

# The United States, Germany, and Global Trade: Renewal or Reversal

**Gabriel Felbermayr**

Allianz Geoeconomics Speaker Series, Nov 15, 2019

# AGENDA

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- ***A New Era of Slowbalization***
  - **The China Problem**
  - **State of Play in Transatlantic Trade**
  - **A New Multilateralism?**
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- ***A New Era of Slowbalization***
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- (some recent German economic data)

# HYPERGLOBALIZATION

- 1990-2008: **Hyperglobalization** (Dani Rodrik)
  - Tariff reductions
  - Creation of the WTO (1995)
  - Market-based unilateral reforms
  - Regulatory cooperation
  - Pax Americana
- **Fragmentation** of production (*It's no longer cloth against wine anymore, David Ricardo*)
- Utilization of additional **specialization advantages**

**% Global exports over GDP**

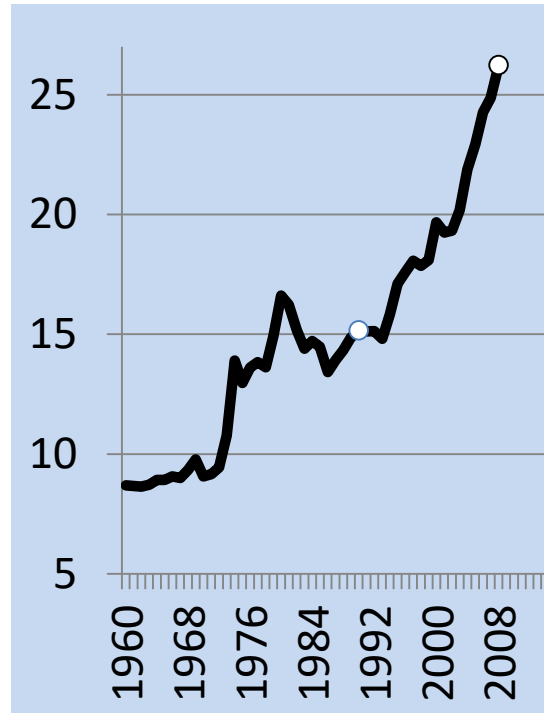


Source: World Bank, OECD, own illustration.

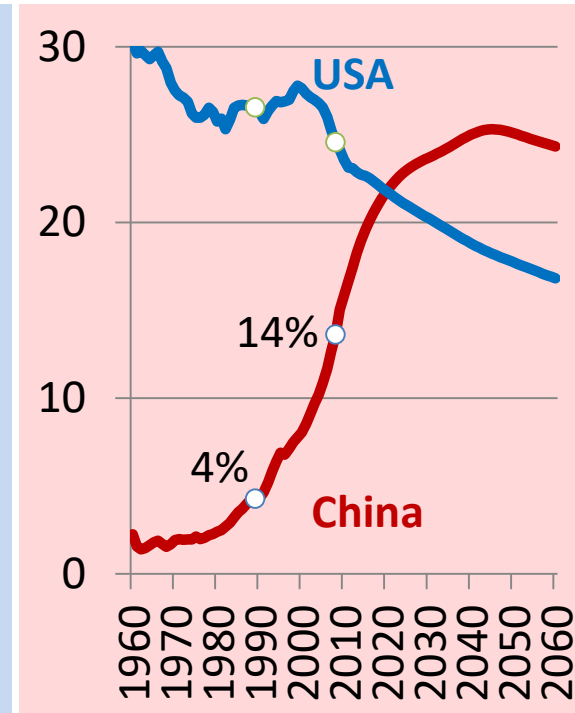
# HYPERGLOBALIZATION => GREAT CONVERGENCE

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% world GDP, const. 2010\$



Source: World Bank, OECD, own illustration.

# HYPERGLOBALIZATION => GREAT CONVERGENCE

- 1990-2008: **Hyperglobalization**

(Dani Rodrik)

- Tariffs
- Creation of trade agreements
- Unilateral trade liberalization
- Technological progress
- Regulatory cooperation
- Pax Americana

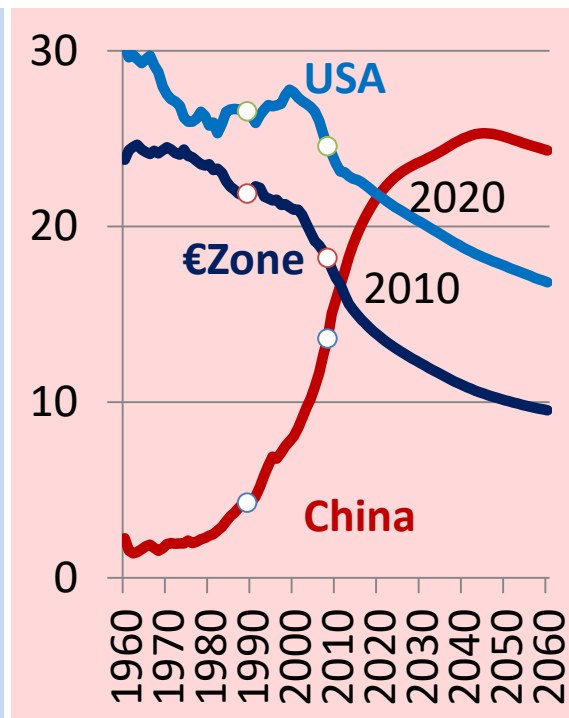
**Economic convergence, but political divergence: a (potential) dangerous mix**

- **Fragmentation** of production (*It's no longer cloth against wine anymore, David Ricardo*)
- Utilization of additional **specialization advantages**

% Global exports over GDP



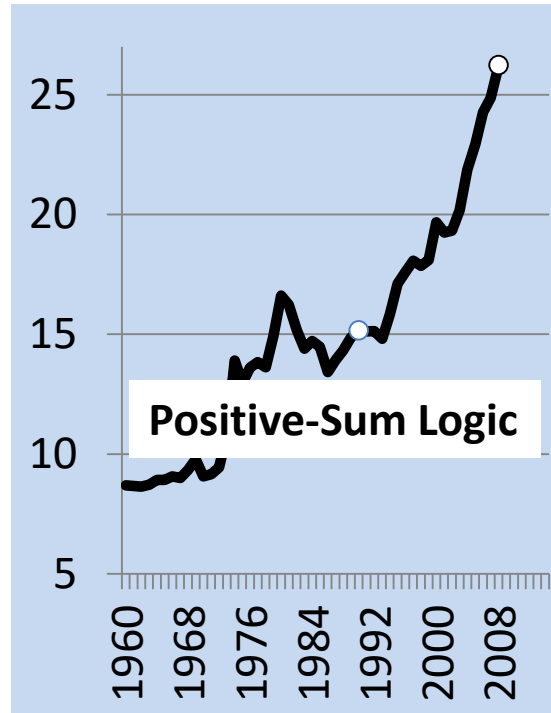
% world GDP, const. 2010\$



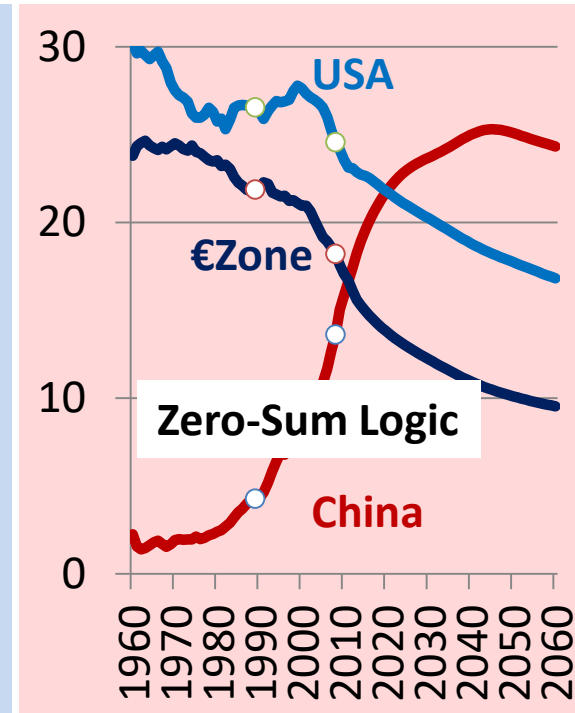
# BACK TO NORMAL: ZERO-SUM THINKING

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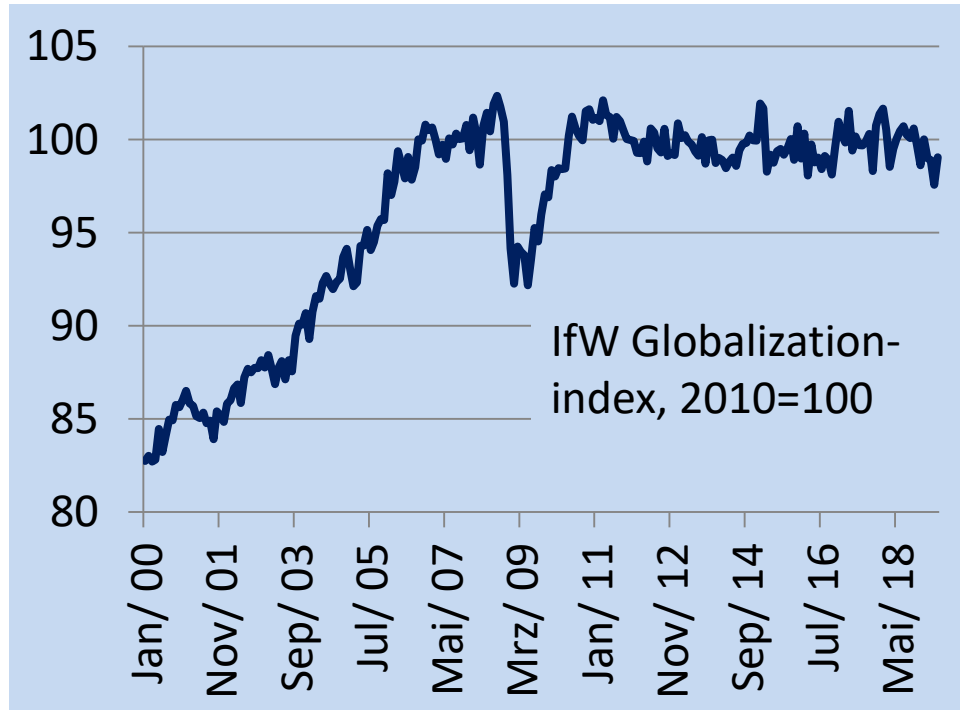


% world GDP, const. 2010\$



Source: World Bank, OECD, own illustration.

# END OF THE GLOBALIZATION BOOM ?

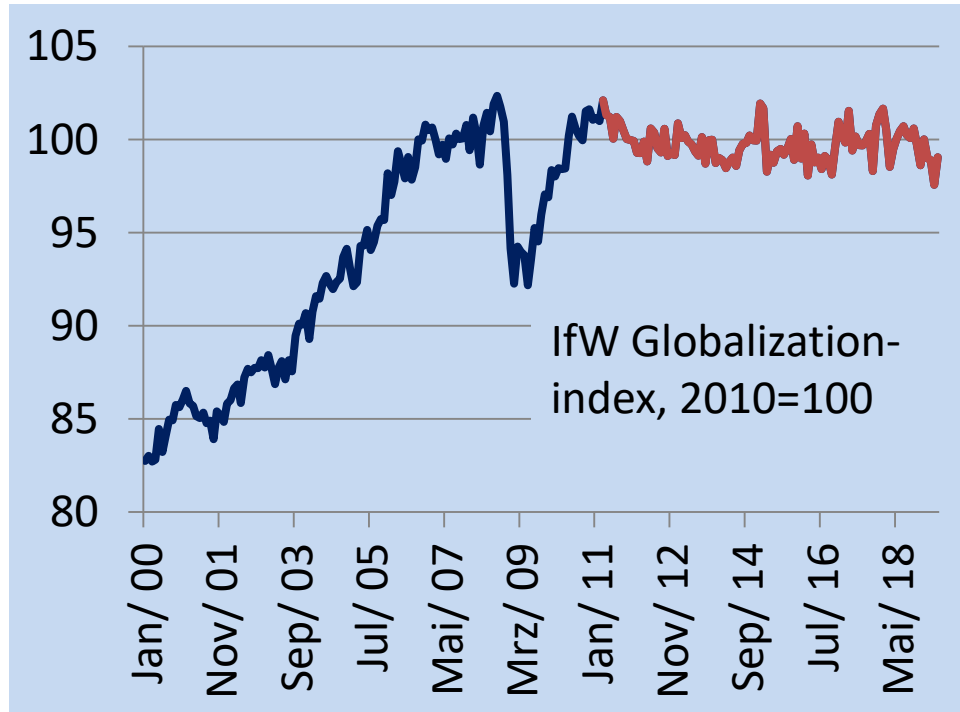


IfW Globalization-  
index, 2010=100

**IfW-Globalisierungsindex:** Handelsdaten und Industrieproduktion von CPB (25.7.2019), eigene Berechnungen. SA Mengenindizes. Weltexporte geteilt durch Weltindustrieproduktion. KOF de iure Trade Globalization index, rebased 2010=100.

