C a e II

International trade

Trade flows

General trend in trade flows

Global trade flows weakened further in 2016. At the slowest pace since the Great Recession of 2009, the volume of world trade is estimated to have grown by a meagre 1.2 per cent. The downward shift in world trade growth in recent years has been significant: in the two decades prior to the global financial crisis, the average growth of the volume of world trade was about 7 per cent, but it slowed down to below 3 per cent between 2012 and 2016 (figure II.1). More worrisome is the substantial decline in the ratio of global trade growth to world gross product (WGP) growth, dropping from an average of 2:1 in 1980-2008 to 1:1 recently, and even lower in 2016.

Figure II.1
Growth of volume of world trade and growth of world gross product, 1990–2018

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A number of factors are behind the slowdown of global trade flows in recent years. Some of these are cyclical and others structural (see Constantinescu and others, 2015; European Central Bank, 2016; International Monetary Fund, 2016c). Since the global financial crisis, the subdued gross domestic product (GDP) growth and the change in the composition of aggregate demand in many countries seem to have significantly impacted trade

flows. In particular, a substantial weakening in fixed investment growth in both developed countries and emerging economies in the aftermath of the crisis appears to be highly correlated with the slowdown in global trade flows (figure II.2).

I de a d

On average, capital goods account for about 39 per cent of world merchandise trade. Consequently, in many countries, import demand is more sensitive to fixed investment than other expenditure components of GDP. For instance, for a sample of 18 OECD countries, the average import intensity of investment, exports, private consumption and public consumption are respectively 32, 28, 25 and 10 per cent (figure II.3). According to some studies, the compositional effect explains a significant part of the plummet of imports during the financial crisis and the subsequent decline in the ratio of import growth to GDP growth for major developed countries (Bussière and others, 2013).

Exports of services from developing and transition economies grew more than that of developed economies in almost every sector between 2005 and 2015, including some higher value-added sectors, such as financial services, telecommunication, computer and information services, and other business services. Between 2014 and 2015, trade in telecommunication, computer and information services and intellectual property grew in developing economies, due to growth in Asia and Latin America and the Caribbean, in contrast to a decline in developed economies (figure II.6).

Nonetheless, developing economies still show a pattern of specialization in traditional services such as transport and travel, especially in Africa and LDCs, while developed economies continue to lead in higher value-added services, such as financial and insurance services (figure II.7).

The share of services in international trade is significantly lower than the shares of services in domestic output and employment. The services sector accounts for roughly three-quarters of value-added and employment in developed economies, and close to half in developing countries and economies in transition. However, the share of services in trade is only about one-quarter for developed economies and 15 per cent for developing countries and economies is transition. This is partly due to an underestimation in statistics of trade in services.

In addition, data on cross-border trade in services do not capture the significant value-added of services embedded in goods, particularly in sectors such as energy, chemicals, machinery and transport equipment. In 2011, services accounted for 59 per cent of the gross value-added of exports in developed economies and 43 per cent in developing and transition economies.

This is much higher than the contribution of services to total exports, as measured by traditional cross-border data. Even in a simple jacket, physical components, including labour, fabric, lining, buttons, sleeve heads, shoulder pads, labels and hangtags, account for only 9 per cent of the price; the remaining 91 per cent of ef15.(d apan θo)9.8(u)-1 tn sectors such as energy, chemi

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Transport, for example, plays a key role in linking consumers and producers, and integrating markets by facilitating exports and imports. Improving transport infrastructure, logistics and cross-border trade facilities is central to reducing delivery times and costs, and therefore for the integration into GVCs. For developing countries which are short on transport infrastructure, especially for landlocked developing countries, this is particularly important. Telecommunications, computer and information services drive economic and social activity and lead to greater productivity and competitiveness. Cross-border trade also gets a boost (box II.1).

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Financial services promote domestic and international transactions, mobilise and channel domestic savings and open up credit for small and medium-sized enterprises (SMEs) and households. This fosters supply and export capacity, supporting entrepreneurship and linking SMEs to GVCs. Another benefit of financial inclusion is speedier, safer and less costly remittances.

Box II.1

Digital economy and ICT services-enabled trade

Telecommunications and ICT services are crucial in facilitating modern economic and social activities, contributing to productivity and competitiveness. As infrastructure services, they provide inputs to the ovA