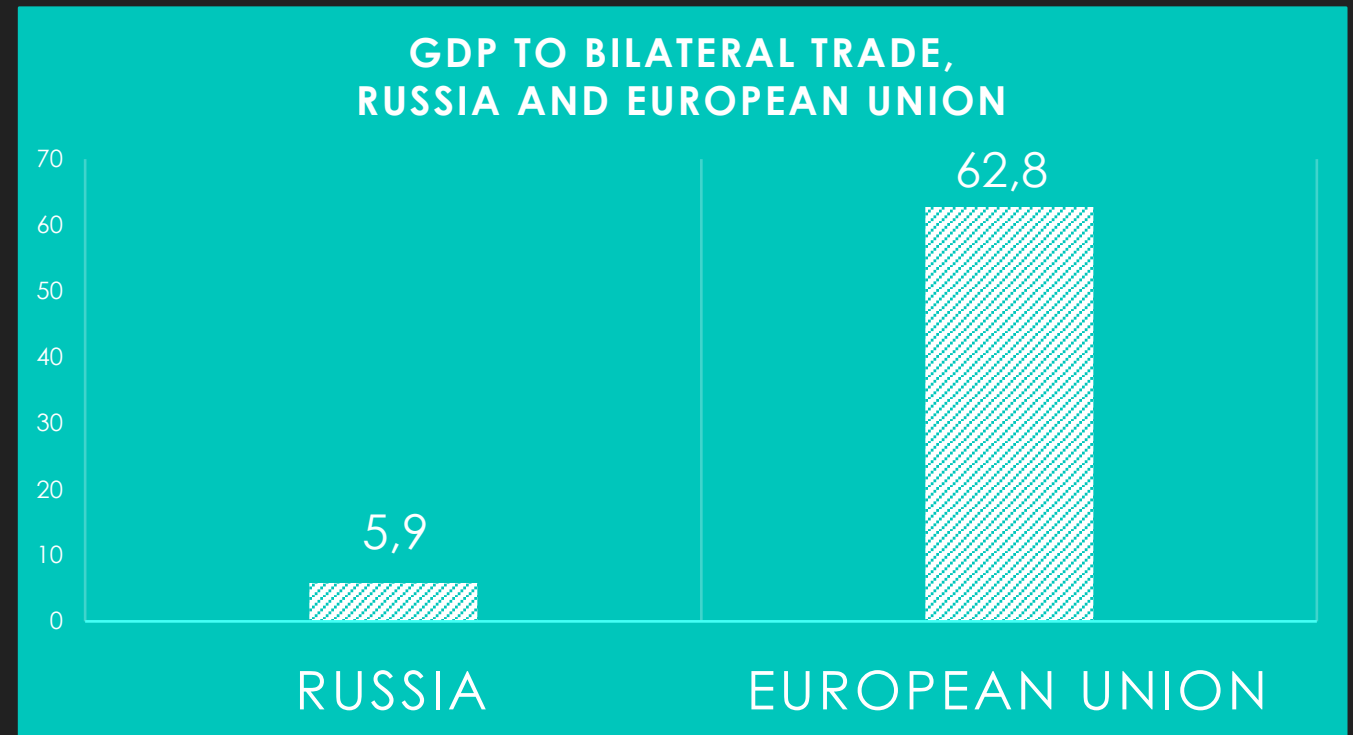


Global trade tensions: what consequences on EU- Russia economic relations?

