World Merchandise Trade

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Abstract*: This article is mainly based on the most recent statistical data of the World Trade Organization and some aspects related to the evolution of world merchandise trade, in terms of volume and value, in 2015. The volume of world merchandise trade continued to grow slowly in 2015 while the dollar value of it declined sharply as exports fell 14 per cent to US$ 16 trillion, down from US$ 19 trillion in the previous year. It presents also the contribution of the volume change and of the change in unit values (which account for fluctuations in prices and exchange rates) to the value trade growth (in current dollar terms). The discrepancy between trade growth in 2015 in terms of volume and value was mostly attributable to swings in commodity prices and exchange rates The course of economic globalization is also shortly looked on based on some data and considerations of Credit Suisse analysts. Three different scenarios were taken into account in this respect. First one in which globalization continues in the form we know it over the past thirty years, second one in which a multipolar world is a better representation of the state of affairs and third, a scenario in which globalization ends due to the rise of anti-globalization political movements. The second scenario seems to provide a better reflection of reality today, despite the fact that a certain slowdown is observable when taking into account the diminishing growth rate of physical trade, the slower penetration of foreign assets of the developed market companies and signs of reshoring of some business back home. Globalization remains intact in terms of consumption and marketing patterns, while companies seem more reluctant to invest abroad.*

Keywords*: world merchandise trade, economic globalization*

1. The volume of world merchandise trade

The volume of world trade continued to grow slowly in 2015 recording a growth of 2.7 per cent, measured by the average of exports and imports (the volume of exports grew by 3%, while the volume of imports grew by 2,4%, , as illustrated by Chart 2.). Slow global trade growth was accompanied by a modest increase in world GDP, which grew 2.4 per cent in real terms at market exchange rates in the same period.

Several factors contributed to the lackluster performance, including economic slowdown in China, recessions in other large developing economies including Brazil, falling prices for oil and other primary commodities, strong fluctuations in exchange rates, and financial volatility driven by divergent monetary policies in developed countries. Faster economic growth and rising import demand in developed countries (in Europe and North America) partly made up for weaker demand elsewhere, leaving trade growth and output growth nearly unchanged compared with the previous year (2.8 per cent and 2.5 per cent, respectively, in 2014). Meanwhile, output slowed in China and contracted in Japan. China's economy slowed further in the first quarter of 2016. Growth also eased in the United States in the first quarter of 2016 but accelerated in the euro area. Japan's GDP continued to alternate between positive and negative growth.

2015 marked the fourth consecutive year with trade volume growth below 3 per cent, and the fourth year in a row with world trade growing at nearly the same rate as world GDP. Growth rates for trade and GDP in 2015 remained below their respective averages since 1990 of 5 per cent and 2.7 per cent. The recent slow in trade growth is unusual but not unprecedented, as for example the world trade growth was weaker between 1980 and 1985, when five out of six years saw trade growth below 3 per cent, including two years of outright contraction.

Chart 1. Growth in the volume of world merchandise trade in 2015 (Annual percentage change)

	Exports	Imports
World	**3.0**	**2.4**
North America	**0.8**	**6.5**
Canada	4.4	0.7
Mexico	4.0	13.3
United States	-0.9	6.5
South and Central America	**1.3**	**-5.8**
Europe	**3.7**	**4.3**
European Union	4.0	4.5
Commonwealth of Independent States (CIS)	**-0.6**	**-21.9**
Africa	**0.1**	**1.3**
Middle East	**8.6**	**-1.9**
Asia	**3.1**	**1.8**
Australia	3.3	4.5
China	4.6	-4.2
India	-2.1	-8.9
Japan	2.2	2.7

Source: World Trade Statistical Review 2016, WTO

As for the contributions to world trade volume growth by regions, Asia contributed more than any other region to the recovery of world trade after the financial crisis of 2008-09. However, the region's impact on global import demand declined in 2015 as China and other Asian economies cooled. in 2015 the region contributed just 0.6 percentage points to the global increase of 2.4 per cent, or 25 per cent of world import growth.

