



# Challenges to the WTO from the current low growth environment

## Possible Responses

AEPC Policymaker Panel

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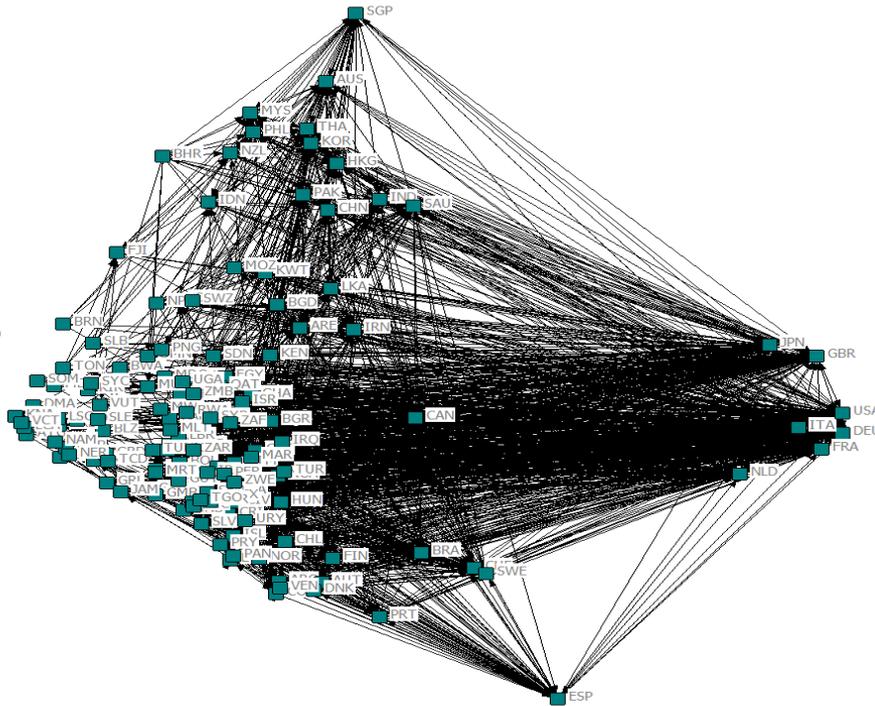


