

# International Economic Trends

May 2003



## World Trade: Past, Present, and Future

As the figure shows, the world's volume of merchandise exports (agricultural, mining, and manufactured products) increased at an average annual rate of 6.3 percent from 1950 through 2001; world output increased at a rate of 3.8 percent. During this period, there were only four noteworthy declines in merchandise exports—in 1958, 1975, 1982, and 2001, years when world output showed little or no growth. As world growth accelerated in 2002 to 3.0 percent, world trade increased by roughly 2.5 percent, a much slower rate than the average for 1950-2001. So what does the future hold for world trade growth?

World trade prospects depend on three key factors— income growth, reductions in trade barriers, and declines in transportation costs. Scott Baier and Jeffrey Bergstrand estimated that, between the late 1950s and the late 1980s, income growth explained about 67 percent of the average trade growth of several developed countries, tariff-rate reductions about 25 percent, and declines in transportation costs about 8 percent.<sup>1</sup>

In the April 2003 *World Economic Outlook*, the International Monetary Fund projected that world output would grow 3.2 percent in 2003. If accurate, such a small increase in world output over 2002 suggests only a small increase in world trade.

Turning to multilateral trade negotiations, the prospects are poor for any substantial near-term reductions in trade barriers. It seems unlikely that the Doha Round of World Trade Organization (WTO) negotiations will be completed by 2005, as a deadline for setting ground rules for agricultural talks has come and gone with no agreement.

Neither does it seem likely that regional or bilateral agreements involving the United States will provide the impetus for trade barrier reductions. Negotiations involving the proposed Free Trade Area of the Americas appear to be progressing, at best, very slowly. Similarly, bilateral agreements involving the United States are clouded by delays. For example, a December 2001 agreement with Chile has not yet even been debated in Congress. Potential

agreements with Morocco, Australia, and the countries of Central America are moving even more slowly.

Finally, the terrorist attacks of September 11, 2001, have boosted transport costs. Insurance rates, especially for shipping in the Middle East, have increased sharply. Increased scrutiny of shipping containers has also increased costs. According to the Organization for Economic Cooperation and Development, the costs of additional security measures could run from 1 to 3 percent of the value of trade.<sup>2</sup> Moreover, additional security measures cause delays for importers and exporters that further increase transport costs.

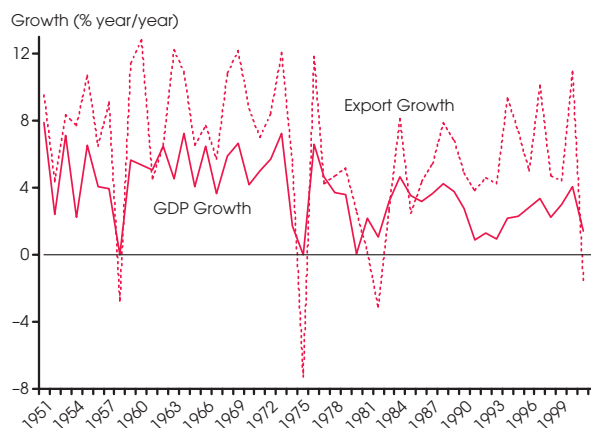
Overall, some acceleration in trade growth can be expected in the near future. However, the small projected increase in world output suggests that the acceleration is likely to be small. Taking a longer perspective, trade growth will continue to be closely related to world output growth. It is unclear, however, whether changes in governmental barriers to trade as well as transportation costs will stimulate or retard long-term trade growth.

—Cletus C. Coughlin

<sup>1</sup>“The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity.” *Journal of International Economics*, February 2001, 53, pp. 1-27.

<sup>2</sup>*OECD Economic Outlook*, June 2002, No. 71, Chap. 4.

**World Merchandise Export Growth and GDP Growth, 1950-2001**



SOURCE: WTO, *International Trade Statistics 2002*. <[http://www.wto.org/english/res\\_e/statis\\_e/its2002\\_e/its02\\_bysubject\\_e.htm#trends](http://www.wto.org/english/res_e/statis_e/its2002_e/its02_bysubject_e.htm#trends)>.