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Global trade wars: winners and losers in the Arab region

Summary

The present document examines the economic implications of the new trade policy of the United States of America, particularly trade regulations with China and the European Union, on the global economy in general, and on economies of Arab countries in particular. Using a global computable general equilibrium (CGE) model, it examines the macroeconomic and sectoral effects of four scenarios of trade tensions between the United States on the one hand, and the European Union and China, respectively, on the other. The four scenarios represent already implemented trade restrictions, and potential further escalation. Findings reflect overall loss at the global level in terms of real growth and trade volume. Moreover, while China loses most in terms of real growth in the case of a United States-China trade war, the United States loses most in terms of exports. The latter loss is associated with an increase in tariff revenues of more than 100 per cent. There is also evidence of real losses in gross domestic product (GDP) for most Arab countries in the case of a United States-China trade war, despite a marginal increase in exports for some; whereas in the case of a United States-European Union trade war, there would be some gains in terms real GDP coupled with marginal gains at the exports level.

The Committee on Trade Policies in the States Members of the Economic and Social Commission for Western Asia is invited to review the present document and provide comments thereon.

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Introduction

1.   Following his inauguration in December 2016, President Trump has pursued his campaign vow to "Make America Great Again" through protectionist policies and through tax incentives for American corporations operating overseas aimed at bringing them back home. In turn, protectionism and tariff hikes have ignited trade tensions as targeted countries, the European Union, China and India, have retaliated by imposing equivalent tariffs on United States exports. Trade wars jeopardize world economic growth by disrupting global supply chains, and invite uncertainty for financial markets. This is particularly true when a trade war does not only affect two warring trading partners via tariff pass-through,[1] inflation and interest rate changes as the central bank intervenes to mitigate the effects of lower growth, but also through a second-round spillover effect in economies of non-participating countries mainly affecting trade and foreign direct investments. However, the level and austerity of a second-round effect hinges on economic structure and a country's level of economic integration in the global economy. To that end, there is no one size-fits-all effect for all countries. Some countries are severely affected by trade wars, other relatively closed economies are affected to a lesser extent, while others benefit from a trade diversion channel.

2.   Li, He and Lin (2018)[2] assessed the economic impact of a full-blown United States-China trade war on both countries, and on the world's gross domestic product (GDP), using a multi-country global general equilibrium approach. They concluded that although both countries would experience losses, China would lose more. Moreover, the introduction of new non-tariff barriers in the ongoing trade war would amplify loses for both countries and the rest of the world. Mesquita (2019)[3] simulated the effect of a United States tariff rate of 25 per cent on Chinese exports, coupled with a 50 per cent tariff retaliation by China on United States exports, on global economic growth, the Euro zone, and some developing countries in Latin America. He concluded that current US-China trade tensions would reduce global GDP growth by between 0.7 and 2.8 percentage points in 2019. Europe, however, would suffer with an overall reduction of potential growth of 0.8 percentage points. In developing, Mesquita noted that the effect of the US-China trade war on Latin America countries would be mixed, with some winners such as Argentina whose primary export (soy) that constitute 60 per cent of its exports share would increase following an aggravated tariff on United States agricultural products by China. Mexico would also benefit as it competes with China in the United States market, with 75 per cent of its exports absorbed by the United States market. Brazil and Colombia would suffer, but relatively less than other Latin America countries given their relatively closed economies, with a ratio of exports and imports to GDP at 24 per cent and 28 per cent, respectively, compared with an average of 54 per cent for the Group of 20 countries.[4]

3.   Using an econometric approach, Amiti, Redding and Weinstein (2019)[5] explore the impact of higher tariffs on prices in the United States (the pass-through effect). Their definition of 'trade war' goes beyond China and the United States, to encompass all countries undergoing tensions with the United States (the European Union, India and NAFTA). Their findings document a complete tariff pass-through effect, resulting in a monthly reduction in real GDP in the United States amounting to $1.4 billion by the end of 2018. Similar results have also been documented for United States trade counterparts, suggesting that the trade war is a two-way propagation. To date, no study has examined the effect of United States-China or United States-European Union trade wars on Arab economies. The present document attempts to bridge a gap in the literature by examining the effects of current trade war tensions on Arab economies at both the regional and country levels.

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[1] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2019). Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy.

[2] Li, C., He, C., & Lin, C. (2018). Economic Impacts of the Possible China–US Trade War. Emerging Markets Finance and Trade, 54(7), 1557-1577.

[3] Mesquita, M. (2019). How a Trade War Would Impact Global Growth. World Economic Forum.

[4] Group of 20 countries make up 85 per cent of global GDP and 75 per cent of global trade.

[5] Amiti, M., Redding, S. J., & Weinstein, D. (2019). The impact of the 2018 trade war on US prices and welfare (No. w25672). National Bureau of Economic Research.

Implications of trade war scenarios at the sectoral level (agricultural exports and imports and total tariff revenues) are also examined to gain insight into the sectoral effects of trade war scenarios.

4.   Given that most Arab economies are oil-dependent in terms of income and exports, either directly as in the case of oil-exporting countries or indirectly through foreign direct investment and remittances from oil-exporting to non-oil exporting countries, all Arab economies are at the forefront of countries affected by trade wars. This is mainly due to the fact that, as documented in the work of Killian (2009),[6] aggregate global demand for oil is the major determinant of world oil prices.[7] This is why as trade tensions have escalated since March 2018, oil prices have fallen, despite supply shocks arising from the Iranian and Venezuelan oil embargos, reaching $55 per barrel in August 2019 from $68 per barrel in May 2018. Moreover, non-oil exporting Arab countries, such as Jordan, Lebanon and Tunisia, are likely to suffer from tighter global growth perspectives. However, they may benefit to some extent from increased exports to both the United States and Chinese markets as results of trade diversions. At the same time, China may further devalue its currency to boost its exports to the United States and the rest of the world, including Arab countries.

I.   GLOBAL TRADE TRENDS

5.   Trade wars can drag the world economy into a global recession if countries engaged in trade wars make up the bulk of the world's GDP. For example, the United States constitutes 20 per cent of world's total GDP, compared with the European Union at 15.9 per cent, and China 12.2 at 12 per cent (figure 1). These three economic blocs make up nearly half of the world's GDP and, therefore, jeopardize global growth when a trade war between any of these major economies is ignited.

Figure 1. Country GDP as percentage of the world's total GDP
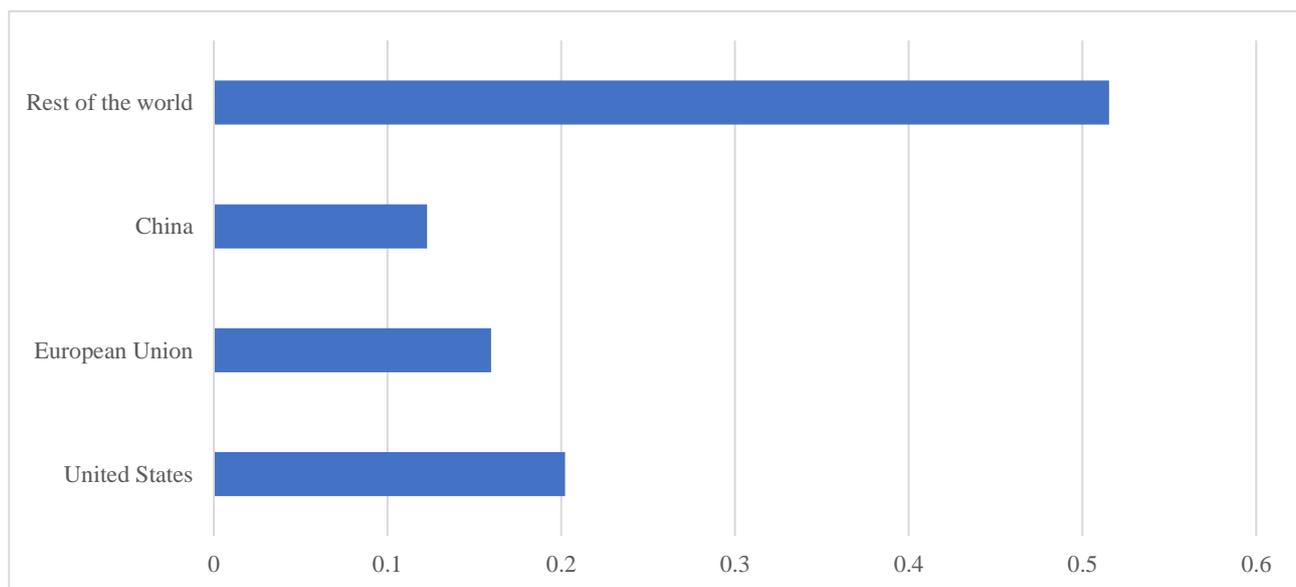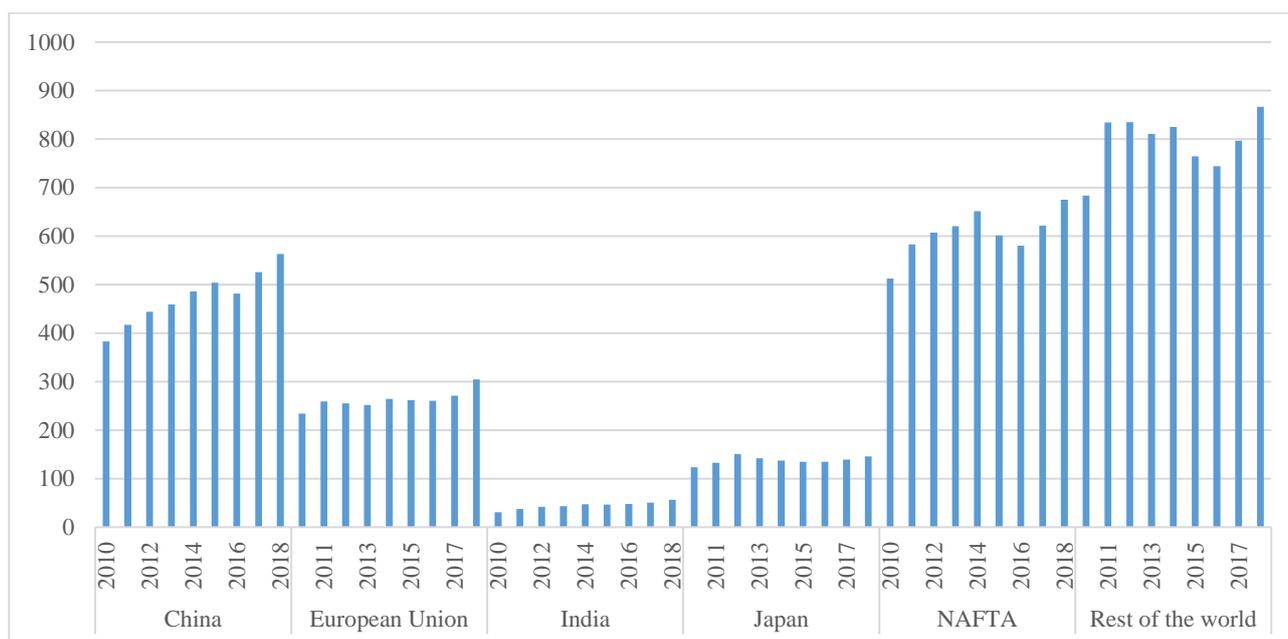

