

GEOPOLITICS AND ITS IMPACT ON GLOBAL TRADE AND THE DOLLAR

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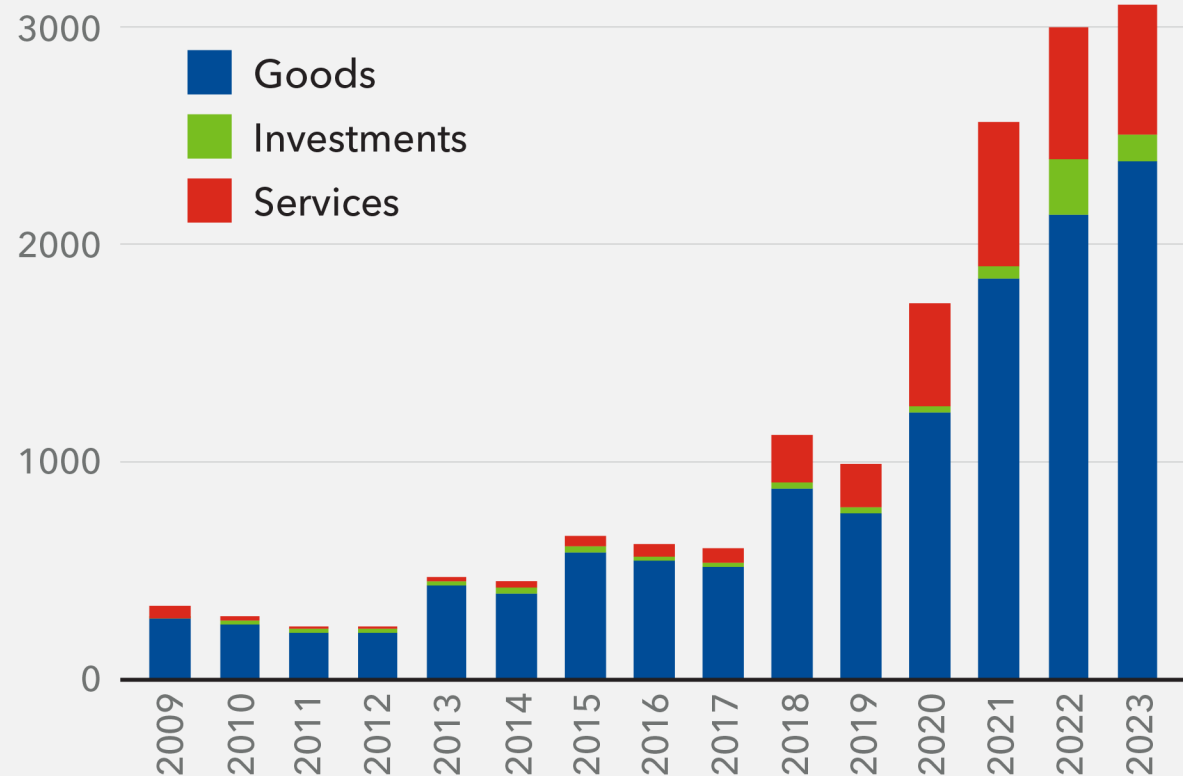
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THE GLOBAL BACKDROP

TRADE RESTRICTIONS HAVE INCREASED SHARPLY ALONGSIDE GEOPOLITICAL RISK.

TRADE RESTRICTIONS

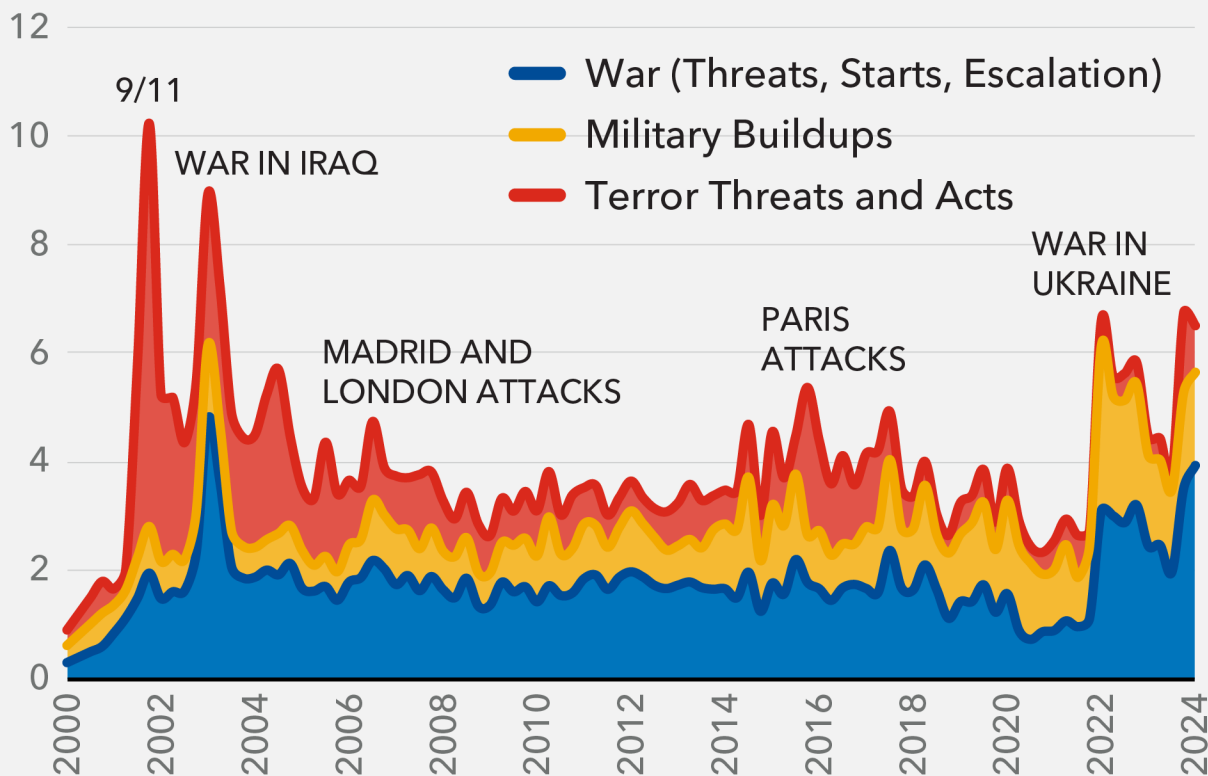
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Source: Global Trade Alert
Note: Data accessed March 6, 2024; includes adjustment for reporting lags.