# What has happened in last 35 years? The South is no longer the periphery.

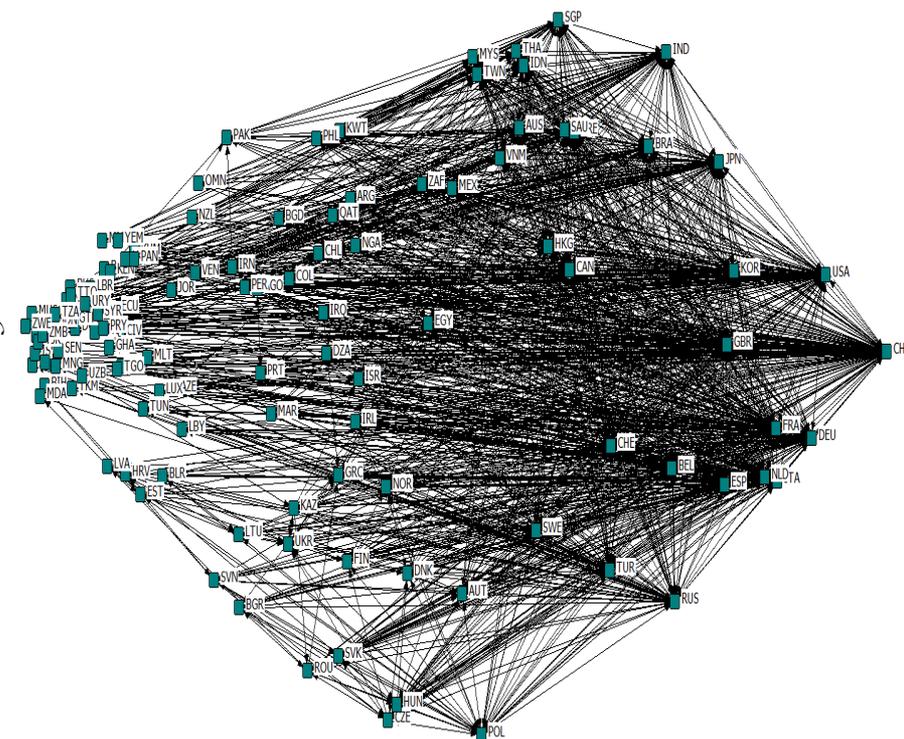
1980

2014

*Closeness = Similarity in trade structure*



*Closeness = Similarity in trade structure*



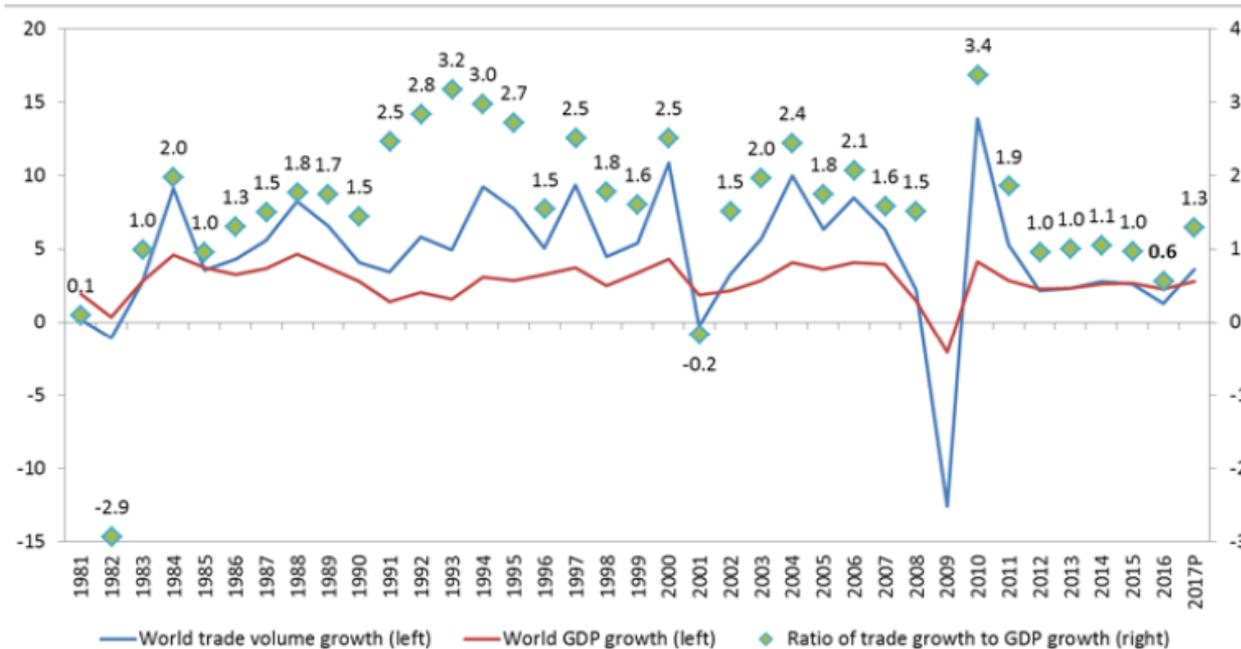
*Systemic relevance in the global trade*

*Systemic relevance in the global trade*



# A move back toward longer term relationship between GDP and trade growth?

**Chart 3: Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2017**  
% change and ratio



Sources: WTO Secretariat for trade, consensus estimates for GDP.



## Low Growth Environment...followed rapid integration

- Integration has slowed compared to rapid pace of “long 1990’s”.
- Multilateral, regional and unilateral liberalization in this period exceptional. Rapid trade growth and integration.
- But best measures of trade growth suggest openness policies accounted for roughly 25% of that growth. Most growth was due to fundamental and reasonably synchronized macro growth, falling trade costs, technology.
- Counts of “protectionist” measures have not yet translated into significant “measured rise” in trade costs.
- Trade growth has been slow – fundamental macro factors (investment and consumption – rates and intensities), uncertainty?
- But recovered this year, despite all the protectionist rhetoric – GDP growth the driver.
- But risks are clearly higher than normal for potential protectionist actions.
- What would be impact?
  - Short term not likely overly dramatic on macro indicators unless accompanied by other policy. Lessons from Great Depression and Great Recession.
  - Trade shifting.
  - Longer term – some large countries could slowly fall behind global technology frontier.



