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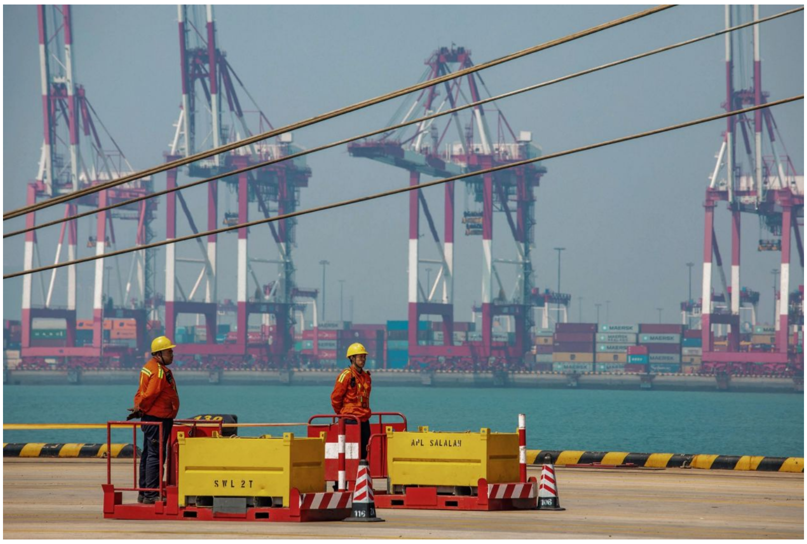
ECONOMY

Trade Disputes Are Weakening Future Growth, OECD Says

Business investment to grow at an average 1.75% this year, down from 3.5% in 2017 and 2018



A port in Qingdao in Shandong province, China. If kept in place, new tariffs would shrink the U.S. and Chinese economies by 0.2% or 0.3% by 2021, said the OECD. **PHOTO:** STR/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Paul Hannon

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Conflicts between the U.S. and its major trade partners have weakened business investment around the world, threatening to hamper future as well as current rates of economic growth, the Organization for Economic Cooperation and Development said Tuesday.

The OECD said a series of trade disputes between the U.S. and its trading partners that have seen tariffs placed on a widening spread of goods have been largely responsible for a slowdown in global economic growth since 2017. It warned that uncertainty about the extent and duration of the trade disputes is holding back business investment, and harming longer-term growth prospects.

The OECD estimates that business investment will grow globally at an average rate of 1.75% this year and next, down from 3.5% in 2017 and 2018. It said lower spending on tools and equipment is contributing to a slowdown in trade flows, which it estimates flat lined in the first three months of the year. Capital goods account for a larger share of trade than they do economic output.

"It's something that's super worrying," said Laurence Boone, the OECD's chief economist. "The less we invest today, the more we will be missing in the future."

In a quarterly report, the Paris-based research body lowered its growth forecast for the global economy this year, to 3.2% from 3.3% previously. That would mark a slowdown from the 3.5% expansion in 2018, and the 3.7% expansion in 2017.

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In an interview with The Wall Street Journal, Ms. Boone said changes in the way businesses operate internationally—which have increased the need for protection of intellectual property—means there is reason to "reassess and modernize" the global trade system.

But she said that unilateral actions by individual governments weren't the way to proceed, given how interconnected the global economy has become.

"It's better to do this through a multilateral process," she said.

In its latest outlook, the OECD raised its growth projections for the U.S., the eurozone and the U.K., albeit slightly, and left its growth forecast for China unchanged, while slightly lowering its projections for Japan. In the U.S., it now expects to see economic growth of 2.8% this year, and 2.3% next, up from 2.6% and 2.2% respectively.

Those upgrades largely reflect a better-than-expected start to the year. But the forecasts were finalized before the U.S. raised tariffs on $200 billion of Chinese goods to 25% from 10% and said it is considering higher levies on the roughly $300 billion of Chinese goods not yet covered by the punitive duties. China retaliated by raising tariffs on $60 billion in U.S. imports to as much as 25%.

The OECD said that, if kept in place, those new tariffs would shrink the U.S. and Chinese economies by 0.2% or 0.3% by 2021, while U.S. consumer prices would be 0.3% higher in 2020 than they would have been without the new duties. The measures therefore double the negative impact on economic output from tariffs announced in 2018.

It said further tariff increases would deepen the damage. In a scenario where both the U.S. and China imposed 25% tariffs on all goods traded between them, the OECD said U.S. economic output would be lowered by 0.6%, and Chinese output by 0.8%, with other countries being hit to the degree that they export to the main participants.

The Trump administration also retains the option of imposing tariffs on automobile imports, which would hit Germany and other parts of Europe that supply it with parts.

"Such measures could add considerably to the costs of the tariff increases imposed so far and adversely affect business investment plans around the world," the OECD said.

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