



WORLD TRADE
ORGANIZATION

World Trade Report

2013

Factors shaping
the future of world trade



- How has world trade changed over the last decades and how will it develop in the future?
- What are the fundamental economic factors affecting international trade?
- To what extent does the broader socio-economic context matter for trade openness?
- What are the prospects for multilateral trade co-operation?

World Trade Report 2013

The world is changing with extraordinary rapidity, driven by many influences, including shifts in production and consumption patterns, continuing technological innovation, new ways of doing business and, of course, policy. The *World Trade Report 2013* focuses on how trade is both a cause and effect of change and looks into the factors shaping the future of world trade.

One of the most significant drivers of change is technology. Not only have revolutions in transport and communications transformed our world but new developments, such as 3D printing, and the continuing spread of information technology will continue to do so. Trade and foreign direct investment, together with a greater geographical spread of income growth and opportunity, will integrate a growing number of countries into more extensive international exchange. Higher incomes and larger populations will put new strains on both renewable and non-renewable resources, calling for careful resource management. Environmental issues will also call for increasing attention.

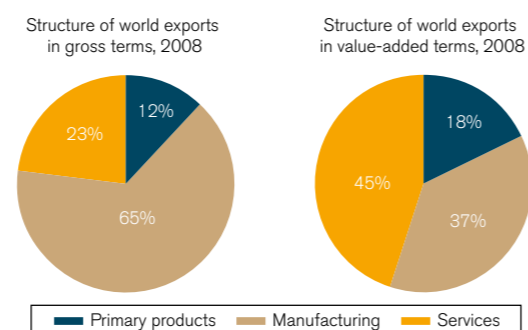
Economic and political institutions along with the interplay of cultural customs among countries all help to shape international cooperation, including in the trade field. The future of trade will also be affected by the extent to which politics and policies successfully address issues of growing social concern, such as the availability of jobs and persistent income inequality. These and other factors are all examined in the *World Trade Report 2013*.

Key findings

Trends in international trade

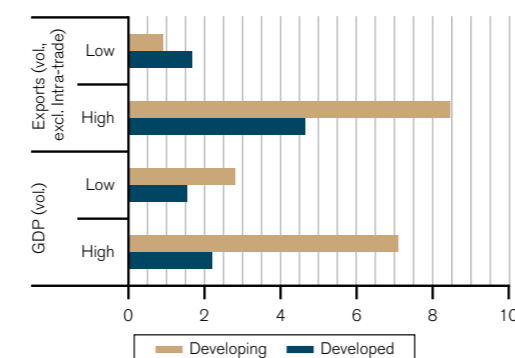
- Dramatic decreases in transport and communication costs have been the driving forces behind today's global trading system. Geopolitics has also played a decisive role in advancing and reinforcing these structural trends.
- In the last 30 years, world merchandise and commercial services trade have increased by about 7 per cent per year on average, reaching a peak of US\$ 18 trillion and US\$ 4 trillion respectively in 2011. In 2008, services accounted for about 20 per cent of world exports if considered in gross terms, while the value-added measure reveals that the contribution of services is twice as high.
- Between 1980 and 2011, developing economies raised their share in world exports from 34 per cent to 47 per cent and their share in world imports from 29 per cent to 42 per cent. Asia is playing an increasing role in world trade.
- For a number of decades, world trade has grown on average nearly twice as fast as world production. This reflects the increasing prominence of international supply chains and hence the importance of measuring trade in value-added terms.
- Simulations show that in a dynamic economic and open trade environment, developing countries are likely to outpace developed countries in terms of both export and GDP growth by a factor of two to three in future decades. By contrast, their GDP would grow by less than half this rate in a pessimistic economic and protectionist scenario, and export growth would be lower than in developed countries.

Sectoral contribution to total trade, gross and value-added measures, 2008 (percentage)



Source: WTO Secretariat estimates based on OECD-WTO 2008 data.

Predicted annual growth rates of exports and GDP, average 2012-2035, by country group (per cent)



Source: WTO Secretariat, based on Fontagné and Fouré (2013) and Fontagné et al. (2013).

