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Trade Outlook: Remarks by DG Azevêdo

The outlook that we are publishing today is quite positive. It reflects the stronger economic growth that we have been seeing in both developed and developing countries, and which is forecast to continue so, first, let me run you through our assessment of the performance to date. Then I'll examine the outlook for the coming years. I will come back to the developments of recent weeks later on in 2017, trade growth was very strong. The volume of world merchandise trade grew by 4.7%. This significantly exceeds the 3.6% that we forecast in September last year. This is the fastest rate of expansion since 2011, when the global economy was still rebounding from the financial crisis.

In 2017 developed economies' exports and imports grew 3.5% and 3.1%, respectively, while developing countries recorded export growth of 5.7% and import growth of 7.2%.This strong performance was largely driven by cyclical factors, as world real GDP growth picked up to 3.0% from 2.3% the previous year. Economic activity was in turn driven by increased investment spending, particularly in the United States, and rising consumption, notably in Japan. Investment in particular is highly correlated with trade given its high import content. Meanwhile, China and the European Union maintained a steadier pace of expansion, providing bedrock for global demand. Indeed, all regions contributed to the trade recovery in 2017. The main contributors were the Asian economies, which together contributed 60% of the volume increase in imports, and 51% of the increase in exports.

Let me turn now to the forecast for 2018 and 2019.Continuing from last year's strong performance, we see economic conditions converging to allow sustained growth in trade and output. And this applies for both this year and next. Consumer and business confidence have turned upwards and economic growth is synchronized across regions. When all of these cylinders are aligned and firing together, the engine performs much better. We therefore estimate that world merchandise trade volumes will grow nearly as fast in 2018 as they did in 2017, with growth of 4.4%. And we expect that growth will remain quite strong in 2019 at around 4.0%.

This is good news. It represents the best run of trade expansion since before the crisis, supporting economic growth, development and job creation around the world. But, of course, risks to the forecast are significant and they are predominately on the downside. Monetary policy is likely to become less expansionary and financial conditions may become tighter. This could produce some volatility in markets and capital flows. To reflect this uncertainty we place these forecasts within an indicative range of possible outcomes.

So we have to do everything we can to avoid further escalation. I have been urging WTO members to take every action possible to avoid going down this road. The WTO was created as a forum for members to hold each other to account – and they have been doing so effectively for many years. We must safeguard the strong trade growth that we are seeing today, and ensure that trade remains an engine for economic growth, job creation and development around the world.

Competing in Africa: China, the European Union, and the United States

Given recent developments in the global economy, especially Brexit and the Trump administration's "America First" policy, it is worth assessing how Africa's three largest commercial partners—China, the European Union, and the United States—are likely to impact the region in the near future as it relates to trade and investment trends.

As China's domestic growth began to surge at the end of the last century, demand for natural resources and job creation forced China to look for markets abroad. Africa was a willing partner, due to its abundance of commodities and need for infrastructure development. China's role on the African continent has been defined by the financing of more than 3,000, largely critical, infrastructure projects, according to the AidData Project. China has extended more than $86 billion in commercial loans to African governments and state-owned entities between 2000 and 2014, an average of about $6 billion a year. In 2015, at the sixth Forum on China-Africa Cooperation (FOCAC), President Xi Jinping pledged $60 billion in commercial loans to the region, which would increase lending to at least $20 billion a year if that pledge is fulfilled.

As a result, China has become the region's largest creditor, accounting for 14 percent of sub-Saharan Africa's total debt stock, according to Foresight Africa 2018. In Kenya, for example, the volume of Chinese loans to the government is six times larger than that of France, the country's second-largest creditor. The FOCAC that will be held in Beijing later this year is likely to continue this trend of extending commercial loans for infrastructure projects.

While China's level of foreign direct investment (FDI) is relatively low, accounting for just over 5 percent of total FDI inflows into the region in 2015, two-way trade has grown 40 times over the last 20 years and now exceeds $200 billion. More recently, there has been a surge in Chinese private investment combined with a continued, but more limited, state engagement.

As China works to implement the Belt and Road Initiative, the largest public works program ever, the issue of China's commercial loans and the subsequent debt incurred by African governments is likely to increase as a public policy concern.