GEOPOLITICAL RISK

(INDEX)



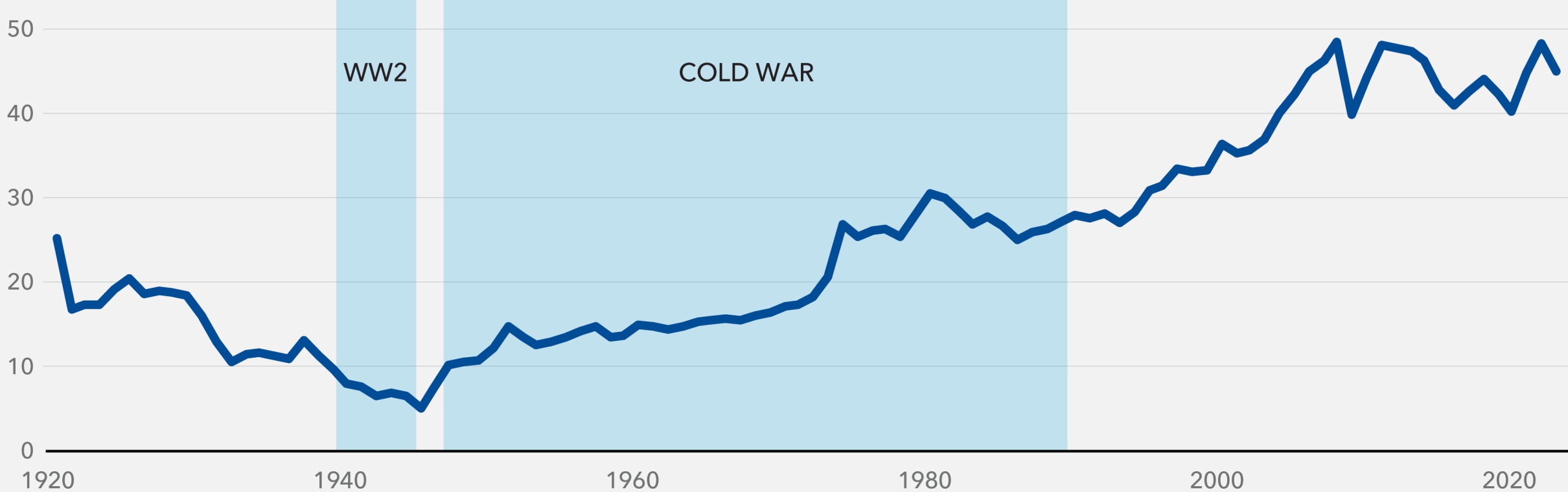
Source: Caldara, Dario, and Matteo Iacoviello. "Measuring geopolitical risk." American Economic Review 112.4 (2022): 1194-1225.

GLOBALIZATION AND TRADE FRAGMENTATION

AT THE AGGREGATE LEVEL, HARD PRESSED TO SEE SIGNS OF DE-GLOBALIZATION

GLOBAL GOODS TRADE THROUGH TIME

(PERCENT OF GLOBAL GDP)



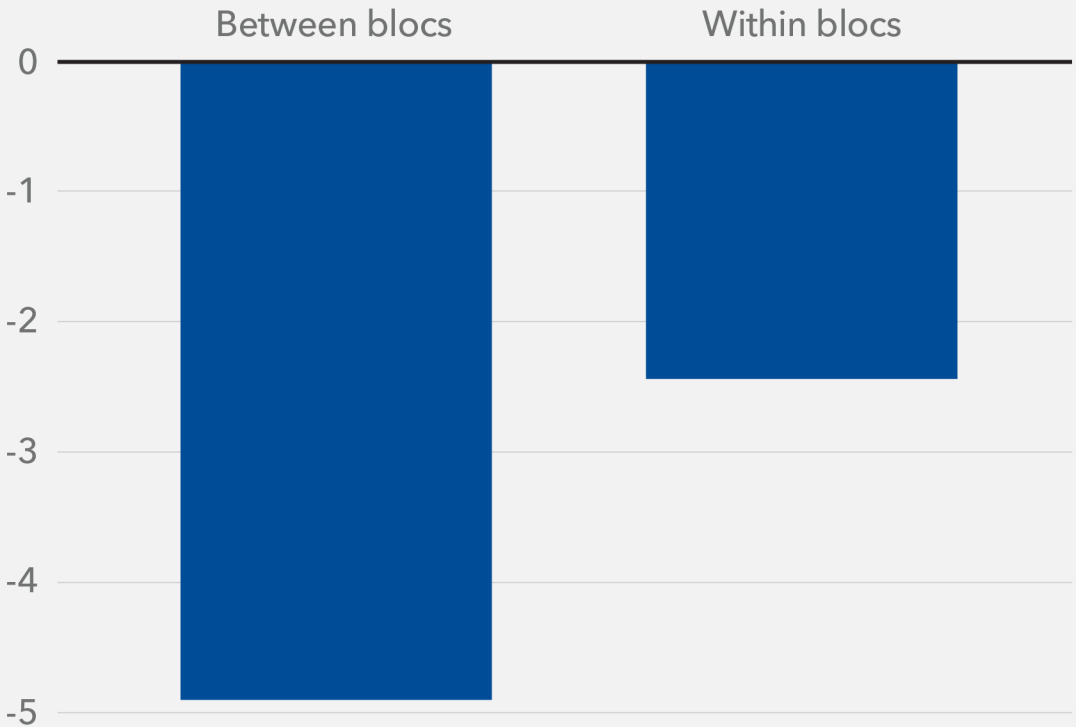
Source: Based on Gopinath et al. (2024) with inputs from Fouquin and Hugot (2016); CEPII; Jordà-Schularick-Taylor Macroeconomy Database; IMF World Economic Outlook; Trade Data Monitor; and authors' calculations.

