

Trade wars and rising protectionism: A danger for the synchronized global economic recovery?



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GOOD NEWS

- **A broad-based pickup in GDP growth rates in 2017 - led by investment;**
- **Headline inflation has picked up**, core inflation remains soft, in AEs inflation still under target, but edging up in response to stronger demand;
- Some of the world's **major central banks** already did, and other are cautiously preparing to unwind the unconventional policies of the post-crisis period.
- **The health of the financial system has been improved**, but much focus was put only to restore the banking system to stability after its near-collapse in 2008.

BAD NEWS

- The **weakest post-recession recovery on record;**
- **Productivity growth remains puzzlingly weak;**
- **Wage growth remains tepid in most AEs;**
- **Inflation in asset prices;**
- **High levels of indebtedness** particularly among non-financial sector;
- **Global imbalances are still high;**
- **Technological developments** such as DLT and algorithmic trading are imposing new challenges to financial regulators and markets.
- **Financial stability risks-** Argentina?
- Medium-term global outlook remains clouded **by geopolitical tensions and rising protectionism - trade wars?!**

Waning support for global integration, dialogue and coordination is highly elevated!!!

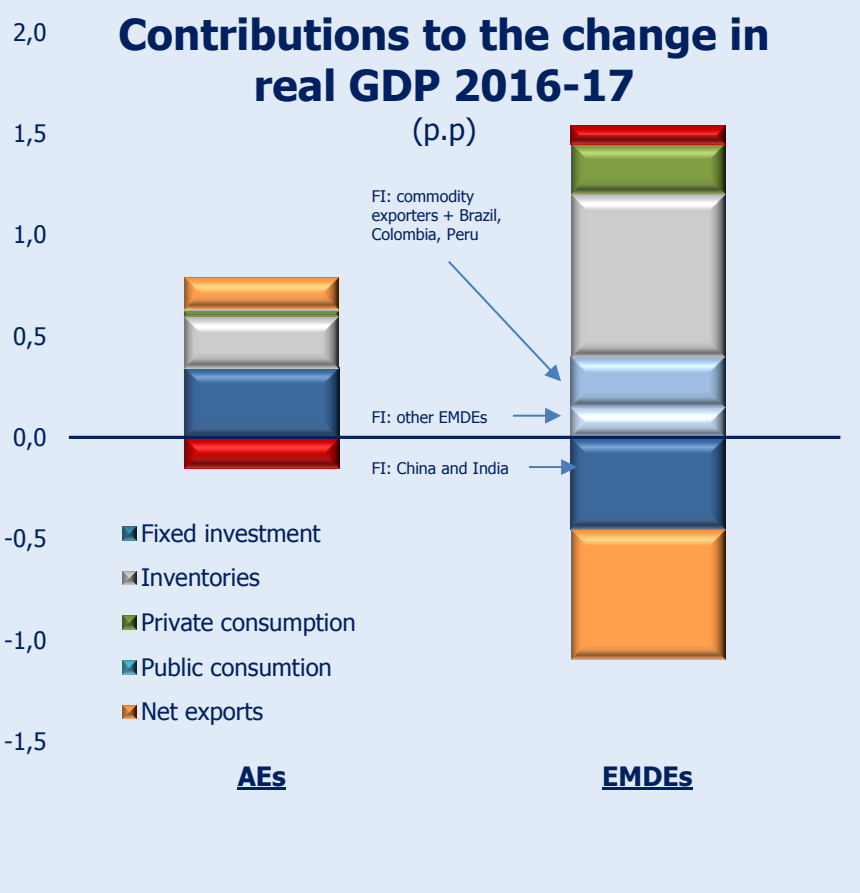
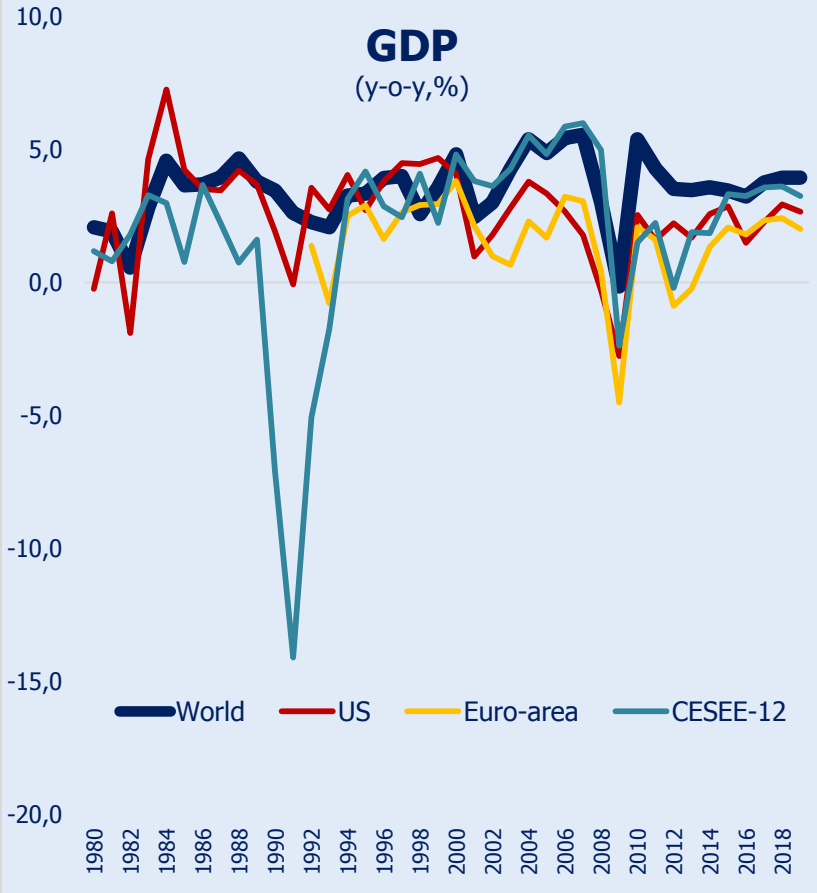
Economic developments

Solid global growth in 2017

Widest dispersed growth between countries since 2010
 Growth stronger than projections, with upside surprises in H2.2017 in AEs as well as EMDEs

Growth pick-up is led by investment

Stronger investment spending in AEs and end to fixed investment contractions in commodity exporters



Source: IMF WEO, April 2018

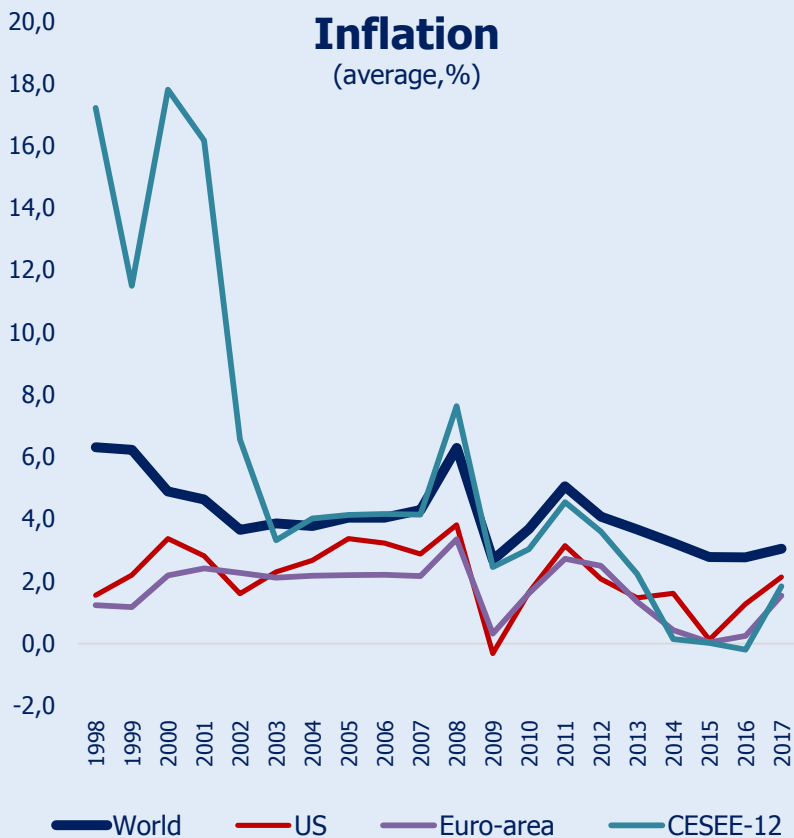
Economic developments

Headline inflation has picked up, reflecting stronger fuel prices, but core inflation remains soft