Julien VERCUEIL, INALCO, PARIS

1. Introduction: trade war is not the only relevant parameter

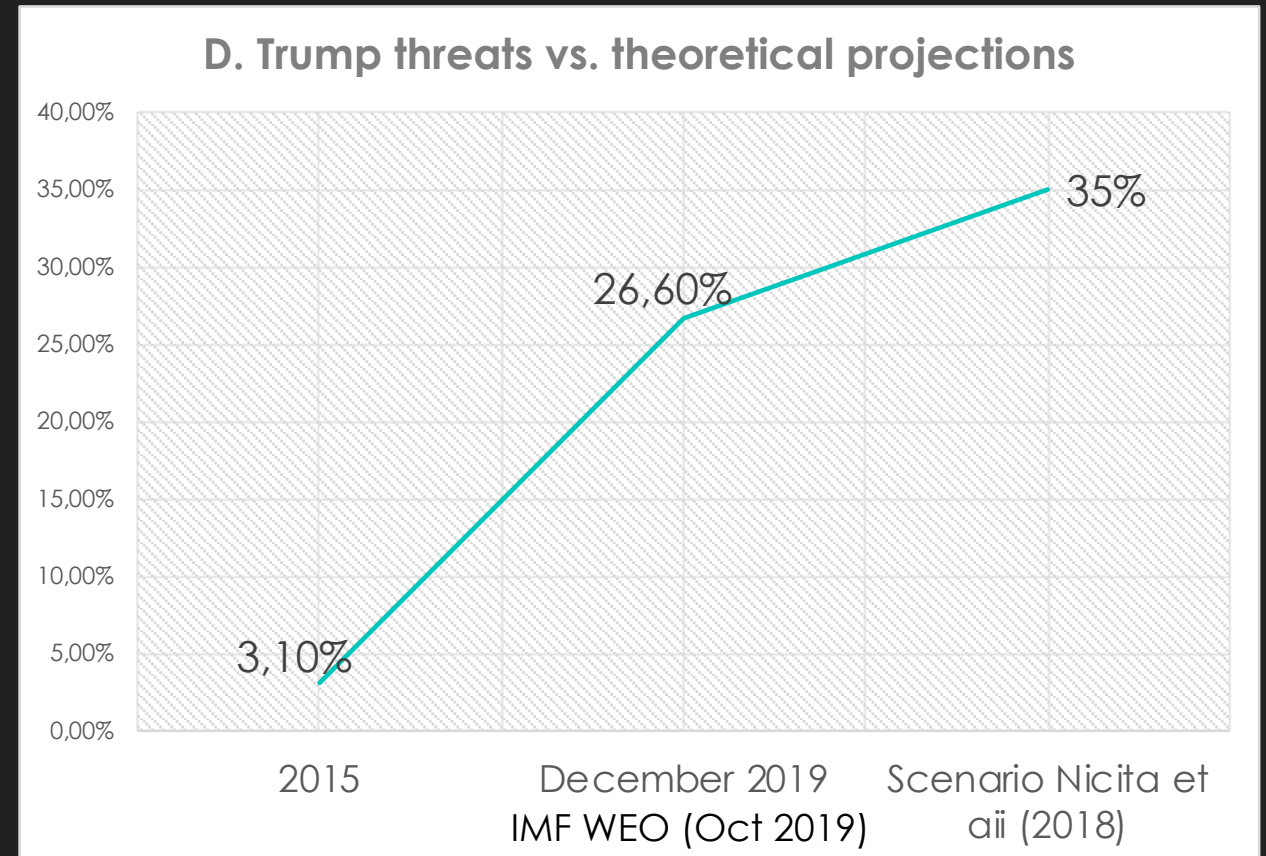
- Main parameter: Business cycle and demand **in the EU**
- Second parameter: conjuncture **in Russia**
- Third parameter: **EU-Russia political relations** – sanctions, counter sanctions
- *Note : trade war could affect these parameters*



Source : Eurostat, 2019

2. Tariff escalation: current estimates of magnitude (1/3)

- What could be the magnitude of the current tariff escalation?
- What would be the effects on the US, the EU and China?
- Could the tariff escalation transform into a currency war?



Sources : Nicita et alii(2018), Bekker and Teh (2019), IMF (2019)

2. Tariff escalation: current estimates of magnitude (2/3)

- What could be the magnitude of the current tariff escalation?
- What would be the effects on the US, the EU and China?
- Could the tariff escalation transform into a currency war?

