

# World Trade: Driving Forces

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# World trade – driving forces

## ★ Economic growth

- Global growth
- China and India

## ★ Trade liberalisation

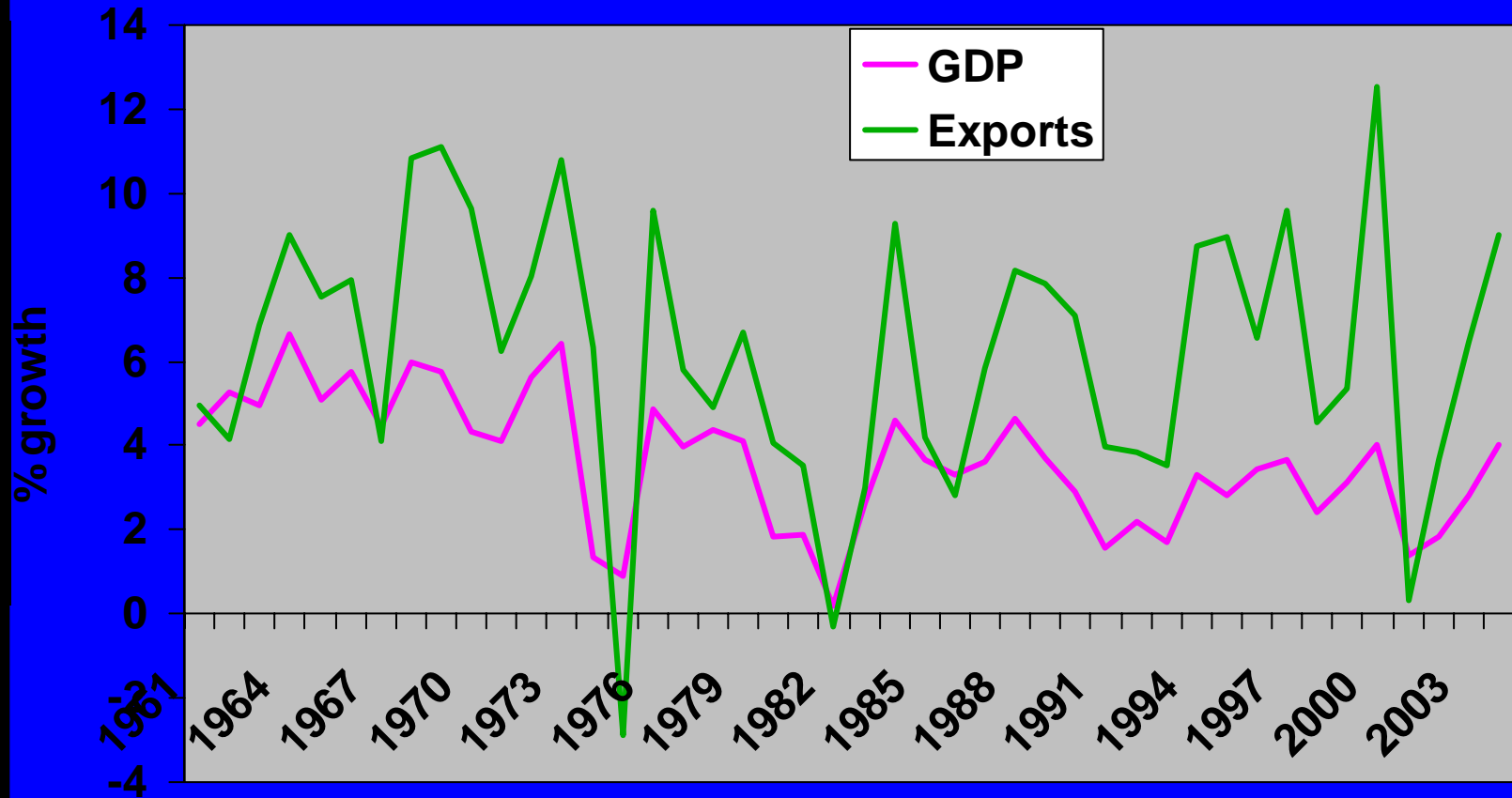
- The Doha round
- Regional agreements
- Unilateral liberalisation

