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World trade with interesting but alarming trends

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In the past, world trade tended to grow at a consistently stronger rate than global GDP, providing evidence of economic globalisation. Since around 2011, growth of world trade has noticeably and considerably weakened. But this does not appear to herald the onset of a global economic slump. Analysed over a longer period of time, the detailed world trade figures result in some interesting findings, such as South-South trade growing in significance, developing countries becoming more competitive internationally and Germany's strong position as an exporting country. Trade policy, the last topic discussed, has a critical focus: multilateral trade rounds are making no headway and even the EU's regional trade agreements with the USA and Canada (TTIP and CETA respectively) have reached an impasse.

International statistics impressively document economic globalisation

If we compare world production and global trade¹, we can see that there is a certain relationship between the two: world trade "normally" increases at a faster rate than production (global GDP). The only time that this rule does not apply (Figure 1) is when the global economy slows down (as in 2001) or even stagnates (as in 2009). Indeed, there are various aspects to economic globalisation which are documented here. The "classic" case of globalisation is where, for example, goods consumed in Germany were also manufactured in Germany using domestic production factors but now they are being replaced by goods that are produced abroad at a lower cost. However, the reality of it all is

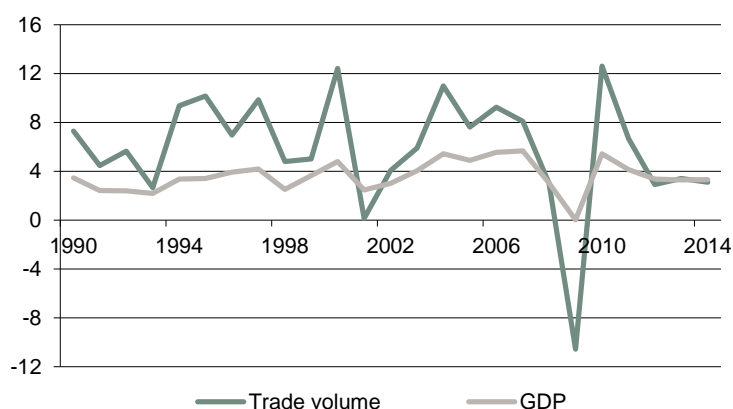
becoming increasingly more complex than this. Past domestic production operations were also based on intermediate products imported from abroad. In turn, goods manufactured using such intermediate products are then supplied to foreign countries as intermediate products, which may later be returned to Germany as part of an end product. International value chains of this kind are particularly significant. Intermediate products account for almost 60% of merchandise trading between OECD member countries, while OECD exports have an import content of around one quarter². The value chains phenomenon also explains how, e.g. in Hong Kong or Singapore, the exports / GDP ratio can register extremely high values of more than 100%, with 230 and 190% being recorded (in 2013).

Globalisation at a standstill since 2011 – could this be a warning?

The globalisation relationship mentioned above was very much applicable up until

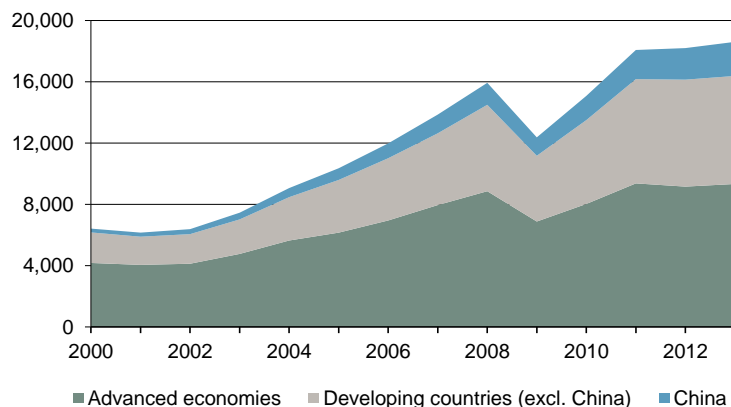
2010 but has been irrelevant since. Growth in world trade is only hovering around about the same (low) level as global production (Figure 1). Are the causes of this development permanent and/or structural or are more temporary factors playing a role? Does the slowdown in world trade even indicate that a new economic crisis is looming? There is no evidence of the latter. Potential structural reasons for the development are the phase-out of the "wave of globalisation" from the Nineties and early Noughties (when Emerging Markets economies enjoyed dynamic growth and China became a member of the WTO) or the rise in the number of protectionist measures. While hypotheses such as these may help to explain certain developments, not enough time has passed since 2011 to assess whether there have really been any structural changes. One key temporary or current factor may be the economic crisis in the eurozone. The eurozone accounts for 12% of global GDP as opposed to 25% of world trade, so the crisis there is having a disproportionate impact on world trade. The market for capital goods is a second, temporary factor. Global investment activity, which has been weak for some time now, has become significantly evident in the case of world trade, because capital goods are highly trade intensive by com-