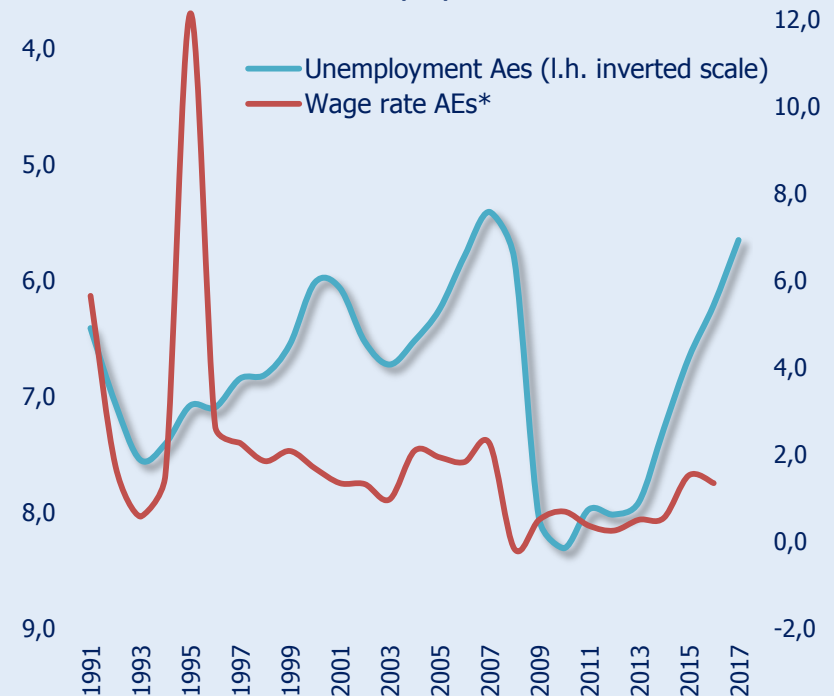
in AEs inflation still under target, but edging up in response to stronger demand

Wage growth remains tepid in most AEs

still elevated share of workers involuntarily working part-time
new entrants earning lower wages than retiring workers



Unemployment rate and wage growth rate in AEs (%)



*Wages according to OECD (AEs according to WEO definition excluding Macao, Malta, Puerto Rico, San Marino, Taiwan POC)

Economic developments

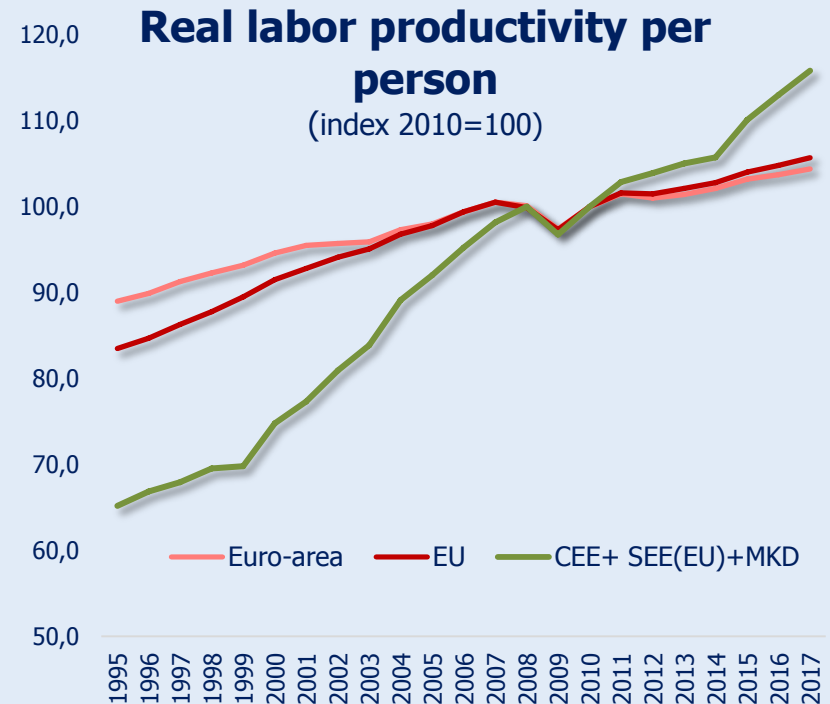
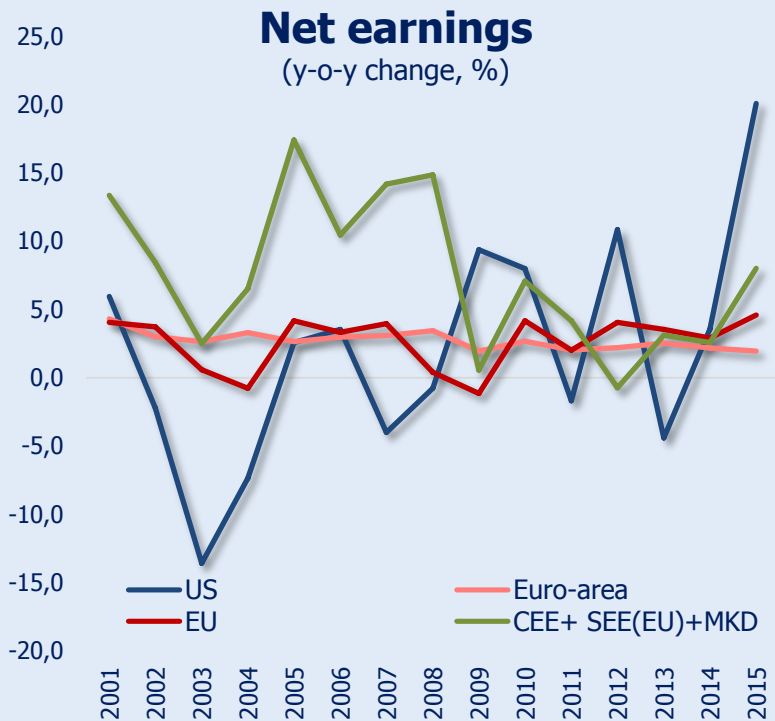
Positive outlook for wages - as they are already rising in US and start to move upward in EA as well

The January uptick in US hourly earnings growth was welcome sign of a firming labor market

In advanced Europe, external competition, automations and technological progress may also dampen wage growth

In Central and Southeastern Europe*, productivity is rising, but wages are also rising

Wage growth stronger in service sectors (including professional services, wholesale and retail trade, and real estate) relative to industrial sector, which is most exposed to external competition



* IMF, REO, Europe hitting its stride, Nov. 2017

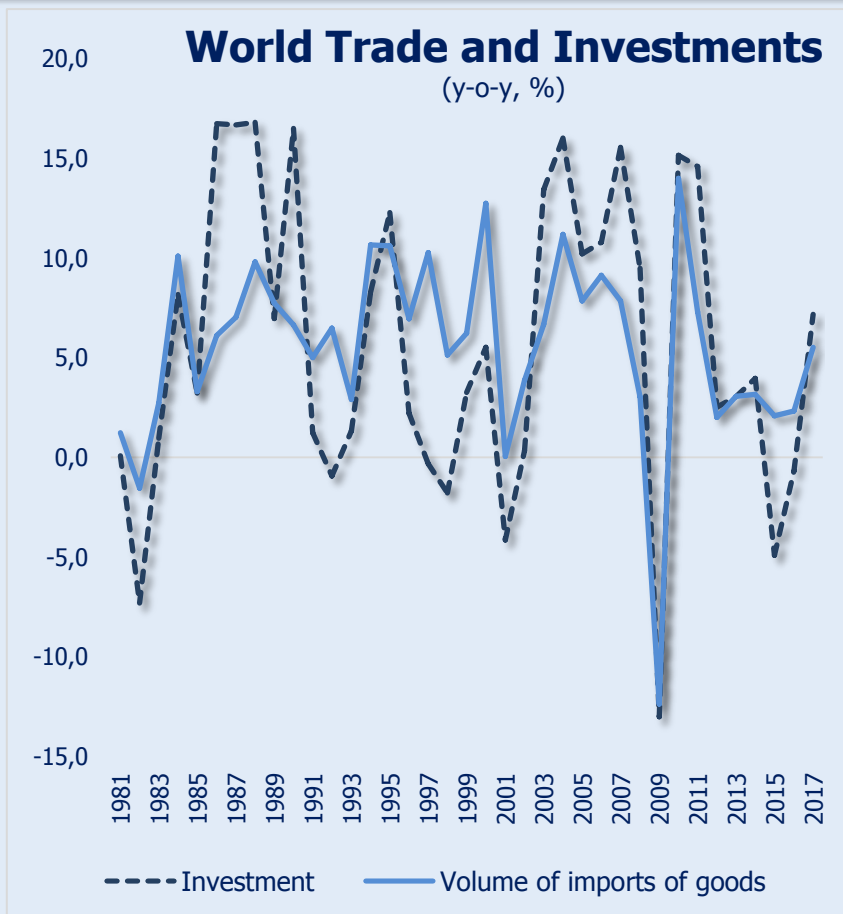
Trade developments

Global trade is highly correlated to global investment - recovered strongly in 2017

