World Trade Figures 2002: Bleak future lies ahead

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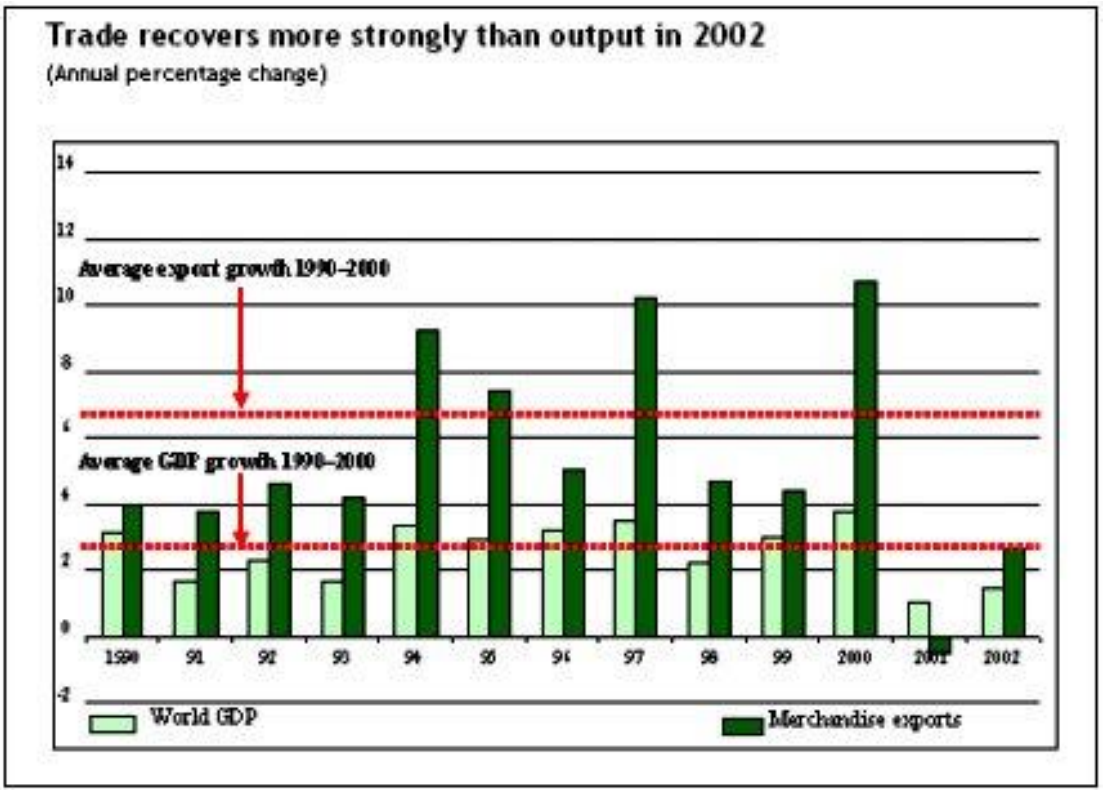
The World Trade Organization (WTO) has recently published the World Trade Figures for 2002 (WTF 2002). The picture presented by these figures for the growth of world trade cannot be said to be encouraging. They state that merchandise trade in 2002 grew by 2.5 per cent, more than making up for the 1 per cent decline in the previous year. Full-year growth of output during the year was however limited to 1.5 per cent because of a slowdown in the second half. The growth has been attributed to the strong demand exhibited by the United States and the relatively advanced East Asian economies. The trade figures, however, conceal a lot more than they reveal. While in some regions trade has indeed grown in 2002 compared to the preceding year, in most cases it was still lower than during the late 1990s. During the 1990s world trade grew at an annual average rate of 6.7 per cent.

A WTO release itself acknowledged that trade growth during 2002 has been uneven, and that the overall positive growth rate masks sluggish performance in many regions. The forecasts for 2003 are not that alluring either: world trade is expected to grow at barely 3 per cent during this year. The war in Iraq and the spread of SARS (Severe Acute Respiratory Syndrome) will further jeopardize the possibility of a recovery.

