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ASSUMPTIONS

THE INFLATION REDUCTION ACT / CURRENCY WARS / AI IN FOREX TRADING / GROWTH OF AFCFTA / ZAMBIA'S DEBT CRISIS / US VS CHINA: TRADE WAR / CHINA'S PROPERTY SECTOR / US-CANADA TRADE STANDOFF

ASSUMPTIONS

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EDITORS' NOTE

This Autumn Edition of Assumptions delves deep into the ever-evolving world of trade - which has the potential to redefine the dynamics of economies around the world. Our writers explore how various trade strategies, policies, and technological advancements are reshaping industries and creating growth opportunities. Join us as we navigate the future of trade and its endless possibilities. Happy reading!

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NARRATIVE OVER NUMBERS? THE INFLATION REDUCTION ACT'S IMPACT

BY DIXON JUNIOR GAO-CHEUNG

What is the Inflation Reduction Act (IRA)?

In a series of aggressive, expansionary supply-side policies, including the Bipartisan Infrastructure Law (2021) and CHIPS & Science Act (2022), the Inflation Reduction Act (IRA) (2022) aimed to inject nearly $370 billion of tax incentives, grants, and loan guarantees into American clean energy (McKinsey, 2022). Amongst other objectives, the billions in investment offered by the US government sought to tackle emissions, modernize American infrastructure, provide thousands of new jobs, and improve US competitiveness & technological capabilities (White House, 2022).

Proven domestic success of the monumental fiscal package is evident, with the fiscal firepower behind these acts providing significant incentives for business investment across US states, Republican and Democrat alike. Jack Conness (2024) has suggested that nearly 110,000 new jobs can be attributed to IRA & CHIPS Acts, across the 172 projects that these programs have facilitated. Conness's map (Figure 1), interactive online, highlights the specific state impacts of IRA-supported projects, with notable concentrations of investment in the South and Midwest covering parts of the deindustrialized Rust Belt, with the IRA powering a targeted economic revitalization of these regions.

Inflation Reduction Act (IRA) Clean Energy Manufacturing Investments

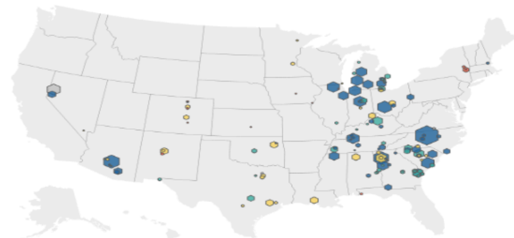
Figure 1

Select your investment map:

Inflation Reduction Act (IRA) | CHIPS and Science Act (CHIPS)

On August 16, 2022, President Joe Biden signed into law The Inflation Reduction Act of 2022 (IRA). With tens of billions of dollars in tax credits and other incentives, companies have made significant investments into clean energy manufacturing in the United States.

Batteries | Electric Vehicles | Solar | Wind | Other



Jack Conness (2024)

Further testament to the IRA's domestic success is Toyota's IRA-prompted announcement of an additional investment of $8 billion into its North Car-

-olina battery manufacturing plant, adding 3,000 jobs to what Toyota calls the “epicenter of lithium-ion battery production in North America”. This would bring Toyota’s total investment to nearly $13.9 billion, creating 5,000 jobs overall (Financial Times, 2023).

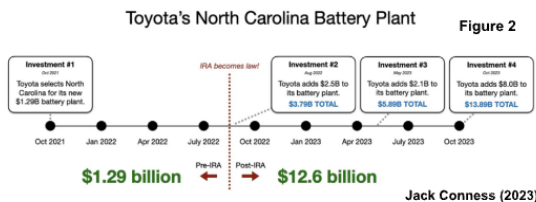


Figure 2

Jack Conness (2023)

Let’s step back a moment. We’ve observed the tremendous impact of the IRA on domestic investment in clean energy and manufacturing but we need to remember that the US does not operate in isolation. To properly understand the impact of the IRA, we need to investigate its international ramifications. After all, the investment that Toyota puts into North Carolina could have been invested outside the USA.

What else is there for the IRA?

A notable political sticking point for climate reform has historically been the perception that strong climate policy is associated with domestic economic sacrifice. In the UK, this has been embodied by Rishi Sunak’s 2023 climate reversals which were justified by perceived increases in consumer costs and red tape as a result of implementing sustainability measures (BBC, 2023).

Thus Biden and his allies legitimized their climate ambitions by prioritizing domestic capture rather than international responsibility in economic and environmental development. Capturing billions of dollars and millions of jobs in new sustainable energy supply chains and manufacturing processes domestically is an increasingly alluring and justifiable industrial strategy (CSIS, 2023).

A manifestation of this domestic capture approach can be seen within a $7,500 electric vehicle tax credit, of which half is granted upon manufacture/assembly within the US or a USA free trade partner, and the other half is granted upon mineral supply from qualifying countries (CSIS, 2023). US onshoring strategy is an explicit deepening of protectionist policy, prompting international retaliation which I will now explore.

An International Reaction to the IRA

Within the European Parliament’s response to the IRA, serious concerns were raised about the IRA’s international compliance: “[b]y any standards [the IRA’s local content requirements] can be considered as a frontal attack on the World Trade Organization’s (WTO) international trade order.” Further comments were made on the possibility of a “subvention race” and spiraling attacks on multilateralism as well as the existing world trade order (European Parliament, 2023).

