

International Trade Development After the Global Financial Crisis

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Abstract

The report focuses on an environment influenced by the global economic crisis of 2008-2010, the past global health crisis and Russia's subsequent military invasion of Ukraine. These three factors generate disastrous consequences in their wake, and a number of state models are unprepared for them. However, international trade managed to recover extremely quickly from the effect of the crises and generate growth already in 2021 on a number of its indicators. A point of view has been formed summarizing the importance of multiple participants in the economic system, especially the largest economies, but also the role of international cooperation in the field to achieve real results and provide aid to countries in need.

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Introduction

The modern economic environment depends on a number of factors. On one hand are the governments and their public spending, banks and lending, global commodity prices, future expectations and supply and demand. On the other hand – unexpected crises related to the cyclicity of the world economy, pandemics, escalating conflicts, technological development and innovations in various industries, innovations and digitization. These factors can cause multiple short-term as well as long-term sustained fluctuations in the market creating trends. Although they are all distinctly different, they are also closely related to each other. Unexpected crises and disasters require adequate government measures, crisis policies, minimum speculation and maximum interaction.

In the last decade, the global economy generated strong declines (at the beginning of the decade as a result of the economic crisis) and increases in the levels of imports, exports and transit of goods and services (mainly due to the strengthening of global demand and growth in investment). The global economic crisis was also a prerequisite for numerous reforms and changes in the world, the start of a process of large-scale money supply and interest rate reductions in order to stimulate spending, large investment programs such as the Juncker Plan in the EU, liberalization in a number of sectors of the economy, debt buyback programs from various central banks, but also huge investments in stock trading DJIA, SP500, NASDAQ and other indices located in Asia and Europe such as FTSE, Euronext, Nikkei 225, HANG SENG and KOSPI .

Through the strengthening of trade relations between the EU and the USA, as well as between the USA and the countries of North America, in the past decade there has been an increase in exports, but also in the processing of imported goods in order to create new products. It was through trade and production that a solution was also found to the problem of unemployment, which had reached its highest point at the beginning of the last decade, about 12.5% in the European Union and about 10% in the USA in 2010.

It is characterized by a decline until 2019 at levels lower than before the financial and economic crisis of 2008. It experienced rapid growth in early 2020, doubling both in the number of unemployed and as a percentage of the working population. Unemployment is key to trade because

it puts pressure on the demand for goods and is the cause of the decline in the number of consumers in the world. Income is also a basic factor for commercial development. Over the past decade, they have seen satisfactory growth in most developed countries due to rising economic activity. Income growth continued until early 2022, after which real incomes in developed countries stopped rising due to rapidly rising global inflation.

The dynamics are at times unpredictable and uncontrollable (there was a moment of strong decline at the beginning of 2020 and of strong growth that lasted until the end of 2021). And at the root of surprising trends are the overcoming of the consequences of the World Economic Crisis as well as two crises with a global effect. The first is the Covid-19 Pandemic, which broke out at the beginning of 2020. and is one of the sudden factors that shook the commercial statistics of official trade and created precedents (in the first and second quarters of the year) in their dynamics. The war between Russia and Ukraine, which broke out at the beginning of 2022. is the next unexpected problem. The symbiosis of the consequences of these three crises - are devastating for a large part of the economies (in a different time spectrum) high inflation, problems with holding down government spending, an unexpected and large surge in fuels, an attempt to compensate prices with the help of the states - leading to increasing budget deficits that modern societies have to deal with.

The analysis of the dynamics of international trade in the described crisis situation is important, because trade is at the basis of the world economy and in the generation and redistribution of wealth globally. Trade gives chance and opportunities to develop many potential economic powers (new entrants like Mexico and Brazil) through the already industrialized economies, especially in the current state in which they are placed . It is necessary to recognize that during the last decade, many large countries managed to significantly increase their Gross Domestic Product, to overcome the results of the world crisis more easily, because they showed advantages and attracted more investors, retained already existing companies and production due to lower taxes (Eastern European countries), the greater potential of their banking systems but in some cases due to their technological advantages (South Korea, Taiwan), the options to take advantage of international imports and exports (the Netherlands - its GDP reached just over 1 trillion dollars at the end of the last decade, Macau, the former Portuguese colony, achieved the highest standard of living in the world before the Covid 19 pandemic precisely because of the various types of trade and the specialized legislation in the country.) Of course, in world trade, oil has always had one of the main places. Qatar, Saudi Arabia, Bahrain, the United Arab Emirates have managed to create and maintain some of the highest living standards in the world precisely because of the export of fuels, but in parallel with this, the past decade will be remembered for the attempt of these countries to diversify of their economies and to create alternative inflows of capital for them other commercial activities from investments and from the introduction of green technologies that have one of the highest global returns.

