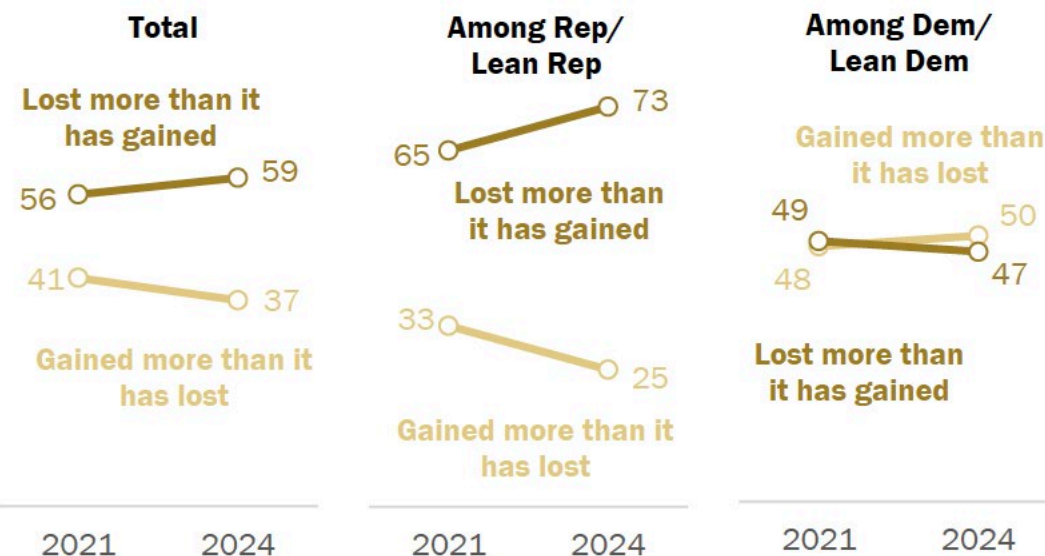
Note: Don't know responses not shown.  
Source: Survey conducted April 5-11, 2017.

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# Americans and Trade

## Republicans are more likely than Democrats to say the U.S. has lost more than gained from increased trade

% who say the U.S. has \_\_\_\_ from increased trade with other nations



Note: Question wording is: "Thinking about increased trade of goods and services between the U.S. and other nations in recent decades... Some say the U.S. has gained from increased trade because it has helped lower prices and increased the competitiveness of some U.S. businesses. Others say the U.S. has lost out from increased trade because it has cost jobs in manufacturing and other industries and lowered wages for some U.S. workers. All in all, would you say that the U.S. has...." No answer responses are not shown.  
Source: Survey of U.S. adults conducted April 8-14, 2024.

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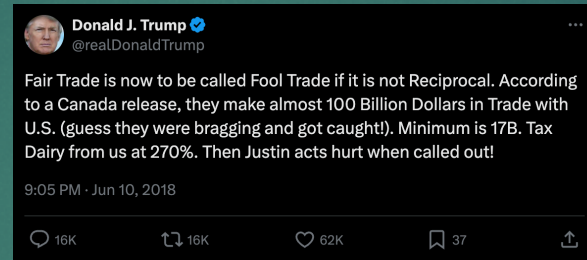


# 10 Big Years of Change in Global Trade



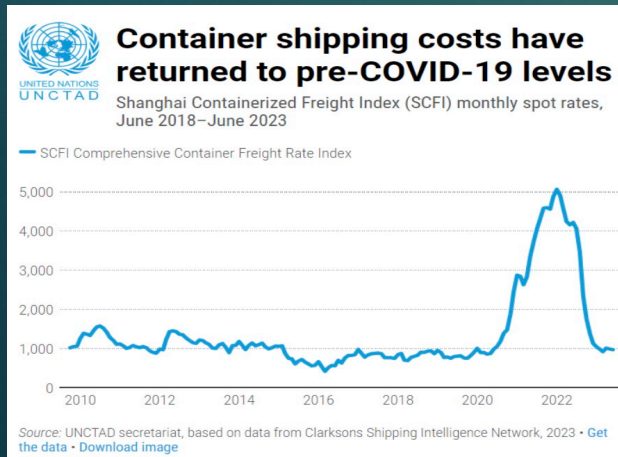
## ▶ Trans-Pacific Partnership

- ▶ 2014-2016 – Last multinational trade agreement discussion for US
- ▶ Trump pulled US out January 2017



## President Trump Elected

- 2016-2018 – Sec 301, 232, and 201 tariffs on steel/Chinese products
- 2018-2020 – Trade war with China
- December 2019 – Shuts down WTO Appellate body



## COVID-19

- 2020-2022 – Massive disruption to ports and shipping
- Spike in shipping rates leads to investments in ports/new ships
- New rationales for border closures tested – we'll see these again





# 10 Big Years of Change in Global Trade

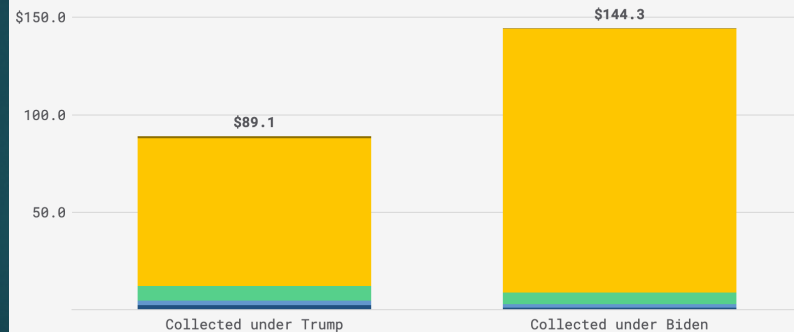
## ► President Biden Elected

- 2020-2024 – Campaigned against trade war/tariffs
- Largely left Trump trade policies intact w/ few exceptions

### More Trade War Tariffs Have Been Collected under Biden than Trump

Total Duties Assessed under Section 201, Section 232, and Section 301 Trade War Tariffs, in Billions

■ Sec 201 Washing Machines ■ Sec 201 Solar ■ Sec 232 Aluminum ■ Sec 232 Steel ■ Sec 301 China ■ Sec 301 EU



Source: Tax Foundation calculations based on US Customs and Border Protection, "Trade Statistics."

[Get the data](#)

TAX FOUNDATION

## Russian Invasion of Ukraine

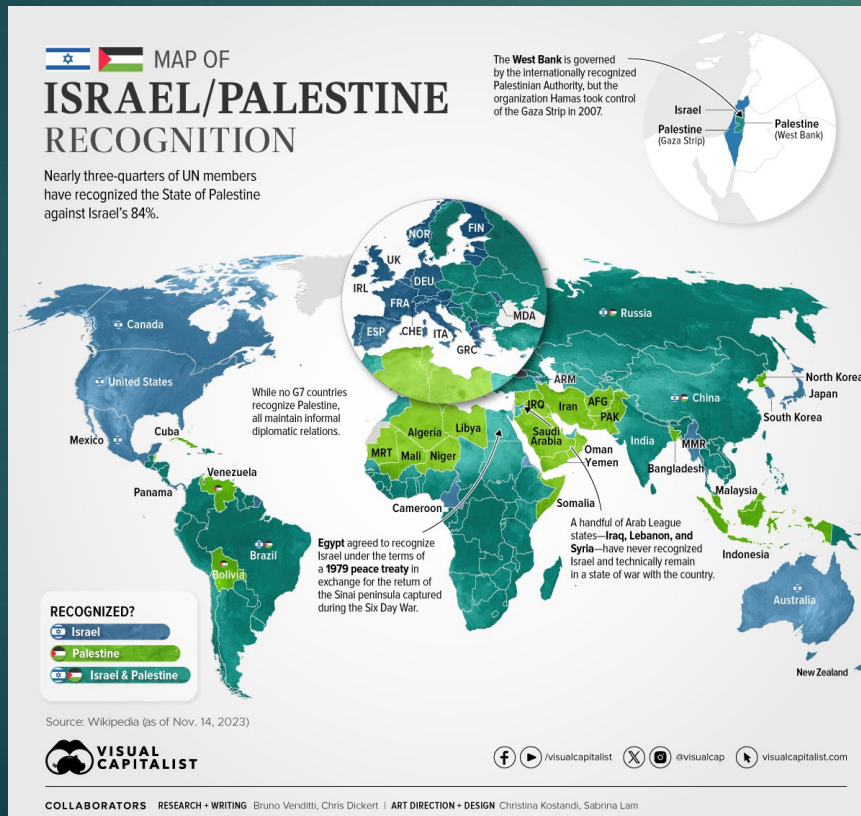
2022 – Ongoing – Global energy supplies rocked

- Sanctions force Russian trade to black/grey market
- Business/Financial sanctions used 'surgically' on individuals
- Black Sea trade crippled
- Trade Bloc realignment





- Potential spillover to broader Middle East
- New tactic in asymmetric warfare – won't be the last time we see it





# 10 Big Years in Global Trade

- ▶ "Global Regulations" coming into effect
  - ▶ 2023 – CBAM (Carbon Border Adjustment Mechanism) in EU
  - ▶ 2020 – International Maritime Organization low sulfur fuel requirements
  - ▶ US Foreign Pollution Free bill – (Not passed) Import fees based on pollution intensity

**What you need to know about  
LOW SULPHUR IMO 2020 REGULATION**

As of January 1<sup>st</sup>, 2020, the Sulphur in fuel oil must be reduced to 0,50 from 3,50% for all sea-going vessels worldwide

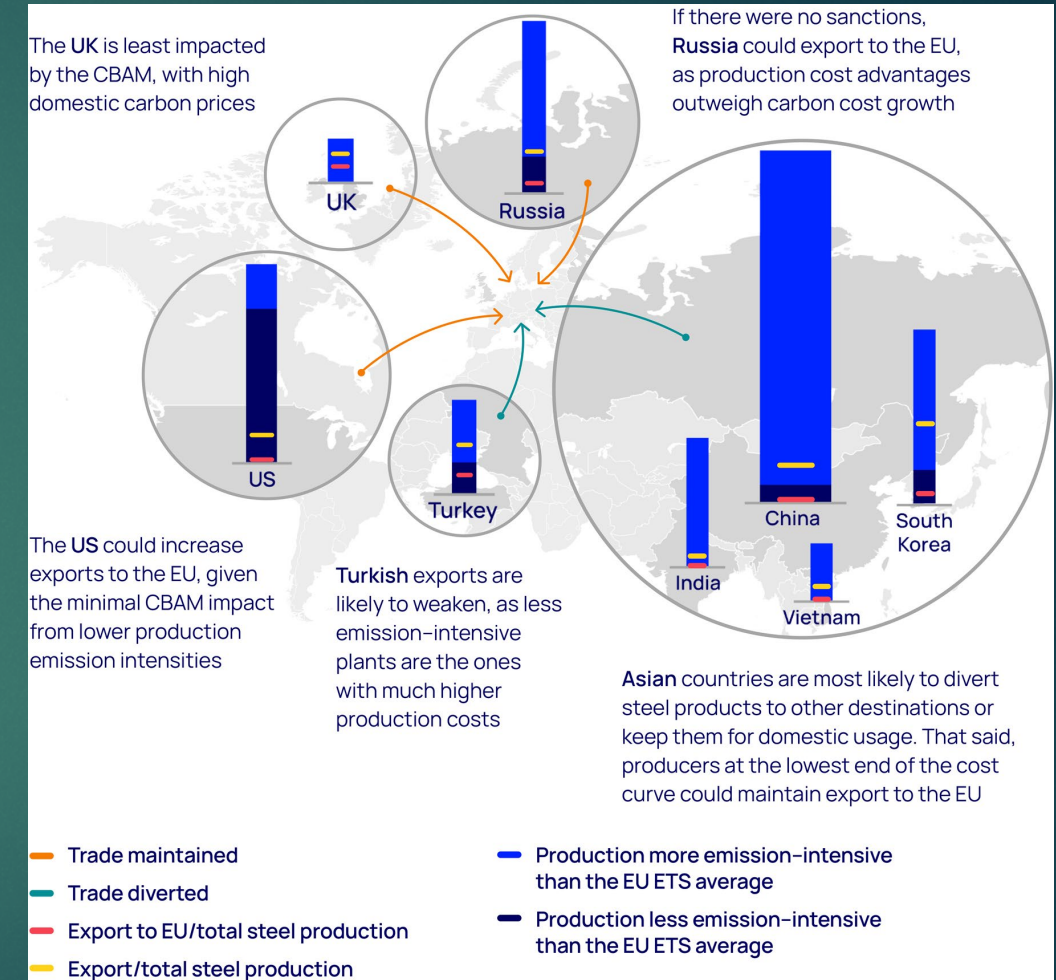
**What does it mean?**

-  Favor of the public health & the environment
-  Reduce average Sulphur emissions worldwide by 85% and improving air quality
-  Major cost impact on the industry
-  One more step towards a sustainable shipping industry



**How can we apply this new regulation?**

-  Switch to compliant fuels with lower Sulphur contents
-  Install Advanced Air Quality Systems onboard our vessels
-  Use LNG-Powered vessels





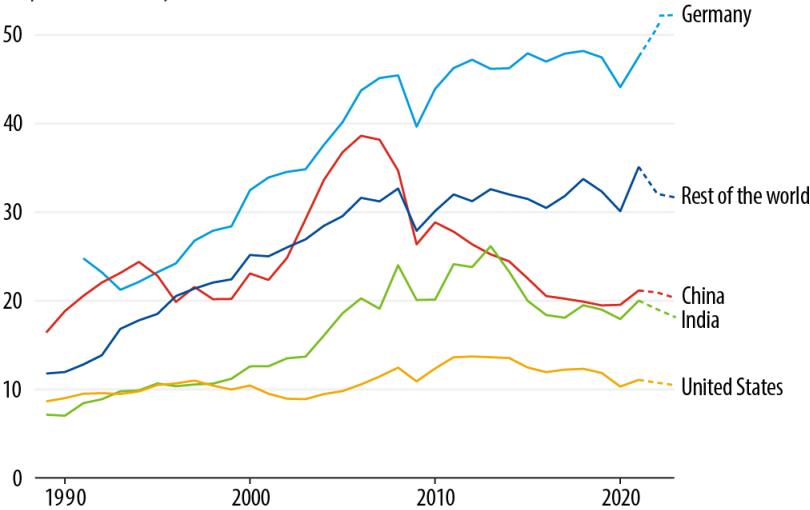
And that brings us to today...

