

Latest trends in world trade 2017-2018

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US\$
17.73
trillion

World merchandise exports increased to US\$ 17.73 trillion in 2017, up from US\$ 16.03 trillion in 2016, partly due to higher commodity prices.

US\$
5.28
trillion

World commercial services exports grew by 8% in 2017, reaching US\$ 5.28 trillion. Growth in services was roughly in line with growth in exports of manufactured goods.

8%

Asia was the top contributor to trade growth in volume terms in 2017, growing by 8%.

4.7%

World merchandise trade grew by 4.7% in 2017 in volume terms, driven by a rising demand for imports across the world.

General trends and drivers of trade in 2017

Strongest growth in world trade since 2011

Global trade recorded its highest growth rate in six years in 2017, both in volume and value terms. Merchandise trade volume, as measured by the average of exports and imports, grew by 4.7 per cent, marking the first annual increase in excess of 3.0 per cent since 2011. The dollar value of merchandise exports rose by 11 per cent, to US\$ 17.73 trillion¹, while commercial services exports increased by 8 per cent to US\$ 5.28 trillion.

Merchandise trade growth in 2017 was up sharply from 2016, when trade volume grew by just 1.8 per cent, the smallest increase since the financial crisis of 2008. Strong growth in trade volume in 2017 was driven primarily by cyclical factors, as world growth in GDP at market exchange rates rose to 3.0 per cent from 2.3 per cent the previous year. This economic activity was driven by increased investment spending, particularly in the United States, and rising consumption, notably in Japan. Meanwhile, China and the European Union maintained a steady rate of expansion, providing a solid base for global demand. Growth in trade volume was strong in 2017 despite trade tensions. In the first half of 2018, these tensions translated into a number of trade-restrictive measures being imposed, covering a wide range of goods and major economies. How these measures will affect trade in 2018 remains to be seen, but they risk triggering a cycle of retaliation that could be disruptive for global trade and growth.

Return to historical norm for growth in merchandise trade volume

Historically, world merchandise trade volumes have grown around 1.5 times faster than world real GDP at market exchange rates. The ratio of trade to GDP growth (referred to as the "elasticity of trade with respect to income") rose above 2.0 in the 1990s, but fell back to 1.0 in the five years following the financial crisis (2011-2016). This elasticity measure

rebounded from 0.8 in 2016 to 1.5 in 2017, which is close to the historical average (Chart 3.1). Stronger trade growth relative to GDP growth is expected to continue at least into 2018, barring major economic shocks.

Growth in trade volume of 4.7 per cent in 2017 was close to the average rate of 4.8 per cent since 1990 and firmly above the post-crisis average of 3.0 per cent. The increase in merchandise trade in volume terms last year is somewhat due to the weakness of trade over the preceding two years, which provided a lower base for the current expansion. The fact that trade growth in value terms was stronger than in volume terms reflects both increasing quantities and rising prices.

Based on existing economic projections in early 2018, the outlook for trade is broadly positive. Brighter prospects reflect not only increased investment and employment gains but also improved business and consumer confidence. Estimates of GDP growth were revised upwards over the course of 2017, which partly explains the fact that merchandise trade growth of 4.7 per cent for the year exceeded even the most optimistic earlier predictions. However a range of downward risks can easily undermine the forecast.

