ISSN 2413-3175
2019/03

The Commonwealth

INTERNATIONAL TRADE WORKING PAPER

Global Trade Turmoil: Implications for LDCs, Small States and Sub-Saharan Africa

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International Trade Working Paper 2019/03

ISSN 2413-3175

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Please cite this paper as: Razzaque MA and SM Ehsan (2019), 'Global Trade Turmoil: Implications for LDCs, Small States and Sub-Saharan Africa' *International Trade Working Paper* 2019/03, Commonwealth Secretariat, London.

Kirthika Selvakumar, Assistant Research Officer, has provided valuable project support.

Abstract

After decades of rapid expansion, international trade is confronted with a severe crisis in which free trade policy regimes are at a crossroads. Triggered initially by the global financial crisis of 2008, the dismal state of affairs deteriorated further as scepticism about benefits from globalisation triggered political upheavals in Europe and the USA. While US trade policy reversals have generated heightened policy uncertainty, the ensuing USA–China trade war is likely to have widespread global ramifications undermining the global trading system. The globalisation backlash and associated protectionist policy agenda have turned a new spotlight on the role of trade in development. This paper provides a rapid assessment of several major emerging trends in international trade with the objective of better appreciating their implications for the world's poorest, smallest and most vulnerable economies, which are most often included in the – not mutually exclusive – country groups of least developed countries (LDCs), small states and sub-Saharan Africa. The analysis highlights that, although the tariff war involving China and the USA draws intense focus, world trade is also going through some structural changes, complicating the situation further. Since the global financial crisis of 2008, LDCs, small states and sub-Saharan Africa have witnessed a lost decade of gains from trade in the sense that each of these country groups' combined trade hardly expanded. Furthermore, the recent slowdown in international trading activities has reinforced the marginalisation of these groups of economies in global trade. In drawing policy implications, this paper argues that attaching less importance to trade is not an option for LDCs, small states and sub-Saharan Africa. Rather, these countries should remain focused on exploring trading opportunities, developing trade capacities and strengthening trade multilateralism.

JEL Classification: F13, F63, O19, P45

Keywords: trade, sub-Saharan Africa, Least Developed Countries, mulilateralism

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1. Introduction

Very recently, the world economy has witnessed escalated trade tensions between the world's two largest trading nations, China and the USA, amid an already prolonged and severe crisis in trade multilateralism, and the protectionist measures threaten to derail the rules-based multilateral trading system. The recent bout of trade crises surfaced as global trade flows showed some encouraging sign of gaining momentum in trading activities not seen for the last few years now. Indeed, after six long years since 2011, a strong recovery in global trade flows was registered in 2017 with the world's total merchandise exports of goods and services rising by US$1.7 trillion over the previous year to reach $17.7 trillion. Yet, the value of global trade remained lower than that achieved in 2011 ($18.3 trillion). Last year's buoyant performance helped sub-Saharan African countries increase their exports by nearly $50 billion to just over $300 billion, which was still $150 billion less than their export earnings in 2011.

The world economy is badly in need of reviving and sustaining trade growth to help recoup the lost export receipts, continue with undisrupted gains from trade and bring back on track the 'trade engine' to drive economic growth and development in many low-income and vulnerable developing countries. However, in the backdrop of ensuing trade tensions between the USA and its major trade partners, the prospect of an improved trade and investment momentum appears to be quite bleak. The growth of trade in 2018 is reported to have moderated and is projected to slow down in 2019–20 as global investment decelerates. The implications of USA–China trade wars have been the subject of intense policy discussions with recent estimates showing the cost of heightened protectionism could result in forgone trade of more than $600 billion (Kutlina-Dimitrova and Lakatos 2017).

After three decades of rapid expansion under an increasingly liberalised global environment, international trade and cross-border capital flows have experienced a prolonged period of deceleration. Globalisation and free trade policy regimes are at a crossroads as countries aim to alter their comparative advantages and fail to appreciate the overall gains from trade because of populist policy stances. Triggered initially by the global financial crisis of 2008, this dismal state of affairs intensifies as the benefits of globalisation have been called into question, causing political upheavals in Europe and the USA. In particular, the trade policy reversals under President Trump threaten the world economy with a protectionist agenda that has widespread global ramifications.

The globalisation backlash and associated policy reversals have shone a new spotlight on the role of trade in development. Over the past two decades, international trade as a driver of economic growth became established not only in the economics literature but also in the development strategies of many developing countries. The United Nations-led global development initiative Transforming Our World: The 2030 Agenda for Sustainable Development recognises international trade as a means for achieving various Sustainable Development Goals (SDGs). Therefore, one question is how the unfolding developments on the international trade front are going to affect the poorest, smallest and most vulnerable developing countries.

The effects of international trade issues on developing countries is an important area of the Commonwealth Secretariat's work programme. The Secretariat's analytical work has regularly focused on the relevant issues in identifying potential policy implications for Commonwealth members and those countries included in the – not mutually exclusive – groups of least developed countries (LDCs), small states and sub-Saharan Africa (SSA). The 2015 and 2018 Commonwealth Trade Reviews and other Secretariat publications are important contributions in this respect. Given their evolving nature, it is important to analyse the emerging issues objectively on a continuous basis to provide meaningful insights leading to country-specific and/or global policy actions. In addition, since the time of the analytical work undertaken as part of the 2018 review, new developments have taken place with important implications for world trade. Against this backdrop, the present paper provides an assessment of some of the major trends in international trade with the objective of better appreciating implications for LDCs, small states and sub-Saharan African

countries. In terms of the scope of the work, it provides a brief review of the trade performance of the aforementioned three groups of countries over a long period of time (e.g. since 1970) vis-à-vis the most recent years; analyses the contribution of trade in gross domestic product (GDP) growth over time; assesses whether or not South–South trade flows have been affected by trade crises and any resultant implications for LDCs, small states and SSA; and presents a succinct review of unfolding trade wars and their likely implications.

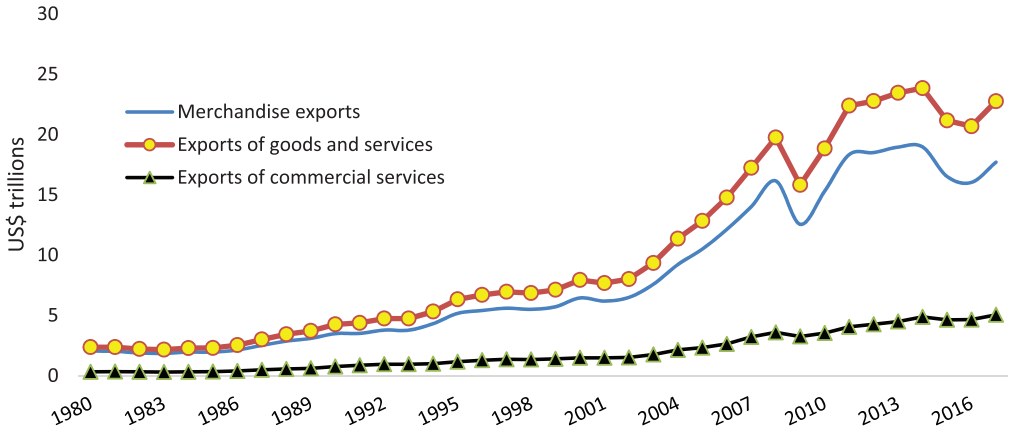
This paper is organised as follows: after this introduction (Section 1), a review of the recent trade trends and performance of LDCs, small states and SSA is presented in Section 2; Section 3 provides an analysis of the export–GDP nexus over different periods and also makes use of a growth accounting framework to determine exports' contribution to economic growth in the three groups of economies under consideration; Section 4 undertakes an assessment of the trade flows between developing countries and whether the global trade crises have affected the relative significance of South–South trade for LDCs, small states and SSA; Section 5 provides a brief review of the likely implications of a USA–China trade war; and, finally, Section 6 provides some concluding observations and major policy implications.

2. Recent trends in world trade and LDCs, small states and sub-Saharan Africa

2.1 State of world trade

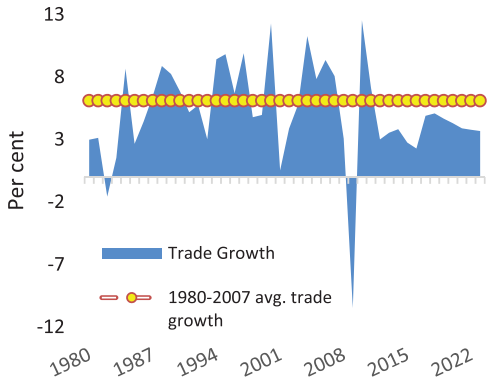
As mentioned above, world exports of merchandise goods and services exhibited a strong recovery in 2017, reaching US$22.7 trillion and registering a rise of more than 10 per cent over the previous year (Figure 1).[1] Despite this improved performance, world exports remained below the level of 2012 (Figure 1). When measured in real terms, world trade growth in 2017 was 5 per cent, the highest since 2012, and significantly higher than the 3 per cent annual average growth rate achieved during 2012–16.[2] Nevertheless, the reinvigorated trade growth of 2017 remained lower than that of the pre-global financial crisis long-term (1980–2007) average growth of 6.1 per cent. As Figure 2 shows, global trade did not for a single year since 2012 grow faster than the average growth of 1980–2007. If International Monetary Fund (IMF) projections (IMF 2018) turn out to be correct, global trade expansion will see even slower momentum in the coming years. Therefore, 2012–2021 could be the slowest decade of trade expansion (3.8 per cent per annum) since World War II. Figure 3 shows that the highest average rate of growth in world trade was registered in the decade of the 1990s

Figure 1. World exports



Source: Data are from UNCTADstat.

Figure 2. The great global trade slowdown



Note: Growth rates beyond 2017 are based on IMF projections.
Source: Authors' analysis using data from IMF World Economic Outlook database, October 2017.

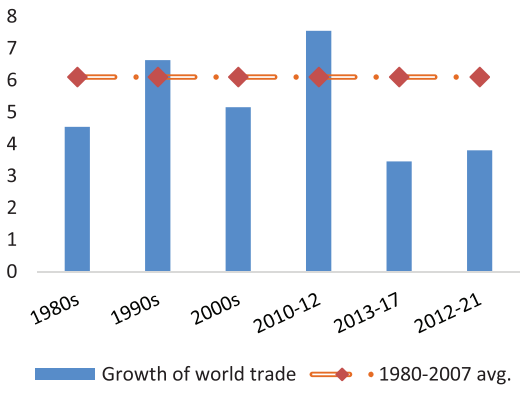
at 6.6 per cent per annum. Despite the global financial crisis, the average rate of trade expansion in the 2000s was more than 5 per cent. Largely because of a sharp recovery in 2011 following the impact of the global financial crisis, the annual average trade growth during 2010–12 was very high. But since 2012 global trade slowdown has persisted.

