Note on global growth, international trade and South African exports

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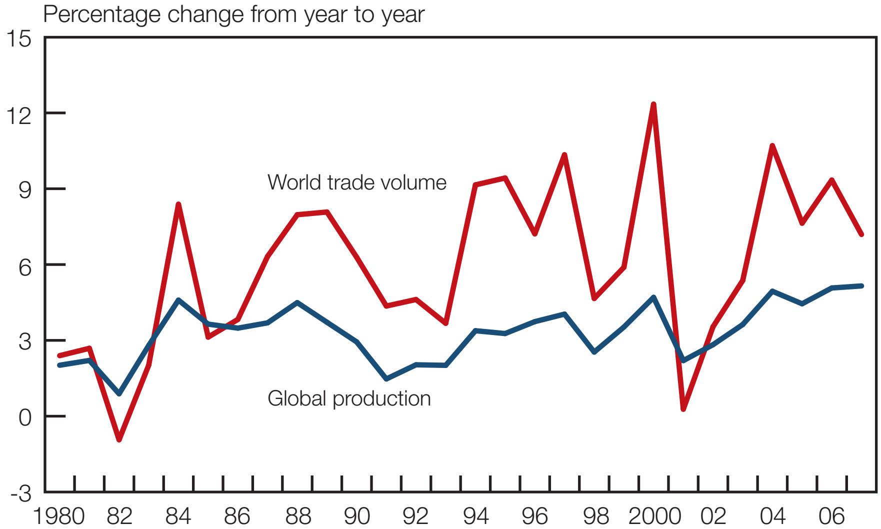
The term 'globalisation' is commonly used to describe the modern world. Globalisation essentially reflects increasing transboundary interactions across social, political and economic spheres. The rise in international trade in goods and services has been one of the defining characteristics of economic globalisation. For example, merchandise trade as a percentage of global gross domestic product has increased from around 42 per cent in 1980 to 62 per cent in 2007.

Figure 1 captures the trends in world trade and growth since 1980. There are two points of note. Firstly, the growth in world trade volumes is strongly correlated with global economic growth. Secondly, international trade has grown much faster than the global economy during this period. For example, between 2003 and 2007 the volume of world trade increased at an average rate of 8,0 per cent per annum, while global growth averaged only 4,6 per cent.[1] Over the entire period 1980–2007, world trade rose by 5,9 per cent per annum, on average, and global production by 3,3 per cent per annum.[2]

1 See IMF, 2008a, 2009a.

2 See IMF, 2008a, 2009a.

Figure 1 Real global production and the volume of world trade



Source: IMF, 2008a, 2009a

Advanced economies[3] – through their impact on world import demand – exert a significant influence on world trade. This is borne out in Figure 2 which shows that world trade volumes are sensitive to economic growth trends in the G3 countries.[4]

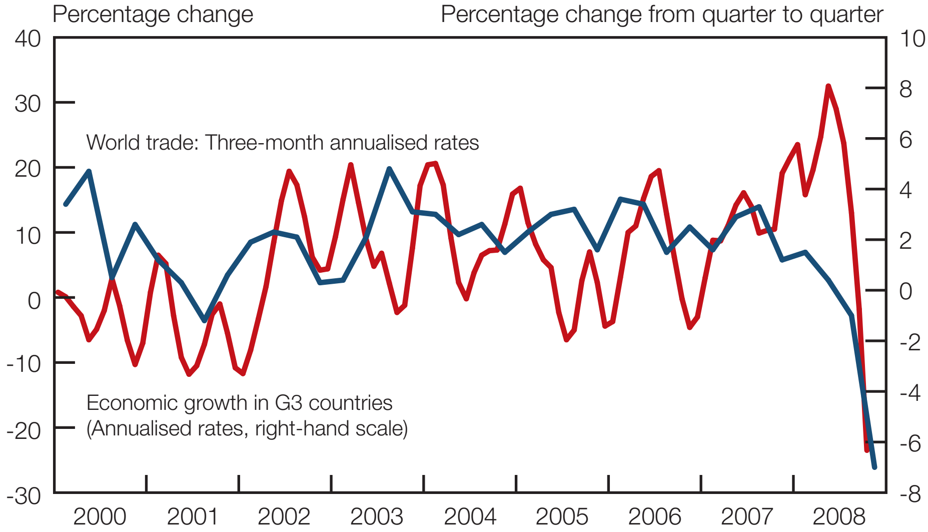
Table 1 shows that import demand in advanced countries is highly income elastic, having increased from 1,5 (1981–1985) to 2,1 during 2006–2008[5]. In essence, the high income elasticity of import demand indicates that economic growth in advanced economies has a significant impact on world trade.

