

TRADE TENSIONS IN LAC: MODELING OUTCOMES

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Trade tensions between the major world economies increased in 2018, and US tariff increases triggered reprisals and counter-reprisals. In Latin America and the Caribbean (LAC), trade tensions between the US and China and other US trade partners are expected to generate a mix of opportunities and threats for exporters of food products.

To better understand the likely impacts of global trade tensions for LAC, we modeled a set of four scenarios using the MIRAGRODEP model¹. We looked at impacts on exports, imports, production, GDP, household consumption, and adjustment costs through changes in labor markets up to 2030.

Impacts will differ across the region's highly heterogeneous countries, but some broad trends are evident.

In the short-term...

LAC countries enjoy an advantage as the trade war allows them to replace either US or Chinese exports on their reciprocal markets.

- **The ripple effect from the escalation of tariffs and reduction of US food exports to China could open new export opportunities.**

In the long-term...

A prolonged period of moderate trade expansion would slow increases in productivity and longer-term growth prospects, reflecting (1) investment decisions that could increase global distortions and (2) a risk of increased competition (and potential dumping) as US exporters displace producers within LAC and commodity prices drop.

- **An economic slowdown in China and/or the United States could reduce demand for commodities.**

What should be the region's strategy?

The impact in Latin America of the US-China trade dispute and the resulting reordering of the world economy forces us to think about new strategies. While the level of intra-LAC heterogeneity could be a major challenge to defining a collective action agenda, it could also be a great asset. Our modeling exercise shows that a LAC mitigation strategy focused on intraregional trade could help the region avoid the negative impacts of current trade tensions.

For more details of this study, see D. Laborde and V. Piñeiro, "Trade Tensions: Implications for Latin America and the Caribbean," IICA and IFPRI, 2019.

¹ MIRAGRODEP is a Computable General Equilibrium (CGE) model based on the MIRAGE (Modeling International Relationships under Applied General Equilibrium) model. For this study, the main source of data is the GTAP 10 version with 28 sectors and 33 regions (23 individual countries or subregions in LAC).

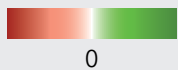
IMPACTS OF GLOBAL TRADE TENSIONS: FOUR SCENARIOS

1 US vs. China: Status quo

Tariffs proposed and/or implemented by the US and Chinese governments up to December 2018, including agricultural and non-agricultural products.

LAC benefits from new opportunities.

+2.1% agro-food exports

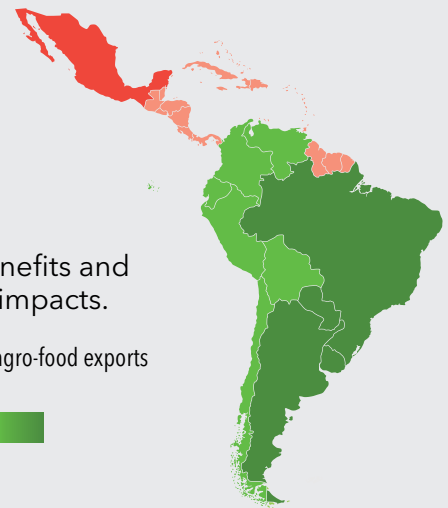
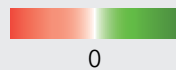


2 Extended US trade tensions

Proposed and implemented tariffs plus all retaliatory measures announced by the US and China, US steel and aluminum tariffs, and the retaliatory measures from Canada, the European Union, India, Mexico and Turkey.

Mix of benefits and negative impacts.

+2.0% agro-food exports

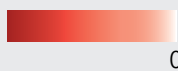


3 Escalating trade wars

Escalation to full-blown trade wars.

LAC sees contraction slightly smaller than global average.

-16% agro-food exports



4 Intra-LAC integration

Status quo trade tensions plus a LAC mitigation strategy that reduces transportation costs and increases intraregional integration.

LAC reduces impact of trade tensions.

+5% agro-food exports



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