Although the global financial crisis-led trade collapse in 2009 was quite straightforward to explain, declining global trade in 2015 and 2016 was unprecedented in nature. After the global financial crisis, the world GDP growth rate was relatively quick to return to the long-term average rate (Commonwealth Secretariat 2015).[3] However, international trade flows were subject to further shocks. Measured in value terms (using US dollars), world merchandise exports fell by a staggering $2.7 trillion in 2015 (from the previous year) and then again declined by more than $500 billion in 2016. As many as 183 countries experienced reduced export earnings in 2015 (compared with the previous year) and for 112 countries export earnings similarly declined in 2016 (Commonwealth Secretariat 2016). Therefore, the robust global trade growth of 2017 was largely attributable to the fact that it was recovering from an already low base. It can be estimated from United Nations Conference on Trade and Development (UNCTAD) data, as presented in Figure 4, that, against the fall in global exports by more than $3.2 trillion (between 2014 and 2016), the recovery that took place in 2017 was of $2.1 trillion. Therefore, global export of goods and services in 2017 was still more than $1 trillion less than that of 2014.

The weak performance of trade has also been reflected in the global export and trade orientation. After a continuous rise over the past five decades, the ratio of world export to output has slowed down, and since 2008 has been falling (Figure 5). Following a sharp recovery in the period immediately after the global financial crisis, the world export–GDP ratio has been declining since 2012. The export share of the world GDP in 2017 was 27.5 per cent – more than two percentage points lower than in 2012 (Figure 5).[4]

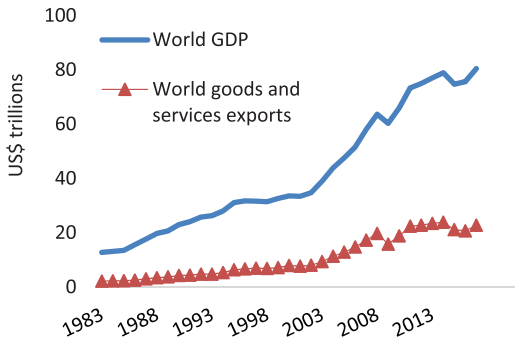
In the immediate aftermath of the global financial crisis, major economies specially developed and large developing countries started to embark on protectionist measures, undertaking on average more than 800 protectionist interventions every year (Evenett and Fritz 2015).

Figure 3. Growth of world trade (%)



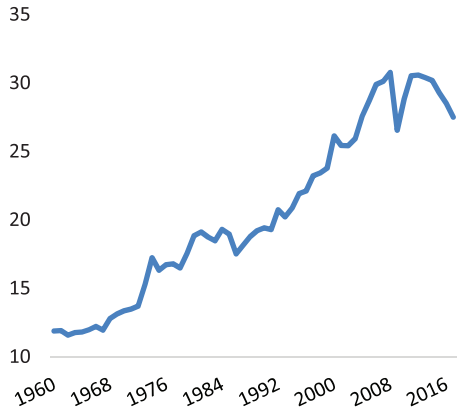
Note: Growth rates beyond 2017 are based on IMF projections.
Source: Authors' analysis using data from IMF World Economic Outlook database, October 2017.

Figure 4. World GDP and exports of goods and services



Source: Data for Figure 4 are from UNCTADstat while the same for Figure 5 are from World Bank World Development Indicators.

Figure 5. World export-GDP ratio (%)



Source: Data for Figure 4 are from UNCTADstat while the same for Figure 5 are from World Bank World Development Indicators.

According to one estimate, since 2012 an average of 13 trade-restrictive measures per month have been introduced by World Trade Organization (WTO) members (WTO 2018, Vickers, 2017). In addition to this protectionist climate, a combination of cyclical and structural factors contributed to the persistence of the global trade slowdown. Among the structural factors, the most prominent factor is China's settling to a lower economic growth path – of around 6 per cent as against the close to 10 per cent it achieved over the three decades since the 1980s – affecting its expansion of trade in goods and services. At the same time, China is also undergoing a rebalancing of economic activities in which its focus on demand for import-intensive investment and manufacturing production is shifting towards consumption of services and more domestic value-added manufacturing production. The reduction in investment which is traditionally considered as the most import-intensive component of GDP led to a weakened import demand in world trade. Another major structural factor associated with the global slowdown is the consolidation of value chain activities in production and trade (World Bank 2015). One of the most prominent features of the 1990s' and early 2000s' global trade was the expansion of global value chains in which production processes fragmented, with each country concentrating only on certain specific tasks rather than producing the whole product and providing the associated services. Combined with open trade policies, the global value chain led to the relocation of an increasing share of domestic production abroad. However, during the post-financial crisis period, because of the slowing down of the global value chain, major economies such as the USA and China started sourcing intermediate inputs more often from their respective domestic economies.

It is worth pointing out that after the initial impact (in 2009) of the global financial crisis, exports (in value terms) managed to rise. However, from 2012 the commodity boom began to unwind, with prices plummeting during 2014–15. This resulted in a sharp drop in export prices, leading to falling export revenues for major commodity exporters.[5] During 2015–16, an already precarious situation of world trade was worsened by a globalisation backlash, which emerged as a threat to liberal trade and economic policies. Changes in political climate in the direction of anti-liberal policies across the world were raising the major economies' concern about the adverse impacts of trading with developing countries on the wages and livelihood of local population. In Europe, this has been manifested in growing concern about migration and free movement of workers. The last straws that are having severe detrimental effects on the global trade are the trade policy reversal in the USA and the ensuing USA–China trade war.

2.2 LDCs, small states and sub-Saharan Africa: A decade of lost gains from trade

Since 1980, world exports have grown by more than 10 times (to about US$23 trillion in 2017). During the same period, developed and developing countries' total exports expanded by about 8 and 14 times respectively (Table 1). Increasing global integration and a rapid rise in trade flows resulted from the widespread trade liberalisation of the 1980s and 1990s. From the late 1990s to 2012, the economic groups of the LDCs and SSA managed to reverse the trend of their marginalisation in global trade with their share in total global exports of goods and services increasing quite noticeably (Figure 6). Interestingly, the global financial crisis of 2008 did not cause sustained declines in the relative significance of these groups of countries. However, they were affected by the trade slowdown of 2015–16 (Figure 6) as their share in world exports fell. Indeed, it seems that the most recent trade crisis has reinforced the marginalisation of the poorest, smallest and most vulnerable economies of the world.

Table 1. Exports of goods and services by groups of economies

Country group	*1980*		*1990*		*2000*		*2010*		*2017*	
	Exports (in billion US$)	Share (in % of world exports)	Exports (in billion US$)	Share (in % of world exports)	Exports (in billion US$)	Share (in % of world exports)	Exports (in billion US$)	Share (in % of world exports)	Exports (in billion US$)	Share (in % of world exports)
World	2,376	100	4,260	100	7,941	100	18,848	100	22,757	100
Developed	1,640	68.9	3,159	74.1	5,328	67.1	10,730	56.9	12,721	55.9
Developing	672	28.3	989	23.2	2,441	30.7	7,425	39.4	9,373	41.2
LDCs	19	0.8	24	0.6	43	0.5	176	0.90	209	0.92
SSA	87	3.7	81	1.9	113	1.4	404	2.1	372	1.61
Small states	24	1.02	30	0.7	52	0.6	132	0.7	125	0.55

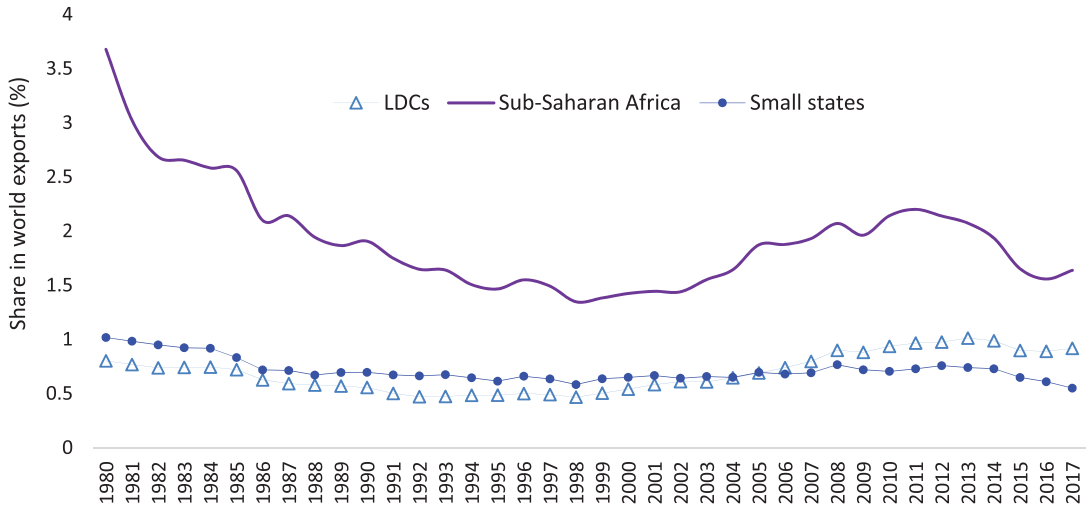
Source: Author's estimates from UNCTADstat data.

A strong recovery in 2017 led SSA's exports to rise by US$50 billion over the previous year to reach $373 billion. The comparable increases for LDCs and small states were $25 billion and $1 billion respectively. But still, these country groups' total exports in 2017 were just about at the same level as in 2008 (Figure 7). During 2000–08, LDC exports grew nearly five-fold, from $43 billion to about $200 billion, which is just about the same size as in 2017. For the group of African, Caribbean and Pacific (ACP) countries, including SSA and small states, their combined exports of goods and services during 2000–08 rose by more than three times, from $146 billion to $482 billion as against their corresponding exports of $448 billion in 2017. From this perspective, the period 2008–2017 can be seen as a lost decade of gains from trade for the world's poorest, smallest and most vulnerable countries.

The global trade crisis was to deal an early blow to one SDG target as stated under SDG 17.11. Having adapted from the other United Nations (UN)-led initiative – the Istanbul Programme of Action (IPOA) for LDCs for the Decade 2011–2020 – this target stipulated a doubling of the LDC share of global exports by 2020. At the start of IPOA implementation, the corresponding LDC share was 1.05 per cent and thus fulfilling this SDG target would require LDC share to rise to 2.1 per cent. However, the share has actually declined to 0.92 per cent in 2017 (Table 1). Therefore, achieving the target of doubling LDC share now appears to be an almost impossible task given current trends in global trade.

