



"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"**

Przemek Wozniak, European Commission,

DG ECFIN

20 June 2016

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*

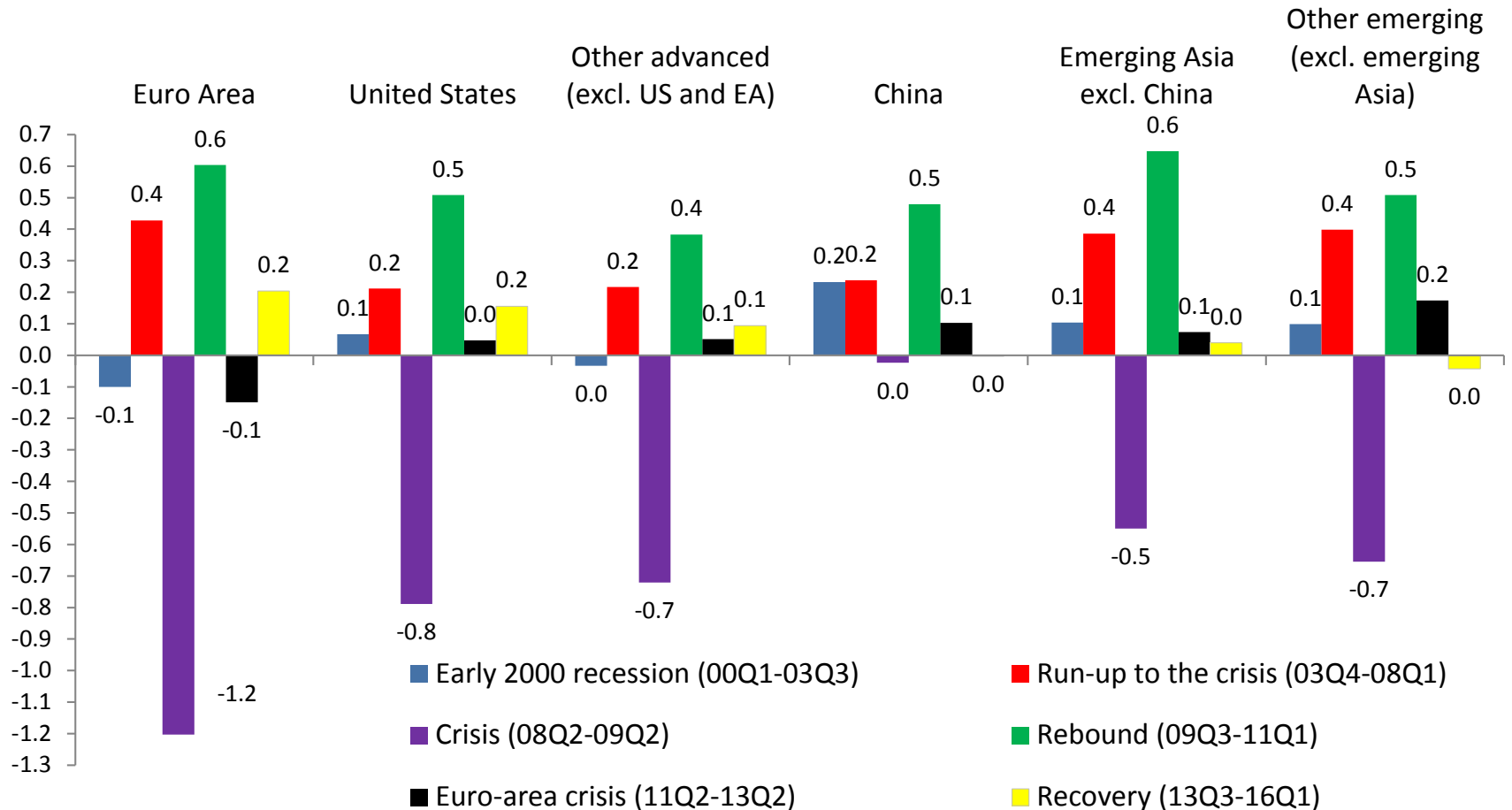


"The role of China (*and the European Union*) in the recent trade slowdown"

