Global Trade Analysis Project

Future Trade Policy Scenarios
Group 3

Center for Global Trade Analysis
Department of Agricultural Economics, Purdue University
403 West State Street, West Lafayette, IN 47907-2056 USA

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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.

SYNTHESIS

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

SYNTHESIS

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

SYNTHESIS

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*

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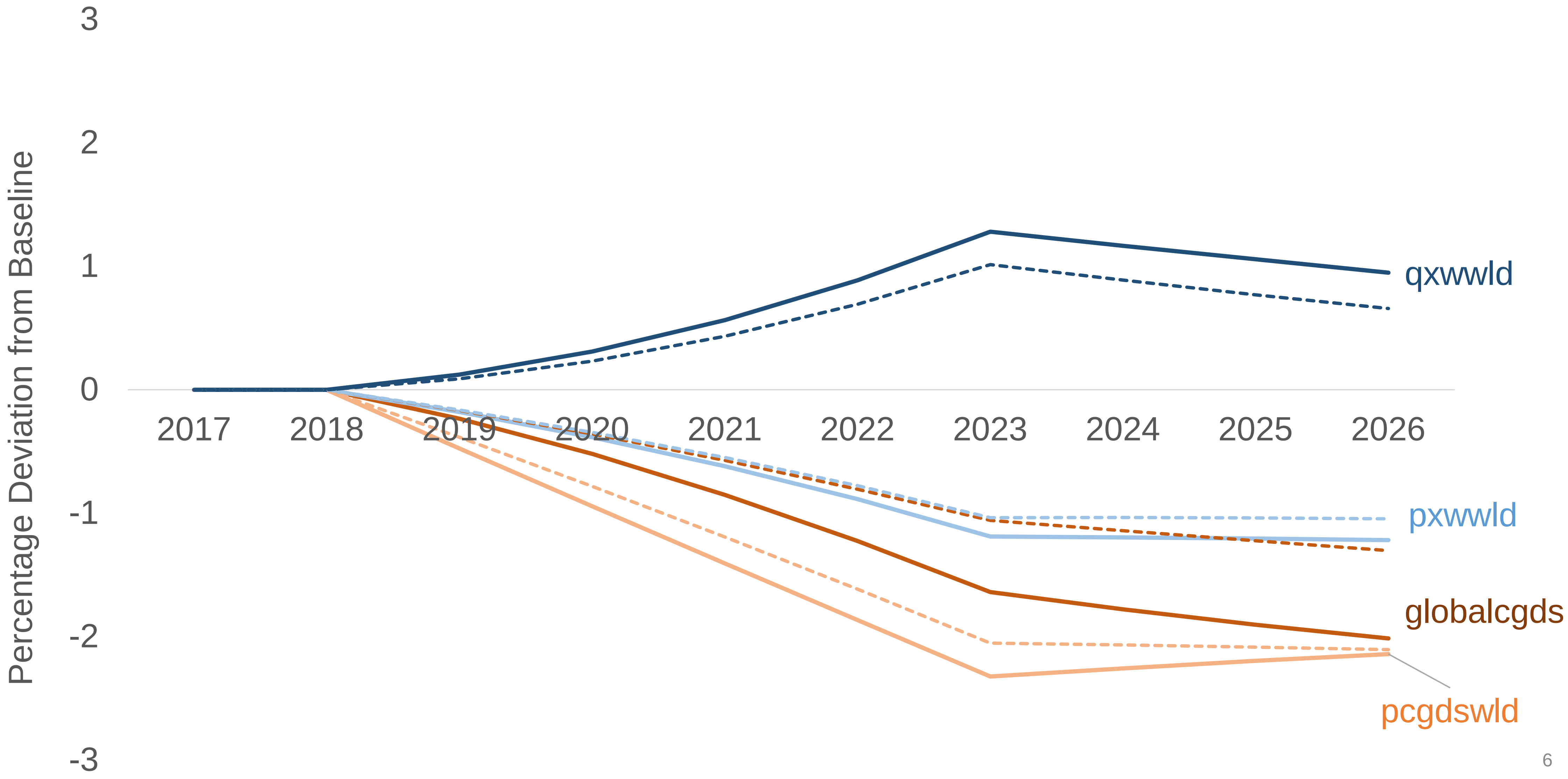
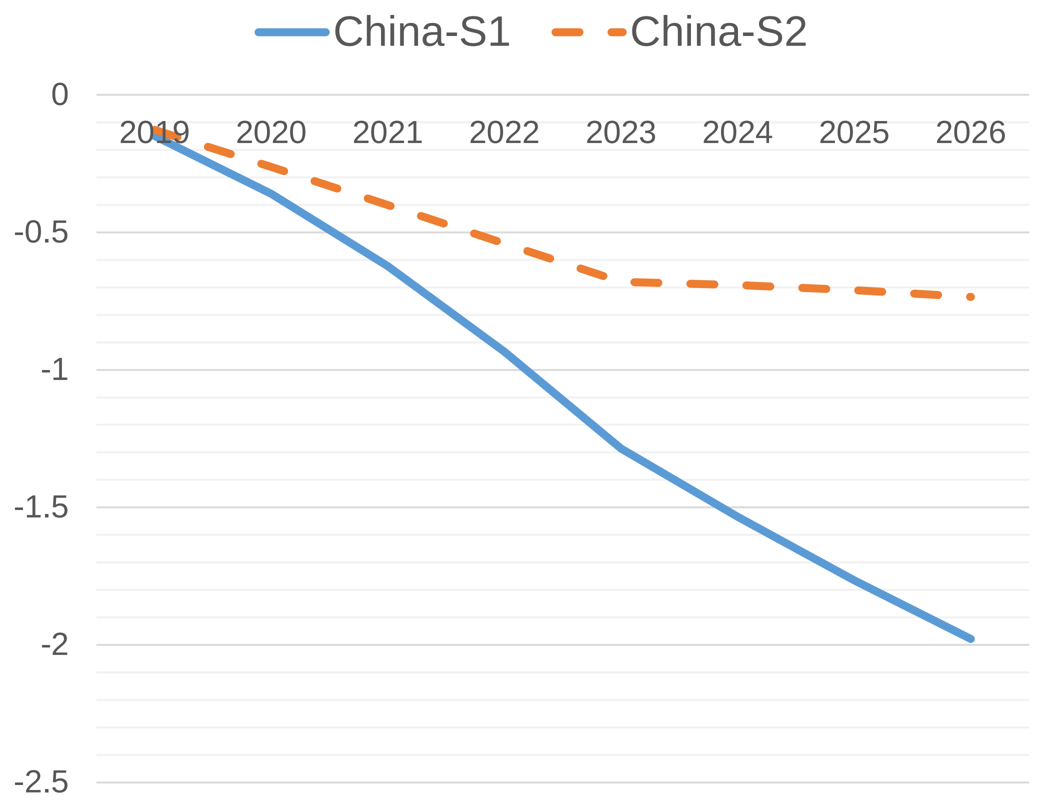
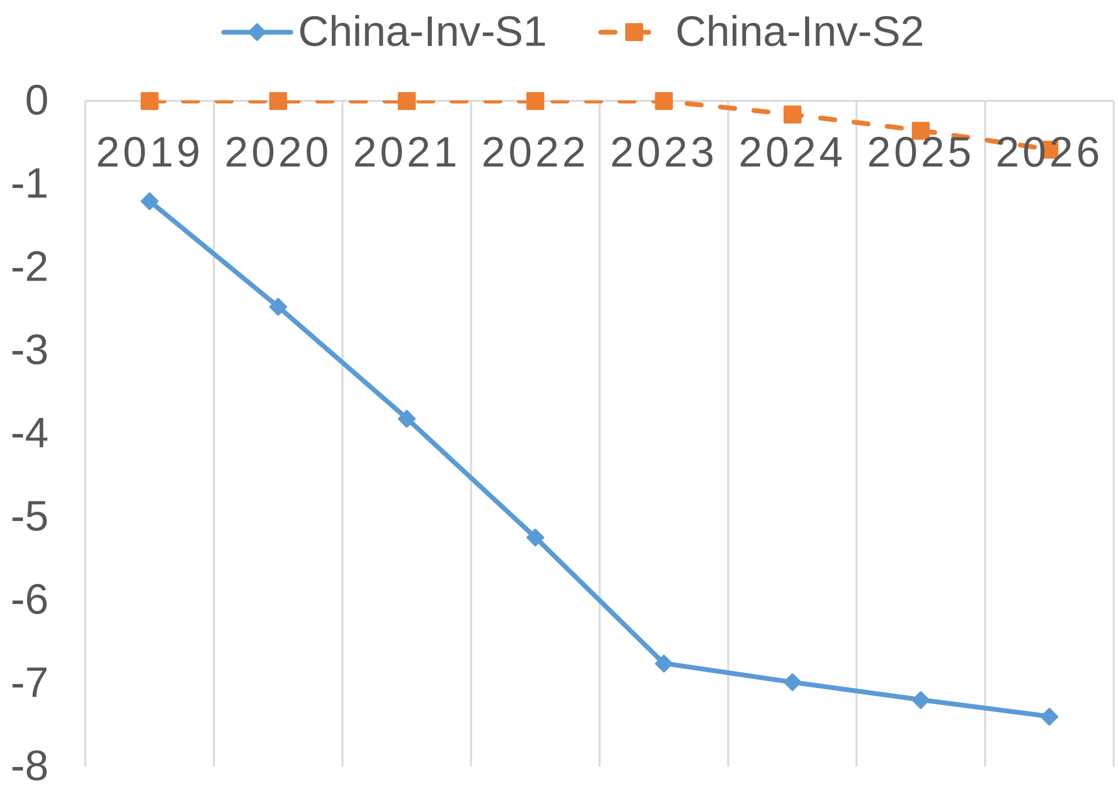
Global Macroeconomic Results



Impact on China: GDP & Investment

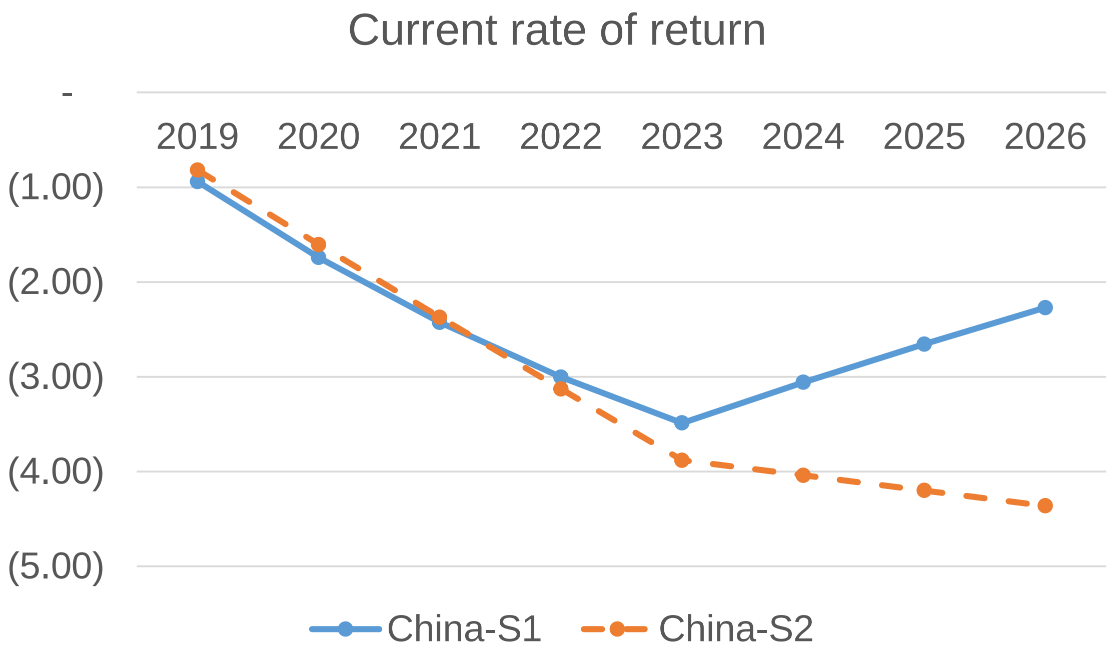


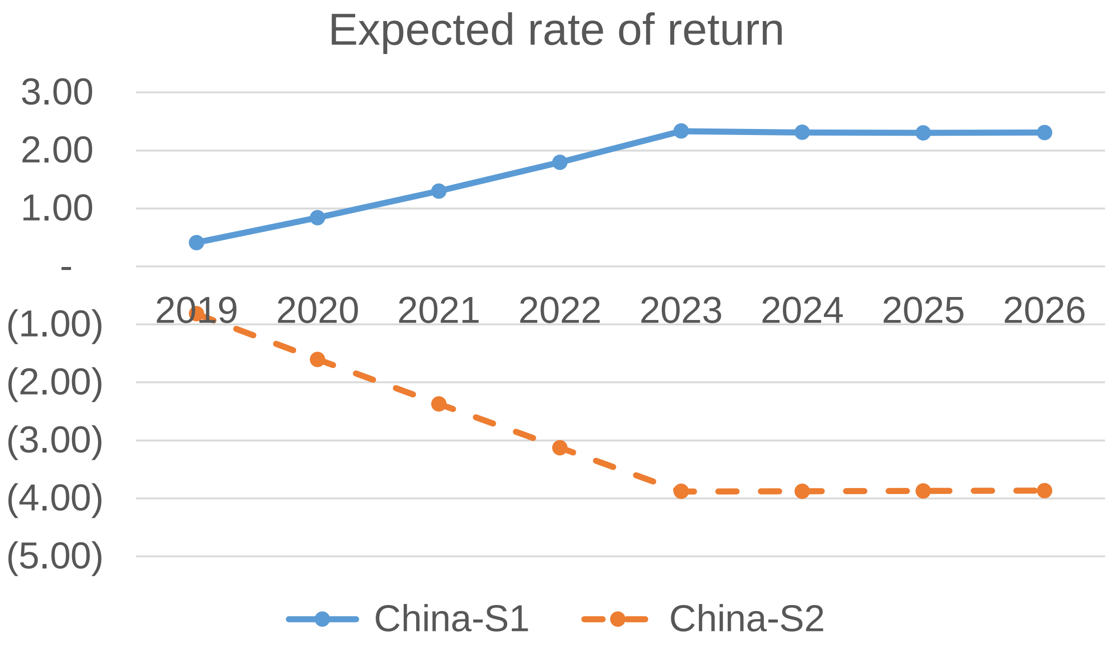


- China's reaction offset the negative effects of GDP on 0.02~1.24 percentage point from 2019-2026.