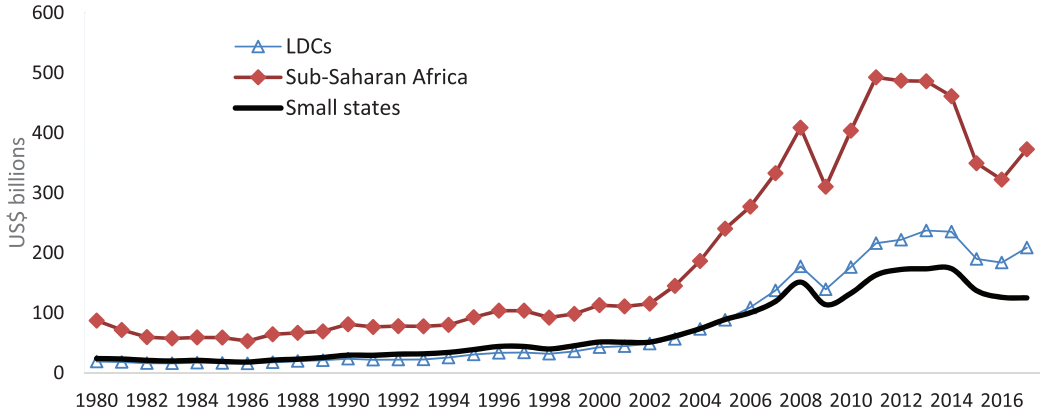
It was earlier mentioned that after the global financial crisis world output recovered quite well, but trade growth had been unprecedentedly slow. Figure 8 juxtaposes GDP and export growth rates over different periods by various groups of economies. It is found that LDCs, SSA and small states experienced much lower average economic growth during the most recent trade slowdown period – since 2013 – compared with that of the pre-financial crisis years of 2000–08 and 2009–12. In comparison with the overall world developed and developing country groups, the growth performance of LDCs, SSA and small states has been weaker when the group-specific average growth rates are compared over different periods. The world average GDP growth during 2013–17 was 2.75 per cent, in comparison with 3.32 per cent during the pre-global financial crisis period. As

Figure 6. Marginalisation of LDCs, small states and SSA in global exports



Source: Authors' estimates using UNCTADstat data.

Figure 7. Export trade of LDCs, small states and SSA – a lost decade



Source: Authors' calculations based on data from UNCTADstat.

Western developed countries recovered from their prolonged recession following the 2008 financial crisis, their average output growth during 2013–17 of 1.88 per cent per annum was comparable with that of 2.17 per cent during 2000–08. In contrast, the output growth for LDCs in the most recent period (2013-17) was recorded at 4.7 per cent, which is much lower than the 6.6 per cent achieved during 2000–08. For SSA, the comparable figures are 3.18 per

Figure 8a. GDP growth of different groups of countries (%)

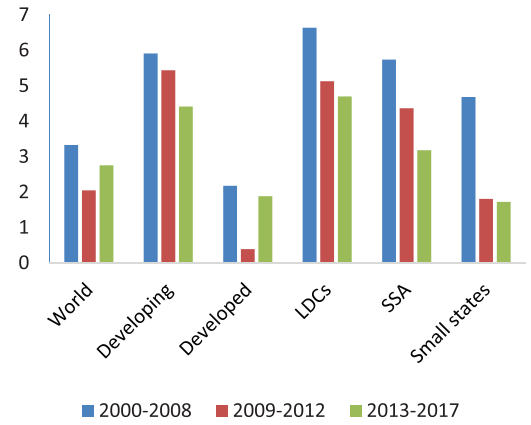


Figure 8b. Export growth of different groups of countries (%)

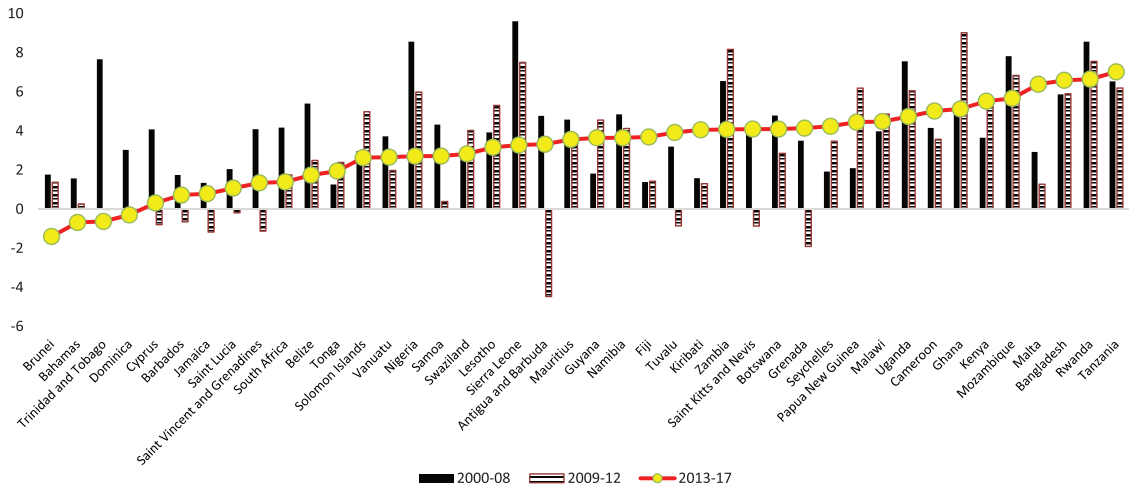
cent during 2013–17 and 5.73 per cent during 2000–08. Small states have experienced the most remarkable decline in their average GDP growth rate: from 4.68 per cent in 2000-08 to 1.72 per cent in 2013–17.

Turning to exports, global trade slowdown affected the overall world economy and developing and developed country groups, but the impact has been most severe for LDCs, SSA and small states (Figure 8b). Small states and SSA saw their exports during 2013–17 on average decline by close to 6 per cent and more than 4 per cent respectively. The corresponding decline in LDCs' exports was 0.6 per cent. Small states are more dependent on international trade for their economic activities. Therefore, it is their dismal export performance that contributed to weaker GDP growth (as reflected in Figure 8a).

Figures 9 and 10 provide the average annual GDP and export growth rates respectively in individual Commonwealth LDCs, SSA economies and small states for the same three time periods: 2000–08, 2009–2012 and 2013–17. A close look at Figure 8 reveals that, during 2012–17, out of 45 Commonwealth LDCs, SSA and small states, as many as 28 had experienced a lower rate of economic growth than the pre-financial crisis years of 2000–08. As many as 23 countries (i.e. more than 50 per cent) registered lower average annual economic growth rates in 2013–17 than in 2009–2012. For 16 countries, economic growth seems not have been affected by the global financial crisis, as their annual average GDP growth during the post-financial crisis years 2009–2012 remained almost the same as or higher than that of the pre-financial crisis years of 2000-2008. Out of these countries, five Commonwealth countries – Brunei, Gambia, Fiji, Bangladesh and Tanzania – experienced an annual average GDP growth rate that was almost the same as it was during the pre-financial crisis period and recovery years of 2000–2012. However, Brunei's economic growth was severely affected by the global trade slowdown during 2013–17, whereas Fiji, Bangladesh and Tanzania's economic expansion continued (Figure 9). Ghana, Lesotho, Solomon Islands, Swaziland and Zambia are the five countries that experienced higher average annual GDP growth during 2009–2012 than during 2000–08. However, their average growth during 2013–17 declined to lower than the pre-crisis 2000–08 average rate of economic growth.

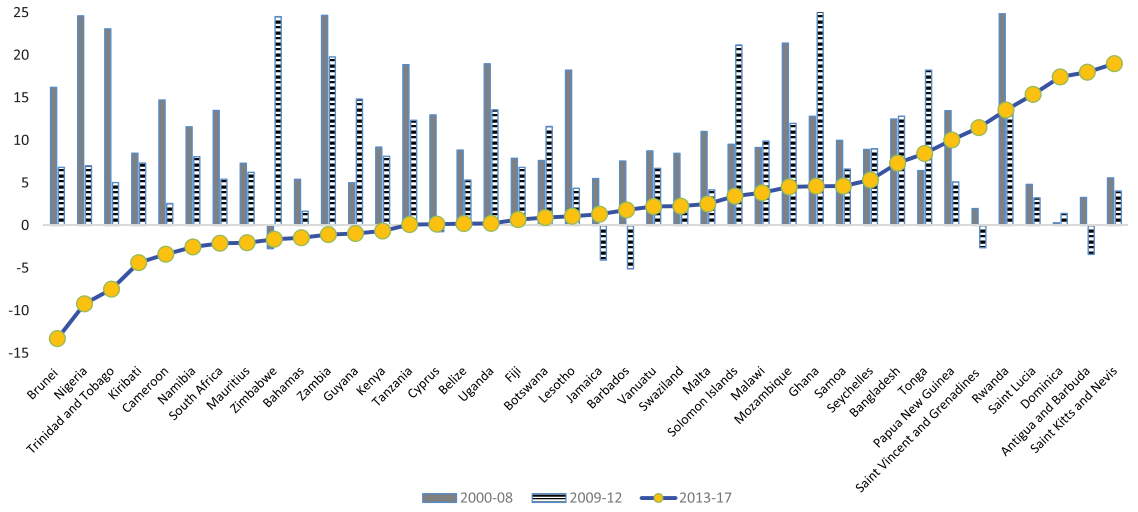
Considering international trade performance, 36 Commonwealth LDCs, small states and SSA economies (out of a total of 45; more than 80 per cent) suffered lower export growth during 2013–17 than during the pre-crisis period (2000–08), as Figure 10 shows. For nine countries, export growth was not affected by the global financial crisis. Of these countries, other than Dominica and Tonga, all others – namely Bangladesh, Botswana, Ghana, Guyana, Malawi, Seychelles and Solomon Islands – experienced lower average annual export growth during the global trade slowdown period of 2013–17 than during both the pre-financial crisis years 2000–08 and the immediate post-financial crisis period 2009–2012. Of the 12 Commonwealth LDCs, Rwanda managed to achieve a relatively high (13.5 per cent) average annual export growth rate during

Figure 9. GDP growth in Commonwealth LDCs, small states and SSA over different periods (%)



Source: Authors' calculations using data from UNCTADstat.

Figure 10. Growth of exports in Commonwealth LDCs, small states and SSA over different periods (%)



Source: Authors' calculations using data from UNCTADstat.

2013–17, while Kiribati and Zambia posted negative growth rates (Figure 9). Out of the 10 most adversely affected Commonwealth countries from the global trade slowdown period 2013–17, six were from SSA. The largest two SSA economies, Nigeria and South Africa, which account for almost half of SSA exports, experienced negative trade growth (Figure 10).

