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# **De-Globalization: Does That Word Mean What You Think it Means?**

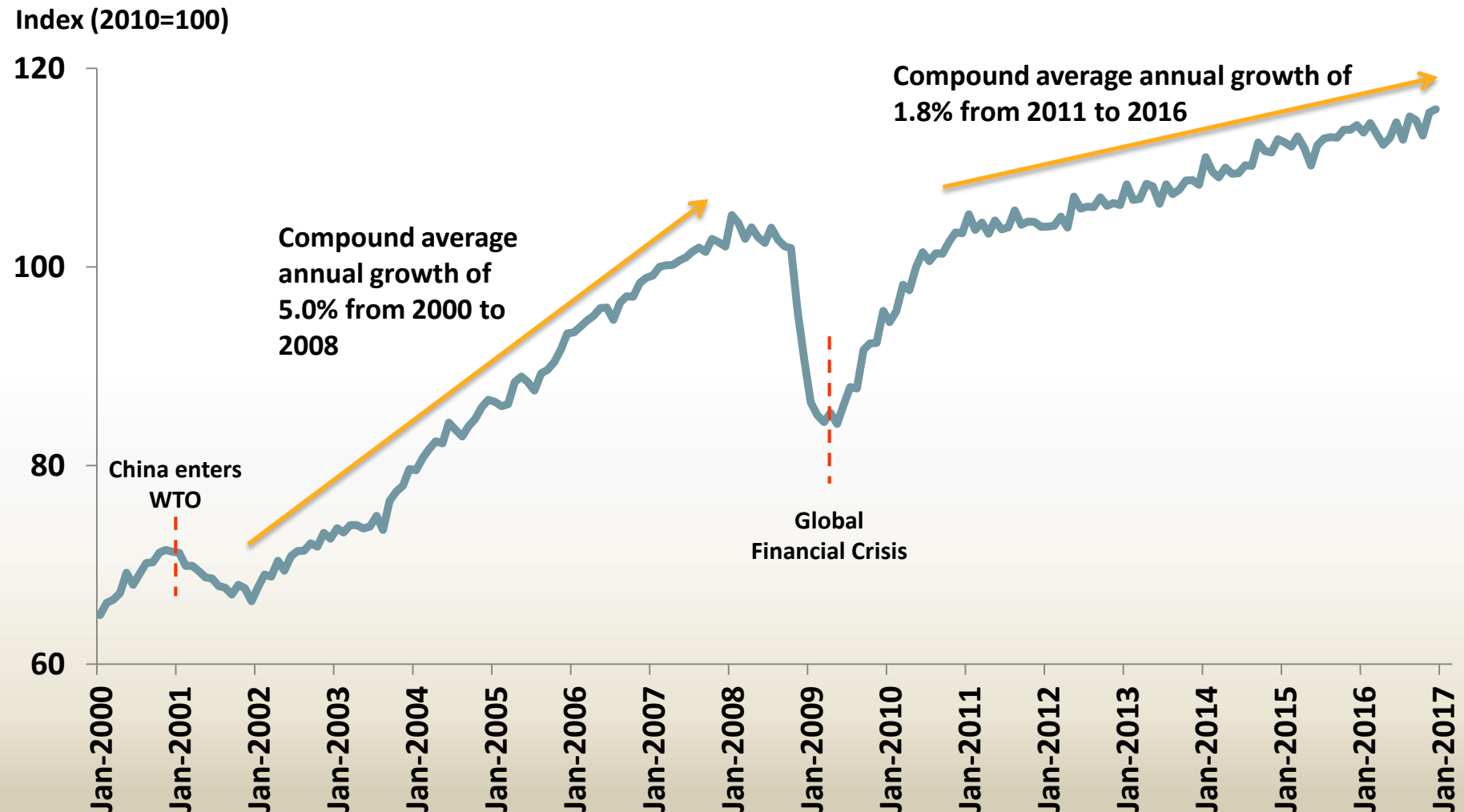
Presentation to 35 Annual Monetary & Trade Conference

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# Real imports have seen a marked slowdown

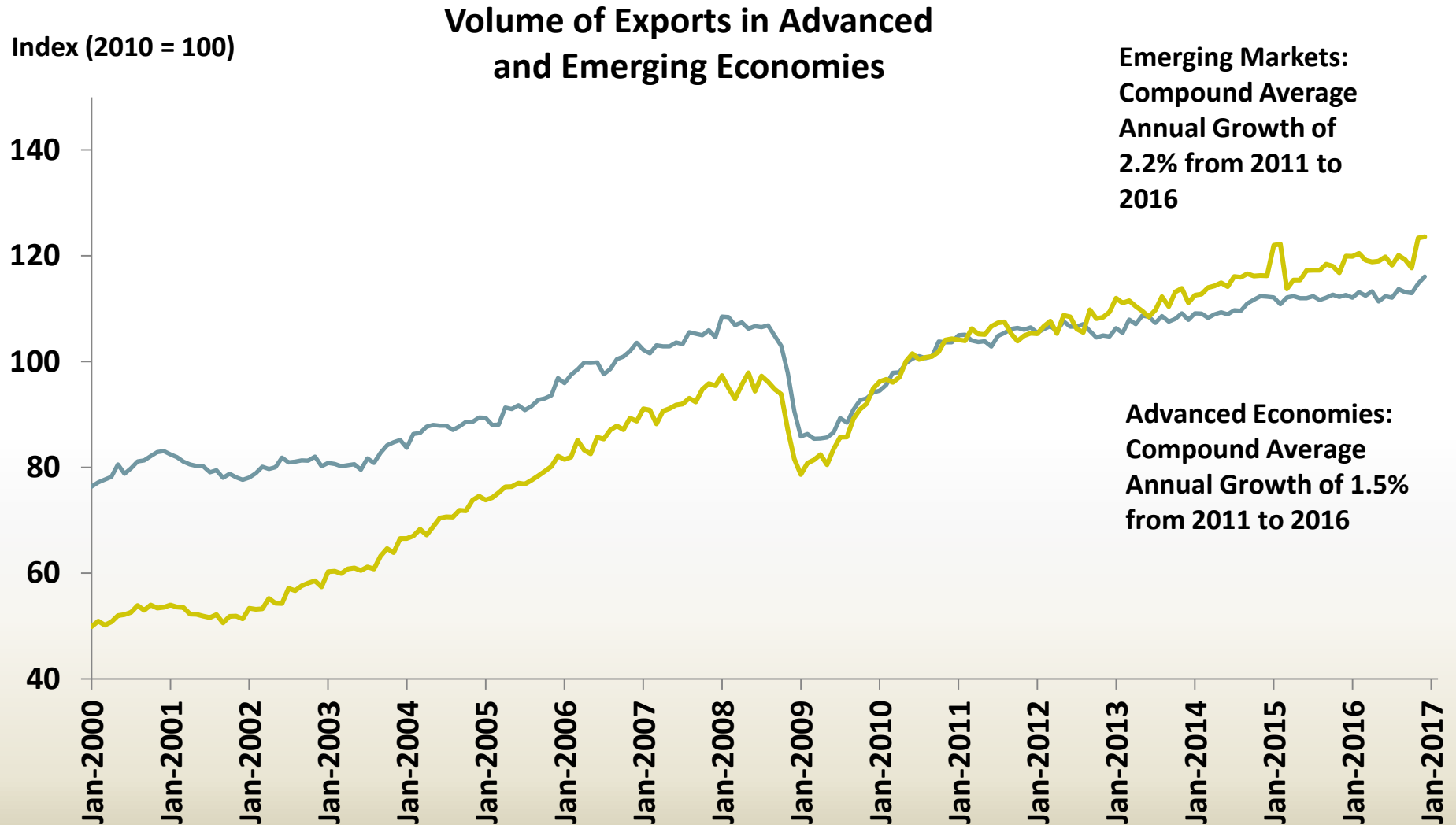
## Monthly World Merchandise Imports, Volume Index



