

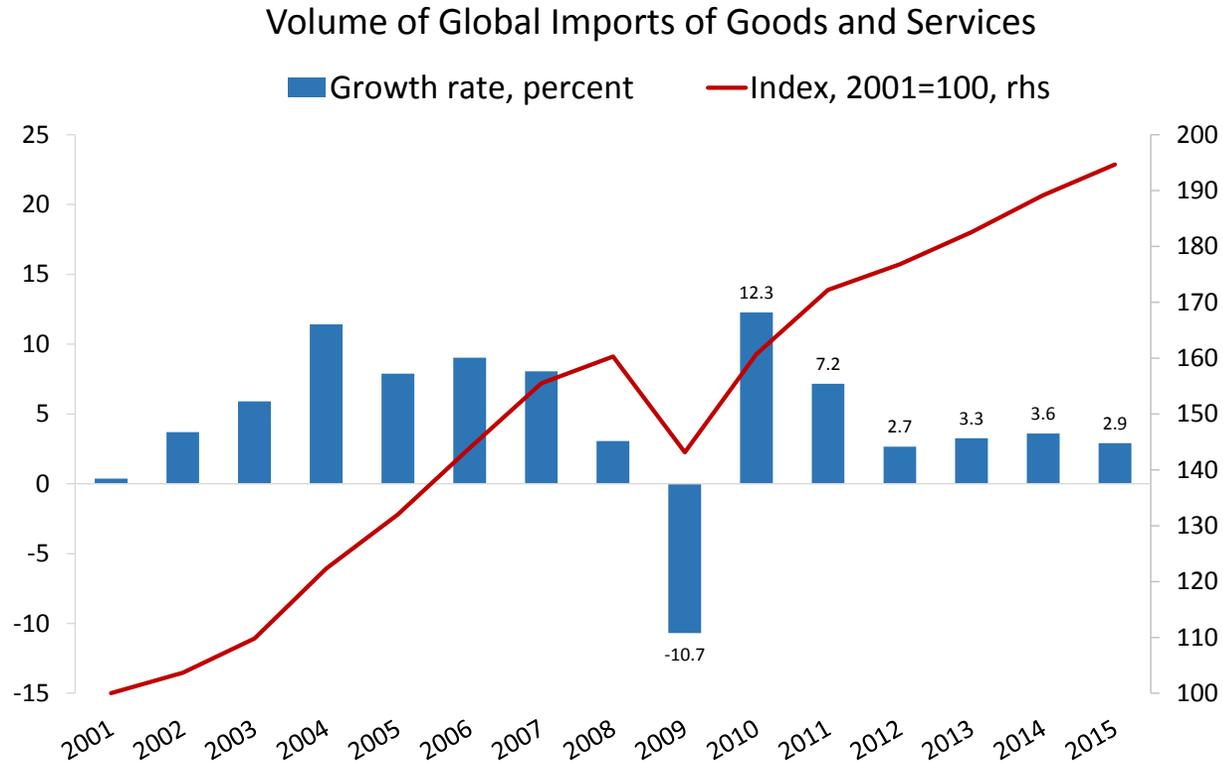
Developments in Global Trade: An Insider's Perspective



WORLD BANK GROUP
Trade & Competitiveness

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Trade rebounded after the Great Recession, but its growth has been sluggish since then



Source: IMF World Economic Outlook, Apr. 2016.

Post-crisis growth rates of world trade are well below the pre-crisis (1987-2007) average of 7%, and slightly lower than the growth rate of world GDP

