Slow Trade

Aaditya Mattoo

PIIE March 2016

Based on research with Cristina Constantinescu and Michele Ruta, including World Bank Policy Research Working Paper No. 7158

Four questions

1. What is happening to global trade?

2. Why?

3. Does the trade slowdown matter?

4. Was 2015 different and what does it portend?

Main points

1. The trade slowdown is explained in part by the maturing of manufacturing value chains

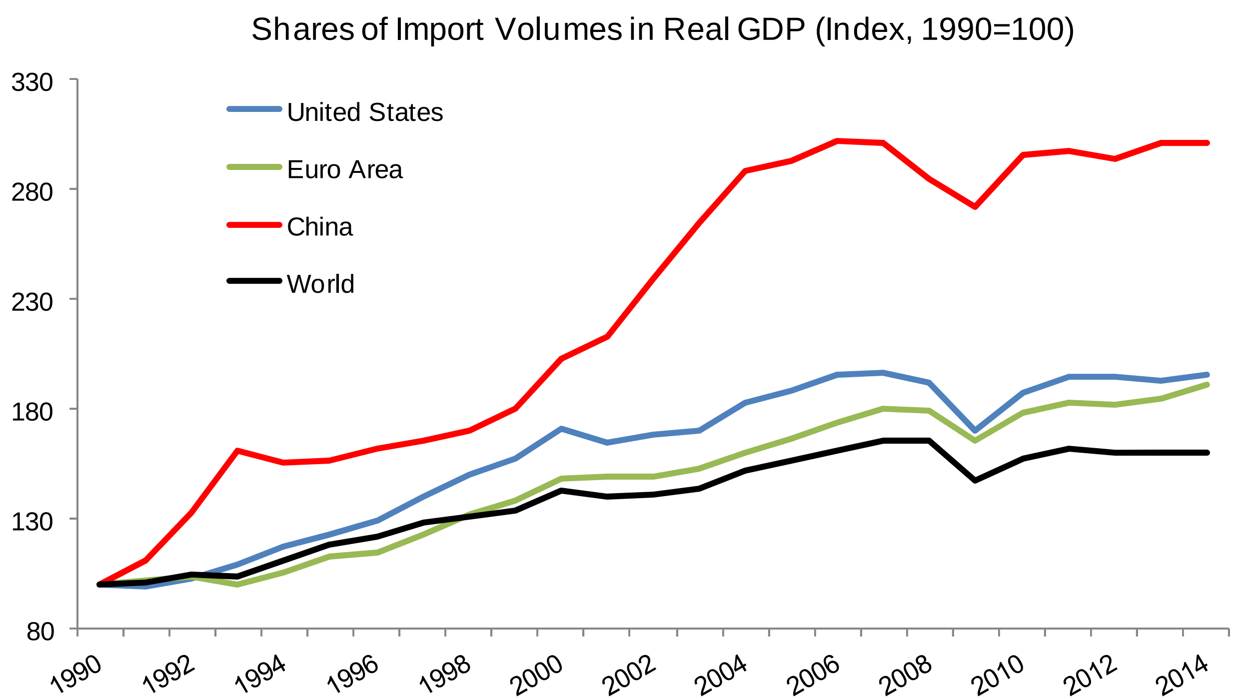
2. The slowdown may hurt growth prospects for both demand- and supply-side reasons

3. But changes in China may create new opportunities and services trade may be the silver lining

Question 1

WHAT IS HAPPENING TO GLOBAL TRADE?

Trade share in GDP levelled off *before* the great recession

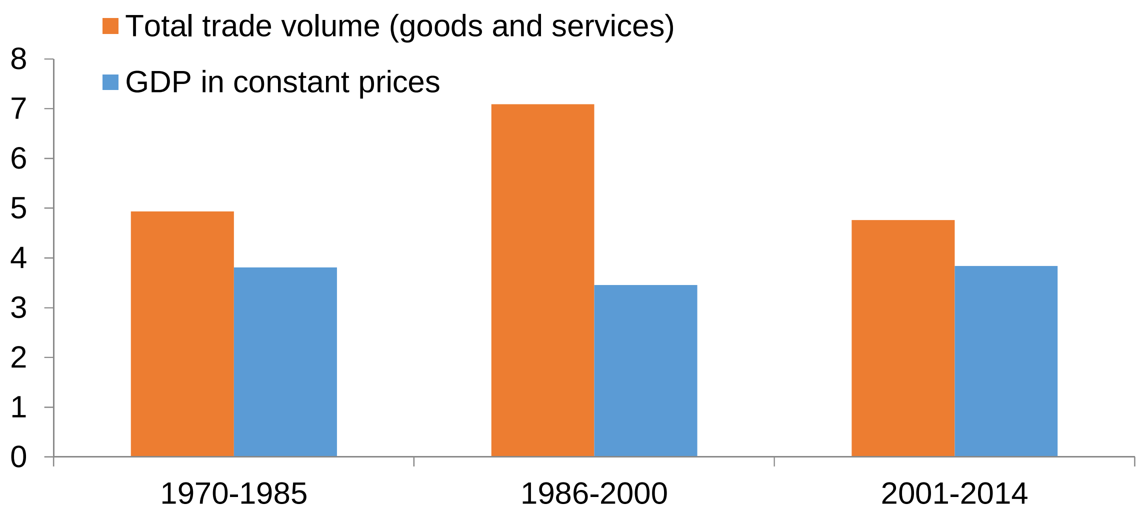


Source: IMF World Economic Outlook

Total imports (goods and services) as a share of GDP have been relatively flat, especially in China and the US), both pre- and post-crisis