## ★ Transport and other transaction costs

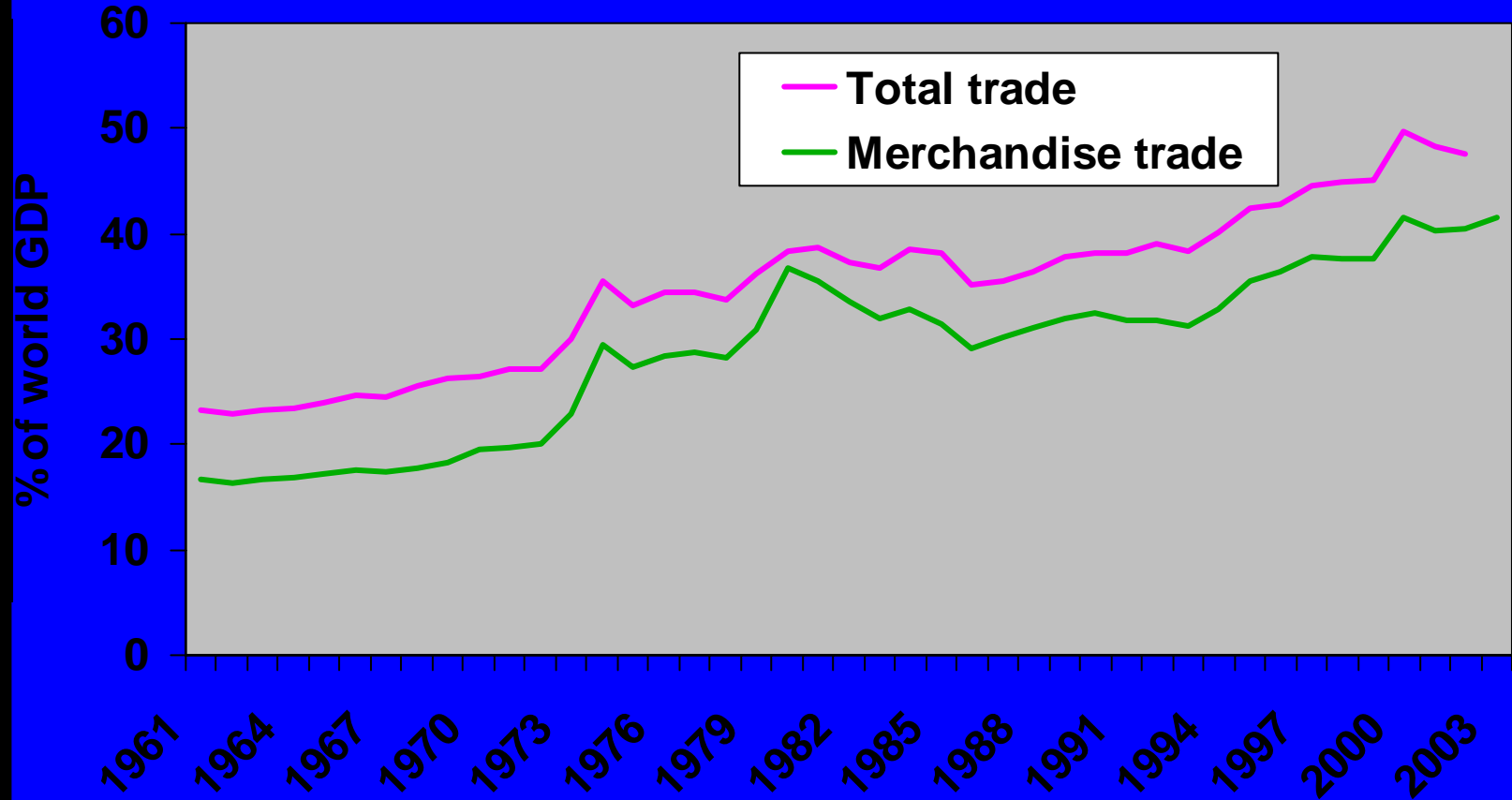
- Technology
- Fuel prices
- New security measures

