

## DEVELOPMENTS, TRENDS AND FACTORS SHAPING THE FUTURE OF WORLD

### TRADE

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#### ABSTRACT

International trade has made an increasingly significant contribution to economic growth and productivity but unfortunately World trade growth fell to 2.0 percent in 2012 from 5.2 percent in 2011 and remained sluggish in the opening months of 2013 as the economic slowdown in Europe suppressed global import demand. The abrupt deceleration of trade in 2012 was mainly attributable to slow growth in developed economies. This paper examines trends and development in world trade and assesses economic, social and political factors which shape the overall nature of trade and explain the reasons for international trade.

**KEYWORDS:** Developments, Economic Growth, Trend and World Trade

#### INTRODUCTION

Trade has been a major part of human history. The early days of simple barter between groups of people are long gone. Now trade is largely facilitated by electronic money, takes place between a wide range of businesses, consumers and governments and involves an immense variety of products ranging from a synthetic rubber shoe sole to a passenger jet. Products can be exported and imported from the same country before delivery to the marketplace.

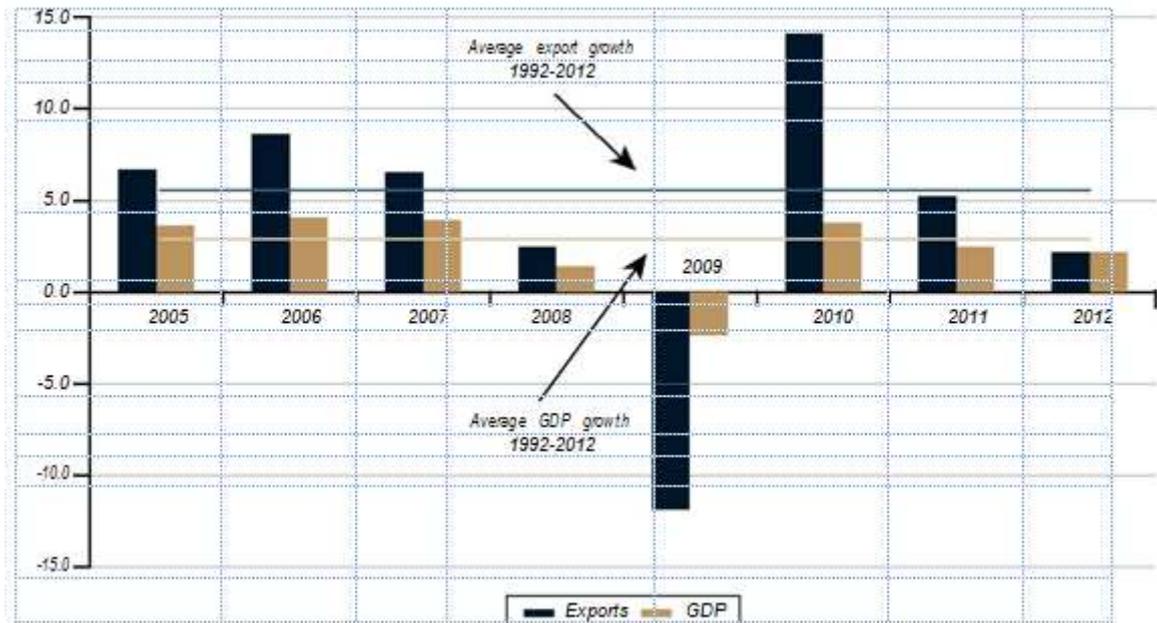
International trade has expanded rapidly since World War II, and even more so in the 1990s. In 1950, total merchandise exports in the world were \$58 billion. In 1990 that figure was \$3.5 trillion, and in 1997 it was \$5.3 trillion. In 1997, world exports grew by over 9.5%, three times greater than world output growth of 3%. Over 3/4 of the world trade is in merchandise or goods primarily industrial equipment, consumer goods, oil and agricultural products. Almost 1/4 of world trade is in services, mostly in banking, insurance, transport, telecommunication, engineering and tourism. Since 1950s, transportation costs, based on cheap oil, as well as communication costs, have steadily declined. This has helped fuel the explosion in global trade.

