



Trade Wars and their Influence on the Global Economy

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Summary

- ▶ **Context - Global Trade Tensions are high**
 - ▶ US-China tariff increases
 - ▶ Japan-Korea
 - ▶ US Automobiles
 - ▶ Brexit
 - ▶ Steel and aluminum tariffs (remember those?)
- ▶ **Global growth is slowing and trade is weak**
- ▶ **Long term economic implications for potential growth**
- ▶ **What is the value of the WTO?**
 - ▶ Are recent US-Japan agreement and potential US-China negotiations consistent with WTO agreements?
- ▶ **Will the global economic system fragment?**
- ▶ **Will there be Updating/Reform of the WTO?**

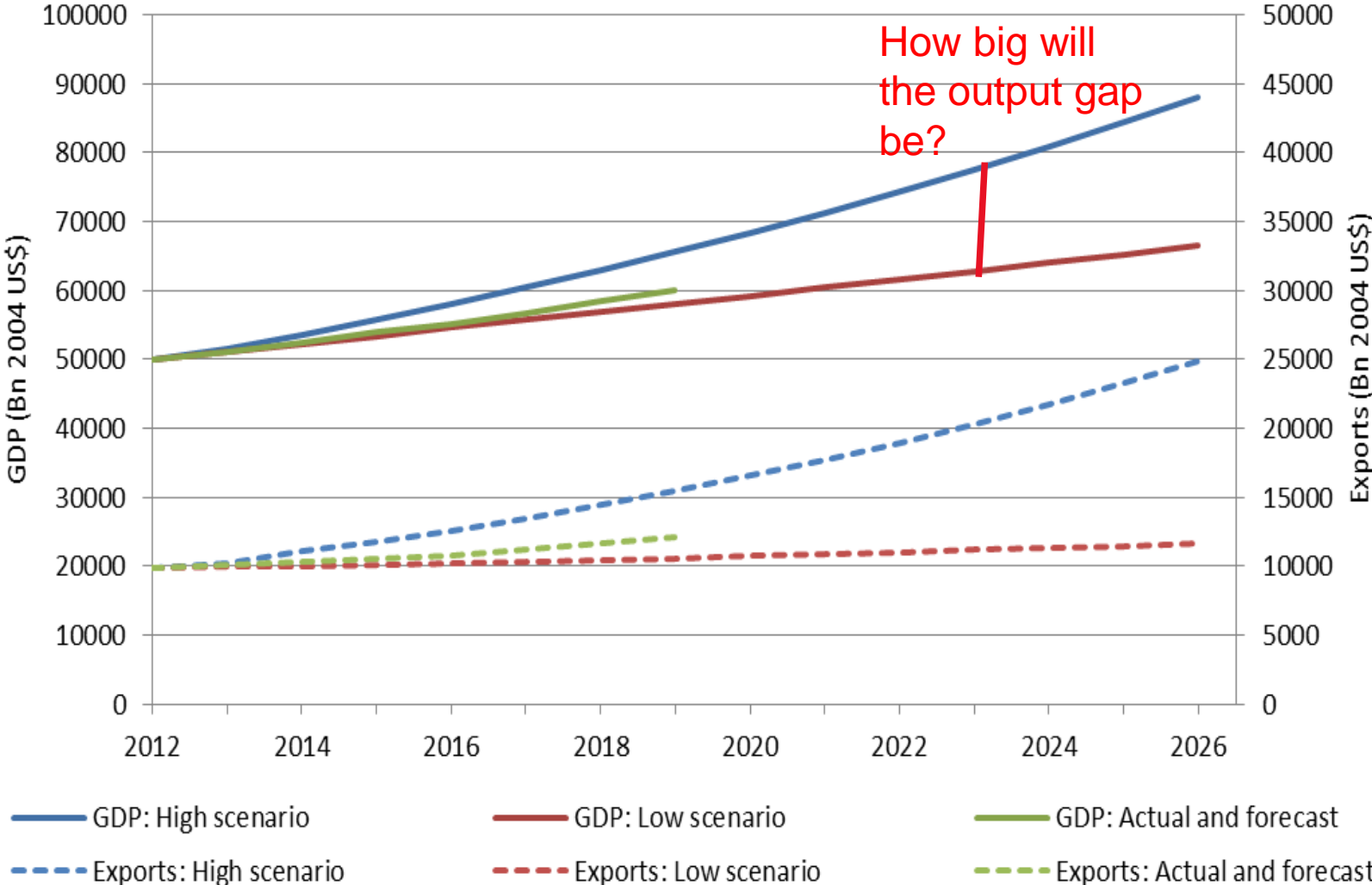
Global Growth and Trade Tensions



- IMF/OECD - Forecasts that global expansion of 2017 and 2018 is now losing momentum;
 - OECD - Expected growth of 2.9% in 2019 and 3.0 in 2020 – revisions downward.
 - IMF currently 3.0% in 2019 (down from July's forecast of 3.2) and 3.2% (down from July's forecast of 3.5) in 2020, and these are down from 3.8% in 2017 and 3.6% in 2018.
- WTO World merchandise trade volume is forecast to grow 1.2% in 2019. This is substantially below the 2.6% trade growth that had been projected in April. Services trade showing significant weakness also.
- Trade volume growth could recover going forward but this depends on an easing of trade tensions.
- Slowdown most marked for advanced economies – big issues are trade tensions and knock-on uncertainty – impacts on **investment and consumption** are the things to watch.
- The impacts on investment and, if sustained, greater uncertainty, lowers long term potential growth – lost FOREVER. This is the main long term cost to all of this.
- Risks to the outlook are mostly to the downside.