The launch of the Africa-EU Strategic Partnership and the first-ever summit between the 27 members of the EU and the 54 nations of Africa in 2007 seem to have hit a reset of sorts in the two regions' relationship. Indeed, over the last decade, the EU has worked, with a large degree of success, to transition to a partnership model based on reciprocal trade. The fifth EU-Africa Summit took place in Abidjan in 2017 against a background in which two-way trade exceeds $300 billion. In association with the summit, the EU pledged to mobilize more than $54 billion in “sustainable” investment for Africa by 2020.

The EU is shoring up its commercial position in Africa through a web of free trade agreements, or Economic Partnership Agreements (EPAs), which Brussels is negotiating or has concluded with 40 African nations in sub-Saharan Africa. The EPAs provide European companies with preferential access to markets across the region and will liberalize about 80 percent of imports over 20 years. Progress on concluding the EPAs is not without its challenges. Not surprisingly, Nigeria contends that an EPA undermines its industrialization strategies, and Brexit detracts from the EU ability's to negotiate as a common market.

Since 2000, U.S.-African commercial relations have been based on the African Growth and Opportunity Act (AGOA), a non-reciprocal trade agreement that grants about 40 countries duty-free access for approximately 6,400 products to the U.S.

AGOA has had a mixed legacy, given its goal of growing Africa's export markets rather than building two-way trade and investment partnerships. AGOA has helped integrate trade and investment into the U.S.-Africa policy dialogue and led to the creation of more than a million jobs, directly and indirectly, on the continent. However, only approximately 300 of the available product lines are utilized and a relatively small number of countries—principally South Africa, Lesotho, Kenya, Mauritius, and Ethiopia—have taken advantage of AGOA to establish a significant volume of non-oil exports to the U.S. At the same time, the EU's assertive free trade strategy and China's surge in trade and commercial loans have left the U.S. in need of a new commercial strategy.

In fact, the U.S. commercial engagement in Africa is waning: Over the last five years, U.S. exports to sub-Saharan Africa have averaged $19 billion. Two-way trade has fallen from a high of $100 billion in 2008 to $39 billion in 2017, largely due to U.S. energy self-sufficiency

Argentina raises interest rates to 40%

Argentina's central bank has raised interest rates for the third time in eight days as the country's currency, the peso, continues to fall sharply. The bank hiked rates to 40% from 33.25%, a day after they were raised from 30.25%. A week ago, they were raised from 27.25%.The rises are aimed at supporting the peso, which has lost a quarter of its value over the past year. Analysts say the crisis is escalating and looks set to continue.

Argentina is in the middle of a pro-market economic reform programme under President Mauricio Macri, who is seeking to reverse years of protectionism and high government spending under his predecessor, Cristina Fernandez de Kirchner. Inflation, a perennial problem in Argentina, was at 25% in 2017, the highest rate in Latin America except for Venezuela. This year, the central bank has set an inflation target of 15% and has said it will continue to act to enforce it. Despite the twin rate rises, the peso, which was fixed by law at parity with the US dollar before Argentina's economic meltdown in 2001-02, is now trading at about 22 to the dollar.

"This crisis looks set to continue unless the government steps in to reassure investors that it will take more aggressive steps to fix Argentina's economic vulnerabilities," said Edward Glossop, Latin America economist at Capital Economics. "Risks to the peso have been brewing for a while - large twin budget and current account deficits, a heavy dollar debt burden, entrenched high inflation and an overvalued currency."The real surprise is how quickly and suddenly things seem to be escalating."Mr Glossop said "a sizeable fiscal tightening" was planned for 2018, but it might now need to be larger and prompter."Unless or until that happens, the peso is likely to remain under pressure, and there remains a real risk of a messy economic adjustment."

However, he is not winning a crucial battle in the country - the one against inflation. Markets are taking notice and there has been a sell-off of the peso. The opposition wants to stop Macri from removing subsidies in controlled prices, such as energy and utility tariffs, which may bring more inflation in the short term but could help bring it down from above 20% now to about 5% by 2020.Friday was a day for emergency measures - a massive hike to 40% in interest rates and a commitment to bring down government spending .Investors still believe Macri has a sound plan to recover Argentina, but they are not convinced he can see it through.

