



UNCTAD 14

Nairobi, 17–22 July 2016

The Trillion Dollar Question:

How to Kick-Start Trade and Output Growth?

- Strengthening multilateralism, finding common solutions -

July 20, Wednesday, 16:30-18:00

Kenyatta International Conference Centre, Nairobi

Policy Note

DISCUSSION

Following an initial bounce back from the Great Recession, global trade growth has been anaemic – even lower than output growth – and much below its breakneck pace of more than 7 per cent in the pre-crisis period. If this persists, it could jeopardize developing country efforts to achieve the Sustainable Development Goals (SDGs). Furthermore, intense debate about the late impact of trade policies in income distribution and poverty reduction in the exporter developing countries has also emerged as a result of the slowdown.

It will discuss structural changes and constraints. Views from trade economist, policymakers and business leaders will be shared to unveil not only macroeconomic factors but also to provide evidence of the business behaviours at the micro level. Furthermore, different measures to kick-start trade and output growth in support of Agenda 2030 will also be discussed.

KEY MESSAGES

1. **Export-oriented development strategies that have been successful in the past may not work in the future.**

Persistently low growth rates in developed and emerging markets have implications for the ability of many countries to exploit the opportunities of international markets – and therefore whether they should replicate or continue - the export-oriented development strategies that have been successful in the past. To benefit from international trade, developing countries should in fact adapt their trade strategies by taking into account early signals from the latest international-trade trends.

2. **Different factors than in the past will likely fuel future growth in trade.**

Some of the factors and the policies that fuelled trade growth in the past may have exhausted their effects. As an alternative, expanded intraregional economic links and the relocation of value added activities from traditional exporter to new cost competitive regions could emerge as source of future growth. In addition, increasing competitiveness in the services sector could provide similar incentives to those behind the past surge of manufacturing trade.

3. Trade may affect inclusive and sustainable growth in different ways.

Export-oriented trade has had different diverse effects on income redistribution and poverty reduction in developing countries. The participation of a greater number of dynamic small and medium enterprises in the international trade may bring a larger positive effect of trade on income redistribution. Also, more and better social insurance and compensation fuelled by trade gains may strengthen the link between trade and poverty reduction. Notwithstanding the potential role of trade in accelerating economic growth, the key issue is to ensure the link between trade, growth, inequality and poverty.

4. Governments need to advance a forward-looking trade agenda

For trade to resume growing at the rates of the last few decades, a forward-looking trade agenda will need to be advanced by governments. Issues to be addressed include reaching a balanced outcome on harmonizing regulations and tackling the multiplicity of "behind-the-border" issues influencing intraregional and international trade. This would surely allow both developing and developed countries to benefit from the opportunities offered by international trade.

BACKGROUND

I. World economic growth is sluggish and trade growth is...

Eight years after the Great Recession the world economy is still struggling. Many economies have never fully recovered as economic growth has remained fragile – with great implications for international trade. The latest trade statistics show new dynamics with respect to the past: while international trade historically grew at a substantially faster rate than global output, after 2012 it grew at similar pace, or even lower. Although still increasing in volume terms (about 3 per cent), the value of global trade collapsed by more than 10 per cent in 2015 largely due to the sharp decrease in the prices of oil and other commodities (See Figure 1).

Moreover, it is noteworthy that the trade elasticity to output - the percentage change in international trade over the percentage change in world output - has declined since 2000. After the crisis, the downward trend of trade elasticity was accentuated. This suggests that the recent trade slowdown has not only been due to a generally lower economic growth but also because trade has been much less responsive to output growth. This pattern may suggest the start of a "de-globalization" period marking a process of diminishing interdependence and integration between countries.

