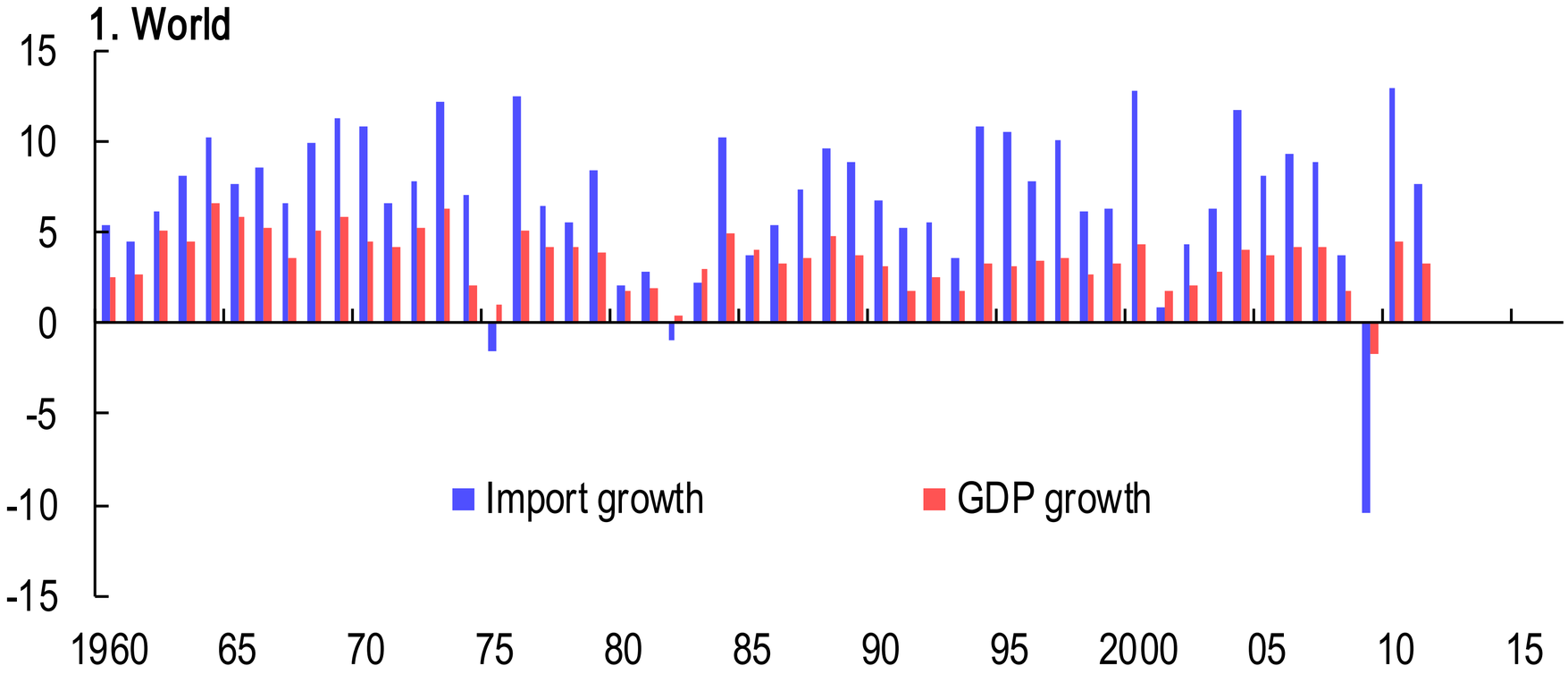
Global Trade: What's Behind the Slowdown?

Aqib Aslam, Emine Boz, Eugenio Cerutti, Marcos Poplawski-Ribeiro, and Petia Topalova with support from Ava Hong, Hao Jiang, Olivia Ma, Rachel Szymanski, and Hong Yang.

Motivation

World Real Trade and GDP Growth in Historical Perspective

(Percent)



Sources: IMF staff calculations.
Note: Imports include goods and services.

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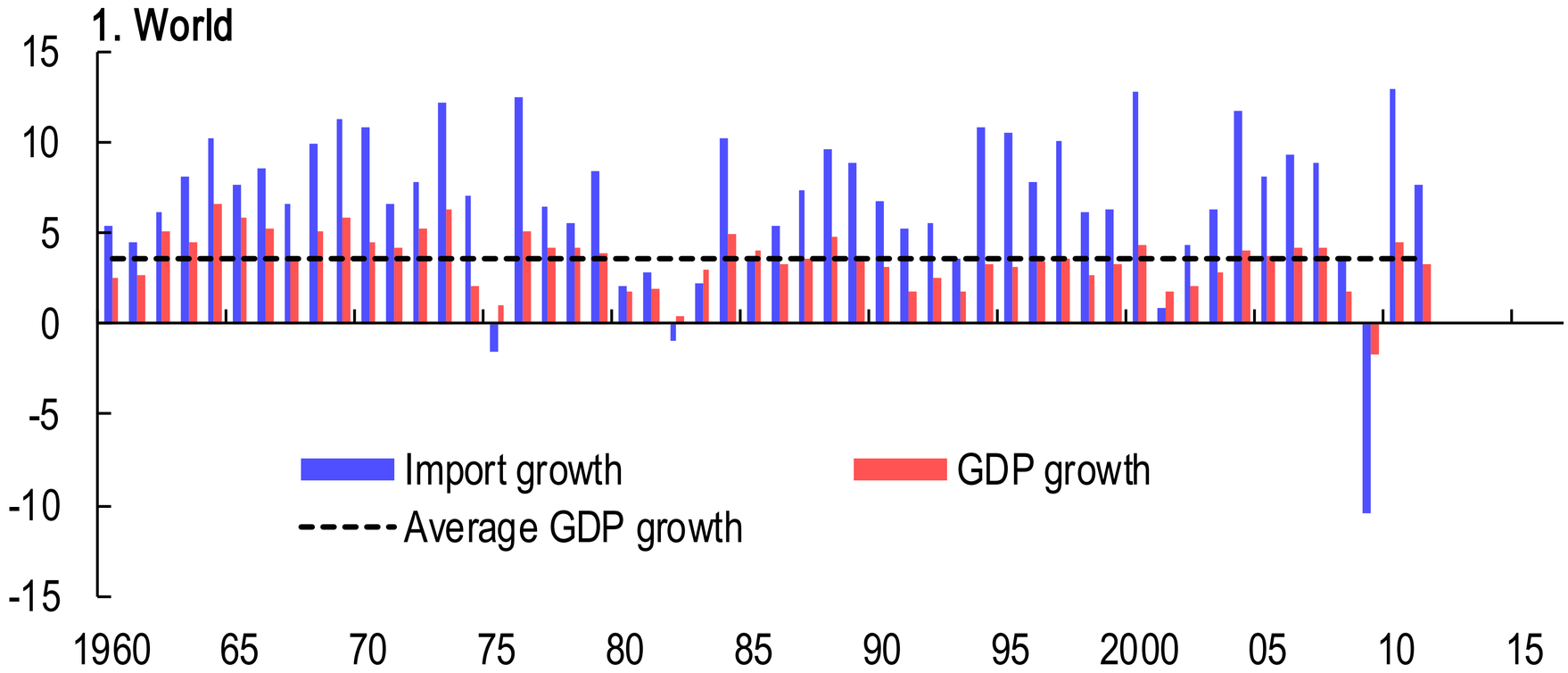

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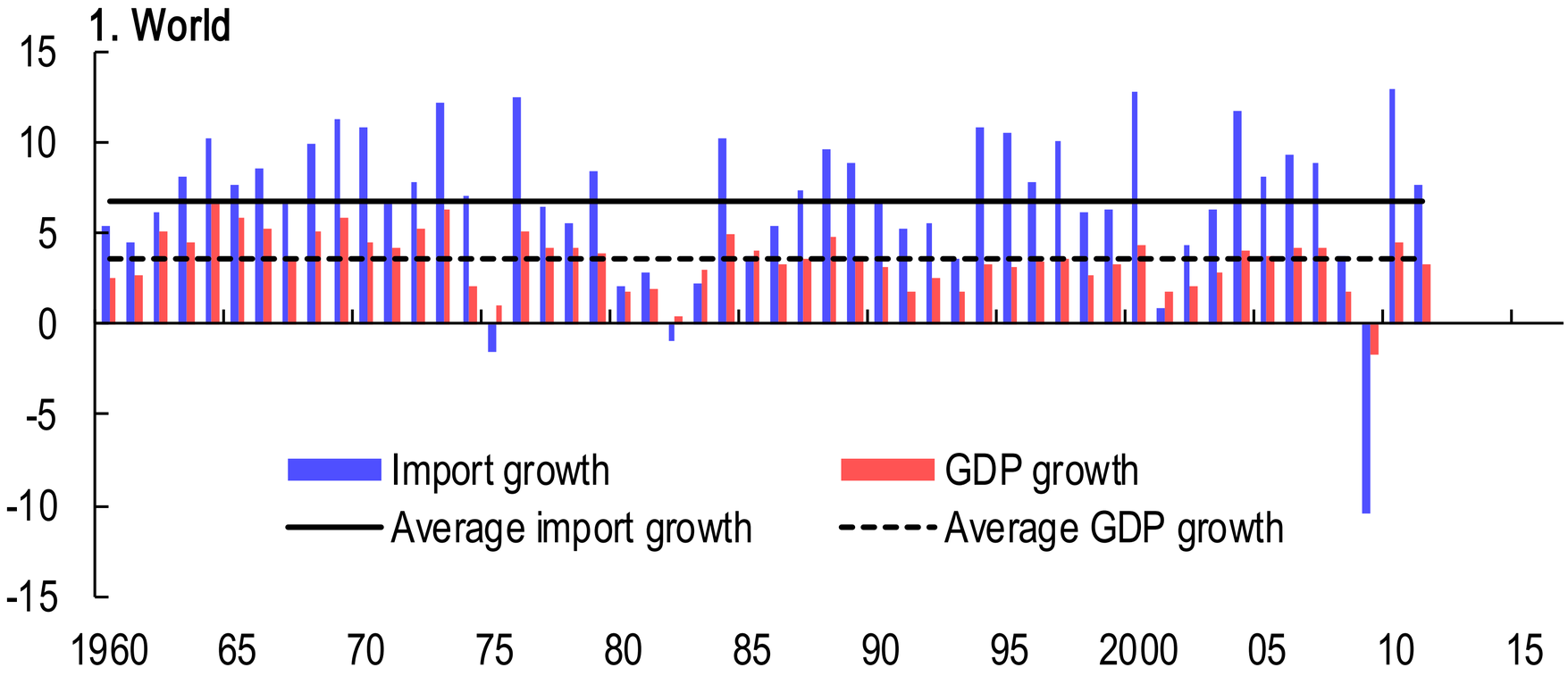