Countries in Western Europe and Japan, besides Latin America, have all witnessed either stagnating or falling trade during 2002. WTO says that 2002 has been one of the most difficult years for Latin America since the debt crisis of the 1980s, with imports declining by 7 per cent. Imports into Argentina fell by an astounding 55 per cent in a single year. In Western Europe imports shrank or stagnated in France, Germany, Spain and Switzerland while the smaller economies of Belgium, Denmark, Ireland and Finland witnessed some growth. Exports from Western Europe grew only 0.6 per cent in volume terms during 2002. In terms of the US dollar, however, exports from Western Europe grew 5.5 per cent as the value of the dollar depreciated by around 5 per cent vis-à-vis the euro and other currencies of the region.

Demand stagnated in Japan as well, but an almost 25 per cent increase in imports into China during the year (China joined the WTO in late 2001), coupled with a recovery in major information technology industries in East Asian countries saw trade in the developing countries of Asia rising by 12.5 per cent in 2002. Despite that, the level of Asia's merchandise trade remained lower than in 2000. Trade in commercial services in Asia did not fare as well as merchandise trade during 2002, with the recovery in the information technology (IT) sector—six Asian countries with high shares of electronic goods in their export baskets benefited from this recovery in terms of their trade growing at 6 per cent during the year—not being enough to offset the severe contraction that took place the previous year. Growth of trade and output in the Middle East also suffered owing to a reduction in oil output and rising political tension in the region.

Large variations in trade volume growth by region in 2002
(Annual percentage change)



Source: http://www.wto.org/english/news_e/pres03_e/pr337_e.htm

However, despite the failure of world trade to grow at the desired pace even as the world is seeing increasing liberalization and opening up of markets in developing countries, WTO remains obsessed with the belief that further opening up is the panacea to all ills currently plaguing the world economy. The Director-General of WTO, Supachai Panitchpakdi, has said: 'These trade figures reflect the growing economic and political uncertainty in the world today. This uncertainty is detrimental to economic growth and development and can give rise to greater instability across the globe. Governments must send a signal that they are prepared to address this problem. One very important contribution to this effort would be to accelerate work on the negotiations in the Doha Development Agenda.

Thus Mr Panitchpakdi refuses to acknowledge that increasing globalization and a reduction in the power of national governments to intervene with economic measures to reverse the downtrends are primarily responsible for the sluggish growth in world trade in recent years. The WTO agreement itself is uneven and heavily loaded in favour of the developed world, and hence is bound to give rise to uneven growth in trade when implemented.