Data: CPB World Trade Monitor

Source: Office of the Chief Economist, Global Affairs Canada

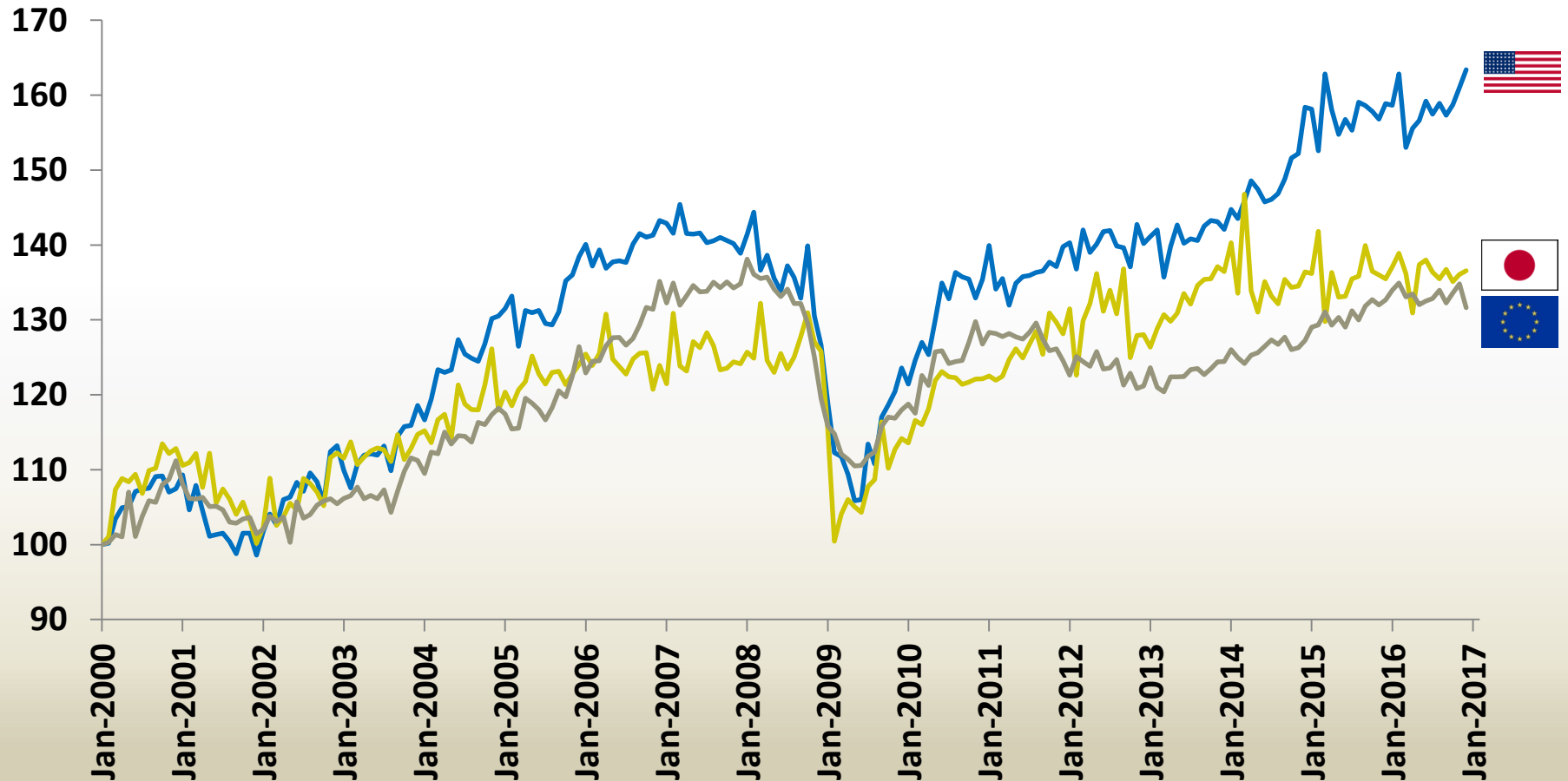
# Slowdown even more pronounced in advanced economies



# Poor performance in the EU and Japan are a drag on global trade, which should (hopefully) be cyclical phenomena

Index (2000 = 100)

Volume of Imports in EU, Japan and U.S.



