2. International Economic Developments

Global growth data for the first quarter point to simultaneous expansion ongoing both in advanced and emerging economies. The upward revision in growth forecasts for both advanced and emerging economies indicates that the global economic activity continues to grow steadily. On the other hand, geopolitical tensions and the heightening protectionism discourses in international trade still pose downside risks to global growth prospects. In fact, the US announcement in March of an additional customs tariff on imported iron-steel and aluminum shows that protectionist foreign trade may continue to occupy the global agenda (Box 2.1). The recently passed US tax reform is poised to provide a growth boost to the US and its trading partners, which is considered as a factor to push the global growth upwards.

Despite the favorable global growth outlook, global inflation rates remain subdued. The course of oil prices coupled with the possibility of an acceleration in wages in line with sinking unemployment rates in advanced economies are among the major risk factors to push global inflation up. With the Fed and ECB in the lead, major central banks have taken further steps towards monetary policy normalization as expected. Accordingly, the Fed delivered the first rate hike of 2018 in March, and the FOMC members maintained the expectation for two more rate hikes in the remainder of the year. Meanwhile, at its March meeting, the ECB tightened its forward guidance and dropped its pledge to increase asset purchases if needed. In line with this development, the baseline scenario on which the market pricing is based is the termination of asset purchases by the ECB in September and delivery of the first rate hike in the last quarter of 2019.

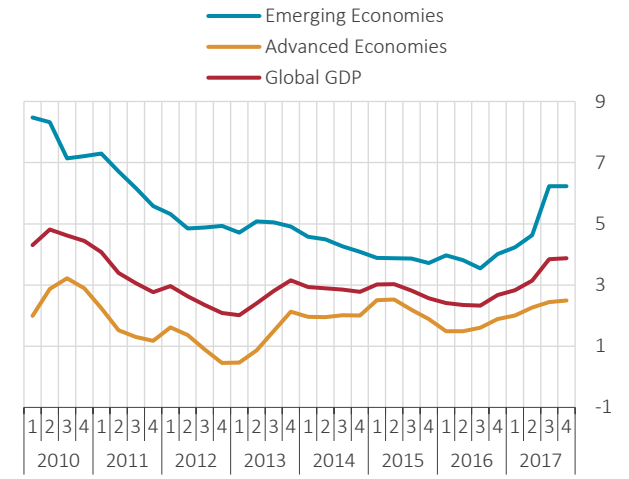
Even though advanced economies continue to tighten their monetary policy as expected, the possible acceleration in inflation still constitutes an upside risk. In fact, following the release of earnings data in early February, global financial markets were exposed to heightened volatility amid concerns for the possibility of accelerated inflation in the US, which will result in a tighter-than-projected monetary policy by the Fed. However, in the ensuing period, wage increases were predominantly viewed as not spurring inflation. Assuming the absence of a notable upside surprise to global inflation from the mentioned risk factors, it is considered that major central banks will continue to normalize their monetary policy as expected, and the impacts thereof will remain limited on financial markets.

Global economic policies for the upcoming period still remain blurred. Furthermore, increased protectionism and aggravated geopolitical risks put a cap on the global growth potential. Against this background, the use of effective and coordinated macroeconomic policies alongside the implementation of structural reforms and concerted trade policies are crucial to alleviate fragilities.

2.1 Global Growth

Having displayed a favorable outlook in the first nine months of 2017, global economic growth remained brisk in the last quarter, and growth performances of both advanced and emerging economies remained unchanged from the previous quarter (Chart 2.1.1). In this period, the US, the Euro area and Japan contributed positively to global growth, whereas the UK saw a decelerated growth rate. On the emerging economies front, economic growth gained considerable momentum on a quarterly basis in Brazil and India. Growth rates of emerging economies across regions indicate that the highest growth performance in the last quarter of 2017 was seen in Asia, while Latin America performed better than the previous quarter. On the other hand, Turkey registered a jump in this period, while Eastern Europe recorded a quarter-on-quarter slowdown (Chart 2.1.2).

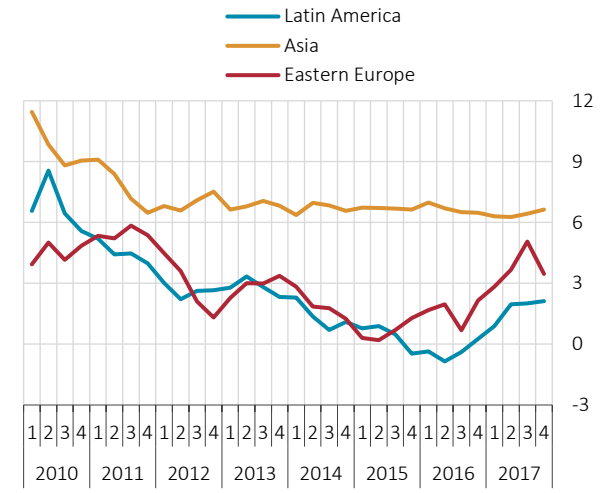
Chart 2.1.1: Global Growth Rates* (Y-o-Y % Change)



Source: Bloomberg, CBRT.

* Weighted by each country's share in global GDP.

Chart 2.1.2: Regional Growth Rates* (Y-o-Y % Change)

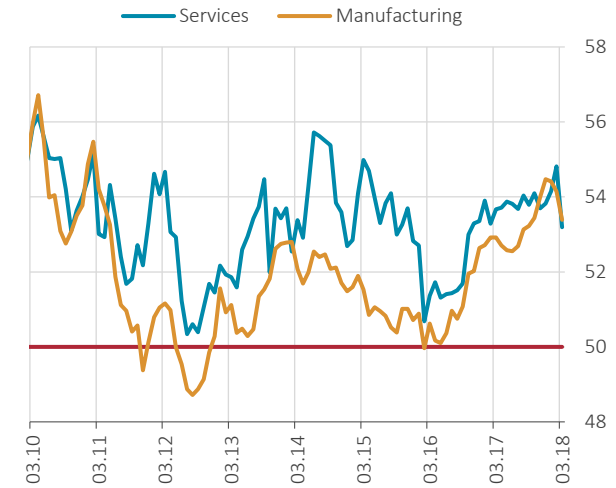


Source: Bloomberg, CBRT.