Key industries in key growth areas such as cleantech and electric vehicle manufacturing may be exposed to the IRA considering that US-manufactured goods will benefit from tax incentives leaving EU-manufactured goods at a price disadvantage.

To say the least, Europe is concerned about its strategic position. In particular, France has been strong in its rhetorical stand, with President Macron stating that “[y]ou have China that is protecting its industry, the U.S. that is protecting its industry and Europe that is an open house”. Macron further suggested the possibility of a retaliatory “Buy European Act” (CNBC, 2023).

So far, Europe’s response has been centered around its Green Deal Industrial Plan and its pillars, such as the Net Zero Industry Act and Critical Raw Materials Act. To summarize, whilst the IRA offers a concrete $370 billion in tax/subsidy support for clean energy, the EU response promises a friendlier, open and less

bureaucratic regulatory environment alongside substantial subsidies (European Commission, 2023).

Narratives over Numbers

However, once again we need to shift perspective. A great deal of these EU programmes predated the IRA and as investment in clean energy stands, the EU continues to invest billions more than the US (Figure 3: Europe, US) (Politico, 2023). Furthermore, macroeconomic modeling research by the Centre for Economic Policy Research (CEPR) finds that at a 5-10 year horizon that in terms of real national income (RNI), Germany would be unaffected and RNI is only anticipated to decline by 0.004% in France and 0.001% across the wider EU (CEPR, 2023). Politico (2023) sectoral analyses across green industry also highlight a general parity of green industrial policy and outcomes in the US and EU.

If the data suggests that the IRA's international impact is this minimal, why has the IRA caused such a stir, particularly in Europe?

My answer would be narratives. We cast narratives in order to navigate economics more intuitively. For instance, we commonly draw on stories such as Adam Smith's pin factory, tales of ancient barter exchange and Portuguese vineyards in Ricardo's comparative advantage. Here, I would argue we do the same, viewing the IRA as a massive "America-first" program set to drastically revamp world investment patterns and disrupt European progress and trade dynamics.

Whilst yes, the IRA potentially breaks international trade law as the EU claims, it does not break international convention. As already mentioned, the EU had already invested substantially into the green economy pre-IRA and large fiscal recovery programs have not been unheard of post-Covid. American, European and Chinese anti-competitive agriculture subsidies (amongst other types) are commonplace.

Thus, it could be argued that the nominal power of the narrative overcomes and surpasses potential shortcomings in the macroeconomic impact data, at least abroad, in the shaping of perspectives on the IRA.

However, the narrative's effects are still very real. Increasing global competition in a "race to net-zero" may promote the very urgency needed to combat the climate crisis. To say the least, it's better than the aforementioned narrative of climate investment incurs economic sacrifice. Maybe the added economic incentives of domestic capture and trade competitiveness, as well as the political pressures to keep up in trade conflicts could be the very incentives required to meet our climate commitments.

To conclude, the IRA has had clearly positive domestic impacts for the US, boosting investment and assisting job creation. Furthermore, by observing the macroeconomic data, we find that the IRA investment is not zero-sum. The US's gain is not necessarily Europe's loss. What is very real however is the driving narrative of the IRA. Competition rather than cooperation could be the spark required to transition our economies.

CURRENCY WARS: THE EFFECTS OF EXCHANGE RATE DYNAMICS ON INTERNATIONAL TRADE

BY VALERIE CHUNG

Currency wars refer to situations where countries intentionally devalue their currencies to gain a competitive advantage in global trade and have endured as a recurrent theme in international trade, shaping the global economic landscape through the influence of exchange rates. Countries may engage in strategies to secure favorable export conditions while confronting the repercussions of trade imbalances caused by such actions, with the China-U.S. trade conflict being a well-known one. Considering this, countries have contrasting reasons to devalue their currency and may adopt different strategies to achieve their goals. Hence, these exchange rate dynamics contribute to the complexities and strategic considerations underpinning a country's economic and trade policies, playing a pivotal role in shaping a competitive global trade environment.

The motivations driving currency devaluations are multifaceted, with nations often seeking to make their exports more competitive on the international stage as the major reason. With currency devaluation, countries aim to boost the affordability of their goods for foreign consumers and subsequently increase their price competitiveness and export volumes. In response to fluctuating exchange rates, nations have adopted a range of strategies to navigate the challenges posed by currency wars. While some countries adopt conventional monetary (CMP) policies, such as adjusting interest rates and engaging in open market operations, others resort to unconventional monetary policies (UMP), such as quantitative easing, to influence exchange rates and support their trade competitiveness. These different incentives and strategies play a critical role in shaping the dynamics of international trade and serve as pivotal factors in determining the outcomes for global economies.

Let's look into the China-US trade conflict first, where the world's top two economies have been locked in a trade war that has spilled into areas such as technology, and now currency, over the past few years. In 2019, Trump announced a 10% tariff on $300 billion of Chinese goods starting Sept. 1 which then resulted in China allowing its currency, the yuan, below the 7:1 peg it had maintained since 2015. Though China argued the drop in the Yuan is due to market forces, others have argued this currency devaluation through UMP by buying US currency and treasury notes on the open market has undeniably helped China mitigate the negative impacts of tariffs. Especially with China being an export-led country, the weaker yuan boosts the price competitiveness of Chinese exports and even makes imports more expensive for Chinese consumers and businesses, potentially stimulating domestic production and reducing reliance on imports. However, the effectiveness of China's devaluation strategy was somewhat limited. Despite it helping to cushion the impact of US tariffs to some extent, it also drew criticism and scrutiny from global markets and policymakers, with the US labeling China as a 'currency manipulator'. In the long term, China risked destabilizing global financial markets and exacerbating trade tensions, contributing to a more complex and uncertain global economic environment.

