Global Trade Slowdown in the 2010s: Sign of Deglobalisation?

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July 2021

Summary

Global trade has experienced a persistent slowdown since the Global Financial Crisis (GFC), mainly driven by the slowdown in growth of goods trade. This study aims at identifying the reasons behind the trade slowdown by using a panel regression model with data of 22 Advanced Economies (AEs) and 17 Emerging Market Economies (EMEs). Our study suggests that the slowdown in global exports is mainly driven by: (i) the loosening in domestic income elasticity to exports among EMEs; (ii) the decline in foreign demand elasticity to goods exports, amid the deceleration of global investment; (iii) the deglobalisation momentum amid the declining global value chain (GVC) activities and the uncertainty in trade policies since the China-US trade war; and (iv) the supply side factors including the narrowing AEs-EMEs wage gap and the diminishing US dollar trade finance condition. These negative factors have affected mainly goods exports rather than services exports which by comparison remained resilient until the Covid-19 pandemic.

The results imply that the trend of global trade, especially goods trade, is unlikely to rebound to the pre-GFC level, as the above negative factors are likely to prolong in the post-pandemic era. The findings have some important policy implications. First, as services exports have been more resilient in the post-GFC period, policymakers may put more effort into promoting trade in services. Second, to facilitate trade, central banks should maintain a stable US dollar trade finance condition. Alternatively, regional trading partners can also foster the use of local currencies to invoice bilateral trade.