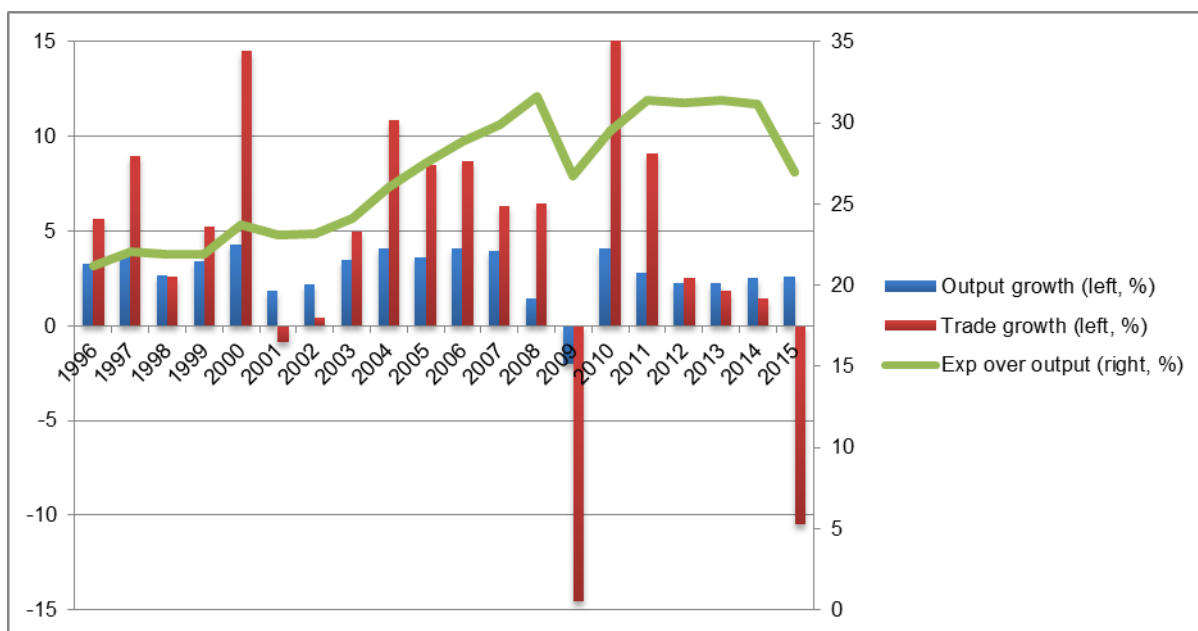


Figure 1. Global GDP, Trade and Exports

Source: UNCTAD calculations based on UNCTADSTAT data (Data for 2015 is preliminary)

II. Trade slowdown matters because...

International trade has been instrumental for economic growth, technological upgrading and rising productivity. Trade can create economic activities affecting employment and income distribution of importing, exporting and even third party countries. Export-led trade strategy has served developing and crisis-hit economies as a main tool to boost economic growth and pay off a country's debt. Moreover, trade contributes to technology flows by encouraging the movement of products, labour and investment. Specialization in activities based on comparable advantage enables efficient allocation of resources and productivity increase. Therefore, an enduring period of declining trade and weakening economic interdependence could reduce development opportunities and pose serious constraints on developing countries to meet the SDGs. It calls for a better understanding of the causes of ongoing trade stagnation and prompt undertaking of the policy actions that are needed to resume output growth and economic integration at both international and regional levels.

III. Trade growth is slowing down because...

Both cyclical and structural factors are currently contributing to low trade growth and declining trade responsiveness to output. The debate rests on their relative importance and their effect on the medium and long term.

1. Cyclical factors

International trade continues to be affected by the remnants of the Great Recession and is surely dampened by uncertainty brought on by economic volatility and political tensions in various parts of the world. Unpromising economic growth and post-Recession recovery policies have withheld commodity cycles and investment decisions especially in major trading countries. This would explain low trade growth rate in primary goods and investment goods, which constitute to the large extent, global trade slowdown.

2. Structural factors

The declining responsiveness of trade to output growth can be considered the result of deep structural changes in the economies of emerging countries - mainly in East Asia - and the consequent shift in these economies being stoked by investments and exports to a new situation increasingly driven by internal demand. The countries which

used to import parts from other countries and export finished goods to the world are becoming less reliant on imported parts and substituting them with domestic parts. This underpins the trade slowdown in intermediate goods and the rising amount of domestic value added in export products in these countries.

