Trade growth slows to lowest level since global financial crisis

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Last year saw the lowest increase in global trade growth since the financial crisis of 2008–2009, according to a report issued by the World Bank on Tuesday. It was the fifth consecutive year that international trade growth has slowed.

The report said current estimates for the growth in trade in goods and services ranged from 1.9 percent to 2.5 percent but preliminary data suggested that the growth in merchandise trade volumes had increased by only 1 percent. Last year was different from all the other post-crisis years "in that trade sluggishness is a characteristic of *both* advanced and emerging economies."

It attributed the trade slowdown to a number of factors including the slower pace of trade liberalisation, lower global growth, a trough in commodity prices and what it called "macroeconomic rebalancing" in China—a reference to the decisions of the Chinese government to try to cut back on investment and infrastructure spending.

While it did not consider that restrictive measures introduced by governments had led, at least to this point, to a trade slowdown, it did point to the impact of political uncertainty in 2016, reflected most notably in the Brexit vote in the UK and the victory of Trump in the US elections.

The prima facie evidence for a connection between political uncertainty and trade growth emerged from a sample study of some 18 countries extending over 30 years. On the basis of this study it found that "the increase in uncertainty in 2016 may have reduced trade growth by about 0.6 percentage points, which is equivalent to 75 percent of the difference between trade growth rates in 2015 and 2016."

Political uncertainty impacted on trade because it reduced overall economic growth. "In a less certain environment firms may choose to postpone investment decisions, consumers may cut back on spending, and banks may increase the cost of finance." Furthermore, to the extent that economic policy uncertainty is due to trade policy uncertainty in particular, this could affect trade directly.

While not mentioning the US president by name, this was a thinly-veiled reference to Donald Trump and his "America First" agenda and his decision to either scrap or renegotiate proposed and existing trade agreements.

It said that while protectionism could not explain the trade patterns of 2016 it was "likely that trade policy uncertainty contributed to the surge in overall political uncertainty."

The report also pointed to some longer-term processes. Trade sluggishness was now characteristic of both advanced and emerging economies, in contrast to the years immediately following the global financial crisis when "the dynamism of emerging economies largely sustained world trade growth as advanced economies struggled to recover from the financial crisis."

The boost in trade from emerging economies was largely the product of the massive stimulus package initiated by the Chinese government based on increased government spending and expansion of credit in response to the loss of 23 million jobs. But the boost from emerging markets was reversed in 2014 and 2015 with the fall in commodity prices and "rebalancing" in China.

One of the main boosts to world trade in the first decade of the century was the establishment of what are called global value chains (GVCs), in which major companies offshore components of the manufacturing process to take advantage of cheaper labour. Much of the trade growth resulted not from the export and import of finished goods but the shifting of components of final products around the world.

The establishment of GVCs provided a major boost to profitability as companies were able to cut costs. But the initial lift in the bottom line appears to be wearing off because cost reductions cannot be endlessly repeated. The World Bank report did not discuss this question in terms of profitability preferring to refer to what it called the "maturing of global value chains."

"Trade appears to have grown more slowly not only because global growth is lower, but also because that growth has become less trade intensive," the report noted.

According to the report's authors: "We are witnessing a decline in the growth of trade as well as productivity, and the slowing expansion of global value chains can help to explain both."

The World Bank report on trade followed the publication of its annual *Global Economic Prospects* report published last month.

That report painted a somewhat dismal picture of the world economy.

"Stalling global trade, weak investment and heightened political uncertainty have depressed world economic activity," the report stated. Global growth was estimated to have fallen to 2.3 percent in 2016, the weakest performance since the global financial crisis and 0.1 percentage point below the forecast by the World Bank made in June 2016.

"Advanced economies continue to struggle with subdued growth and low inflation in a context of increasing uncertainty about policy direction, tepid investment, and sluggish productivity growth. Activity decelerated in the United States and, to a lesser degree in some other major economies."

Advanced-economy growth was estimated to have slowed to 1.6 percent in 2016 with a small pick-up to a level of 1.8 percent expected in 2017.

The situation is no better in emerging market economies. While growth in these economies was expected to rise over 2017 and 2018, and could account for 60 percent of global growth in the coming year, the long-term outlook for these economies was "clouded by a number of factors."

These include uncertainty about global trade prospects, advanced-economy economic policies, a weakening of potential output flowing from subdued investment and sluggish productivity growth.

The report noted that since 2010 investment growth in emerging market economies had slowed sharply. While the deceleration had been most pronounced in the largest of these markets and commodity-exporting countries, it had now spread to the rest with the result that investment growth was below its long-term average over the past quarter century, except during serious global downturns.

These economies, it pointed out, account for than more one third of global GDP and three-quarters of the world's population and the world's poor.