Bottom line...slower long-term growth adding up to significant foregone income and consumption – this is the global menace

World GDP and exports

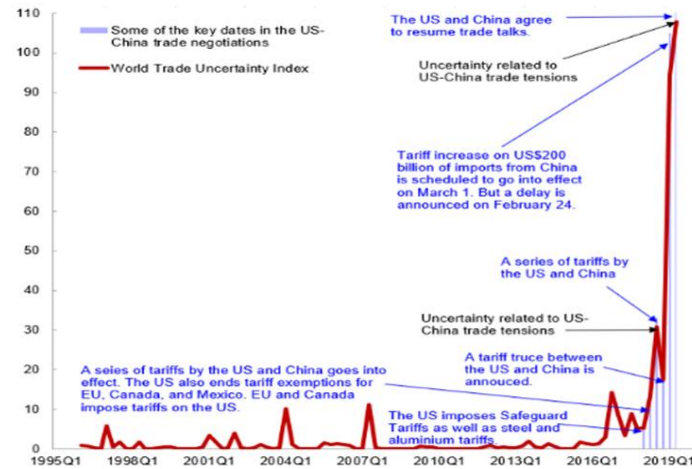


While trade costs have fallen for many years they are now rising and, more importantly, so is uncertainty around those trade costs (and other things!). And remember tariffs are only one part of trade costs

Uncertainty surges after 20 years of stability

In the past year, the World Trade Uncertainty index in the past year jumped 10-fold from previously recorded highs as the US-China trade war escalated.

(WTU index, GDP weighted average)

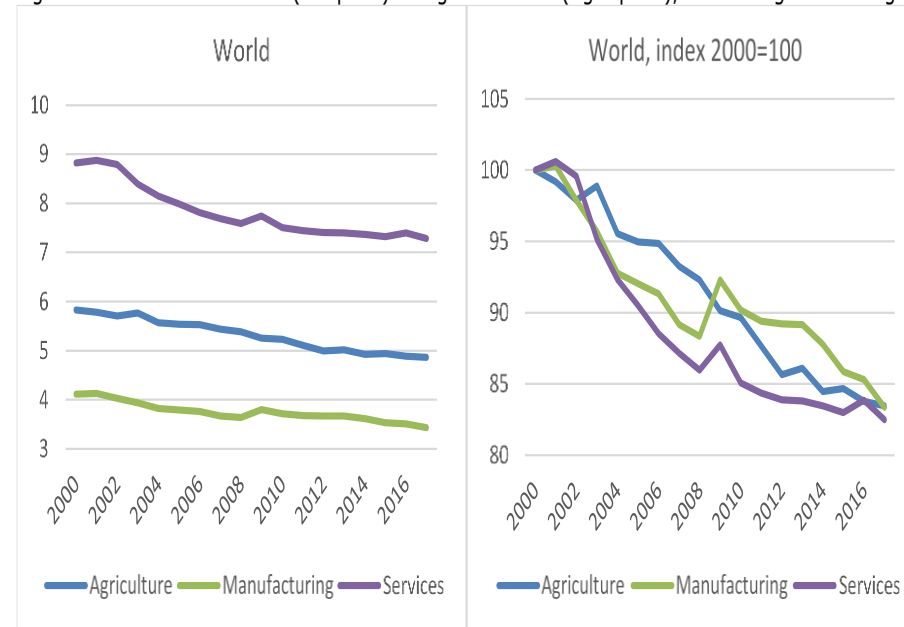


Source: World Uncertainty Index. Ahir, Bloom, Furceri (2018). The source for the data on key dates in the US-China trade negotiations comes from Bown and Kolb (2019).

Note: The font in blue indicates the tariff measure taken, and the font in black indicates the narrative of the World Trade Uncertainty index. A higher number means higher trade uncertainty.

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Figure 1: Trade cost in levels (left pane) and growth rates (right pane), trade-weighted average



Note: The level of trade cost can be interpreted as how many times higher is international trade cost compared to domestic trade cost. Hence, trade cost in services in 2017 (7.28) corresponds to an ad valorem equivalent of 628 per cent. Trade cost in manufacturing in 2017 (3.43) corresponds to an ad valorem equivalent of 243 per cent.

Trade costs are the highest in services and the lowest in manufacturing.



Conclusions

- ▶ Tensions are high
- ▶ Slow growth – how long? Will it be a crisis?
 - ▶ Many factors affect growth beyond trade and trade policy
- ▶ Long term “opportunity” costs of prolonged conflict could be high, but not observed.
- ▶ The WTO is a set of AGREEMENTS. Underlying principles very valuable and flexible, but world has changed. Many members do not AGREE on how to proceed.
- ▶ WTO reform discussions (among academics and members) are very, very active, but no sign of convergence among members at this time.