A more recent example is Argentina which has announced a sharp devaluation of its currency the peso by 50% from 400 pesos to the U.S. dollar, to 800 pesos to the dollar by changing its benchmark exchange rate. The devaluation achieved a trade surplus of $1018 million after a year of being in a trade deficit and growth of 2.7%. However, it should be noted Argentina's main exports are soybeans and corn whereas their imports are vehicles and machinery. According to the Marshall Lerner Condition, with its inelastic exports and elastic imports making the absolute sum of a country's export and import demand elasticities (demand responsiveness to price) smaller than one, the devaluation would instead make the trade balance worse due to the effects from increased prices in imports being relatively larger than price competitiveness of exports. It could also heighten its high 143% annual hyperinflation and national debt. Combined with uncertainty with trade policies such as "The devaluation announced exceeded market expectations," said Khan, Head of Fixed Income for Emerging Markets and Asia Pacific at UBS Asset Management, the rampant speculation could lead to further damage to Argentina's international trade. This demonstrates the vulnerability to exchange rate dynamics emerging markets and commodity-dependent countries face due to their reliance on exports, external financing, and foreign exchange reserves. Sharp fluctuations in global demand and pricing dynamics or currency value can widely disrupt their trade patterns, investment flows, and capital markets, showing how they are more likely to suffer than to benefit in a currency war.

When considering the potential trajectory of currency wars and their implications for international trade in the coming years, several factors weigh into the equation. First and foremost, technological advancements are expected to continue influencing

the landscape of global commerce with the rise of digital currencies, and blockchain improving the efficiency of cross-border payments. This could benefit emerging markets and lower-income economies if the transition is well-managed and regulated. Moreover, shifts in global economic power will redefine the dynamics of international trade. As emerging economies like China and India exert increasing influence, this shift may lead to changes in the strategies nations employ in currency wars, thereby impacting the balance of economic power on a global scale. Lastly, evolving trade dynamics, including changes in trade agreements and geopolitical relations, especially with 2024 as the election year and Trump having a chance of winning again could lead to more trade wars, will play a pivotal role in influencing the trajectory of currency wars and their impact on international trade. By considering these factors, one can begin to foresee the huge impact exchange rates have on shaping the future of global economics.

In conclusion, the tumultuous landscape of exchange rate dynamics and currency wars and their reverberating consequences on international trade cannot be overstated. This detailed exploration highlights countries' different motivations to devalue their currency through examples as well as its impacts. On the surface, the relative pricing of goods and services and trade volumes may be the only thing impacted, but in a deeper aspect, investment flows and geopolitical relations could also be harmed.

MASTERING THE CURRENCY MARKETS: THE PIVOTAL ROLE OF AI IN FOREX TRADING

BY PRARTHAK SHARMA

The foreign exchange or forex market is currently the world's largest financial market. It is essentially an over-the-counter (OTC) global marketplace that regulates the exchange rate of currencies worldwide. The forex market consists of banks, commercial companies, hedge funds, retailers, and forex dealers who can buy, sell, exchange, and speculate on the relative exchange rates of various currency pairs. Foreign exchange serves several services, including facilitating currency conversions, managing foreign exchange risk through futures and forwards, and allowing speculative investors to profit from FX trading. In a nutshell, forex trading is highly valuable for the global economy as it promotes international commerce and investment, allowing investors to profit from currency fluctuations, which in turn leads to economic progress.

The current trend being noticed in the Forex market is the implementation of Artificial Intelligence (AI). The use of AI is limitless and now it has started to influence how people decide on the Forex market as well. Based on a study conducted by JP Morgan in 2020, 60% of all forex trades, estimated to be around $10 million, were carried out using algorithms or forex robots. The AI market in the forex industry promises to show growth in 2024 as it is said to increase by more than $4 billion. Many forex traders have started to catch up on the trend of AI, as mobile trading is said to grow from 18% to 37% in the coming years. The main reason for the rise in the use of AI is the various benefits it brings to the market. AI-based market analysis offers a more efficient and cost-effective way to capitalize on any opportunities or growing trends in the market. Allowing traders an opportunity to catch up on trends that may be left unnoticed by human analytics, thus allowing them to make more well-informed decisions. Subsequently, AI also provides a platform for improved risk mitigation. As it helps identify potential pitfalls and suggest improvements to your trading strategies. Additionally, AI algorithms serve as a tool to detect any fraudulent activities in the forex market helping safeguard traders from potential scams. This allows AI to enhance the overall value and reliability of forex

trading. AI has also provided the market with a means to automate trade execution, which enables traders to capitalize on an opportunity more efficiently. AI is also playing a pivotal role in enhancing trade management strategies. Technical analysis techniques like trendlines, support, resistance levels, and chart patterns can help you pinpoint entry and exit opportunities. Traders can effectively control risk and optimize their trading strategies by employing a variety of risk management tactics such as establishing stop-loss orders, diversifying investments, and using leverage.

