

Discussion of “Global Imbalances and the Trade Slowdown: Implications for Asia”

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Worrying trends for global trade

Post-crisis, talk is now of a “global trade slowdown”:

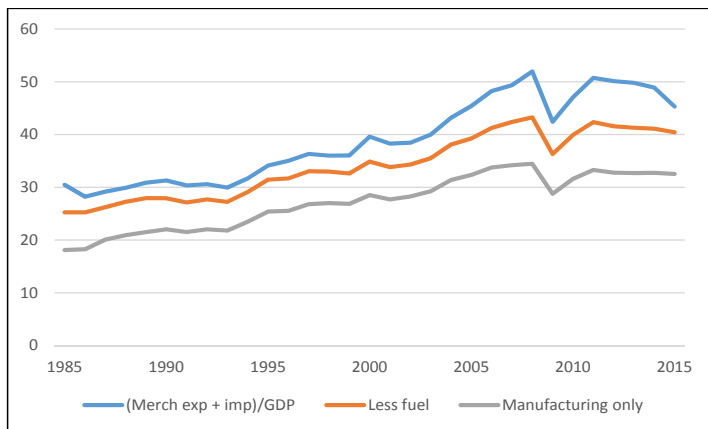


Figure 1: Trade-to-GDP Ratios (World)

Worrying trends for global trade (cont.)

Closer to home (for me):



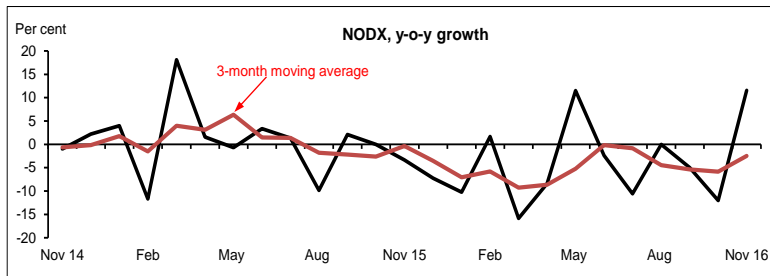
Worrying trends for global trade (cont.)

Closer to home (for me):

Export growth has shown signs of weakness in recent years.

- ▶ Case in point: Singapore

On a y-o-y basis, NODX grew by 11.5 per cent in November 2016



Worrying trends for global trade (cont.)

A clear cause for concern for Asian economies, especially those that have traditionally relied on export-led growth.

Possible explanations? (see, for e.g., IMF WEO 2016)

- ▶ Weak recovery in global demand, esp. demand for investment goods
- ▶ A slowdown in production fragmentation and participation in GVCs (e.g.: Kee and Tang 2016 on China)
- ▶ An “uptick” in protectionism and in anti-trade rhetoric

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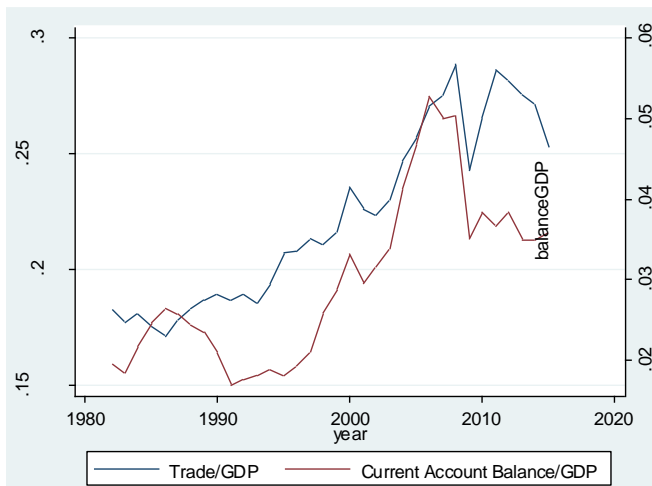
This paper puts forward one other explanation: [Global Imbalances](#).

With the gradual unwinding of global imbalances after the crisis:

- ▶ Deficit-countries not importing as much.
- ▶ Surplus-countries not exporting as much.