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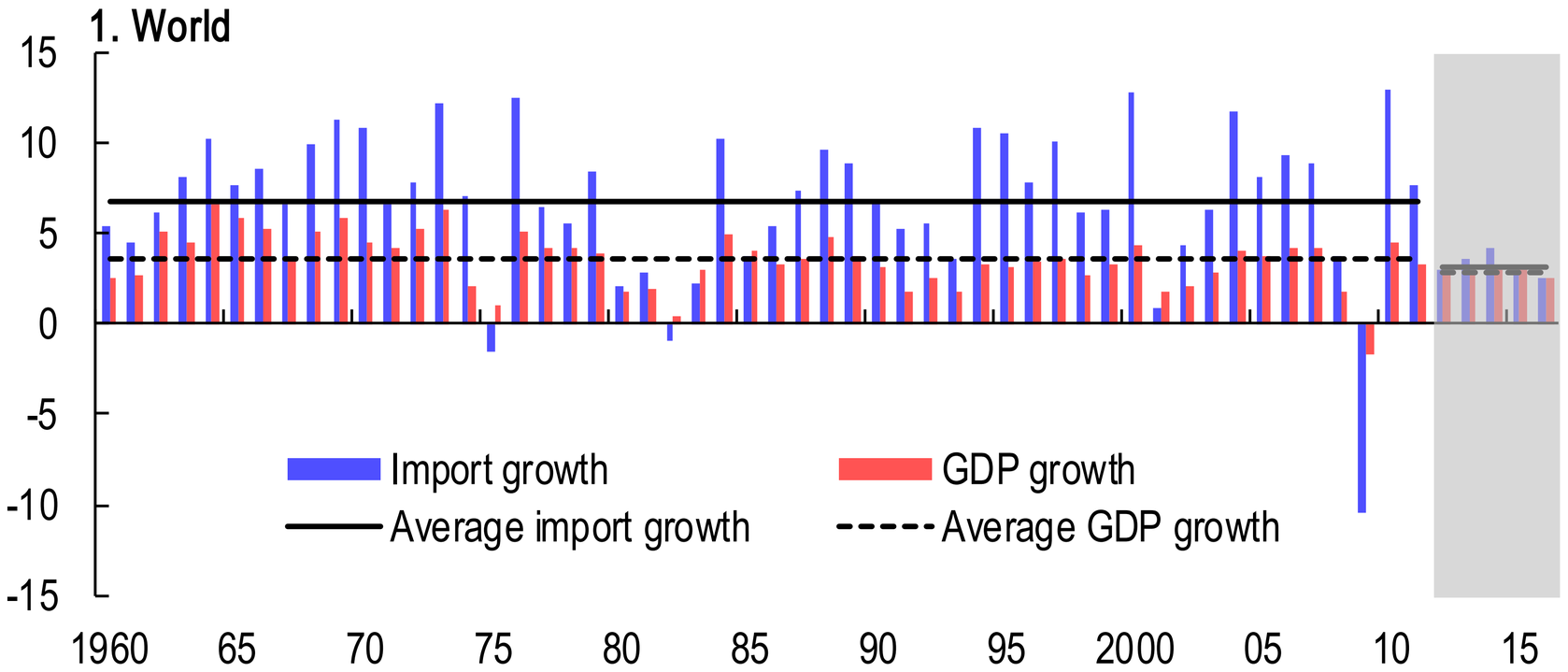

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Outline

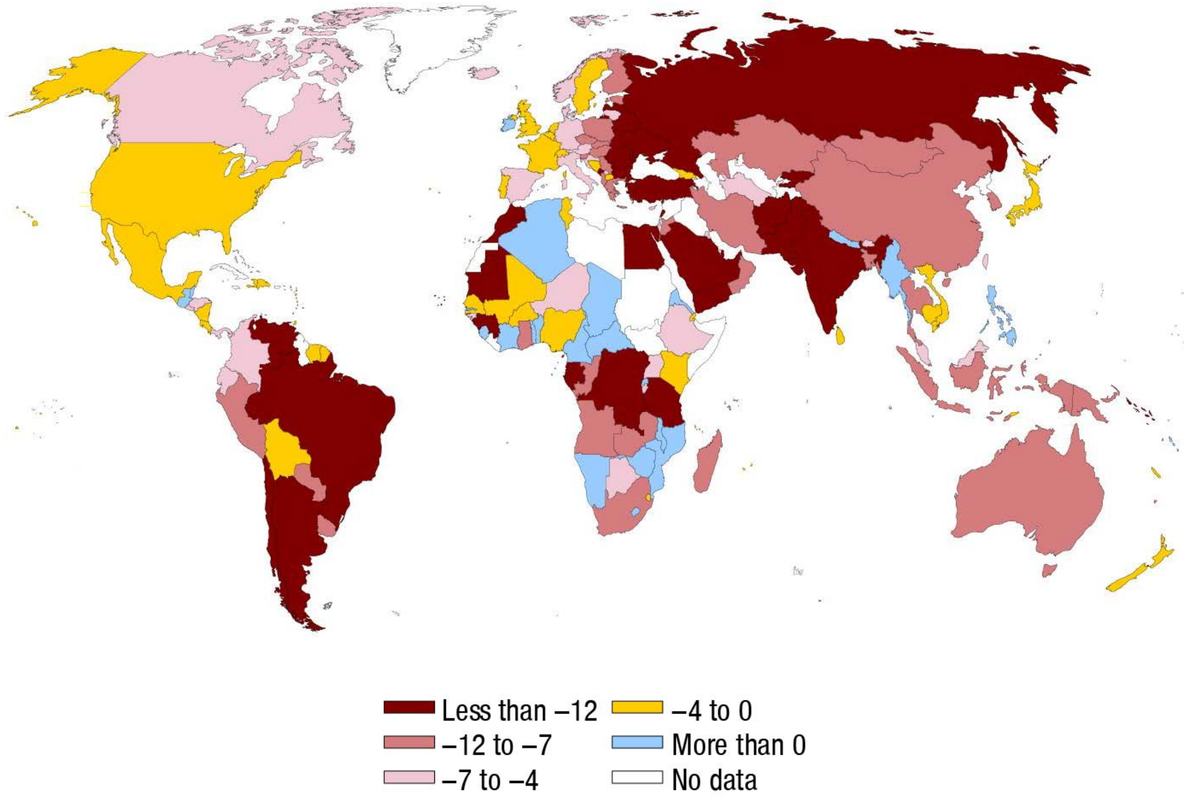
- How widespread is the slowdown?
- What are its drivers?
  - How much of the slowdown is a symptom of the weak recovery and shifts in the composition of economic activity?
  - What role have other factors played?
- What are its policy implications?

HOW WIDESPREAD IS THE SLOWDOWN?

Slowdown in real trade growth is widespread across countries and products

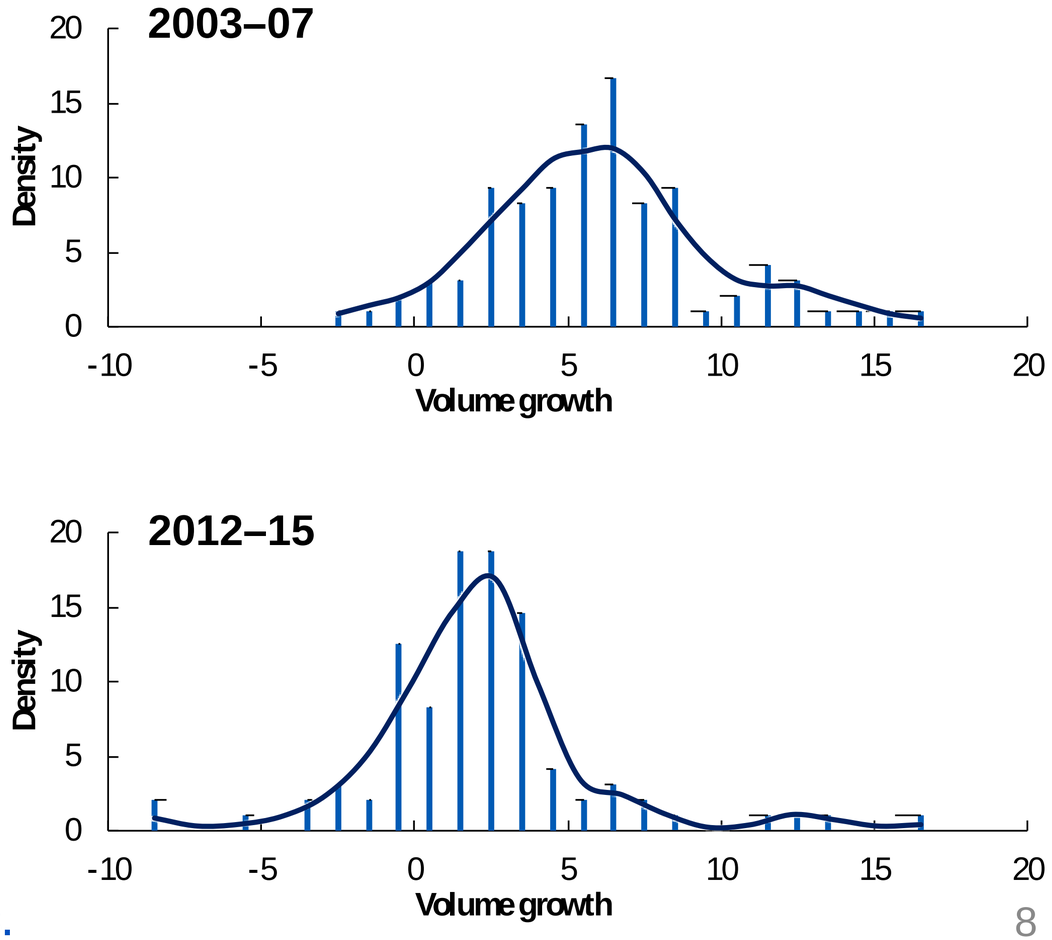
Average Real Import Growth

(Percentage points; difference between 2003–07 less 2012–15)



Distribution of Average Real Import Growth across Products

(Percent)