Additionally, it could be argued that decreased economic interdependence is taking place because the engine for the era of "hyperglobalization" - rapid rise of trade as a share of output from early 1990s to mid-2000s - has been exhausted. "Hyperglobalization" was spurred by significant geo-economic changes such as the liberalization of China and the former Soviet Union. A sharp reduction in trade barriers together with the establishment of the World Trade Organization, progress in transportation and information technology reduced the trade costs and enabled the fragmentation of manufacturing across borders. However, there have been no remarkable changes in geo-economics and technology while the multilateral trading system encounters more difficulties in easing trade frictions.

IV. Nevertheless, trade statistics show positive trends in...

Beyond the causes that are creating global stagnation, we must also consider relevant positive trends since they are likely to strengthen in the future.

1. Resilient South-to-South trade

South-to-South trade has been more resilient than North-to-North or North-to-South (See Figure 2 (a)). Beyond commodity flows to China, part of this resilient behaviour can be attributed to the growth of internal demand in emerging economies, which are served more competitively from other peer South exporters. Furthermore, the relocation of some value-adding productive activities from traditional exporters to the North to other more cost competitive emerging economies has also favoured this trade. Business evidence in the form of Chinese or Indian multinationals reallocating activities to countries like Viet Nam, Ethiopia or Kenya supports this.

2. Increasing intraregional trade

Intraregional trade in developing economies, despite representing a small share of global trade yet, have a possibility to increase as it is the case in sub-Saharan Africa or South Asia (See Figure 2 (b)). This may be the result of larger economy dependencies across emerging regional trade regions but also, of the improvement of policies to foster this type of trade. Again, the appearance of indigenous companies with regional scope (the so-called regional giants) provides some ground-level evidence.

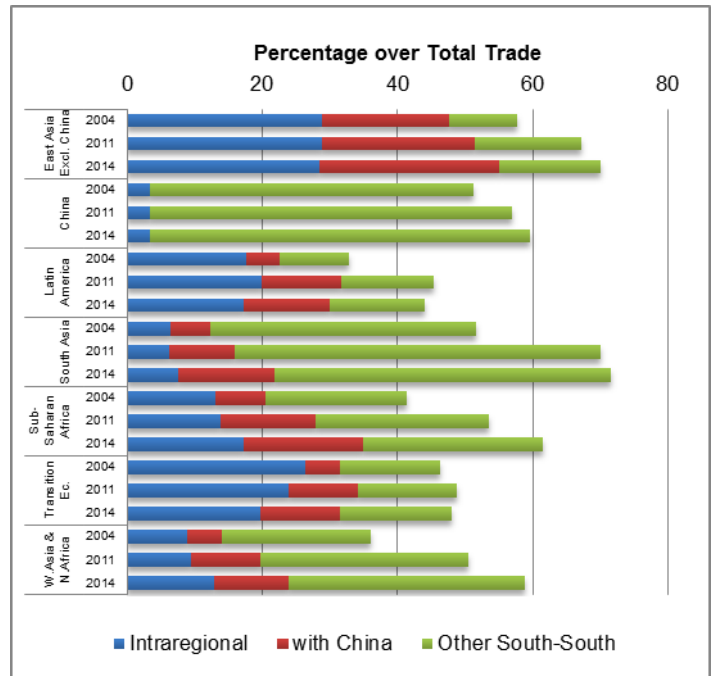
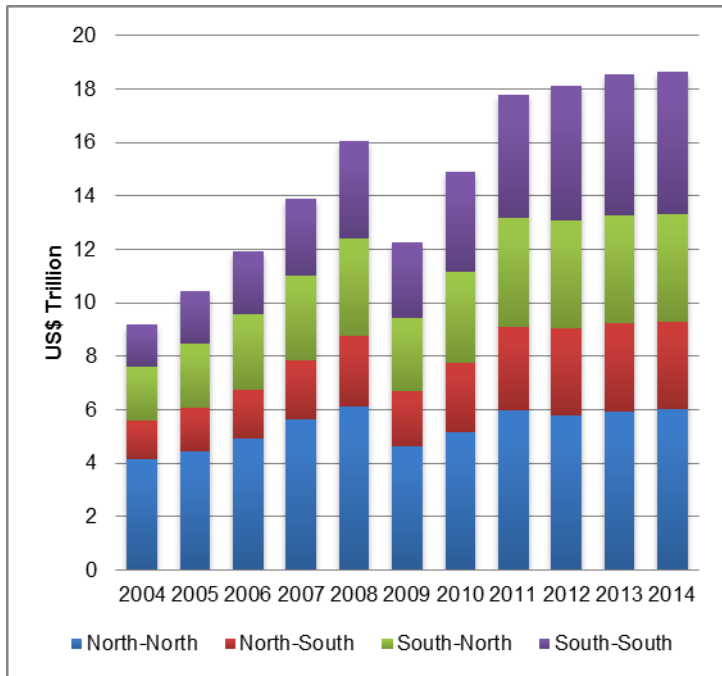