- *"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*

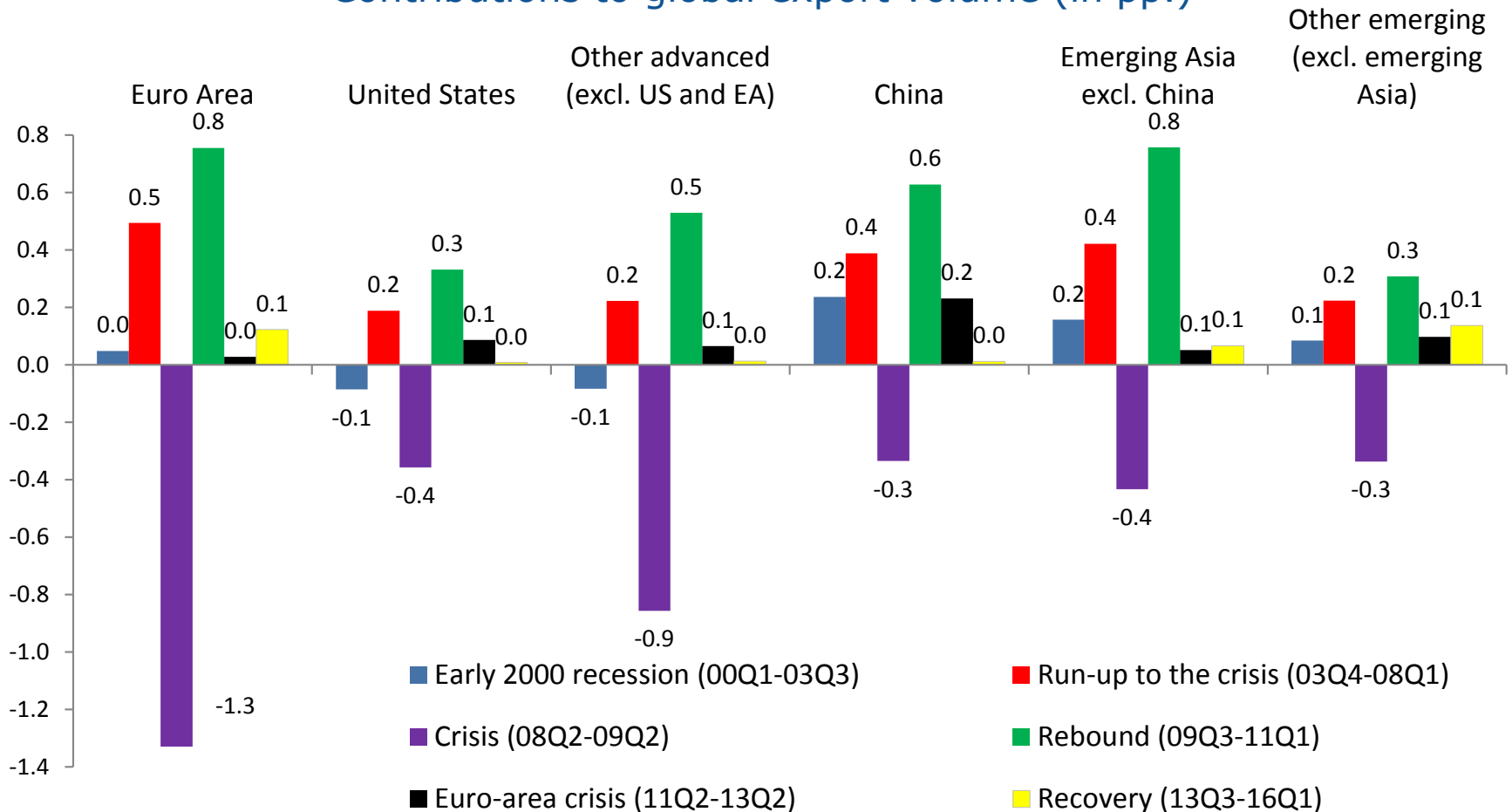
The recent slowdown in trade owes little to EU

Contributions to global import volume (in pp.)



