ECONOMIC VIEWPOINT

The Rise in Protectionism and the Prospect of a Global Trade War

The risk that a trade war will impact the global economy has clearly increased over recent months. The first U.S. salvos, followed by the retaliatory measures of other countries, have caused tensions to rise. As things currently stand, the situation is still contained but unclear, and increased tariff barriers remain bilateral and with the United States. Nonetheless, it begs the question: Could a real trade war put an end to the current global economic growth cycle? Our base scenario presumes some easing in the short term and the successful renegotiation of the North American Free Trade Agreement (NAFTA), but the alternative bearish scenario, in which trade restrictions intensify, is gaining steam.

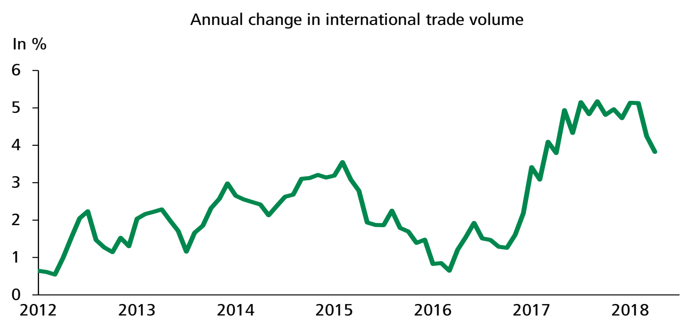
Donald Trump was elected by proclaiming his protectionist bent loud and clear. By calling NAFTA "the worst trade deal signed anywhere" during the election campaign, repeating the "America First" slogan during his inauguration, and then claiming that "trade wars are good, and easy to win," the U.S. President made no secret of his aversion to globalization. However, this penchant was somewhat hidden during the first year of his term. At that time, the White House was focused instead on immigration, the fight against Obamacare, and tax cuts. The only real decisions by the Trump administration concerning global trade have been: the United States' withdrawal from negotiations of the Trans-Pacific Partnership (now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership [CPTPP]), scrapping negotiations of a potential free trade agreement between the United States and the European Union (EU), and launching NAFTA renegotiations with Canada and Mexico.

Global Trade Was Powered by Strong Economic Growth

In the short term, these decisions by President Donald Trump had no impact on global trade. In fact, the improvement in the global economic situation worldwide in 2017, which saw a rapid increase in real GDP in the United States, Euroland and, to a lesser degree, China, increased the volume of trade worldwide. The International Monetary Fund (IMF) estimated trade growth in real terms to be 4.9% in 2017, the highest annual gain since 2011.

However, the pace has visibly slowed since last winter. Annual growth in global trade remained strong at 3.8% in April 2018, but it was below the 5% recorded up until January (graph 1). This mostly reflects the fact that several economies grew more slowly in Q1 2018,[1] due in part to weather, the rise in interest rates and higher oil prices. With the break being fairly clear, we were also seeing, in all likelihood, the effect of the first protectionist measures implemented by the Trump administration. In particular, there were the measures against steel and aluminum announced in January 2018 and imposed in March. The fear now is that the rise in the number of protectionist measures

GRAPH 1
World trade rose in 2017 but seems to have plateaued



Sources: CPB - Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

[1] Statistically, and according to the real quarterly GDP of the G20 published by the Organization for Economic Co-operation and Development (OECD) and data on world trade gathered by the CPB Netherlands Bureau for Policy Analysis since 2000, changes in real GDP cause the volume of global trade to vary, not the reverse.

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implemented by the United States and the retaliatory measures of other countries is increasingly slowing output worldwide and, at the same time, international trade.

