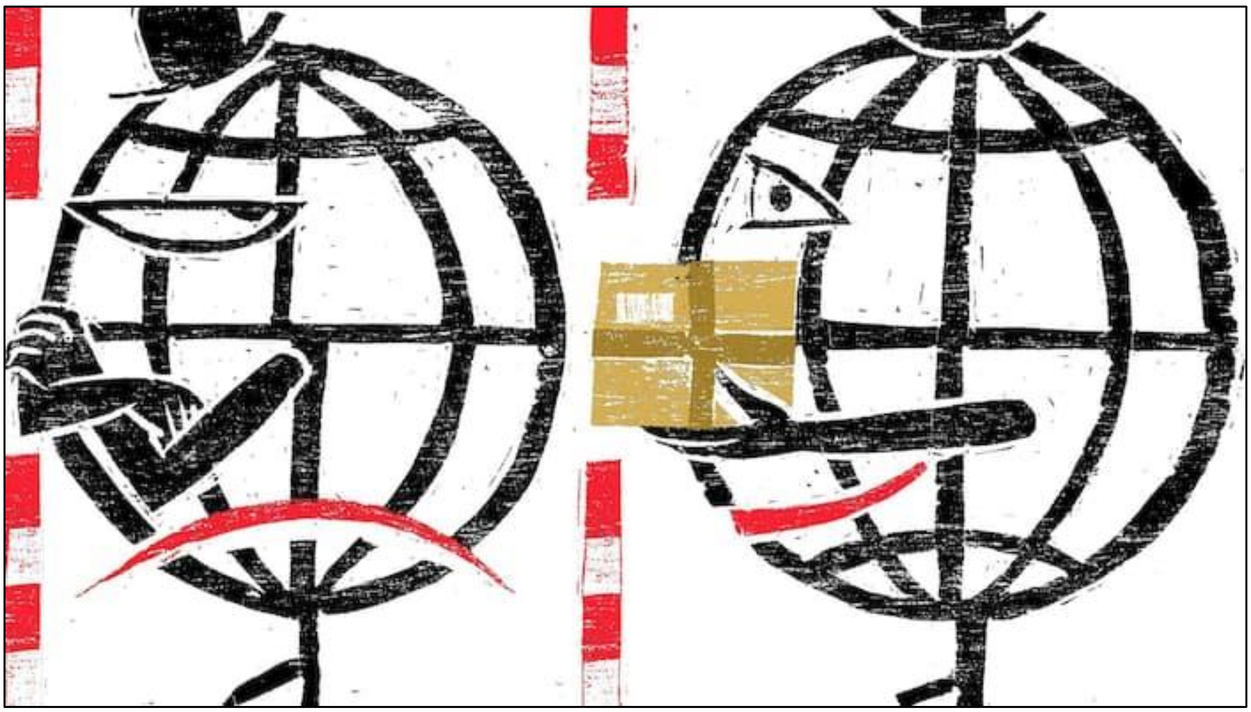
Financial Times (Oct. 26, 2016).

Sluggish global trade growth is here to stay

Political obstacles to big new liberalising agreements have risen higher

Martin Wolf



Is globalisation reversing? No, but it has lost dynamism, notably in the case of trade, the motor of global economic integration for decades. The question, however, is why trade's growth has fallen. Is it because the world economy has slowed? Is it because of the exhaustion of certain opportunities? Or is it because of protectionism?

