

Trade and Globalization: Recent Trends and Future Prospects

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Overview

- Global Context
- Trends in Trade and Capital
- Long Run Drivers of Trade and Capital Flows
- Short run Drivers of Trade and Capital Flows
 - President Trump
 - Effects of a Trade war
- Summary and Conclusion

The Global Context

- The world economy is being fundamentally transformed
 - growth of large emerging economies (China, India, Brazil)
 - technological disruption
- Individual economies are also going through longer term adjustments (excessive debt, demographic change)

The Global Context

- Long term trends are impacting on short term rigidities in many economies
- Macroeconomic policies have been aimed at business cycle when should have been aimed at structural adjustment
- Monetary policies are beginning to be normalized as global growth recovers

The Global Context

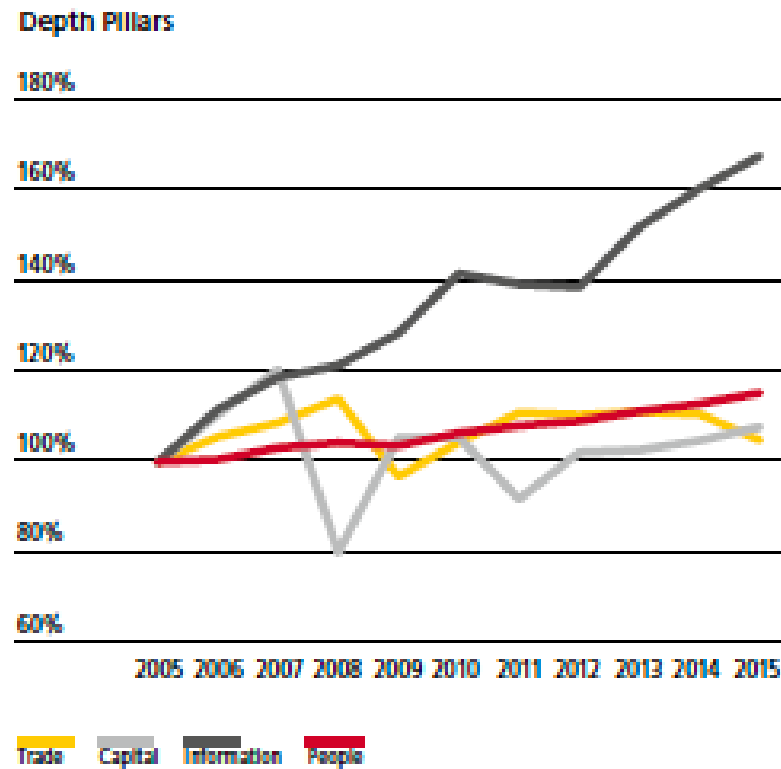
- Globalization and the expansion of trade and access to global pools of savings have had enormous benefits for many.
- Weak wage growth and growing income inequality within countries has caused a political backlash