* Weighted by each country's share in regional GDP.

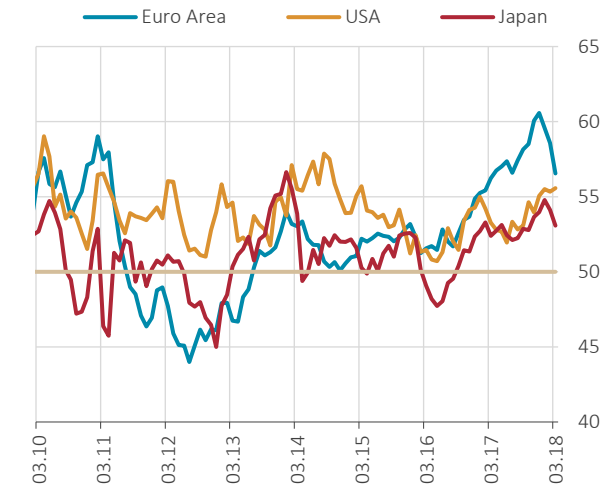
PMI data for the first quarter of 2018 exhibits a similar growth performance to the previous quarter (Chart 2.1.3). Manufacturing industry PMI in the US and Japan trended upwards in this period (Chart 2.1.4). This leads to expectations that favorable growth prospects in both economies will continue in the first quarter of 2018 and growth rates may gain momentum on a quarterly basis. In this period, manufacturing industry PMI indicator for the Euro area inched down quarter-on-quarter. However, the ongoing fall in unemployment rates in January and February coupled with increased industrial production in the mentioned months show that the Euro area continues to exhibit a favorable growth performance in the first quarter. In sum, it is estimated that advanced economies will grow further in the first quarter and register a higher growth rate than the previous quarter.

Chart 2.1.3: Global PMI



Source: IHS Markit.

Chart 2.1.4: Manufacturing PMI in Advanced Economies

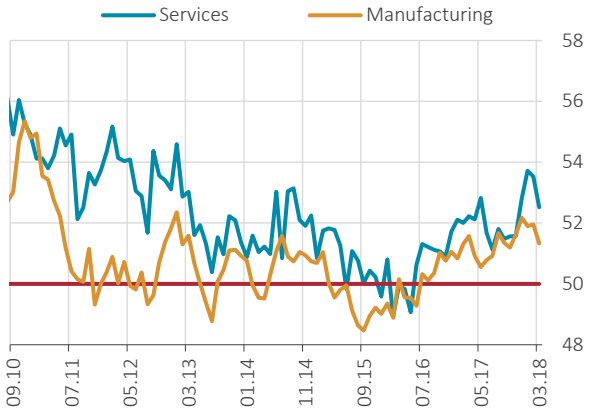


Source: IHS Markit.

In the first quarter of 2018, PMI data for emerging economies remained unchanged on a quarterly basis in the manufacturing industry, but recorded an uptick in the services sector (Chart 2.1.5). In fact, in the January-February 2018 period, the annual growth rate in industrial production across emerging economies has not registered a noticeable change since the previous quarter. The strong and steady capital inflows to emerging economies of the previous year continued into the first quarter of 2018. Thus,

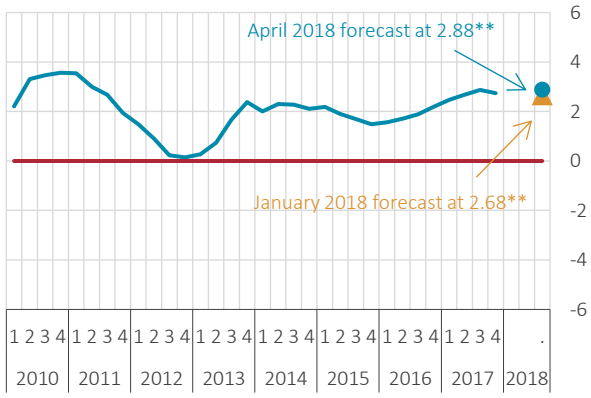
it is likely that growth prospects for emerging economies will remain positive in the first quarter, but the growth rate in Eastern Europe will lose some pace.

Chart 2.1.5: Emerging Markets PMI



Source: IHS Markit.

Chart 2.1.6: Export-Weighted Global Production Index*
(Annual Average % Change)



Source: Bloomberg, CBRT.
* Weighted by each country's share in Turkey's exports.
** Average growth forecast for 2018.

In sum, it is estimated that the global economy will continue to grow in the first quarter and global growth rate will accelerate compared to the previous quarter. The increase in the year-end global growth forecast for 2018 obtained from April Consensus Forecasts bulletins and the upward revision in growth forecasts for the US, the Euro area and the UK confirm this expectation (Table 2.1.1). Accordingly, the annual global growth rate measured by the export-weighted global production index, which was revised by the April growth forecast, recorded an increase compared to the January Inflation Report (Chart 2.1.6). Therefore, the upbeat global growth performance is projected to bolster Turkey's external demand further in the period ahead.

