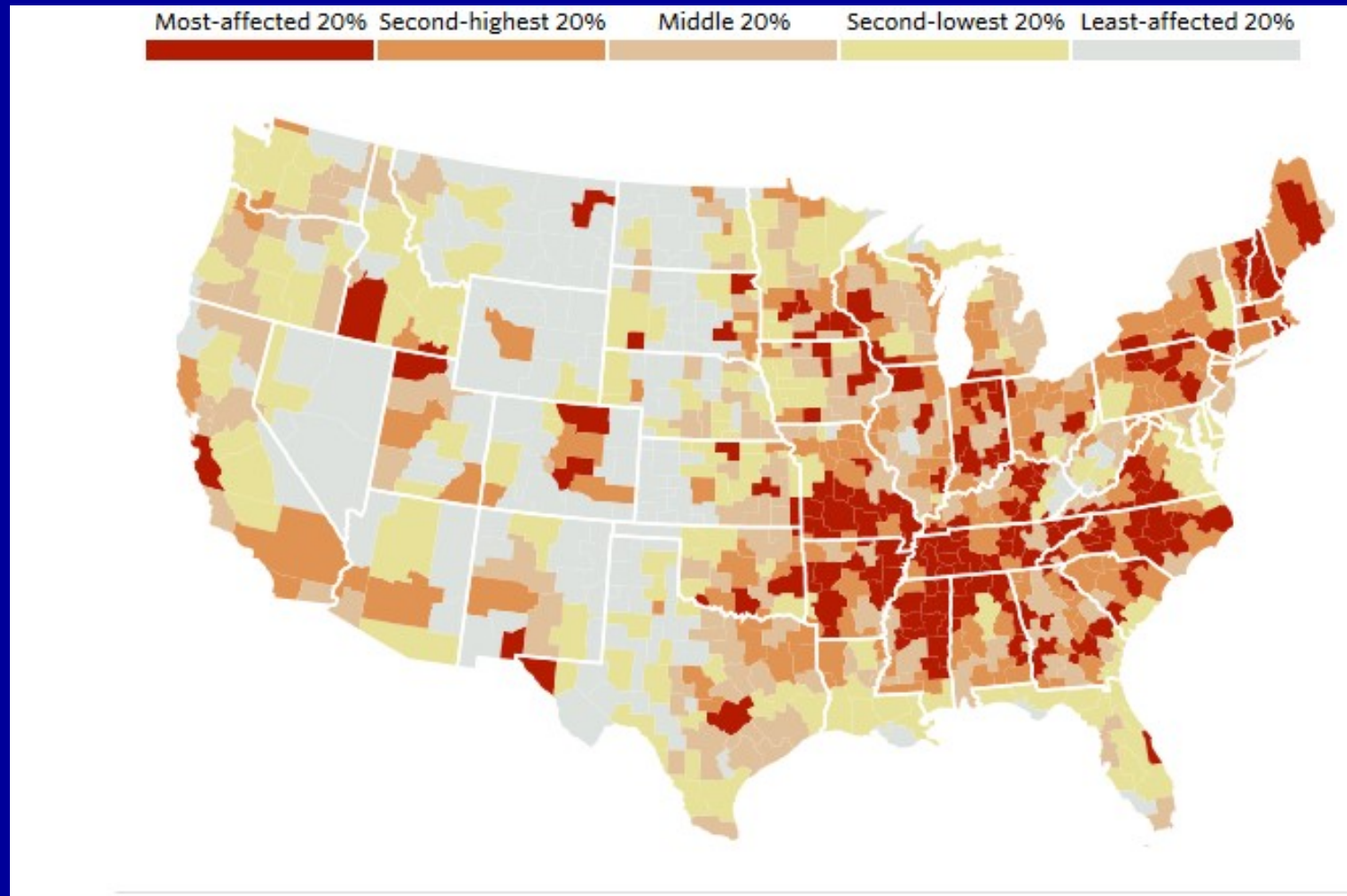


The Global Trade War and the Future of International Trade Institutions

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

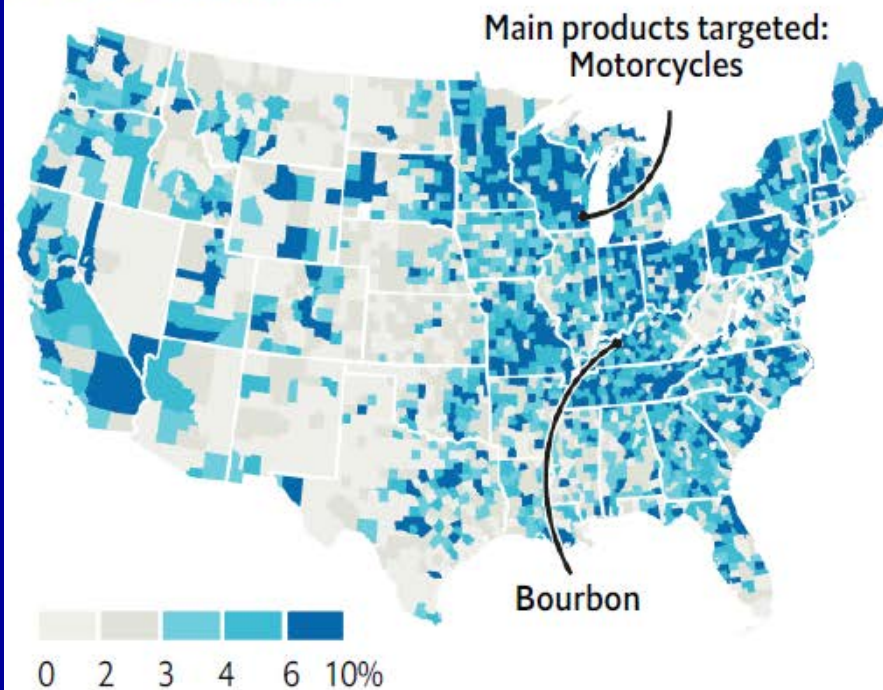
- Fetzer and Schwarz (2019)
- Retaliatory tariffs are politically targeted