High-frequency trading (HFT) is a prime example of AI’s potential in the world of forex trading. With the implementation of computers and AI algorithms, HFT efficiently executes numerous orders at a rapid pace. It allows traders to capitalize on even the tiniest market fluctuations. Sentiment analysis uses AI to analyze news stories and social media data, which effectively evaluates the market sentiment and predicts potential market moves. This technique yields useful insights into customer sentiment and market trends. It enables firms to make better judgments about product development, marketing strategies, and customer service. Subsequently, AI helps in analyzing historical data, which helps in identifying recurring patterns that can help traders predict market movements. Additionally, it also helps in pinpointing support and resistance levels which can help optimize trading decisions.

However, the employment of AI in the forex market comes with its fair share of challenges. A major issue faced with AI trading is that the systems they operate on are heavily influenced by the data they are trained on. Therefore, if the data is biased or not up to date, the system will also be affected. Furthermore, if the data set does not adjust to market conditions, the AI engine may build trading methods that are not relevant to the present market, resulting in poor trading performance. Human biases can also be introduced into AI systems by the developers who construct them. These biases might be caused by personal views, inclinations, or even unconscious prejudices, which result in undesirable trading outcomes. AI-driven data systems may also end up being overly optimized, due to which they may run well on historical data but may not perform well in real-time trading. Because these systems may be explicitly designed to assess historical market conditions, they serve as a 'lagging system', making them less responsive to new and unexpected scenarios. In the context of turbulent and often unpredictable market conditions, AI systems may be unable to execute owing to unexpected market developments that do not correspond to historical results analysis.

However, the future of AI trading seems bright. As technology continues to develop algorithms will continue to become more complex allowing them to analyze all forms of structured data. On top of that, the trading experience promises to show improvement with the introduction of AI-powered chatbots and virtual assistants, which provide traders with real-time assistance and customized advice. Traders can look to leverage the power of AI be it through using technology, defining trade parameters, or redefining strategies through backfiring. Overall, AI can help traders make informed decisions by helping them achieve their trade objectives while reducing their exposure to various risks. In conclusion, AI promises immense growth and opportunity for forex trading. However, it’s crucial to strike a balance between automation and human expertise, which helps in making sure AI acts as a powerful tool rather than replacing human intuition and judgment.

HOW FAR HAS AFCFTA COME IN 2024?

BY MAHA AHMED

Africa is a highly diverse and populous continent. Until recently, it has often been considered as being economically fragmented with its lack of intra-regional trade. Rather than trading with each other, African countries have long implemented protectionist policies toward each other to avoid regional competition. Their high tariffs and other barriers made trade within the region more costly than trading with the rest of the world. Consequently, these countries became increasingly more dependent on outside trading partners – namely the EU and China. However, this has not been the only obstacle in the way of intra-African trade. The continent has struggled with poor infrastructure for transportation, creating high transaction costs. Moreover, this lack of connectivity within the continent can also be seen in high travel costs and the frequent need for visas that have discouraged and restricted the movement of people.

However, as of 2019, the African Union (AU) has made an active effort to reshape the continent with the introduction of the African Continental Free Trade Agreement (AfCFTA). As one of the biggest free trade agreements today with 54 signatories, the AfCFTA has created promise for the continent as it aims to boost trade and create unity among the participants. This agreement has formed a free trade area in which governments will remove and reduce trade barriers against each other. This is only a first step, as there are also plans to harmonize standards, further integrating these economies.

Creating One African Market

So far, after COVID-19 restrictions eased in 2021, governments have begun reducing and removing tariffs on 90% of goods across the continent. While this first policy is in effect, there have been concerns about delays in fully implementing the AfCFTA.

In hopes of resolving this, the AU chose "Acceleration of the AfCFTA Implementation" as their 2023 theme.

This agreement has also become an integral part of Africa's "Agenda 2063" as its free trade policies are expected to foster economic growth and development across the continent.

What does this mean?

Economic growth is characterized by the increase in a country's output over a given period and is measured using the real GDP. It considers improvements in the quantity and quality of goods and services produced in an economy. The AfCFTA will boost economic growth in many ways. Firstly, trading with each other will incentivize the opening of new markets for producers and may also promote innovation by producing new markets for goods that are not yet available. This is particularly important because Africa's main exports include natural resources. However, under the AfCFTA, countries will likely diversify their exports. This essentially means that one country will not depend heavily on any one export which will protect their economies from supply shocks in specific markets, especially since natural resources tend to be volatile. Additionally, diversifying their exports will make African nations more competitive in global trade, for which it only contributes up to 3% today. Also, this will likely reduce dependence on outside countries. Moreover, with trade agreements in place, governments will be incentivised to build and develop their poor infrastructure to enable trade. This will encourage growth by reducing transaction and transportation costs, decreasing overall production costs for suppliers and prices for consumers, hence increasing social welfare and the quantity of goods produced. Lastly, trade will increase competition within the region, and while governments have tried to avoid this until now, this competition will be beneficial in increasing efficiency.

This economic growth can promote economic development which looks at improvements in a country's overall living standards including reduced poverty, more employment opportunities, and access to necessary goods. Firstly, the new building schemes and increased transportation and manufacturing of goods will open new jobs and increase opportunities for the unemployed. Not only this, but the increased supply of goods from foreign producers will increase the variety and quantity of goods available, while also reducing prices for consumers, improving their access. As a result of these developments, the AU has predicted that the AfCFTA will help 30 million Africans out of extreme poverty. These benefits are not exhaustive and go beyond economics. Most significantly, the AfCFTA will encourage cooperation between African nations, fostering positive political relations and creating harmony and cohesion across the continent.

