“UNDERSTANDING THE WEAKNESS IN GLOBAL TRADE: WHAT IS THE NEW NORMAL?”

Comments
"The role of China in the trade slowdown"
"China's Imbalances: Trade Integration in a Dynamic General Equilibrium Model"

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Integration of China in the global economy: from driving force to a drag

- Supply shocks in emerging Asia driving short-run departures from unitary elasticity
- China's specialisation in labour intensive products drove their prices down in world markets, leading to a decline in relative prices of tradables & raising trade elasticity above 1
- More recently, growth model shifted towards domestic demand and relative prices of exports increased.
- Recent slowdown: phasing out of lower trade costs, negative demand shock in EU and rebalancing in China
- The slowdown reflects the waning influence of past trade agreements, rather than the imposition of new barriers
"The role of China (and the European Union) in the recent trade slowdown"

- "On the imports side, the contraction in EA demand is the single most important contributor to cross-country reallocations of demand"
- Definitely true during Great Recession and the EA crisis 2011-2013
- Authors' choice of the "post-crisis" period (11Q3-15Q2) masks an important turnaround in trends in 2013
The recent slowdown in trade owes little to EU

Contributions to global import volume (in pp.)

- Euro Area
- United States
- Other advanced (excl. US and EA)
- China
- Emerging Asia excl. China
- Other emerging (excl. emerging Asia)

- Early 2000 recession (00Q1-03Q3)
- Run-up to the crisis (03Q4-08Q1)
- Crisis (08Q2-09Q2)
- Rebound (09Q3-11Q1)
- Euro-area crisis (11Q2-13Q2)
- Recovery (13Q3-16Q1)
Similarly on the export side – China stands out even when compared to other EMEs

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- Emerging Asia (excl. China)
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Early 2000 recession (00Q1-03Q3)
Run-up to the crisis (03Q4-08Q1)
Crisis (08Q2-09Q2)
Rebound (09Q3-11Q1)
Euro-area crisis (11Q2-13Q2)
Recovery (13Q3-16Q1)
Industrial production and trade

- Using IP as a measure of activity triggering trade may be problematic given the secular decline of industry in GDP.
Different trends in industry and elsewhere lead to countries' GDP and IP diverging over time

*Indices, 2000=100*
Services trade remains buoyant, particularly in China

Elasticity of trade in goods and services with respect to GDP (source: European Commission)
If rebalancing continues, services may soon account for half of China imports

Share of services in total Chinese imports under different scenarios
(future growth equal to historical averages)
Where is global goods trade heading?

WEAKER GROWTH FOR LONGER

- Waning influence of past trade agreements (rather than the imposition of new barriers)
- Rebalancing in China

REACCELERATION AHEAD

- Major free trade agreements in the pipeline (TPP&TTIP)
- Distress in EME likely easing (gradual rebound in commodity prices, easing recessions in Russia and Brazil)
- Rapid integration of other parts of the world into the global economy (India, SSA..)
What's next for China?

- Contraction in China trade volumes have brought it down to mid-2013 levels
- 2015 marks the first contraction in import volumes on record
- Which processes (internal/external) would drive the rebound?

(source: CPB)
Current momentum rather weak - some stabilisation but no signs of a decisive rebound

China import volumes (y-o-y % change)
Likewise, exports weak in early 2016
Thank you
Additional slides
Import values continue to contract

China import values (y-o-y % change)

- CPB
- CN Customs Office
- WTO

-30 -25 -20 -15 -10 -5 0 5 10 15 20 25


01-14 04-14 07-14 10-14 01-15 04-15 07-15 10-15 01-16 04-16
...as do export values

China export values (y-o-y % change)

China export values (y-o-y % change)