

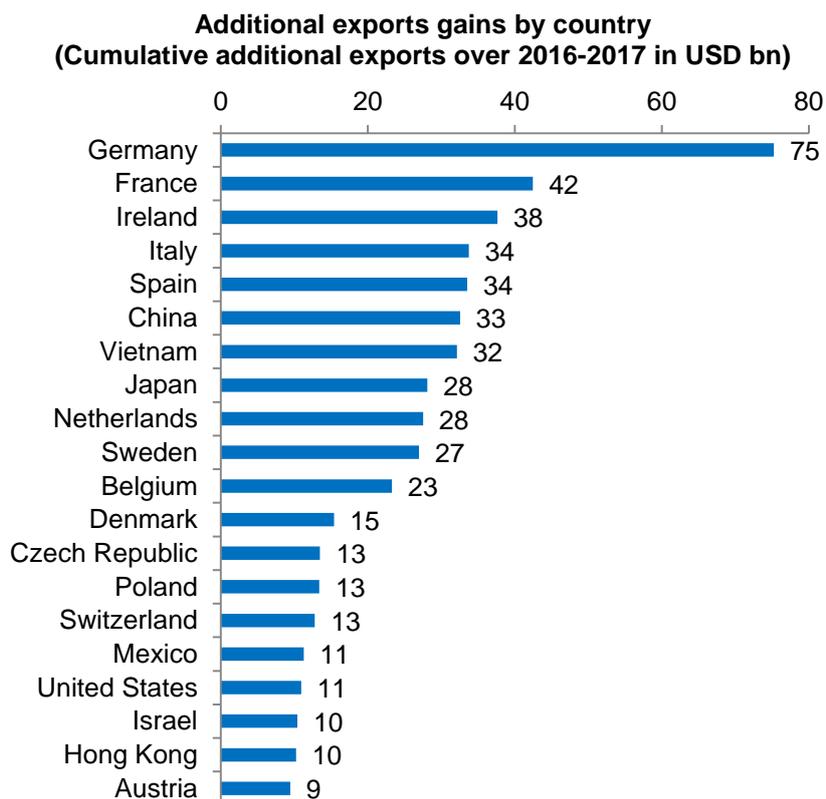
Global trade outlook: Annual trade volume growth to stay below 4%, warns Euler Hermes

PARIS – 24 OCTOBER 2016 – Global trade growth will weaken to +2.1% by volume in 2016, with a negligible acceleration of +3.1% in 2017, according to a new report ([Trade wars: the force weakens](#)) from Euler Hermes, the worldwide leader in trade-credit insurance. Demand shocks in the emerging world, the low-for-longer commodity prices, the wave of currency depreciations around the world, and a growing isolation trend (lesser dependence on trade) explain the disappointing performance.

“Between 2014 and 2016, the world has lost USD -3129bn in exchanged goods and services -- nearly the GDP of Germany,” says Ludovic Subran, chief economist at Euler Hermes. “And unfortunately, there is little hope that trade will recover fully to the pre-financial crisis tempo, even after 2017.”

Euler Hermes expects that additional imports in 2016-17 will be driven by Germany (USD77bn over 2016-17), the U.S. (USD66bn), and Japan (USD49bn) while China will no longer be the world’s largest purchaser and most countries are expected to import less than before.

As for exporters, in a context of decelerating demand, European countries should be in top positions when it comes to new exports gains, while commodity exporters will continue to suffer. Germany will be the number 1 exporter with USD75bn of additional exports in 2016-17, followed by France (USD42bn), Ireland (USD38bn), Italy and Spain ex aequo (USD34bn). China only comes in fifth position with USD33bn of additional exports, showing the difficult rebound of the Chinese export machine.



Source: Euler Hermes

Looking ahead, real global trade will likely grow below +4% per year, even in the medium term. The credit insurer cited three underpinning reasons:

1. Structural shifts in global demand as China and the U.S. continue to retreat from their role as global trade engines. China is moving to a less import-intensive model, with services and private consumption becoming the main drivers. In the U.S., the energy revolution translates

