

Why Has Trade Stopped Growing?: Not Much Liberalization and Lots of Micro-Protection

Gary Hufbauer and Euijin Jung

Peterson Institute for International Economics

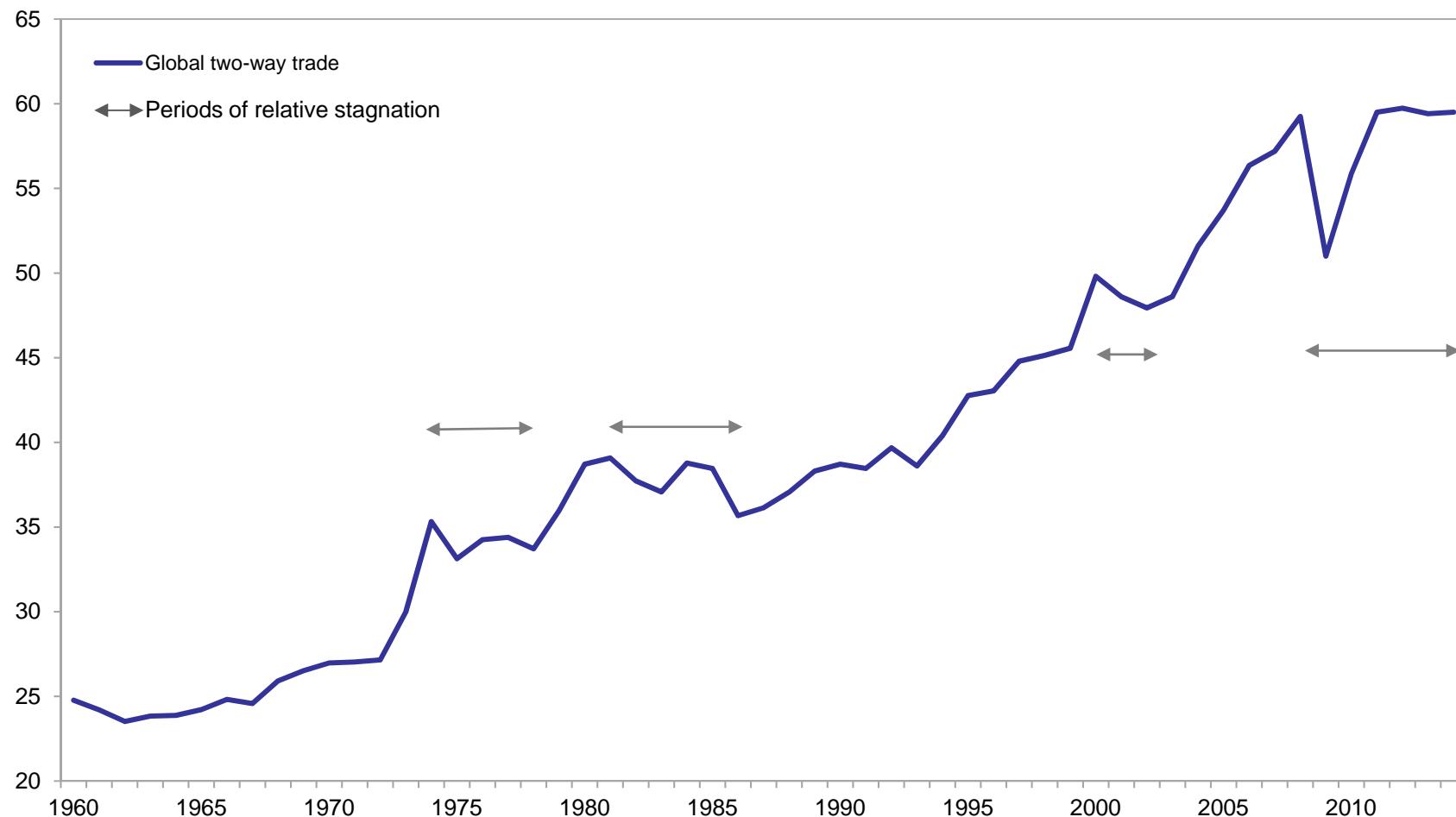
April 20, 2016

Rapid growth of trade and investment

1. Post World War II, 1945-2005
 - Global trade increased by 6% annually in real terms.
 - Global stock of FDI grew by 15% annually in nominal terms.
2. Post Great Recession 2008-2009
 - Longest postwar period of relative trade stagnation.
 - After quick recovery in 2010, annual growth of global exports remained at less than 3%.
 - World FDI stock is still growing relative to world GDP.
 - But, global FDI flows have declined from \$1.9 trillion in 2007 to \$1.2 trillion in 2014, and show no signs of recovery.

