

GLOBAL TRADE & TRANSPORTATION SEMINAR

8 OCTOBER 2008 • HARVARD CLUB OF NEW YORK CITY • NEW YORK, NY



Is Globalization of International Trade Reversing?

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Reverse Globalization?

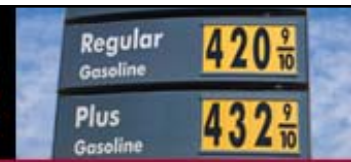
- Much attention has been given to the topic of ‘Reverse Globalization’ and ‘Inshoring’ this year.
- Wide attention has been given to those arguing that the high energy prices early this summer were leading to a paradigm shift where higher transport costs due to oil price spikes are reversing globalization.
- The argument has been based on claims of high freight rates for international ocean shipping causing extensive changes in sourcing goods with manufacturing moving back to the U.S.
- The influence of transport costs on trade patterns is real and some domestic producers and near-neighbor trade partners stand to benefit when oil prices are high, but the impacts should not be exaggerated.



Underlying demographic and structural changes

driving trade patterns are not reversing long-term

Country GDP Rank Billions of Real (2003) U.S. Dollars			
2000	2010	2020	2030
U.S.	U.S.	U.S.	U.S.
Japan	Japan	China	China
Germany	Germany	Japan	Japan
U.K.	China	Germany	India
France	U.K.	U.K.	Russia
Italy	France	India	U.K.
China	Italy	France	Germany
Brazil	India	Russia	France
India	Russia	Italy	Brazil
Russia	Brazil	Brazil	Italy



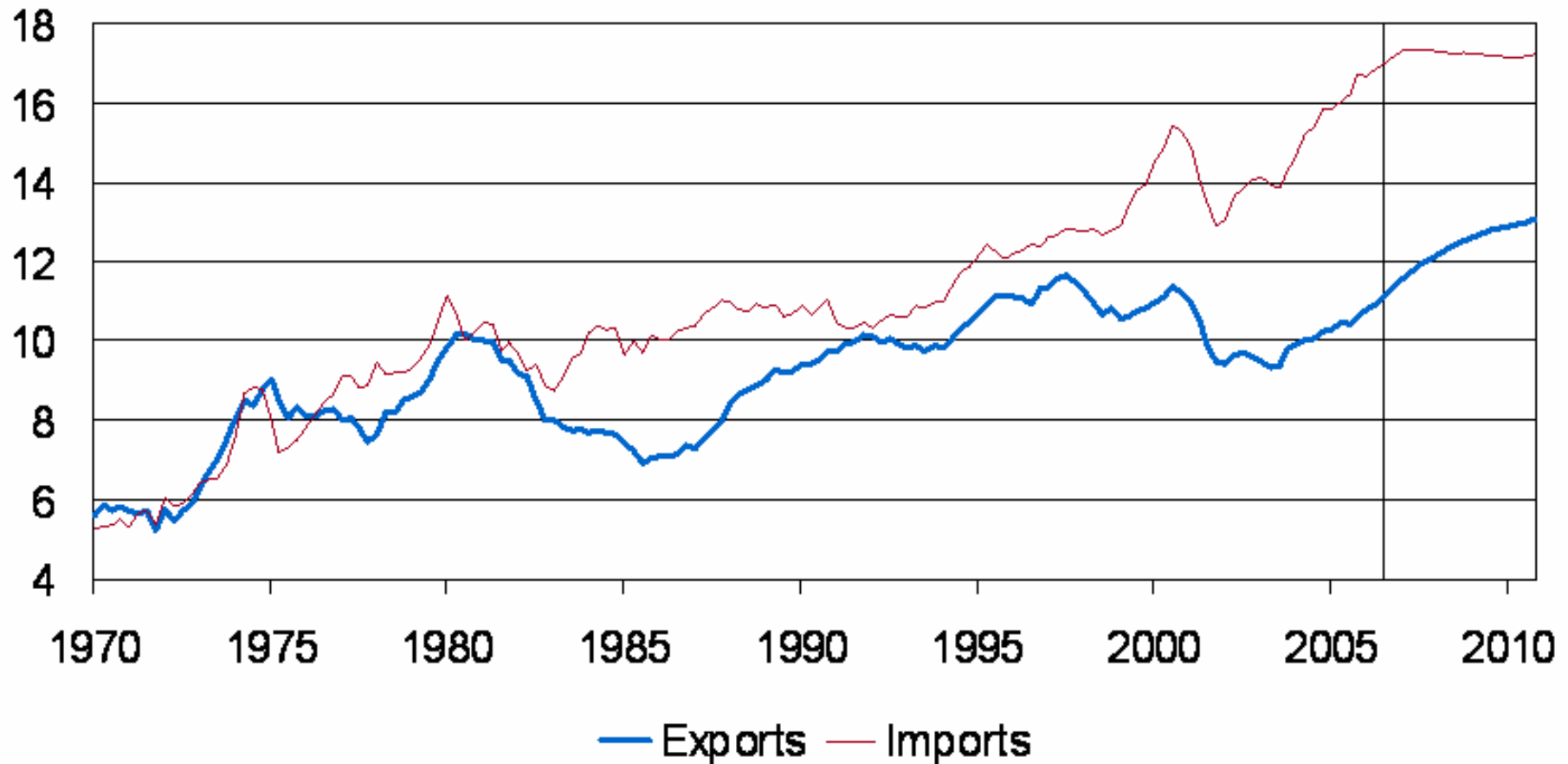
Real Oil Prices Will Not Rebound Anytime Soon