Source: Developed by ESCWA with reference to the WDI database.

6.   As shown in figure 2 below exhibits, the NAFTA bloc tops the list of exporters to United States markets with $675 billion, while China is the second larger exporter to United States markets with $563 billion in 2018 followed by the European Union with $304 billion, Japan with $145 billion, and India with $56 billion.

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[6]   Kilian, L. (2009). Not all oil price shocks are alike: Disentangling demand and supply shocks in the crude oil market. American Economic Review, 99(3), 1053-1069.

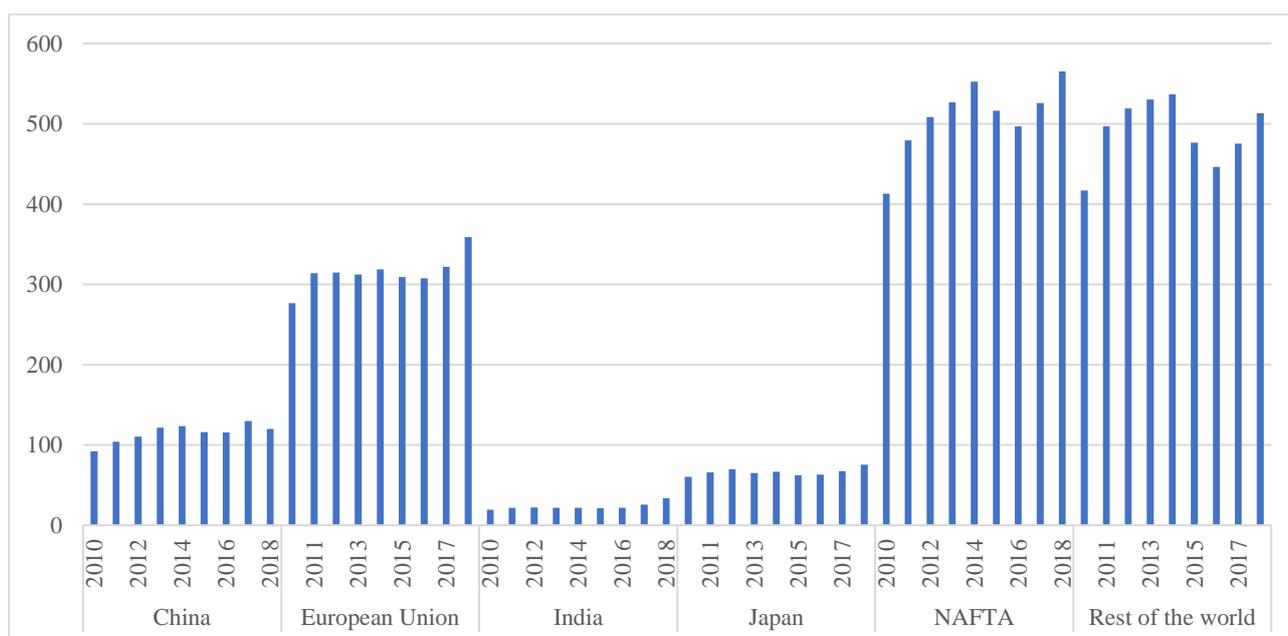[7]   Despite a delay of 6 months (lag effect).

Figure 2. United States imports by origin
(*USD billions*)

Source: Developed by ESCWA with reference to the United Nations Comtrade Database.

7.   United States exports by destination follow the same pattern (figure 3), with exports to the NAFTA bloc at $565 billion in 2018, followed by the European Union with $358 billion, China with $120 billion, Japan with $75 billion, and India with $33.5 billion worth of imports from the United States. Only the European Union imports from the United States more than its exports to the United States market. All other United States trading partners export to United States more than they import.

Figure 3. United States exports by destination
(*USD billion*)

Source: Developed by ESCWA with reference to the United Nations Comtrade Database.

II. OVERVIEW OF CURRENT TRADE TENSIONS
AND THEIR IMPLICATIONS

A. UNITED STATES-EUROPEAN UNION AND UNITED STATES-INDIA
TRADE TENSIONS

8.   On 8 March 2018, the United States imposed a 25 per cent tariff on imported steel coupled with a 10 per cent tariff on aluminium, targeting both the European Union and Indian steel and aluminium industry. In June 2018, the United States revoked a tariff exemption for India by removing it, along with other countries such as Turkey, from the Generalized System of Preferences, a trade privilege that allows India $5.6 billion of low tariff exports. The United States then accused India of being a high-tariff country that prohibits American companies from accessing its large market. The United States also accused the European Union of illegally subsidizing Airbus, and therefore giving it an unfair advantage over American airplane manufacturers, mainly Boeing, a claim that was upheld by the World Trade Organization in May 2018.

9.   In response to United States tariffs on steel, India retaliated with tariffs on American agricultural products such as almonds (worth $543 million of United States exports) and apples ($156 million). Furthermore, in June 2018, India levied an import tax of 120 per cent on an array of American products. The European Union also retaliated with a 25 per cent tax rate on United States exports targeting clothes, motorcycles, tobacco and whisky. Since July 2018, the European Union and the United States have been engaged in trade negotiations on tariff and non-tariff barriers, and on subsidies for non-automotive industries. Throughout the negotiations, the European Union has expressed a desire to increase its purchases of American natural gas and soybeans. However, despite ongoing negotiations, the United States continues to threaten a 25 per cent tariff on European Union auto industry exports if trade negotiations do not end in agreement. The United States-India trade negotiations have been ongoing since 2018, without reaching a deal to date. In is currently unclear whether United States-India trade tensions will escalate into a full-fledged trade war in the future if the two countries fail to achieve a trade deal, especially while the United States continues to use trade tariffs as a tool to influence international trade.

B. UNITED STATES-CHINA TRADE TENSIONS

10.   United States-China trade tensions began with the imposition by the United States of successive tariff schemes, staring with a 25 per cent tariff on a $34 billion list in July 2018, followed by a 25 per cent tariff on a $16 billion list in August 2018, then a 10 per cent tariff rate on a $200 billion list in September 2018 that was increased to 25 per cent in May 2019, and recently a 10 per cent tariff on a $300 billion list. China retaliated with tariffs on United States exports, starting with a $35 billion list in July 2018, followed by additional tariffs on a $6 billion list in August 2018, and a 10 per cent tariff rate on a $60 billion list in September 2018 that was increased to 25 per cent in June 2019.

11.   United States-China trade tensions over the course of 2018-2019 have led the International Monetary Fund (IMF) to warn against continued escalation. The 2019 Group of 20 Surveillance Note[8] estimated a slowdown in global GDP of 0.5 per cent in 2020 as a likely result of the 2018 tariffs and envisaged 2019 tariffs. A global slowdown is brought about by distortions in global supply chains, suppressing the spread of new technologies across countries, and elevated levels of uncertainty in the financial markets as reflected in higher bond spreads. As bonds spreads increase, they place devaluation pressures on local currencies, especially when developing countries lack the fiscal and monetary discipline and a necessary buffer zone to absorb exogenous shocks.

