October 27, 2015

Economics Group

Special Commentary

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274
Erik Nelson, Economic Analyst
erik.f.nelson@wellsfargo.com • (704) 410-3267

Who Loses Most from Slow Growth in Global Trade?

Executive Summary

Growth rates of global economic activity and global trade have slowed significantly in recent years. Because developing economies generally derive a larger proportion of their value added from final spending in foreign economies, they are more adversely affected by slower growth in the global economy than most advanced economies. Among the seven regions of the global economy that we consider, the economies of North America (excluding Mexico) have the least exposure to final spending in the rest of the world. In contrast, many economies in the Middle East and Africa (MENA) region, which have a high degree of dependence on the production and export of energy commodities, have the most exposure to final spending in foreign economies. Consequently, these economies have the most to lose from continued sluggish growth in global economic activity and trade.

Developing Economies Generally More Exposed to Global Trade

In a report we wrote last year, we documented that global trade, which had been growing in excess of global production in the two decades leading up to the global financial crisis, has downshifted significantly in recent years.[1] At present, global export volumes are essentially flat on a year-over-year basis while global industrial production is up 1.7 percent (Figure 1). In a follow-up report this summer, we showed that deceleration in trade in intermediate inputs, so-called "vertical trade," appears to be playing a role in restraining overall export growth.[2]

Global trade growth has downshifted significantly in recent years.

Figure 1

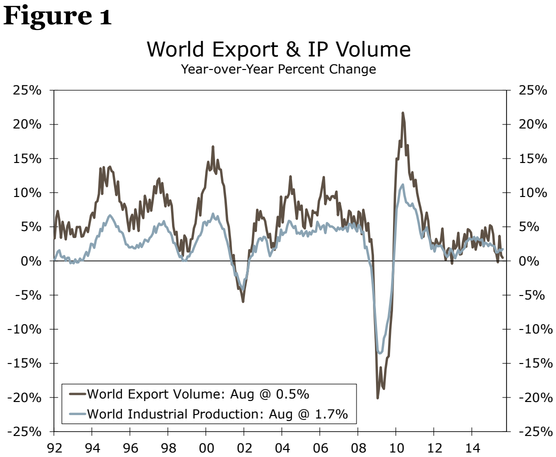
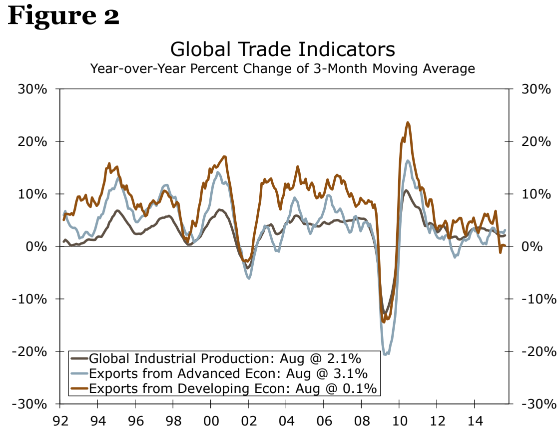


Figure 2



Source: CPB Netherlands Bureau for Economic Policy Analysis and Wells Fargo Securities, LLC

[1] **See "Why Is Global Trade Growing So Slowly?" (August 25, 2014). All reports referenced herein are available upon request.**

[2] **See "'Vertical Trade' and the Slowdown in Global Growth" (August 12, 2015).**

It is well known that some developing economies, especially China, have grown rapidly in recent decades by importing intermediate inputs, assembling them, and then re-exporting finished products. Developing economies consistently posted double-digit export growth rates from 2003 through 2007, which was well above export growth rates of the advanced economies as well as global industrial production growth during that period (Figure 2). However, developing economy export growth has slowed sharply in recent years. Indeed, export growth in the developing world is currently lagging export growth from advanced economies.

Developing economies are more exposed to international trade than advanced economies.

Not only are developing economies struggling more at present in terms of export growth, but they are also more exposed to international trade than advanced economies. Table 1, which is reproduced from an earlier report, shows that 81.1 percent of value added in advanced economies is attributable to final domestic spending.[3] For example, the vast majority of value added in the United States emanates from final spending by American consumers, businesses and government. Likewise the vast majority of value added in, say, France emanates from final spending by French consumers, businesses and government. Among advanced economies, 18.9 percent of value added in those economies is attributable to final spending in foreign economies, with 12.8 percent attributable to other advanced economies and the remaining 6.1 percent coming from final spending in developing economies.

Table 1

Sources of Value Added in Advanced Economies

	Domestic Spending	Foreign Spending	
		Advanced Economies	Developing Economies
1995	84.9%	11.7%	3.4%
2005	83.0%	13.2%	3.9%
2011	81.1%	12.8%	6.1%

Table 2

Sources of Value Added in Developing Economies

Domestic Spending	Foreign Spending	
	Advanced Economies	Developing Economies
80.8%	13.6%	5.6%
72.6%	19.2%	8.2%
76.9%	14.0%	9.2%

Source: Organisation for Economic Cooperation and Development and Wells Fargo Securities, LLC

Comparing Table 1 and Table 2 shows that developing economies are more exposed to foreign trade than advanced economies. Although 76.9 percent of value added in developing economies is attributable to final spending within those economies, 23.1 percent comes from spending in foreign economies (14.0 percent from advanced economies and 9.2 percent from other countries in the developing world). In other words, the slowdown in global trade that is underway has an outsized effect on developing economies.

