International Trade Is Resuming Its Normal Upward Trajectory

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Abstract

Under the impact of the global economy recovery in 2010, the world goods exports, in dollar terms (nominal terms) registered a 22% growth, at a level of USD 15.2 trillion. In 2010, commercial services exports registered a growth of 8 per cent, at a level of USD 3.7 trillion.

WTO economists' baseline projections for world merchandise trade in 2011 would see exports grow by 6.5%, with shipments from developed countries increasing by around 4.5% and those from developing economies and the CIS advancing 9.5%.

Key words: export, import, international trade, rebound.
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1. Introduction

2010 year was one of substantial accomplishments. Global economic growth staged a clear-cut recovery. Last year's estimated 5 percent annual global growth was above the 3.6 percent average rate of the previous decade—although the expansion remains uneven and incomplete**.** Financial sector reform efforts began to bear fruit**.** Significant reforms were agreed for the international financial institutions, including the International Monetary Fund.

Within both groups of countries, advanced economy countries, as well as emerging and developing economies countries, growth performance, fragile for this moment, is expected to vary considerably across countries and regions, reflecting different initial conditions, external shocks, and policy responses.

2. World Trade in 2010

Under the impact of the global economy recovery in 2010, the world goods exports, in dollar terms (nominal terms) registered a 22% growth, at a level of USD 15.2 trillion (Table 1; Figure 1).

In 2010, commercial services exports registered a growth of 8 per cent, at a level of USD 3.7 trillion.

Table 1 – World exports of merchandise and commercial services, 2005 - 10 (in nominal terms)

	2009 year (USD Bln)	Annual % change			
		2005-10	2008	2009	2010
Merchandise	15.2	8	15	-22	22
Commercial services	3.7	8	13	-12	8

Source: WTO data – 2010

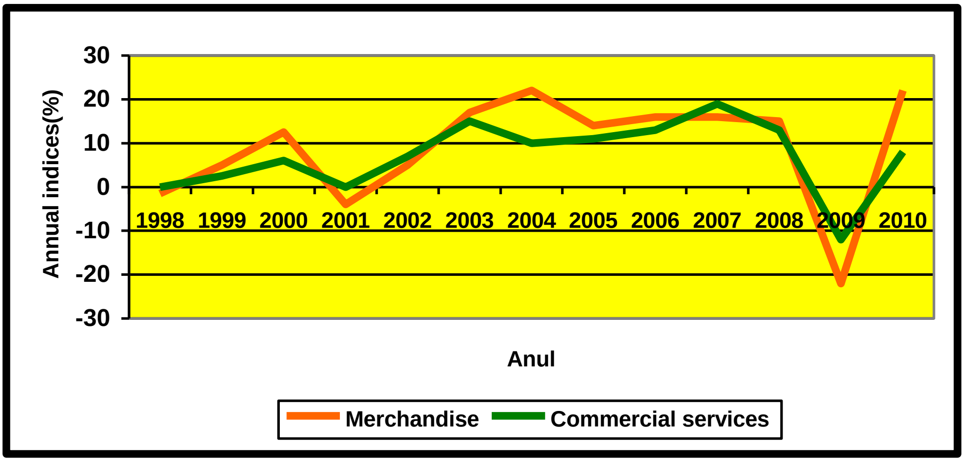

Figure 1. International trade dinamics in 1998-2010
Annual indices (last year = 100%)

Source: WTO data – 2011

Besides the global economy trend, the factors that helped boost the size of the international trade rebound, in 2010, include the spread of global supply chains and the product composition of trade compared to output.

Global supply chains cause goods to cross national boundaries several times during the production process, which raises measured world trade flows compared to earlier decades. The quantification of this effect would require data on trade in value added that are not currently available.

The goods that were most affected by the downturn (consumer durables, industrial machinery, etc.) have a larger share in world trade than in world GDP, which increased the magnitude of the trade slump relative to GDP in 2009, and which had a similar positive effect during the recovery of 2010 (Figure 2).