The various policies and the speed of their introduction by governments also helped during the last decade but especially at the beginning of the new one countries like Sweden, various articles in the USA as well as in many places in Germany to pass the health crisis without the introduction of a full lockdown, which saved them from a sharp and deep economic crisis. It is necessary to keep in mind that the past decade, despite multiple differences that are obvious compared to others, gave a clear boost to certain countries but also blocked the growth of others - Greece in the period 2010-2013 lost approximately 20% of its economy due to the debt crisis in the country which created one of the worst crises in the economic history of the world. However, it was trade through exports and tourism that managed to return the economy to growth. Spain, a country that at the beginning of 2022 reported a GDP of about 1.4 trillion dollars, experienced the highest unemployment in its history and in the history of the EU of over 26% due to the collapse of construction and real estate trade, a sector that created over 10% of the economy of the country. Russian Federation - started the decade promisingly due to trade deals for the export of surving, but after the annexation of Crimea by Ukraine, the country fell into an extremely difficult situation. The

economy shrank by about 6% and then could not start a recovery process for a long time due to the imposed sanctions. After Covid - the lack of vaccines from the plague and the slow spread of the vaccines created there, the country's economy faced even greater sanctions, a losing war, problems in most industries, lack of investors and new technologies. From the point of view of international corporations - many new ones appeared in the world, but many of the already existing ones increased and even doubled their capitalization.

Five corporations boast records worth over one trillion, three of which deal in software, hardware, technology and oil trade - Saudi Aramco.

The past decade also showed great opportunities for many pharmaceutical companies dealing with the treatment of serious diseases but also offering solutions against various viruses that attacked the world such as Ebola and Covid. The shares of many of them rose dramatically and remained at historically high levels since the start of the health epidemic.

Corporations dealing with green energies, the independence of mankind from oil, of course, developed the fastest. Similar companies such as Tesla reached the top 10 largest companies in the world precisely because of the highly ecological and more innovative policy they introduced in various sectors.

The trade in guns and the sale of new military-defense technologies reached an unprecedented peak at the beginning of 2022 precisely because of the serious support of the USA and EU countries to Ukraine.

1. Global trade through the eyes of the largest economies in the world

The EU, USA, UK, Japan and China are some of the world's largest participants in international trade.

The share of the EU in world trade in goods is 15%. The value of international trade in goods greatly exceeds the value of international trade in services (about three times), because the provision of some services across borders is more difficult due to their nature. The US economy is the largest economy in the world (with a GDP of \$23 trillion in 2021)

„The EU as an economy generates over 17 trillion dollars“ - European union site , and the share in world trade is over 2 trillion (second in the world after China).

China is the country with the second largest economy in the world - approximately 17 trillion dollars. However, the country has over 2.8 trillion euros in world trade, which puts it in first place. The reasons are many, the main ones being the growth of the domestic production of goods, the low prices which are the main factor for the demand from other countries and companies that are not based in the People's Republic of China.

„Japan which is the 4th largest economy in the world and has over 5 trillion GDP, is in 4th place in world trade with exports of over 640 billion euros, which ratio Export/Gross Domestic Product is one of the best achievements both in the history of the country and on a global scale.“ - Investopedia

2. Development after the World Economic Crisis, the Covid period and the war.

Decisions and behavior of governments

The difficult and slow economic recovery associated with many problems such as consumption, unemployment, lack of prompt action by central banks created serious problems for trade in the first years of the past decade. „The pandemic led to an economic decline in the first six months of 2020, closed borders and a serious reduction in cross-border economic activity“ – Congressional Research Service.

In addition to other global problems (Brexit, the fight against climate change), the world has found itself unprepared for a global health crisis. As a result of the response by countries, central banks, and the lifting of the full lockdown in mid-2020, new issues such as inflation, slow vaccination and widespread lockdowns in China — causing new strains on global supply chains —

are also weighing on economic activity. All this affected international economic relations. And at a time when economies and spheres were beginning to relax from the tight situation at the beginning of 2022, a new crisis took shape on the global stage.