Chart 1

Diverse trade experiences

Trade as a share of GDP is falling in a number of major economies, especially China and India.

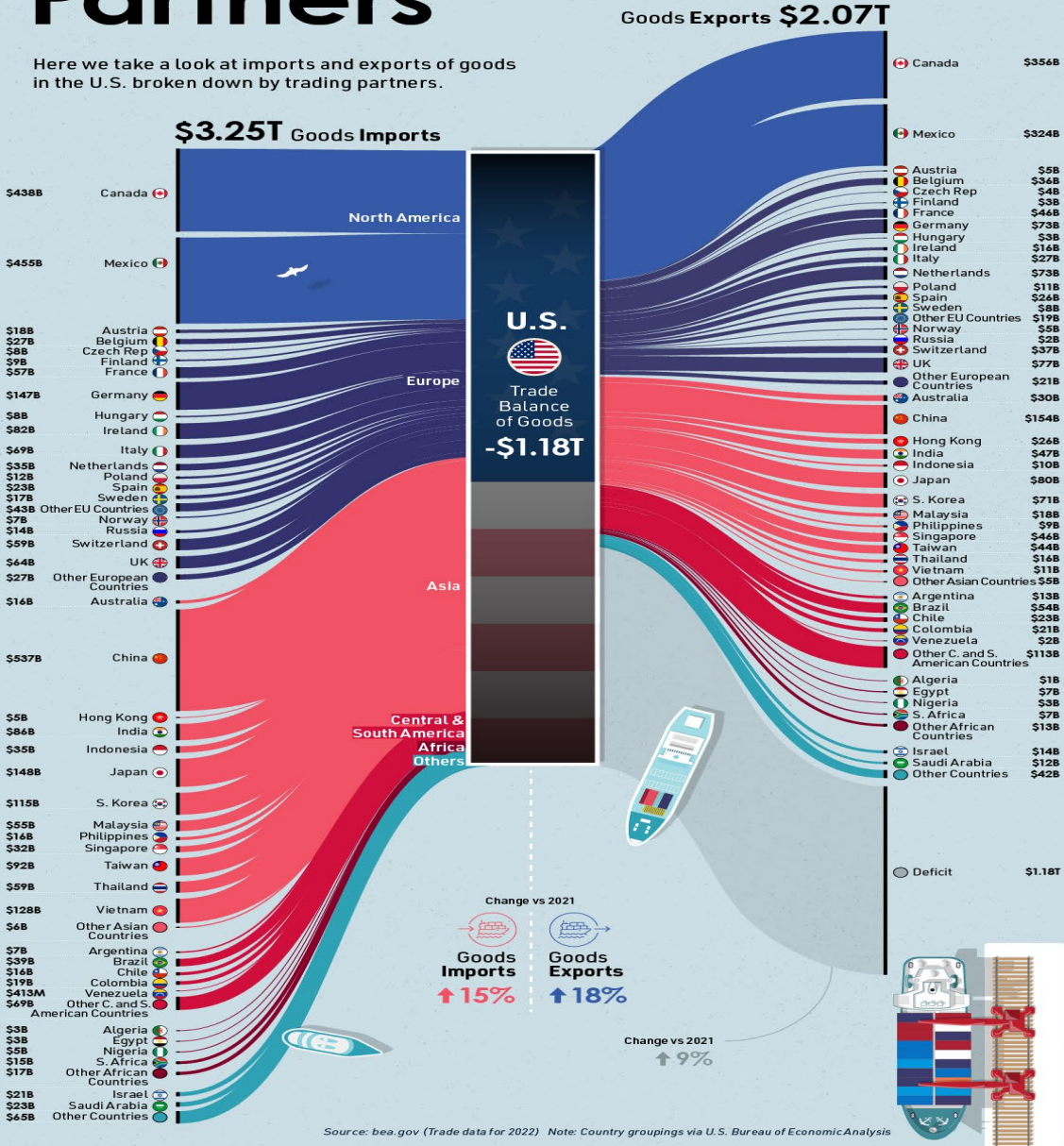
Exports of goods and services (as percent of country's GDP)



Source: Goldberg and Reed (2023a).

# America's Trading Partners

Here we take a look at imports and exports of goods in the U.S. broken down by trading partners.



Source: bea.gov (Trade data for 2022) Note: Country groupings via U.S. Bureau of Economic Analysis

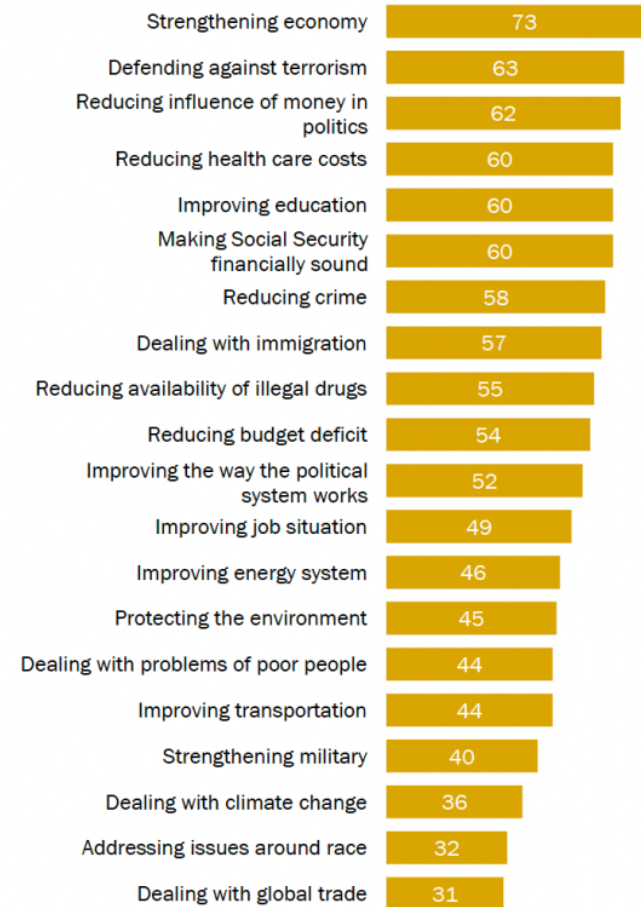


# Why isn't trade more important to the average voter?



## Americans' top policy priority this year? Strengthening the economy

% who say \_\_\_ should be a top priority for the president and Congress to address this year



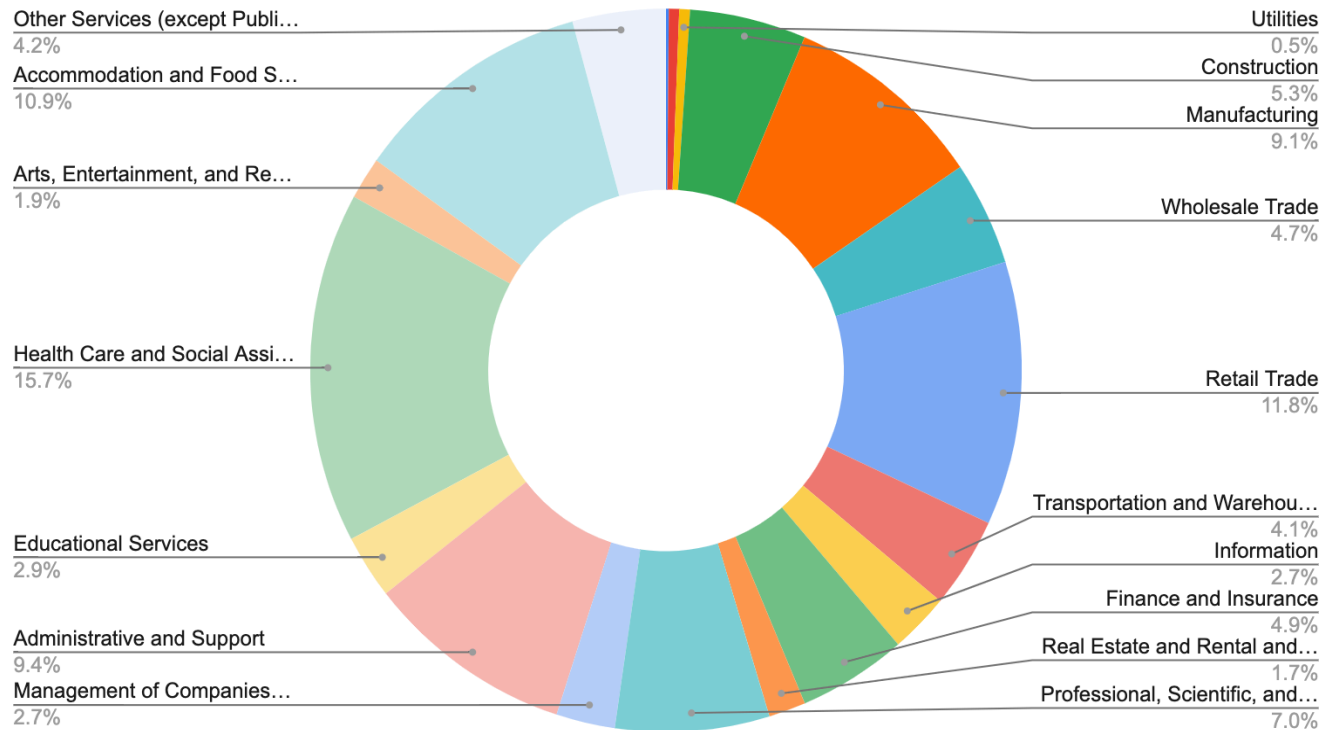
Source: Survey of U.S. adults conducted Jan. 16-21, 2024.

