

EDITORIAL

TRADE WINDS BLOWING NO GOOD?

Global trade, which was already growing relatively slowly over the past few years, appears to have stagnated and even declined since late 2014. This is deeply concerning. Robust trade and global growth go hand in hand. Trade strengthens competition, keeping domestic firms fit and prices low, and expands variety for consumers and businesses. Technology transfer through trade contributes to the diffusion of new technologies and productivity growth. World trade has been a bellwether for global output. The growth rates of global trade observed so far in 2015 have, in the past, been associated with global recession.

Looking back, sluggish trade growth in 2012 and 2013 appears to have centered on the advanced countries, particularly reduced appetite for imports by US consumers and very slow GDP growth within Europe, which accounts for a large share of global trade.

In 2015, by contrast, weak global trade growth centers on emerging markets. Developments in China appear to be at the heart of this. China's transition from infrastructure investment and manufacturing and towards consumption and services is one important reason for the decline in commodity prices, and may be reducing its role in global value chains as well. Commodity exporters, such as Australia, Brazil, Canada and Russia, have been particularly affected, as have economies with close trade links to China, including Japan, Korea and South East Asian economies. On the financial front, equity market volatility may have tempered Chinese consumers' optimism and imports.

Many economies, especially the emerging markets, face financial challenges, as well as a weaker outlook for their exports. Emerging market borrowing, mostly in the private sector, has expanded during the long period of very low global interest rates. Speculative portfolio capital repositioned itself during the middle of 2015, anticipating that the first rise in US policy interest rates would be in September. Following the stay of that policy action, this capital moved back into emerging markets. These large and volatile cross-border gross flows present acute challenges to emerging market policy makers, even if net flows are less than in previous periods of financial stress.

Despite these growth weaknesses and financial vulnerabilities, the OECD's projections in this *Economic Outlook* show a modest revival of both world trade and GDP growth. In part, this is because policy actions are already being implemented that will help to address the weak underlying trends. For example, China has announced a range of stimulus measures including lowering bank lending rates and expanding infrastructure investment. These policy actions should help to put a floor under global commodity prices and stabilise commodity-exporting economies. But a fiscal strategy focused on social safety nets and

environmental spending would both support demand and encourage the necessary rebalancing of the Chinese economy.

Globally, all countries have some policy efforts in train to realise higher global growth, employment, and increase living standards. In Europe, policymakers should build on the recovery jump-started by the ECB to create more lasting economic dynamism. A fragmented financial system with high non-performing loans and high debt levels in households and non-financial firms inhibits new lending and reduces the effectiveness of monetary easing. Real investment would be enhanced by greater Europe-wide regulatory harmonization. On the fiscal side, collective action to increase public investment would increase growth sufficiently to reduce debt-to-GDP ratios, as long as investment projects are of high quality and supported by good structural policies. These policy actions would make European growth a driver of the global economy.

A collective approach to the recent surge in asylum-seekers arriving in the EU would help to reduce political tensions. Given the right policies, asylum-seekers need not impose an unmanageable economic burden. Indeed, if the refugees who stay are rapidly integrated into European societies, they are likely to benefit the host countries.

In the United States, where GDP growth has been relatively robust and unemployment falling, wage growth has not yet started to pick up. Without wage growth, the recovery will lose steam, and prospects for the US to support the rebound in global trade and growth will come into question. Structural policies and reforms to tax and transfer systems may be the key to a more equitable distribution of income and a more sustainable growth path.

To aid the rebound in trade, policymakers need to turn back the rise in protectionism: according to the OECD-WTO-UNCTAD report to the G-20, countries have taken more than one thousand trade-restricting measures since the global crisis. Regional agreements like the TPP and TTIP would renew impetus towards trade liberalisation to support growth.

Addressing climate change is critical for long-term economic sustainability and healthy growth. Collective action, in the context of COP21, is needed now. The current fragile state of economic recovery is not an excuse for policy inaction on climate change. In fact, a clear and predictable policy stance on climate would create a more positive environment for investment that would support growth and trade, as well as put us on a path to urgently-needed climate improvement.

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