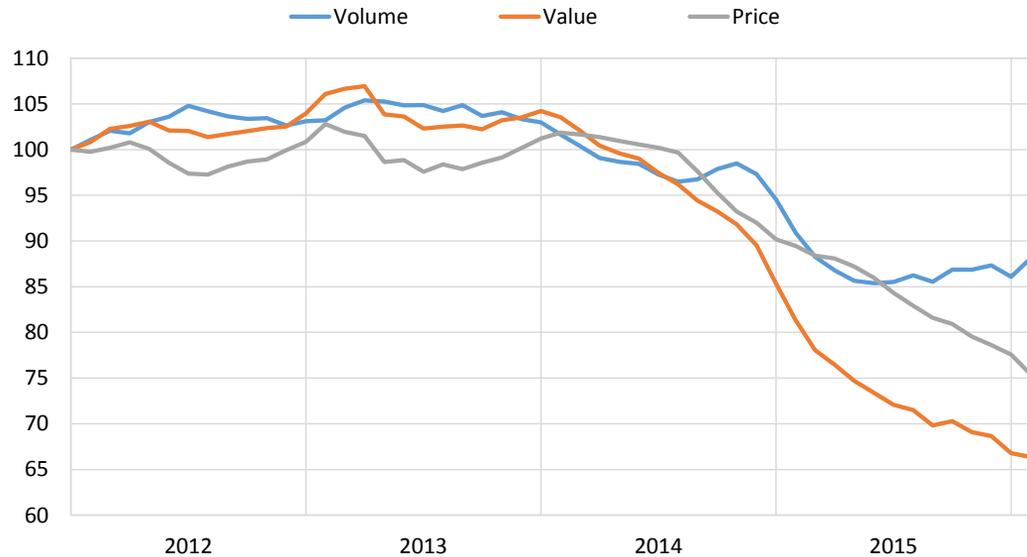
Global trade slowdown is due to both cyclical and structural factors

- Cyclical – persistent global demand weakness reflected in slow post-crisis GDP growth
- Structural – factors that alter trade's responsiveness to GDP

Cyclical and structural factors act simultaneously at extents that vary by year

Cyclical factors behind global trade performance in 2015

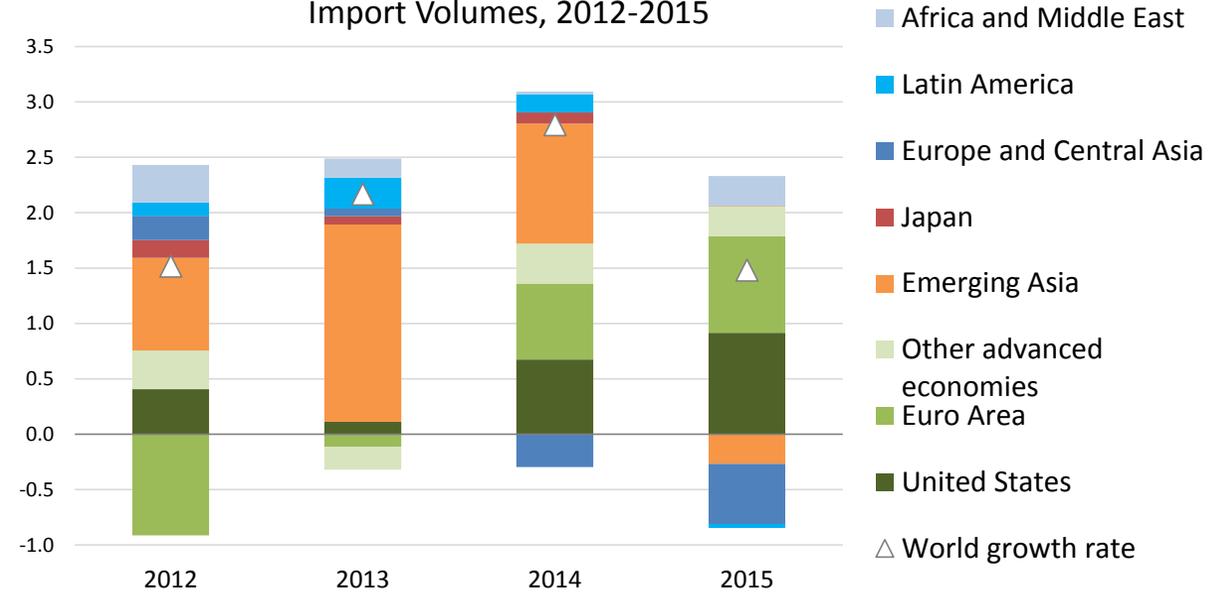
Europe and Central Asia's Merchandise Imports, Jan. 2012-Feb. 2016 (3-month moving average, Jan. 2012=100)



Source: CPB Netherlands Bureau of Economic Policy and Analysis, Apr. 2016.
Note: Seasonally adjusted data.