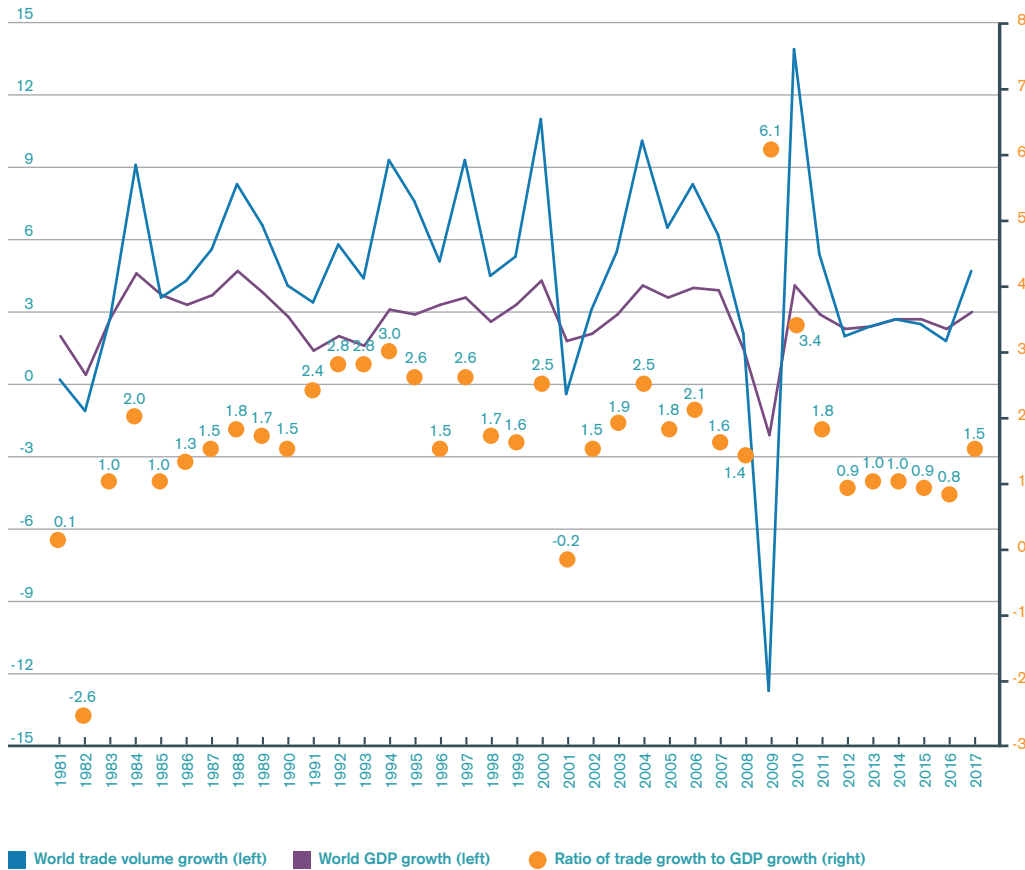
Despite an improvement in trade growth, some structural factors that weighed on trade in recent years are still present. These include the rebalancing of the Chinese economy away from investment (which has a very high import content) and towards consumption (which has a lower import content compared with investment) and the reduced pace of global trade opening in recent decades. China's rebalancing might dampen import levels slightly in the short-run but it should produce stronger, sustainable growth over the long term, which would support more trade. On the other hand, the lack of further substantive trade opening would be expected to produce lower trade growth in both the short and long-run.

¹Includes significant re-exports or imports for re-exports

Chart 3.1

Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2017

(Annual percentage change and ratio)



1.5
Ratio of growth in world merchandise trade volume to world GDP growth at market exchange rates in 2017.

Sources: WTO estimates for trade, consensus estimates for GDP.

Increase in merchandise trade volume in second half of 2017

The increase in the growth of world merchandise trade volume to 4.7 per cent in 2017 from 1.8 per cent in 2016 was driven by rising import demand across regions but most notably in Asia.

The largest gains were recorded on the import side in developing and emerging economies, where trade growth surged to 7.2 per cent in 2017 from 1.9 per cent in 2016. Import demand also picked up in developed economies, albeit less dramatically, as merchandise trade growth in volume terms increased to 3.1 per cent in 2017 from 2.0 per cent in 2016.

Merchandise exports grew by 3.5 per cent in developed economies and by 5.7 per cent in developing and emerging economies last year, up from 1.1 per cent and 2.3 per cent respectively in 2016 (see Table 3.1).

Growth in merchandise trade volume was strongest in developing economies for the whole of 2017. However, exports and especially imports of developed economies also strengthened during the year, particularly in the second half of the year.