Table 2.1.1: Growth Forecasts for end-2018 and end-2019 (Annual Average % Change)

	January		April	
	2018	2019	2018	2019
Global	3.2	3.1	3.3	3.2
Advanced Economies				
USA	2.7	2.4	2.8	2.6
Euro Area	2.2	1.8	2.4	1.9
Germany	2.3	1.8	2.4	1.9
France	1.9	1.7	2.1	1.8
Italy	1.4	1.1	1.4	1.2
Spain	2.5	2.2	2.7	2.3
Japan	1.4	1.1	1.4	1.1
UK	1.4	1.5	1.5	1.5
Emerging Economies				
Asia Pacific	5.8	5.6	5.8	5.7
China	6.5	6.3	6.6	6.4
India	7.4	7.6	7.4	7.6
Latin America	2.6	2.9	2.6	2.9
Brazil	2.6	2.8	2.7	3.0
Eastern Europe	3.1	2.9	3.2	2.9
Russia	1.9	1.8	2.0	1.9

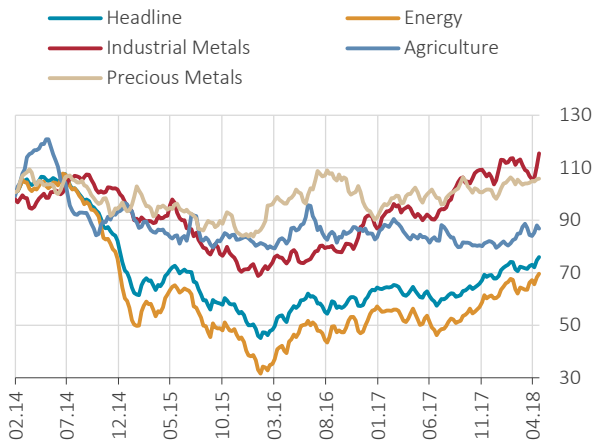
Source: Consensus Forecasts.

2.2 Commodity Prices and Global Inflation

Having maintained an upward course in 2017, the headline commodity index registered a quarterly increase by 7.3 percent in the first quarter of 2018. In this period, all subcategories recorded an uptick. Accordingly, energy, industrial metal, agricultural and precious metal prices rose by 9.8, 2.9, 3.9 and 3.7 percent, respectively (Chart 2.2.1).

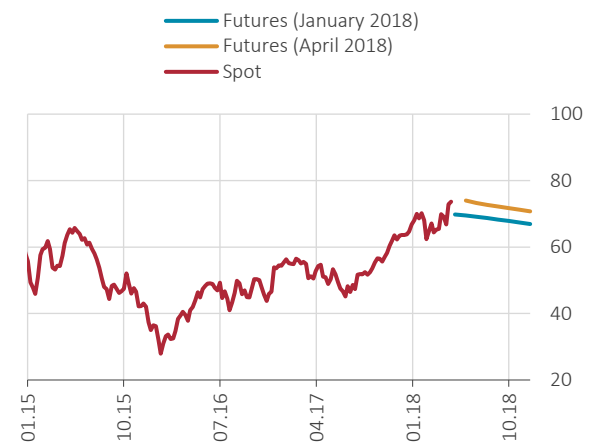
In the first quarter of 2018, the steady course of global economic growth contributed to the uptrend in commodity prices. In addition, China's cutback on steel and aluminum production in line with its environmental policies also pulled up prices further. As of early 2018, the projection of a stronger-than-expected normalization by major central banks caused the uptrend in gold prices of the previous quarter to flatten. Moreover, favorable global growth prospects and the balancing of demand and supply in the crude oil market pushed energy prices further upwards. Although the US increased its shale oil production, the OPEC members stuck with their supply cut, which contributed to the balancing of demand and supply. The global financial market turmoil in early February drove the volatility in crude oil prices temporarily upwards.

Chart 2.2.1: S&P Goldman Sachs Commodity Index (January 2014=100)



Source: Bloomberg.

Chart 2.2.2: Brent Crude Oil Prices* (USD/bbl)



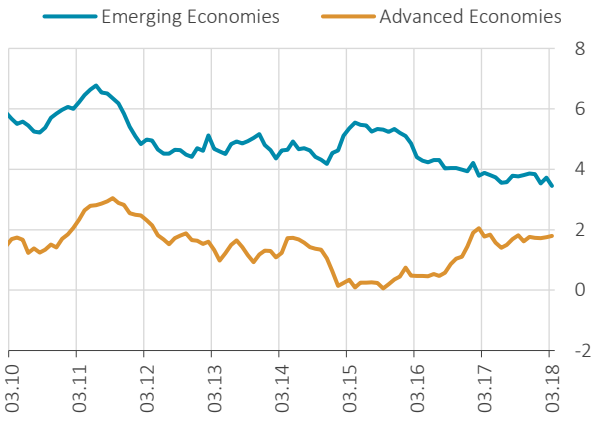
Source: Bloomberg.

* Futures (January 2018) and Futures (April 2018) denote the arithmetic average of the prices quoted at futures contracts during 1-26 January 2018 and 1-25 April 2018, respectively.

In the upcoming period, geopolitical turmoil in the Middle East accompanied by increased protectionism in global trade stand out as the leading upside risk factors for commodity prices. The recent moderation in the US shale oil production and the shifting of the crude oil market to a more balanced plateau are also considered as additional upside risk factors on crude oil prices. Accordingly, as signaled by the Brent crude oil futures contracts, crude oil prices are expected to be trading around 70 USD at end-2018 (Chart 2.2.2).

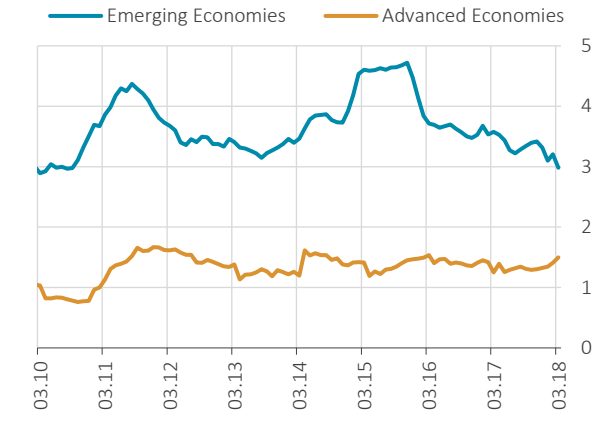
The headline inflation rate has increased slightly in advanced economies, but decreased in emerging economies since the previous reporting period (Chart 2.2.3). Core inflation rates displayed a rise in advanced economies in contrast to a fall in emerging economies (Chart 2.2.4). Inflation forecasts for 2018 indicate that advanced economies saw an overall upward revision in the inter-reporting period (Table 2.2.1).

Chart 2.2.3: CPI Inflation in Advanced and Emerging Economies (Y-o-Y % Change)



Source: Bloomberg, CBRT.