EMERGING FAULT LINES

GEOPOLITICAL CONSIDERATIONS ARE ALREADY AFFECTING TRADE FLOWS

CHANGE IN TRADE GROWTH POST WAR

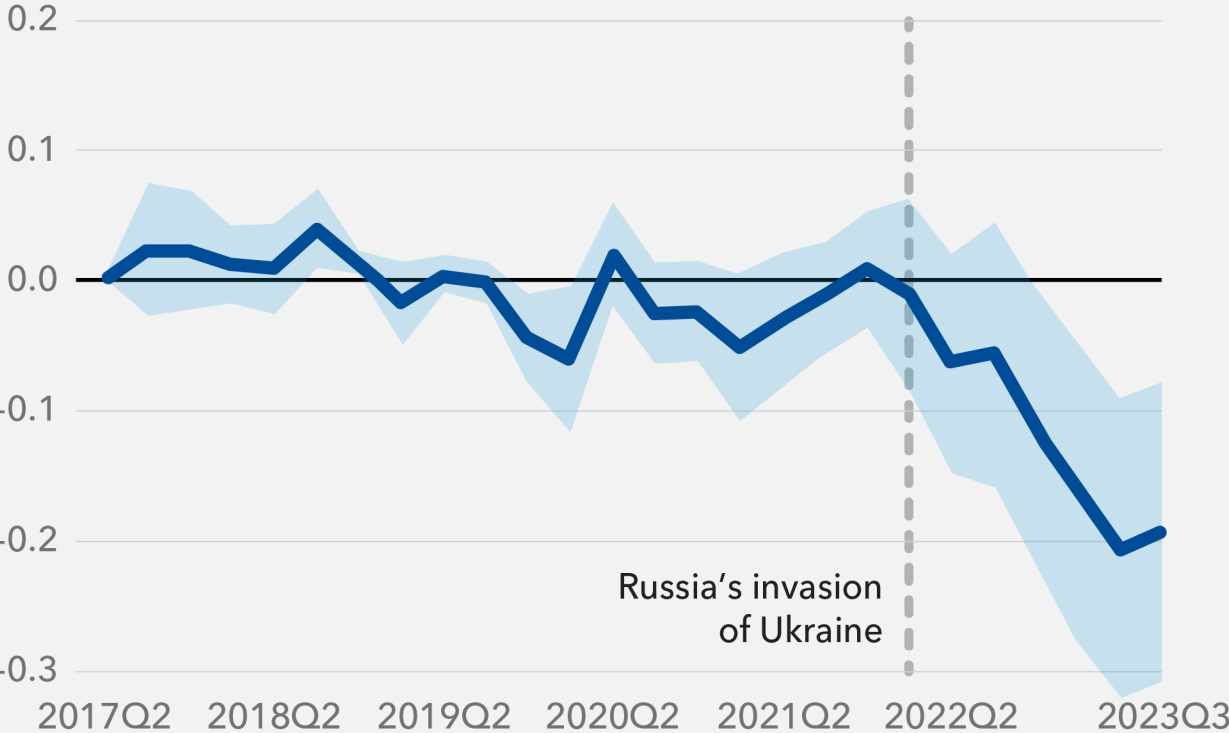
(PERCENTAGE POINTS)



Source: Gopinath et al. (2024), Trade Data Monitor and IMF staff calculations
Note: The chart shows the weighted quarterly trade growth averaged over quarters during 2022Q2 - 2023Q3 minus the equivalent for the period 2017Q1 - 2022Q1 within blocs, and between blocs.

TIMING OF TRADE FRAGMENTATION, BETWEEN BLOCS

(SEMI-ELASTICITY)



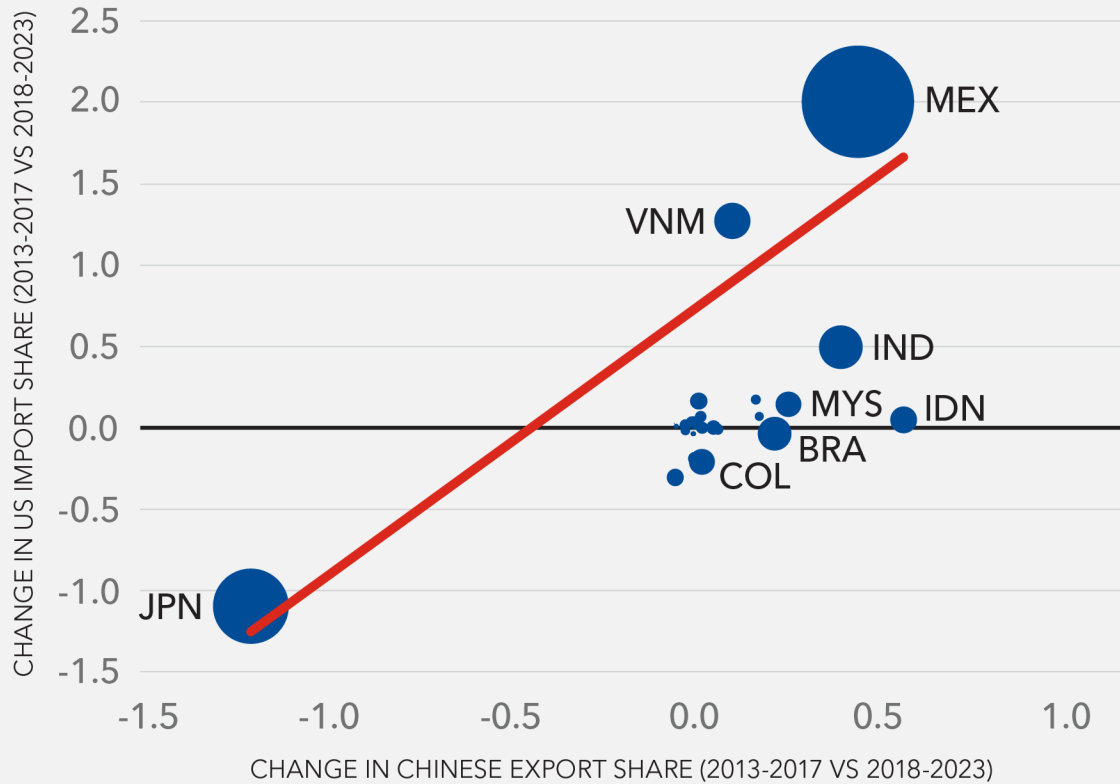
Source: Gopinath et al. (2024), Trade Data Monitor and IMF staff calculations.
Note: Plots the semi-elasticity of trade for flows between blocs, and associated 90 percent confidence bands, estimated with PPML and a fully saturated gravity model. Bloc definition based on Ideal Point Distance (a measure based on voting pattern in the United Nation General Assembly computed by Bailey et al. (2017)).