	Average initial tariffs (trade weighted)		Modelizing tariff shocks in trade conflict (trade weighted)	
	Faced as exporter	Applied as importer	Faced as exporter	Applied as importer
USA	2,94	1,22	22,32	58,76
China	4,43	3,67	31,01	28,07
European Union	4,23	1,68	24,17	36,32

Source : Bekkers and Teh (2019)

2. Tariff escalation: current estimates of magnitude (3/3)

- What could be the magnitude of the current tariff escalation?
- **What would be the effects on the US, the EU and China?**
- Could the tariff escalation transform into a currency war?

	Estimated medium-term effects of trade war on GDP	
World	-1,96	-0,3
USA	-2,18	-0,6
China	-3,14	-0,8
EU-27	-1,03	-0,2

**Bekkers and Teh
(2019)**
**IMF WEO
(2019)**

3. Channels of transmission to the Russian economy (1/4)

- Tariffs
- Demand shocks
- Terms of trade
 - Oil and gas prices
 - Rouble exchange rate

in %	Average Initial tariffs		Taiff shocks in trade conflict	
	Faced as exporter	Applied as importer	Faced as exporter	Applied as importer
Russia	1,19	7,58	11,58	5,43
	Impact of tariff war on GDP		Impact on value of exports	
Russia	-0,37		-10,73	

Source : Bekkers and Teh (2019)

3. Channels of transmission to the Russian economy (2/4)

- Tariffs
- **Demand shocks**
- Terms of trade
 - Oil and gas prices
 - Rouble exchange rate

	Long term elasticity of Russian GDP to :
US GDP	[0,5 – 5]
EU GDP	[0,3 - 3,5]
China GDP	[0,03 - 1,7]

Source : Simola (2019)

3. Channels of transmission to the Russian economy (3/4)

- Tariffs
- Demand shocks
- Terms of trade
 - Oil and gas prices
- Rouble exchange rate

