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KEY INDICATORS AND TRENDS in International Trade 2016

A BAD YEAR FOR WORLD TRADE?

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NOTE

Key Indicators and Trends in International Trade 2016 is the fourth edition of a series initiated in 2013. Previous editions were published with the title *Key Statistics and Trends in International Trade*. It is a product of the Trade Analysis Branch (TAB), Division on International Trade in Goods and Services, and Commodities (DITC), UNCTAD Secretariat. The series is part of a larger effort by UNCTAD to analyze trade-related issues of particular importance for developing countries, as requested by the Mandate of UNCTAD XIV. Alessandro Nicita and Alain McLaren contributed this study. This study also benefits from inputs and comments from various DITC staff members and from UNCTAD Statistics team. Desktop publishing was done by Jenifer Tacardon-Mercado.

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Trade Analysis Branch
Division on International Trade in Goods and Services, and Commodities
United Nations Conference on Trade and Development
Palais des Nations, CH-1211 Geneva 10, Switzerland
E-mail: tab@unctad.org or alessandro.nicita@unctad.org

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OVERVIEW

After strongly rebounding from the Great Recession, international trade has grown at a sluggish pace that further deteriorated in 2015. Trade statistics for 2015 have been at odds not only with previous trends but also with respect to the overall economic environment. From 2011 to 2014 the value of international trade grew at a rate of less than 2 per cent per year, and declined by 10 percent in 2015. A substantial part of the drop in international trade was due to nominal factors, principally the fall in the price of commodities and the overall appreciation of the US dollar. Weaker demand also played a role, especially in East Asia and in other parts of the developing world. Although the largest decline occurred in commodity sectors, the value of trade has also contracted in all manufacturing and agricultural sectors. Declines in the value of trade were also observed in the service sectors. The trade collapse of 2015 has affected all geographic regions. In general, trade flows of developing countries registered a larger downtrend relative to the last trade collapse of 2009. South-South trade performance has also been weak, largely driven by lower East Asian imports. In terms of export performance, countries in East Asia generally fared relatively better.

This report is structured in two parts. The first part presents an overview of the trade collapse of 2015. The second part provides illustrative statistics on international trade in goods and services covering the last 10 years. The second part is divided in two sections. Section 1 provides trade statistics at various levels of aggregation illustrating the evolution of trade across economic sectors and geographic regions. Section 2 presents some of the most commonly used trade indicators at the country level, so as to illustrate trade performance across countries.

Data Sources:

The statistics in this publication have been produced by UNCTAD Secretariat by using data from various sources. This report relies on UNSD COMTRADE (comtrade.un.org) hard data for merchandise trade statistics. UNCTADSTAT (unctadstat.unctad.org) and UN Service Trade Database (unstats.un.org/unsd/servicetrade) are the sources of service statistics. The data has been standardized to ensure cross country comparisons. Data although comprehensive and comparable across countries, does not perfectly reflect national statistics, and thus some discrepancies with specific national statistics may be present. Unless otherwise specified international trade is defined as trade in goods (merchandise) and services. Countries are categorized by geographic region as defined by the UN classification (UNSD M49). Developed countries comprise those commonly categorized as such in UN statistics. For the purpose of this report, transition economies, when not treated as a single group, are included in the broad aggregate of developing countries. Product sectors are categorized according to the Broad Economic Categories (BEC) classification and the International Standard Industrial Classification (ISIC) augmented by five broad agricultural sectors based on the Harmonized System classification (HS). Figures are in current US$, except where otherwise specified.

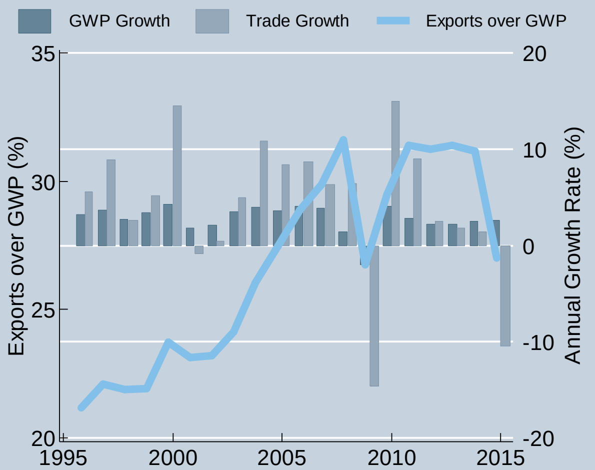
The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of UNCTAD concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

IN FOCUS: A BAD YEAR FOR WORLD TRADE?

International trade statistics have recently been showing unusual trends. After strongly rebounding from the Great Recession of 2009, international trade has grown at a sluggish pace that further deteriorated in 2015. Trade statistics for 2015 have been at odds not only with previous trends but also with respect to the overall economic environment. While the global economy continued to grow in 2015, world trade declined by about 10 percent (Chart 1). Negative growth in the value of international trade during a period of economic expansion has not been recorded since 2001, when the decline in the value of international trade was only marginal (not even 1 percent). The sluggish growth of 2012-2014 and the magnitude of the decline in trade of goods and services observed in 2015 suggest a change in the dynamics behind the process of international integration. Indeed, the most commonly used index to gauge globalization trends - the ratio of the value of world trade over global GDP (GWP) - indicates a decline in economic interdependence. This index stalled at about 30 percent between 2011 and 2014 (a level first reached in 2007), and then fell by about 4 percentage points in 2015. Many other indexes presented in this report are suggesting a reverse in the fortunes of international trade.

