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CHANGING TRADE PARADIGMS IN THE NEW WAVE OF PROTECTIONISM. INSIGHTS FROM OEET-AISSEC WORKSHOP ON TRADE WARS AND GLOBAL CRISES

by Xieshu Wang and Marta Marson, University of Turin and OEET

This issue of Emerging Economies and the next will include some main contributions presented at the 5th Workshop organized by OEET and AISSEC at the Department of Economics and Statistics "Cognetti de Martiis" of the University of Turin on 3rd and 4th of October 2019 (https://www.carloalberto.org/wp-content/uploads/2019/10/OEET-WORKSHOP-TRADE-Program.pdf), around the topic of "Trade Wars and Global Crises: The Outlook for Emerging and Advanced Countries".

In light of the escalating trade war between US and China, the workshop invited scholars and practitioners to reflect on how the changing geopolitical dynamics are impacting the trend of international exchanges, the structure of global value chains, and the economic outlooks of both developed and developing economies. This issue presents four contributions on changing trade paradigms in the new wave of protectionism, and particularly regarding US duties against China and the EU.

We start with a historical review by P. Della Posta of the different phases of globalization, dating from the IX Century, and its moments of crisis, including the period between the two world wars and the current phase of de-globalization accentuated by the election of Donald Trump, the Brexit and the spreading of neo-nationalism and populism worldwide. Della Posta distinguishes two waves of criticism on globalization since the end of the 1990s, reflecting concerns from different social groups, and concludes on the importance of international cooperation.

G. Graziani discusses the direct consequences of the on-going US-China trade war on emerging economies. The analysis is based on a framework of four direct effects of tariffs: trade volume reduction (among contenders), export re-direction, switch of supply and crowding out. By comparing trade data of

2018 and 2019, he shows which emerging countries could be defined as "winners" or "losers" in terms of increases/decreases of export flows to the US and China in the short-term.

C. Mulas-Granados provides an analysis of the effects of the potential introduction of US duties on European economies, with an illustrating case of the Czech Republic's cars export. He shows how the notion of value-added export, rather than gross export, is better suited to capture the distributional impacts transmitted on the exporting economies via global value chains (GVCs).

Last, Lengo, from the Piemonte Agency for Investments, Export and Tourism, discusses the potential consequences of the import duties announced in October by the US against European countries, in particular the impact on the export performances of Piedmont firms. He argues that the agri-food, mechanics and transport sectors will be the most affected in the region, to the advantage of foreign competitors, including imitators of *Made in Italy/Piedmont,* whose prices are not affected by duties. While he remains optimistic on the capacity of Piedmont firms to cope with the challenge, he also calls for complementary interventions at the European level.

Economic globalization: historical phases, waves of criticism and crises

By Pompeo Della Posta, Department of Economics and Management, University of Pisa

In this paper I review and discuss the past and current phases of globalization, namely the first phase (1869-1914), the second phase (1944-1979) and the third phase (1979-2016) together with the crises characterizing both the period between the two world wars and the current phase of (de)-globalization, that can be considered as starting with the election of Donald Trump to the presidency of the US administration and with the occurrence of Brexit, and continuing with the spreading of neo-nationalism and populism worldwide. I also discuss and compare the two waves of criticism of globalization, namely the one started at the end of the 1990s and the current one, coinciding with a crisis of globalization.

The second part of the so-called Victorian Age is usually identified with the first phase of globalization, that can be considered as included between 1869 (given the symbolic relevance of the opening up of the Suez Canal, occurred in that year) and 1914, when World War I started. The latter determined the beginning of the first crisis of economic globalization so as to prove for the first time that globalization is not an irreversible phenomenon, and that it is not the case that "there is no alternative" (TINA) to markets' openness, since it depends on the political will of the citizens.