Growth of world trade decelerated sharply in 2012 and this weakness appears to have extended in to first quarter of 2013 based on available monthly data as shown in figure 1. This is due to the economic slowdown in Europe which suppressed global imports demand. Flagging output and high unemployment in developed countries reduced imports and fed through to lower pace of export growth in both developed and developing countries.

The preliminary estimate of 2.0 per cent growth for world trade in 2012 is 0.5 points below the WTO's forecast of 2.5 per cent from September 2012. The deviation is mostly explained by a worse than expected second-half performance of developed economies, which only managed a 1 per cent increase in exports and a 0.1 per cent decline in imports for the year. The growth of exports from developing economies was in line with expectations, but the rate for imports was lower

than the expected.

Trade growth in 2012 was accompanied by slow global output growth of 2.1 per cent at market exchange rates, down from 2.4 per cent in 2011 and 3.8 per cent in 2010. These figures point into ongoing weakness in European import demand even as conditions gradually improve elsewhere. The fall in EU import demand in 2012 had a particularly strong impact on global trade flows due to the large weight of the European Union in world imports.



(Source: WTO Secretariat)

**Figure 1: Growth in Volume of World Merchandise Trade and GDP, 2005-12 (Annual Percentage Change)**

Keeping all the facts and figures in our mind, following two objectives were proposed; to examine trends and development in world trade and to assess economic, social and political factors that shape the overall nature of trade and explain the reasons for International trade.

## REVIEW OF LITERATURE

Empirically, there appears to be good evidence that International Trade affects economic growth positively by facilitating capital accumulation, industrial structure upgrading, technological progress and institutional advancement. The OECD (2003) conducted a study on the impact that trade had on the average income per population. According to the result, the elasticity of International trade was 0.2, which was statistically significant. Coe and Helpman (1995) studied the International R&D diffusion among 21 OECD countries and Israel over the period of 1971-1990, and found that international trade is an important channel of transferring technology. Keller (2001) discussed that International trade which involves importing intermediate goods of a high quality contributed to the diffusion of technology. Frankel and Romer (1999) constructed measures of the geographic component of countries' trade, and used those measures to obtain instrumental variables estimates of the effect of trade on income.

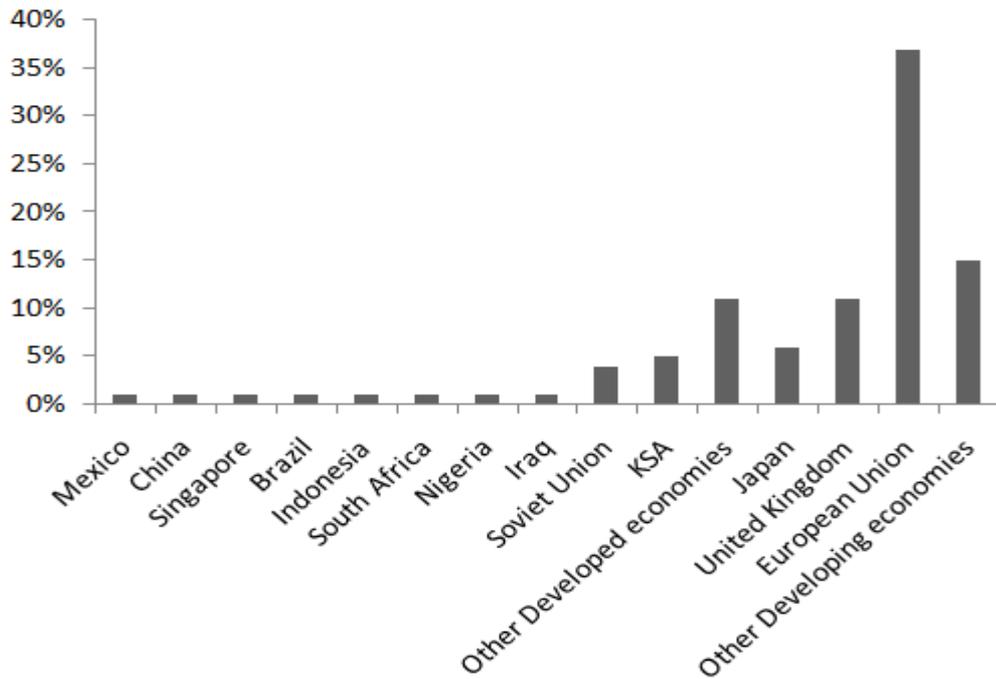
James et al., (2003) discussed in their research paper that China's entry into WTO is of great significant not only to Chinese economy but also world economy. Palley (2011) discussed about the rise and fall of Export-led growth that the