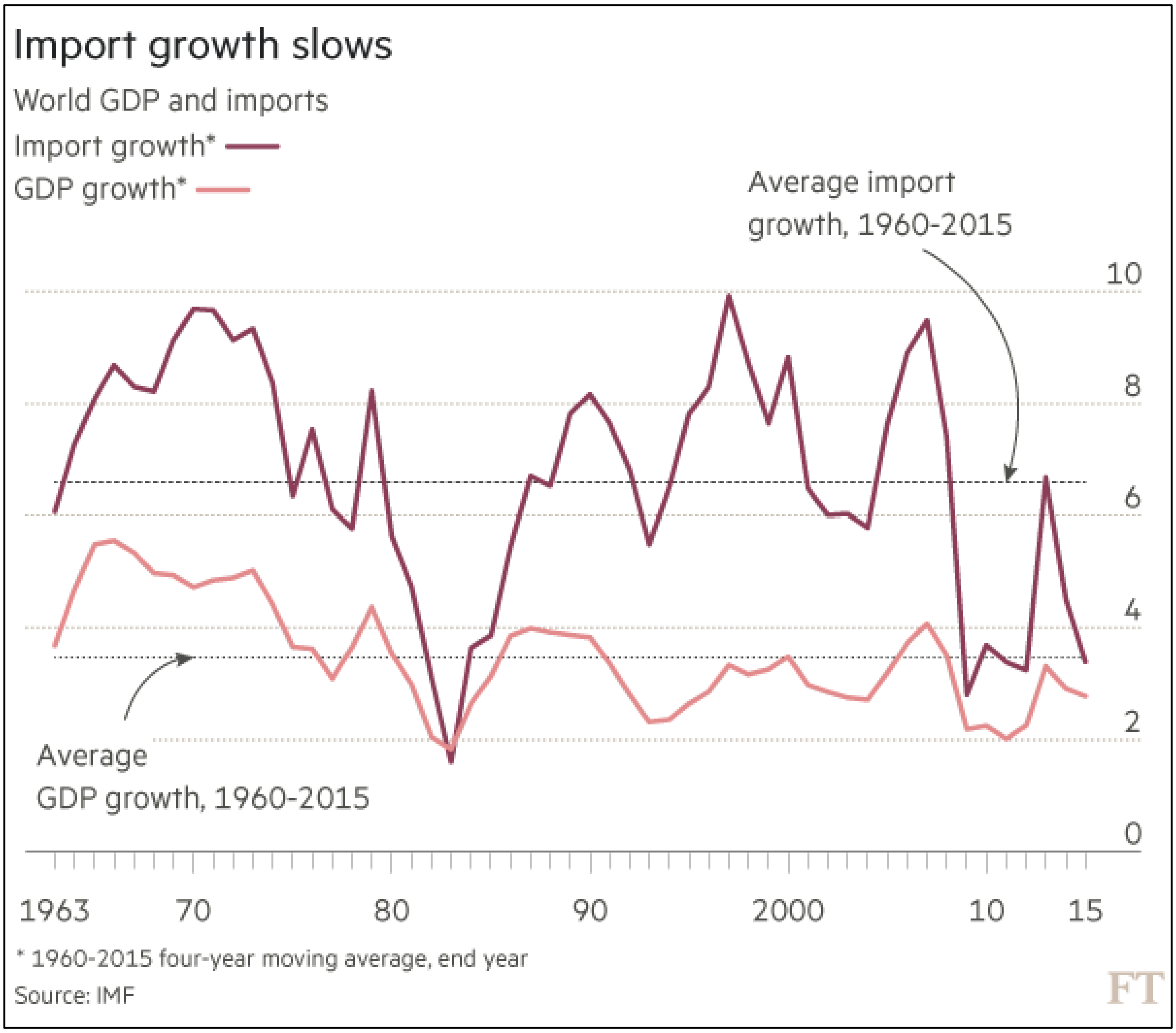
The answer, suggests the International Monetary Fund in its latest World Economic Outlook, is "yes" to all three hypotheses, to varying degrees.

Between 1960 and 2015, world trade increased at an average rate of 6.6 per cent, in real terms, while output grew at an average rate of 3.5 per cent. Between 2008 and 2015, however, average annual growth of world trade was 3.4 per cent in real terms, while world output

grew at 2.4 per cent. Not only has the growth of trade slowed, but the gap between trade growth and that of output also fell sharply.

The IMF concludes that the weak growth in trade volumes is largely a result of the synchronised economic slowdown in advanced and emerging economies. It also adds that "among goods, trade growth fell for 85 per cent of product lines, with the sharpest slowdown observed in trade in capital and intermediate goods".

The post-crisis slowdown in investment was therefore particularly significant, the IMF argues, because it is relatively import intensive. This shift in the composition of global output helps explain why the slowdown in world trade was proportionately bigger than in output. In all, "up to three-fourths of the decline in real goods import growth between 2003-07 and 2012-15 can be traced to weaker economic activity".



This analysis suggests that world trade will recover, provided the world economy and investment do so. The position is, however, not as simple as that. The IMF focuses on two

other factors that it shows to be important: protectionism and the post-crisis halt in the longer-term tendency towards rising trade within "value chains".

The division of labour among economies, in which some make components that are assembled in others, has created greater trade within such chains of production since the 1990s. This can be measured by the import content in a country's exports, together with the domestic content of exports subsequently used by trading partners in their own exports, all divided by gross exports. This ratio rose up to 2008, but has stagnated since then. That marks at least a halt to a significant form of integration of production across borders.