EU says it is ready to wage trade war with US

Donald Trump has imposed tariffs of 25% on steel imports and 10% on aluminium imports. The EU has warned that it will not "shoot from the hip" but is fully prepared for a trade war with the US amid heightened concerns that the bloc's last minute crisis talks are doomed to fail. With tariffs on steel and aluminium on European exports to the US due to come into force on Tuesday, Cecilia Malmström, the European commissioner for trade, made a final diplomatic push in call with the US commerce secretary, Wilbur Ross.

A European commission spokesman declined to comment on the success of the talks, with Brussels seemingly still in the dark over Donald Trump's mindset. But he conceded that officials were likely to need to work through the 1 May Labour Day bank holiday in Belgium on Tuesday when the US president's decision is expected to be made public."We are patient but we are also prepared," the spokesman said. "Labour Day will be full of labour for us."The US administration imposed import tariffs of 25% on steel and 10% on aluminium in March on the grounds of national security. The EU, along with Australia, Argentina, Brazil, Canada, Mexico and South Korea, were granted a temporary reprieve, but that is due to come to an end on 1 May.

The main focus of the import tariffs is China, with whom the US has a $375bn (£273bn) trade deficit. However, Trump has been scathing about the current terms of trade with Europe. He has been particularly exercised by the success of German car exports in the US. Washington imposes a 2.5% tariff on cars made in Europe and a 25% tariff on EU-built vans and trucks. Europe imposes a 10% tariff on American-made cars. The EU has suggested it is open to discussing the wider terms of trade with the US but only once it has received a permanent and unconditional exemption to the steel and aluminium tariffs. Trump has reportedly expressed his irritation that he cannot negotiate bilaterally with the key member states, rather than work through the EU institutions. In their previous phone call, Ross was rebuffed by Malmström after he demanded that the EU voluntarily limit exports of steel and aluminium to 90% of the average 2016-17 level, reducing European imports by 16.3%.

U.S. consumer prices rise slightly; labor market tightening

U.S. consumer prices rose less than expected in April, suggesting that inflation was increasing at a moderate pace, which could allow the Federal Reserve to continue gradually raising interest rates. But with the labor market tightening and oil prices rising after President Donald Trump on Tuesday pulled the United States out of an international nuclear deal, promising to restore stiff sanctions on Iran, price pressures are expected to accelerate in the coming months.

Inflation is flirting with the U.S. central bank's 2 percent target. Policymakers have in recent days signaled they would not be too concerned if inflation overshot the target, reiterating what the Fed said in its statement last week. The Labor Department said its Consumer Price Index rose 0.2 percent in April as increases in the cost of gasoline and rents were tempered by a drop in motor vehicle prices. The CPI had slipped 0.1 percent in March.

In the 12 months through April, the CPI increased 2.5 percent, the biggest gain since February 2017. That followed a 2.4 percent rise in the year to March. Excluding the volatile food and energy components, the CPI edged up 0.1 percent after two successive monthly increases of 0.2 percent. The so-called core CPI rose 2.1 percent year-on-year in April, matching March's increase.

Economists had forecast the CPI rebounding 0.3 percent in April and the core CPI climbing 0.2 percent. The personal consumption expenditures price index excluding food and energy, which is the Fed's preferred inflation measure, accelerated 1.9 percent year-on-year in March, as last year's big declines in the price of cell phone service plans dropped out of the calculation.

Economists expect the core PCE price index, which had increased 1.6 percent in February, to breach the 2 percent target in May. In their policy statement last week, Fed officials said they expected annual inflation to run close to the "symmetric" 2 percent target over the medium term. The central bank left interest rates unchanged last week.

In another report on Thursday, the Labor Department's first-time applications for state unemployment benefits were unchanged at a seasonally adjusted 211,000 for the week ended May 5. Claims dropped to 209,000 during the week ended April 21, which was the lowest level since December 1969.The labor market is considered to be near or at full employment, with the unemployment rate close to a 17-1/2-year low of 3.9 percent. That has led to a slowdown in job growth as employers struggle to find skilled workers. A government report on Tuesday showed job openings rising to a record 6.6 million in March. Competition for workers is expected to push up wage increases, which have remained moderate.