3. Export–GDP nexus and global trade crisis

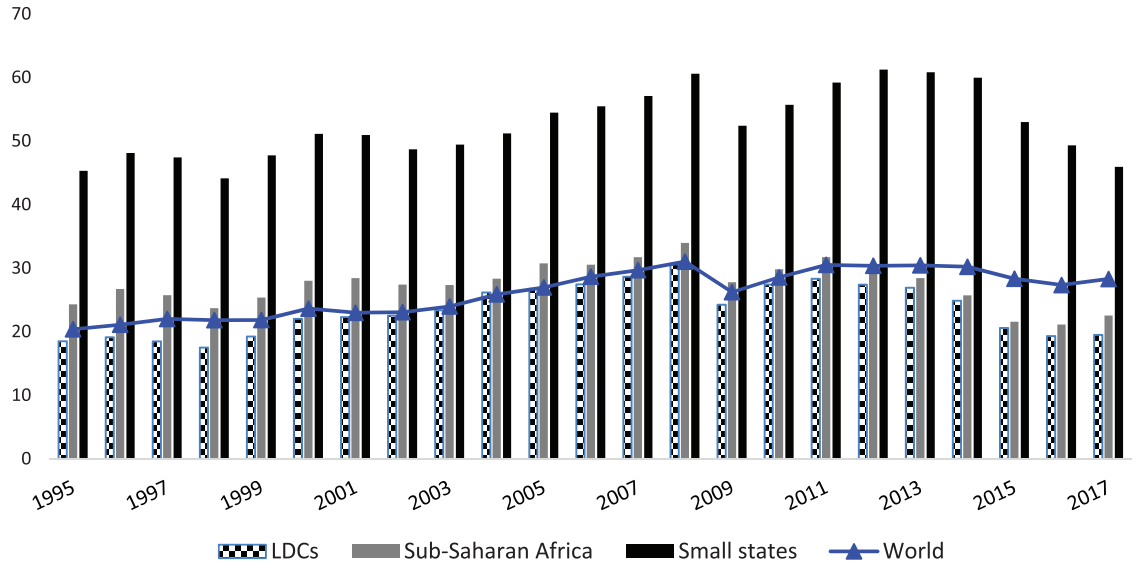
3.1 Long-run and short-run associations between GDP and exports

Although both the world GDP and exports suffered from the 2008 global financial crisis, followed by some recovery during 2009–2012, the export–GDP ratio, as mentioned earlier, seems to have stalled and has actually been gradually declining over the past few years. The declining export orientation is most prominent for groups small states (Figure 11). Small states, because of their nature, are more dependent on international trade, having relatively high export–GDP ratios. However, the global trade slowdown of the recent past means that this group of countries' average export orientation fell from 61 per cent in 2012 to just 46 per cent in 2017 – that is, a decline of 15 percentage points over just a five-year period. For LDCs and SSA, average export–GDP ratios fell from around 30 per cent to just 20 per cent during the same period.

During the 1980s and 1990s, there was a strong relationship between world GDP and exports. Because of such factors as weak import demand, structural changes in major economies and trade slowdown, the trade–GDP nexus has weakened substantially since the 2008 global financial crisis. World exports grew on average at 12 per cent during the pre-financial crisis period of 2000–08 accompanied by a 3.3 per cent average economic growth. However, during the most recent period of trade slowdown (2013–17), export growth was just 0.5 per cent, as against economic growth of 2.7 per cent.

This weakened trade–GDP association has been highlighted in the post-global financial crisis literature. Several studies suggest that, while a significant part of the sluggish global trade may be attributed to a temporary cycle, a 'new normal' is emerging in which trade growth is unlikely to regain its pre-crisis strength. The World Bank (2015) analysed the dynamics of trade and income relationship. The study suggested that the declining long-run response of trade to income was affected by several factors including changes in the composition of world trade, particularly the relative importance of goods and service trade; changes in the structure of trade that is associated with

Figure 11. Export orientation by groups of countries (%)



Source: Authors' presentation using data from UNCTADstat.

the international fragmentation of production; changes in the composition of GDP, particularly the share of investment in aggregate demand; and changes in the trade regimes, especially the rise in protectionism. According to the analysis, the high long-run trade elasticity of the previous decades was supported by the expansion of the global value chain, which decelerated from the 2000s because of the factors mentioned above.

The scatterplots of developing countries' export and GDP growth rates for 2000–08 and 2013–17 are shown in Figures 12 and 13 respectively. It would appear from these figures that both GDP and export growth rates were lower during 2012–17 than during the pre-crisis period 2000–08.[6] In addition, it can be concluded from the scatterplots that the export–GDP association in developing economies has weakened substantially from 1.72 during 2000–08 to 0.87 per cent during 2013–17.

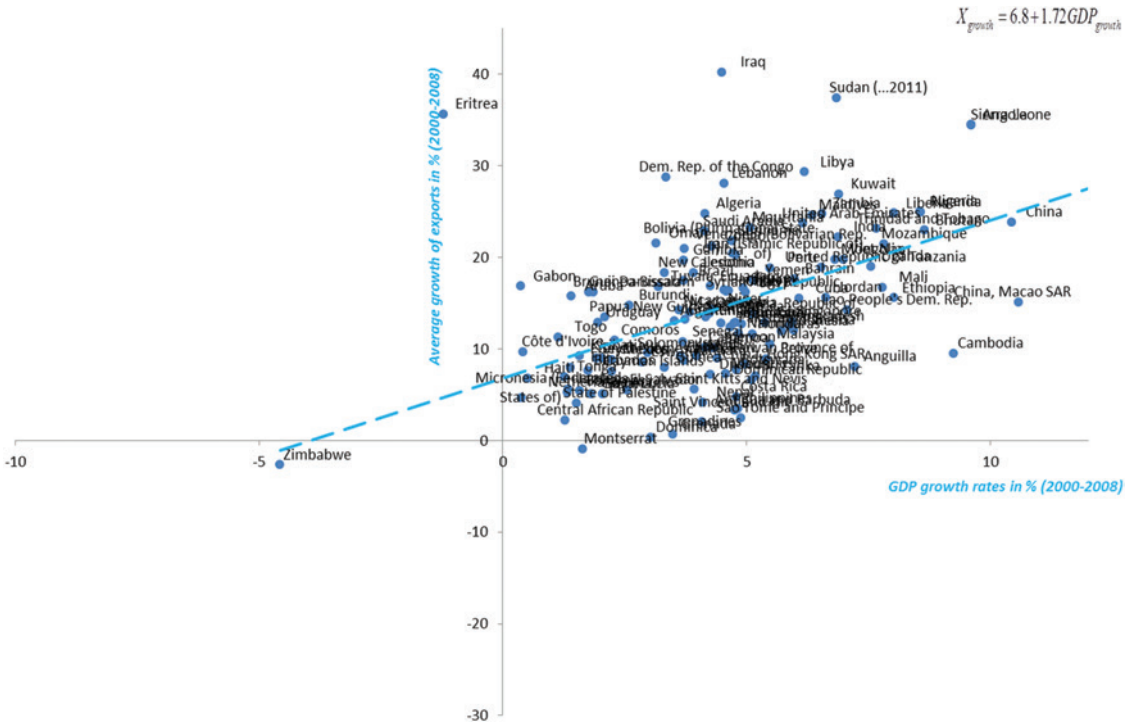
The slowdown since the global financial crisis of 2008 has received a lot of attention. One important question is whether the slower trade growth and its weaker relationship with GDP is a structural change or a temporary phenomenon. Estimates presented by the World Bank (2015) show that in the period 1986–2000, a 1 per cent increase in global GDP was associated with a 2.2 per cent increase in the volume of trade. This elasticity declined to just 1.3 per cent in the subsequent period of 2000–2013. On the other hand, the short-run elasticity estimates increased over time from 2.8 per cent for the 1986–2000 period to 3.4 per cent for the period 2000–2013. The speed of convergence to the long-run equilibrium trade–GDP relationship was much higher in the 1990s than in the 2000s.

The relevant elasticity estimates for groups of developing countries such as LDCs, SSA and small states are not available. In this section, unlike analyses elsewhere, we explore the export–GDP relationships for these economies. More precisely, the long-run and short-run elasticities and the speed of adjustment to the long-run equilibrium are estimated. The estimation techniques follow the practices in the literature using an error correction model (ECM), similar to Irwin (2002) and Escaith et al. (2010). This analysis specifies the regression of the following form, which has been widely used in the empirical trade literature:

$$\Delta \ln(x_t) = \alpha + \gamma \ln(x_{t-1}) + \beta \Delta \ln(y_t) + \delta \ln(y_{t-1}) + u_t \quad (1)$$

where Δ denotes first differences, x_t is the value of exported goods and services and y_t is the real GDP at period t. α is a constant term and u_t is the residual part of export unexplained by GDP. In this framework, the short-run elasticity is β, the long-run income elasticity of export is $-\delta/\gamma$ and $-\gamma$ is the speed of adjustment to the long-run equilibrium.[7] Estimation results are presented in Table 2.

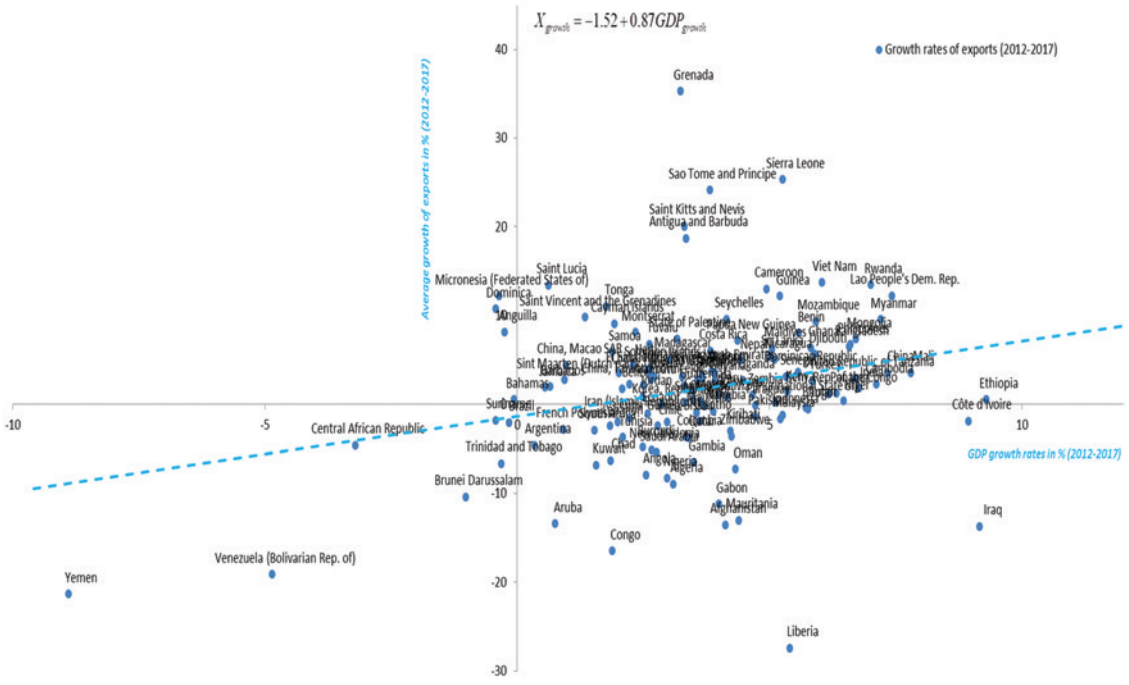
Figure 12. Growth of exports and GDP in developing economies (2000–08)



Source: Authors' analysis using data from UNCTADstat.