Energy Exporters Have the Most Foreign Exposure

If, as seems likely, growth in global trade remains sluggish for the foreseeable future, then which specific regions of the world would be most adversely affected? Table 3 shows the foreign origins of value added for three regions of advanced economies (*i.e.,* Advanced Asia, Advanced Europe and the United States and Canada) and four regions of developing economies (*i.e.,* Latin America, Emerging Europe, Emerging Asia, and MENA. The composition of each region is shown in the Appendix).

Advanced European economies rely extensively on intra-regional trade.

Among advanced economies, the region that includes the United States and Canada derives the smallest percentage (15.2 percent) of its value added from final spending in foreign economies. On the other hand, Advanced Europe derives a relatively large amount (22.5 percent) of its value added from foreign sources due, at least in part, to extensive intra-regional trade among countries in Advanced Europe. For example, Germany has extensive trade ties with countries such as France, Italy and Spain. Among advanced economies, Advanced Asia has the most value added exposure to developing countries (9.0 percent of value added), especially to Emerging Asia.

---

[3] **See "Could Developing Countries Take Down Developed Economies?" (August 21, 2015).**

Table 3

Foreign Sources of Value Added by Region	Advanced Asia	Advanced Europe	US & Canada	Latin America	Emerging Europe	Emerging Asia	MENA
Advanced Asia	4.2%	1.3%	2.3%	2.2%	1.8%	7.8%	3.4%
Advanced Europe	3.7%	12.8%	3.9%	4.3%	12.2%	4.7%	10.3%
US & Canada	3.6%	2.5%	2.8%	6.8%	1.6%	3.1%	3.8%
Subtotal	11.5%	16.6%	9.0%	13.4%	15.7%	15.6%	17.5%
Latin America	0.7%	0.6%	1.7%	2.2%	0.6%	1.3%	1.1%
Emerging Europe	0.7%	2.2%	0.5%	0.4%	3.2%	1.0%	2.1%
Emerging Asia	6.2%	2.4%	3.2%	3.0%	3.1%	4.6%	5.2%
MENA	1.4%	0.8%	0.7%	0.6%	1.0%	1.8%	1.3%
Subtotal	9.0%	5.9%	6.1%	6.3%	7.8%	8.7%	9.6%
Total	20.5%	22.5%	15.2%	19.6%	23.5%	24.4%	27.1%

Source: Organisation for Economic Cooperation and Development and Wells Fargo Securities, LLC

Among regions in the developing world, Latin America has the least trade exposure with less than 20 percent of its value added accounted for by final spending in foreign economies. The region that includes the United States and Canada is the most important trading partner for Latin America, which makes intuitive sense given the geographic proximity of the two regions. Geographic proximity also explains the high degree of exposure that Emerging Europe has to Advanced Europe, which accounts for more than 12 percent of value added in the Emerging Europe region.

Emerging Asia derives more than 24 percent of its value added from final spending in foreign economies, 8.7 percentage points of which is attributable to spending in other developing economies. However, MENA is the region which has the most exposure to final spending in foreign economies (27.1 percent of its value added). This high level of exposure to global trade likely reflects the dependence of many countries in the MENA region to the production and export of energy commodities. For example, 58 percent of value added in Saudi Arabia, which pumps about 10 million barrels of crude oil per day, emanates from final spending in foreign economies.

Countries in the MENA region have the most exposure to slower global trade.

Conclusion

Many emerging market economies achieved rapid rates of economic growth during the past two decades due to the proliferation of global trade that occurred during that period. However, global economic growth is slower today than it was in the years immediately preceding the global financial crisis, and growth in global trade has also downshifted significantly. It stands to reason that developing economies, which benefited from the proliferation of global trade, would have more to lose than their advanced economy counterparts from slower growth in trade today.

Our analysis confirms this hypothesis. Developing economies generally derive a higher percentage of their value added from final spending in the rest of the world than do advanced economies. Of the seven regions of the global economy that we consider, the economies of North America (excluding Mexico) have the least exposure to final spending in the rest of the world. In contrast, many economies in the MENA region, which have a high degree of dependence on the production and export of energy commodities, have the most exposure to final spending in foreign economies. Consequently, these economies have the most to lose from continued sluggish growth in global economic activity and trade.

Appendix

Advanced Economies				
		Advanced Asia		
Australia	Japan	New Zealand	Singapore	Taiwan
Hong Kong	Korea			
		Advanced Europe		
Austria	Finland	Ireland	Malta	Slovenia
Belgium	France	Italy	Netherlands	Spain
Cyprus	Germany	Latvia	Norway	Sweden
Denmark	Greece	Lithuania	Portugal	Switzerland
Estonia	Iceland	Luxembourg	Slovak Republic	United Kingdom
		U.S. & Canada		
Canada	United States			
		Developing Economies		
		Latin America		
Argentina	Chile	Colombia	Costa Rica	Mexico
Brazil				
		Emerging Europe		
Bulgaria	Czech Republic	Poland	Romania	Russia
Croatia	Hungary			
		Emerging Asia		
Brunei	China	Indonesia	Philippines	Vietnam
Cambodia	India	Malaysia	Thailand	
		MENA		
Israel	Turkey	Saudia Arabia	South Africa	Tunisia

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

WELLS FARGO SECURITIES