Trends in international trade

By Ratnakar Adhikari

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Session outline

- Objectives of the session
- Setting the stage
- Major constituents of global trade
- Major trends in international trade
- Implications for Nepal

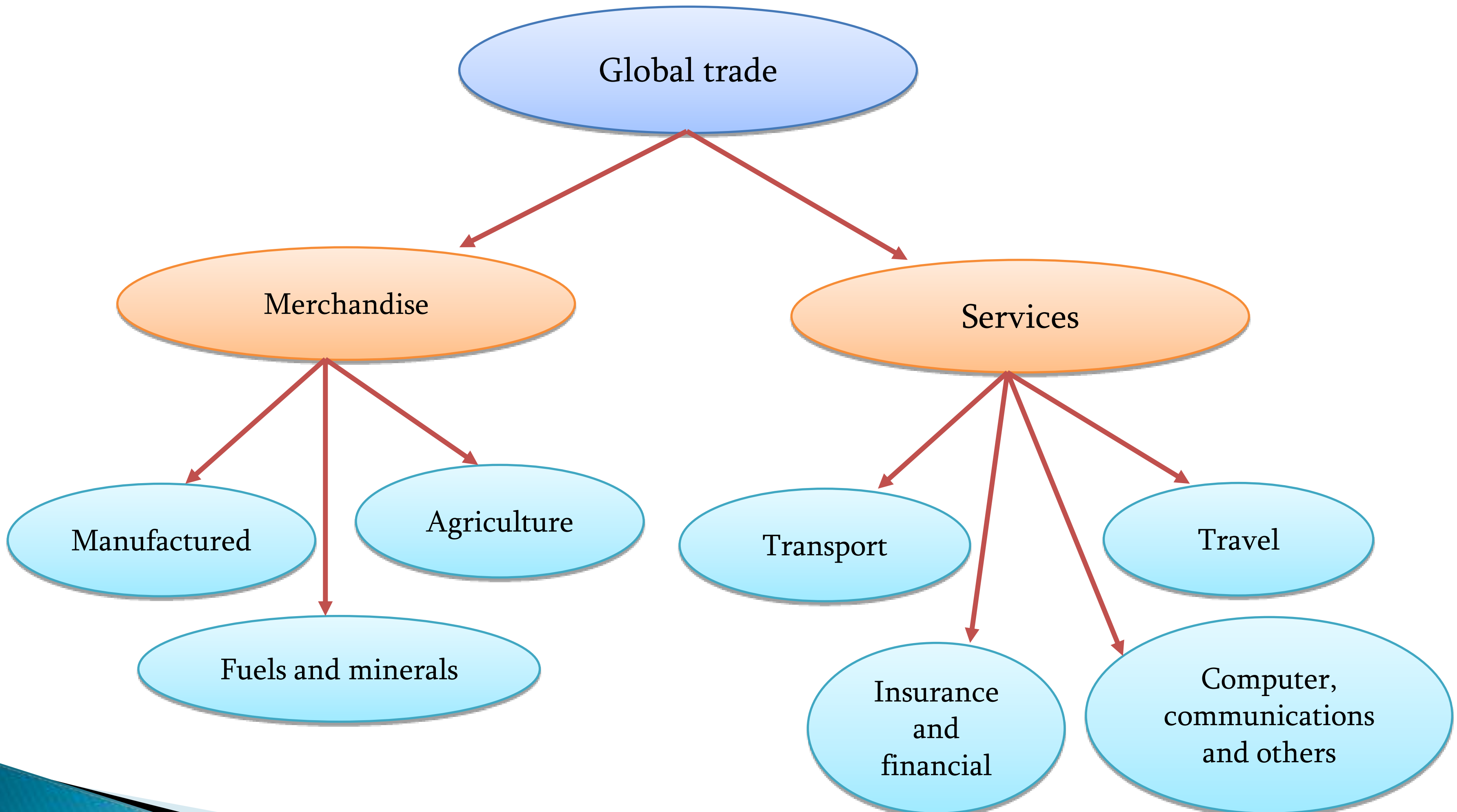
Objectives of the session

- To discuss trends in international trade in goods and services and various components within these sectors
- To understand the role and contribution of trade in the global economy
- To appreciate the growing importance of trade in parts, components and semi-finished products
- To understand the implications of the recent developments in the realm of international trade for Nepal and the opportunities and challenges they present