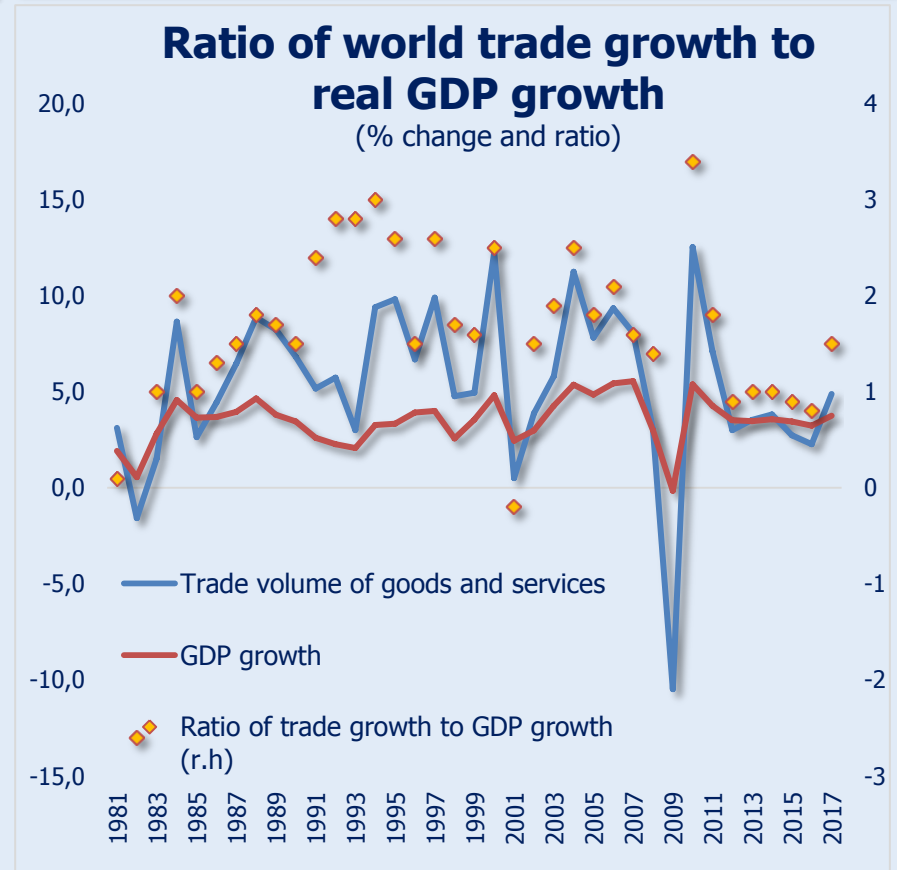
Upsurge more pronounced in EMDEs reflecting improved investment growth in commodity exporters

Historically, world merchandise trade volumes have grown around 1.5 times faster than GDP

In 1990s ratio rose to 2.0, but fell back to 1.0 in the five years following GFC (2011-2016)



Source: IMF WEO, April 2018

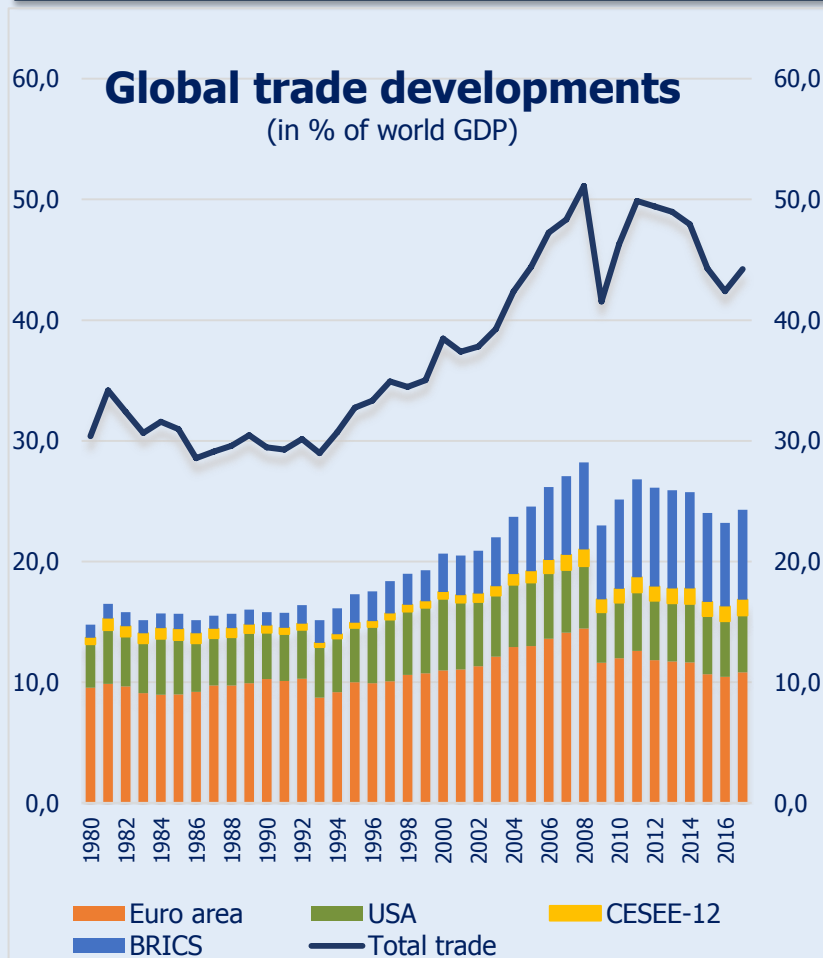


Source: WTO Trade statistics and outlook, 12 April 2018

Trade developments

Global trade was growing rapidly in the period between 1990 and 2008

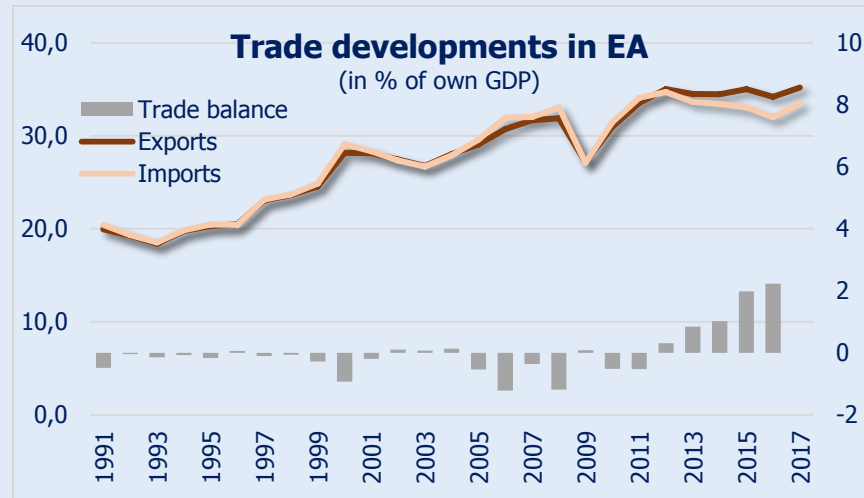
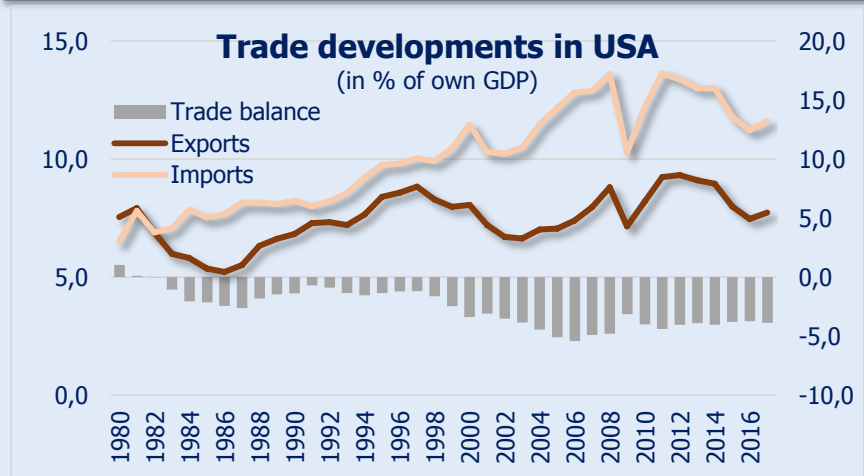
After the fall in the period of GFC, global trade recovered till 2014, when again is starting to moderate