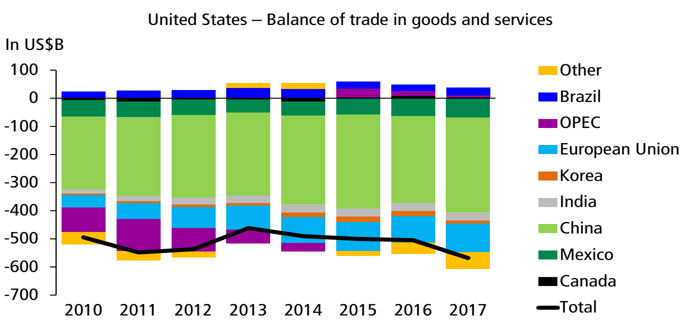
Why Adopt a Protectionist Policy?

President Donald Trump's arguments in favour of protectionism are based on the idea that the current global trade system is unfair to the United States. The president blames this situation on two things: the incompetence of previous U.S. administrations and the opportunism of foreign governments. But, does this imbalance really exist?

It is true that the U.S. trade deficit is huge. In 2017, the balance of trade in goods and services stood at US$552.3B, or 2.9% of GDP. This is still better than the peak of 5.5% recorded in 2006.

What really stands out is that most of the deficit is the result of trade relations with China (graph 2). The United States therefore has reason to be upset with this imbalance. The United States also seems to have a shortfall with Mexico and the EU. According to U.S. data, the situation between Canada and the United States is practically balanced.

GRAPH 2
U.S. trade deficit is mostly with China

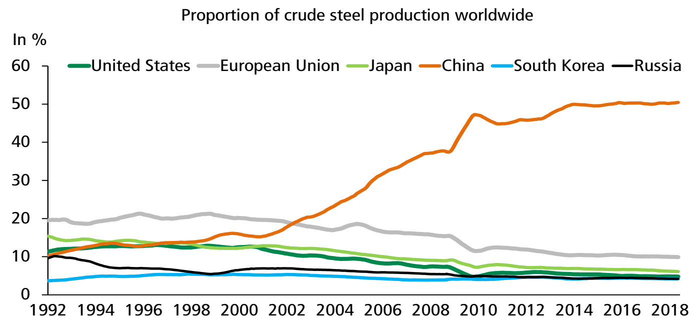


OPEC: Organization of the Petroleum Exporting Countries
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

In addition to the magnitude of the trade imbalance with China, the United States often complains about the comparative disadvantage in some sectors, even seeing it as a threat to their national security. This is especially the case with steel, where the size of Chinese output led to a supply surplus on international markets (graph 3). The military accounts for 3% of U.S. demand for steel, but the concerns surrounding national security go further than that. The erosion of this sector due to international competition, including the drop in production capacity caused by the lack of competitiveness of U.S. steel mills compared to cheaper (and according to some, poorer quality) imported steel and the loss of jobs in this industry, are also perceived as a security risk.

In addition, the United States has long complained of currency manipulation between the yuan and the dollar by Chinese

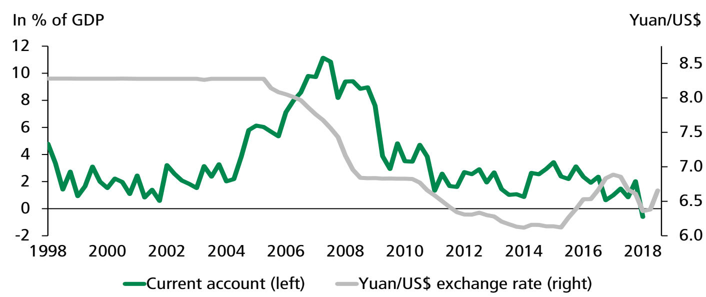
GRAPH 3
Chinese steel output leaves little room for other producers



Sources: World Steel Association and Desjardins, Economic Studies

authorities. However, this situation resolved itself in recent years, which even the U.S. government admits. Indeed, China's current account balance is not what it was in the 2000s. From a surplus that exceeded 11% of GDP in 2007, it is now less than 2% (graph 4). China is also no longer as hungry for U.S. bonds (graph 5); in the past, its purchases of Treasury securities allowed it to keep the yuan low against the greenback.

