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Declining world trade and GDP

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Last Tuesday, the World Bank released its annual October forecasts for developing economies in the East Asia-Pacific region. This region has been a major player accounting for two-fifths of the world's economic growth ever since the 2008 recession.

The average growth forecasted is 6.5% in 2015, 6.4% in 2016 and 6.3% in 2017.

The 14 countries covered in the list are Indonesia, Malaysia, Philippines, Thailand, Vietnam, Cambodia, Laos, Myanmar, Mongolia, Fiji, Papua New Guinea, the Solomon Islands and East Timor.

While oil exporting countries (Malaysia and Indonesia) will do worse than last year, non-mineral exporting countries (Philippines and Vietnam) will emerge as better performers. Malaysia will grow at 4.7% in 2015, down sharply from 6% last year; and Indonesia will also be down to 4.7% compared to 5% last year.

Among the Pacific island countries, Fiji is expected grow this year at 3.4% and in 2016 at 3.1%. On the other hand, PNG which grew at 8.5% in 2014 is predicted to grow at 8.7% in 2015 as against 16% and at 3.3% in 2016 down from earlier forecast of 5%.

The reasons behind the downward revisions for the region are now well known: China's economic slowdown and the impending rise of US policy interest rate.

The countries which are linked to China through trade, investment and tourism are likely to be more affected.

Slowing world trade

Last week, World Trade Organization (WTO) released its forecasts for world trade.

It cut down its April forecasts of world trade growth of 3.3% and 4.0% for this year and next year 2016, to 2.8% and 3.9%. The forecasts were based on just what materialized in the last two quarters of this year. The growth in trade during both quarters or in the last six months of 2015 was negative. Trade is shrinking by an average rate of 0.7%.

This continuing trend of negative growth also marks the fourth straight year which witnessed world trade growth by less than 3%.

The reasons are similar to the ones put forward for the declining growth: Weak import demand all over the world and lower global commodity prices and volatility in exchange rates and of course the oft-repeated suspense over the US interest rate policy.

The world is shrinking as internet connectivity is on the rise. Technological progress in shipping, transport, and communications has rapidly advanced, yet trade growth is not speeding up. The Economist of London in a review of history of trade noted that the rates of global trade have seen wide fluctuations in the last century. The World Wars I and II were responsible for a very low rate of growth in trade, less than 1% each year until 1949. In the next 23 year period (1950-73), world trade grew at an average of 7% per year.

There was a slowdown in the 1980s.

But in the 1990's, due to China's entry to the world stage embracing capitalistic policies resulted in higher growth in trade. The millennium has been seeing yet another phase of declining world trade, ever since the 2008 Great Recession.

Trans-Pacific Partnership Agreement

As I write this, we have news that an agreement on Trans-Pacific Partnership (TPP) with view to stepping up trade and investment was finally reached on Monday, after ten-year long negotiations between 12 nations led by the US. The 11 others are a far-flung group of Pacific Rim nations: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, and Vietnam. Their combined total GDP of $28 trillion accounts for 40% of the world GDP and one third of world trade.

The TPP aims at elimination of 98% of tariffs, which include duties for protecting domestic producers across a wide range of sectors, and promoting access for exports of goods, services and investment. The US protects its sugar market; it has tariffs on imported shoes. Japan has been protecting at very high cost its domestic agricultural products including rice, beef and dairy. So, exporters of rice and dairy products from Australia and New Zealand are excited.

While consumers will be happy as imported goods will become cheaper, it is the domestic suppliers who are now worried. The trade unions fear free trade will result in loss of jobs. They all want details.

Still a long way to go as each country's legislature has to ratify the treaty before it becomes effective.

China is watching the development. It is a clear move all these ten years: the US wants to strengthen its relations with Asian trading partners and lessen China's influence.

Although it knows TPP is a threat, it is clever. China has indicated its desire to join TPP.

They know the well-known saying:

“If you can't beat 'em, join 'em.”