In contrast to Asia, Europe mostly weighed down world trade growth since the financial crisis, making a negative contribution to global import growth in 2012 and 2013. However, by 2015 Europe's contribution was again largely positive, accounting for 1.5 percentage points of the 2.4 per cent increase in world import volume for the year, or 64 per cent of global trade growth.

North America made a positive contribution to world import growth in 2015 (1.1 per cent), while negative contributions were recorded in 2015 for South and Central America (-0.2 per cent) and other regions including Africa, the Middle East and the Commonwealth of Independent States (-0.6 per cent).

On the supply side, "factory Asia" did more than any other region to lift merchandise export volume growth between 2011 and 2014, but its contribution fell below that of Europe in 2015. Asia was responsible for 1 percentage point of the 3.0 per cent rise in world merchandise exports (35 per cent of export growth).

Europe's 1.3 percentage point contribution accounted for 44 per cent of the rise, thanks in part

to a reactivation of trade within the European Union. North America's contribution to export growth in volume terms was close to zero in 2015 as demand for US goods slowed in Canada, Asia and South and Central America

A product breakdown of world trade in dollar value (as in volume terms is not available), shows us that fuels and mining products were responsible for more than half of the plunge in trade values in 2015, but that slowing trade in manufactured goods and agricultural products also contributed significantly to the overall decline. Among manufactured goods, the products where trade values notably declined in 2015 were office and telecom equipment, chemicals and other machinery, while clothing and textiles only made small positive contributions to trade growth.

2. The contribution of the volume change and of the change in unit values (which account for fluctuations in prices and exchange rates) to the value trade growth (in current dollar terms).

During the 2000–2010 period, growth in trade value resulted from a balanced contribution of price and quantities: on average, a 9.7 per cent increase in value terms was due to a 4.3 per cent contribution of volume change and a 4.8 per cent change in prices. 2013 and 2015 saw a different contribution to value growth: volume growth stabilized at 2.7 per cent in a context of falling commodity prices. This resulted in a large decrease in value growth , as illustrated by Chart 2.

Chart 2. Average trade growth by volume, value and unit value (per cent)

Period	Volume	Unit Value	Value
1981-1985	2.9	-3.5	-0.7
1986-1990	5.8	6.2	12.3
1991-1995	6.2	1.9	8.4
1995-2000	7.0	-2.1	4.8
2001-2005	5.0	5.1	10.5
2006-2010	3.7	4.6	9.0
2011-2015	3.1	-1.3	1.8
2013-2015	2.6	-6.0	-3.6

Source: WTO Secretariat.

3. The value of world merchandise trade

Unlike merchandise trade in volume terms, which recorded a modest increase, the dollar value of world merchandise trade declined sharply in 2015 as exports fell 14 per cent to US$ 16 trillion, down from US$ 19 trillion in the previous year.

Chart 3. World merchandise exports and imports in 2015(Billion dollars and percentage)

	Exports	Imports
World	**15985**	**16299**
World	**100.0**	**100.0**
North America	**14.4**	**19.3**
United States	9.4	14.2
Canada	2.6	2.7
Mexico	2.4	2.5
South and Central America	**3.4**	**3.8**
Brazil	1.2	1.1
Chile	0.4	0.4
Europe	**37.3**	**36.2**
Germany	8.3	6.4
Netherlands	3.5	3.1
France	3.2	3.5
United Kingdom	2.9	3.8
Commonwealth of Independent States (CIS)	**3.1**	**2.1**
Africa	**2.4**	**3.4**
Middle East	**5.3**	**4.3**
Asia	**34.2**	**30.8**
China	14.2	10.3
Japan	3.9	4.0
India	1.7	2.4
Australia and New Zeeland	1.4	1.5

Source: World Trade Statistical Review 2016, WTO

The discrepancy between trade growth in 2015 in terms of volume and value was mostly attributable to large swings in commodity prices and exchange rates.