C. BEYOND TRADE WARS: CURRENCY WARS

12.   In September 2019, China intervened in the foreign exchange market and devalued its currency to a record low of 7.18 Yuan per United States dollar in an attempt to boost its exports, and make up for the losses

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[8] https://www.imf.org/external/np/g20/060519.htm.

incurred by United States tariffs. Although currency devaluation can promote Chinese exports to the United States and the rest of world through cheaper products in international markets, the flip side of currency devaluation is an invitation for currency wars as competitors in international markets follow suit and devaluate their currencies to protect their own export shares. Moreover, currency wars trigger recurrent episodes of inflation in response to frequent intervention in the foreign exchange market. Countries opting for a fixed exchange rate arrangement can find themselves locked out since currency depreciation is not an option for them. These countries, of which many are emerging economies, are at disadvantage in terms of export share and widening external deficit if a currency war ensues. Devaluation of the Chinese currency would also hurt the country's potential growth through a balance sheet effect mechanism, also referred to as liability dollarization, where Chinese companies indebted in foreign currency have to pay more to service their debts because the Yuan has depreciated.[9]

13.   If the United States were to follow suit and depreciate the dollar against a basket of foreign currencies, it would unleash a currency war not only with China but also with the European Union, Brazil and India, among others. However, it is unlikely that the Federal Reserve would depreciate the dollar since United States monetary policy is independent from political pressure and aims to ensure price stability.

III. ECONOMIC IMPACT OF THE TRADE WAR SCENARIOS

A. THE SCENARIOS

14.   A global dynamic computable general equilibrium (GDCGE) model was used in the empirical analysis of the implications of the trade war scenarios on Arab economies. The model was constructed to assess the impact of trade war scenarios on a set of individual countries and regions in the global economy. It considers 10 Arab countries (Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates); two Arab subregions, namely the remaining North African countries (Algeria and Libya), hereafter referred to as ONF, and the rest of the Middle East (Iraq, Lebanon, the State of Palestine, the Syrian Arab Republic and Yemen), hereafter referred to as OWS; the European Union; the United States; China; and the rest of the world. Policy scenarios are compared to a baseline; in other words, a business-as-usual, scenario for a five year-period: 2019-2023.

15.   The reference scenario makes some assumptions about a broad range of dynamic variables, including the population and labour supply growth rates and the growth rate of factor productivity. In the present model, the path trend in real GDP growth is exogenous in the reference scenario, which allows the model to determine the corresponding changes in factor productivity.

16.   To this end, four main scenarios have been adopted throughout the analysis. Namely, a United States-China trade war (high and low) and a United States-European Union trade war (high and low). The changes in tariffs by scenario are presented as follows:

17.   **Scenario 1.** United States-China - low:

- The United States increases tariffs in the first wave on $50 billion of Chinese imports;

- The United States increases tariffs in the second wave on an additional $50 billion of Chinese imports;

- The United States imposes the first tariff increase on $200 billion of Chinese imports;

- The United States imposes additional tariffs on the same $200 billion of Chinese imports;

- China imposes tariff increases in the first wave on $50 billion of imports from the United States;

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[9] Galindo, A., Panizza, U., & Schiantarelli, F. (2003). Debt composition and balance sheet effects of currency depreciation: a summary of the micro evidence. Emerging Markets Review, 4(4), 330-339.

- China increases tariffs for the first time on $60 billion of imports from the United States;
- China increases tariffs a second time on the same $60 billion of imports from the United States.

18. **Scenario 2.** United States-China – high: the assumptions under this scenario includes changes in United States-China tariffs in addition to new tariff increases that entered into effect in September 2019. More specifically, the following changes have been introduced:

- The United States increases tariffs on an additional $300 billion of imports from China;
- China imposes new tariffs in the second wave on $50 billion of imports from the United States.

19. **Scenario 3.** United States-European Union – low: this scenario is limited to tariffs imposed by the United States on selected imports from the European Union as well as retaliation actions taken by the European Union. More specifically, this scenario assumes the following tariff changes:

- The United States increases tariffs on steel and aluminium from Canada, China, Mexico and the European Union;
- The European Union increases tariffs on steel imports the United States;
- The European Union increases tariffs on aluminium imports from the United States.

20. **Scenario 4.** United States-European Union – high: this scenario assumes a deterioration in trade regulations between the United States and the European Union. It is based on President Trump's declarations to significantly increase tariffs on selected imports from the European Union. This scenario assumes the tariff changes adopted in the third scenario plus the imposition of a 20 per cent tariff by the United States on its imports of motor vehicles from the European Union. However, it is important to highlight that unlike the first three scenarios, the last scenario is not yet implemented by the United States. Nevertheless, the United States administration decided in October 2019 to implement much larger tariffs on selected imports from four European countries, namely the France, Germany, Spain and the United Kingdom. However, all changes decided after September 2019 are not included in the present assessment.

B. MACROECONOMIC RESULTS

1. *At the global and regional levels*

21. Figures 4 to 9 summarize the simulation results of the selected macroeconomic variables for the four different scenarios. The results are expressed in percentage variations in 2023 compared with the reference scenario (the annex to the present document summarizes the equivalence of percentage variations in dollar value). The model covers a five-year period (2019-2023). However, the impact is not only captured by the relative changes in 2023, but also accumulated in terms of values and referred to as cumulative results. For example, figure 4 shows that the high United States-China trade war scenario decreases real GDP growth by 0.26 per cent for China and 0.085 per cent for the United States in 2023 compared with the reference scenario - these changes correspond to $37 billion and $13.6 billion, respectively, for the same year. Moreover, under the low United States-China trade war scenario, real GDP decreases by 0.17 per cent for China and 0.056 per cent for the United States in 2023, which corresponds to a total loss of $24 billion and $9 billion, respectively, in terms of GDP. Despite marginal growth rates in terms of real GDP for the European Union and the rest of the world, possibly owing to a trade diversion effect, the Arab bloc fails to register growth rates in terms of real GDP. Under both United States-European Union trade war scenarios (high and low), losses are marginal for the European Union and the United States, whereas China, the Arab bloc, and the rest of the world register marginal growth under the same scenarios. At the aggregate level, the global economic growth rate is affected most under the high United States-China scenario.

22. In cumulative terms (over the period 2019-2023), losses amount to $103 billion for China and $25 billion for the United States under the low United States-China trade war scenario. Under the high trade war scenario,

losses increase to $156 billion and $39 billion for China and the United States, respectively. The Arab bloc registers $1.9 billion and $2.7 billion of losses, respectively, under the low and high United States-China trade war scenarios. However, in the case of the United States-European Union scenario, Arab economies register marginal gains of $0.1 billion under both the low and high trade war scenarios.

Figure 4. Real GDP (% variations in 2023 with respect to the baseline scenario)
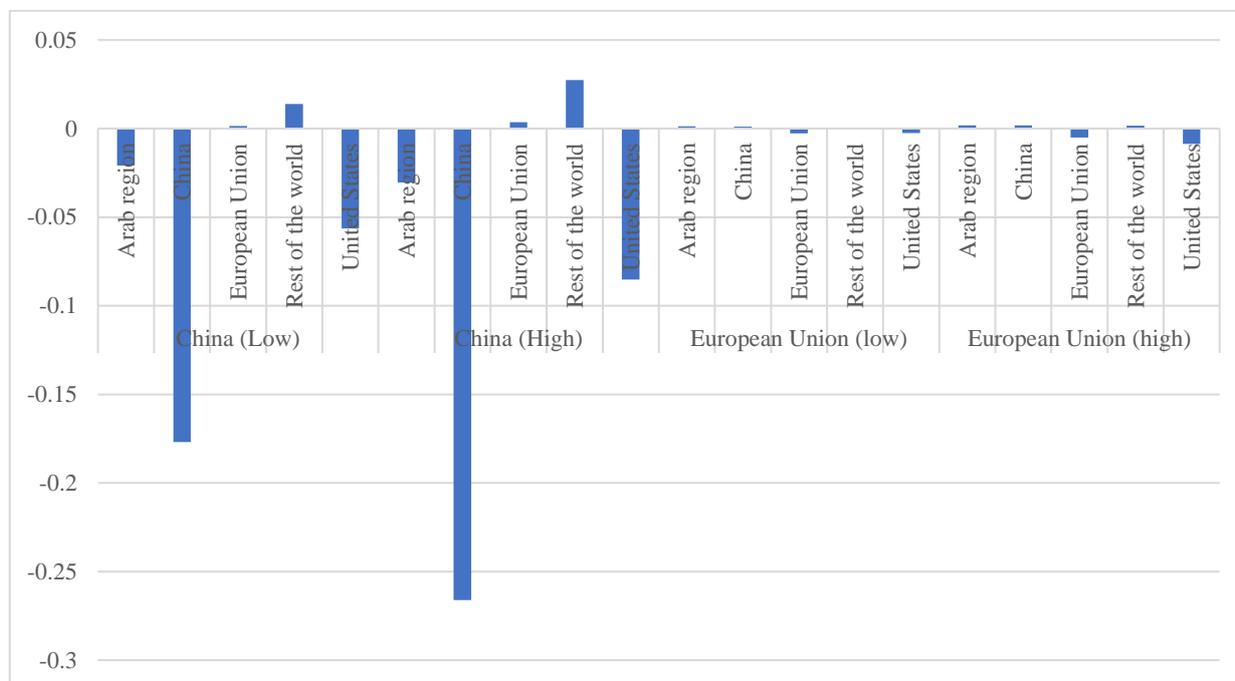
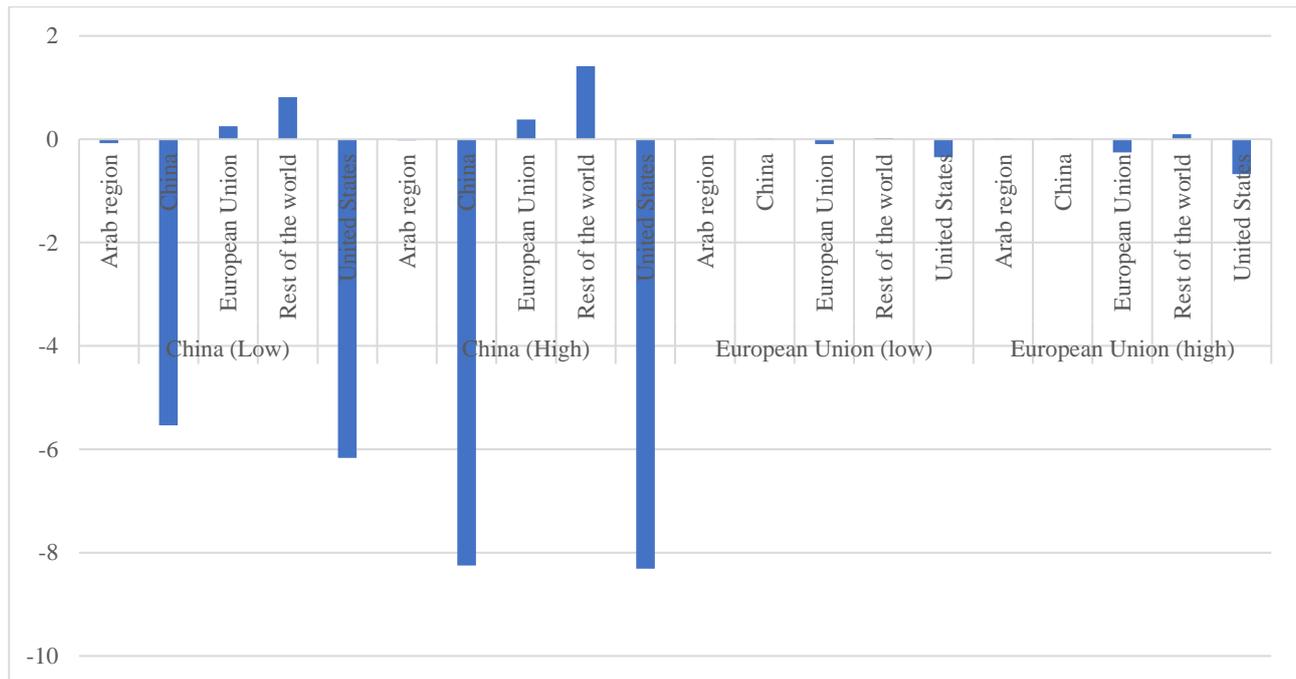*Source*: ESCWA calculations using the results of the global CGE model.