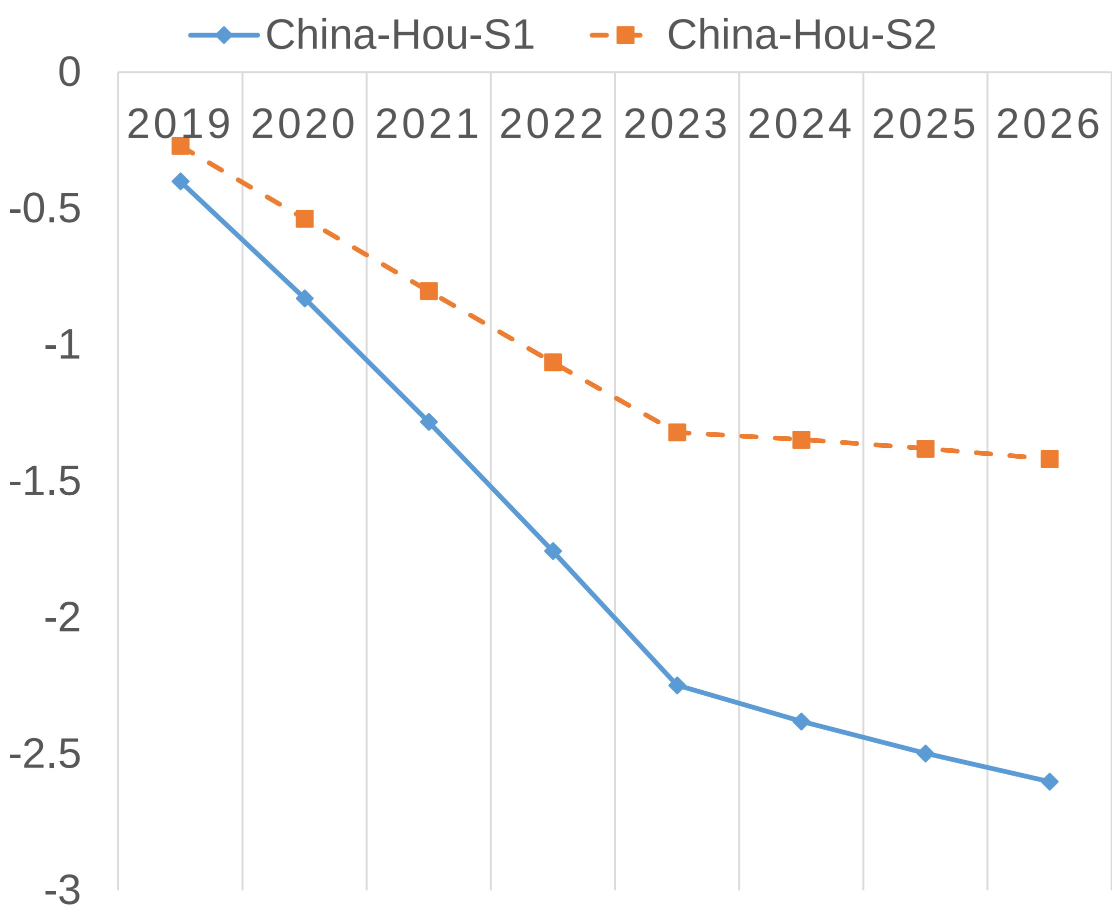
- Investment 1.2~6.82 ppt.

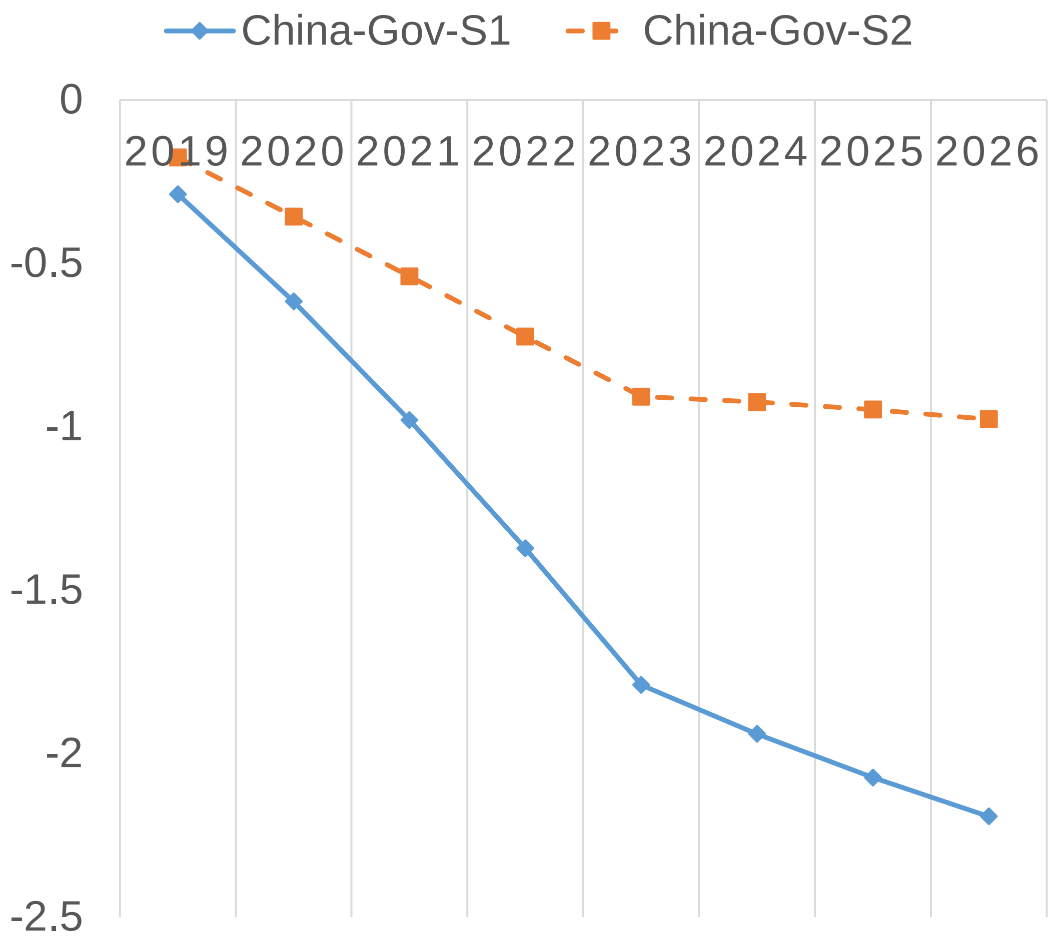
Impact on China: rate of return





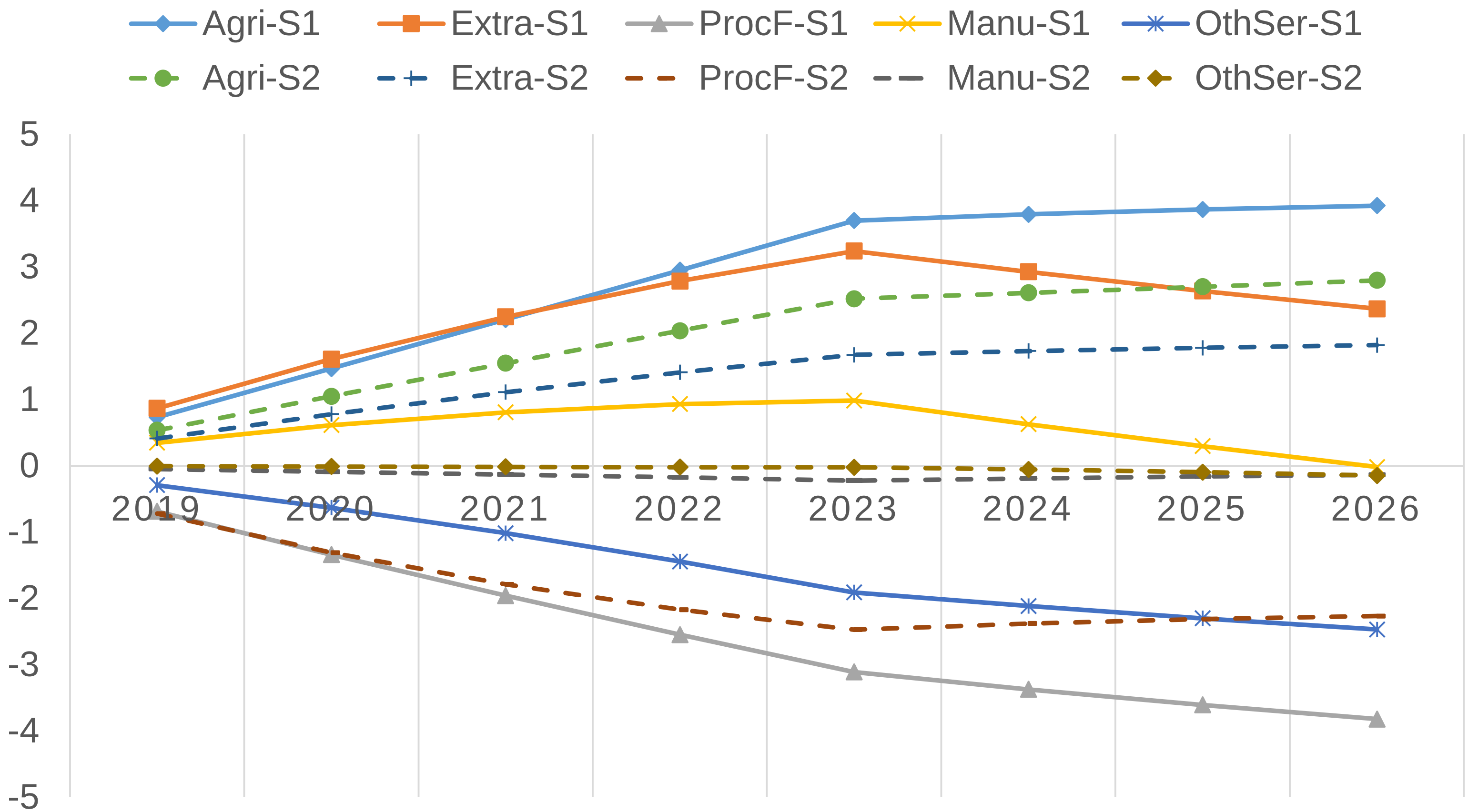
Impact on China: GDP expenditures





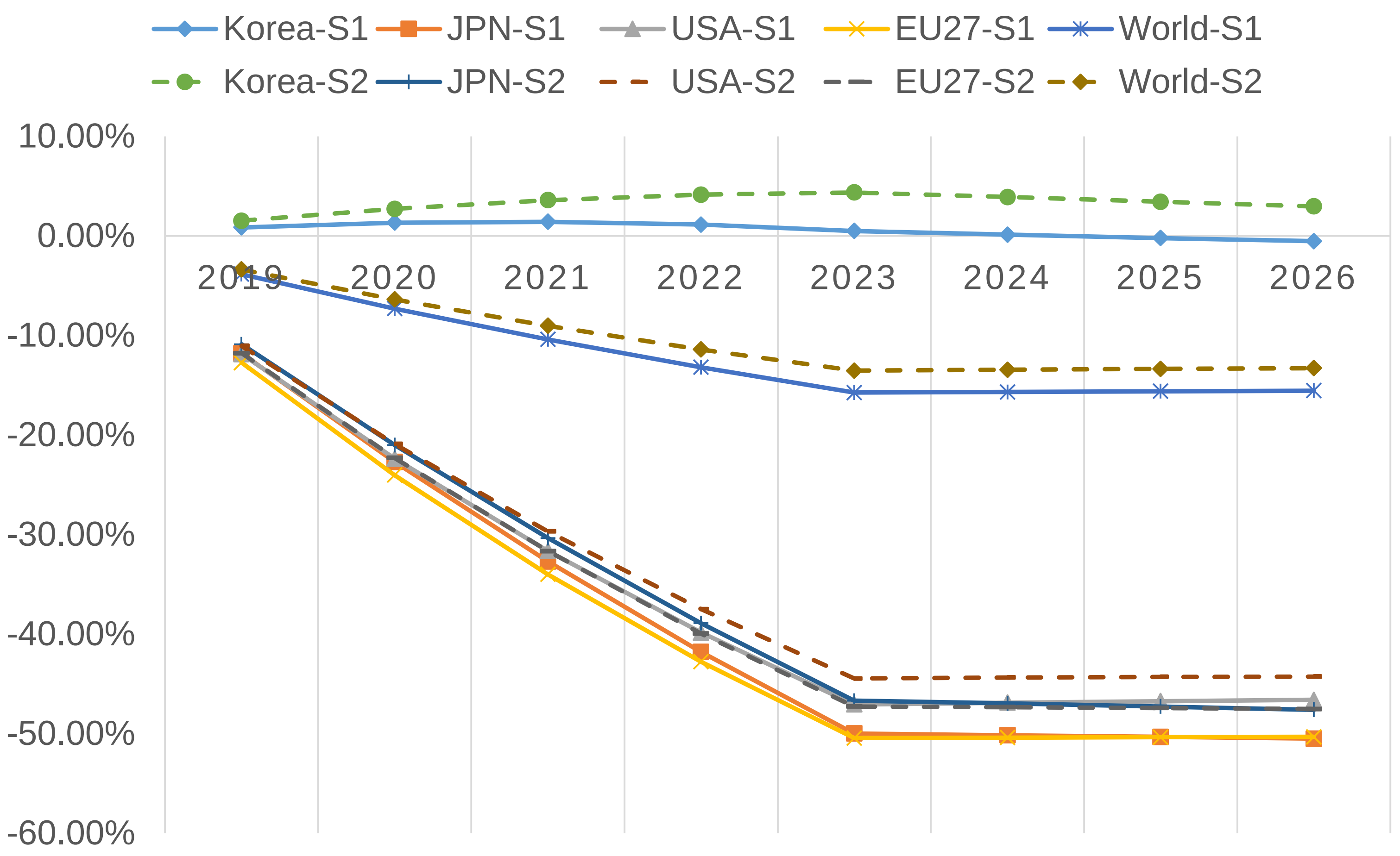
- China's reaction offset the negative effects:
  - Priv. Cons. 0.13~1.18 ppt.
  - Gov. Cons. 0.11~1.22 ppt.

Sectoral output changes of China: 2019-2026



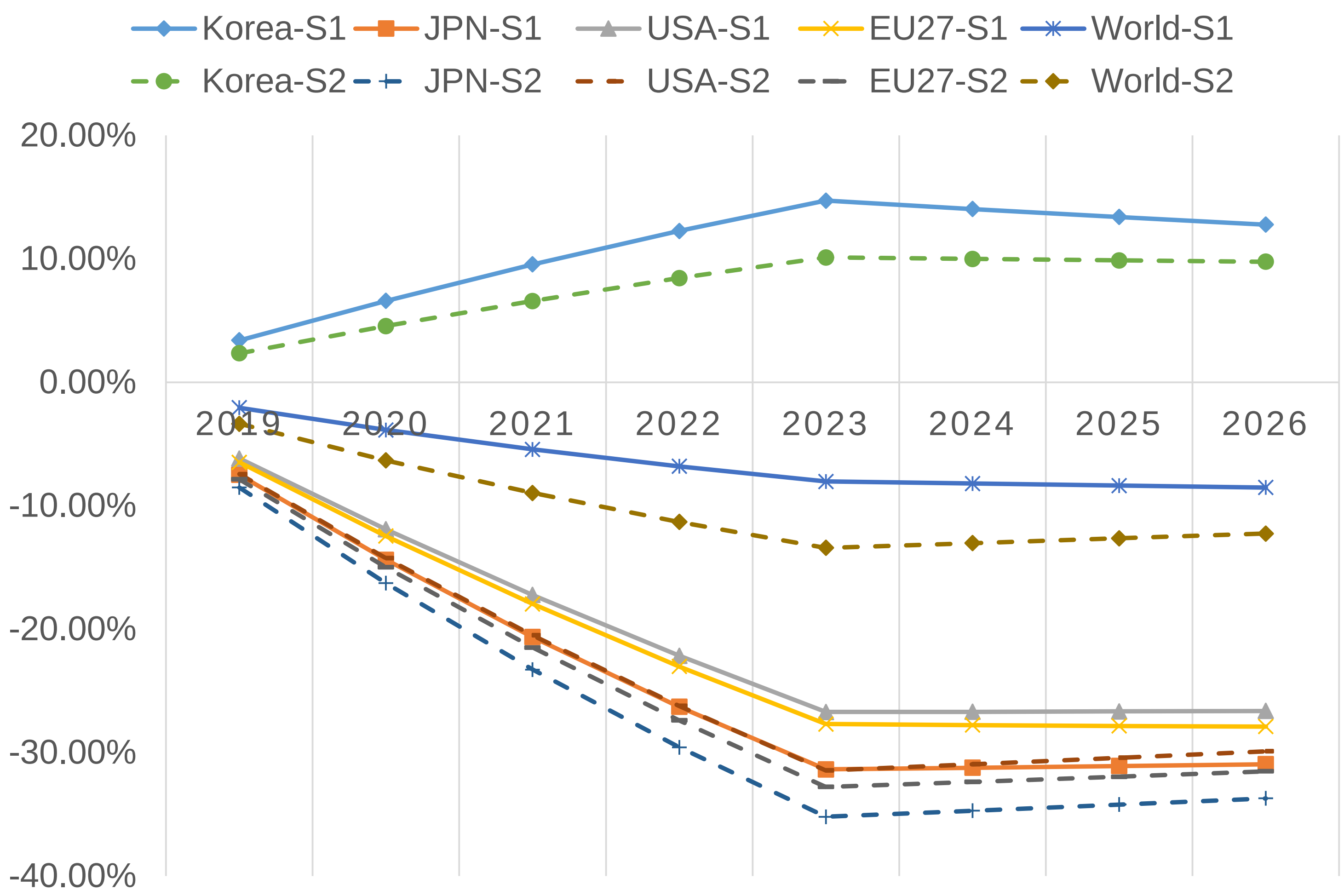
- China's reaction offset the sectoral output negative effects:
  - Processed food activity
  - Service activity
  - more on Service activity by 0.62~1.48 ppt
- Aggravate the negative effects:
  - Agriculture activity.
  - Extraction activity.
  - Manufacture activity
  - Most on Extraction by 0.83-1.00 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 export to others: 2019-2026