Setting the stage

- International merchandise trade increased was US$58 billion in 1948 and grew by 258 times to 15 trillion in 2010
- The figure would have been higher, had it not been for the global financial crisis that resulted in reduced trade in 2008-2009
- Plausible factors responsible for such growth include:
  - Reduction in trade barriers through:
    - 8 rounds of multilateral trade negotiations beginning late-1940s
    - Unilateral and autonomous trade liberalization, particularly beginning mid-1980s
    - Regional trade agreements, particularly beginning mid-1990s
  - Reduction in other trade costs such as transport, telecommunication, banking and insurance costs, and efficiency at the border

Major constituents of global trade

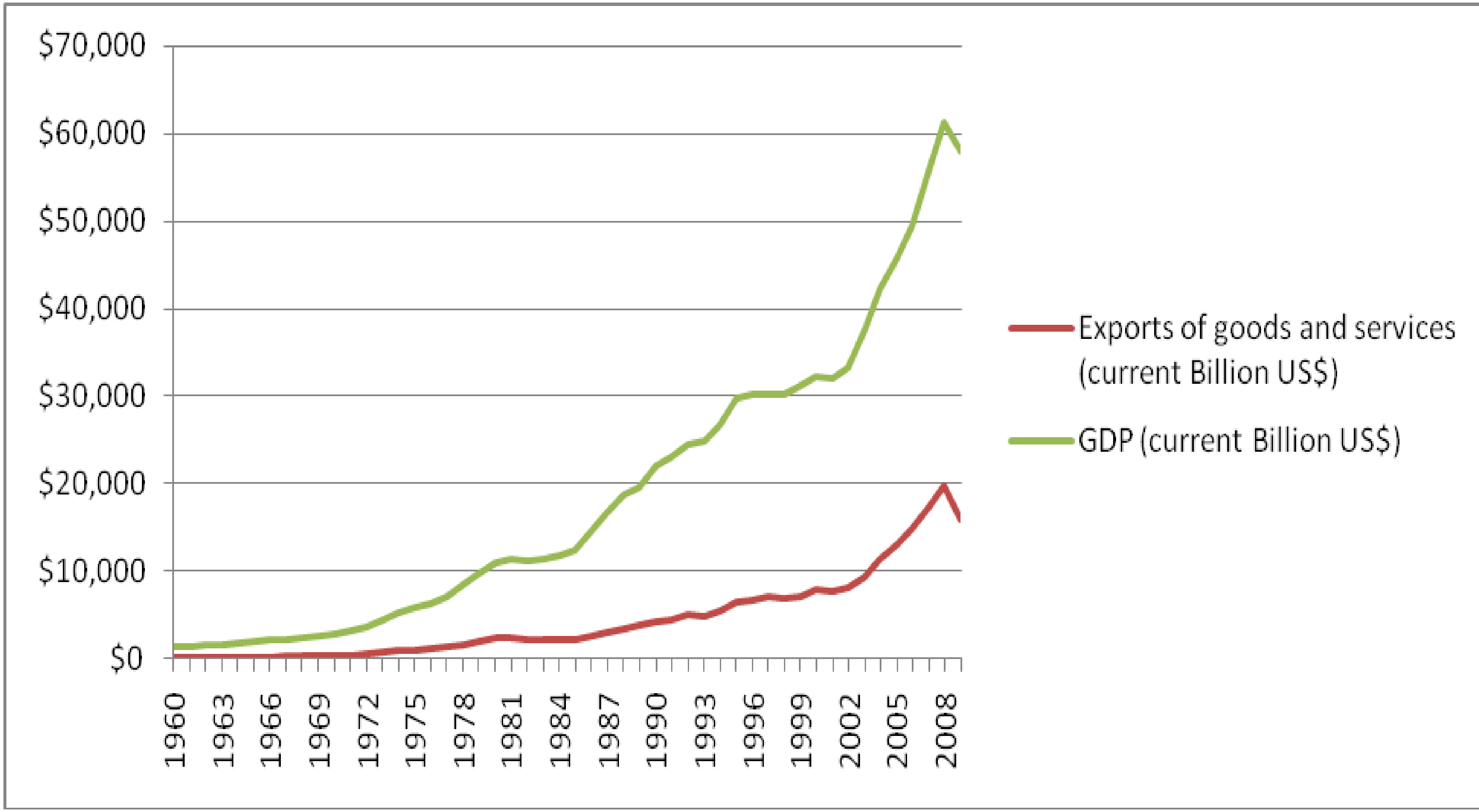


Major trends in international trade

Relationship between global trade and GDP

- World GDP growth is followed by the growth in world trade, and vice-versa, indicating that a positive growth in export has a positive, although non-linear, effect on GDP growth (Figure 1)
- Both world trade and global GDP increased much more rapidly since 1985—which coincided with the economic reforms initiated in many developing countries—until they were halted by the global financial and economic crisis as can be seen from the substantial dip in 2009 (Figure 1)
- However, both the figures rebounded in 2010 due to the global recovery (WTO 2011)