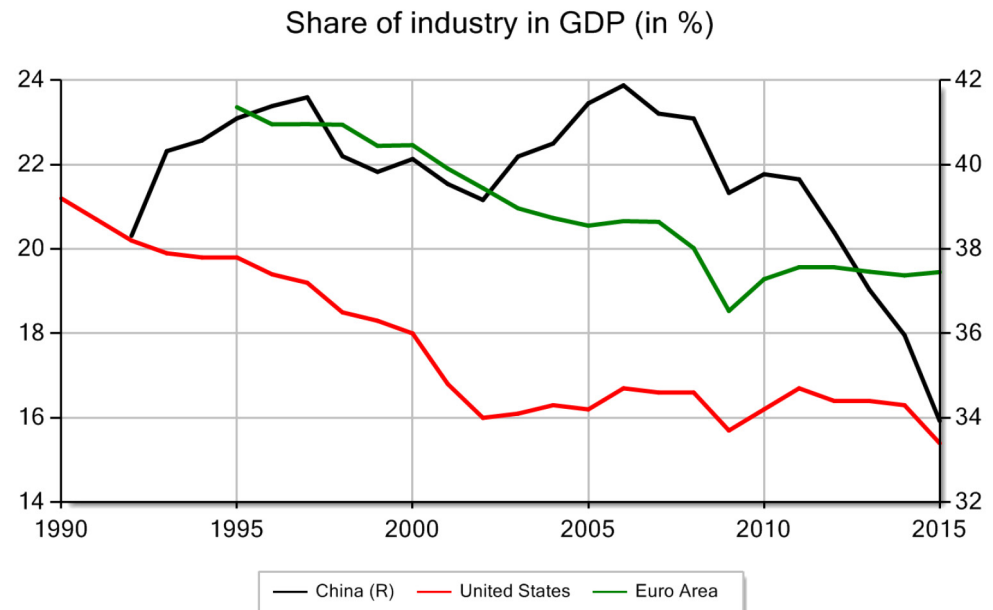
Similarly on the export side – China stands out even when compared to other EMEs

Contributions to global export volume (in pp.)