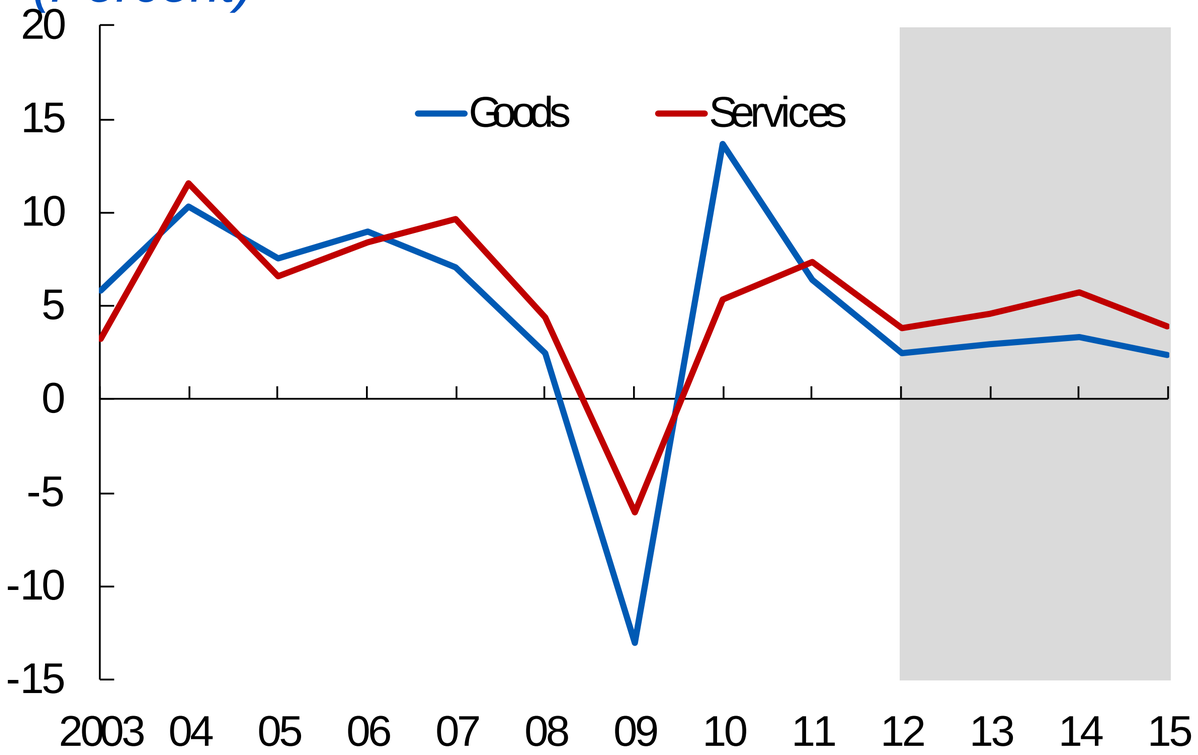


Sources: United Nations Comtrade; and IMF staff calculations.

Services trade is more resilient than goods trade; among goods, capital goods slowed down the most.

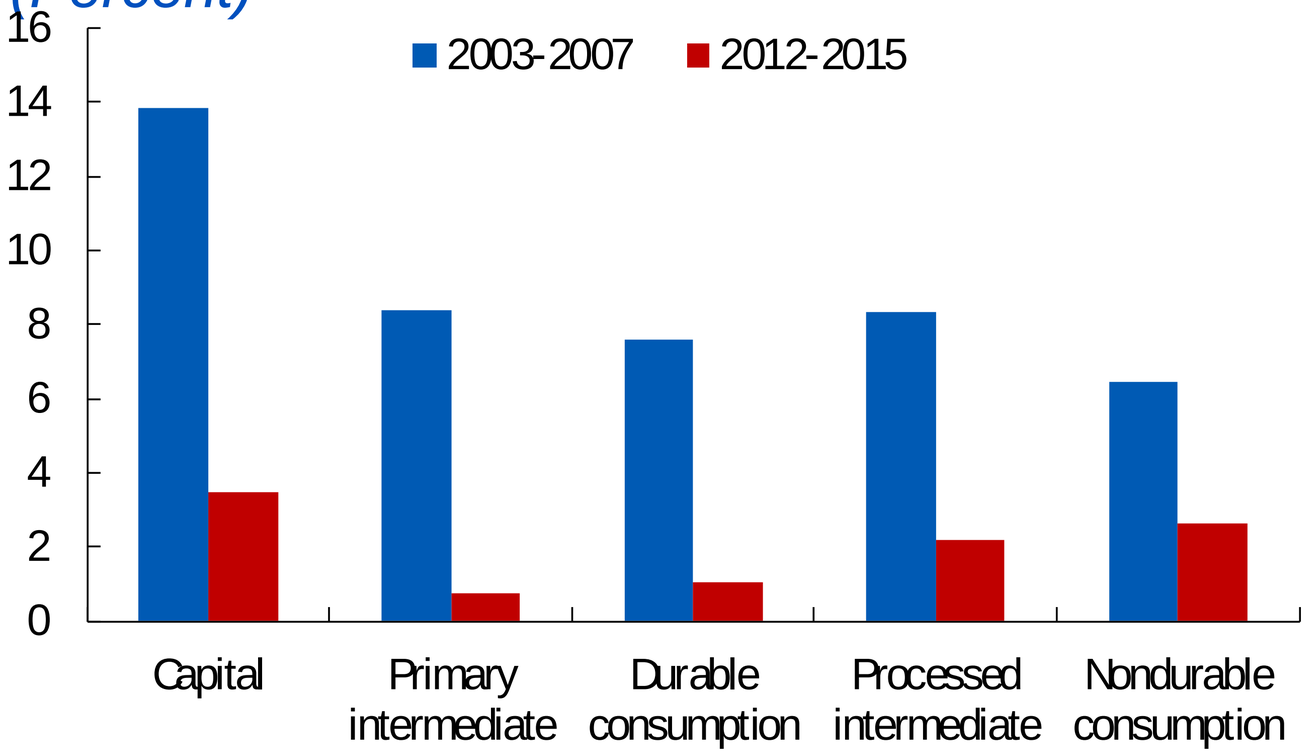
World Real Goods and Services Import Growth

(Percent)



Real Goods Import Growth of Different Product Groups[1]

(Percent)

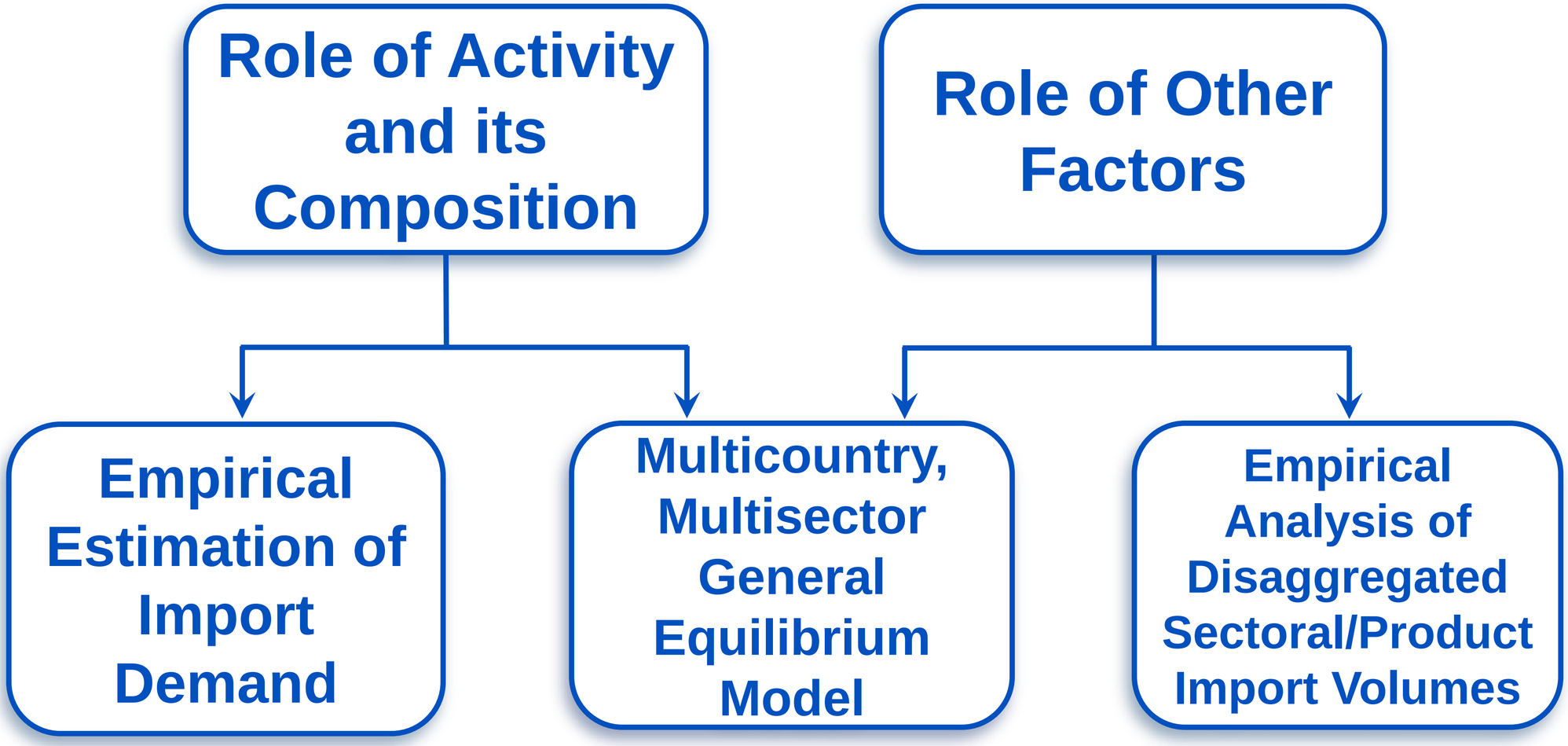


Sources: United Nations Comtrade; and IMF staff calculations.

[1]Computed using import volume indices constructed from quantity and value trade data at HS 6-digit level for 52 economies.

WHAT ARE ITS DRIVERS?