The second phase of globalization started with the signing of the Bretton Woods agreement, in 1944, and has been characterized by a generalized economic growth, driven mostly by Keynesian policies. The fall of the Bretton Woods system and the two inflationary shocks that followed paved the way to the ensuing economic and political neo-liberal revolution. Such a change of paradigm, characterizing the third phase of globalization, prescribed markets liberalization and the withdrawal of the state from the economy and can be marked by the 1979 advent of Margaret Thatcher in the UK and Ronald Reagan in the USA in 1981 as leaders of their respective countries. The third wave of globalization was also characterized by the explosion of financial derivatives and by an extraordinary technological development based on information technology.

It is possible to identify, however, two sub-periods composing such a third phase. The first one goes from the end of the 1970s to the beginning of the 1990s and is the period in which neo-liberal and monetarist policies have been applied almost uncritically. Around the end of the 1990s, however, a change of perspective occurred, so as to weaken substantially this almost homogenous belief.

The main critiques were relative to the negative effects of trade liberalization (including the GATT agreements), and of short-term capital liberalization and FDIs on least developed and developing countries. Issues of poverty and (to a much lesser extent) inequality at the world level also acquired prominence and received greater attention, At the same time, the Millennium Development Goals were devised in the year 2000 by the United Nations, in order to address some of the concerns (including those relative to the environment but not to inequality!) raised by the street protests and the public opinion in general.

Many critics also observed that developed countries were suggesting – and enforcing, through the Washington consensus – a unique growth recipe for least developed and developing countries, implying fiscal and monetary tightness, free capital mobility and goods markets' openness, something that the former had deliberately not followed during the initial phases of their own economic development.

Some protests referred also to the negative effects of globalization on developed countries and it was observed that the promised gain for consumers resulting from lower product prices did not always materialize. As a matter of fact, while labor markets are almost perfectly competitive, given the possibility to delocalize production, product markets are quite often imperfectly competitive, being characterized by monopolistic competition, oligopoly or even monopoly. In all of those cases globalization does not produce necessarily lower price for the products, but just higher profits and lower wages.

Such complaints and criticisms, however, did not turn into an open crisis since they were not coming from the middle class, as it will be the case instead later on, especially as a result of the 2007-08 global financial crisis and of the fiscal austerity adopted in response to the euro area crisis. The critiques against growing economic inequalities, both across and within countries, were also discarded because they were considered as irrelevant from an economic point of view (the negative effect of an increasing within-countries inequality on social capital, for example, was ignored) and in fact they were seen as even beneficial from the point of view of the incentives to be provided to economic actors.

A second, this time right-wing and North-driven wave of criticism (represented by Brexit, by the election of Trump and its protectionist implications, by the immigration crisis and by the spreading of populism), has emerged after 2016, determining also a second crisis of globalization after the one characterizing the wars interlude: the 'ladder' of protectionism used in the past by the now developed countries, is being brought back, then, given that they feel the need to use it again: rather than "a bowl of cherries", more and more globalization is becoming the symbol of a process which is impoverishing the developed countries rather than the developing ones, as it was believed at the end of the 1990s.

The protest has populist and neo-nationalist connotations and is spreading outside the US and Britain, alimented also by the diffused perception of the negative effects of immigration, driven quite often by an instinctive rather than informed approach.

Rodrik's trilemma, proposed during the first wave of criticism against economic globalization, emerges then as a prophetic anticipation of populism, suggesting that an hyper-globalization which is enforced by nation states and élites cannot occur with the democratic approval of citizens, so that economic integration may well be accompanied by social disintegration, as it seems to be the case in these days.

Is there any solution? One way out of the current dilemmas is the application of what can be defined as "smart globalization", that should take into account the voices and needs of the many losers of globalization (and technology) within a context of international cooperation: the opposite of the unilateralism which seems to be characterizing the current situation.

Emerging countries: winners and losers in the trade war

By Giovanni Graziani, University of Parma

Tariffs generally tend to cause an increase in the import price of products. The increase in domestic price of imports may have *four direct effects*.