Fuels registered the largest price decline of any commodity group (down 63 per cent between June 2014 and December 2015), as a result of new sources of supply such as shale oil and an easing of world energy demand as economic growth slowed in Asia. The decline in metals prices (down 35 per cent over the same period) was smaller than the decline in fuels due to the fact that there was no increase in the supply of metals comparable to the development of shale oil in the United States. Prices of food and agricultural raw materials also fell, by around 22 per cent each between June 2014 and December 2015.

The appreciation of the US dollar contributed to falling commodity. The dollar appreciated 13 per cent on average against the currencies of US trading partners in 2015. The Chinese yuan appreciated along with the dollar, rising 10 per. The appreciation of the yuan may have contributed to the economic slowdown in China to the extent that it made Chinese exports more expensive in foreign markets. Meanwhile, major natural resource exporters such as Brazil and the Russian Federation saw their currencies drop sharply in value in 2014.

The top ten merchandise traders accounted for 52% of the world's total trade in 2015. Developing economies had a 42% share in world merchandise trade in 2015.

Chart 4. Leading exporters and importers in 2015 (Billion dollars)

Rank	EXPORTERS	Value	Rank	IMPORTERS	Value
1	China	2275	1	United States	2308
2	United States	1505	2	China	1682
3	Germany	1329	3	Germany	1050
4	Japan	625	4	Japan	648
5	Netherlands	567	5	United Kingdom	626
6	Korea	527	6	France	573
7	Hong Kong	511	7	Hong Kong	559
8	France	506	8	Netherlands	506
9	United Kingdom	460	9	Korea	436
10	Italy	459	10	Canada	436
11	Canada	408	11	Italy	409
12	Belgium	398	12	Mexico	405
13	Mexico	381	13	India	392
14	Singapore	351	14	Belgium	375
15	Russian Federation	340	15	Spain	309

Source: World Trade Statistical Review 2016, WTO

However, the value of merchandise trade and trade in commercial services in 2015 is nearly twice as high as in 2005. Asia, Europe and North America have accounted for 88% in total merchandise trade of WTO members over the past ten years. The share of developing economies in merchandise exports increased from 33% in 2005 to 42% in 2015. Merchandise trade between developing economies has increased from 41% to 52% of their global trade in the last ten years.

A negative implication in respect to the globalization process has the ratio of merchandise trade to GDP. It fell sharply in 2009 following the economic crisis, bounced back quickly in 2010-2011, declined gradually in 2012-2014, but fell significantly in 2015 to 23%.

4. The course of economic globalization

„The current wave of globalization is the second the world has seen, the first one occurring between the years 1870 to 1913, built on the fruits of the industrial revolution and the rise of the American economy. 'The current period effectively dates from the early 1990s, where events like the fall of communism, rounds of trade liberalism and the growing momentum of the Chinese economy accelerated globalization. This was then driven by US multi-nationals, the advent of the euro, the growth of financial markets and the development of many emerging economies.

However, in recent years the path that globalization is taking has become obstacle strewn and much less clear. The global financial crisis has slowed economic growth, left large amounts of indebtedness in its path and checked the rise of the financial services industry. The Eurozone appears to many to be in a state of perpetual crisis while the structural rise of China's economy has caused some to fear the role it will play geopolitically. Its cyclical slowdown is also promoting concern." This is a short description of the present state of affairs given about two years ago in a study by Credit Suisse that was trying to establish the direction that globalization is taking recently. Three different scenarios were taken into account.

Scenario 1: Globalization continues: The first of these is that globalization continues in the form we know it over the past thirty years. In substance western multinationals dominate the global business landscape, trade grows with few interruptions from protectionism and the internet economy grows, across borders.