EMERGENCE OF “CONNECTOR” COUNTRIES

COUNTRIES GAINING MARKET SHARE IN US IMPORTS RECEIVED MORE FDI AND EXPORTS FROM CHINA SINCE 2017

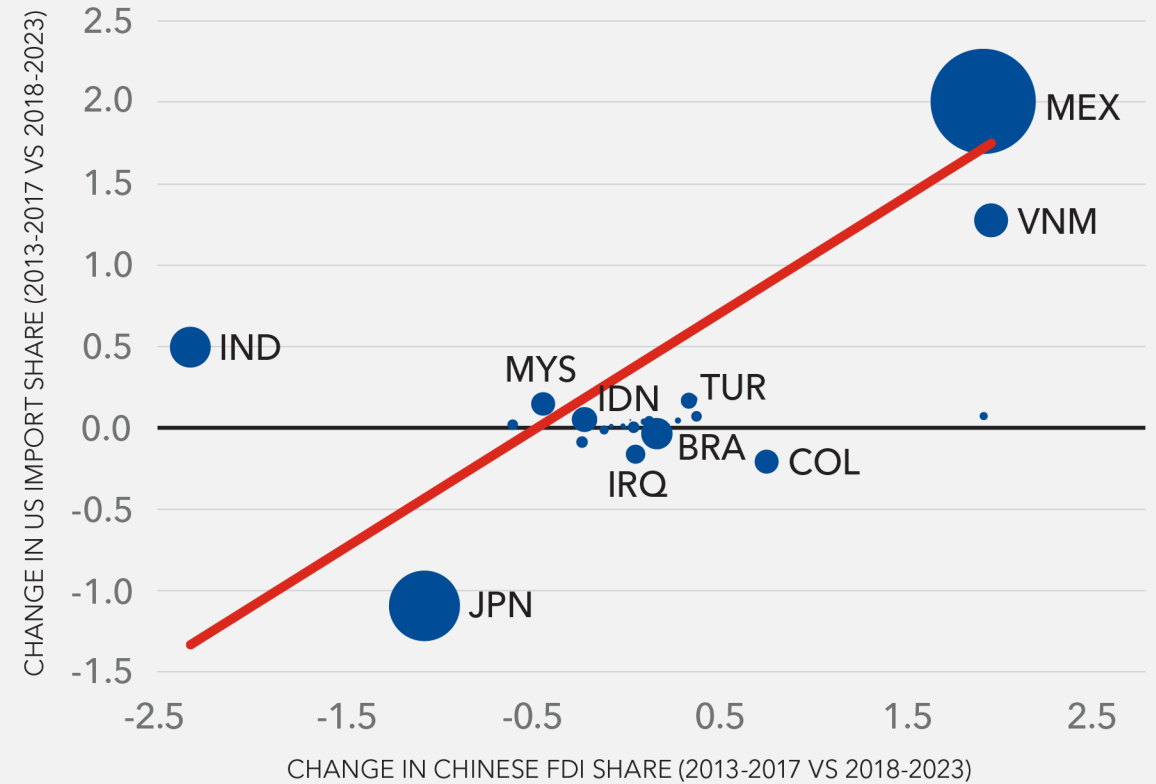
CHANGE IN US IMPORT SHARE VS. CHINESE EXPORT SHARES

(PERCENTAGE POINT)



CHANGE IN US IMPORT SHARE VS. FDI FROM CHINA

(PERCENTAGE POINT)



Source: Gopinath et al. (2024), Trade Data Monitor; fDi Markets; and IMF staff calculations.

Notes: Includes only nonaligned countries. LHS: change in U.S. import shares between 2018-23 and 2013-17 against change in Chinese export shares.

RHS: change in U.S. import shares between 2018-23 and 2013-17 against change in Chinese outward FDI.

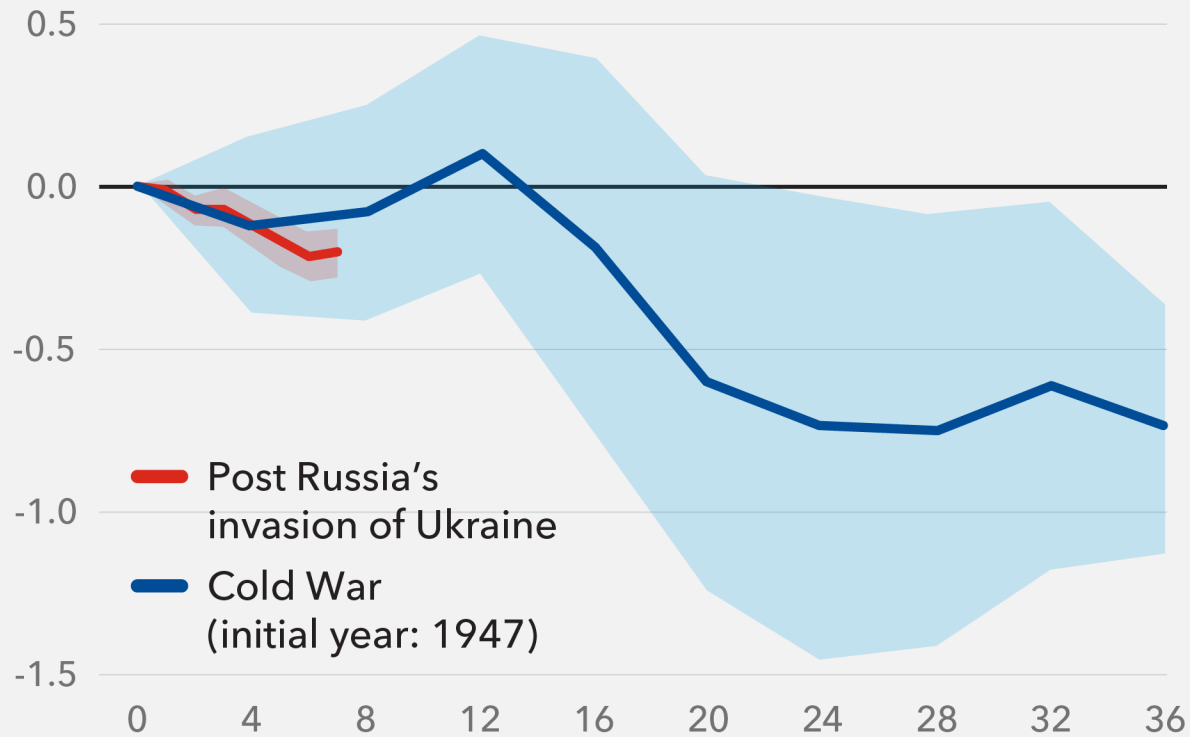
The bubble size represents the US imports in pre-periods.