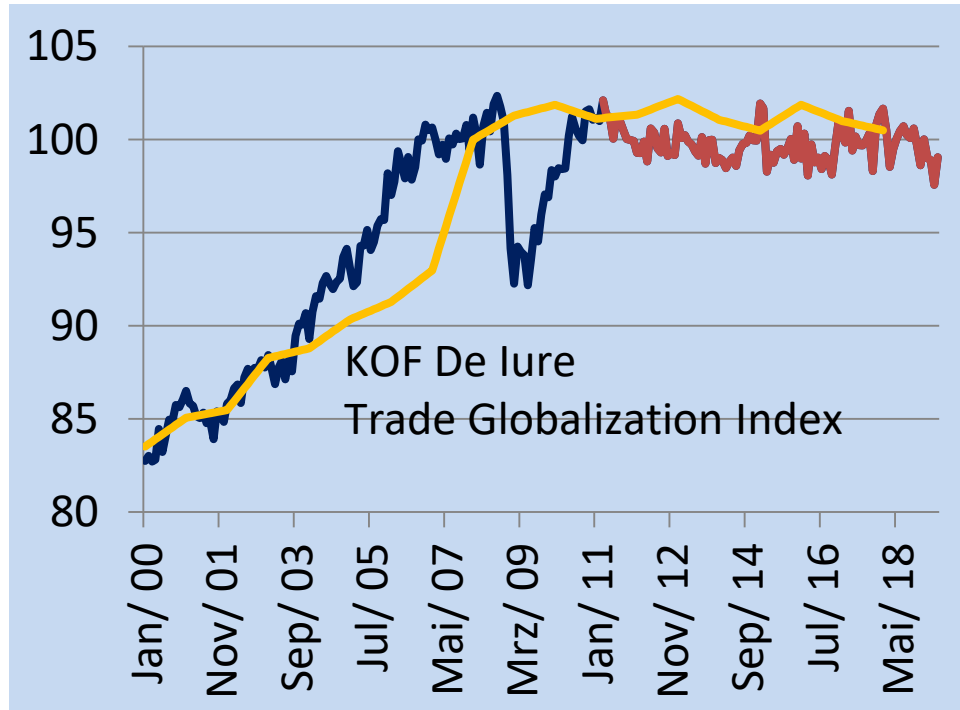


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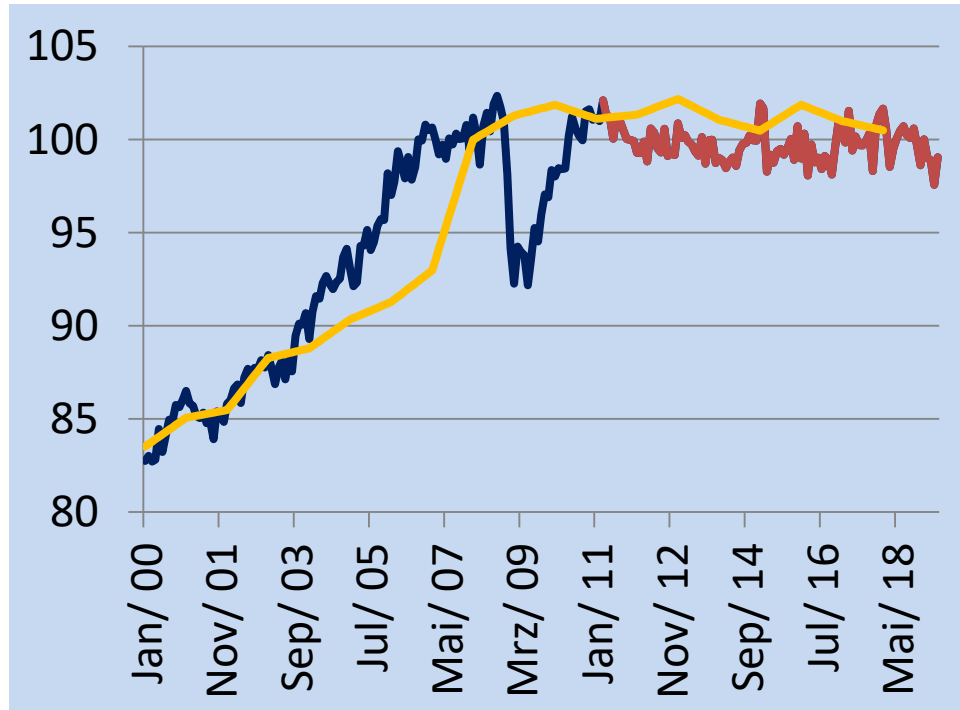
# END OF THE GLOBALIZATION BOOM ?



Yalcin et al. (2017) (ifo for Bertelsmann Foundation)

We can explain about 20% of the slow-down in trade growth by new protectionism (before Trump!)

# SLOWBALIZATION !



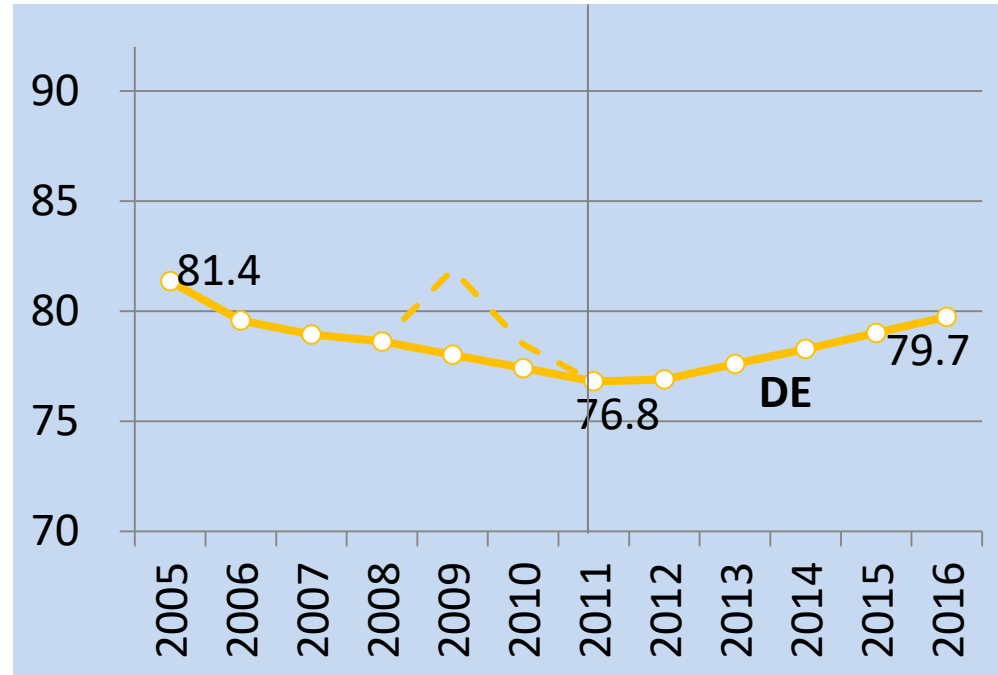
- Clear **sideway tendency** since 2010 in goods trade, foreign direct investment, international financial transactions
- **Boom** in services trade, in particular digital services
- **Technological drivers** may swamp political obstacles in the future: blockchain in logistics, AI in services trade
- **Divergence** in policy preferences or climate exposure may drive trade, too

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# GLOBAL VALUE CHAINS SHORTEN SINCE 2011

## Share of domestic value added in gross exports (%)

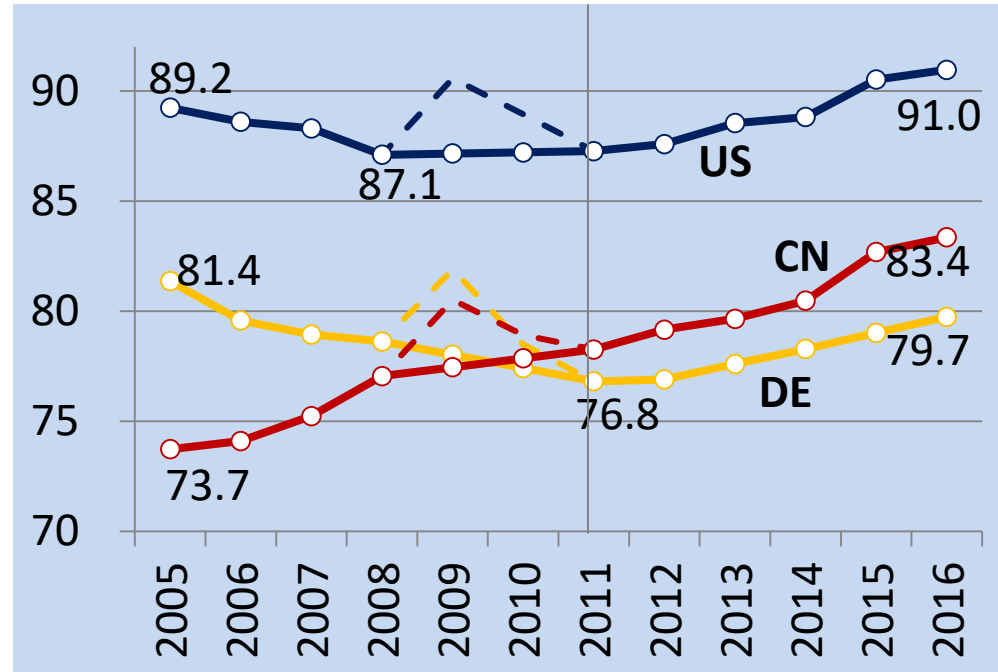
- Goods & Services
- DEU 2016: one Euro of gross exports contains 79.7 cents of domestic German value added; 20.3% are sourced from foreign countries
- Something happened around 2011



# GLOBAL VALUE CHAINS SHORTEN SINCE 2011

Share of domestic value added in gross exports (%)

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- Something happened around 2011
- China 2000: share at 65% (Kee & Tang, 2016 AER)
- USA: Buy American Policy since 2008

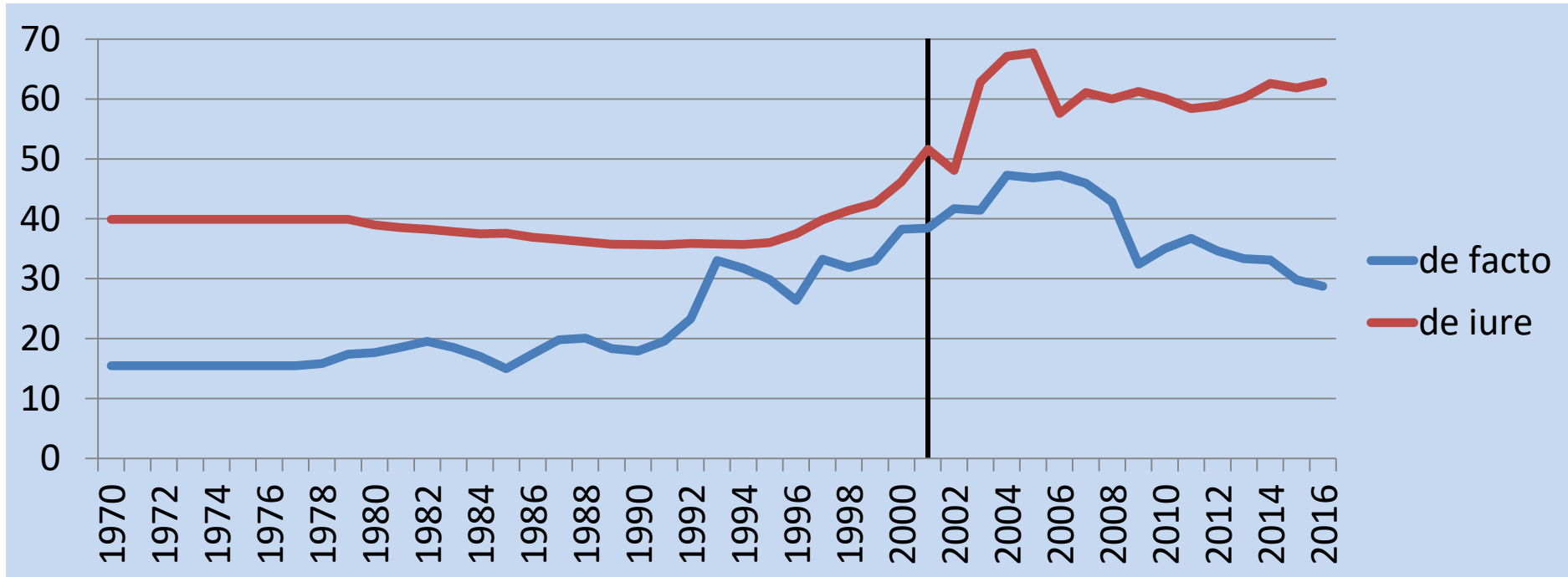


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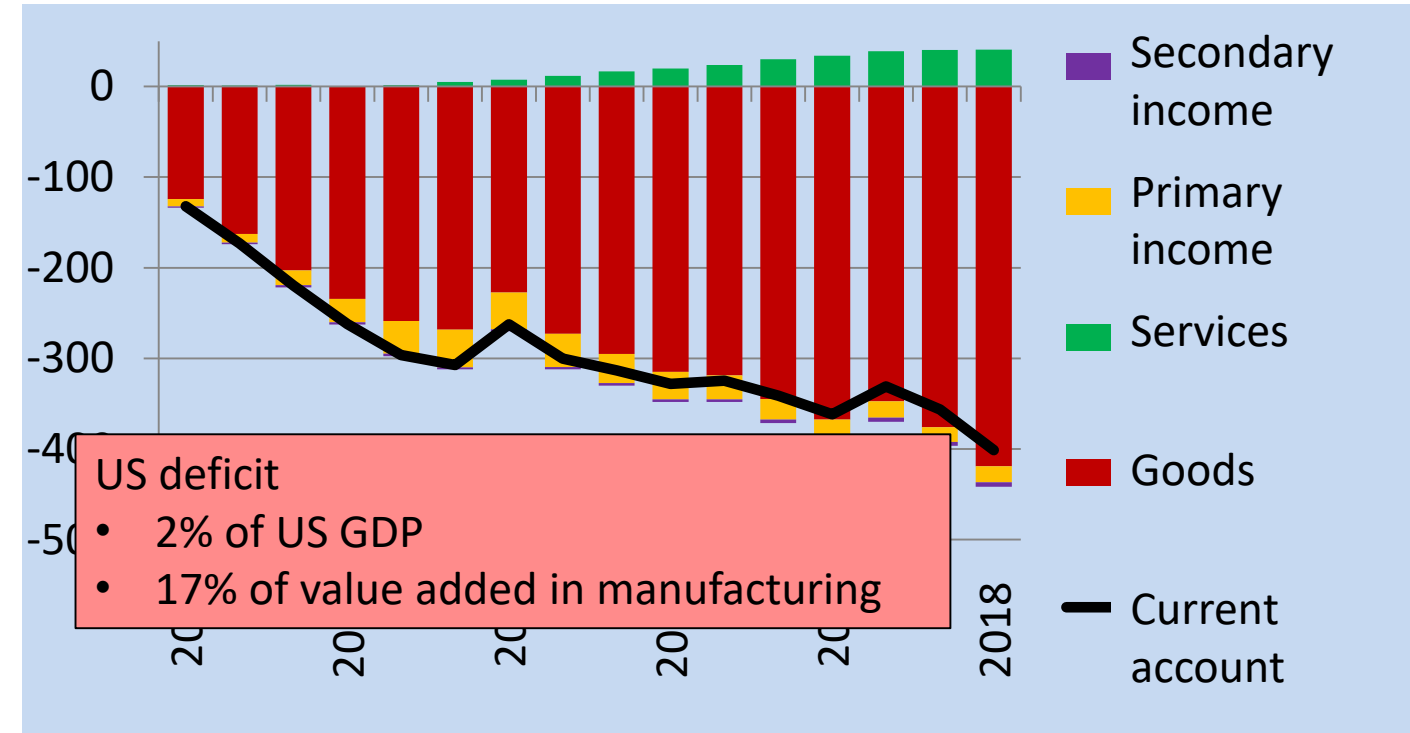
# COMMON CONCERN: OPENNESS OF CHINA

KOF Globalization Index, „Trade Globalization“



Source: KOF.24.3.2019, own compilation. Trade Globalization de facto: trade in goods, trade in services, trade partner diversity; de iure: trade regulations, taxes, tariffs, trade agreements.