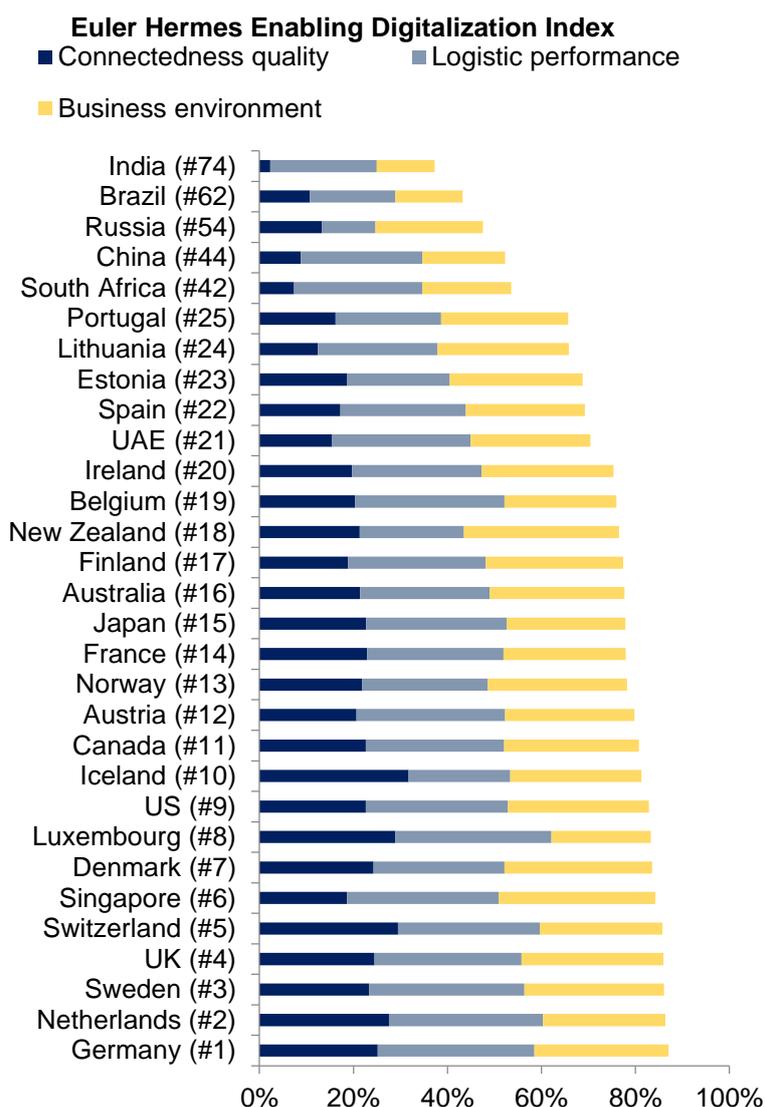
into lower energy imports. Euler Hermes estimates that a 1pp decrease in real imports from China and the U.S. could respectively shave up to -0.3pp and -0.2pp in global trade growth.

2. Financial fragmentation makes trade and debt financing (in USD) very complicated, and competitive devaluation has failed to boost trade globally.
3. The private sector has been startled by rising political risks and growing protectionist measures.

“Consumers globally now demand more services and experience than goods, trade financing has become more complex and costly, and political risk and protectionism are on the rise,” says Subran. “It seems the recipe for globalization will have to evolve to become more inclusive, trust-based and handled differently by policy-makers and CEOs alike.”

In this context, companies will need to find new alternatives for expanding their business.

- They could rely on servitization and digitalization as both enable companies to become multinationals faster than before, though smaller in size in the beginning (micro-multinationals). Trade in services has been less disrupted than trade in goods: exports of services were stable at 6.7% of global GDP in 2014-2015, while exports of goods decreased to 22% in 2015 (from 24% in 2014). Cross-border flows of data have been immune to the global trade slowdown. The Euler Hermes Enabling Digitalization Index (EDI) shows that Germany, the Netherlands and Sweden are best placed to benefit from these transformations.



Source: World Bank, Euler Hermes calculations

- Companies could rely on foreign investment to grow, and internationalize differently. Cross-border M&A deals amounted to a record USD1.6tn last year, with China at the forefront of this new wave of internationalization.
- In the wake of disappointing horizontal ‘mega’ trade deals, rediscovering vertical regional blocks appears a necessary move: Europe-Middle East-Africa, North-South America, South-East Asia.

“Exporting is far from being a gentle ride in the park, but companies may want to increase overseas sales and investment earnings by partnering effectively and selling directly to end-buyers, instead of generating traditional export revenues from their home base. In addition to blue chip companies, smaller, younger and grittier firms may surprise in this new trade paradigm - since barriers to entry are now fewer than before,” concluded Subran.

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