Global Economy

The costs of Trump’s protectionism

El País (Spain)

Miguel Jiménez González-Anleo

27 August 2018

“In Manhattan, The damage that could potentially be caused by a protectionist trade policy on the part of the US administration is significant, but difficult to evaluate, for several reasons. Firstly, because, as in other areas, US trade policy has been erratic, and it is not easy to guess the administration’ s intentions or the course that future negotiations will take. Furthermore, the direct impact of the measures on GDP depends very much on how economic agents react to higher import duties (a variable mixture of higher prices, reduced supply, substitution by alternative imports or domestically produced goods, disruption of global production chains etc., all of which factors vary from one sector to another and are difficult to estimate). Aside form this, a sufficiently intense trade war may lead to a decline in agents’ confidence, a reduction in investment and deterioration in global financial conditions that amplify the direct effects.

The brief history of Trump’ s protectionism has been an eventful one. In the first year of his term the US focused on the renegotiation of NAFTA, which is currently on hold. In his second year the US president concentrated efforts above all on measures and threats against China, which have intensified (except for a brief lull in May) to the point where he has threatened to extend the measures to all imports from the Middle Kingdom. Vis-à-vis Europe, following the approval of blanket tariffs on US imports of steel and aluminium, the US started to look at raising import duties on cars, although the initiative has been halted temporarily following the agreement between Trump and Juncker, sealed with a sonorous kiss. The fact is that both economies have a common interest in defending intellectual property rights and non-discrimination against foreign companies as far as China is concerned, by the reasons for Trump’ s protectionism go beyond that, and cannot always be explained in terms of strict economic rationality.

Our estimates suggest that a trade war that includes the tariffs already approved, those planned against China for US$200 billion and those projected for the automotive sector may lower world GDP by 0.5 points below its trend in certain conditions (equivalent response by countries affected, limited ability of the US to substitute falling imports, indirect effects through global value chains and some negative effect on confidence and financial markets. The effect is by no means negligible, but nor does it seem like a disaster. In fact, it is similar to a scenario estimated by the IMF in the spring. But we cannot rule out the possibility that in the event of an all-out trade war, the effects on confidence and the dynamic adjustments at global level would translate into a much bigger fall in global GDP.

BBVA Research

DISCLAIMER

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These derive from the department's own research or are based on sources believed to be reliable, and have not been independently verified by BBVA. BBVA therefore makes no guarantee, either express or implied, as to the document's accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Historical trends in economic variables (positive or negative) are no guarantee that they will move in the same way in the future.

The contents of this document are subject to change without prior notice, depending on (for example) the economic context or market fluctuations. BBVA does not give any undertaking to update any of the content or communicate such changes.

BBVA assumes no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or solicitation to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis of any contract, undertaking or decision of any kind.

In particular as regards investment in financial assets that could be related to the economic variables referred to in this document, readers should note that in no case should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to take such decisions.

ENQUIRIES TO:
BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain. Tel. +34 91 374 60 00 y +34 91 537 70 00 /
Fax (+34) 91 374 25 - bbvaresearch@bbva.com www.bbvaresearch.com