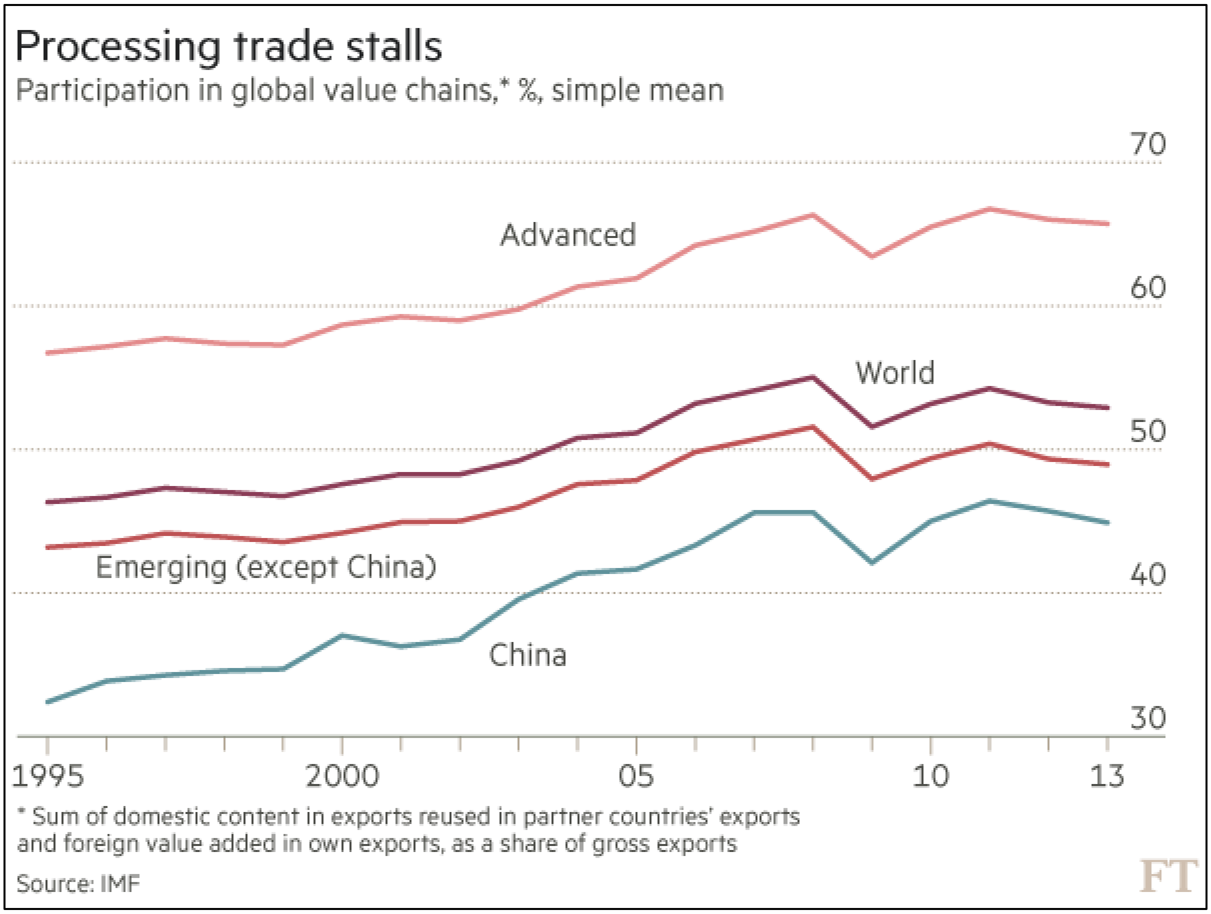
The story on protectionism may not be entirely independent of that on value chains. Here, too, the story is nuanced. The decline in average tariffs halted in the early 2000s, as reductions agreed in the Uruguay Round of multilateral trade negotiations and China's accession to the World Trade Organisation ran their course.

Evidence also exists of a recent rise in non-tariff barriers to trade. At the same time, the coverage of free-trade agreements has continued to grow, albeit at a slightly slower rate.

The fate of the most ambitious arrangements, the Trans-Pacific Partnership (agreed, though not ratified) and the Transatlantic Trade and Investment Partnership (very far from agreed), remains quite uncertain.

For such reasons, notes the IMF, rates of growth of imports between 2012 and 2015 have fallen about 1.75 percentage points short, on average, of what would have been expected from historical relationships between trade flows and global activity. It is also possible that trade's slowdown has, in turn, contributed to weaknesses in growth, including productivity growth.

So what might happen in future?