GRAPH 4
Chinese current account balance is much smaller than before the financial crisis



Sources: Datastream and Desjardins, Economic Studies

GRAPH 5
China is buying almost no U.S. Treasury securities anymore

Sources: Datastream and Desjardins, Economic Studies

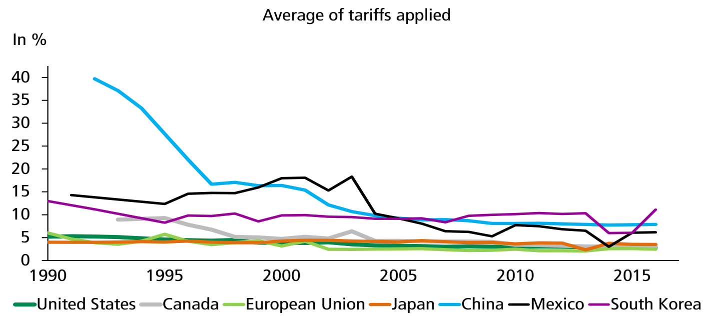
However, complaints by the United States against China go beyond these issues. Intellectual property, the openness of the Chinese economy (still largely controlled by the government), Chinese industrial policy (in particular, the "Made in China 2025" plan) and the cyber-espionage that China is allegedly carrying out are all arguments for a more protectionist policy against China.

China is not the only target of the U.S. administration. Higher tariffs by other countries on some U.S. exports (especially in the auto sector) and the policy of closing markets in other sectors (think Canadian supply management in some agricultural sectors) were the subject of complaints often raised by the United States, even before Donald Trump arrived in Washington.

It is true that most countries have average effective tariffs that are higher than U.S. tariffs. However, the differences are marginal for advanced countries. In the case of emerging countries, tariffs are moving increasingly closer to those of advanced countries (graph 6).

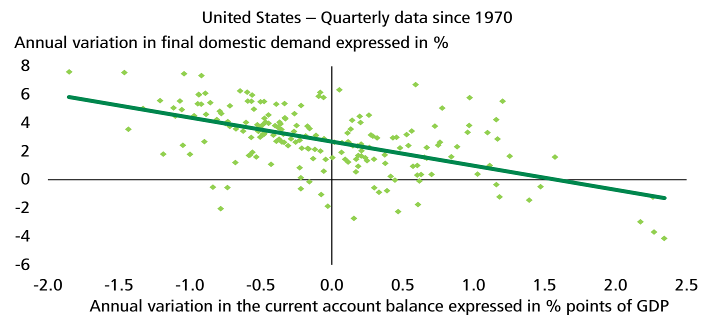
It is also important to understand that an economy is not necessarily at a disadvantage by a trade deficit. Contrary to what President Donald Trump seems to be arguing, a worsening trade balance does not necessarily signal weaker growth; on the contrary, it appears to reflect strong demand (graph 7). We only have to think back to the fact that the U.S. trade balance plunged in the 1990s at the same time that the U.S. economy experienced the longest expansion cycle in its history with the highest potential real GDP growth since the 1960s.

GRAPH 6
The tariffs applied are low and similar for advanced countries



Sources: World Bank and Desjardins, Economic Studies

GRAPH 7
U.S. growth tends to slow down when the current account improves



Sources: Bureau of Economic Analysis, Council on Foreign Relations and Desjardins, Economic Studies

TABLE 1
Tariff hikes announced by United States and retaliatory measures of other countries