Link between trade and capital flows

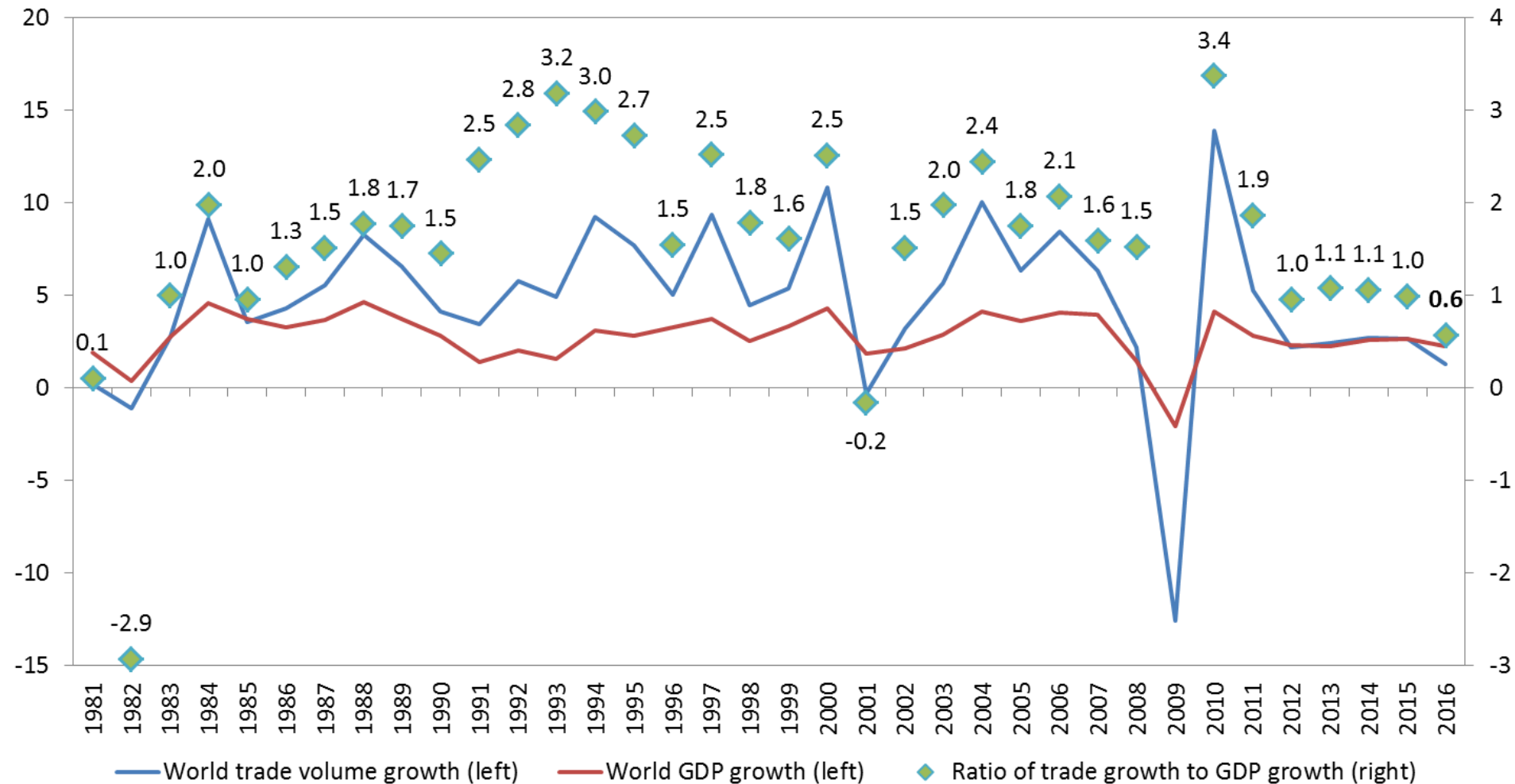
- The composition of exports and imports driven by differences between countries
 - Endowments, technology, human capital, tastes etc
- The overall trade balance is driven by the difference between national savings and national investment
 - A country that saves more than it invests will have a current account surplus

Recent Trends

Global Connectedness



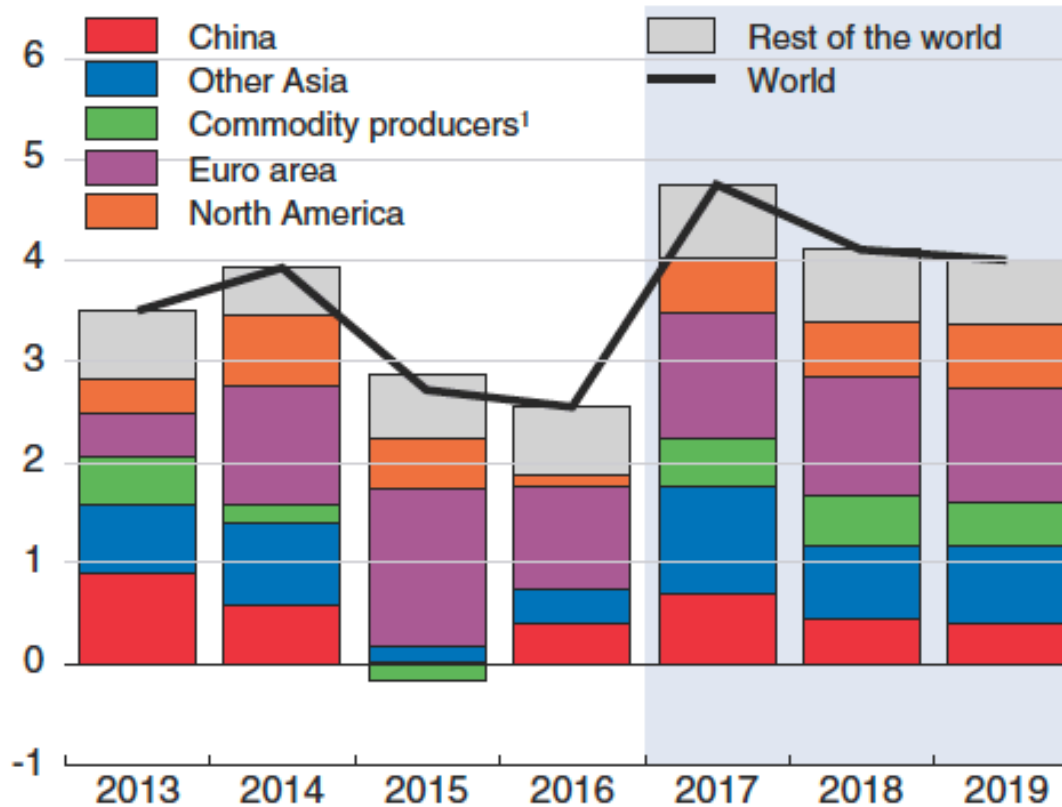
Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2016% change and ratio