Figure 1: Trends in global GDP and trade, 1960-2009

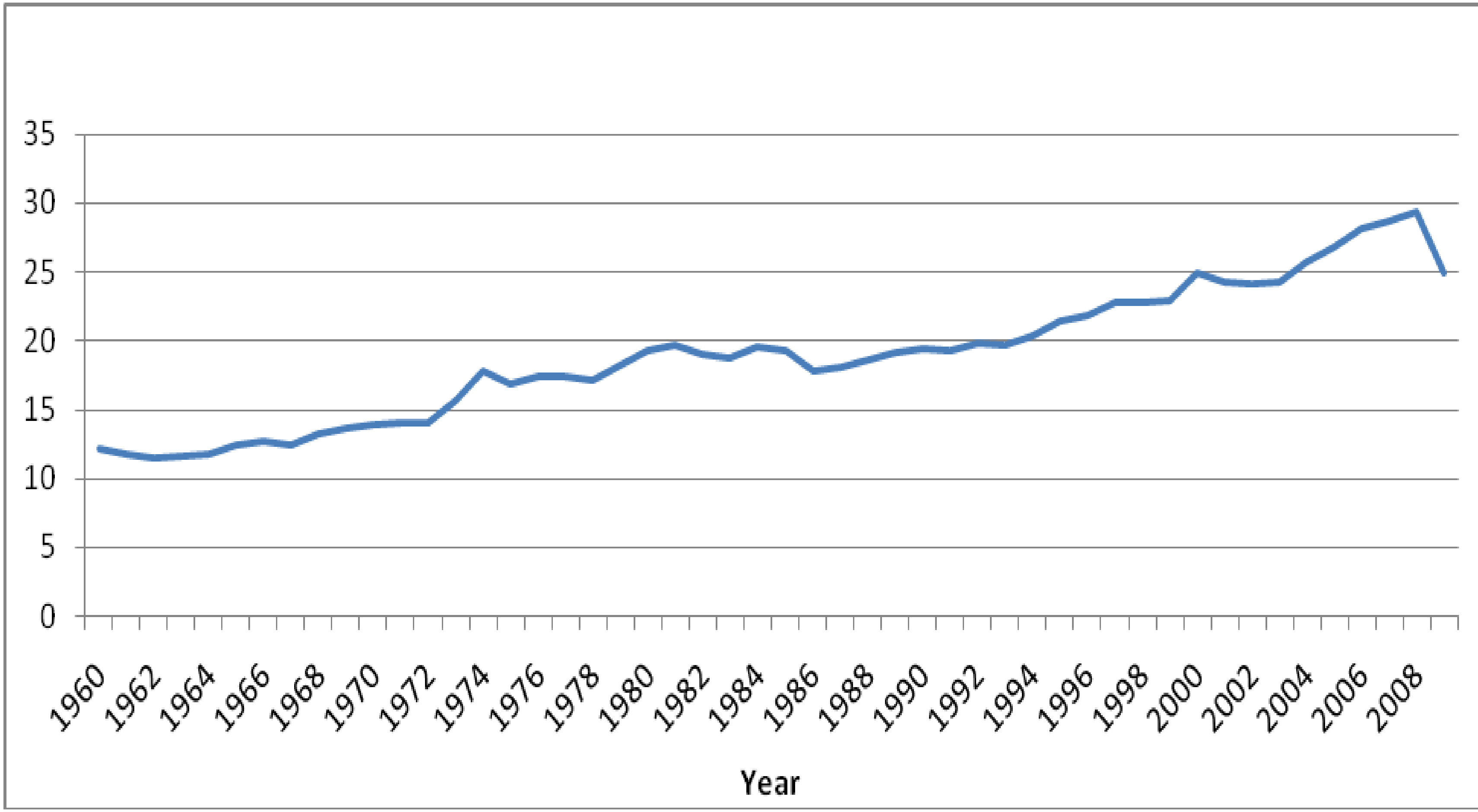


Source: World Bank

Trade as percentage of GDP

- Trade as a percentage of GDP (alternatively, trade-to-GDP ratio) is taken as an indicator of trade openness. As global economy becomes more open, trade-to-GDP ratio grows (Figure 2)
- According to the figure, total exports of goods and services as a percentage of GDP have increased steadily from 1960 to 2008
- The figure clearly reflects the trade-driven growth globally
- Due to the global financial crisis the figure shows a major dip after 2008 until 2009