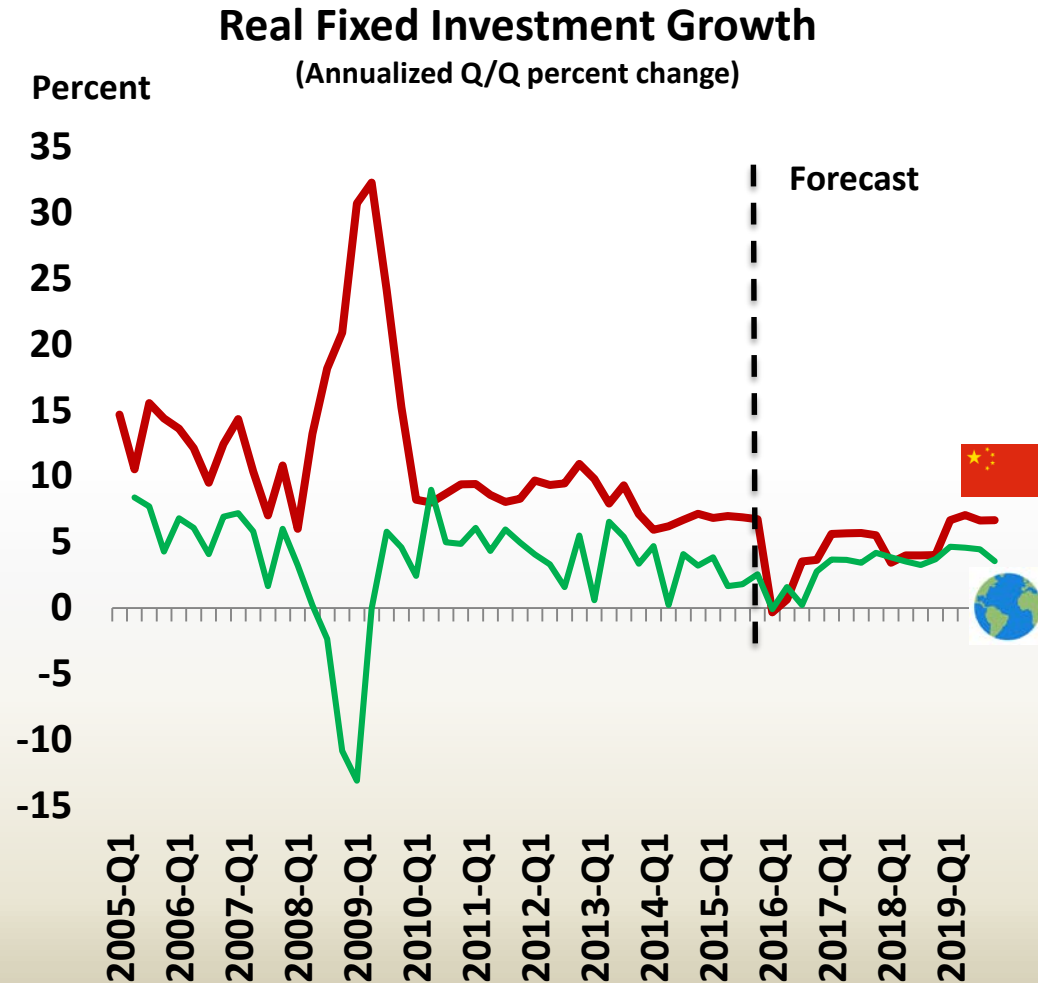
Data: CPB World Trade Monitor

Source: Office of the Chief Economist, Global Affairs Canada

# Changes in the composition of global demand could also be playing a role, but in the case of China is this cyclical or the new norm?

## Changes in the composition of demand

Different components of demand have different impacts on trade. In general, investment spending is the most import-intensive component, followed by consumption, with government spending being the least import-intensive. During the post-crisis recovery, the investment component of aggregate demand has been fairly weak, while government spending has been relatively stronger.

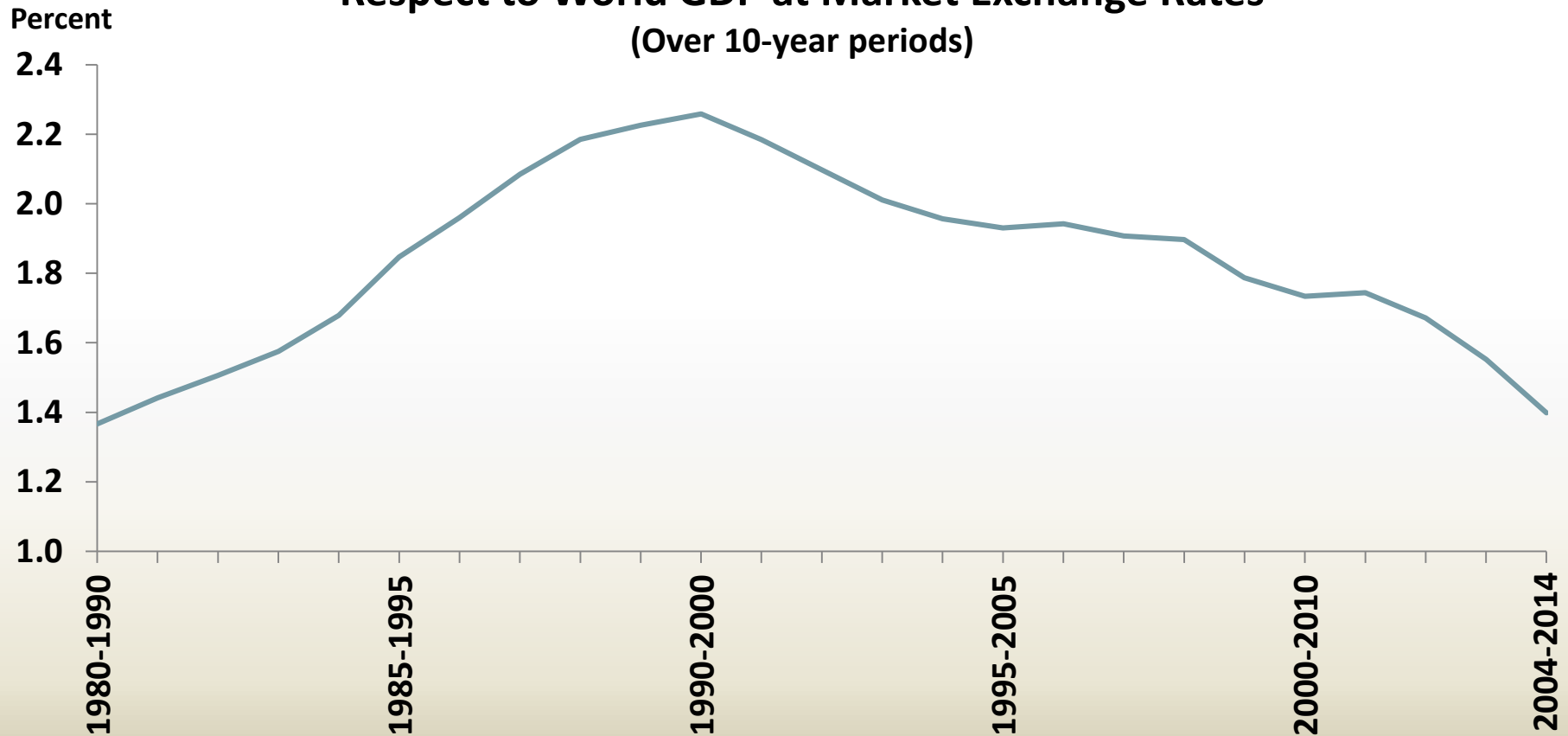


Data: IHS Global Insight

Source: Office of the Chief Economist, Global Affairs Canada

# Trade elasticity, the growth of trade in relation to GDP, has been decelerating since 2000

**Elasticity of World Merchandise Trade Volume with  
Respect to World GDP at Market Exchange Rates  
(Over 10-year periods)**