# Economic Growth

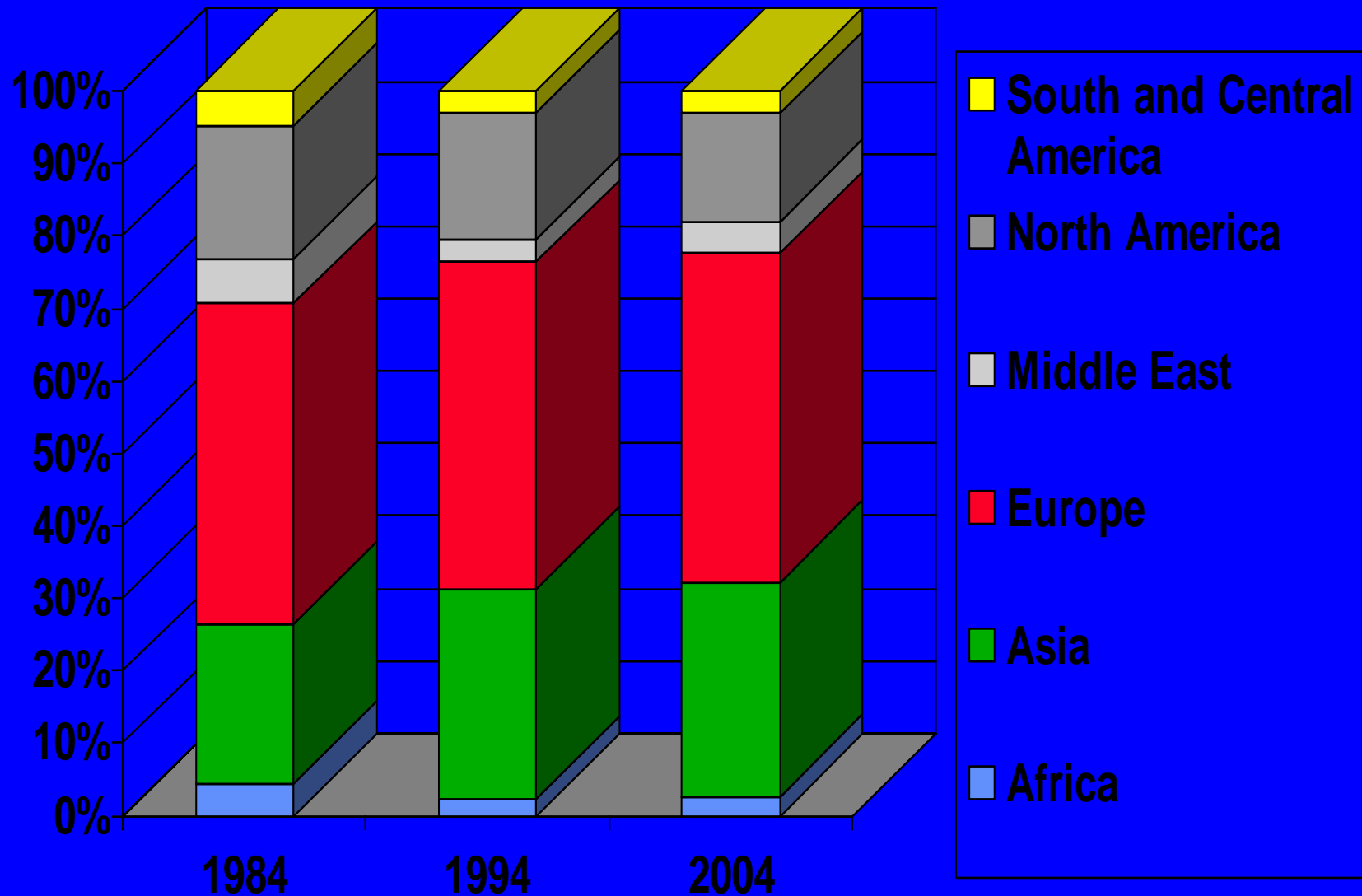
# Trade drives growth



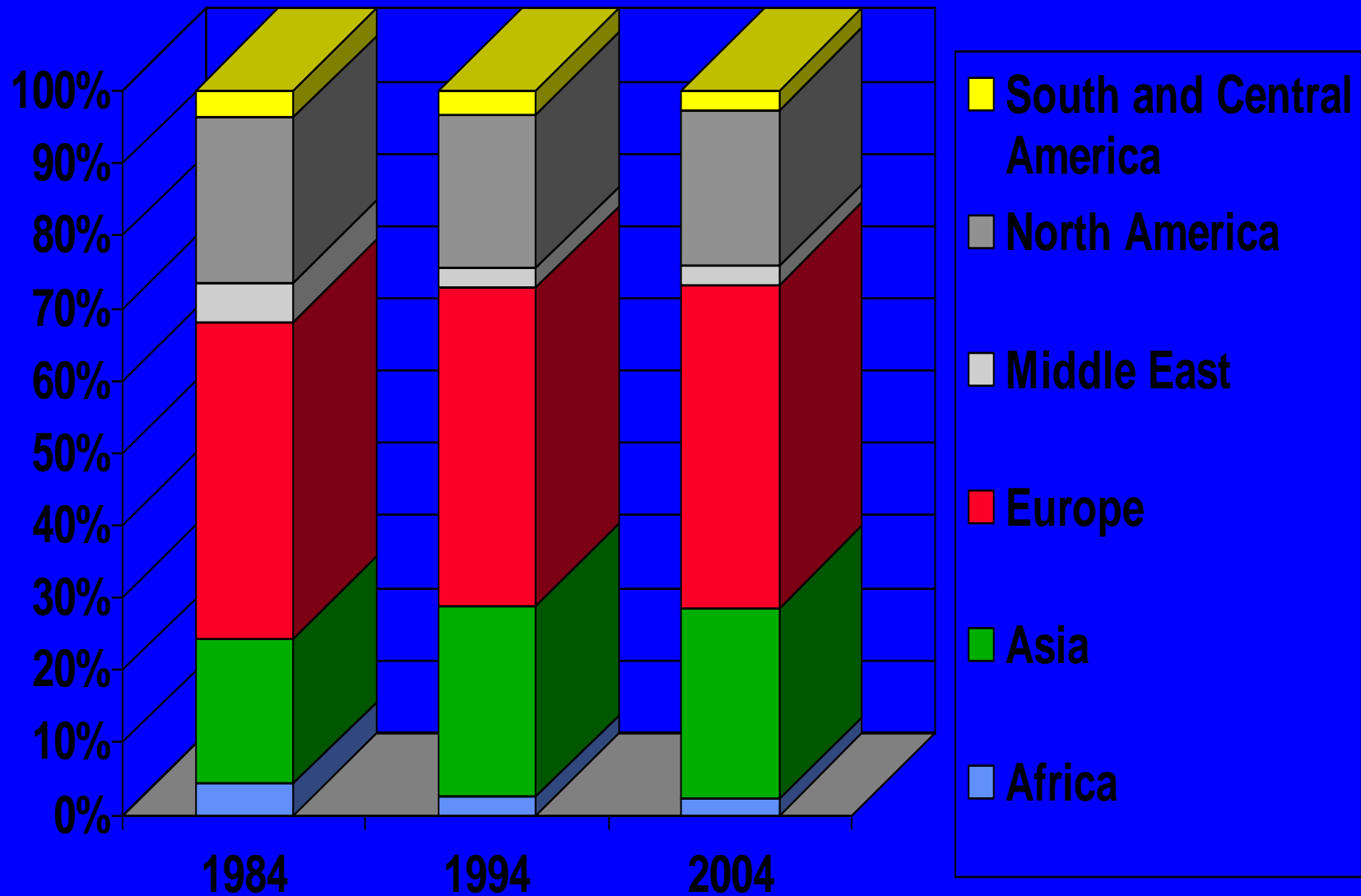
# Globalisation



# World merchandise exports by region



# World merchandise imports by region



# China's trade-led growth

## Share of world exports

1985: 1.2%

2004: 6.5%

## Share of world imports

1985: 1.7%

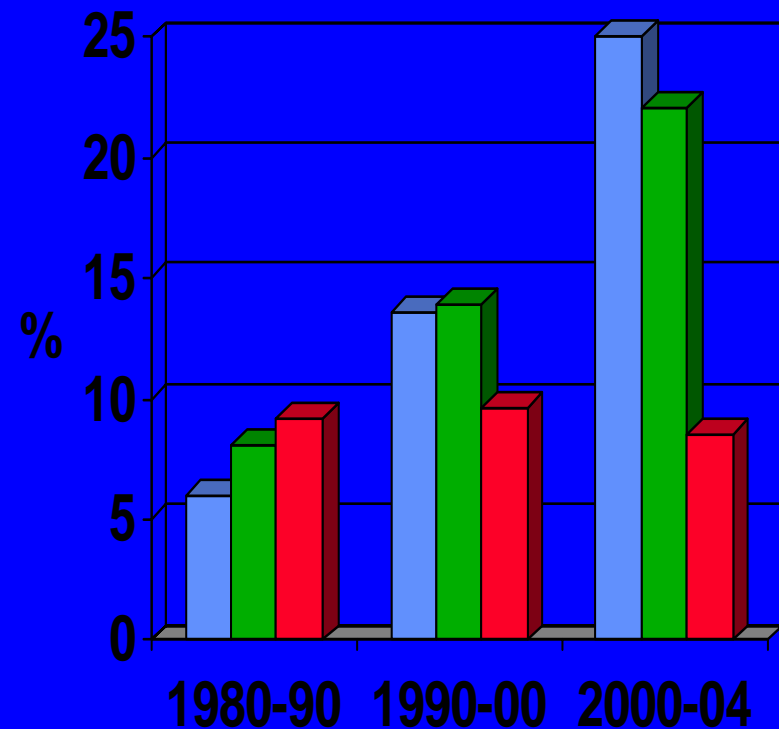
2004: 5.9%

## Share of world GDP

1985: 2.5%

2003: 3.9%

## Period average growth rates



■ Exports ■ Imports ■ GDP



# Latest developments

## ✧ GDP growth 9.5% first half of 2005

- Exports + 33%
- Imports + 14%
- Industrial value added +11.2%

## ✧ Slow-down in investment growth

## ✧ Managed float of the RMB

- gradual appreciation expected
- narrowing trade balance expected

# Will China's growth continue?

**Probably a soft landing, but there are risks:**

- ✧ **Sharp investment slowdown – current investment level is unsustainable**
- ✧ **New protectionist measures (USA, EU)**

**Long-run adjustments:**

- ✧ **Private consumption increases share of GDP**
- ✧ **The current account and capital account surpluses will narrow**

# China invests in ports & logistics parks

- ★ Shenzhen – world's fourth busiest port -- has 3 projects to increase capacity to > 18 mn TEU
  - (13.7 mn TEU in '04, up 28% from '03)
- ★ Tianjin is opening 7 key logistics parks (50 logistics centres currently)
- ★ Liaoning province constructing international shipping centre and new berths