export-led growth paradigm is exhausted because of changed conditions in both EM and developed economies. EM economies are mistaken in their belief that they can collectively continue to grow on the basis of export-led growth; there is need for a major recalibration of the global economy that abandons export-led growth and replaces it with a new paradigm of domestic demand-led growth. Globalization has so diversified global economic activity that no country or region can act as the lone locomotive of global growth. Diversified global economy requires that all regions pull together. World report, 2013 examined that the fundamental forces shaping the future of international trade include demography, investment, technology, the disposition and availability of energy and other natural resources, transportation costs and institutions. These include social, environmental and macroeconomic concerns that are high on the political agenda. All these economic, social and political factors will shape policy and in turn will be affected by policy.

## **TRENDS IN INTERNATIONAL TRADE**

Trade has been transformed in recent years through wider and more disperse geographical participation, changes in the composition of trade, and the rise of international supply chains. The early years of the 20<sup>th</sup> century produced the first great globalization. But years between 1914 and 1945, however, stand out as a period of dramatic “de-globalization”. The combined shocks of the First World War, the Great Depression and the Second World War saw countries pull back from global integration and turn to more nationally focus. International trade has grown tremendously in last 30 years.

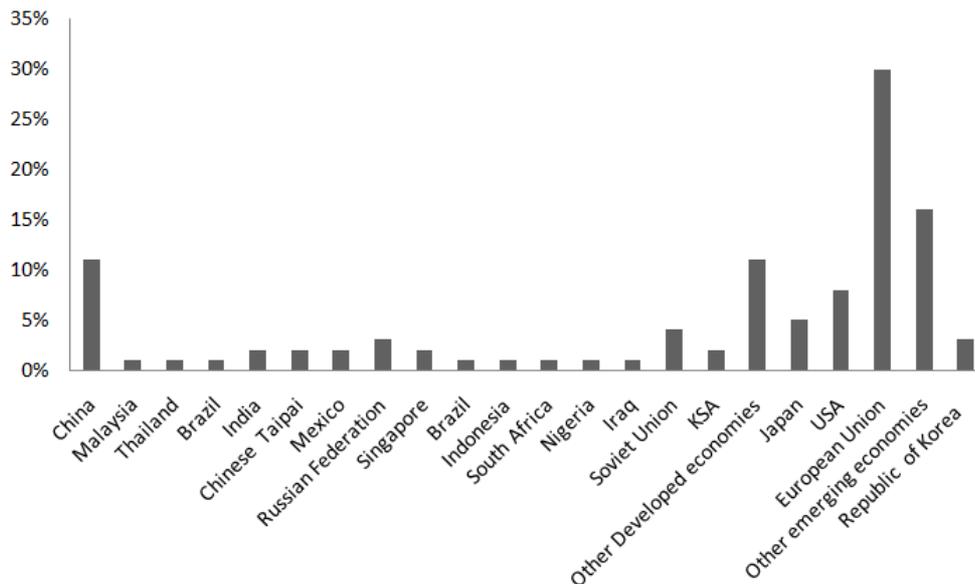
The dollar value of world merchandise trade increased by more than 7 per cent per year on average between 1980 and 2011, reaching a peak of US\$ 18 trillion at the end of that period. Trade in commercial services grew even faster, at roughly 8 per cent per year on average, amounting to some US\$ 4 trillion in 2011. Since 1980, world trade has grown on average nearly twice as fast as world production. Reductions in tariffs and other barriers to trade during this period contributed to the expansion. Countries have become less specialized overtime in terms of their exports .Improvements in transport, telecommunications and information technology, together with increased economic integration and greater trade openness, have resulted in higher levels of technological diffusion and increased mobility and accumulation of productive factors over time. Trade has tended to become more regionalized since 1990, particularly in Asia; but intra-regional trade shares in Europe and North America have remained steady or declined. The share of intra-regional trade in Asian exports raised from 42 per cent in 1990 to 52 per cent in 2011, giving Asia the largest share of intra-regional trade in exports of any geographic region when the European Union is counted as a single entity. The share of intra-regional trade in North America’s exports increased from 41 per cent to 56 percent between 1990 and 2000, before falling back to 48 per cent in 2011.



