The Global Trade War and the Future of International Trade Institutions

Gianmarco Ottaviano (Bocconi)
Prologue: The China Shock

Source: chinashock.info (Autor, Dorn and Hanson, 2013)
Trade Attack: “Foes”
Trade Attack

- In 2018 the United States suddenly increased tariffs on nearly 50 percent of its imports from China
- China immediately retaliated with tariffs on more than 70 percent of imports from the United States
Trade Attack

• Key sources of frictions are about fair play not trade per se

• They include China’s:
  ♦ State-owned enterprises
  ♦ Industrial subsidies
  ♦ Development strategy
  ♦ System of forcibly acquiring foreign technology
Trade Attack: “Friends”
Trade Retaliation

- Fetzer and Schwarz (2019)
- Retaliatory tariffs are politically targeted
- Retaliation directly targeted to areas that swung to Donald Trump in the 2016 Presidential elections
- But not to other Republican candidates running for office in the same year
Trade Retaliation

- Retaliation aimed at Trump voters: EU in Rust Belt, China in Great Plains

The Economist, 27 April 2019
EU minimizes self harm, China does not

The Economist, 27 April 2019
Trade Retaliation

• Retaliation produces economic shocks:
  ♦ US exports of goods subject to retaliation declined and export prices have dropped significantly

• Retaliation produces political shocks:
  ♦ In areas exposed to retaliation Republican candidates fared worse in the 2018 Midterm elections, and similarly Presidential approval ratings, especially among Democrats, have declined
Trade Retaliation

- Retaliation produces economic shocks:
  - US exports of goods subject to retaliation declined and export prices have dropped significantly

- Retaliation produces political shocks:
  - ... in democracies!