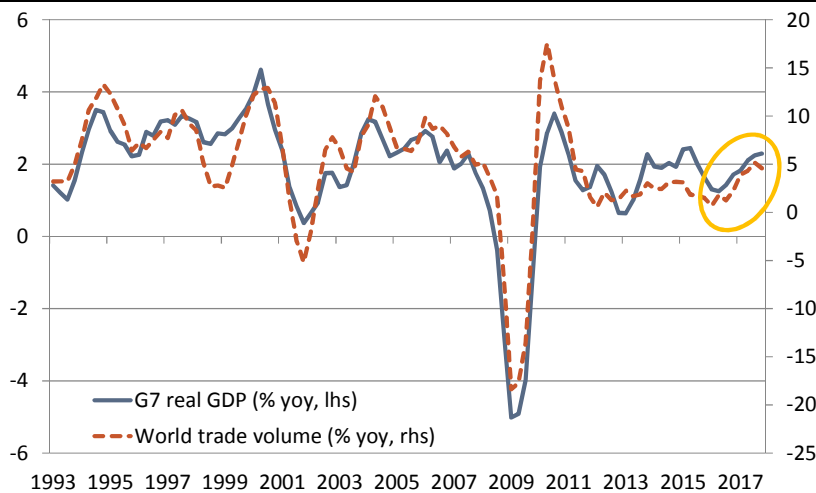


9 March 2018

Trade tensions; what is at stake

The upswing in the advanced world has gone hand in hand with rising global trade



Quarterly data. Source: OECD, Netherlands Bureau for Economic Policy Analysis, Berenberg calculations. G7: US, Japan, Germany, UK, France, Italy and Canada.

- International trade is not a zero-sum game:** It increases the size of the global economic pie by enabling companies and countries to specialise in what they do best. Our chart shows the strong link between global trade and economic growth in the developed world. After seven years of caution, 2017 marked the partial return to normal cyclical dynamics for the developed world. G7 real GDP growth accelerated from a low of 1.3% yoy in Q1 2016 to 2.3% in Q4 2017, while global trade volumes rose from 0.7% to 4.6% over the same period. This is no coincidence.
- Of course, change causes frictions:** Although the vast majority of workers in the developed world benefit from globalisation through better goods at lower prices, the concentrated costs to those workers who lose their job in the process are highly visible. Governments need to address the grievances of disenchanted workers. However, President Donald Trump's decision to levy new tariffs on US imports of steel and aluminium from all countries except Canada and Mexico reflects economic ignorance of the worst kind.
- The lesson of history:** In 1930, the US started a global trade war with its Smoot-Hawley tariffs, raising almost 900 import duties. By the mid-1930s, global trade had halved. A misguided policy intended to support US domestic industries simply worsened the Great Depression.
- More trade, more productivity:** Countries benefit from rising trade even if their trade balance does not improve. Consumers are still better off if they decide to spend their higher incomes – from the rise in exports – on imports from abroad. Trade raises both demand and supply. Typically, the rising business confidence that comes from stronger trade and production encourages higher spending on productivity-enhancing capital investment.
- A risk to the upswing?** In terms of sheer numbers, the new US tariffs are too small to matter for the economic outlook. The US may raise up to \$7bn, equivalent to 0.04% of US GDP. The key issue is how far the ensuing tit-for-tat spiral will turn. While other countries will retaliate, we expect them to do so in a restrained manner. If Congress then prevents Mr Trump from taking the conflict much further, the overall economic damage will be small, with probably no more than a temporary hit to confidence.
- The balance of risks:** Reacting to the Trump tariffs, we tweaked our growth outlook for the US and the Eurozone slightly last Friday. We now believe that the risks to our above-consensus calls for 2018 growth in the US (2.9%) and the Eurozone (2.5%) are balanced instead of being tilted to the upside. The political debate this week, notably the backlash in Congress against the Trump tariffs, strengthens our optimism that the trade row will not escalate to such an extent as to materially affect the growth outlook. Sadly, it still poses a risk which we now need to watch more closely than before.

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