Russia has declared war on Ukraine. This caused an unprecedented rapid growth in oil prices (Brent, WTI, Ural), but also an unprecedented percentage growth in electricity prices.

Against the background of the described situation, in the second quarter of 2022, the increase in energy prices stimulated trade in goods in the US, with exports increasing by 10.2%.

According to a new report by a UN agency, international trade grew by 25% in 2021 compared to 2020 and by 13% compared to pre-pandemic 2019.

Share of the European Union (EU 27) in the world trade (2020) ≡

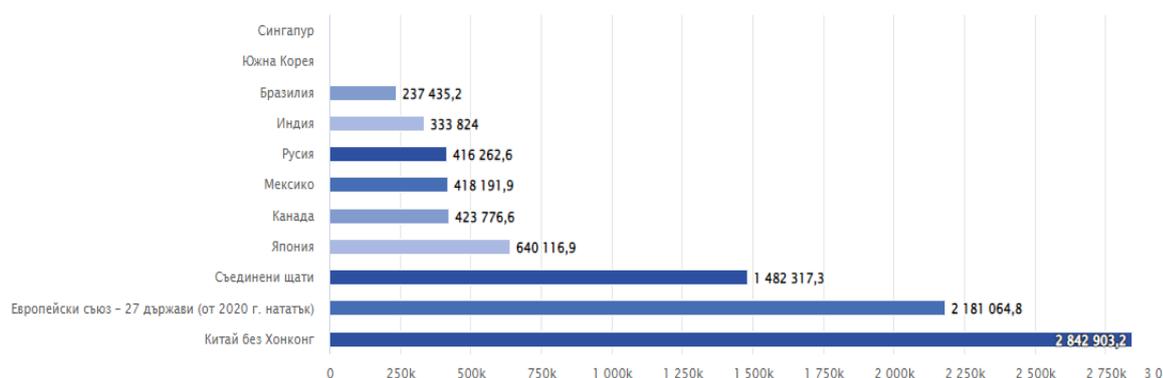


Figure 1. EU share in world trade

Source: https://european-union.europa.eu/principles-countries-history/key-facts-and-figures/economy_bg

„In the European Union (EU-27), exports of goods also saw modest growth (by 0.3%), while imports grew faster (by 3.0%), mainly thanks to energy providers.“ – Eurostat. Exports of goods contracted in East Asia as restrictive measures continued to disrupt economic activity in the region and inflationary pressures weighed on demand for goods abroad. „Exports fell by 4.9% in Japan, by 0.4% in China and by 2.2% in Korea. High prices continued to boost the value of exports of leading G20 commodity traders, with exports rising in Australia (up 12.5%), Indonesia (up 12.7%) and India (up 7.1%)“ – OCED.

It is characteristic to note that despite the trade deficits of most countries in the world, their economies have continued their growth, the main reason for this being the processing of many of these goods and subsequently their export. „A key factor of imports is the stimulation of competition in a given country as well as the creation of a variety of goods“– the balance.

„Economically, growth is falling and inflation is rising. In human terms, people's incomes are decreasing.“- IMF Blog

This twin crisis—pandemic and military—and our ability to deal with it is further complicated by another growing risk: the fragmentation of the global economy and the separation of geopolitical blocs with different trade and technology standards, payment systems (Russia was excluded from SWIFT) and reserve currencies. This leads to growth in global Trade, but it is becoming slower. Trade imbalances are also growing.

It should be borne in mind that export is a key indicator for the development of any country. The more exports a country has, the more jobs it creates and the more it can stimulate its consumption. „Exports also reflect the willingness of foreign and domestic investors to invest in a given country in order for it to produce both for its own population and for foreign ones“– UNCTD.