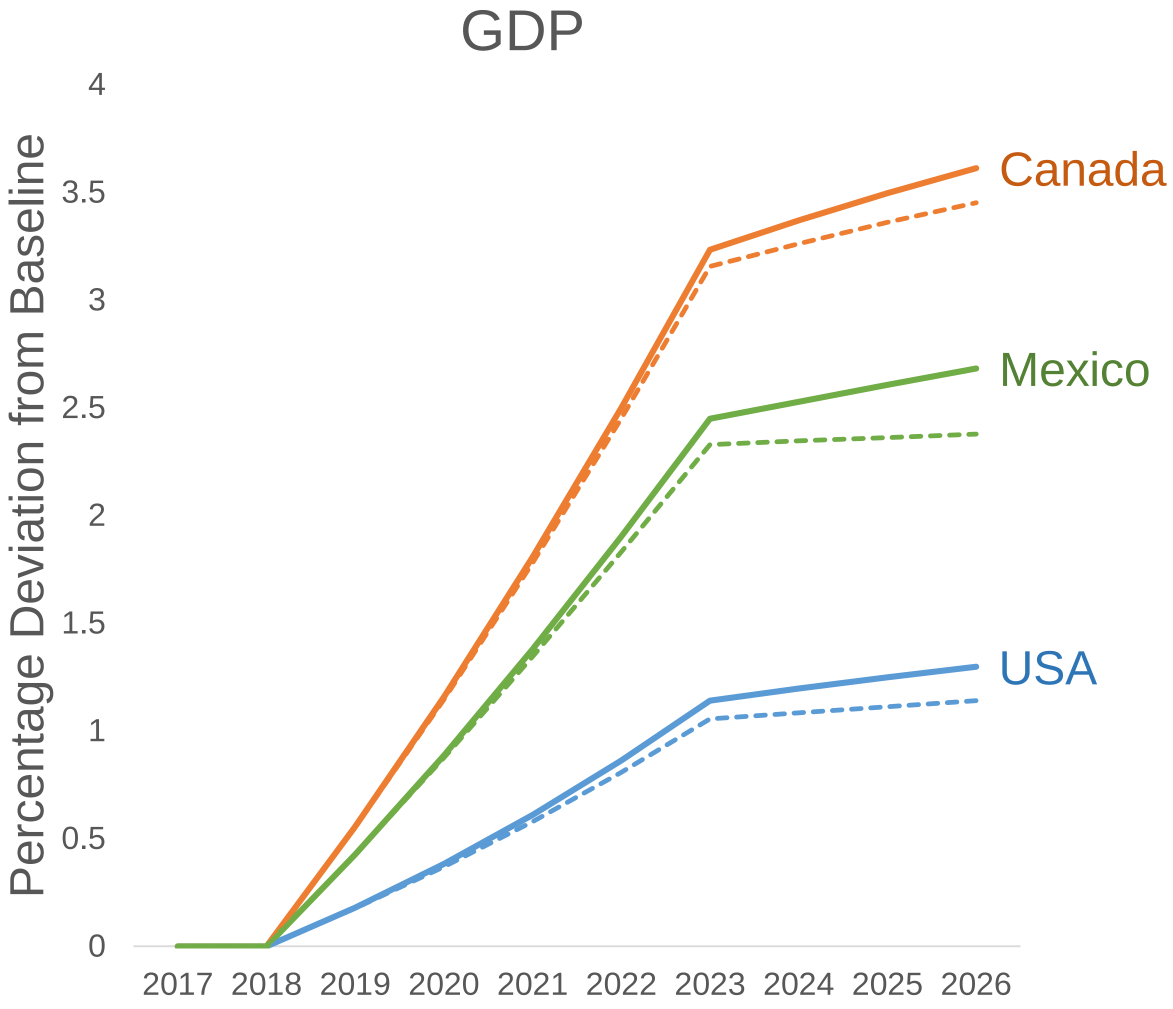


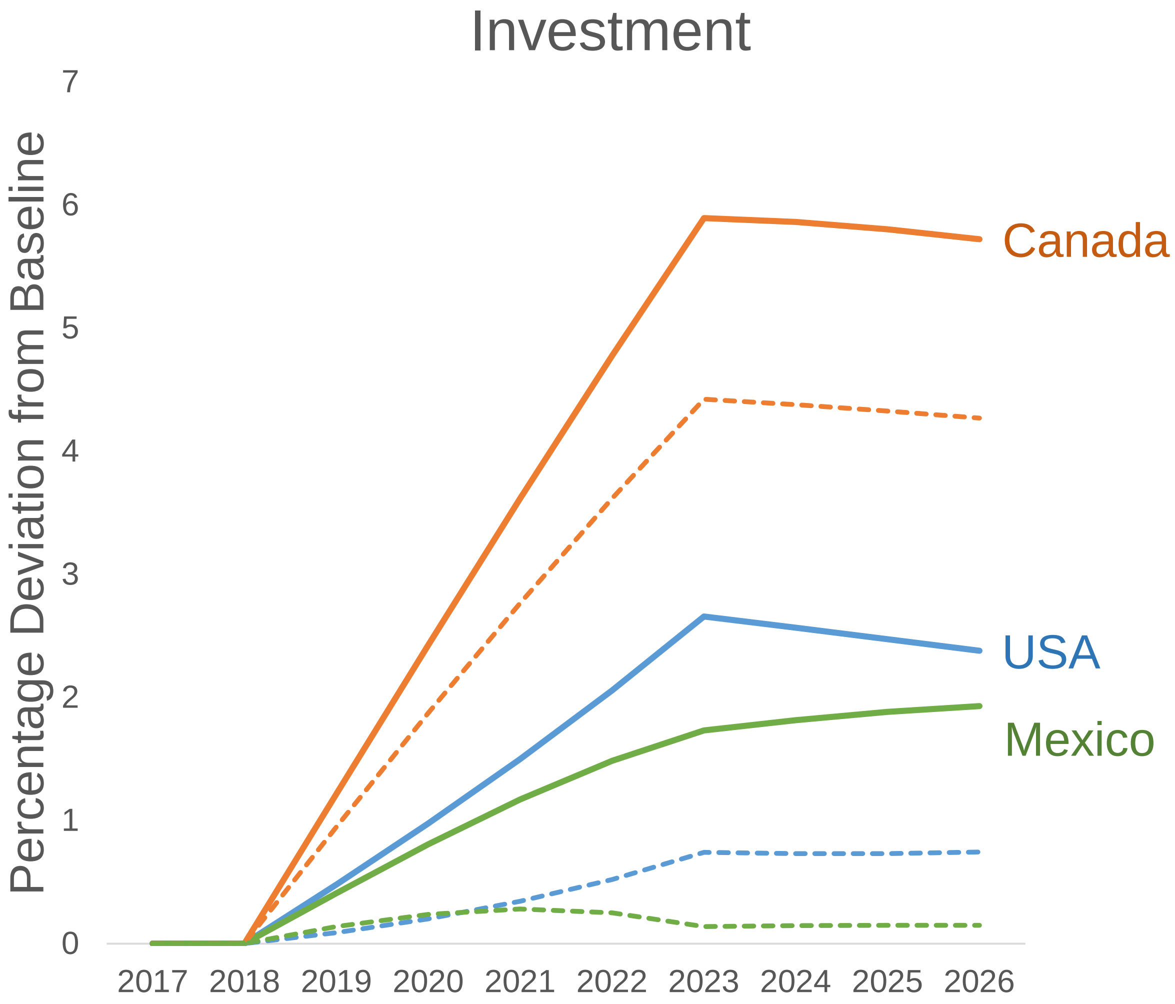
- China’s reaction aggravate the negative effects on export, export decrease:
  - World: 1.29~5.38~3.73 ppt
  - Korea: 1.05~4.6~3.01 ppt
  - US: 1.26~4.74~3.27 ppt

Impact on China: Trade balance

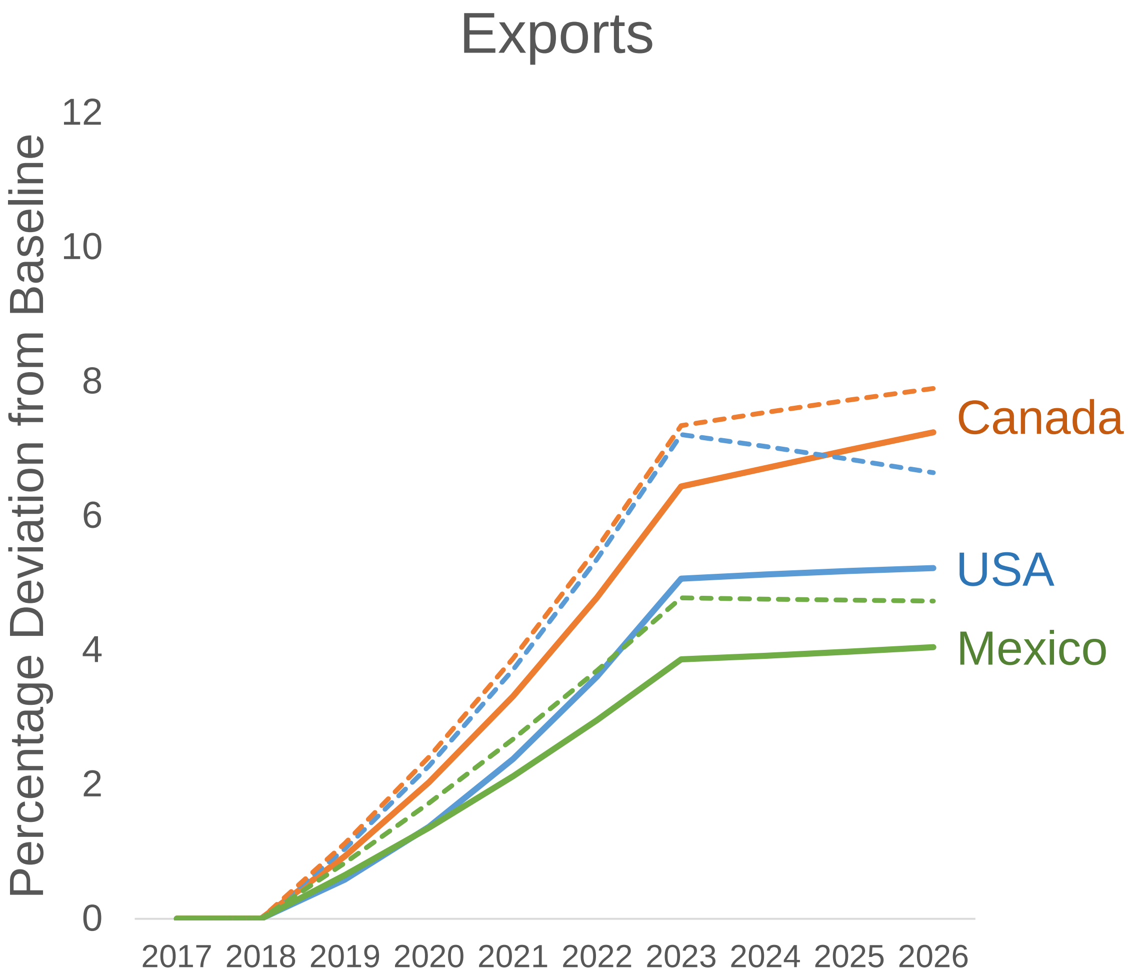
- **China’s reaction**
  - Decreases China’s total trade surplus: $554.18bn~$2671.12bn
  - Increases China’s trade deficit with Korea: $30.33bn~$161.03bn
  - Decrease China’s trade surplus with Japan : $46.55bn~$161.05bn
  - Decrease China’s trade surplus with US : $109.45bn~$397.74bn
  - Decrease China’s trade surplus with EU : $107.12bn~$402.4bn

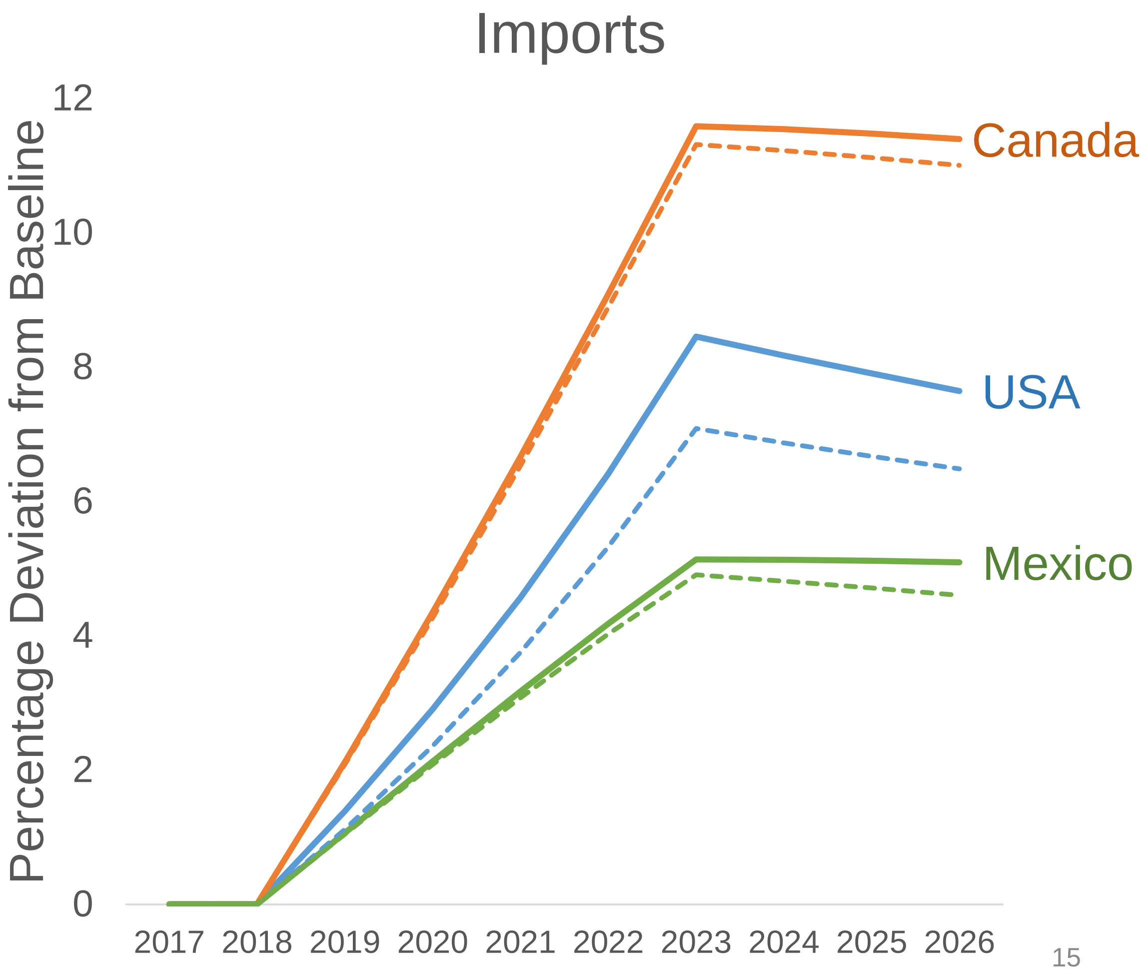
Impact on North America:
GDP & Investment