3 This grouping refers to the 31 economies classified by the International Monetary Fund as advanced economies.

4 The G3 countries are the United States, Japan and the euro area.

5 The income elasticity of imports measures how strongly imports grow in response to a change in national income. In essence, this reflects the percentage change in real imports divided by the percentage change in real gross domestic product.

Figure 2 Real output in G3 countries and volume of world trade



Source: IMF, 2009b and own calculations using data from national statistical offices

Table 1 Advanced countries: Income elasticity of import demand

	1981 to 1985	1986 to 1990	1991 to 1995	1996 to 2000	2001 to 2005	2006 to 2008
Real growth rate*	2,6	3,7	2,3	3,3	2,1	2,2
Growth rate: volume of goods imported	3,8	7,8	6,3	8,6	4,5	4,6
Income elasticity of imports	1,5	2,1	2,8	2,6	2,2	2,1

* Growth in real gross domestic product

Source: IMF, 2008b, 2009a and own calculations

It is quite apparent from Figure 3 that the growth in world exports has outpaced the growth in South African exports over time. By 2008 the volume of world trade was five times as high as in 1980, but for South African export volumes only two-and-a-half times. It would appear that with the reintegration of South Africa into the world economy, domestic export trends have become more synchronised – albeit at lower levels – with developments on the world stage. Of significance, however, is that between 2000 and 2003 the slowdown in South African export volume growth was much more severe and pronounced than was the case for world export volumes.[6] This is of particular interest, given the recent projections by both the International Monetary Fund (IMF) and World Bank, which indicate that the global annual trade volume is likely to contract in 2009 for the first time since 1982.[7]

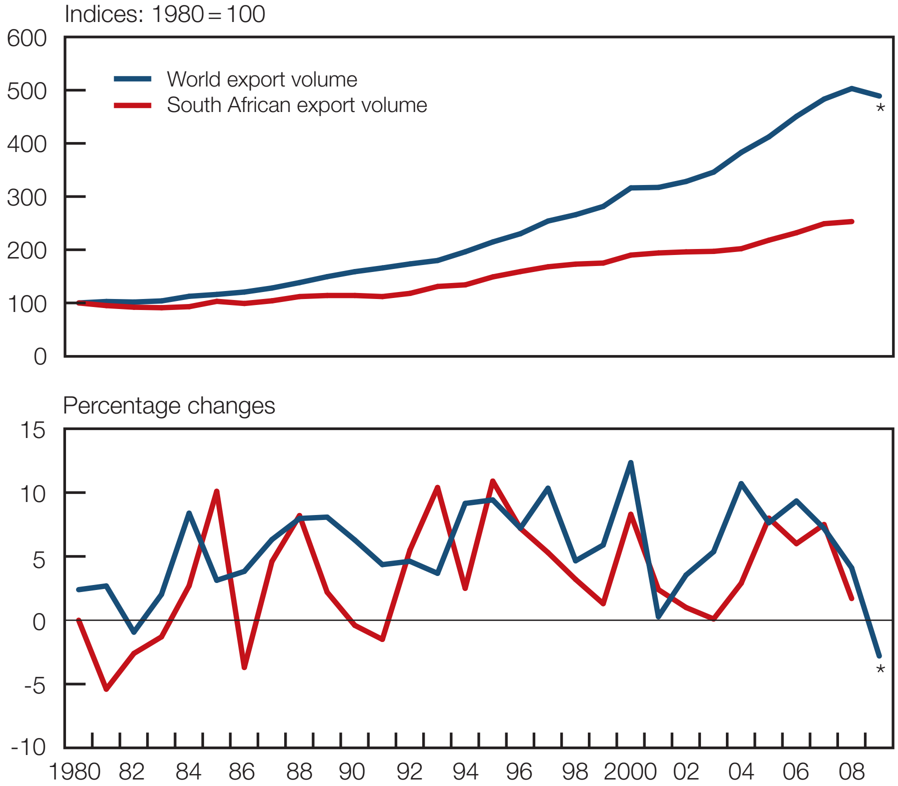
The crisis in world financial markets, which began in September 2007, has led to a significant economic slowdown in advanced economies. For example, real economic growth in advanced economies declined from 2,7 per cent in 2007 to an estimated 1,0 per cent in 2008.[8] Some of the advanced economies entered a recession in 2008. In addition, economic projections for many of the advanced countries have been revised

