

- 1 HOW COVID-19 CHANGED GLOBAL TRADE FOREVER
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From crisis to opportunity:  
what's the future of trade?

# How trade relationships & tariffs are affecting trade worldwide

March 2021



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*Before the pandemic hit, the biggest risk was a possible escalation of the trade war between the United States and China. How the epidemic changed those concerns.*

”

Andreas Tesch

## Audience Q&A



### Is it too early to tell the impact of Brexit?

I love to predict everything. But yes, it's too early and it's hidden. Even econometricians, not normal humans, can't tell between what is the result of the pandemic and what is the result of Brexit.

**John Hulsman**

## Audience Q&A



### How are relationships between the UK and rest of the world, now that it has left the European Union?

Businesses should really try and find their way around the EU transition. I do appreciate that there have been so many new rules that it's been quite difficult to do business and it business has taken a bit of a knock.

**Lesley Batchelor**



# How trade relationships & tariffs are affecting trade worldwide

## Last month, in the Atradius Economic Outlook, Atradius economists predicted a rebound for the global economy.

They said that by the end of 2021 the global economy (taken as a whole) will have returned to year end 2019 GDP levels. However, they cautioned that this prediction was built on seven interrelated key assumptions. Several of these concern the global pandemic, including the assumptions that the virus will be contained, vaccines will become widely available and government fiscal support packages will be withdrawn slowly. In addition they also identified the importance of state monetary policies, investor sentiment and government measures to minimise business insolvencies. Finally, they singled out the trade tensions between the US and China and the importance of a reduction in trade policy uncertainty to spur the recovery in the global economy.

Given the importance of cross-border trade relationships for the global economy we invited a political strategist, John Hulsman, a business export specialist, Lesley Batchelor, and a trading risk expert, Gordon Cessford, together to discuss how trade relationships and tariffs are affecting trade worldwide. This white paper captures the main points discussed during the live panel webinar. However, the views of John Hulsman and Lesley Batchelor do not necessarily reflect the views of Atradius. Any observations or reflections shared during the webinar and captured in this white paper should not be taken as Atradius insight or advice.

As part of the series *From crisis to opportunity: what's the future of trade?*, this webinar, *How trade relationships and tariffs are affecting trade worldwide* was introduced by Atradius CMO, Andreas Tesch and moderated by journalist, Daisy McAndrew. It featured John Hulsman, President of John C. Hulsman Enterprises, Lesley Batchelor, Director of Export Boot Camps, and Gordon Cessford, Regional Director for Atradius in North America.

### Key themes

#### Tariffs and trade opportunities under Biden

What will global relationships look like under the Biden presidency? Will US-China trade tensions continue?

#### COVID-19 vaccine trade wars

The EU, USA and India are exploring banning vaccine exports. What does this mean for vaccine distribution?

#### Will the new head of the WTO take it in a new direction?

Ngozi Okonjo-Iweala is the new Director General of the WTO. What can we expect from her leadership?

#### Regional approaches to trade relationships and tariffs

What are the fundamental issues – and any parallels, facing businesses in different regions?

#### Global protectionism: what to look out for

What are the top three areas concerning trade relationships and tariffs that business should be aware of?

#### Political risk vs opportunity

How can businesses build strategies to manage and minimise political risk?

### Audience Q&A



#### We are an SME with a small team.

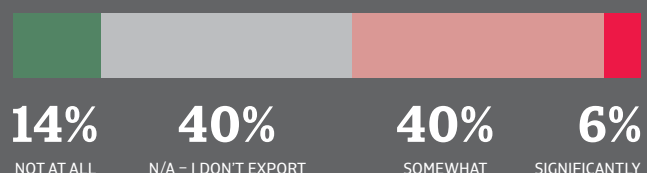
#### Do you have any export tips?

Tap into those people who are able to support you and give you advice, who are able to guide you in the right direction, so that you don't waste time or your scarce resources, but hone in on the right opportunity.

**Gordon Cessford**

### Audience Poll #1

TO WHAT EXTENT HAVE CHANGES IN INTERNATIONAL TARIFFS AND BORDER CONTROLS OVER THE PAST 12 MONTHS IMPACTED YOUR BUSINESS GROWTH STRATEGY?