Figure 2: Value of world trade as a percentage of GDP, 1960 – 2009



Source: World Bank

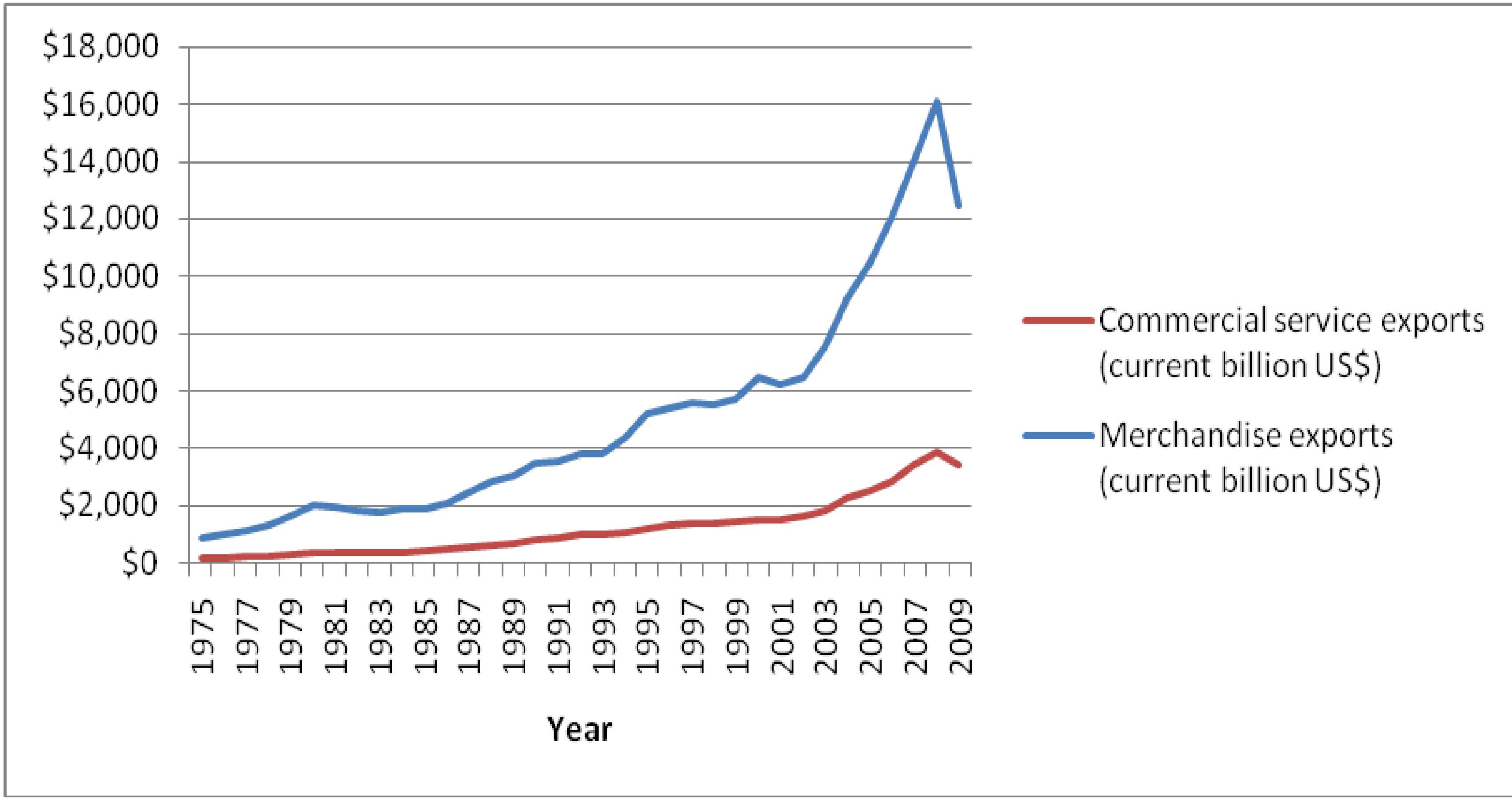
Exports of goods and services

- Services' contribution to global trade was not recognized in the past, which explains why data on services trade are available only since the mid-1970s

- Growth in global services trade has been more rapid than the growth in goods trade

- Services trade remains and shows less volatility (greater resilience) compared to merchandise trade (Figure 3)

Figure 3: Exports good and commercial services (current billion US$), 1975 – 2009