# US CURRENT ACCOUNT BALANCES WITH CHINA



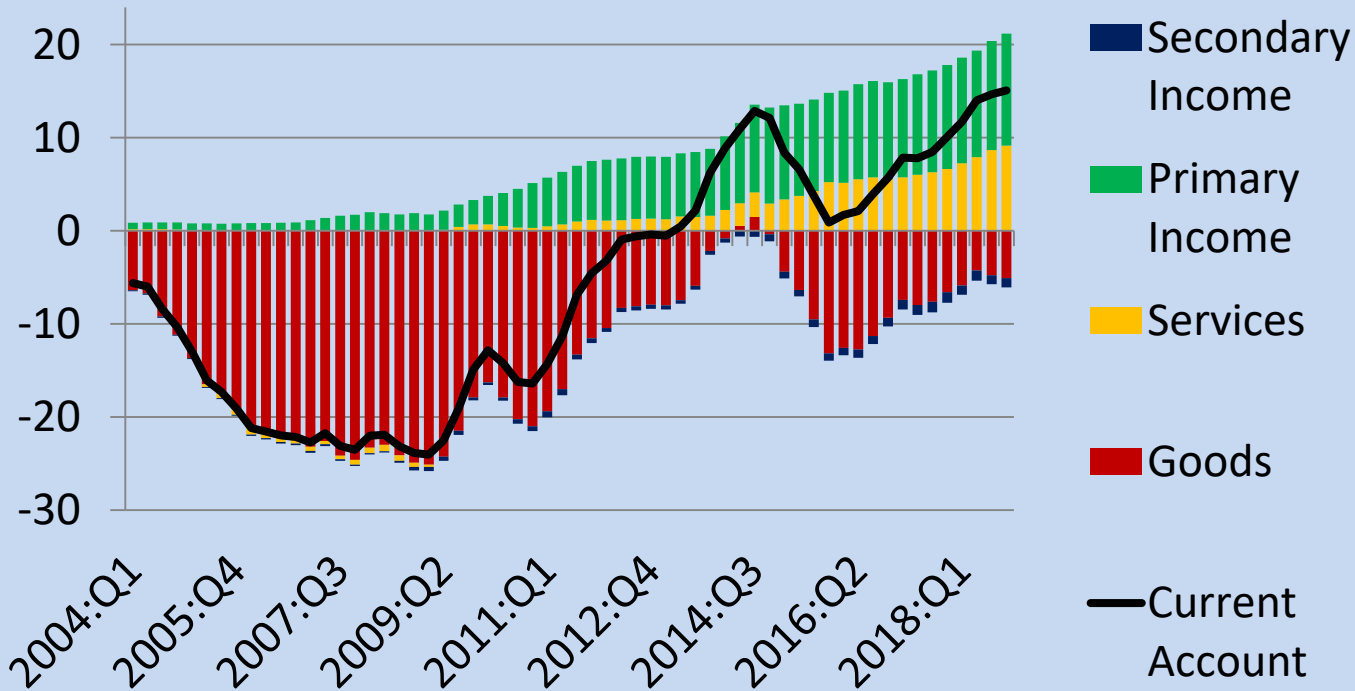
## 2018

- US goods exports to China: USD 121 billion (2017: USD 130 billion)
- US goods imports from China: USD 540 billion (2017: USD 506 billion)



# GERMANY: DIFFERENT ECONOMIC INTERESTS IN CHINA

German current account balances with China, bn EUR, annualized



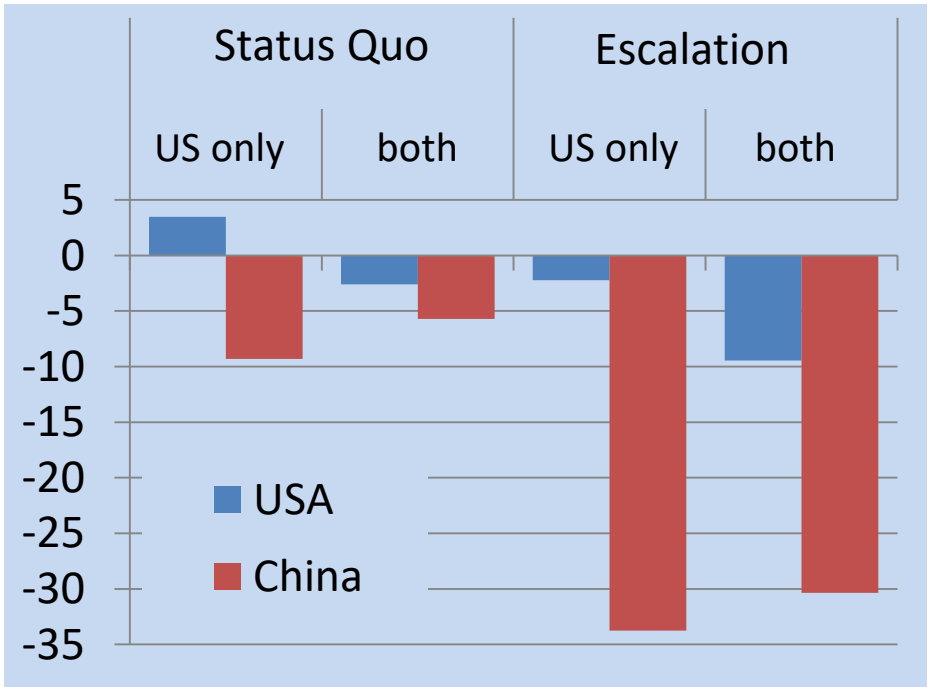
2018

- US exports of goods and services to China: 180 bn USD = **0.87% of GDP**
- German exports of goods and services to China: 130 bn USD = **3.53% of GDP**

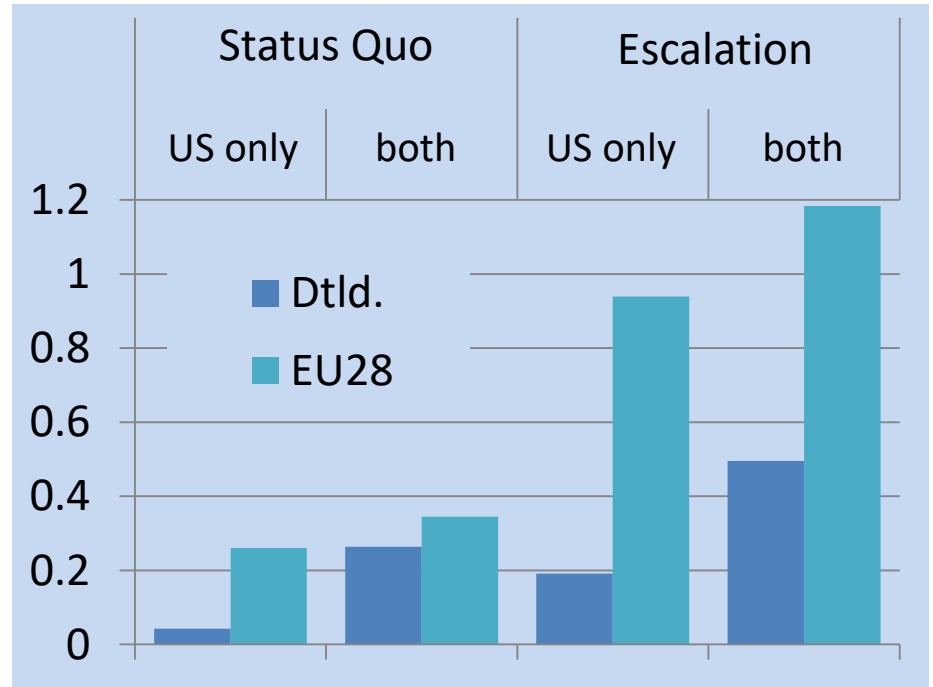


# ESCALATION: EFFECTS ON REAL GDP/PER CAPITA, € BN

... in the USA and China



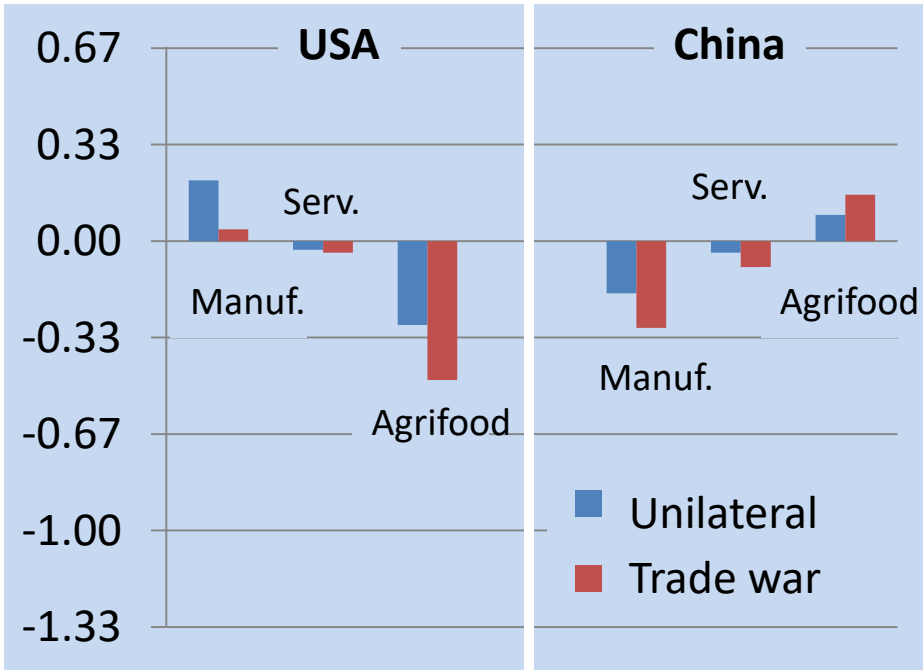
... in the EU



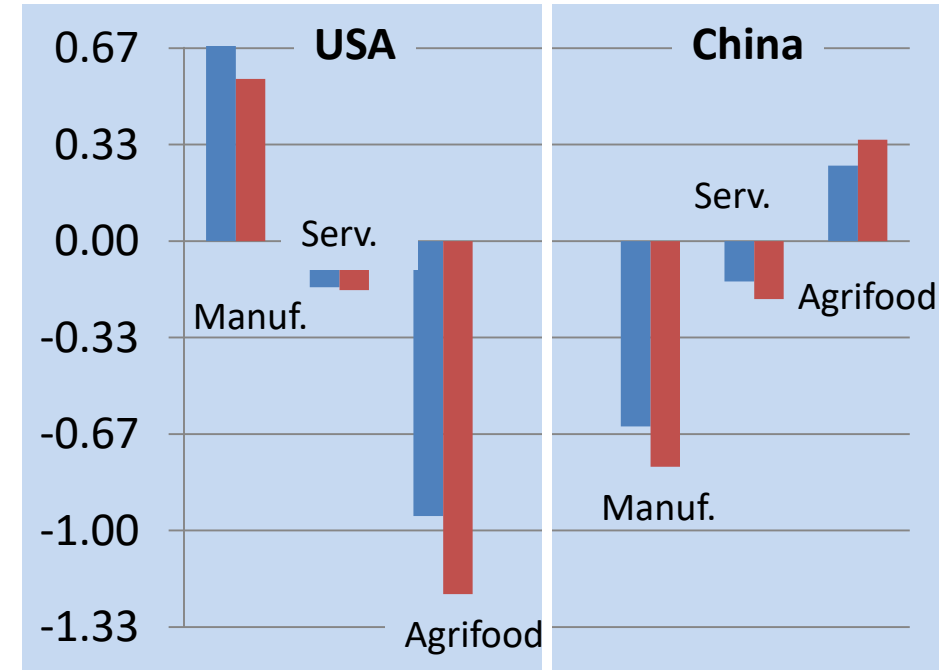
Source: Felbermayr & Steininger.

# SECTORAL VALUE ADDED EFFECTS IN %

Status Quo of the Trade Conflict



Escalation



Source: Felbermayr & Steininger.

