Future Trade Policy Scenarios
Group 3
Joining Uncle-Sam in a very different kind of war

Disclaimer: The views represented in this presentation do not represent official positions or policy of any presenter’s respective university, agency, or government.
Let us imagine the (scary) world where the USA convinces its major allies to join the trade war with China…!

The battle
- The provocation → The allies increase tariffs by 10ppt on all Chinese goods
- The response → China matches the tariffs on each ally

Fortifying their positions
- The sweetener → Allies reduce NTMs within their bloc (based on empirical FTA estimates) → Scenario 1 & 2
- The defense → China puts in place internal measures to keep investment high → Scenario 2

Four considerations
- What happens for North America
- What happens for east Asia
- What happens for the rest of OECD
- Who are the big winners & losers in the developing world
Who joins the war → USA | Mex & Can | EU & UK | Aus & NZ | Japan

Our implementation

*Baseline:* exogenous = SSP2 assumptions for population, GDP growth & labour supply
  closure = CPTPP closure

*Policy shock (S1)*: exogenous = SSP2 population
  closure = CP-TPP closure, with GDP endogenous

*Policy shock (S2)*: exogenous = *as per Scenario 1*
  closure = exogenise total Chinese investment (*qinv*)
  by freeing up Chinese rate of return (*cgdslack*)

Timeframe

2011 → no difference to 2018
  → trade measures introduced gradually from 2019 over 5yr
  → simulation to 2026
Commodities affected by the tariffs *(allies vs. China)*
- Oilseed crops | Wheat | other agriculture, Forestry & Fishing
- Energy resources | other resource extraction
- Energy products | Iron & Steel | Other metals | Non-metal minerals
  | Chemicals | other heavy manuf
- Textiles | Vehicles | Electronics | Machinery | Other light manufacturing

Services affected by the NTM reductions *(within the block of allies)*
- Power & Utilities | Transport | Communications | Financial services | Other services

Regional aggregation
- *no change to WTO scenarios*

Disclaimer: (Optional -Use this text box to absolve your home institution of any attachment to the views and findings of your presentation)
Global Macroeconomic Results

Percentage Deviation from Baseline

- Global CGD's
- PCGD's
- PXWLD
- QXWLD

Years: 2017 to 2026
Impact on China: GDP & Investment

- China’s reaction offset the negative effects of GDP on 0.02~1.24 percentage point from 2019-2026.
- Investment 1.2~6.82 ppt.
Impact on China: rate of return

Current rate of return

Expected rate of return
Impact on China: GDP expenditures

- China’s reaction offset the negative effects:
  - Priv. Cons. 0.13~1.18 ppt.
  - Gov. Cons. 0.11~1.22 ppt.
Sectoral output changes of China: 2019-2026

- China's reaction offset the sectoral output negative effects:
  - Processed food activity
  - Service activity
  - more on Service activity by 0.62~1.48 ppt

- Aggravate the negative effects:
  - Agriculture activity.
  - Extraction activity.
  - Manufacture activity
  - Most on Extraction by 0.83-1.00 ppt.
China import from others: 2019-2026

- China’s reaction offset the negative effects on import:
  - Import increase especially from neutral regions, i.e. which don’t isolation China
  - Korea: 0.67~3.5 ppt
  - US: 0.82~2.34 ppt
  - World: 0.47~2.26 ppt
China’s reaction aggravate the negative effects on export, export decrease:
  - World: 1.29~5.38~3.73 ppt
  - Korea: 1.05~4.6~3.01 ppt
  - US: 1.26~4.74~3.27 ppt
Impact on China: Trade balance

• China’s reaction
  • Decreases China’s total trade surplus: $554.18bn~$2671.12bn
  • Increases China’s trade deficit with Korea: $30.33bn~$161.03bn
  • Decrease China’s trade surplus with Japan : $46.55bn~$161.05bn
  • Decrease China’s trade surplus with US : $109.45bn~$397.74bn
  • Decrease China’s trade surplus with EU : $107.12bn~$402.4bn
Impact on North America: GDP & Investment
Impact on North America: Trade

Exports

Imports

Percentage Deviation from Baseline


Canada

USA

Mexico
Impact on North America: Summary

• Positive GDP and investment impacts – becomes muted when China reacts (particularly investment)
  • U.S. manufacturing and agriculture sectors adversely impacted
  • U.S. services sectors expand

• U.S. exports increase, imports increase even more
  • Reduced U.S.-China \( \rightarrow \) exports down 38% (36%), imports down 20% (24%)
  • Increased Intra-North America trade
    • US exports up 10% (10-11%) with Canada & Mexico
    • US imports up 14%-16% (14-17%) with Canada & Mexico

• U.S. Trade Deficit – gets even worse
Expected GDP Change
(difference from base case)

allied countries

other countries

% (Cumulative, difference from base case)
Expected Export Change
(difference from base case)

allied countries

% (Cumulative, difference from base case)

other countries

% (Cumulative, difference from base case)
Expected Import Change
(difference from base case)

allied countries

other countries

% (Cumulative, difference from base case)
Expected Investment Change
(difference from base case)

allied countries

other countries

% (Cumulative, difference from base case)

2019 2020 2021 2022 2023 2024 2025 2026

1 AUS

4 JPN

11 USA

12 CAN

13 MEX

16 EU27

17 GBR

20 NZL

2 China

3 Korea

5 BRN

6 MYS

7 SGP

8 VNM

9 REA

10 India

14 Argentina

15 Brazil

18 TUR

19 RUS

21 CHL

22 PER

23 ROW

% (Cumulative, difference from base case)
Expected Export Change from Japan by Countries
(difference from base case)

allied countries

other countries

% (Cumulative, difference from base case)
Expected Export Change from Japan by Commodities
(difference from base case)

Goods classified in the model

Composite Goods
Share by partner countries of Metal Products Export from Japan (difference from base case)
Impact on Korea: GDP & Investment

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Percentage Deviation from Baseline

GDP

Investment
Impact on Korea: Trade

Exports

Imports
Impact on Korea: Trade

Trade Balance

China
Japan
Impact on Korea: Summary

- Negative GDP and investment impacts
- GDP impact becomes muted, but investment impact becomes worse when China reacts
  - Korea’s agriculture and manufacturing sectors adversely impacted
  - Korea’s electronics, machinery and services sectors expand
- Korea’s exports increase, no change in imports, imports but increase a lot when China reacts
- Korea’s trade surplus increase, but trade surplus in recession
China isolation has resulted in the increase of EU GDP, but the reaction from China will reduce somewhat the amount of GDP increase in EU.
EU: Investment is declining, when China reacts to the isolation

As global capital inflows will come into China, as the returns in China is increasing.
EU: Trade of EU is increasing
Trade Balance of EU is decreasing due to Trade Creation and Diversion Effects
Sectoral Output is declining, but some promising to textile and light manufacturing
Questions?