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The remarkable weakness of world trade and its implications for Germany

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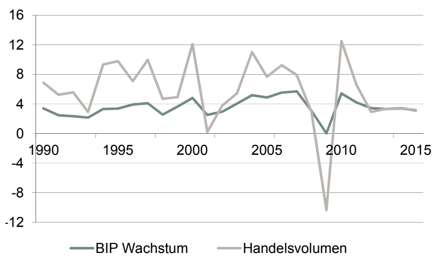
World trade of goods and services has weakened considerably since 2010. For 2015, the IMF data in the chart below nevertheless still indicate 3.2 % real growth in world trade, while the WTO even expects a decline. For a long time the ratio of world trade growth to that of global GDP (trade elasticity) was greater than 2 (with the exception of the crisis years). From around the year 2000, however, it declined significantly, recently even falling below 1 (see figure). How is this current development of world trade to be interpreted? What does it mean for Germany as an export nation? To help answer these questions, a distinction should be made between cyclical and long-term/structural causes.

Cyclical causes

The weakness of the global economy can explain the slowdown of world trade to some extent but it does not explain the low trade elasticity. Two aspects are of particular significance in this context. In the group of advanced economies, the euro area, with a share of around 15 % of global GDP but 25 % of world trade, is particularly noteworthy. As a result, the crisis in the euro area has a disproportionately high impact on world trade. In the group of emerging markets, major causes lie in China, where the demand for imports is low as a result of its economic slowdown and reorientation towards the domestic market, and in the precarious developments in Brazil, Russia etc. Empirical studies show that, overall, structural causes are relevant but insufficient to explain the weakness of world trade.

Figure: Global GDP and world trade (real variation in percent)[a]



a) 2015 forecast Source: IMF

Structural causes

One important structural aspect is the obvious stagnation of globalisation. In the 1990s and early 2000s, globalisation manifested itself in an intensification of value chains – where a locally produced good was increasingly based on imported inputs. In the past years that trend apparently did not continue. In fact, in China the share of imported inputs in the production of export goods actually dropped.

Upon closer analysis, other conceivable structural aspects turn out to be of little relevance. Thus, a variation of national GDP expenditure components could affect world trade since investments, for example, usually have a higher import content than government consumption, for example. For advanced economies this is indeed relevant, as the overall economic investment rate dropped noticeably during the global crisis of 2008/2009 and has stagnated well below pre-crisis levels since 2010. In developing and emerging countries (DCs/ECs), however, the investment rate has risen steadily, although recently only at a slow pace. Both combined result in a slight increase in the global investment rate.

Further potential structural factors could be a rise in protectionism or lack of trade finance. Fortunately, neither plays a significant role.

Conclusions from a German point of view

For Germany as an open economy, the world trade developments described are very relevant. If the economic performance of the euro area in particular continues to strengthen, world trade is also likely to pick up again. Germany has done well so far with a share of 8 % of world trade in 2014, which is actually a slight increase on 2012.

The above analyses of global investment activity do not adequately explain the weakness of world trade but they are, in any case, very interesting from a German perspective. Germany's exports are composed of 45% capital goods, which is a high proportion. Whatever the differences shown in the development of investment rates in advanced economies and DCs/ECs, the fact remains that insufficient investment is a core problem of the global economy. In order to invest more, the private sector requires not only sound economic performance and good financing offers but a favourable overall environment and confidence in the future. Governments around the world must invest more in order to make up for past failings in infrastructure management and lay the foundation for more prosperity in the future.

If the industrial countries and the DCs/ECs make the right policy decisions, the prospects for Germany's export-oriented capital goods industries will continue to improve. ■