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Contextualising the drivers for trade: Some lessons from historical case studies

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ABSTRACT

This paper uses three historical trade case studies, oil trade, bulk commodities and containers, to explore and better understand the drivers of shipped trade. This qualitative work explores the relevance of established drivers, such as economic growth, and identifies additional factors which have shaped trade patterns. This work adds a new dimension to quantitative approaches, such as cross-country regression analyses, which although are often used to ascertain the importance of potential drivers for trade may face difficulties, particularly when drivers are complex or interlinked. Our analysis considers inter-related economic and political factors which have influenced changes in trade patterns. The results confirm the importance of elements such as economic growth, openness (such as a lack of tariffs), geography and transport costs and for each of the case studies explains the context which gave rise to these drivers. This analysis affords three main conclusions, firstly distinct trading regions may react differently to similar circumstances, secondly, policies which can influence both supply and demand can have a significant impact on established trade patterns and finally initially isolated elements can (with the benefit of hindsight) prove to have had a significant impact on trade.

1. Introduction

The quantity of material traded globally has increased over 30 fold since 1950 [1]. During this period trade has developed within the context of globalisation, with significant interconnectedness along supply chains and cross-border investment flows [2]. Whilst this period arguably reflects the second age of globalisation, the scale of modern trade flows, and the speed with which information is exchanged, means that globalisation in the 21st century bears little semblance to globalisation in the 19th or early 20th.

In more recent decades the structure of world trade has moved to one of greater parity in the trade of primary and manufactured goods between developed and developing regions (with the arguable exception of Africa) as well as a significant increase in the trade between regions in the developed world [3].

1.1. *What drives or hinders trade: some theoretical perspectives*

Understanding the drivers for trade remains an important research question, one which is not uncontentious; insights into why particular patterns of trade have developed provides a valuable insight for informing both economy wide and maritime policy.

From a theoretical perspective, the growth of demand for trade by industrialised countries has been attributed to economic growth and increases in income levels. The view presented by some commentators is that highly industrialised countries with a surplus output of high value goods are more likely to find a market in other highly industrialised countries [4]. Furthermore broad theoretical frameworks which seek to explain trade in general terms, assume that such regions will have a greater capacity to source cheaper primary goods.

Contrasting frameworks seek to attribute the challenges faced by developing nations in replicating the economic growth of developed nations, to a lack of capacity to respond to the stimuli for industrialisation or insufficient competitiveness [4]. The growth of emerging markets is seen as a consequence of the presence of more advanced economies which supply the 'economic preconditions' for trade growth in the form of capital, technology, knowledge, and support the emergence of modernizing elites who replicate the structures of more advanced trading partners.

However the nature of trade is dynamic and the same drivers may manifest differently across distinct sectors, regions and timeframes. Therefore there remains a challenge to understand the prospective drivers and potentially enhance their use in the trade (or other) policy environment. Furthermore it is likely that individual drivers work in tandem with others, as proposed by [5]

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who suggest that, for example, the impact of trade liberalization is increased if it is accompanied by other regulatory reform. Authors such as [6] argue that international trade policy is closely linked with other policies. This serves as a reminder that polices which in hindsight are deemed to have had a positive impact on trade may have been inappropriate under different circumstances and advocate studies which attempt to contextualise such issues [7].

2. Aims of this paper

The debate as to what ultimately drives trade has continued since the 1950s, and despite significant advances in analytical techniques, the importance of fundamental elements, such as the openness of national markets, have not been incontestably established. The conventional theoretical perspective ultimately views trade as a derived demand, in the absence of activities having an origin and destination, transportation becomes meaningless [8]. However, given that modern trade is highly complex we cannot take a simplistic view of derived demand, so the 'where and when' of trade will depend on numerous region and commodity specific factors [9]. Therefore, firstly, this paper presents three historical case studies of regional trade, informed by literature, and ascertains, in each case, the specific political and economic factors that influenced both changes in the demand for these commodities and how the demand was met. This is based on the view as expressed in [10] on the value in studying specific country/regional experiences as a tool for understanding trade. Given that the shipping sector has been responsible for transporting the vast majority of goods traded globally, special consideration will be given to the role occupied by shipping [3].