Impact on North America: Trade





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

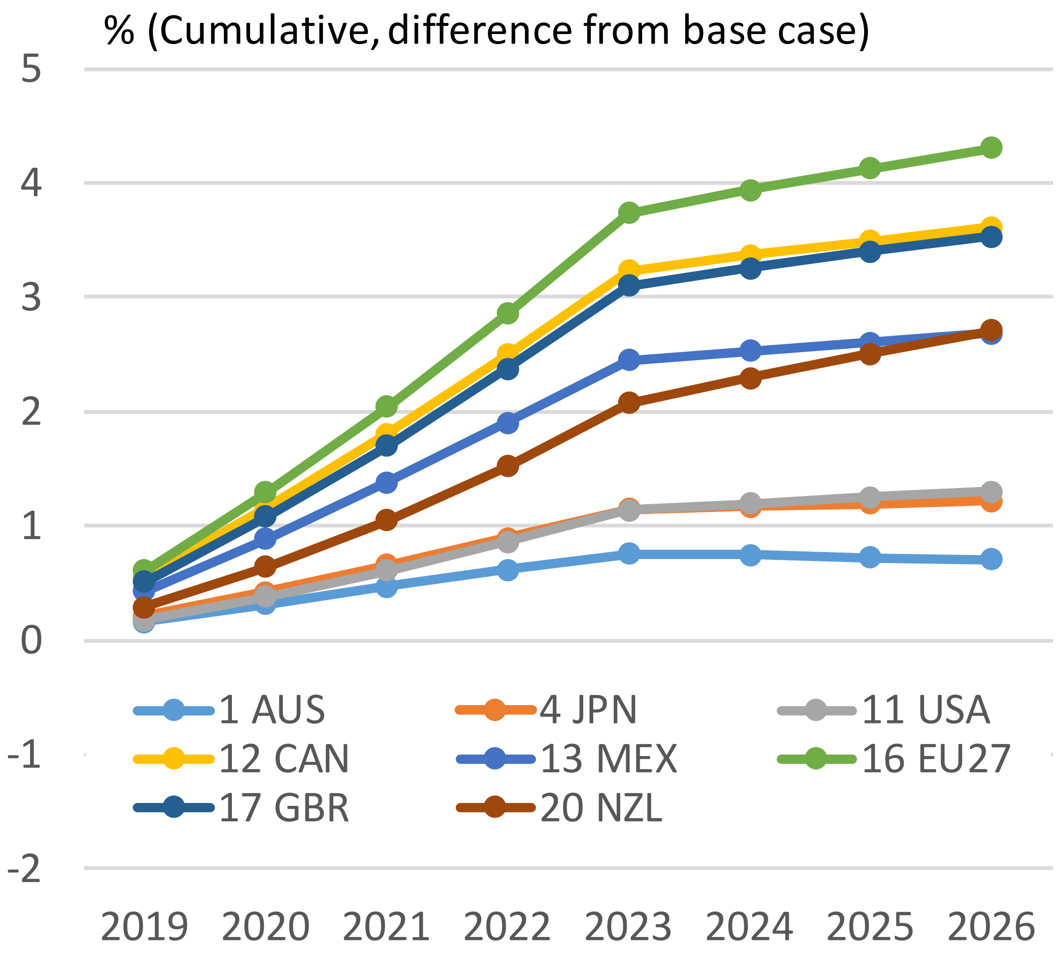
- **U.S. exports increase, imports increase even more**
  - Reduced U.S.-China → exports down 38% (36%), imports down 20% (24%)
  - Increased Intra-North America trade
    - US exports up 10% (10-11%) with Canada & Mexico
    - US imports up 14%-16% (14-17%) with Canada & Mexico

- **U.S. Trade Deficit – gets even worse**

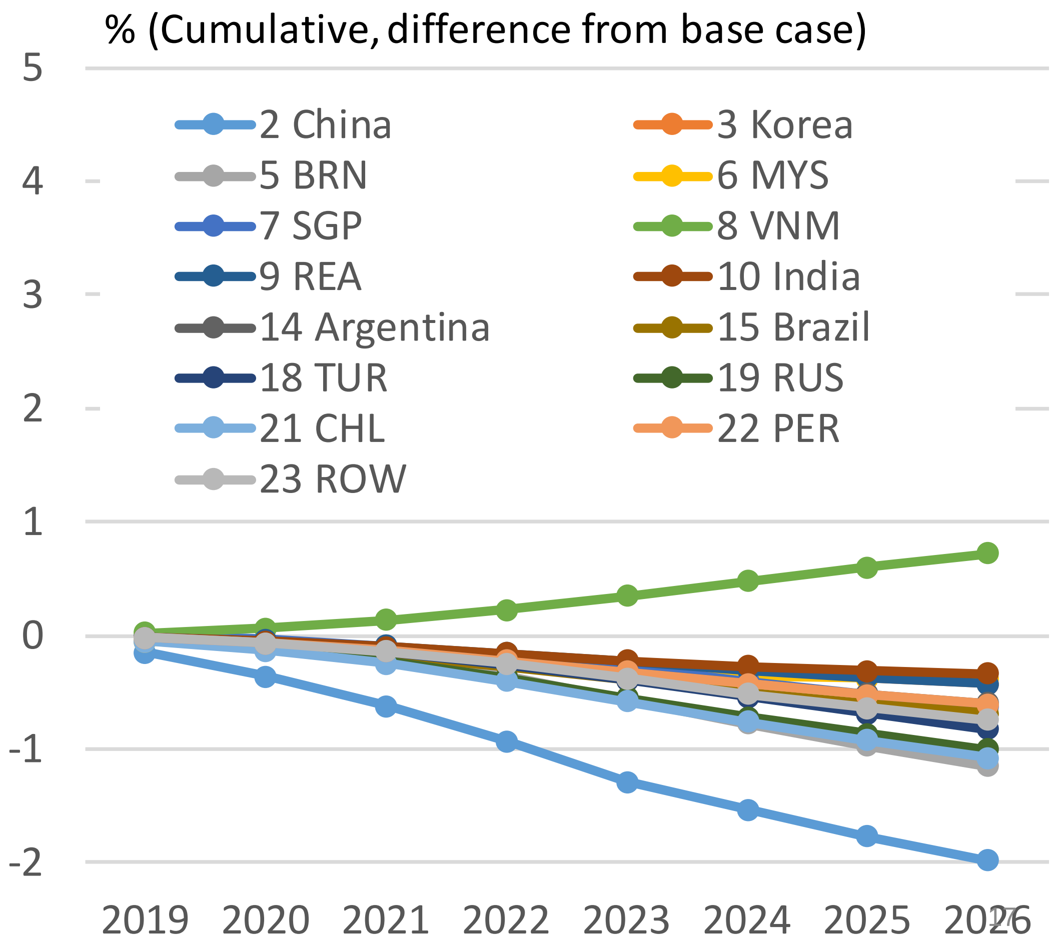
Japan

Expected GDP Change
(difference from base case)

allied countries



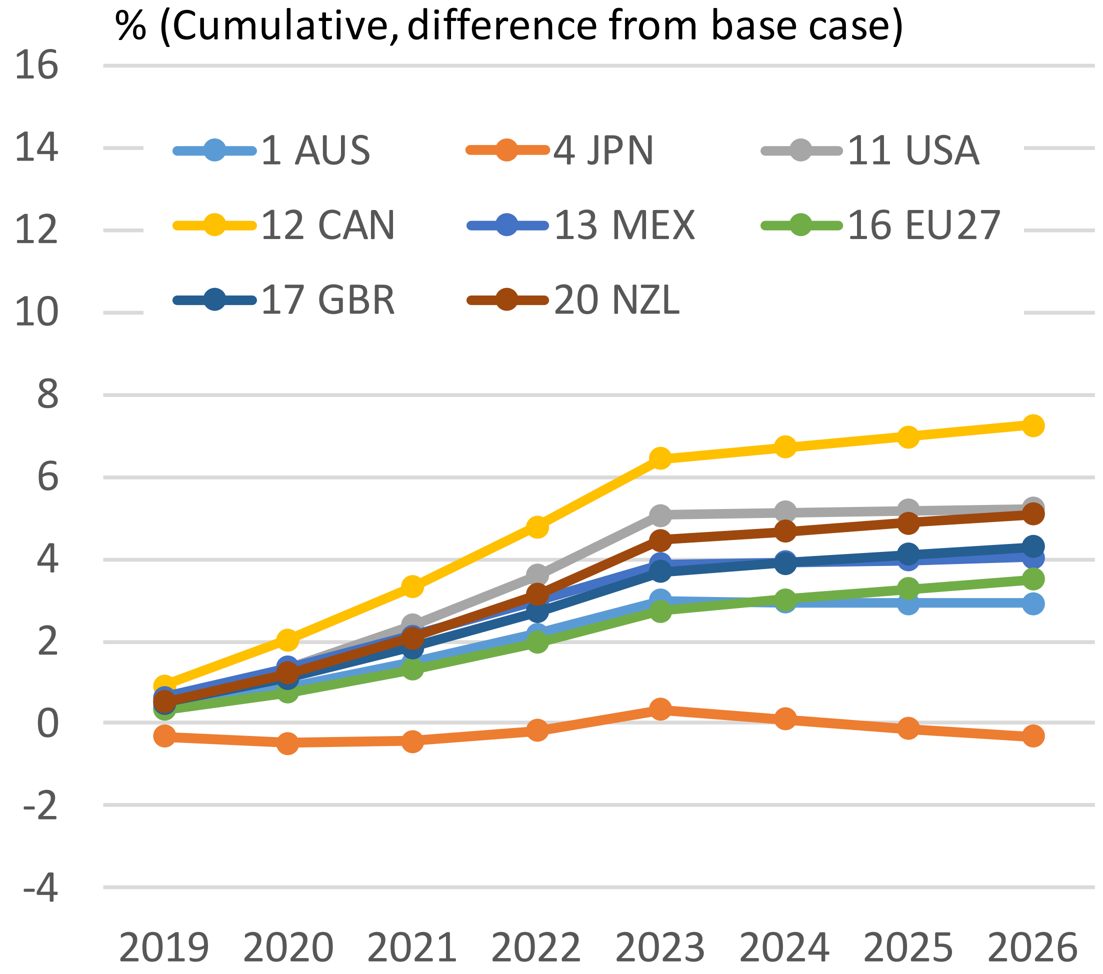
other countries



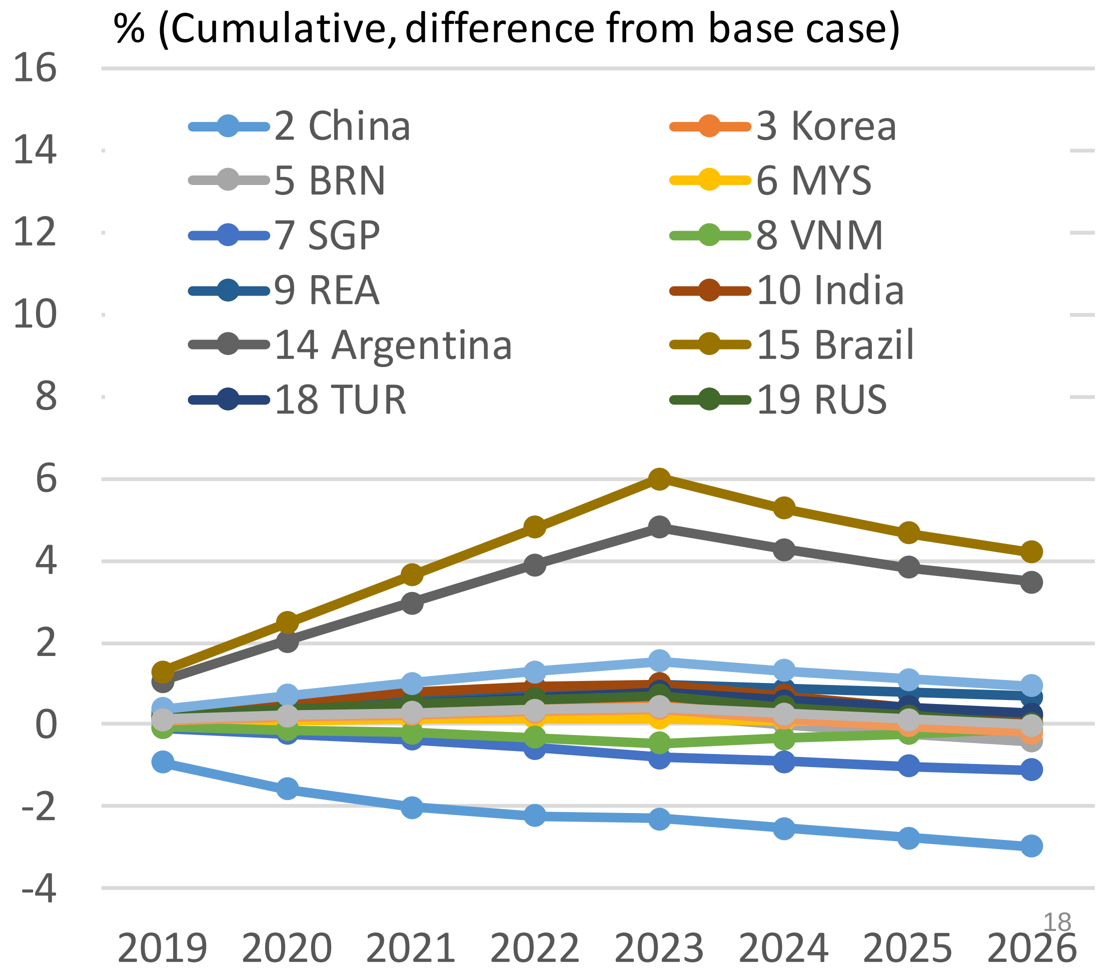
Expected Export Change

(difference from base case)