Global two-way trade in goods and services, 1960-2014

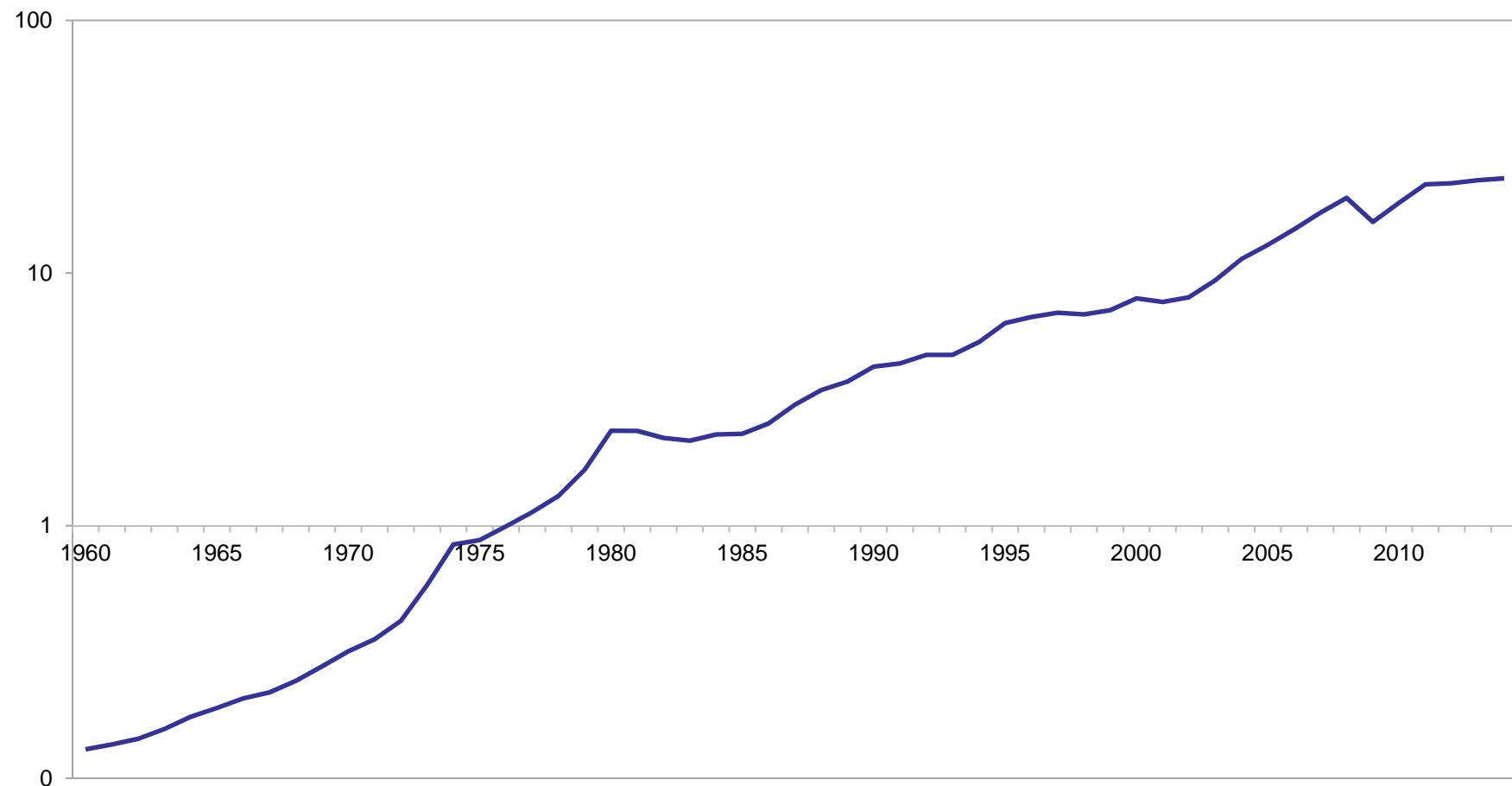
Percent of world GDP



Source: World Bank World Development Indicators

Global exports of goods and services, 1960-2014

