

The NewsLine

March 23, 2018

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GLOBAL TRADE

Protectionism can end the expansion

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The initial financial market reaction to the announcements of US tariffs on steel and aluminium imports two weeks ago proved surprisingly contained. The limited economic importance of these product groups may have soothed nerves. Meanwhile concerns about a trade war are taking hold. Although trade flows have not yet been affected, companies' economic expectations have already deteriorated noticeably.

Concerns about a global trade conflict are weighing on the economy, even though the specific measures discussed would be of limited quantitative importance. According to our estimates, even a 25 per cent tariff imposed by the USA on Chinese imports worth 50 billion dollars would reduce China's export volume by only 15 billion dollars. But that is not what matters in the first place. The more dangerous effect lies in China's further countermeasures and the synchronous economic slowdown triggered by deteriorating expectations. An escalation of protectionism would therefore be the safest way to end the current global upswing. This is not very likely to happen. For the economic self-interest of all parties involved will make them seek negotiations and ultimately prevent a trade war. But for sure, the talks will be difficult both between the US and Europe and between the US and China and they will probably continue to be accompanied by sabre-rattling. This will lead to more financial markets uncertainty and volatility. What is needed, in contrast, is a reduction of tariffs and other barriers to trade. Positive surprises in this direction are possible, but unfortunately not in the cards at present.

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March 26, 2018

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