Figure 5. Total exports (% variations in 2023 with respect to the baseline scenario)
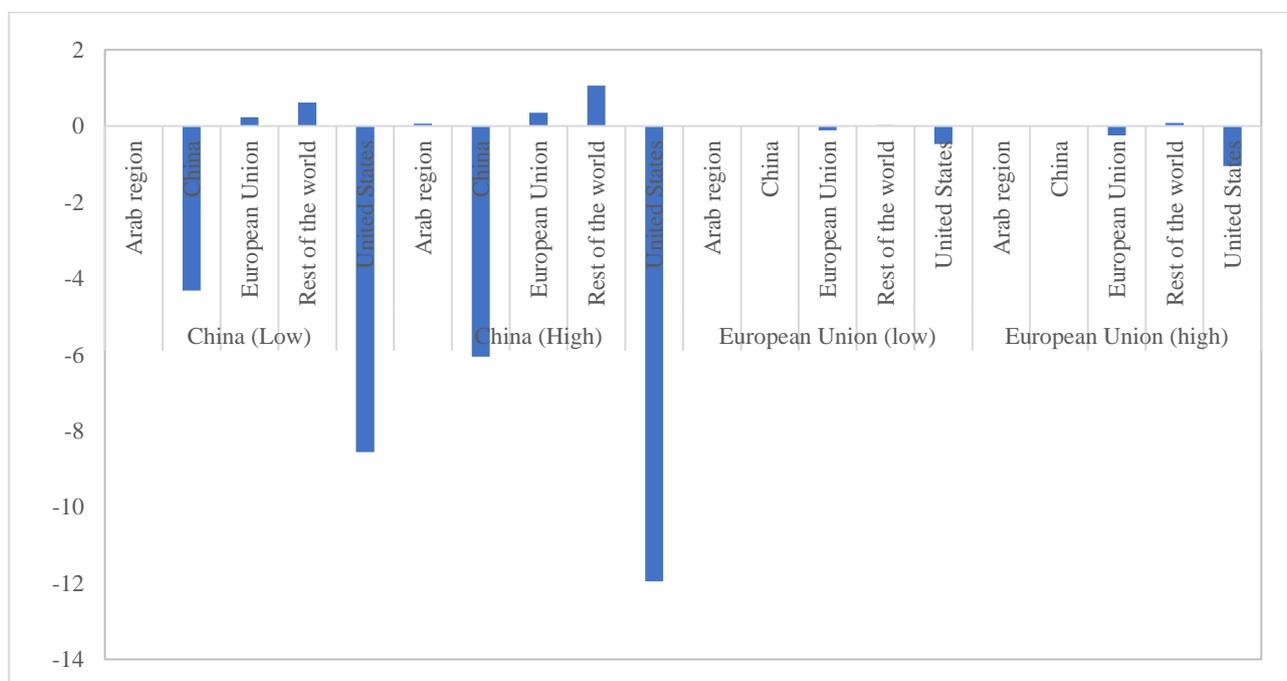
Source: ESCWA calculations using the results of the global CGE model.

23.   As shown in figure 5, under the United States-China scenario, American exports decrease by 11.95 per cent and 8.56 per cent under the high and low scenarios, respectively, equivalent to $239 billion and $171 billion in losses. China exports decrease by 6 per cent and 4.3 per cent under the high and low trade war scenarios, respectively, which corresponds to $205 billion and $146 billion losses in exports. The rest of the world, the European Union and the Arab bloc register positive but moderate export growth. Similar patterns under the United States-European Union scenario can be observed, but with less intensity. Over the simulation period (2019-2023), cumulative losses of $1.2 trillion and $1.1 trillion affect China and the United States, respectively, under the high United States-China trade war scenario. In contrast, the Arab bloc accumulates positive returns totaling $1.7 billion worth of exports over the five years under the high United States-China trade war scenario.

Figure 6. Total imports (% variations in 2023 with respect to the baseline scenario)

Source: ESCWA calculations using the results of the global CGE model.

24.   Chinese and American imports decrease in both the high and low trade war scenarios (figure 6). However, under the high United States-China scenario, imports drop by 8.31 per cent for United States and 8.25 per cent for the China, equivalent to a net decrease of $241 billion and $230 billion, respectively. The Arab block registers a decrease of 0.2 per cent under the high United States-China scenario, and 0.8 per cent under the low United States-China scenario. This pattern for the Arab bloc becomes inverted under both United States-European Union scenarios to register a marginal positive increase in imports of 0.01 per cent. It is important to highlight that the effects on Arab economies' trade is expressed in volume, so pressures on oil prices are not considered.

25.   When measured cumulatively, the magnitude of impacts is significant for all countries. Under the high United States-China scenario, Chinese imports decreased by $1.3 trillion, and by $1.1 trillion for the United States over the simulation period. The decrease in Arab bloc imports accumulates to $2 billion and $1.7 billion under the high United States-China scenario and the high United States-European Union scenario, respectively

Figure 7. Agriculture exports (% variations in 2023 with respect to the baseline scenario)
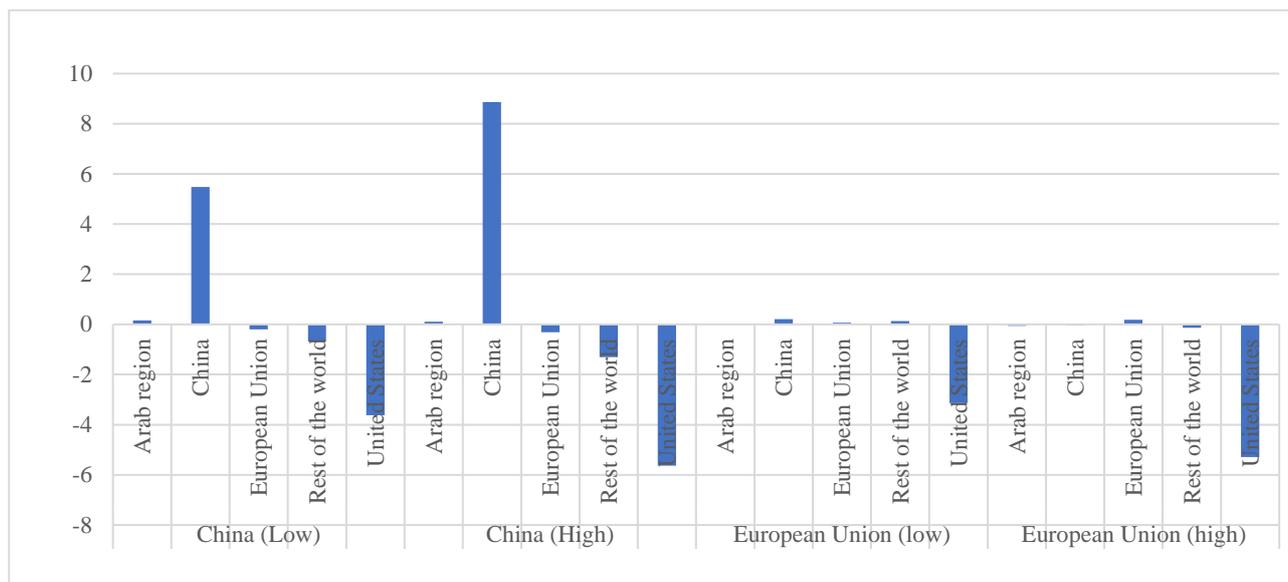
Source: ESCWA calculations using the results of the global CGE model.