FRAGMENTATION NOW AND DURING THE COLD WAR

TODAY'S FRAGMENTATION IS NOT THAT DIFFERENT FROM THE INITIAL YEARS OF THE COLD WAR

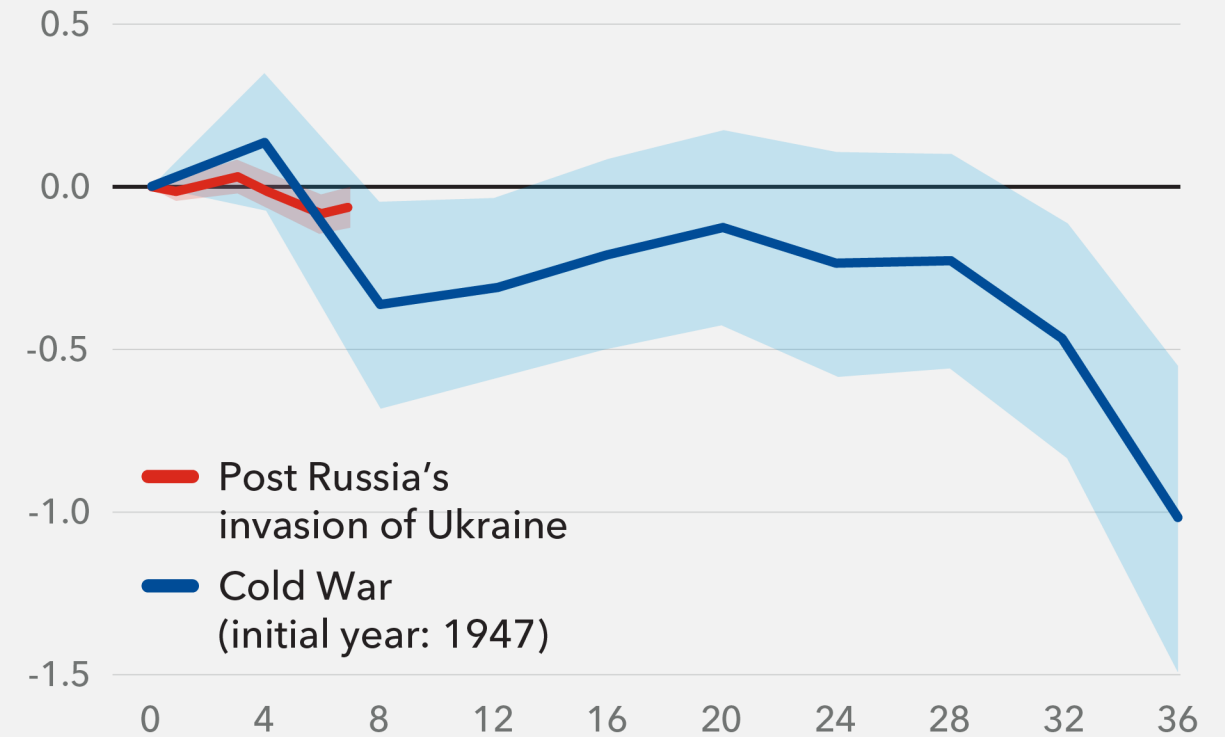
TRADE FRAGMENTATION, BETWEEN BLOCS

(TRADE SEMI-ELASTICITY)



TRADE FRAGMENTATION, WITH NON-ALIGNED

(TRADE SEMI-ELASTICITY)



Source: Gopinath et al. (2024), Trade Data Monitor; Historical Bilateral Trade and Gravity dataset (TRADHIST) prepared by Fouquin and Hugot (2016); and IMF staff calculations.

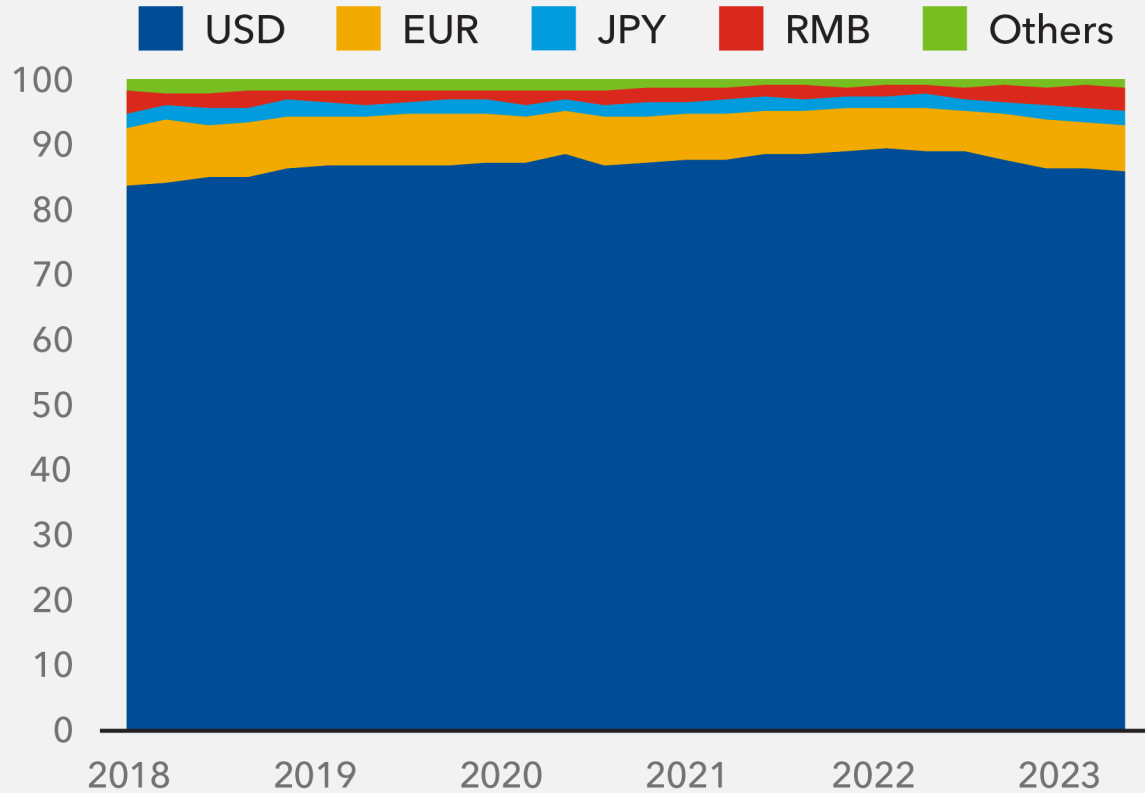
Notes: The charts plot 90 percent confidence bands, with semi-elasticities estimated with PPML and a fully saturated gravity model as in equation 1 of Gopinath et al. (2024). The missing category is trade within blocs. The Cold War bloc definition is based on Gokmen (2017), while the current bloc definition is based on the Ideal Point Distance (a measure based on voting pattern in the United Nation General Assembly computed by Bailey et al. (2017)).