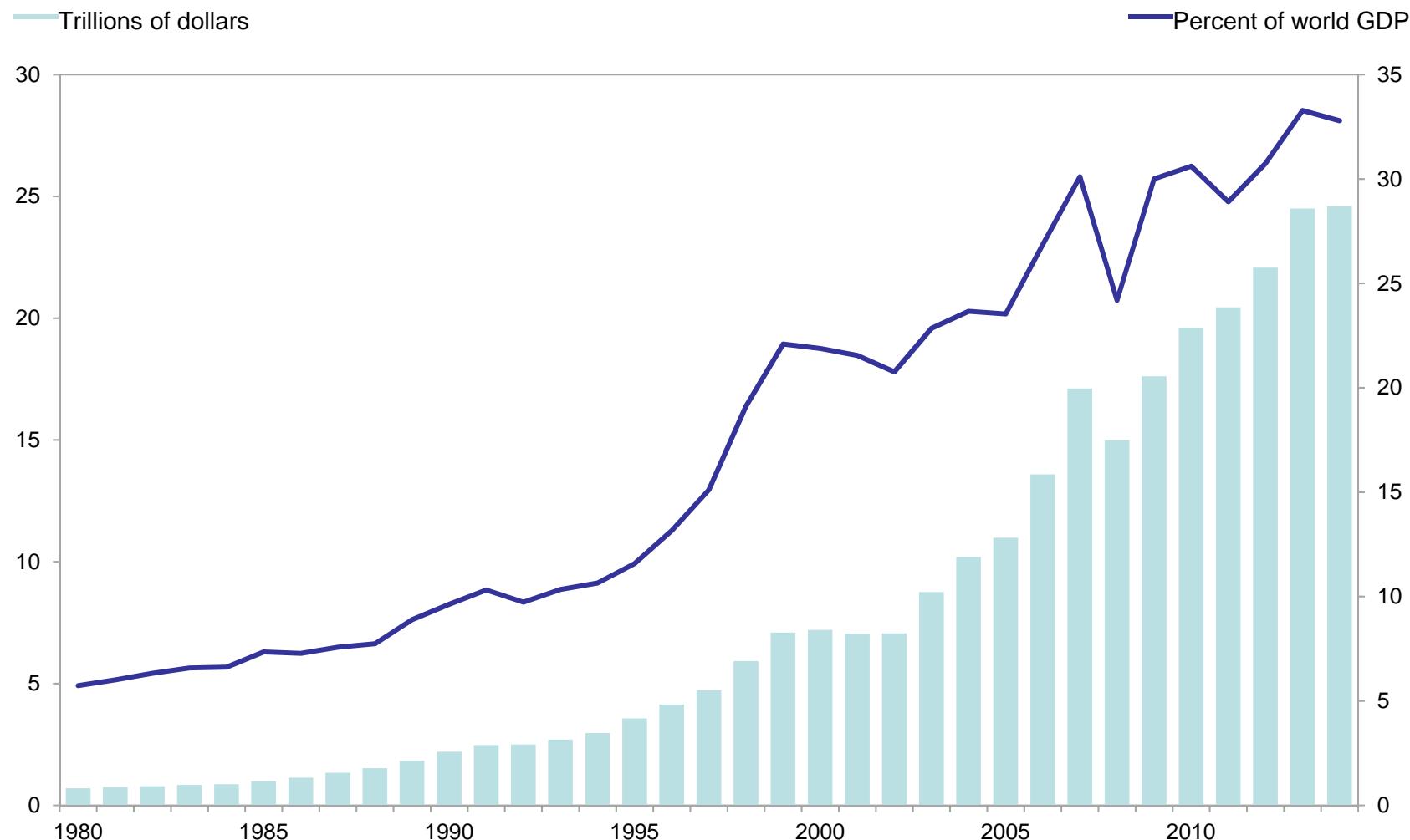
Trillions of dollars in
a logarithmic scale



Note: Apart from statistical errors and discrepancies, global exports are the same as global imports.