allied countries

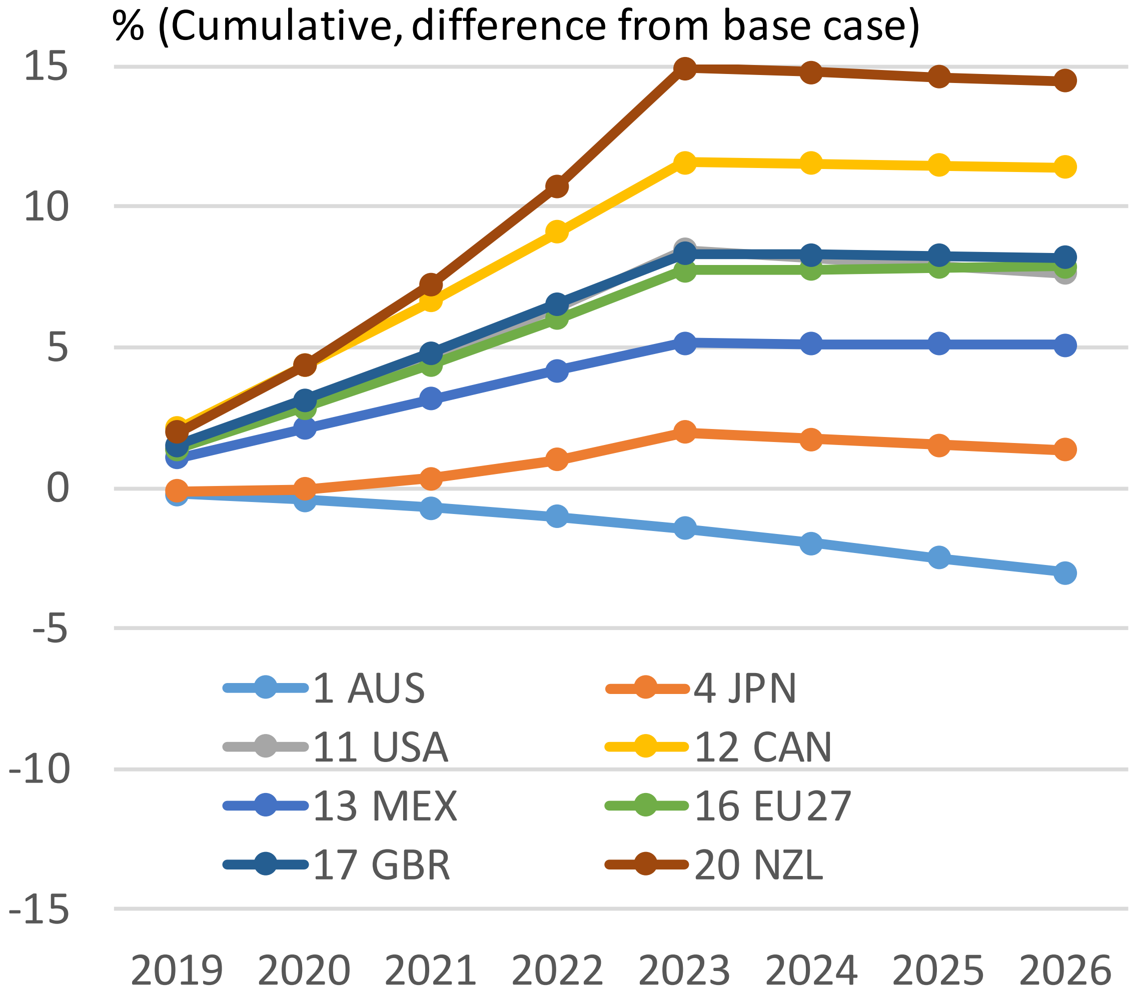


other countries

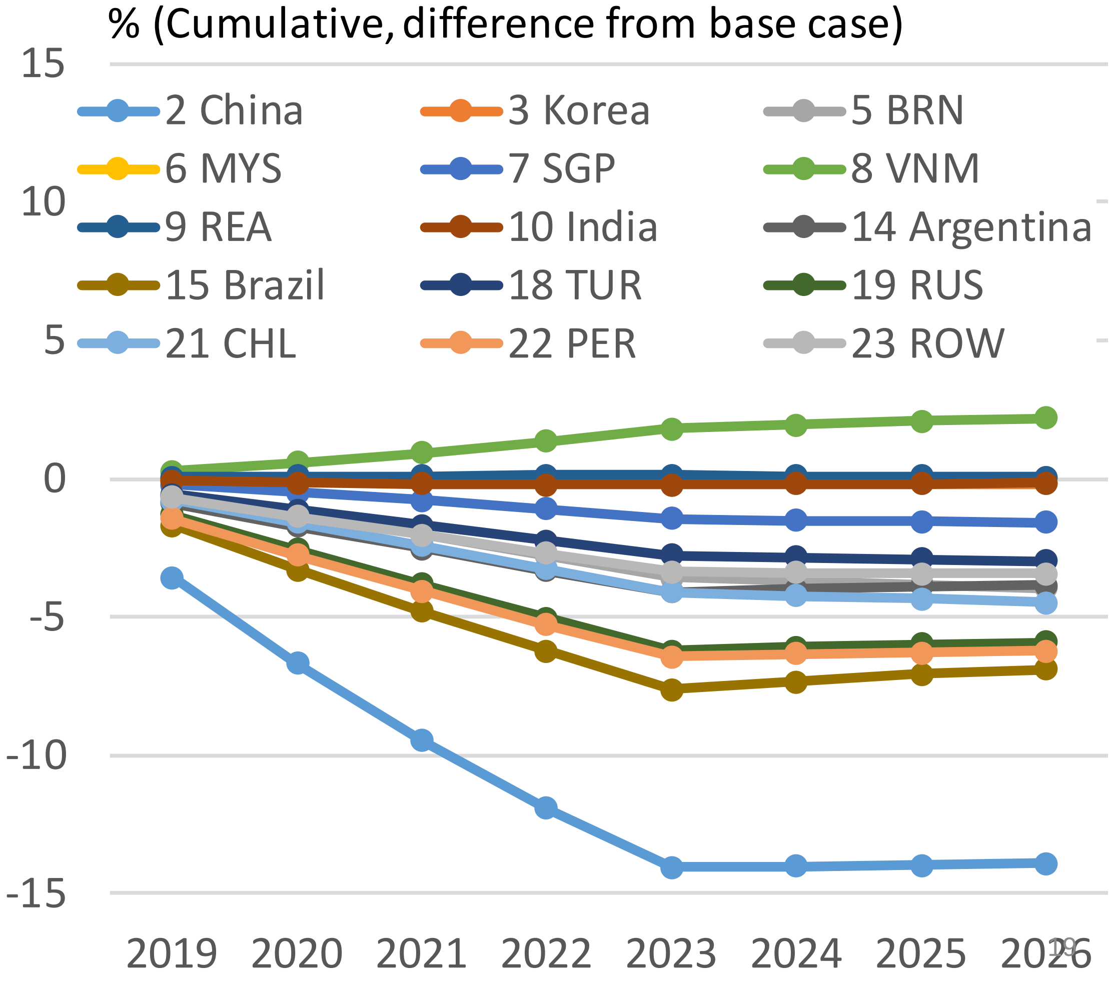


Expected Import Change
(difference from base case)

allied countries

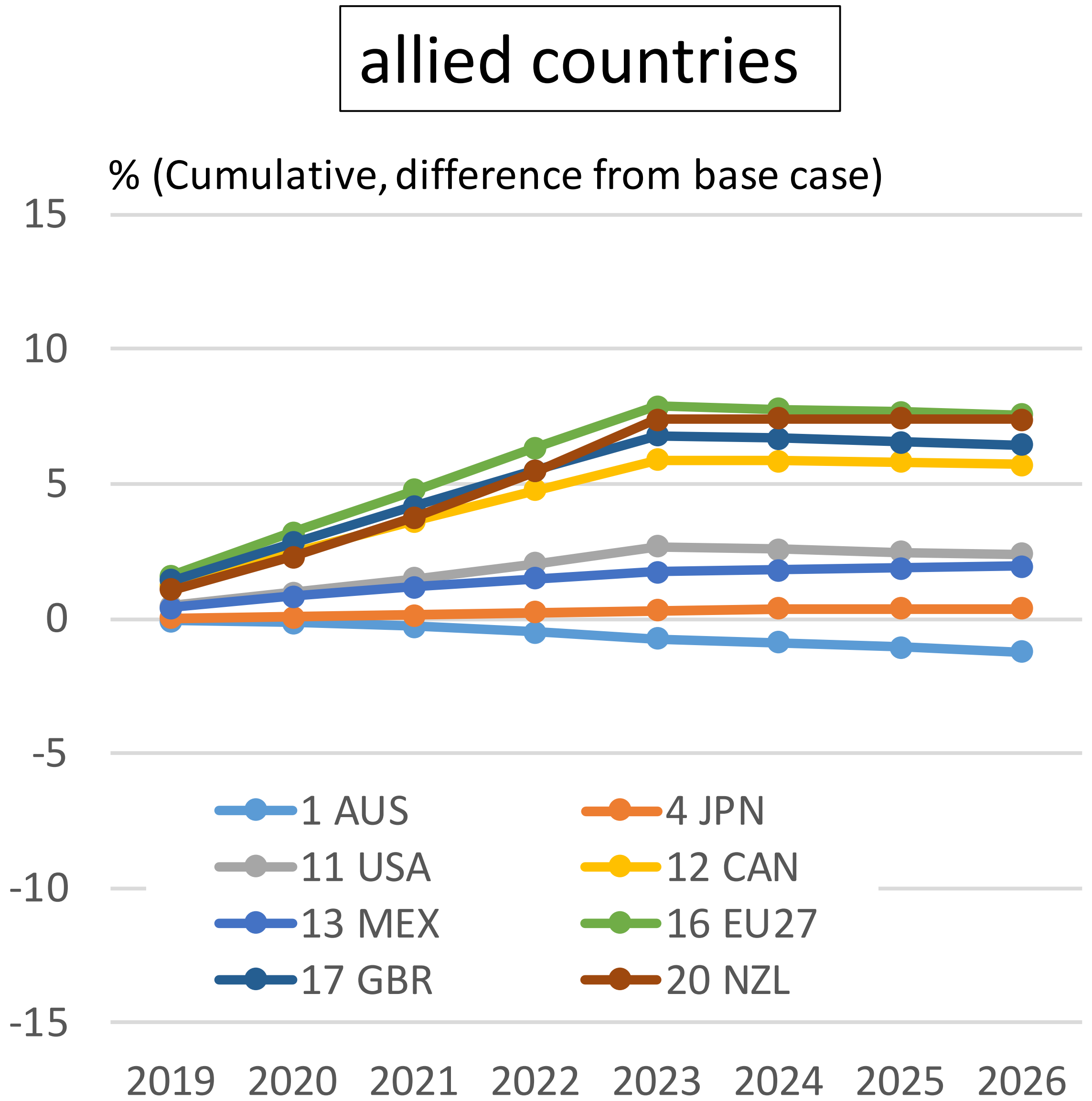


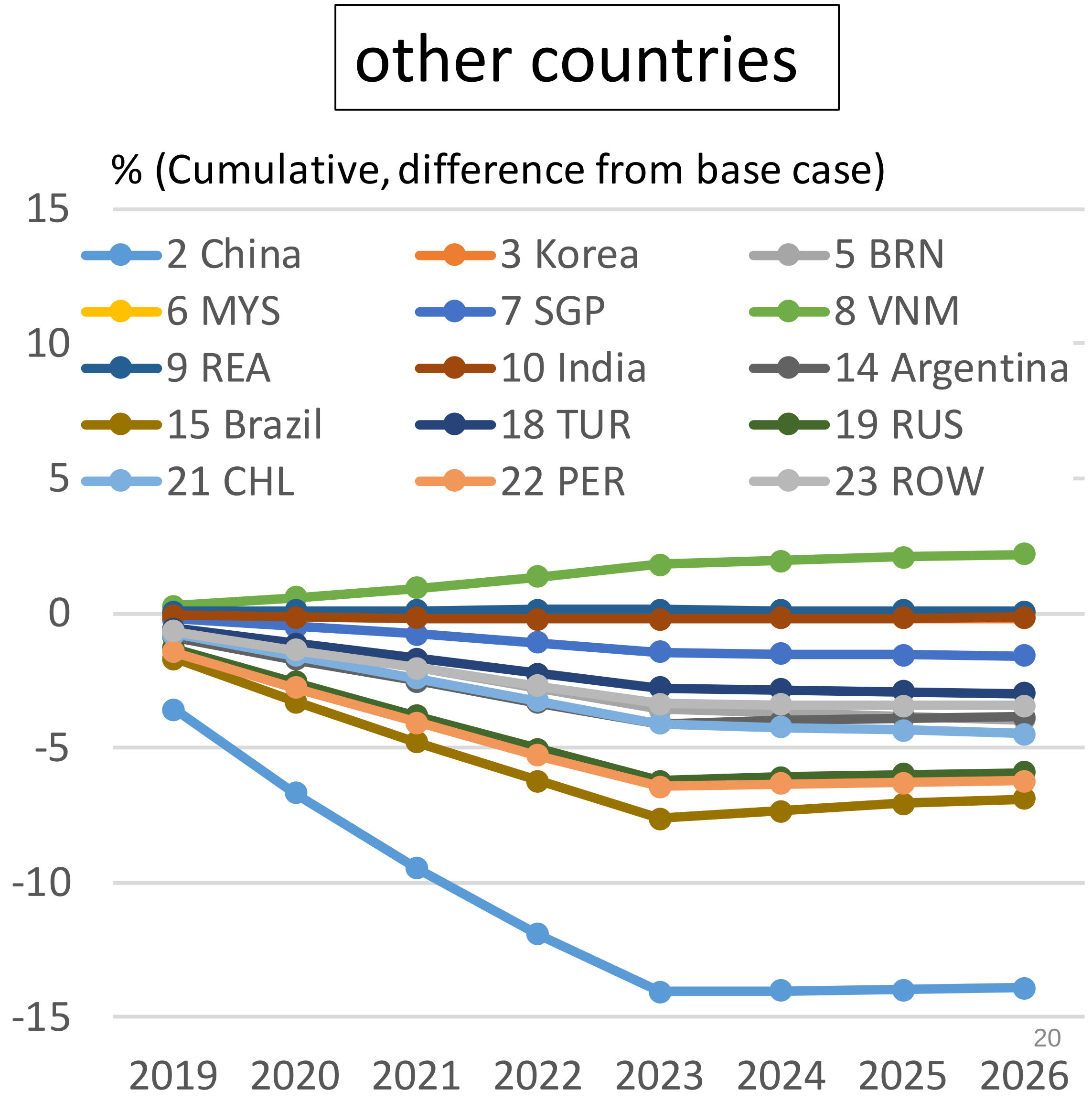
other countries



Expected Investment Change

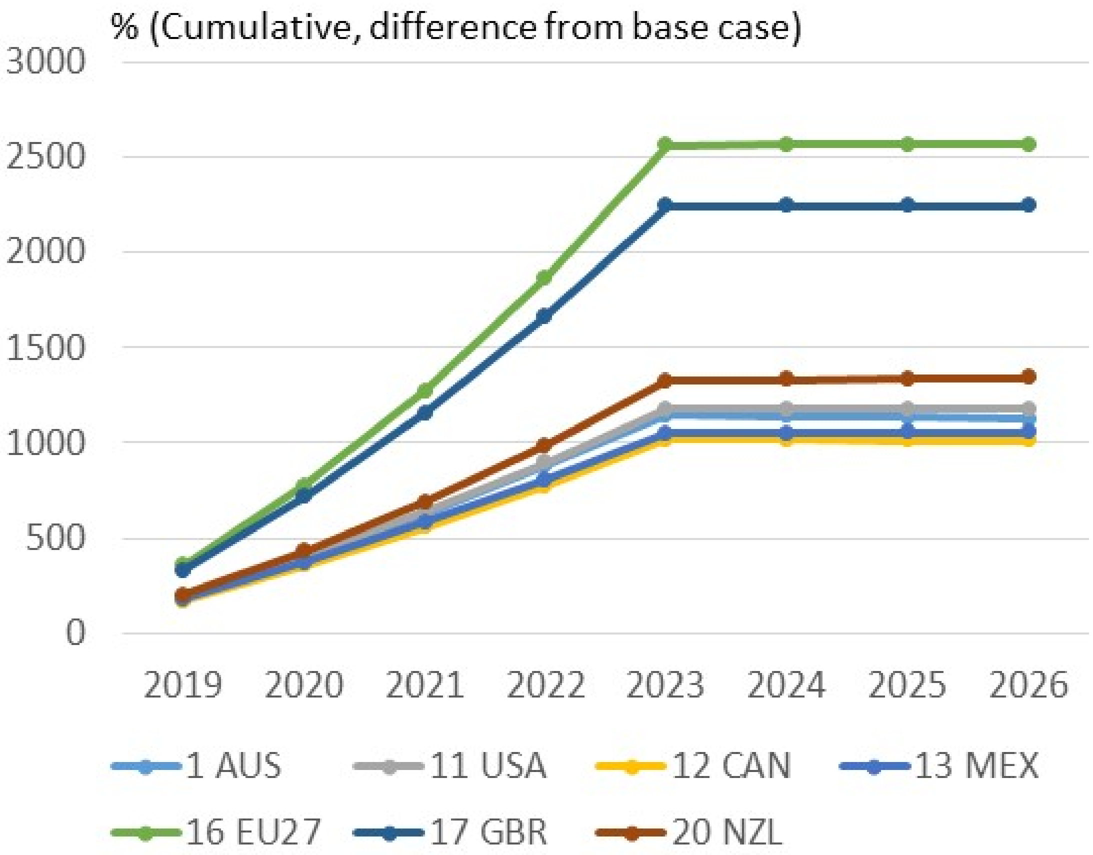
(difference from base case)



