

The world trade and growth outlook for 2021



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2021 promises to be a year when depressing and deeply negative growth rates of output and trade turn into impressive-looking positives. We expect some advanced economies will have vaccinated significant shares of their populations against the coronavirus by early 2021, allowing a meaningful lifting of restrictions by March/April.

This will prompt a mid-year boom in these economies which will have positive global spillovers. Oxford Economics forecasts that world GDP will rebounding from a fall of 4% in 2020 to rise by over 5%, with a further 4% rise likely in 2022 as the recovery continues. This will be the fastest global expansion for fifty years. But while growth rates will be impressive, levels of activity will be less so – many will not feel a big improvement.

A bright spot in the global rebound will be industry and world trade in goods. We expect world industrial output to rise by 6.5% in 2021, the fastest pace in a decade. Goods trade will also recover rapidly. The partial reopening of economies from mid-2020 already led to port traffic rising almost 7% on the year in October 2020 and we expect this trend to become firmly entrenched next year. We see world goods trade rising almost 8% in 2021 and another 5% in 2022 – bringing trade well above 2019 levels.

Asia's relative success in dealing with the coronavirus pandemic leaves it well placed to continue outgrowing the rest of the world in 2021 – we look for GDP in the Asia Pacific region to rise over 6% next year. Manufacturing

will be in the driving seat, but services will start to catch up, especially in those economies that roll out vaccines quickly such as the advanced APAC economies.

But there will still be problem areas. The global rollout of vaccines will not be synchronised and residual social distancing and restrictions can be expected to persist in many regions for some time. Emerging markets are likely to be worst off in this area, so that the upturn in these economies will be delayed. Moreover, the heavy fiscal cost of economic lockdowns is likely to be harder to manage for emerging economies.

A number of sectors will also be slow to recover, such as transport and tourism. These sectors make up a large chunk of world trade in services. This trade crashed by 35% in 2020 and we do not expect it to regain its 2019 level until 2023.

As the world economy recovers, some old issues are also likely to resurface – such as protectionism. We expect the new US administration to take a more consistent and multilateral approach to trade matters and to attempt to improve relations with the US's key global allies. A rolling back of steel tariffs and an end to aggressive moves against European and North American trade partners are likely. But President elect Biden is far from being a pure free trader. We do expect some cuts in US tariffs on Chinese goods in return for discussion on trade policy reforms, but US-China trade is likely to labour under continued restrictions for some time yet.

