The Future of World Trade and Implications for the US Economy

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The following presentation builds on the paper:

Is the Global Economy Deglobalizing? And if so, why? And what is next?

joint with Tristan Reed, DEC, World Bank

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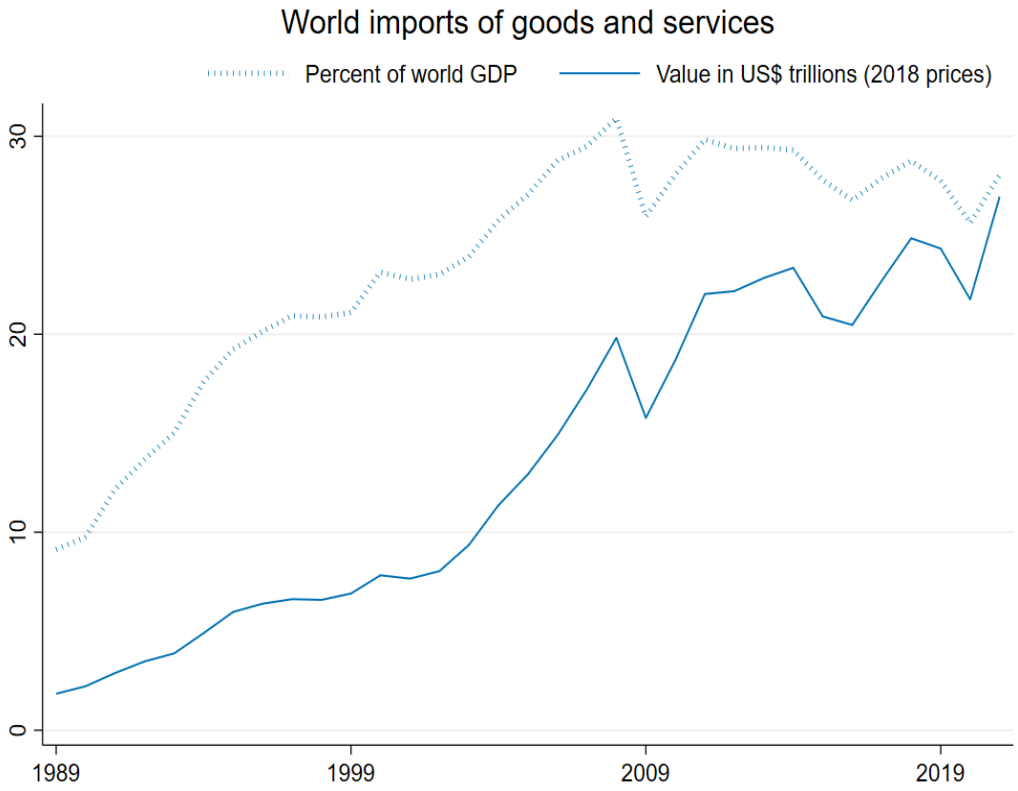
The Future of World Trade

- Data on trade flows indicate a slowdown, but not decline of world trade post financial crisis of 2008.

- But trade policy and public sentiment indicate the beginning of a new era post COVID.