# What difference will President Biden's election make to US-China trade relations?

Prior to the US presidential elections in November 2020, tensions between President Trump and China had become increasingly heated, with many examples of tit for tat tariffs. So when Donald Trump failed in his bid to get re-elected many commentators expressed the possibility of improved relations between the two superpowers.

However, for geopolitical strategist John Hulsman the election of a new US president will not bring about greater US-China free trade. He asserted that despite the Democrat Joe Biden taking over from Republican Donald Trump, he felt both presidents' views on trade are similar enough that no significant change will be discernible. Quoting from the Simon and Garfunkel lyrics to The Boxer he said: *"After changes upon changes, we are more or less the same."* He added that he believed Biden's views on China and trade in general were close enough to Trump's views that the US position towards tariffs and relationships would not change with the new administration.

John also maintained there is a tendency for the US Democrat party to be protectionist. He said: "One forgets that, historically, the Republican Party is the party of free trade." He added: "and you see the Democrats becoming an increasingly protectionist party. You can see this by them jettisoning the Comprehensive and Progressive Trans Pacific Partnership CP-TPP."

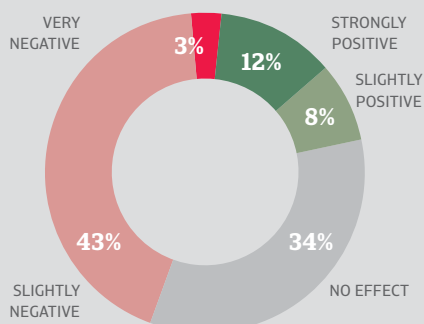


## Our pre-event questions

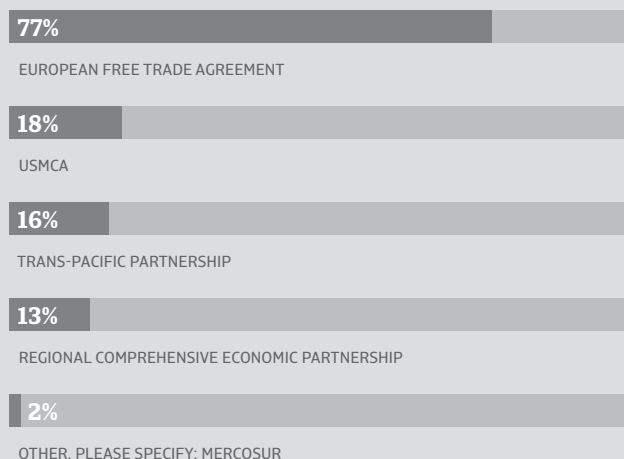
### We asked 4 questions in advance.

We wanted to take a quick snapshot of how businesses around the world are approaching tariffs and trade agreements. So, as part of the registration process for this virtual event, we asked attendees the following four (voluntary) questions.

#### OVERALL, HOW HAVE TARIFFS HAD AN EFFECT ON YOUR BUSINESS?



#### WHICH OF THE FOLLOWING REGIONAL TRADE AGREEMENTS IMPACT YOUR BUSINESS?



### Does the new administration make life easier for businesses exporting to the States?

We asked trade expert Lesley Batchelor what exporting to the US might be like for businesses on the ground. She said: Business is business, isn't it? So effectively, I think it's going to be more or less the same. We think that Biden's going to be a more acceptable face of protectionism. This means he'll actually tell us very nicely that he's not going to do anything, whereas Trump was a bit more brutal." In addition to agreeing that Biden would be unlikely to remove tariffs, Lesley reminded the audience of the scale and complexity of trading with the US.

She noted that in addition to its sheer size, its approach to individual state laws and state taxes makes exporting to the USA a complex market to work with. She added that US-UK trade is currently working fairly well and she did not see how a UK trade deal with the US would make much impact to the way businesses do business trade.

### How may the Biden presidency affect American businesses?

Atradius Regional Director of North America Gordon Cessford used the analogy of a cocktail to describe his perception of US business confidence following Biden's election. He said: "I liken it a little bit to a cocktail, with a few measures of positivity and a large dash of caveat. So on the positive side, there is a feeling of calm here now, or at least of less uncertainty." Gordon also drew attention to the value of US currency and how it has a role to play in import/export trade. He noted that most commentators expect the value of the dollar to decrease under Biden. This in turn will mean US exports will become more

attractive to overseas buyers, and will support the US export community. Reflecting on economic predictions Gordon delivered a fairly positive outlook for trade. He said that economists are expecting a fairly strong global economic rebound in 2021. GDP is likely to recover by about 5%, following the 3.9% contraction last year. In addition, trade is expected to rebound between 7% and 8% after a similar contraction last year.