# WTO and Macro – separate but very, very interconnected

- Shifts in macro-policy mixes mainly affect the WTO when they have an effect on exchange rates and global imbalances.
- Global imbalances, while significantly reduced in recent years for some countries, but still the focus of criticism and some aggressive language on policy proposals.
- Brought lots of focus on exchange rate movements as drivers for imbalances. Along with other fundamentals (savings/investment). WTO not a forum designed for those discussions.
- But many countries want to use WTO central trade policy mechanisms to try and fix.
- Exchange rate developments, there are views indicating that a change in US policy mix (tightening of monetary policy and loosened fiscal policy in relation to tax cuts) may lead the US dollar to rise while trade policy is supposed to fix US trade deficits (bilateral and aggregate)



# Low growth in the rearview mirror?

- One can say that we are in a relatively low growth environment in developed economies (no more than 2%) but this is not exactly the same story in the developing world, with overall 3.7% of forecasted growth.
- Before the 2008 crisis, the world economy was growing at 5%, that is about 1% higher of what we may get in 2018, and everyone was saying we were well above potential.
- Trade growth drivers?
  - Geography - US, EZ, China/Asia
  - Macro fundamentals – Investment and certain parts of consumption
  - We know that low investment growth has lead to low trade growth because fixed capital formation typically has the highest trade intensity of all demand components.
  - Might this relationship change?

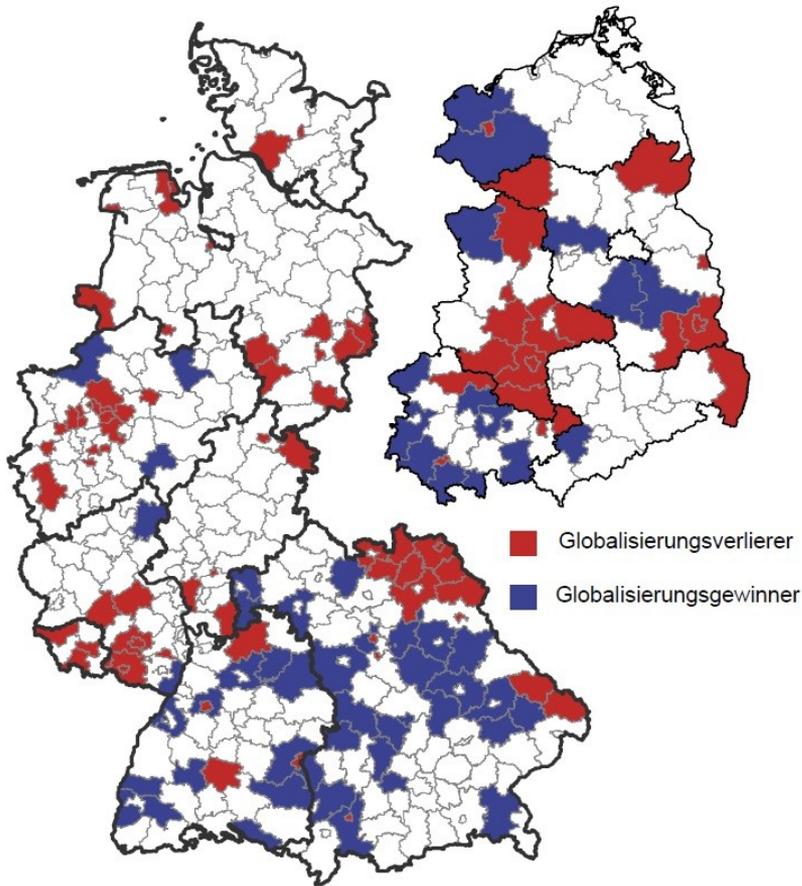


## But many forces creating uncertainty

- Global, regional, and local forces – economic geography – highly uneven growth.
- Technology (IT), agglomeration and network economies (cities/urban areas driving much growth),
- skill and routine bias tech change, capital mobility
- ...all are being disruptive and may be undermining traditional political economy supporting trade
- Fiscal constraints on needed infrastructure, adjustment and labor market policies