26. As figure 7 shows, Chinese agricultural exports increase considerably by 8.87 per cent (equivalent to $72.3 billion) under the high United States-China scenario, and by 5.48 per cent (equivalent to a $44.7 billion) under the low United States-China scenario. However, under the high United States-European Union scenario, growth in Chinese agricultural exports becomes negative. The United States exhibits losses under all scenarios. The Arab bloc registers marginal gains in terms of agricultural exports under all scenarios, except for the high United States-European Union scenario.

27. Cumulatively, Arab agricultural exports increased by $1.3 billion over the period 2019-2023, under both the low and high United States-China trade war scenarios. However, under the high United States-European Union scenario, Arab agricultural exports incur a total of $0.5 billion in losses. Notably, under the high United States-China scenario, European Union cumulative losses reach $66 billion, while the United States incur $127 billion in losses. China, on the other hand, accumulates cumulative gains of $436 billion over the same period.

Figure 8. Agriculture imports (% variations in 2023 with respect to the baseline scenario)
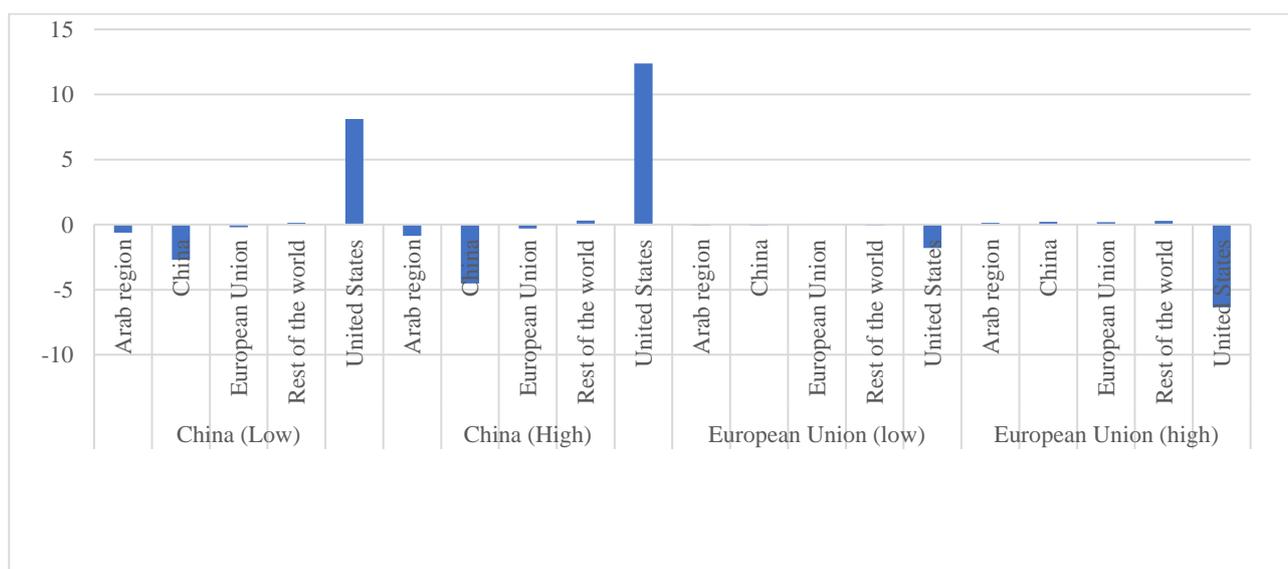
Source: ESCWA calculations using the results of the global CGE model.

28.   Under the United States-China scenarios, American agricultural imports increase by 12.37 per cent in the high United States-China trade war scenario (equivalent to $64.5 billion), and by 8.11 per cent in the low scenario (equivalent to $42.3 billion), whereas the imports of China, the European Union and the Arab bloc decrease (figure 8). Under the high and low United States-European Union scenarios, American imports decrease by 6.36 per cent and 1.79 per cent, respectively (equivalent to $9.3 billion and $2.6 billion) owing to relatively high American imports from the European Union ($304 billion). Arab imports decrease under the high and low United States-China scenarios and under the high United States-European Union scenario. An increase in imports is observed only under the high United States-European Union scenario.

29.   When interpreted cumulatively over the period 2019-2023, under the high United States-China scenario, China registers a cumulative decrease of imports totalling $113 billion and the Unites States registers a cumulative increase of $300 billion. The Arab bloc accumulates a decrease in imports under all scenarios, except under the high United States-European Union scenario, totalling an increase of $1.7 billion.

Figure 9. Overall tariff revenues (% variations in 2023 with respect to the baseline scenario)
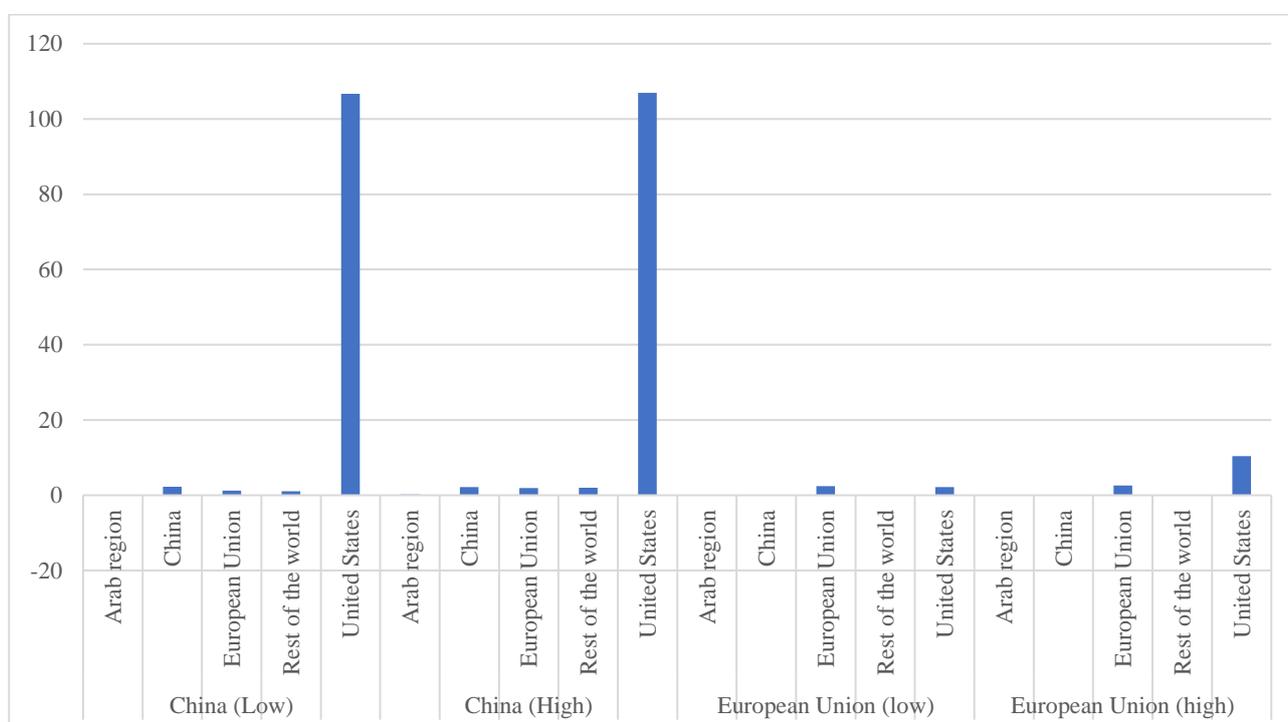
Source: ESCWA calculations using the results of the global CGE model.

30.   Figure 9 shows that all blocs' tariff revenues increase under the high and low United States-China scenarios, with a 106 per cent increase for the United States equivalent to $38 billion. However, under the high United States-European Union scenario, tariff revenue increases by 10.4 per cent for the United States, corresponding to an increase of $3.7 billion. Under the low United States-European Union scenario, a 0.1 per cent drop in tariff revenues is registered for the Arab bloc and China. United States tariff revenues almost double under the high and low United States-China scenarios, because American exports to China stand at $120 billion, while Chinese exports to the United States reach $563 billion. It follows that a trade war between the United States and China would benefit the United States in terms of tariff revenues.

31.   Assessed cumulatively, the Arab bloc accumulates marginal tariff gains of $0.4 billion under the high United States-China scenario, and a cumulative loss of $35 million under the low United States-European Union scenario. The United States registers $188 billion and $20.4 billion under the high United States-China and the high United States-European Union scenarios, respectively.

