Global trade slowdown: have we reached the bottom yet?

By **Hugh Wilson**
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US and Chinese officials are hinting that this month could finally bring a scaling down of the 16-month trade war between the world's two largest economies.

A statement from the Chinese Commerce Ministry said that negotiators had reached "consensus on principles". President Donald Trump later added that the two countries were "making a lot of progress" towards an interim deal that would avert a new round of US tariffs on Chinese goods, due to kick in from mid-December.

We've been here before, of course. Markets tumbled late last month after US officials appeared to question the likelihood of a November deal. But optimism has returned, with one US negotiator talking up "excellent progress" on intellectual property theft, a thorny issue that has derailed talks in the past.

But until pen is put to paper, the world will hold its breath. Kristalina Georgieva used her maiden speech as International Monetary Fund (IMF) chief in October to warn that a continuing US-China trade war could cost the global economy $700bn (£542bn, €627bn) by 2020.

“We have spoken in the past about the dangers of trade disputes. Now, we see that they are actually taking a toll,” Georgieva said.

There was more positive news for the global trade outlook with the announcement this week that a major pan-Asian trade agreement would probably be signed next year. Leaders of the Association of Southeast Asian Nations released a statement welcoming “the conclusion of the Regional Comprehensive Economic Partnership (RCEP) negotiations and the commitment to sign the RCEP Agreement in 2020”.

The agreement would create a trading bloc covering a third of the world’s gross domestic product.

The global trade slowdown is about more than China and the US

These developments may appear hopeful but nobody is getting carried away about the prospects for global trade just yet. Trade tensions between China and the US may be easing, but one lesson from the past 16 months of tariff-based tit-for-tat is that hope can easily be crushed. Global trade remains stuck in the slow lane, held back not just by the China-US trade war but also by re-emerging isolationist instincts around the world.

Tensions are evident everywhere. Brexit is currently set for the end of January, separating the UK from the world’s largest trading bloc. In South America, the governments of Brazil and Argentina express frustration with each other, with the Southern Common Market bloc (Mercosur), and with a trade deal signed with the EU this year. Japan has moved to restrict exports of microchip-making materials to South Korea in an escalation of a longstanding regional spat.

“Developing nations often think it is beneficial for their economies to make imports more costly, though this is highly debatable,” says economist Jonathan Davis, of Jonathan Davis Wealth Management. “But at the moment we are also seeing developed nations pursuing protectionist policies for political reasons. You can count the EU among them and the US has recently become more protectionist because it has felt, for a long time, unfairly treated by many other nations.”

That sense of injustice sparked Trump’s “America first” agenda, a series of protectionist policies that started with the decision to pull out of the Trans-Pacific Partnership (a trade agreement between 11 countries bordering the Pacific Ocean) in 2017. More recently, Washington has slapped tariffs on a range of EU goods, risking another damaging trade war.

Why global trade is important

Recent statistics from the World Trade Organisation (WTO) show the spread of mistrust through the global economy. Figures covering the period from mid-October 2018 to mid-May 2019 show trade-restrictive measures being implemented at historically high levels.

The WTO estimates that restrictive measures implemented during this period cover $339.5bn worth of trade, the second highest figure on record. The highest came in the preceding six-month period.

“Trade-restrictive measures” mean tariff increases, import bans, special safeguards, import taxes and export duties. The report notes that, by contrast, the number of new measures introduced to smooth global trade was at its lowest monthly average since 2012.

“The message of the report is very serious,” said WTO Director-General Roberto Azevêdo. “These actions have real economic effects, and the alarm bells are already sounding. It is essential that we tackle the tensions that are leading to higher trade barriers, greater uncertainty and lower trade growth.”

“Real economic effects” are certainly being felt. In South Korea, which depends heavily on the export of goods and data, exports fell 14.7 per cent in October compared with the same month in 2018. Japan’s exports contracted for a tenth straight month. Global trade volumes shrank 1.2 per cent in August compared with the same month last year.

An analysis of IMF data carried out by the Financial Times revealed that in 100 countries the value of their exports shrank in the first half of 2019, compared with 33 last year.

Have we turned a corner on global trade?

While the statistics are certainly gloomy, might the latest developments suggest a corner has been turned, or a bottom reached? An interim US-China trade deal could be signed in the next few weeks, and there have been hints that Washington is softening its stance on trade with the EU. This may be politically expedient, with the Trump administration wanting to avert a trade war on two fronts as it enters an election year.

For its part, the WTO global trade outlook now predicts growth of 2.7 per cent in 2020, below the 3 per cent it was predicting in April. Even that anaemic figure presupposes the return to “more normal trade relations”.

The organisation is transparent in its analysis of where threats to its forecast lie.

“The darkening outlook for trade is discouraging but not unexpected,” director-general Azevêdo said. “Beyond their direct effects, trade conflicts heighten uncertainty, which is leading some businesses to delay the productivity-enhancing investments that are essential to raising living standards.”

And Jonathan Davis believes an interim China-US agreement would only mask a deeper conflict between economic superpowers. “So a total resolution, in the near term, is unlikely, because the ‘war’ is about much more than merely trade,” he says. “The Chinese may be hoping that any new president is more accommodating.”

As we move towards 2020, much rests on the unpredictability of politicians. If a China-US deal were followed by an easing of US tensions with the EU, and an orderly Brexit at the end of January, economists would sleep more easily. Yet all, some or none of these things may happen. The outlook for global trade remains shrouded in uncertainty.