(Source: WTO Secretariat)

Figure 1: (a) Share of Selected Economies in World Merchandise Exports by Level of Development, 1980

Figure-1(a) and (b) illustrates the increased share of developing economies in world merchandise exports between 1980 and 2011, as well as the corresponding reduction in the share of developed countries. Developing economies, whose exports represented just 34 per cent of world trade in 1980, saw their share rise to 47 per cent, or nearly half of the total, by 2011. At the same time, the share of developed economies dropped sharply from 66 per cent to 53 per cent. A striking difference between the two periods is the predominance of oil exporters among developing economic more important role played by Asian developing economies in 2011.



(Source: WTO Secretariat)

Figure 1: (b) Shares of Selected Economies in World Merchandise Exports by Level of Development, 2011

Table 1 shows that China's share in world exports is 11 per cent, making it the largest developing exporter. The top five merchandise exporters in 2012 were China (US\$ 2.05 trillion, 11.2 per cent of world trade), the United States (US\$ 1.55 trillion, 8.4 per cent), Germany (US\$ 1.41 trillion, 7.7 per cent), Japan (US\$ 799 billion, 4.4 per cent) and the Netherlands (US\$ 656 billion, 3.6 per cent). The leading importers were the United States (US\$ 2.34 trillion, 12.6 per cent of world imports), China (US\$ 1.82 trillion, 9.8 per cent), Germany (US\$ 1.17 trillion, 6.3 per cent), Japan (US\$ 886 billion, 4.8 per cent) and the United Kingdom (displacing France at US\$ 680 billion, 3.7 per cent).

## FACTORS SHAPING THE FUTURE OF WORLD TRADE

The world is changing with extraordinary rapidly, driven by many influences including shift in production and consumption pattern, continuing technological innovations world trade depends on a range of factors that may change in the future and influence not only extent but also the nature and impact of trade. These factors include Demography, investment, technology, energy and other natural resources, transportation costs and institutions.

**Table 1: Merchandise Trade: Leading Exporters and Importers, 2012**

(US\$ Billion and Percentage)									
Rank	Exporter	Value	Share	Annual Percentage Change	Rank	Importer	Value	Share	Annual Percentage Change
1	China	2,049	11.2	8	1	USA	2,335	12.6	3
2	United States	1,547	8.4	5	2	China	1,818	9.8	4
3	Germany	1,407	7.7	-5	3	Germany	1,167	6.3	-7
4	Japan	799	4.4	-3	4	Japan	886	4.8	4
5	Netherlands	656	3.6	-2	5	U.K.	680	3.7	1
6	France	569	3.1	-5	6	France	674	3.6	-6
7	Republic of Korea	548	3.0	-1	7	Netherlands	591	3.2	-1
8	Russian Federation	529	2.9	1	8	Hong Kong, China	554	3.0	8
9	Italy	500	2.7	-4		Retained imports	140	0.8	6
10	Hong Kong, China	493	2.7	8	9	Republic of Korea	520	2.8	-1
	domestic exports	22	0.1	33	10	India	489	2.6	5
	re-exports	471	2.6	7	11	Italy	486	2.6	-13
11	United Kingdom	468	2.6	-7	12	Canada	475	2.6	2
12	Canada	455	2.5	1	13	Belgium	435	2.3	-7
13	Belgium	446	2.4	-6	14	Mexico	380	2.0	5
14	Singapore	408	2.2	0	15	Singapore	380	2.0	4
	Domestic exports	228	1.2	2		retained imports	199	1.1	11
	re-exports	180	1.0	-3	16	Russian Federation	335	1.8	4
15	KSA	386	2.1	6	17	Spain	332	1.8	-12
16	Mexico	371	2.0	6	18	Taipei,	270	1.5	-4