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# ...Few see their income supported by trade

% of Total Employees (USA)



## U.S. Imports & Exports

**IMPORTS** \$3.1 trillion

**EXPORTS** \$2.5 trillion



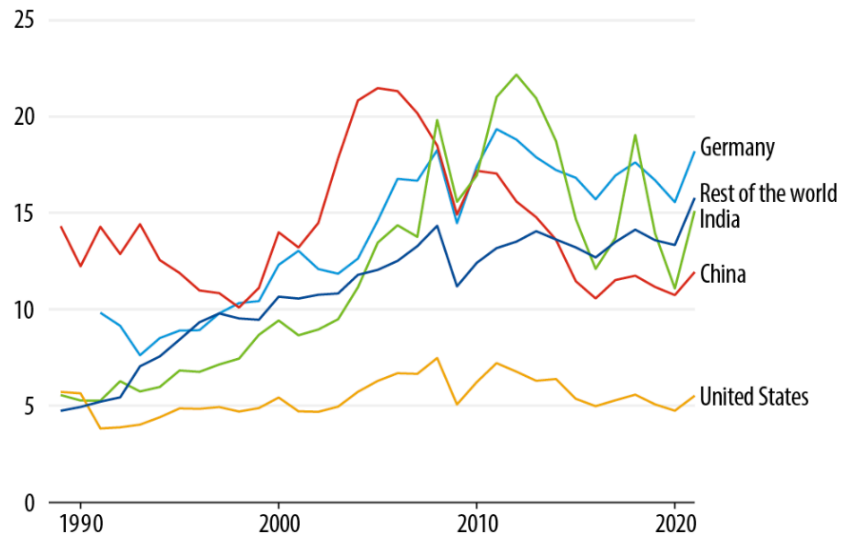
# And it matters less with 'reshoring'

Chart 2

## Intermediate imports

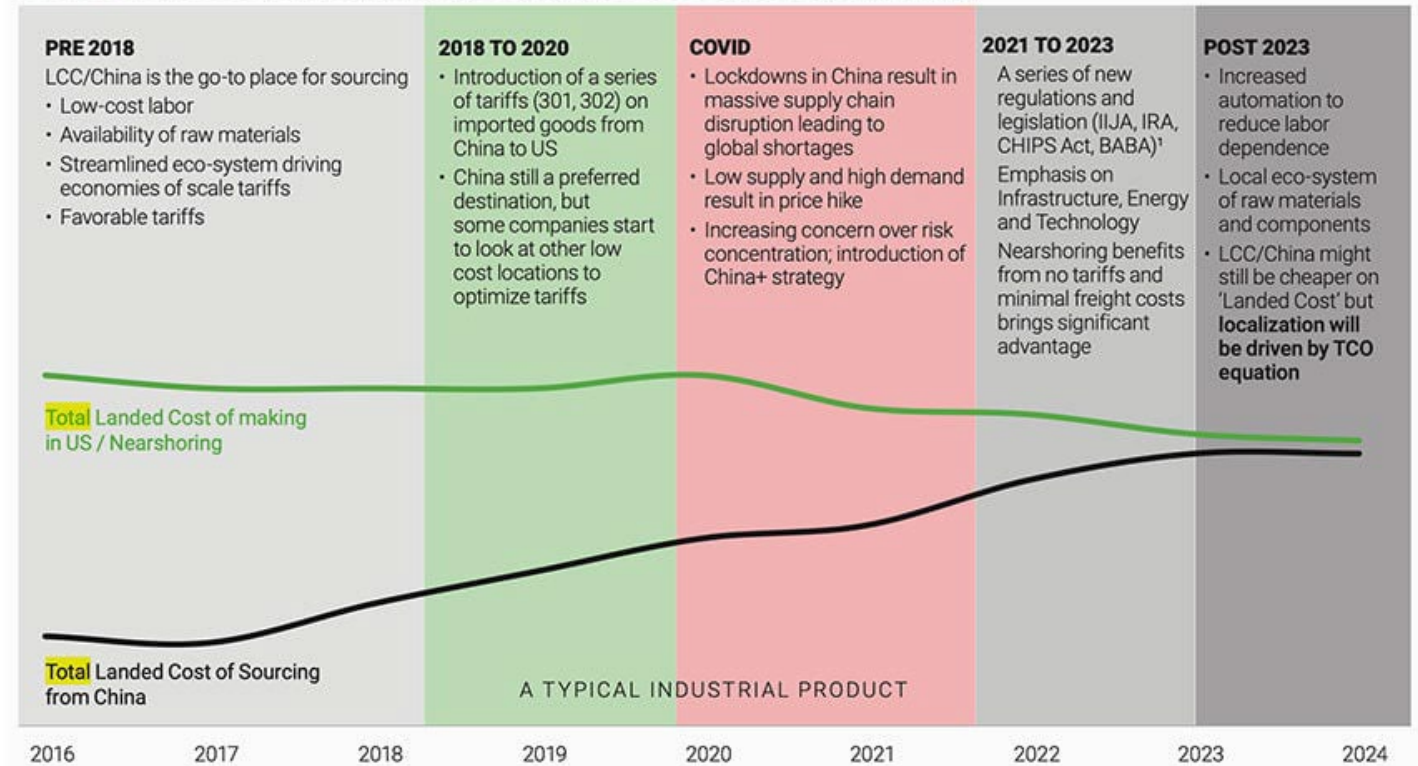
Imports of intermediate goods used in global manufacturing value chains continue to rise in many countries.

Intermediate goods imports  
(as percent of country's GDP)



Source: Goldberg and Reed (2023a).

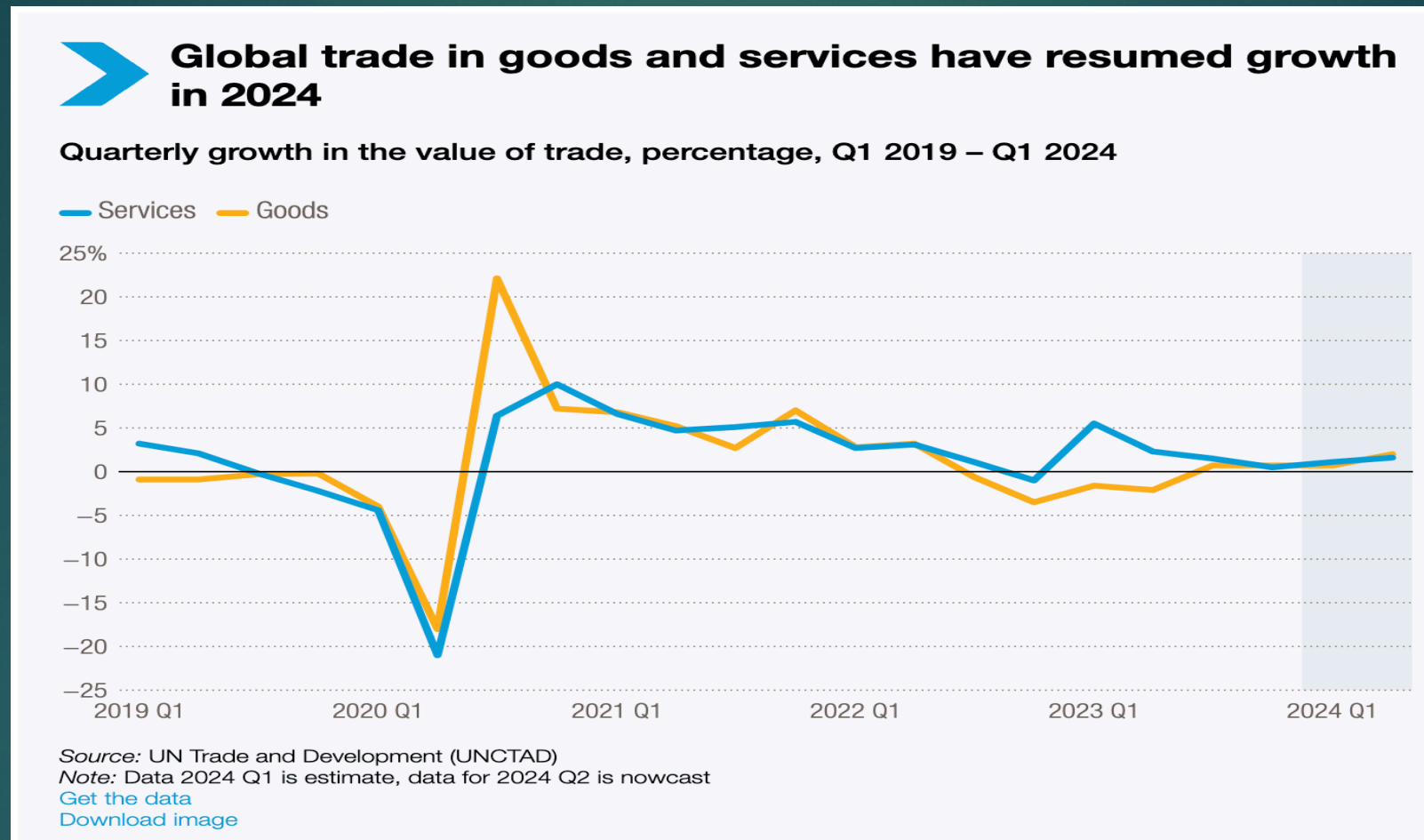
FIGURE 1: TCO CURVE OVER TIME (US NEARSHORING VERSUS LCC/CHINA)



Inflation Reduction Act, Infrastructure Investment Act, and CHIPS act all accelerate reshoring through credits/tariffs



# So here we are...

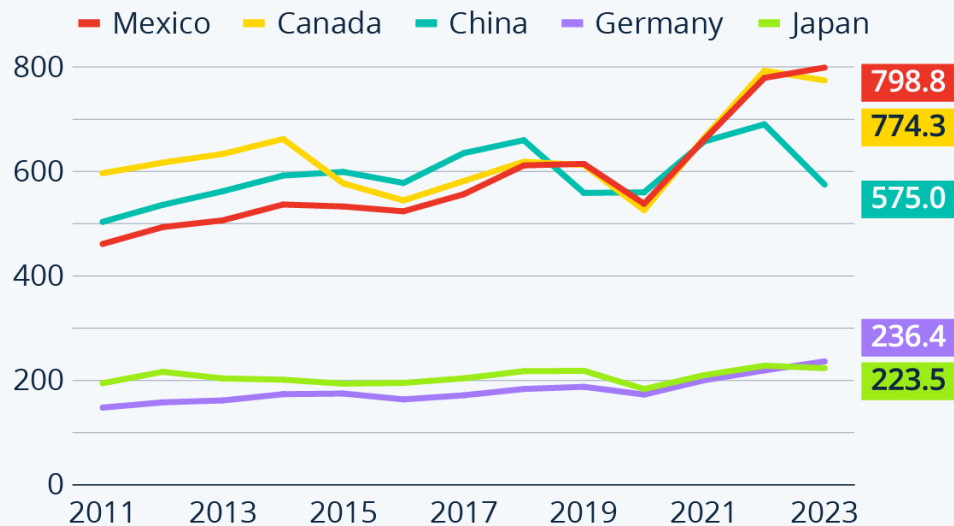


## ... But what comes next?

# Let's check the backyard

## U.S. Trade With Mexico Surges to No. 1 Position

Volume of goods trade with the biggest trading partners of the U.S. (in billion U.S. dollars)



Imports plus exports  
Source: U.S. Census Bureau



statista

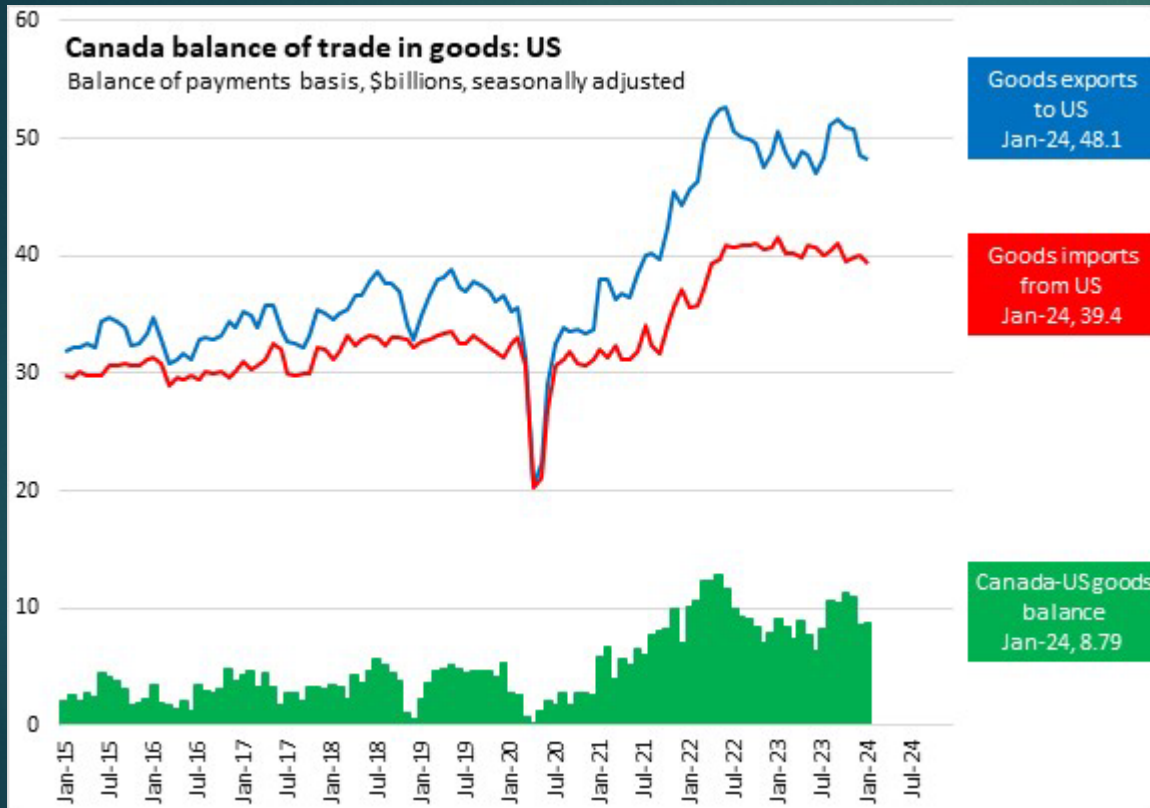
Surging Peso valuation in 2023 helped Mexico move in to first place



...Though it took a hit following their election



# And Canada...



## United States-Mexico-Canada Agreement

The United States-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020. The USMCA, which substituted the North America Free Trade Agreement (NAFTA) is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. The Agreement creates more balanced, reciprocal trade supporting high-paying jobs for Americans and grow the North American economy.