The long-run income elasticity of world exports for the entire sample from 1980 to 2017 is 1.4, but the response of exports with respect to income differs considerably between the two periods. In the period 1980–2000, a 1 per cent increase in the world GDP is associated with a 1.7 per cent increase in world exports. This income elasticity of exports substantially declined to 1.3 per cent in the following period of 2001–2017. Assessing the

Figure 13. Growth of exports and GDP in developing economies (2012–2017)



Source: Authors' analysis using data from UNCTADstat.

Table 2. Estimation of long-run and short-run export elasticity for different economic groups

	World			LDCs		SSA			Small states	
	1980–2017	1980–2000	2001–2017	1980–2017	1980–2000	2001–2017	1980–2017	1980–2000	2001–2017	1980–2017	1980–2000	2001–2017
Short-run income elasticity of trade	1.6***	1.2***	1.96***	1.69***	0.86	2.04***	1.38***	0.50	1.61***	1.53***	1.44***	1.67***
Long-run income elasticity of trade	**1.4*** **	**1.7**	**1.3***	**0.67**	**3.0**	**0.87****	**0.72**	**1.38*****	**1.0***	**1.20****	**1.24****	**1.07**
Adjustment speed	–0.18**	–0.13	–0.29*	–0.09	–0.12	–0.24**	–0.11	0.022	–0.21*	–0.26**	–0.47***	0.27

Note: Estimates are derived from the error correction models. Statistical significance at the 1, 5 and 10 per cent levels are denoted by ***, ** and * respectively.
Source: Authors' estimates.

presence of a structural change in the sample, it is found that there is a significant structural break in the long-run export–income relationship between 1980–2000 and the subsequent period.[8]

The results suggest that the change in the export–income relationship cannot be solely attributed to the global financial crisis. The global export is sluggish not only because of the lower GDP growth but also because the trade–GDP relationship has achieved a new equilibrium, which is lower than the earlier period of the 1980s and 1990s. The implication of this is that, even if GDP growth is higher, trade growth may not pick up to rates comparable to those of 1980–2000. The short-run export–GDP interaction suggests some interesting results. The short-run elasticity for the entire sample is 1.6, while this elasticity has increased over time. During 1980–2000 it was 1.2, which increased to 1.96 in the subsequent period of 2001–2017. These results suggest that over the years changes in the global GDP have had an increasing short-term impact on the export of goods and services. The speed of adjustment results has some important implications as well. The convergence to the equilibrium speed has increased during the last two decades, relative to the 1980s and 1990s. Findings suggest that during 2001–2017, if the export in the previous period was 1 per cent higher than the predicted long-run (equilibrium) relationship, then trade in the current period would decline by 0.29 per cent to restore the long-run equilibrium relationship between export and income. The estimated speed of adjustment for the previous two decades was lower, suggesting a quicker adjustment speed, although it was not statistically significant. Exports in the post-2000 period grew more slowly relative to world income (lower long-run elasticity) and any shock to world export takes longer to adjust to the equilibrium in the 2000s.[9] These findings would suggest that, in addition to cyclical factors,[10] structural elements contributed to the global export slowdown in recent years. Slower world export growth is attributed to the weakened long-run relationship between export and income, in addition to the sluggish GDP growth.

It is also explored here how the export–GDP relationship has changed for the groups of LDCs, SSA economies and small states. For all

groups, the statistically significant short-run elasticity of trade increased during 2001–17 compared with the period 1980–2000, implying an increasing impact of income on export in the short run. The largest short-run impact during post-2000 years is seen for LDCs, where a 1 per cent increase in GDP is associated with about a 2 per cent increase in export. The long-run response of trade with respect to income differs considerably across different groups of countries over the two timespans. However, the overall conclusion does not change much compared with the world export–GDP association. Owing to trade slowdown, the long-run trade–GDP relationship has weakened and reached a new equilibrium level. Developing countries' association of trade with income has decreased as well from 1.38 per cent to only 0.90 per cent.[11] The situation is even worse for LDCs: during 2001–2017, their long-run trade responsiveness with respect to income has been the smallest at 0.87 per cent in comparison with a very high elasticity of 3 per cent during 1980–2000.[12] For sub-Saharan Africa, the long-run elasticity during 1980–2000 was 1.38 per cent, which fell to just 1 per cent most recently. A similar weakened elasticity is also found for small states. As for the speed of convergence, during the post-2000 era any shock to world trade takes longer to adjust to the long-run equilibrium export–income relationship than the 38-year (1980–2017) average speed of convergence.

3.2 Contribution of exports to GDP through the national income accounting process

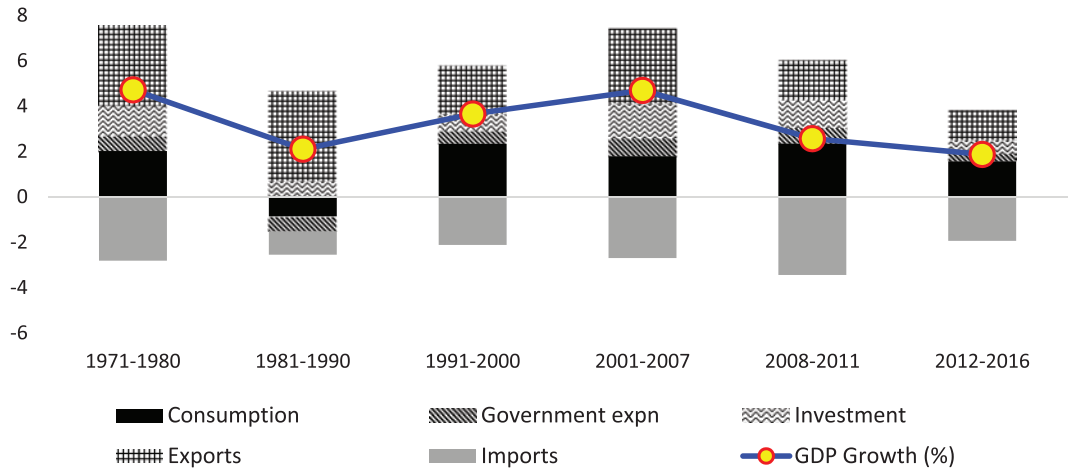
Another way of ascertaining export–GDP linkages is to consider the contribution of the export sector in a country's overall economic growth through the national income accounting process. This is likely to be a better approach than just focusing on the export–GDP ratio, in which exports are measured in gross terms (thus include raw materials and imported inputs) while GDP is a measure of value added (after excluding raw materials). In national income accounting exercises, GDP from the expenditure side is decomposed into five macroeconomic components viz. household consumption, government expenditure, investment, exports and imports. It allows for the assessment of the relative contribution of any of these components and its evolution overtime. The computation method for contribution to GDP growth by various components is given below, while Figures 14–16 depict decomposition results for small states, SSA and LDCs respectively.

$$Y = C + I + G + X - M$$

$$\frac{\Delta Y_t}{Y_{t-1}} = \frac{\Delta C_t + \Delta I_t + \Delta G_t + \Delta X_t - \Delta M_t}{Y_{t-1}}$$

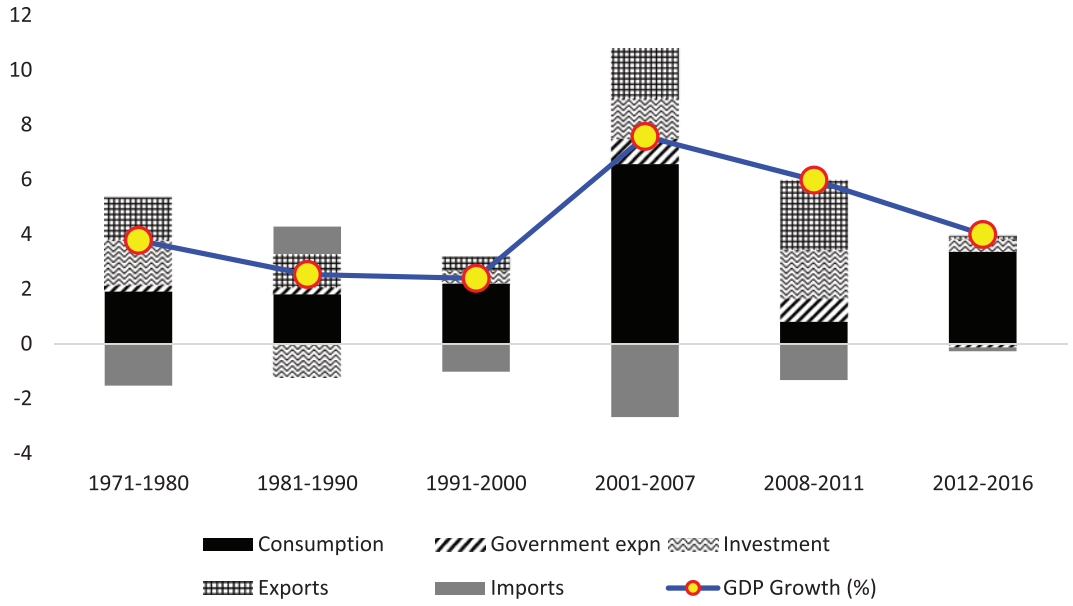
$$\Rightarrow Y_t^{growth} = C_t^{growth} C_{t-1}^{share\ of\ Y} + I_t^{growth} I_{t-1}^{share\ of\ Y} + G_t^{growth} G_{t-1}^{share\ of\ Y} + X_t^{growth} X_{t-1}^{share\ of\ Y} - M_t^{growth} M_{t-1}^{share\ of\ Y}$$

Figure 14. Small states – decomposition of GDP growth (percentage points)



Source: Authors' estimates using UNCTADstat data.