Figure 1: Global GDP and world trade (real percentage change from previous year)



Source: IMF

Figure 2: Goods exports in USD billion and their origin



Source: UNCTAD, own calculation

parison. If it is indeed true that the scales have tipped in favour of the temporary factors, there should be increased world trade activity when the global or euro-zone economy recovers.

However, we must bear in mind that a slowdown in world trade is not problematic per se. Moreover an increase in world trade is not always a positive development or worth striving for. There are two key aspects in this regard. The first is reminiscent of the gross coverage principle. Statistically speaking, each instance of cross-border trade is considered to be foreign trade but only the (net) value added is relevant from a prosperity point of view. And secondly, value added as an indicator of prosperity must also be examined further. For instance, the assumption put forward by critics states that imported goods from developing countries are often produced in breach of social and environmental standards; this therefore makes them a questionable success of globalisation.

World trade is now largely determined by developing countries (DCs)

The times when advanced economies dominated world trade are long gone. Back in 1990, industrialised countries still accounted for around three quarters of global goods exports; in 2000, they accounted for two thirds. DCs have made enormous progress since that time, continually increasing their share to 50% up until 2013. China is of paramount importance in this regard; it went from having a 4% share in global exports in 2000 to a 12% share in 2013 (Figure 2).

Not only were DCs able to increase their share of world trade but the regional structure changed considerably during the course of this process. Trade amongst DCs (South-South) increased substantially from 14 to 29% of world trade between the years 2000 and 2013. While DC exports to advanced economies tripled in absolute terms, South-North trade remained largely constant in relation to entire world trade at a rate of 20%. As a result advanced economies are still important trade partners for DCs. But the fact that DCs are becoming increasingly detached from advanced economies provides one explanation of why their economic slump during the global financial crisis was not as severe as that experienced in the North.

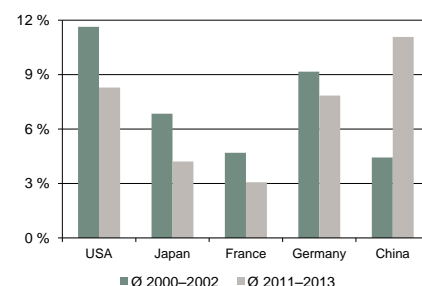
The structure of DC exports is equally impressive. While commodities and agricultural goods are still important, goods from the manufacturing industry have become extremely significant. Between 2000 and 2013, DC exports of manufactured goods increased from USD 1,412 billion to USD 5,358 billion, with the relevant DC share in world trade rising from 30 to 45%³ – evidence that DCs are experiencing technological progress and growing international competitiveness.

Germany is performing well in international competition and is particularly benefiting from the rise of Emerging Markets

Germany's goods exports have continued to grow since the year 2000 (with the exception of the crisis year 2009). It has therefore contributed considerably to the outlined increase in world trade. But

the fact that DCs, and particularly China, are becoming more significant globally has caused Germany's share in global exports to fall from 8.6% in 2000 to 7.7% in 2013. In spite of this, Germany's economy is still extremely competitive on an international level. Countries such as the USA, Japan and France saw their shares of world trade decline by far more (Figure 3).