	EFFECTIVE DATE	MEASURES
United States	February 7, 2018	. New tariffs (20% and 50%) on imported washing machines and solar panels
United States	March 23rd, 2018	. Tariffs of 25% on steel imports and 10% on aluminum imports: ➢ Canada, Mexico and the EU are exempt until June 1st ➢ Australia is exempt; South Korea, Brazil and Argentina have implemented quotas
China	April 3rd, 2018	. Retaliatory measures on imported U.S. products of up to US$3B (15% and 35% tariffs)
Mexico	June 5, 2018	. Retaliatory measures on imported U.S. products of up to US$3B (20% and 25% tariffs)
EU	June 22nd, 2018	. Retaliatory measures on imported U.S. products of up to US$3.3B (25% tariffs)
Canada	July 1st, 2018	. Retaliatory measures on imported U.S. products of up to US$12.8B (10% and 25% tariffs)
United States	July 6, 2018	. New tariffs (25%) on US$36B in imported Chinese goods: ➢ The entire measure is expected to impact US$50B in imported Chinese goods ➢ The rest (US$14B) is still under consideration
China	July 6, 2018	. Retaliatory measures on imported U.S. products of up to US$36B (25% tariffs)
India	To come	. Retaliatory measures aimed at recovering US$241M on imported U.S. products
Japan	To come	. Retaliatory measures to come: steps launched by the WTO
United States	To come	. Demand for new tariffs on US$200B in imported Chinese goods (in the event of retaliatory measures on the initial US$50B)
United States	To come	. Request for new tariffs on imported vehicles and parts (20% or 25%)

EU: European Union; WTO: World Trade Organization
Source: Desjardins, Economic Studies

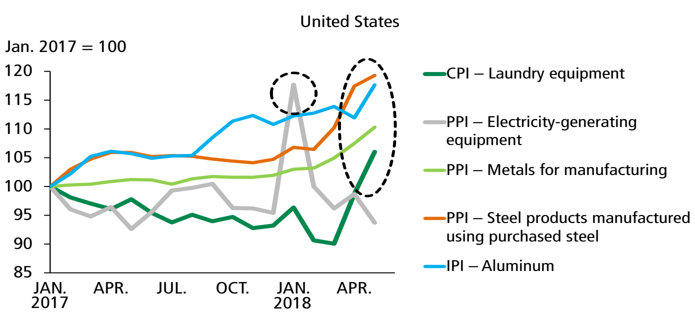
Lastly, remember that in most instances, a protectionist policy hurts not only the countries targeted by tariffs, but also the country that imposes them. The negative effects of protectionism were identified in our *Economic Viewpoint* dated February 17, 2017.

The Effect of the Restrictive Measures Announced by the Trump Administration

Since January 2018, the Trump government has announced several protectionist measures aimed at either countering any perceived threat to national security or offsetting trade policies that are considered unfair. Table 1 shows the different measures announced to date as well as the retaliatory measures implemented in some other countries.

Some of the effects of these restrictive trade measures are already clear. Often, prices reveal the first signs. This is the case with the price increases seen in the United States for washing machines, solar panels, and steel and aluminum products (graph 8). Some of these prices have remained high (aluminum imports, steel products) and others have come down again (electricity production equipment). It now remains to be seen whether the increased tariffs will contribute more generally to higher import, production and consumer prices. If this is the case, the negative effects of protectionism will have an impact on the profitability of businesses and real household income.

GRAPH 8
Some prices have already been affected by tariff hikes

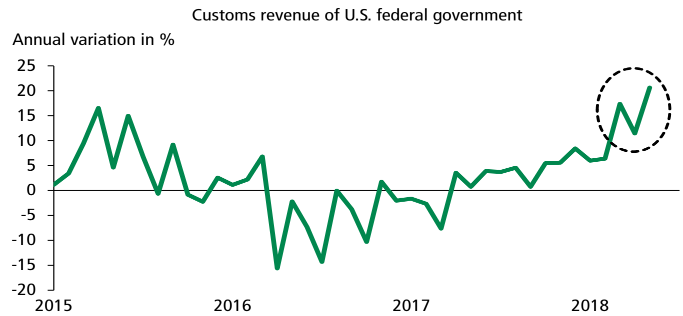


CPI: Consumer price index; PPI: Producer price index; IPI: Import price index
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Rising tariffs also have an impact on government revenue. The increase in tariffs caused the U.S. federal government's customs revenue to jump more than 20% (graph 9). This clear change in trend is not, however, a cure-all for public finances: in May 2018, the increase only represented US$540M more than in May 2017. Even extended over a period of 12 months, which would represent US$6.5B, this amount will not help balance U.S. public finances when a deficit of more than US$800B is expected for the current budget year.

