

Chart of the week

We take a closer look at the global trade imbalance only aliens and economists are fretting about.

In recent discussions on global trade, the United States has looked pretty isolated. It might, however, be able to count on some powerful allies. And we are not talking about Moscow. In global trade terms, Russia is rather small, when it comes to its current-account transactions. Current accounts measure exports minus imports in goods and services, plus net investment income, as well as other sources of transfers, such as workers' remittances. One country's exports are another country's imports. So, for the world as a whole you would expect current-account balances to cancel each other out. Strangely enough, that has rarely been the case, as our "Chart of the week" shows. Until quite recently, planet earth used to run pretty persistent current-account deficits. Since 2005, this has swung into surplus. According to estimates by the International Monetary Fund (IMF), the latest surplus of the world as a whole amounted to some 370 billion dollars, or almost 0.5% of global gross domestic product (GDP). That is more than twice as large as China's current-account surplus and easily dwarfs Germany's!

What is going on? Most experts, including the IMF, blame measurement errors. Trade statistics are an imprecise exercise. The growth of intra-firm transactions and complex supply chains across borders may have made trade even harder to track. One obvious solution to the problem would be to improve data collection. "Dodgy statistics lead to policy mistakes. Governments should clean the figures up.", The Economist declared a while ago in a piece looking at the world's current-account balance. ¹Of course, the same sorts of experts might also tell you not to worry too much about current-account deficits, let alone zoom in on trade deficits between any two countries. "Almost everyone runs a large trade deficit with their corner grocery store – buying lots from them without selling anything in return – and a whopping surplus with their employer – to whom they sell their labor services and typically purchase nothing in exchange", we pointed out back in March.² A less conventional approach would be to credit aliens from outer space with running a current-account deficit corresponding to the surplus measured on our planet.

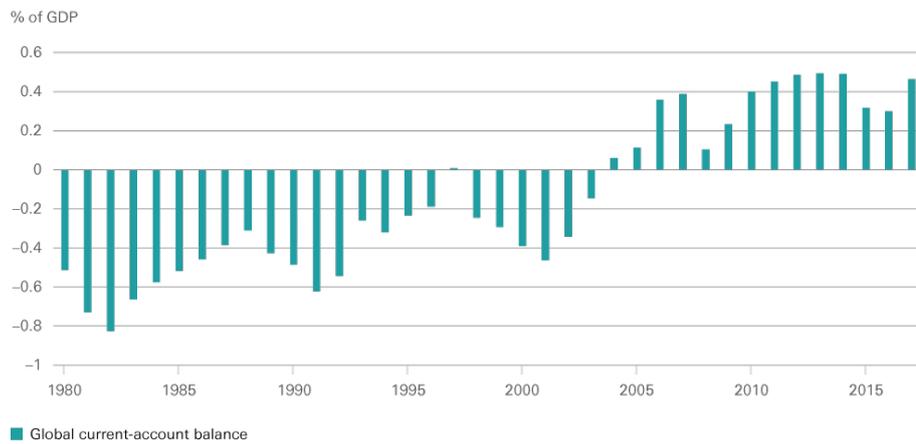
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¹"Exports to Mars: Official statistics probably exaggerate global current-account imbalances.", The Economist, Nov. 12, 2011, <https://www.economist.com/finance-and-economics/2011/11/12/exports-to-mars>

²Feinman, J. (2018) "Trade tensions: how worried should we be?", DWS, available online: https://dws.com/US/EN/resources/insights/market-insights/A_Closer_Look_by_Josh_Feinman_March_2018.pdf

CIO View



Sources: Source: International Monetary Fund: World Economic Outlook April 2018 as of 7/5/18

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Glossary

Current account

The **current account** includes trade in goods and services, a net-factor-income balance (e.g. earnings on foreign investments and cash transfers from individuals working abroad) and transfers (e.g. foreign aid). It is a part of the balance of payments.

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

International Monetary Fund (IMF)

The **International Monetary Fund (IMF)**, created in 1945 and headquartered in Washington, D.C., is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

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