Trade and income: the "long 90s" were different

Annual growth rates across selected periods

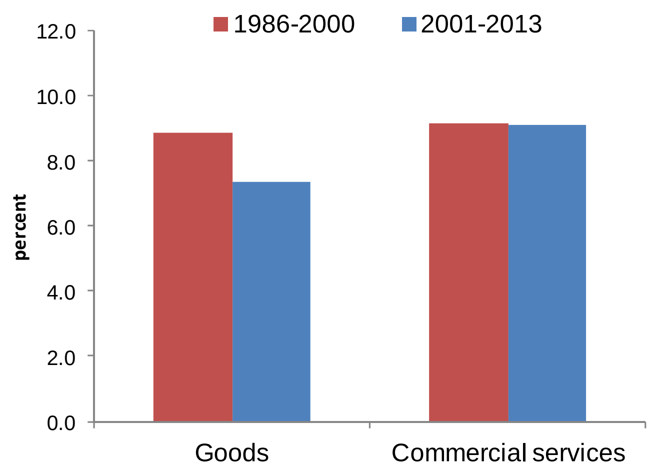


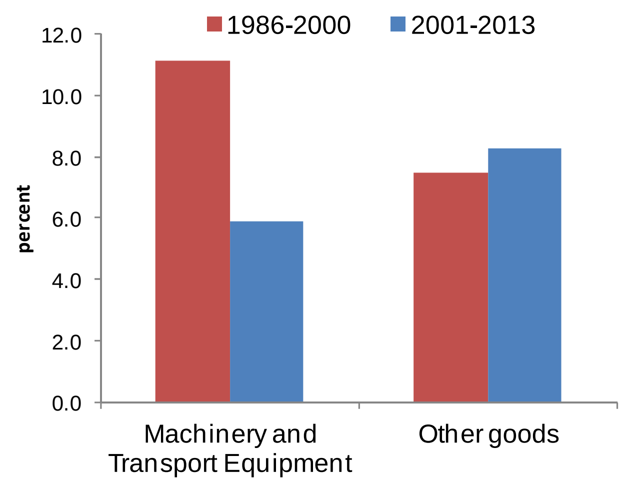
Source: IMF World Economic Outlook (October 2015).
Notes: GDP growth based on PPP rates.

Question 2

WHY?

The trade slowdown is due to manufacturing

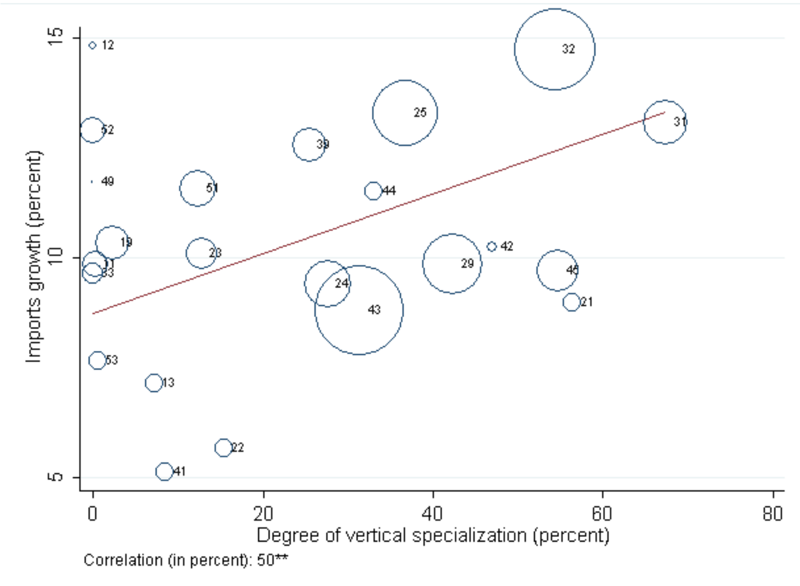




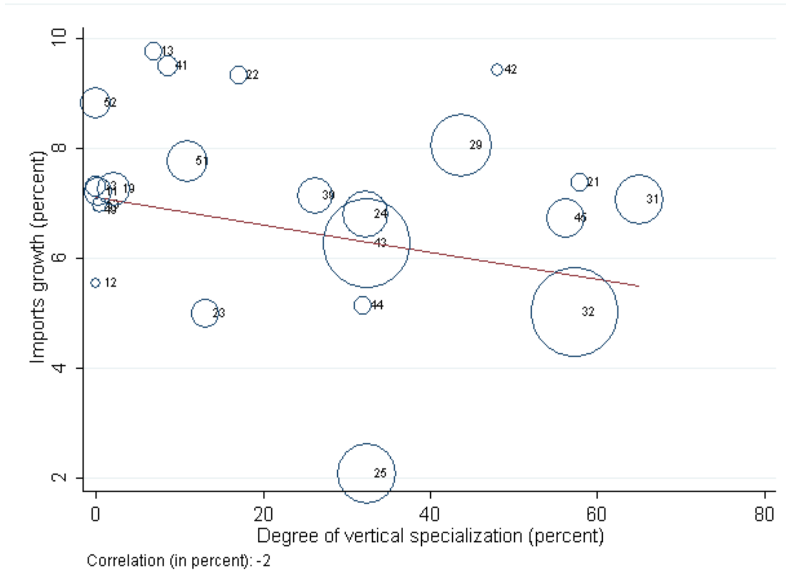
Goods slowed down rather than services…

… due to a slow down in manufacturing rather than commodities

Within manufacturing, trade growth and slowdown is linked to vertical fragmentation