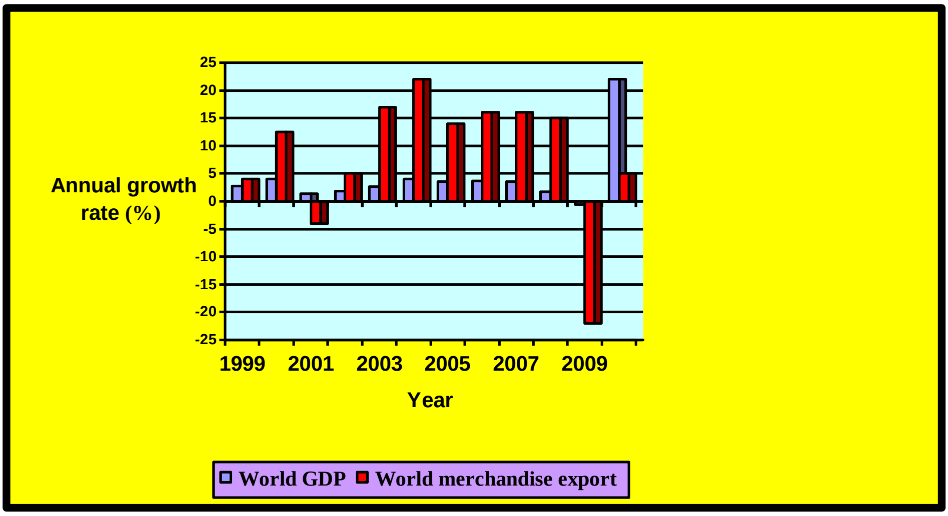

Figure 2. Annual growth rate of world exports of goods (in nominal terms) and world GDP, 1999-2010 (Annual indices = 100%)

Source: IMF and WTO data, 2011

As a result of rising commodity prices and a depreciating US currency (down 3.5% on average), growth in the dollar value of world trade in 2010 was greater than the increase in volume terms.

A number of factors combined to make trade and output grow more slowly than they might otherwise have done.

- First, curtailment of fiscal stimulus measures in many countries dampened economic activity in the second half of the year. European governments in particular moved toward fiscal consolidation in an attempt to reduce their budget deficits through a combination of spending cuts and revenue measures, with negative consequences for short-term growth.
- Second, although oil prices stabilized at around $78/barrel in 2010, they were still high by recent historical standards (e.g. oil prices averaged $31/barrel between 2000 and 2005). Prices were below the $96/barrel average seen in 2008, but they were also up 30% from 2009, raising energy costs for households and businesses.
- Finally, persistent unemployment prevented domestic consumption from rebounding more strongly in developed countries and limited income growth and import demand. The OECD average unemployment rate was 8.6% in 2010 (up from 6.1% in 2008), and unemployment remained at or near 9% in the United States throughout the year.

The record expansion of trade and the revival of economic activity in 2010 were certainly welcome developments, but their importance should not be overstated. Despite the rebound, the negative impact of the financial crisis and global recession are likely to persist for some time.

Asia exhibited the fastest real export growth of any region in 2010 with a jump of 31%, led by Japan (+33%), China (+31%) and India (31%). Meanwhile, the United States and the European Union saw their exports growing more slowly at 21% and 12%, respectively.

Regions that export significant quantities of natural resources (Africa, the Commonwealth of Independent States, the Middle East and South America) all experienced relatively low export volume growth in 2010, but very strong increases in the dollar value of their exports. For example, Africa's exports were up 6% in volume terms, and 28% in dollar terms.

An explanation for this can be seen in rising primary commodity prices, which resumed their upward trajectory in 2010, after plunging in 2009.

The faster growth of merchandise trade compared to services can be partly explained by the smaller decline in services in 2009 (just 12% compared to 22% for merchandise), which implies less need for faster-than-average growth to catch up to earlier trends. The average annual growth in the value of merchandise trade and commercial services trade between 2005 and 2010 was the same, at 8%.

