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Economic Research

Economic Insight

Harmless De-Globalization?

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De-Globalization has mainly been driven by China so far, but the Western countries are catching up.

Unlike in the decades following the Second World War, global trade has not been growing significantly faster than GDP since 2008, but rather slower. The ratio of global trade to world GDP is falling (chart). So far, de-globalization is mainly due to China, but the threats to global trade are also likely to come increasingly from Western countries.

De-Globalization is mainly due to China, ...

Excluding China, the trade-to-GDP ratio has not fallen since 2008. De-globalization must therefore have something to do with developments in China. On the one hand, Chinese demand for services is growing faster than the demand for goods due to rising prosperity. This leaves fewer resources for the production of industrial goods, which means that exports of such goods are no longer rising as fast as GDP. On the other hand, China has been importing fewer intermediate and capital goods for 15 years and replacing them with domestic production, which also ties up resources and slows down foreign trade. In contrast, the US punitive tariffs are unlikely to have a significant impact because Chinese goods are increasingly flowing into the US via third countries such as Vietnam or Mexico.

... but Western countries may catch up

Even if de-globalization has so far mainly been driven by China, we cannot sit back and relax. This is because protectionism is also rampant in Western countries and is threatening trade across the board:

- **Friend shoring:** Politicians are increasingly dividing the world into friends and foes; companies should primarily trade with friendly countries – for example, to avoid dangerous dependencies. As a result, countries that lean politically towards China, for example, could be targeted by Western protectionism.
- **Industrial policy:** Many voters in Western countries believe that globalization is destroying industrial jobs and turning workers into losers. This is why more and more countries are focussing on industrial policy and paying high subsidies to protect domestic companies from foreign competition. As a result, the exchange of goods between countries is suffering.

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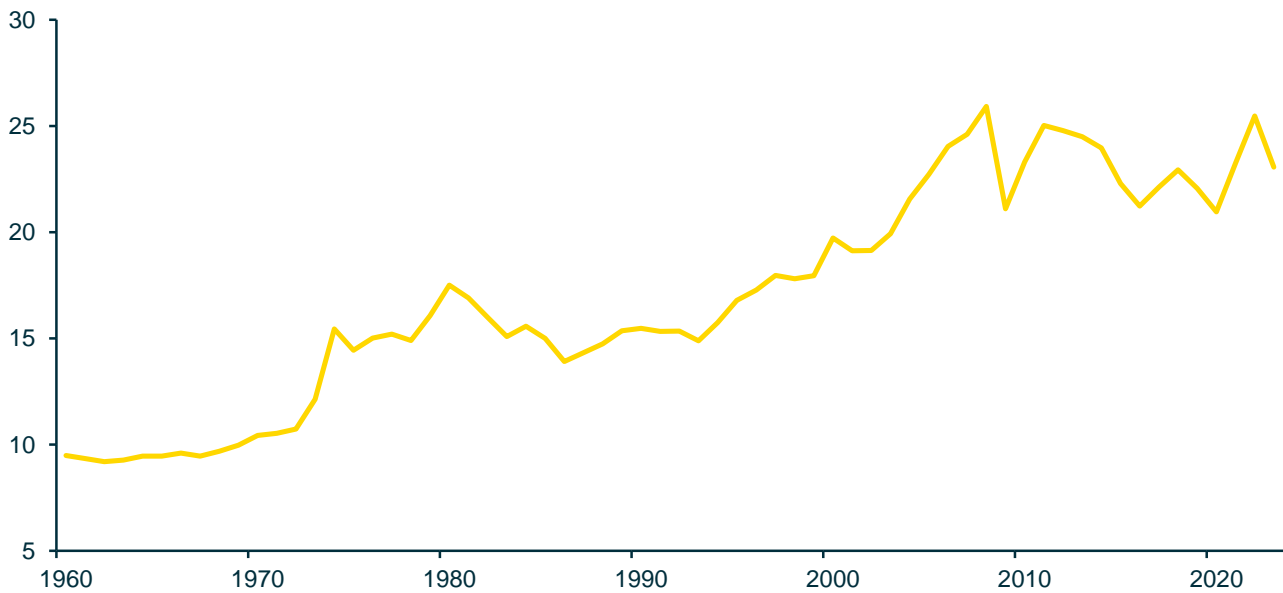


- **Border adjustment tax:** The EU climate policy poses additional risks for foreign trade. As industrial companies within the EU have to pay a price for emitting CO2 due to the emission trading system, the EU will impose a CO2 equalization tariff at its external borders for countries whose companies are allowed to blow CO2 into the air free of charge. This border adjustment is intended to create a level playing field. However, the countries affected could react by imposing trade restrictions, or the EU could abuse the border adjustment for protectionist purposes.

All in all, the threats to global trade are not only coming from China, but also from the West. The environment for Germany as an export country remains difficult – making it all the more important for the German government to finally offer companies better framework conditions at home.

Chart 1 - Global trade is no longer increasing faster than world GDP

Global trade (imports) in % of world GDP



Source: World Bank, Commerzbank Research



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