



Trade in 2022 – A look ahead

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2022 is unlikely to produce the big goods trade rebound that everyone has been hoping for. The Covid pandemic continues with a new variant, Omicron, so there are likely to be sustained pressures on supply chains as well as upward pressure on prices. Tensions between the US and China geopolitically run the risk of further straining economic and trade relations, especially in the Indo-Pacific. The Russian build-up of troops along the border with Ukraine and its more aggressive stance in Africa, provides a backdrop to another year of, at best, geoeconomic and trade uncertainty and at worst direct conflict.

Trade has a bad few years. Annualised growth in values between 2015 and the end of 2020 was just 0.1%, and while this includes a decline of nearly 12% in 2020 caused by the Covid pandemic, trade also fell between 2018 and 2019 of 3%.

There are multiple reasons for the slow down, including the drop in semi-conductor trade that has been evident since 2018, the drop in oil prices over the same period, and of course more recently the supply chain challenges that have been the result of the pandemic. Our projections suggest that value of trade will have increased during 2021 by just over 3.5%, but the volume of trade growth globally has been at or around zero for the last six months and declining since its initial bounce back after the immediate lockdowns at the beginning of the pandemic.¹

So when we look at what may happen during 2022 it's important to distinguish between the effects that are pandemic-induced and those that reflect the greater role of trade in understanding the bigger geopolitical picture.

Let's take the pandemic first. This caused a big drop in trade and there is no sign at present that there is any momentum building behind a recovery-induced increase in trade. While shipping costs are perhaps falling back suggesting that flows longer term may be returning to normal,² this has not yet appeared in the shipments data itself: the Coriolis Bill of Lading data suggests that shipments out of China were half their value in Q3 this year compared to last year, for example. Similar patterns are evident in all of the G7 economies as well.

The result is that there will inevitably be inflationary pressures from 2021 into 2022. We are already predicting that value growth in 2021 will be higher than volume growth by about 3.5% which is an indicator of trade-based inflation. The forecasts for 2022 do not currently show a major spiralling of inflation; however, the level of increase in trade values in 2022 is likely to be around 4% and volumes around 1% which still suggests some pressure on prices. Add this to price pressures from supply chain shortages caused by consumer demand, and this presents a worrying picture for Central Bank policy makers during the course of the following months since price pressures from supply chain shortages are to a large extent outside of the normal framework for monetary policy. Our Future of Strategy event raised this as one of the key challenges for the next year.

As always, however, there is a bigger picture at play that will affect trade more substantially, both in terms of the actual movement of goods and services across borders and in terms of how trade is used as a strategic tool within the framework of national security strategies.

¹ <https://www.cpb.nl/cpb-wereldhandelsmonitor-september-2021>

² <https://www.ft.com/content/16982ffa-8499-4385-80aa-80a11d6724ff>



Supply chains are being redistributed. This has been evident since 2018 when global semi-conductor trade first started to slow. China's "dual circulation" strategy, implemented through Made in China 2025³ has prioritised self-sufficiency in strategic areas of the economy, like medicine, electronics (especially semi-conductors), and the base metals that form a critical part of the electronics supply chain. However, China is still a net semi-conductor importer, especially from the US,⁴ so its strategy is to build its own self-sufficiency over time.

It is not just China that is doing this, nor is it just semi-conductor supply chains. The pandemic has highlighted a pattern in trade that has been emerging since 2016 when economic nationalism began to dominate the trade discourse. Governments are providing incentives to encourage greater self-sufficiency either nationally (as is the case in the UK or the US) or regionally (as is the case with the EU). Our data suggests that intra-regional trade up to the start of the pandemic was growing more rapidly than extra regional trade for all global regions except the Middle East and North Africa. This reinforces the perspective that the world's trade will become more "local" or at least regional in the coming years.

This is to be welcomed on sustainability grounds of course. 2022 will be a year in which sustainable trade and sustainable trade finance will drive much of compliance, finance and supply chain distribution. As always this has a geopolitical angle. The US supply chain review in June 2021 put out a framework where human rights abuses, notably in the XinXiang province of China, would be penalised if found. While in principle this is the correct thing to do, there is a risk that this becomes targeted at China rather than at human rights abuses more generally.

This last point perhaps shows us how trade should develop during the course of 2022. It is abundantly clear that trade needs to contribute positively to sustainable development goals (SDGs).⁵ At present, Coriolis Technologies analysis suggests that only \$1 in every \$5 of international trade does contribute positively and this is a big concern. There are risks that the world, fraught with geopolitical tensions as it is, forgets that is bound together through the need to create sustainable and inclusive growth in all nations.

This is the underlying principle of all our international organisations, including the WTO, the United Nations and the multitude of free trade and regional trade agreements that are emerging. It is the opportunity that a multilateral trade rules-based system should prioritised – now is not the time to pursue pure national interest. Let's hope that 2022 is the year in which we come to our senses.

³ <https://www.reuters.com/article/china-economy-transformation-explainer-idUSKBN2600B5>

⁴ <https://www.cnbc.com/2021/10/25/china-pushes-to-design-its-own-chips-but-still-relies-on-foreign-tech.html>

⁵ <https://iccwbo.org/publication/icc-standards-for-sustainable-trade-and-sustainable-trade-finance/>