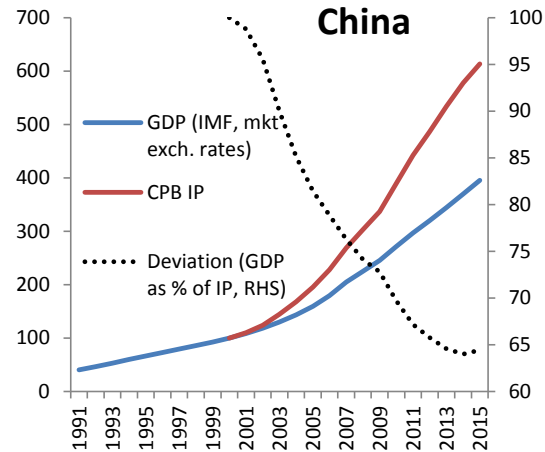
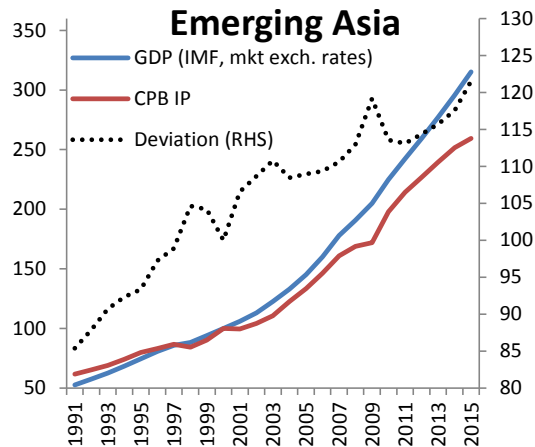
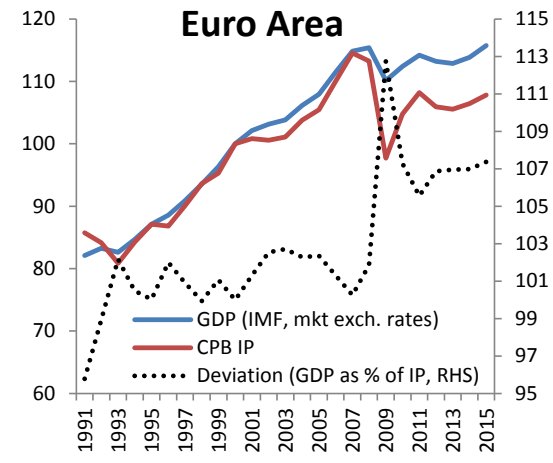
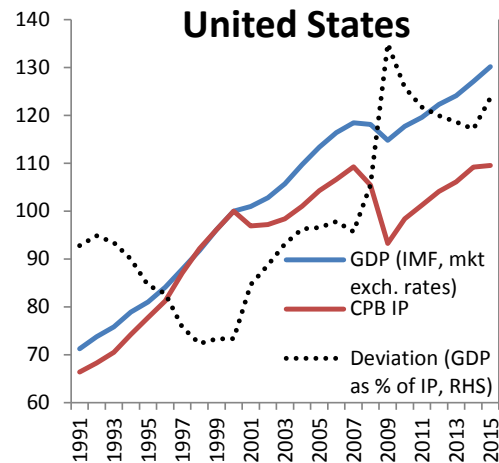
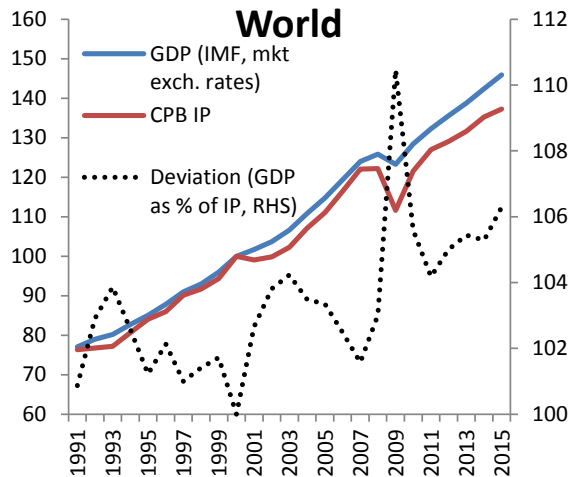
Industrial production and trade

- *Using IP as a measure of activity triggering trade may be problematic given the secular decline of industry in GDP.*