Research Design



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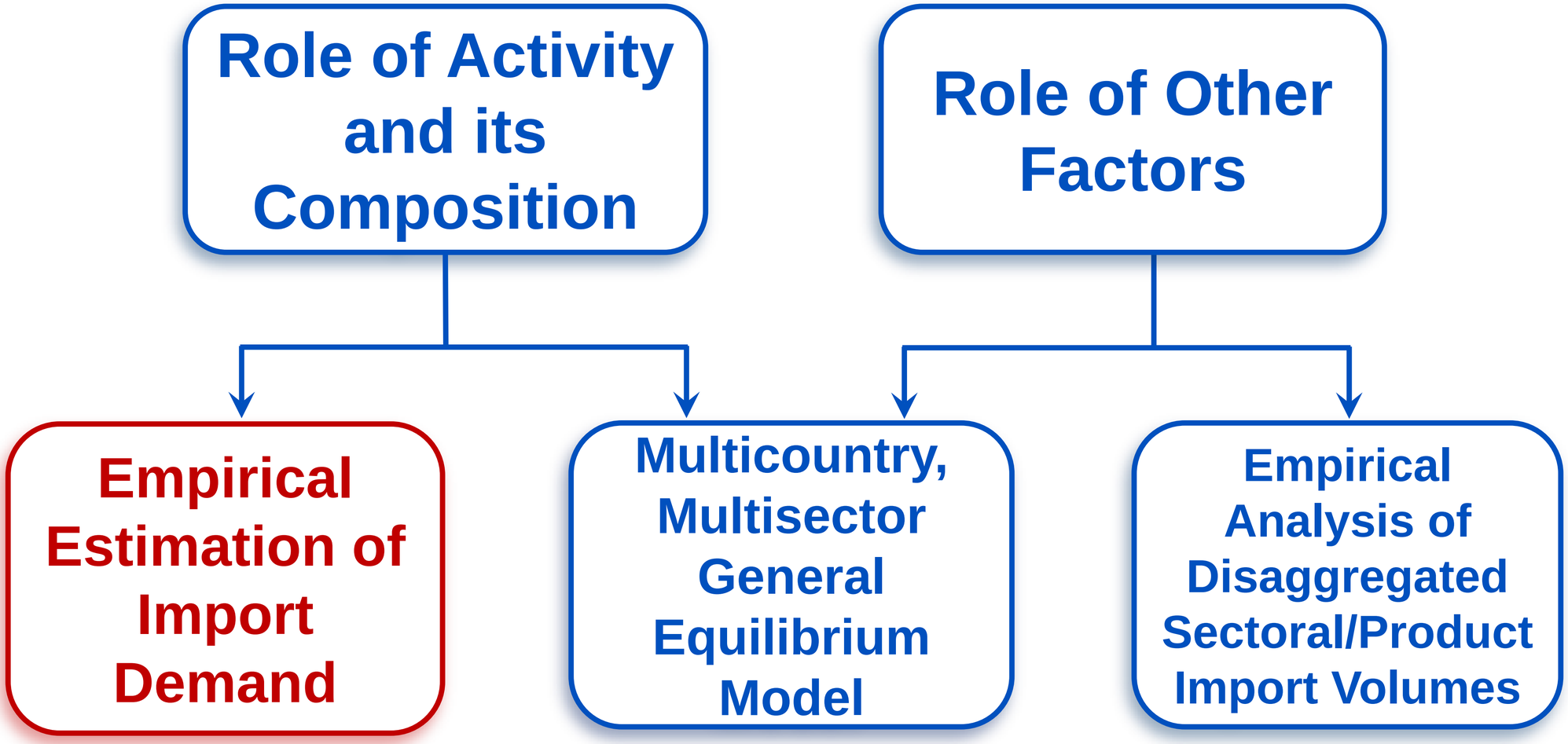
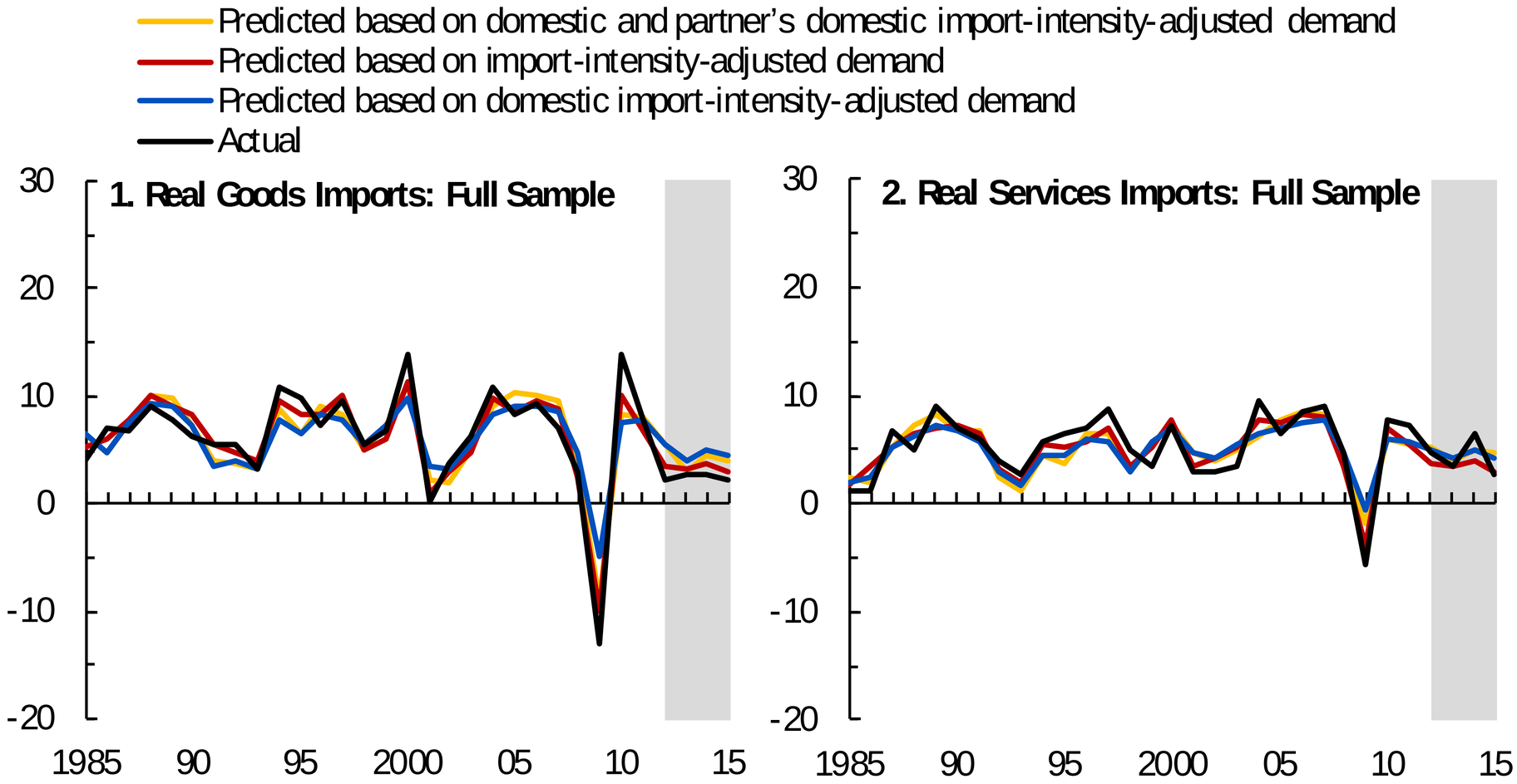


Actual import growth post-2012 is consistently lower than predicted by empirical import demand models…

Actual and Predicted Evolution of Real Import Growth

(Percent)

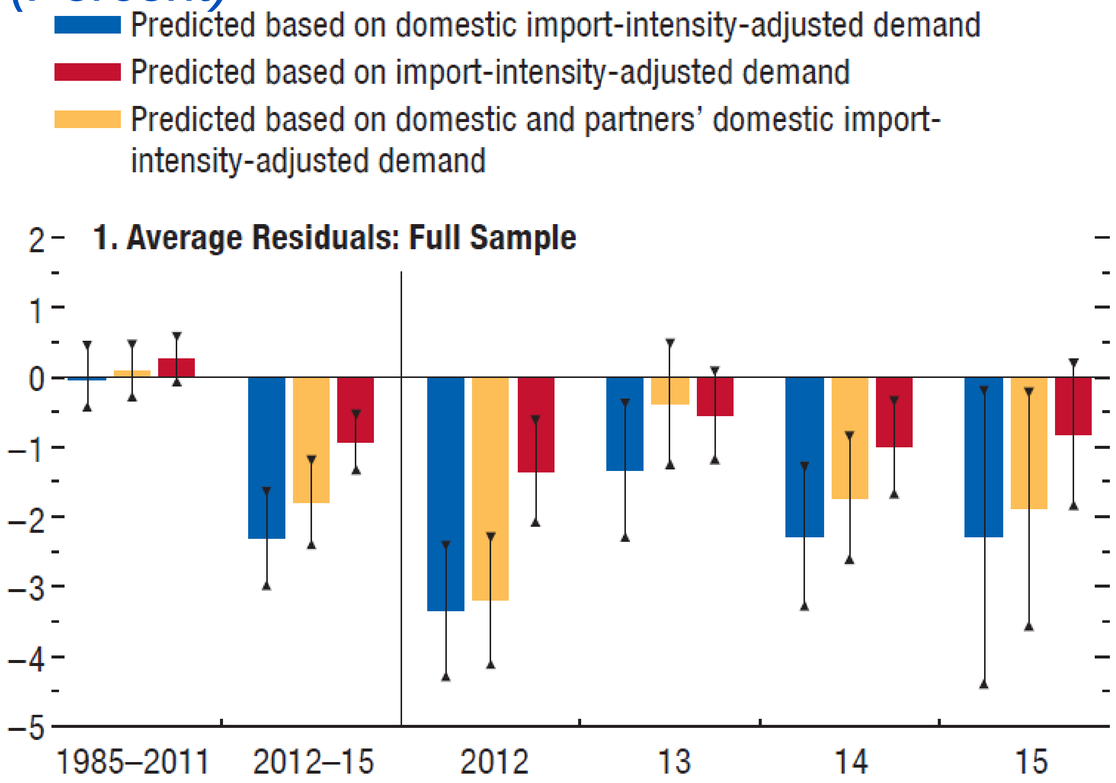


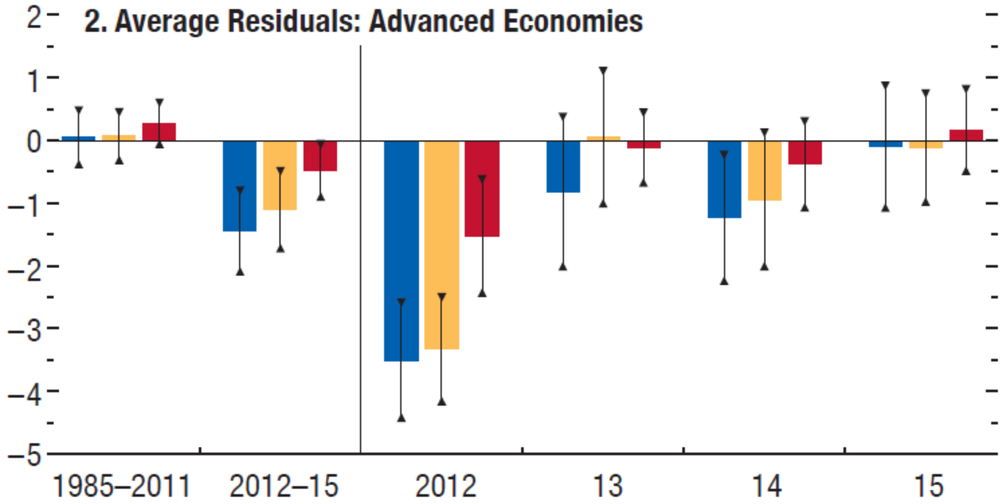
Source: IMF staff calculations.

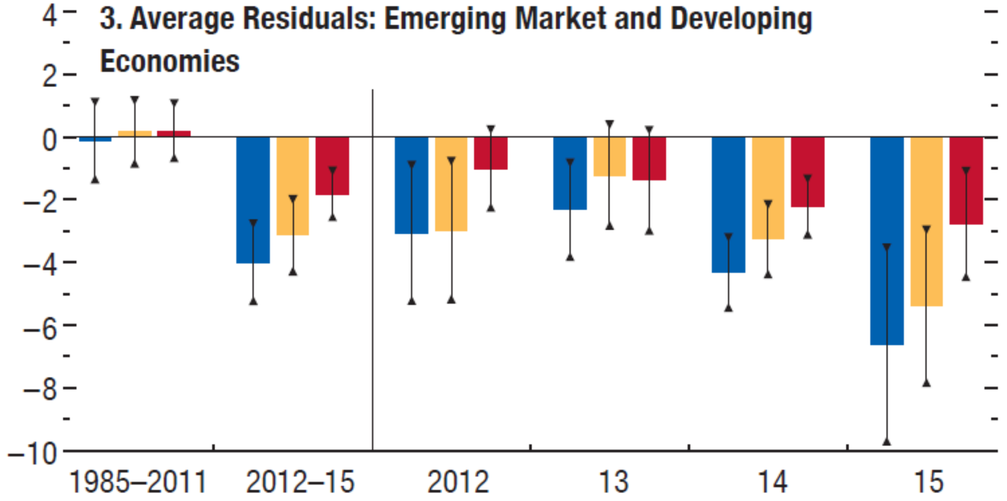
…but “missing” trade is small relative to total decline.