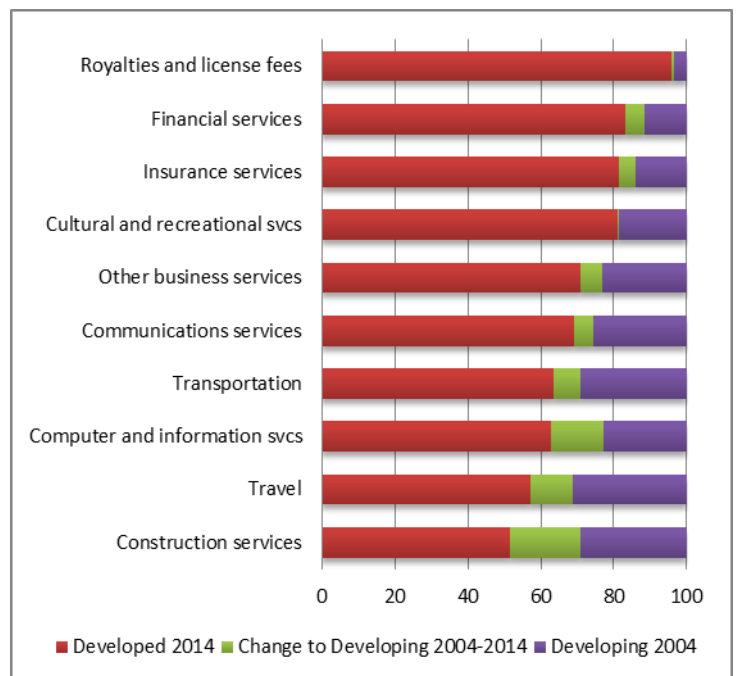
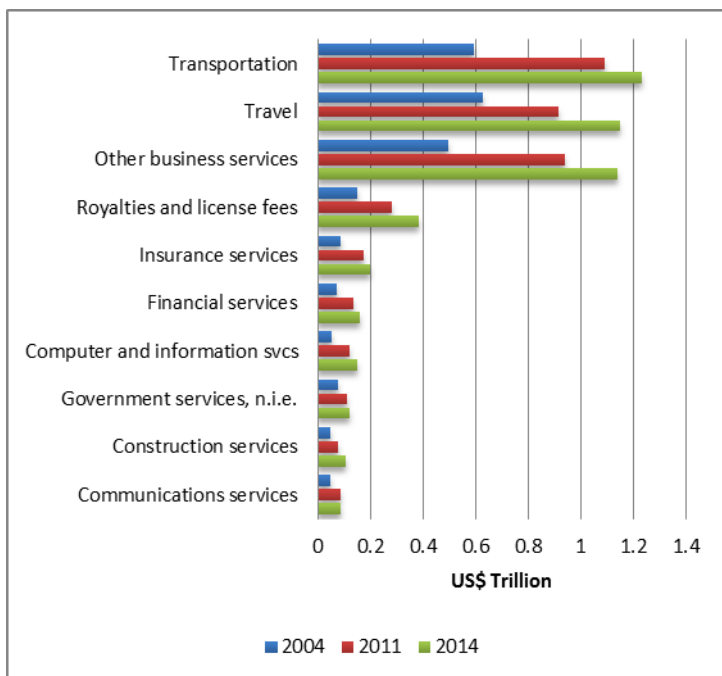
Figure 2. (a) Distribution of World Trade; (b) South-South trade

Source: UNCTAD Calculation based on Comtrade data

3. Increasing trade in services

Trade in services keeps increasing in a healthy manner (See Figure 3 (a)). Also, trade elasticity for services has increased with respect to pre-crisis levels, meaning that services trade responds to output more nowadays than pre-crisis. The growth in services trade is spurred by developing countries having the increased competitiveness in the export of key labour intensive services as well as gaining the dynamism of financial, insurance, telecommunications, and computer and information services (See Figure 3 (b)). The structural shift of emerging economies to internal demand, with a potential emphasis on services in the future may underpin this trend.

