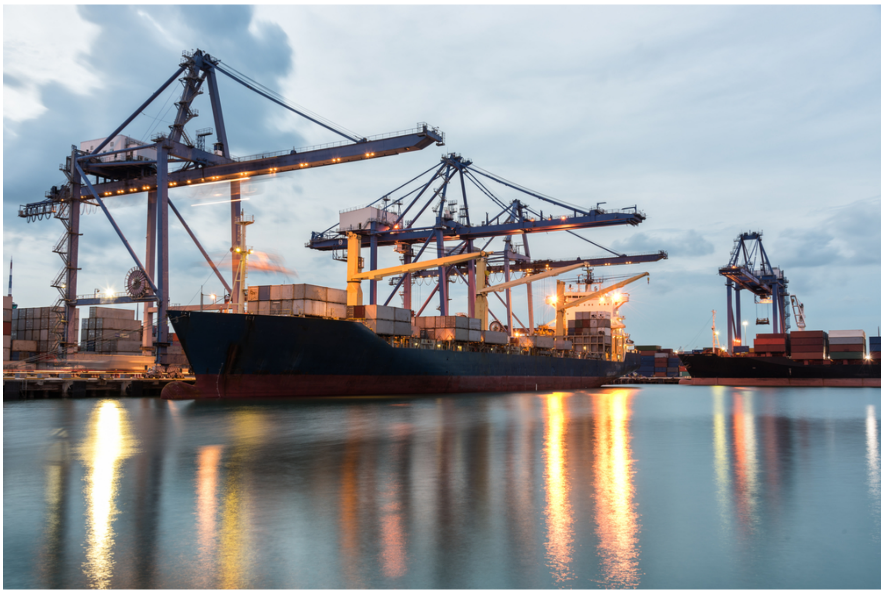
Snap | 25 September 2018

World trade growth defies Trump tariffs

Despite the ongoing tit-for-tat trade war spat between the US and China, world trade grew in July by 1.1% pushing up the momentum to 1%



This year's weak trade growth has resulted in declining trade openness after years of stabilisation, which we expect to persist over the coming year

July was the first month in which the tit-for-tat trade war between the US and China became a reality when the US imposed duties on USD 34 billion of Chinese goods.

Despite the ongoing trade spat, it has only affected 0.8% of world trade flows in July and any effect on trade volumes directly resulting from the new tariffs would be small as -0.01% to -0.1%. In fact, trade grew by 1.1% in July together with an upwards revision for June from -0.8% to -0.3%, the momentum growth has been pushed up to 1%.

> *It would seem structural drivers such as slowing growth, or even retraction in global value chains are behind the stagnant growth of world trade*

This doesn't mean that the ongoing trade war won't affect world trade. Global value chains magnify the effects of tariffs, causing disruption and price increases. The uncertainty and the threat of further escalation may adversely affect business investment decisions and thereby drag growth.

However, quarter on quarter investment growth in the Eurozone, Japan, the US and China, which altogether accounts for more than 50% of world trade doesn't seem to be significantly lower in the first quarter of 2018.

Also, more forward-looking indicators such as PMI's and export orders are still above 50, signalling no decline in cyclical drivers of world trade.

This seems to suggest that more structural drivers such as slowing growth, or even retraction in global value chains are behind the stagnant growth of world trade and data on trade in intermediate goods seems to confirm this.