The measures already announced by the U.S. government threaten to stifle the growth of the U.S. economy. According

GRAPH 9
Customs revenue has rebounded since tariff hikes



Sources: U.S. Treasury and Desjardins, Economic Studies

to a document by Trade Partnership Worldwide, the tariffs on aluminum and steel combined with the retaliatory measures implemented by other countries could reduce real GDP to 0.2% annually compared to a situation where these measures would not have been imposed. As for the labour market, 26,280 jobs would be created in the steel and non-ferrous metals industries, but 432,747 jobs would be lost in the rest of the economy. That amounts to 16 layoffs per hire!

The Tax Foundation, a U.S. tax, budget and economic analysis organization, believes that the implementation of all the tariffs announced and the retaliations may lead to a drop of 0.44% in real GDP in the long term (compared to a base scenario). Approximately 342,000 jobs may be lost, and wages may decline 0.31%.

For its part, Moody's believes that if the protectionist measures do not go beyond what is already in place, U.S. real GDP may decline 0.1% after a year compared to a base scenario. Net job losses would reach 170,000.

Estimates vary, but it is important to note that they all point in the same direction. The implementation of protectionist measures by the Trump government will hurt the U.S. economy.

The Case of the Auto Sector

On May 23rd, the U.S. Department of Commerce opened an investigation into the national security risks that importing vehicles and auto parts may cause. The results and recommendations are expected to be filed later in the winter of 2019, although they may be published well before then. This is the type of process that led to the implementation of tariffs on steel and aluminum.

The importance of the auto industry is somewhat greater than that of the steel and aluminum industries. Imports associated with the latter represented approximately US$50B in 2017. At more than US$350B, automotive-related imports were seven times bigger last year. The implications for the value chains in this sector are also more serious given the high degree of international integration in this industry, in particular, but not exclusively, within NAFTA.

If the investigation requested concludes that the U.S. economy and, indirectly, national security are suffering because of car imports, the Trump administration may plan additional tariffs of 25% on these imports.

According to a Peterson Institute for International Economics study, a 25% hike in tariffs on cars and automotive parts would cause a 1.5% drop in output in the U.S. automotive sector and the loss of 195,000 jobs. If all the other countries retaliated with similar tariffs, the output of the U.S. automotive sector would plunge 3.98% and 624,000 jobs would be lost.

An analysis by Trade Partnership Worldwide determined that an imported vehicle costing US$30,000 would cost US$6,400 more. Given that the tariffs would also apply to parts, the prices of vehicles produced in the United States would also rise. Trade Partnership Worldwide sees a net loss of 157,000 jobs in the short term throughout the entire U.S. economy, and a 0.1% decline in real GDP compared to the base scenario.

The implications for Canada (and Mexico) would be significant if, as in the case of the steel tariffs, being a member of NAFTA does not involve an exemption. The increased costs and complications for the integrated value chains can only hurt the US$62.1B in Canadian exports to the United States linked to the auto sector. As for Mexico, US$116.6B would be at risk. Japan (US$55.9B), the EU (more than US$50B) and South Korea (US$23.9B) would not be sheltered from the storm if the United States actually decided to go this route.

And What about NAFTA?

Launched in the summer of 2017, the NAFTA renegotiations are ongoing. Recently, the U.S. government has been in less of a rush to conclude the trilateral negotiations, and it seems increasingly uncertain whether they will not come to a positive conclusion in 2018. At best, all that can be hoped for is a temporary agreement after some particularly difficult issues are cleared up. With mid-term elections on November 6, the U.S. political calendar will probably push back any official conclusion until 2019.

Several scenarios may arise from a positive or a negative outcome of the renegotiation of NAFTA. The primary fears are obviously linked to tearing up this agreement, originally drawn up in 1993. One negative scenario would involve the return to trade between Canada, the United States and Mexico according to the rules and tariffs regulated by the World Trade Organization (WTO). On average, the tariff applied to the 10 main categories of Canadian goods exported to the United States would be 1.7%.