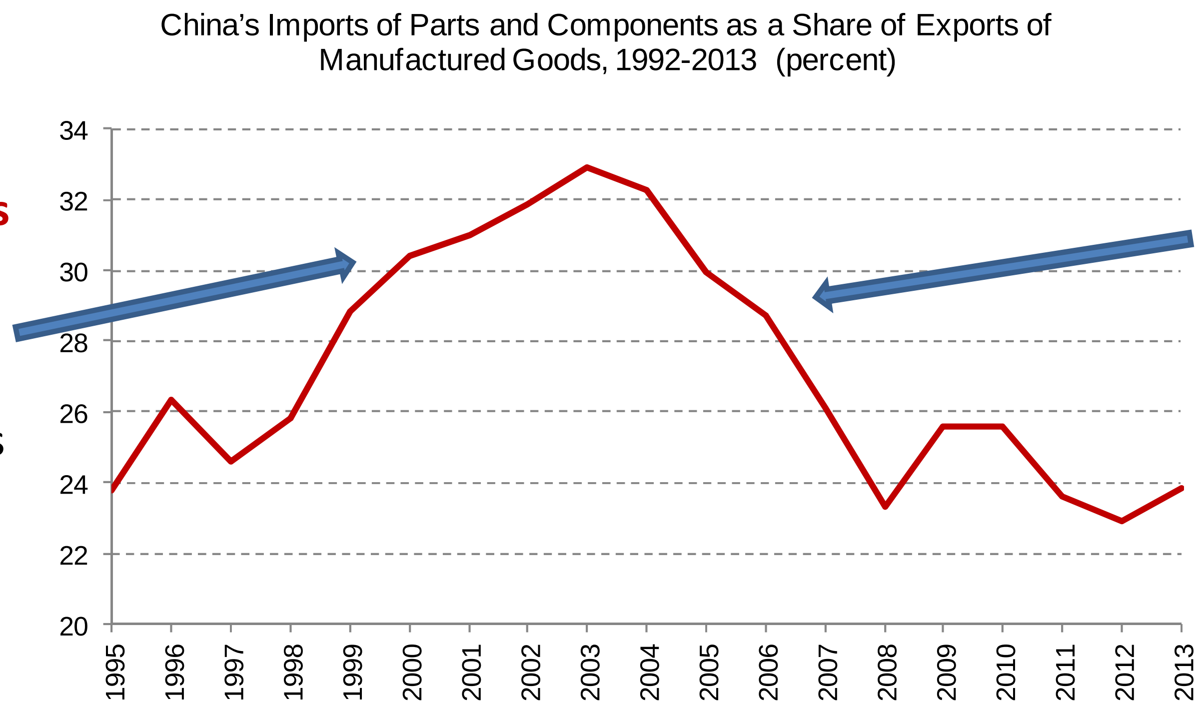
In the long 1990s, fragmented sectors grow the fastest



In the 2000s, fragmented sectors slow down

China's imports of parts and components reflect changes in global value chains

China specializes in assembly, increasing imports of parts and components



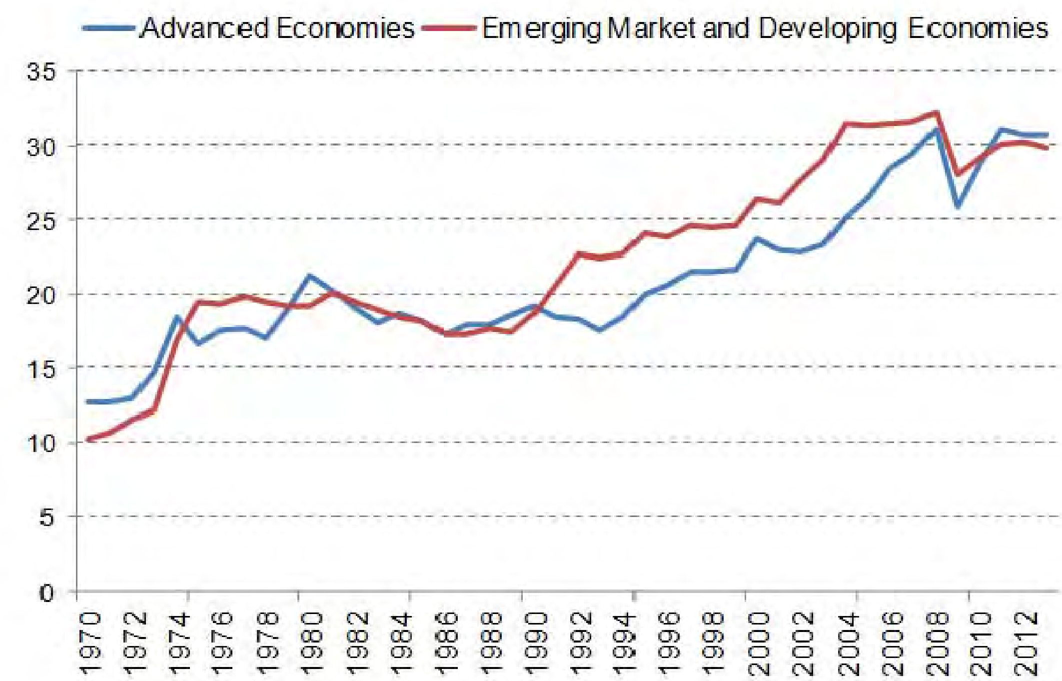
China moves up the value chain, domestic inputs replace foreign inputs

Source: UN Comtrade database
Note: BEC data on China in Comtrade only start in 1995.

