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The Ohio State University

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Global Economic Growth

- World output forecast to grow by 3.4% in 2017
- Emerging/developing market economies (4.6%), and advanced economies (1.8%)
- Pace of growth will vary across advanced economies: picks up in US (2.2%), slower in euro area (1.5%), and weak in Japan (0.6%)
- Resilience in Asia (6.5%), India (7.6%), China (6.2%), and improvement in stressed economies, e.g., Brazil (0.5%), and Russia (1.1%)
Economic Growth Breakdown

GDP Growth (Annualized semiannual % change)

Source: IMF WEO (October 2016)
Downside Risks

- For many advanced economies: *secular stagnation*
- China’s ongoing adjustment: potential for spillovers
- Inward-looking trade policies:
  - BREXIT vote in UK – creating uncertainty
  - Non-ratification of Trans-Pacific Partnership (TPP) and likely failure of Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations
  - US moves toward protectionism
“Secular Stagnation”?  

- Why have many economies not returned to pre-crisis growth rates despite near-zero interest rates?
- Potential long-run growth rate may have fallen – slowdown in growth of productive inputs and technological progress (Gordon, 2014)
- Persistent output gaps - weak private demand (Eggertsson and Summers, 2016)
- Damage to potential output – unemployment has resulted in depreciation of human capital and “loss of talent” (Glaeser, 2014)
Implications of “Secular Stagnation”

- Negative real interest rates may be needed to equate savings and investment with full employment - boost investment and discourages saving

- Harder to achieve full employment with low inflation and zero lower bound on policy interest rates

- If there is deflation, negative real rate of interest is arithmetically impossible

- May be difficult to achieve full employment, satisfactory growth and financial stability through conventional monetary policy
Chinese Economic Adjustment

- China in transition to services/consumption-based economy
- Impact on prices, trade, and profits across many global industries
- Will also affect asset prices, and investor sentiment

China: GDP and Trade Growth (% change, year on year)

Source: IMF WEO (October 2016)
BREXIT – Creating Uncertainty

- UK Treasury (May 2016) focused on near-term impact of UK leaving EU over two-year period
- Evaluated combined effects of *transition* to new trading arrangement, *uncertainty* and feedback from changing *financial conditions*
- Two scenarios: “shock” assuming UK negotiates bilateral agreement with EU, and “severe shock”, assuming default to WTO membership
- Ignores additional downside risks of financial crisis and/or “sudden stop” due to current account deficit
# BREXIT – Creating Uncertainty

## Table 1: Immediate impact of BREXIT on UK after 2 years

<table>
<thead>
<tr>
<th></th>
<th>“Shock”</th>
<th>Severe shock”</th>
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<tbody>
<tr>
<td><strong>GDP</strong></td>
<td>-3.6%</td>
<td>-6.0%</td>
</tr>
<tr>
<td><strong>Inflation rate (% points)</strong></td>
<td>+2.3</td>
<td>+2.7</td>
</tr>
<tr>
<td><strong>Unemployment rate (% points)</strong></td>
<td>+1.6</td>
<td>+2.4</td>
</tr>
<tr>
<td><strong>Sterling exchange rate index</strong></td>
<td>-12%</td>
<td>-15%</td>
</tr>
</tbody>
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Source: UK Treasury (May, 2016)
BREXIT – An Object Lesson?

Table 2: Effect on UK trade/FDI/productivity/GDP after 15 years

<table>
<thead>
<tr>
<th></th>
<th>EEA</th>
<th>Bilateral</th>
<th>WTO</th>
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<tbody>
<tr>
<td>Trade (%)</td>
<td>-9</td>
<td>-19</td>
<td>-24</td>
</tr>
<tr>
<td>FDI (%)</td>
<td>-10</td>
<td>-20</td>
<td>-26</td>
</tr>
<tr>
<td>Productivity (%)</td>
<td>-2.8</td>
<td>-6.0</td>
<td>-7.7</td>
</tr>
<tr>
<td>GDP level (%)</td>
<td>-3.4 to -4.3</td>
<td>-4.6 to -7.8</td>
<td>-5.4 to -9.5</td>
</tr>
</tbody>
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Source: UK Treasury (April, 2016)
BREXIT and UK Agriculture

- Brexit means change in both trade relationship with EU, and nature of UK farm policy
- Due to UK being net importer of agricultural products from EU, average prices expected to increase by 5% (bilateral) and 8% (WTO) (van Berkum et al., 2016)
- Increased trade costs and loss of access to import concessions under TRQs (sugar, dairy products)
- Farm income effects of higher UK prices will likely be offset by reduction in direct payments to farmers
End of Regionalism for US?

- TPP, signed in October 2015 covering US and 11 other countries, will not be ratified by Congress

- Forgoing expected $130 billion increase in US GDP by 2030 (Petri and Plummer, 2016)

- TTIP negotiations between US and EU will likely not be concluded

- TTIP estimated to increase GDP/capita in long run by 4.9% in US, and average of 3.9% across EU member countries (Felbermayr et al., 2015)
US Agriculture: TPP and TTIP

- By 2025 TPP was expected to increase US agricultural exports by $2.8 billion – a 33% increase in export market share (USDA/ERS, 2014)

- US agriculture would have gained market access to countries where it has no FTA, notably Japan

- EU has higher average agricultural import tariffs against US (12.9%) compared to the reverse (6.4%)

- TTIP forecast to generate higher agricultural export growth than TPP – 159% for US compared to 56% for the EU (Disdier et al., 2015)
Wider Consequences of No TPP

- TPP had potential to impact future of Asia-Pacific trading system - template for regional integration
- Provided model for consolidating existing FTAs – i.e., way out of Asia-Pacific noodle bowl
- “....an American failure to ratify TPP would bring about the very thing critics of trade deals complain about: a more empowered China and bad terms for US goods and services...” (Singapore Prime Minister)
- Happening when growth in global trade slower than GDP growth for first time in 15 years (IMF, 2016)
Does Trade Affect Jobs?

- *Number* of jobs a macroeconomic phenomenon, dependent on actions of Federal Reserve, i.e., trade affects composition *not* overall number

- Consensus that technological change *not* trade primary driver of recent US labor market changes

- However, China’s accession to WTO contributed to surge in US imports, negatively affecting US manufacturing employment and wages

- 1999-2011: US manufacturing employment declined by 5.8 million, ≈10% due to Chinese import penetration (Acemoglu *et al.*, 2016)
Possible Trade War?

- Incoming administration *could*:
  - Place 35% tariff on Mexican imports
  - Place 45% tariff on Chinese imports
  - Renegotiate free trade agreements (FTAs)
  - Withdraw from WTO

- US statutes might allow higher import tariffs – Trade Expansion Act (1962) and Trade Act (1974)

- US can withdraw from NAFTA after 6 months notice – tariffs would revert to MFN rates
Potential Effects of Trade War

Noland *et al.* (2016) simulate two scenarios:

- **“full trade war”** – US employment falls by 4.8 million by 2019 due to recession, many states incurring reduced employment, e.g., Ohio 4%
- **“aborted trade war”** – employment falls by 1.3 million, tariffs being removed after a year

Estimates ignore: (i) role of global supply chains, (ii) renegotiation of FTAs/withdrawal from WTO, and (iii) impact of uncertainty on investment