



## Talking point



### World trade heading for double-digit growth in 2010

March 11, 2010

**World trade is still showing a mixed recovery after collapsing by nearly 13% in 2009. The emerging markets have seen external trade pick up strongly and in some cases rapidly, unlike the developed economies. In a few instances, the export performance of emerging markets is close or above the pre-crisis levels.**

World trade is closely linked to the health of the global economy; it usually fluctuates more sharply than global GDP, which is fairly stable. When world trade slumped by around 20% during the winter of 2008/2009, many of the world's major economies also fell into the worst recession since World War II. Countries and regions such as China, Japan and Eastern Europe – hitherto virtually uninvolved in the financial crisis – were hit by a severe drop in economic activity. The demand slump in key markets was partly to blame, but the much more stringent conditions for financing global merchandise trade in the wake of the Lehman shock also played a part.

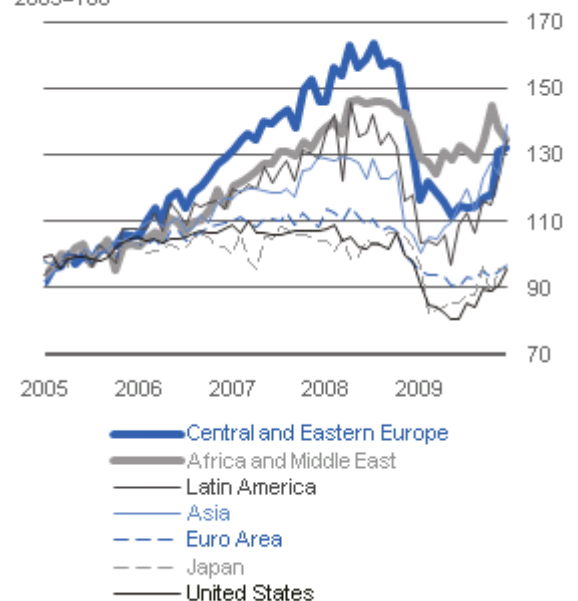
Fiscal stimulus packages around the world helped to cushion the impact of the deep recession. Moreover, the ultra-expansionary monetary policy of the central banks also contributed to the economic rebound in the course of 2009. Fortunately, monetary and fiscal policies did not focus too heavily on the respective domestic markets. As beggar-thy-neighbour policies had been widespread during the Great Depression of the 1930s, fears arose during the financial crisis that history would repeat itself and national economic policy would be pursued to the detriment of other countries and world trade. Ultimately, the measures taken by the governments back then not only throttled world trade but also worsened the economic situation at home. These lessons from the past were part of the reason for the much greater willingness to cooperate internationally in the current crisis. Major central banks coordinated efforts to ensure a worldwide supply of US dollars, and the leaders of the G20 governments met for their first summit. Thanks to expansionary economic policy and international cooperativeness, world trade has recovered unexpectedly rapidly (+16% since Q2 2009).

The recovery has been particularly pronounced in the emerging markets. The latest monthly data on exports in many regions far outstripped the year-earlier readings, though this is of course partly attributable to the low base. The rapid recovery in Asia is especially impressive. With its huge fiscal packages, China boosted not only its own economy but also intra-Asian trade. As a consequence, total export traffic from a host of Asian countries, such as Japan, Indonesia, Malaysia and Taiwan, grew at a double-digit pace towards the end of 2009. China's enormous demand for goods helped fill the gap that the slump in international trade had caused in the countries of Asia. This is documented by Japan's export figures. In January, Japan's exports to China jumped by 80% yoy and thus returned close to pre-crisis levels. Japanese exports of chemical and automotive products to China in particular nearly doubled in December in comparison with the pre-year figures. Also, Japanese exports to the US, partly due to the low pre-year levels, increased by 24% (yoy).

Given the current dynamics of the recovery, Asian exports have even topped the record volumes of the pre-crisis years in the months ahead. During 2010, other growth regions such as Latin America and Africa/Middle East may also surpass their record volumes of pre-crisis years. Central and Eastern European economies were not hit by

#### World trade

2005=100



Source: CPB

the global crisis until relatively late. For this reason, after a stabilisation phase lasting 8 months, export growth there has recovered not before year-end 2009. The current exports are therefore 25% below the pre-crisis levels. The major economies make a greater contribution to world trade than the emerging markets (total share of the developed economies is 67.1% – of which: euro zone 28.9%, US 18.7% and Japan 5.8%). Despite the incipient recovery, the developed economies will not return to their pre-crisis levels again for several years. If the exports of the developed economies grow at an average rate of around 6% p.a. (1991 to 2007), the pre-crisis level will not be reached again until 2013.

For world trade as a whole, the IMF forecasted expansion of 5.8% in 2010 (World Economic Outlook, January 2010). This forecast can be regarded as pretty conservative. In fact, it even falls short of the long-term average for world trade (roughly 7.5% based on 1991 to 2007). In addition, world trade normally increases at twice the pace of global economic expansion. With the IMF currently predicting global GDP growth of 3.9%, this would be more in keeping with world trade growth of close to 8%. Higher growth in 2010 is also implied by the growth overhang developing since mid-2009 which, because of the sharp slump in early 2009, now totals around 5%. Last but not least, the macroeconomic environment should also give world trade a further boost. The major economies have passed the trough of recession and many indicators such as PMIs and export orders point to further growth potential for the global economy and world trade. All things considered, world trade should expand at a double-digit rate in the current year.



Jochen Möbert (+49) 69 910-31727

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