Question 4

WHY DOES THE TRADE SLOWDOWN MATTER?

One view: it doesn't



The world is as open as it ever has been and openness per se has dynamic benefits

The other view: the trade slowdown may hurt growth

On the demand side (Keynes):

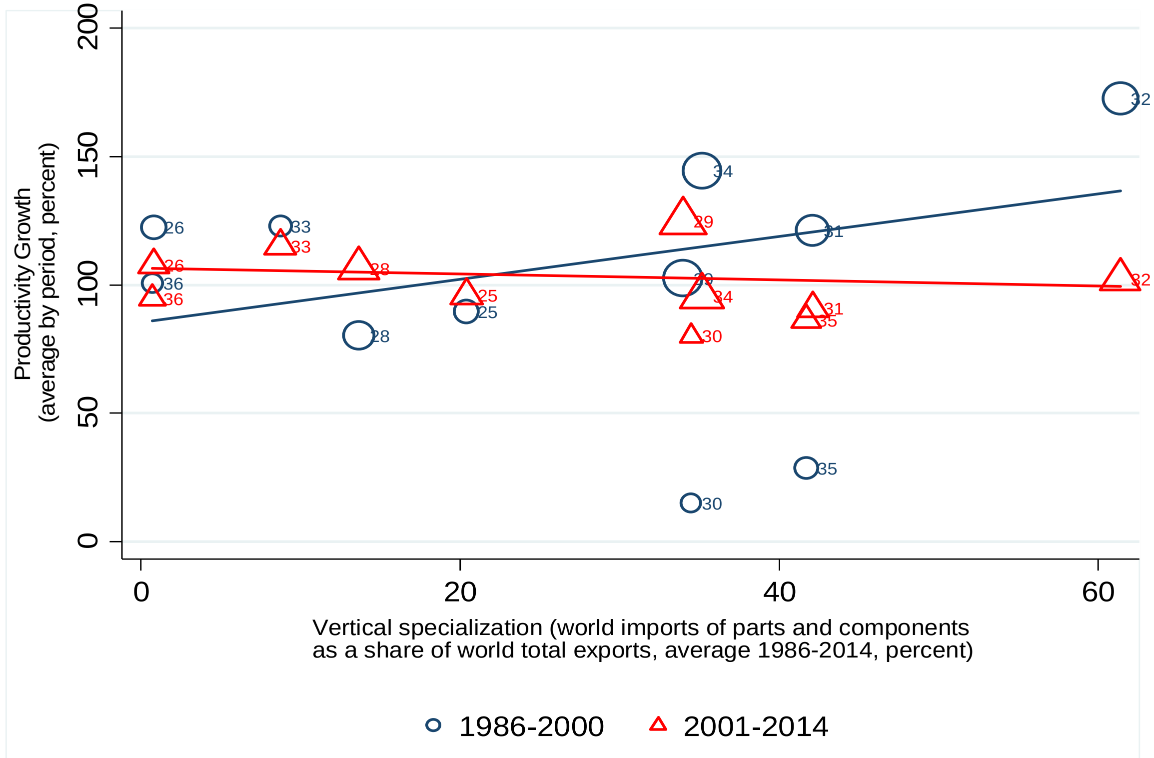
- Sluggish world imports reduce export opportunities for individual countries

On the supply side (Adam Smith):

- Slower pace of GVC expansion diminishes scope for productivity growth through a more efficient international division of labor and knowledge diffusion

Supply side: the Smithian concern

Productivity Growth versus Vertical Specialization,
Average Country in the Sample



Source: UNIDO (INDSTAT2), UN Comtrade, and authors' calculations.
Notes: ISIC2 industry codes are used; productivity is normalized using average industry productivity; weights are represented by value added.

ISIC2 codes: 25 Manufacture of rubber and plastics products; 26 Manufacture of other non-metallic mineral products; 28 Manufacture of fabricated metal products, except machinery and equipment; 29 Manufacture of machinery and equipment n.e.c.; 30 Manufacture of office, accounting and computing machinery; 31 Manufacture of electrical machinery and aparatus n.e.c.; 32 Manufacture of radio, television and communication equipment and apparatus ; 33 Manufacture of medical, precision and optical instruments, watches and clocks ; 34 Manufacture of motor vehicles, trailers and semi-trailers; 35 Manufacture of other transport equipment; 36 Manufacture of furniture; manufacturing n.e.c.