In 2015, lower commodity prices reduced export value of commodity producers such as Russia, leading to a contraction in incomes and imports

Contribution to Year-on-year Growth in World Merchandise Import Volumes, 2012-2015

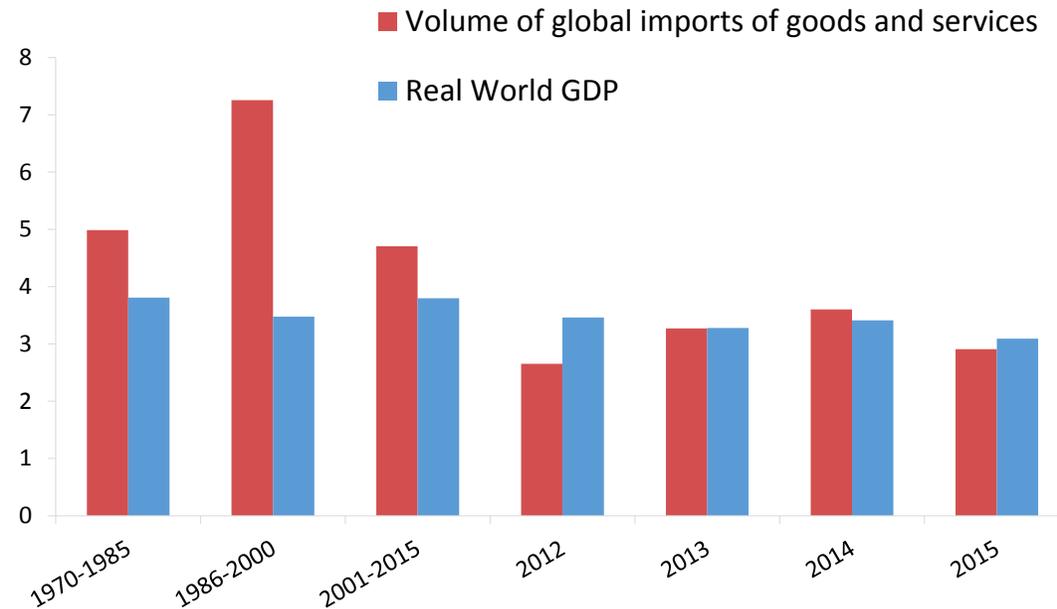


Source: CPB Netherlands Bureau of Economic Policy Analysis, Apr. 2016.
Note: Seasonally adjusted data.

Rebalancing in China led to a reduction in imports from other regions, particularly commodity exporters

The relationship between world trade and income changed in the past four decades

Average Growth Rates across Selected Periods (percent)



Source: IMF World Economic Outlook. Note: GDP growth aggregation based on GDP PPP. Aggregation based on market exchange rates does not change the message significantly.

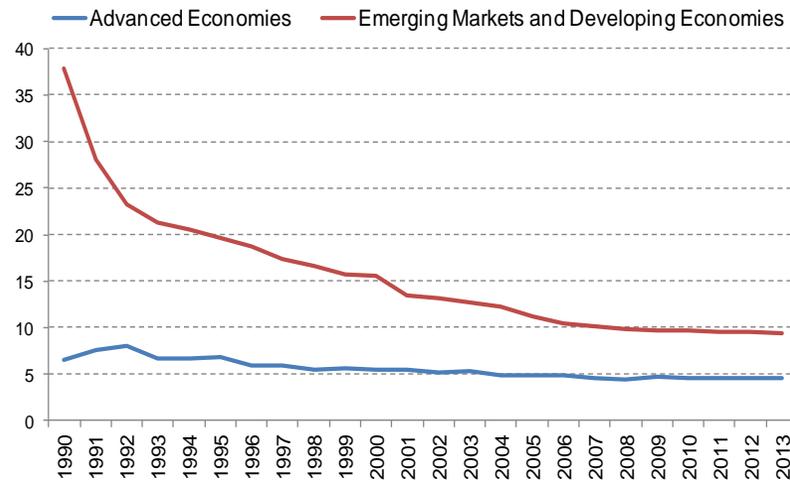
In a historical perspective, the “long 1990s” (1986-2000) were different compared to the preceding and subsequent periods

Structural determinants of the global trade slowdown

- What explains the lower responsiveness of trade to GDP growth?
- Several (non-exclusive and non-exhaustive) candidates. Here focus on two:
 1. Changes in the structure of trade: supply chains
 2. Changes in the trade system: trade liberalization