1. *Trade contraction.* By making the imported products relatively more expensive, the imposition of restrictions tends to reduce trade flows among the contenders (that's why the restrictions were imposed in the first place!).
2. *Export-re-direction*. The imposition of tariffs prompts also a possible change of direction of existing trade flows. The first form that it takes is *export re-direction,* i.e. the imposition of a duty leads to a possible re-direction of the affected country's exports to third markets.
3. *Supply-switching.* A third consequence is represented by *supply-switching or import source diversion*. The reduction of imports of the countries that have suffered tariff increases comes possibly in favour of other countries that were not affected by the protectionist measures.
4. *Crowding out.* Some of the "winning" countries' exports may substitute some of the "losing" countries' exports in the two contenders' markets.

The analysis of the impact of the trade war shows which emerging countries could be defined as "winners" or "losers" in terms of increases/decreases of export flows in the short-term. It rests on monthly data of trade in goods derived from the US Census Bureau and the General Administration of Chinese Customs database. The two periods under comparison are January-July 2019 as against January-July 2018.

As expected, the tariff war was accompanied by quite a lot of reduction in the US-China trade flows over the period under consideration. US total imports from China went down by 9.1%. The decline was particularly sharp in all the groups of products on which tariffs were imposed. However, China appears to have succeeded in re-directing a substantial amount of exports away from the US towards other destinations. Moreover, in the short term, since the US and China charged higher tariffs on each other's imports, companies had an incentive to replace these more expensive imports with products from other countries (supply-switching).

Within this process, there are countries which appear on the winning side in both the US and China's markets. Mexico is the most important case, although much more skewed toward the US market. Argentina too, although at a lower level of trade. In Asia, Malaysia and, at lower level of trade, Bangladesh, Cambodia, Laos and Myanmar. In most cases, emerging countries seem to have gained in one market, while losing in the other. Vietnam is the most important case: it is the second greatest winner after Mexico in the US market, but somewhat losing in China's market. A similar pattern of winning in the US market and losing in China's market is followed by South Africa, Egypt and several Asian countries, like South Korea, Taiwan, Singapore, India, Pakistan, Thailand, Pakistan, Philippines and Sri Lanka. On the other side, Brazil and, at much lower level of trade, Colombia, appear to win in China's market and lose in the US market. Only three countries seem to lose in both markets: Indonesia, Chile and Peru.

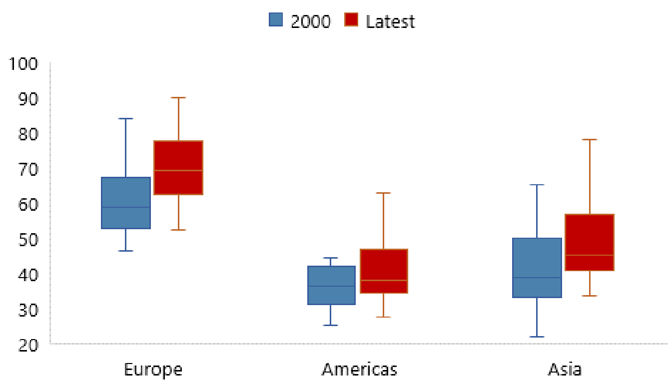
Finally, the "winning" emerging countries might not only substitute the two contenders' exports, but also crowd out some of the "losing" countries' exports. Although not directly measurable, such crowding out is particularly possible where the global gains of some emerging countries (the "winners") are much higher than the losses of the other emerging countries (the "losers"), as it appears to be the case in the US market. On the contrary, in the Chinese market the global gains of the "winning" emerging countries appear to be lower than the losses of the "losing" emerging countries, leaving less room for the crowding out effect.

