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# Resurgence of trade wars

Why are they happening now? What are the costs?  
What chance for de-escalation?

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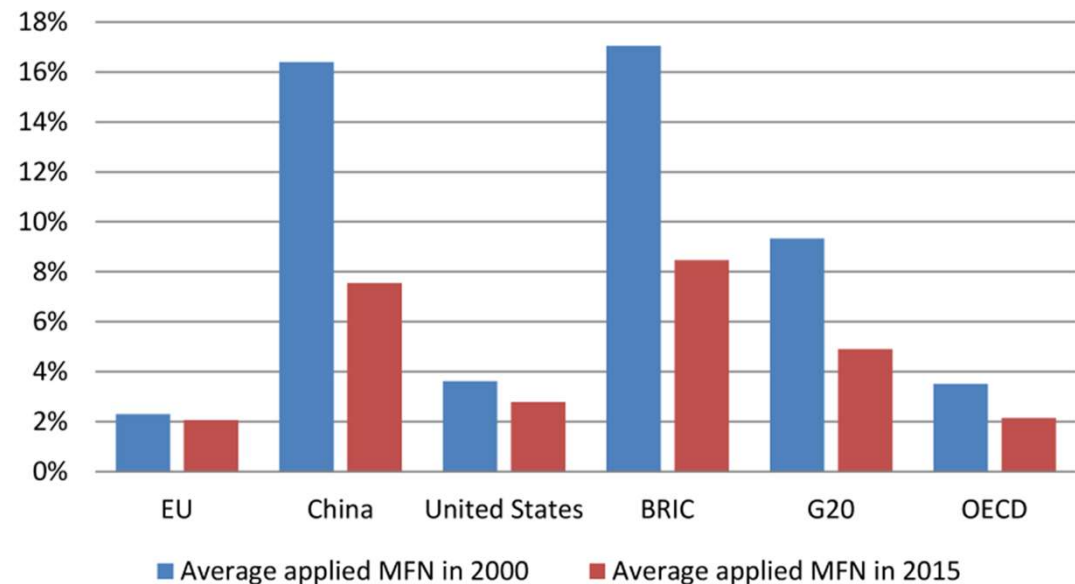
Elisabeth Christen

**Transatlantic Trade Conference**  
November 17, 2020



# Changing trade policy landscape

- Limited results in WTO's multilateral trading framework
- Rising protectionist measures since 2009
- Tariffs declined in all regions
- Number of new discriminatory measures increased steadily
  - More than 80% of the discriminatory measures imposed in G20 countries
  - Implemented protectionist interventions since 2009: 20% increase in tariffs; 55% NTB
  - Share of product lines affected increased fivefold



Source: Yalcin, Felbermayr and Kinzius (2017).