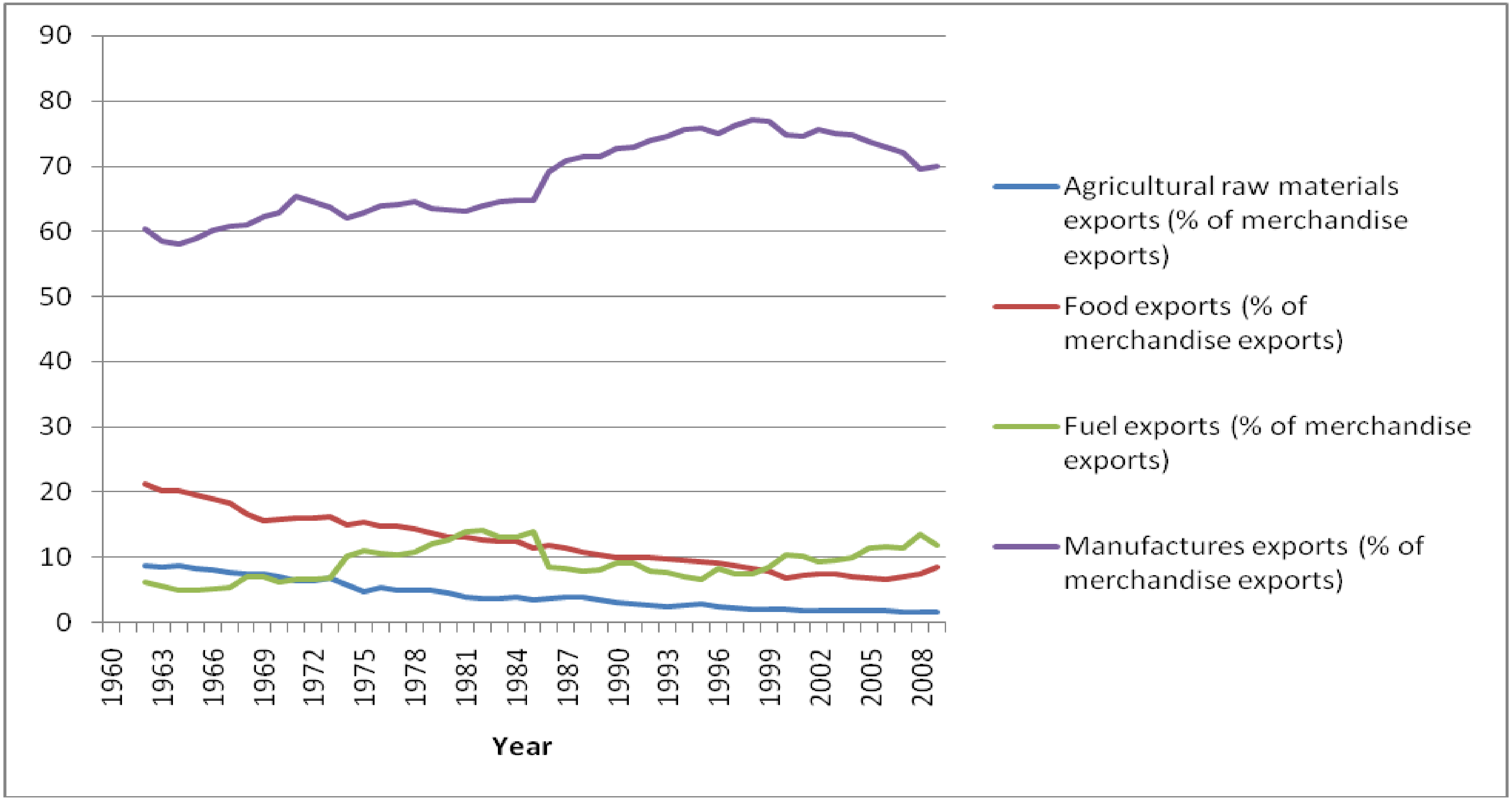


Source: World Bank

Growth in components of goods trade

- Manufactured products have accounted for a lion's share of 60-70 percent of the total goods exports (Figure 4)
- Fuel export is the most volatile component and also one of the components whose share has decreased the most in the wake of the global financial crisis in 2008
- The shares of food and agricultural raw materials exports have all decreased consistently keeping with the consistently declining share of agriculture in global GDP
- Unlike other components, food exports show a visible upward trend from 2008, the beginning of the global financial crisis