2. *At the country level*

32.   To gain insight into the country level effects of trade wars, the present document examines the effect of trade wars on Arab economies' real GDP, total exports and imports, and tariff revenues. The effects of trade war scenarios on Arab economies is relatively mild, given that they continue to be disconnected from the globalization process and global value chains, which renders Arab economies insulated from global shocks and alleviates the impact of external shocks, including trade wars.

33.   As shown in figure 10, the effect on real GDP reveals that oil-exporting countries (Oman, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates are affected by GDP decreases under all scenarios, but mostly under the high United States-China trade war scenario at 0.096 per cent, 0.091 per cent, 0.07 per cent, 0.04 per cent and 0.01 per cent, respectively. In contrast, Jordan at 0.08 per cent benefits most followed by Bahrain with 0.019 per cent, then Egypt with 0.015 per cent increase in real GDP under the high United States-China trade war scenario.

34.   In cumulative terms, over the period 2019-2023, Saudi Arabia, Kuwait and Qatar accumulate total losses of $1.1 billion, $767 million and $582 million, respectively. However, Egypt is the top beneficiary under the high United States-China trade war scenario, with cumulative gains of $165 million, followed by Tunisia at $159.7 million and $88 million in the high and low United States-China trade war scenarios respectively.

**Figure 10. Real GDP in Arab economies (% variations in 2023
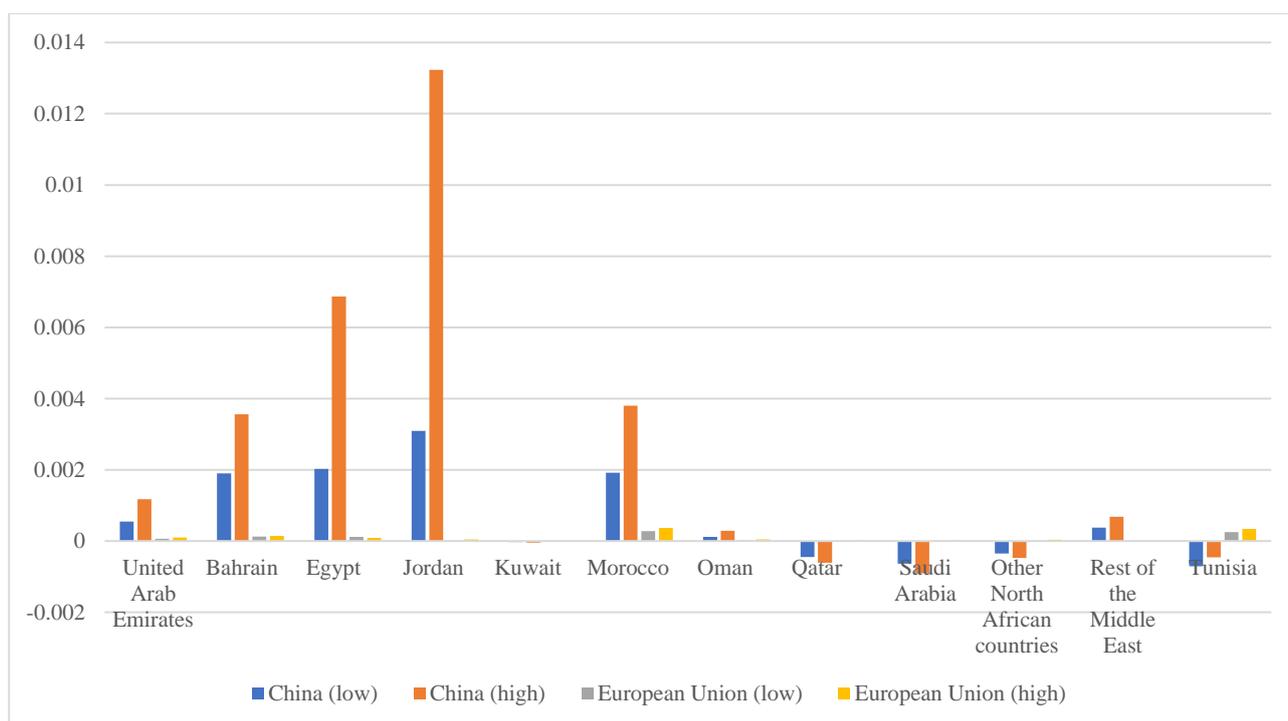with respect to the baseline scenario)**
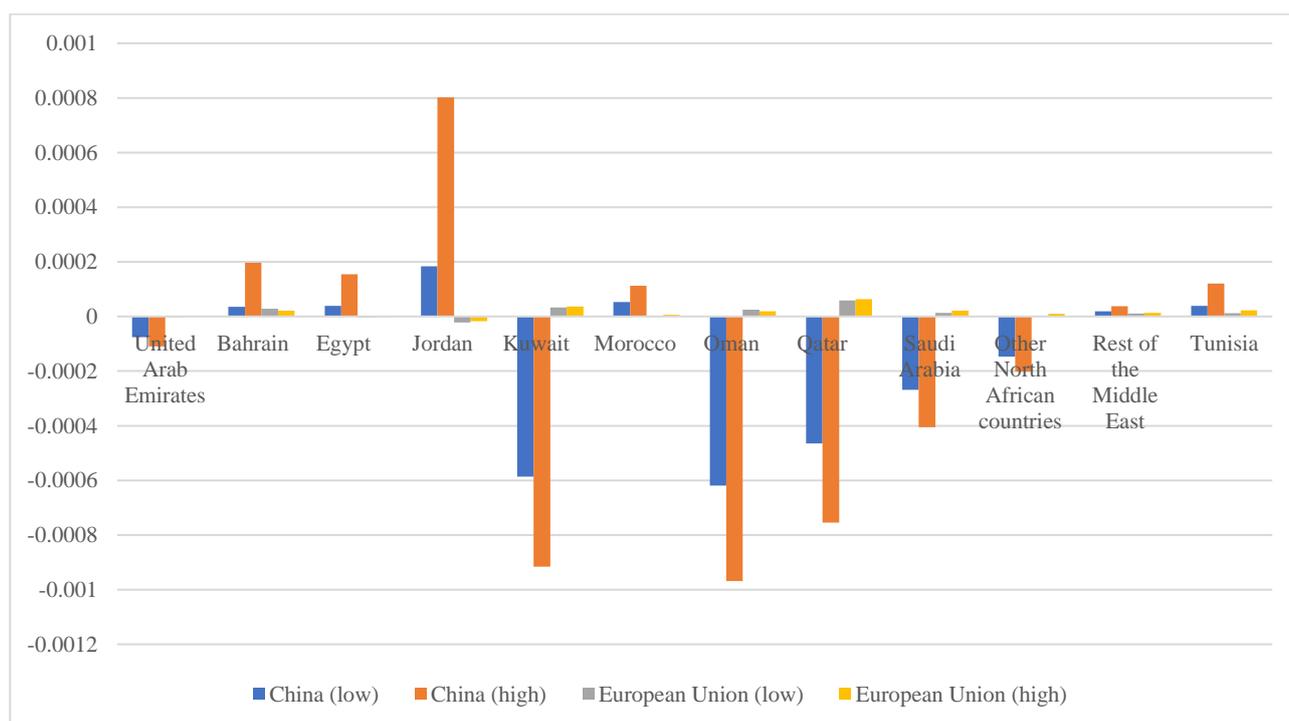
Source: ESCWA calculations using the results of the global CGE model.

35.   Figure 11 shows that under the high United States-China scenario, oil-exporting countries, namely Qatar and Saudi Arabia, register a 0.06 per cent and 0.091 per cent decrease in total exports, respectively. However, positive changes in exports are observed for Egypt at 0.68 per cent, Morocco at 0.4 per cent, Bahrain at 0.35 per cent, and Oman at 0.02 per cent. The remaining Western Asia countries register a 0.06 per cent increase in total exports under the same scenario. Notably, Jordanian total exports outperform all other Arab countries under the high United States-China scenario at 1.3 per cent.

36.   In cumulative terms, Arab countries are more vulnerable to the high and low United States-China trade war scenario. Saudi Arabia accumulates a total of $803 million in losses as forgone exports under the low United States-China trade war scenario, while the United Arab Emirates and Egypt benefit most with cumulative increases in exports of $720 million and $721 million, respectively, under the same scenario. Tunisia registers a drop of $66 million under the low United States-China trade war scenario and an increase of $47 million under the high United States-European Union trade war scenario. The remaining North African countries (ONF) follow the same pattern, registering a drop of $155 million and an increase of $10.2 million under high United States-China and the high United States-European Union trade war scenarios, respectively. Under the high United States-China trade scenario, the United Arab Emirates maximizes its gains to achieve $1.5 billion, whereas Saudi Arabia accumulates further losses worth $1.1 billion.

Figure 11. Total exports in Arab economies (% variations in 2023
with respect to the baseline scenario)

Source: ESCWA calculations using the results of the global CGE model.

37.   With regard to total imports (figure 12), Jordan experiences the highest increase at 0.3 per cent under the low United States-China trade war scenario, and 1.1 per cent under the high US-China trade war scenario. Bahraini, Egyptian and Emirati imports also increase, but to a lesser extent. However, Saudi Arabia, Qatar, Kuwait, and Oman experience a decrease in imports of 0.4 per cent, 0.57 per cent, 0.58 per cent and 0.04 per cent, respectively, under the high United States-China scenario. Cumulatively, Saudi Arabian imports decrease by $5.7 billion, while Egypt, the United Arab Emirates and Morocco register an increase of $2.8 billion, $1.7 billion and $1.1 billion under the high United States-China trade war scenario, respectively. While the import effect is marginal on the remaining Western Asia countries (OWS), the other North African countries (ONF) register a drop of $549 million and $534 million under the high United States-China and the high United States-European Union trade war scenarios, respectively.