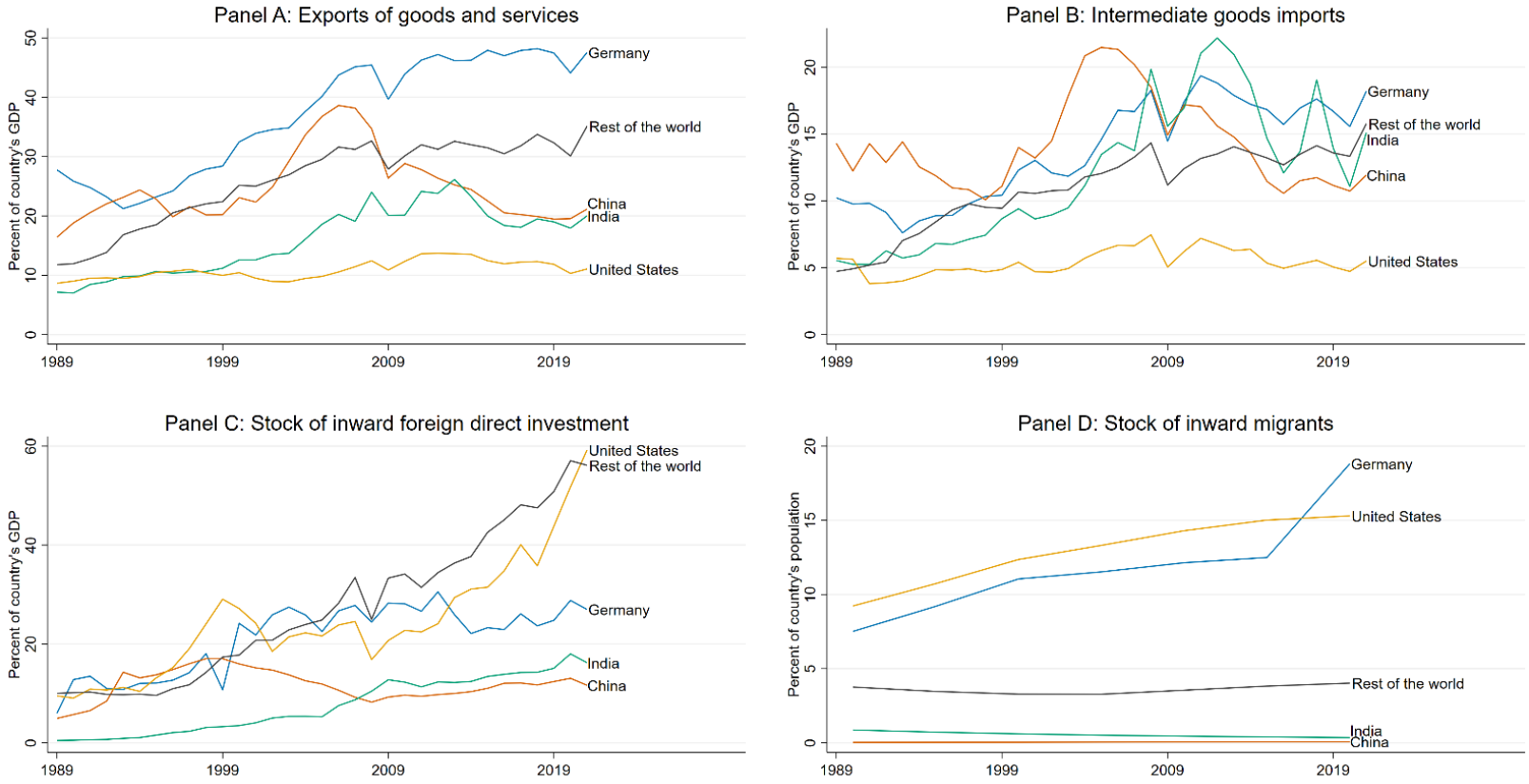
Trade is growing, but has declined as a percent of world GDP since the global financial crisis



Sources: COMTRADE, WTO, World Bank

Notes: Nominal value of goods imports is from COMTRADE, and nominal value of services trade is from the WTO, both reported in US dollars. The sum of nominal trade values is divided by world GDP in US dollars at market exchange rates (NY.GDP.MKTP.CD GDP in the World Bank Development Indicators). Nominal trade values are converted to 2018 prices using the GDP deflator (NY.GDP.DEFL.ZS) for the United States.

- Global Trade Trend is Driven by a Few Large Economies(China, India)
- Investment and Migration Data do not Suggest Slowdown



Sources: COMTRADE, United Nations Conference on Trade and Development (UNCTAD), United Nations Global Migration Database, World Bank

Policy and Public Sentiment: Big Changes

Reversal of Decades-Old Liberalization Agenda and multilateralism in the US and UK

- Brexit Vote: 2016
- US Tariffs and US-China Tariff War: 2018-present
- Appellate Body Crisis and Paralysis of WTO since end of 2019 (but problems evident earlier)
- Industrial Policy in the US (CHIPS Act; IRA)
- Export Restrictions targeting China

BUT: Still regional and multilateral agreements in the rest of the world: ASEAN; RCEP; CPTPP; AfCFTA)

Public Sentiment

- In 2018-19, public still viewed trade as beneficial to the economy, despite concerns about employment and wages
  PEW Global Attitudes Surveys, see Dorn and Levell Chapter in Deaton Review: https://ifs.org.uk/inequality/trade-and-inequality-in-europe-and-the-us/

- In 2022: Concerns about resilience; geopolitics; demands for re- and friendshoring. National security first-order concern

New Era!