DOLLAR DOMINANCE

USD RETAINS DOMINANT POSITION IN GLOBAL TRADE FINANCE AND FX RESERVES
RMB SHARE IS RISING, NOTABLY IN TRADE FINANCE, BUT FROM A VERY LOW BASE

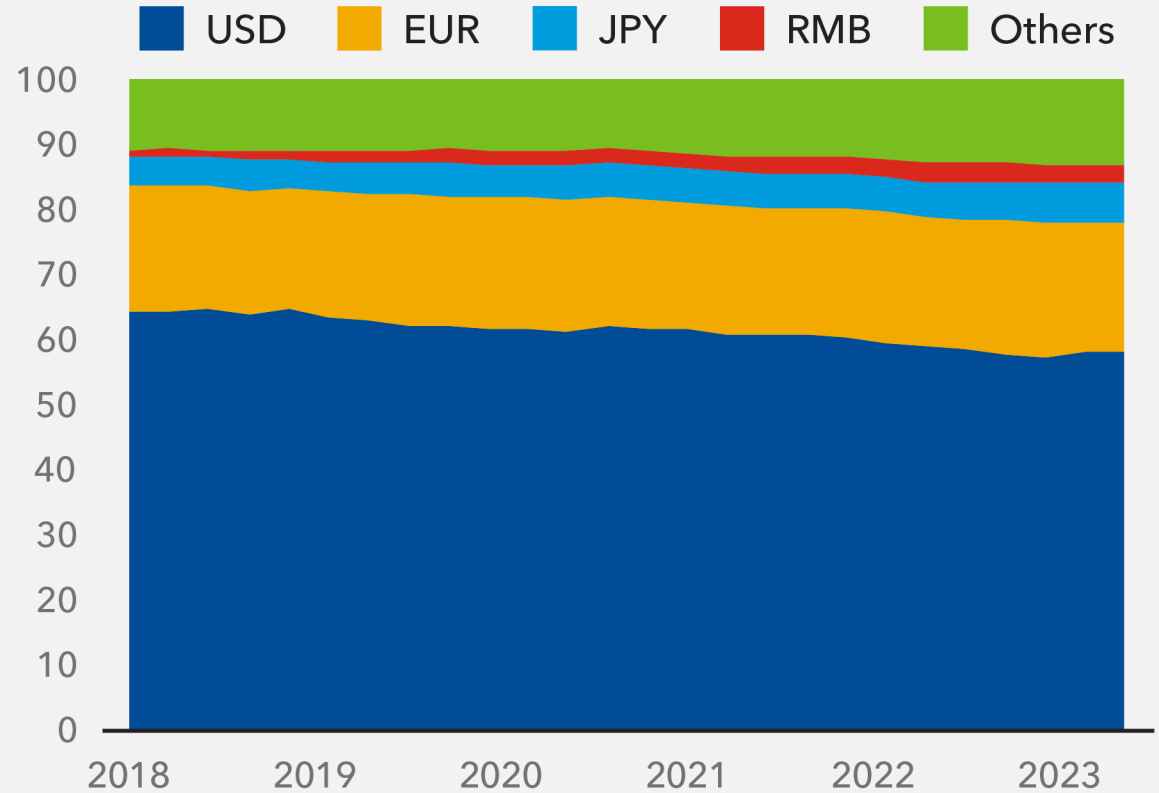
TRADE FINANCE

(PERCENT)



FX RESERVES

(PERCENT)



Sources: COFER, SWIFT and staff calculations.

Note: Only includes trade finance covered by SWIFT (Code MT700 (Letters of credit)).

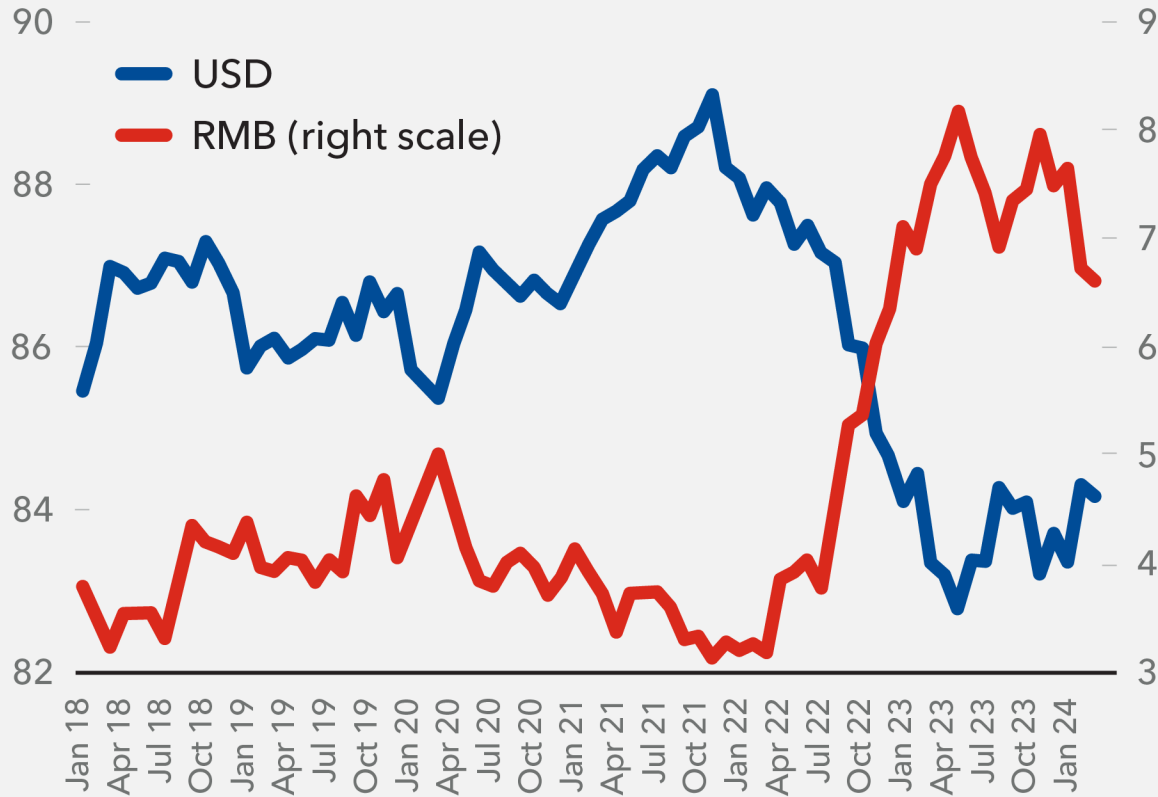
Data as of 2023Q3 (FX reserves), 2023Q4 (Trade Finance). Data is exchange-rate adjusted.