Figure 12. Total imports in Arab economies (% variations in 2023 with respect to the baseline scenario)
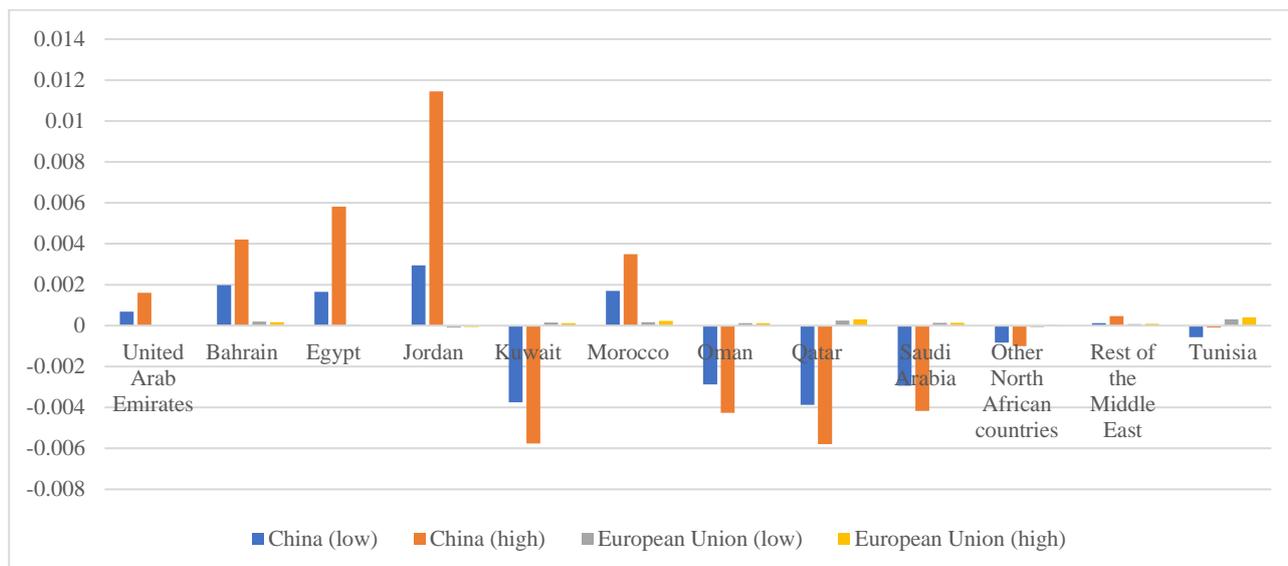
Source: ESCWA calculations using the results of the global CGE model.

38.	Figure 13 shows that tariff revenue follows the same pattern as total imports, with oil-exporting countries, except Bahrain, registering the highest losses in terms of tariff revenues. On the other hand, Morocco and Jordan are the top beneficiaries with 1.5 per cent and 1.4 per cent increases, respectively, under the high United States-China scenario. Over the period 2019-2023 and using the high United States-China trade war scenario, Egypt and Morocco accumulate total gains in terms of tariff revenues of $233 million and $201 million, respectively, while Saudi Arabia accumulates loses of $151 million followed by the United Arab Emirates, Qatar and Kuwait at $53 million, $47 million and $36 million in terms of tariff losses, respectively. The remaining North African (ONF) and Western Asia countries (OWS) register relative marginal gains, while Tunisia registers $135 million in terms of gains under the high United States-China trade war scenario but registers marginal losses in tariff revenues under the high United States-European Union trade war scenario.

Figure 13. Total tariff revenues in Arab economies (% variations in 2023 with respect to the baseline scenario)
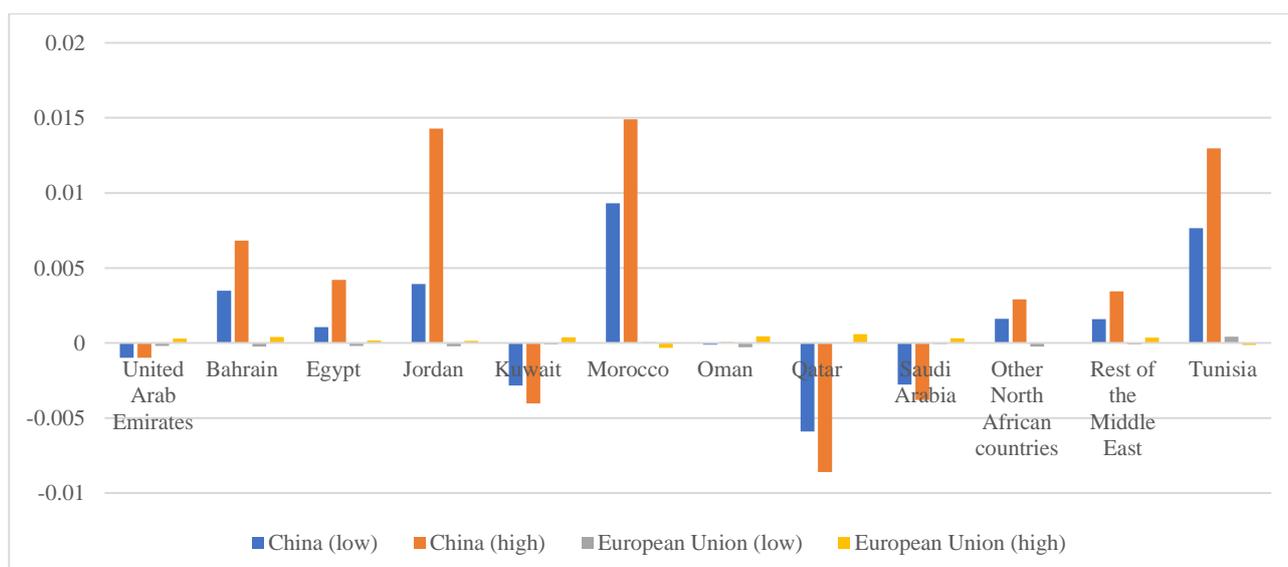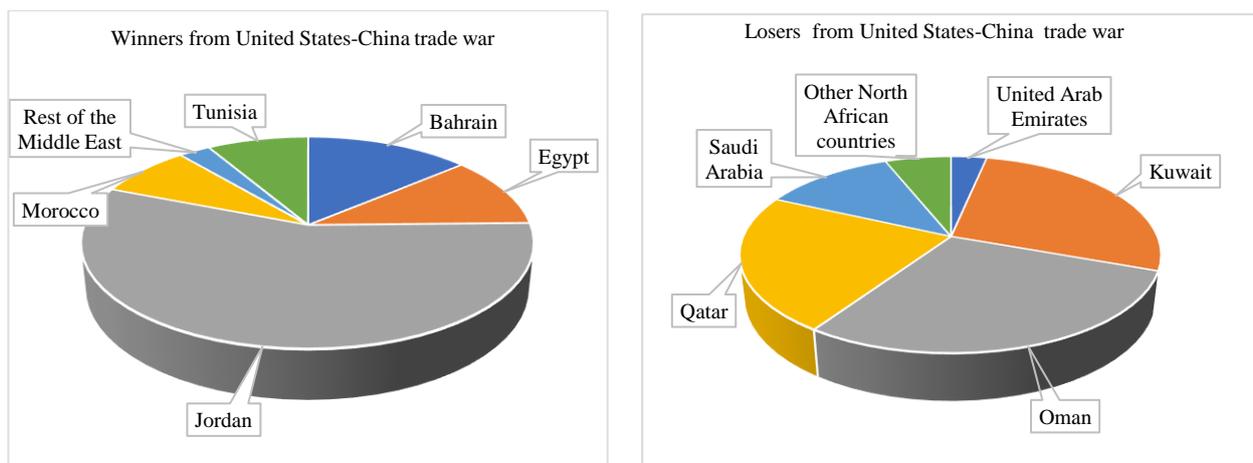

Source: ESCWA calculations using the results of the global CGE model.

39.   To summarize the winners and losers from these trade war scenarios, Arab economies were divided into two groups (losers and winners) under the high United States-China and the high United States-European Union scenarios, reflecting the effect of the scenarios on overall country-level outputs. It should be noted that the transmission mechanism and the underlying channels through which an external shock, a trade war shock in this case, propagates in an economy hinges on a set of overlapping variables that differ between countries, and depends on their initial situation in terms of productive structure, fiscal policy, trade policy, labor market, and trade structure, among other factors. This warrants a case-by-case analysis to pinpoint transmission mechanisms through which an exogenous shock and its ripple effects propagate in an economy.