Indicatively: Economists' Poll by Chicago Booth's IGM

- In March 2018, 100% of the respondents were against Trump tariffs:
  https://www.igmchicago.org/surveys/steel-and-aluminum-tariffs/

- In January 2022, 76% of the respondents showed skepticism towards sourcing inputs from abroad:
  https://www.igmchicago.org/surveys/global-supply-chains/

Phases, Causes, and Consequences of the Retreat

THREE Phases

	Years	Drivers/Concerns about	Consequences
Phase 1	2016-2020	Unfair competition b/w countries Labor market disruption Regional inequality	Brexit Trump Tariffs Trade: robust
Phase 2	2020-2022	Supply chain resilience Catalyst: COVID-19	None Trade: robust
Phase 3	2022-present	National security Resilience to geopolitical risks Catalyst: Invasion of Ukraine	Decoupling from Russia (in Europe and US) and China (in the US) Trade: ???

Consequences for the US Economy

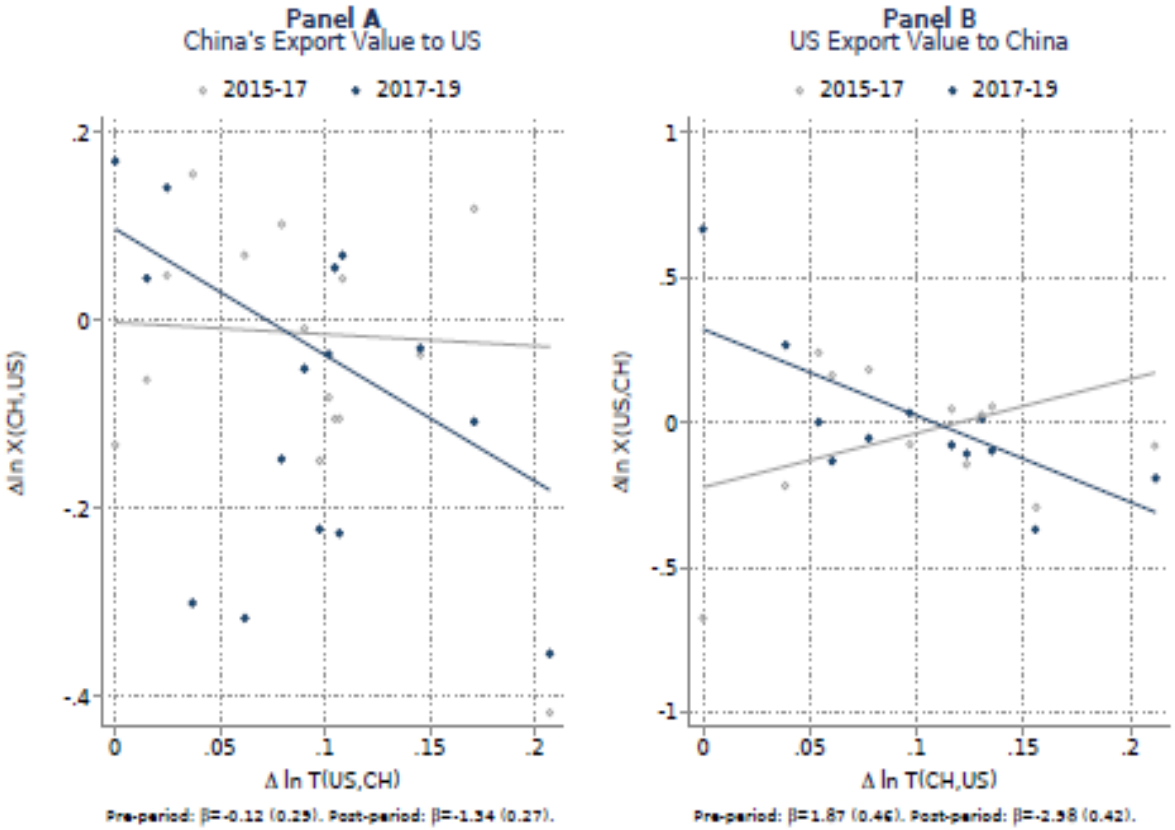
Phase 1

- Strong rhetoric and heightened uncertainty
- Import Prices of Chinese products increased in the US. But retail prices did not increase in full proportion
- No notable effect on inflation
- Aggregate effects small
- Trade between the US and China declined. But global trade reallocated and kept growing
- The US-China trade war *increased* global trade in the targeted products
- Perhaps most important effect: Stepping Stone

  Laid the groundwork for subsequent shift in policy.