Chart 1: Unusual Patterns

Trade sluggish growth further deteriorated in 2015



Source: UNCTAD Secretariat calculations

On a more positive note, not all trade statistics from 2015 are dismal. Overall growth in the physical volume of international trade was still positive in 2015 (about 1.5 percent). Therefore, at least part of the fall in the value of world trade was just nominal rather than a real contraction. In other words, while many exporters had to cope with lower prices, they saw no decline in export volumes. Although positive growth in trade volumes is consistent with the overall economic trends, there are still reasons to be concerned. To start with, the growth rate in trade in volumes has been below the overall growth of the world economy in 2015. This has seldom happened in the last few decades and only during economic downturns, as in 2001 and in 2009. Second, trade volumes were rather unstable, showing substantial volatility during 2015 both across quarters and across countries. Although world trade volumes increased, trade volumes decreased for many countries. Finally, it is arguable whether the physical growth in international trade can continue in a deflationary economic environment. The concern is that many exporters may not be able to maintain their position in the markets for long when facing reduced financial returns.

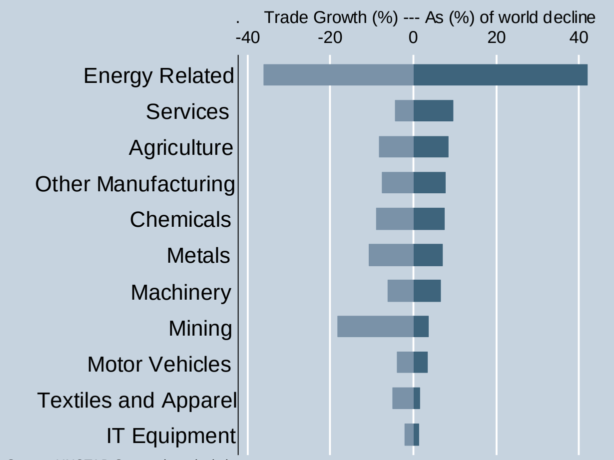
Factors behind the Trade Decline of 2015

Unsurprisingly, there have been various factors at work in 2015 to result in such a sharp decline of international trade. Some of the factors have largely nominal effects, while others appear to be more structural in nature. The fall in commodity prices and the appreciation of the US dollar were the factors contributing most to the nominal fall in world trade. In particular, oil prices went from an average of more than US$ 100 per barrel in 2014 to about US$ 50 in 2015. Since energy products represent a substantial share of world trade, such decrease was substantially reflected in the overall value of world trade. The decline in the nominal value of trade also resulted by the appreciation of the US dollar against all the major currencies. The trade weighted US dollar index appreciated by almost 15 percent between 2014 and 2015. As a substantial share of world trade is priced in US dollars, the appreciation of the US dollar contributed to the fall of the international prices of goods. This has affected the value of international trade because the same volumes of goods can be purchased with fewer dollars.

Deflationary factors can explain only some of the trade collapse of 2015. To better put the peculiar trends of 2015 in context, one needs to consider the fact that the statistics on volumes of trade were below historical standards. In particular, while export volumes from developing countries had been growing at rates of more than 10 percent per year between 2003 and 2008, the figure for 2015 was about one percent. Moreover, volumes of trade fell for many countries both in terms of imports and exports. Some of the major economies, including the US, China, Japan and India, saw a contraction in exports not only in values but also in volumes. Another reason why nominal factors cannot explain the full extent of the trade collapse of 2015 is that the trade downturn involved not only primary products (which declined by more than 33 percent) but also intermediates (10 percent decline), and capital and consumer goods (about 4 percent decline). A similar argument suggesting that there have been more than deflationary factors at play in 2015 can be shown by the changes in values of trade across economic sectors (Chart 2). In numbers, the value of international trade in energy products fell by about 37 percent in 2015. This contributed to more than 40 percent of the overall decline in international trade. Another 10 percent were also directly linked to commodities (mining and at least part of agriculture). However, this still leaves about 50 percent of the decline in world trade related to manufacturing and services. In these sectors, a weaker demand and the transformation of production processes has likely played a relatively greater role.

Chart 2: Not only Energy

Trade growth has been negative in all sectors



Source: UNCTAD Secretariat calculations

2009 and 2015, any Similarities?

In 2015 the overall value of world trade contracted by about 10 percent. To put things into perspective, there has been only one time in the last 30 years in which the value of international trade fell in such magnitude. That year was 2009 when trade collapsed by more than 15 percent. While there are some similarities, there are also important differences between these two events. To start with, the trade collapses of 2009 and 2015 had different dynamics. While the trade collapse of 2009 was a direct result of the economic depression brought by the financial crisis of 2008, the trade downturn of 2015 happened in a period of overall economic growth. This fact alone indicates that the trade decline of 2015 was not primarily due to a weaker global