Trade tensions, global value chains and Europe

By Carlos Mulas-Granados, European Department of the International Monetary Fund[1]

The Czech Republic exports only a small number of cars and car parts directly to the United States, but we expect it to lose significantly in a potential scenario in which the United States imposes tariffs on cars. Why is that? The key to this puzzle is the extensive supply chains that dominate the production of European cars and many other products. The explanation is simple: while direct exports of cars and car parts from the Czech Republic to the United States are small, the Czech Republic exports a significant amount of car parts to other European countries, which in turn export to the United States. Hence, in our recent paper, we analyze the possible impact of trade tensions taking fully into account these supply chain linkages.[2]

Figure 1. GVC Participation Index
(Percent of exports, sum of forward and backward linkages)



Sources: EORA database; and IMF staff calculations.

Note: The line refers to the median, the box to the 25-75 percentile range, and the error bars to the min-max range. Latest data available in EORA is 2013.

Because Europe is deeply integrated into global value chains (GVCs), recent trade tensions have raised the broader question of how all European economies would be affected by the potential introduction of tariffs or other trade barriers. Almost 70 percent of total European exports are linked to supply chains (Figure 1), and therefore shocks affecting existing trade flows between the major trade hubs—the United States, China, and Germany—could affect European economies through those supply chain linkages.

Our recent IMF study shows that distinguishing between traditional gross export measures and value-added exports is especially important for Europe in the aggregate because the difference between the two is large. As an example, when a German resident buys a Volkswagen model shipped from the car plant in Bratislava (Slovak Republic), this is recorded in gross terms as a Slovak export to Germany. But that car may have just been assembled in the Slovak factory while many of its high value-added components (for example, engine parts) may come from third countries which provide a higher share of the value added to the final product. This is what explains, for example, that exports of other European countries to Germany are 8.3 percent of GDP in gross terms, but only 2.9 percent of GDP in value-added terms. Hence, estimating the impact of trade shocks using value-added measures offers a more accurate picture of the costs across European countries associated with trade disputes.

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[1] Together with Raju Huidrom, Laura Papi, and Emil Stavrev all in the European Department of the IMF. An similar version of this piece was posted on the IMF blog: https://blogs.imf.org/2019/07/03/tariff-shocks-the-role-of-value-chains-in-europe/

[2] For more details, see IMF (2019) "Trade Tensions, Global Value Chains and Spillovers: Insights for Europe", Departmental Paper by Raju Huidrom, Nemanja Jovanovic, Carlos Mulas-Granados, Laura Papi, Faezeh Raei, Emil Stavrev, and Philippe Wingender.

To illustrate the importance of value-added measures of trade, we use a potential scenario in which the United States imposes a 25 percent tariff on imports of cars and car parts. European gross exports of cars and car parts to the United States in percent of GDP are 0.3 percent of EU GDP (Figure 2.1). The subsequent output losses for the EU are estimated at 0.1 percent of GDP taking into account supply chain linkages—an impact which could be significantly larger if market and confidence effects are incorporated. Only half of the impact of the US tariff shocks would occur in the sectors and countries directly affected by higher tariffs. The rest would be transmitted via other sectors and trading partners, which are part of the existing supply chains. This analysis shows that the losses are distributed across more European countries than gross export data would suggest. Consider once again, the case of the Czech Republic. Direct exports of cars and car parts from the Czech Republic to the United States are so small that they do not appear in Figure 2.1. Thus, analyses relying on traditional trade statistics would suggest that the Czech Republic may be largely immune to increases in US car tariffs. However, after taking into account supply chain linkages, the Czech Republic is estimated to be the 4th most affected country by car tariffs in all of Europe in terms of GDP (Figure 2.2), since a large amount of the Czech Republic's value-added is embodied in other countries' car exports to the United States.

