Global trade unlikely to return to pre-crisis levels, Poloz warns

By Barrie McKenna
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The long-awaited rebound in global trade isn't just delayed. It may never come.

Trade growth around the world is unlikely to regain the torrid pace of the years before the global financial crisis, Bank of Canada Governor Stephen Poloz warned Tuesday in New York.

That means the days of 7-per-cent annual growth in international trade are gone, perhaps for good, Mr. Poloz said in remarks prepared for a speech to Wall Street financial professionals.

"The rapid pace of trade growth that prevailed in the two decades before the crisis was the exception, and not the rule," Mr. Poloz argued.

Major gains from global integration are in the rear-view mirror

That's because much of the slowdown is due to the end of a long period of global integration – as multinationals specialized and built global supply chains, countries formed powerful new trading blocs and China joined the global economy.

"The big opportunities for increased international integration have been largely exploited," Mr. Poloz explained. "China can join the [World Trade Organization] only once."

Mr. Poloz also issued a vigorous defence of the actions of central banks around the world since the financial crisis – most notably, the steady diet of ultra-low interest rates.

"The idea that monetary policy just isn't working any more [is] one myth I'd like to dispel right off the top," he insisted.

Higher central bank interest rates might trigger recession

"If you think monetary policy is not working, ask yourself what would happen if interest rates suddenly returned to 3 or 4 per cent. Most would agree that such a move would trigger a recession."

Fears that monetary policy has become impotent has triggered financial market volatility, he said.

The underlying problem, Mr. Poloz suggested, is that "strong headwinds" continue to buffet the global economy, masking the effects of interest rate relief, which has "saved us from the worst."

The Bank of Canada cut its key interest twice last year to just 0.5 per cent, following the commodities price collapse. The bank has, at times, faced pressure to cut again, but has so far resisted.

After the speech, Mr. Poloz said he expects the Canadian economy to get up to "full speed this year." But he cautioned that it will take another full year or more for the the economy to absorb any "excess capacity," including laid off workers and idled plant production.

Canada is "fortunate" that the federal government is spending money on fiscal stimulus, which helps balance out the waning impact of monetary policy, he said.

"We're going to get up to full speed this year. It will take us another full year, probably a year-and-a-half, to use up our excess capacity, and arguably longer."

Mr. Poloz dedicated most of his speech to what he called "the striking weakness of international trade."

Global trade has reached a new "balance point"

Roughly half the post-crisis slowdown in trade is due to economic weakness, particularly lower business investment, he said. And that will eventually recover.

But the rest of the trade slump is due to structural factors that won't quickly fade, such as China's transition to slower, consumption-led growth.

The potential for more global economic integration in the years ahead is limited, he said, and that will inhibit productivity and GDP growth.

"The weakness in trade we've seen is not a warning of an impending recession," he said. "Rather, I see it as a sign that trade has reached a new balance point in the global economy, and one that we have the ability to nudge forward."

Countries can do that by striking new free trade agreements, such as the Trans Pacific Partnership, and boosting productivity, according to Mr. Poloz.