However, Gordon acknowledged that one the greatest risks currently impacting trade relationships is the pandemic. He said: "Business closures and supply chain disruption continue to be concerning. We need to allow those vaccination programmes to progress globally, not just in the US. This will help us all find a way to return to a kind of normal in terms of trade and opportunities."

### Audience Q&A



#### Who has the upper hand in a trade war, the US or China?

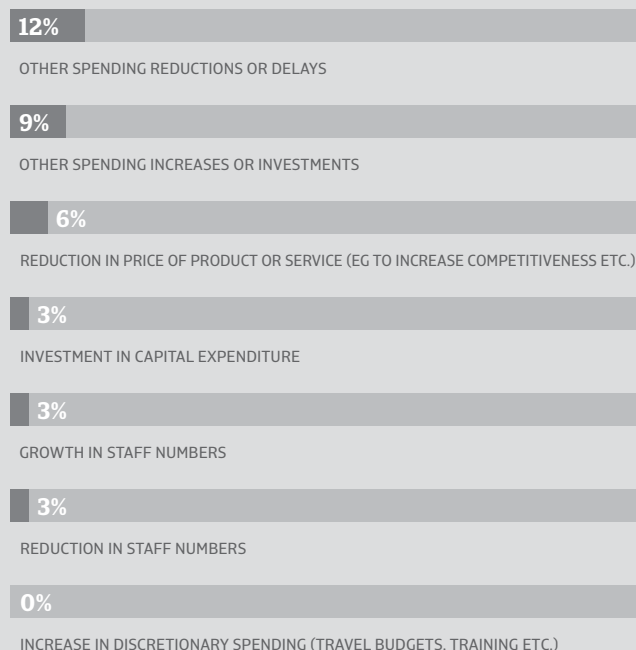
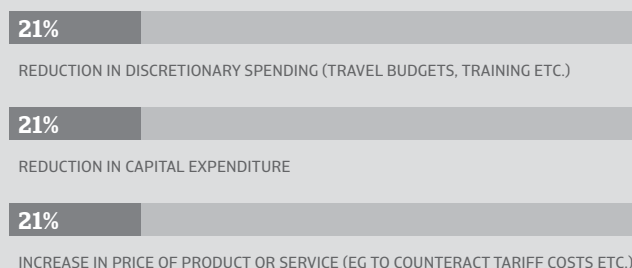
The Chinese definitely have the better of it on the US-China competition route because they're opening (while the US retreats into protectionism). They're the largest trading partner of all the countries around them. And in terms of Asia, all the future global growth is there. However, politically, the US has the upper hand as the rest of Asia moves towards the US over alarm at China's expansionist policies.

**John Hulsman**

### DURING PERIODS OF TARIFF UNCERTAINTY OR CHANGES IN REGIONAL TRADE PARTNERSHIPS, DOES YOUR BUSINESS ALTER THE WAY IT APPROACHES BUDGET PLANNING?



### IF 'YES' TO THE ABOVE, WHAT WERE THE MAIN CHANGES YOUR BUSINESS MADE?



# What is happening with the vaccine trade wars?

**On the same day as the live Atradius webinar on trade and tariffs, the 27 EU state leaders held a summit to discuss their COVID-19 vaccine strategy.**

Prior to the summit some EU voices, including President of the European Commission, Ursula von der Leyen, had expressed frustration that the EU was exporting vaccines to the UK at a time when many member states were experiencing a third wave of the virus and the UK had not sent any vaccines to the EU. Indeed, the day before the vaccine summit, the Commission revised regulations in order to allow the EU to introduce the principles of reciprocity and proportionality into vaccine exports. In effect, the EU now has the ability to deny vaccine export licences to countries whose vaccines coverage is better than the EU. After becoming heated in the days leading up to the summit, the EU leaders cooled the rhetoric of a potential vaccine war and reasserted their commitment to a pro-rata delivery of vaccines to all EU countries.

John Hulsman agreed that this cooling of such an emotionally charged topic was the right way forward for the EU.