Source: IMF Direction of trade statistics data

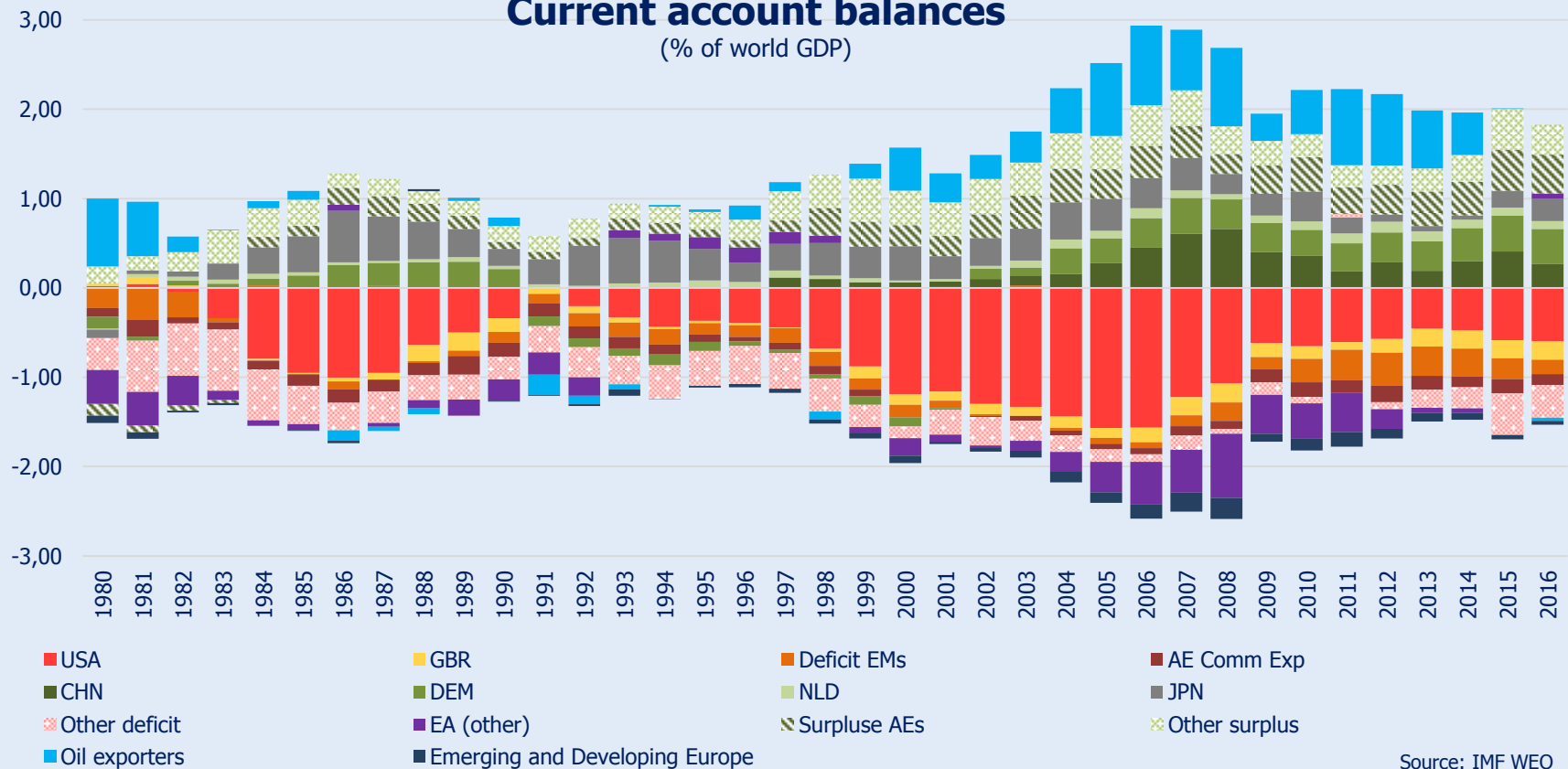
US is running deficit in CA, but the Ex and Im levels are relatively low as share of GDP, so less influenced by slower global trade

On contrary, **EA** is more reliant on global trade



Global Imbalances reached the peak before GFC -then moderately narrowed and somewhat reconfigured

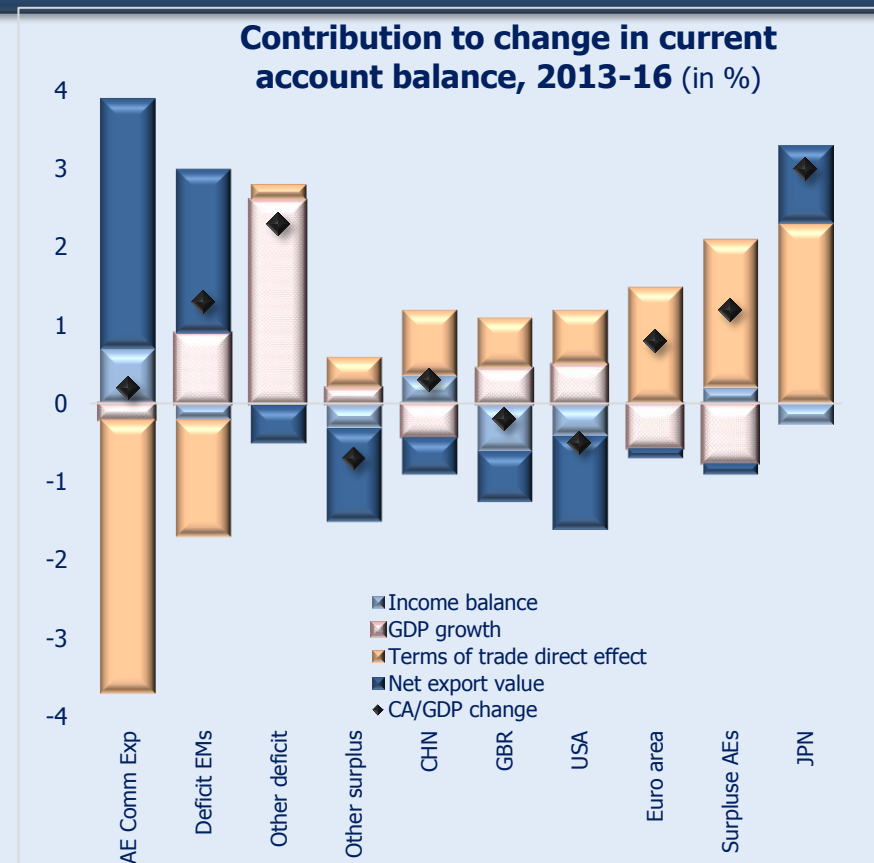
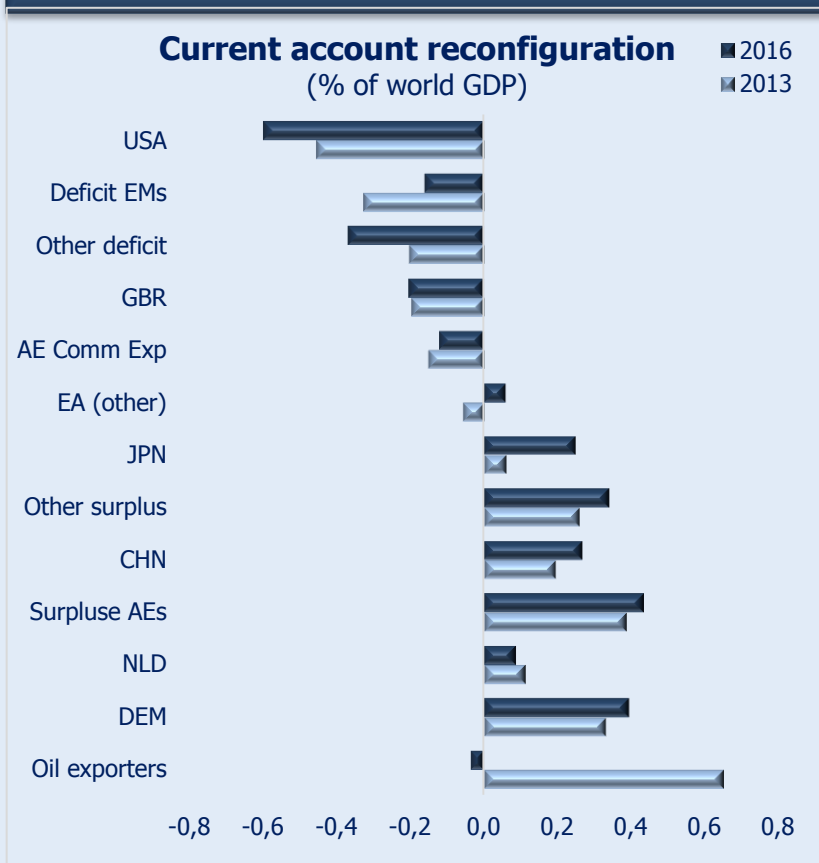
Current account balances
(% of world GDP)