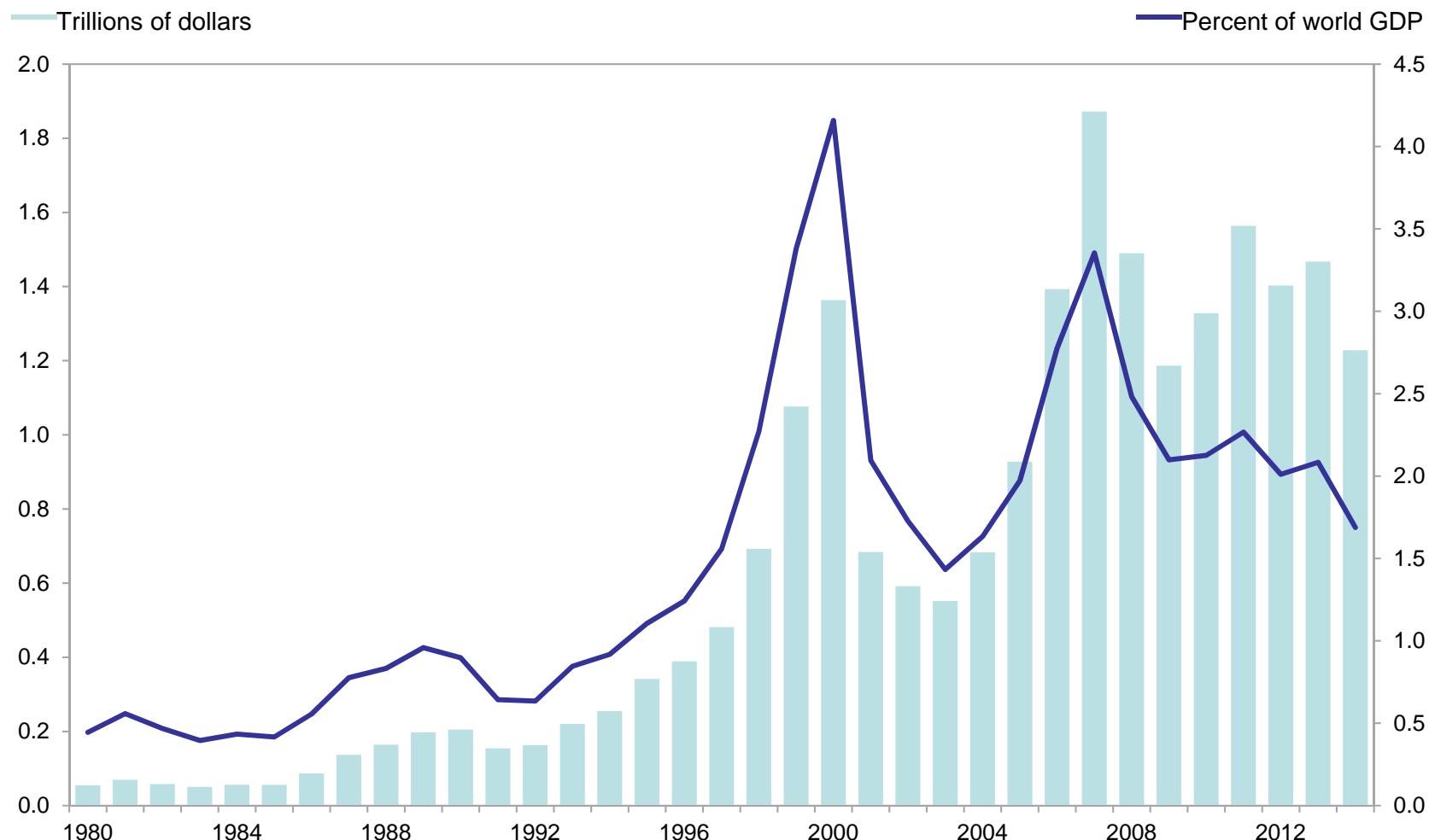
Source: United Nation Conference of Trade and Development Statistics.