Question 3

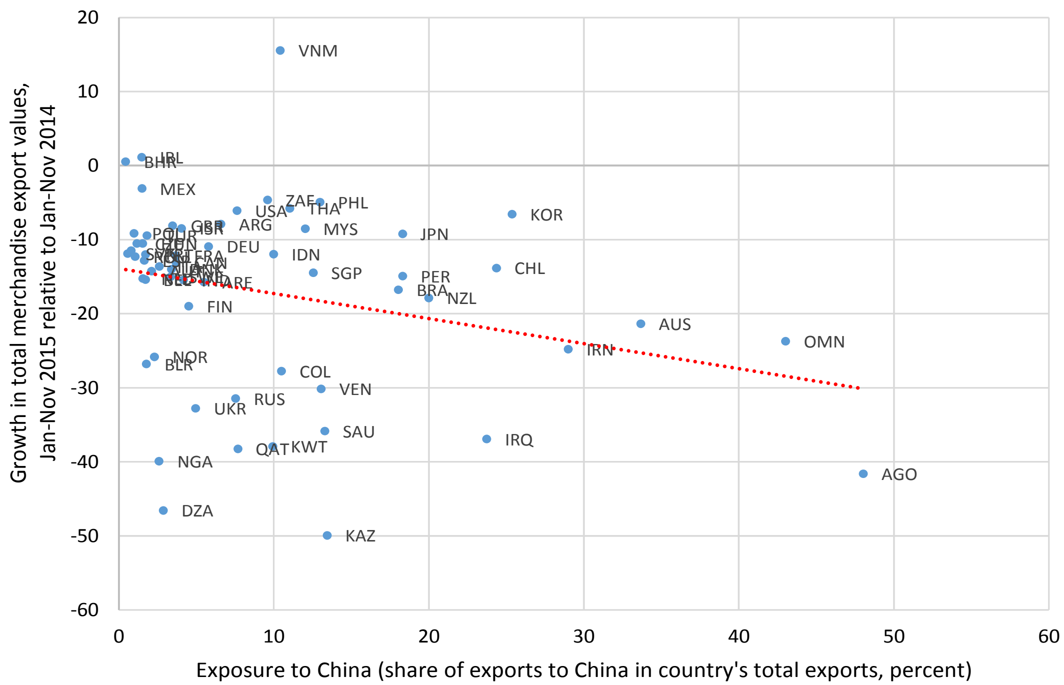
WAS 2015 DIFFERENT AND WHAT DOES IT PORTEND?

Two mutually reinforcing factors

- China's transition to a new growth path (structural?)
- Decline in commodity prices (cyclical?)

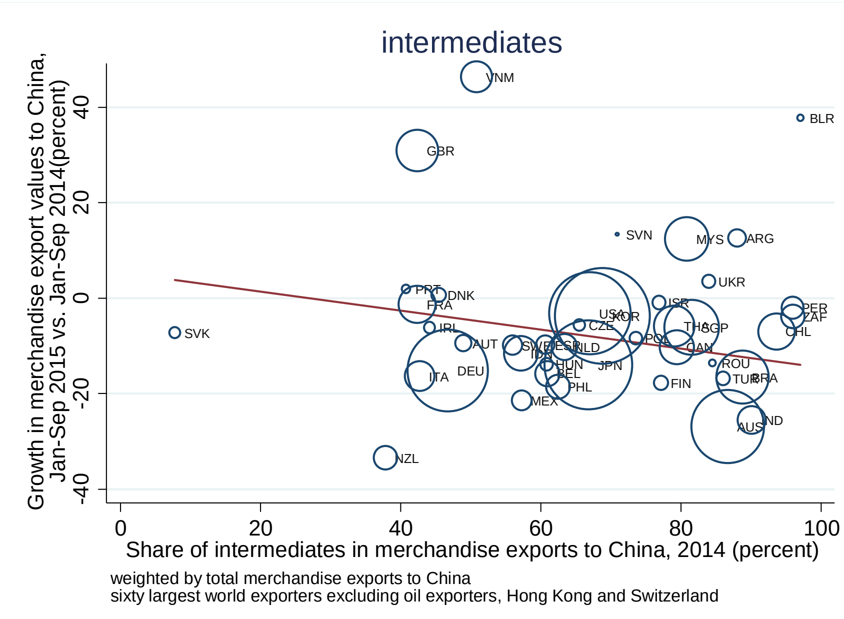
Exposure to China and Export Contraction

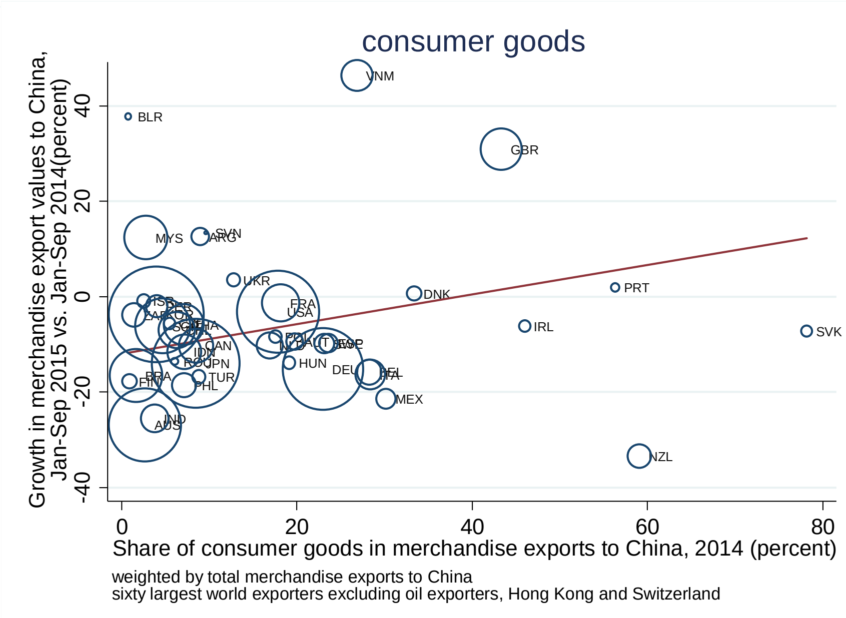
Sixty largest exporters, 2015: Jan-Nov versus 2014: Jan-Nov



Reversal of fortune

Growth in merchandise exports to China, by share of intermediate goods and consumer goods