What would be the direct economic consequences if NAFTA were to be abolished? Several analyses[2] indicate that Canada would experience a roughly 0.5% drop in real GDP compared to the base scenario. The estimated drop in real GDP in the United States would be only 0.1%. Mexico would have the most to lose with a decrease in real GDP of 1% or more. Given the complexity of what is at stake, these analyses represent the minimum of the foreseeable consequences. Obviously, currency movements, with the possibility of a major depreciation of the loonie or the peso against the greenback, could mitigate the shock in a North America without NAFTA.

The Trade War Has Not Yet Happened

The widespread fear of a real trade war has gone up several notches since the start of the year. However, it is important to remember that the rise of U.S. protectionism has not put an end to globalization.

First, tariffs increases have been bilateral so far. The United States is on the attack and other countries are responding directly to the United States. Therefore, there is no real desire to increase tariff barriers except against the United States.

Second, efforts to arrive at new trade agreements are continuing to forge ahead. One sign of this is the creation of the CPTPP. After the United States withdrew from the TPP on January 23rd, 2017, the 11 remaining members (Canada, Mexico, Chile, Peru, Japan, Singapore, Vietnam, Malaysia, Brunei, Australia and New Zealand) signed a new agreement on March 8, 2018. This agreement allows for other countries to join: South Korea, Indonesia, United Kingdom, Colombia and Thailand have all expressed interest.

In September 2017, the coming into force (provisional) of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU also suggests that the rest of the world is not ready to follow the United States in erecting trade barriers.

It is also important to remember that the negative effects of protectionist measures end up discouraging governments from maintaining them. This was the case with the steel tariffs imposed in March 2002 by George W. Bush's administration in the United States. They ended in December 2003 under pressure from the WTO, the EU and national groups. In general, tariffs imposed by a government do not last long. Of the 1,159 tariff measures implemented by G20 countries between 2009 and 2017, 42% lasted more than a year, 12% more than two years, and only 9% for more than three years.

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[2] *Termination of NAFTA Would Result in Modest Short-Term Economic Impact for Canada*, Conference Board of Canada, March 9, 2018; Dan CIURIAK et al., *The NAFTA Renegotiation: What if the US Walks Away?*, Institut C.D. HOWE Institute, Trade and International Policy, *Working Paper*, November 2017, 24 p.

Lastly, U.S. political cycles also have to be taken into account, as well as the checks and balances that exist between the president's powers and those of Congress. The White House has a lot of room to manoeuvre when it comes to trade policy, but Congress grants it this power, not the U.S. Constitution. Political pressure, or even unfavourable electoral results, could put the brakes on the president's protectionist zeal before the situation turns into a real trade war.

One element of risk that could fan the flames of a trade war is the imbalance that U.S. measures could cause in international markets. If barriers are raised at the U.S. border, the excess supply will want to flow to other countries. Moreover, there is a sense that Canada and the EU are now worried that surplus Chinese steel will invade their domestic markets. As a result, they may be tempted to implement trade restrictions rather than take advantage of the lower international prices.

The Economic Effects of a Trade War

What would be the economic consequences of a real trade war? Most analyses of this topic discuss a widespread hike in tariff barriers, as the other types of trade restrictions are either prohibited by the WTO, or are more difficult to apply in an economic model. In addition, several scenarios are possible; the consequences depend largely on which assumption is used.

However, table 2 shows that most of the analyses point in the same direction. A widespread lowering of tariffs would severely damage the global economy. In addition, the effect is even more negative if the national economy is particularly small and open to foreign trade. This is the case for Canada. Clearly, the analyses presume that Canadian exports (and those of other countries) face tariffs everywhere, without exception, due to the free trade agreements currently in effect. Customs unions, such as the EU, would, however, persist. For example, there would be no new tariffs between France and Germany.