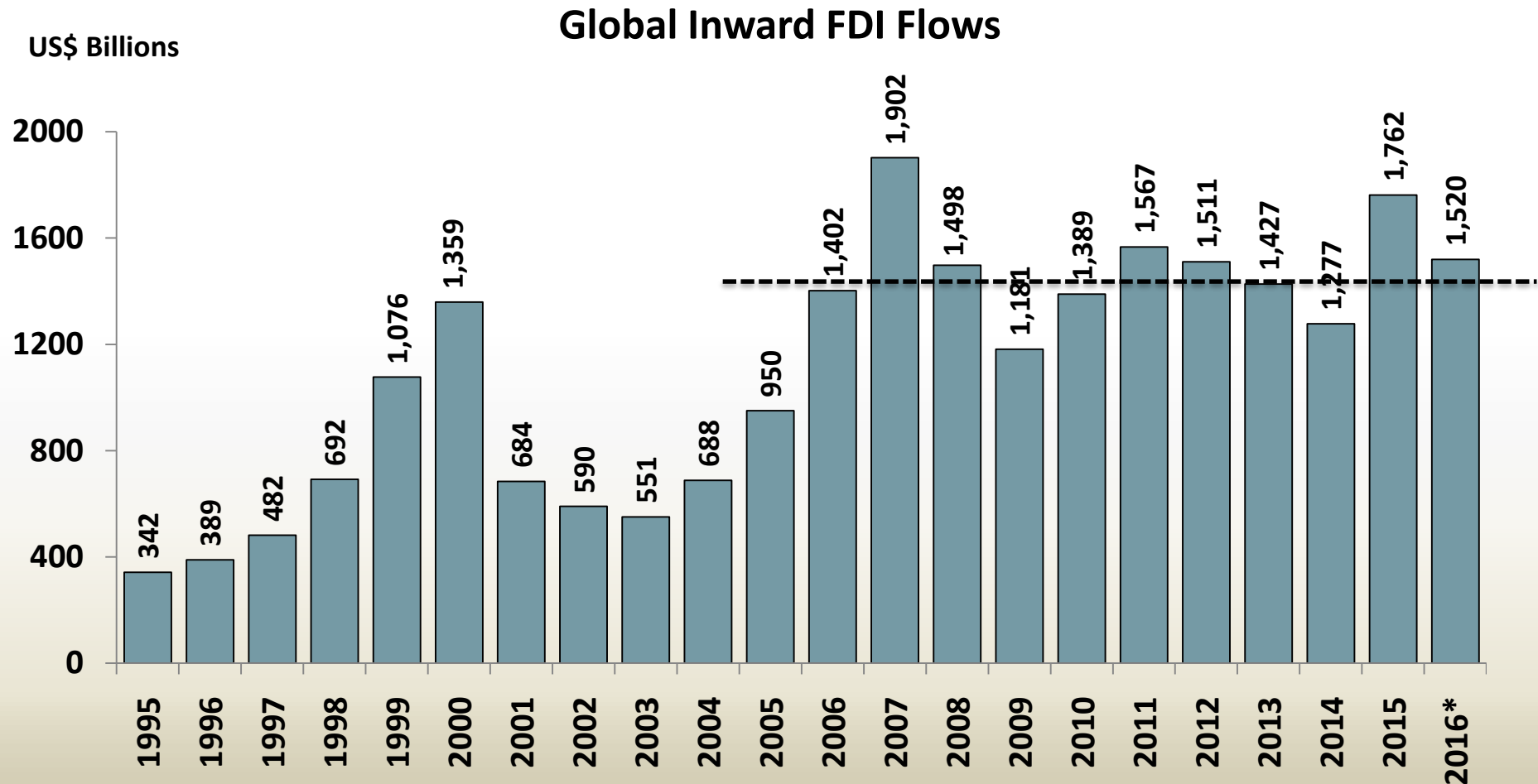


Source: WTO

Data: WTO International Trade Statistics for trade, IMF World Economic Outlook database for GDP at market exchange rates

Note: Elasticities calculated by regressing log of world merchandise trade volume on log of world GDP at market exchange rates over 10 years.