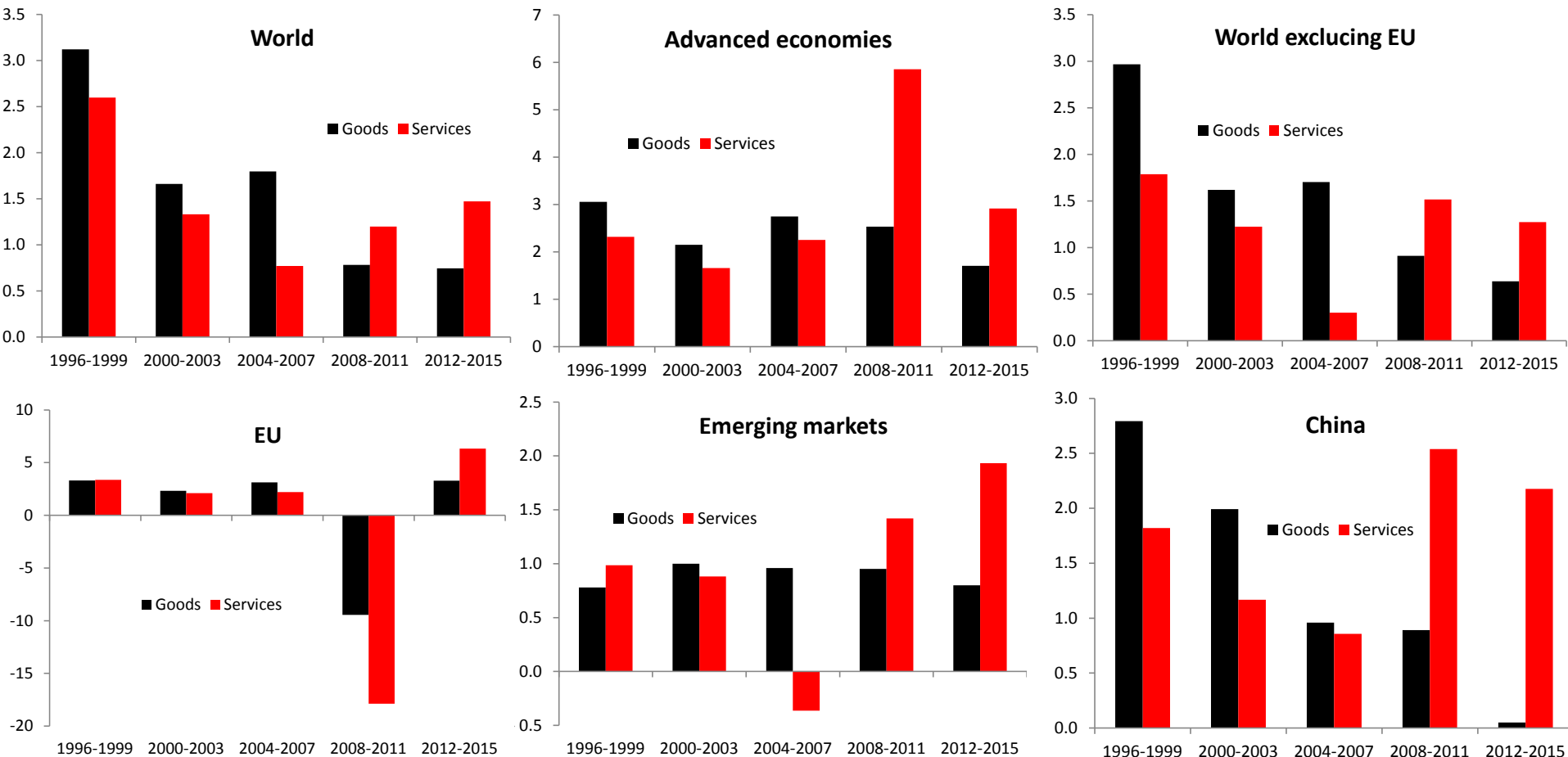
Different trends in industry and elsewhere lead to countries' GDP and IP diverging over time