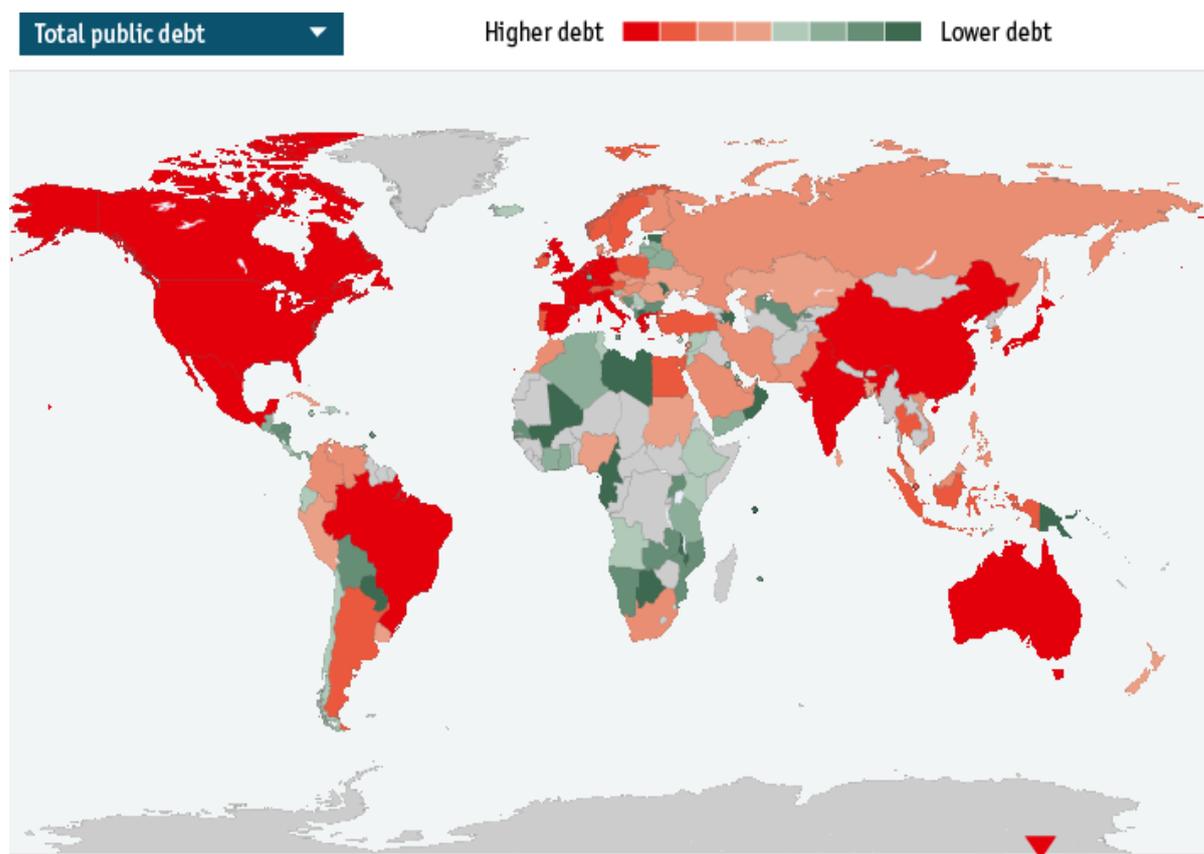


Figure 2. World debt - in red are the countries reporting growth in the debt/GDP ratio