Difference between Actual and Predicted Growth of Real Goods Import

(Percent)





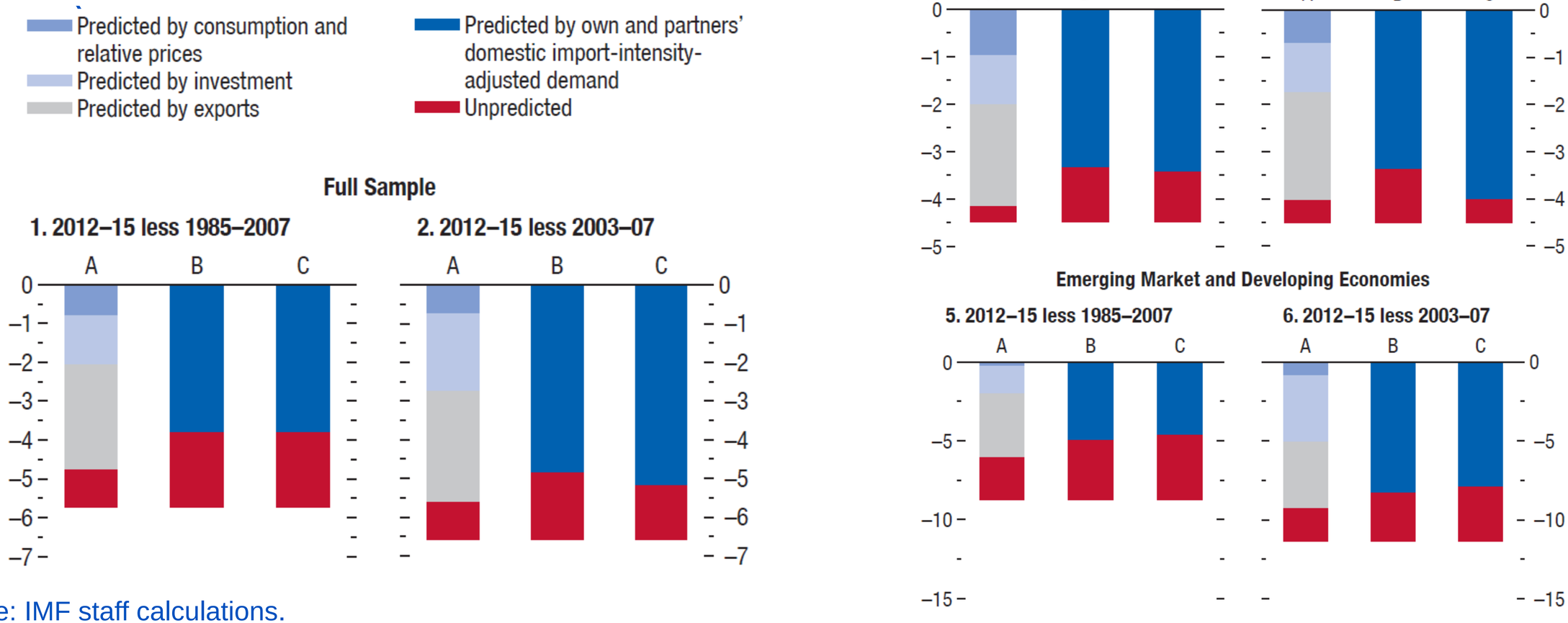


Source: IMF staff calculations.

Three-fourths of the slowdown can be attributed to the weakness in domestic absorption.

Decomposing the Slowdown in Real Goods Import Growth

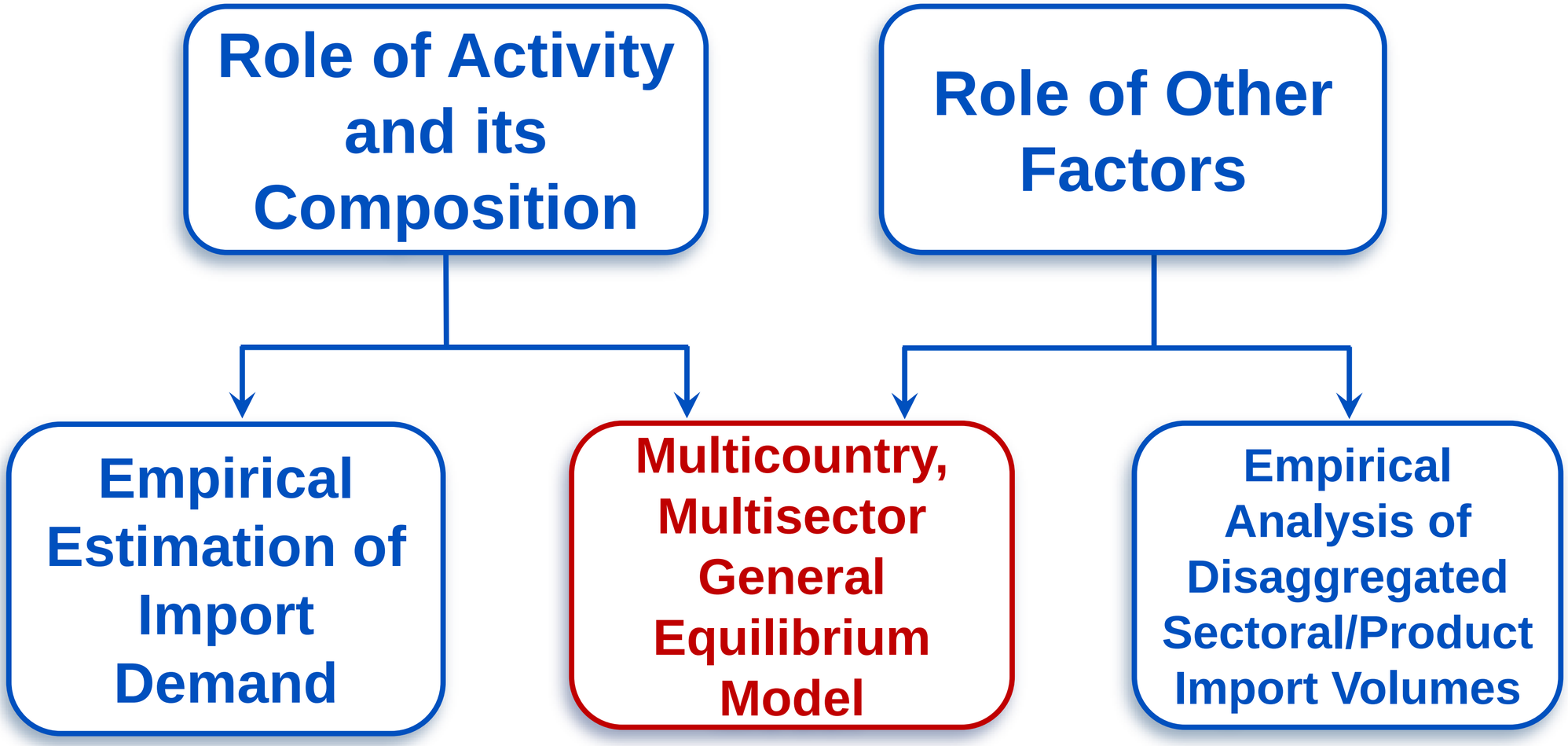
(Per



Source: IMF staff calculations.

Note: Bar A decomposes the difference in average real goods import growth between the two periods into portions predicted by consumption and relative prices, investment, exports, and an un unpredicted residual. Bar B apportions the component predicted by exports into what can and cannot be predicted by domestic demand from trading partners, using an iterative procedure. Bar C decomposes the difference into the sum of domestic demand and external demand predicted by trading partners' domestic demand.

Research Design

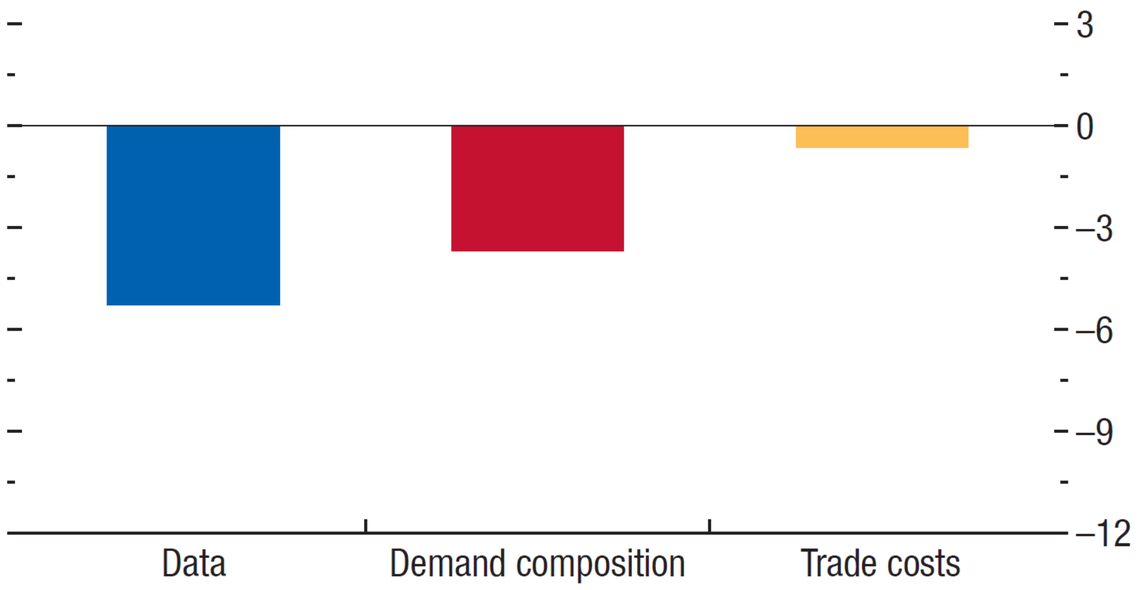


Shifts in demand composition account for most of the slowdown but trade costs are important in EMDEs.

