

THE SLOWDOWN IN GLOBAL TRADE IN GOODS AND SERVICES, 2012-15

EXTENT AND POTENTIAL FACTORS

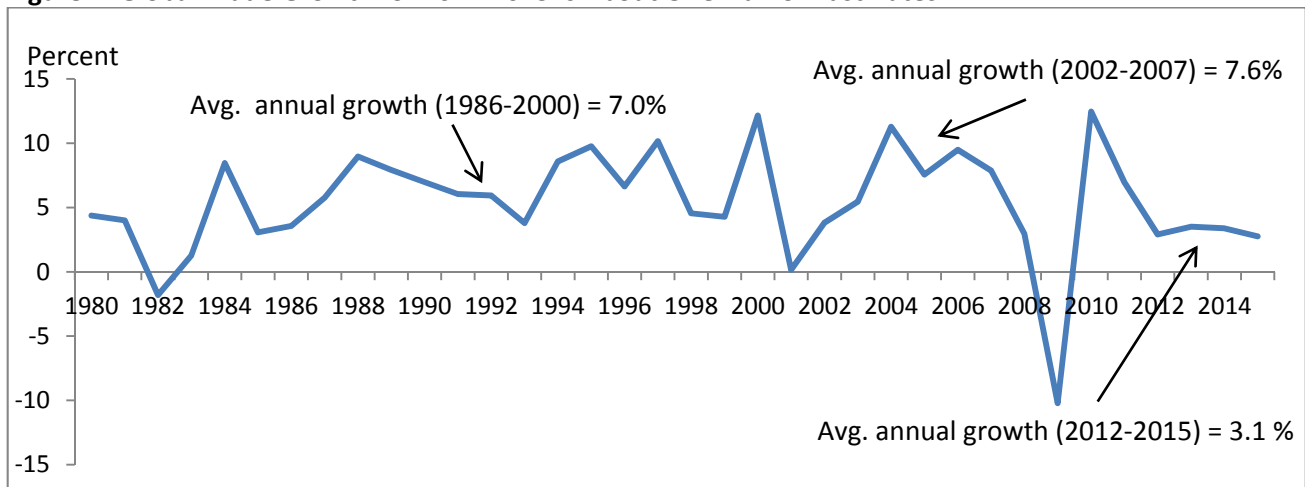
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While global trade (defined as goods and services) levels currently exceed the pre-crisis peak of 2007, the average annual 3.1 percent growth in the volume of world trade over 2012-2015 period has not matched the average annual rate of 6.9 percent from 1990-2007. This sluggish recent growth, which the International Monetary Fund believes will remain largely unchanged in 2016, was attributable to weak economic growth in Europe and China, more local sourcing in global supply chains, and slow trade liberalization initiatives world-wide. For the U.S., a major slowdown in global GDP growth after the financial crises of 2008 and a strong dollar has dramatically hindered its export potential. Due to both the cyclical and structural determinants of the global slowdown in trade, economic improvements in Europe and China may be insufficient to restore global trade growth to the pre-2007 levels in the near term.

Global Trade Growth Decelerated Between 2012 and 2015

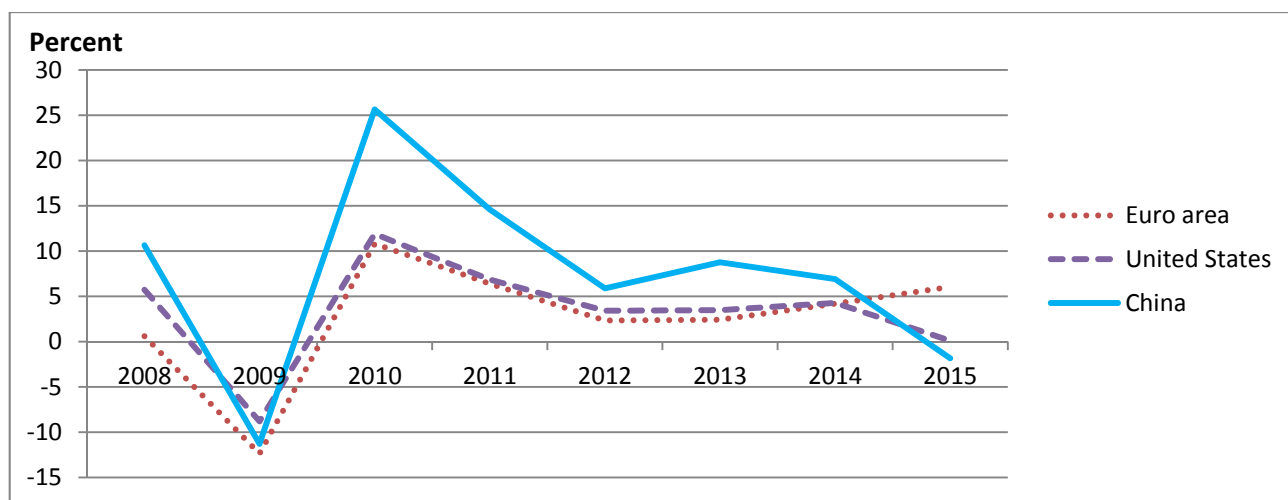
From 1990 until the economic crisis in 2007-08, the average annual rate of growth in the volume of trade was 6.9 percent. This was roughly double the 3.7 percent annual growth of global real GDP over the same period. Since the early 1980's, trade downturns were typically followed by relatively rapid and sustained recoveries. After the global recession in the early 1980's, trade grew at an average rate of around 7 percent per year until 2000 (Figure 1). Following the global recession and trade downturn in 2000-01, trade recovered to an average annual growth rate of over 7 percent over a five-year period (2002-2007). However, the recovery after the more recent trade collapse of 2008-09 has been different. Following an 11 percent decline in the volume of world trade that occurred after the global financial crisis in 2008 and subsequent recession in 2009, global trade growth modestly rebounded to only 2.8 percent in 2015. This pace is slower than world GDP growth in that year, which further differentiates this slowdown from those in previous periods.