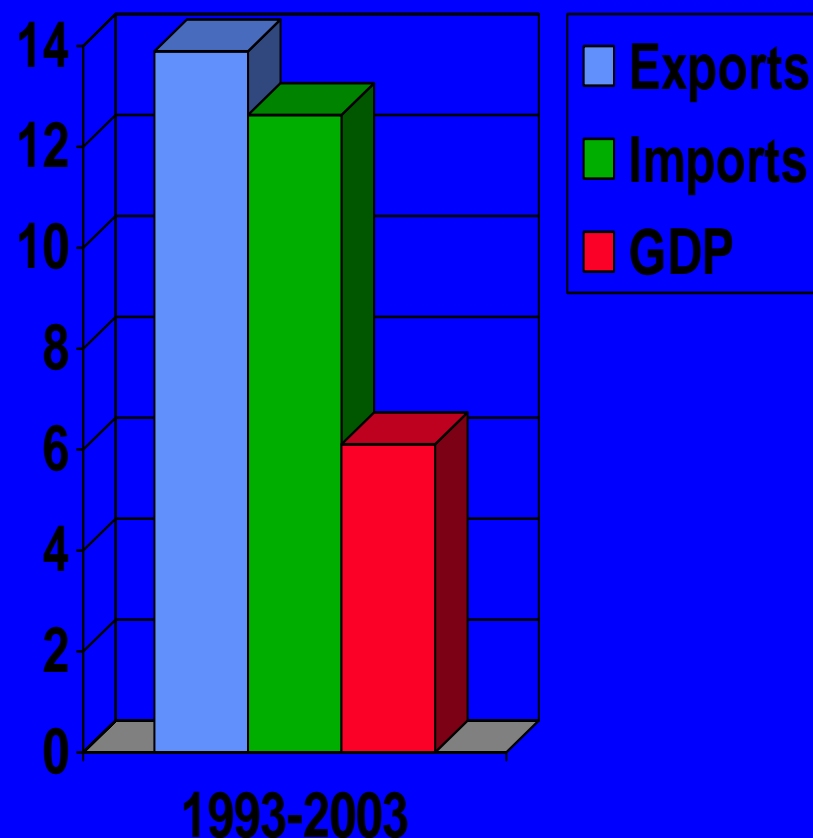
# Bottlenecks facing China's expansion

- ★ **Shortage of skilled logistics staff**
- ★ **Licensing issues**
  - Logistics licenses are restricted
- ★ **Hidden costs**
  - Levy on vehicles painted with company colours or logos

# Will India be the next growth miracle?

- ★ Reforms could release formidable potential
- ★ Infrastructure bottlenecks
- ★ Policy uncertainty
- ★ But China faced formidable obstacles too!

period average %  
growth rate



# Trade drives growth

## But what drives trade?

### ★ Lower trade barriers:

- Tariffs reduced from 40 to 5 per cent since 1948
- Transport costs reduced

### ★ Technology

- Organisational innovations
- ICT

### ★ Increasing role of other trade barriers

- As tariffs and transport costs come down, Standards, security measures institutions and time become relatively more important
- Creating need for international co-operation in new areas