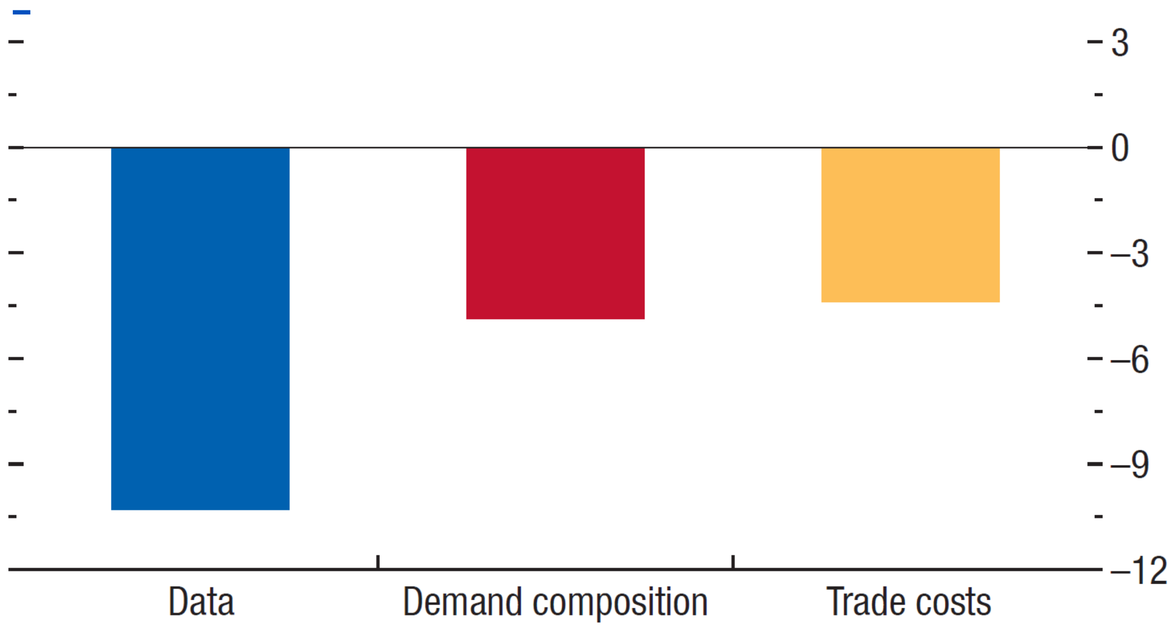
Change in the Gross Growth of Nominal Imports-to-GDP Ratio between 2012-15 and 2003-07

(Percentage Points)

Advanced Economies



Emerging Market and Developing

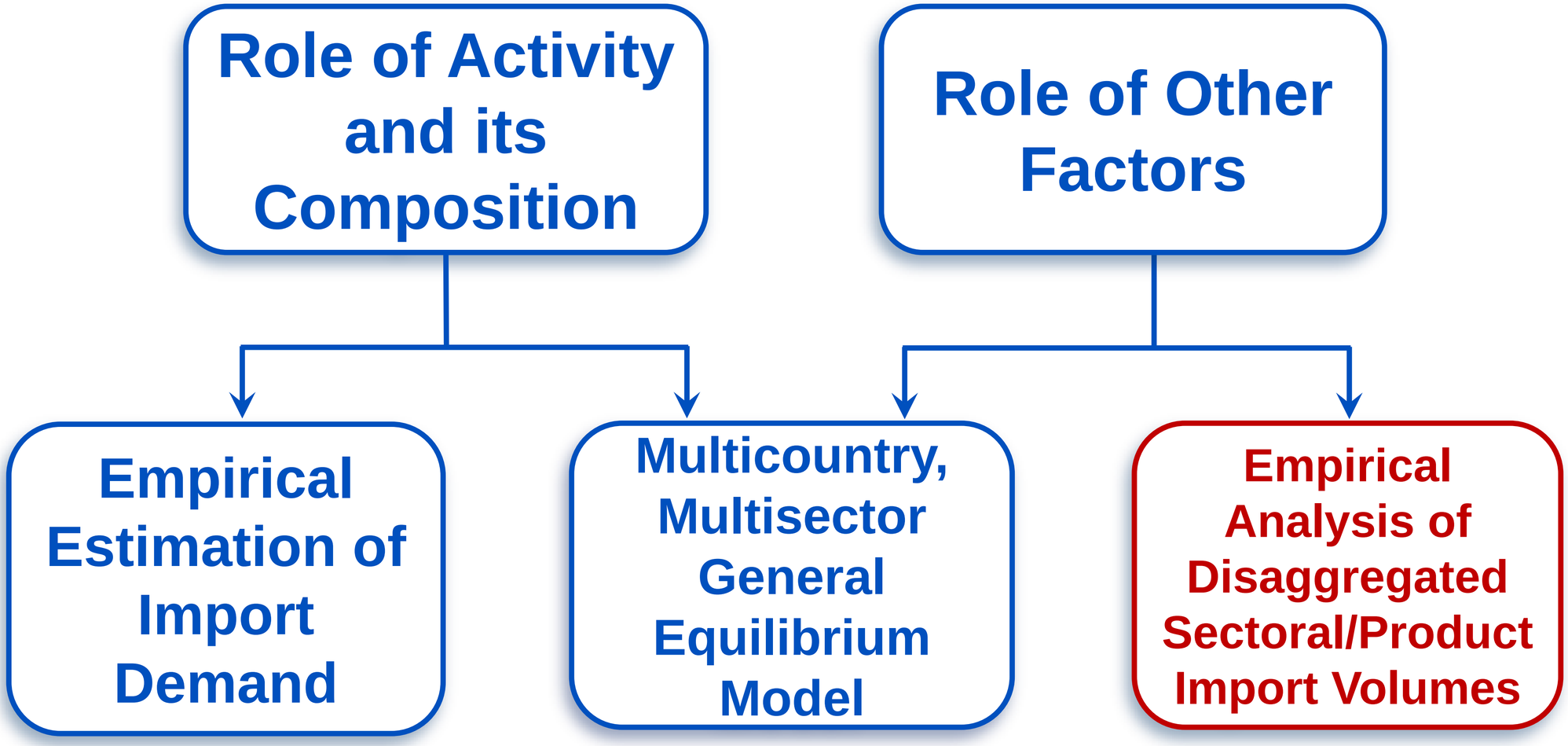


Sources: Eora Multi-Region Input-Output database; United Nations Comtrade; and IMF staff calculations.

Role of Weak Recovery and Shifts in the Composition of Demand

- Import demand estimation and the structural general equilibrium model deliver consistent messages.
  - Slowdown reflects largely, but not entirely, the weakness of the overall economic environment and compositional shifts in aggregate activity.
  - Demand composition shifts played a larger role in the slowdown in AEs' trade, relative to EMDEs.
  - There is a role for other factors, including trade costs.

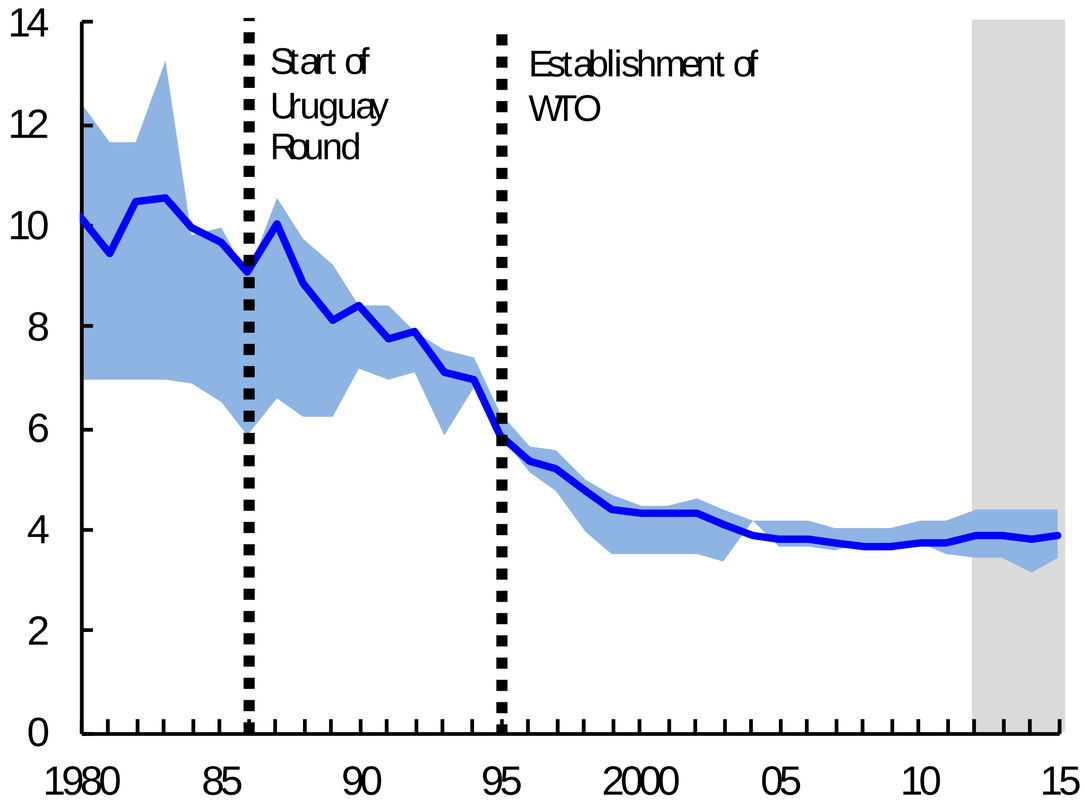
Research Design



Trade liberalization slowed down, and there are signs that protectionism is on the rise.

Tariffs in Advanced Economies

(Percent; simple average)



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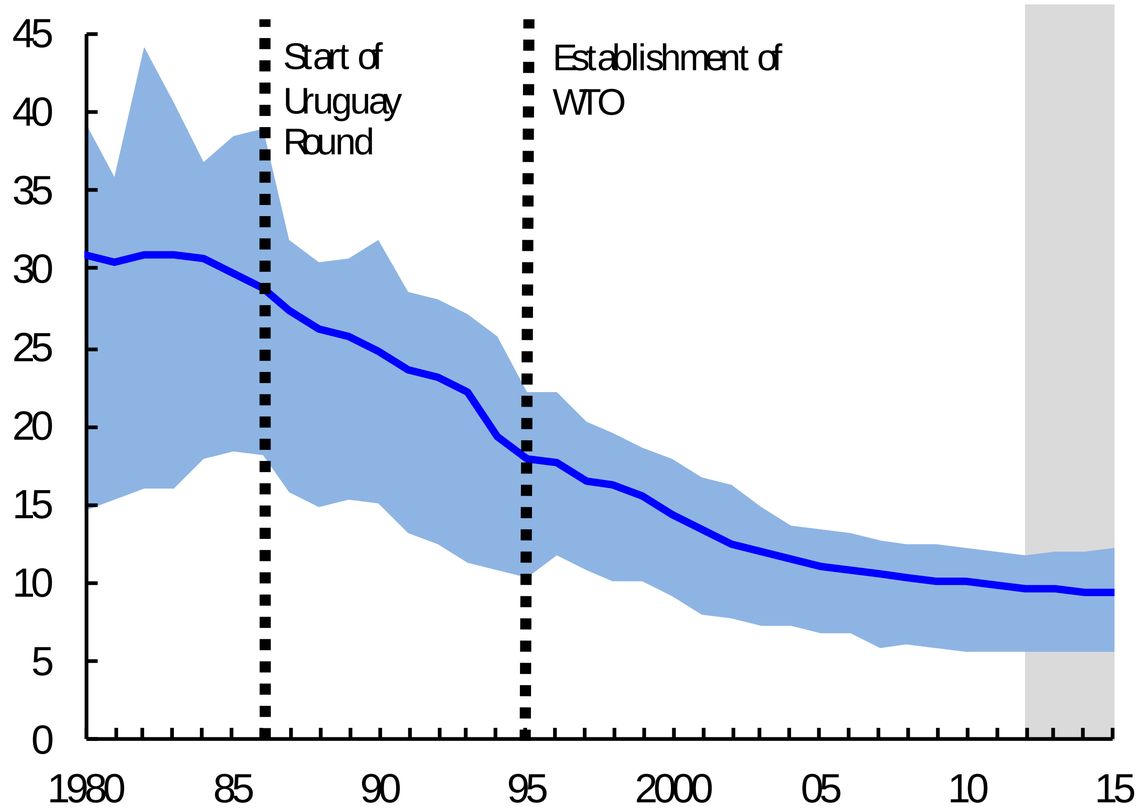

Sources: United Nations Conference on Trade and Development Trade Analysis and Information System; World Trade Organization Tariff Download Facility; and IMF staff calculations.