- Retaliation directly targeted to areas that swung to Donald Trump in the 2016 Presidential elections
- But not to other Republican candidates running for office in the same year

Trade Retaliation

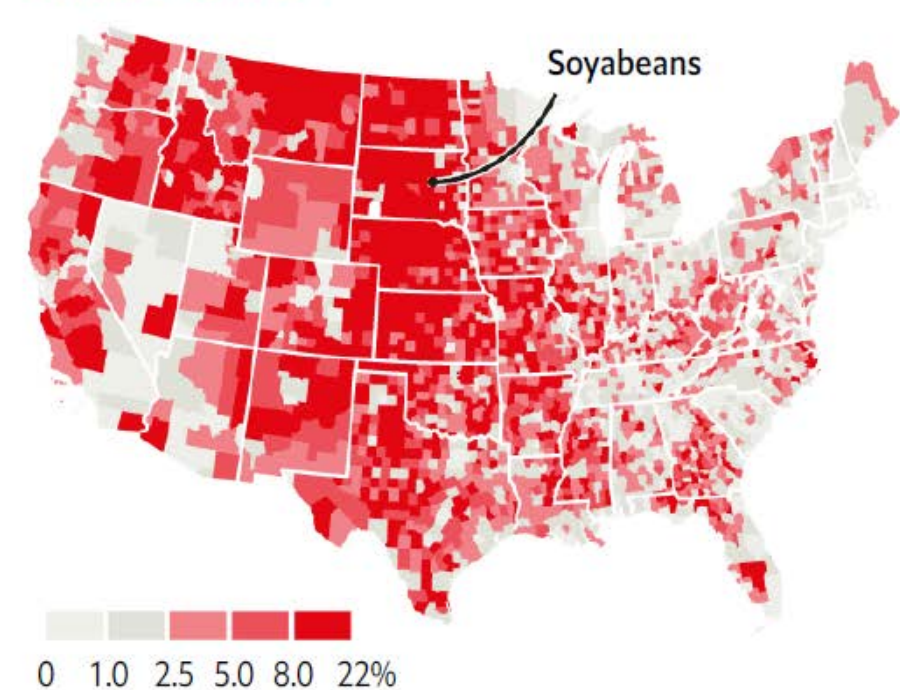
- Retaliation aimed at Trump voters: EU in Rust Belt, China in Great Plains