1. Changes in trade system: Declining pace of trade liberalization may have played a role in the trade slowdown

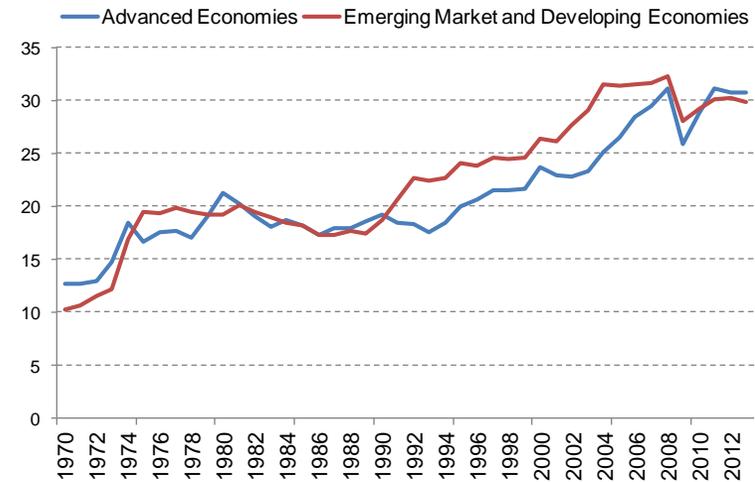
Average applied tariffs in advanced economies and emerging and developing economies (percent)



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

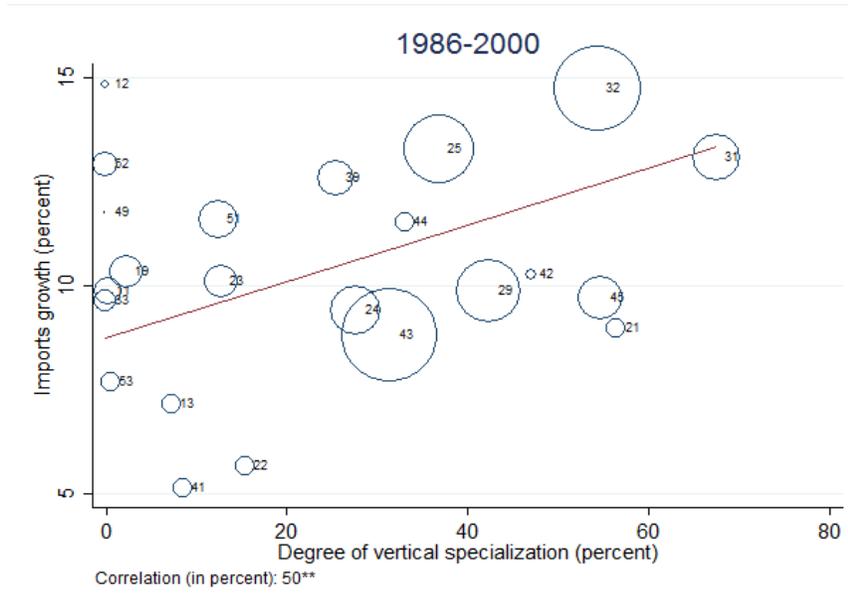
Imports of Goods and Services (percent of GDP in US dollars)



Source: IMF World Economic Outlook

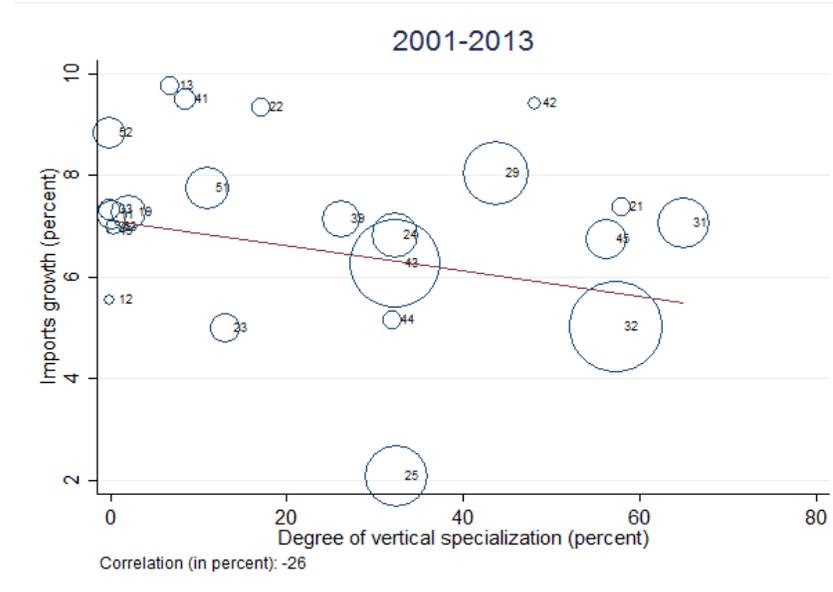
The liberalization led to a significant increase in the ratio of imports to GDP