Figure 4: Share of various components of goods trade (%), 1960 – 2010

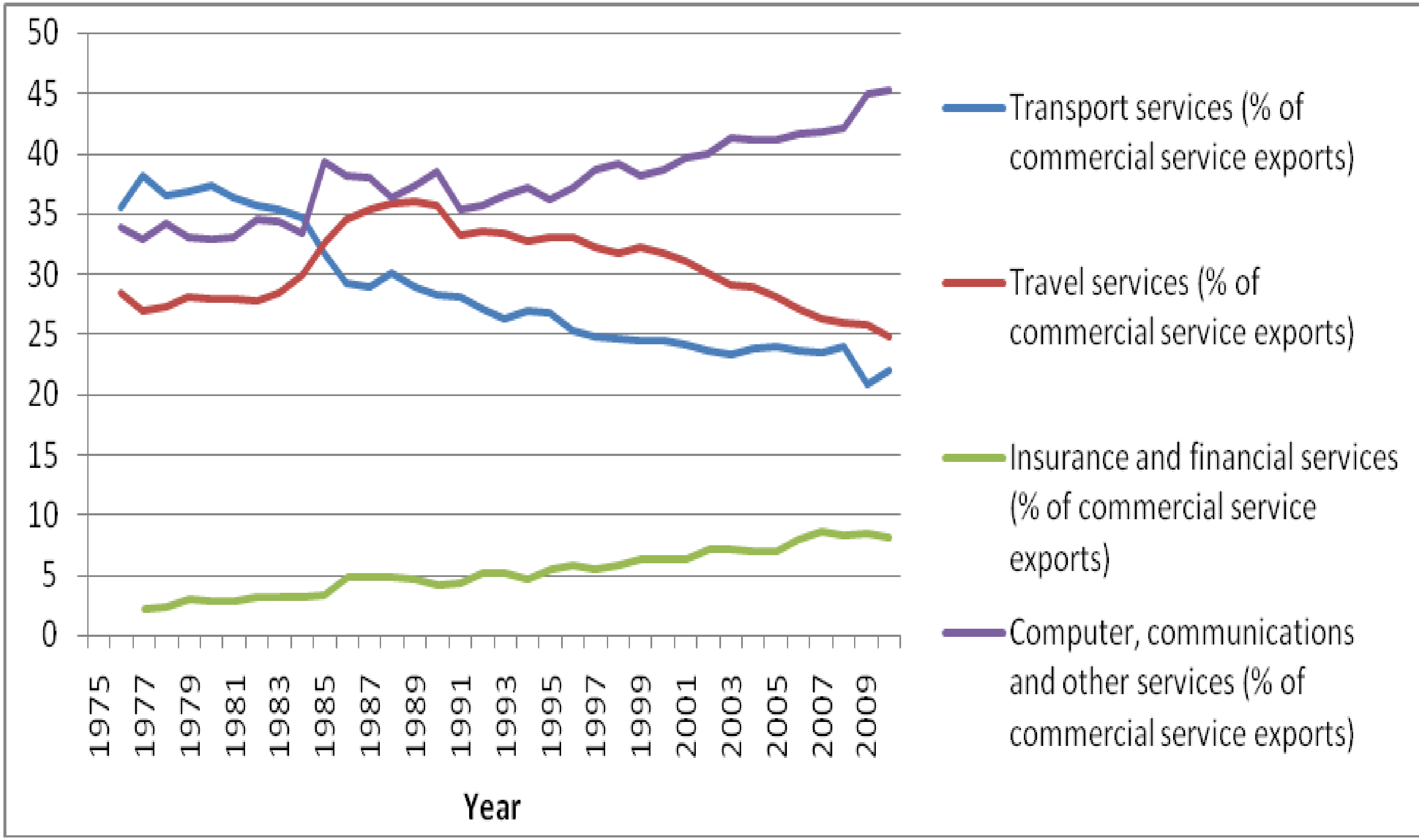


Source: World Bank

Growth in components of services trade

- Computer, communications and other services dominate the major share of the commercial service exports, particularly after 1990
- Transport services, which occupied the largest share before 1984, have seen a drastic decrease all the way up to 2010
- Contribution of travel services to the overall exports of commercial services have also been falling rapidly of late
- Transport services shows the most drastic effect of the global financial crisis, which is partly ascribed to the reduction in goods trade globally (Figure 5)