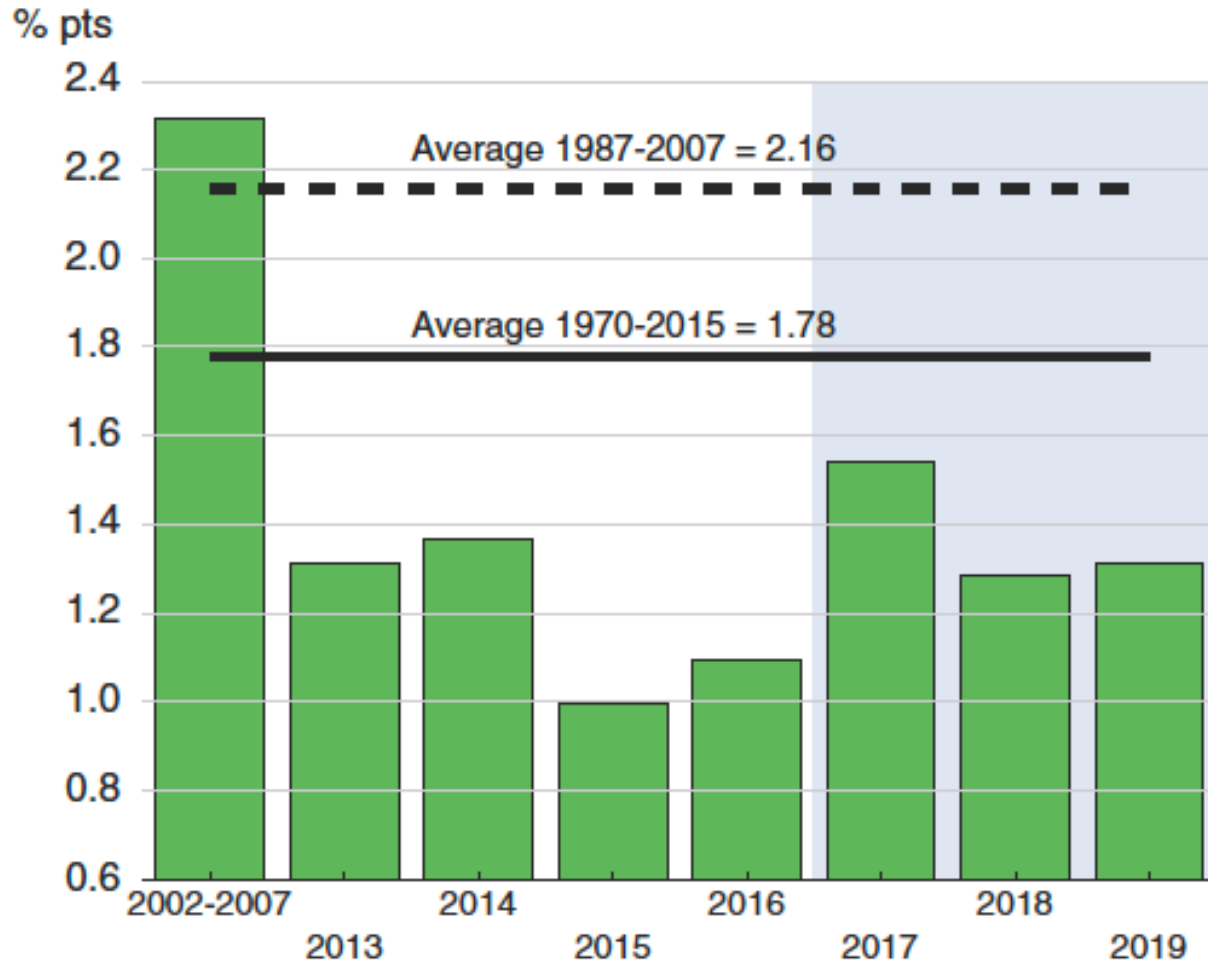
Sources: WTO Secretariat for trade, consensus estimates for GDP