Indices, 2000=100



Services trade remains buoyant, particularly in China

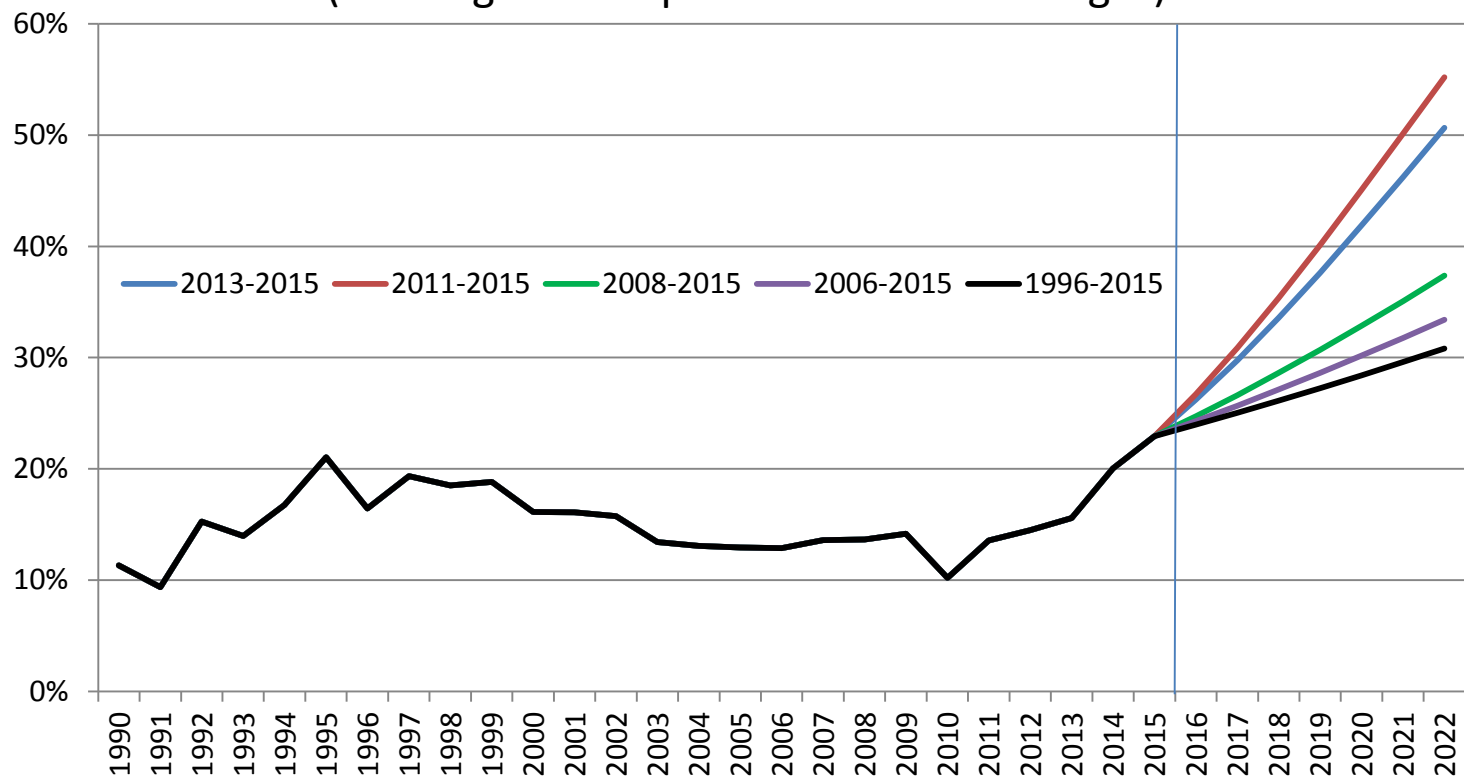
Elasticity of trade in goods and services with respect to GDP (source: European Commission)



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

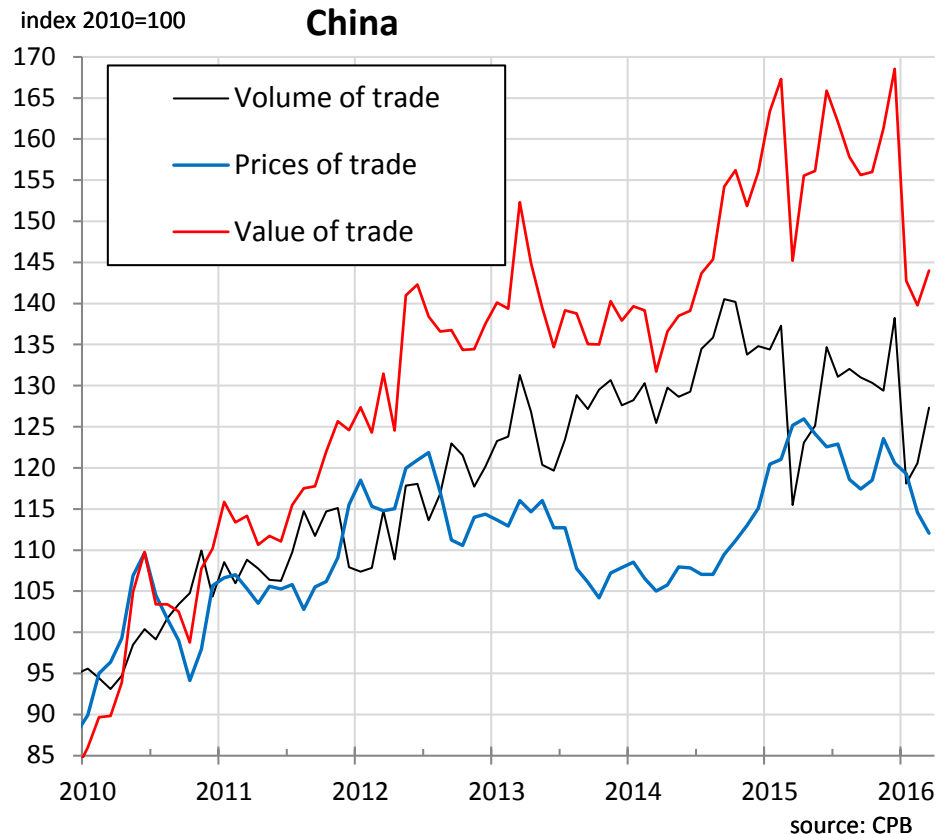
- *Waning influence of past trade agreements (rather than the imposition of new barriers)*
- *Rebalancing in China*