He noted that vaccine supply chains are complex and include elements of UK production. He said that any unravelling of these chains could be potentially damaging to the vaccine programmes of individual countries. He also acknowledged the potential for vaccine trade wars is not limited to the EU. He said: "The Indians are now holding vaccine shipments as we speak. So this could all get out of hand. And the Americans are using emergency measures to stop the export of vaccines, or to limit them to the USMCA (US, Mexico, Canada) countries."

Lesley Batchelor asserted that different countries will need to collaborate with each other over vaccine distribution. She said that the politicians "seem to be moving a little closer to having a proper understanding of the fact that we are all going to have to cooperate."

## Audience Q&A



### **What will a post-Angela Merkel world mean for trade after her departure?**

Huge respect for Angela Merkel, she's absolutely incredible, it's going to be difficult and there's going to be disruption. We've just got to hope that her successor can step into those big shoes.

***Lesley Batchelor***





## Will the new head of the WTO take it in a new direction?

The World Trade Organization (WTO) appointed a new Director-General on 1 March 2021. Ngozi Okonjo-Iweala is a global finance expert, an economist and Nigeria's former Finance Minister. Commenting on Dr Okonjo-Iweala's appointment, Lesley Batchelor said that she was looking forward to the WTO working on globalisation and saw this as a good thing. She added that the WTO has brought us the general system of preferences and noted this has helped smaller, less developed countries trade on a more even playing field.

Lesley pointed out that the former US President Trump had previously developed a strained relationship with the WTO and she felt this would not be the case with President Biden. She said: "I think the WTO has struggled under attack from Trump's administration. I don't think Trump liked the idea that every country had an equal say."

John Hulsman echoed Lesley's point and said: "Trump did not like the idea of the WTO in terms of American nationalism as a philosophy of anything superseding the sovereignty of the United States in any way. He was out to get it, render it ineffective. There's no doubt about that at all."

He added: "Biden is not like that. Biden will be generally in favour of things like the WHO. Biden will be in favour of repaying some of the UN dues. Biden will be in favour of seeing the WTO has enough members that it can do things. And so to that level, Biden will be a very different animal from Trump."

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*We're looking forward to the WTO working on globalisation as a good thing. It has brought us the general system of preferences, where smaller, less developed countries are actually helped to trade on a more even playing field.*

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**Lesley Batchelor**

# How do attitudes to trade vary between different regions and how can businesses use that information?

Gordon Cessford has lived and worked in some of the world's major trading regions, including Europe, Asia and the Americas. His experience has made him well-placed to comment on regional variations. He said: "I'm a firm believer that actually, wherever you are in the world, whichever geography you operate in, the fundamentals and building blocks of trade are the same. These include conducting your due diligence, being prudent in your risk management, being open and communicative with customers, with clients, etc."

Gordon also noted that many markets around the world are currently undergoing changes and evolutions. He picked up on the trend that although China has always been known as a big exporter, more recently they have been beginning to move away from that export-orientated investment towards more a consumption-led domestic approach. This will impact supply and demand, and may make the country more shock resistant to what's going on outside of China. He added: "Obviously tariffs remain, so it will be interesting to see how the relationship develops between the US and

## Audience Q&A



### What is your advice for exporting to Asia?

It's important to remember that Asia is not a homogenous market. It's a complex jigsaw of countries with different cultures, different languages, different legal systems and regulatory environments, etc. And so you've got to do your homework and get advice from export councils, consulates, embassies or trade missions, and have good local partners.

*Gordon Cessford*

China post-Trump. Around the world we've got the different trade agreements, USMCA, CP-TPP, and RCEP (the Regional Comprehensive Economic Partnership). Businesses tend to be pretty pragmatic when it comes to trade and tariffs. What they all strive for, though, is the opportunity to grow and the opportunity to trade securely."







#### Trade is trade, but can cultural issues get in the way?

Lesley Batchelor agreed with Gordon Cessford that most businesses know what they are doing and practise due diligence when developing trading relationships. However she did acknowledge that the biggest mistake businesses make is to fail to prepare properly. She said: “Things like intellectual property are areas where businesses have to make a really big decision. Are you going to keep your IP secret and keep it all to yourself to protect it against being copied? We always used to say, *well, if you really want to keep it secret, put it under your bed, and don't let anybody see it.* But of course, that's not really going to help you if you want to sell things and make money.”

She also cautioned that although tariffs can impact on the price that you can charge for your product in a market,

they are rarely the only cost associated with exporting and urged businesses to look into possible local taxes too.