						Chinese			
17	Taipei, Chinese	301	1.6	-2	19	Australia	261	1.4	7
18	UAE	300	1.6	5	20	Thailand	248	1.3	8
19	India	293	1.6	-3	21	Turkey	237	1.3	-2
20	Spain	292	1.6	-5	22	Brazil	233	1.3	-2
21	Australia	257	1.4	-5	23	United Arab Emirates	220	1.2	7
22	Brazil	243	1.3	-5	24	Switzerland	198	1.1	-5
23	Thailand	230	1.3	3	25	Malaysia	197	1.1	5
24	Malaysia	227	1.2	0	26	Poland	196	1.1	-7
25	Switzerland	226	1.2	-4	27	Indonesia	190	1.0	8
26	Indonesia	188	1.0	-6	28	Austria	178	1.0	-7
27	Poland	183	1.0	-3	29	Sweden	162	0.9	-8
28	Sweden	172	0.9	-8	30	KSA	144	0.8	9
29	Austria	166	0.9	-6					
30	Norway	160	0.9	0					-
	Total of above	14,870	81.2	-		Total of above	15,270	82.3	
	World	18,325	100.0	0		World	18,565	100.0	0

(Source: WTO Secretariat)

## DEMOGRAPHY

Demographic change is likely to affect trade patterns through both the supply and demand channels, via changes in the size and composition of the labor force (ageing, migration, education, and new entrants), global middleclass, spending of savings in old age and increased demand for health, leisure and travel services. Rising share of educated workers and an increase in female labor force participation affects trade. Barro and Lee, 2010 showed that over the period 1950-2010 the average number of years of schooling among individuals aged 15 or over increased from 2.1 to 7.1. In developing countries and from 6.2 to 11.0 in developed countries. The highest growth rates were registered in the Middle East and North Africa, Sub-Saharan Africa and South Asia.

Based on the data provided by Barro and Lee (2010); Fouré et al. (2012) projected future secondary and tertiary education enrolment rates for the working age population to 2050. Their projections show that the educational attainment profile of the working population will continue to increase, especially in developing countries, producing a convergence in educational levels between both developing and developed countries.

## INVESTMENT

Investment in physical capital leads to capital accumulation and technological progress, and hence economic growth. It may shift comparative advantage towards relatively capital-intensive activities Public investment in roads, ports and other transport Infrastructure reduces trade costs and enhance the participation of new players. Domestic savings are crucial for enhancing investment in physical capital. Table 2 shows that Countries with the highest average savings rates

between 2000 and 2010 are mostly Asian nations and resource-rich economies in the Middle East and North Africa. Middle-income countries as a group had a savings rate of 30 per cent in 2010 almost double the level of high-income countries.

## INSTITUTIONS

Institutions include social norms, ordinary laws, regulations, political constitutions and international treaties within which policies are determined and economic exchanges are structured. Political borders hinder international trade but also respond to change in the trading environment. Strong economic institutions promote international integration and are an important source of comparative advantage.

## ENDOWMENT IN ENERGY AND OTHER NATURAL RESOURCES

Energy, land and water resources have a crucial bearing on the volume, pattern and growth of international trade, particularly in a world where these resources are distributed unevenly. Increases in prices and the price volatility of natural resources, such as oil, can have large adverse effects on economic activity and international trade. Substitution possibilities and technological change will largely determine the degree to which the finite availability of some natural resources influences economic growth and trade. One third by the year 2035, with most of the growth in demand coming from emerging economies. The rapid development of shale gas in the United States will create a sea change in global energy flows and the pattern of international trade in oil.

