

Shifting sands: trade partner patterns since 2018

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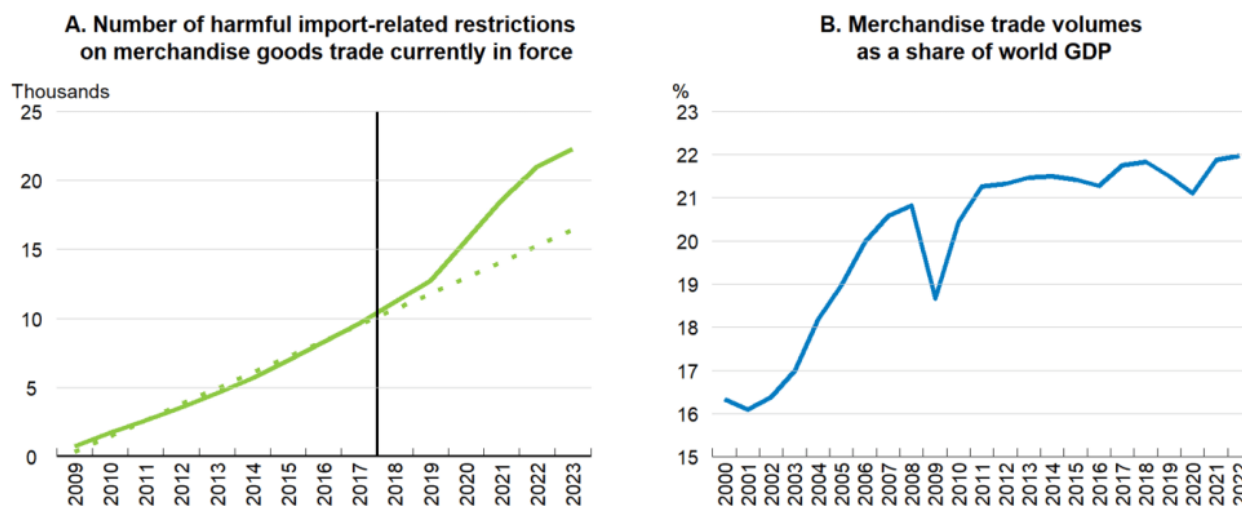
Global trade policy is undergoing a sea-change. The share of global merchandise imports subject to trade restrictions has risen particularly rapidly since 2018, initially due to a sharp increase in tariffs on bilateral trade between the United States and China. Since then, trade policy choices have steadily become more harmful to global trade in goods (Figure 1, Panel A). Trade policy uncertainty has also increased, alongside policy discussions about the re-location of value chains and ongoing changes in the design of national industrial policies. The latest OECD Economic Outlook (OECD, 2023) analyses trends in imports of manufactured goods across major OECD economies to understand what impact this has had on trade patterns.

So far, the increasing use of trade policies has coincided with a period of subdued world trade growth, but has not reduced global merchandise trade intensity (the ratio of trade in manufactures and commodities to GDP in volume terms). Nonetheless, since the global financial crisis, global trade intensity has risen only marginally, following a period of very sharp rises in the 1990s and early 2000s. The COVID crisis saw a shallower decline and faster rebound in merchandise trade intensity than the global financial crisis (Figure 1, Panel B). In 2022, global trade in goods was 22% of global GDP in volume terms, marginally higher than 2018.

The recent resilience of trade in volume terms may be linked to the huge increase in demand for goods during the COVID pandemic, as well as strong policy support during the pandemic and energy crises. Merchandise trade as a share of GDP generally rose in OECD countries between 2018 and 2022,

including in Europe and Japan, offsetting a decline in Chinese merchandise trade intensity. However, merchandise trade intensity was relatively unchanged in the United States, where weak export growth offset a rise in import intensity.

Figure 1. Merchandise trade volumes have so far weathered more harmful trade policies



Note: Panel A - dotted trend line based on historical patterns from 2009-2017. 2023 data as of 1 June 2023, annualised, assuming no measures are removed. Data exclude the impact of sanctions related to Russia's war of aggression against Ukraine. Panel B - trade and GDP data are in volume terms and converted on a dollar-exchange rate basis. Trade is calculated as the average of total imports and exports.

Source: Global Trade Alert; and OECD Economic Outlook database.

