Rising protectionism risk for global trade recovery

- Protectionism is gaining pace, as the US is getting tougher on trade
- Still, global trade growth accelerated in 2017, finally outpacing GDP growth ...
- … although several indicators suggest that the peak may be behind us
- After structural factors drove global trade growth down in 2012-2016, …
- … the recent acceleration was part of a cyclical correction
- We expect global trade growth to stay around 4.5% in 2018, but risks are rising

The US is getting tougher on trade and Brexit still has open ends
In recent months, the US has shifted from mainly talking about trade protectionism to taking action. In January, the US announced to install import tariffs on solar panels and washing machines. On 1 March, president Trump announced the US will impose 25% tariffs on steel imports and 10% tariffs on aluminium imports under the Section 232 national security cases. Under the Section 301 investigation on forced technology transfer and intellectual property theft, the US is considering further measures as well. Chinese, EU other authorities are trying their best to convince Washington not to go too far. Meanwhile, countries affected have already stated to go to the WTO, while working out potential retaliation measures. Retaliation would probably be concentrated on certain farm products, that would hurt US states with a strong Trump support base. There are also still uncertainties regarding the US position versus NAFTA. Another key uncertainty in the trade arena stems from the tough and complex Brexit negotiations between the UK and the EU, with the two-years deadline (March 2019) to reach an agreement coming nearer.
Still, global trade growth accelerated in 2017, outpacing global GDP growth again … According to recent CPB data (coverage ending last December), the acceleration of world trade that started in late 2016 has continued throughout 2017. This has provided a welcome tailwind for the global economy (also see our chief economist Han de Jong’s 2018 global outlook Will Goldilocks stay in 2018?). Obviously, there is a mutual inter-dependence between global GDP and global trade growth. On average, world trade grew by a six-year high of 4.5% last year, compared to +1.5% in 2016 and 2.1% in 2015. In fact, it was the first time since 2011 that world trade growth outpaced global GDP growth. In the preceding years 2012-2016, global trade growth has persistently stayed below global GDP growth (see charts on first page).

… although several indicators suggest that we may have passed the peak

This acceleration in global trade is a cyclical phenomenon (see below). Of course, the key question is whether global trade will remain a tailwind for the global economy this year or not. The actual picture is complicated by China’s Lunar New Year break (fully concentrated in February this year, versus late January/early February in 2017). Still, several indicators suggest that we may have passed the peak already. Various logistics series and CPB’s momentum indicators for exports and imports suggest that global trade growth peaked in late 2017. The Baltic Dry index has also fallen back in recent weeks. The global cyclical activity indicators (PMIs, industrial production) mentioned above are pointing to stabilisation at best and not at a further acceleration (in some cases they even point at deceleration). Meanwhile, export growth of global bellweathers South Korea, Hong Kong, Singapore and Taiwan dropped in recent months compared to the peak levels seen in the course of last year. But these numbers – in value, not volume terms – are without any doubt strongly impacted by the (timing of the) Chinese New Year (stronger January, weaker February).

While weak global trade growth in 2012-2016 pointed to structural factors …

The fact that global trade growth was weaker than global GDP growth in 2012-2016 was remarkable from an historical perspective. Traditionally, world trade has grown faster than global GDP except during recessions or sharp slowdowns, as the global
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The economy has become ever more integrated over time and cyclically sensitive goods have a disproportionally large share in global trade. The persistent weakness in global trade during 2012-16 has been attributed to a number of structural drags.¹ For example, the rising global GDP share of emerging economies, which are on average less trade oriented than advanced economies. Or the shift from manufacturing to less trade-intensive services. Other structural factors are the waning effects of global supply chains and the rise in protectionist measures. It is important to point out that the recent acceleration in global trade does not imply that these structural drags have faded or reversed. By contrast, the US stance on trade policy has become more protectionist in recent months (see for instance out latest China Watch, No barking but biting in Year of the Dog).

… the recent acceleration was part of a cyclical correction
Not only structural but also cyclical factors have driven global trade growth down in recent years, although we should point at mutual interdependences between global trade growth and global GDP growth. Industrial production growth slowed to a post-global financial crisis low of 1.8% in 2015-16. The global manufacturing PMI fell from 52.8 in early 2014 to 50.0 in February 2016, coming down in advanced as well as in emerging economies. The acceleration of global trade since end-2016 has been part of a cyclical correction. The global manufacturing PMI has risen sharply since early 2017, led by the advanced economies. The advanced economies are also leading the acceleration in industrial production growth (EM industrial production growth has slowed a bit in recent months). All this is also reflected in the fact that we have raised our 2018 growth forecasts for key advanced economies (US, eurozone) again in recent months, after raising them for the eurozone, Japan and China in the course of last year.

Acceleration exports broad-based, with Japan and emerging Europe standing out
The acceleration in global trade since late 2016 is also illustrated by the pick-up in export volume growth, jumping to a six year high of 4.4% last year. This improvement was visible both for advanced economies (4%) and emerging economies (4.8%). Amongst advanced economies, Japan showed the sharpest acceleration (6.6%), driven by stronger demand from its first (US) and second (China) export destination. Within the emerging economies, the sharpest uptick was visible in emerging Europe (9.8%), mainly thanks to stronger

¹ See for instance: ECB, Occasional Papers, Understanding the weakness in global trade – What is the new normal?, September 2016.
external demand from the eurozone. Africa and the Middle East is the clear negative outlier here.

Pick up of import volumes: emerging markets lead the way
Mirroring the improvement in export volume growth and in line with the firming of domestic demand, imports have also shown an acceleration last year. According to CPB data, global growth in import volumes jumped to 4.6% last year, compared to 1.4% in 2016. Although advanced economies were ‘leading’ as far as the uptick in economic growth (indicators) is concerned, emerging economies have shown the strongest rise in import volume growth: +6.5% in 2017 versus +3.4% for advanced economies. Amongst emerging economies, the uptick was broad-based in regional terms. Emerging Asia (driven by a firmer China) and emerging Europe showed the strongest gains (8-8.5%), while again Africa and Middle East was the negative outlier (-1.2%). Within the advanced economies, import volumes picked up the most in the US last year (+4%).

We still expect global trade growth to stick at around 4.5% this year ...
Combining all signals, we still expect global trade growth to plateau this year at around 4.5%, a little below the buoyant levels seen in the second half of 2017. That implies that we expect global trade growth to remain at relatively high levels, once more surpassing global GDP growth. We do not expect an acceleration (as seen in 2017), and in fact some
deceleration from the peak levels seen in late 2017. For 2019, we expect a mild slowdown of global trade growth to around 4%, in line with our estimate of a modest deceleration of global GDP growth (from 3.9% this year to 3.7% next year).

... but risks on the trade protectionism front are rising
As the US tax plan is out of the way and with mid-term elections looming, we are not surprised that trade skirmishes are flaring up this year. In our base scenario, we still do not expect a major, damaging trade war between the US and China, as we expect both countries to be aware of the high costs. However, the current developments show that risks on the trade protectionism front are rising. All in all, even though the impact of protectionist measures could be offset over time by stronger intra-regional trade, we consider a serious rise of protectionism the key risk to our outlook for global trade. Next to China and Mexico, countries that are strongly export-oriented and dependent on global supply chains only have to lose from more protectionism. That includes countries in Asia (e.g. Japan, South Korea, Singapore, Hong Kong, Taiwan) but also a small, open country such as the Netherlands (having relatively strong trade ties with the UK as well).