Chart 2.2.4: Core Inflation in Advanced and Emerging Economies (Y-o-Y % Change)



Source: Bloomberg, Datastream, CBRT.

Across advanced economies, the release of earnings data in the US in early February created concerns over a possible heightening in inflation amid favorable prospects in the labor market, which yielded lower unemployment rates than the pre-crisis levels. However, in the subsequent period, wage increases were predominantly viewed to be not inflationary. Moreover, low productivity rates in the US are believed to restrict wage increases. Meanwhile, survey and market-based inflation expectations that hover around the 2-percent inflation target suggest a low and stable outlook for inflation in the US. Inflation forecasts based on futures oil prices for the Euro area indicate that consumer inflation is expected to stay under 2 percent in the 2018-2020 period. In the medium-term, the ECB's monetary policy steps, declining idle capacity and accelerated wage increases are believed to give a modest push to inflation in the Euro area. In Japan, both the headline and core inflation rates are below 2 percent, and inflation expectations do not display any change. On the other hand, the depreciation of the pound sterling led by the opaque future of UK-EU relations drove import prices up, bringing consumer inflation above the 2-percent target in the UK. Consumer and core inflation rates have declined in the UK, yet remained above 2 percent in the last couple of months.

Upside risks to global inflation remain over the upcoming period. Possible depreciations in emerging market currencies due to mounting expectations for a faster-than-projected policy normalization by the Fed and the ECB besides possible hikes in commodity prices, particularly oil, amid stronger economic activity and geopolitical tensions may push global inflation up. Also, inflation in advanced economies is likely to be adversely impacted in the case that the US-China trade restrictions start and have spillovers into other countries.

Table 2.2.1: Inflation Forecasts for end-2018 and end-2019 (Annual Average % Change)

	January		April	
	2018	2019	2018	2019
Advanced Economies				
USA	2.1	2.1	2.5	2.1
Euro Area	1.4	1.6	1.5	1.5
Germany	1.7	1.8	1.7	1.8
France	1.3	1.5	1.5	1.5
Italy	1.1	1.4	1.2	1.3
Spain	1.5	1.6	1.4	1.5
Greece*	0.9	1.2	0.7	1.2
UK	2.6	2.2	2.6	2.2
Japan	0.9	1.1	1.0	1.0
Emerging Economies				
Asia Pasific	2.5	2.5	2.5	2.6
China	2.2	2.2	2.3	2.3
India**	4.7	4.7	4.8	4.8
Latin America	51.0	14.8	338.6	36.1
Latin America (excl. Venezuela)	5.7	5.1	5.9	5.2
Brazil*	4.1	4.2	3.5	4.1
Eastern Europe	5.1	4.7	5.0	4.8
Russia*	4.1	4.1	3.7	4.0

Source: Consensus Forecasts.
* Annual % change.
** Based on fiscal year.

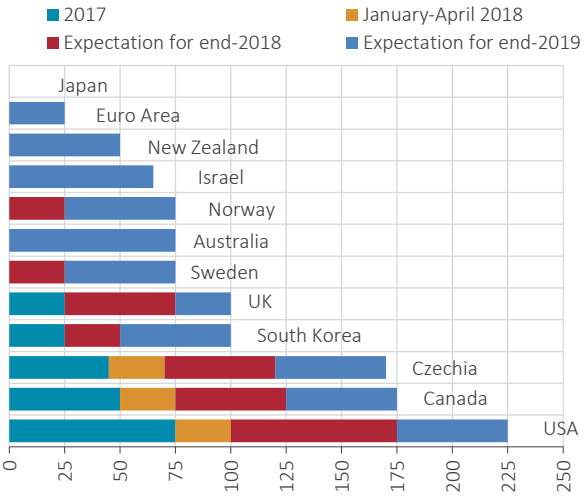
2.3 Global Monetary Policy

Monetary tightening in advanced economies remained consistent with expectations, and the Fed's March meeting resulted in the first rate hike of 2018. Prior to the meeting, financial markets focused on the policy rate expectations of the FOMC members. Accordingly, expectations of three rate hikes for 2018 were kept intact, whereas the median expectation of two rate hikes for 2019 was revised to three. Expectations obtained from the Bloomberg survey, on the other hand, suggest that median expectations increased to four rate hikes for 2018, but receded from three to two hikes for 2019 (Chart 2.3.1). In other words, survey data show that the projected six increases for 2018 and 2019 are kept intact but the policy rate expectations are revised to four times in 2018 and to two times in 2019 from three times in each year. Possible hikes implied by futures prices suggest that the expectations for three rate hikes are priced fully by financial markets, while four rate hikes have not been priced completely. Accordingly, in the period ahead, financial markets are likely to be affected, albeit to a limited extent, in case of a stronger signal for four rate hikes in 2018. Expectations for a slightly tightened Fed policy, especially in the medium term, are mainly driven by high levels in both the headline and the core inflation, which went above targets.

In the March meeting, the ECB tightened its forward guidance and dropped its pledge to increase asset purchases if needed. On the other hand, the ECB kept certain statements intact. In particular, the ECB reiterated that even if the asset purchasing program is abandoned in the period ahead, rates are not expected to rise for a long time and the balance sheet size will be maintained. Accordingly, the ECB is expected to terminate its asset purchasing program in September and deliver the first rate hike in the last quarter of 2019, which is considered as the baseline scenario, whereas an additional tightening beyond this may have an impact on financial markets.