Figure 3: Share of global goods exports



Source: UNCTAD, own calculation

In 2009, China overtook Germany to become the “export world champion”.⁴ Germany's export industry is feeling the full force of growing competition from China: it is complaining that China sometimes uses unfair practices, such as dumping, trademark counterfeiting or currency undervaluation. While these accusations may well be justified, on the whole there is no doubting China's increasing competitiveness. We must, however, also consider that Germany not only has to deal with growing competition from China on third-country markets but it is also benefiting from the enormous growth of the Chinese market. German goods exports to China have increased seven-fold since the year 2000 and China is now counted among Germany's top five export destinations. Until now the German export industry has actually had very little reason to complain about the Chinese economy slowing down since 2010. Of course growth rates of “only” 7% in China have an impact on demand for imports but despite this German exports to China have continued to grow substantially since the year 2010.

In addition to China, there are also other Emerging Markets that are highly relevant to the German economy. Germany's exports to the Emerging

Markets represented in the G20⁵ (not including China) increased substantially from EUR 36 billion to EUR 110 billion between the years 2000 and 2013, before falling to EUR 101 billion in 2014. German exporters are also feeling the effects of what is currently a particularly acute economic slowdown in Turkey, South Africa, Brazil, Argentina and Russia in the form of declining sales.

Current trade policy developments are definitely a cause for concern

If this analysis focused on the period up until the year 2000, key determinants of world trade development would be the reduction in protectionism after the Second World War and the transformation of the Eastern Bloc from 1989 onwards.⁶ However, these historical facts continue to play a very clear role when considering the years from 2000 onwards. A number of strategies developed in the Nineties were only implemented in the Noughties – including the liberalisation of the textile trade (expiry of the Multi-Fibre Agreement), the removal of trade barriers in the agricultural sector, or China and Russia becoming members of the WTO (in 2001 and 2011 respectively). In addition to these trade measures, generally speaking developing, industrialising and transition countries have drastically reformed their systems from a market economy perspective, thus making their economies more efficient and competitive.

But there is no reason to present an absolute success story at this point. Emerging Markets have neither successfully worked through their general economic reform agendas – as is strikingly illustrated by the current economic downturn in many countries – nor do recent developments in trade policy merit excessive recognition. Quite the contrary. The ongoing temptation of protectionism and the trend towards regionalism as opposed to multilateralism in trade policy are still causes for concern.

a) The lure of protectionism

It is generally agreed that open markets benefit everyone. Following the onset of the global financial crisis in 2008, even the G20 countries agreed in this spirit that they would not respond to the crisis by taking selfish, protectionist measures

and, fortunately enough, this agreement has not been severely breached. Nonetheless, countries have been extremely inventive in taking a variety of protectionist intervening measures, so as to protect their national economies from foreign competition and to promote them. The Global Trade Alert (GTA), an independent trade policy monitoring initiative, is attempting to systematically and statistically record data and information about protectionism. According to the GTA, there has been a dramatic increase in the number of newly introduced protectionist measures since the onset of the global crisis in 2008. This figure went on to decline slightly in 2010/11, then rise again in 2012/13. The GTA has counted 3,800 protectionist measures in total since the end of 2008.⁷ Admittedly, this is a gross figure (that does not take completed measures into account) and the GTA also refrains from attempting to quantify / assess the impact, since this cannot be done in a reliable manner. The message, however, is clear: there is something of a contradiction between the G20's commitment to free trade and real-life policy. In this regard, the G20 countries are both the perpetrators and victims of protectionism.