**Table 2: Average Annual Saving Rates, 2000-2010  
(Percentage of GDP)**

Top 15		Bottom 15	
Libya	59.81	Serbia	10.15
Qatar	55.81	Iceland	10.38
The State of Kuwait	48.36	Côte d'Ivoire	11.64
Algeria	47.88	El Salvador	12.07
China	46.90	Cyprus	12.12
Singapore	42.27	Lebanese Republic	12.46
Iran	40.34	Greece	12.87
Kingdom of Saudi Arabia	36.92	Bosnia and Herzegovina	13.05
Malaysia	35.55	Portugal	13.88
Azerbaijan	35.51	Guatemala	14.29
Norway	35.32	United States	14.61
Trinidad and Tobago	34.27	Cameroon	14.67
Venezuela, Bolivarian Republic	33.92	United Kingdom	14.72
Oman	32.93	Dominican Republic	14.89
Viet Nam	32.93	Lithuania	15.15

**Source:** International Monetary Fund, World Economic Outlook Database, October 2012)

## TECHNOLOGY

Technology is a crucial determinant of trade and vice versa besides differences in resource endowments, trade occurs because technological knowledge differs across countries and firms. ICT also enables new forms of consumption, e.g. via cross-border trade. Advances in Information and Communication Technologies (ICT) and transport reduce trade costs and hence facilitate participation in complex production networks. Other factors affecting technological progress include intellectual property rights, the movement of factors of production, and a country's absorptive capacity.

## TRANSPORT

Transport is a major component of trade costs. As such, transport costs affect the volume, direction and composition of trade as well as the tradability of goods themselves. Transport costs depend on a range of factors, such as geography, fuel costs, infrastructure and regulatory issues. Progress in transport technology, new routes and improvements in trade infrastructure could further reduce the costs of Shipping. Table 3 shows the future scenario of transportation costs will depend on how different determinants – distance to markets and transportation routes, infrastructure, trade facilitation, competition and regulation, transportation technology, and fuel costs are likely to develop.

**Table 3: Estimates of Potential Changes to Transportation Costs**

Determinants	Estimated Impact on Transportation Cost	Sources	Remarks
Fuel Cost	Increase transportation cost by between 8% and 16%	Mirza and Zitouna(2010), UNCTAD(2010),Rubin and Tal (2008)	Future scenario: Energy costs rise by 16%
Infrastructure	Decrease transportation cost by 12%	Limao and Venables (2001) Blyde (2010)	<i>Assumed improvement in infrastructure:</i> Countries make investments in transportation infrastructure that improve their ranking from the 75th to the 25th percentile.
Trade facilitation	Decrease transportation cost by 10%	Moisé et al. (2011) Hoekman and Nicita (2010)	<i>Assumed improvement in trade facilitation:</i> Implement trade facilitation measures being negotiated in the Doha Round.
Competition	Decrease transportation cost up to 10%	Hummels et al. (2009)	<i>Assumed increase in degree of competition:</i> Increase number of carriers serving developing country Markets.

(Source: World trade report 2013)

Trade also takes place in a broad economic, societal and political context. All these factors shape the policy and in turn affected by policy Social concerns related to income inequality and jobs, Environmental problems place a burden one economic well-being, and many countries seek to pursue green growth strategies and policies. Such measures may increase production costs in affected sectors.

## CONCLUSIONS

In looking at future scenarios, demography, investment, technology, energy, natural resources, transportation costs and institutions are fundamental factors that shape overall nature and future of trade. These forces are complex and numerous. They interact with trade itself and with each other, as well as being influenced by government policy. One thing seems clear that the landscape and nature of world trade are changing fast. These developments in the nature and composition of trade have been good news for many countries and firms. As trade evolves, new policy challenges will arise. Policy-makers need to take into account the changing nature and composition of trade. If properly managed, international trade will further Increase prosperity around the globe.

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