# Challenges? The many margins of adjustment...Regional impact across German regions - source Suedekom.



## Highly import-exposed regions

- Ruhr area → Coal & steel
- Südwestpfalz → Textiles and shoes
- Oberfranken → Toys, consumer electronics

## Highly export-oriented regions

- Lower Bavaria, Stuttgart, Allgäu → Cars & car parts

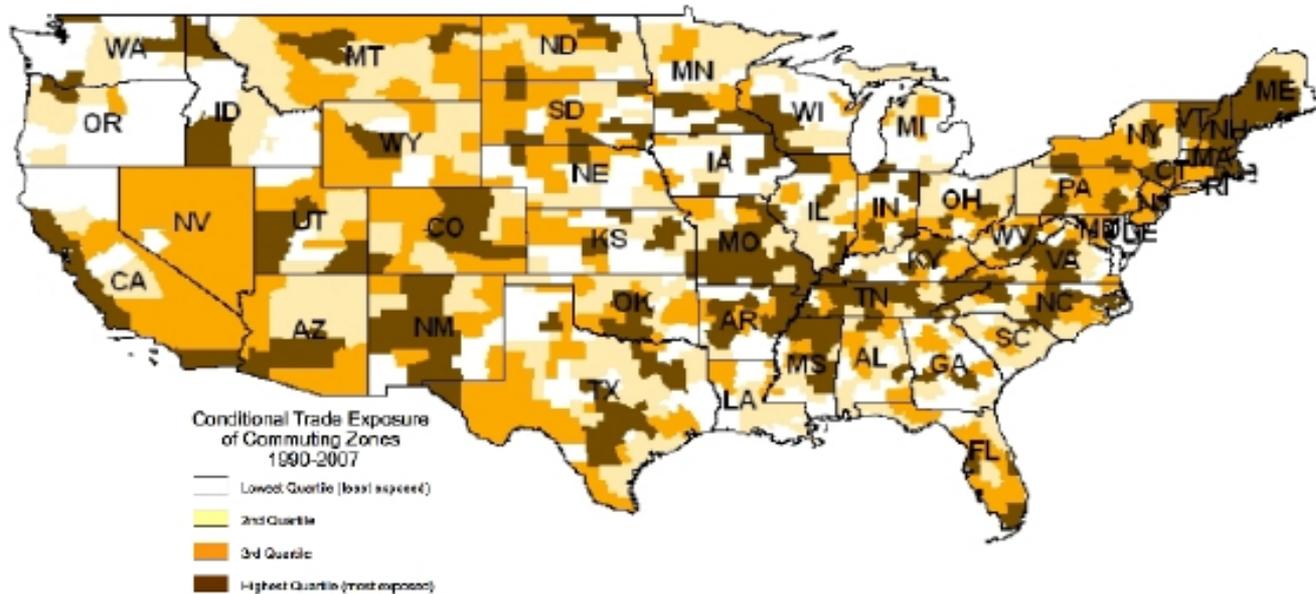
## Eastern Germany

- Much smaller manufacturing sector overall → smaller impacts of trade, lower geographical variation



# Or Autor, Dorn and Hanson in US

Import exposure 1990-07 (cond'l on manufacturing emp)



