

World Bank Says Trade Decline May Be Bottoming

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WASHINGTON - The drop in world trade caused by the global financial crisis seems to be bottoming out, but could take years to recover to pre-crisis levels, a World Bank economist said on Wednesday.

Bernard Hoekman, director of the World Bank's international trade division, also said protectionism has been held in check by the integrated nature of the global supply chain, and most protectionist measures applied so far have been directed at industries that have traditionally demanded protection.

The World Bank has forecast world trade to drop 6.1 percent this year as a result of the crisis, which made credit harder to get and led to a "very sharp" 4 percent drop in global production because of reduced demand, he said.

"We're seeing now signs that this is bottoming out. Certainly the rate of decline has dropped ... We'll see if that persists and we have reached the bottom," Hoekman said in a speech to the Washington International Trade Association.

One of the "more striking features" of the collapse in world trade is that the industrial sector has been hit much harder than services, which in developed economies account for about 70 percent of economic output, he said.

That largely accounts for the difference between the World Bank's forecast for trade to fall 6.1 percent this year and the World Trade Organization's forecast for it to slide 9 percent.

While there has been some increase in protectionism that bears close monitoring, the integrated nature of the global economy has a restraining force, Hoekman said.

"If you're part of the global production chain, it doesn't make much sense to cut yourself off," Hoekman said.

U.S. 'CONSUMING LESS' FOR THE LONG HAUL

Another "good sign" is that countries are mostly imposing protection on sectors that have traditionally sought import curbs, rather than on sectors that have long been more open to trade, Hoekman said.

World Bank economists are "relatively optimistic" of a recovery in world trade, but it could take several years for growth to return to pre-crisis levels, he said.

"I think for a long time, American consumers are going to be consuming a lot less" as they pay down debt and build savings," Hoekman said.

However, the current crisis has demonstrated trade is much more responsive to a rise and fall in world production than it was in the 1980s, Hoekman said.

So, a 2 percent rise in output would generate about an 8 percent increase in trade, compared with about a 4 percent increase in the 1980s, he said.