Source: https://www.economist.com/content/global_debt_clock

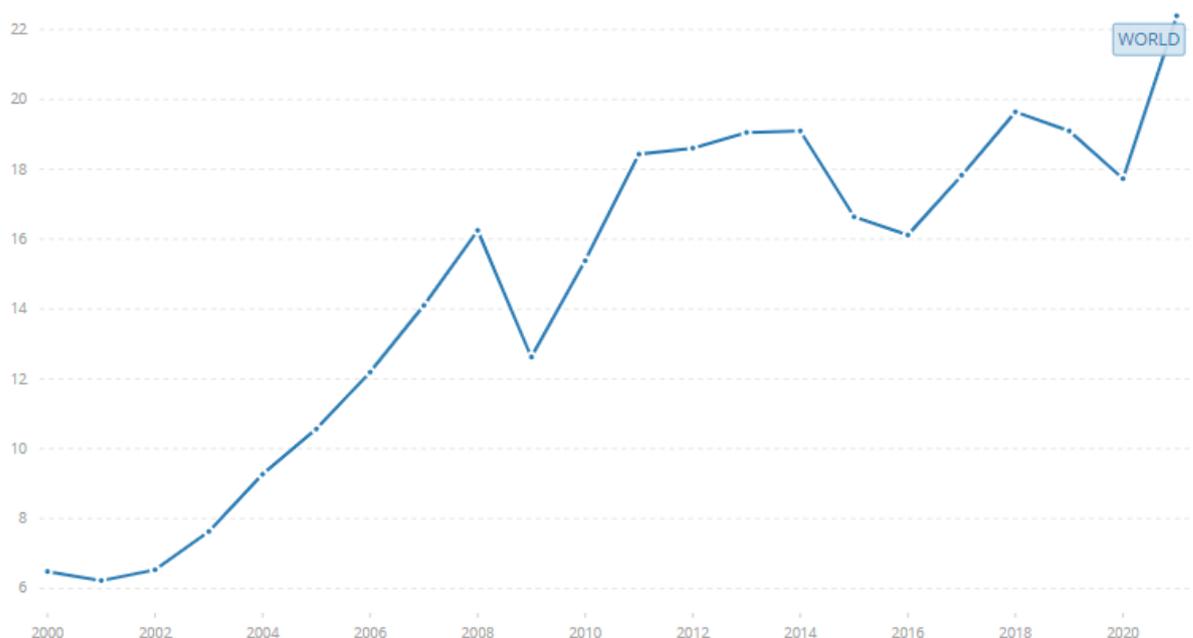


Figure 3. Exports of goods and services (% of GDP)

Source: World Bank National Accounts Data and OECD National Accounts Data Files.
<https://data.worldbank.org/indicator/NE.IMP.GNFS.ZS?end=2021&start=2000>

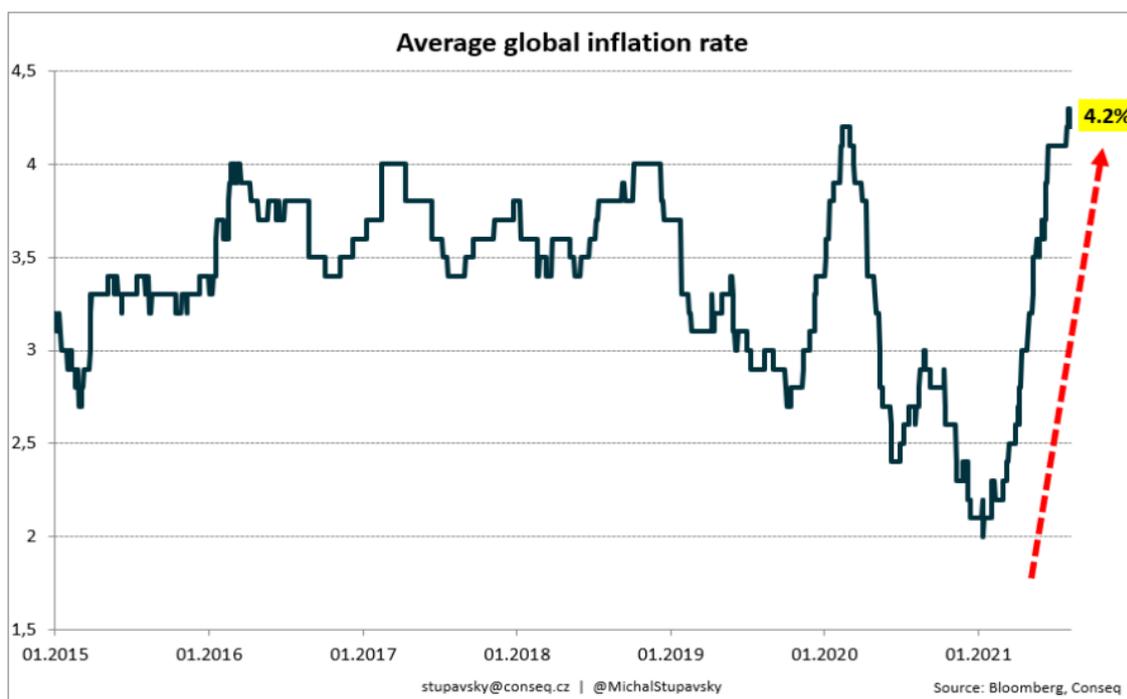


Figure 4. The increase in global inflation since the beginning of 2021.