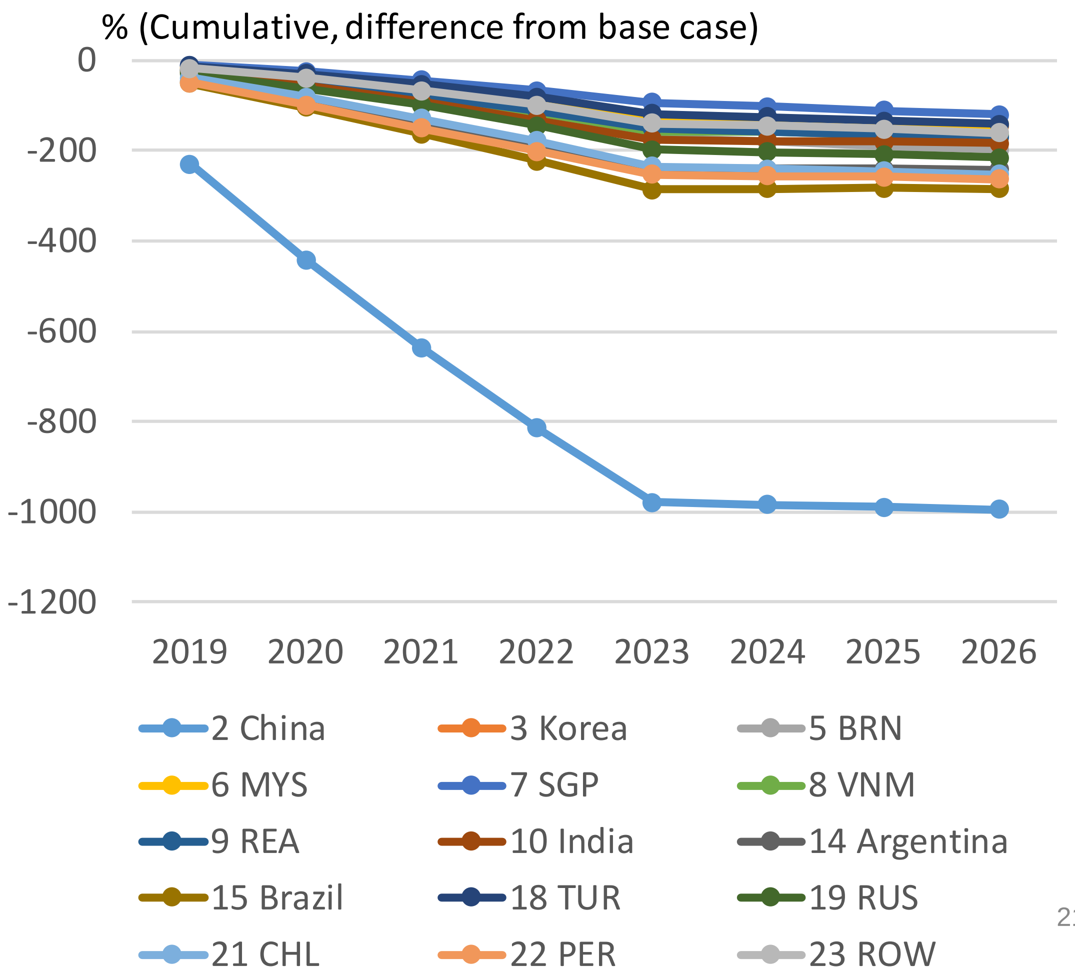


Expected Export Change from Japan by Countries
(difference from base case)

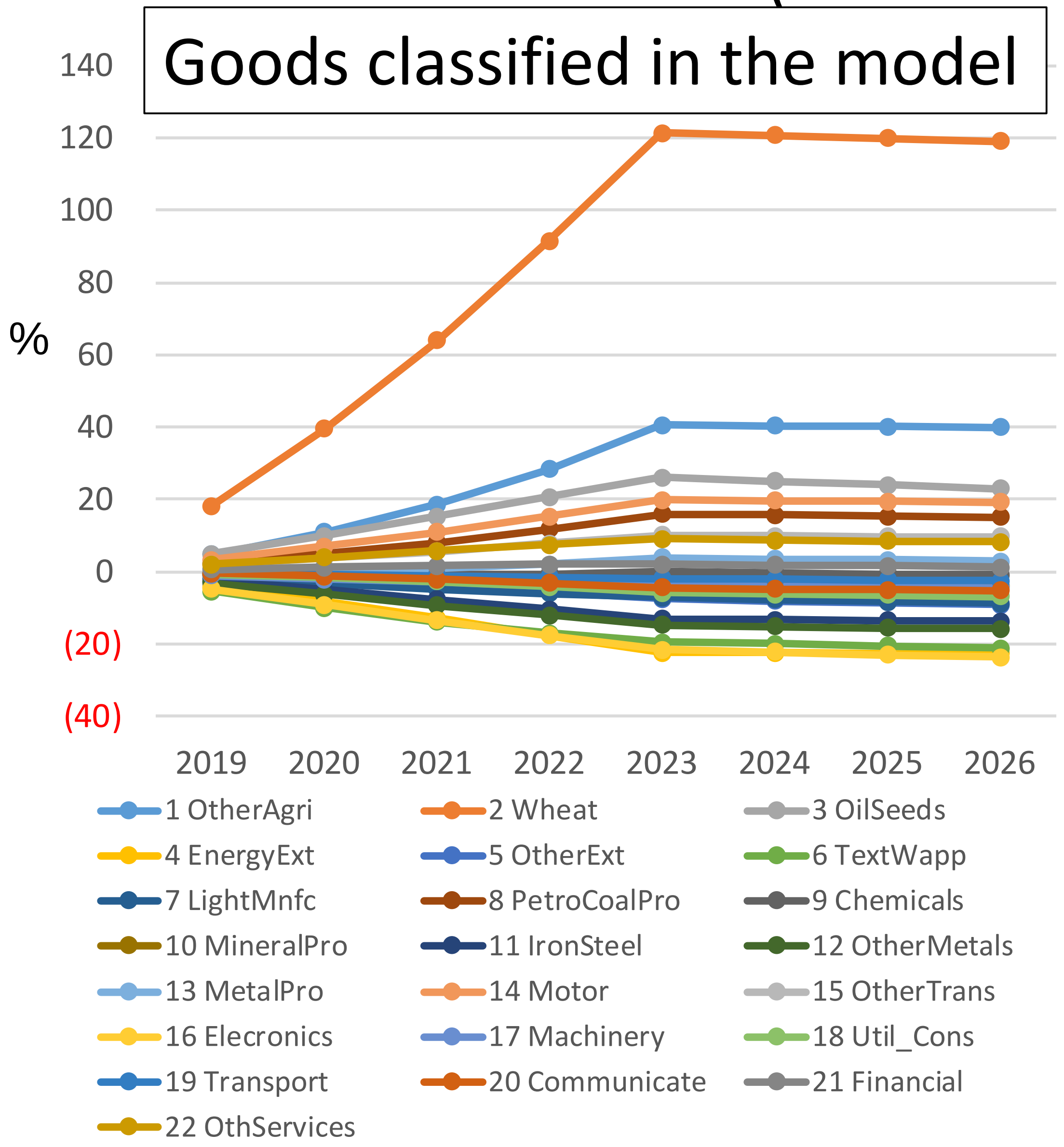
allied countries

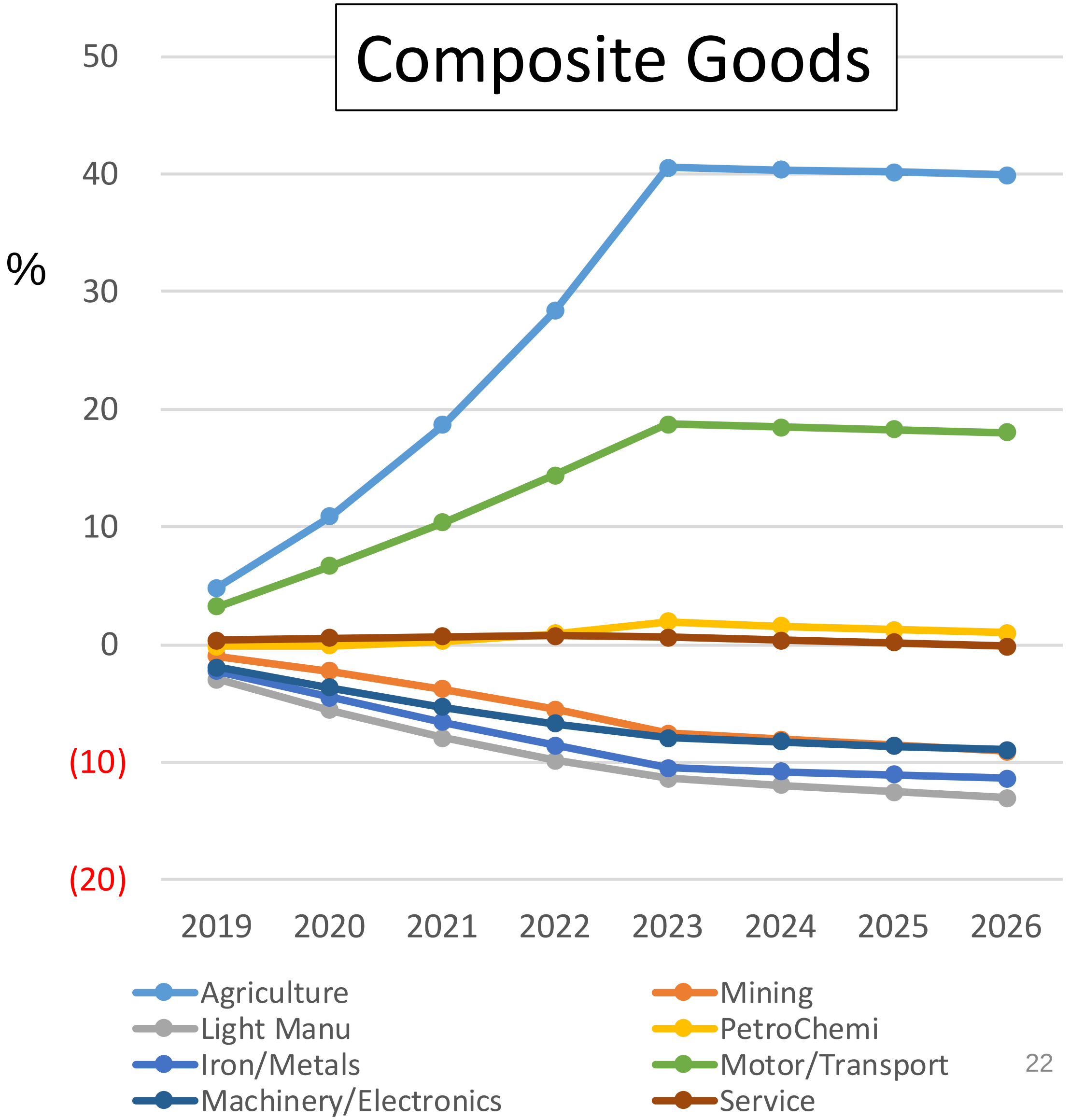


other countries

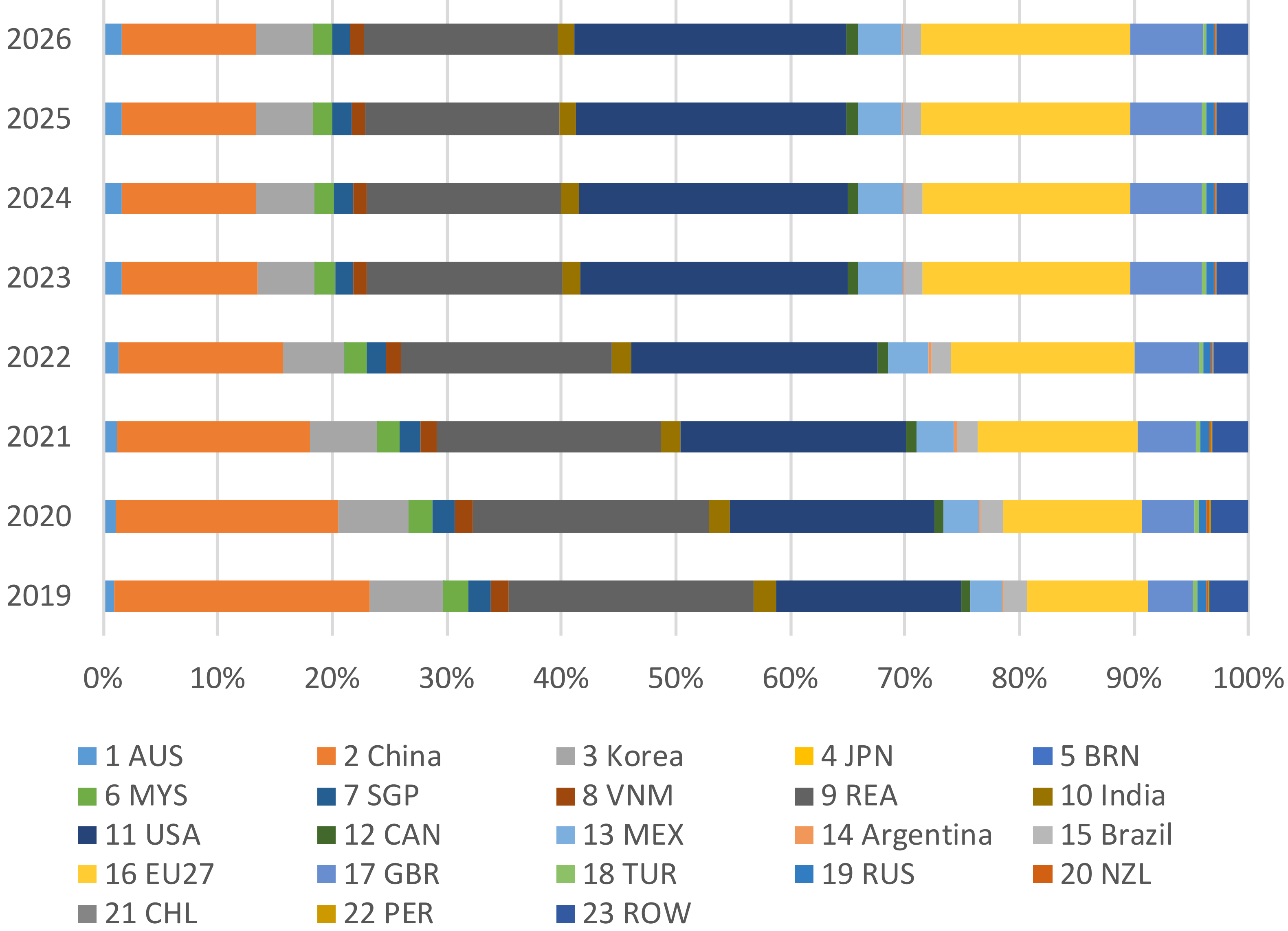


Expected Export Change from Japan by Commodities
(difference from base case)

