Article for Review

Introduction

This paper presents a review of the work of Jääskelä, J. and Mathews, T titled 'Explaining the Slowdown in the Global Trade' published in the *Reserve Bank Bulletin,* 2015, September Quarter. The summary of the article is presented first followed by a critical appraisal. It is evident that the article is accurate and incorporate up-to-date data in explaining the decline in global trade after the global financial crisis (GFC).

Summary

The article by Jääskelä and Mathews (2015) had the main objective of reviewing the cylindrical as well as the structural explanations for the decline in the global trade following the GFC and its atypical slow growth rate following the initial recovery from the crisis. The article is divided into five sections. In the first section, the authors review the trends in the international trend before and after the GFC. The authors acknowledge that prior to the onset of the global financial crisis (GFC), the growth of global trade had been about 150% the rate of the global Gross Domestic Product (GDP) growth rate for about 40 years, which led to a significant increase in the international trade-to-GDP ratio. They also observe that during this period, emerging economies documented a dramatic increase in trade as a share of the GDP whereas trade as share of GDP of advanced economies grew relatively slowly due to the considerable decline in their share of exports. However, after the GFC, the growth in international trade is yet to resume its earlier rate. In 2010, a strong rebound in international trade growth was documented although the real growth rate remains at 2% per year, which is relatively low compared to the pre-GFC annual rate of 6.5%. Based on this trends, the authors hypothesize that the global trade slowdown after the crisis can be largely explained by cyclical factors; thus, an

increase in global business-environment to reach pre-GFC levels and reduction in economic uncertainty would help increase post-GFC international trade.

In the second section, Jääskelä and Mathews outline the possible structural factors that can explain the downturn in global trade, which include decline in structural factors and policies that intended to boost trade such as the expansion of global supply chains and liberalization of trade. In the third section, the authors outline the possible cyclical factors that might account to the slump in international trade, which include the lingering economic uncertainty after the GFC, and the composition of the global GDP growth recovery resulting in declining business investment. In the fourth section, Jääskelä and Mathews estimate how cyclical factors contributed to the global trade slow down using an econometric model. Their model indicated that the relative downturn in aggregate international trade can be mainly explained using cyclical factors. They show that high levels of demand positively affect the growth of import whereas an increase in import and uncertainty negatively affects imports. The authors note that, uncertainty measures were relatively high post-GFC, especially during 2011-2012 as a result of numerous factors such as the exit of Greece from the Euro Zone, the debt-ceiling debates in the US, and impending election in Japan among others. These uncertainties resulted in weak business environment. They also found that the results differed by country although cyclical factors effectively explained the decline in the aggregate global trade. In the fifth section, the authors affirm their hypothesis that the decline in global trade can be explained using cyclical factors, especially economic uncertainty and the change in the composition of the aggregate demands towards components that are less import-intensive.

Appraisal

The findings of the study by Jääskelä and Mathews are accurate. Similar findings have been documented by other authors examining the relationship between the decline in global trade and 2008 GFC. For instance, Bussière et al. (2011) noting that cyclical factors resulting in a weak demand accounted for up to 90% of the slump in international trade. The finding that the decline in global trade due to cyclic factors differed between countries has also been documented by others (Factor 2015). Factor (2015) noted that cyclical factors were more prevalent in high income economies such as the Euro Area and the US, which accounted for about 65% of the total international imports; thus, lingering weaknesses in these economies undoubtedly affected global trade.

The information presented in the article is up-to-date owing to the fact that Jääskelä and Mathews (2015) used data up to 2015. The authors presented empirical evidence to justify their claim that their cyclical factors can largely account for the slowdown in international trade. In this respect, their conclusions are based on an economic model that captured cyclical factors. Besides using aggregate data, the authors used country-level data to ascertain the extent to which impact of the cyclical factors differed between countries, and make a crucial observation of the differential impacts of cyclical factors in different countries. However, a potential weakness of the study is that the authors focused solely on cyclical factors and disregarded structural factors. This is not consistent with some authors, who have maintained that both structural and cyclical factors can help explain the decline in international trade.

Conclusion

Overall, it is evident from the review that the article is accurate and up to date. The authors' findings are consistent with the findings of other researchers. They also incorporate

recent data in their analysis. Its weakness is that the econometric model did not include structural

factors. Nevertheless, Jääskelä and Mathews do a good job explaining the reasons for the decline

in global trade.