Source: Bloomberg, Conseq . <https://www.conseq.cz/about-us/news/chart-of-the-week-average-global-inflation-rate-has-been-rising-massively>

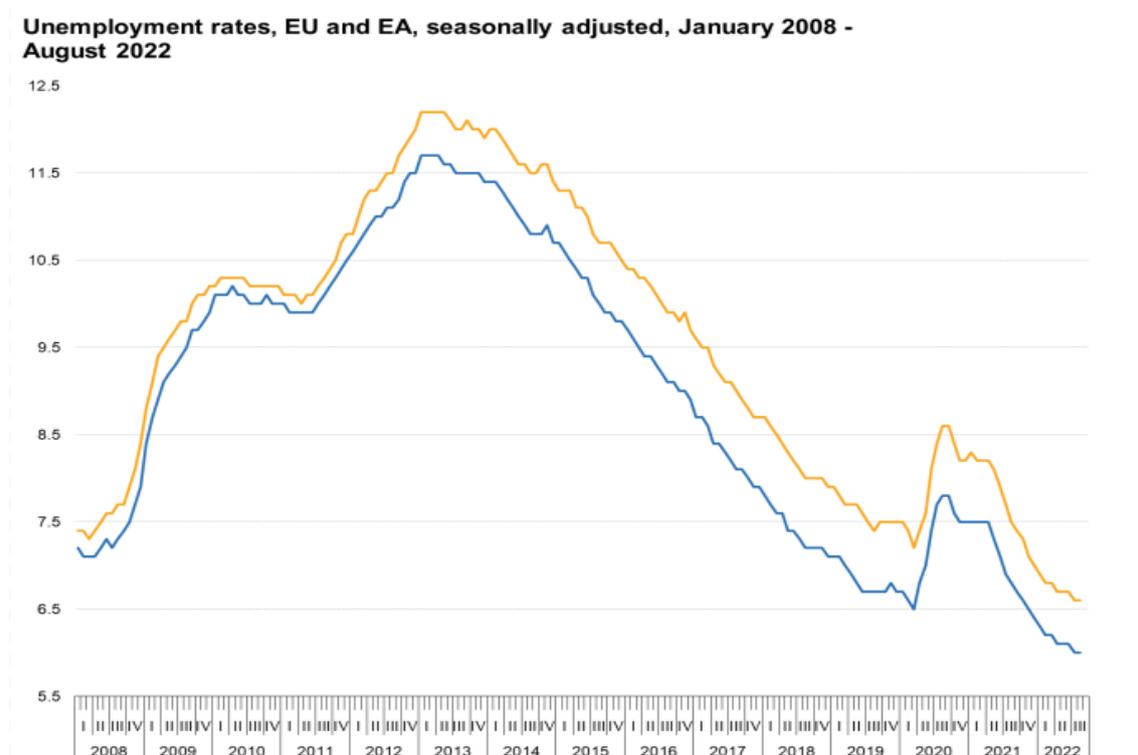


Figure 5. Unemployment - levels in the EU and in the Eurozone. Similar trends have been observed in the last decade in other major economies around the world.

source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Unemployment_rates,_EU_and_EA,_seasonally_adjusted,_January_2008_-_August_2022_figure_2.png

Conclusion

The world was not prepared for the challenges it faced in the last decade. It was difficult to reduce unemployment, restore the economy of developed countries, limit the deficits of most countries. Subsequently, the remaining two crises of the beginning of 2020 and 2022 created different problems that required a different approach in order to master them. There are options and measures for reducing prices and increasing economic activity, if they take collective measures that will have an overall and large-scale impact on the international economic system. .

The most vulnerable countries continue to be hardest hit by the pandemic (due to lack of health systems and vaccines), at a time when they are no longer doing well. The pandemic and its aftermath have exposed existential challenges to the very principles of globalization and will have a lasting impact on the future efforts of developing countries to benefit from the global economy. In addition, COVID-19 has revealed a need to transform trade and development if we are to chart a sustainable course towards a better recovery.

The world needs a consensus on fuel and electricity prices, and better results can be achieved if we continue with the faster introduction of green technologies, especially in the field of transport and electricity generation. From a trade and development perspective, a better recovery must be sustainable in terms of balancing the global nature, fair and digital – but it must also be for all peoples and all countries, not just those who can they allow it.

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