Agreement highlights include:

- Creating a more level playing field for American workers, including improved rules of origin for automobiles, trucks, other products, and disciplines on currency manipulation.
- Benefiting American farmers, ranchers, and agribusinesses by modernizing and strengthening food and agriculture trade in North America.
- Supporting a 21st Century economy through new protections for U.S. intellectual property, and ensuring opportunities for trade in U.S. services.
- New chapters covering Digital Trade, Anticorruption, and Good Regulatory Practices, as well as a chapter devoted to ensuring that Small and Medium Sized Enterprises benefit from the Agreement.

To view the full text of the agreement between the United States, Mexico and Canada, click [here](#).

To view the main USMCA webpage, click [here](#).



# Concerns for North America ahead

- ▶ Immigration – This will be a hot topic all election cycle and through the next administration. Border closures/lockdowns, increased border inspections, and pushback from Mexican policymakers make this a wildcard
- ▶ Dairy – US alleges Canada isn't upholding the USMCA in their dairy sector. Big disagreements about supply management in that industry and how to address it.
- ▶ Corn – Mexico's former President AMLO threatened to block GMO corn imports from the US, but new administration dropped the threat
- ▶ Carbon – Canadian leaders are exploring a "Border Carbon Adjustment" (carbon tax) that would hit imported products (like CBAM)





# But what about China?

- Biden USTR recently completed an update on the Trump 301 tariffs and added new covered categories

TABLE 1  
Proposed Section 301 tariffs and enactment period

Product	Year	Current tariff level	Proposed tariff level
Battery parts (non-lithium-ion batteries)	2024	7.5%	25%
Electric vehicles	2024	25%	100%
Face masks	2024	0-7.5%	25%
Lithium-ion electrical vehicle batteries	2024	7.5%	25%
Solar cells	2024	25%	50%
Steel and aluminum products	2024	0-7.5%	25%
Syringes and needles	2024	0%	50%
Ship-to-shore cranes	2024	0%	25%
Other critical minerals	2024	0%	25%
Semiconductors	2025	25%	50%
Lithium-ion non-electrical vehicle batteries	2026	7.5%	25%
Medical gloves	2026	7.5%	25%
Natural graphite	2026	0%	25%
Permanent magnets	2026	0%	25%

Source: White House

On May 22, USTR published the list of trade codes subject to increased tariffs. In 2023, the US imported \$18.1 billion worth of these goods (see Figure 1). The largest product category is non-EV lithium-ion batteries (\$10.8 billion, 59% of total), followed by semiconductors (\$2.32 billion, 12.8% of total) and lithium-ion batteries for EVs (\$2.29 billion, 12.6% of total).

Screenshot

## CHAPTER FIVE: PROTECT AMERICAN WORKERS AND FARMERS FROM UNFAIR TRADE

### Our Commitment:

The Republican Party stands for a patriotic "America First" Economic Policy. Republicans offer a robust plan to protect American Workers, Farmers, and Industries from unfair Foreign Competition. We commit to rebalancing Trade, securing Strategic Independence, and revitalizing Manufacturing. We will prioritize Domestic Production, and ensure National Independence in essential goods and services. Together, we will build a Strong, Self-reliant, and Prosperous America.

#### 1. Rebalance Trade

Our Trade deficit in goods has grown to over \$1 Trillion Dollars a year. Republicans will support baseline Tariffs on Foreign-made goods, pass the Trump Reciprocal Trade Act, and respond to unfair Trading practices. As Tariffs on Foreign Producers go up, Taxes on American Workers, Families, and Businesses can come down.

#### 2. Secure Strategic Independence from China

Republicans will revoke China's Most Favored Nation status, phase out imports of essential goods, and stop China from buying American Real Estate and Industries.

#### 3. Save the American Auto Industry

Republicans will revive the U.S. Auto Industry by reversing harmful Regulations, canceling Biden's Electric Vehicle and other Mandates, and preventing the importation of Chinese vehicles.

#### 4. Bring Home Critical Supply Chains

Republicans will bring critical Supply Chains back to the U.S., ensuring National Security and Economic Stability, while also creating Jobs and raising Wages for American Workers.

#### 5. Buy American and Hire American

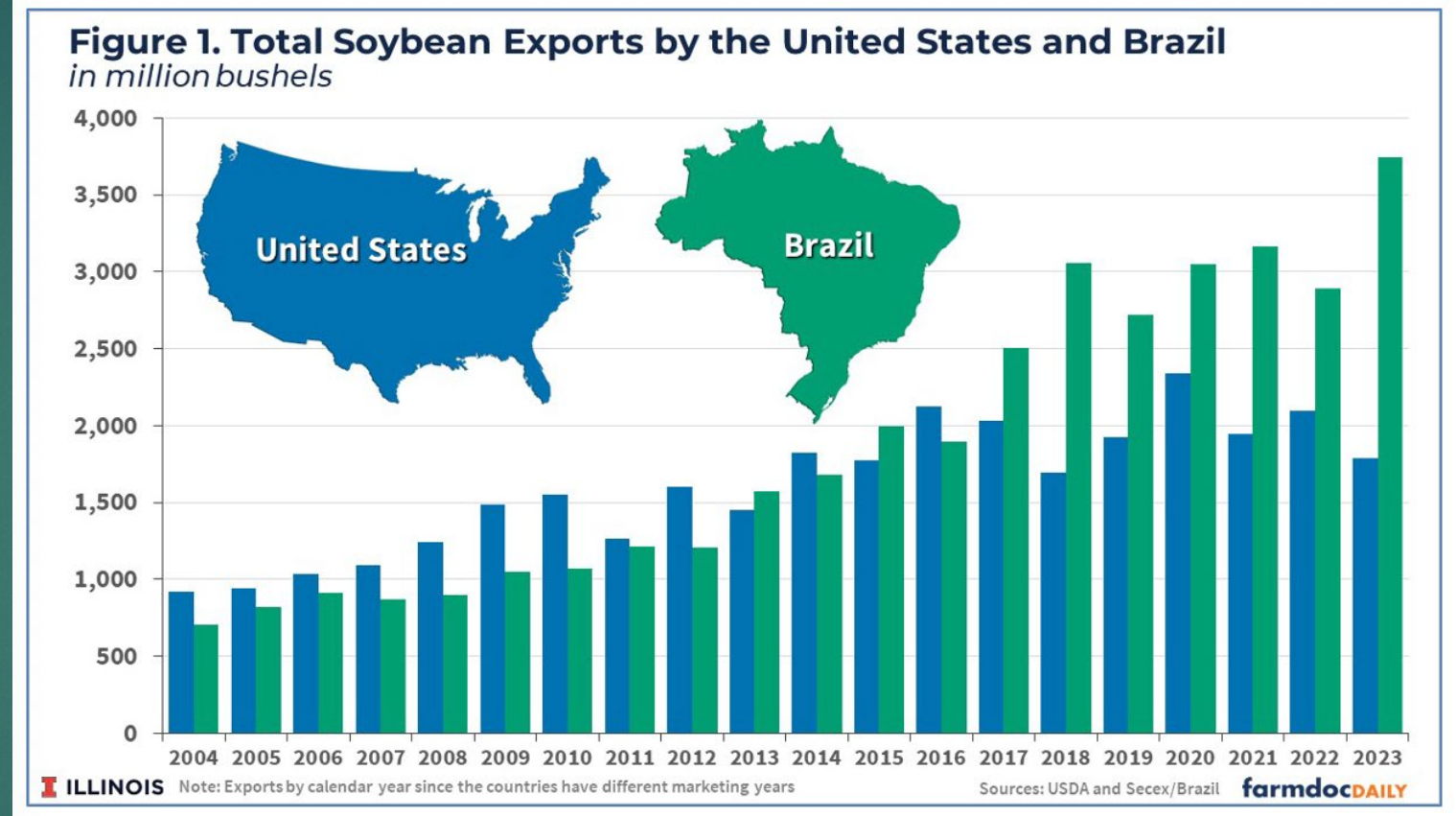
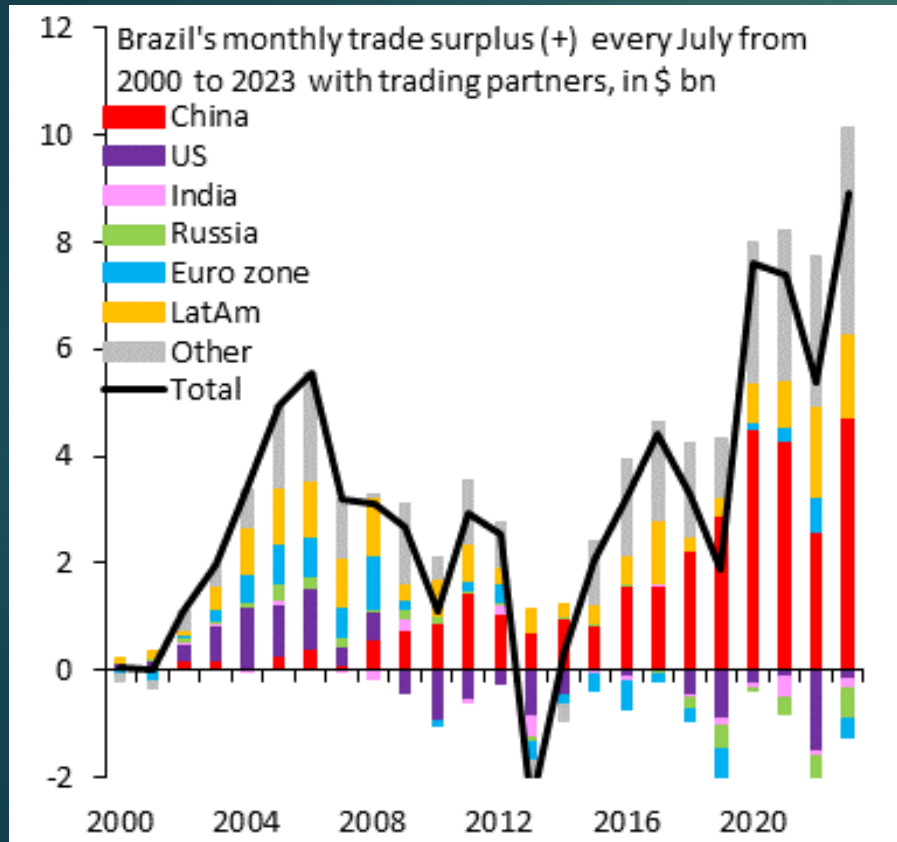
Republicans will strengthen Buy American and Hire American Policies, banning companies that outsource jobs from doing business with the Federal Government.

#### 6. Become the Manufacturing Superpower

By protecting American Workers from unfair Foreign Competition and unleashing American Energy, Republicans will restore American Manufacturing, creating Jobs, Wealth, and Investment.

## 2024 Republican Party Platform

# Who gains as the US backs away from China?

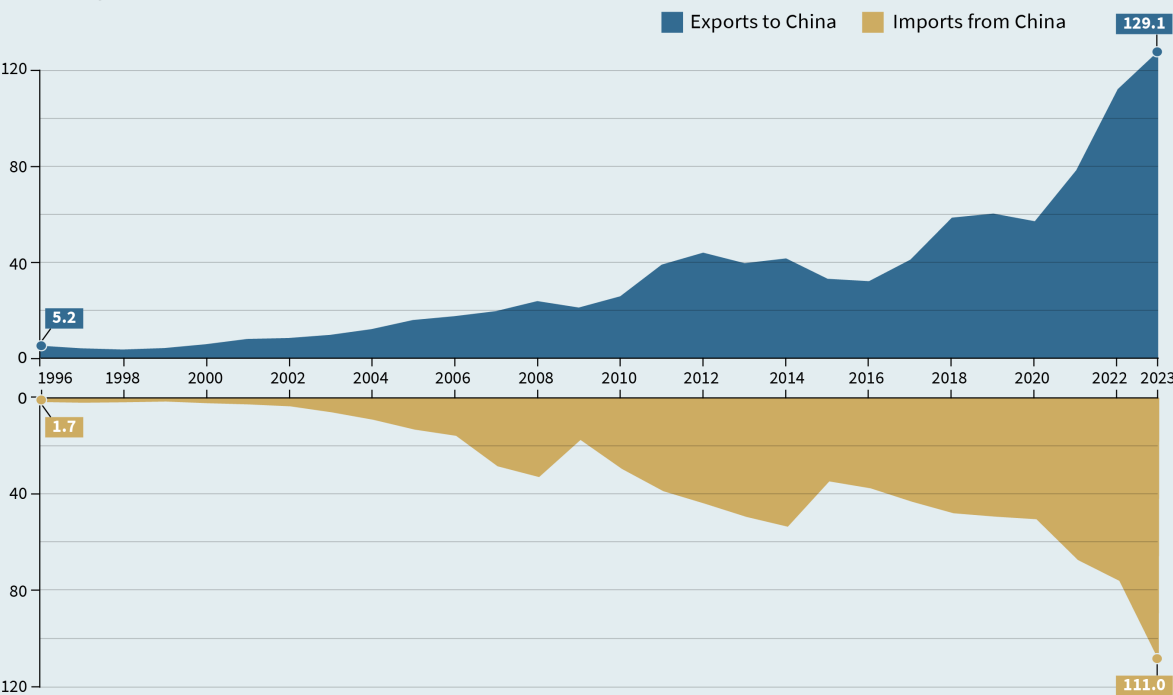


For commodities, Brazil has been the big winner so far. Beginning with the trade war in 2018, China and Brazil began to normalize ag trade; with China reducing or eliminating many of the roadblocks that kept Brazilian products out of the country.