Effects of US-China Trade War on US-China Trade

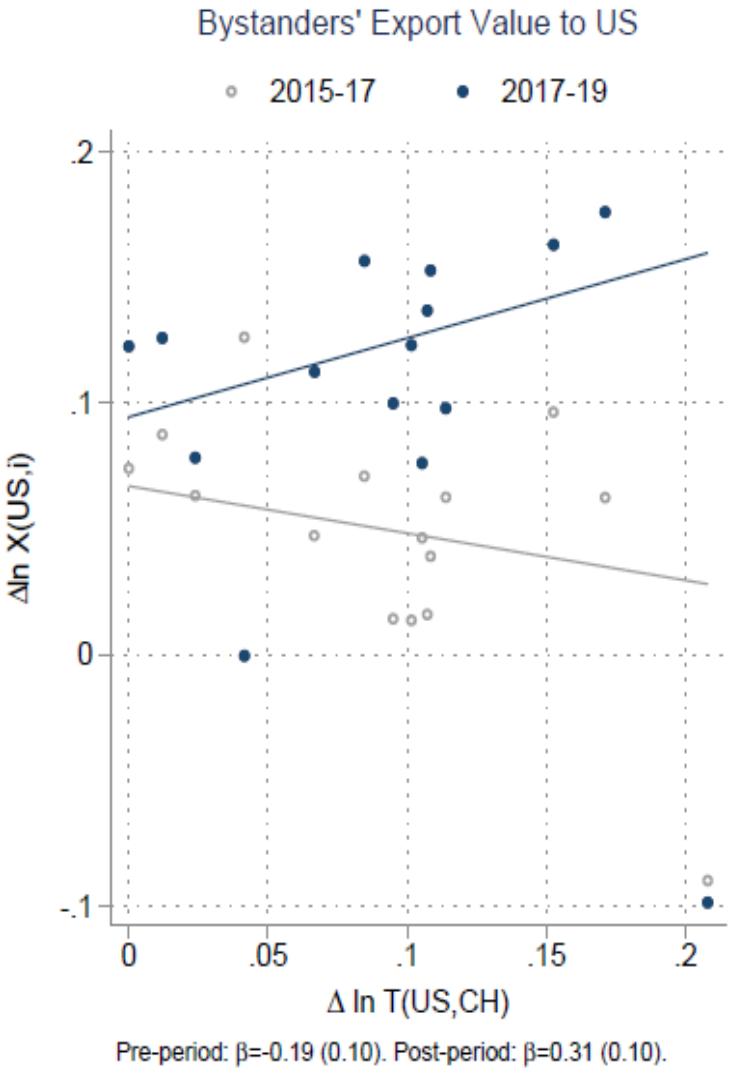
(Fajgelbaum et al 2023)

