

EMBARGO: NOT FOR PUBLICATION BEFORE 1300
HOURS GMT TUESDAY 14 NOVEMBER 1995

PRESS/29
2 November 1995

HIGH RATES OF WORLD TRADE GROWTH CONTINUE TO OUTSTRIP OUTPUT GROWTH

WTO SECRETARIAT SEES LINK TO GLOBALIZATION

World trade in merchandise goods is expected to increase in *volume* by 8 per cent in 1995 - down marginally on the very high 9 1/2 per cent for 1994. Although the current outlook is for a further modest slowing next year, trade growth will remain above the average of the past decade.

In its new report¹ "International Trade - Trends and Statistics", the WTO Secretariat points out that recent trade growth figures continue to exceed world production growth by a large margin - in 1995 probably by a factor of almost three and next year close to double. This persistent pattern relates closely to the "globalization" of the world economy; a process which, says the Secretariat, brings far-reaching benefits and which can be promoted through the further development of the multilateral trading system.

The report's detailed statistical analysis concentrates on 1994. It examines recent trade trends by country, region and major product groups and services sectors. Among the points highlighted are:

- a 13 per cent rise pushed the *value* of world merchandise trade past the \$4,000 billion mark for the first time, to \$4090 billion;

¹"International Trade - Trends and Statistics" is currently available in English and in French and can be ordered from the WTO Publications Service at a cost of SF 40 (also available on diskette at SF 40 or both the publication and diskette at SF 70). The Spanish version will be available in the near future.

- an 8 per cent increase in the *value* of trade in commercial services, to \$1100 billion, after near stagnation in 1993;
- a 23 per cent increase in the dollar value of merchandise trade in the first six months of 1995 which, allowing for the depreciation of the US dollar, is consistent with a full-year growth in trade volume of 8 per cent.

The Report examines the changing relationship between world trade growth and output and seeks to draw some conclusions with respect to the nature of global economic integration, or "globalization".

Over the period from 1950 (when the process of trade liberalization through the early GATT Rounds got under way) to 1994 the volume of world merchandise trade increased at an annual rate of slightly more than 6 per cent and world output by close to 4 per cent. Thus, during those 45 years world merchandise trade multiplied 14 times and output 5 1/2 times. However, the excess of trade growth over output growth varied; from an average of a mere half percentage point in the period 1974-84 to nearly 3 1/2 percentage points in the most recent 10 years. In fact, the excess during the years since 1990 has been much higher still but it is not yet clear whether or not this represents a permanent shift to a faster rate of increase in the world's trade-to-output ratio.

Having analyzed these trends from regional and product points of view, the Secretariat comments that:

"...the rising ratio - and global integration more generally - are being driven by the interaction of changes in government policies (especially the liberalization of trade and capital flows), by technological innovations that reduce communications and transport costs, and by evolving corporate and individual investor strategies which both drive and are facilitated by the first two developments"

The report considers each of these elements in some detail and then asks two fundamental questions. As to why anyone should care about the pace of globalization, the Secretariat observes that the benefits from innovation, new product development and specialization in production are wide-ranging. In particular, those developing and transition economies which have participated in globalization by opening up their own markets have enjoyed faster economic growth. For the OECD countries, there is evidence that the deepening of trade linkages has helped moderate cyclical economic downturns.

To the question "Will globalization continue?", the report observes that two factors - technological change and the evolving strategies of firms and individual investors - impart a natural momentum to global integration. It is government policies which can speed-up, slow down or even reverse progress on global integration. In this context, the role of non-discrimination - in particular, through the "most-favoured-nation" (MFN) clause - is examined.

MFN was the centrepiece of a multiplicity of bilateral trade agreements reached in Europe in the second half of the Nineteenth Century, a period marked by very low tariffs and rapidly increasing trade. In contrast, the 1920s and 1930s saw efforts to restore liberal trade through international trade conferences rather than legally-binding commercial treaties based

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on MFN. The failure of these efforts contributed to the Great Depression and provided some of the roots of military confrontation in 1939. It was only after the War that negotiations established what became the GATT, a multilateral contract consisting of rules and disciplines and based firmly (Article I) on MFN treatment.

The GATT system has been a post-war bulwark against a return to the trade chaos of the 1930s. The Secretariat considers that, in the 1990s, a dis-integration of the globalized international economy on the scale of the 1930s is almost unthinkable. In contrast, today "the threat that would be posed by a loss of credibility of the multilateral rules" (now represented by the WTO) would be "a fracturing of the global economy into inward-looking and potentially antagonistic trading blocs".

The report suggests two safeguards against such an eventuality:

- the examination of new ways to ensure that free-trade areas and customs unions remain outward-looking and complement rather than compete with the multilateral trading system; and
- progress in dealing, at the multilateral level, with new issues tied directly to the further evolution of the global economy. These include telecommunications, financial services, environment, competition and investment policies among others.

The report concludes:

"Progress in dealing with these and other issues at the multilateral level will have a significant impact on the future pace of global integration, both directly and through its impact on the credibility of the multilateral system in influencing the broad spectrum of national trade policies"