2. Changes in structure of trade: Trade growth declined more in manufacturing subsectors with greater vertical specialization



Source: Constantinescu, Mattoo and Ruta (2015)

In the long 1990s, trade in the most vertically specialized sub-sectors saw much faster rates of growth than sub-sectors where GVCs were less developed



In the 2000s, while trade growth fell across the board, the largest declines were in the sub-sectors with higher degrees of vertical specialization

Challenges and Opportunities of Mega-Regional Agreements

Channeling Marcello Mastroianni's "Yesterday, Today and Tomorrow" with Sophia Loren

- The changing scope of international trade agreements
 - "Yesterday" – GATT
 - "Today" – NAFTA, TPP
 - "Tomorrow" – TTIP, TPP
- Today's agreements include "deep" provisions in several areas and tomorrow's agreements are even more ambitious in aiming to make divergent national regulatory systems compatible

The role of mega-regionals

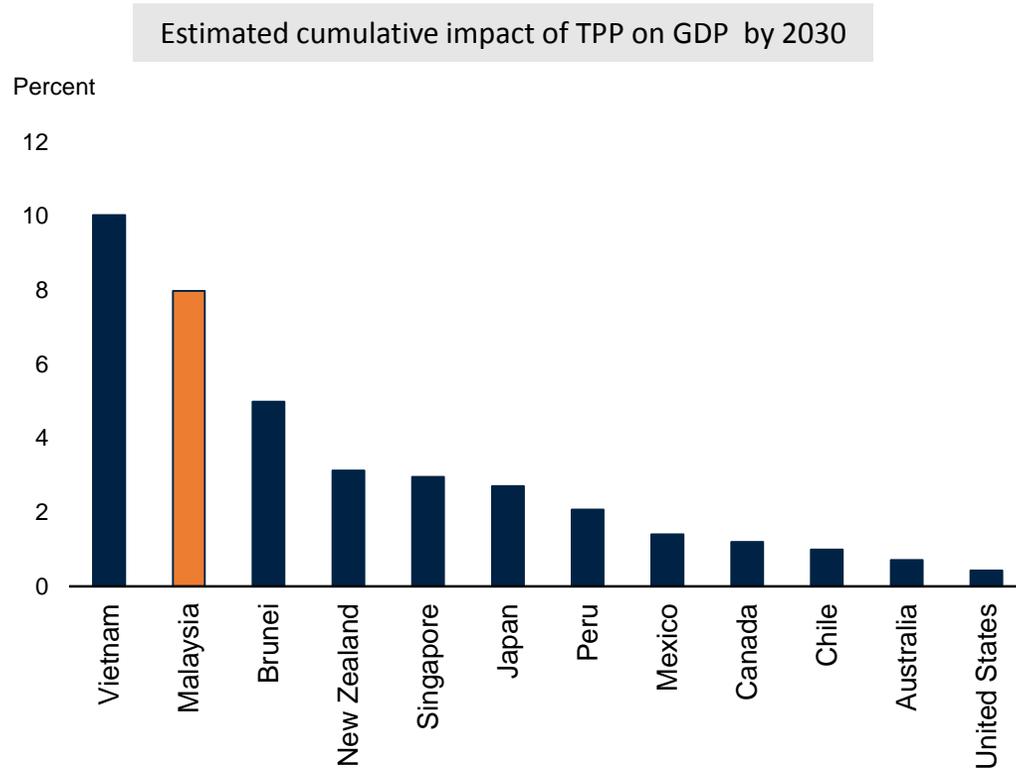
- ‘Next-generation’ trade agreements that offer new opportunities to stimulate trade opening
- What underlies their enormous promise?
 - “Scale”
 - “Scope”