# US PRÄSIDENT: TRADE WARS GOOD AND EASY TO WIN



**Donald J. Trump** ✓

@realDonaldTrump · 2. März 2018

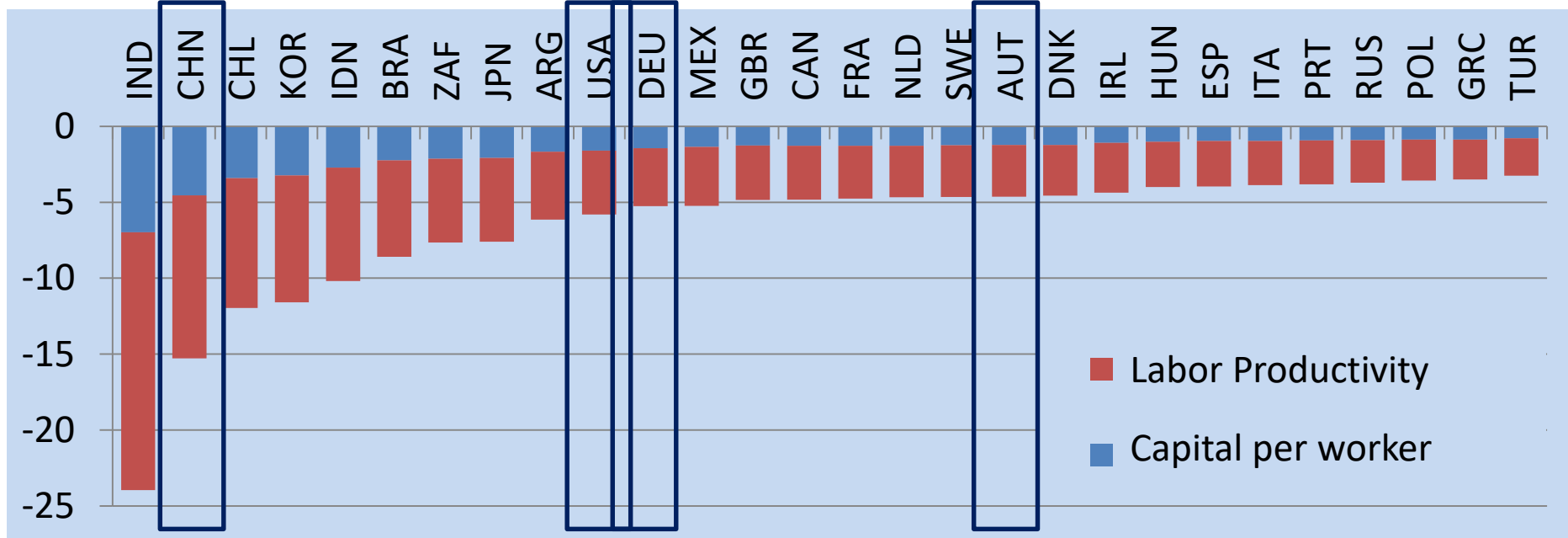
↻ 21 Tsd.    ❤️ 94 Tsd.    ▾

When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don't trade anymore- we win big. It's easy!

- **Wrong** if the goal is to maximize per capita consumption.
- **Right**, when it comes to keeping a geostrategic contender at bay.

# TARIFFS: BACK TO 1990. EFFECTS ON GDP/PER CAPITA

% deviation from 2016 BAU scenario

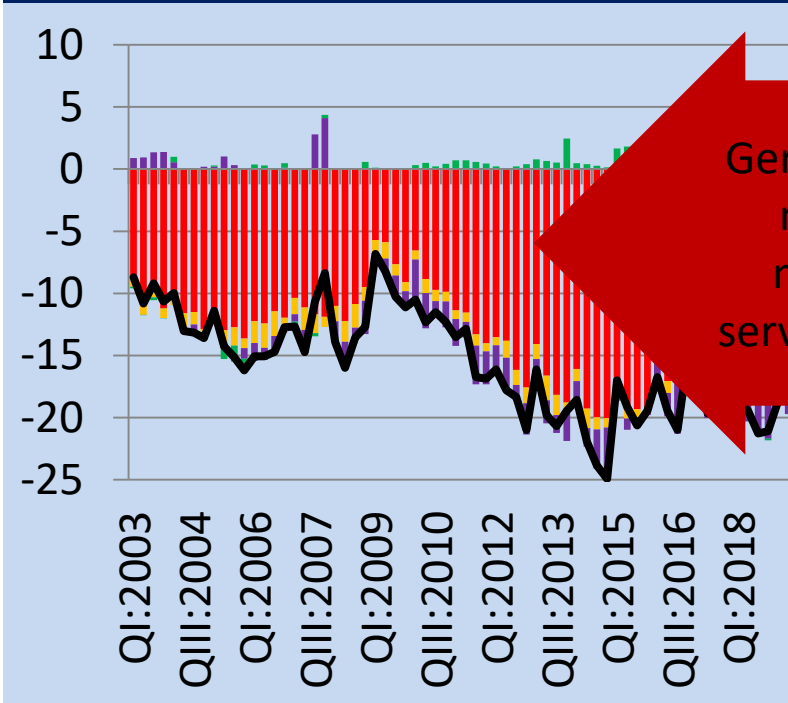


# AGENDA

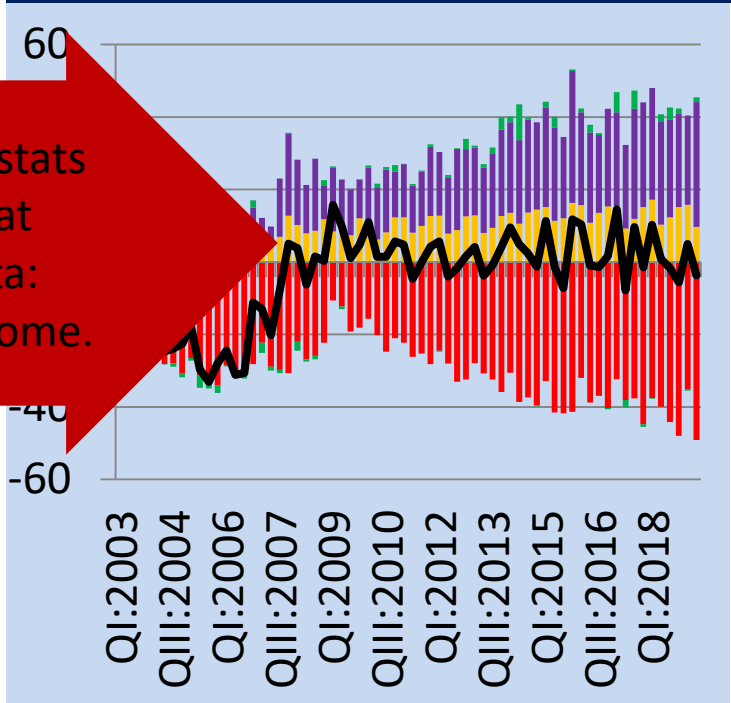
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# QUARTERLY US CURRENT ACCOUNT BALANCE

w/ Germany, bn USD, to QII:2019



w/ EU, bn USD, to QII:2019



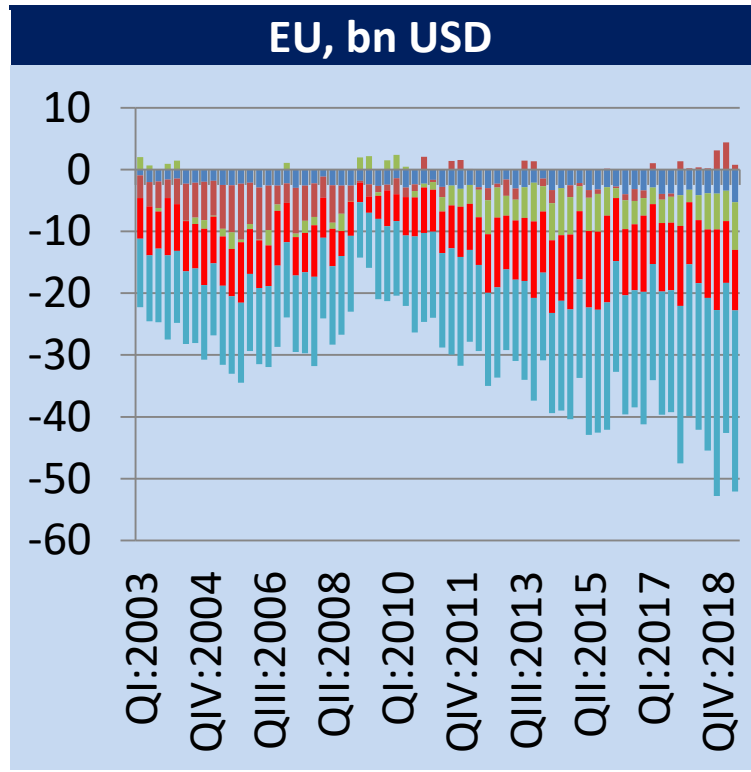
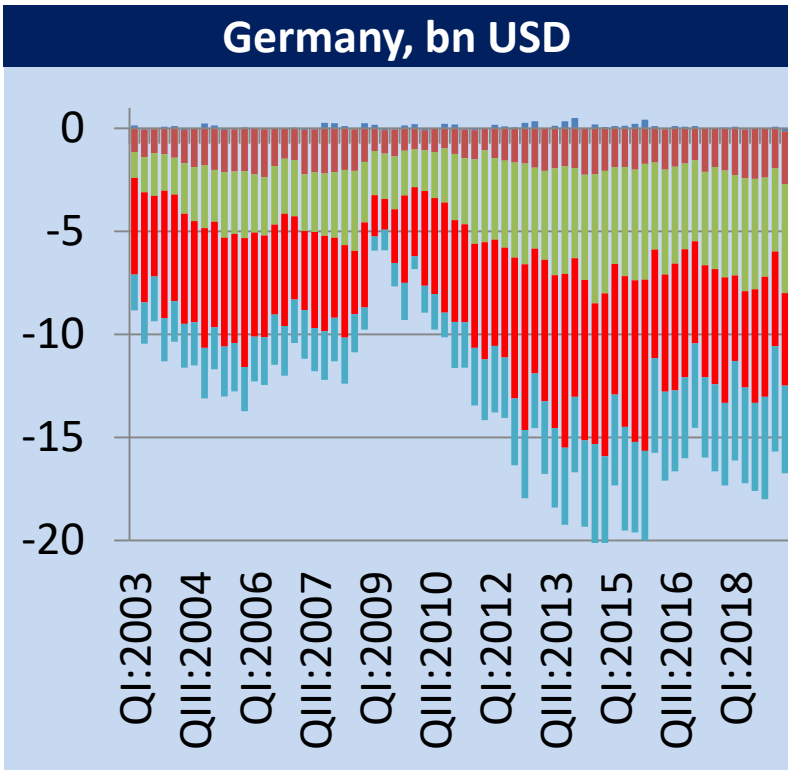
German bilateral CA stats meaningless – what matters are EU data: services, primary income.

Goods  
Balance

Source: BEA International Transactions, seasonally adjusted data, own calculations and illustration.



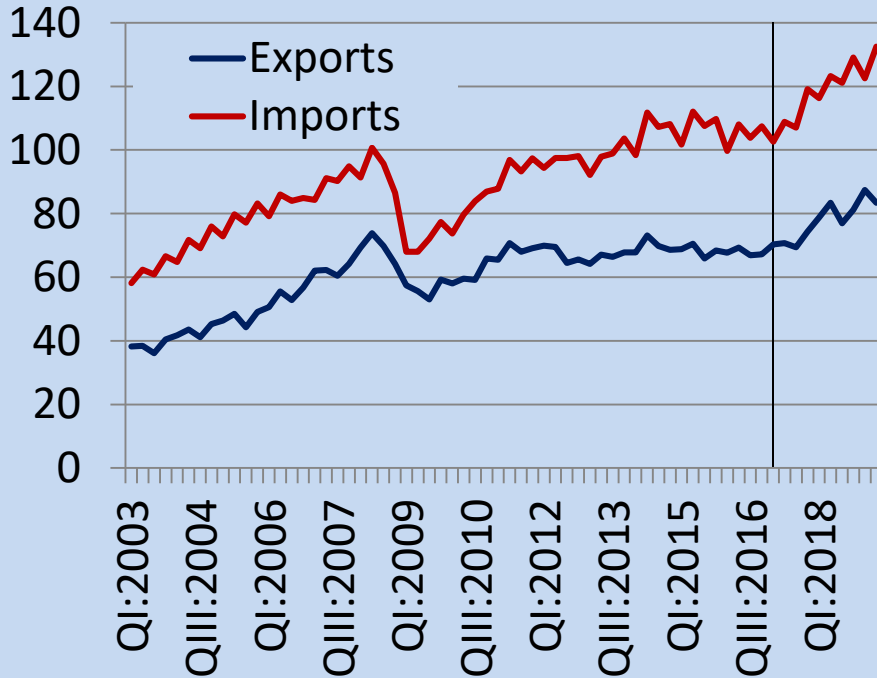
# QUARTERLY US GOODS TRADE BALANCES WITH EU



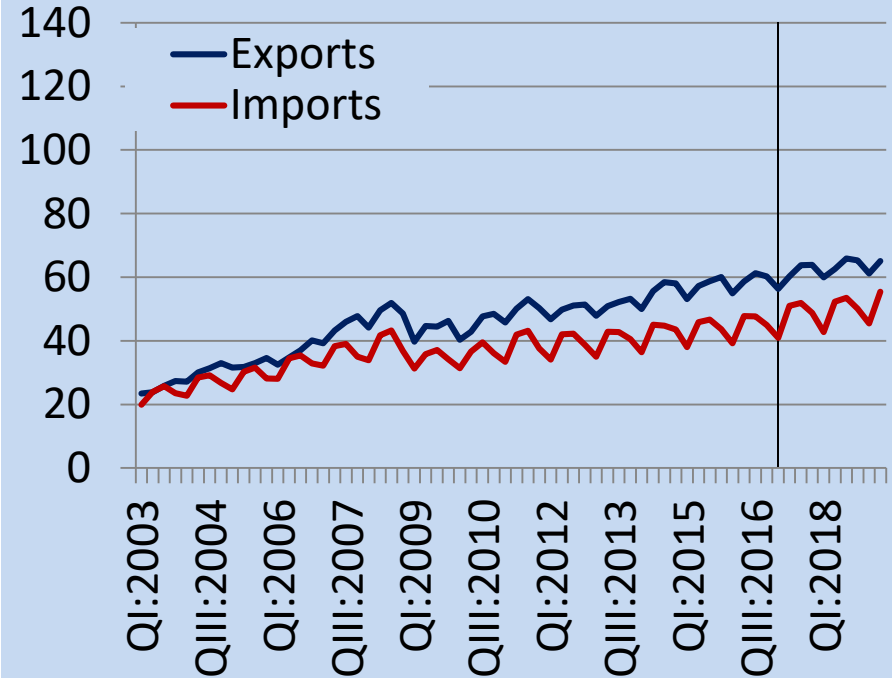
Source: BEA International Transactions, seasonally adjusted data, own calculations and illustration.

