Press Release

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Rebound in global trade could be short-lived as protectionism intensifies warns Euler Hermes

- Trade protectionism, financial balkanization and geopolitics are progressively regionalizing capital flows and hence increasing trade finance costs
- The end of central banks interventions will soon reveal this growing financial protectionism

PARIS – 23 NOVEMBER 2017 – Global trade growth will likely be half of pre-crisis rates in 2017 and 2018: growing financial and trade protectionism coupled with rising interest rates and worrying geopolitics will lead to increasing trade costs. This is one of the main findings of Euler economic research department in its third Global Trade Outlook, titled "Game of Trade: Unbowed, Unbent, Unbroken?, with a focus on 8 key countries – the US, Mexico, China, Japan, Germany, France, the UK and Italy.

Between 2003 and 2007, global trade volume growth averaged +8% and value growth soared by +16% on average**. Euler Hermes expects that it will increase in volume by +4.3% in 2017 and +3.9% in 2018.** In value terms, it is forecast to expand by +7.5% in 2017 and +6.3% in 2018.

First, **the number of protectionist measures is high and keeps on rising**: more than 400 new measures are expected this year (somewhat less than in 2016). Some countries such as the US started to rapidly increase the number of barriers: up to November 2017, 87 new measures were recorded, more than the whole year 2016 (84) and 2015 (86). Measures were heavily aimed at two economies: China (20%) and Canada (18%), up from 10% and 12% respectively in 2016. Such a trend is particularly important when considering the importance of the US as a final goods consumer: it accounts for 30% of global private consumption.

The second drag on global trade growth relates to **a still difficult access to financing stemming from a continued balkanization of financial flows**. Global cross-border bank lending contracted by -0.2% y/y in Q2 2017 due to asymmetric regulation. Risk intolerance and ring-fencing by large banks in the US, combined with asymmetric financial regulation (capital requirement) and capital controls (in emerging markets) explain the disappointing trade volume growth forecast. Euler Hermes found a trade financing gap of approximately USD1.5tn this year, in line with the Asian Development Bank (ADB) recent estimate, Pro-relocation policies in advanced economies (so-called tax wars) may also divert capital from emerging markets.

Third, **geopolitical concerns remain a key determinant of the reshuffling of trade**. In Europe, prevailing tensions with Russia and the difficult-to-reach Brexit transition deal pose a serious risk to the trade outlook. In the Middle East, the growing tensions come on top of an already difficult regional situation. Last, the heightened risk in the Korean peninsula features trade champions as key protagonists (China, South Korea, Japan and the U.S.).

"*Financial protectionism is the greatest danger for global trade*," said **Ludovic Subran, Chief Economist at Euler Hermes**. He warns: "*Disciplined support from governments for longer-term investments and the digital revolution, as well as plenty of cash available in companies balance sheets, might not be enough to counterbalance this worrying trend".*

In this context, **the expected monetary policy normalization** by central banks could impact the availability of hard currency and hence **raise the costs of trade finance globally.**

«*Global Trade has lost close to USD3tn between 2014 and 2016. We expect the trend to reverse in 2017. By 2018, we should recover the lost 3tn, but only if protectionism is tackled strongly enough*» explains **Mahamoud Islam, Senior Economist at Euler Hermes and lead author of the report.**

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