Even with these benefits, we must also account for the possible downfalls of this agreement. Firstly, if governments across the continent are building infrastructure and increasing manufacturing activities the rise in pollution will cause further detriment to the environment and people's health. Hence, we must question how sustainable this development is. Additionally, if barriers are lifted, governments will lose revenue from tariffs. This will place tighter constraints on their budget, making funding for schemes like building infrastructure much harder hence governments will need aid and will likely face opportunity costs, becoming unable to fund other projects which may hurt society. Also, the benefits of the AfCFTA are unlikely to be distributed equally among all the participants, with the risk that the bigger and stronger economies will benefit more, creating greater inequality between countries.

Understanding both the promise and drawbacks of the AfCFTA, policy makers across Africa are for this agreement believing that in the long run, the benefits and opportunities will outweigh the costs. Thus, the AU will continue to support the complete implementation of the AfCFTA.

IS THE COPPER INDUSTRY THE SOLUTION TO ZAMBIA'S DEBT CRISIS?

BY ARUN PILLAI

In 2020, Zambia became the first country to default on its sovereign debt since the beginning of the COVID-19 pandemic. When paired with failed mine nationalizations and a reduction in investment from abroad, Zambia faces a serious debt crisis with its government debt-to-GDP ratio reportedly reaching 65% at the end of 2023. The country lacks a contingent plan of action to evade this crisis given its recent breakdown in debt restructuring negotiations with foreign creditors from China. However, one financial goal from the government remains unchanged – aiming to triple copper production to over 3 million tonnes per year by 2032. This therefore raises the question if re-expanding what was once a thriving industry in Zambia is the solution to the southern African country's debt crisis.

Zambia's debt has been steadily on the rise since 2007 but copper production has yet to return to its peak from 2013. Copper remains Zambia's primary export, as well as a key driver of growth and fiscal revenue. The focus of production has moved away from the Copperbelt province and instead shifted to the Northwest of the country due to waste production created from years of mining in the Copperbelt province. The goal of 3 million tonnes in annual copper production would make Zambia the 2nd largest producer of the commodity globally, only bested by Chile. Zambia also retains a competitive advantage in the quality of its copper reserves, with a particularly high amount of copper extracted per ore tonne. This would allow the country to become more resistant to shocks in global commodity prices, along with reducing its carbon footprint and marginal cost of extraction.

Naturally, Zambia's high quality of copper makes the extraction and exporting of the raw material a viable solution given its influence in overcoming primary product dependency. The current president, Hakainde Hichilema, believes the prevalence of high-

grade copper in Zambia is the key to its success in solving the country's debt issues. Although many of the Copperbelt province's historic mines are submerged or out of use, nearby areas are still likely to yield high-grade copper which can be readily extracted on demand. Existing infrastructure in the region, as well as a planned regional railway connection to Angola's Lobito port, would heavily reduce journey times relating to the transport of copper. Consequently, Zambia would retain high-grade copper at a low and internationally competitive price from which it can export globally and raise revenue toward debt relief.

In theory, the resurgence of Zambia's copper industry appears to be the most realistic of any potential solutions to their debt crisis. However, there are some considerable drawbacks and issues that need to be resolved for Zambia to realize debt relief through copper exports. As a landlocked country, Zambia's access to international markets is restricted, with continental rivals DRC boasting significantly better infrastructure to facilitate international trade, placing them as the leading copper producer and exporter in Africa. Zambia's infrastructure is very weak on an international scale, as shown by its 124th place ranking out of 141 countries on the World Economic Forum's Global Competitiveness Index for infrastructure. Much of the planned investment into Zambia's infrastructure to improve access to international markets is heavily dependent on the government's success in overcoming its debt issues. The Zambian finance minister has noted that the relief of the country's debt is "just a process" and is therefore "unable to provide a timeline". In November of 2023, Zambia suffered a setback when negotiations over the restructuring of debt in Eurobonds worth over $3 billion fell through. The South African nation still owes large sums of money to foreign creditors, including up to $5.9 billion to their Chinese creditors according to the IMF's most recent data release. In January, following a trip to China to reopen debt restructuring negotiations, the secretary to Zambia's treasury claimed a new restructuring deal would be agreed and implemented by the end of March this year at the latest. With that deadline looming and no concrete progress made since that announcement, questions must naturally be raised as to how realistic Hichilema's Copperbelt revival vision is.

Hichilema also faced the task of continuing to repair what was a broken economy when he took office in August of 2021. His predecessor's decision to complete a state takeover of the Konkola and Mopani mines in the Copperbelt region proved extremely costly – the latter posting a $300 million loss last year. Hichilema therefore faces increasing pressure to make sound fiscal policy decisions, not only to allow the economy to recover from its post-pandemic state but also to take advantage of an improved landscape following the restructuring of the country's debt in the coming year.

Overall, there is significant progress to be made in the debt restructuring and infrastructure departments for Zambia. Without improved infrastructure, the revival of the Copperbelt province will prove ineffective in maximizing copper trade, thereby limiting the industry's ability to relieve Zambia of its debt crisis. However, president Hichilema is committed to his target of tripling Zambia's annual copper production level and taking this to the international market to raise revenue toward debt repayments. With the hope of a new deal to restructure the country's debt in the works, as well as plans for new extraction and transport infrastructure, there is certainly hope for Zambia's copper industry to solve its debt crisis.