Figure 15. SSA – decomposition of GDP growth (percentage points)

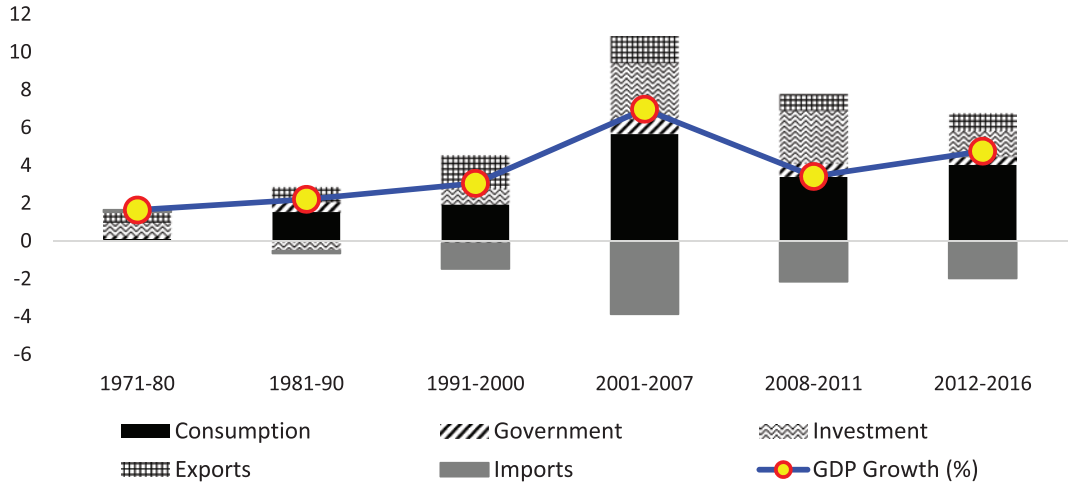


Source: Authors' estimates using UNCTADstat data.

For small states, as Figure 14 shows, economic growth in the most recent period of 2012–16 was lower than that of any period since the 1990s. Given the size of the overall growth, the contribution to exports remains prominent. For instance, during 2001–07 about 70 per cent of GDP growth was attributed to exports. The comparable figure for 2012–16 was almost identical. This suggests that small states continue to depend on exports for their overall economic activities despite falling global trade. Therefore, a sustained deceleration in global trade flows will seriously undermine its growth prospects irrespective of a relatively high contribution of the export sector.

Sub-Saharan African countries exhibit an interesting evolution in the contribution of exports to their economic growth. It is found that export contribution to GDP growth for the period 2001–07 was about 23 per cent, which plummeted to only 2.5 per cent in 2012–16 owing to the trade collapse of 2015 and 2016. The relative contribution of exports was most prominent during 2008–11 when overall economic growth fell but exports were aided by

Figure 16. LDCs – decomposition of GDP growth (percentage points)



Source: Authors' estimates using UNCTADstat data.

still-buoyant commodity prices. However, as economic growth declined and commodity prices fell, export contribution to growth became almost non-existent. During 2012–16, SSA's growth was largely due to growth in consumption expenditure.

For LDCs, export contribution to growth was just about 20 per cent during the growth boom of 2001–07. The falling growth during 2008–2011 actually resulted in a higher export contribution of about 25 per cent. However, in the subsequent period lower growth accompanied by weak exports resulted in export contribution falling to less than 19 per cent.

The above results are generally in line with the results of long-run elasticity estimation. For small states, export has a slightly declining contribution in GDP growth from 2008, implying a weakening export–GDP association but only by a small extent. Therefore, it can be inferred that, although small states are being marginalised in world trade, only a part of their lower export growth is due to the structural changes. Most of its decline in export growth is caused by cyclical effects. However, for SSA the decline in export expansion is due to a greater extent to structural changes. Because of the rebalancing and weakened import demand, SSA's income elasticity of export has declined substantially. As for LDCs, the more or less similar contribution of exports to GDP growth is maintained during high-growth and low-growth periods.

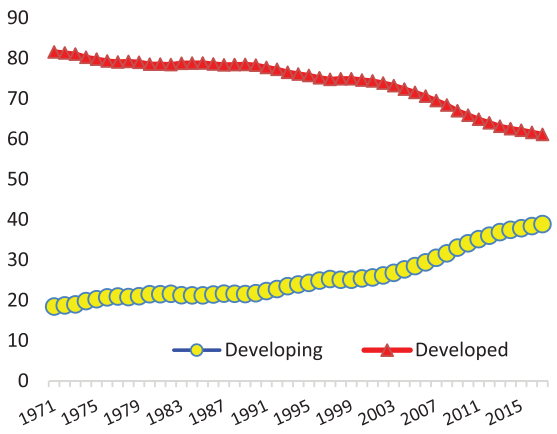
4. South–South trade and global trade crisis

One of the major developments in the world economy over the past three decades or so has been the rapidly growing share of the developing countries. Indeed, the rise of developing countries as significant drivers of global growth and trade has been recognised as the defining features of globalisation. Another important related trend is that increasingly more trade is taking place between developing countries. While traditional developed country markets remain important, developed countries' markets are also becoming prominent sources for developing countries. It is of interest whether or not these developments have been affected by recent global trade turmoil, with any implications for small states, LDCs and sub-Saharan African countries.

The data provided by UNCTAD show that since the early 1970s developing countries have on average grown at a faster rate than developed countries. There has been a secular decline in the relative significance of developed economies in world GDP from close to 82 per cent in the early 1970s to just 61 per cent in 2017 (Figure 17). During the 37 years between 1971 and 2008, developed countries' share declined by 13 percentage points, and in the nine years after the global financial crisis it fell by another 7 percentage points. That is, since the global financial crisis in 2008, developing countries' share in world output has risen from 31.6 per cent to about 39 per cent in 2017. The prolonged recession in Europe and the USA in the aftermath of the financial crisis contributed to the apparent acceleration of the diminishing relative significance of developed countries. This is despite China's slowing down to a much lower rate of economic growth and other large developing countries such as Brazil and South Africa also demonstrating dismal growth performances.[13]

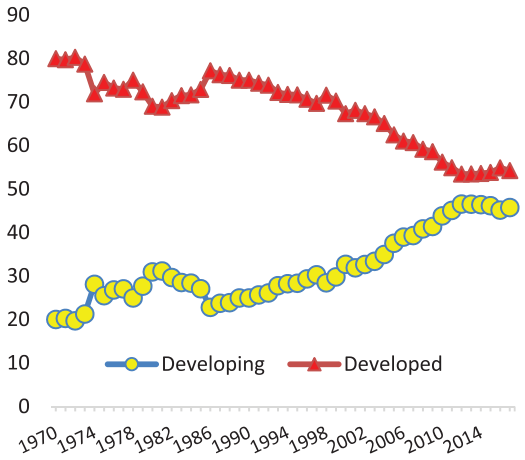
Asian developing countries have shown consistently strong growth performance, and SSA demonstrated impressive growth performance from the late 1990s through the 2000s

Figure 17. Share in global GDP (%)



Source: Authors' analysis using UNCTADstat data.

Figure 18. Share in global merchandise trade (%)



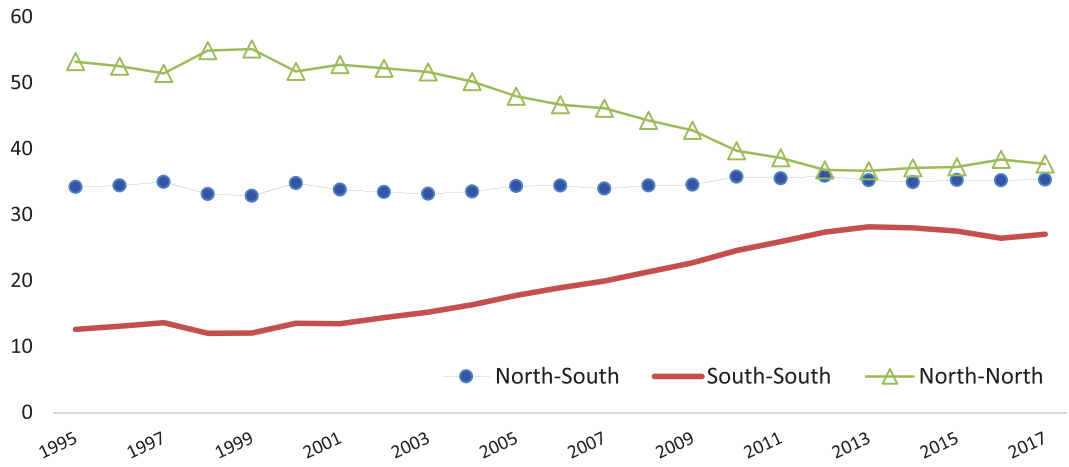
Source: Authors' analysis using UNCTADstat data.

before slowing down to a very low level during 2012–17.

Buoyant economic growth in many developing countries from the mid-1990s until relatively recently resulted in their remarkable export expansion. In fact, developing countries' share in global merchandise exports grew faster than their share in GDP. Between the mid-1990s and 2008 the Global South's share increased from around 25 per cent to 40 per cent (Figure 18). Even after the global financial crisis their share continued to rise and reached 46 per cent by 2014. However, the trade slowdown during 2015 and 2016 has clearly affected this trend in the developing countries' share, as is obvious in Figure 18. Falling commodity prices, weakened import demand from some emerging economies including China, uncertainty in trade policy environment at the global level, etc., have all contributed to this. In 2017, the aggregate merchandise export of developing economies stood at US$7.8 trillion, which was still lower than the pre-slowdown (2014) level of $8.5 trillion.

Along with the rapid growth in GDP and export volume over the past two decades or so, trade between developing countries (South–South trade) has seen a phenomenal rise. Between 2000 and 2008, trade between developing countries' share of total global trade rose from 13.5 per cent to more than 21 per cent (Figure 19). This was a period in which trade between developing countries expanded much faster owing to the buoyant economic growth of large developing countries such as the BRICS (Brazil, Russia, India, China and South Africa) nations as well as many other developing countries including those in SSA. The rising significance of the Global South in world trade continued despite the global financial crisis of 2008. However, after 2012 the share of South–South trade became stagnant before registering a slight fall in 2016. The relative significance of the trade between developed countries in world trade, however, steadily declined from more than 50 per cent in 2000 to about 37 per cent in 2012, and since then it has been stable around this level. Interestingly, the South–North share of the global merchandise export has remained almost at the same level of around 35 per cent over the past three decades. As can be seen from Figure 20, in the late 1990s South–South trade grew on average by less than 3 per cent per year, whereas during 2000–08 it expanded rapidly at a rate of close to 20 per cent per annum against

Figure 19. Global merchandise trade by country groups (%)



Source: Authors' estimates from UNCTADstat.