6 Since 1980 world export volumes contracted only once (1982), while South African export volumes contracted in 1981, 1982, 1983, 1986, 1990 and 1991.

7 IMF, 2009a and World Bank, 2008.

8 IMF, 2009a.

Figure 3 Volume of world trade and South African exports



* IMF estimate, January 2009

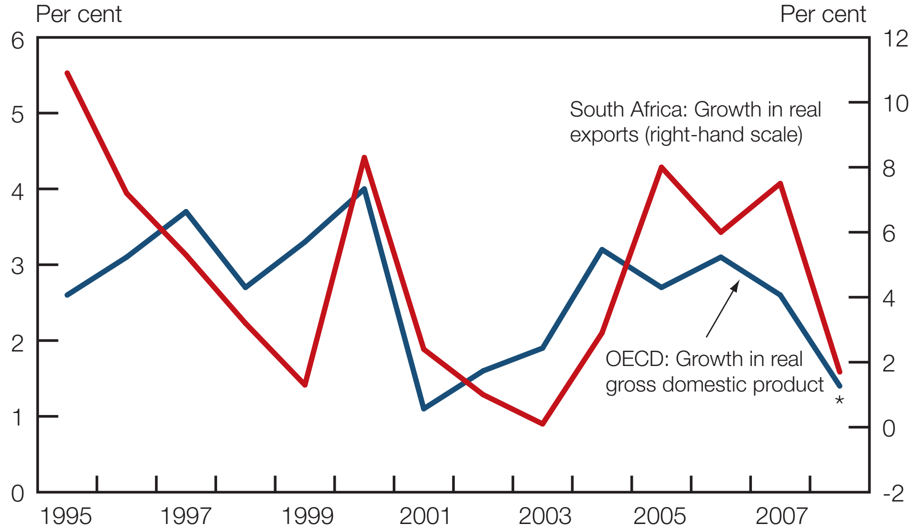
Source: IMF, 2008a, 2009a and South African Reserve Bank calculations

significantly downwards in recent months with adverse implications for import demand from these countries. These developments have raised concerns about the prospects for world trade. In fact, world trade volumes have seen large declines since May 2008 (see Figure 2) and, as mentioned earlier, are expected to contract in 2009.

Developed countries serve as important export markets for developing countries. This is of particular relevance for a small open economy such as South Africa, which is heavily dependent on economic developments in advanced countries. The Organisation for Economic Co-operation and Development (OECD) is currently responsible for 59 per cent of global gross domestic product (valued at purchasing power parity exchange rates). The OECD is an important destination for South African exporters, with the OECD share of South African exports having increased from 46 per cent in 1992 to 65 per cent in 2005. South Africa's trade relations are highly concentrated, with 20 countries accounting for three-quarters of South Africa's exports. Around 82 per cent of the exports to these 20 countries is accounted for by 12 OECD countries. It is therefore not surprising that South African exports are highly sensitive to developments in OECD markets (see Figure 4). This is of particular relevance, given the current projections of a contraction in real output in the OECD countries in 2009.

In summary, global economic growth slowed considerably in 2008. Against this background, prospects for economic growth and world trade volumes are disappointing. Given the strong interlinkages between the South African and the global economy, these developments are likely to impact negatively on South African export volumes.

Figure 4 South African exports and OECD growth



* OECD estimate, December 2008

Source: OECD, 2008 and South African Reserve Bank calculations

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IMF *see* International Monetary Fund.

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OECD *see* Organisation for Economic Co-operation and Development.

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