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Becalmed

A slowdown in global trade growth is bad news for many emerging markets

AT THE blustery Port of Tilbury, on the eastern outskirts of London, the word in the air is diversification. Less space is being given over to conventional container shipping. Instead, the port's owners are investing in new projects. A large metal skeleton will soon become a refrigerated storage unit, to hold perishables on their way to Britain's supermarkets. According to Tilbury's chief operating officer, Perry Glading, the country's container ports have a problem with overcapacity. Tilbury's response is to use the port's 1,000-acre site as flexibly as possible.

World trade data bear out Mr Glading's caution. In South Korea, a bellwether for the global economy, exports of goods fell by almost 15% year on year in August in dollar terms. In China, the most important link in global supply chains, exports were down by over 5%. British and American exports have also been slipping. In the first six months of the year global merchandise trade shrank by more than 13% year on year. From the mid-1980s until the middle of the last decade, annual trade growth stood at 7%.

The recent falls can be partly explained by changes in prices. The dollar is strong, reducing the notional value of goods priced in other currencies. Commodity prices have plunged: that not only reduces the value of the raw materials shipped around the world, but also helps hold down input costs, and thus the price, of all manner of manufactured goods. In volume terms, trade is still growing—by 1.7% year-on-year in the first half of 2015 (see chart 1). But that is far below the long-term average, of around 5% a year. In emerging markets, volume growth was weaker still, at 0.3% year on year.

In the early 1990s trade grew slightly faster than world GDP. But later in that decade, China and the former Soviet Union began to integrate into the global economy, the World Trade Organisation (WTO) was founded to bolster exchange, and technological change started making it easier to manage long, dispersed supply chains. As a result, trade grew twice as fast as the world economy in 2003-06. Since then, however, it has been slowing. For the past two years world GDP has grown more quickly than trade. The slowdown is all the more remarkable given that declining transport costs thanks to cheap oil should be boosting international commerce.

The problem is partly cyclical. Europe, which accounts for around a quarter of global output but one-third of world trade, is enduring “an extremely long cyclical downturn”, according to Paul Veenendaal of the Netherlands Bureau for Economic Policy Analysis. Its GDP growth was 0.8% in 2012-14, compared with 3.5% in 2005-07.

At the same time, falling demand for raw materials in China is harming the economies of many commodity exporters. These countries are also final markets for many Chinese exports, creating something of a vicious cycle.

One-off events have also contributed. In early 2015 trade with America was hit both by a strike at ports on the west coast, which absorb 50% of imports, and unseasonably cold weather, which put off shoppers. These disruptions to supply and demand saw imports fall by 3.4% in the first quarter of the year compared with the previous one. A study by Emine Boz, Matthieu Bussière and Clément Marsilli at the Centre for Economic Policy Research estimated that such passing factors were responsible for around half of the slowdown in trade in rich economies in 2012-14.

Yet structural factors play a part, too. A recent IMF working paper argues that trade elasticity—the amount of trade generated as incomes rise—has fallen significantly in both China and America. China is making more at home: the share of imported components in exports has fallen from 60% in the 1990s to 35% this decade (see chart 2). America, meanwhile, has begun to exploit its huge domestic reserves of shale oil; imports of crude fell by 1.9m barrels a day between 2010 and 2014. At an average price of $93 a barrel, that represents savings of $60 billion, or the equivalent of 25% of what America did spend on crude oil in 2014, according to its Energy Information Agency.

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The slowing pace of trade liberalisation is another drag. In 2010-14, 109 new trade deals came into force, down from 128 in the previous five years, according to the WTO. The biggest deal currently under negotiation, the 12-country Trans-Pacific Partnership (TPP), seems to have run aground. Negotiating new pacts is becoming harder as average tariffs have fallen; deals now hinge on much thornier subjects such as labour standards and protection of intellectual property.

It would have been naive to imagine that the remarkable confluence of trade-boosting circumstances of the early 2000s would last forever. The falling dollar value of world trade is not necessarily a terrible thing. Cheaper products help consumers to buy more goods. By the same token, the slump in volumes is not a disaster for the world economy if it reflects growing domestic output in America and China.

But many economies will suffer. Commodity exporters in the rich world, such as Australia and Canada, are relatively diversified. Their falling currencies will boost tourism and exports of manufactured goods, among other industries. Of greater concern are the many economies without much manufacturing. Rapid trade growth in the 1990s and 2000s led to a golden age of convergence between incomes in emerging economies and the rich world, as poor countries joined global supply chains. Yet many have barely begun the process of industrialisation: average income in sub-Saharan Africa is about one-quarter of that in China. Weaker trade growth and shorter, leaner supply chains mean the ladder Chinese workers climbed is being pulled up behind them.

If the world is unlikely to repeat the trade boom of the 2000s, there are nonetheless ways to prevent trade from stagnating. Rich countries should push ahead with the trade deals they have begun, and ratify the ones they have already negotiated. The deal on trade facilitation the WTO reached in 2013, which aims to reduce the cost of trade in poor countries in particular, requires ratification by two-thirds of the organisation's 161 members to come into force. So far, just 16 have signed on. Efforts to pass TPP have been undermined by electoral politics. Barack Obama, having won "trade promotion authority" (the power to submit trade deals for an up-or-down vote in Congress) should strive to finish TPP, lest the political capital already spent on the deal go to waste. TPP is especially worthwhile as it lowers barriers to agricultural imports and services, which will be of critical importance to developing economies that can no longer count on manufacturing to carry them to greater wealth.

Reforms within emerging economies, to liberalise agriculture and prepare workers for jobs in the service sector, will also be necessary. But as leaders from Indonesia to Brazil are discovering, the slump after the boom is not the easiest moment to take hard decisions.