CHINA VS US: A TRADE WAR

BY ASLI VURAL

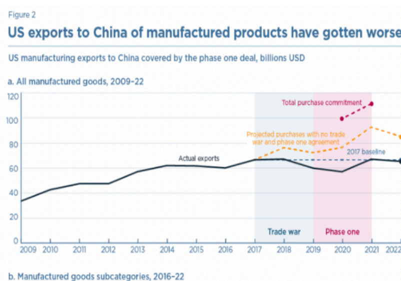
Having started in 2018, the "Trade War" refers to the ongoing contentious US-China Trade relationship. The two actors being the two biggest economies of the world, this trade war has far-reaching implications not just for the two countries involved but also for the rest of the world. Therefore, it is crucial to understand not just the current state of trade between these two countries but also the reasons for the trade war, its benefits/costs, and the controversial ideas surrounding the topic.

The relationship between China and the US is highly complex, strategic, and influential for the world. And, at its core, the trade is a manifestation of contradicting interests and economic systems of these two economic giants, such as one being dependent on the state-led model while the other, the US, is dependent on free markets and their fear of becoming overly dependent on one another for goods and services. as stated by Bown, "Both have the same fear: that the other side will suddenly weaponize trade flows—cut off imports or exports—in the name of security. Trying to get ahead of that, each is now attempting to diversify" (Bown).

The Trade War has its roots back to July of 2018 with Donald Trump revising the foreign economic policy and the US placing 25% duties on around "$34 billion worth of imports from China, including cars, hard disks, and aircraft parts". This was then retaliated by China "imposing a 25% tariff on 545 goods originating from the US worth $34 billion, including agricultural products, automobiles and aquatic products" (Mullen). From 2018 to today, the tariffs have been changed many times, and both parties have called each other for a truce for designated periods and come up with many more revised tariffs. According to Brown and Wang, in 2023, the trade war between US and China escalated even further with "the Chinese spy balloon episode that forced Secretary of State Antony Blinken to cancel a much-anticipated trip to Beijing in February" and while the trade between the

countries were reported to hit "record levels" in 2022 "suggesting that the supposed economic "decoupling" of the world's two biggest economies has not yet arrived", US exports to China continue to suffer.

The graph below shows the "actual exports" as well as "projected purchases with no trade war and phase one agreement" for manufactured goods, highlighting that exports from the US have still not recovered after the trade fall and now show signs of getting worse (Bown). The semiconductor industry, US exports of COVID-19-related medical supplies, Autos and aircraft industries are also among those that failed to show recovery from the trade war. The value of US energy exports has also dropped "13 percent in 2022 from peak levels in 2021", despite a significant increase in world energy prices (Bown).



However, the question remains: So what? The trade war has implications far further than the policies and interests of the two countries, leading to significant disruptions in various industries and increased costs for consumers, increasing the cost of living and making life conditions more challenging for some, especially the already vulnerable. As was supported by the research by "Chang, Fajgelbaum, Flaaen, and many others, "the main takeaways from the researchers are that US and Chinese consumers of imported goods have borne the brunt of the tariffs through higher prices and that aggregate real income in both the US and China declined due to the tariffs" (VoxEU). One example is US farmers, having to face retaliatory tariffs from China on agricultural products such as soybeans and pork, leading to reduced exports and lower farm incomes where "US farmers had to be bailed out with tens of billions of dollars in federal subsidies" (Bown).

Although the effects on consumers and producers are detrimental, there are countries other than the US and China benefiting from the trade. For example, countries such as Vietnam, Thailand, Korea, and Mexico emerged as major export 'winners' in global markets for products where US-Chinese trade declined", increasing the living conditions for producers and consumers in those countries (VoxEU).

In conclusion, the China-West trade war represents a complex problem of countries trying to prioritize their interests and protect their independence while taking care of their producers and consumers. While the long-term effects of the trade war are ambiguous since the trade war is ongoing, it is an important, complex, and intriguing issue to be analyzed and facilitated by experts and policymakers.

HOW CHINA'S FAILING PROPERTY SECTOR IS RESTRUCTURING GLOBAL TRADE

BY NAMAN MAHESHWARI

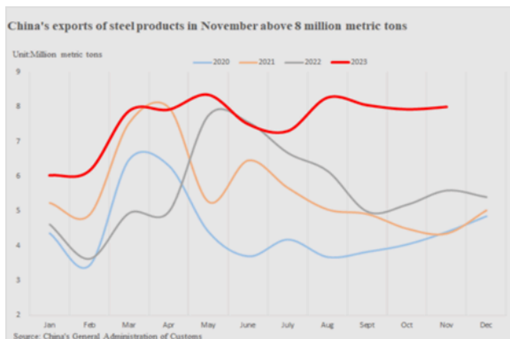
7p – the current price of a Country Garden share. An unimaginable fall from grace with the property giant's peak stock valuation 24 times larger. The firm defaulted in October as US Federal rates soared to a 20-year high contributing to the company's inability to afford repayments on its $186 bn of debt. Country Garden's struggles, alongside Evergrande's liquidation, underline a critical problem in the Chinese economy. The property sector has imploded. In truth, the cracks in a system, with characteristically excessive borrowing and diminishing revenue, had been obvious for years. However, the retail collapse has still hurt China with falling consumer and investor confidence, caused by house price deflation, leading to lower projected growth.