Trans-Pacific Partnership (TPP)

- Member countries account for 40 percent of global GDP and 20 percent of global trade
- Legally enforceable provisions that go beyond the WTO, such as those on competition, investment and labor
 - Also aims at harmonizing rules and disciplines for new and emerging trade and cross-sectoral issues

TPP can boost GDP growth for member countries

EAP TPP members are expected to gain the most

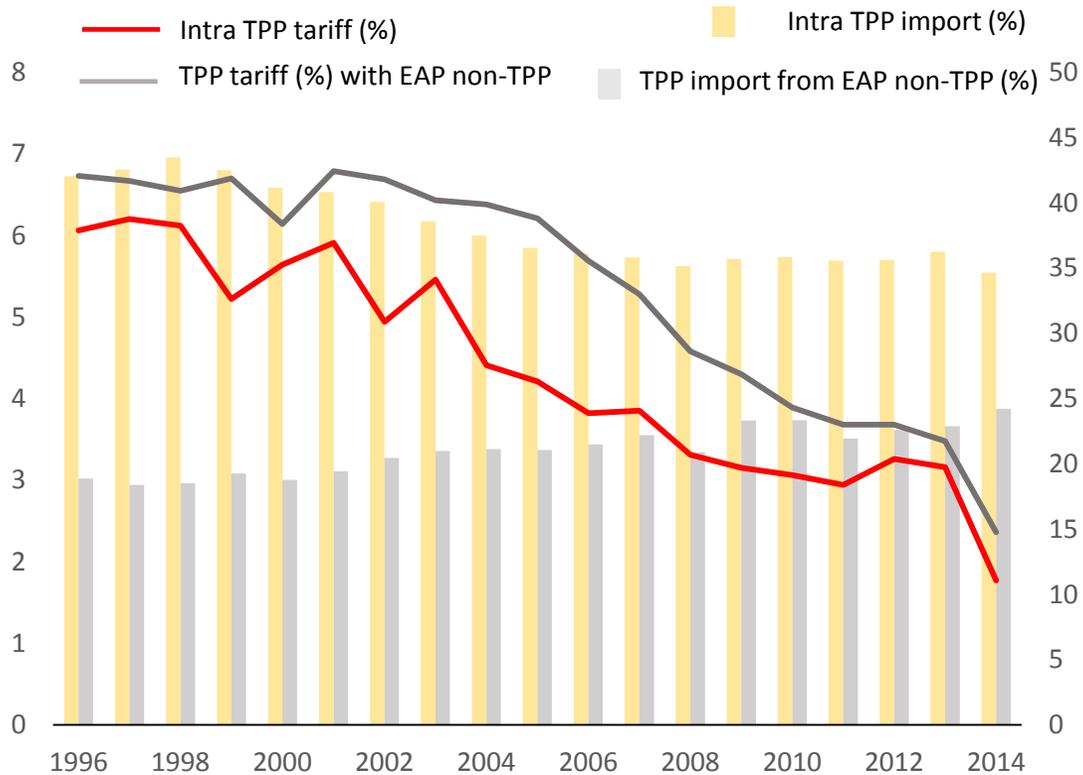


Source: GEP (2016)

- Amongst TPP members, Malaysia shows high (expected) output gains; second only to Vietnam
- Interpret with caution; these results are based on a CGE model which makes certain assumptions with regards to NTMs (rules of origin, services barriers and provisions that result in non-discriminatory trade liberalization)

The impact of TPP regulatory reforms on trade can be greater than tariff reductions