Secondly (as discussed in Section 1.1) through the case studies, this paper seeks to identity important linkages between individual drivers for trade, and highlight the role of policies across different domains in influencing international trade [6]. Such linkages may be concurrent policies which have had a synergistic (either positive or negative) effect on trade, or may be sequential, responding to prior policies. In particular this study seeks to identify cogent connections between trade and non-trade policies.

Given their heterogeneity, the outputs of each case study may not be generalizable [11] but instead they highlight additional variables which can be tested using a more structured method such as econometric cross country regression analysis. Similarly, the case studies remind us that polices which in hindsight are deemed to have had a positive impact on trade may have had different impacts depending on the wider (national or international) economic or political transitions, thus advocate studies which contextualise such issues [7]. Finally through the use of case studies, this research helps contextualise ***how*** broadly defined elements mentioned within the literature will manifest in practice, as well as the specific types of policies (and the sectors in which they originate) which can influence trade.

Section 3 provides an account of some of the main drivers for trade based on relevant literature. This is followed by the three case studies, with specific relevance given to their policy environment (both trade and other policies). Section 5 discusses the lessons learnt across the contrasting cases and Section 6 concludes the paper.

3. Broad drivers of trade

Literature identifies many factors which are considered to have an impact on trade; a summary is presented in Table 1 and key factors, commonly identified as being important determinants for trade, across different commodities, regions and time frames, are discussed in Sections 3.1–3.3. This section will also comment briefly on the research methods used to ascertain and test the impact of these drivers upon trade.

3.1. Trade and economic growth

The positive correlation between international trade and economic growth remains in many cases a "statistical regularity in need of explanation" [12, p 30]. Despite this, the view that economic growth invariably has a positive influence on the rate of trade growth is not incontestable. In particular the bi-relational nature of trade and economic growth makes it difficult to arrive at a conclusive picture, whilst trade can have a significant impact on economic growth, so can many factors that can be related to trade [13]. Specifically, studies such as [12] describe the complexities involved in determining causality, particularly in distinguishing precedence and correlation. However the authors provide the caveat that demonstrating a robust relationship between trade and growth and demonstrating *how* trade affects growth are separate issues. For example, using a simultaneous equation model to test competing hypothesises [14] suggests that investment, technology transmission and a stabilisation of macro-economic policies are the most important effect of trade. (The latter reaffirms the suggestion that trade may affect growth through other institutions).

3.2. The role of policy in driving trade

This section will comment on some of the factors, over which trading regions have political control and which have had an impact on trade.

3.2.1. Openness to trade

In terms of policy, [15] discuss previously published empirical work (such as cross-country regression analysis) which suggests openness to trade is a significant explanatory variable for the level (or growth rate of) trade and real per capita GDP. Trade openness/liberalization is a broad term which can refer explicitly to the modification of tariffs, quantitative restrictions or voluntary export restrictions. For example studies such as [16] employ a theoretical general equilibrium model of international trade in final goods suggesting that trade liberalization has contributed 75% of the (approximately) 2% average annual growth of world *merchandise* trade (as a % of income) between the late 1950s and the late 1980s. However reviewing the growth in real bilateral trade flows between 16 OECD (Organisation for Economic Co-operation and Development) countries suggests that 67–69% of the observed growth over this period could be explained by growth in real GDP, 23–26% by preferential trade agreements and tariff-rate reductions whilst 8–9% of this growth can be explained by reductions in transport-costs. In many respects this reflects the movement away from policies of import substitution whereby countries adopt foreign exchange and import controls to safeguard their export earnings and enabling available foreign exchange to be used strategically. However this approach of import substitution was reassessed by many countries (including newly industrialised countries) following the 1980s economic crisis [17], who adopted polices which promoted export orientated industries, including modification to subsidies and tariffs etc. Studies such as [18] find that foreign direct investment (FDI) is closely correlated with trade liberalization. However it should be mentioned that the use of cross country regression analysis to suggest a positive link between trade/growth and openness has been criticised [6,13] as some of the variables used may have dubious relevance to trade policy or the relationships are invalidated by the inclusion of alternative variables. More recent empirical evidence demonstrates a positive but significant variability in the extent to which trade

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