# Russia and China form stronger links

Russian goods trade with China  
In billions of U.S. dollars



Source: IMF © 2024 Stiftung Wissenschaft und Politik (SWP)

## Exports from China to Russia, 10 largest categories

Billions of US Dollars

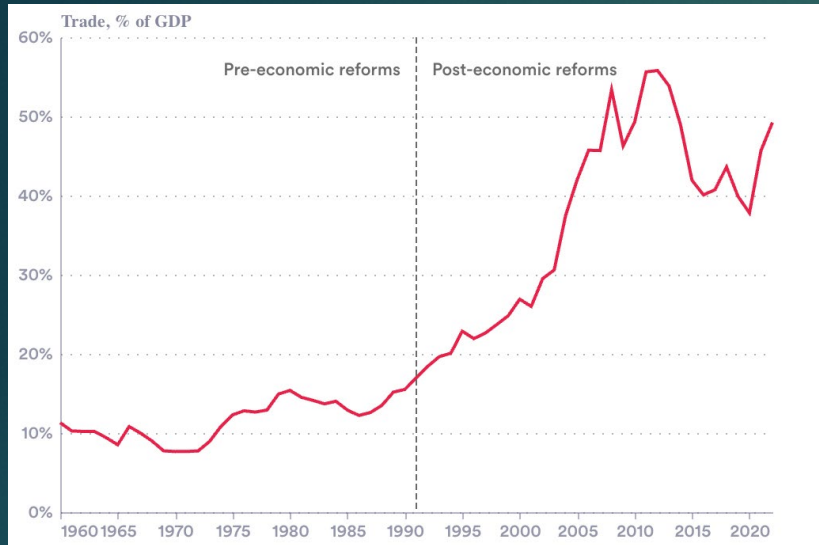
Category	2021	2022 (growth YoY)	2023 (growth YoY)
Computers, construction equipment, machinery	14.7	16.8 +14.4%	25.2 +50.4%
Vehicles and parts	4.3	6.3 +47.2%	22.5 +258.4%
Smartphones, monitors, home appliances	14	13.2 -6.1%	17 +29%
Footwear	2.7	3.7 +36.2%	4.4 +20.1%
Optical instruments, cameras	2.4	2.4 +2.8%	3.4 +39.2%
Plastics	1.89	1.9 +0.75%	2.9 +51.35%
Cast iron and steel products	2.2	1.87 -17.9%	2.6 +41.67%
Organic chemicals	2.1	3.2 +54.6%	2.6 -23.85%
Rubber and rubber products	0.9	1.5 +79.6%	2.3 +46%
Apparel	1.4	1.5 +2.15%	1.8 +23.6%

Total	2021	2022	2023
	67.2	75.5 +12.4%	111 +47%

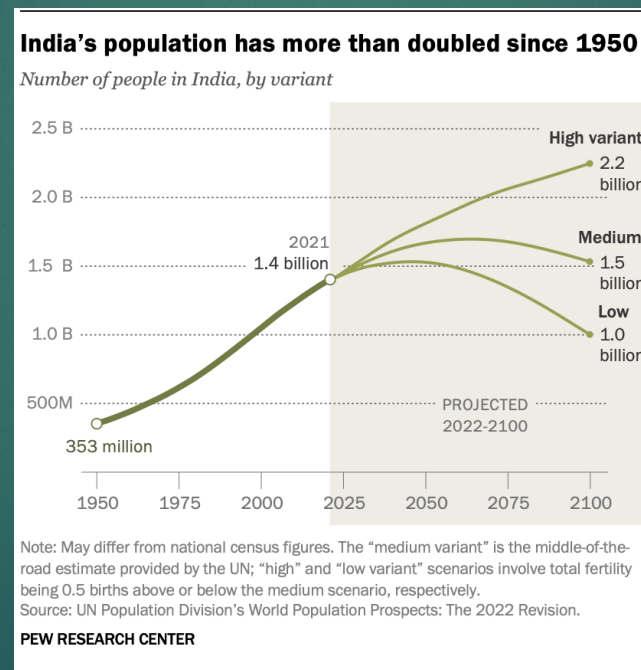
Source: General Administration of Customs of China

THE BELL.

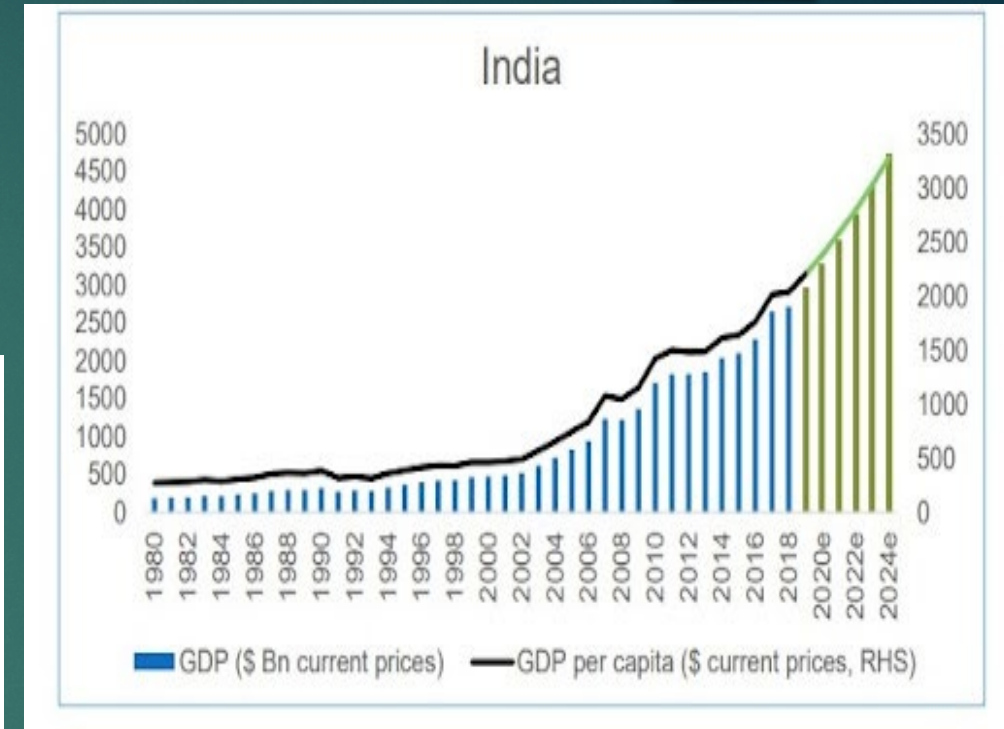
# Is India the 'next China'?



The Indian economy has been slowly opening to global trade for nearly 30 years...



Population continues to grow...



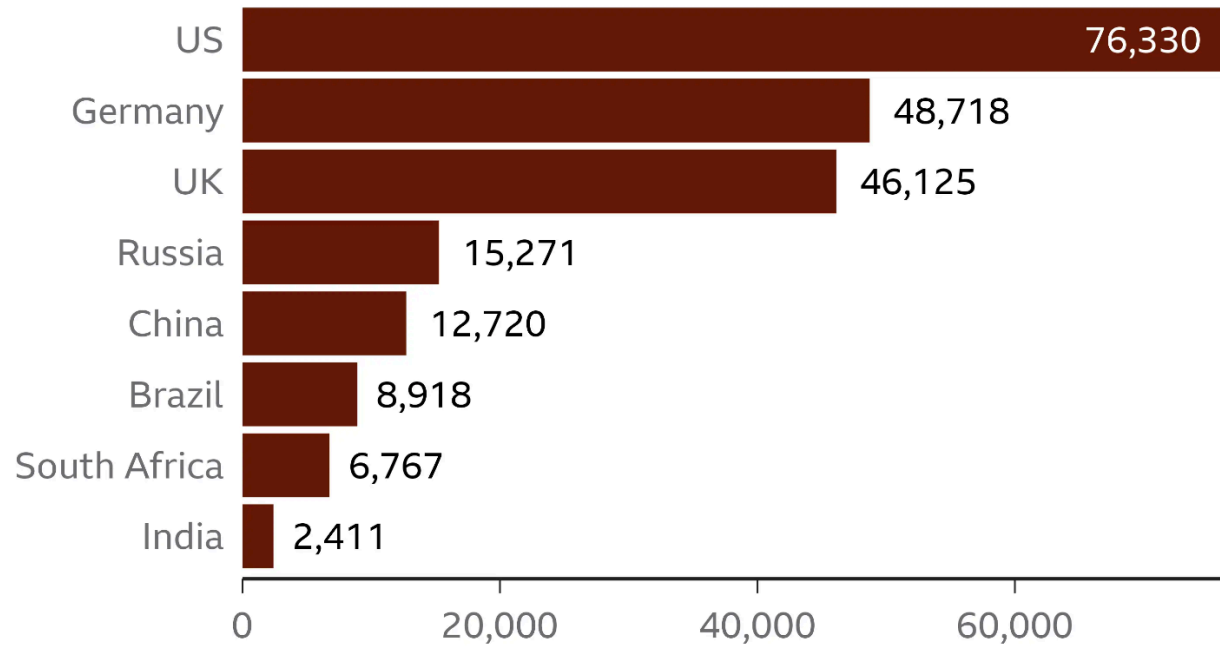
And GDP growth has been strong



# Is India the 'Next China'?

## GDP per capita of BRICS and selected countries

Values at current US\$



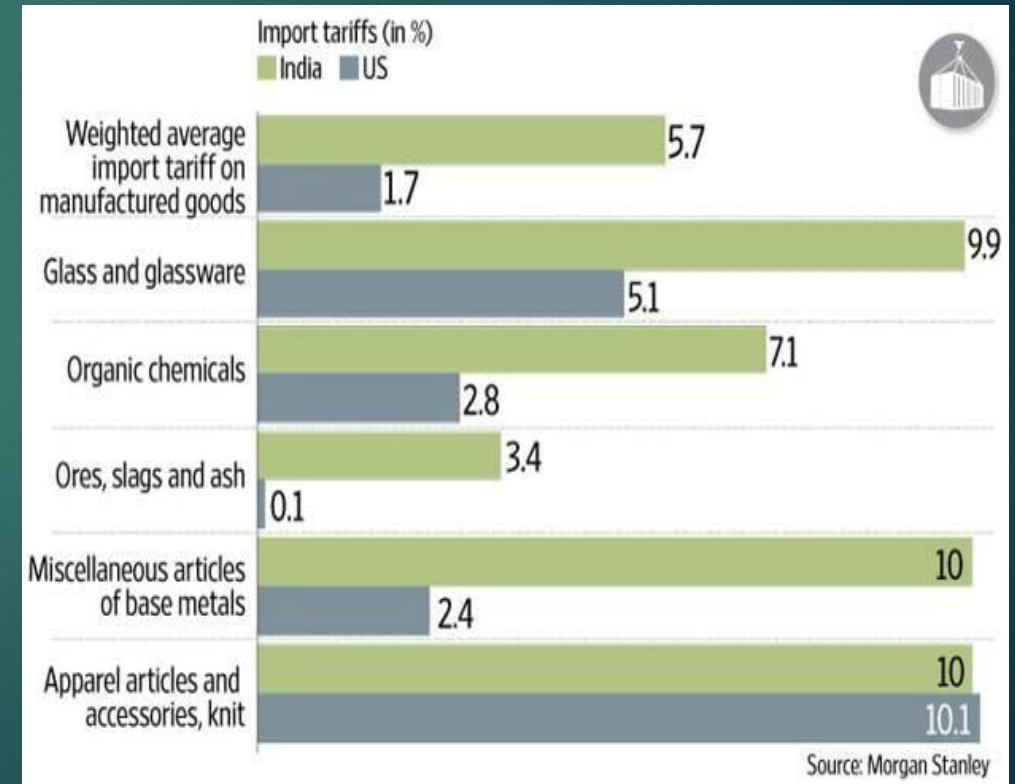
Source: World Bank

BBC

April 2024

Despite the rapid GDP growth, India is still a poor country

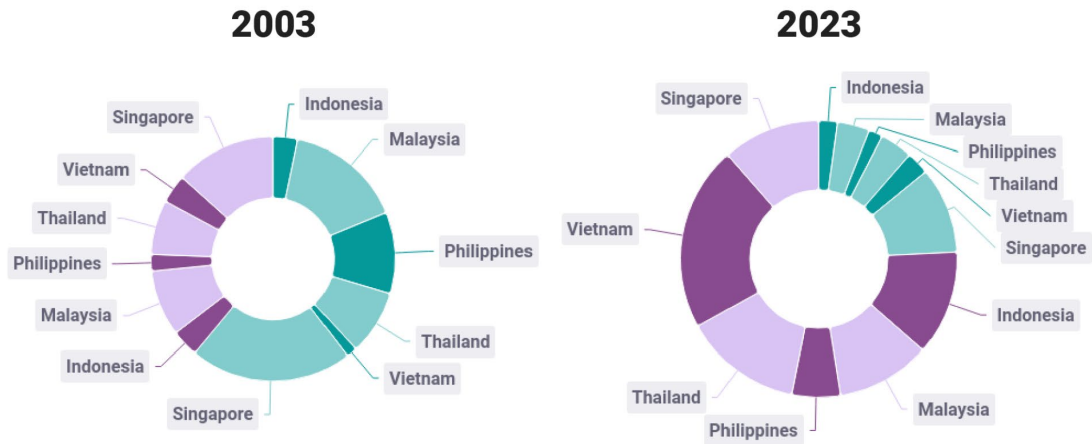
And it's still a highly protected economy through tariffs, which could slow reciprocal trade