Fundamental economic factors affecting international trade

- Demographic change affects trade through its impact on countries' comparative advantage and on import demand. An ageing population, migration, educational improvements and women's participation in the labour force will all play a role in years to come, as will the continuing emergence of a global middle class.
- Investment in physical infrastructure can facilitate the integration of new players into international supply chains. The accumulation of capital and the build-up of knowledge and technology associated with investment, particularly foreign direct investment, can also enable countries to move up the value chain by altering their comparative advantage.
- New players have emerged among the countries driving technological progress. Countries representing 20 per cent of the world's total population accounted for about 70 per cent of research and development (R&D) expenditure in 1999, but only about 40 per cent in 2010. Technology spillovers are largely regional and stronger among countries connected by production networks. In addition to the traditionally R&D intensive manufacturing sectors, knowledge-intensive business services are emerging as key drivers of knowledge accumulation.
- The shale gas revolution portends dramatic shifts in the future pattern of energy production and trade as North America becomes energy sufficient. Increasing water scarcity in the future in large swathes of the developing world may mean that the long-term decline in the share of food and agricultural products in international trade might be arrested or even reversed.
- Ample opportunities exist for policy actions, at the national and multilateral level, to reduce transportation costs and offset the effect of higher fuel costs in the future – improving the quantity and quality of transportation infrastructure, successfully concluding the Doha Round negotiations on trade facilitation, introducing more competition on transport routes, and supporting innovation.
- Improvements in institutional quality, notably in relation to contract enforcement, can reduce the costs of trade. Institutions are also a source of comparative advantage, and trade and institutions strongly influence each other.

Trade openness and the broader socio-economic context

- Successful integration into global markets requires the constant need for individuals and societies to cope with changes in the competitive environment. These adjustments can put labour markets under strain and can shape attitudes towards trade openness. Economies with a well-trained workforce and a business-friendly environment tend to be better placed to adjust successfully.
- Societies' transition to a sustainable development path requires careful management of the multi-faceted relationship between trade and the environment in order to avoid "green protectionism" and to maximize the environmental benefits that open trade can bring.
- The expansion of trade needs to be supported by a stable financial and monetary system – delivering a sufficient volume of trade finance at an affordable cost, particularly for developing countries, and macroeconomic policies that promote exchange rate stability.

Prospects for multilateral trade co-operation

- Some of the main trends which will affect world trade in the coming decades are the emergence of international value chains, the rise of new forms of regionalism, the growth of trade in services, higher and more volatile commodity prices, the rise of emerging economies, and evolving perceptions about the link between trade, jobs and the environment.
- These trends will raise a number of challenges for the WTO. A considerable amount of trade opening is taking place outside of the WTO. Interdependence between trade in goods and trade in services is increasing. Frictions in natural resource markets expose some regulatory gaps. The emergence of new players affects global trade governance in ways that need to be better understood. Coherence between WTO rules and non-trade regulations in other multilateral fora needs to be maintained.
- Addressing these challenges will involve reviewing and possibly expanding the WTO agenda. Traditional market access issues will not disappear but new issues are emerging. Internal governance matters as well as the role of the WTO in global governance may need to be addressed. An important issue will be how to "multilateralize" the gains made in preferential trade agreements and to secure regulatory convergence.



"This year's World Trade Report looks at how trade and other forces of change are affecting our world. The approach is eclectic, reflecting many different forces at work. The intermingling of these drivers of change is multidirectional and complex, and the pace of change is rapid. Painting the prospects for our future on such a broad canvas is useful in providing perspective on trade and where it fits in the broader world. It is a reminder that we do not espouse trade for its own sake, but for its potential contribution to our future. Policy-dependent constructs such as the WTO are not self-sustaining. This is why renewed efforts are needed to revive the vibrancy of the global trading system."

WTO Director-General
Pascal Lamy

Further information

The *World Trade Report* is an annual publication that aims to deepen understanding about trends in trade, trade policy issues and the multilateral trading system.

The Report is available in English, French and Spanish:

World Trade Report 2013
ISBN 978-92-870-3859-3

Rapport sur le commerce mondial 2013
ISBN 978-92-870-3860-9

Informe sobre el Comercio Mundial 2013
ISBN 978-92-870-3861-6

This Report is available electronically at www.wto.org.

Print copies may be purchased for 60 CHF.-



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