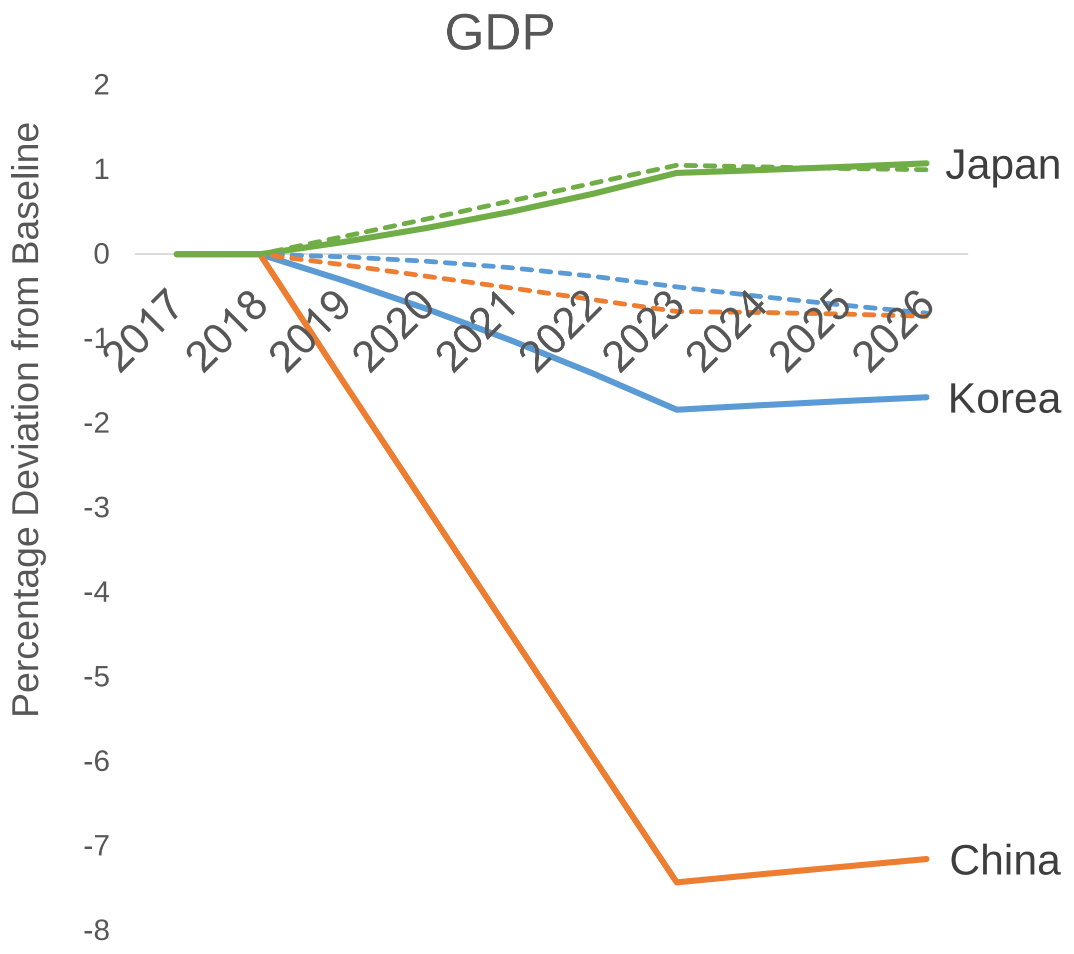


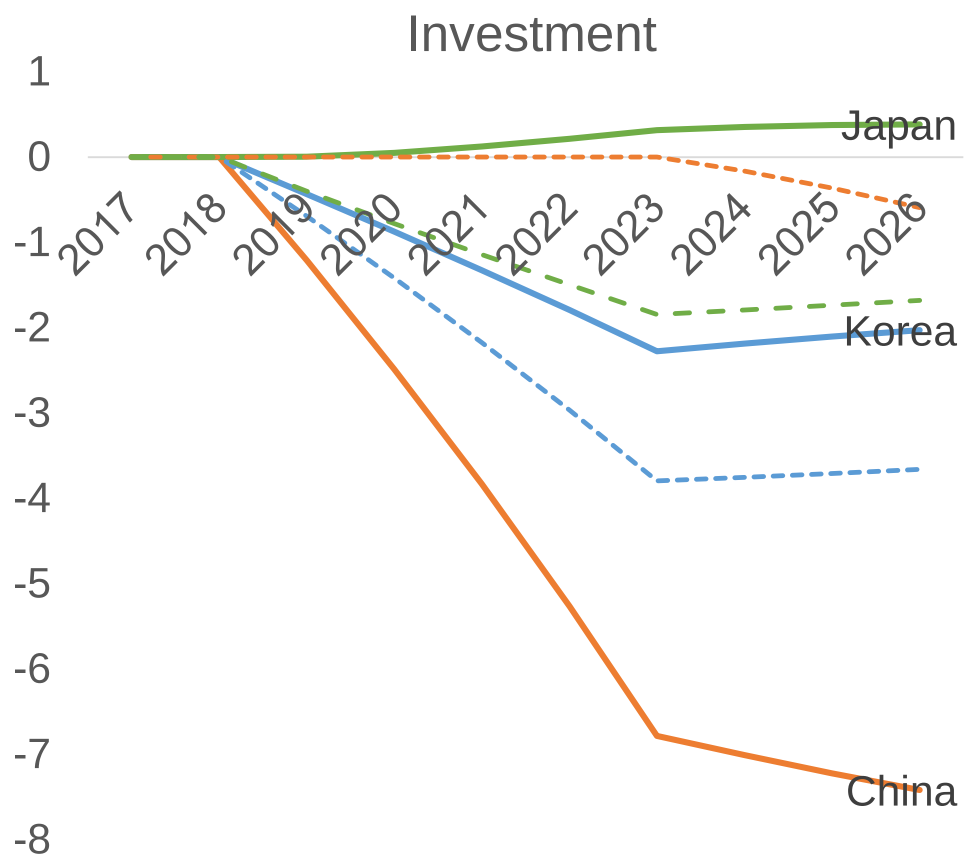


Share by partner countries of Metal Products Export from Japan (difference from base case)