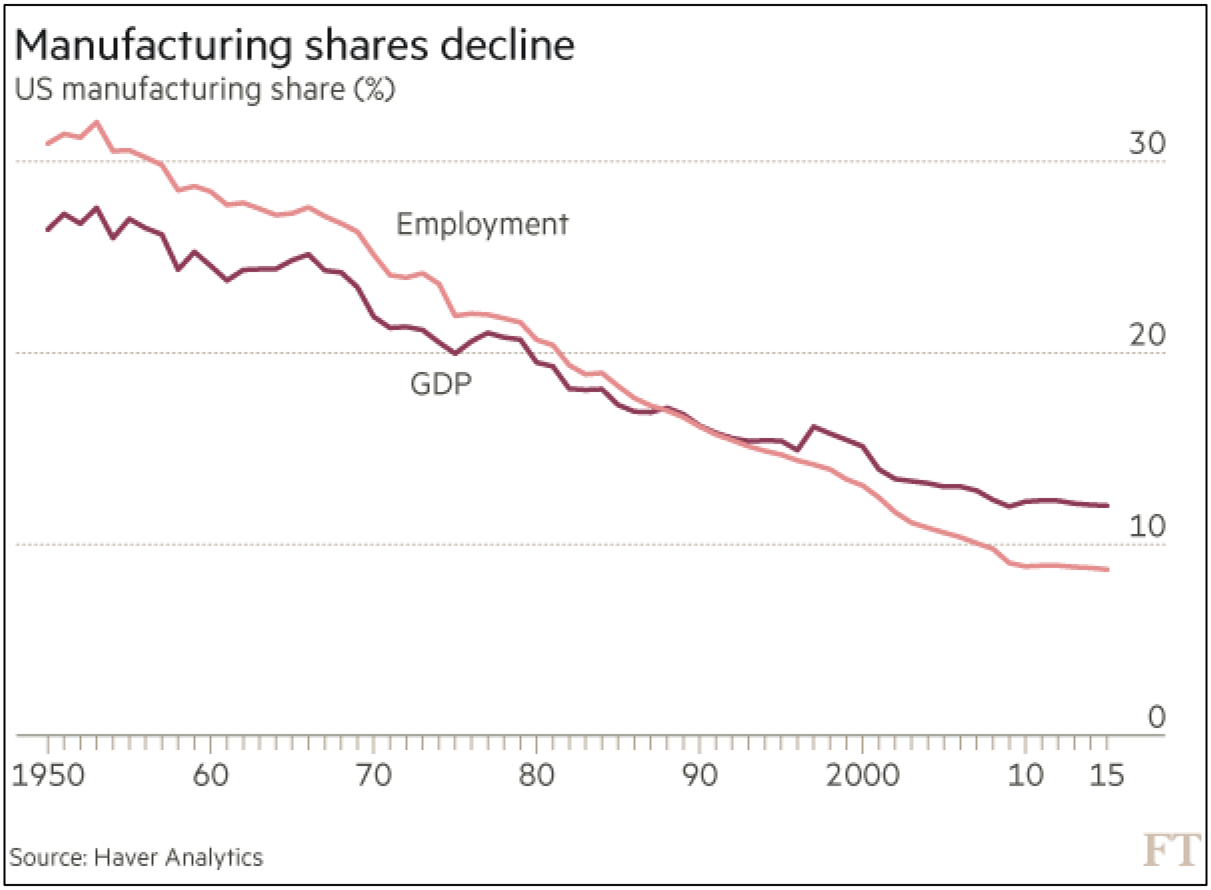
Political obstacles to big new trade liberalising agreements — whether multilateral (within the World Trade Organisation) or plurilateral (such as TPP or TTIP) — have become high.

This is partly because enthusiasm for trade liberalisation is weak. But it is also because today's trade agreements carry a great deal of largely extraneous regulatory baggage: intellectual property rights are one example; protection accorded investors is another.

In particular, many now argue that the "investor-state dispute settlement" procedures included in many such agreements represent an infringement of democratic sovereignty.

The Walloon parliament has just blocked the "comprehensive economic and trade agreement" between Canada and the EU for just such reasons.

Still more threatening than such reluctance to liberalise is the rise of primitive forms of outright protectionism. Donald Trump, Republican nominee for the US presidency, is foremost in making such arguments. Indeed, he suggests that blocking imports would magically revive the jobs in manufacturing that existed when, in his view, the US was "great".



Yet, as Jagdish Bhagwati of Columbia University notes, "the decline in manufacturing employment has been ongoing for half a century". Shares in employment have fallen with the steady decline of manufacturing in total US output, though at a faster rate, because of rapid productivity growth in this sector. No trade policy could reverse this trend, which is driven by changes in demand and technology. Manufacturing is simply following the trajectory once trodden by agriculture.

With luck, such simple-minded protectionism will fail politically: it certainly cannot solve the problems of distressed former and would-be workers. But a renewed burst of trade liberalisation is far off. Trade would start growing more quickly if global economic growth accelerated.