Transportation was the fastest growing component of commercial services exports in 2010, with an increase of 14% to $782.8 billion. That transport services grew faster than other types of services is not surprising since they are closely linked to trade in goods, which saw record growth last year. Travel grew in line with commercial services overall, whereas other commercial services (including financial services) advanced more slowly.

3. International Prices of Goods, in 2010

The growing trend for international prices of goods was due, in 2010, mainly to the rising primary commodity prices, which resumed their upward trajectory in 2010, after plunging in 2009. Table 2 illustrates of selected primary goods price developments in the last few years.

Table 2 – Export prices of selected primary products, 2000 – 10 (Annual changes)

	2008	2009	2010	2000-2010	2005-2010
All commodities	28	-30	26	10	9
Metals	-9	-20	48	13	15
Beverages (coffee, cocoa beans, tea)	23	2	14	9	12
food	23	-15	12	6	8
Agricultural raw materials	-1	-17	33	2	5
Energy	40	-37	26	11	8

Source: WTO data, 2011

The increases were driven to a large extent by rising import demand on the part of fast-growing emerging economies like China and India.

Between 2000 and 2010, prices for metals rose faster than any other primary commodity group, with average annual increases of 12%, followed closely by energy with 11% growth per annum. Only agricultural raw material prices stagnated, with increases of just 2% per year on average over the last 10 years.

In contrast to primary products, prices of manufactured goods rose very little in 2010. Export and import price indices may differ substantially across countries, but as an example, US non-fuel import prices in 2010 were nearly unchanged from 2009 (up 2.7% in 2010 after falling 3% in 2009), and prices of imports from China (predominated by manufactures) declined by 0.1%.

4. 2011 – International Trade Outlook

In accordance with the last IMF outlook, world economy growth is projected to reach a level of 4.4 per cent, in 2011 year. Recovery in advanced economies is still expected to be weak by historical standards, with real output remaining below its pre-crisis level until late 2011. Moreover, high unemployment rates and public debt, as well as not-fully-healed financial systems in some countries are presenting further challenges to the recovery in these economies.

World trade flows are continuing their recovery, building on the large gains of 2010, with slower average growth in 2011.

WTO economists' baseline projections for world merchandise trade in 2011 would see exports grow by 6.5%, with shipments from developed countries increasing by around 4.5% and those from developing economies and the CIS advancing 9.5%. These projections include the likely impact of Middle East and North of Africa recent events, as well as the Japan's earthquake, but if the repercussions turn out to be worse than expected the above mentioned projections have to be downside revised in the coming months.

Studies dealing specifically with the trade effects of natural disasters are even rarer. A recent paper by Gassebner, Keck and Teh (2010) examines data on disasters in 170 countries between 1962 and 2004. Using the methodology of this paper, we find that the expected impact of the Japanese earthquake is to:

- reduce the volume of Japanese exports by between 0.5% and 1.6%; and
- increase the volume of Japanese imports by between 0.4% and 1.3%.

The short-term outlook is clouded by a number of significant risks factors in addition to the catastrophes in Japan. These include rising prices for food and other primary products, and unrest in major oil exporting countries. Adverse developments in any of these areas could potentially set back the economic recovery and limit the expansion of trade in the coming year.

The prospect of sharply higher oil prices probably poses even a greater threat to the world economy and trade than the Japanese earthquake. Fears of a prolonged conflict in Libya and spreading unrest in the Middle East have lifted oil prices above $100/barrel. An interruption of supplies from any other major producer would raise prices higher still, with potentially significant implications for the global economy. In such an event, the WTO would have to revisit its trade projections.

Even though the risks are mostly on the downside, there is also some upside potential if the uncertainly in the Middle East resolves itself soon and if unemployment rates start to come down more quickly in the United States. The latter would release a considerable amount of pent up demand for goods, which would stimulate imports and drive world trade higher, in 2011.

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