Source: IMF WEO

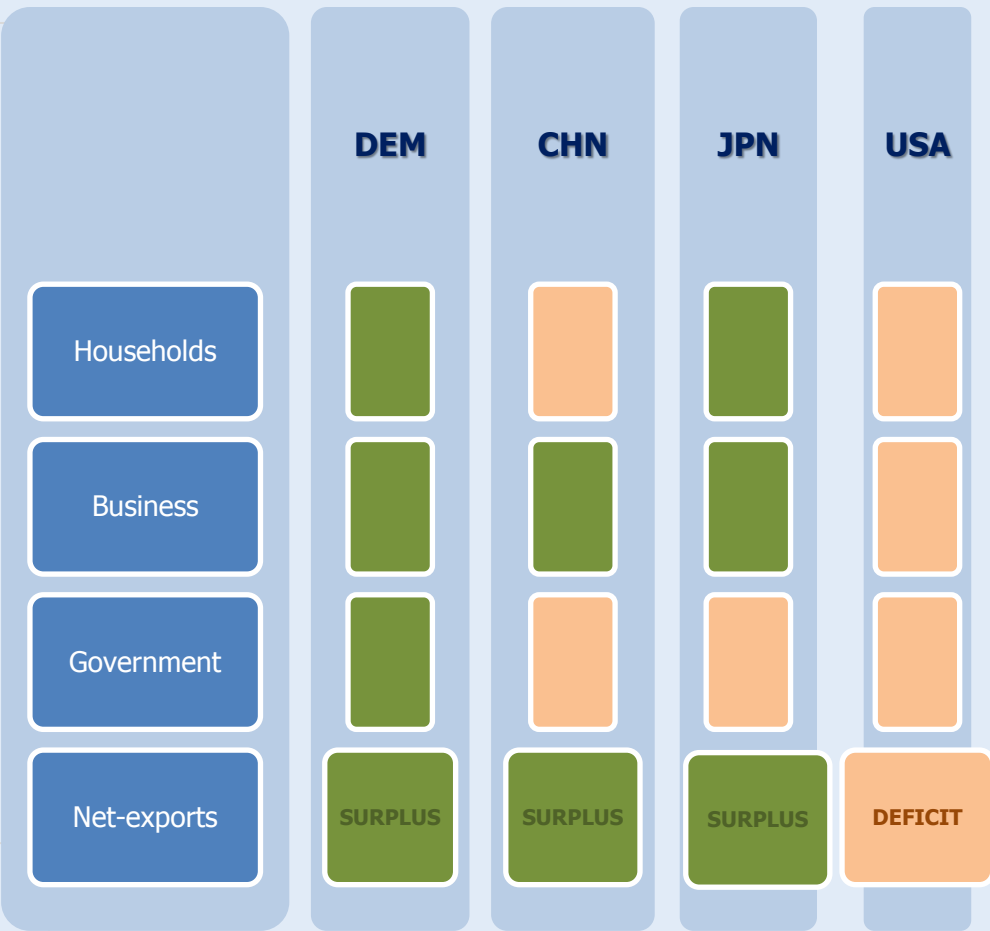
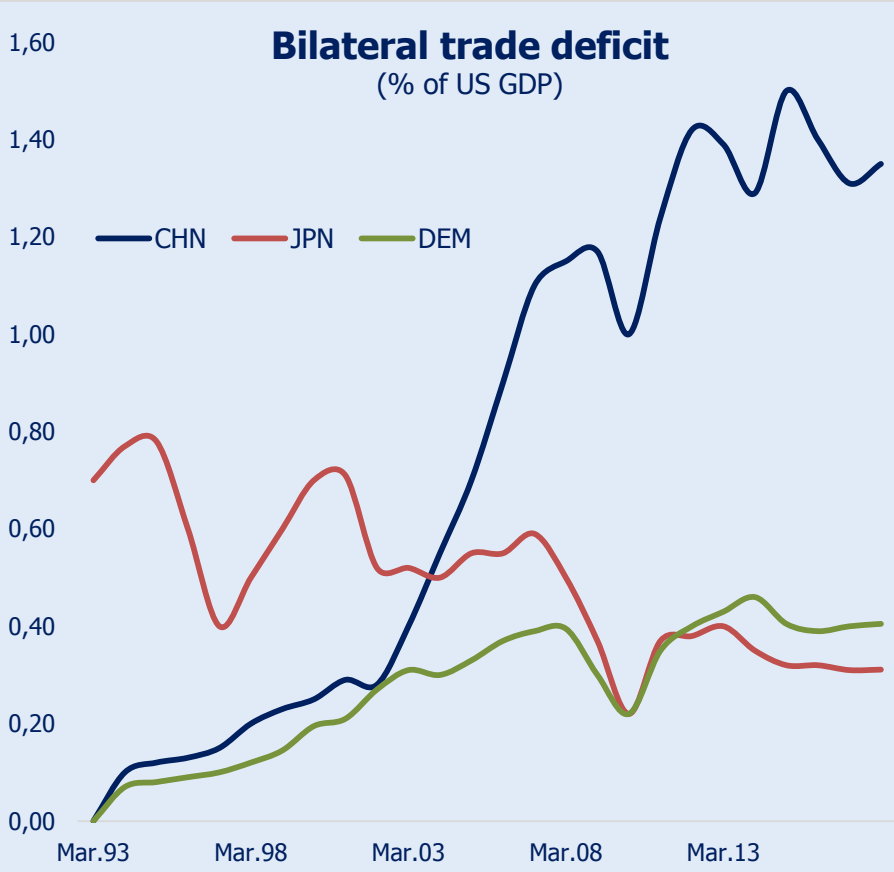
The reconfiguration of global imbalances since 2013 was driven by confluence of factors

- sharp drop in commodity prices, particularly sharp for oil, redistributed income away from commodity exporters towards commodity importers
- difference in the cyclical positions among systemic economies supported net import growth and currencies in US and UK, especially relative to Euro area and Japan



Global imbalances

Net export data as share of US GDP show high US-China trade deficit (1.3-1.4% of US GDP), and US-Germany trade deficit growing steadily
Structural changes needed both in US and net- exporters countries



Source: Rabobank, Global trade, markets, politics and tensions, 23 April 2018

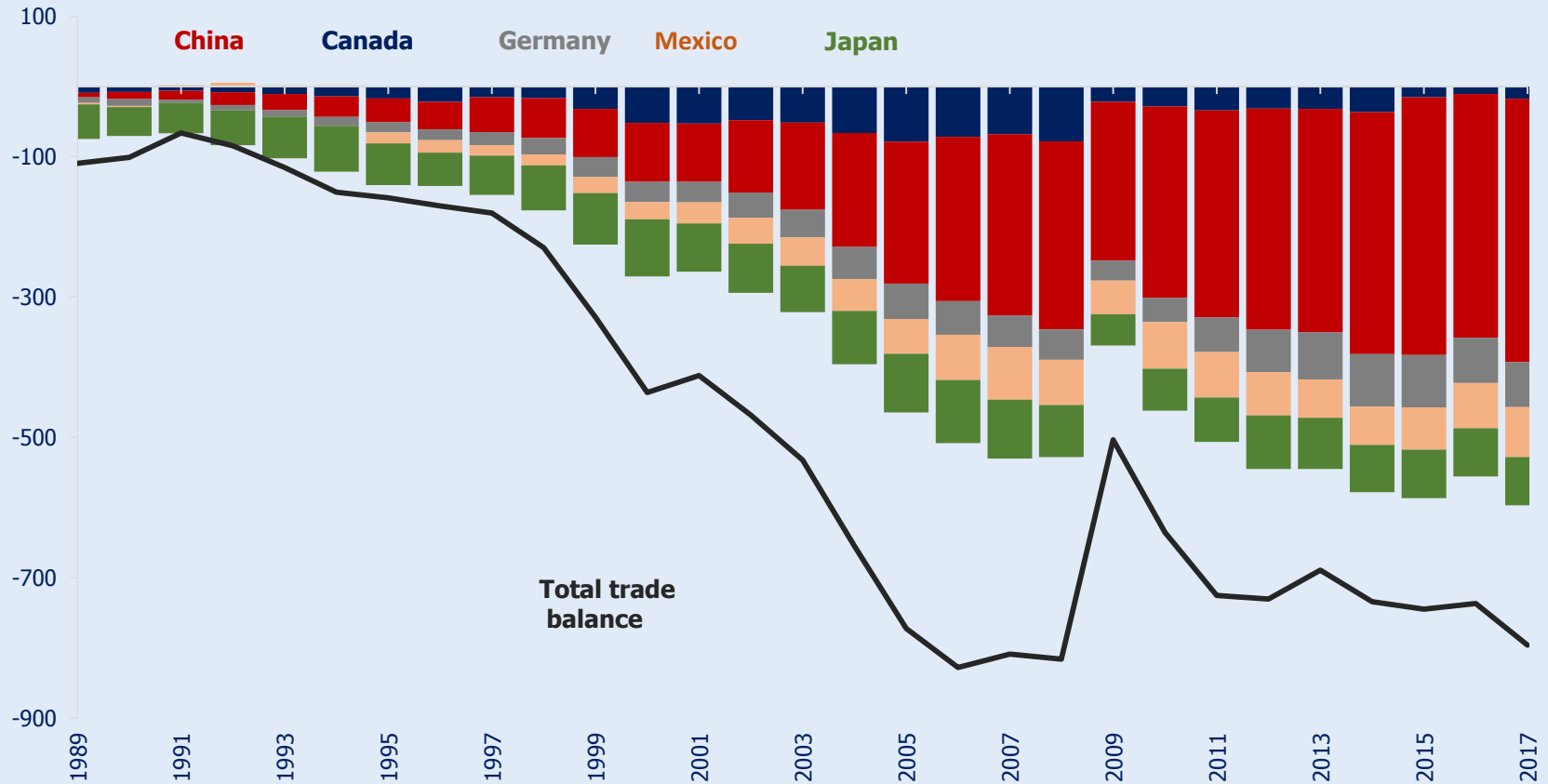
Rising Protectionism

New sets of tariffs introduced by US administration in 2018, risk to worsen trade tensions