Strong wage growth and higher gasoline prices could fan inflation pressures. Last month, gasoline prices rebounded 3.0 percent after tumbling 4.9 percent in March. Crude oil prices jumped to 3-1/2-year highs on Wednesday following Trump's decision to exit the Iran deal.

Food prices rose 0.3 percent last month, the largest increase in a year, after nudging up 0.1 percent in March.

China April producer inflation picks up for first time in 7 months

China's producer inflation picked up for the first time in seven months in April, bolstered by surging commodities prices and suggesting its industrial demand remains resilient even as trade tensions ratchet up with the United States.

Analysts and investors are closely watching inflation gauges in China for signs of a long-expected economic slowdown that would weigh on industrial profit growth and investment and possibly tip a shift in central bank policy.

But the country's commodity futures markets are notoriously speculative, making it difficult to tell if producer price swings are pointing to a real change in underlying demand. The producer price index (PPI) rose 3.4 percent in April from a year ago, accelerating from a 17-month low of 3.1 percent in March, the National Bureau of Statistics (NBS) said on Thursday. On a month-on-month basis, it declined 0.2 percent.

The consumer price index (CPI) rose 1.8 percent from a year earlier, just below expectations and slowing from March's 2.1 percent. On a month-on-month basis, it dipped 0.2 percent. The core consumer price index, which strips out volatile food and energy prices, rose 2.0 percent in April, unchanged from March. The food price index rose 0.7 percent on-year, after rising 2.1 percent in March, as distortions from the long Lunar New Year holiday receded. Non-food prices rose 2.1 percent, the same pace as the previous month. Pork prices in April declined 16.1 percent on-year, most likely due to a glut in the market. Pork prices, for example, which have a large weighting in the consumer inflation basket, could soar if feed costs continue to rise. China imposed a hefty duty on imports of U.S. sorghum last month and has threatened high tariffs on U.S. soybeans.

But analysts still expect broader price pressures will moderate this year as higher borrowing costs and a cooling property market lead to a softening in economic activity. China has set an inflation goal of 3 percent for 2018, the same target as last year. Most market watchers expect full-year CPI to be in the low- to mid-2 percent range, picking up from 2017 but still well within the central bank's comfort zone. Mild inflationary pressures had been expected to give Chinese policymakers plenty of room to continue their crackdown on riskier lending this year, which has been pushing up companies' financing costs. But China's central bank last month cut reserve requirement ratios (RRR) for most banks, sparking fears that economic momentum may already be starting to slow.

Iran's economy may be headed for a death spiral now that Trump nixed the nuclear deal

While Rouhani may have been sending a message to the U.S., his speech was also designed to reassure his own citizens that America's move wouldn't further damage the country's fragile economy. "He wanted to project calm and predictability," said Suzanne Maloney, a senior fellow at the Brookings Institution's Center for Middle East Policy.

That calm may not last long as renewed sanctions on Iran could, once again, send its economy into a downward spiral. Over the past several weeks, Iran's rial has lost 25 percent of its value against the U.S. dollar, while inflation is hovering at around 8 percent. Iranians are also struggling with a severe credit crisis that has seen several banks go bankrupt. Unemployment is above 11 percent and citizens have taken to the streets to protest mismanagement and government corruption.

The country's GDP has also suffered, going from 6.6 percent in 2010 to negative 1.5 percent in 2015, when sanctions were in full force, but it's rebounded since. The IMF was predicting GDP growth of 4.3 percent this year, but that could fall sharply after sanctions are re-imposed. U.S. aerospace giant Boeing has an estimated $20 billion in planned aircraft sales to Iran. The company's Middle East business head told CNBC this week it's following the U.S. government's lead and the company has always mitigated the potential risk to Iranian airline sales in building its broader global production plan.

There's another big concern: the impact that an oil export ban could have on government revenue. Iran is OPEC's third-largest producer, exporting about 2.5 million barrels of oil a day. A recent Bloomberg survey forecast that Iran could lose up to 500,000 barrels of oil a day in output if it's not allowed to sell its crude to other countries.