# QUARTERLY US TRADE WITH THE EU UP TO QII:2019

## Goods, bn USD

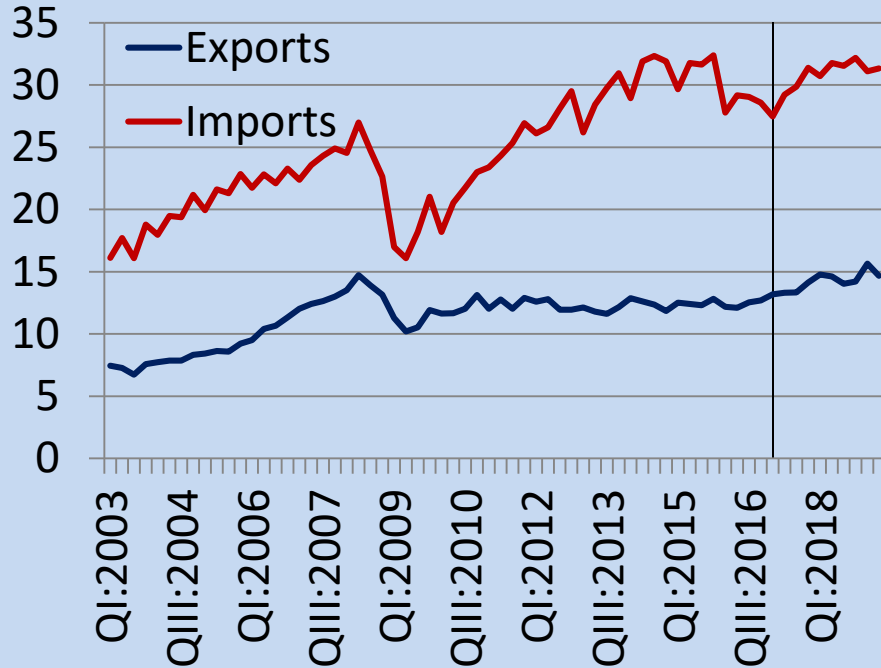


## Services, bn USD

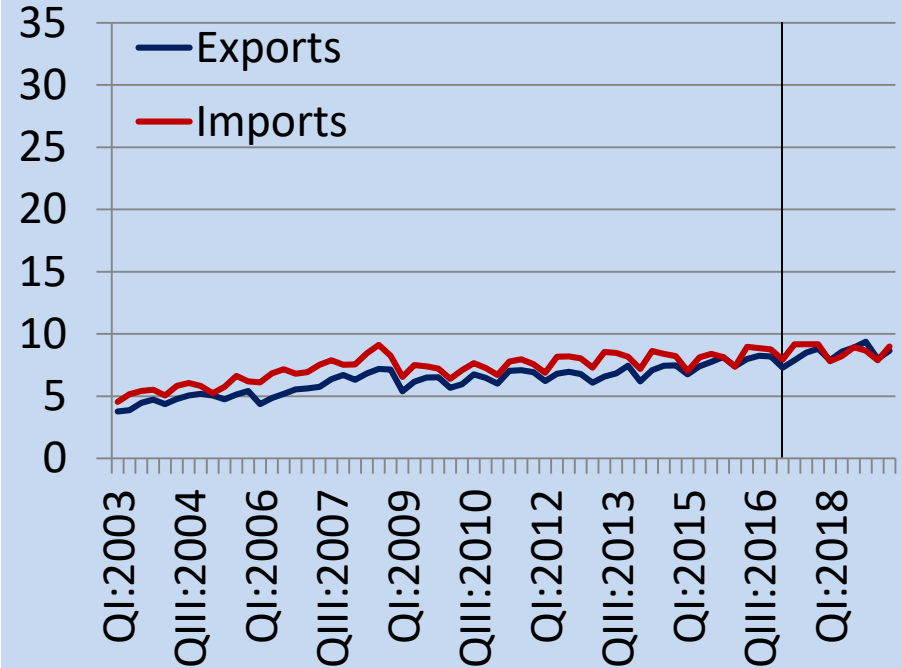


# QUARTERLY US TRADE WITH GERMANY UP TO QII:2019

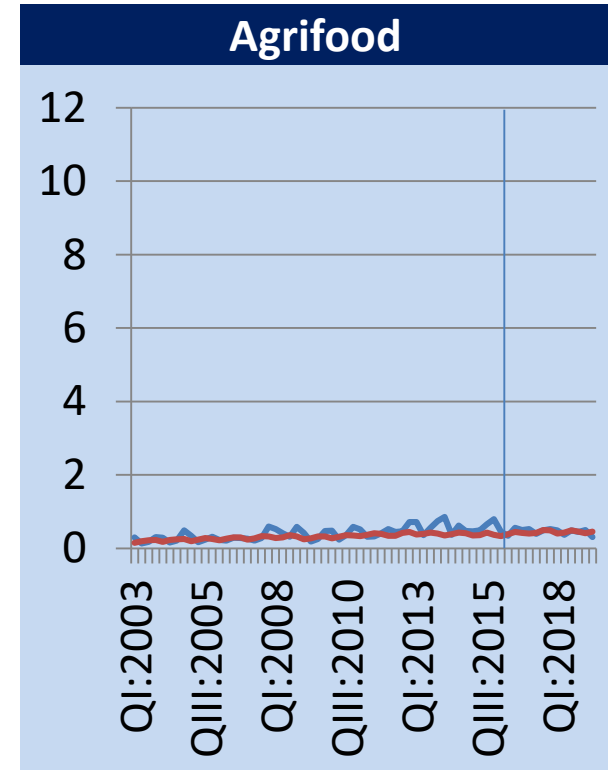
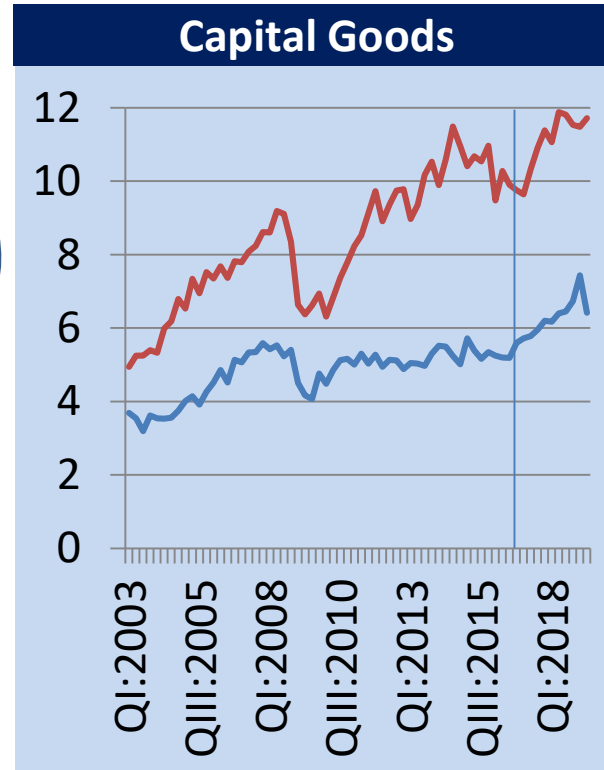
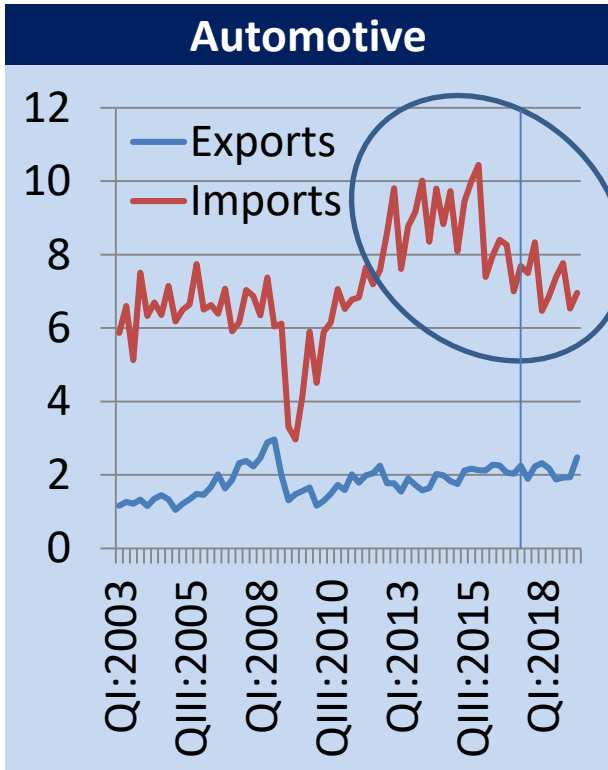
## Goods, bn USD



## Services, bn USD

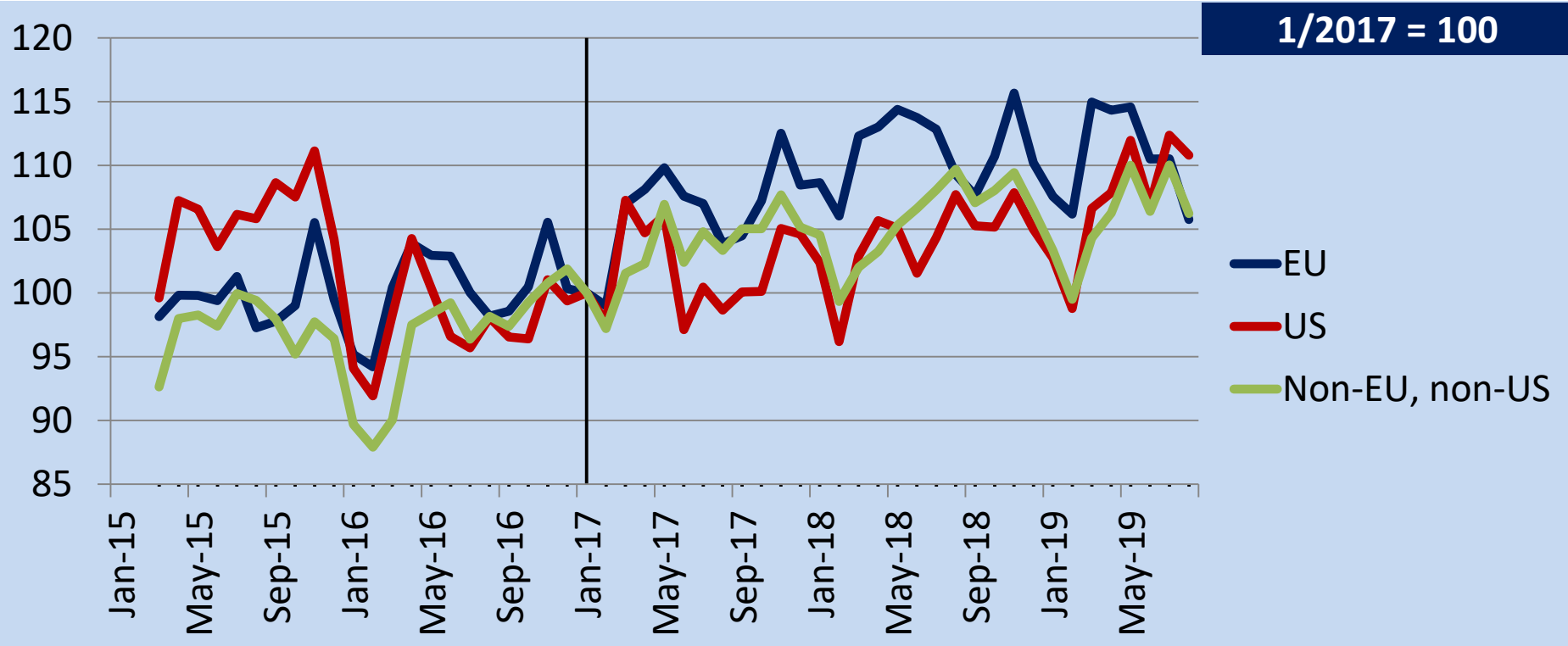


# US TRADE WITH GERMANY, QUARTERLY, bn USD



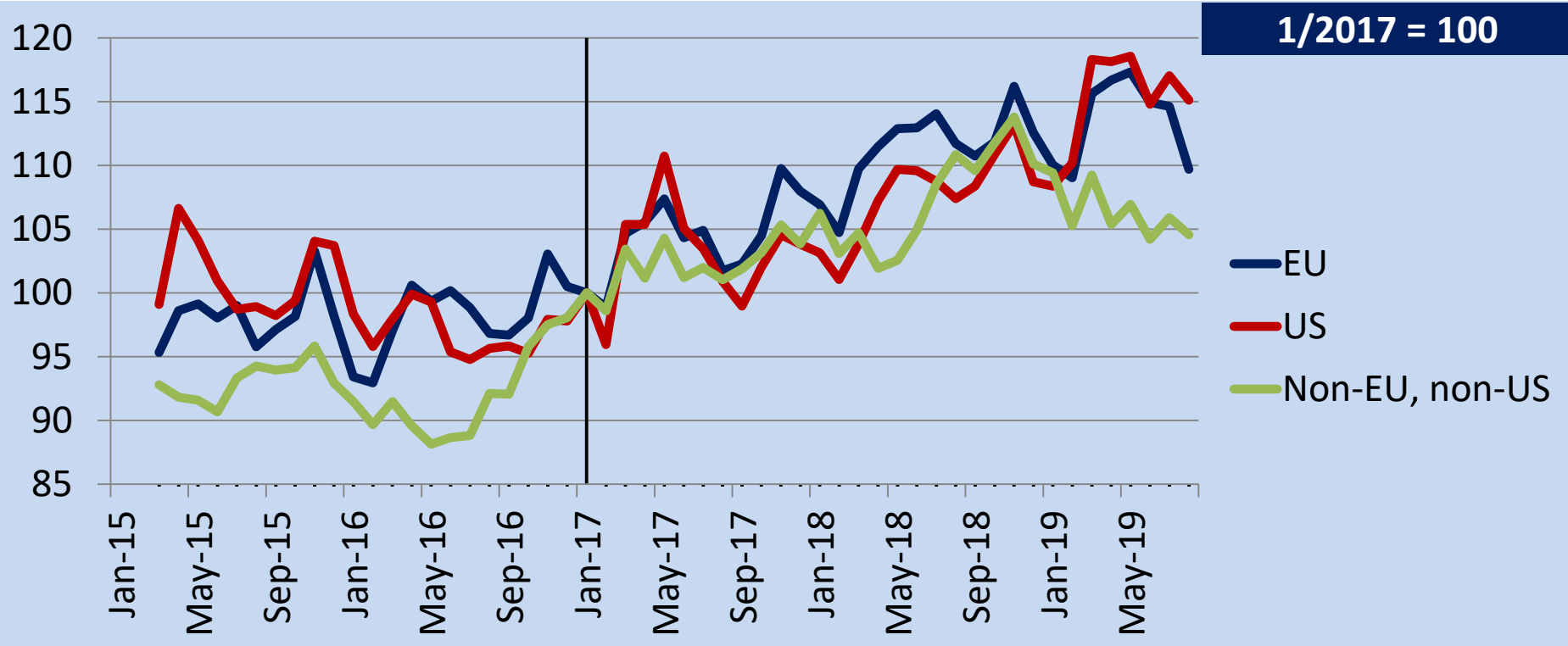
Source: BEA International Transactions, seasonally adjusted data, own calculations and illustration.