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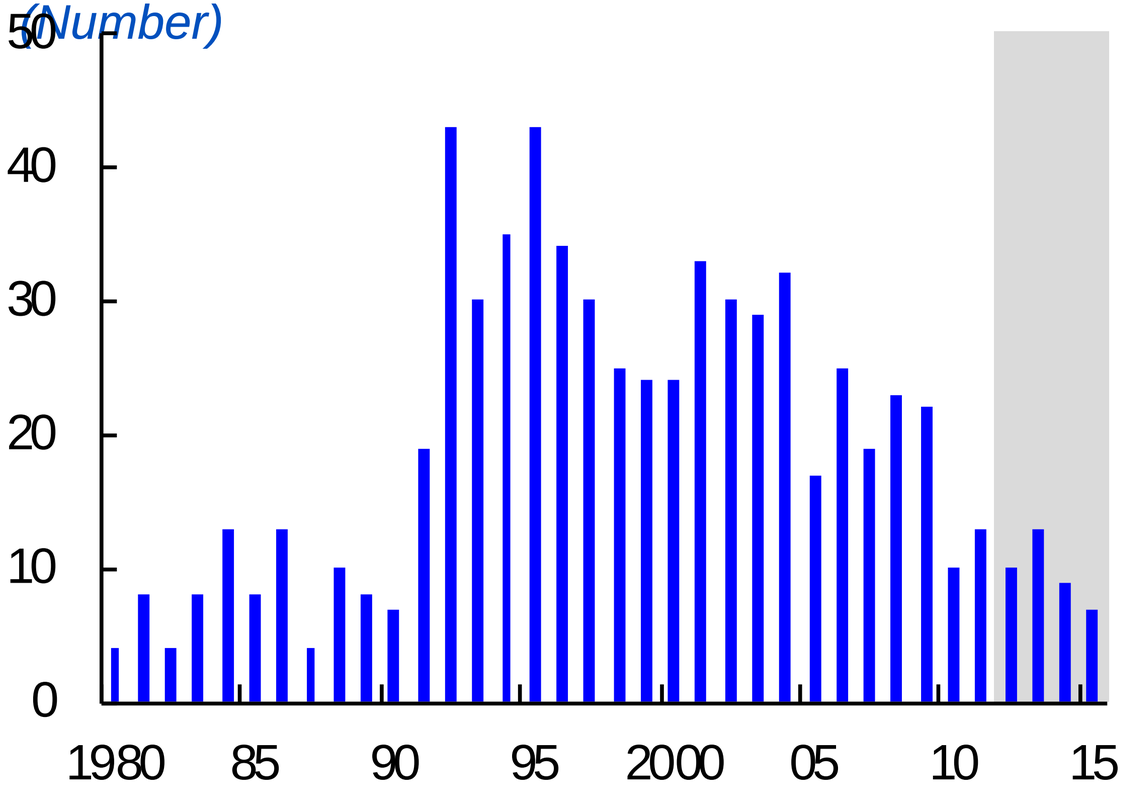
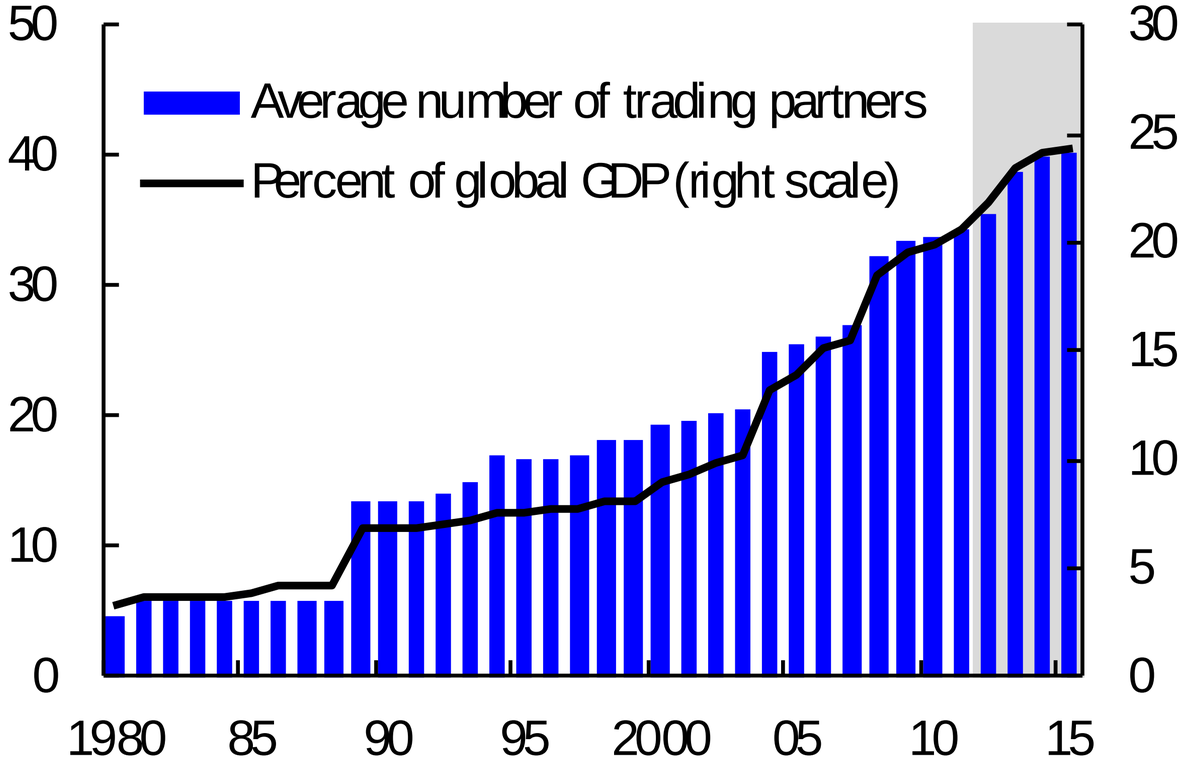
Free Trade Agreements by Year of Signature

(Number)



Free Trade Agreements Coverage

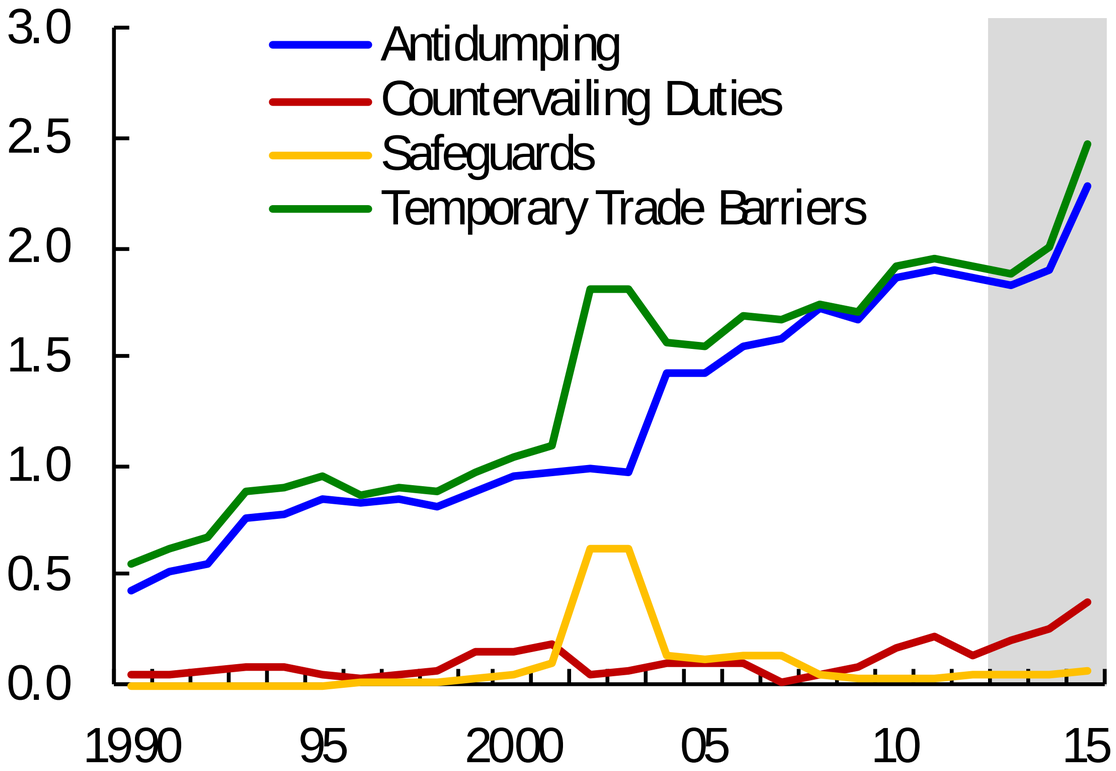


Sources: Design of Trade Agreements database; World Trade Organization Regional Trade Agreements database; and IMF staff calculations.

Trade liberalization slowed down, and there are signs that protectionism is on the rise.