40.   Figure14 summarizes country level gains and losses in terms of real GDP under the high United States-China scenario. The primary winner from the high United States-China scenario is Jordan, registering 56 per cent of the winners' share, followed by Bahrain, Egypt, Tunisia, Morocco, and the remaining West Asian economies with 13.8 per cent, 10.9 per cent, 8.4 per cent, 7.9 per cent, and 2.7 per cent shares, respectively. In contrast, oil-exporting countries are losers under the high United States-China trade war scenario, with Oman, Kuwait, Qatar, and Saudi Arabia comprising 28.8 per cent, 27.3 per cent, 22.5 per cent, and 12 per cent shares of the total losses, respectively. This is mainly due to the oil demand shock mechanism arising from sluggish global growth, and thereby, reducing oil exports from oil-exporting countries, which in turn affects oil exporting countries' fiscal expenditures and investments as oil receipts constitute the backbone of these countries fiscal revenues. By the same token, oil prices are found to granger-cause stock markets in Gulf Cooperation Council economies, thus amplifying the effect of an oil price shock. In addition, as China devaluates its currency, imports of most Arab countries from China increase, because Chinese imports are now cheaper. The remaining Africa countries (ONF) also lose from a United States-China trade war scenario, constituting 6 per cent of the share of total losses.

Figure 14. Winners and losers of the high United States-China trade war scenario
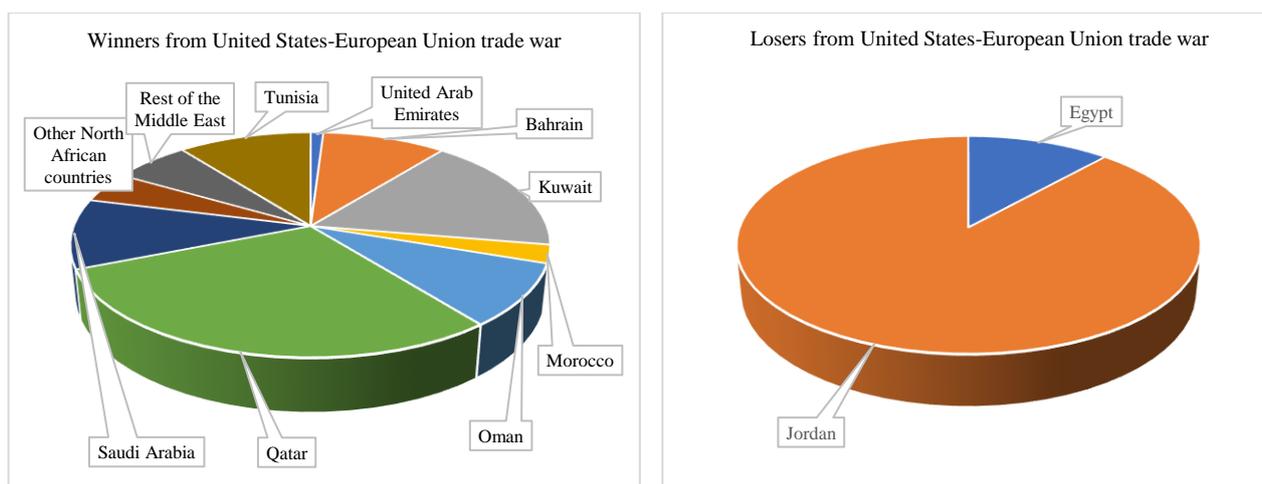

Source: ESCWA calculations using the results of the global CGE model.

41.   When it comes to the high United States-European Union scenario, except for Egypt and Jordan, all Arab economies benefit but to a different extent. Qatar followed by Kuwait, Tunisia, Saudi Arabia and Bahrain are the top winners, with 29 per cent, 16.9 per cent, 10.5 per cent, 10.1 per cent, and 9.8 per cent of the winners share, respectively. Maghreb economies are more diversified, so a United States-European Union trade war would benefit these countries through a trade diversion channel. Oil-exporting countries also win from a United States-European Union trade war as the European Union halts its energy imports from the United States and substitutes from other sources. Egypt and Jordan, in contrast, would suffer most in the case of a United States-European Union trade war. The remaining North African countries and West Asian countries register 4.4 per cent and 6 per cent of the winners' share, respectively.

42.   Emerging markets are the first to experience a cut off in financing as investors fear that weak financial and legal institutions are unable to cope with the new global business   environment. Countries running internal and/or external deficits (Egypt, Jordan and Tunisia) are more affected as they struggle to finance their deficit in tighter financial conditions, which constitutes another indirect channel through which a trade war can affect Arab economies. Tighter financial global conditions usually trigger a balance of payment crisis similar to the 1995 Mexican crisis and the recent Egyptian currency crisis, or leads to a sovereign debt crisis as emerging economies find it hard to roll over their debt or maintain their current external deficit.

**Figure 15. Winners and losers of the high United States-European Union
trade war scenario**

Source: ESCWA calculations using the results of the global CGE model.

IV. CONCLUSION

43.   Implications of a full-blown United States-China or United States-European Union trade war are not limited to the main parties involved, but also affect other third-party countries through overlapping trade and financial networks, thus disrupting global supply chains and causing uncertainty in financial markets. Using a global dynamic general equilibrium framework, the present document examined the implications of four trade war scenario on China, the United States, the European Union, and Arab countries and the rest of the world to gain insight into potential opportunities and challenges under those scenarios.

44.   The findings document real GDP losses at the global level under both the United States-China and United States-European Union trade war scenarios. In the case of a United States-China trade war, China would lose more in terms of GDP, while the United States would lose more in terms of exports. Arab countries, as an economic bloc, would also suffer real GDP loses despite marginal improvements in exports under the United States-China scenario. Under the United States-European Union scenarios, Arab countries would register marginal developments in terms of real GDP and exports. At the country level, however, oil-exporting countries, except Bahrain, are key losers in terms of growth and exports; while Egypt, Jordan and Morocco are the main winners in terms of GDP growth and total exports.

45.   Findings in the present document also align with CGE results on trade war scenarios documented in Li, He and Lin (2018), Mesquita (2019), Amiti, Redding and Weinstein (2019), and the 2019 IMF surveillance report of the Group of 20 meeting, which points to losses for all parties engaged in trade wars and for the rest of world through indirect trade and financial channels.

46.   In summary, United States trade tensions with the European Union, India and China would not reduce the overall United States trade deficit, despite possible bilateral trade balance shifts. The United States trade deficit emanates from a high per capita consumption financed through high borrowing in international markets.

On the contrary, trade tensions and possible trade wars disrupt global supply chains and boosts uncertainty. Trade wars also have a 'ripple effect' on other countries, including emerging economies. Consequently, Arab countries are affected via two main channels: lower oil prices affecting oil-exporting countries; and changes in market access to global markets. However, reducing American imports from China and/or from the European Union would give opportunities to other countries worldwide, including some Arab countries, mainly non-oil countries to boost their exports and benefit from trade diversion.

47.   China will certainly further depreciate its currency to increase its competitiveness and to offset the effects of higher tariffs. This additional competitiveness of Chinese exports will boost its exports to the rest of the world in general, including Arab countries. All these developments in an ever-changing global economy require specific policies to improve the competitiveness of Arab exports, mitigate potential costs, and increase benefits. The present document will be followed by a specific analysis at the country and sectoral levels for selected Arab countries to help policymakers adopt appropriate policies to mitigate the effects of trade war and any other relevant global trade tensions.

Annex

Trade war economic losses

(*USD billions*)

Scenario	Bloc	GDP	Agri Exports	Total Exports	Agri Imports	Total Imports	Tariffs Revenues
US-China Trade War (Low)	Arab	-563.274	516.92427	135.84	-2545.558	-1000.012	19.62991422
US-China Trade War (Low)	CHN	-24764.88	44713.843	-146799.4	-12625.85	-155090.6	2114.978962
US-China Trade War (Low)	EU27	253.8	-8782.4	17062.476	-8782.4	19199.334	1110.837113
US-China Trade War (Low)	ROW	3867.92	-10305.87	49644.48	1801.114	63649.716	3374.253783
US-China Trade War (Low)	USA	-9027.68	-17947.24	-171179.4	42379.792	-178926.8	37987.2003
US-China Trade War (High)	Arab	-821.178	350.81757	1029.904	-3552.806	-285.987	73.66853508
US-China Trade War (High)	CHN	-37268.98	72352.422	-205884.6	-21020.04	-230954.4	2078.209382
US-China Trade War (High)	EU27	650.7	-13627.59	25840.726	-13627.59	29158.745	1783.938177
US-China Trade War (High)	ROW	7673.4	-19617.6	84852.8	4314.996	110184.36	6356.115198
US-China Trade War (High)	USA	-13646.24	-27897.74	-239054	64594.065	-241049.7	38054.10799
US-EU Trade War (Low)	Arab	34.371	81.95112	62.032	-350.1177	111.839	-5.58576858
US-EU Trade War (Low)	CHN	149.8	1710.627	363.018	-336.4729	353.948	-7.97356368
US-EU Trade War (Low)	EU27	-486.54	3104.552	-8054.826	3104.552	-7215.978	2182.08328
US-EU Trade War (Low)	ROW	43.4	2050.44	1761.2	-1185.926	2009.826	-10.52150124
US-EU Trade War (Low)	USA	-403.68	-15516.53	-9517.4	-9363.875	-10059.87	758.7937743
US-EU Trade War (High)	Arab	48.06	-219.4066	96.544	606.11248	110.149	7.68735744
US-EU Trade War (High)	CHN	260.82	-301.0536	416.024	936.23892	313.712	38.1735432
US-EU Trade War (High)	EU27	-896.22	7999.2	-18439.17	7999.2	-19400.77	2371.910919
US-EU Trade War (High)	ROW	454.16	-1973.22	6590	3905.034	7349.628	465.4081243
US-EU Trade War (High)	USA	-1369.92	-26200.83	-21005.2	-33197.71	-19599.56	3706.330466

Source: Developed by ESCWA.