Global inward FDI stock, 1980-2014



Source: United Nation Conference of Trade and Development Statistics.

Global FDI inflows, 1980-2014



Source: United Nation Conference of Trade and Development Statistics.

History of GATT and WTO Rounds

Year	Round	Subjects covered	Countries engaged	Years since prior round concluded
1947	Geneva	Tariffs	23	n.a.
1949	Annecy	Tariffs	13	2
1951	Torquay	Tariffs	38	2
1956	Geneva	Tariffs	26	5
1960-1961	Dillon Round	Tariffs	26	5
1964-1967	Kennedy Round	Tariffs and anti-dumping measures	62	6
1973-1979	Tokyo Round	Tariffs, non-tariff measures, "framework" agreement	102	12
1986-1994	Uruguay Round	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO	123	15
2001-present	Doha Round	Tariffs, non-tariff measures, agriculture, and non-agricultural market access, rules, services, intellectual property, environment, trade facilitation, dispute settlement, e-commerce	162	21

n.a.=not applicable

Source: WTO

Less liberalization and more micro protection

1. Significant liberalization in the past two decades includes the conclusion of the Uruguay Round in 1994 and China's accession to WTO in 2001.
2. The Doha Round has stalled for 15 years; major developing countries such as Brazil, India and South Africa refuse to reduce their trade barriers in agriculture and non-agricultural market access (NAMA).
3. Bilateral US FTAs did not deliver significant trade liberalization on a global scale.
4. 2008 financial crisis triggered micro-protectionism illustrated by Buy America and copy cat local content legislation across the globe, skirting WTO rules.
5. Global Trade Alert has recorded more than 3,500 new harmful measures by G-20 countries, which may be individually small, but collectively poisonous to global trade.

Estimated goods and services trade affected by LCR measures since 2008

LCR measure	Estimated affected goods and services trade (billions of dollars)	Speculative estimate of trade reduced (billions of dollars)
47 quantifiable measures	373	37
70 non-quantifiable measures	555	56
117 total LCR measures	928	93

LCR=Local content requirements

Source: Hufbauer et al. (2013)

Potential Trade Expansion

1. Remaining trade barriers: 6.8% tariff on manufactures, 40% tariff equivalent barriers on services, and 13%-18% tariff equivalent logistics costs.
2. Trade Facilitation Agreement (TFA) could reduce logistics costs and grow global exports and world GDP.
3. As illustrative examples of potential trade:
 - US domestic trade shows a much higher relation to value added than international trade.
 - Without barriers, US business services exports could increase from 5% to 20% of US sales.
 - Outward FDI stocks of US firms represent only one quarter of book value of S&P 500 firms, but three quarters of the world economy is outside the US
4. These figures indicate the vast scope of future trade and investment expansion on a global scale with policy liberalization.

Estimated trade and GDP impacts of TFA implementation

	Units	Range of values	
Gravity models			
Exports of goods	Billions of current US dollars	1,133	3,565
	Percent change	9.1	28.7
Computable general equilibrium models			
Exports of goods	Billions of current US dollars	750	1,045
	Addition to average annual percentage growth, 2015-2030	2.1	2.7
GDP	Billions of current US dollars	346	555
	Addition to average annual percentage growth, 2015-2030	0.3	0.5

TFA=Trade Facilitation Agreement

Source: World Trade Report 2015

Prospects

1. However, needed policy liberalization seems remote.
2. Skepticism towards liberalization has exploded in advanced countries due to slow pace of wage growth for middle class, and high “disguised” unemployment.
 - Most US presidential candidates strongly oppose TPP.
 - Many Europeans are against TTIP.
3. Major developing countries are reluctant to lead or even contribute to global liberalization.
4. Given this outlook, the prospects for resuming 6% trade growth and \$2 trillion annual FDI outflows appear distant.