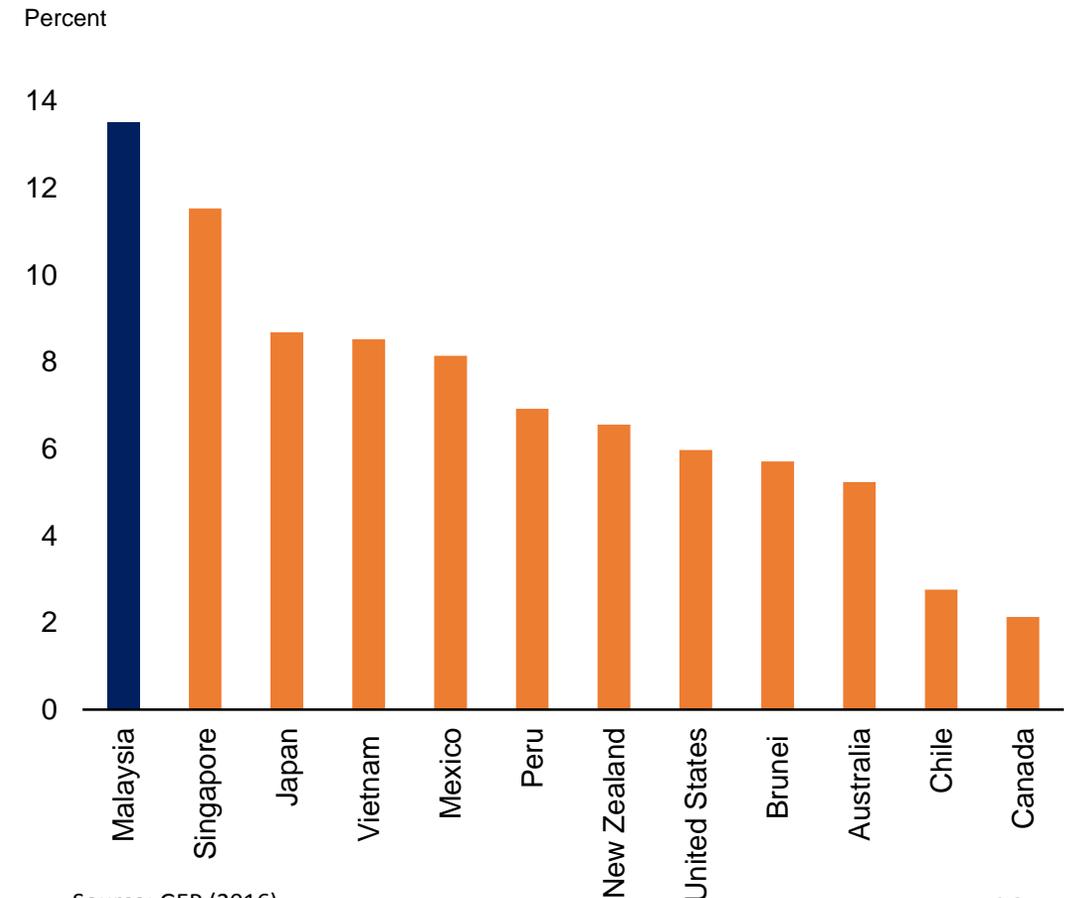
The tariff gap between intra-TPP and TPP and EAP non-TPP members has narrowed



Source: UN-TRAINS database

...but eliminating NTBs and disciplining NTMs can boost trade and attract investment to TPP members.

Estimated average non-tariff measures in tariff equivalent for intra TPP trade



Source: GEP (2016)

TTIP will matter!

- Would encompass 60 percent of the world's GDP and form the world's largest free trade area
- TTIP is a new generation agreement mostly about regulatory convergence
 - Regulatory compatibility between the US and EU under TTIP should have a direct positive impact on companies that currently have to comply with two sets of standards and regulations
 - Similar effect to creation of the European Union's Single Market?
- Cost savings associated with the streamlining of EU-US regulations may not be restricted to EU-US bilateral trade
 - (a) Extend mutual recognition to third countries (b) simplify rules of origin (c) harmonize preference systems and (d) enable third countries to join TTIP in the future.
- European Commission study estimates that an ambitious TTIP deal would increase the size of the EU economy by around €120 billion (or 0.5% of GDP), the US economy by €95 billion (or 0.4% of GDP), and almost a €100 billion increase in income for the rest of the world by 2027

Let's not forget the risks....

- Mega-regionals could undermine the relevance of the multilateral trading system, where all countries have a seat at the negotiating table
 - Fragmentation
 - Exclusion
 - Unfairness

Yet, look for opportunities in the challenges!

- Benefits of non-discriminatory liberalization
- “Laboratory effect”
- “Contagion”
- Find creative ways of providing a new burst of energy to the multilateral trading system

THANK YOU FOR YOUR ATTENTION