# Opportunities elsewhere in the world

## ASEAN-6 Imports from China and the United States: 20 Years Apart

Purple shades indicated imports from China, green shades indicate imports from the United States



CEIC

- ▶ South East Asian nations (Association of South East Asian Nations – ASEAN) have been growing quickly with young populations

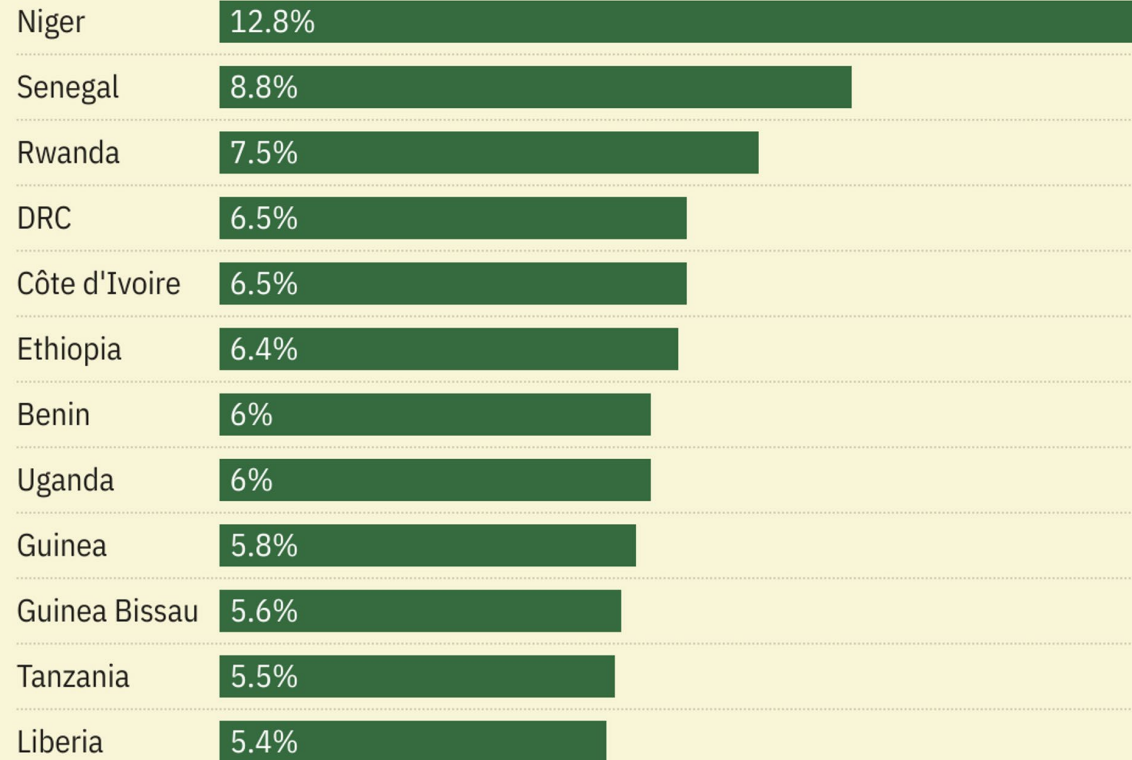




# Africa plays bigger role in global trade

## Africa's high growth economies

The largest growth in sub Saharan Africa in 2024 will be in West Africa



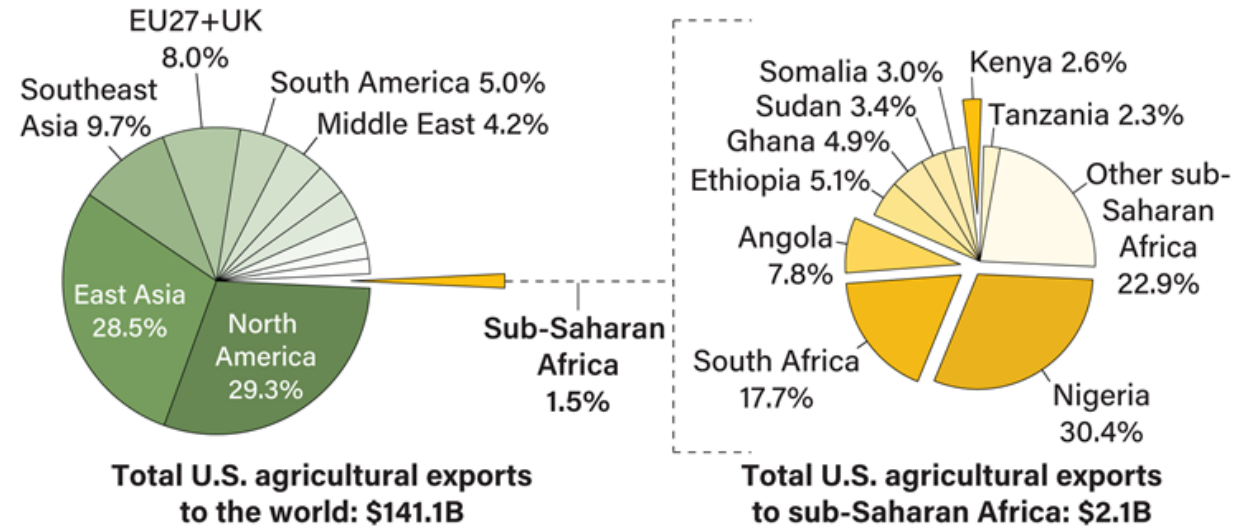
2023 data are estimates

Chart: Alexander Onukwue/Semafor • Source: World Bank



## Value share of U.S. exports to the world and sub-Saharan Africa by country, 2019

USDA Economic Research Service  
U.S. DEPARTMENT OF AGRICULTURE



Notes: "Other Sub-Saharan Africa" includes countries and territories with negligible U.S. market shares of U.S. agricultural exports. EU27+UK = the 27 member countries of the European Union and the United Kingdom.

Source: USDA, Economic Research Service using Global Agricultural Trade System.

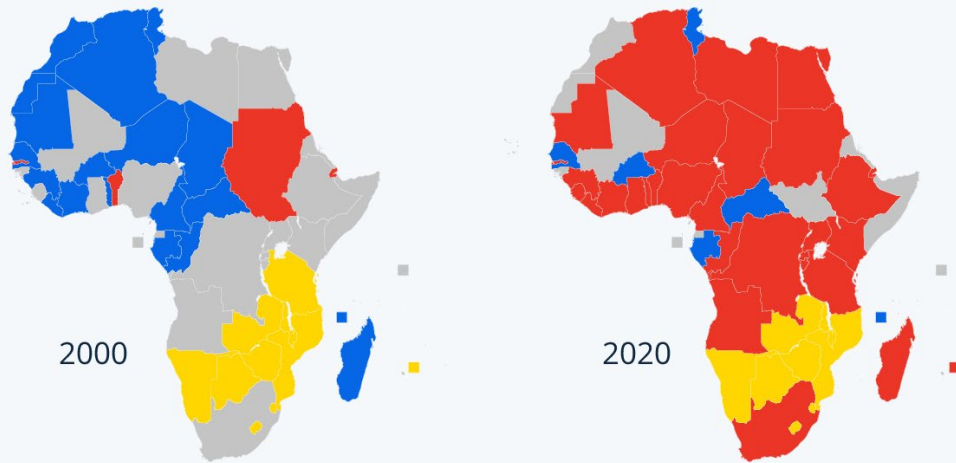
The US does have a reputation and a foothold in all of these countries

# But, China has been in Africa for 20 years

## China's African Trade Takeover

Top source country for imports in African countries\*

■ France ■ South Africa ■ China ■ Other



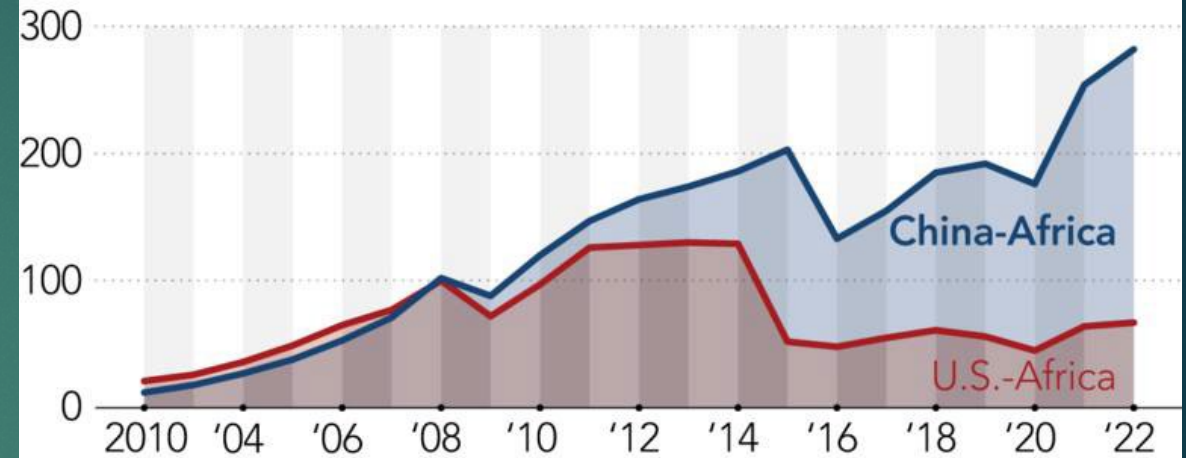
\* Based on value of imports. 2019 data for Angola, Cameroon, Côte d'Ivoire, Gabon, Libya, Somalia, and Sudan. South Sudan became independent from Sudan in 2011.  
Sources: OEC, World Bank, Statista research



statista

## Africa's trade with China surges

(Total trade, in billions of dollars)



Source: U.N. Comtrade

Perceptions of China in Africa | 36 countries | 2014/2015

## China ranks 2nd

- as a development model (after the U.S.)
- as greatest external influence (after the former colonial powers)

China is a "somewhat" or "very" positive influence in their country:

**63%**

(average all countries)

Top factors contributing to:

• a **positive**

Image of China:  
Investments in infrastructure and business development

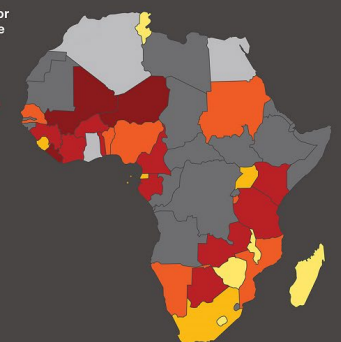


• a **negative**

Image of China:  
Poor quality of products

Key

- 31 - 40%
- 41 - 50%
- 51 - 60%
- 61 - 70%
- 71 - 80%
- >80%



AFRIBAROMETER

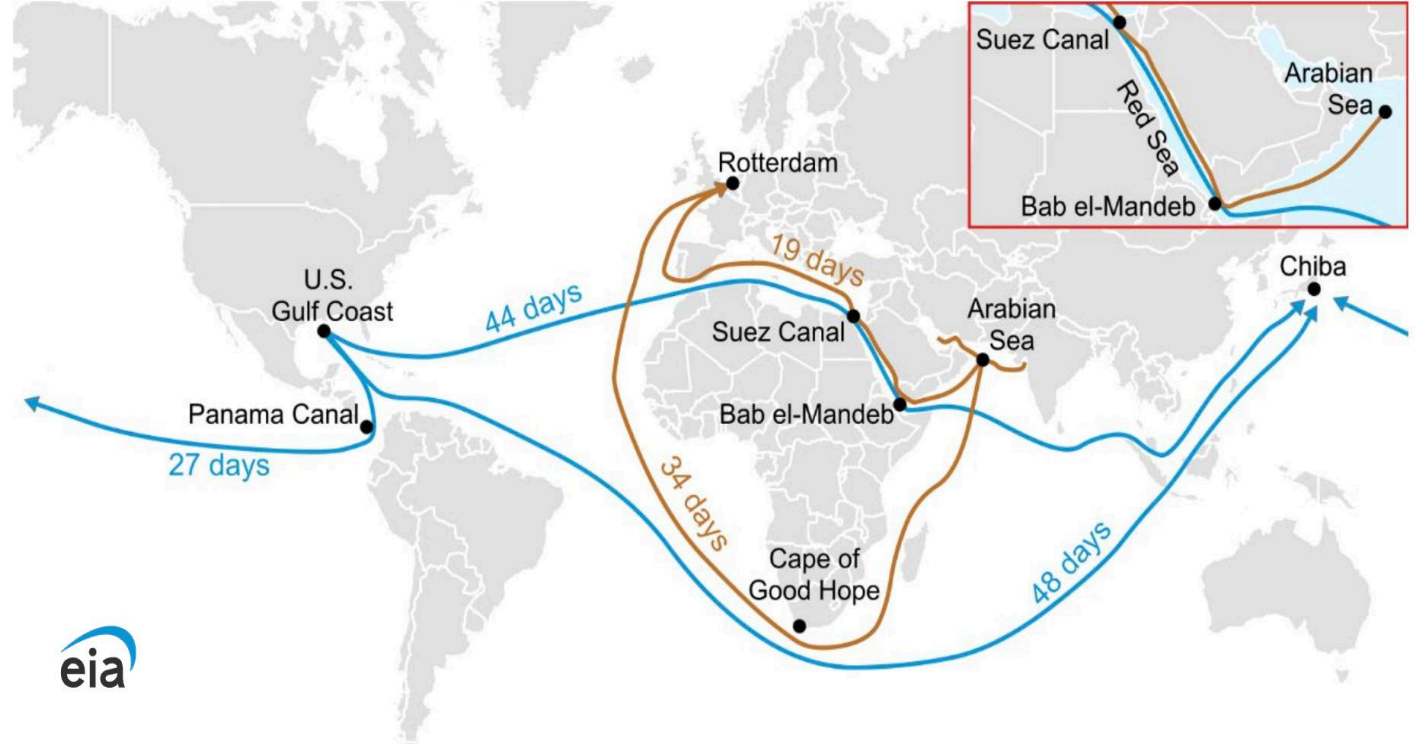


# Wildcards



- ▶ Non-State Actors
- ▶ Houthi rebels attacking commercial shipping highlights an unexpected weakness in global trade
- ▶ 70 attacks so far, 1 ship captured, 2 sunk – one this week
- ▶ Insurance rates for all shippers jumped, and restrictions pushed many vessels out of the Red Sea

Selected commercial shipping routes, as of January 2024



**Data source:** U.S. Energy Information Administration using calculations from Vortexa

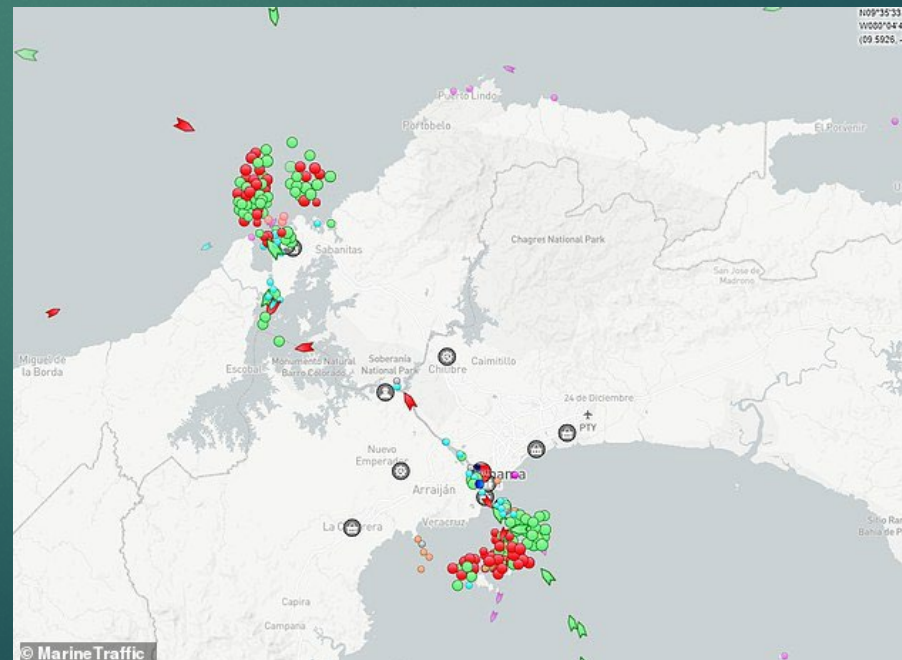
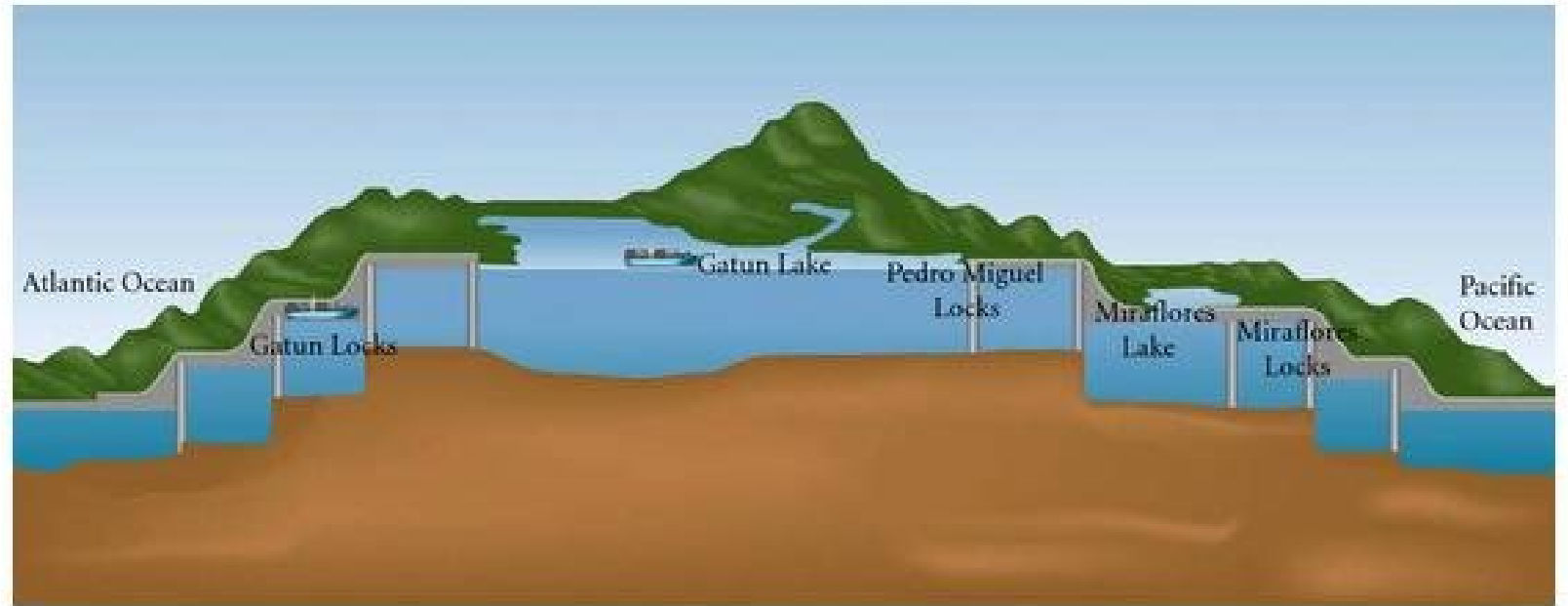
**Note:** Voyage time is calculated for laden Suezmax tankers traveling at 14 knots without extended chokepoint delays.

# Wildcards

## ► Weather

- The last several years have seen reduced shipping through the Panama Canal as droughts have limited their water supply to operate the locks

- Recently PCA announced a return to full tonnage... for now



200 ships waiting to pass the Canal last August



## More trouble ahead for the Panama Canal





# Wildcards

## Five beneficial changes from IMO's Sulphur Limit for ships' fuel oil

# Sulphur 2020

### Cleaner air

77% drop in overall sulphur oxide (SOx) emissions from ships – annual reduction of approximately 8.5 million metric tonnes of SOx

### Positive impacts on human health

Premature deaths, cardiovascular, respiratory and pulmonary diseases will all be reduced

### Higher quality fuels

The majority of ships will switch to higher quality, low sulphur fuel oil to meet the limit.

### Ship operators, owners + refineries have adapted

Guidance issued by IMO and other stakeholders to enhance preparedness ahead of the entry into force of Sulphur 2020

### Changes for enforcement authorities

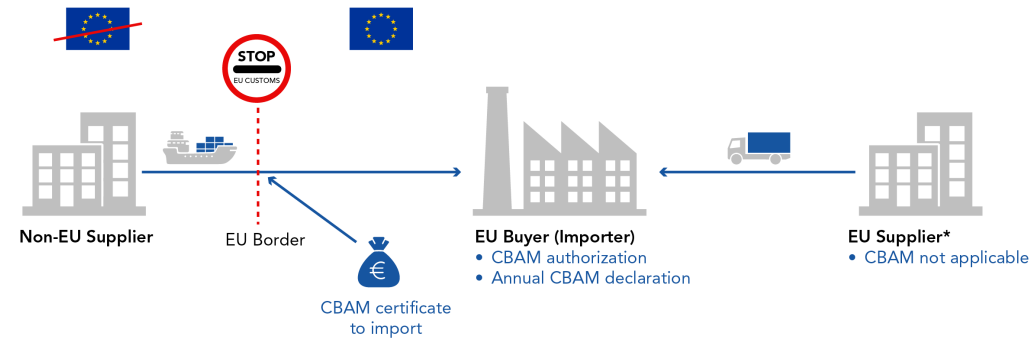
Flag and port State control will be making sure ships are compliant.



## IMO 2020- Reducing sulfur in heavy shipping fuel

- New investments in vessels/power
- Older non-compliant vessels moved to grey market work
- Increased inspections
- Raised costs on new ships and fuel

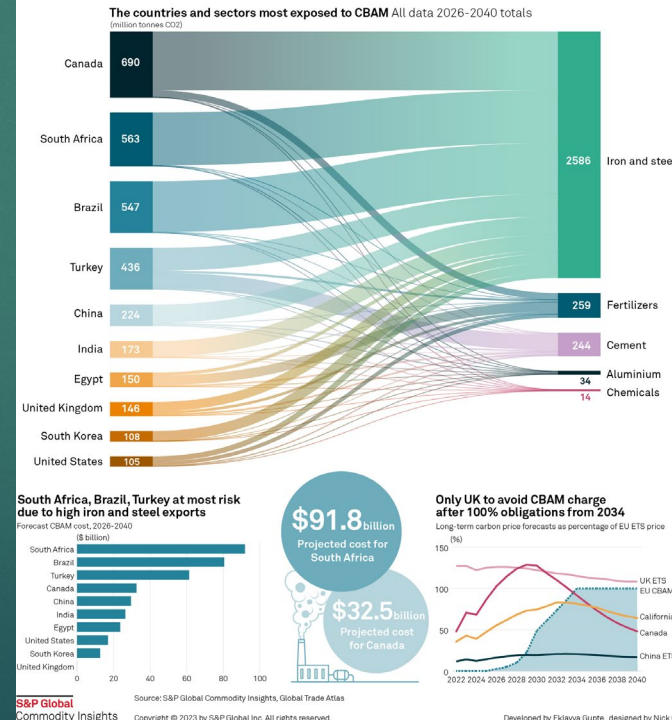
## EU Carbon Border Adjustment Mechanism simplified illustration



\* Including goods originating from Iceland, Liechtenstein, Norway, and Switzerland  
Source: The Conference Board, 2022

## Developing economies hit hardest by EU's carbon border tax

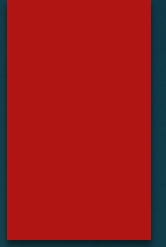
The EU's Carbon Border Adjustment Mechanism is set to have far-reaching impacts on world trade and the wider energy transition. Phasing in from 2026, CBAM will levy a carbon tax on imports of selected energy-intensive materials and products into the EU, removing the gap between the EU's ETS carbon price and the export country's carbon price. Analysis by S&P Global Commodity Insights shows Canada, Brazil, South Africa and Turkey will be most exposed to the mechanism, with iron and steel by far the biggest sector targeted.