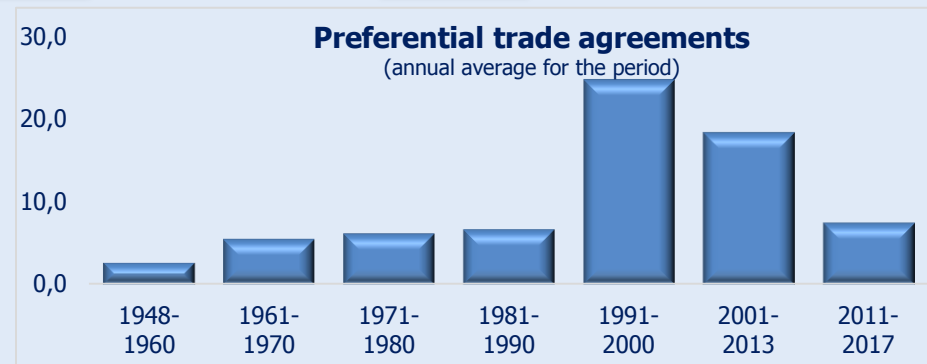
Direct impact is likely to be modest – goods affected by the measures account only around 2% of US imports and Chinese exports and less than 1/2% of world trade

US trade balance

(USD bn.)



Globalization –Trade - Benefits

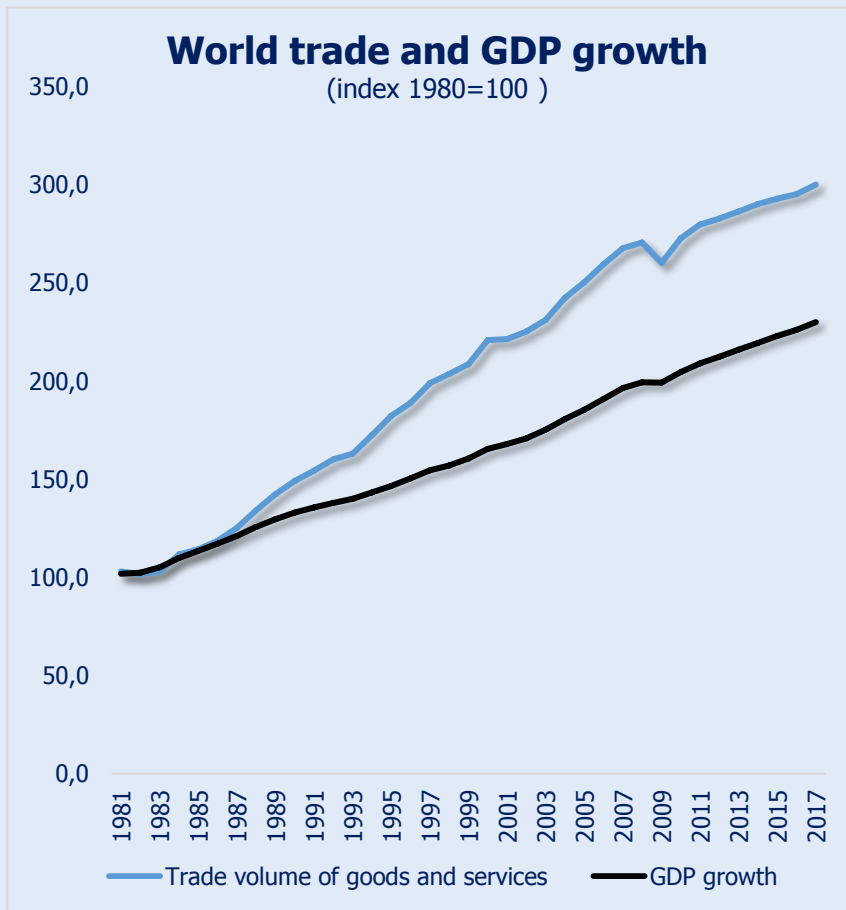


Source: Design of trade agreements database

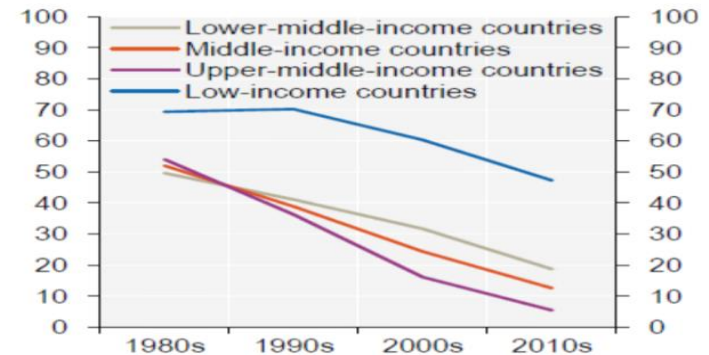
Globalization – Trade - Benefits

World merchandise trade volumes have grown around 1.5 times faster than GDP

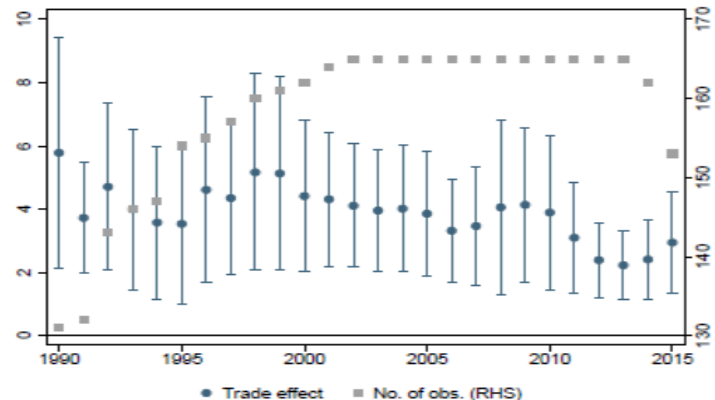
Global trade is contributing to increase in living standards and reduction in poverty



Poverty as measured by the share of the population living on less than USD 1.90 a day



Effect of trade openness on real income per capita

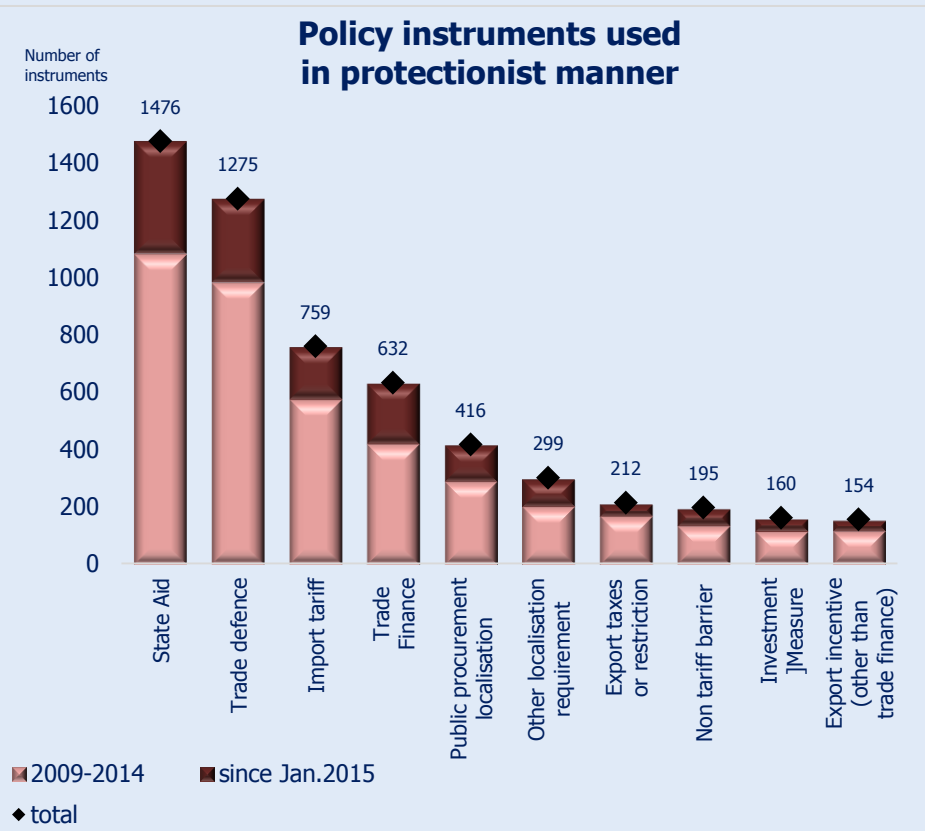
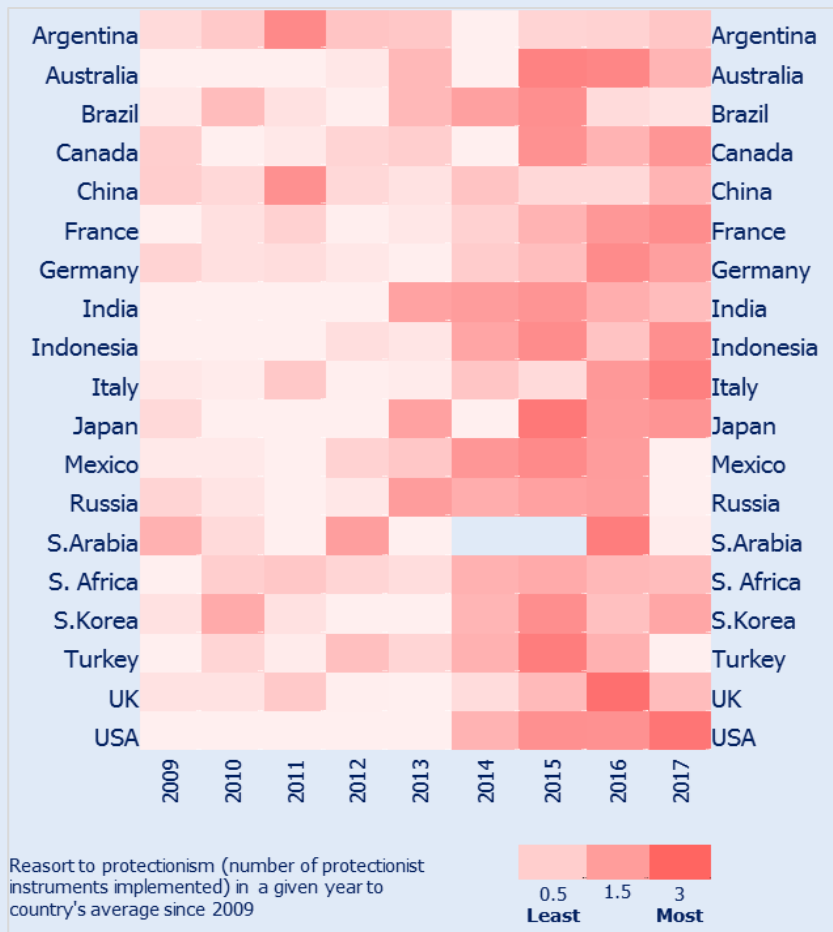