USD AND RMB IN CROSS-BORDER TRANSACTIONS

CHINA AND CHINA LEANING COUNTRIES HAVE INCREASED THE USE OF RMB IN CROSS-BORDER TRANSACTIONS

CHINA BLOC: SHARES OF RMB AND USD IN TRADE FINANCE

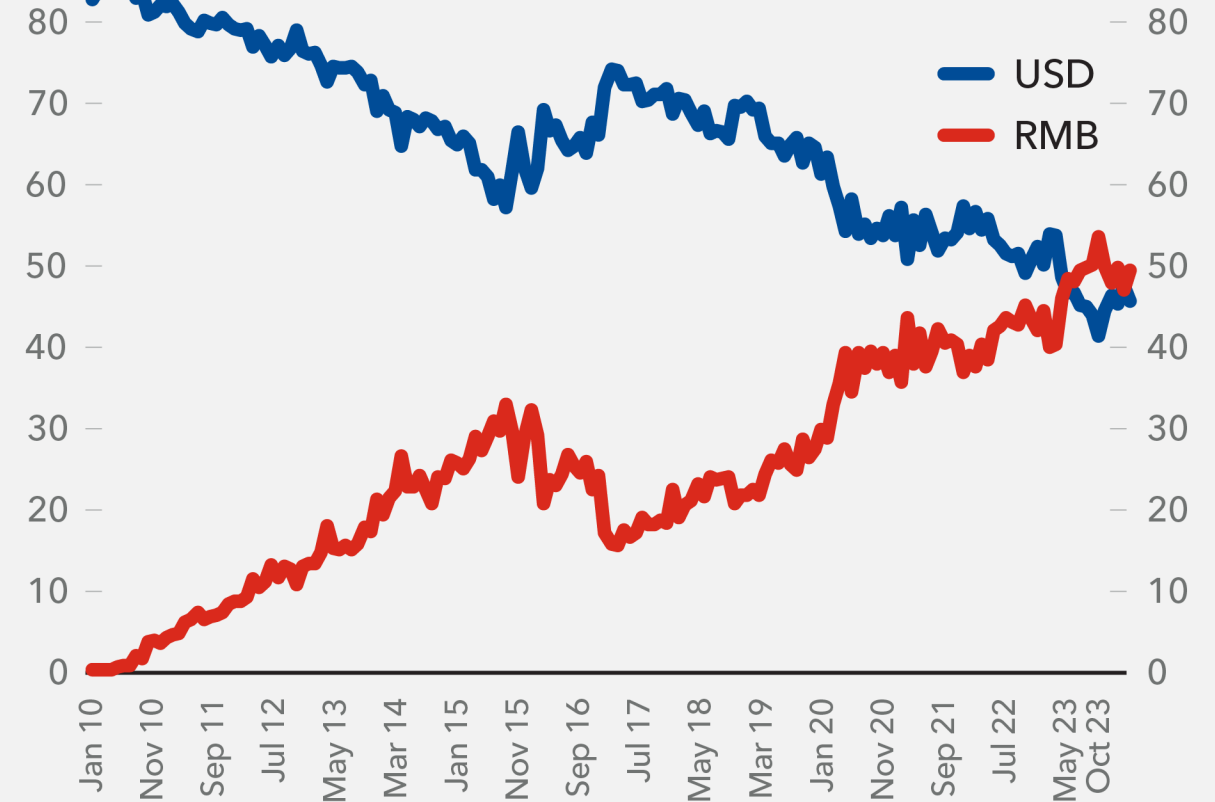
(PERCENT OF TOTAL)



Source: SWIFT; Code MT700 (Letters of credit)
Notes: Only include trade finance covered by SWIFT

CHINA: SHARES OF RMB AND USD IN FOREIGN RELATED RECEIPTS AND PAYMENTS

(PERCENT OF TOTAL)



Source: SAFE and staff calculations.

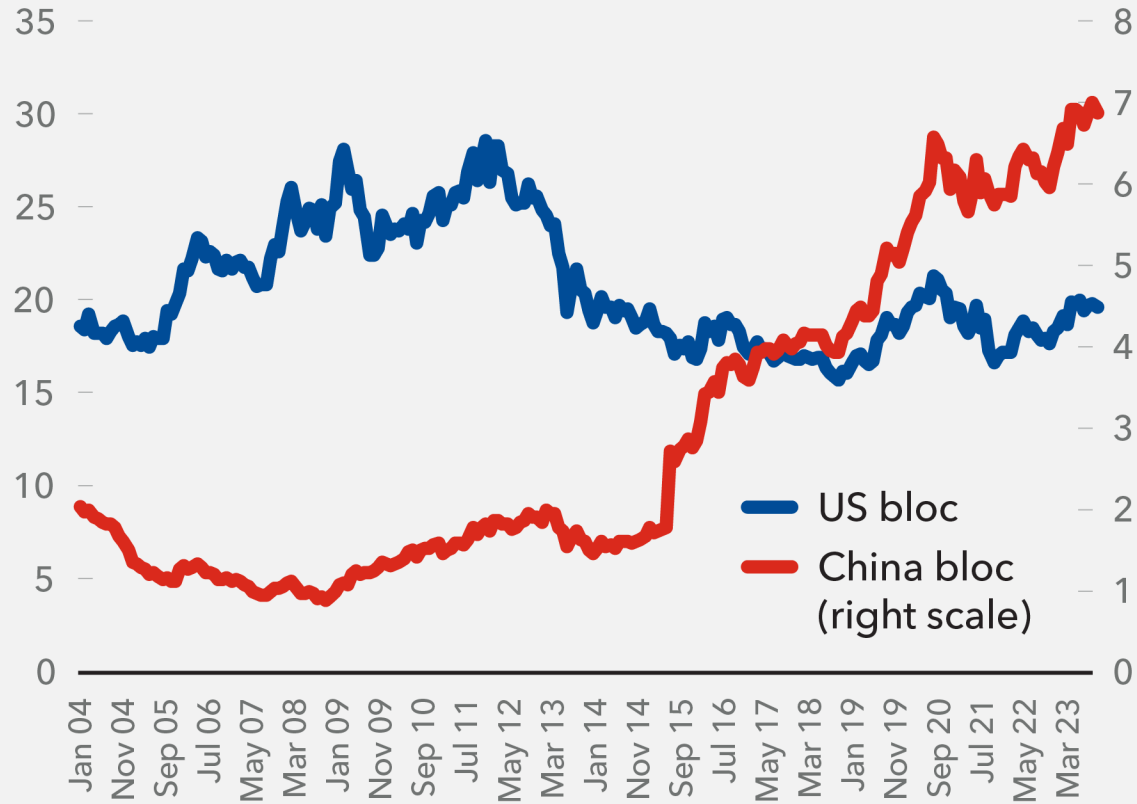
Notes: Includes receipts and payments between domestic non-banking sectors and non-residents through domestic banks, excluding receipts and payments in cash.