REACCELERATION AHEAD

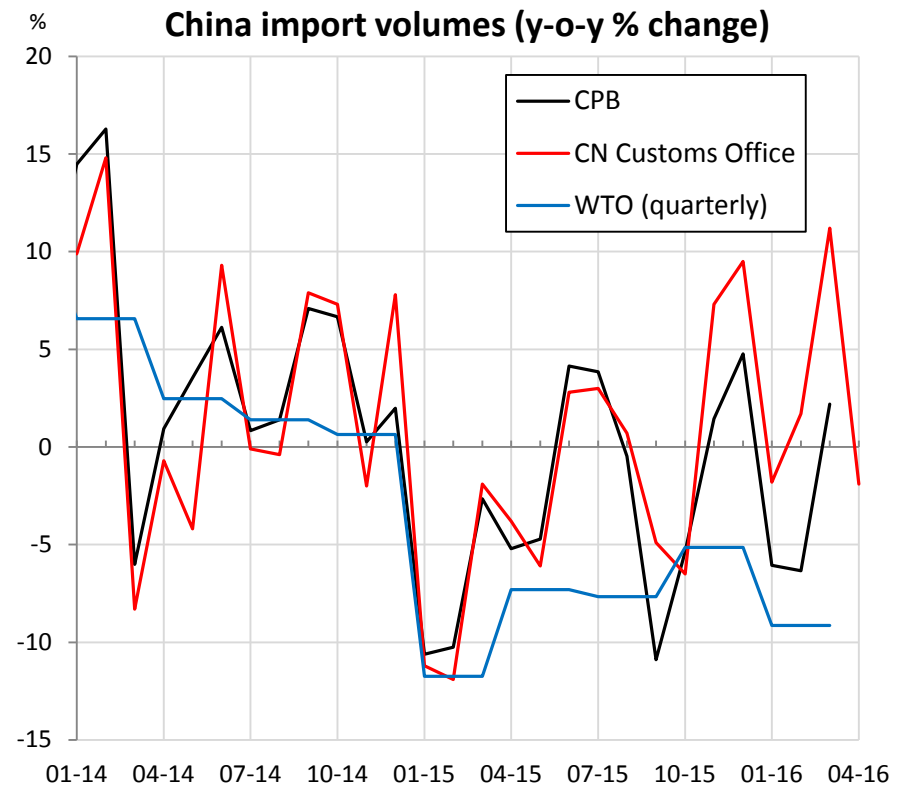
- *Major free trade agreements in the pipeline (TPP&TTIP)*
- *Distress in EME likely easing (gradual rebound in commodity prices, easing recessions in Russia and Brazil)*
- *Rapid integration of other parts of the world into the global economy (India, SSA..)*

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 ?*



Current momentum rather weak - some stabilisation but no signs of a decisive rebound