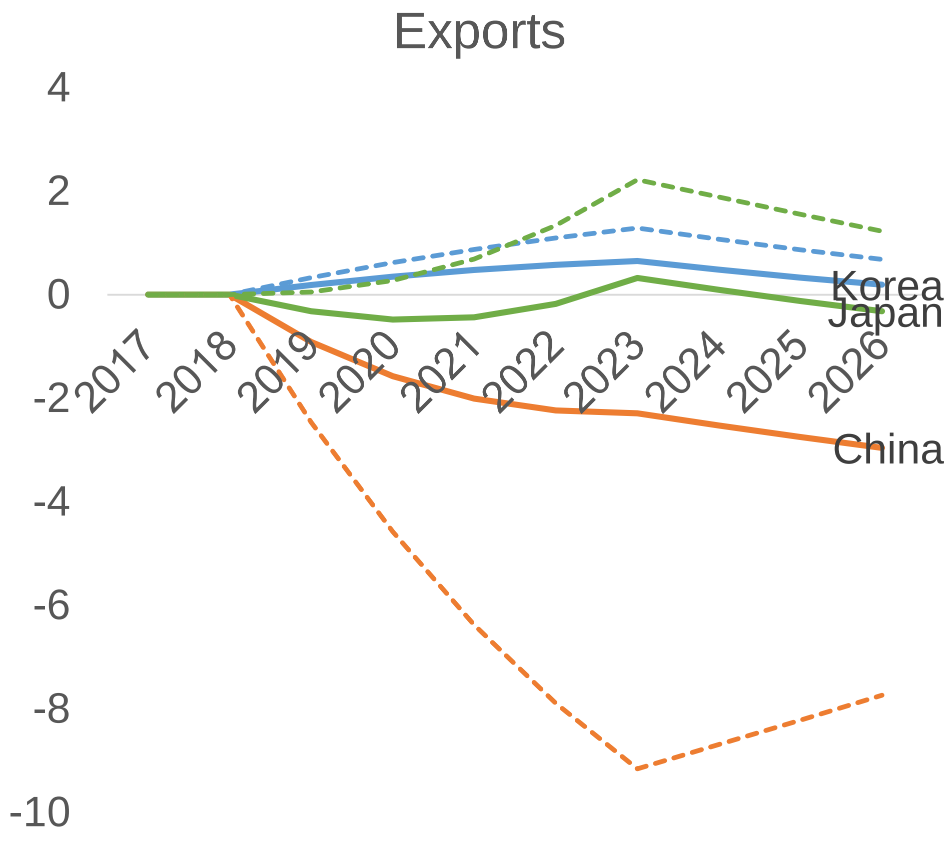


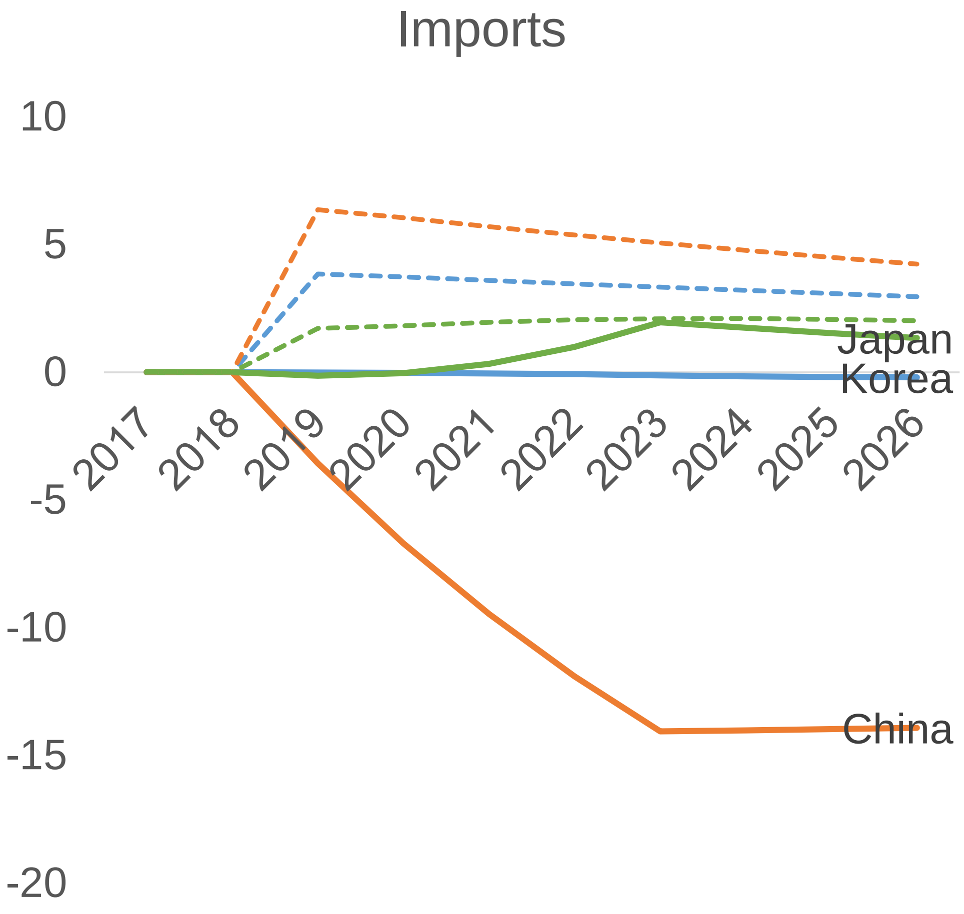
Impact on Korea:
GDP & Investment



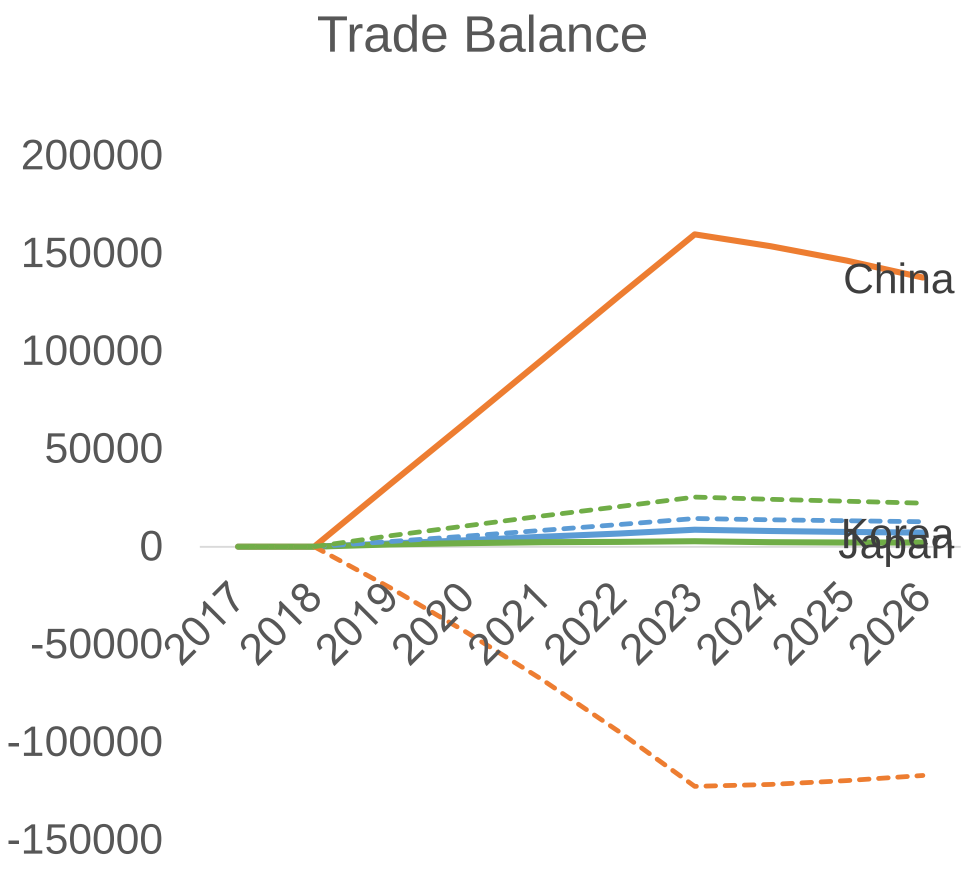


Impact on Korea:
Trade





Impact on Korea:
Trade

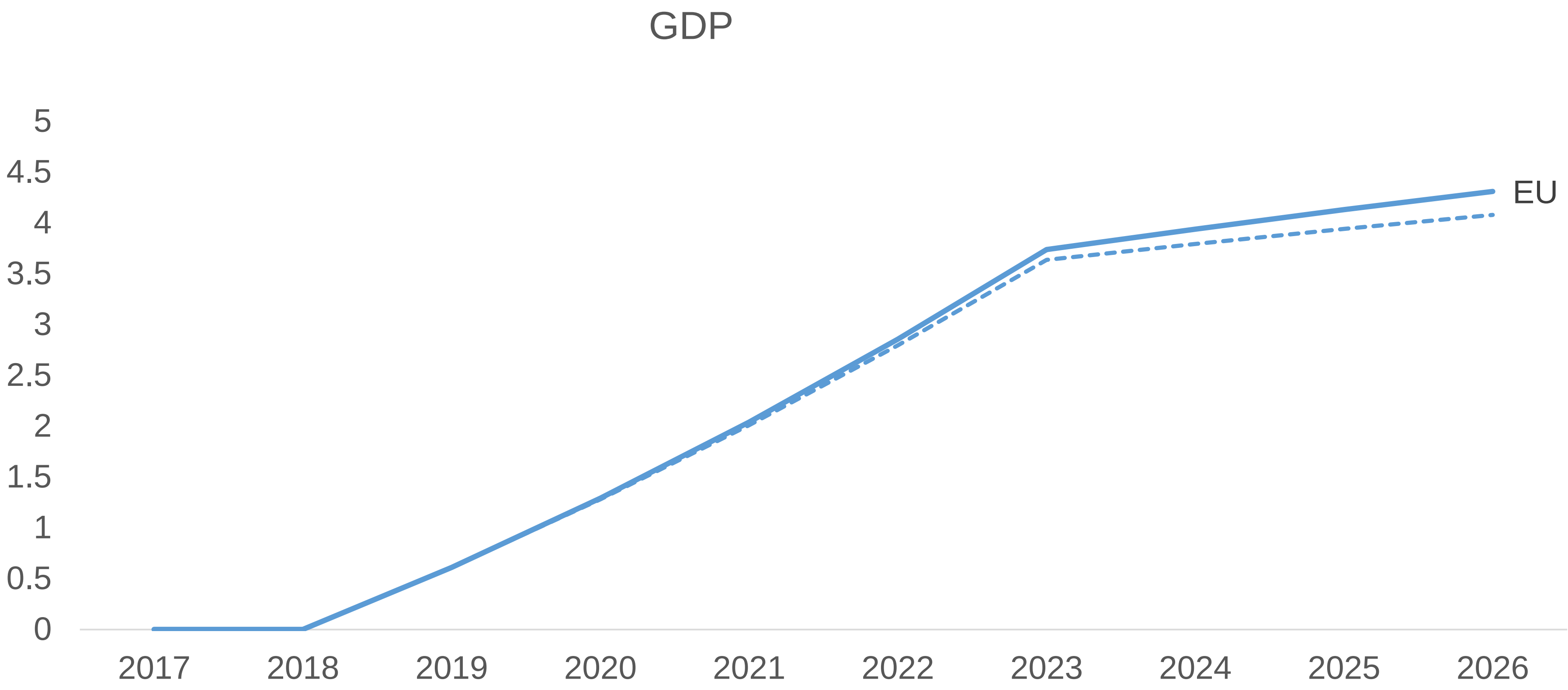


Impact on Korea:
Summary

- **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**

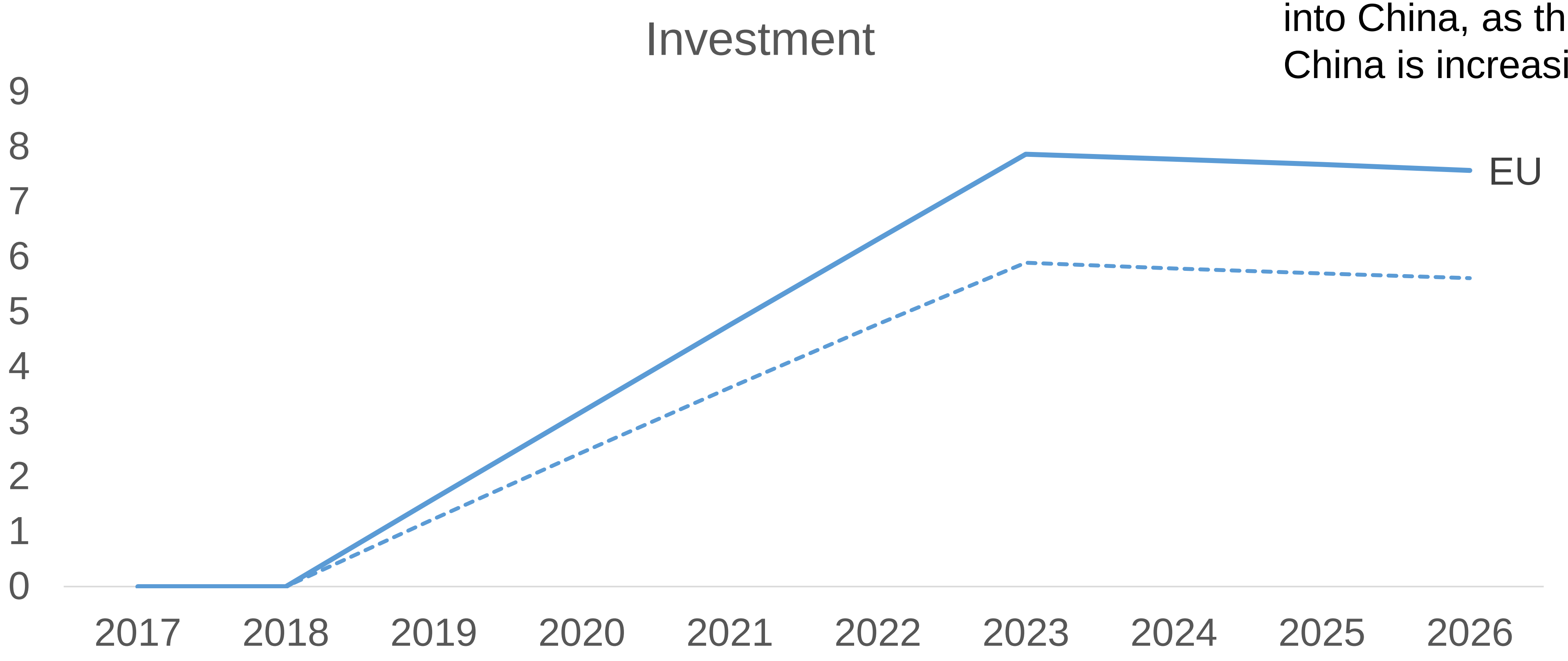
The Impact of EU GDP

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

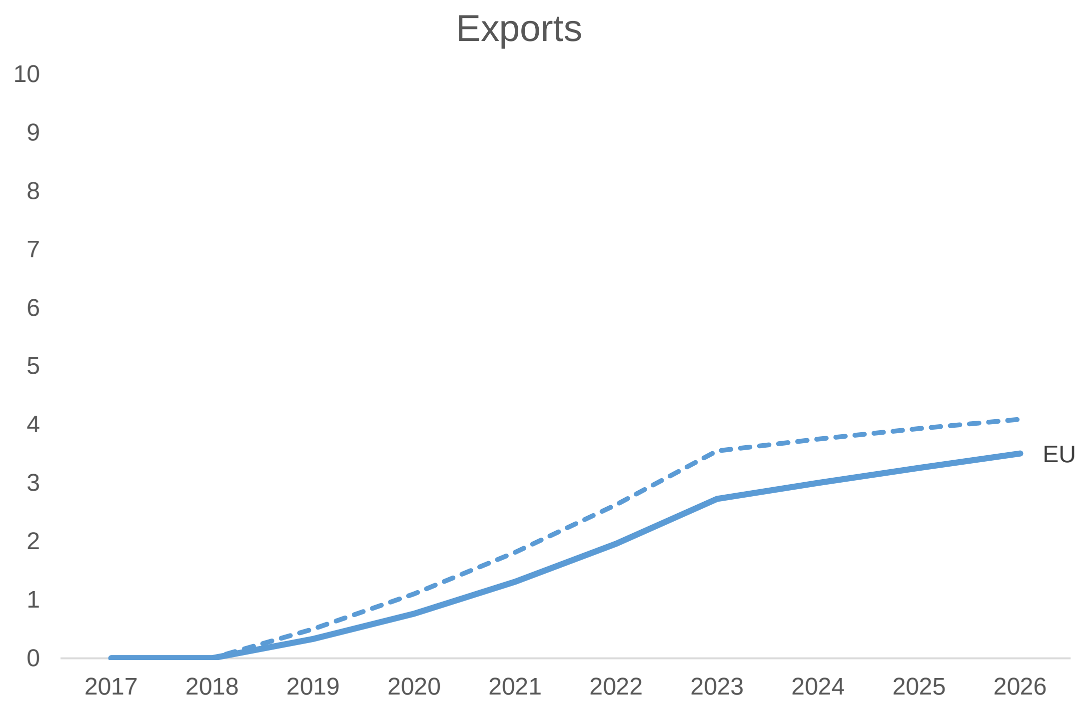


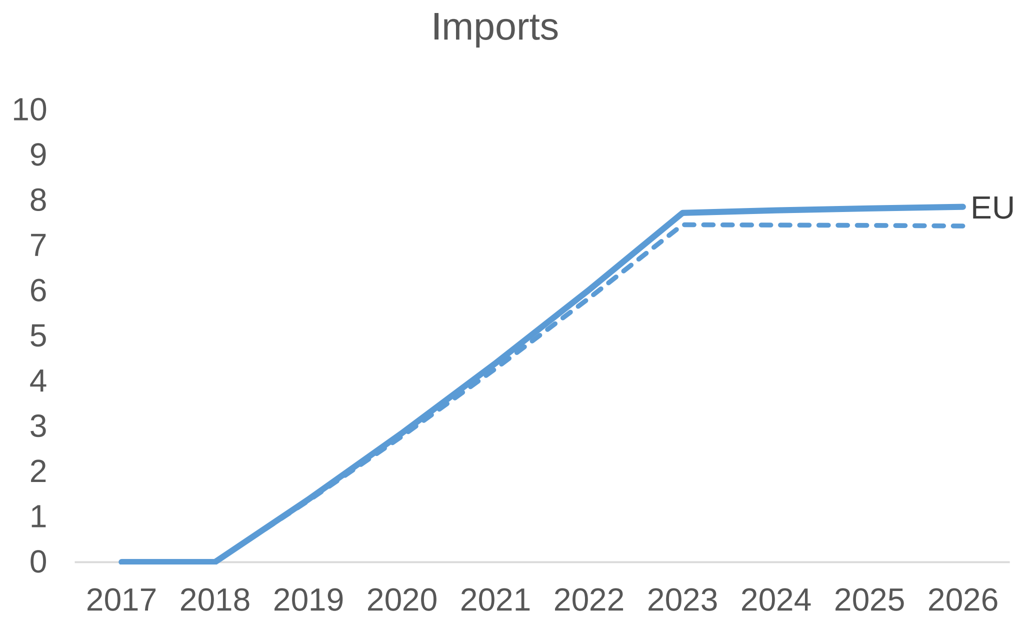
EU: Investment is declining, when China reacts to the isolation

As global capital inflows will come into China, as the returns in China is increasing

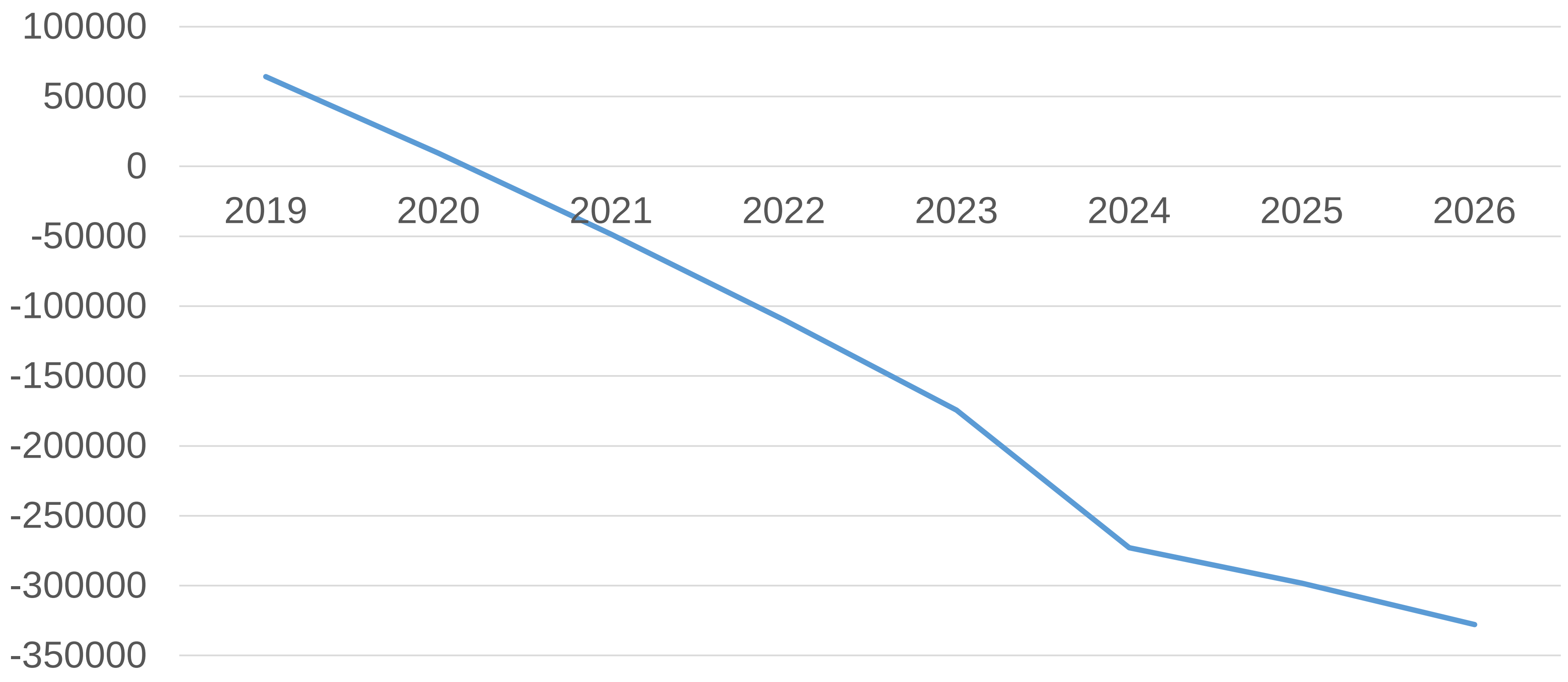


EU: Trade of EU is increasing

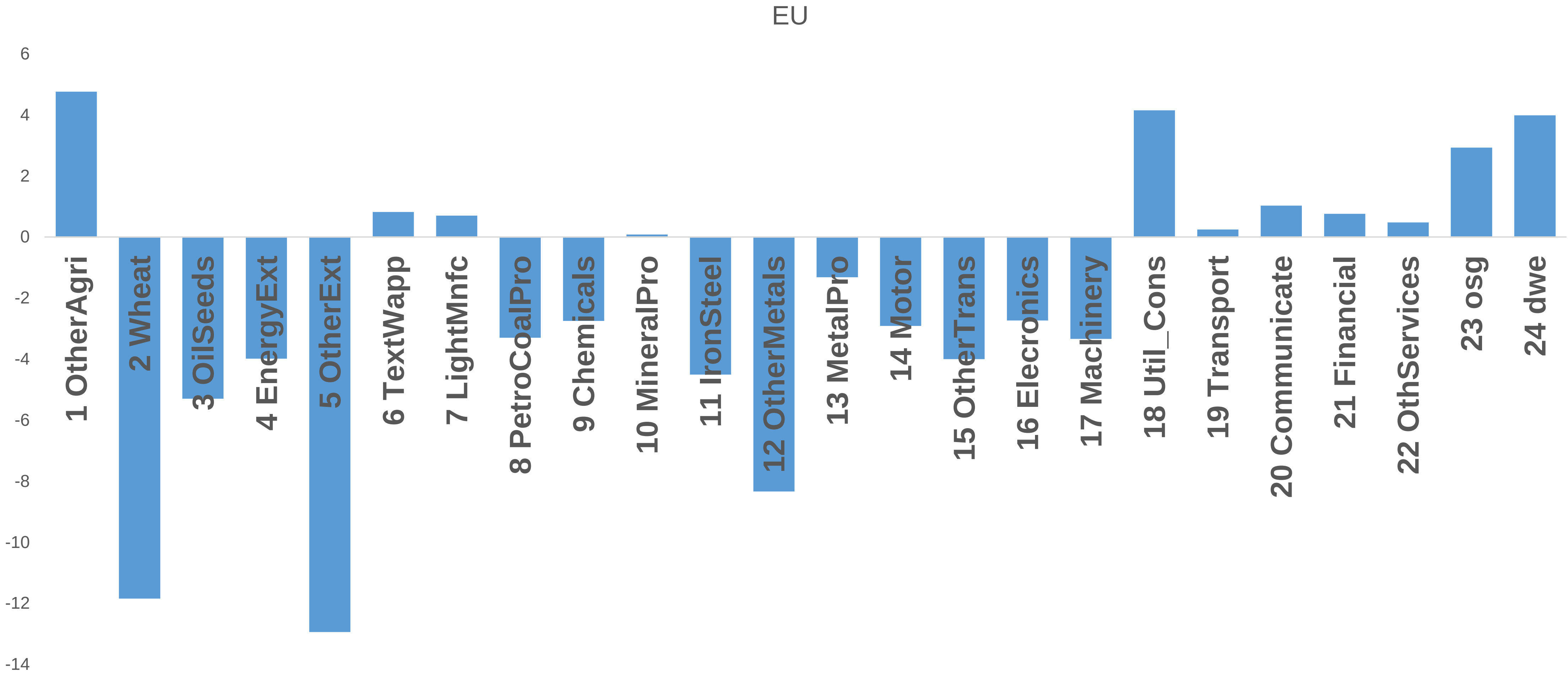




Trade Balance of EU is decreasing due to Trade Creation and Diversion Effects



Sectoral Output is declining, but some promising to textile and light manufacturing



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Questions?

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