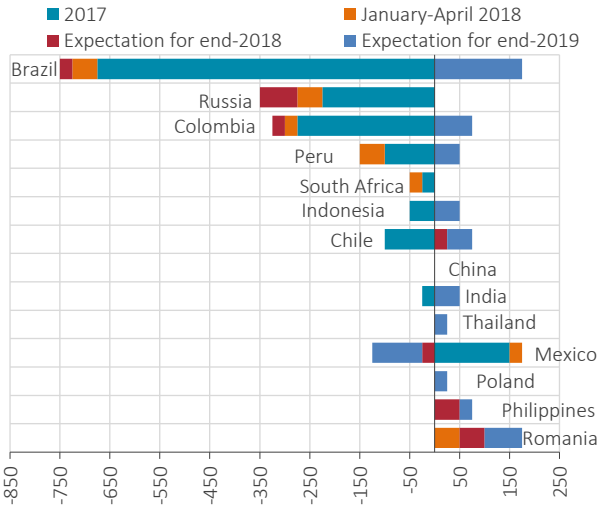
Median expectations for the Bank of England is two policy rate hikes in 2018 and one policy rate hike in 2019 (Chart 2.3.1). Financial markets have completely priced one rate hike for this year, and any tightening beyond this may have implications particularly on cross exchange rates. Meanwhile, monetary policies of other advanced economies remained tight as expected, and the Bank of Canada and the Czech National Bank opted for rate hikes from January to April by 25 basis points (Chart 2.3.1).

Chart 2.3.1: Policy Rate Changes and Year-end Policy Rate Expectations in Advanced Economies* (Basis Point)



Source: Bloomberg.
* As of 26 April 2018.

Chart 2.3.2: Policy Rate Changes and Year-end Policy Rate Expectations in Emerging Economies* (Basis Point)



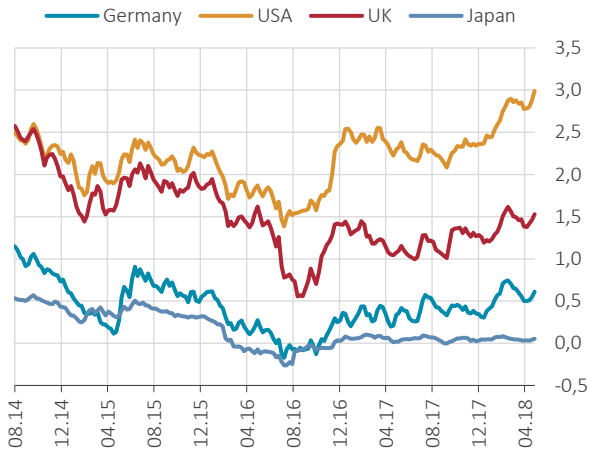
Source: Bloomberg.
* As of 26 April 2018.

Persisting heterogeneity in the monetary policies of emerging economies notwithstanding, policy changes in 2019 are presumed to be tightening. From January to April, central banks of Brazil, Russia, Colombia, Peru and South Africa opted for monetary easing. Central banks of Mexico and Romania, on the other hand, delivered monetary tightening in this period (Chart 2.3.2).

2.4 Global Risk Indicators and Portfolio Flows

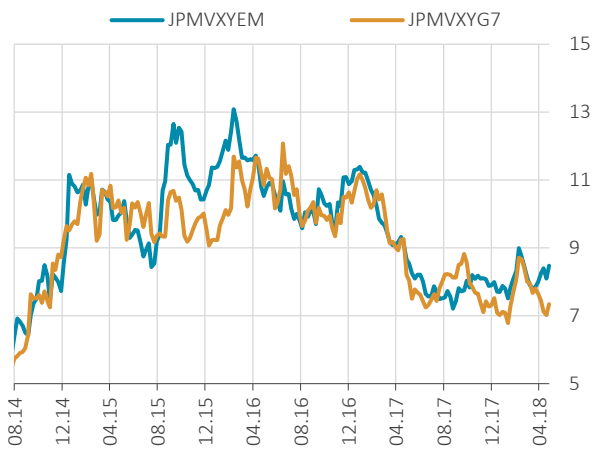
In the first two months of 2018, bond yields increased further amid strong prospects for the Fed's rate hikes despite the increased volatility in global stock markets, particularly the US. However, concerns over the possible adverse spillovers of rising protectionist discourse on global growth, inflation and capital flows have caused some deceleration in yields since early March (Chart 2.4.1).

Chart 2.4.1: 10-Year Bond Yields (%)



Source: Bloomberg.

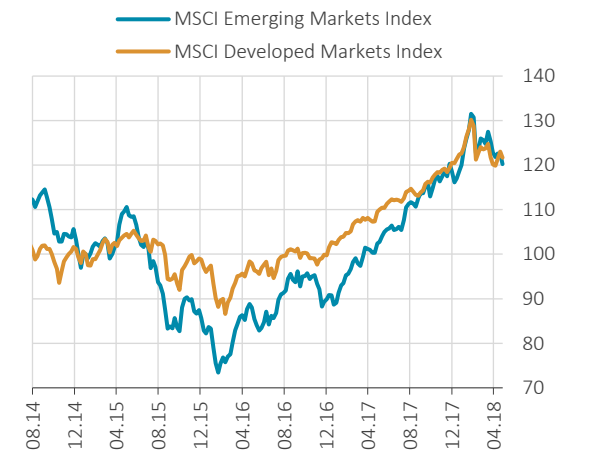
Chart 2.4.2: JP Morgan FX Volatility Indices (Weekly)



Source: Bloomberg.

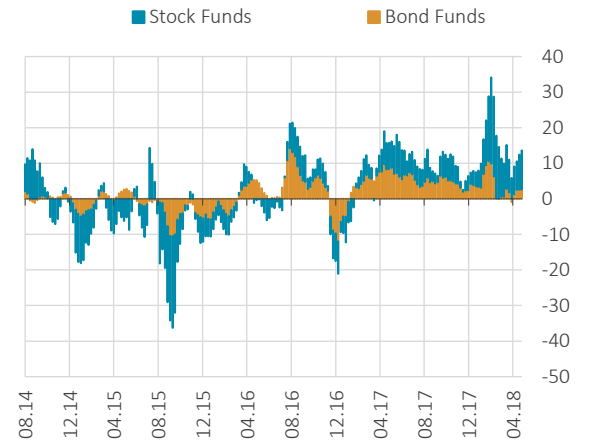
The gloomy risk sentiment across global financial markets heightened exchange rate volatility in both advanced and emerging economies, yet recently, this has been partly alleviated amid the expected slowdown in the US dollar appreciation owing to the protectionist measures (Chart 2.4.2). Moreover, stock markets of both advanced and emerging economies, which saw all-time highs in January, have been witnessing outflows since February due to the deteriorated risk sentiment (Chart 2.4.3).