*Among 50 Largest Commuting Zones*

**(A) Largest Increase in Exposure**

1. San Jose, CA
2. Raleigh, NC
3. Providence, RI

**(B) Smallest Increase in Exposure**

1. Detroit, MI
2. Grand Rapids, MI
3. Seattle, WA

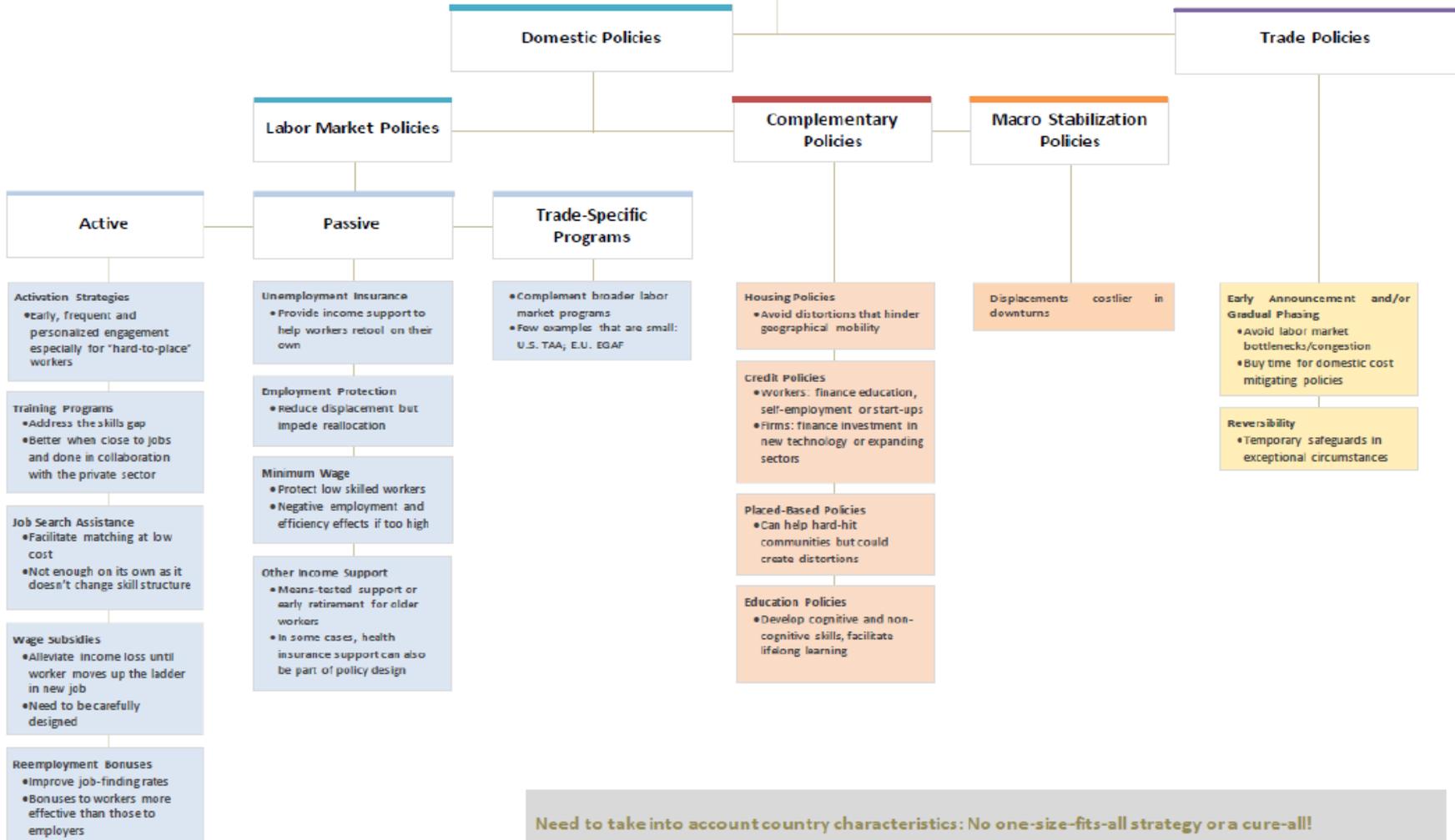


# Separation of macro, adjustment , and trade policy results in inconsistencies

- Rapid global integration raised incomes for millions and reduced poverty
  - But domestic adjustment policies failed in some developed countries to deal with technological and increased trade flows.
- Macro policies aggravated rather than ameliorated many of these forces in some countries
- In countries with strong adjustment mechanisms and/or well functioning labor markets support for globalization remains high.
- What happens if protection increases or multilateral coordination decreases? Dynamic effects greater than near term effects.
- G20 coordination was effective at stemming effects of great recession, but not much coordination beyond that?

# Policies to Mitigate Adjustment Costs

Trade "shocks" are likely to be permanent with unevenly distributed impact across sectors, regions and groups of workers.



Need to take into account country characteristics: No one-size-fits-all strategy or a cure-all!