John Hulsman described most trade agreements as “geo-strategic moves”. He recognised that deals such as the RCEP and the CP-TPP may have some political value, but felt that they would not impact most businesses on the ground.

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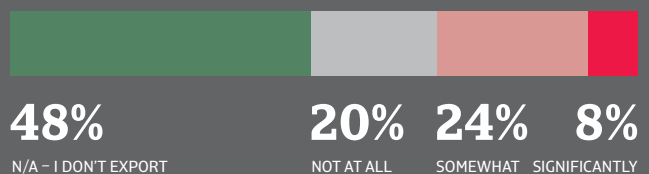
*If you're trading with a country, you don't often go to war with them.*

”

**Lesley Batchelor**

#### Audience Poll #2

**HAS YOUR BUSINESS CHANGED THE WAY IT APPROACHES IMPORTS AND EXPORTS DUE TO REGIONAL TRADE AGREEMENTS?**



## What areas concerning trade and tariffs should businesses be most aware of?

In terms of areas to be aware of, John suggested his prediction about Biden's protectionist stance would be wrong if the US is seen to engage in some trade agreements. He said: "I'll be wrong in the assessments I made about protectionism, and about Biden, if and when there's movement on TTIP or the CP-TPP, or the US-China tariffs begin to be relaxed. If any of those three big pieces move, then you have to question the entire understanding of what I said."

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*One forgets that, historically, the Republican Party is the party of free trade. And you see the Democrats becoming an increasingly protectionist party.*

”

John Hulsman

### Audience Q&A



#### **Will Donald Trump run for another term as president of the USA?**

If he isn't indicted, and if his health is good, I think he'll try again. And the danger for the Republican Party is he can win the nomination, but he can't be elected president. After the insurrection, the numbers are clear that he lost independents forever. What they want is Trumpism, without Trump. Some of the disruption, some of the populism, but him to go away.

John Hulsman





## How can business mitigate political trading risks?

Gordon Cessford acknowledged that political risks and indeed all trading risks are issues that he and his colleagues at Atradius consider, assess and work to mitigate for businesses every day. He explained: "I'm going to borrow part of a John Allen Paulos quote which is, *"uncertainty is the only certainty there is."* He cited the rapid change from a potential US-China trade war to the global pandemic as example of how external events can impact businesses and can cause unexpected disruption.

He said that the best way businesses can protect themselves against uncertainty is to have robust risk management processes, including credit management and the agility to be able to quickly respond to crises and to opportunities.

Gordon explained that risk management procedures follow a three-step process. "Step one: understand the risks. Step two: manage the risks. Step three: mitigate if necessary." He suggested that information from political risk experts such as John Hulsman may form part of step one.

He said: "If I look at some of the things that John is saying, that's great macro economic environment information to have at hand when making decisions when exporting or importing or doing business. Then of course, you dig further down into your business to look at the dynamics of your own market and your products or services. And then down into the next level, which is very much where Atradius works, to look at the credit risk of the customer, the buyer. Know your customer, KYC. This is something that banks have been doing for many years. And it's really important for corporates to also be doing the same. In addition, it is important to say it's not just at the beginning of a relationship.

It's about that ongoing assessment of the supply chain, your customer supply chain, plan and strategise about what happens. If something goes wrong, what's that continuity plan? Then from a mitigation perspective, obviously, we have tools available, credit insurance is one of them, allowing companies really to take those risks in a safe and secure way, and at least remove some of that uncertainty."

