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Global trade: a return to pre-crisis levels is unlikely, but the potential for growth exists

Following thirty years of unprecedented expansion, global trade is experiencing a period of radical change. Is the slowdown a cyclical phenomenon or long-lasting and structural?

Global trade remains stricken by the adverse effects of the crisis

Since the economic crisis of 2008-2009, the rate of growth of international trade has been slowing down, affected first and foremost by a long-term fall in global growth. This structural and temporary slowdown in the major emerging countries is especially damaging for global trade, in that its scale is closely linked to the boom in their exports (multiplied by a factor of 6 in 20 years, against a factor of 2.2 for the advanced economies). Added to this, the second negative effect of the crisis is the fall in demand for raw materials. Among the main emerging countries, those whose annual export growth is the strongest as at mid-2014 (Poland, Romania, India, Philippines), mainly sell manufactured goods and not raw materials.

The disappointing export performance of a number of countries coincides with an increase in protectionism[1], which is hindering trade. In total, Argentina, Russia and India each introduced over 250 measures[2] between July 2008 and July 2014, almost twice as many as in the United States, Germany, France, the United Kingdom and Italy. Russia, with regard to the recent measures introduced by its government to ban the import of agri-food products from the European Union, the United States, Canada and Australia, becomes the most protectionist country.

A global trend to include emerging countries in the value chain

The effects of the crisis on trade have been highlighted by the increasing importance, since the 2000s, attached to internalising production processes. It is precisely this channel which caused the 2008-2009 crisis to spread quickly to global trade. The trade in intermediate goods[3], which is at the very heart of global value chains (GVC), fell by 25% in 2009. Still limited (with the exception of Asia), intra-regional trade has not been able to offset the effects of the crisis despite the proliferation of agreements to liberalise trade. Intra-regional trade as a proportion of total exports is still low in most emerging regions – 11% for Africa, 20% for Latin America and 15% for the CIS.

Nonetheless, the apparent resilience of GVCs to the crisis would suggest favourable medium-

[1]Protectionism involves a state policy aimed at protecting that state's companies against competition from foreign companies. Protectionist measures, as defined by the World Bank, can take various forms including: safeguard or antidumping measures, grants and compensatory measures.
[2]Source: GTA
[3]Intermediate goods: goods that are imported, processed and re-exported.

term growth prospects. The scope for improvement seems considerable, thanks mainly to the integration of emerging countries into these global chains. As an example, this is the case for Africa. The rise of the Asian middle classes is likely to favour the establishment of companies in Africa where production costs (such as in the textiles and clothing sector) are heavily dependent on labour costs.

The forecast: limited but less volatile growth in trade

Coface is nonetheless anticipating an acceleration in the global growth of trade to around 5% in 2015 – a higher level than that seen in the last two years.

"The fall in potential growth in the main developed and emerging economies makes it unlikely that we will see growth in international trade return to its pre-crisis levels. However the tentative acceleration in global growth and the continuing internationalisation of value chains would suggest that the growth in global trade will increase in 2015", explained Julien Marcilly, Head of Country Risk.

In addition to the rate of growth, the structure of trade will also experience some upheaval. The expansion of the service sector in the advanced and emerging economies is likely to lead to similar expansion in trade. The speed of this process will largely depend on the rate at which technology develops. This development has one major advantage: it is likely to make the fluctuations in global trade less marked, given that variations in the service sector are generally less pronounced than those in industry.

These forecasts lead Coface to assume that, over the next few years, the growth in global trade will be more modest, but also less volatile.

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