FOREIGN EXCHANGE RESERVES AND GOLD

CHINA AND CHINA LEANING COUNTRIES HAVE INCREASED THE SHARE OF GOLD IN FX RESERVES

CHINA BLOC, US BLOC: GOLD RESERVES/TOTAL RESERVES

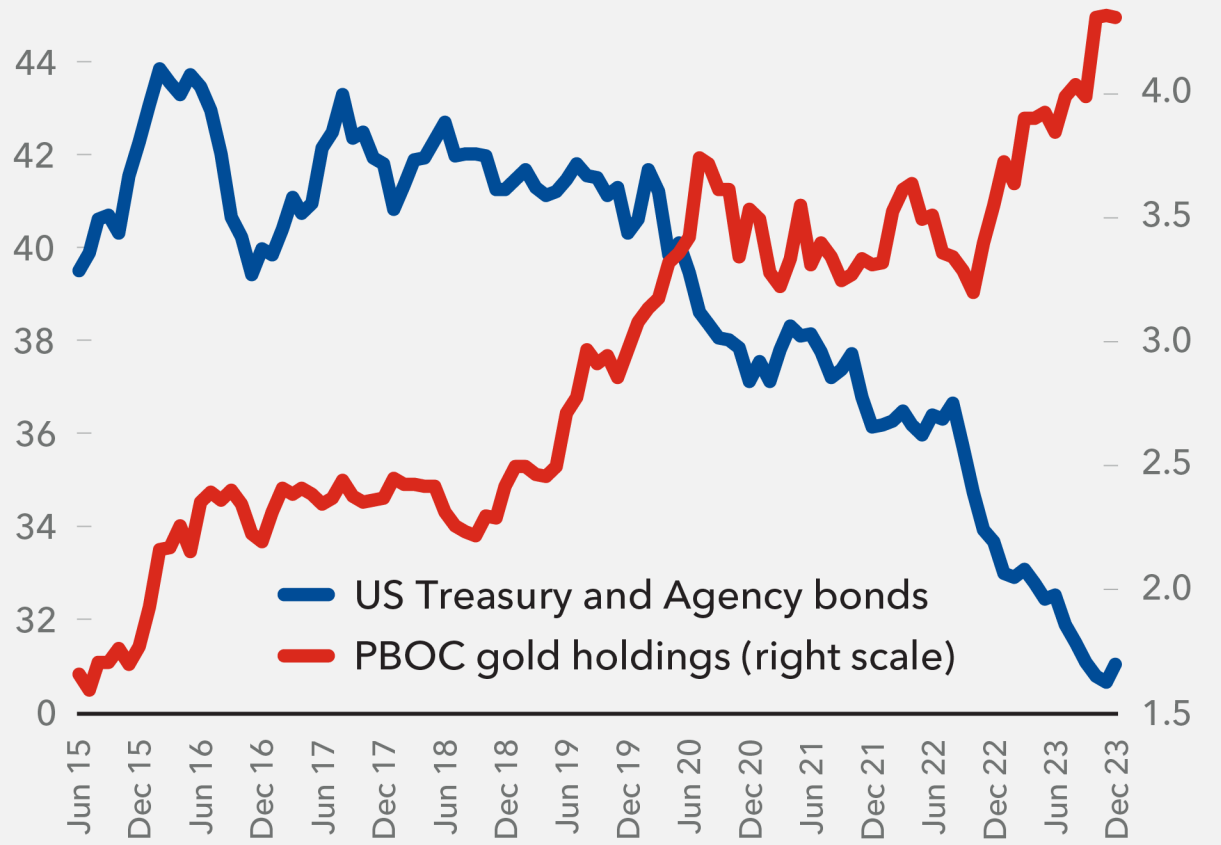
(SHARE OF FX RESERVES; PERCENT)



Source: IFS, staff calculations

CHINA: USD BOND HOLDINGS AND GOLD

(PERCENT OF FX RESERVES)



Source: Haver Analytics, US Treasury International Capital (TIC) Data, staff calculations

IMPLICATIONS GOING FORWARD

1. TRADE FRAGMENTATION

could reduce efficiency gains from specialization, competition and knowledge diffusion, and limit economies of scale.

2. FINANCIAL FRAGMENTATION

could reduce cross-border capital flows, hinder capital accumulation, weaken international risk-sharing and increase macro-financial volatility; *global payment system* and *FX reserves* could become more fragmented, reflecting geopolitical risks.

3. ECONOMIC COSTS

could be large, depending on severity of fragmentation.

4. EMERGING AND DEVELOPING ECONOMIES

could be disproportionately harmed due to their dependence on FDI, commodities, and exposure to food security risks.

5. GLOBAL PUBLIC GOODS

efforts to tackle global challenges such as climate change and AI could be impeded (e.g., higher cost of critical minerals for renewable energy and EVs)

SOLUTIONS

Ideally, we need to have...

- a robust rules-based **global trading system** and
- a resilient **international monetary system**

But reality is far from the ideal...

... we need a **pragmatic approach** to rebuild trust:

- Keeping lines of **communication** open and staying engaged
- Working together on areas of **common interest** (e.g., climate, health, food security)
- Working with **groups of interested countries**, while keeping the doors open to others (e.g., services and digital trade)
- Limit negative effects from **unilateral policy actions** – such as industrial policies – through greater transparency, data sharing and policy dialogue