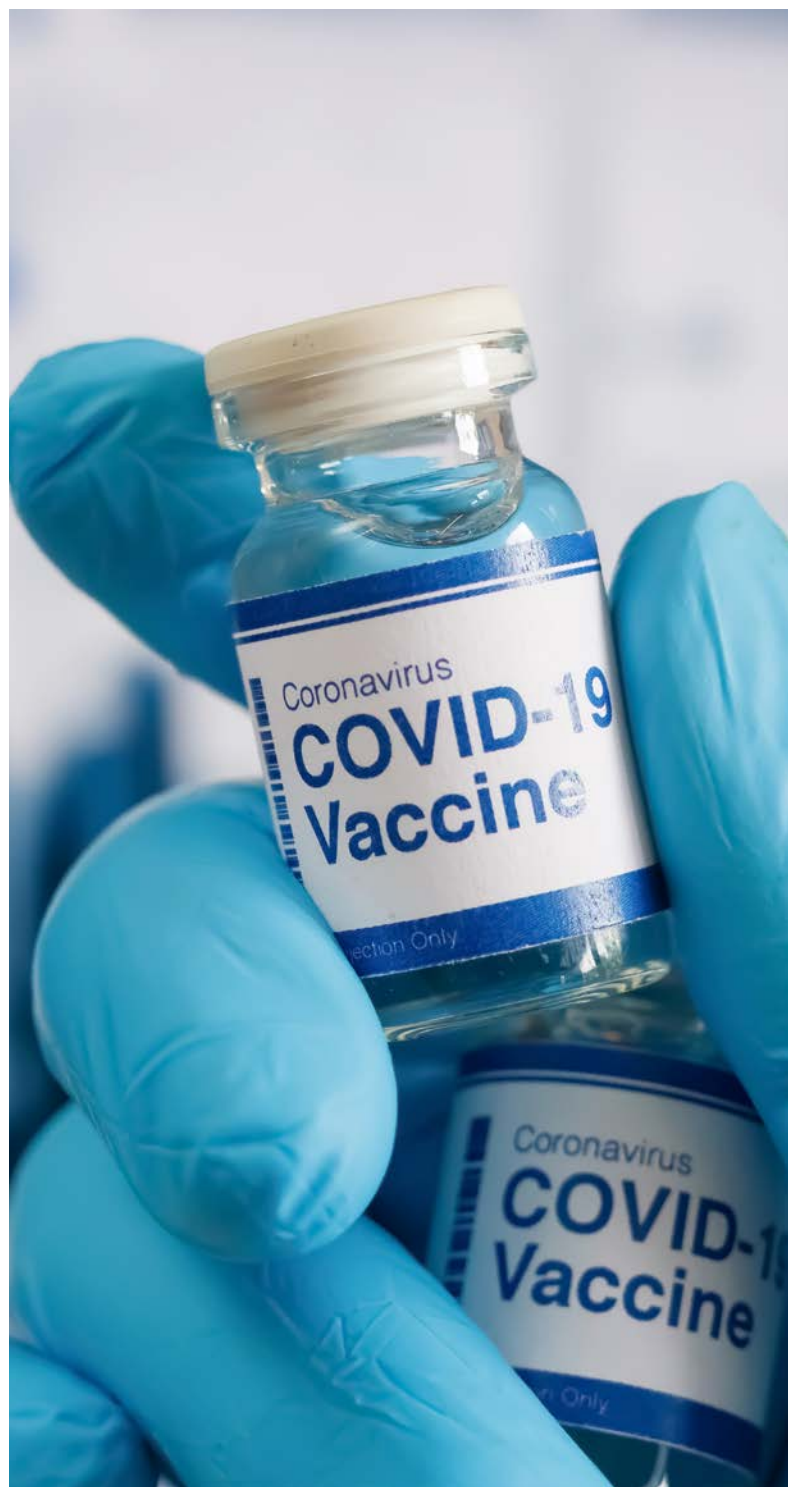
### Audience Q&A



#### **What capacity is left within governments to continue pandemic trade and economic support?**

Many governments delivered fiscal support and in some cases even amended bankruptcy laws. But I think we will now start to see these withdrawn. So we may see an uptick in corporate insolvency of up to as much as 26% in 2021. That's a big uptick, because actually, what the surprise was in 2020, was that so many businesses survived the economic downturn. So we will see a change there this year.

**Gordon Cessford**



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This paper captures the views of the webcast's virtual panel and is not necessarily a reflection of the views of Atradius. Visit the Atradius YouTube channel to access a summary version of the webinar.

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Andreas Tesch  
Atradius CMO



Daisy McAndrew  
Moderator / Journalist



John Hulsman  
President of John C. Hulsman Enterprises



Lesley Batchelor OBE  
Director of Export Boot Camps



Gordon Cessford  
Regional Director for Atradius  
in North America



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Atradius  
David Ricardostraat 1 · 1066 JS Amsterdam  
P.O. box 8982 · 1006 JD Amsterdam  
The Netherlands  
Phone: +31 (0)20 - 553 91 11

[info@atradius.com](mailto:info@atradius.com)  
[www.atradius.com](http://www.atradius.com)