# GERMAN EXPORTS: IN SEARCH OF THE TRUMP-EFFECT



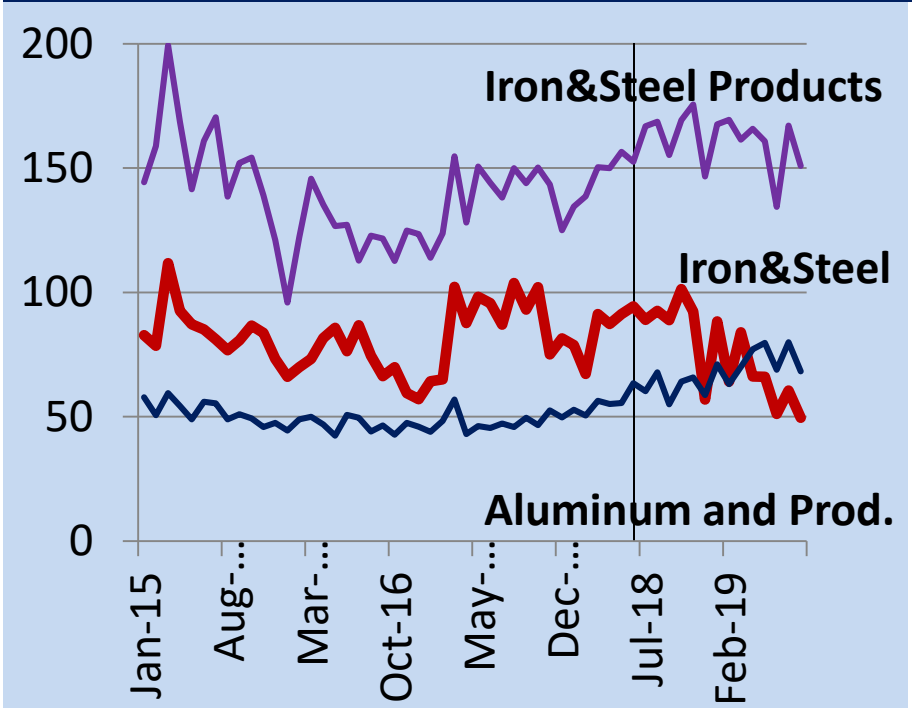
Source: Destatis. Own calculations and illustration. Index: 1/2017=100..

# GERMAN IMPORTS: IN SEARCH OF THE TRUMP-EFFECT

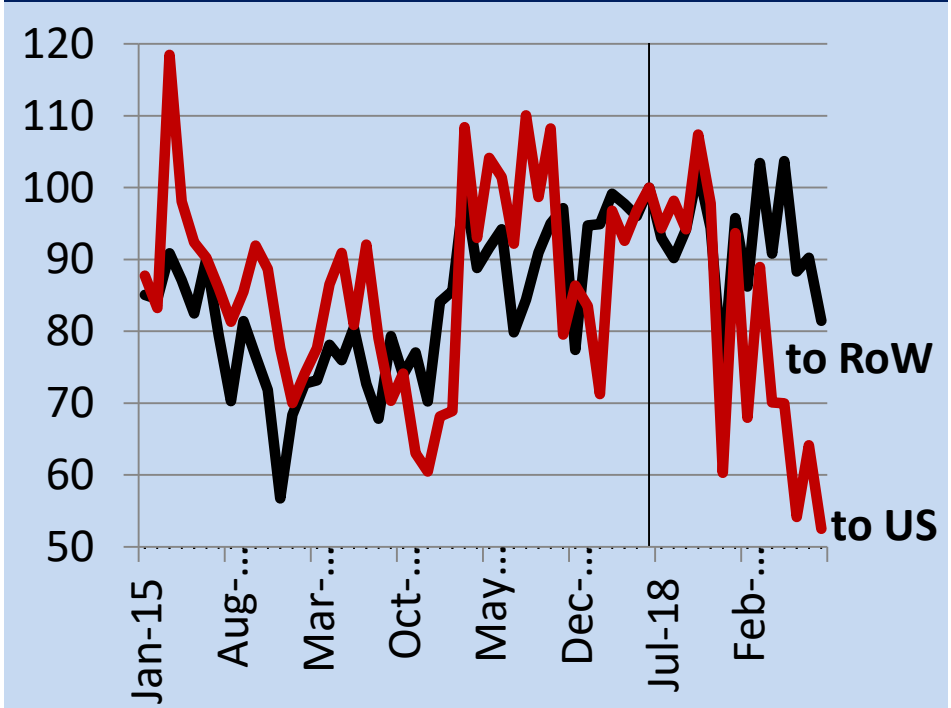


# GERMAN METAL EXPORTS TO THE US

Monthly exports to US, mn. €

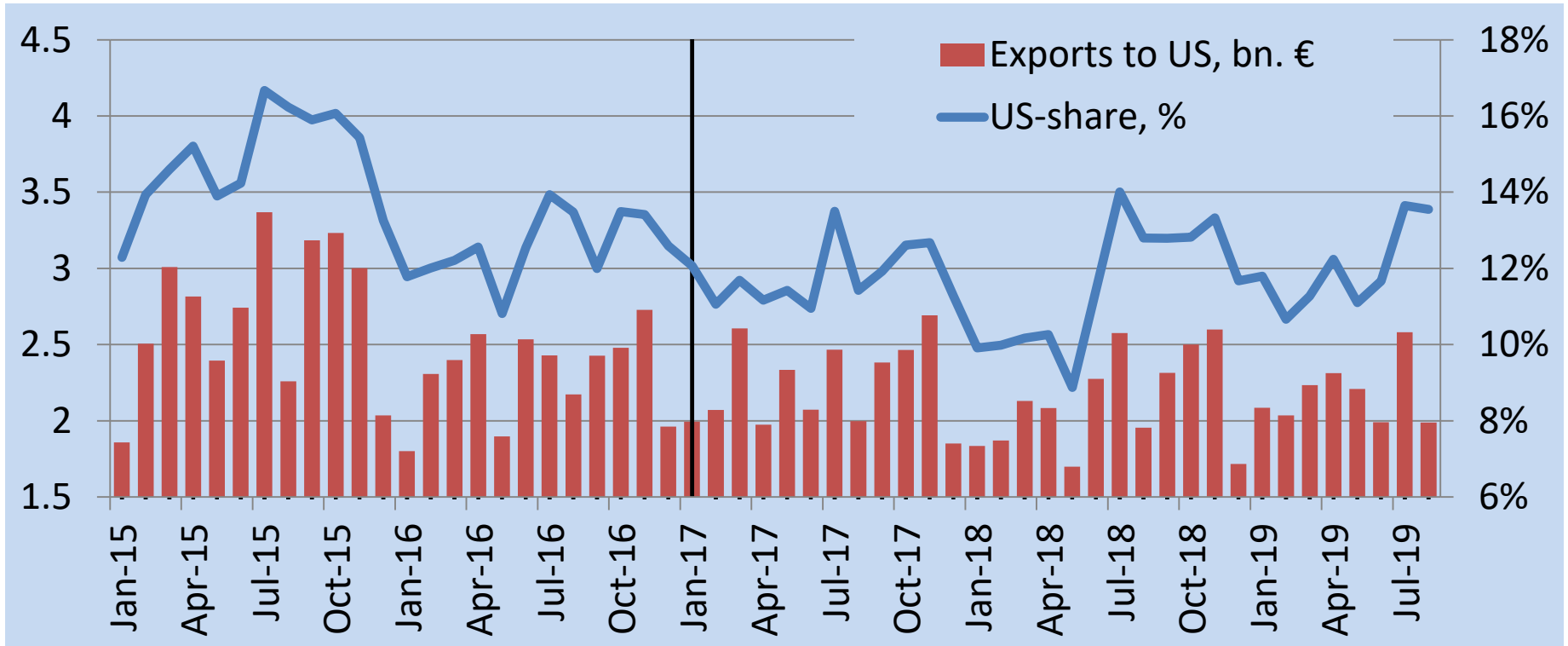


Monthly exports of iron & steel, 6/2018=100



Source: Destatis. Own calculations and illustration. Index.

# GERMAN VEHICLES EXPORTS TO THE US

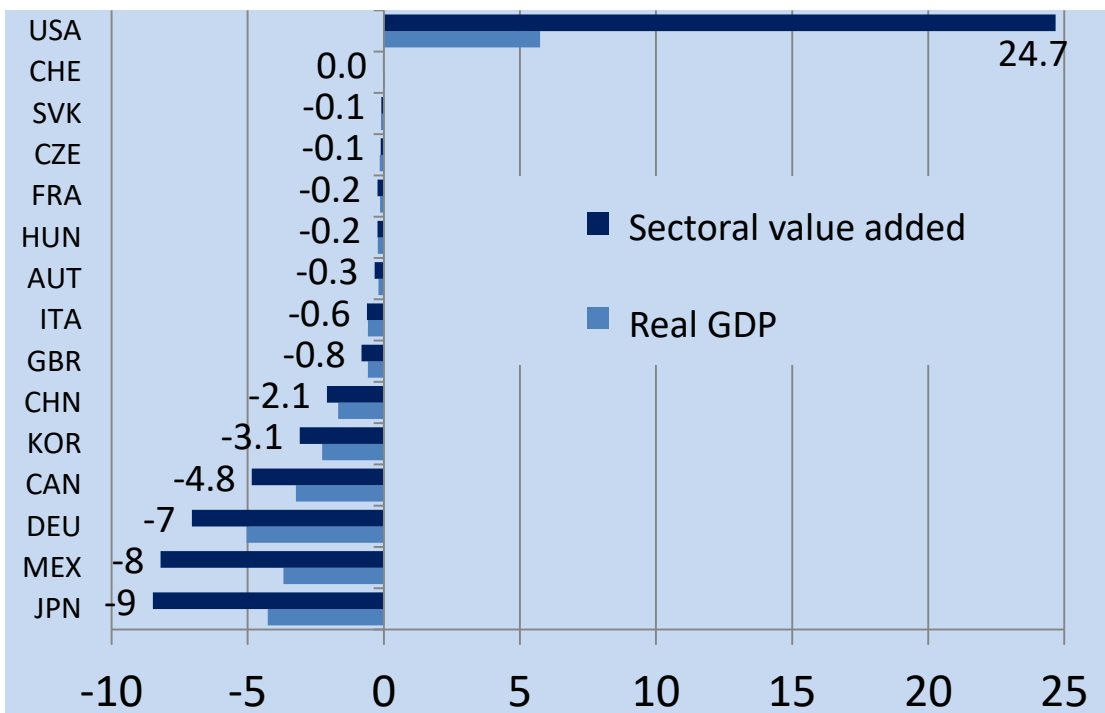


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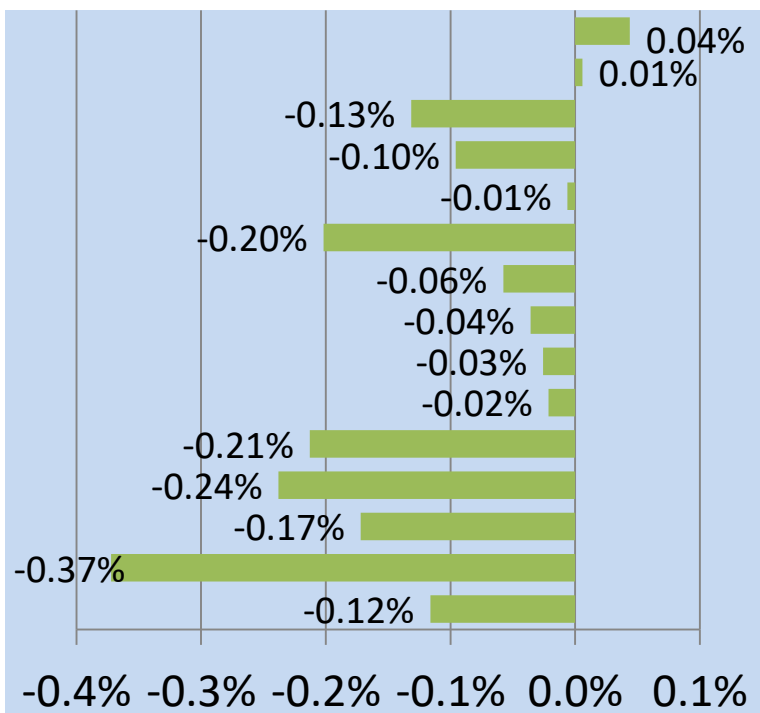