Figure 2.1 Car and Car Parts Gross Exports to the USA, 2017
(Percent of GDP)

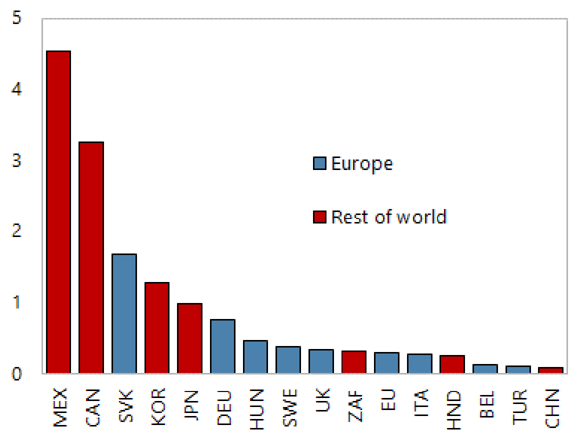
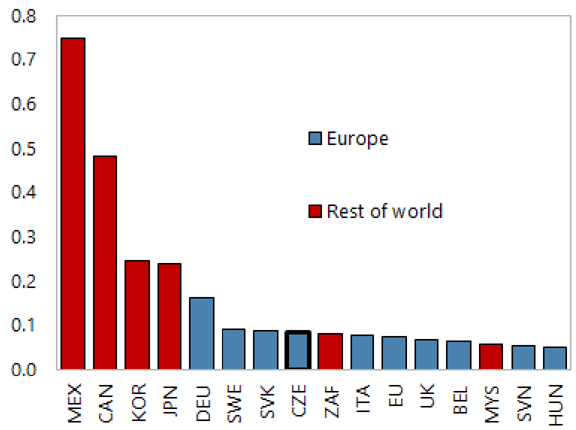


Figure 2.2 Distribution of Loss from US Tariffs on Imports of Cars and Car Parts, 2017
(Percent of GDP)



Our study also looks at growth spillovers originating in the three world trade hubs, United States, China, and Germany, and how they could affect Europe through GVCs. Our main conclusion is that growth spillovers from the United States and China to European economies are sizable with larger effects for those economies that are more exposed to them in terms of value-added exports. Spillover effects from growth shocks originating in Germany on other European countries are estimated to be smaller. This likely reflects the smaller size of the German economy relative to the United States and China, and the fact that during the period studied Germany has not been an independent source of large shocks. However, Germany can be a transmitter of shocks originating elsewhere. Also, Germany's spillover might become larger when its growth is more driven by domestic demand, such as during the period around reunification.

The findings of this paper could be helpful for policymakers. Measuring exports through value-added indicators gives a more precise picture of the distributional impact of potential trade shocks. Relatedly, a better understanding of how trade shocks propagate through GVCs could help calibrate offsetting measures as needed and target social policies aimed at those citizens most likely to be affected.

The effect of us duties on Piedmont enterprises

By Giuliano Lengo – General Manager, Piemonte Agency for Investments, Export and Tourism

"We await the response of the arbitration on the US decision to apply duties to EU products. That decision would hurt us a lot ... "

Giuseppe Conte, Italian Prime Minister

Saturday, September 28th, Bologna Villaggio Coldiretti

What happened on Wednesday October 2nd:

1. The WTO authorized the United States to impose duties for $ 7.5 billion (the US had asked for $ 11 billion) against European countries to clear state aid to Airbus.
2. Before imposing duties, the US will have to wait for the report to be adopted by the WTO's Dispute Settlement Body: this formal step takes 10 to 30 days.
3. Meanwhile, the US administration will decide how to adjust customs withdrawals
4. In a few months the EU will receive the WTO verdict for a similar controversy related to American state aid to Boeing (the compensation should be lower: the EU complains of having suffered damages for 12 billion, the WTO estimates for 5.3).
5. Once the verdict is out, the EU will also present the list of products subject to duties.

The escalation of duties and protectionist measures, the EU-US and US-China trade wars are an earthquake for international trade. These duties do not only affect direct exchanges, but above all indirect ones. The consequent retaliations on Made in Italy production will have repercussions on the export of our territory in the medium-long term because they mostly affect two of the sectors for which Piemonte and its companies are famous and appreciated in the world: the agri-food sector, wines included, and all the industries linked to the mechanical and transport sector, which in Piemonte immediately means automotive and aerospace.

