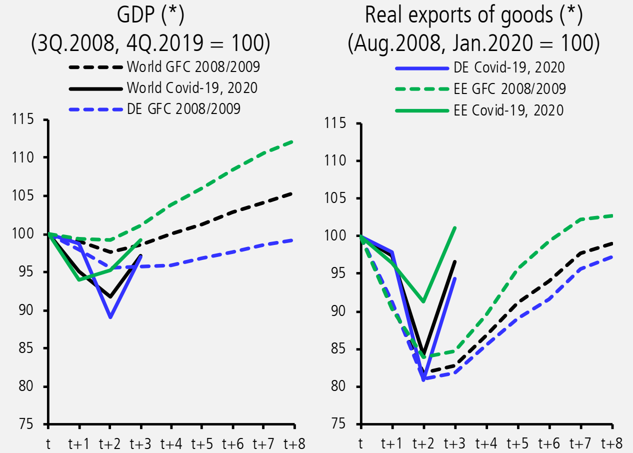
Box I.2: **Recovery of global trade**

According to data from the World Trade Organization (WTO), as of October, the volume of world trade in goods —as measured by total exports— was at virtually the same levels as it was before the pandemic struck. This rapid recovery means that the contraction in world trade will be less than that estimated early this year and contrasts sharply with the global financial crisis of 2008-2009 (GFC) (figure I.15). This Box explains the causes of its dynamism and the implications for the global outlook.

Figure I.15



(*) Levels. GFC stands for Global Financial Crisis. DE denotes developed economies. EE corresponds to emerging economies. For the third quarter 2020, only countries that have published their national accounts are considered. Sources: Central Bank of Chile, Bloomberg and CPB World Trade Monitor.

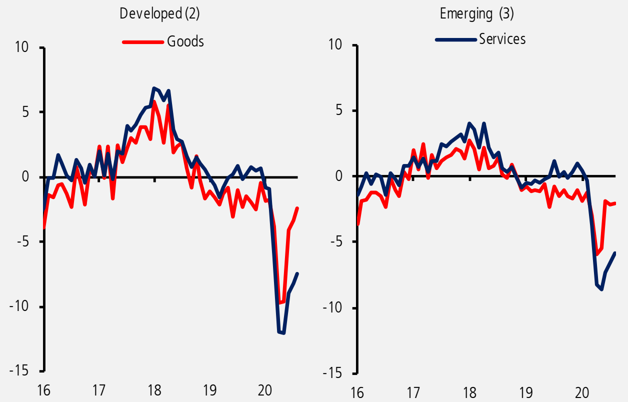
International trade in times of a pandemic

Although the volume exported has recovered across the board, there are some differences between countries and sectors. The recovery has been slower in developed economies and stronger in goods than in services (figure I.16). Among goods, shipments of consumer goods have grown more than those destined to investment.

The dynamics of international trade during 2020 derive, in large part, from the containment measures to mitigate the spread of Covid-19. For example, limitations on the movement of people between countries sharply reduced tourism flows, which make up a significant share of international trade in services. On the other hand, restrictions on human contact within each country limited the provision of many services, thus preventing its consumption. In addition, a drop in demand for services was induced by fear of infection.

Figure I.16

Nominal exports (1)
(anual change, percent)



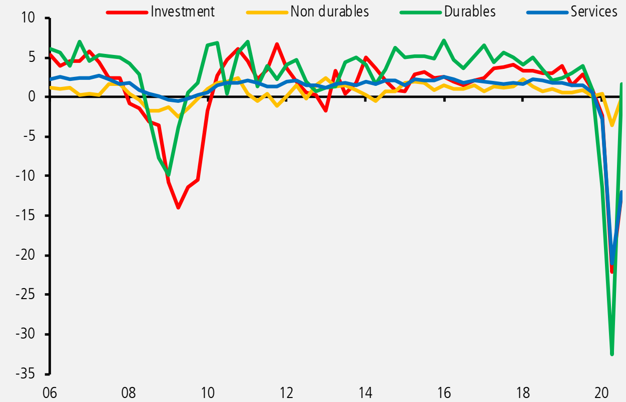
(1) The first principal component of the annual variation is extracted for a sample of countries. (2) Includes Australia, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Malta, Portugal, Slovakia, Slovenia, Sweden, the United Kingdom and the United States. (3) Includes Belarus, Brazil, Bulgaria, China, Hungary, India, Poland, Romania, Russia, Turkey and Ukraine.
Source: World Trade Organization.