Source: Towards a Better Globalization: How Germany Can Respond to the Critics, Better Policies Series, OECD, April 2017
 Cerdeiro D. and Komaromi A. "Trade and Income in the Long Run: Are There Really Gains and Are They Widely Shared?" IMF WP 17/231, IMF, 2017.

Rising Protectionism- G20

In Nov.2008, G20 pledged not to engage in protectionism

State aid, trade defense actions, import tariff increases and trade finance are most used protectionist policy instrument

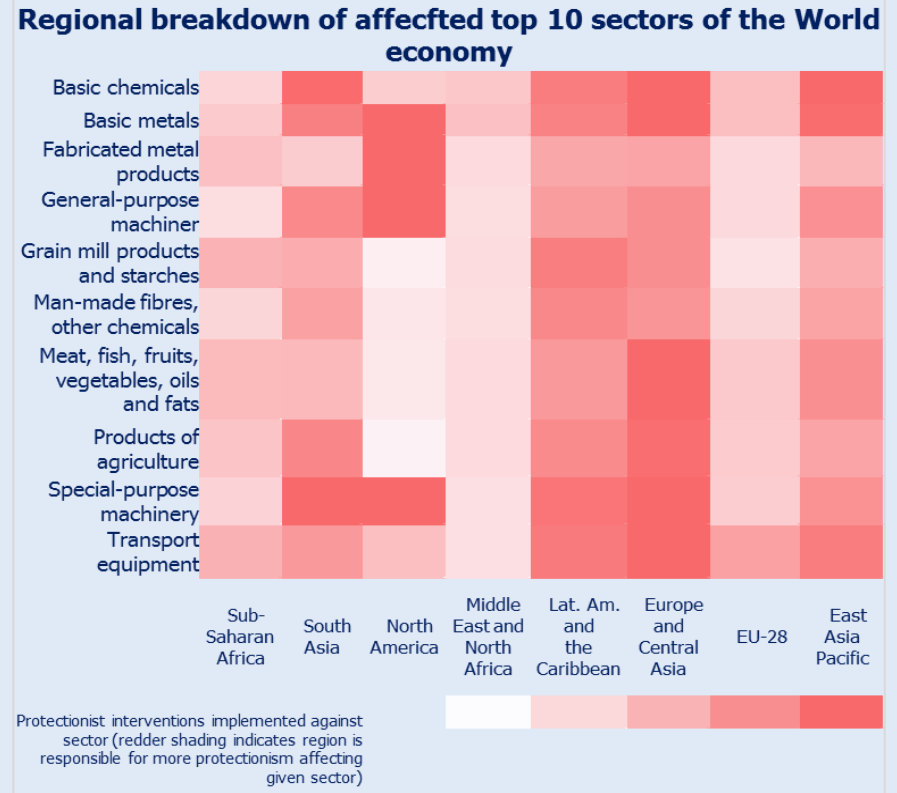
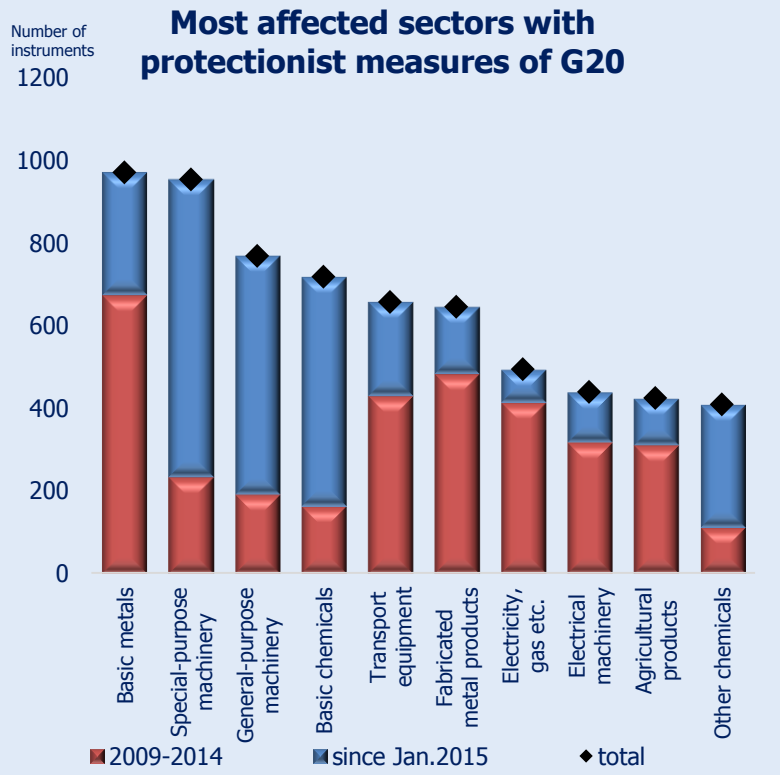


In January 2015 GTA in 19th report concluded "that global trade is not growing slower – it is not growing at all. The plateau in global trade coincided with a spike in protectionism."

Rising Protectionism

Metals, machinery and chemical sectors have frequently been affected by G20 protectionism measures

On worldwide level, food-related sectors enter 10 most affected by the protectionism measures



Rising Protectionism - Impact

Implications from protectionist policies differ for deficit and surplus countries

-scenario deficit country introduces non-tariff barrier for 2 years on imports from surplus country

Deficit country

Trade balance improves by compressing imports, REER appreciates resulting in transitory reduction of exports
However, GDP declines on average by 0.1% in first 3ys, due to lower consumption and investment

Surplus country

Trade balance decline (0.3 of GDP after 3y) led by reduction in exports partially offset by REER depreciation
Average reduction of output during first 3ys, when barriers lifted output and trade balance quickly unwind