- The declining dollar and conditions that pushed up the dollar oil price this summer have reversed.
- The key underlying driver of global oil demand growth outstripping supply has run its course. Though additions to supply came with a lag they are real.
- Periodic supply disruptions, geopolitical events, and speculation contribute to oil price volatility longer-term.
- The world has abundant energy resources, concentrated in high-risk countries, that adds to volatility.
- Even oil lower prices may follow in the medium-term (forecast is \$90/bbl in 2009) as conservation and additional production progress despite financial crisis.



U.S. Globalization Trends Not Reversed by the 2008 Oil Price Spike

U.S. Imports and Exports as Percent of Gross Domestic Product

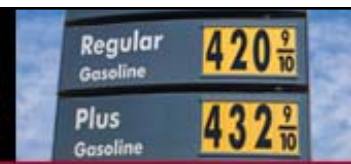


Source: Global Insight U.S. Macroeconomic Forecasting Service



Underlying U.S. Globalization Trends Still at Work

- Increased welfare from gains from trade, leveraging comparative advantage to obtain reduced prices for traded goods and services; increased quality and choice is still possible at higher oil price levels
- Importers benefit from foreign resources and labor
- Exporters benefit from larger, more open markets
 - . . . If firms are world-class competitive
- Facilitated by trade agreements, improved technology, and mechanisms for easily handling financial side of trade flows
- Results in continuing shifts in U.S. and other economic geography
- Environment, labor, safety, and security standards all affect trade as well



Non-Energy Cost Trends Affecting Trade

- **Costs have increased in last seven years for security and safety of transit to final destination, pushing up traded goods costs**
- **U.S. transportation, warehousing, and logistics costs are falling again. Cost savings from use of advanced logistics approaches such as distributed, point-to-point shipments (e.g., Asia direct-to-store)**
- **Demand for efficient flows – more products per shipment to reduce re-handling; pre-blocking containers on ships in Asia for U.S. intermodal trains; minimizing empties and inventory costs are important regardless of sourcing approach**



Transport Energy Cost Impact on Trade

Transport Energy Cost Impact on Trade is Significant, but Won't Reverse Globalization

- **Some analysts have asserted that higher transport costs due to oil price spikes are reversing globalization.**
- **They've argued that observed reductions in Chinese exports of 'Freight Intensive' goods to U.S. in 2007 prove the increased transport costs are diverting trade (to Mexico and the U.S.)**
- **This analysis ignores the fact that the largest volume China – U.S. 'freight intensive' commodity category, furniture, had declining consumption chiefly due to the U.S. housing market bubble burst, not because of higher transport energy costs.**
- **Correlation does not prove causation and the ability to analyze the underlying conditions within sectors of the economy matter to a proper understanding and ability to forecast international trade. This is what the World Trade Service provides to customers.**



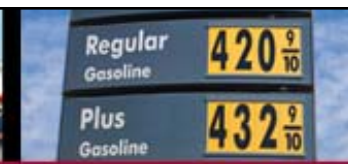
Supply Chain Executives are not Abandoning Outsourcing

Changes in Sourcing Activities Next 12-Months

	No Change	Increase	Decrease
Within USA	52%	23%	25%
Near Shore	63%	30%	7%
In China	59%	32%	9%
Other Asia/Pacific	73%	24%	3%

No evidence decision-makers are retreating to U.S.

Source: Global Insight analysis of AMR Research Inc. survey of supply chain executives, May 2008



Bottom Line

- **Trade patterns are affected by energy prices as all factor input prices matter in total delivered cost.**
- **Trade with near-neighbors and even domestic sourcing would be relatively higher as transport costs increase.**
- **But U.S. imports weakened due to U.S. slowdown more than energy price spike; U.S. exports with same fuel costs are up.**
- **Trade patterns continue to evolve and the bottom-up sector-based approach of the World Trade Service is the best way to separate short-term events from long-term influences on trade.**

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Thank You

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