***Only the foolhardy take risks  
when the rules are unclear***

*Bernstein (1996), p 68*

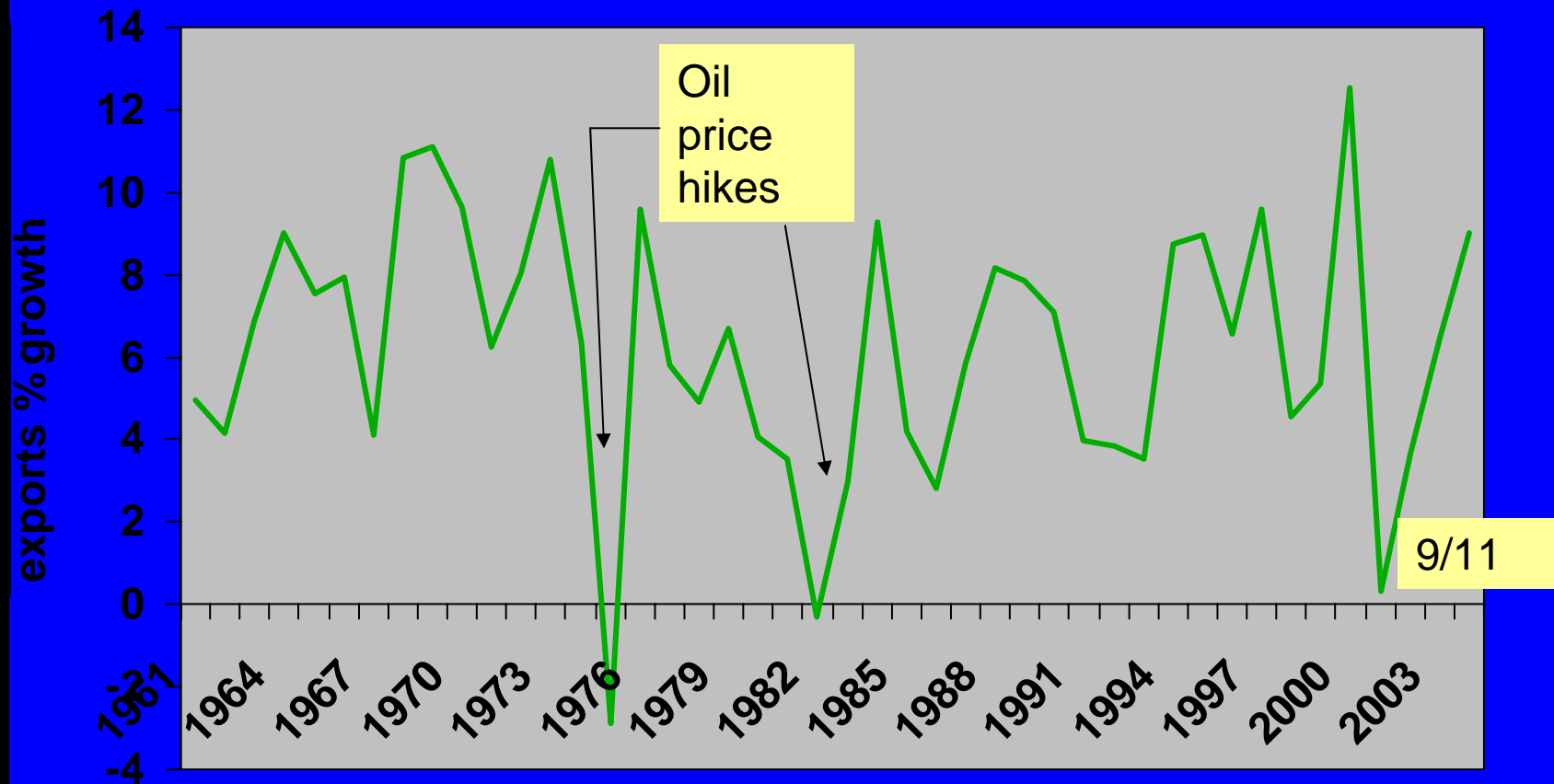
# Trade and risks

- ✧ Political instability, terrorism
- ✧ Policy intervention (e.g. in textiles trade)
- ✧ Fuel price hikes
- ✧ Pandemic diseases, natural disasters

*Insurance can facilitate trade by sharing risks, but not all types of risks can be insured*



# Trade is vulnerable to risks



# Trade and rules

WTO and other international organisations  
promote rules-based trade

# State of play in Doha Development Round at the summer break

- ★ Agriculture is stalled and holds up the rest
- ★ GATS: 68 initial and 24 revised offers had been submitted, but hardly any new market opportunities from them;
- ★ There is not a crisis, but most important decisions are back-loaded to the autumn