Table 3.1

Merchandise trade volume and real gross domestic product, 2014-2017

(Annual percentage change)

	2014	2015	2016	2017
Volume of world merchandise trade^a	2.7	2.5	1.8	4.7
Exports				
Developed economies	2.1	2.3	1.1	3.5
Developing and emerging economies ^b	2.7	2.4	2.3	5.7
North America	4.6	0.8	0.6	4.2
South and Central America and the Caribbean	-2.1	1.8	1.9	2.9
Europe	1.6	2.9	1.1	3.5
Asia	4.5	1.5	2.3	6.7
Other regions ^c	-1.0	5.5	2.6	2.3
Imports				
Developed economies	3.4	4.3	2.0	3.1
Developing and emerging economies ^b	2.4	0.6	1.9	7.2
North America	4.3	5.4	0.1	4.0
South and Central America and the Caribbean	-2.7	-6.4	-6.8	4.0
Europe	3.0	3.7	3.1	2.5
Asia	3.7	4.0	3.5	9.6
Other regions ^c	0.5	-5.6	0.2	0.9
Real GDP at market exchange rates	2.7	2.7	2.3	3.0
Developed economies	2.0	2.3	1.6	2.3
Developing and emerging economies ^b	4.3	3.7	3.6	4.3
North America	2.6	2.7	1.5	2.4
South and Central America and the Caribbean	0.9	-0.9	-2.1	1.0
Europe	2.0	2.3	1.9	2.6
Asia	4.1	4.2	4.1	4.5
Other regions ^c	2.5	1.1	2.2	2.0

^a Average of exports and imports.^b Includes the Commonwealth of Independent States (CIS), including associate and former member states.^c Other regions comprise Africa, Middle East and the CIS.

Sources: WTO estimates for trade, consensus estimates for GDP.

Chart 3.2 shows seasonally adjusted quarterly merchandise export and import volumes by level of development. Year-on-year growth of imports was considerably stronger in developed economies in the second half of 2017 (4.3 per cent) than in the first half (2.3 per cent), while growth eased slightly in developing economies (6.0 per cent in the second half, down from 7.2 per cent in the first half). Growth in export volume in developed economies also increased from 3.4 per cent to 4.3 per cent between the first and second half of the year, while growth in developing economies picked up slightly from 5.2 per cent to 6.4 per cent.

The recovery in merchandise trade growth in 2017 was widely shared across regions. This was especially true for exports, where North America, South and Central America and the Caribbean, Europe and Asia all recorded strong growth. Asia and North America saw steady year-on-year growth in imports throughout 2017.

At the short term level, world merchandise exports grew faster in the second half of 2017. In particular, 4.2 per cent was recorded in the first half then 5.2 per cent in the second half due to the increase in growth in the latter part of the year in Europe (3.0 per cent in the

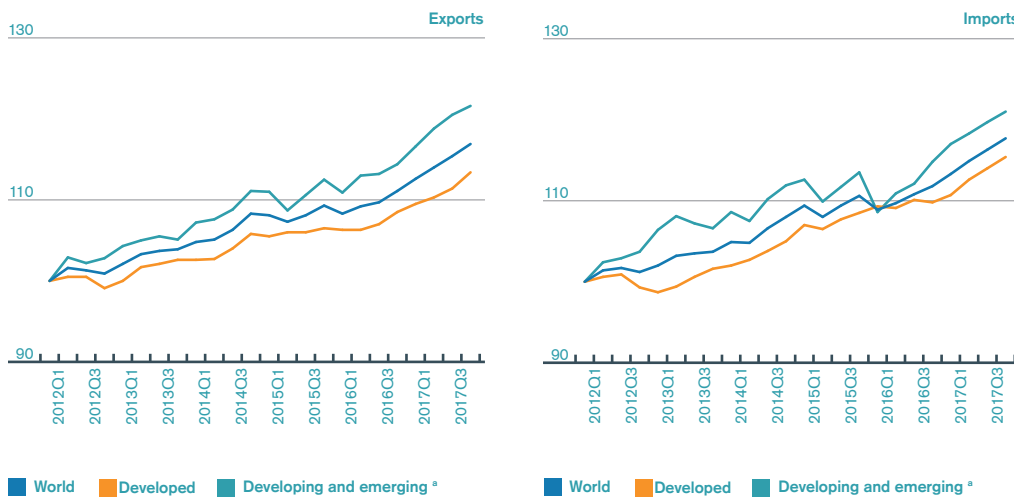
first half, 4.7 per cent in the second half), and especially in South and Central America and the Caribbean where growth turned to positive in the second half following negative growth in the first half (-0.07 per cent in the first half, 5.1 per cent in the second half). A decline, however, in growth rate was observed in North America