Figure 20. Merchandise trade growth – world and the Global South

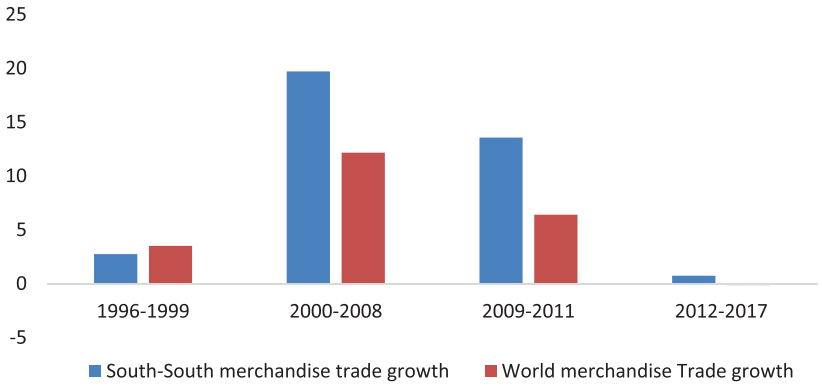
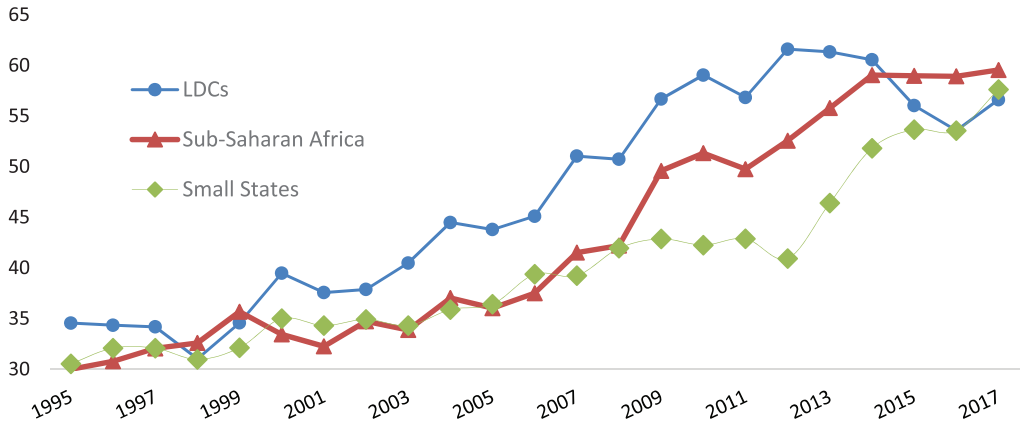


Figure 21. Relative significance of the Global South in LDC, SSA and small states' exports (%)



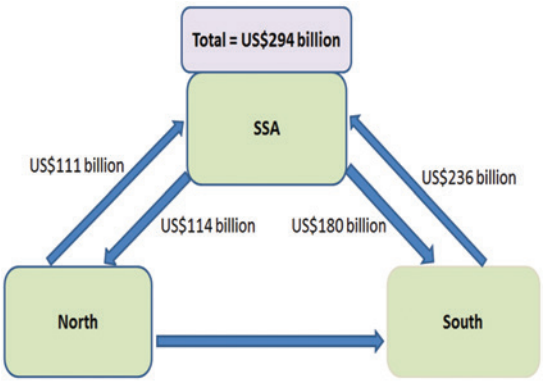
Source: Authors' analysis using UNCTADstat.

the corresponding growth of 12 per cent for global trade. In the immediate post-financial crisis period of 2009–2011, South–South trade growth was 13.5 per cent, largely aided by a major recovery in 2011. However, from 2012, in the years of trade slowdown, South–South merchandise trade remained almost stagnant at less than a 1 per cent annual average growth rate.

The role of South–South trade in relation to trade flows involving LDCs, small states and sub-Saharan African countries is also important. In 2017, the proportions of SSA, small states and LDC merchandise exports destined for the Global South were 61 per cent, 59 per cent and 57 per cent respectively (Figure 21). Therefore, the world's poorest, smallest, most vulnerable economies are substantially dependent on the Global South for their export revenues. Since the early 2000s, these shares have been steadily increasing, unaltered by the 2008 global financial crisis. Even during 2012–17 the significance of developing countries in SSA's and small states' exports continued to rise from 52.5 per cent to 60 per cent and from 41 per cent to 58 per cent respectively. For LDCs, the export share of the Global South in 2017 increased to 57 per cent from 53 per cent in 2016, although there was some decline in this share during the trade slowdown period of 2015–16.

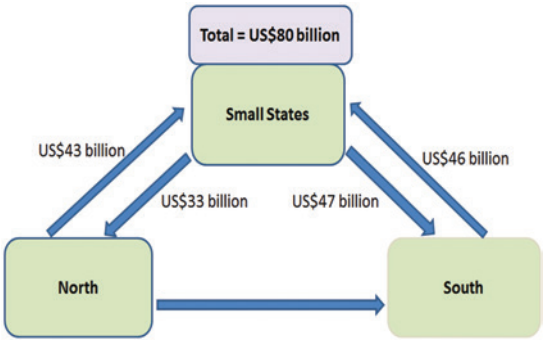
Figures 22–24 summarise merchandise export flows of SSA, small states and LDCs by developed and developing countries. In 2017,

Figure 22. SSA's merchandise export flow 2017



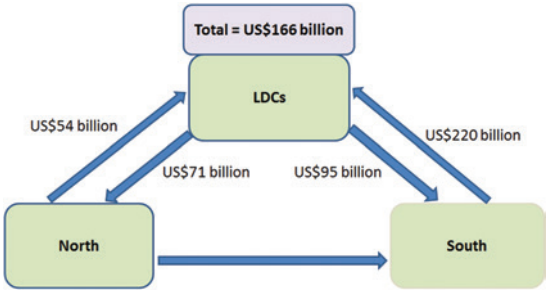
Source: Author's analysis using data from UNCTADstat.

Figure 23. Small states' merchandise export flow 2017



Source: Authors' analysis using data from UNCTADstat.

Figure 24. LDC' merchandise export flow 2017



Source: Authors' analysis using data from UNCTADstat.

of US$294 billion SSA exports, $180 billion (61 per cent) was destined to developing countries. Exports from the Global South to SSA stood at $236 billion, as against the $111 billion exports of developed countries. Similarly, 58 per cent of all small states' exports went to the developing world and their import sources (in terms of absolute value) were almost equally divided between developed and developing countries. For LDCs, their trade (exports plus imports) with developing countries was $315 billion in comparison with their trade of $125 billion with developed economies.

5. Trade war and implications for LDCs, SSA and small states

The 2008 global financial crisis gave rise to an anti-trade and anti-globalisation sentiment, with many countries, particularly those in the G20, adopting protectionist measures aiming to protect their financial and real sectors from external competition. After decades of liberal policies and increasing international co-operation, these measures over the past several years have resulted in a heightened policy uncertainty affecting global trade and investment flows. These measures have also resulted in deteriorating trade relationships among the major economies of the world.

An important component of global trade turmoil has been widespread US trade policy reversals and the subsequent retaliations of other major countries. Since its 2016 presidential election, the USA has engaged in major policy shifts, creating tensions among trade partners and stakeholders. Imposing renegotiation of the 24-year-old North American Free Trade Agreement (NAFTA) and pulling itself out of the Trans-Pacific Partnership trade deal were the initial major steps indicating major changes to US trade policy regimes. The USA also had issues with its traditional trade partners and allies such as the EU, resulting in escalating tariffs. In another major development, China and the USA got involved in a trade war when the latter's imposition of tariffs induced retaliation from the former. A sequence of US tariffs on a range products was imposed from January 2018 with the objective of limiting imports for an improved trade balance and to support US domestic industries including manufacturing. Besides the already raised steel and aluminium import tariffs, the US imposed a tariff of 10 per cent on US$200 billion's worth of imports from China in April 2018. This included consumer products, chemical and construction materials, textiles, tools, commercial electronic equipment, automotive parts and agricultural products. Another 25 per cent tariff was imposed on a list of products including steel, coal and manufacturing components – $50 billion's worth of imports from China (China Briefing 2018). The USA also threatened to impose tariffs on another $267 billion's worth of goods imported from China, starting in early 2019. In response, China's several retaliation attempts throughout 2018 resulted in a total of $110 billion's worth of US products being subject to a tariff rate

ranging from 5 per cent to 25 per cent. These products include major agricultural products such as soybeans and fruits, automobiles, metal products, machinery, chemicals and medical equipment. In addition, given the uncertainties and violation of various sets of established trade regulations, several countries have lodged official disputes with the WTO.

Among others, the IMF estimates the potential impact that might result from the USA–China trade war and growing trade tensions across the world (IMF 2018). The simulation analyses capture several channels through which the rising tide of trade restrictions in the world can affect global economic activities. The results show that global GDP would fall by more than 0.8 per cent in 2020 as a result of an escalated trade war involving the world's two largest trading economies. According to the IMF study, the adverse effects of trade restriction would be quite large for China and the USA. Once all the adjustments from the tariff imposition have occurred, the US economy is expected to suffer from a GDP decline of almost 1 per cent compared with the baseline GDP with no tariffs, while output in China may drop by 0.6 per cent below the baseline. The NAFTA partners Canada and Mexico could suffer from a 1.5 per cent decline in their GDP, mostly due to the tariffs on automobiles and automobile parts. While the realised impact of increased tariffs is yet to be substantial, the costs would increase manifold if the USA imposed a 25 per cent tariff on an additional US$267 billion's worth of imports from China, and if China were to respond with a retaliatory tariff hike by the same magnitude on all imports originating in the USA. According to another study (Bollen and Romagosa, 2018) addressing the USA–China trade war, the steel and aluminium tariffs and China's retaliation will cause the USA's GDP to suffer a loss of 0.3 per cent and China's GDP to decrease by 1.2 per cent. Import volumes would decline by 10.5 per cent and 8.4 per cent for the USA and China respectively. The World Bank (2018) estimates that a full-blown trade war will lead to a 9 per cent decline in global trade, which would be comparable to the drop experienced in the aftermath of the global financial crisis. The same study also points out that a 1 per cent decline in growth in the USA, China or the euro area could reduce growth in overall developing economies over a year or two by up to 1.1 per cent.

This rise of reciprocal trade restrictions and uncertainty over global trade and investment flows can potentially result in significant adverse impact on the global economy's overall growth, especially those impacting the poorest, smallest and most vulnerable countries such as those in LDCs, small states and SSA. Increases in tariffs and corresponding reductions in import demand from major economies are likely to have adverse distributional effects and can negatively impact poverty and income inequality in those countries. This also has far-reaching impacts on the labour market, raising the level of unemployment (Constantinescu et al. 2017). Developing countries rely heavily on imported machinery and capital goods whose prices are rising because of the unfavourable situations in the global trading environment. Although world trade in metals, machinery and chemicals are the sectors most affected by the protectionist measures, barriers affecting the agricultural and food sectors have been gaining prominence. If sustained, these will severely and disproportionately impact exports of the poor and developing countries that are highly dependent on agricultural production and exports. The higher the reliance of an economy on external trade, the more adversely affected it will be from protectionist measures and trade war.

As per information provided in the UNCTAD database, of the US$302 billion of merchandise exports in SSA in 2017, 7 per cent went to the USA and 15 per cent to China. In the same year, of LDCs' total merchandise exports of $168 billion, 8 per cent was USA-bound while another 22 per cent went to China. As for the small state economies, 11 per cent and 9 per cent of their merchandise exports of US$81 billion went to the USA and to China respectively. Given these country groups' dependence on China and the USA, any trade disruptions involving the two biggest world economies are bound to have serious consequences. Since the most recent round of trade slowdown, LDCs, SSA and small states have already suffered from adverse trade and growth prospects. Results from the available studies seem to suggest that among several sectors that are likely to be most adversely affected by the trade war and protectionist measures are the agriculture and food sectors.