Chart 2.4.3: MSCI Indices (January 2015=100)



Source: Bloomberg.

Chart 2.4.4: Portfolio Flows to Emerging Economies (4-Week Cumulative, Billion USD)



Source: EPFR.

The brisk and steady course of portfolio inflows to emerging economies in 2017 proved stronger in January 2018. However, due to the turmoil in global financial markets in early February, portfolio inflows

towards emerging economies saw a short interruption. Inflows subsequently resumed thanks to the sustained favorable macroeconomic prospects for emerging economies coupled with the temporary and limited negativity in global financial markets (Chart 2.4.4). Although the medium-term course of monetary policies of major central banks was tighter than projected, the impact thereof remained limited on portfolio inflows to emerging economies in the first quarter of 2018. This is attributed mostly to the stronger macroeconomic fundamentals in emerging economies compared to the taper period.

Table 2.4.1: Composition and Regional Distribution of Fund Flows to Emerging Economies
(Quarterly, Billion USD)

		Total	Portfolio Composition		Regional Composition			
			Bond Funds	Stock Funds	Asia	Europe	Latin America	Middle East and Africa
2015	Q1	-8.6	1.9	-10.5	-8.1	2.2	-2.4	-0.2
	Q2	-8.0	1.4	-9.4	-6.9	0.4	-2.0	0.4
	Q3	-45.3	-16.5	-28.8	-23.8	-6.5	-10.8	-4.1
	Q4	-22.3	-12.7	-9.6	-11.1	-3.0	-6.4	-1.9
2016	Q1	-4.5	-1.2	-1.6	-2.5	-1.4	-0.3	-0.3
	Q2	-1.4	7.3	-8.7	-4.5	0.7	1.9	0.6
	Q3	42.4	26.1	16.3	17.9	7.5	12.4	4.7
	Q4	-17.4	-9.3	-8.1	-12.6	-0.8	-2.7	-1.3
2017	Q1	32.7	19.9	12.8	8.2	7.7	12.4	4.3
	Q2	52.6	24.4	28.2	25.2	7.6	14.5	5.4
	Q3	37.1	17.3	19.8	19.4	4.9	9.2	3.5
	Q4	29.5	11.8	17.6	14.8	3.7	8.3	2.7
2018	Q1	57.9	12.0	46.0	34.1	6.5	12.0	5.3

Source: EPFR.

On a regional basis, all emerging economies received steady portfolio inflows in the last quarter (Table 2.4.1). In 2018, portfolio flows were mostly concentrated in Asia as in 2017. On the other hand, both India and China witnessed some deceleration in portfolio inflows with outflows from the Chinese bond market. Portfolio inflows in Asia were mostly destined for the stock market, while those in Latin American countries continued to be attracted to bonds.

Box 2.1

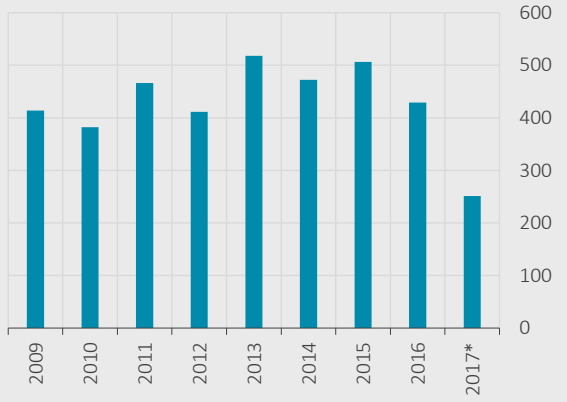
Protectionism in International Trade

Following the global crisis of 2007-2009, international trade has been subject to a higher number of barriers, and protectionist economic policies have increasingly occupied the agenda of many countries, particularly the US, in the past couple of years. Lastly, in March, the US introduced customs duty on imported steel and aluminum. Moreover, China and the EU announced that they would respond likewise, which gave rise to the perceptions of growing protectionist trade policies in the global economy as well as worries over sparks of a trade war. This box analyzes the trade barriers enforced in the aftermath of the global economic crisis, and accordingly, evaluates the possibility of an outbreak of a trade war triggered by recent developments. Moreover, the box also briefly discusses the effects of a possible trade war on growth alongside the spillovers into emerging economies.

Post-Crisis Trade Policies

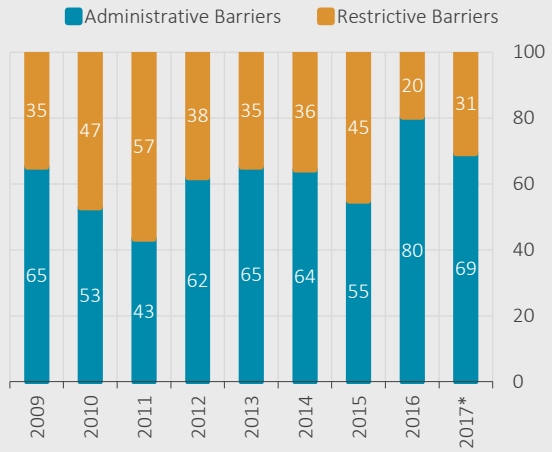
The World Trade Organization (WTO) has started to monitor member countries in terms of protectionism in international trade and announced the findings through periodic reports as of 2009. In this respect, according to the report published on 10 July 2017, member countries enforced 251 trade barriers in total during the October 2016-May 2017 period. This corresponds to 36 trade barriers per month on average. As illustrated in Chart 1, this is the lowest number of average barriers recorded since 2013.

Chart 1: Trade Barriers



Source: WTO (2017).
* October 2016-May2017.

