Long-run Scenarios for Trade Policy Cooperation in Times of Uncertainty *

PRELIMINARY AND INCOMPLETE

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Abstract

We present four stylized scenarios for the future of global trade policy cooperation: (i) Tensions, (ii) Fragmentation; (iii) Breakdown; (iv) Reform. The four scenarios include different trajectories of tariffs, trade policy uncertainty, operational trade costs, and digital trade policies. A quantitative trade model is employed to simulate the long run economic impacts on trade, output, production structure and welfare. The simulations show that there is a lot at stake. Whereas a breakdown of global trade policy cooperation can lead to double digit economic losses, reform scenarios can substantially raise global GDP and trade. The Tensions and Fragmentation scenarios would reduce global GDP very substantially by respectively more than 1% and 6% to 7%. For all economies Reform generates better outcomes than Tensions. There is a large variation in economic effects across regions and outcomes vary between regions across scenarios.

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Keywords: Quantitative trade modeling, Trade policy, Scenario Analysis

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