Likewise, exports weak in early 2016

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



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



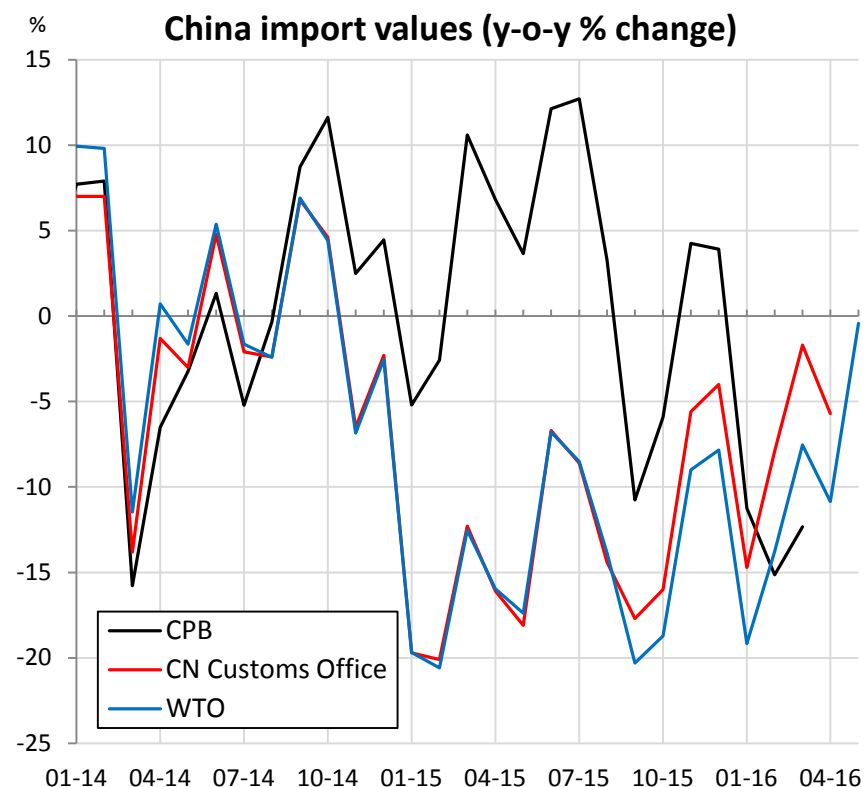
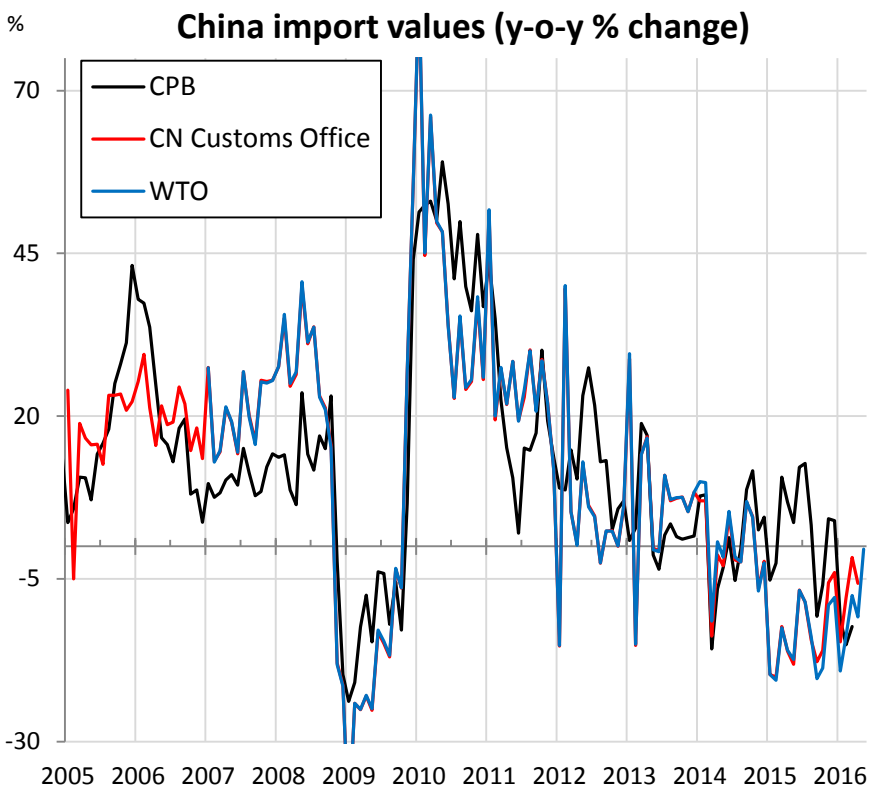


Thank you



Additional slides

Import values continue to contract



...as do export values