# Why are services vital to developing countries?

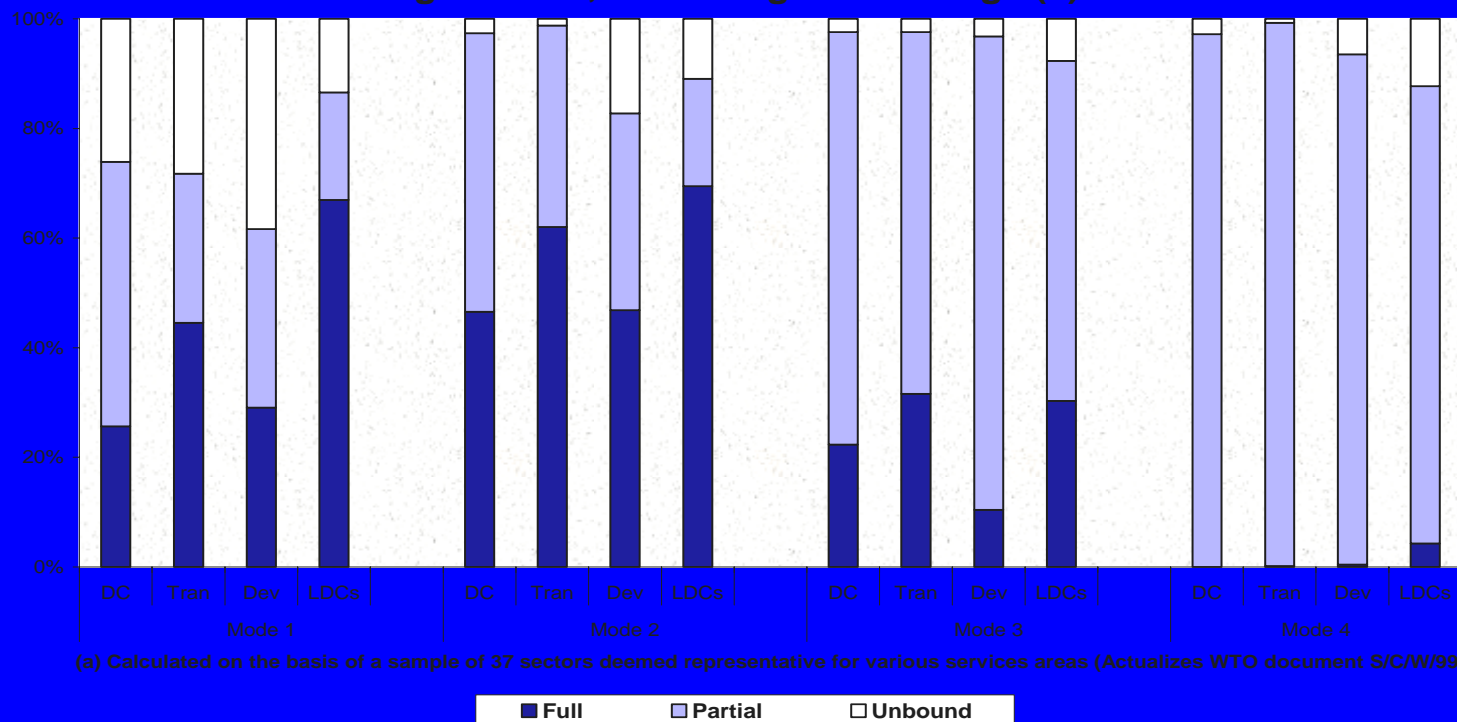
- ✧ Services represent essential inputs in the production of virtually all goods and services.
- ✧ Developing countries have the potential to make significant welfare gains from further services liberalisation.

# GATS: a flexible Agreement

- ✧ The GATS is an extremely flexible agreement.
- ✧ The flexibility in the GATS extends to all Members.
- ✧ This flexibility has led some to call the GATS the most “development friendly” of the WTO agreements.

# Structure of Market Access Commitments by Mode, August 2004

Chart 3. Structure of market access commitments by mode, August 2004, Percentage of bindings (a)



Source: Marchetti 2004.

# GATS Commitments by Country Group, March 2005

	Average no. sub-sectors per country	Range Lowest/highest no. scheduled subsectors
Least-developed economies	24	1 – 111
Developing / transition econ's	52 (104)*	1 – 147 (58-147)*
Developed countries	105	86 – 115
Accessions since 1995	102	37 – 147
ALL MEMBERS	50	1-147
* Transition economies		

# Technical Assistance in the GATS: Evidence on the Ground

- ✪ Since 2001, the WTO-OECD Doha Development Agenda Trade Capacity Building Database (TCBDB) has tracked services-related TA programmes.
- ✪ Technical assistance is being provided at the national level (e.g. government agencies) as well as through international organisations.
- ✪ The data reveal that much more can be done to increase developing country capacity in services.



# The GATS - Insurance

- ✧ By March 2005, 81% of WTO members had made commitments in financial services
- ✧ Financial services is the GATS sector with the most restrictions per commitment
- ✧ OECD paper: Managing request-offer negotiations of insurance services

# OECD Resources on Trade

- ★ <http://www.oecd.org/trade>
- ★ Insurance services checklist
- ★ Policy Briefs on services and other topics for the WTO Hong Kong Ministerial

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