b) Multilateral trade talks are not making headway

Up until the Nineties, considerable progress was being made with regards to barriers to trade being minimised during the course of several multilateral negotiation rounds. This was expected to continue into the early Noughties. The intention was to work through the remaining liberalisation agenda with the newly founded World Trade Organisation (WTO). Unfortunately, things turned out differently. The 9th Round of world trade negotiations, which commenced in 2001 in Doha (Qatar), reached an impasse almost instantly. While negotiations were suspended rather than formally abandoned, there are currently no prospects of them being successfully resumed. On the one hand, this is due to the complexity of the subject areas (better market access for industrial and agricultural goods, extensive opening of the services markets). On the other hand, industrialised and developing countries are in no way uniform opposites; there are differing in-

terests even within these groups. Additionally, China becoming a member of the WTO in 2001 made the negotiations a great deal more complex (even though its membership was naturally a positive development). A key WTO principle also eventually proved to be a burden: the fact that the Doha Development Round can only be concluded as a complete package by unanimous resolution of the 160 member states. All the same, a WTO agreement was concluded at the end of 2013 to simplify administrative procedures in trade ("*Bali Package*"). While the WTO may well have been proud of this agreement at the time, it was followed in mid-2014 by disillusionment and the refusal (especially on the part of the new Indian government) to make it legally binding. We will have to wait and see whether the solution, reached with great difficulty, will go on to be a success.

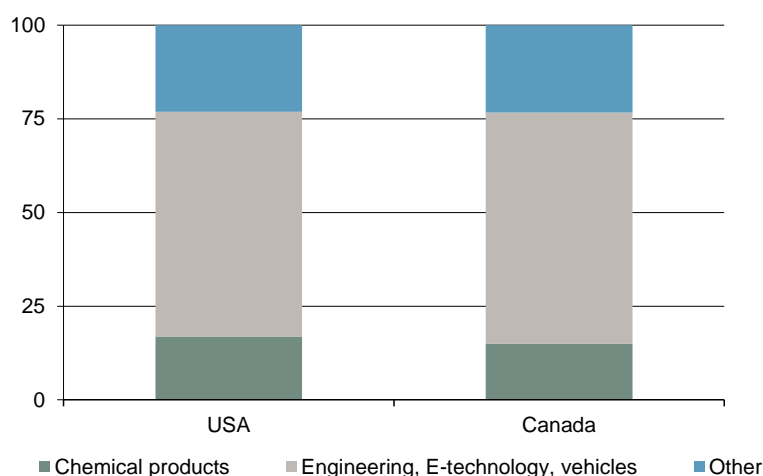
c) Bilateral negotiations are taking place instead

If we are to understand that a multitude of bilateral / regional initiatives have been founded as alternative solutions, we must recognise that multilateral (WTO) liberalisation efforts have come to a virtual standstill. According to the WTO, there has been an enormous increase (to 259 at present) in the number of such agreements over the last few years.⁸ Admittedly, WTO law permits the creation of free trade zones or customs unions, since these are understood to be a step towards global free trade. But there is clear conflict with the WTO's central "most-favoured nation" principle (advantages that contracting parties grant each other should actually be granted to all other countries too) and the consequences are trade distortion and trade diversion effects.

The debate surrounding the EU's trade agreement with the USA (TTIP) and Canada (CETA)

One key player in the aforementioned regional trade agreements is the EU. Negotiations have been ongoing for an agreement with the USA since 2013 (Transatlantic Trade and Investment Partnership – TTIP) and an agreement with Canada was signed in 2014 but is yet to be ratified (Comprehensive Eco-

Figure 4: German goods exports to the USA and Canada (average value distribution by product group from 2008 to 2013)



Source: German Federal Statistical Office, own calculation

economic and Trade Agreement – CETA). Both agreements aim to further open the markets. The major thematic blocks are very similar:

- (1) Elimination of the remaining customs duties;
- (2) Public tenders should no longer only be open to national suppliers, i.e. abolition of “buy local”;
- (3) Simplification of technical standards, testing procedures and approval procedures. This measure does not focus on harmonisation but on the mutual recognition of equivalent standards;
- (4) Investor protection: Investors should be able to turn to a court of arbitration if “problems arise which their domestic court systems are not able to deal with effectively”.⁹

