During 2003–07, nominal imports grew faster than GDP both due to shifts in the composition of demand and reductions in trade costs. During the slowdown period of 2012–15, however, changes in demand composition played a more prominent role relative to trade costs, particularly in advanced economies.

Source: IMF staff calculations.

Note: Actual and simulated lines in Panels 1, 3, and 5 display the ratio of gross growth of nominal goods imports to gross growth of nominal world GDP, \( \frac{(M_t/M_t-1)}{(Y_t/Y_t-1)} \), and their period averages (solid lines). A value of one indicates that nominal imports and GDP grow at the same rate. The simulated effect of demand composition and trade costs are obtained through counterfactual exercises in which only the corresponding wedge is allowed to operate, holding all other factors affecting production and trade constant. A decline in trade costs corresponds to an increase in the depicted trade wedge as it boosts model-implied trade values. Bars in panels 2, 4, and 6 display the difference in the average growth of the imports-to-GDP ratio described above between 2003–07 and 2012–15 implied by: (1) the data; (2) the model with the demand composition wedge only; (3) the model with the trade cost wedge only, that is, the differences in the period averages depicted in Panels 1, 3, and 5. See Annex 2.4 for further details of country coverage, data sources, and methodology.