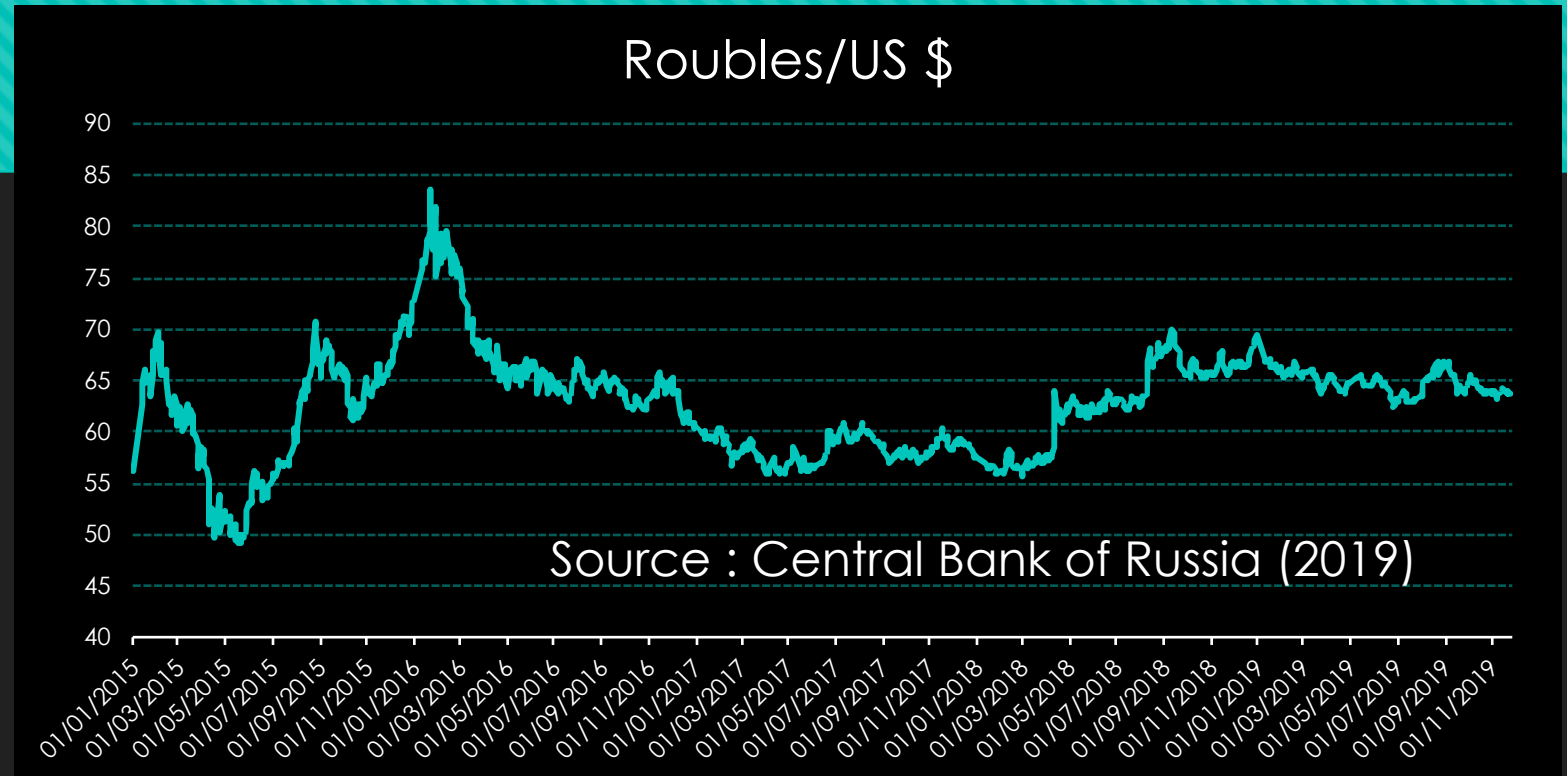


	Long term elasticity of Russian GDP to :
Oil prices	[0,06 - 0,2]

Source : Simola (2019)

3. Channels of transmission to the Russian economy (4/4)

- Tariffs
- Demand shocks (IMF WEO, 2019)
- **Terms of trade**
 - Oil and gas prices
 - **Rouble exchange rate and inflation pass-through**



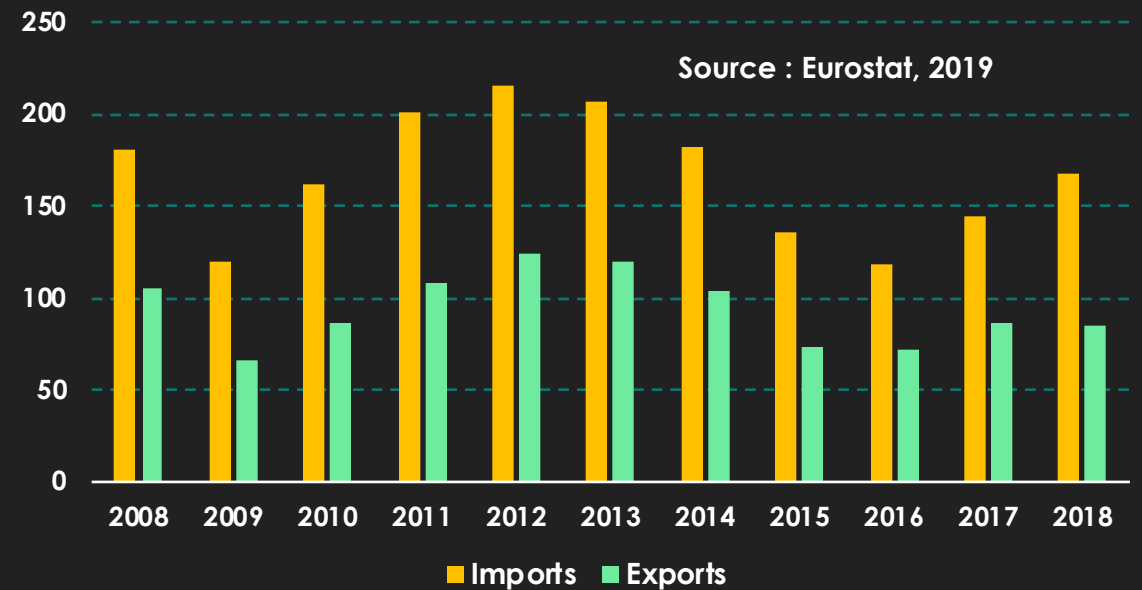
	Short term elasticity of domestic inflation to :
Nominal exchange rate	[-0,1] (after 3 months)