Figure 3. (a) Trade in Services, by Sector; (b) Export Market Share



Source: UNCTAD Calculation based on UN Service Trade database

V. The trade trends imply to sustainable development policies...

From a policymaking perspective, persistently low growth rates in developed and emerging markets have implications on whether they should replicate or continue the export-oriented development strategies that have been successful in the past. Developing countries seeking to benefit from international trade should adapt their development strategies by taking account of these signals from the latest trends in international trade. The trend requires governments to pursue a forward-looking trade agenda that encompasses new international trade conditions as well as making sure that trade can better support inclusive economic growth and sustainable development.

This last point is not to be neglected. Notwithstanding the potential role of trade in accelerating economic growth, the key issue is to ensure the link between trade, growth, inequality and poverty. Export-oriented trade had different diverse effects on income redistribution in developing countries. The new factors that favour trade could foster the participation of a greater number of dynamic small and medium enterprises in the economy, which on the other hand, may have a larger positive effect of trade on income redistribution effects on developing countries.

Moreover, the impact of international trade on poverty reduction has been uneven. The insufficient thinking on better trade strategies is reflected in the fact that poor households only receive a small portion of global trade revenues. In most cases their share has been declining since the global liberalization waves started in the 1990s. More and better social insurance -safety nets - and more and better compensation are needed. The gains from trade do not become real unless and until there is compensation.

Finally, a forward-looking trade agenda should not be just about material risks and losses. It should be also about reaching a balanced outcome between harmonizing regulations across bilateral and regional trade deals and tackling the multiplicity of "behind-the-border" issues. The start would be to recognize the difference between domestic values and norms, and prevailing practices in international trade, and insure that a trade agenda embracing broader issues including labour and trade finance looks beyond domestic social agenda; its space of influence and application has to be international.

VI. Lines of advance for policymaking

From the discussion above, the following lines of action can be discussed.

1. Explore the potential capabilities of South-to-South trade and intraregional trade as key factors for future world economic development. The potential for trade growth lies more on South-to-South trade rather than South-to-North trade. Also, South Asia, Latin America and especially Sub-Saharan Africa still have much room to benefit from advancing economic interdependence within the regions. The first step would be to develop an understanding of the needs of South-to-South traders and regional business players.
2. Facilitate the competitiveness of services sectors as an alternative to traditional manufacturing. Services sectors are essential to the efficient functioning of all economies and to strengthened productive capacity with the potential to induce structural transformation towards sustainable development. The dynamism of telecommunications, computer and information services in developing countries is especially important, as these services enable modern economic and social activities, contributing to increased productivity and competitiveness.
3. Income redistribution and poverty reduction must be at the core of the discussion. A greater number of small and medium companies could participate in international trade, if trade facilitation and implementation of technologies such as efficient logistics and e-payment systems, ease cross-border transaction costs. Moreover, more and better social insurance is not in contradiction with the open economy. On the contrary, redistribution is logically the flip side of the gains from trade. The gains from trade do not become real unless and until there is compensation.

4. Recognize the difference between domestic values and norms, and prevailing practices in international trade, and insure that a trade agenda looks beyond the domestic social agenda. A forward-looking trade agenda must reach a balanced outcome between harmonizing regulations across bilateral and regional trade deals and tackling the multiplicity of "behind-the-border" issues such as labour standards.

REFERENCES

- Key Statistics and Trends in International Trade 2015, UNCTAD

<https://goo.gl/nsNa3n>

- Key Statistics and Trends in Trade Policy 2015, UNCTAD

<https://goo.gl/nsNa3n>

Co-organized by