# FDI, an important means for globalizing services has been flat in recent years



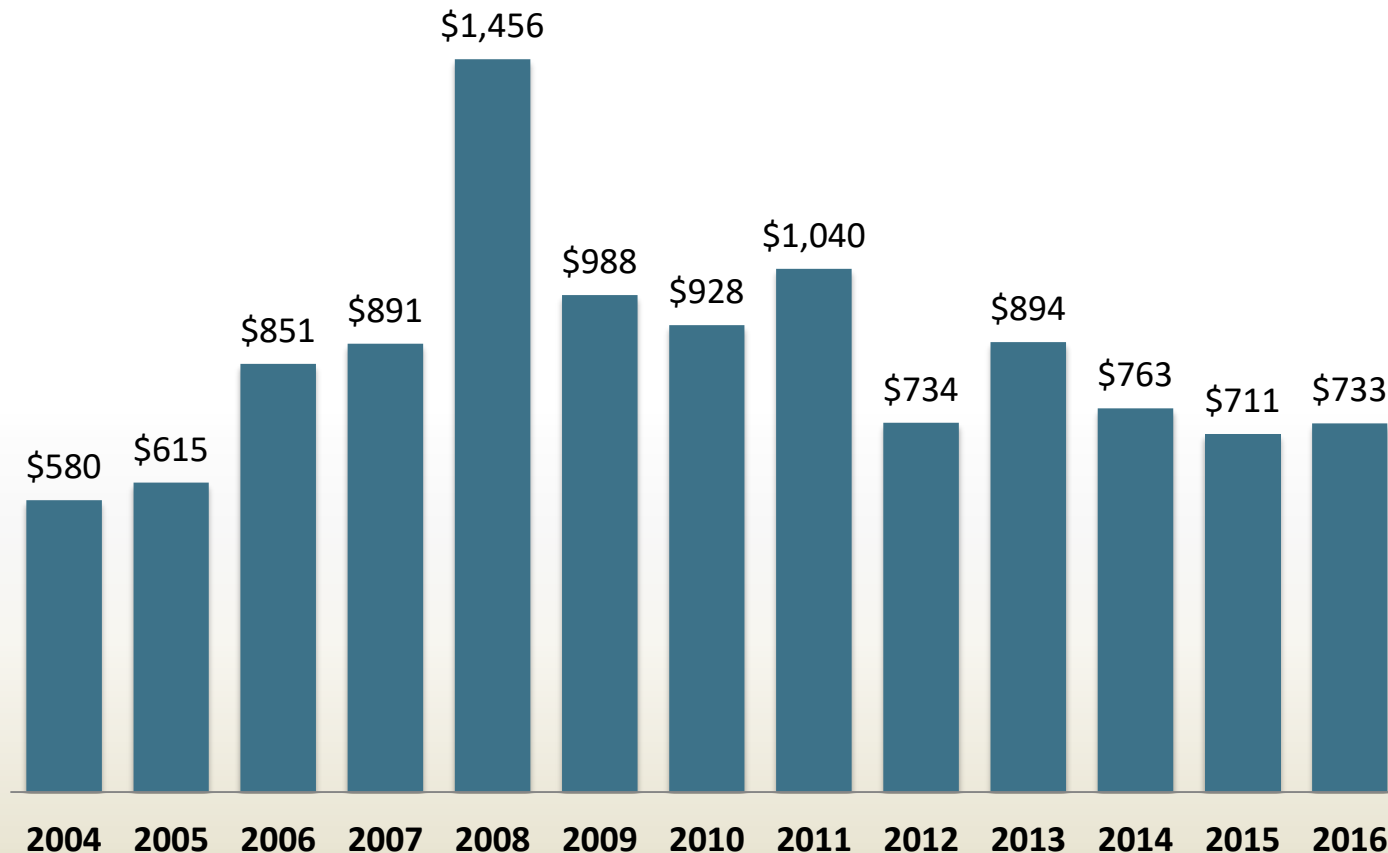
\* Preliminary estimate

Data: UNCTAD

Source: Office of the Chief Economist, Global Affairs Canada

# FDI: greenfield and expansions far below their pre-crisis peak

## Total value of announced foreign investment projects globally (US\$ Billion)



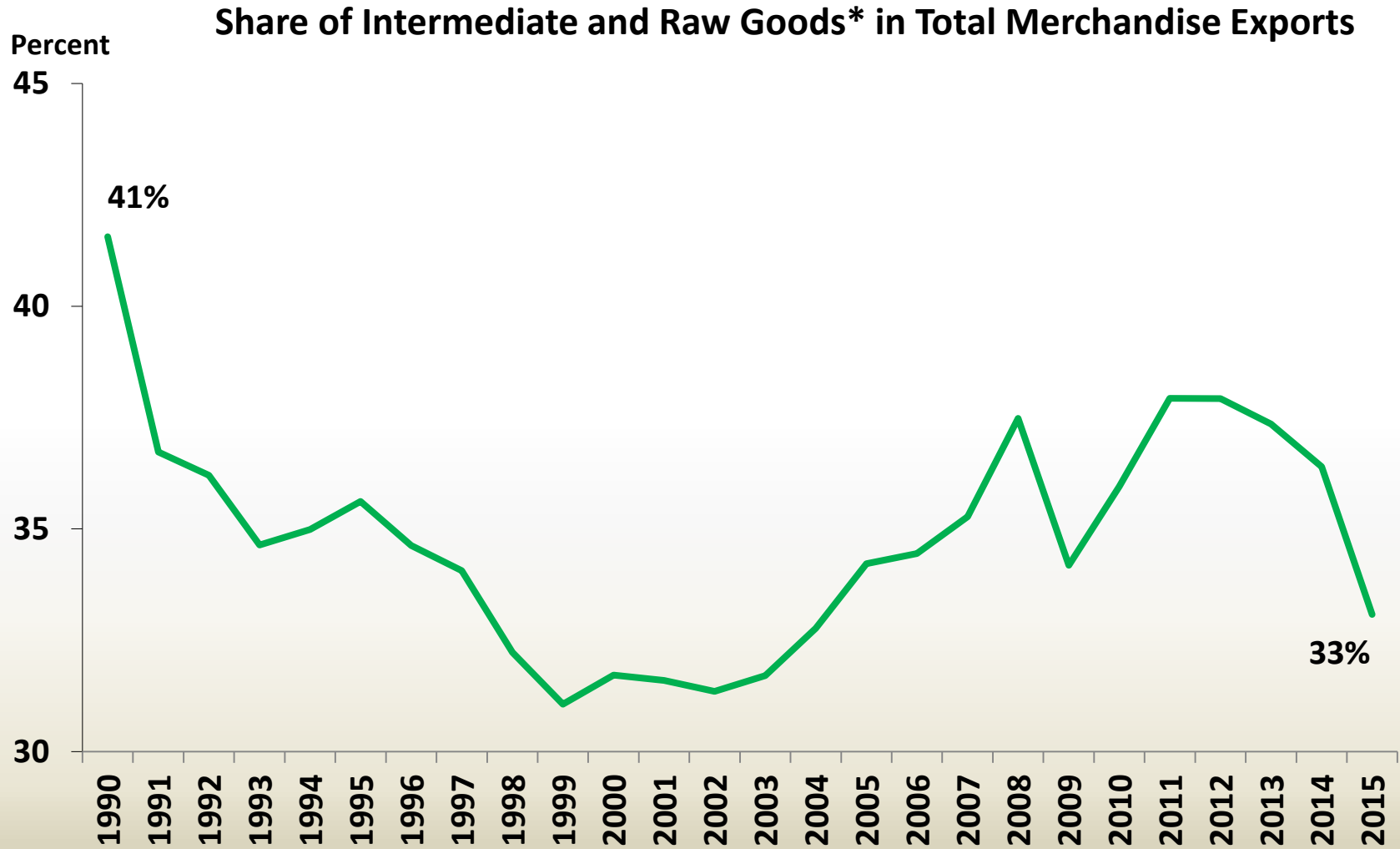
Note: Estimated values on March 20, 2017, for all projects - excluding retail FDI Projects

Data: FDI Markets, Financial Times.

Source: Office of the Chief Economist, Global Affairs Canada.



# The maturity in GVCs is a key structural factor



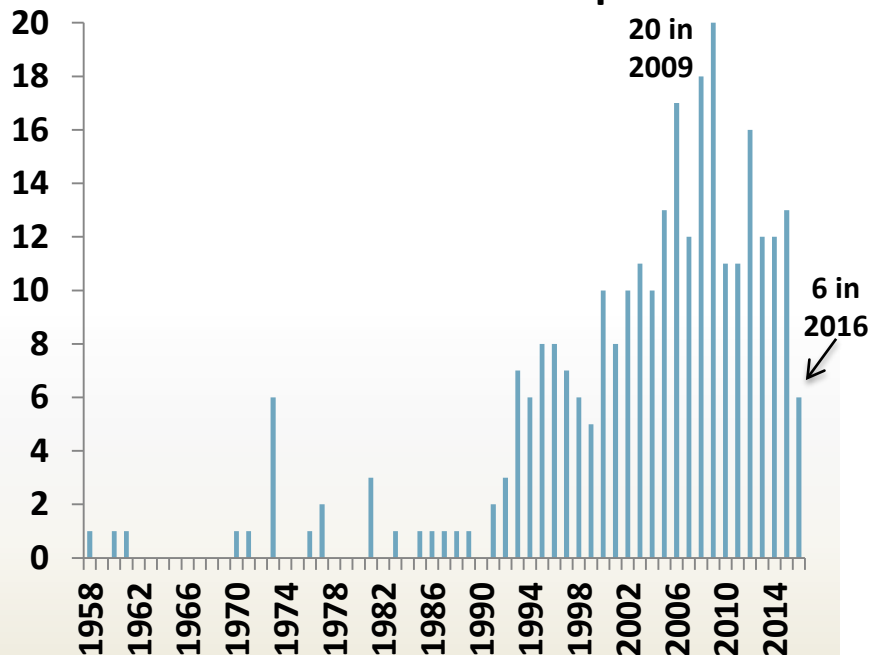
\* Intermediate and raw goods as defined in UN Comtrade's BEC classification

Data: World Bank WITS

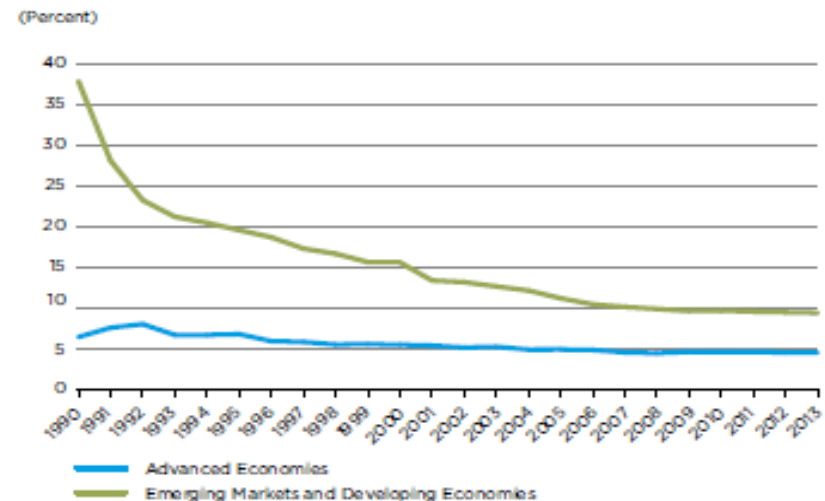
Source: Office of the Chief Economist, Global Affairs Canada

# The pace of trade liberalization agreements also slowed down

**Number of Regional Trade Agreements Entered into Force per Year\***



**Figure 10: Average Applied Tariffs\*, 1990-2013**



Source: UNCTAD TRAINS.