# Protectionist policies

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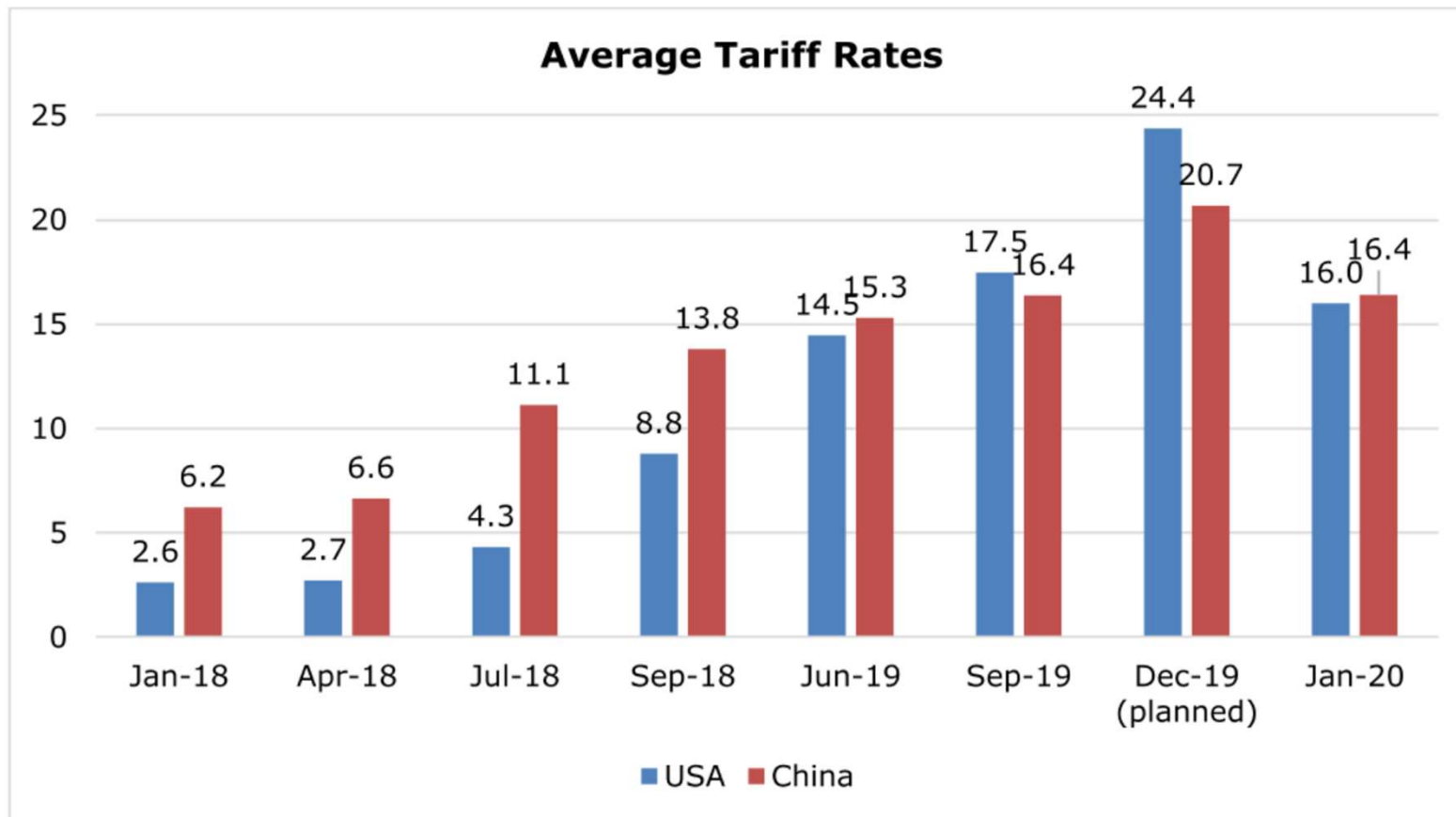
Source: Salt Lake Tribune, October 18, 2019.

# Largest return to protectionism by the US since decades

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- **Trade war involves multiple battles with US allies and other trade partners**
- **Multiple tariff increases since beginning of trade disputes in spring 2018**
  - In response to unfair trade practices, national security threats, and injury to competing industries
- **Types of goods protected by tariffs expanded over time**
  - First 5 waves hit mostly capital goods and intermediate inputs
  - Last 3 waves have included \$126 bn of consumer goods
- **Tripling of average US import duty (rising from 1.6% to 5.4%)**
- **Tariffs on targeted imports increased from an average of 2.6% to 16.6% (on more than 12,000 products)**
- **Covering \$396.4 bn of US imports; roughly 16% of total US imports**
- **Retaliatory tariffs cover approximately \$97.5 bn of US exports → EU, CN, TR, IN, RU**
  - Targeting more than 8% of US exports, raising tariffs from an average of 7.3% to 20.4%

# Evolution of average tariffs



Source: Bekkers and Schroeter (2020).