Also worth noting is that, according to most estimates, tariff hikes would not necessarily lead to a global recession. On the one hand, the growth of real GDP worldwide currently sits at roughly 3.5% to 4.0%. Due to the constant economic growth linked to the development of less advanced countries and the increase in the world's population, a global recession would likely represent an increase in real GDP of less than 2.5%. A decrease of 0.5% per year on its own would not lead real GDP to a rate compatible with a recession. On the other hand, international trade is linked mostly to the movement of goods, while economies are increasingly dedicated to services. This situation may limit the damage. However, given the state of the current economic cycle and, in particular, its length, a trade war could still make things much, much worse. It could undermine household and business confidence and restrict the volume of international trade enough to cause the current growth cycle to come to a complete stop. There is also the fear that the economic models do not take the complexity of value chains fully into account, thereby minimizing the consequences of complications at the border. Furthermore, Interactions with the financial markets could give rise to some ugly surprises.

TABLE 2
The economic effects of a trade war

	EFFECTS (COMPARED TO A BASE SCENARIO)	ASSUMPTIONS
World Bank	. After three years: ➢ Drop in global trade of 9.0% ➢ Decline in global real income of 0.8%	. Maximum global tariff increase allowed by the WTO (consolidated tariff rates), i.e. 2.7% to 10.2% on average
International Monetary Fund	. Decline in global real GDP of 1.75% after five years and roughly 2% in the longer term . Drop in global trade of 15% after five years	. Widespread increase of 10% in the cost of imports for all countries
Bloomberg	. Decline in global GDP of 0.5% after two years: ➢ 0.9% in the United States ➢ 0.5% in China ➢ 1.8% in Canada ➢ 1.0% in Mexico	. 10% increase in the cost of U.S. imports followed by an equivalent response on the part of the rest of the world . The impact would be twice as great if the tariff hike were 20%
Bank of England	. 1.0% decline in global real GDP after three years: ➢ 2.5% in the United States	. 10% increase in tariffs between the United States and other countries
Conseil d'analyse économique (Economic Analysis Council) of the Prime Minister of France	. Real GDP would decline: ➢ 2.4% in the United States ➢ 3.3% in China ➢ 1.5% in Canada ➢ 3.1% in the European Union ➢ 0.8% in Mexico	. Widespread increase in tariffs of 60% (except against members of regional trade agreements)

WTO: World Trade Organization
Sources: World Bank, International Monetary Fund, Bloomberg, Bank of England, Conseil d'analyse économique and Desjardins, Economic Studies

Will the WTO Survive?

There could be many victims in a trade war, starting with the WTO. Since 2005, this organization has been regulating the rules of international trade for its member states (now numbering 164). It replaced the General Agreement on Tariffs and Trade (GATT), which was implemented after World War II. The current rise in protectionism completely contravenes the mission of the WTO, although the United States was careful to implement measures that appear to comply with the letter of WTO rules. The risk now is seeing the WTO become obsolete.

There is already the feeling that the Trump administration is heading in this direction. A bill prepared by the White House, and recently leaked to the media, would give the president the power to override two fundamental rules of the WTO. The first, the "most favoured nation" rule, dictates that, aside from free trade agreements and a few exceptions, a country cannot impose different tariffs on different countries. The bill would also allow the president to go beyond the second fundamental rule, which concerns "consolidated tariff rates," i.e. the maximum tariff that a country can impose under multilateral trade agreements negotiated in the past.

These kinds of decisions on the part of the U.S. government would be the equivalent of abandoning the WTO. It's important to point out that it appears unrealistic that this bill will become official for the time being. Congress would also view it with a highly skeptical eye. Nevertheless, the WTO is weakened by the current situation and by the cutting remarks coming out of Washington. According to the U.S. Treasury Secretary, Steven Mnuchin, it is an exaggeration to think that President Donald Trump wants to pull the United States out of the WTO, but it is true that the president "has concerns about the WTO. He thinks there's aspects of it that are not fair."