\*Simple averages of MFN Applied and Preferential tariffs.

From "2015 Rethinking Trade and Finance"  
by International Chamber of Commerce

\* Only covers trade agreements notified to the WTO

Data: WTO RTA Database

Source: Office of the Chief Economist, Global Affairs Canada

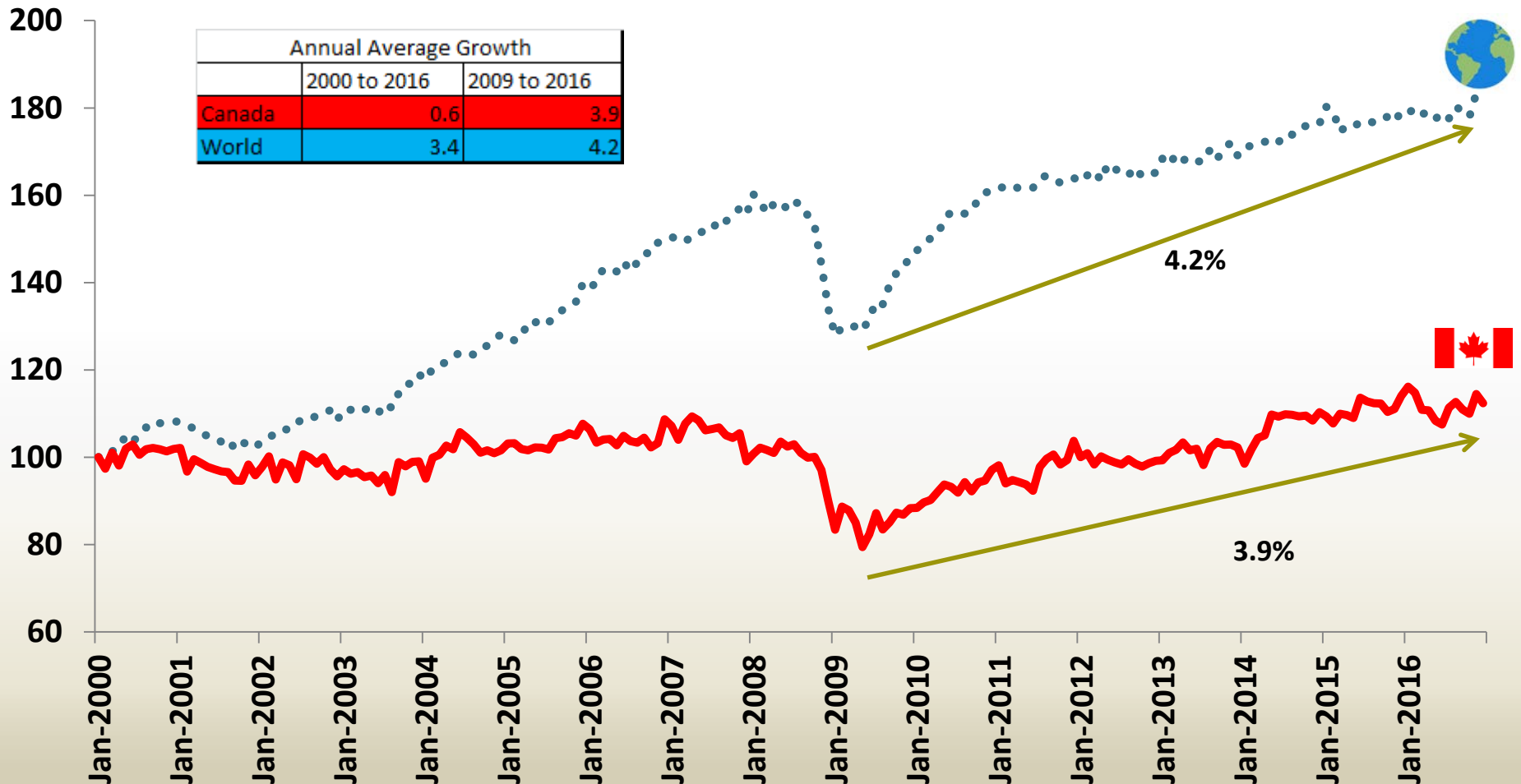
**WHAT'S UP WITH CANADA EH?**

# The pace of Canada's real exports is slightly below global

## Comparison of Canadian and World Export Volumes

Index (Jan 2000 =100)

