Weak Export Growth Raises Prospect of Currency Moves

Sluggish Global Trade Growth Is Tempting Officials to Devalue Their Currencies to Jump-Start Economies

By IAN TALLEY
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The world's export engines are sputtering, putting new pressure on many nations to weaken their currencies to jump-start their economies.

Export growth in many countries that rely heavily on selling their products abroad is again failing to meet expectations for a pickup. Germany, which posts the world's largest trade surplus, saw its export growth slow to just 0.9% last year after averaging more than 8% for years before the financial crisis. China, which counts on exports to power the world's No. 2 economy, has seen export growth slow to just 8.6% last year after a decade of export growth averaging about 20% annually.

The problem is pervasive, extending beyond countries with trade surpluses. Sluggish U.S. export growth is one factor restraining the American economy this year, a trend likely to be worsened by a strengthening dollar that makes U.S. products more expensive abroad.

The World Trade Organization recently downgraded its forecast for global trade growth, saying risks are “predominantly on the downside.” The WTO is predicting international commerce will grow by 4% next year, instead of the 5.3% projected earlier.

Lethargic trade is a symptom of a global recovery repeatedly failing to meet forecasts. It also risks dragging down economic activity further as major exporters see a key engine of growth downshifting.

“The global economy is weaker than we had hoped,” Christine Lagarde, managing director of International Monetary Fund, said late last week. The IMF on Tuesday is expected to cut its forecast for global growth next year from its current 4% projection, adding another downgrade to what it calls years of “serial disappointments.”

“The risk is that the world gets stuck in that new mediocre,” Ms. Lagarde said.
The weakening outlook sets the tone for this week’s IMF and World Bank annual meetings in Washington, where finance ministers and central bankers will spur each other to counter threats to growth.

The slowdown is hitting major emerging markets across Asia and advanced economies in Europe, whose outlook is so dour that IMF officials have warned of a Japanese-style “lost decade” of suboptimal inflation and anemic output.

A powerful trade rebound after the financial crisis helped propel the early stages of the global recovery into 2010. But growth has languished since then, failing to meet expectations for a pickup.

The troubles are restraining opportunities for export industries across major economies.

“I would not want to be in machine tools in Germany at the moment,” said Adam Posen, president of the Peterson Institute for International Economics and a former Bank of England official. “I would not want to be in ship building in South Korea.”

The feeble recovery is tempting officials to devalue their currencies, a policy that prices their exports more favorably for international buyers. Top finance officials trying to talk down the value of their exchange rates have resurrected warnings of a global currency war. Such tit-for-tat devaluations tend to create short-term growth at other countries’ expense.

European Central Bank President Mario Draghi has praised the euro’s decline, an indication to investors that a weaker currency is a key ECB policy objective. Bank of Japan governor Haruhiko Kuroda made similar remarks about the yen’s value. South Korea and China have come under fire for keeping their currencies lower than levels many economists say would reflect fair market values.

Currency devaluation is an easier approach than deeper economic overhauls that face political hurdles, particularly in countries with mounting debt and high unemployment.

The Group of 20 largest economies, whose finance officials also meet later this week, is attempting to revive growth through hundreds of proposed policies from infrastructure investment to changes in public pension laws. Officials say those combined efforts should boost collective global growth by up to 1.8 percentage points.

Brazil, for instance, is considering investing in new infrastructure, cutting bureaucratic red tape to speed investment, overhauling complicated tax and legal systems and bolstering public education.

“We counted a lot on external demand for many years,” said Diego Bonomo, an executive manager at Brazil’s National Confederation of Industry, which represents more than 500,000 businesses. “Now we really need to pursue reforms and increase our productivity to make our domestic market grow more.”

But Brazil’s government is finding it politically difficult to get its policy overhauls approved as growth prospects recede. It is a problem across the world, from Italy to Japan, Egypt to Ukraine, the U.S. to South Africa. The G-20 plan is similar to one the group pushed after the recession, but that effort fizzled.

With monetary policy stretched and limited room for budget stimulus, much of the world is turning to trade deals as a longer-term path to boosting growth.

Europeans, struggling to enact overhauls in individual economies, are pursuing trade liberalization with the U.S. through the Transatlantic Trade and Investment Partnership. The pact’s potential impact on economic growth is a major motivation for the Europeans, said U.S. Trade Representative Michael Froman.

Other countries may be making the same calculation, he said. Negotiating trade pacts allows governments to improve the efficiency and competitiveness of their industries to fuel growth. “That has given more support and more momentum to the trade agenda around the world,” Mr. Froman said.

But even such trade deals face major political obstacles.

Some Brazilians want a trade agreement with the U.S., but Mr. Bonomo doesn’t expect any deal for years.

U.S. officials planned to complete the Trans-Pacific Partnership last year, tying more than a dozen other nations into a trade pact, but nothing is expected until next year at the earliest. The U.S.-Europe talks are still in the early stages.

That leaves potential currency battles on the front lines to goose growth.

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