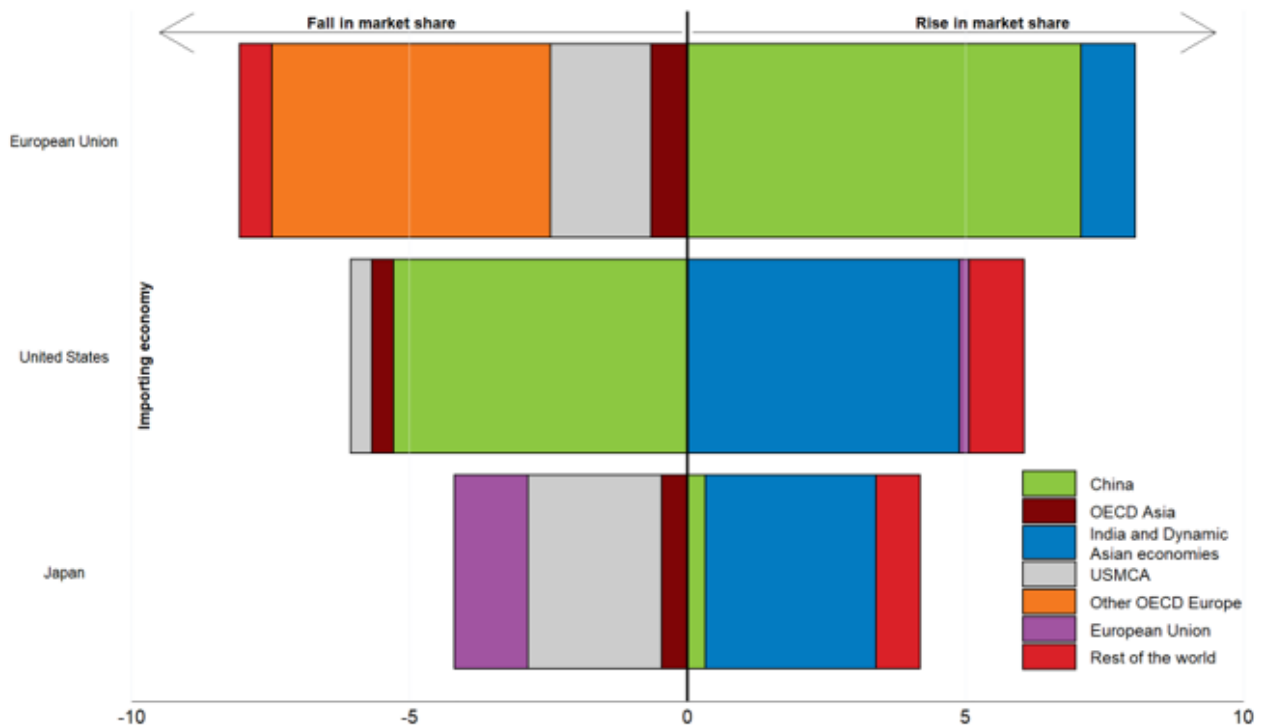
Underneath the general rise in the value and volume of trade, imported manufactured goods at a country-level reveal important and differing shifts in the composition of manufactured goods imports since 2018 in the major economies (Figure 2). A particular issue of policy interest is the evolution of trade with geographically distant partners for key inputs (far-shoring) compared to trade with geographically closer trade partners (near-shoring).

- **Shifting far-shoring:** In the US, there have been sharp declines in China's share of manufactured imports since 2018 – which have typically coincided with rising import shares from dynamic Asian economies. This includes goods where the 2018 tariffs are still applied. Evidence of near-shoring is limited, with Mexico and Canada's share of imports rarely rising in the same categories where China's share has fallen.

- **Expanding far-shoring:** in the EU, China's weight in manufactured imports has continued to grow steadily. In contrast to the US, this has been alongside rising import shares for dynamic Asian economies. As for the US, there is limited evidence of near-shoring: the share of imports from other OECD countries in Europe has fallen, largely driven by changes in import shares from the United Kingdom.
- **Changes at the margin:** In Japan, the shifts in import shares have been much smaller than in the US or Europe. Its trade with the wider Asian region has increased steadily, although increases have been larger for dynamic Asia than China. As in Europe, this has been accompanied by a decline in the share of imports from other advanced economies.

So far, these shifts in trade patterns have occurred whilst aggregate trade has continued to expand broadly in line with global activity. However, in a global economy with slowing long-term growth prospects the economic costs of more harmful trade policies may become more evident over time.

Figure 2. Changes in manufactured goods import shares between 2018 and 2022



Note: All data in value terms (local currency). Manufacturing import statistics based on: Japan - HS classification applied by custom authorities; US - North American Industry Classification System (NAICS); and EU - Eurostat Standard Industry Trade Classification (SITC). The Japanese and EU manufacturing classification does not include food, beverages and fuels. The US classification does include food, beverages and fuels and these constitute 17% of total manufacturing imports. OECD Asia includes Korea and Japan; Dynamic Asian economies include Chinese Taipei, Hong Kong (China), Malaysia, the Philippines, Singapore, Thailand and Viet Nam; USMCA includes the United States, Mexico and Canada; Other OECD Europe includes Iceland, Norway, Switzerland, Türkiye and the United Kingdom; Rest of the world includes all other countries not mentioned elsewhere in the chart.

Source: National Statistics Centre of Japan; United States Census Bureau; Eurostat; and OECD calculations.

References:

OECD (2023), OECD Economic Outlook, Volume 2023 Issue 1, OECD Publishing, Paris, <https://doi.org/10.1787/ce188438-en>.