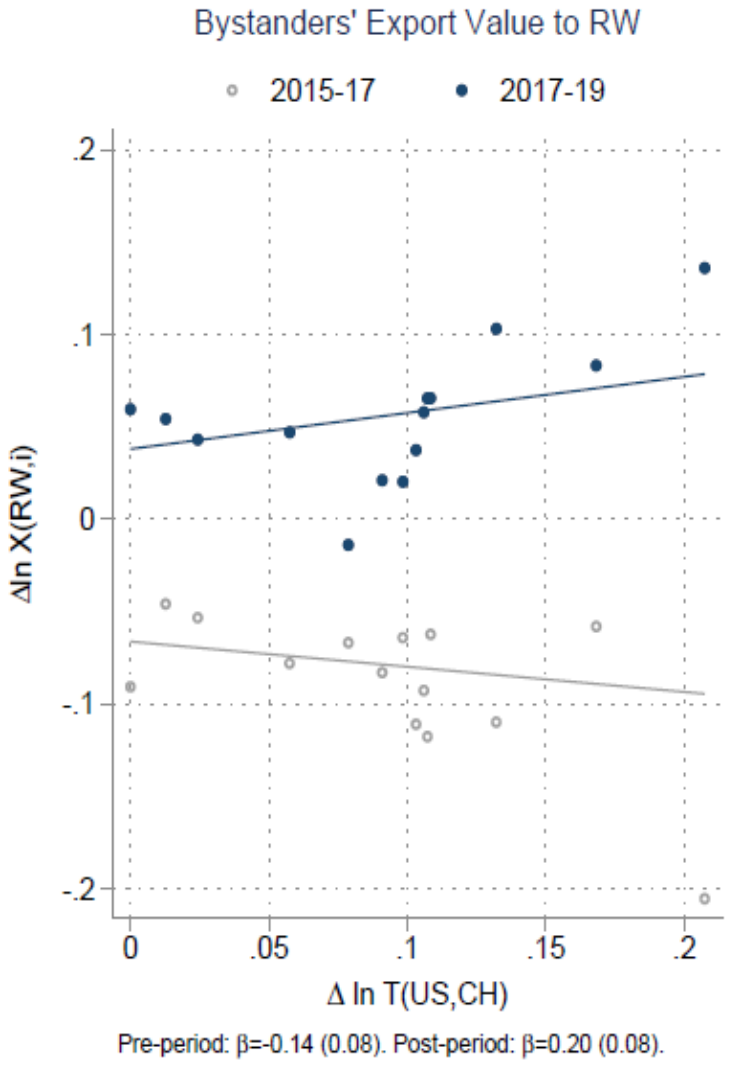


Notes: The panels show binscatter plots of USA and China's export change (on the y-axes) against changes in tariffs due to the trade war (on the x-axes), Panel A is the regression: $\Delta \ln X^{US}_{CHN,\omega} = \alpha + \beta \Delta \ln T^{US}_{CH} + \epsilon^{US}_{CHN,\omega}$. Panel B is the regression: $\Delta \ln X^{CH}_{USA,\omega} = \alpha + \beta \Delta \ln T^{CH}_{US} + \epsilon^{CH}_{USA,\omega}$. Also reported are regressions with exports prior to the trade war from 2015-17. Below each panel are OLS coefficients.

Effects of US-China Trade War on Global Trade Flows

(Fajgelbaum et al 2023)





Phase 2

- Many concerns about resilience of GVCs and supply chain disruptions

- But evidence does not support claims. Trade proved resilient to COVID:
  - Trade volumes declined during 2020, but rebounded in 2021
  - Firm-to-firm import relationships were not disrupted though import volumes declined (Goldberg and Reed 2023). Imports were bent but not broken
  - Because COVID waves were not synchronized across countries, imports of PPE eased domestic bottlenecks.
  - Bottlenecks would have been worse in the absence of international trade. Reason: COVID also affected domestic inputs and labor market.

→ **Resilience cannot be evaluated without reference to the specific shock!**

- Not consequential. Trade rebounded in 2021.

- If it had not been for the invasion of Ukraine, we may have gone back to normal

- BUT: A Further Stepping Stone

Attitudes towards trade are shifting.
International Specialization can be a liability.

Phase 3

Short-Term Consequences

- As noted at the beginning, too early to see in data.

- But profound changes in US trade policy (leaving sanctions against Russia aside):
  - National Security Strategy: Explicit about the goal of holding back China using trade as a weapon
  - Several statements by the US Trade Representative declaring the beginning of a new era
  - Drastic export restrictions in semiconductors targeting China
  - Meanwhile: WTO still paralyzed; Tariffs still in place; US absent from negotiations of new trade agreements

Long-Term Consequences

- Speculative at this point (and subject to no policy reversals)
- Wars (hot or cold) do not contribute to prosperity
  - Even if, as Besley and Persson (2009, 2011) show, they may contribute to higher state capacity
- Inflationary pressures (due to less international competition)
- Likely slowdown of growth; technology adoption; global poverty reduction
  - Models of long-run growth emphasize the importance of population (Kremer 1993)
  - Similarly, Goldberg and Reed (2022) emphasize the role of market size in poverty reduction, especially for smaller countries that need access to international markets. Friendshoring and emphasis on labor and environmental standards may preclude the participation of low-income countries in world markets.
- But also possible that technological innovation, especially in green energy, increases
- More resilience? Perhaps “yes” to geopolitical risk. But not to other shocks.
- Perhaps biggest risk: Eventually → Military Conflict (see pre-belligerence era)

THANK YOU!