Both agreements are highly controversial. Supporters point out significant income and employment effects,¹⁰ particu-

larly as a result of greater harmonisation in terms of standard, testing and registration procedures. This cuts costs considerably for the export industry.¹¹ Exports in vehicle construction, the metalworking industry and the chemicals sector would be highly favoured. It is precisely these industries that German exports dominate in the USA and Canada (Figure 4). Critics fear that the TTIP / CETA will bring about a decline in environmental and health standards and they also paint an extremely negative picture of investor protection: if large companies can file complaints against governments at private (and even confidential) courts of arbitration, this would force out laws and be inconsistent with the principle of a democratic constitutional state. The German Federal Government believes that there is no need for special investor protection (e.g. against expropriation), since Germany and the USA / Canada provide sufficient legal protection in their national courts. It is assumed that this

topic was added to the agenda so that TTIP / CETA could be used to create a blueprint for subsequent similar negotiations with Emerging Markets (particularly China), which could otherwise refuse to enter into investor protection negotiations.

One point that still needs clarification for both TTIP and CETA is ultimately the enforcement procedure. Generally speaking, there are two options: If an “EU agreement” is concluded, it is sufficient to simply obtain the approval of the European Council and the European Parliament. A “mixed agreement” also has to be ratified by all 28 national parliaments. It will only be possible to legally check and decide which case is applicable once the negotiations are over and the specific contents of the contract are known. If TTIP / CETA is classed as mixed, this would considerably delay the process at the very least and could even ultimately prove fatal for the agreement.

Conclusion

Aside from the justified protection interests of poorer developing countries, open markets benefit virtually everyone. World market integration confirms the rise of Emerging Markets and the prosperity of advanced economies in a major way and even helped to avert another worldwide economic crisis during the global financial crisis. But action is still required in spite of this. Indeed, countries must resist the lure of staging subtle protectionist interventions and all national governments should have the courage to make compromises and concessions so that multilateral trade rounds for the benefit of all members have a chance of succeeding once again. ■

¹ National values are aggregated to create global GDP using purchasing power parity exchange rates. In this context, world trade includes goods and services. The annual rates of change represent a price-adjusted average of export and import values. Data source: IMF.

² Result of extensive input / output analyses conducted with regard to OECD trade.

³ This information is based on UNCTAD statistics showing global trade flows according to the United Nations’ Standard International Trade Classification (SITC) system. This system makes a clear distinction between economic sectors. These figures do not allow the extremely important and interesting distinction to be made between intermediate and end products.

⁴ The title of “export world champion” does not make any economic sense. It is not sensible to aim to maximise exports, we should instead focus on guaranteeing and enhancing prosperity.

⁵ The term “Emerging Market” is not clearly defined. In this context, the non-industrialised countries represented in the G20 (Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, Turkey) are understood to be Emerging Markets.

⁶ The political turning point in the Eastern Bloc already had a statistical impact on world trade in that the Soviet Union and Yugoslavia dissolved into a multitude of individual states which now conduct foreign trade with one another.

⁷ The GTA relies on relevant information and cases brought to its attention. But the statistics produced in this way must be interpreted with caution. Firstly because the GTA often revises previous figures upwards in newer reports and secondly because the WTO also produces statistics such as these and flags up figures that are very different. But the basic statements made by the GTA and WTO reports are at least similar.

⁸ The relevant WTO overview lists all of the agreements concluded, irrespective of relevance. Those agreements believed to be important (e.g. between the EU and South Africa, China and Singapore) are listed alongside those believed to be less important (e.g. between Nicaragua and Taiwan).

⁹ Quote from information published by the European Commission in May 2014. In contrast, the European Commission newly elected in the meantime justifies including investor protection in the TTIP, only with the express negotiating mandate of the EU member states, and this is "also a natural consequence of such provisions being part of EU member states' investment policy over the last 50 years" (<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1236>)

¹⁰ The Centre for Economic Policy Research (CEPR) expects that the TTIP will benefit the EU to the amount of EUR 120 billion (0.5% of GDP) and the USA to the amount of 0.4% of GDP. A TTIP study conducted by the ifo institute believes that the EU and the USA will benefit from profits higher than those outlined in the CEPR expert opinion, as well as severe trade diversion effects to the detriment of third countries.

¹¹ On the other hand, the elimination of customs duties has minimal impact as the remaining tariff level is still too low (customs duties between advanced economies have already been reduced a great deal over the last few decades).