Consequently, LDCs, SSA and small states that are highly reliant on agricultural outputs and exports are likely to be most adversely affected by the ensuing USA–China trade war.

Many LDCs, SSA countries and small states are granted preferential market access to the USA under the Generalized System of Preferences facility.[14] Similarly, LDCs also receive duty-free market access in a wide range of products in China.[15]

It is a matter of concern that during times of global crisis when countries resort to protectionist measures, poor and vulnerable countries can be badly affected. For instance, Evenett and Fritz (2015) found that LDCs had incurred a loss of about one-third of their total exports owing to the protectionist measures implemented between 2009 and 2013.

The trade war can have a far-reaching impact if it is going to generate weakened demand for imports by China and the USA. China is Africa's largest trading partner and, as mentioned above, it has already settled on a historically lower economic growth rate with subdued import demand. The new tariffs imposed by the USA could further exacerbate the detrimental impact on other developing countries' export prospects to China. The same effect may also emerge in the US market. There is an apprehension that sustained trade tensions, an all-out trade war and policy uncertainty could lead to more countries adopting inward-looking policies, unleashing a profound trade shock and global recession. Many poor and vulnerable countries, especially small states, have a small domestic market, requiring them to rely more heavily on trade for economic growth than many other countries, and thereby they become subject to disproportionately greater adverse consequences from global trade crises. An analysis of a simple measure of association reveals that on average there is more than a one-to-one correspondence between world trade and trade of LDCs, SSA and small states. That is, a 10 per cent fall in global exports could lead to a close to 15 per cent decline in exports of the three country groups combined.

6. Conclusions and policy implications

World trade is in crisis in a manner unprecedented for many decades. Recent trends seem to suggest that trade policy regimes in major economies could change fundamentally, giving rise to profound implications for the world's poorest, smallest and most vulnerable economies.

Although the tariff war involving China and the USA draws intense focus, world trade is also going through some structural changes, complicating the situation further. The impact of the global financial crisis of 2008 on global trade flows was actually a short-lived one, but more recent trade turmoil since 2015 could signal a new lower level of trading activities persisting. It appears that future long-term growth rates would be much lower than that of the period 1980–2007 (of more than 6.1 per cent). Another major development is the weakening relationship between trade and GDP growth. In the three decades prior to the global financial crisis, an average annual global output growth of 3 per cent was accompanied by a 6 per cent trade growth. In the post-financial crisis period, both GDP and trade grew at an average annual rate of just 3 per cent. This has resulted in reduced trade orientation in the world economy.

The gloomy trade prospects have further been worsened by protectionist measures undertaken by many developed and large developing countries in the wake of the global financial crisis and their failure to rollback those interventions over time. China's settling lower economic growth, structural changes in economic activities focusing on more consumption of services and higher domestic value-added manufacturing production are also causing reduced trade linkages. Finally, US policy shifts and proactive trade policy measures going beyond the world trading system overseen by the WTO have seriously hampered the global environment's conduciveness to international trade and investment flows.

So, what does all this imply for the world's poorest, smallest and most vulnerable countries?

First and foremost – as this paper has highlighted – since the global financial crisis of 2008, LDCs, small states and SSA have witnessed a lost decade of gains from trade in the sense that each of these country groups' combined trade hardly expanded. Robust trade performance during the late 1990s and early 2000s resulted in LDCs' and SSA's rising global trade shares, which have been reversed. However, the diminishing relative significance of small states has accelerated. The sustained trade crisis has already jeopardised one specific target of the SDGs as agreed by United Nations members, in which the preset objective of doubling the share of LDCs in global exports (to 2.1 per cent) by 2020 now appears to be unachievable. The average growth in exports of LDCs, small states and SSA over the past five years (2013–17) has been negative.

The analysis presented in this paper has also revealed a rather dramatic declining export orientation (i.e. export–GDP ratios) for these groups of countries. Small states are critically dependent on trade for their economic activities and thus the falling significance of exports in these economies would have serious consequences. The long-term association between exports and GDP has weakened over the past two decades, suggesting that improved growth prospects could be difficult if the trade slowdown persists.

There are thus reasons for apprehension that the role of trade in contributing to countries' overall economic development, at least in the short to medium term, is likely to be limited. This would be particularly unfortunate since, unlike its predecessor, the 2030 Agenda for Sustainable Development provides an elaborate role for international trade – both direct as well as cross-cutting – in achieving many specific goals (SDGs) and targets. The Millennium Development Goals (MDGs), implemented during 2000–2015 explicitly mentioned 'trade' only once (under MDG 8 relating to global partnerships), while in the SDGs it appears directly under seven goals concerning hunger, health and wellbeing, employment, infrastructure, inequality, conservative use of oceans and strengthening partnerships. All in all, the word 'trade' has been used 19 times in the text of the SDG document. However, if the current global trade turmoil and the resultant weakness persist, the first decade of the SDG implementation period could be the slowest era of trade expansion in many decades.

Trade tensions can result in reduced levels of global commitments for trade-led development. This could be reflected in donors' support for trade capacity building as well as developing countries' own initiatives in improving supply response. In any event, the confidence of the private sector will be weak given the intensified policy uncertainty and ambiguous export market prospects. As international trade promotes efficiency gains through improved resource allocation and improved competition, the absence of a conducive world trading environment would restrict developing economies' capacity to benefit from those.

Nevertheless, attaching less importance to trade is not an option for LDCs, small states and SSA. While certain relatively large economies within these country groups might be able to stimulate domestic demand, thereby expanding economic activities, this cannot be sustained for long given their limited fiscal capacities. On the other hand, for many small states this is unlikely to be a viable choice given their overwhelming dependence on trade and their relatively small fiscal space. Furthermore, the role of trade in efficiency gains and other externality effects should be borne in mind. Therefore, countries should continue to build their trade capacity including export supply response and trade-related institutional development. Making progress in these areas takes time, and efforts should not be discouraged by the stagnation in global trade.

One important finding of this paper is the rising significance of LDCs, sub-Saharan African countries and small states trading with other developing countries. This trend emerged in the late 1990s and has remained more or less unaltered in the aftermath of the 2008 financial crisis and more recently of the world trade slowdown. LDCs, SSA and small states should therefore aim to further expand their trade with the Global South while exploiting any market access advantage in their traditional export destinations in developed countries.

Expanding trade through regional engagements could be another strategy for LDCs, SSA and small states. Numerous analyses and discussions have shown that the trade potential of regional trading arrangements involving developing countries has remained largely unutilised. Furthermore, effective implementation of many of these agreements has been either very slow or non-existent (Commonwealth

Secretariat 2015). This is an area that requires serious attention, as with growing incomes many neighbouring countries and developing country partners within regional trading arrangements can be sources of increased export demand. Non-tariff barriers, lack of trade facilitation measures and weak connectivity are known to restrain trade response in most trading blocs involving developing countries. Addressing these issues can be aligned with the overall development objectives of individual countries in LDCs, small states and SSA.

The current state of trade turmoil also reflects in a profound way the weak state of the multilateral trading system that has now long persisted. Failure to make progress and conclude the Doha Development Round has greatly damaged confidence in the WTO system. The current crisis shows that the world's poorest and smallest countries are so vulnerable in the absence of a strong multilateral trading system that they become victims of others' aggressive trade policy choices. Therefore, it is time to consolidate efforts and advocate for renewed trade multilateralism. While it may not be easy at this stage given the unfolding nature of the crisis, proactive engagements and raising global awareness of the catastrophic impact of unresolved trade disputes and disregarding multilateral trade rules can help reduce the tensions and contain the damage.

Finally, LDCs, small states and SSA should co-ordinate among themselves and work with other regional and international stakeholders to engage with development partners so that trade- and development-related international commitments are maintained. How the expected positive impact of global trade in achieving SDGs is being undermined and what the global community should do in response to it should be a critical first step to consider. It is also important for LDCs, sub-Saharan African countries and small states to collaborate and look for trade-related adjustment support, either as part of the Aid for Trade initiative or beyond, as the trade turmoil adversely affects their export performance.

Notes

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1 In 2017, world merchandise export growth was 10.5 per cent, while the corresponding growth of services exports was less than 8 per cent.

2 World Economic Outlook database, 2018.

3 Although growth recovery in the Western developed countries was slow, developing countries, on the whole, demonstrated resilient economic activities to maintain the world GDP growth rate at its long-term average rate.

4 The trade–GDP (exports plus imports) share of the world in 2016 was 56 per cent – two percentage points lower than in 2015.

5 Between 2015 and 2016, 111 countries experienced a fall in merchandise export earnings (UNCTADstat 2018).

6 Average GDP and export growth rates in 2012–17 were 3.43 and 1.46 per cent respectively, whereas the comparable growth rates during 2000–08 were 4.95 and 15.96 per cent respectively.

7 One of the major drawbacks of this model to be acknowledged is that it assumes that the world GDP is an exogenous variable and it has an effect on world exports, whereas both variables are probably endogenous. Hence, the estimation results should be interpreted with caution, as this specification reflects the reduced-form correlation between export and income. It is not possible to capture the complex and structural relationship between these two variables and its several determinants. However, this form of estimation technique has been used in recent studies (e.g. World Bank 2015). Here, we use the same specification to study the relationship between exports and GDP for LDCs, SSA and small states.

8 The significance of the structural break is undertaken using a non-liner Wald test.

9 Throughout our analysis for the world export–GDP association residuals are found to be stationary, which further justifies our use of ECM specification for modelling the export–income relationship.

10 Owing to cycles, in the 2000s world exports became more responsive to the changes in world income in the short run than in the period 1980–2000 (as suggested by higher short-run export elasticity).

11 This result has been estimated but is not reported in Table 2 for brevity.

12 However, note that it was not statistically significant.

13 Brazil was in recession during 2015 and 2016, with negative economic growth rates for both years, before showing a weak recovery in 2017 (with a growth rate of less than 1 per cent). South Africa's economy grew

by 1.28 per cent in 2015 and then by 0.56 per cent in 2017. As mentioned earlier, after growing at a rate of almost 10 per cent per annum for about three decades, China recently settled at a much slower growth rate of around 6.5 per cent per annum.

14 For example, most sub-Saharan African countries benefit from by the USA's African Growth and Opportunity Act (AGOA), which offers duty-free market access. A number of small states have access to preferential trade regimes such as the Caribbean Basin Initiative.

15 The number of products for duty-free access in China could be as high as 8,000 for LDCs that get tariff-free entry in 97 per cent of Chinese tariff lines.

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