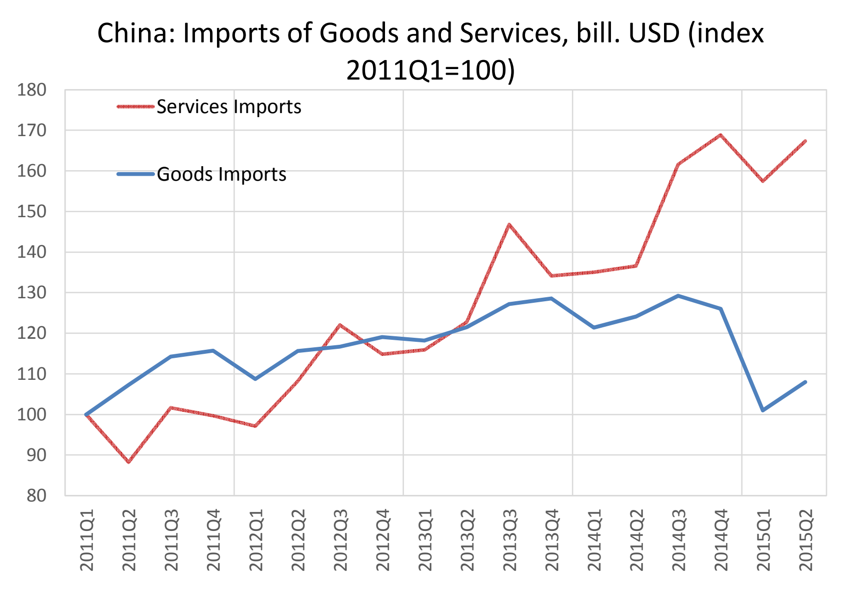




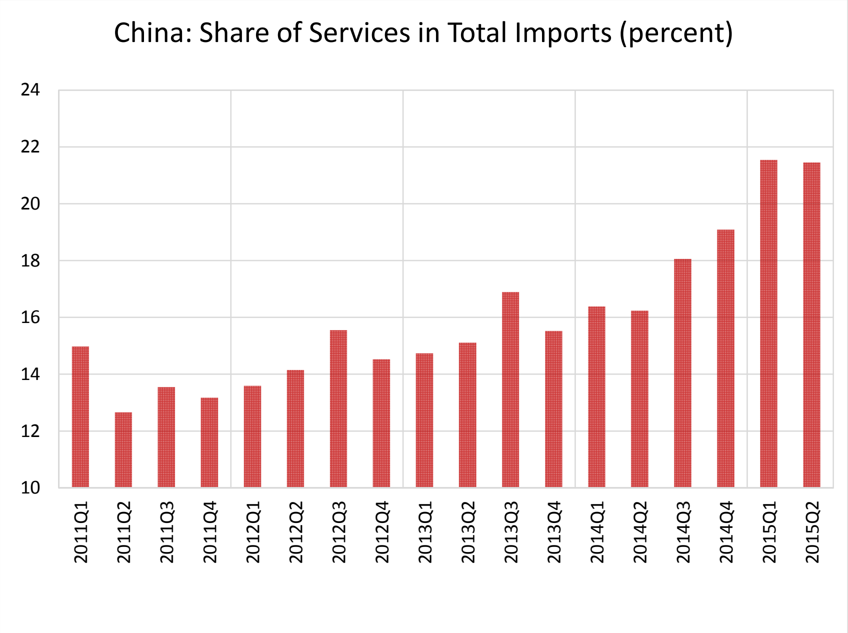
Sources: IMF Direction of Trade and UN Comtrade.

China's services imports begin to pull away

Indices of China's import values of goods and services and share of services in total imports, 2011-2015

