…And worst case trade scenario

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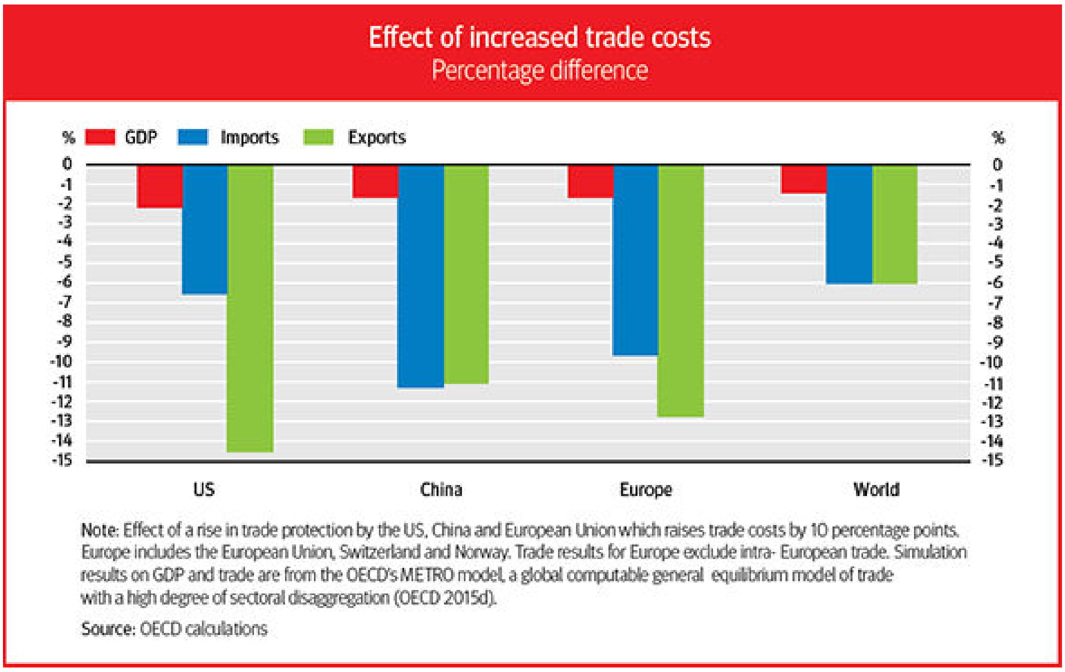

…And worst case trade scenario I Graph for: …And worst case trade scenario

Following our "fantasy global trade" scenario posted here, let's look at another trade hypothetical: what would happen if the US, China and Europe all raised trade costs on all goods, but not services, by 10 percentage points for all trading partners?

All would claim the goal was to shore up domestic producers and protect jobs. But according to our calculations, US exports would shrink by almost 15% and Europe's by nearly 13% while China would import a little over 11% less. Global GDP would contract by almost 1.5%. And this doesn't take into account the negative effects that would be unleashed by almost-certain retaliatory actions by other countries. There would also undoubtedly be investment slowdowns and disrupted global supply chains that fuel production of everything from your phone to your car. When trade costs go up, everyone loses.

References

OECD (2018), OECD Economic Outlook, Volume 2018 Issue 1: Preliminary version, OECD Publishing, Paris, http://dx.doi.org/ http://dx.doi.org/10.1787/eco_outlook-v2018-1-en