A. Contributions to world trade growth

% pts



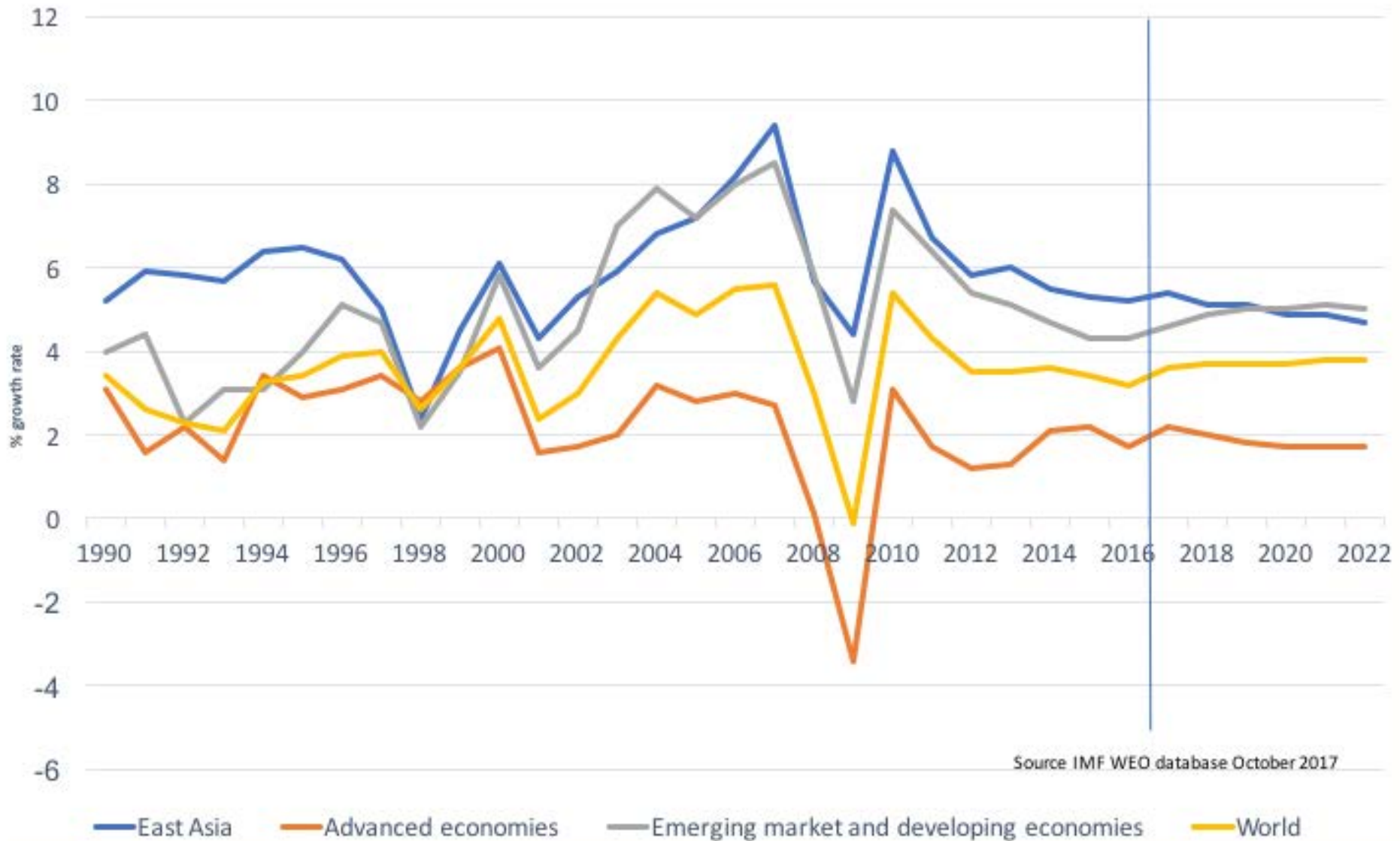
B. Global trade intensity²



2. World trade volumes for goods plus services; global GDP at constant prices and market exchange rates. Period averages are the ratio of average annual world trade growth to average annual GDP growth in the period shown.