Figure 5: Share of various components of services trade (%), 1960 – 2010

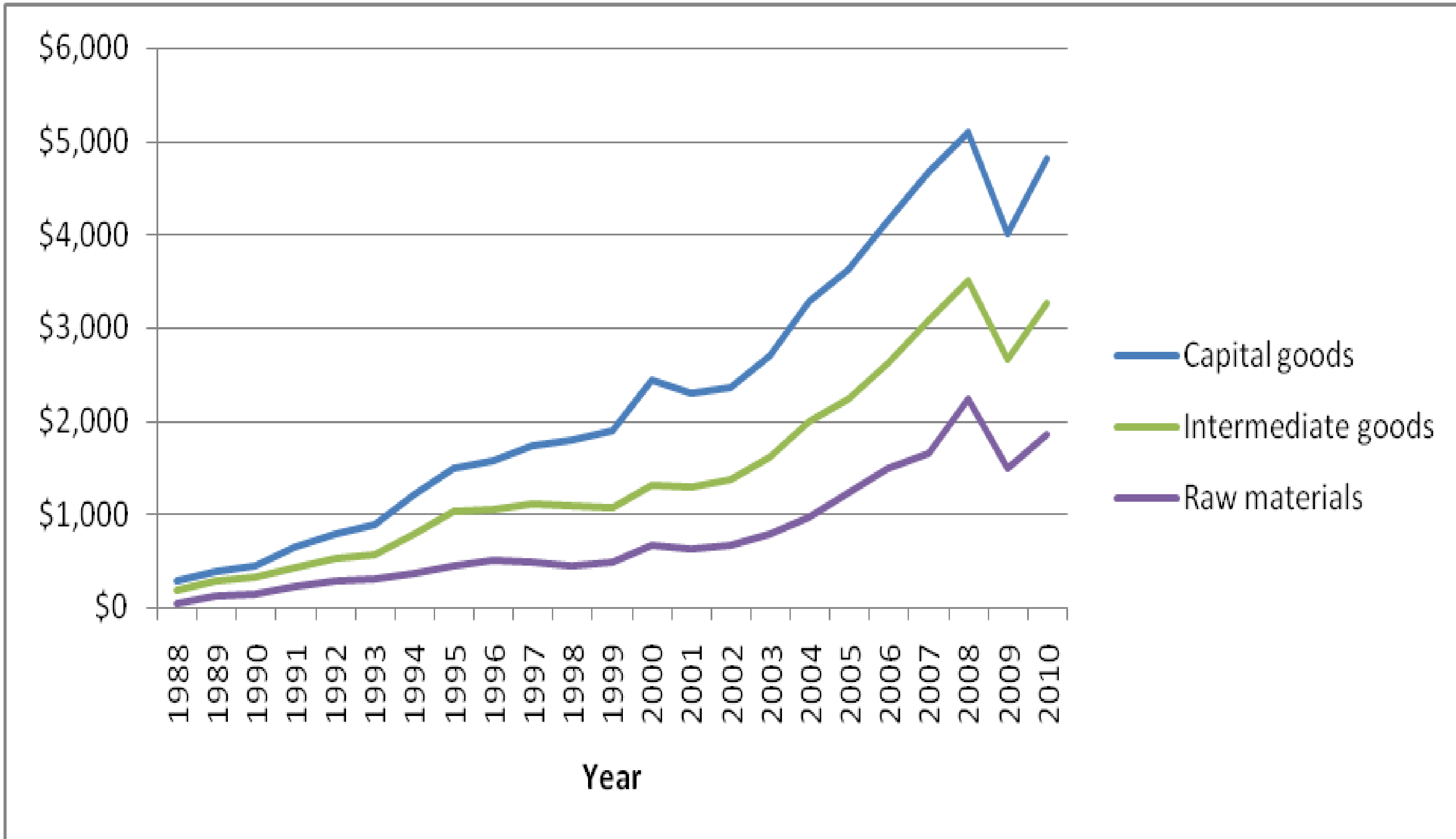


Source: World Bank

Role of multinational corporations and trade in capital and intermediate goods

- The influence of multinational corporations (MNCs) in global trade is ever-increasing, so is the global trade value associated with it
- The growing role of MNCs as vectors for international trade is described as “intra-firm trade” or “trade within affiliates”
- With a rise of “global production network” or “global value chains” the role of international trade in trade in capital goods and intermediate goods is increasing rapidly (Figure 6)
- The increase in exports of these goods are much higher than raw materials exports

Figure 6: Trend in exports of capital and intermediate goods and raw materials (US$ billion), 1988 – 2010



Source: UN Comtrade

Implications for Nepal

- International trade growth is likely to remain modest in the near term due to slower economic growth in developed countries. Therefore, Nepal should look towards expanding trade opportunities, particularly exports, in developing-country markets through South-South trade cooperation

- To insert itself into the "global production network" Nepal needs to dismantle trade barriers, reduce trade costs and improve supply capacity

- To take growing advantage of services trade, in particular, information technology services, Nepal should invest in this dynamic sector of the global economy

Thank you