Annual Average Growth		
	2000 to 2016	2009 to 2016
Canada	0.6	3.9
World	3.4	4.2

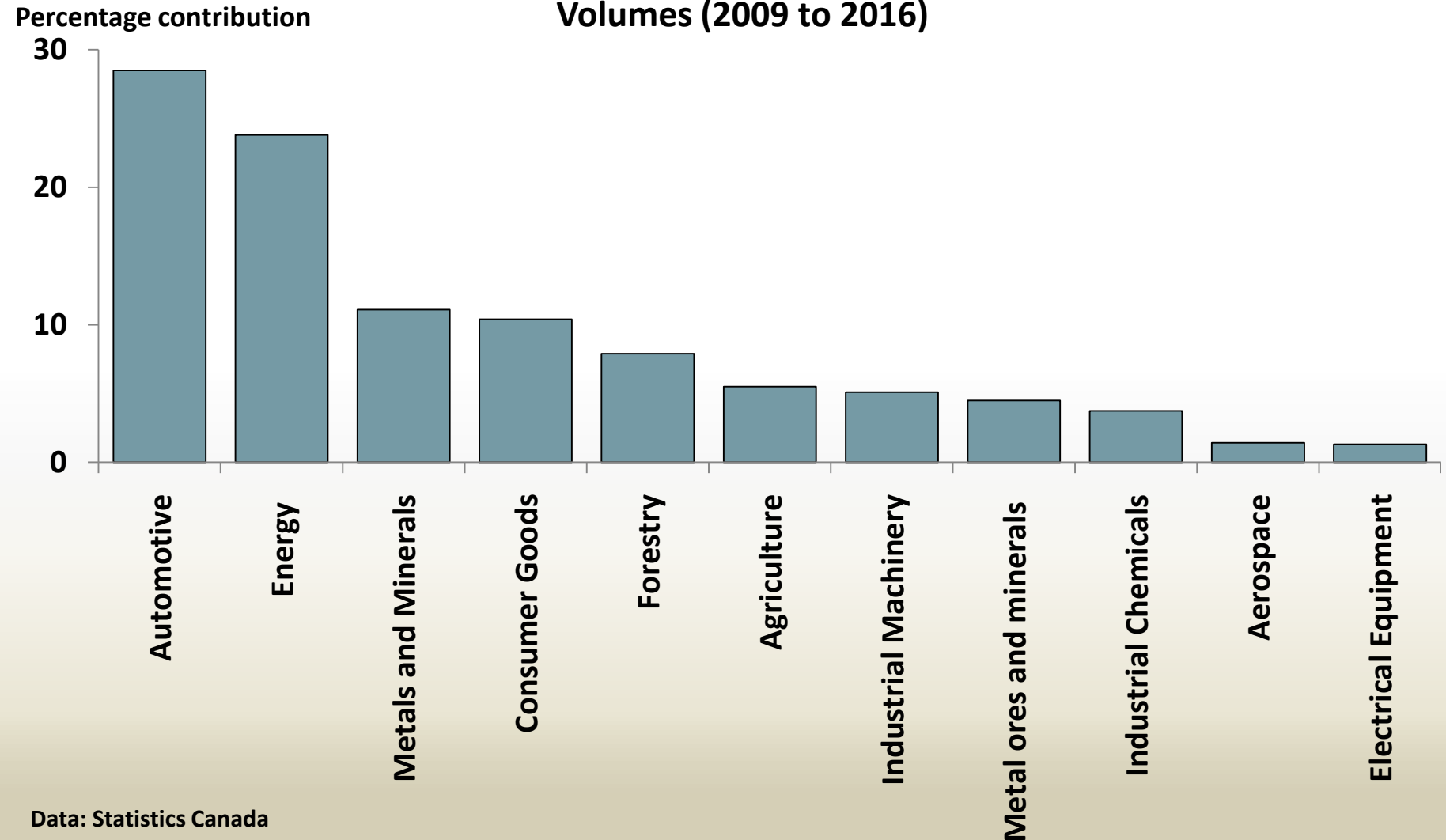


Data: CPB World Trade Monitor, Statistics Canada CANSIM table 228-0061

Source: Office of the Chief Economist, Global Affairs Canada

# This growth is broad-based

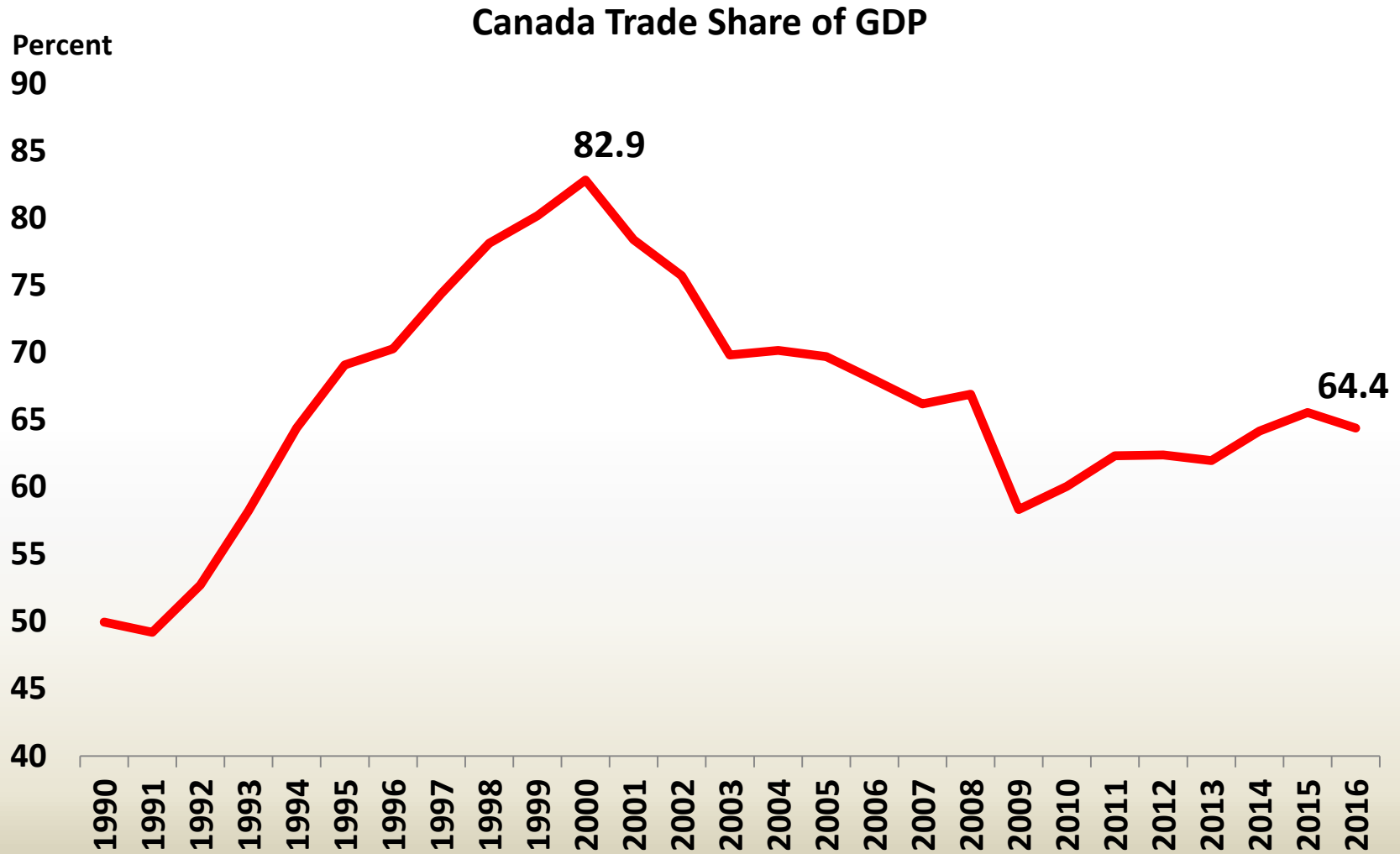
## Sector Contribution to Gain in Canadian Export Volumes (2009 to 2016)



Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

**...but longer-term, trade is still below its peak share of the economy**

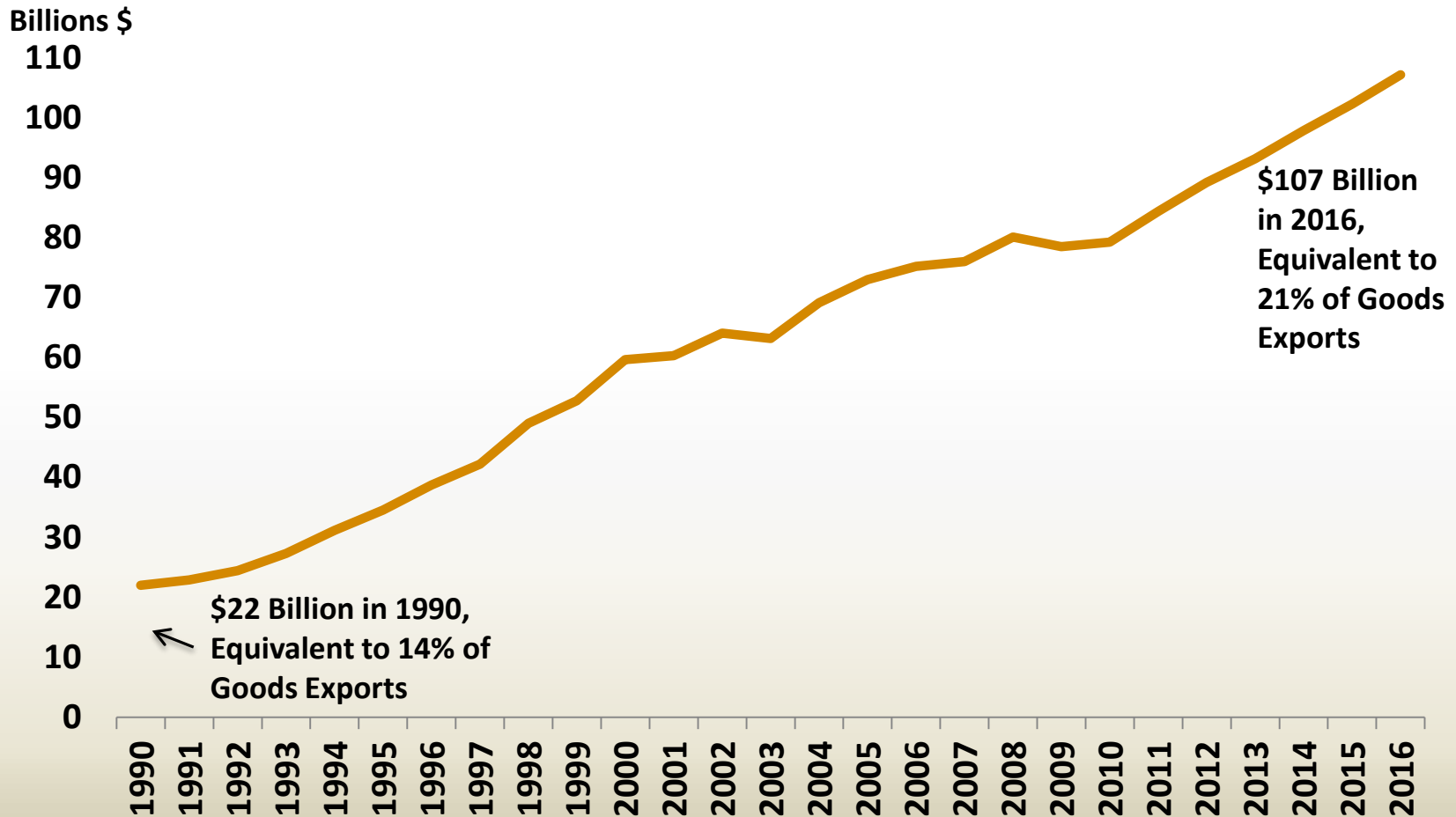


Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

# One bright spot is services

## Canadian Services Exports



Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

# So what does it all mean?

- We understand “globalization” in the sense of expanding global value chains, relocation of production, rapid investment and urbanization outside the “developed world”
- The data suggests that this process of globalization is over
- The process of adjustment to it results, however, seems to be peaking
- Economically, the worst thing to do at this point would be to run the truck back over the pedestrian in the road to “undo the damage” of globalization
- But historically, this is almost unavoidable. “Fear is always a flawless compass / that leads us into trouble that’s worse”.

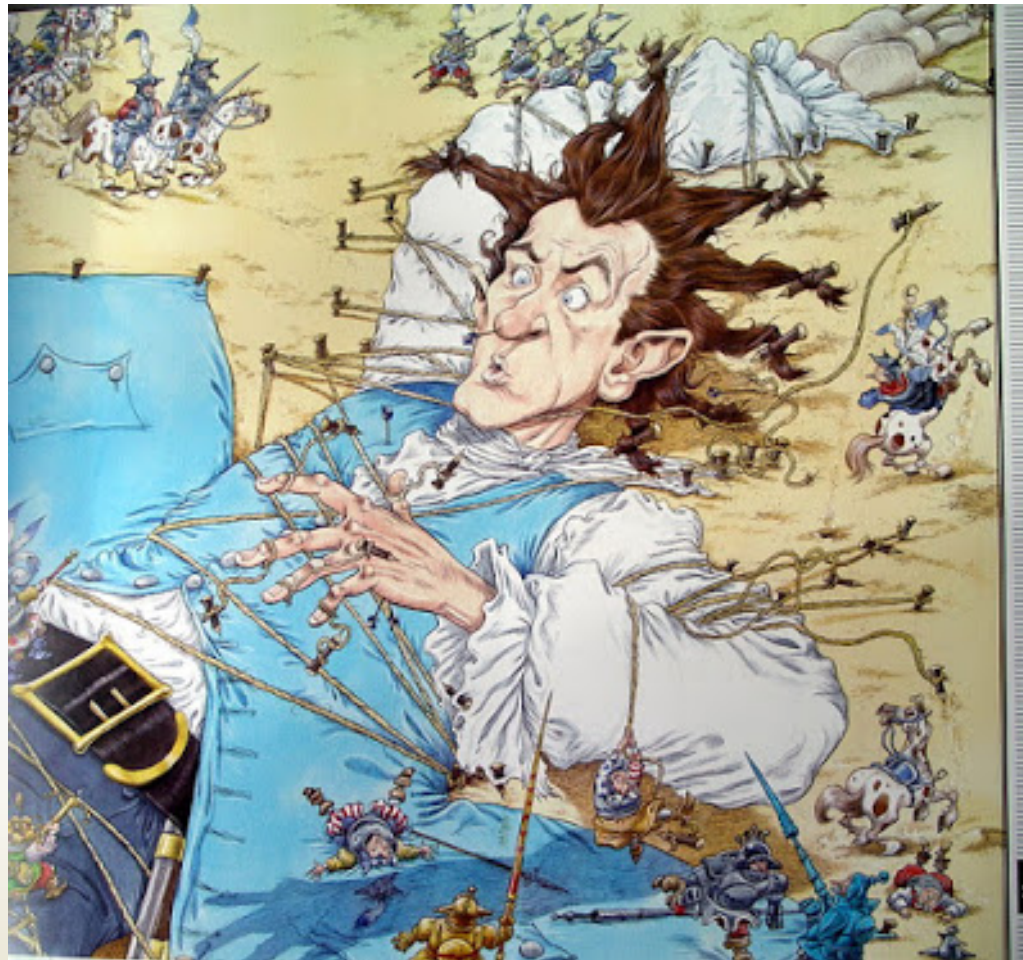


# “The Battlefield of Trade”





# The Reality



# The arguments against trade are inconsistent

## 1. Jobs?

- taken seriously: jobs are upgraded by trade, not created. Employment is determined by macroeconomic conditions. Some industries become obsolete.
- in a period of globalization in the U.S. 1990 to 2000, imports rose at an average 12.1% per year while employment rose by an average of 1.8 million jobs per year and the unemployment rate fell from 5.6% to 4.0%

## 2. National security?

- haven't heard this one in a while. But Musk returned space launch capacity to the U.S. and didn't ask to be protected. Also, countries who trade with each other are less likely to go to war (google "the last Chinese warning to the U.S.").

## 3. Infant industry?

## 4. Strategic protectionism – keep rocks in our harbours!

## 5. Unfair competition!!!

- trade is an excellent way to spread ideals, rules and prosperity

# Challenges and opportunities

- Rise in protectionism and isolationism is a growing concern internationally
  - *but* Canada will continue to carry the torch on trade liberalization both in international fora, such as the WTO, and in our bilateral relations.
- The collapse of TPP marks a step back in trade liberalization and modernization
  - *but*, as a modern, ambitious and progressive agreement, CETA will set a new standard for 21<sup>st</sup> century free trade agreements.
- Renegotiating NAFTA will be difficult in the present context
  - *but* it also provide an opportunity to modernize NAFTA and demonstrate that trade can be mutually beneficial.
- We know that trade is good
  - *but* we must work harder to make the case for a more progressive approach to trade, and make trade work for people.