As the world's second-largest economy, the spillover effects of a slowdown could be disastrous for the rest of the globe. Stock markets have already seen the value of Chinese funds plummet, while trade in and out of the country has been distorted. The most notable change has been a push to diversify Western supply chains, moving them outside of China, as the crisis has deepened the belief that the developed world is over-reliant on the country's trade.

'A huge impact on heavy industry' is inevitable according to HSBC Chief Asia Economist Frederic Neumann. While this may follow intuition (less demand for construction projects will mean less revenue for these industries), Chinese steel output is projected to grow throughout 2024.

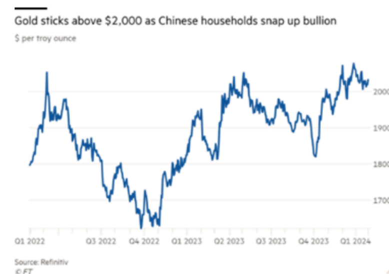
This is supported by the graph below which shows exports for steel were significantly higher than previously. This surge may seem contradictory although it doesn't diminish the sentiment of Neumann's statement. Reuters argues that even though 35% of domestic steel demand comes from real estate, 'solid growth' in vehicle manufacturing has overshadowed any potential decline.

This explains the rising exports as over 5 million of the country's cars were sold abroad in 2023. Moreover, Fitch Ratings predicted a '20% to 30%' boost in automobile exports in 2024, suggesting this demand will continue. His hypothesis can still be disputed, though, as last year saw an overall rise in Chinese copper imports. There were some periodic dips in price throughout the year, but this can be put down to understandably spooked investors as Evergrande and Country Garden generated considerable international publicity. With copper an essential material in property building, and 'visible inventory (in China) low' global exporters of the commodity have also struggled to make sense of these facts. Upon investigation, it is revealed that the government, desperate to buoy a stagnant economy, pushed several fiscal spending packages.



Infrastructure spending was almost certainly a large part of these packages hence maintaining China's need for raw materials. It should be emphasized that, despite metal exporters somewhat escaping China's stumbles, 2023 observed a budget deficit of 3.8%, the highest for 20 years. Combine this unsustainable pressure on government finances with China's improving steel sector and there could be painful consequences for the metal industry outside of the country. With an immediate budget surplus necessary the government will cut back on its infrastructure spending while resurgent Chinese steel producers will presumably dominate smaller firms globally.

Stock markets are an important component of global trade. Companies receiving strong investments have greater access to capital so can expand across borders. A firm with a strong, steadily rising, share price will also have more confidence to trade abroad. With China long considered the go-to investment for explosive growth, 'losses exceeding 10%' in 2023, according to Nasdaq, was a painful sight for investors. Many former China backers therefore moved funds to US counterparts driving the S&P 500 to record highs. This increased US firms' ability to sell more abroad which is confirmed by a trade deficit that fell by over $170 bn. The magnitude of fund-switching highlights another severe concern, the West has lost a considerable amount of faith in China's ability to recover from this crisis. The following graph from the Financial Times illustrates that domestic households too have lost optimism for the country's prospects.



Like the S&P 500, gold prices reached all-time peaks towards the end of last year. Demand from Chinese investors was the primary cause. While President Xi Jinping has attempted to keep spirits afloat claiming 'China will consolidate and enhance its economic recovery', rising investment in gold Is normally a tell-tale sign of uncertainty. Unknowns of this scale, if unresolved, generally force firms to slash foreign inputs – which would be a concern for those exporting into China. However, it could be argued that China may observe the reverse side of this effect. In avoiding domestic uncertainties firms may opt to import from more stable countries abroad.

With the identified relevance of China's property to the domestic and global economy, the government must solve this issue. A first solution would be to strengthen international relations with other large economies. The US has repeatedly voiced its apprehension over Chinese leadership fuelling its desire to move its eggs out of the country's basket metaphorically. Investors may therefore be unwilling to return to Chinese funds even if the property industry bounces back.

If President Xi is unable to take the geopolitical route, he could instead change the way that real estate is allocated in China. Customers, of defaulters, have been left distraught as they were forced to pay for houses pre-construction. A regulatory overhaul, preventing this system, could reduce the uncertainties in property. Ironclad regulations could also avoid a future Evergrande-like situation, where debt-ridden firms, who are unable to borrow anymore, can continue commissioning building plans under the assumption that they will be paid for by the money collected from future projects. A Ponzi-scheme model is almost certain to burst.

Global trade has largely experienced a net zero effect from the Chinese property collapse. While steel producers may have been hit, firms exporting copper have benefitted. Additionally, domestic uncertainty has mostly allowed foreign firms to thrive. The industry's situation has still left a strong mark on the world and needs to be managed carefully to avoid another collapse.

NAVIGATING THE CROSSROADS: ASSESSING THE UK-CANADA TRADE STANDOFF

BY ALBIE STACEY

On the 26th of January 2024, it was announced by British High Commissioner Susannah Goshko that the UK would be suspending all trade negotiations with Canada. At the heart of this announcement, and taking a broad perspective, three pivotal questions emerge:

1. What were the aims behind these negotiations?
2. Why have the negotiations hit a roadblock?
3. What lies ahead?

The first question is relatively straightforward. In October 2016, the Comprehensive Economic and Trade Agreement (CETA) was ratified and provisionally enforced. This Agreement reduced 98% of existing tariffs between Canada and the European Union (EU), marking a crucial milestone. For Canada, the EU represented its largest export market outside of the United States. Meanwhile, the EU, not only provided access to a G7 market but also signaled its ability to engage in trade beyond its NAFTA partnership with the United States.