Carbon Adjustments – EU CBAM likely the model for future policies to regulate import of 'dirty' products from other countries (US/Canada)



# What to Expect on the Path Ahead?



- Rapidly Changing Trade Policies as politicians respond to real-time polling
- Multi-lateral negotiations remain stalled regardless of November's outcome
- Reshoring – how can we build demand/add value in the US?
- Watch for changes to the WTO – w/o appellate body, what's the point?
- Expect higher costs – that's the goal of protectionism; higher returns for American businesses
- Agriculture will continually be a retaliation target early and often





THANK YOU!

Questions? Comments?

Email me:

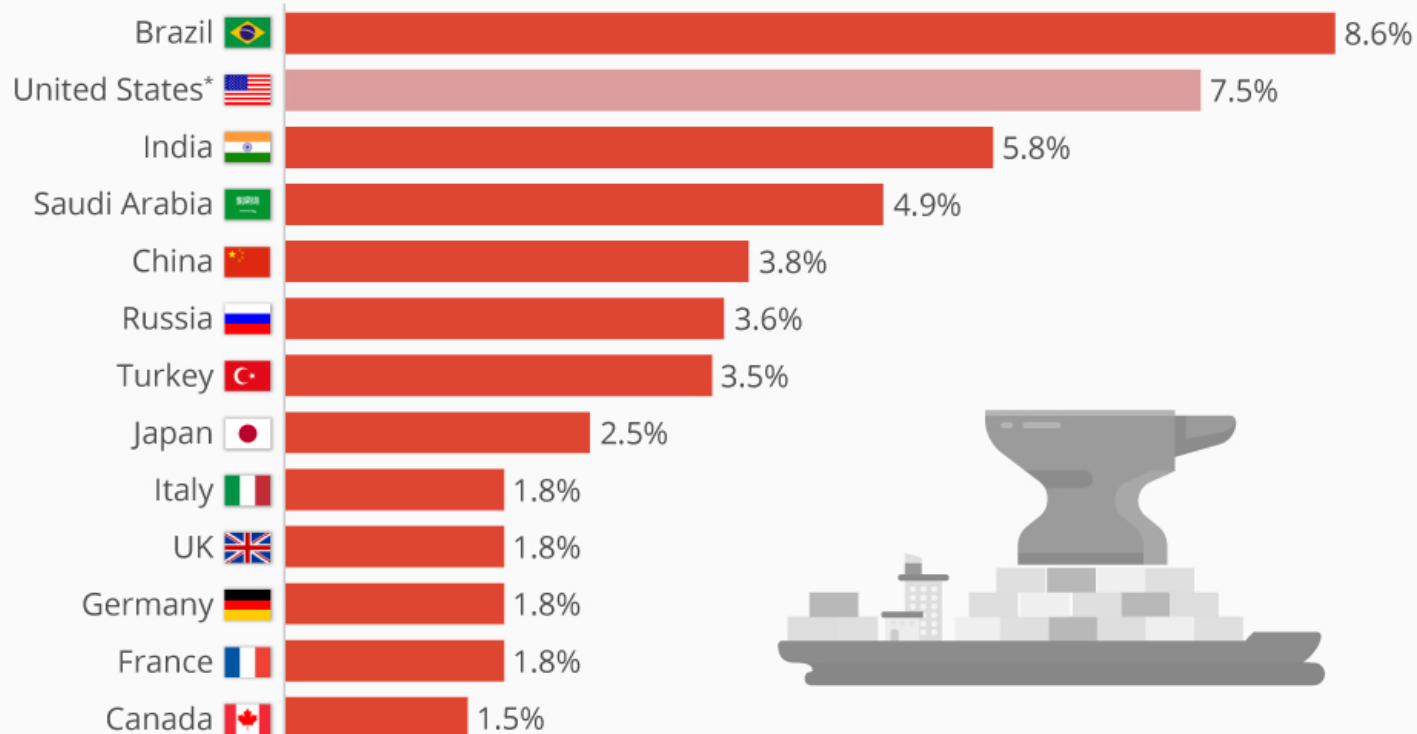
[Mike.Pearson@FarmProgress.com](mailto:Mike.Pearson@FarmProgress.com)





# In a Year, U.S. Tariffs Surge Far Past Advanced Economies

Applied tariff rates on all products by country



\* The 7.5 percent rate takes into account an additional 25 percent tariffs on \$325 billion in Chinese goods proposed by President Trump in a tweet on May 5th.

## Through 2032

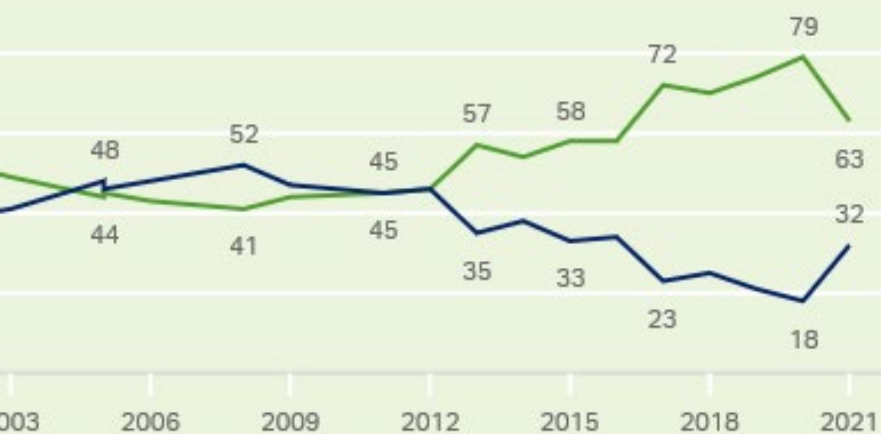


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## Foreign Trade Drop Sharply

Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?

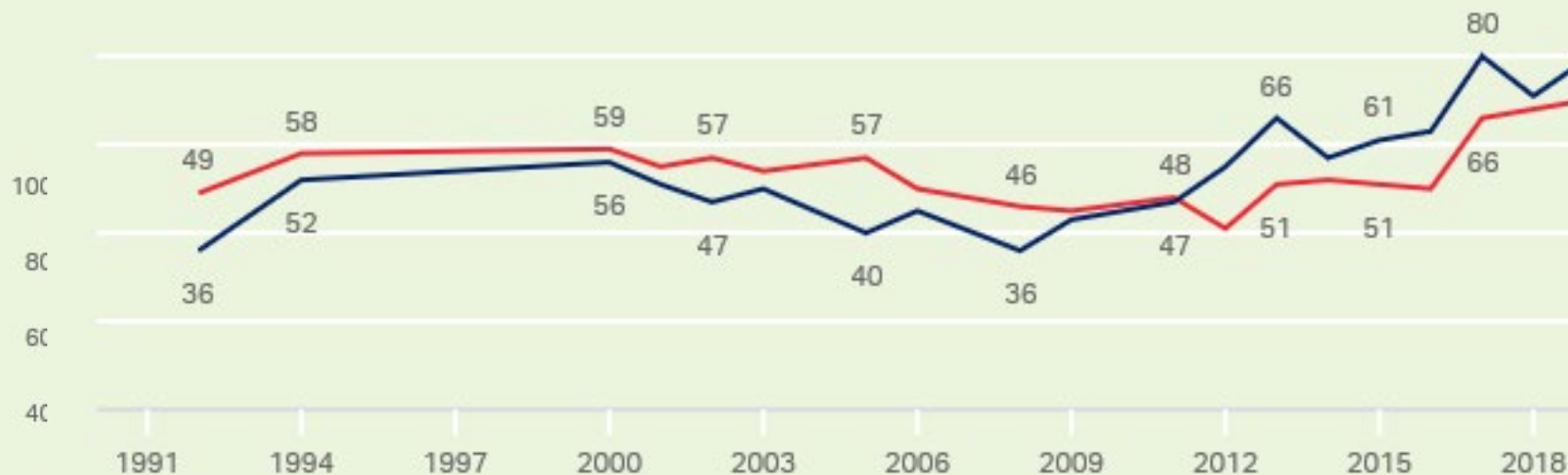
Threat to the economy



## Percentage of Americans Who View Foreign Trade as Economic Opportunity, by Party

What do you think foreign trade means for America? Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?

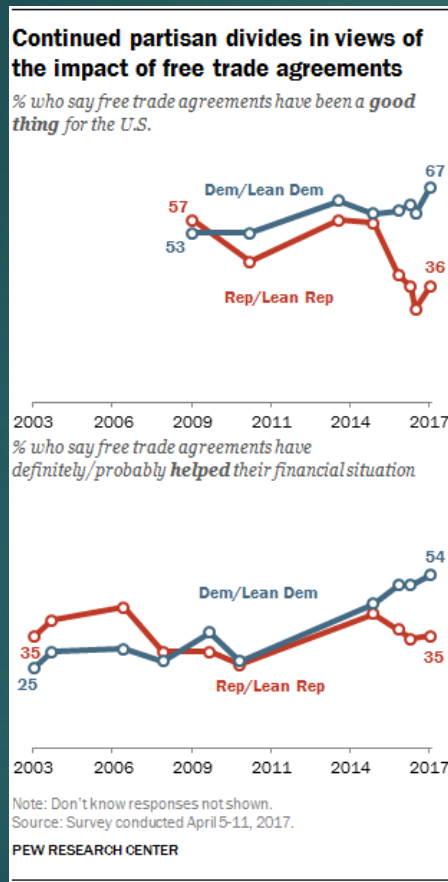
— % Republicans — % Democrats



Percentages for Republicans and Democrats are based on unleaned party identification. Trend among political independents not shown.

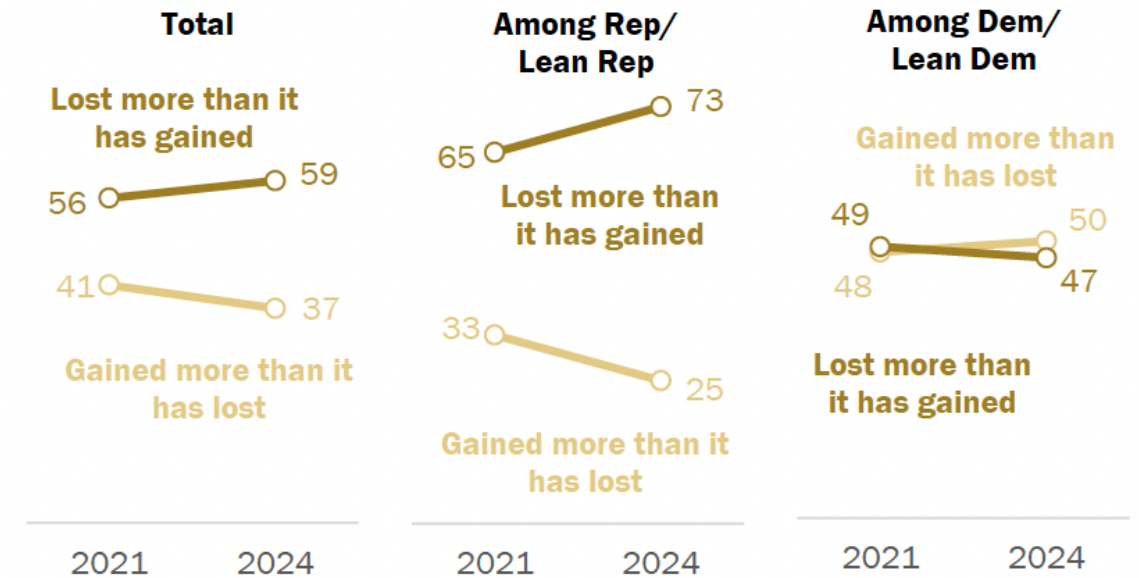
GALLUP





## Republicans are more likely than Democrats to say the U.S. has lost more than gained from increased trade

% who say the U.S. has \_\_\_\_ from increased trade with other nations



Note: Question wording is: "Thinking about increased trade of goods and services between the U.S. and other nations in recent decades... Some say the U.S. has gained from increased trade because it has helped lower prices and increased the competitiveness of some U.S. businesses. Others say the U.S. has lost out from increased trade because it has cost jobs in manufacturing and other industries and lowered wages for some U.S. workers. All in all, would you say that the U.S. has...." No answer responses are not shown.

Source: Survey of U.S. adults conducted April 8-14, 2024.

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# International Trade Does Not Mean Unfettered Free Trade

Even as Americans show strong support for international trade, this does not mean that the public supports unchecked free trade. Two-thirds of Americans (66%) think US trade policy should have restrictions on imported foreign goods to protect American jobs. One-third (32%) say US trade policy should have no restrictions to enable American consumers to have the most choices and the lowest prices. Again, Republicans and Democrats largely agree.

## Attitudes Toward International Trade Restrictions

Generally speaking, do you think US trade policy should have restrictions on imported foreign goods to protect American jobs, or have no restrictions to enable American consumers to have the most choices and the lowest prices? (%)



Source: Chicago Council Surveys • September 7 - 18, 2023 | n = 3,242



# Crude steel production in North America from 2000 to 2023

(in million metric tons)