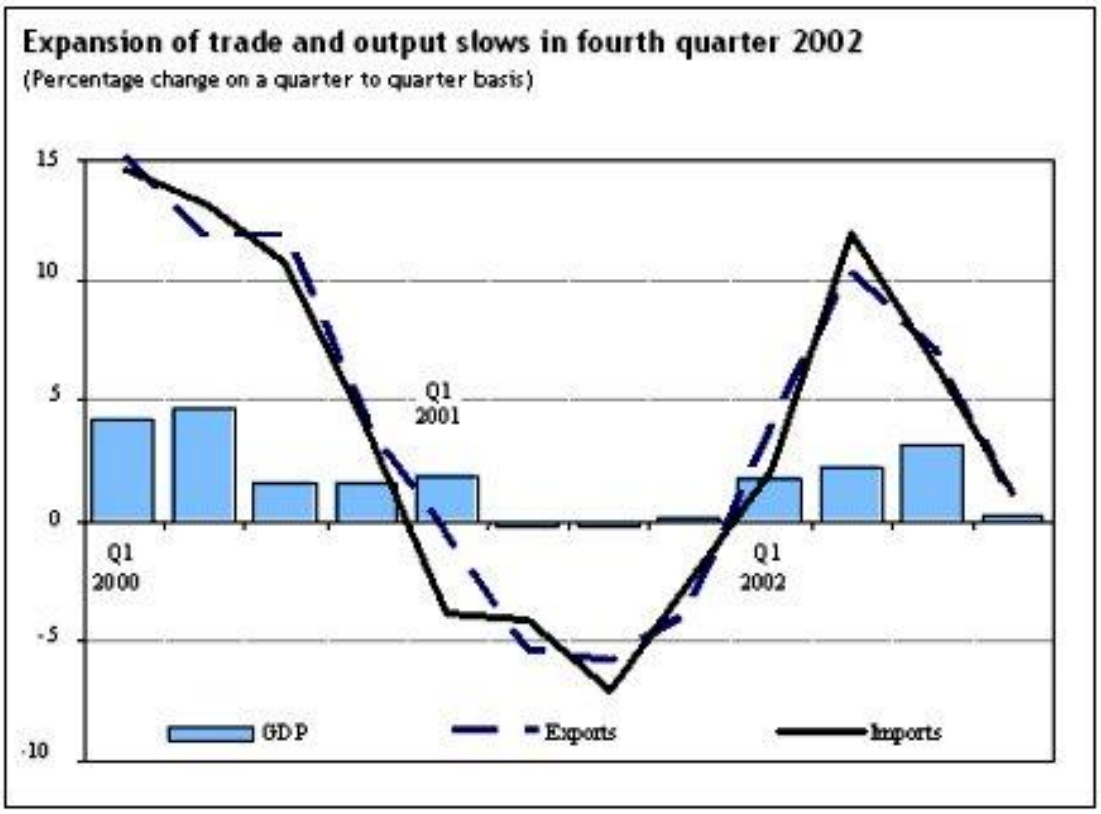
The trade recovery in 2002, compared to trade volumes the year before, took place in the context of a weak global economy, exchange rate fluctuations, a rise in trade-restrictive measures by several countries on one pretext or the other, and an overall dent in business confidence.

Even as WTO talks about reduced state intervention, the rise in imports into the United States, a major reason for the positive growth in world trade in 2002, has been to a great extent due to intervention by the US government, which stepped up efforts to bring the economy back on the growth path. However, the US obsession with supply-side economics

led its government to announce tax concessions for corporate houses, hoping that this will boost their spending and investment. Stepping up government expenditure in more specific programmes targeting those who have been worst affected by the recession would have yielded far better results. The acceleration of consumer demand in the US was balanced by the slowdown in both Japan and Western Europe.

The US government's attempts to revive the economy did have some positive impact, as is reflected by the 3 per cent rise in imports which was owing to increased consumer spending and an increasingly expansionary fiscal stance. However, had the measures been more targeted, a larger portion of the increased demand from consumers would have been for domestic products, leading in turn to a reversal in employment downsizing and to a further boost to the demand for goods through the multiplier effect.

Expansion of trade and output slows in fourth quarter 2002
(Percentage change on a quarter to quarter basis)



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As the graph above shows, even the growth in trade and output during 2002 were not sustained all through the year. The improvement in trade figures occurred only till the second quarter of 2002, after which the growth rates of imports and exports fell. World GDP growth improved till the third quarter, but almost stagnated during the last three months of the year. Therefore, one should not read too much into the short-term revival of trade, or believe that the downtrend has been arrested. Such optimism would be highly misplaced since most of the economies facing stagnation show hardly any signs of recovery.

The Argentinian crisis, which has been aggravated by the inflexible and orthodox policy prescription of the International Monetary Fund; the Brazilian crisis, which was triggered off by panic-stricken international financiers facing the prospect of a left-leaning candidate winning the presidential election in the country; the Venezuelan crisis, which occurred in the context of the US desperately seeking to dislodge the country's leftist president Hugo Chavez—all these bear the stamp of interference by the US and organizations like the IMF and the World Bank, which spare no effort to cater to the interests of international financiers, thereby overlooking what would have best suited the countries in need. And yet the World Trade Figures 2002, while stating the reasons for sluggish growth in world trade during 2002, conveniently forgets to mention such interference that has led to the stagnation, and in some cases total collapse, of the economies of these countries.