According to data from the Government of Canada, in the initial year of CETA's implementation, merchandise goods exports to the EU amounted to C$44 billion—an economically significant figure for Canadian businesses seeking international expansion. However, beneath these headline numbers lies the reality that a substantial portion of this trade—C$16.5 billion, constituting 37.5% of the total—was specifically with one of the 28 EU member states, a country that later opted to withdraw from the EU.

Analyzing the detailed trade flows among all 28 EU member states for that initial year reveals that only 6 countries yielded a merchandise trade surplus for Canada. Among these, Britain accounted for 91% of the C$8.13 Bn aggregate surplus, emphasizing its pivotal role in Canada's trade landscape.

Despite initial assumptions that Brexit might detrimentally impact the UK economy, the significant loss of trade value—nearly 40%—following the withdrawal of one party underscores the imperative for Canada to address its post-Brexit relationship with Britain. The late initiation of negotiations between London and Ottawa, coupled with the complexities of trade negotiations and impending deadlines for Britain's departure from the CETA treaty, made it foreseeable that an eleventh-hour agreement—such as the Trade Continuation Agreement (TCA) established in 2020—would be reached.

The TCA, (regarded by PM Trudeau in Nov 2020) as a temporary measure pending a new, presumably improved deal, remains in effect despite the recent announcement by the British High Commissioner. However, 3 specific aspects of the trade relationship covered by sunset clauses demand attention: Britain's access to the cheese tariff rate quota negotiated under CETA (which expired in 2023), rules of origin treatment concerning EU parts in British export products (expiring April 2024), and the suspension of Investor-State Dispute Settlement (ISDS) clauses agreed to under CETA.

The second question poses greater challenges in terms of providing a definitive answer, as trade negotiations are not transparently conducted. Public statements from the involved parties offer some insight. The British government has voiced discontent over the loss of tariff rate quota access, particularly regarding cheese exports to Canada. This sunsetting has resulted in a 245% tariff increase for British cheese sold in Canada (applicable to 2.2 Mn kg per year).

The UK's concerns also affect luxury automakers like Rolls-Royce, Aston Martin, and Land Rover. Despite being iconic British brands, accounting for 31% of British car manufacturing in October 2020, they rely on parts from external suppliers. With the expiration of this side agreement, determining what portion of these vehicles qualifies as British-made becomes complex. Any portion not meeting the criteria will face 6% tariffs, leading to pricier imports for 39.6 M Canadians.

Conversely, Canada's concerns primarily revolve around Britain's ban on hormone-treated beef, effectively prohibiting Canadian imports worth a potential £38.8 Mn in 2022. Additionally, (as of March 2024) pending legislation in Canada, such as Bill C-282, constrains the government's ability to negotiate additional tariff rate quotas for dairy and other products.

As for the third question concerning future steps, immediate prospects appear limited. The beef issue remains unresolved, with little indication of flexibility from Britain's stance. Legislative constraints in Canada further complicate negotiations, particularly regarding dairy tariffs. The impending membership of Britain in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) offers potential relief for British cheese exporters, allowing a tariff rate quota that permitted 4.12 Mn kg of cheese in 2019.

Looking ahead, Canada faces a significant challenge in negotiating trade agreements the exclude its C$16.2 Bn (March 2021) dairy sector. While possible, maintaining both supply management and a moratorium on additional tariff rate quota allocations beyond current levels complicates negotiations, particularly with dairy-producing nations like New Zealand. To reach a UK-Canada agreement harmonizing practices among the 4 existing trade agreements include grandfathering the 2018 CPTPP tariff rate quota terms or excluding the dairy sector altogether. The approach taken by Canadian federal governments, both present and future, to reconcile these pressures will profoundly impact the dairy sector and Canada's $2.145 Tn economy.

We hope you had an enriching experience reading this edition of the Assumptions magazine. We are grateful to all our writers who helped us explore the multifaceted world of trade. From policy shifts to technological innovations, the insights here offer a glimpse into the forces shaping global economies. We hope these articles inspire discussion and a deeper understanding of the complexities at play in today's trading landscape. We look forward to providing our readers with more fascinating content in the future.

Arun Pillai &
Prarthak Sharma

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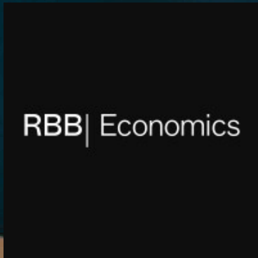

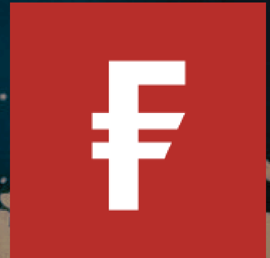

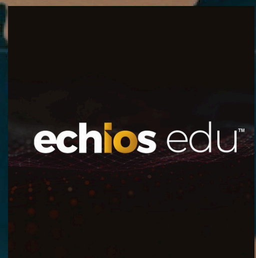

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