Source OECD Economic Outlook November 2017

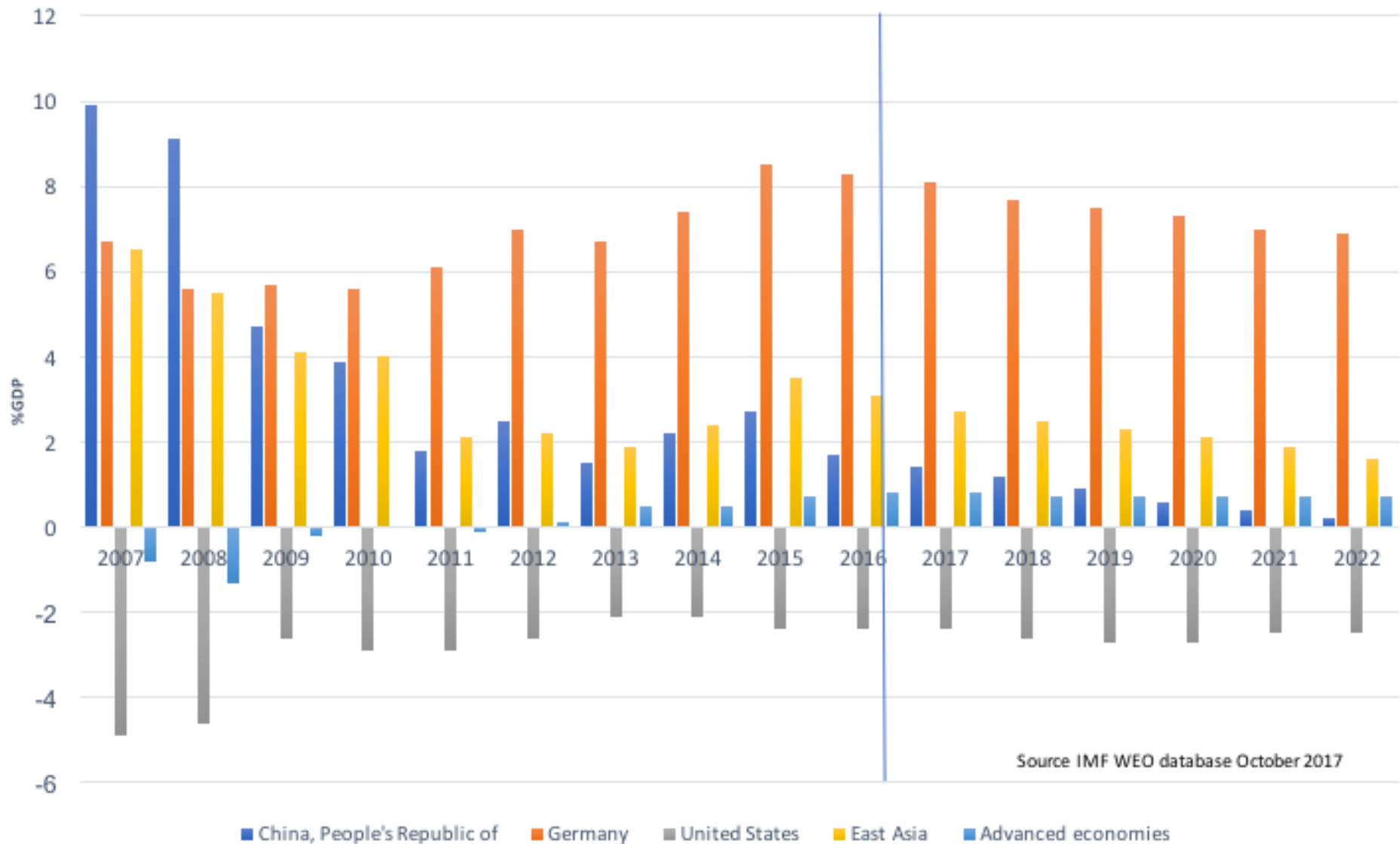
Real GDP Growth



Source IMF WEO database October 2017

Current Accounts

Current Accounts as a share of GDP



The Future: The Longer Run