# EFFECTS OF UNILATERAL US AUTOMOTIVE TARIFFS

### Effects on GDP and sectoral value added, € billion

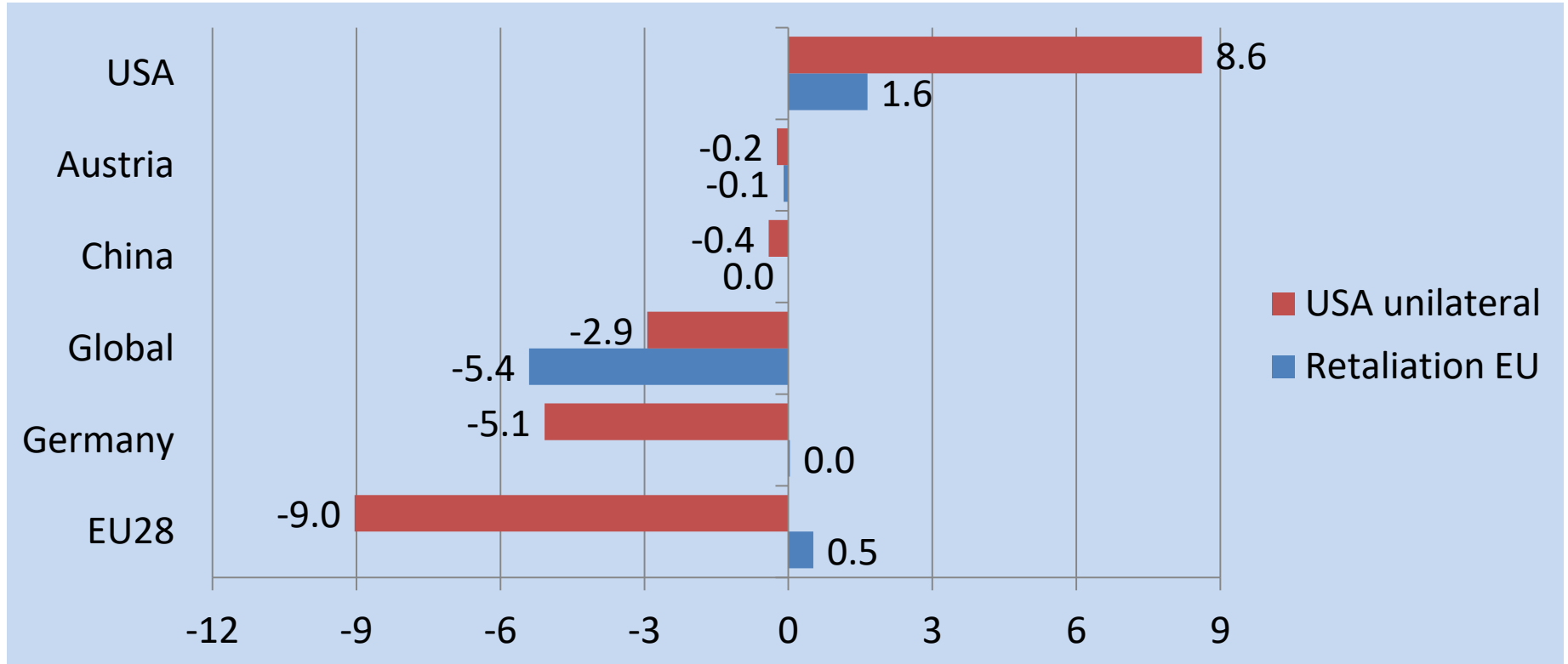


### Effects as a % of GDP



Source: Felbermayr & Steininger, 2018.

# GDP EFFECTS: US DUTIES AND EU COUNTER DUTIES, €bn



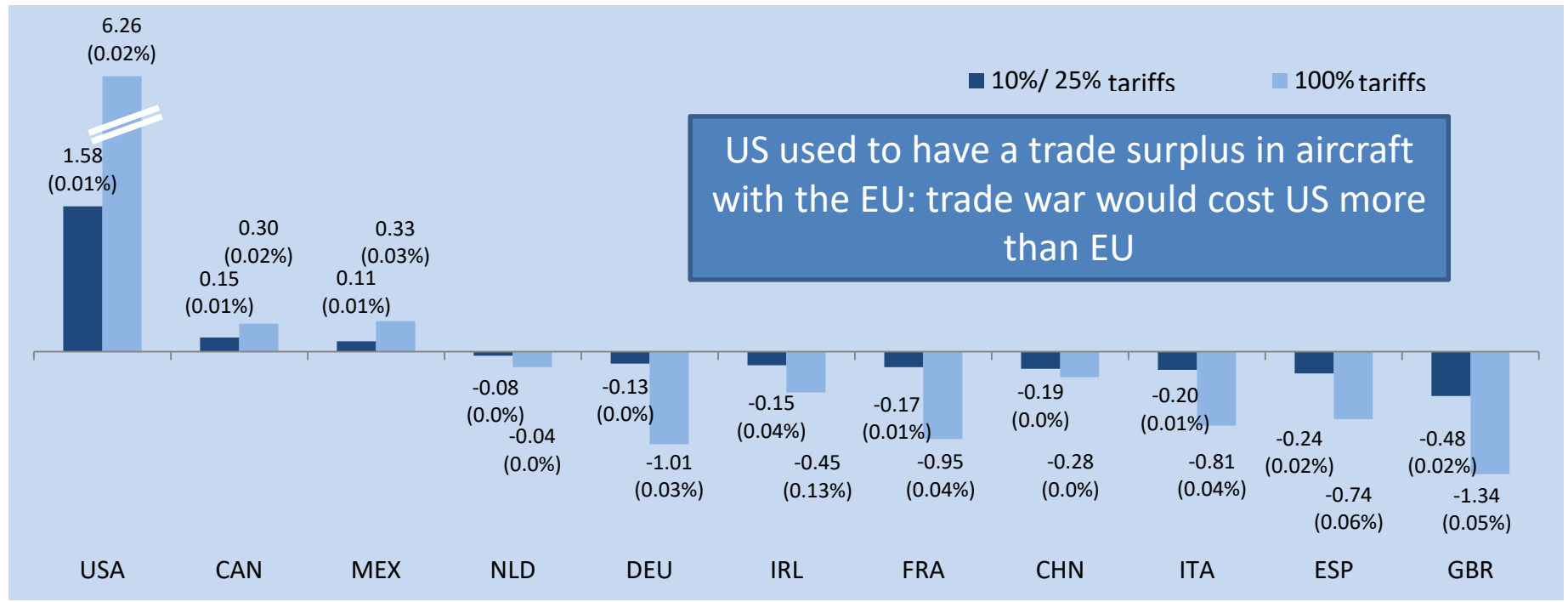


# US COUNTERVAILING DUTIES (GERMANY)

10-25 % rather than WTO-compatible 100% on imports worth 7.5 bn USD from the EU

Product	Exports (Bn. Euro)
Airplanes	1.41
Electromechanical tools	0.13
Self-propelled shovels	0.10
Liqueurs	0.10
Wine (white)	0.08

# US COUNTERVAILING TARIFFS. LONG-RUN GDP EFFECTS



Source: Felbermayr & Stamer, 2019.

**A broad „Trump-Effect“ in transatlantic trade is not yet visible**

**... maybe because damage is more to multilateral than bilateral order**

**=> Case for cooperation still very strong**

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# A MORE FLEXIBLE WORLD TRADE ORDER

## Premises

1. The WTO is in an existential crisis: too heterogeneous, too inflexible
2. Coexistence of economic convergence and political divergence: new systems competition
3. However, the world needs rules for trade

## Learning from the EU experiment

- A core-periphery model for global trade governance
- Core: democratic, liberal market economies. WTO +, driven by EU+US
- Periphery: countries with non-market economies, illiberal autocracies
- Governing principle: full reciprocity in „bound“ concessions



# REFORM AGENDA

1

Surveillance &  
enforcement of  
rules

- **Too many countries do not notify measures** – subsidies, TBT & SPS measures – too late and incompletely
- Few possibilities, to exert pressure and to **penalize** non-complying countries

2

New rules

- WTO-law offers little possibilities to address urgent questions in areas such as **international data traffic**, and is weak in the area of **services**
- Rules on **subsidies** and **state owned enterprises** are too weak

3

Reform of dispute  
settlement  
mechanisms

- Widespread skepticism regarding international „tribunals“: sovereignty and legitimacy concerns
- **Appellate Body** creates law beyond the existing rules
- ... results from (2) and is in conflict with (1)

# Many thanks for your attention

**Gabriel Felbermayr**



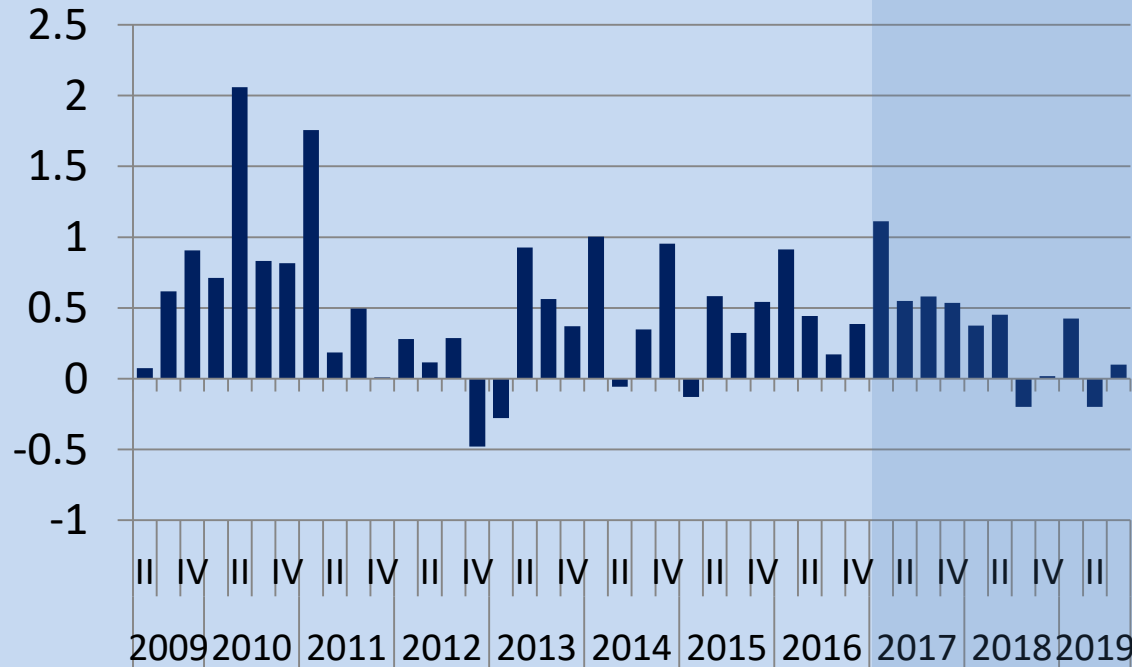
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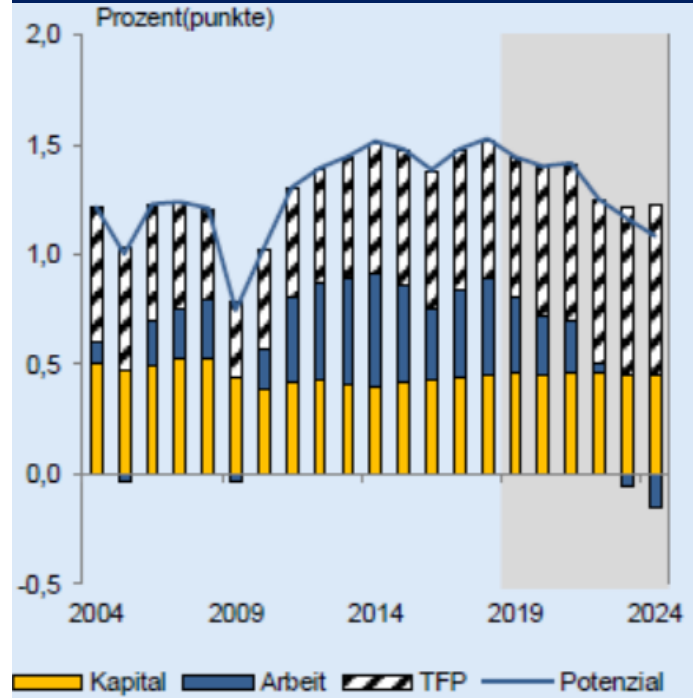
@kielinstitute