Global imbalances and the trade slowdown

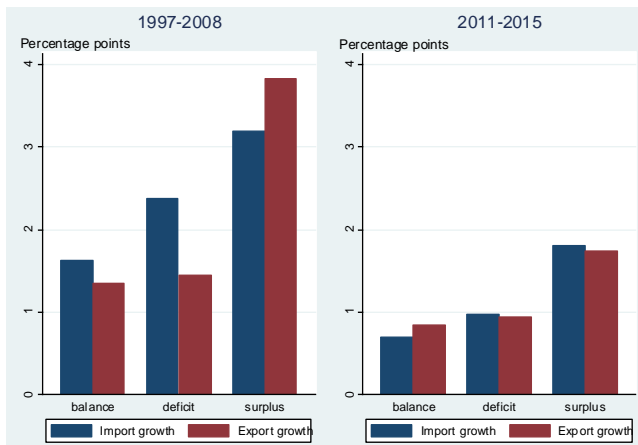
- ▶ Tightening correlation between global imbalances and trade since 1995



Global imbalances and the trade slowdown (cont.)

Since the financial crisis:

- ▶ Deficit-countries not importing as much.
- ▶ Surplus-countries not exporting as much.



Comments

- ▶ A thought-provoking hypothesis!
- ▶ Points to a potential link from developments in international macro to international trade.

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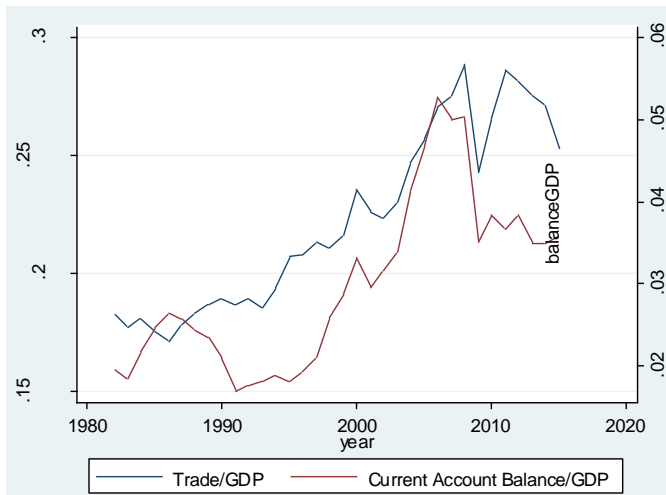
- ▶ A thought-provoking hypothesis!
- ▶ Points to a potential link from developments in international macro to international trade.
- ▶ At some level, not completely surprising:
 - Current account (CA) deficit
 - ⇒ Country's payments to the ROW exceed payments it receives
 - To the extent that the CA deficit goes towards paying for imports
 - ⇒ Shrinking CA deficit will imply a slowdown in import growth.
- ▶ At the same time, agree that this is not entirely a mechanical relationship, since goods imports are only one component of the CA deficit.

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⇒ Shrinking CA deficit will imply a slowdown in import growth.
- ▶ At the same time, agree that this is not entirely a mechanical relationship, since goods imports are only one component of the CA deficit.
- ▶ Policy implication: Measures that target reductions in global imbalances can have repercussions for global trade

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- ▶ Post-2010: How tight is the link between imbalances and trade?
- ▶ Would like to see this relationship documented more extensively.

E.g.: could use a panel regression of movements in CA imbalances against trade growth at the country level.

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- ▶ Weak recovery in global demand: This could account for both the observed narrowing of global imbalances and the trade slowdown.
- ▶ Does it all come back to CHN? Shifting toward being a more domestic demand-driven economy, while reducing its reliance on export-led growth.
(Also: Restructuring its participation in GVCs, to rely less on imported inputs.)
- ▶ Is this a by-product of CHN's exchange rate policy, i.e., allowing modest strengthening of the RMB?

3. Looking at past episodes

Past episodes of large global imbalances: How did these play out?

- ▶ JPN's large bilateral imbalance with the US in the 1980s
- ▶ When this was unwound in the mid-to-late 1980s, what impact did it have on global trade?
- ▶ Why the difference (if any) between this past episode and what is currently unfolding?

Taking Stock

The broader outlook: Without downplaying the economic forces highlighted in this paper. . .

What issues will likely cast a greater shadow on the outlook for world trade?

- ▶ Globalization backlash: A slowdown – or even a reversal – in trade liberalization by political leaders in key developed countries, namely the US & the UK

(Especially worrying given the reliance of surplus-countries in East Asia on US import growth.)

- ▶ Geopolitical uncertainty: Particularly in Northeast Asia.

Predictions on the outlook for world trade have become even murkier. . .