The WTF discusses the impact that the threat of terrorism has had on nations and companies as well as on international trade by means of restrictions imposed on the movement of persons and goods. It discusses the costs involved not only in terms of the direct expenditures for security measures which governments and companies must put in place to avert terrorist strikes, but also in terms of the indirect impact on trade in the form of cumbersome procedures and delays. But it does not discuss how the growing inequalities resulting from the current economic regime breeds discontent among the increasing number of marginal classes: sections that can be easily drafted into the fold of terrorism.

As capital inflows fell sharply, Latin America had to cut its imports which led to a trade surplus and reduced the region's current account deficit. However, while reducing the deficit might be a long-term goal of a country, sudden and forced reduction of the same through a drastic reduction in imports is definitely not a desired objective. Reduction in imports of necessary consumption goods or of capital goods might in fact obstruct a country's export potential by restricting the supplies of raw material and labour that go into the production of the export tables.

While globalization was supposed to boost trade between countries, the developing countries, despite experiencing growth in trade volumes in 2002, still find it difficult to get a share of the market of the developed world. Particularly in years when economies face a downturn, exports from developing countries to the developed world get further affected. Africa, and Sub-Saharan Africa in particular, was one of the earliest regions to open its economies to foreign interests. However, decades later, the data available on Africa's output and trade do not indicate any significant improvement in the region with respect to incomes or participation in world trade. Average per capita income levels have changed little and Africa's trade growth has lagged behind global trade expansion. Although non-oil commodity prices in 2002 recovered somewhat from their depressed levels in 2001, broad-based expansion of output and trade is yet to take place in that continent. South African exports and imports recovered by 2 to 3 per cent from the preceding year's decline. Exports of the other non-oil-exporting African countries were probably much stronger, and expanded by about 6 per cent. As the WTF points out, 'a strong rebound in exports in 2002 from the preceding year's decline in a number of countries (including Morocco, Egypt, Côte d'Ivoire and Ghana) accounted for most of this strength in the export growth of non-oil exporters in Africa'. However, it is estimated that only six out of 53 African countries achieved sustained expansion of their exports over the 1999–2002 period.[1] While imports grew rapidly in many African countries, overall growth of merchandise imports was held back by import contraction in Egypt and Nigeria, the second and third largest merchandise importers in Africa in 2001.

The current scenario of the world economy does not inspire much confidence about a quick recovery during 2003. Although the US war in Iraq is over, the country is far from achieving

stability. Also, such military aggressions are bound to pose a challenge to the very existence of global institutions. As the WTF points out, 'the erosion of confidence in global institutions could encourage the creation of like-minded blocs and inward-looking policies'. If the current economic regime remains in place, world trade is not likely to grow at more than 2–3 per cent in the current year, much lower than the rate at which trade expanded during the 1990s.

In order to boost production and revive world trade, instead of offering tax concessions to corporate houses, governments need to play a more active and direct role. Tax benefits do not necessarily lead to a boost to the economy since companies might not feel it profitable to plough back the money into the economy. They may decide to simply invest the money in the stock market, or they may want to invest the available funds in labour-saving technology, putting more people out of work. While this might reduce costs for the company in the short run, without any boost to consumer demand, the size of the market is not going to grow. A rise in exports will depend on demand from abroad, and without an increase in the purchasing power of people residing there, tax cuts are not going to be of much help. The state needs to create employment, thereby raising the purchasing power of the masses. This in turn would lead to an increase in demand for goods both from within the country and from outside. Once national economies come out of their sluggish conditions, trade—both internal and external—is bound to grow. Leaving this task to private sector companies who always look to profit maximization can never have a similar impact.