Scenario 2: A multipolar world: This second scenario is based on the rise of Asia and a stabilization of the Euro-zone so that the world economy rests, broadly speaking, on three pillars—the Americas, Europe and Asia (led by China). At the corporate level, the significant change would be the rise of regional corporate champions, which in many cases would supplant global multinationals.

Scenario 3: The end of globalization: a slowing trend in economic growth and trade with the added possibility of a macro shock (from indebtedness, inequality, immigration), a rise in protectionism, currency wars, the rise of anti-globalization political movements and a backlash against global corporations.

Earlier, in 2014, Credit Suisse has calculated the so called CS Globalization Index based on economic, social and technological factors. Economic globalization within this index is estimated by trade openness (% of GDP), FDI (% of GDP) and FPI (% of GDP).

Trade openness has risen from around 32% in 1990 to over 54% in 2013 (based on Credit Suisse data), but has fallen in 2015 to 32% (based on World Trade Organization data). This is consistent with the decline of the value of world merchandise trade by almost 3 billion dollars in 2015.

On the other hand, taking corporates as one of the main channels through which globalization flows, Credit Suisse investigated the course of globalization by looking at the trends in the foreign sales and asset shares of major, listed corporations over the last decade.

Foreign sales accounted for 39% of total global corporate sales in 2014, well above the 2004 level when they accounted for 31%.

The trend for foreign assets, however, was different. The penetration of foreign assets is typically lower than that of foreign sales, as they accounted for just 19% of total assets in 2014 on average. In contrast to sales, the upward trend in foreign assets was brought to an end during the global financial crisis. Foreign assets accounted for 21% of the total in 2003, peaked at 26% in 2008, and then dropped to 18% in 2012. This pattern is similar across most sectors and regions.

If we consider the difference between developed and emerging markets companies, there does seem to be more of a retrenchment in the foreign asset exposure of developed world companies versus those in emerging markets, which seem to have expanded their overseas revenues vigorously while their overseas investment has not slowed to the same extent as developed markets.

Among sectors, technology companies are strongly associated with globalization. The sector enjoys a very high share of foreign sales relative to other sectors, but at the same time has the lowest share of foreign assets.

The financial sector, despite the financial crisis, has managed to keep foreign revenues relatively stable, but the share of foreign assets has contracted from the peak of 2007 by some 5%. Industrial and consumer goods companies have exhibited similar trends. The share of foreign assets of developed market companies is around 5% off its 2007 level.

As for emerging market companies, we see a rise in terms of both sales and investments abroad.

Overall, the results of the study of corporate investment and revenue growth show that globalization remains intact in terms of consumption and marketing patterns, while companies seem more reluctant to invest abroad. All is pointing towards a more multipolar world as in the second scenario of the Credit Suisse. The world is most multipolar in terms of trade patterns and economic activity. Trade is becoming more regional though there are signs of the erection of barriers to trade.

5. Conclusions

The volume of world merchandise trade continued to grow slowly in 2015 while the dollar value of it declined sharply as exports fell 14 per cent to US$ 16 trillion, down from US$ 19 trillion in the previous year. The discrepancy between trade growth in 2015 in terms of volume and value was mostly attributable to swings in commodity prices (large price declines) and exchange rates (the dollar appreciated 13 per cent on average against the currencies of US trading partners).

As for the trend of economic globalization, a certain slowdown is observable when taking into account the diminishing growth rate of physical trade, the slower penetration of foreign assets of the developed market companies and signs of reshoring of some business back home. Globalization remains intact in terms of consumption and marketing patterns, while companies seem more reluctant to invest abroad.

As the analysts from Credit Suisse say Our sense is that the world is currently in a benign transition from full globalization to a multipolar state, though this is not complete. Specifically, the world is most multipolar in terms of trade patterns and economic activity; but financially the world, although highly globalized, is much less multipolar with the USA still dominating markets. Companies continue to try to sell their goods across borders but are less willing to invest internationally.

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