Figure 1. Global Trade Growth for 2012-2015 Is About One-Half of Past Rates



Source: IMF, World Economic Outlook

The slowdown has been particularly acute for the United States. Growth in exports of goods and services has averaged 2.3 percent since 2012, with almost zero growth over the past two years (see Figure 2). EU exports exhibited higher growth since 2012, averaging 3.6 percent per year. China, by contrast, has seen sharp deceleration in export growth in 2015 but grew by 2 percent in 2016.

Figure 2: Annual Growth in the Volume of Exports of Goods and Services, 2008–2015

Source: IMF, World Economic Outlook

The literature on the recent trade slowdown highlights several potential determinants:

Cyclical factors: Temporary determinants that are typically tied to the business cycle include weakness in global demand (and the resulting lower prices for commodities), most notably the economic slowdown in the EU and Asia. Given that intra-Europe trade has accounted for as much as a third of global trade, the economic slowdown of its member countries has had a significant impact on global trade flows. Moreover, slower growth in Asia, particularly China, has also depressed global trade.

Structural factors: Longer-term determinants not typically linked to the state of the macroeconomy include changes in global supply chains (GVCs) and the general slower pace of trade liberalization.

- A slower pace of expansion of global supply chains was an important determinant in the trade slowdown, in particular for the United States and China. The expansion of global supply chains into greater numbers of products and countries contributed to trade growth in the 1990s and 2000s. However, since the global financial crisis these supply chains have shortened due to greater localization efforts, with industries in a number of countries using more domestically produced inputs that are less reliant on imported components. For example, the share of imported parts and components in Chinese exports have decreased by 20 percent since the mid-1990s.¹ This has resulted in global trade trends that have become less reliant on highly integrated manufactured products.
- The slower pace of trade liberalization since the global trade downturn may also help explain the slowdown. In the 1990s and early 2000s trade growth was driven by the liberalization of several large economies, including China and former Soviet Union. The 1990s also saw the creation of the WTO and with that a reduction of traditional trade barriers. In contrast to this earlier period, and with multilateral trade agreements stalled for the time being, there may be less room for growth.

Sources: Ferrantino, Michael J. and Taglioni, Daria "Global value chains in the current trade slowdown," *Economic Premise*, World Bank Group, March 2014; Bussiere, Mathieu, et. al, "Estimating Trade Elasticities: Demand Composition and the Trade Collapse of 2008–2009." *American Economic Journal: Macroeconomics* 5(3), 2013; Constantinescu, Christina, et. al, "The Global Trade Slowdown: Cyclical or Structural?" IMF Working Paper WP/15/6; Centre for Economic Policy Research, *The Global Trade Slowdown: A New Normal?* 2015; International Monetary Fund, "Prospects for Global Trade," 2015; The Economist, "The Economist Explains: What Slowing Trade Growth Means for the World Economy," September 2015; World Bank; World Trade Organization, "Trade Growth to Remain Subdued in 2016 as Uncertainties Weigh on Global Demand," April 2016.

¹ Constantinescu, Mattoo, and Ruta. 2015. "The Global Trade Slowdown: Cyclical or Structural." IMF Working Paper WP/15/6.