# Economic impacts

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- **Large and immediate impacts of tariffs on trade flows**
  - 10% tariff is associated with about a 10% drop in imports for the first three months
- **Complete pass-through of US tariffs to US importers and consumers**
- **Redirection of trade flows and reorganized value chains in East Asia**
  - Vietnam, Taiwan, Korea, and Japan are exporting substantially less to China and exporting more directly to the US, in particular in the electrical equipment sector
- **Several studies\*) quantify the macroeconomic outcomes of the trade conflict**
  - Various model settings (macroeconomic business cycle models vs. quantitative trade models; short-run vs. long-run effects; extent of protective actions included, etc.)
- **Estimated long-run direct effects of the tariff increases**
  - on global GDP vary around -0.2%
  - on US-GDP are relatively uniform across studies and range between -0.2% and -0.4%
  - on GDP of China vary more and range between -0.3% and -1.4%
- **Negative employment channels are dominant, leading to a fall in US manufacturing employment**

\*) See for example: Fajgelbaum et al. (2019); Amiti et al. (2019); Cavallo et al. (2019); Bekkers and Schroeten (2020); Flaen and Pierce (2019); Breuss and Christen (2019).

# De-escalation prospects

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- **“phase one” US trade deal with China → bringing some reprieve to the tensions**
  - highly asymmetric treaty: commits China to open its markets and to purchase large quantities of US products in order to avoid additional tariffs
  - US reduces certain tariffs from 15% to 7.5%; both sides suspended proposed tariff increases
  - China is willing to purchase \$200 bn of additional US exports (over 2017 levels) in the next two years, including \$77 bn of manufactured goods and \$32 bn of agriculture products → amounts to a doubling of imports of these goods from the US
  - EU will lose about \$ 11 bn in exports to China → roughly a sixth of the overall trade diversion → largest negative effects in aircraft, vehicles, industrial machinery, optical and medical machinery, pharmaceuticals, and other agricultural goods (Chowdhry and Felbermayr, 2020)
  - Very unlikely to be compatible with WTO law, because it violates the most-favoured-nations principle and engages in managed trade
- **US trade deal with Japan - “stage one” of a broader trade liberalization negotiation**

# US trade policy prospects

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- **Probably more coherent and predictable, seeing ways in which to cooperate**
  - US will probably remain protectionist
  - Possible end of “artificial trade wars” with Europe → well-balanced deal for transatlantic trade (beyond Trump-Juncker-Deal)
  - Redefine China strategy → consult with US allies to pursue a more cohesive strategy against China



The logo for WIFO, consisting of the letters 'WIFO' in a bold, black, sans-serif font. The letter 'O' is a white circle with a black outline.A solid red square, part of the WIFO logo.

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**Thank you for your attention!**

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## EU is more protectionist than the US in terms of tariffs

	No. of products	EU tariffs		US tariffs	
		Mean	Median	Mean	Median
Live animals	194	19.8	12.0	3.1	0.0
Food, beverages, tobacco	181	18.3	16.4	8.3	4.0
Vegetable products	270	11.5	5.7	2.7	0.9
Fats and oils	52	9.5	5.7	3.4	2.6
Textiles	809	7.9	8.0	9.0	8.6
Footwear	55	7.3	4.7	8.0	5.9
Chemical industry	759	4.7	5.5	2.9	3.4
Plastics and articles thereof	189	4.7	6.1	3.6	3.7
Vehicles, transport equipment	132	4.0	2.7	3.0	1.0
Articles of stone and glass	138	3.4	3.0	3.5	2.9
Misc. manufactured articles	131	2.5	2.7	2.8	1.5
Arms and ammunition	17	2.5	2.7	1.3	1.1
Wood and articles of wood	79	2.4	1.0	1.5	0.0
Optical instruments	230	2.3	2.4	4.6	1.9
Leather and articles thereof	74	2.2	2.0	3.4	2.5
Basic and fabricated metals	587	2.1	1.7	2.0	1.3
Machinery	762	1.9	1.7	1.5	0.9
Jewellery	52	0.6	0.0	2.2	0.0
Mineral products	151	0.3	0.0	0.3	0.0
Paper or paperboard	149	0.2	0.0	0.1	0.0
Works of art and antiques	7	0.0	0.0	0.0	0.0
All 6-digit products	5.018	5.2	3.3	3.5	2.3