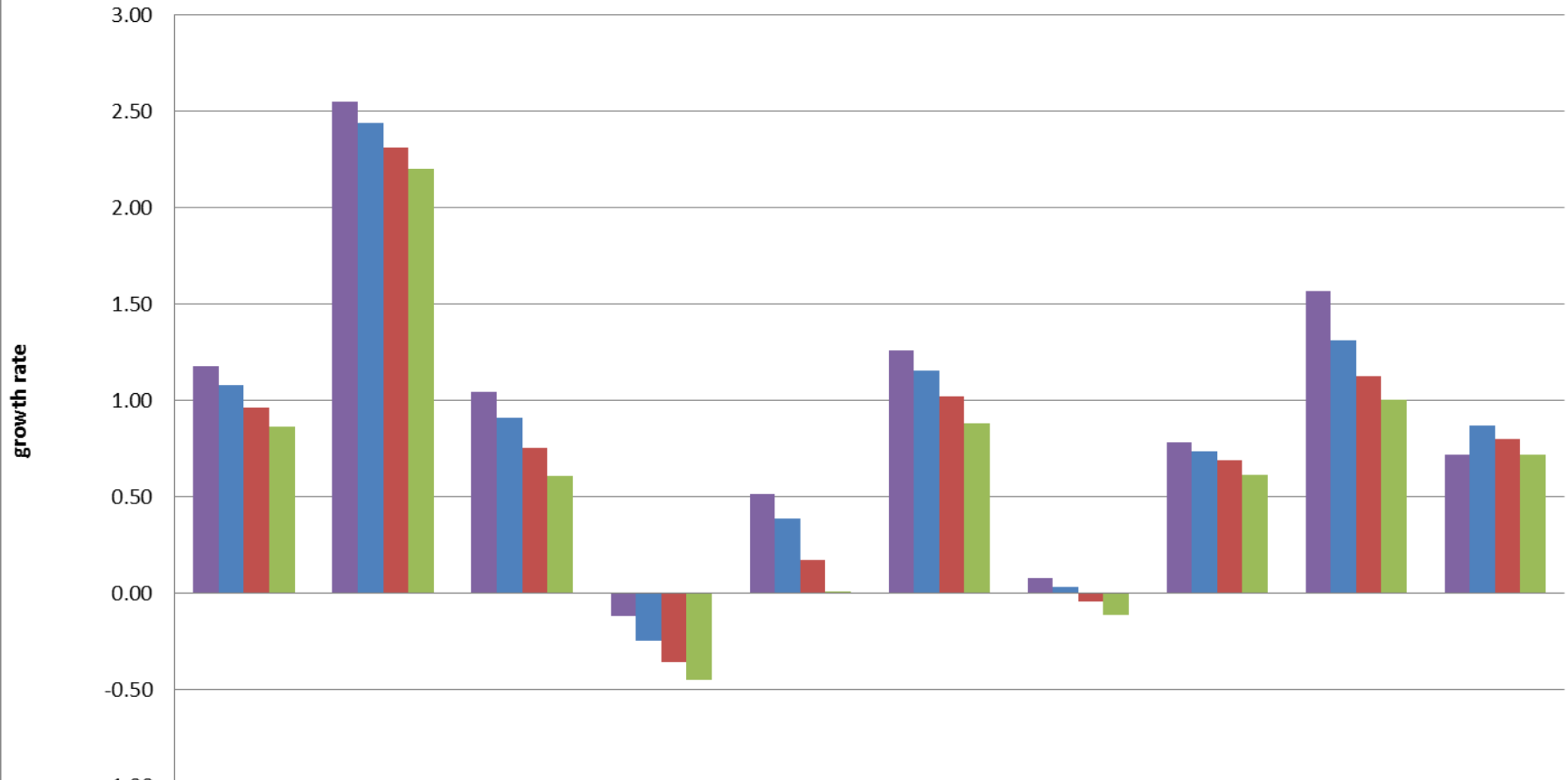
Drivers of Trade and Capital

- Economic Growth
 - Demographics
 - Productivity
 - Capital accumulation
- Institutions
- Policies
 - Trade
 - Macroeconomic
- Changing Technologies

