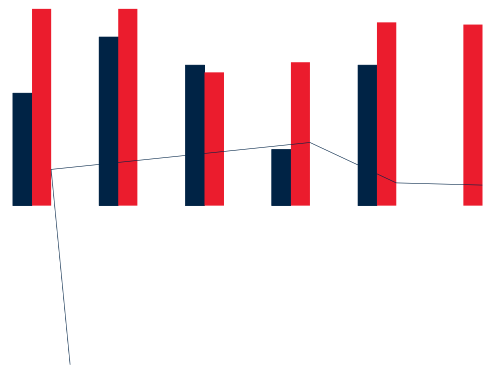
TradafDilemma:

1 Introduction

Figure 2: U.S. MFN and Column 2 tariffs

(A) A comparative snapshot of U.S. tariffs



(B) U.S. Column 2 tariffs

The model assumes full-employment except for unskilled workers in developing regions. For workers in these regions, the unskilled wage is fixed and there is an endogenous supply

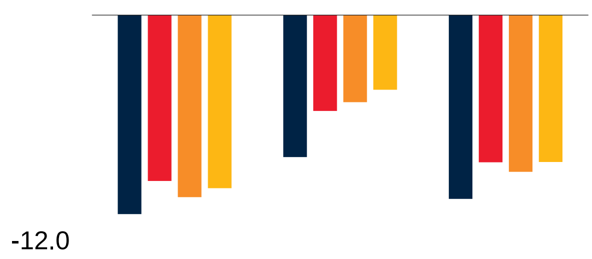
Other advanced economies involved in the trade dispute would also be hurt but by much less. Their exports to the United States would fall significantly, ranging from about 5 to 12 percent, and on average by 10.6 percent, relative to the baseline. As these countries reorient their exports, diverting trade around the United States, the adverse effect on their total exports is much less, a decline by 2.2 percent. Canada and Mexico, tightly integrated with U.S. markets, are an exception, and are likely to experience significant losses, with an estimated 0.4 percent decline in GDP in each country.

In response to the higher tariffs on their exports to U.S. markets, countries yed

Figure 4: Alternative strategies for developing countries: impact on exports

(A) Total exports

(B) Exports to the United States



Source: Authors' simulations.
Note. Comparative static results. Percent deviation from the baseline in real exports. All scenarios assume an escalated trade dispute between the United States on the one hand, and China, Mexico

output expands in labor-intensive sectors, particularly other agriculture, to meet the new demand from countries involved in the dispute.

Although the United States plays a major role in the world economy, accounting for close to a quarter of global GDP, the expansion of China and other developing countries has reduced its relative importance in the global trading system. In 2016, the United States accounted for 8.7 percent of all goods exports and 13.3 percent of goods imports (World Development Indicators, World Bank). With the exception of Canada, Mexico and several Central American economies, the United States is not a major trading partner for many economies. The majority of EU trade is intra-EU. Europe is Africa's main export destination. Globally, the United States is less important than high-income Asia or Europe in terms of total trade. Faced with an increasingly inward-looking United States, the global trading system will likely rebalance and adjust.

There are a few important findings that emerge from this work:

> Retaliatory action by developing countries is the least desirable strategy in the face of new protectionist measures. No action is preferred to retaliation, as aggregate losses are found to be nearly twice as big when developing countries impose retaliatory measures.

we explored the impact of four broadly defined strategies: a) join the trade war and retaliate; b) do nothing; c) pursue trade agreements with non-U.S. regions; and d) pursue trade agree-

Table 1: Alternative strategies for developing countries: estimated impact

Go, Delfin S., and Pradeep Mitra. 1999. "Trade Liberalization, Fiscal Adjustment and Exchange Rate Policy in India." In Ranis, G. and L. Raut (Eds.) *Trade, Growth, and Development*. North-Holland, Amsterdam, pp. 229-72.

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Table 3: Bilateral Column 2 U.S. tariffs