Chart 2: Breakdown of Trade Barriers (%)



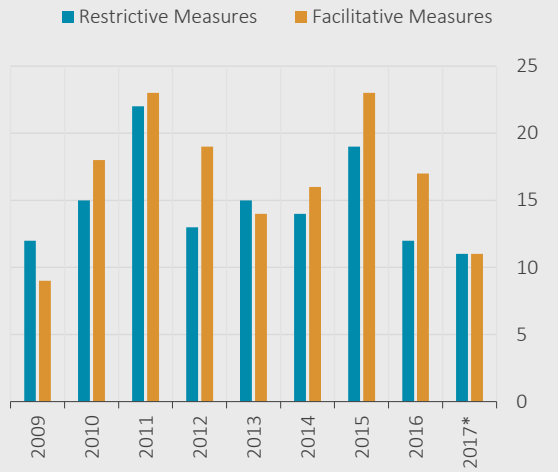
Source: WTO (2017).
* October 2016-May 2017.

These post-crisis trade barriers can be divided into two main categories. The first category, namely the restrictive barriers, includes conventional trade barriers such as newly introduced or increased customs tariffs, import bans or quantitative restrictions (quotas), obligation to use domestic content, complicated and time-consuming customs transactions, and temporary or permanent taxes imposed on imports or exports. On the other hand, trade barriers listed in the second category are administrative measures consisting mostly of anti-dumping taxes, and in principal, these restrictions are intended to prevent unfair competition in international trade rather than to provide protectionism. As depicted in Chart 2, trade barriers put into effect after 2009 mostly comprise administrative barriers.

Chart 3 displays the average monthly number of trade restrictions consisting of conventional tariffs and non-tariff barriers, which are implemented to directly restrict free trade. As demonstrated, following the peak in 2015, the number of these barriers has recorded a substantial fall in the last couple of years. Besides, Chart 3 illustrates the monthly average number of trade-facilitative measures by years, which are enforced to liberalize international trade. These statistics indicate that, contrary to the common view, the number of restrictive trade measures has not increased notably.

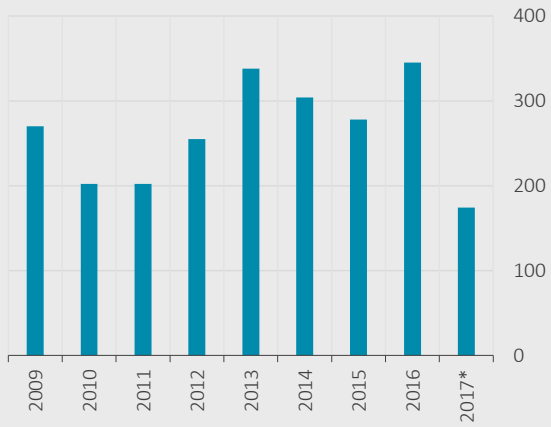
On the other hand, administrative measures, which are also called trade solutions, are classified under three categories within the General Agreement on Tariffs and Trade (GATT), the WTO's founding agreement. These are anti-dumping duties, countervailing duties and safeguards. The most important difference of administrative measures from conventional tariffs and non-tariff barriers is the enforcement of these measures only under certain conditions as per the WTO rules.

Chart 3: Restrictive and Facilitative Measures
(Monthly Average)



Source: WTO (2017).
* October 2016-May 2017.

Chart 4: Administrative Measures



Source: WTO (2017).
* October 2016-May 2017.

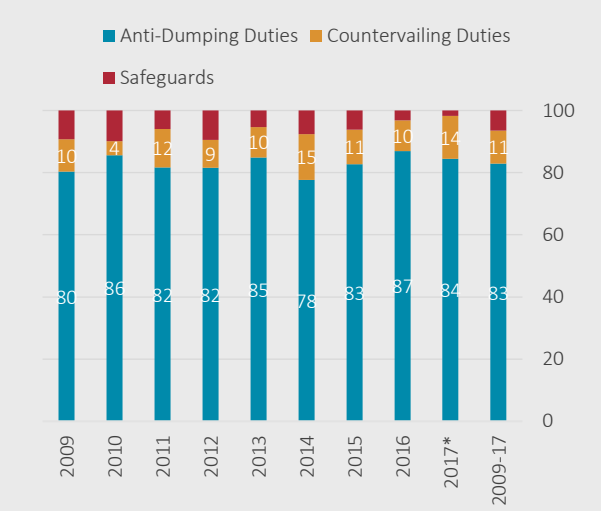
Administrative measures, in principle, are arranged to prevent unfair competition in international trade under the GATT. The 6th article of the GATT entitles any importer country, which is struck by a member country's trade dumping, to introduce an anti-dumping duty. Similarly, if a member country introduces incentives or subsidies for exports, inflicted countries are allowed to impose countervailing duties on imports. Should the exports of a member country inflict serious injury to the importing country, the GATT reserves the right of the inflicted country to take measures to restrict trade for safeguarding purposes (Article 19).

During the 2009-2016 period, WTO members have resorted to a number of administrative measures in addition to conventional trade barriers. (Chart 4). Inquiries for a total of 3,598 new administrative measures were demanded by WTO members in this period. As illustrated in Chart 5, a vast part of administrative measures (83%) are composed of anti-dumping duties.

Among the products subject to anti-dumping inquiries in the 2014-2016 period, metallic products (60%) take the lead (Chart 6). Besides, almost all of the anti-dumping inquiries (91%) were demanded for metallic products in 2016. In this period, half of the anti-dumping inquiries demanded for metallic products were filed by the US, Australia, Canada and Malaysia. These

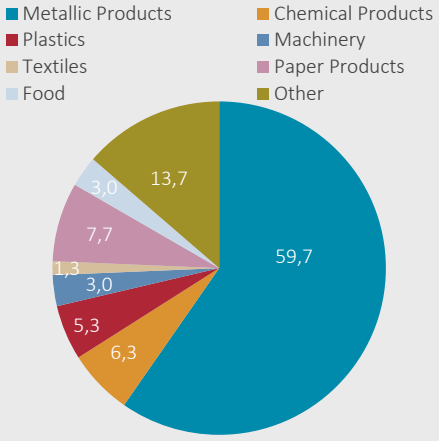
countries claimed the exercise of anti-dumping on particularly the steel and aluminum products imported from China, China Taipei (Taiwan) and South Korea. The second and third places in anti-dumping inquiries are occupied by paper products and chemical products, respectively. As in metallic products, inquiries in these sectors also addressed China and South Korea.