Demographic Change

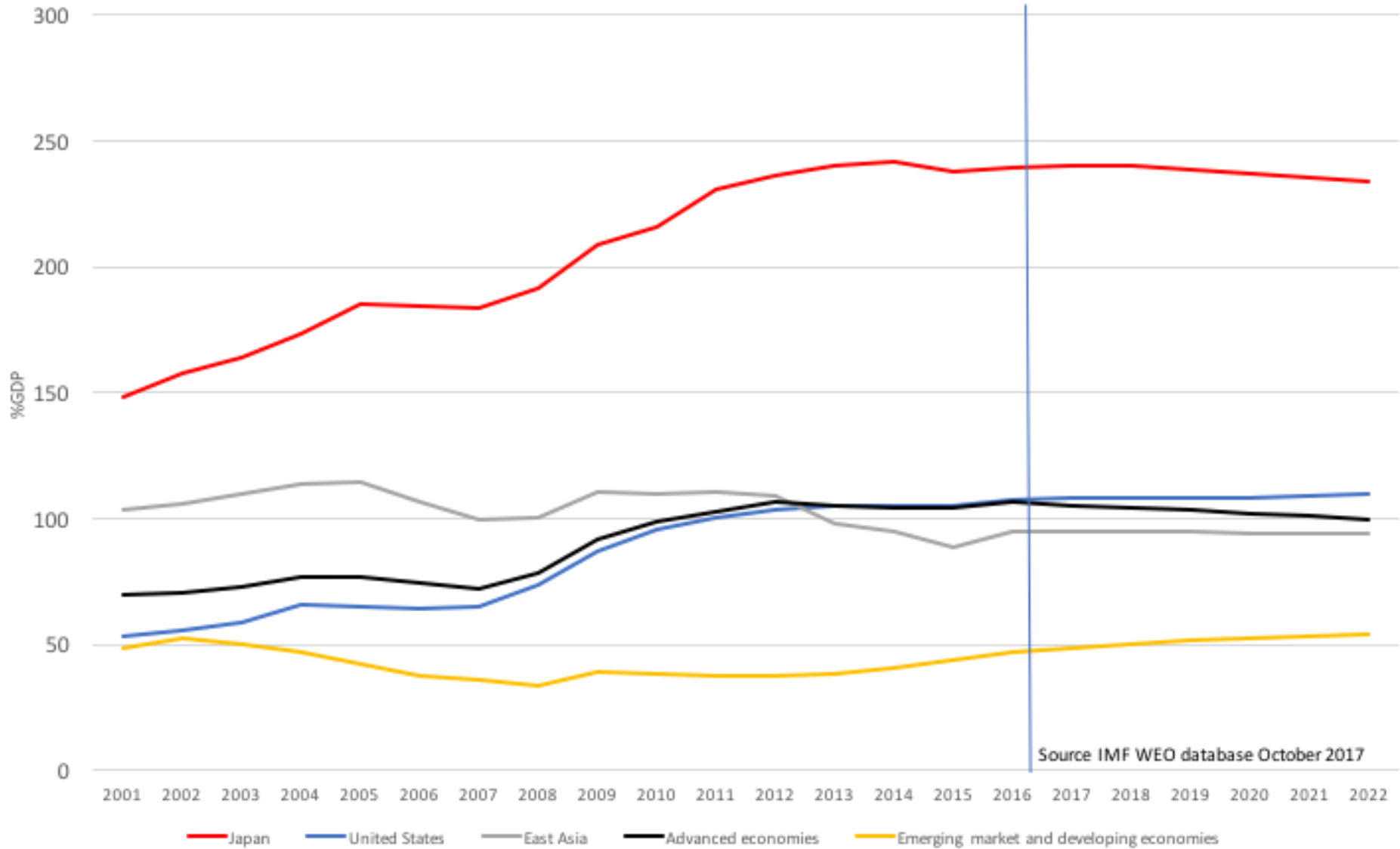
Figure 1: Population Growth Rates 2010-2030