Source : Simola (2019)

4. Consequences on EU-Russia trade, direct investment and capital flows (1/2)

- **Bilateral trade** (via oil prices and via bilateral demands)
- FDI (via reduced attractiveness of Russia)
- Rouble – Euro volatility (via oil prices and global financial uncertainty)

EU-Russia Trade, 2008-2018
(billions of euros)

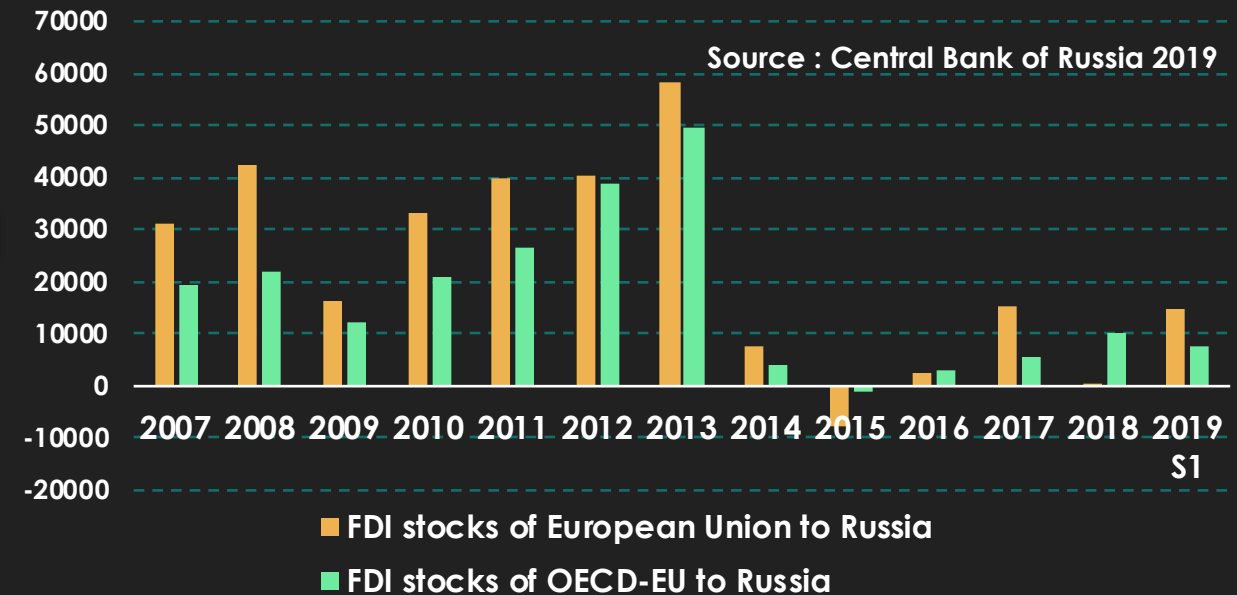


Historical order of magnitude : -20 to -40%
[50-100 billions euros)

4. Consequences on EU-Russia trade, direct investment and capital flows (2/2)

- Bilateral trade (via oil prices and via bilateral demands)
- **FDI** (via uncertainty and reduced attractiveness of Russia)
- **Rouble – Euro volatility** (via oil prices and global financial instability)

FDI Stocks of EU in Russia
(millions of US \$)



Historical order of magnitude: possibly 100 %
[20-50 billions dollars)

5. Conclusion

- A global trade war would hit Russia and Russia-EU trade not so much by the tariff escalation per se, but by other, indirect channels :
 - **External demand** shock
 - **Terms of trade** shock
 - **Uncertainty** (aggravated in case of rising interest rates, not mentioned here)
- Russia and EU should see global trade tensions as an incentive to progress toward sanction and counter-sanction disarmament

Thank you!

○ References :

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