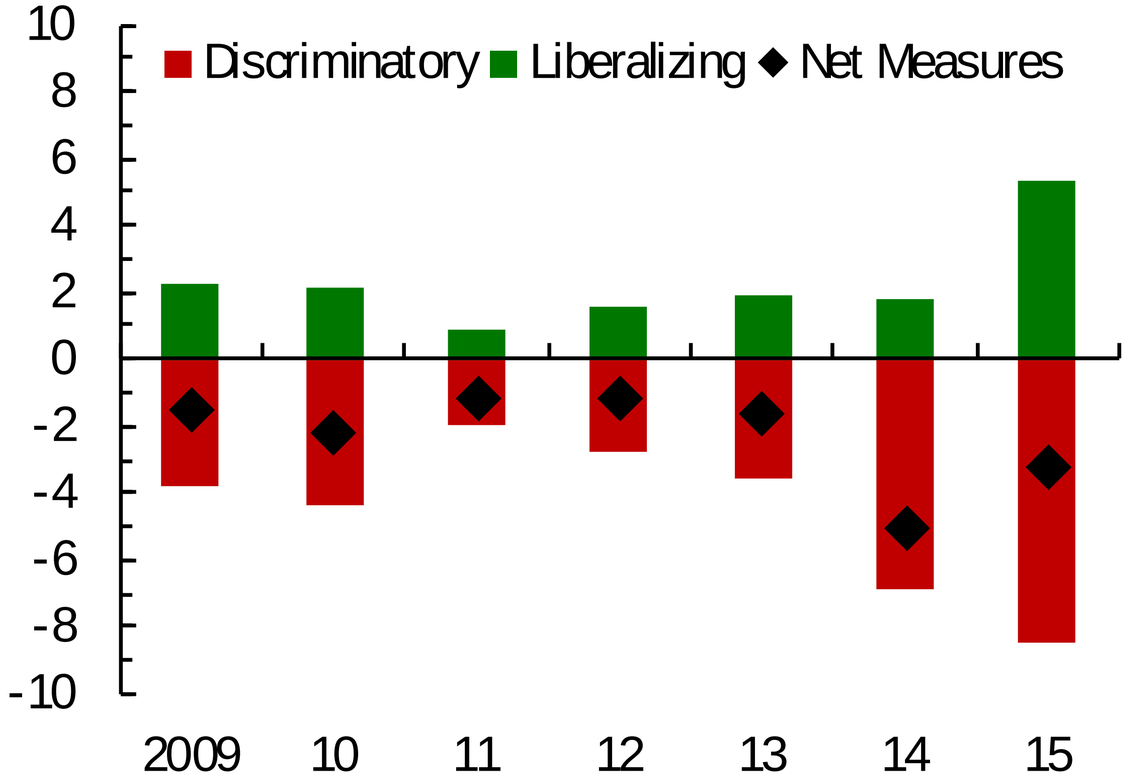
Temporary Trade Barriers

(Percent of products)



Measures Implemented

(Number of products, thousands)



Sources: Bown 2016; Global Trade Alert database; World Bank Temporary Trade Barriers database; and IMF staff calculations.

Participation in global value chains plateaued.

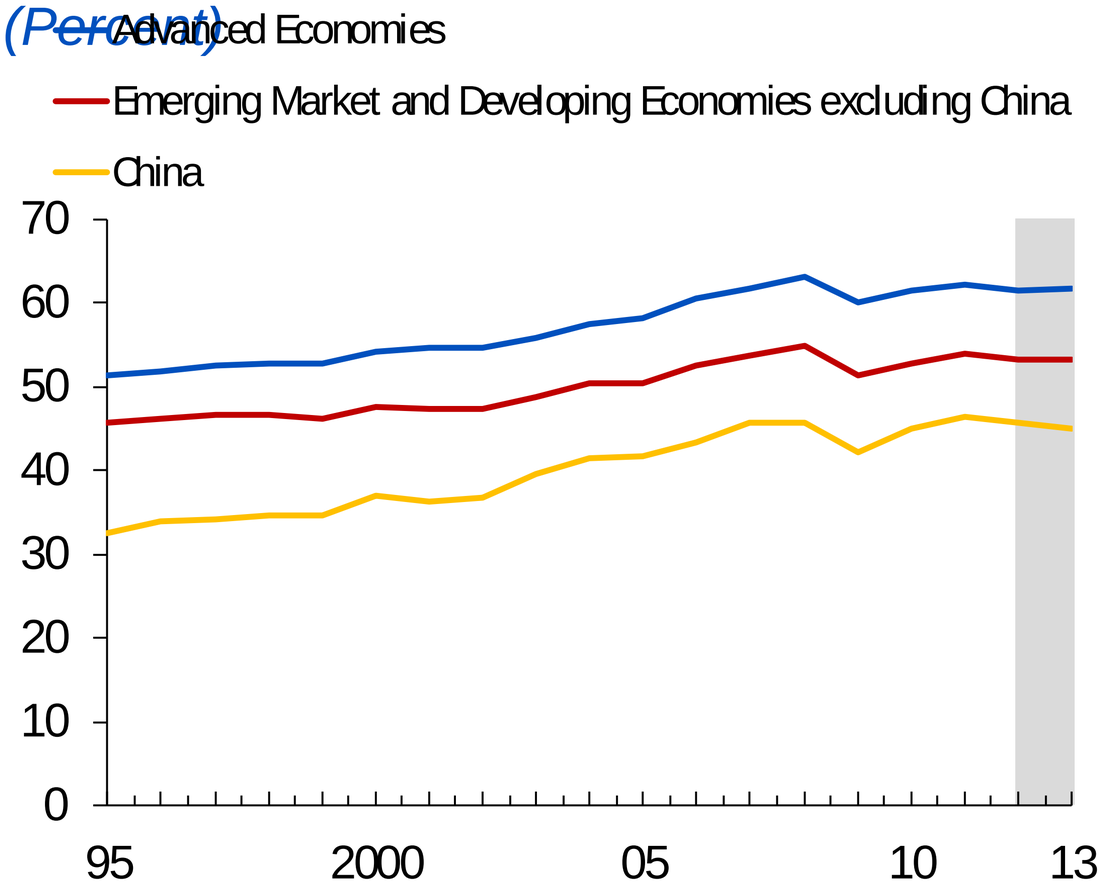
$$GVC\ Participation = \frac{DVX + FVA}{Gross\ Exports}$$

DVX (export perspective) = exported domestic value added that enters as an intermediate input in the value added exported by other countries.

FVA (import perspective) = (foreign) value added that has been generated abroad and imported.

The Evolution of Global Value Chain Participation

(Percent)

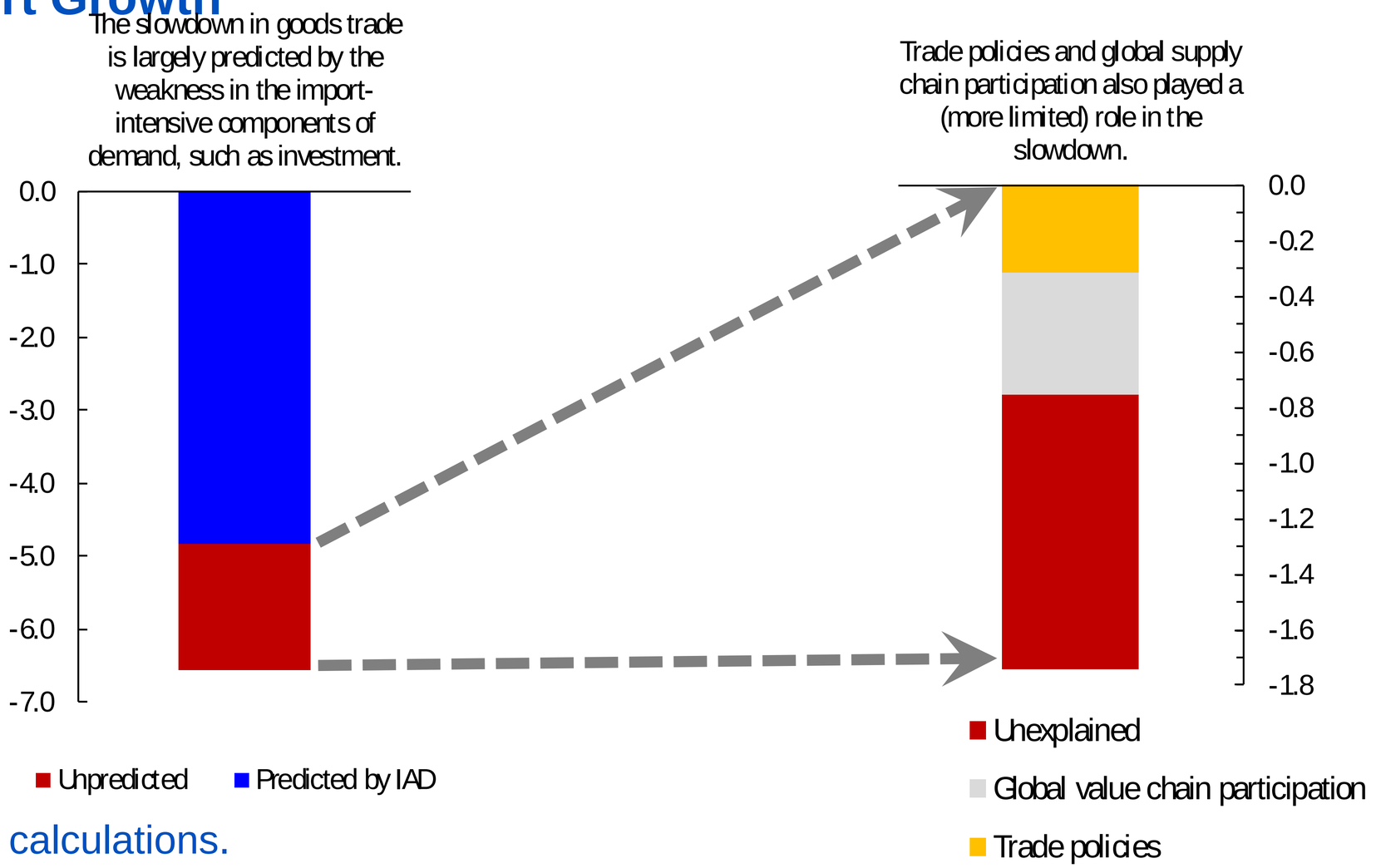


Sources: Eora Multi-Region Input-Output database; and IMF staff calculations.

These factors are weighing on trade growth, although their quantitative contribution is limited.

Contribution of Trade Policies and Global Value Chains to the Slowdown in Real Goods Import Growth

(Percent)



Source: IMF staff calculations.

OUTLOOK AND POLICY IMPLICATIONS

What do our findings mean for the outlook for global trade?

- Slow global trade will likely persist in the medium term as long as global activity and investment remain weak.
- Even when activity gathers momentum, trade is unlikely to return to the growth rates seen before the financial crisis.
  - Pre-crisis period was characterized by unusually high investment growth in EMDEs.
  - Global value chains developed rapidly.

Keeping the Wheels of Trade in Motion

- Policies to boost economic growth, especially investment, can also help trade recover.
- But the role of trade policy should not be underestimated.
  - Protectionist measures have contributed to the slowdown at the margin and should be avoided so as not to exacerbate the slowdown.
  - Reviving trade liberalization process and reducing man-made trade costs will help.
- The appropriate policy response to the decline in GVC growth is less clear-cut ("natural" or man-made)?
- Policies must be accompanied by measures to mitigate the adjustment costs associated with greater trade integration.
  - Benefits can be shared more widely and a stronger case can be made to an increasingly skeptical public.

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