Global Economy

Seismic waves in global trade

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Recent weeks have seen an escalation of restrictive measures and trade retaliation between the US and China, as well as restrictions placed on the activity and investment of foreign technology companies in domestic markets or the announcement of further tariffs imposed by the US on Mexico in order to put pressure on the latter's migration policy. Such disputes are an intrinsic feature of trade, and it is therefore essential to ensure, first of all, a balanced institutional framework for all players and, secondly, that the solution to disagreements is not biased in favor of the larger players, for example, but is fast and truly enforceable. In essence, the disputes over the past two years originated in the US Government's belief that multilateral governance has not resulted in a balanced playing field in trade terms, nor brought about effective resolutions to disputes that have arisen, and is thereby exclusively tilted toward China's dynamism.

These waves extend throughout the world economy, though their exact impact remains uncertain due to the lack of recent similar situations and the multitude of geographies and products that could be affected and the types of trade barriers that could be established. Furthermore, while an economy may not be directly affected by tariff changes, it is indirectly impacted by the restructuring of global value chains. Also, the valuation of local financial assets, the risk premium or the exchange rate instantly define at least a much more uncertain global scenario with lower global growth.

The Latin American economy as a whole, and the Peruvian economy in particular, are good examples of areas that are not directly involved in the trade war but have already felt the effects of trade disputes between the US and China. On the other hand, positive effects of trade flow diversion—leaving aside the case of Mexico—have been seen in the agricultural raw materials and food markets. However, given the differences between the productive structures of China and South America, and therefore the minimal competition for the US domestic market, the advantages too should be minimal.

In addition to changes in demand, consideration should be given to the effect on raw material prices. Tariffs on agricultural commodities among only some markets have forced the others to adapt their prices in the face of these increases, thereby favoring export economies while demand has not stopped. But energy raw materials and industrial metals would suffer the net impact of lower global demand. The balance of this second channel would likely be negative for Latin America as a whole and Peru specifically.

Finally, with regard to the confidence and financial channels, there is no doubt of a negative net impact, rather than compensating for the possible positive impacts there may be in some Latin American countries and adding to the other negative effects in Peru, as noted above. The intensity of the financial impact is directly related to the amount of external resources demanded, as well as their composition and maturity period. Portfolio investment will certainly be more at the mercy of the global risk premium, in addition to the credibility of local fiscal and monetary policies, while direct investment will be more affected by economic growth expectations.

This will be an interesting period to test the strengths that allow countries to withstand the seismic waves generated by commercial disputes, and for comparing the relative behavior of the different South American economies.

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