In this scenario, and considering that the response of fiscal policy made it possible to greatly mitigate (and in some countries even reverse) the fall in households' disposable income, consumers replaced their lost consumption of services by increasing consumption of goods. This can be clearly seen in the third-quarter national accounts of several countries, especially due to increased spending on durables (figure I.17). Since most durable goods are tradable, the rise in relative consumption of these goods explains a large part of the recovery observed in international trade.

Another relevant factor in explaining the vigorous recovery of world trade in goods is the positive performance of China—which also occurred after the GFC—, which will be one of the few economies in the world that will see growth this year. After a sharp fall in the first quarter due to confinement, a fiscal stimulus plan was launched in which investment played a central role. This boosted demand for the commodities used in the construction industry, such as iron and copper, which also enhanced world trade.

Figure I.17

Consumption: median of selected countries (*)
(annual change, percent)

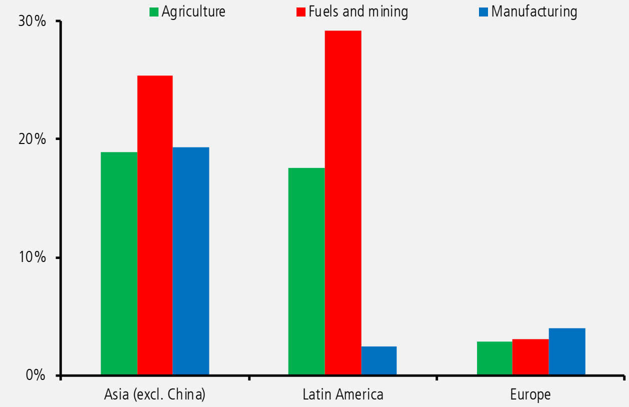


(*) Considers Chile, Colombia, France, Germany, Italy, Japan, Spain, the United States and the United Kingdom.
Sources: Bloomberg, DANE, Eurostat and Haver Analytics.

Most recently, consumption in China has given signs of recovery. This has also contributed to boost demand for goods and inputs, many of which are imported. All this has favored the demand for exports from China's suppliers. Among these are emerging countries which, compared to developed ones, are more exposed to the Chinese economy (figure I.18).

Figure I.18

Exports to China
(percent of total by category, 2017)



Source: World Trade Organization.

The monetary policy response also explains some of the resilience of world trade. As noted in previous MP Reports, the stimulus provided by central banks succeeded in dissipating the sharp rise in financing costs seen early in the pandemic. This contrasts with the post-GFC scenario, which caused a rise in financing costs that would have amplified the negative effects of the weakening demand on international trade[1]/. The improved continuity of the credit channel has also contributed to the global supply responding when the demand for goods grew in each country, thus favoring a stronger recovery in world trade.

Looking ahead

The recent international trade scenario has relevant implications for the global economic outlook. The dynamism of world demand for goods, to the detriment of services, has been beneficial for the price of the metal commodities—including copper—and foods, while it has been detrimental to others, such as fuels.

The recovery of the services sectors will be conditional on the widespread availability of the vaccine, and its effect on lifting restrictions, and on the confidence of households to redirect their consumption towards a more balanced mix of goods and services. While incoming news suggests that the vaccination process will begin shortly, the baseline scenario of this Report assumes that the lifting of constraints and the reallocation of consumption will occur gradually over the next year. Accordingly, this scenario considers an increase in the terms of trade and in the volumes exported of Chilean goods to other economies, while the exports of services, such as tourism, remain comparatively weak.

[1]/ Amiti & Weinstein (2011) and Chor & Manova (2012) explore the channels through which financial crises negatively affect trade flows.