Chart 5: Administrative Measures by Types (%)



Source: WTO (2017).
* October 2016-Mayıs 2017.

Chart 6: Breakdown of Anti-Dumping Inquiries by Types (2014-2016, %)



Source: WTO (2017).

Recent Developments

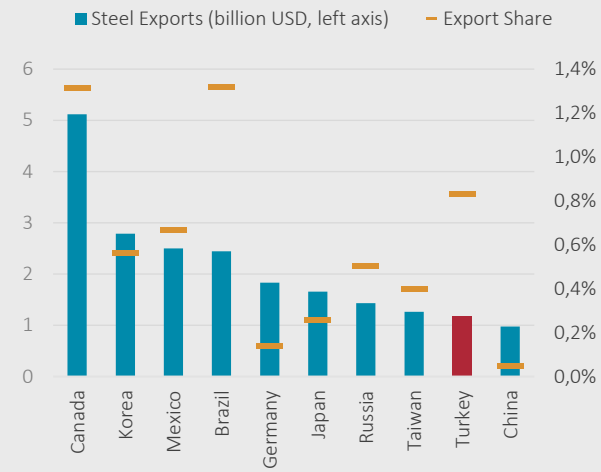
As discussed in the previous section, anti-dumping measures on steel and aluminum imports, particularly those made from China, are not a new phenomenon, but have been on the agenda of major complaints filed by the US within the WTO since 2014. Moreover, the US government demanded a dumping inquiry for steel and aluminum imports from the Department of Commerce in April 2017, and the reports compiled for the inquiry were submitted to the US government (U.S. Department of Commerce, 2017a, 2017b). In these reports, it was underlined that China and other countries implemented dumping on steel and aluminum imports of the US. On the grounds that this dumping depressed the US steel and aluminum industry as well as the military industry and jeopardized the US national security, the US government was advised to impose anti-dumping and countervailing duties against respective countries. However, due not only to the bilateral negotiations on this subject between the Chinese and the US governments in the G20 summit meeting of July 2017, but also the new tax reform that occupies the agenda, the exercise of these anti-dumping duties was postponed many times. The US Department of Commerce re-submitted the inquiry and advice report regarding the US imports of steel and aluminum to the US government on 11 January 2018, and the US government put the advised trade measures into effect on 22 March 2018 (U.S. Department of Commerce, 2018; U.S. White House, 2018). Accordingly, the US levied value-based duties on steel and aluminum imports from all countries except Canada and Mexico, of 25 and 10 percent, respectively. Against these developments, the EU and China declared that they would not accept the customs tariffs imposed unilaterally by the US and would take retaliatory actions. What is more, the US announced that other imported products from China amounting to 50 billion USD will be subject to customs tariffs as well. Then, China counterattacked by imposing additional duties on products imported from the US in the same amount.

These developments in steel and aluminum trade between the major players of global trade created concerns that trade barriers would increase reciprocally in the period ahead and light the fuse of a trade war, resulting in volatility in financial markets. International agencies such as

the IMF and the OECD underlined that spreading of trade measures on a wider spectrum will have adverse effects on global growth and the labor market. These agencies assert that it will be more convenient for countries to solve their economic problems like foreign trade deficit or unemployment through macroeconomic reforms rather than trade measures. In economic literature, there are various studies supporting this view. For example, Jesper and Pescatori (2017) concluded that a 10-percent increase in the US customs duties will bring down the global trade volume and global growth by 1 percent and 0.5 percentage points, respectively. Ossa (2014) estimates that imposition of customs duties by a country unilaterally will spur increase in wages and welfare, but the possible outbreak of a widespread trade war will cause a loss of welfare in the global economy by 2.9 percent on average.

For emerging economies, the impact of a probable trade war can manifest itself both through trade and finance channels. Risks seem minimal given the effect of current measures on total exports (Chart 7). However, if protectionist measures evolve into a trade war by spreading over a wider spectrum, countries with a considerable trade volume with the US engaging in commodity-intensive trade, particularly the Asian countries having serious trade relations with China, are expected to witness the setbacks of the uncertainty to appear in commodity prices (Chart 8). What is more, should customs duty spill over to a wider domain, this may trigger inflation and change the course of the global monetary policy tightening in turn.

Chart 7: Countries Exporting Steel to the US



Source: Bloomberg.

Chart 8: Commodity Indices

Source: Census, World Bank.

Against this background, the critical question is whether the customs tariffs enforced by the US on steel and aluminum trade will ignite a trade war or not. It is certainly not an easy task to predict the future course of trade policies accurately. Therefore, the extent of a probable trade war is unclear. However, given current conditions, a trade war in the near future is not likely. First of all, customs tariffs exercised by the US were put into effect to prevent unfair competition rather than impeding the imports of steel and aluminum. The US asserts that some countries, mainly China, engage in overproduction above the global demand through state subsidies, which results in an artificial decline in steel and aluminum prices. As mentioned above, the US has brought up this complaint at the WTO since 2014. Secondly, trading of metallic products has a rather negligible share within the total global trade volume. Therefore, it would be incorrect to claim that international trade barriers have been raised based on the anti-dumping taxes imposed by the US in March. Likewise, a great part of trade policy measures enforced following the global economic crisis are made of administrative measures to prevent unfair competition. As shown in Chart 2, conventional trade barriers like customs tariffs and quotas are less than half of the measures put into effect excepting the year 2011. Customs tariffs still hover at historically

low levels (WTO, 2017). Thirdly, the US government kept Argentina, Australia, South Korea and the EU in addition to Canada and Mexico exempt from anti-dumping duty until 1 May 2018. This leads to the perception that the US government intends to solve this problem through bilateral negotiations. In fact, this can be confirmed by the gradual softening in the discourse of the US and Chinese governments regarding commercial relations.

In sum, customs tariffs levied on steel and aluminum products in March by the US will definitely occupy the agenda of global economy in the upcoming period. However, rather than evolving into a trade war, this is more likely to be resolved among respective countries through bilateral negotiations or settlements by the WTO.

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