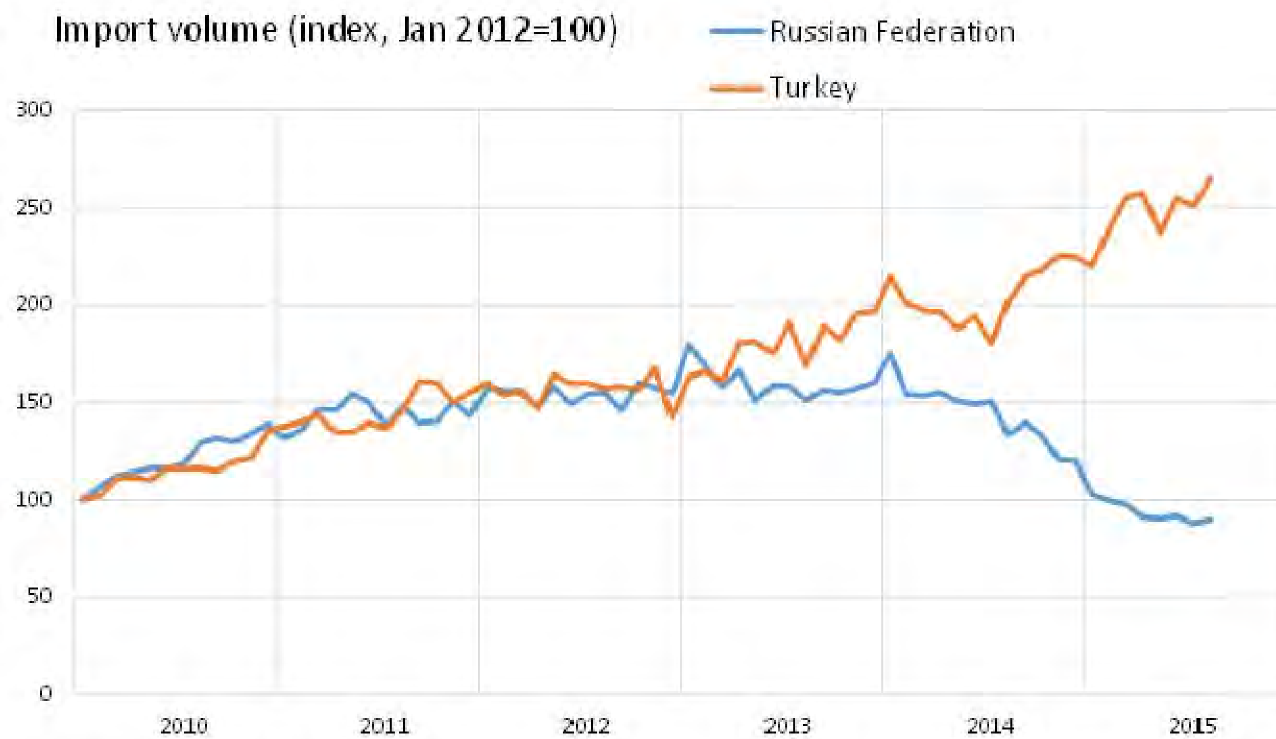


Source: IMF Balance of Payments Statistics



The purse-tightening of the commodity exporters…

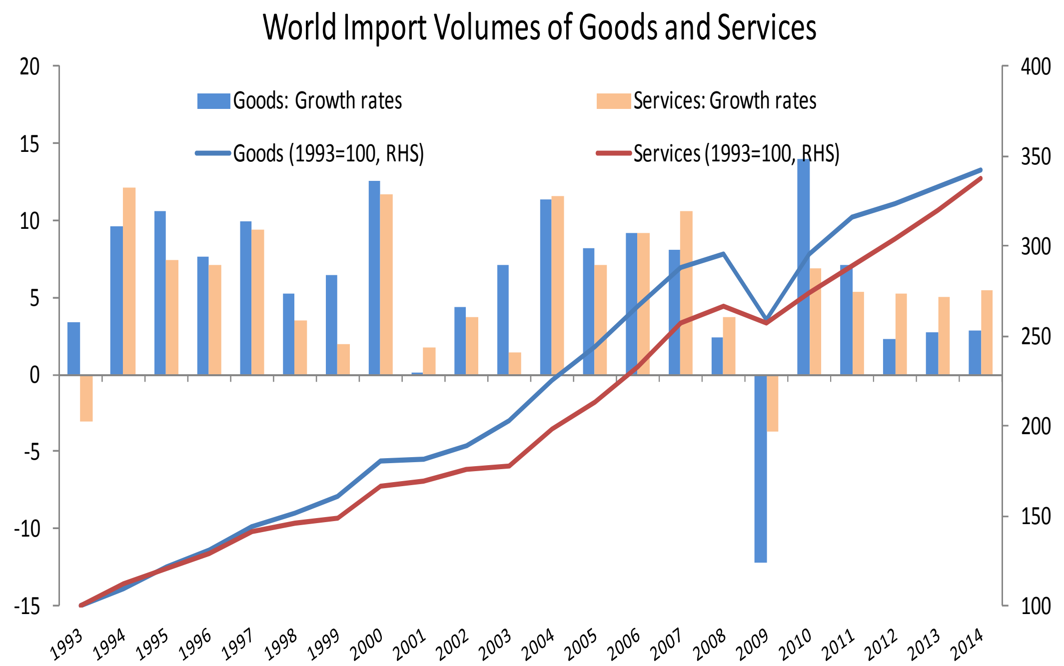
Indices of Import Volume of the Russian Federation and Turkey, 2010-2015