# GERMAN GDP GROWTH

Q-to-Q growth, real GDP, in %

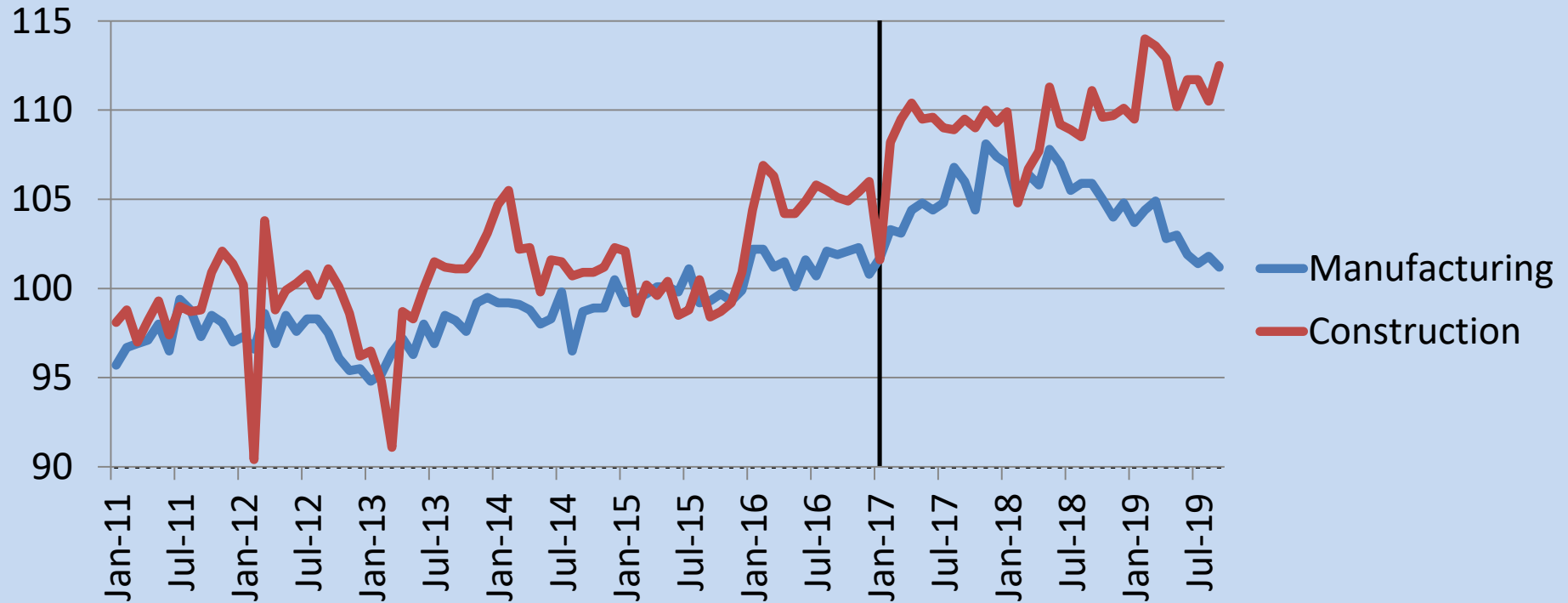


Yearly potential growth, in %

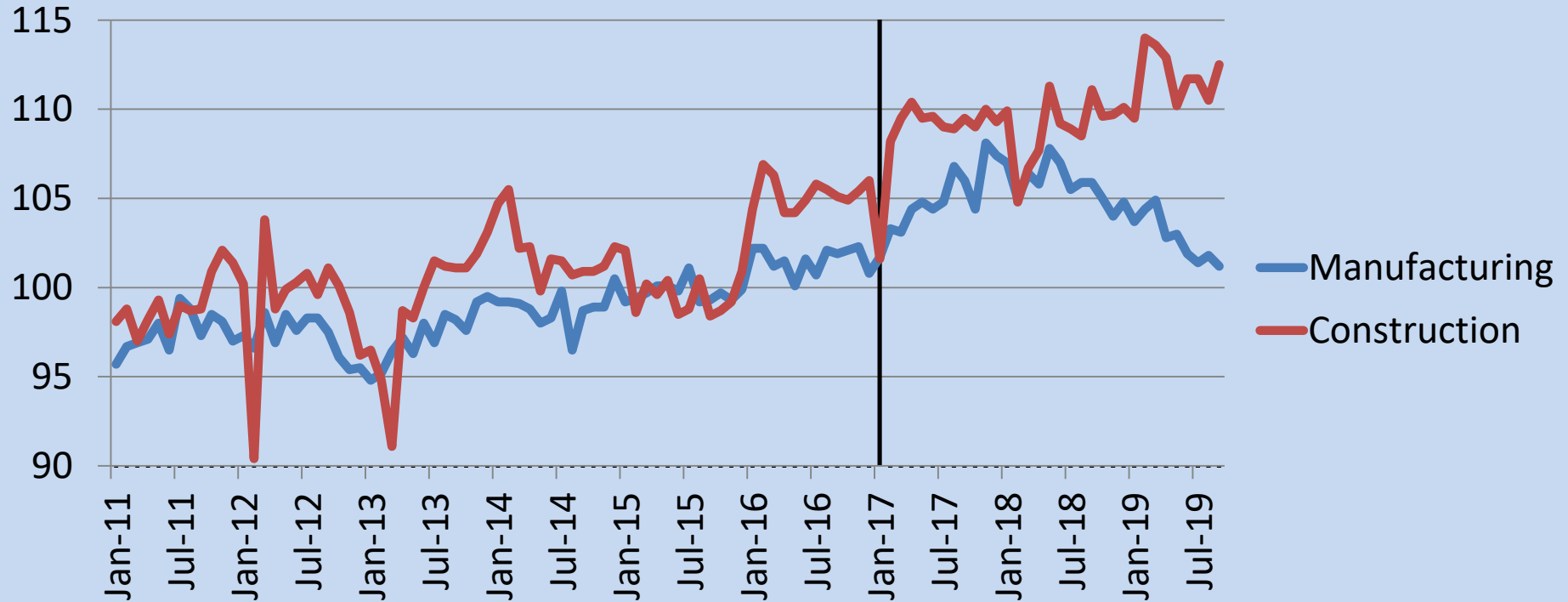


Source: Bundesbank. Mid-month exchange rates.

# GERMAN PRODUCTION DATA: SPLIT ECONOMY

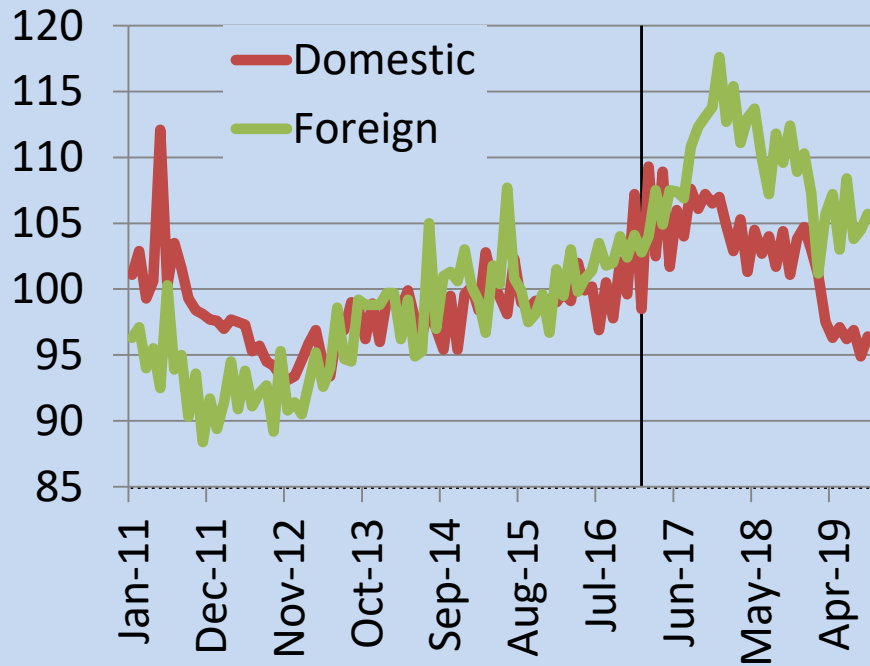


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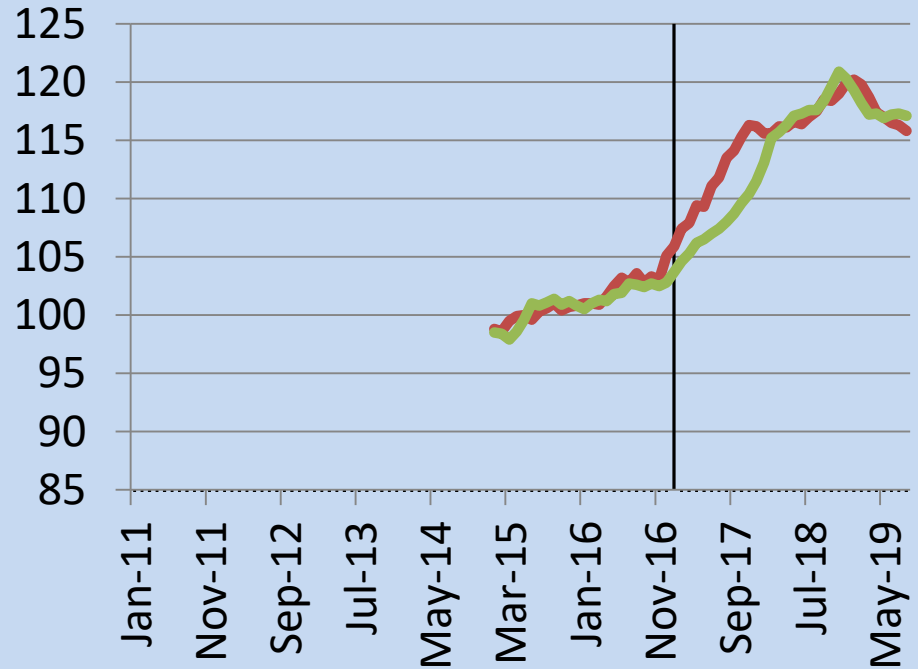


# MANUFACTURING ORDER INDICES

## New Orders

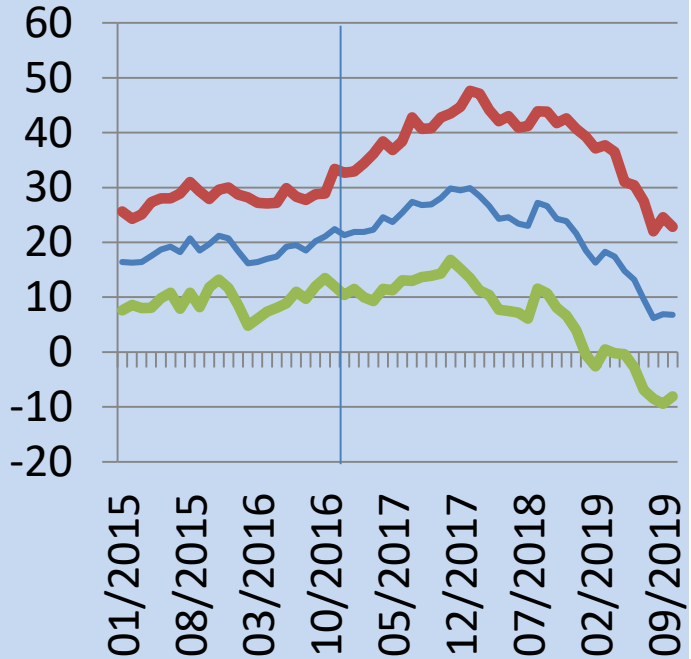


## Order Stock



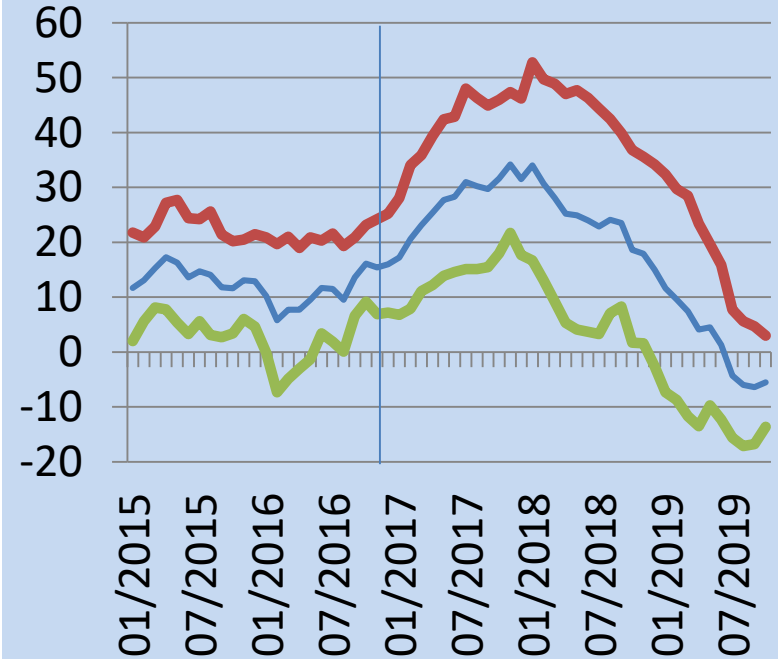
# ifo BUSINESS CLIMATE

Aggregate



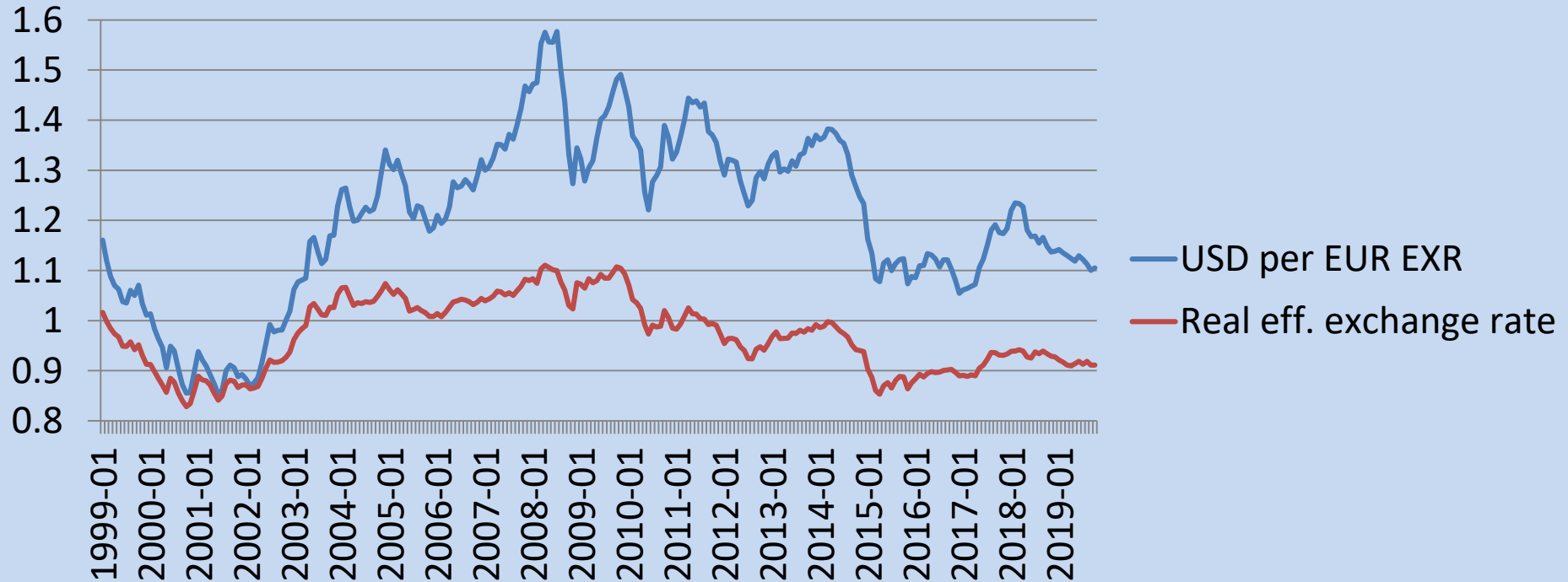
— Business Climate  
 — Business Situation  
 — Business Expectations

Manufacturing



Source: ifo Institute. Own illustration. Seasonally adjusted balances.

# THE ROLE OF THE EXCHANGE RATE





# Many thanks for your attention

**Gabriel Felbermayr**



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