Share of counties' exports affected by retaliatory tariffs, %

The EU's tariffs



China's tariffs



The Economist, 27 April 2019

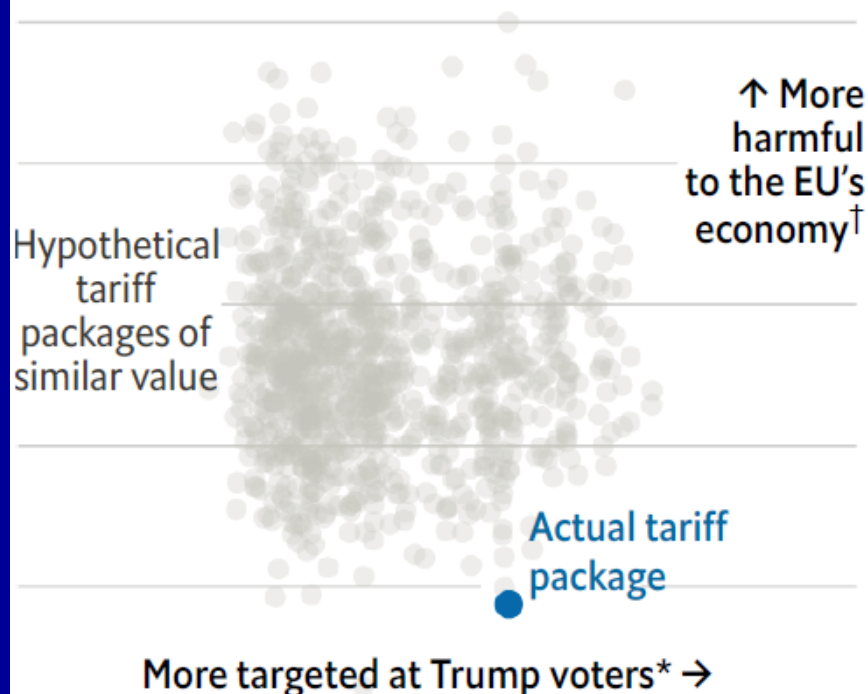
Trade Retaliation

- EU minimizes self harm, China does not

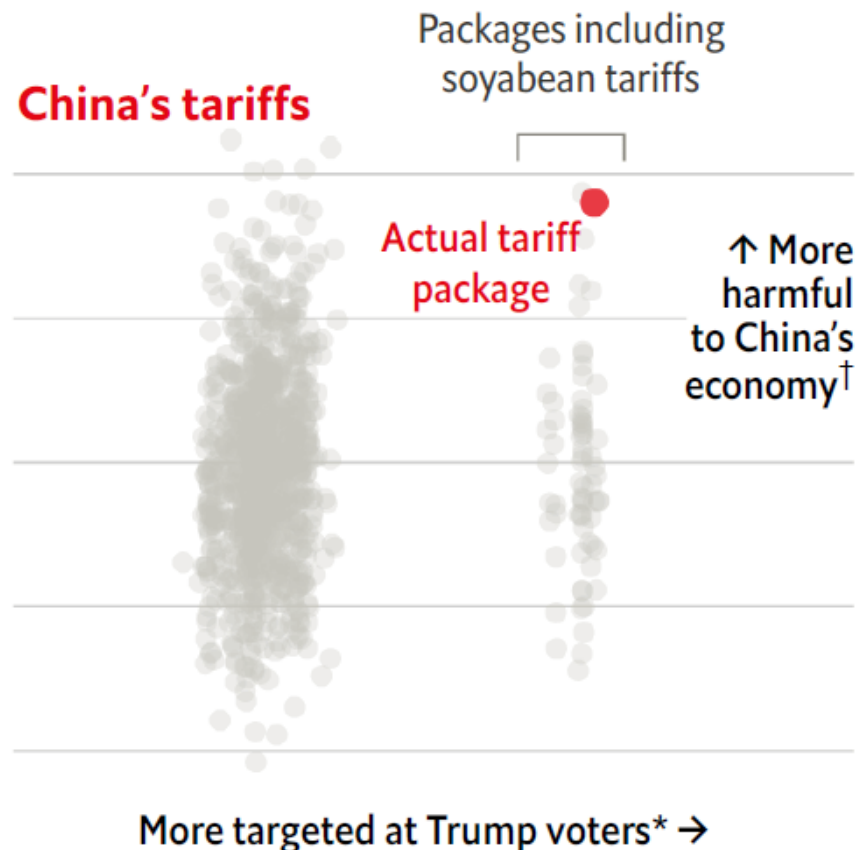
Political impact and domestic economic cost of tariff packages

Actual v 1,000 simulated alternatives

The EU's tariffs



China's tariffs



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!