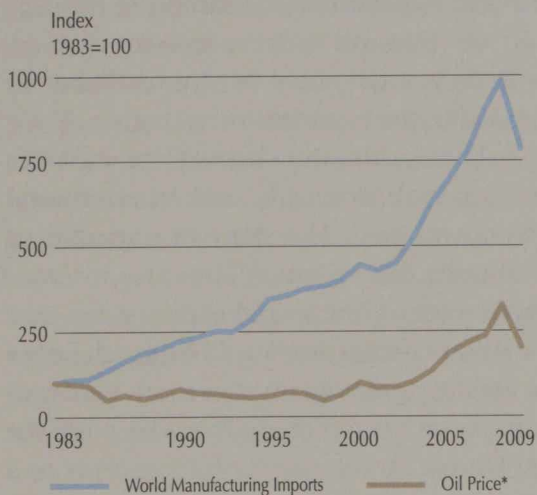


continue, stagnate or even reverse and what role, if any, policy can play in shaping the evolution of GVCs.

One component of the GVC and transport cost story is the price of oil. As international transport is a heavy user of oil, there is potentially a link between oil prices and the costs of international trade. After peaking in the late 1970s and early 1980s, the price of oil fell steadily to a low of about US\$15 per barrel in 1998. In nominal dollars, this fall was modest but in real terms it was significant. It has been argued that an important driver of the growth of GVCs was this fall in oil prices. This trend was of course followed by a sharp rise over the 2000s to peak at nearly US\$ 150 prior to the global financial crisis.

There is, however, little empirical evidence that links the decline in oil prices during the 1980s and 1990s to increased trade and the rise of GVCs. One of the few studies that is consistent with this view is that of Bridgman (2008) which finds that high oil prices can explain a large part of the slowdown in trade growth from 1974 to 1985. Indeed, there is much more evidence which fails to find that oil prices play an important role in the growth of trade or of GVCs. Furthermore, as oil prices increased by nearly ten-fold from trough to peak over the 2000s, there was no decline in international trade or slowing of the growth of GVCs. Although Hillberry (2011) points out that there was a switch from air to ocean transport for some goods during this period, he also notes that the shift was much less pronounced for intermediate inputs, suggesting that GVCs are less subject to oil price movements than are finished goods. In fact from 2000 onwards trade and oil prices moved in the same direction: world manufacturing imports, which excludes oil and natural

Oil Prices and Global Trade



*U.S. dollars per barrel, near month Cushing future on NYMEX.

Data: WTO and U.S. Department of Energy.

resources (both of which saw their price increase over this period), grew quickly while oil prices were rising sharply.

A simple explanation exists for the lack of evidence supporting the link between higher oil prices and lower trade values. Calculations based on Statistic Canada's input-output tables reveal that for the air transportation and the truck transportation sectors, 22 percent and 25 percent, respectively, of purchased inputs (excluding wages, taxes and subsidies) were spent on fuel.⁸ While these are fairly sizable sums, the share of transportation among other industries' inputs is surprisingly small. For example, in Canada's vehicle manufacturing industry, 0.3 percent of purchased inputs (excluding wages, taxes and subsidies) was spent on transportation. Of that, rail transport accounted for just over half and truck transport for about a third. For electronic products manufacturing, just under 0.9 percent of costs were spent on transportation, with more than 70 percent on air transport. Multiplying these small shares of total costs spent

⁸ Author's calculations based on 1997 data from symmetric (industry by industry) I/O tables provided by Statistics Canada using purchaser prices in current Canadian dollars.