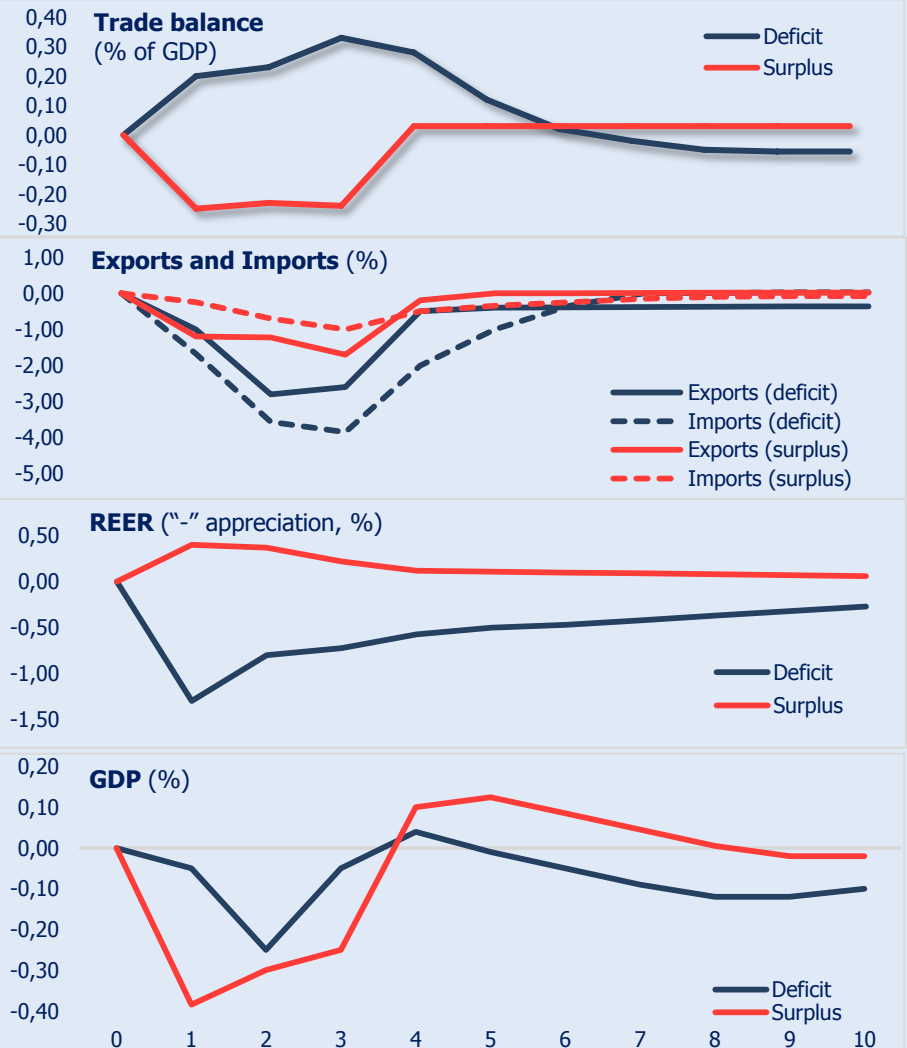
Global impact

Trade restriction can narrow global imbalances but their impact is small, as real effective rates partly offset the effect of trade barriers.

Moreover the world is worse off, and global GDP experiences an average decline of 0.1 percent while protectionist policies are in place. Imbalances in rest of the world are roughly unchanged.

Global GDP losses increase with duration of protectionist policies, and impact on global imbalances lessens.

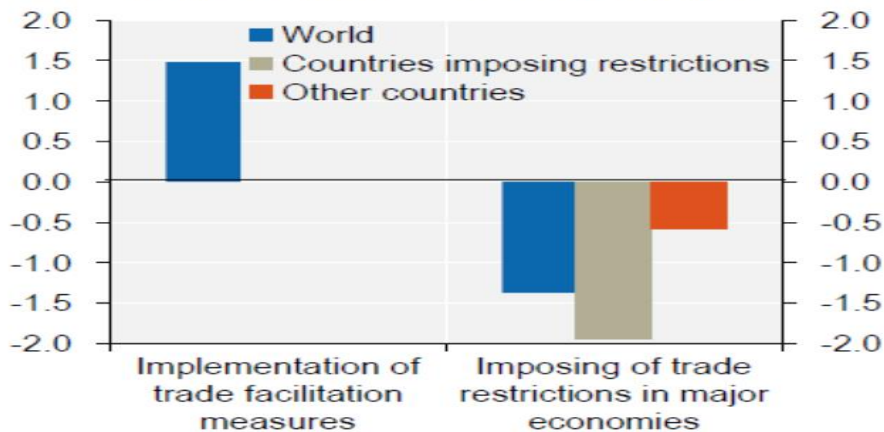
Additionally, protectionism would likely increase global uncertainty and financial volatility with material effects on global investment.



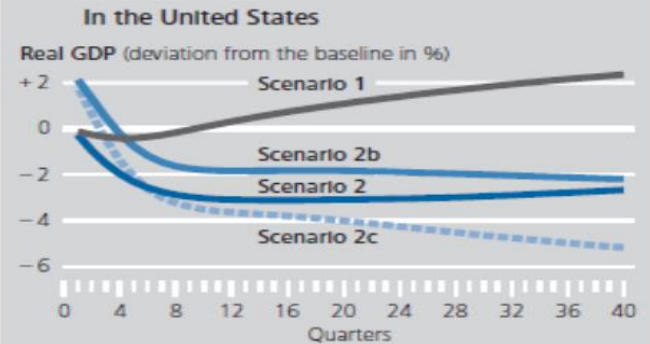
Rising Protectionism - Impact

- **OECD** estimates potential negative effects to world GDP from trade restrictions in major economies
- **ECB** simulations point to material impact on global trade and output in the event of trade tensions escalate
- **Deutsche Bundesbank** simulations indicate to possibility of considerable macroeconomic damage caused by imposition of duties, including in the imposing country
 - Simulations point to higher prices and lower economic output in US in response to hypothetical shock of US permanently imposing general import duty of 20% on import prices with adverse effects on other countries' exports and GDP

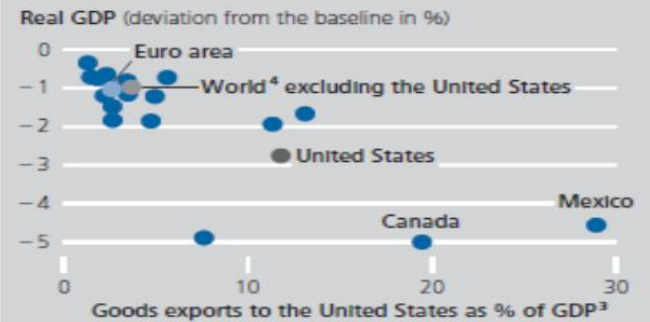
Effect of different trade policy scenarios on the medium-term GDP level, in %



Output effects of imposing an import duty in the United States in NiGEM scenarios*



In selected economic areas^{1,2}



Source: Bundesbank calculations using modified NiGEM versions. * Imposition of a permanent price mark-up of 20% on exports of goods (excluding raw materials) to the United States. Monetary policy responses in accordance with standard rules. Scenario 1: endogenous adjustments to deviations of export prices including duty; no fiscal impact. Scenario 2: endogenous adjustments to deviations of export prices excluding duty; no fiscal impact. Scenario 2b: as scenario 2, but duty revenues captured and used to increase public-sector demand. Scenario 2c: as scenario 2b, but partner countries levy retaliatory duty of 20% (no fiscal impact). ¹ In Scenario 2. ² Average of the first ten years. ³ Based on the figures for 2016. For the United States total goods imports. ⁴ Aggregation power parities. Deutsche Bundesbank

❖ **Protectionism is pronounced since GFC**

- ✓ Evidence that G20 resort to protectionism is getting worse over time
- ✓ In 2017 US, but also some EU countries (Italy) accelerated their resort to trade distortions

❖ **Although the some reconfiguration in global imbalances was since 2013, still on global level, sustained excess imbalances, amid smaller output gaps point to need for recalibrating the policy mix in excess deficit and surplus economies alike**

- ❑ Reducing large and persistent excess global imbalances will require increased focus on structural reform policies
- ❑ Countries whose populations are aging, need to accumulate assets for many years that they can draw down when workers retire
- ❑ Young and rapidly growing economies with ample investment opportunities benefit from sustained foreign funding

❖ **Current favorable juncture offers a window to enact policies and reforms that protects the upswing and rise medium-term growth to the benefit of all**

Conclusions

	Countries	Policies	Structural reforms	Countries
Excess surplus countries	Korea Thailand	Fiscal policy to support demand Reduced reliance on mon. policy	Reducing barriers to foreign competition and domestic investment in certain sectors	Korea Thailand
	China	Fiscal and credit policies to support domestic rebalancing and fin. sector vulnerabilities		Expanding social safety nets to discourage precautionary savings
	Japan	Supportive fiscal policy	Encouraging labor force participation by the groups with relatively high consumption propensities	Japan
	Germany Netherlands	Tax and spending policies to promote private investments, labor force participation and consumption Tighter monetary and easier fiscal orientation	Facilitating private sector balance sheet repair	Germany Netherlands
	Thailand	Limit FX interventions and allow exchange rate flexibility	Expanding social safety nets to discourage precautionary savings	Thailand
Excess deficit countries	Canada	Consolidation plan to reverse the projected strengthening of the currency and widening CA deficit	Improving the skill base of workers and innovation in the export sector	Canada
	USA	Fiscal consolidation Monetary policy normalization	Lowering costs of doing business	USA
	Turkey	Tighten monetary policy and build FX reserves	Reducing the generosity of pension systems	Turkey
	France Italy Spain S.Arabia	Internal devaluation supported by fiscal consolidation that will help in productivity-enhancing labor market reforms	Implementing labor market reforms aimed at nominal wage increases and reducing ULC	France Italy Spain S.Arabia



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