Being aware of the rates and tariff barriers is one of the starting points for a conscious and proficient start of a growth path on foreign markets. Duties are an obstacle that our businesses have always been coping with. On the one hand this tightening can diminish the export performance of the most structured companies, i.e. medium and large ones, on the other it can even jeopardize the survival of micro and small businesses.

Internationalization is a vocation in the DNA of our companies that has never failed, even in the most difficult phases of our economic and financial life, nationally and internationally. Export is part of a corporate strategy in international markets and Piemonte acts on the international scene with high-level skills and know-how that would be highly penalized by new and hard duties.

The immediate risk is the loss of competitiveness. If we can no longer be appealing also in terms of price ... purchasers will go elsewhere. In the case of the US/EU dispute, the Italian agri-food sector is the one that will experience the consequences in the short term. In light of the WTO verdict, Coldiretti estimates duties for € 1 billion per year, Federalimentare for 2… shortly, these estimates predict the collapsing of the sector. The Italian export of agri-food products to the US is worth € 4 billion, of which about 1.5 is wine (the US is the first outlet market for Italian wine).

An example that concerns us closely can be given: in Italy, a kg of Grana Padano cheese, which is also produced in Piemonte, costs an average 10-15 €, currently in the US it costs about 30-35 €. With the new duties and with 100% tariffs, it is estimated that it will be doubled, around 60-70 €. What does this imply?

1. to undermine not only the producer, but the entire supply chain;
2. the inevitable increase of fake food and Italian Sounding[3] cases that will spread on the American market.

The same is true also for the aerospace and automotive sectors, whose situation is exacerbated by indirect exports. Just consider how many *Made in Piemonte* components are included in German cars for example (in 2017 German car producers bought Italian components for 4.1 billion €) ... it is clear then that duties have a cascade effect on all countries that are directly and indirectly involved and can have unpredictable effects.

We are at the center of a real global trade war, which involves us without having directly triggered it. The resolution is not here and now, but it is supranational, in Europe, in Brussels, which holds the exclusive competence of the negotiations with the WTO. A strong European policy is needed to support and defend businesses and their work, a policy that protects our industry, craftsmanship and all manufacturing activities from the commercial retaliation that relentlessly falls on the entire entrepreneurial system.

Piemonte Agency stands by companies in the daily management of problems and doubts related to international trade thanks to a tailored consultancy support service. Customs legislation is precisely one of the issues that our team of qualified experts, available on a daily basis to the SMEs of the territory, deals with by providing personalized answers. In addition, Piemonte Agency also offers technical and regulatory updating courses to be updated and prepared to take on the challenges of international markets.

Piemonte export figures - First half of 2019

The latest figures released by Unioncamere Piemonte in mid-September are related to the first half of 2019 and highlight some interesting trends:

1. In the first six months of 2019 the value of Piemonte's exports stood at 23.7 billion €, recording a 2.5% drop compared to the same period of 2018. The disappointing result recorded by our region appears to run counter to the trend registered by cross-border sales at the overall national level (+ 2.7%).
2. Despite the negative performance, Piemonte has nonetheless confirmed itself as the fourth Italian exporting region, with a share of 10.0% of total national exports.
3. Focusing on the two sectors that are mostly affected by the duties, these are the data:
    - Piemonte's agri-food sector recorded an excellent + 13.4%;
    - the mechanical sector and the rubber-plastic sector showed a slightly negative trend, equal to -0.5% and -0.8% respectively.
    - the metal and metal products sector recorded -3.5% compared to the same period of 2018.
    - means of transport instead suffered a double-digit decline (-15.1%). This sector, which generates a quarter of the regional exports, recorded strong losses in terms of motor vehicle exports (-35.2%), automotive component products (-3.1%) and aerospace (-2.6%).
4. The first destination market for Piemonte's exports is the European Union (28 countries), which absorbs 60.9% of its sales abroad. The first non-European market is the US with 9.1%, followed by Switzerland with 5.8% and China with 3.3%.

[3] Italian sounding phenomenon refers to creating images, colours and names of products very similar to their Italian equivalent.