Source: WB Global Economic Monitor

…and the puzzling frugality of the commodity importers

Services trade has been relatively resilient

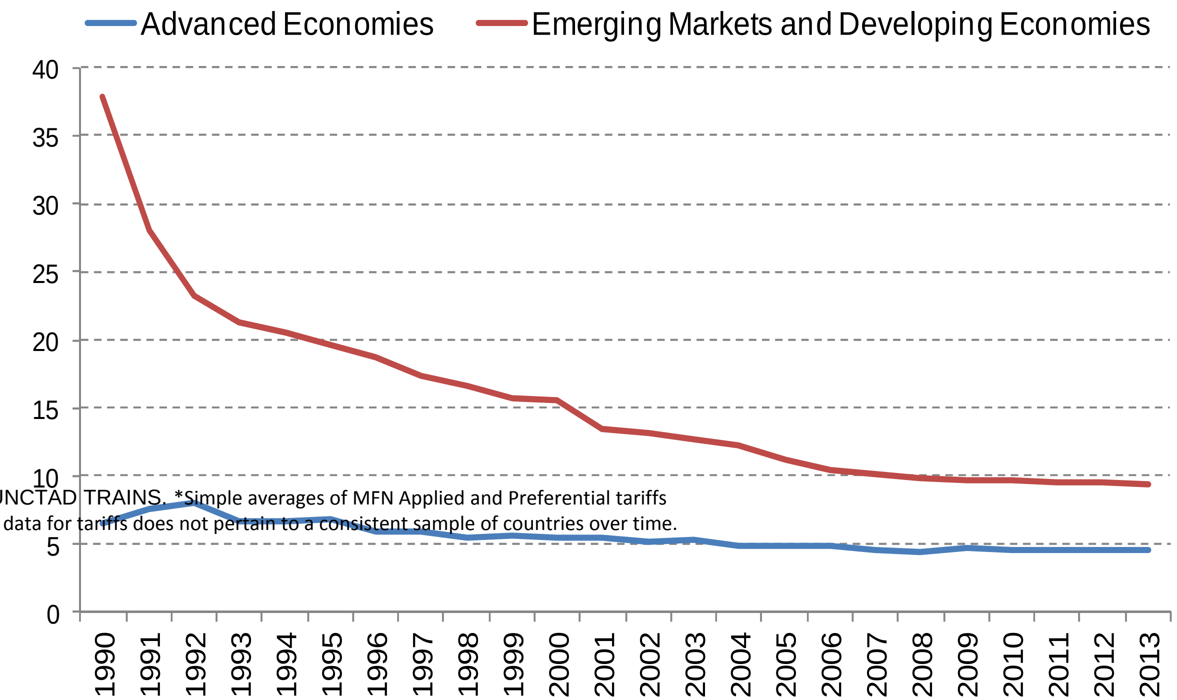


Source: IMF World Economic Outlook

It declined less during the crisis and has grown faster after the crisis - due to digitization and demographics

Declining pace of goods trade liberalization may have played a role in the trade slowdown

Average applied tariffs in advanced economies and emerging and developing economies (percent)

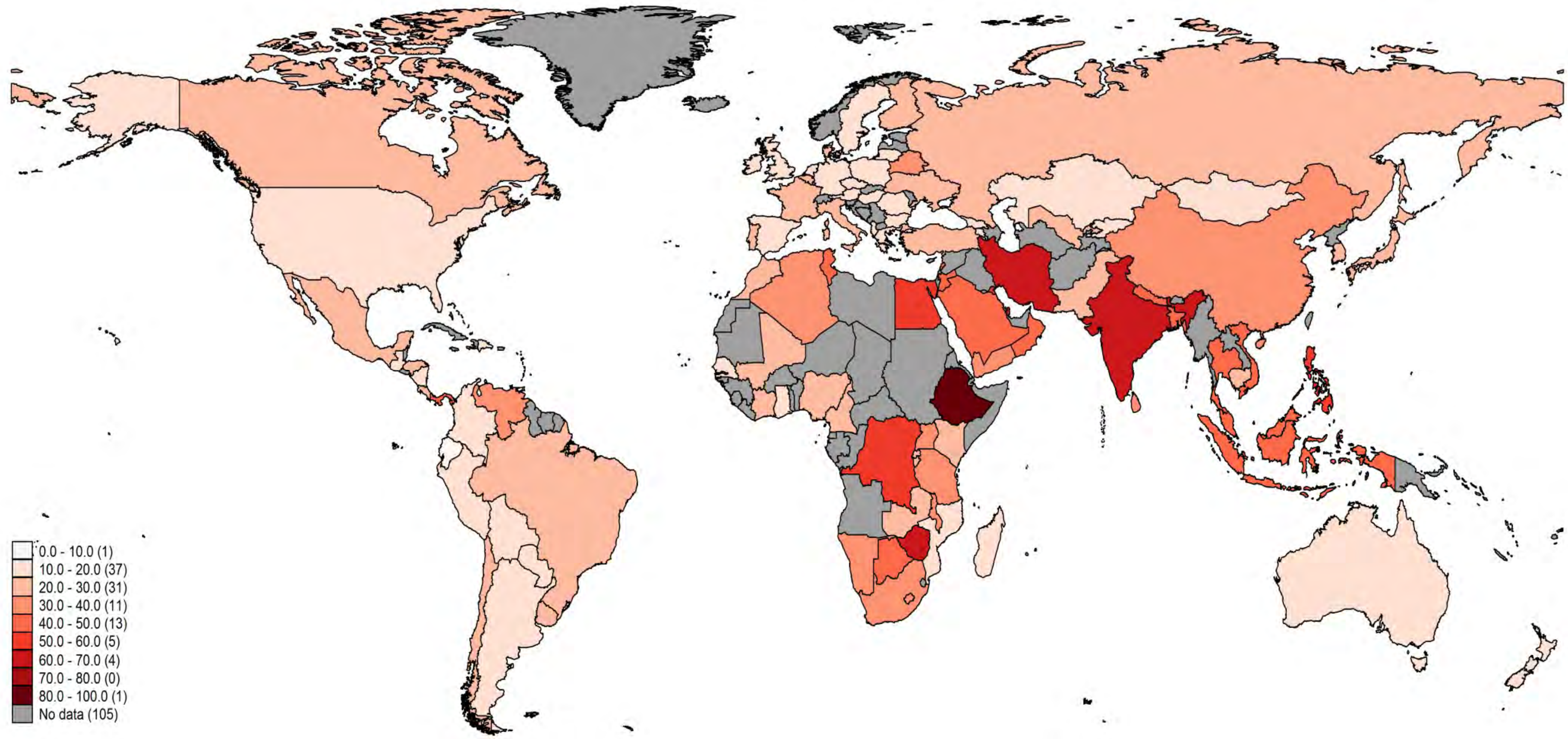


Source: UNCTAD TRAINS. *Simple averages of MFN Applied and Preferential tariffs
Note: The data for tariffs does not pertain to a consistent sample of countries over time.

Faster trade liberalization in the 1990s relative to the 2000s

But in services scope for further liberalization – potentially boosting both services and goods trade

New Database covers 103 countries (of which 79 are developing)



Source: Borchert, Gootiiz and Mattoo (2013)