

Who feels the Pinch? Reactions to U.S. Trade Policy Uncertainty: A Global Perspective

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Abstract

In recent years, the global trading landscape has become increasingly volatile, shaped by episodes such as the U.S.–China tariff disputes, Brexit, and a resurgence of protectionist and unilateral trade measures. These developments have significantly disrupted international trade flows and introduced a persistent and distinct form of economic risk— Trade Policy Uncertainty (TPU)—that reverberates far beyond trade itself. Unlike conventional macroeconomic shocks, TPU is deeply entangled with political processes and strategic policymaking. It operates not only through its direct effects on trade volumes and investment decisions, but also through broader macroeconomic and financial channels. In this environment, understanding how TPU transmits across borders and through the global economy is increasingly vital for policymakers, investors, and researchers alike.

This paper examines the global macro-financial transmission of trade policy uncertainty (TPU) shocks using a Global Vector Autoregression (GVAR) framework spanning 33 advanced and emerging market economies from 1979Q2 to 2023Q3. Treating U.S. trade policy uncertainty as a global exogenous variable, we trace its dynamic effects on exchange rates, inflation, and long-term rates across countries with varying degrees of trade integration and policy credibility. The results reveal significant and persistent currency depreciation in a small subset of open economies, disinflationary responses in a few countries consistent with demand-side effects, and widespread declines in long term interest rates—especially in advanced economies—reflecting downward revisions in growth expectations and flight-to-safety flows. These findings provide new empirical evidence for the multidimensional nature of TPU transmission, underscore the limitations of bilateral or static models in capturing global uncertainty spillovers, and highlight the critical role of structural characteristics in mediating these effects. Policy implications include the need for more nuanced monetary responses to exchange rate movements under uncertainty, cautious interpretation of yield compressions, and enhanced international coordination in the face of systemic trade risks.

Keywords

Trade Policy Uncertainty, Exchange Rates, Inflation, Long-Term Rates, Uncertainty Shocks, Global VAR.