Source: UN Population Projection 2015 Revision, Medium Fertility



	1.18	2.55	1.04	-0.12	0.52	1.26	0.08	0.78	1.57	0.72
	WORLD	AFRICA	ASIA	Japan	China	India	EUROPE	NORTHERN AMERICA	Australia	New Zealand
■ 2010-2015	1.18	2.55	1.04	-0.12	0.52	1.26	0.08	0.78	1.57	0.72
■ 2015-2020	1.08	2.44	0.91	-0.24	0.39	1.15	0.04	0.74	1.32	0.87
■ 2020-2025	0.97	2.31	0.75	-0.36	0.17	1.02	-0.04	0.69	1.13	0.80
■ 2025-2030	0.86	2.20	0.61	-0.45	0.01	0.88	-0.11	0.62	1.01	0.72

Gross Government Debt to GDP Ratio



Source IMF WEO database October 2017

The Future: The Shorter Run

President Trump's Economic Policies and Trade

Source: McKibbin W. and A. Stoeckel (2017) "Some Global Effects of President Trump's Economic Program" August, CAMA working paper 53/2017. Australian National University

Possible Economic Policies

- Reduced immigration
- Large fiscal stimulus
 - Cut taxes
 - Increase infrastructure spending
 - Increase defense spending
- Tariff increases
- Fed will already be tightening monetary policy

Implications

- Steepening of the yield curve globally
- Rising short term interest rates in the US
- Capital will flow to the US
- Potentially very strong \$US
- Large US Trade and Current Account Deficits
 - Rest of world moving to surpluses
- Countries with large debt and debt in \$US under great stress.

A Trade War?

- McKibbin W. and A Stoeckel (2009) “The Potential Effects of the Global Financial Crisis on World Trade” World Bank Policy Research Working paper 5134, World Bank, Washington DC

Simulation

- Using the G-Cubed Multi-Country Model
- Increase tariff rates in all countries by 10%
 - i.e. 5% becomes 15%

5.3 : GDP consequences of Tariff Changes in First Year

	Source of Tariff Change								
	Global	USA	Japan	Europe ¹	OOECD ²	China	India	EEFSU	ODCs ³
United States	-1.3	-0.3	-0.1	-0.3	-0.3	0.0	0.0	0.0	-0.3
Japan	-1.7	-0.4	-0.6	-0.1	0.0	-0.1	0.0	0.0	-0.4
United Kingdom	-2.1	-0.3	0.0	-1.5	-0.2	0.0	0.0	-0.1	-0.1
Germany	-3.8	-0.3	0.0	-2.6	-0.3	0.0	0.0	-0.4	-0.1
Euro Area	-2.9	-0.3	0.0	-1.8	-0.2	0.0	0.0	-0.2	-0.3
Canada	-2.2	-1.8	0.0	-0.3	-0.2	0.0	0.0	0.0	0.1
Australia	-1.4	-0.3	-0.2	-0.3	-0.2	-0.1	0.0	0.0	-0.3
ROECD	-3.7	-0.4	-0.1	-1.7	-1.2	0.0	0.0	-0.2	-0.1
China	-4.3	-0.9	-0.3	-0.3	0.1	-1.1	0.0	-0.1	-1.6
India	-1.5	-0.2	0.0	-0.2	0.0	0.0	-0.6	0.0	-0.5
Other Asia	-3.9	-1.0	-0.2	-0.3	0.0	-0.4	0.0	0.0	-1.9
Latin America	-1.6	-1.3	0.0	-0.3	0.1	0.0	0.0	0.0	-0.1
Other LDC	-1.4	-0.5	0.0	-0.6	0.1	0.0	0.0	-0.2	-0.1
EEFSU	-3.5	-0.6	-0.1	-2.0	-0.1	-0.1	0.0	-0.6	-0.1
OPEC	-4.4	-0.9	-0.4	-1.0	-0.2	-0.2	-0.1	-0.1	-1.6

Notes: Source G-Cubed Model reported on p 36 of McKibbin and Stoeckel (2009)

1. Europe is UK, Germany & Euro Area
2. OOECD is Canada, Australia and ROECD
3. ODCs is Other Asia, Latin America, Other LDC and OPEC

Summary and Conclusion

- Globalization has had major benefits
- Globalization continues despite the political backlash in some areas
- Differences between growth drivers in different countries are likely to drive trade and capital allocation in future years
- It is likely that trade positions will move further away from balance which will add to political pressures to reverse globalization

Summary and Conclusion

- Trump policies are a critical test of the robustness of the global economy and global institutions
- A Trade war is a very costly event of the global economy

Summary and Conclusion

- It is critical for globalization to continue that the benefits of trade and efficient allocation of capital is shared more evenly within economies

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