This feeling that the WTO has been unfair to the United States dates back to before Donald Trump's arrival at the White House, and it generally surprises the other member states. The WTO's decisions are actually balanced when it comes to the United States. When the United States has been the complainant (114 cases), it has won 91% of the disputes settled. When it has been the respondent (129 cases), it has lost 89% of the disputes settled.

In any event, the explicit or implicit withdrawal of the United States from the WTO would strike a hard blow to the current global economic order and help fuel a trade war. International trade would risk becoming like the Wild West. No country would be protected against the United States' escalating tariffs. However, U.S. exporters would not be protected either. Furthermore, the United States would have something to lose in the matter of intellectual property, which is also regulated by the WTO.

A Trade War and the Financial Markets

A widespread escalation of tariffs and raised trade barriers would clearly have consequences for the financial markets, starting with the **currencies** that react immediately to the ups and downs of trade balances and related economic growth. As a result, the currency market could become more volatile. The economic models suggest that implementing protectionist measures leads to an increase in the value of a country's currency. In addition, other countries may want to retaliate by allowing their own currency to depreciate (currency war). The inflation caused by the higher cost of imported goods could lead to higher interest rates, a factor that causes the value of a currency to rise. In the case of the United States, a trade war that threatens global economic growth could result in a safe haven effect, which, in turn, would increase the value of the U.S. dollar. In Canada, we can presume that the hypothetical announcement of the end of NAFTA would cause the Canadian dollar to depreciate significantly.

As we just saw, **interest rates** would also react immediately to an even greater escalation of trade tensions. Nevertheless, the net effect is less clear, since several factors could offset each other. On the one hand, the diminished prospects for growth could prompt real interest rates to remain low. On the other hand, the consequences of protectionist measures on prices are expected to feed inflation expectations. Inflationary pressure may also motivate the central banks to keep their rates higher than economic growth or job creation figures would require. Some commentators, such as Alan Greenspan, the former Chair of the Federal Reserve, see in all this the possibility of a return to stagflation. A trade war could also open another front: foreign financing of the huge U.S. federal debt, especially if weaker economic growth inflates deficits even more. In addition, some countries could limit the movement of capital.

In Canada, the possible end to NAFTA has complicated decision-making at the Bank of Canada (BoC) for over a year. This is in addition to the more domestic risks of high household debt and the health of the housing sector. If the protectionist risk had never raised its head, the presumption is that BoC leaders would have implemented a clearer monetary policy and, in all likelihood, a more consistent normalization of the key rates. If, on the contrary, NAFTA is eventually abolished or trade tensions intensify even further, Canadian key rates could remain lower for a longer time, and may even be lowered again.

As for the **stock markets**, they have clearly been jittery since the Trump administration announced the first protectionist measures in January. All the news suggesting an escalation of the trade conflict between China and the United States have also had generally negative repercussions on the main stock market indexes in the United States and elsewhere. Moreover, the Chinese stock market is already officially in a bear market. Clearly, increasing trade barriers can only hurt the profitability of big corporations, which generally operate in more than one country. Competitiveness and productivity would suffer from the complications imposed on the global value chains. The importance of the export sector for the Canadian economy is such that the Toronto stock market is particularly sensitive to the ups and downs of international trade. The hypothetical abandonment of NAFTA or other tariffs would risk weakening the shares of Canadian businesses active in the U.S. market. A major slowing of the international economy could also undermine raw material prices.

Conclusion

Currently, our economic and financial scenarios are not built on either the outbreak of a trade war or the end of NAFTA. Nevertheless, the probability of seeing these risks become reality must not be ignored, nor should the economic consequences. Whether on a small scale or a large scale, the global, U.S. and Canadian economies can only be hindered by the rise of protectionism. And if a trade war breaks out, the current growth cycle—one of the longest in history—could end prematurely. In contrast, it is possible, though unlikely in the short term, that this unfortunate episode involving the rise of protectionism could instill a greater awareness of the virtues of globalization in recent decades. If the pendulum were to swing back, it could lead to a new era of international cooperation!

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