(4.6 in the first half, 2.7 in the second half) over the course of 2017. In terms of imports, growth accelerated in the second half of the year in Europe (1.4 per cent in the first half, 4.1 per cent in the second half) and South and Central America and the Caribbean (1.5 per cent in the first half, 6.6 per cent in the second half, see Chart 3.3).

Chart 3.2

World merchandise exports and imports by level of development, 2012 Q1 to 2017 Q4

(Volume index, 2012Q1=100)

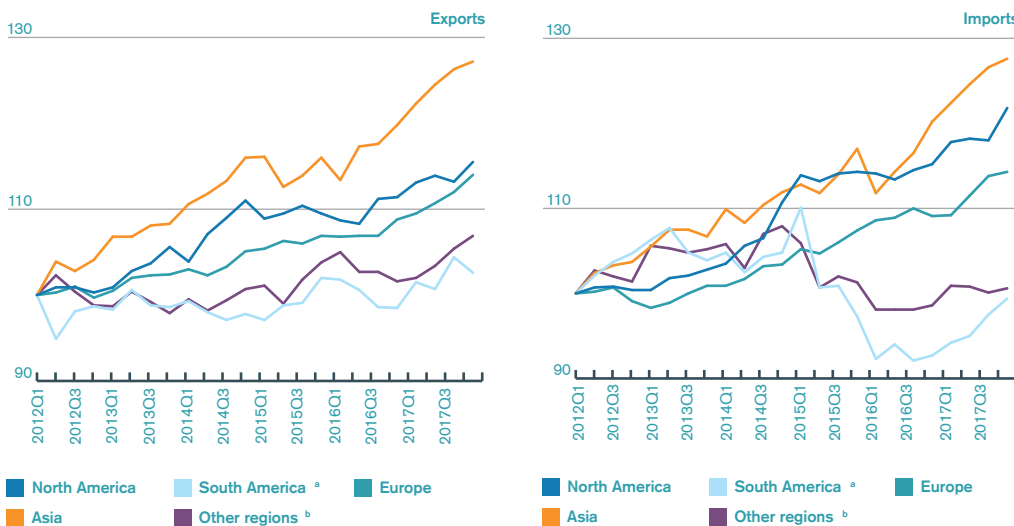


^a Includes the Commonwealth of Independent States (CIS), including associate and former member states.
Source: WTO-UNCTAD estimates.

Chart 3.3

Merchandise exports and imports by region, 2012 Q1 to 2017 Q4

(Volume index, 2012Q1=100)



^a Refers to South and Central America and the Caribbean.
^b Other regions comprise Africa, Middle East and the Commonwealth of Independent States (CIS), including associate and former member states.
Source: WTO-UNCTAD estimates.

5.2%
Year-on-year growth in volume of world merchandise exports in the second half of 2017.

6.6%
Year-on-year growth in merchandise import volume of South and Central America and the Caribbean in the second half of 2017.

Key contributors to export and import growth by economy

Asia recorded the highest growth in merchandise trade volume in 2017 for exports (6.7 per cent) and imports (9.6 per cent) following two years of modest expansion (see Table 3.1). North American exports and imports rebounded strongly in 2017, with growth of 4.2 per cent and 4.0 per cent respectively, after a very low growth rate in 2016. South and Central America and the Caribbean's import growth turned positive again in 2017 with an increase of 4.0 per cent, following three years of steep declines. Meanwhile, European trade flows continued to expand at a moderate pace, with growth of 3.5 per cent for exports and 2.5 per cent for imports in 2017.

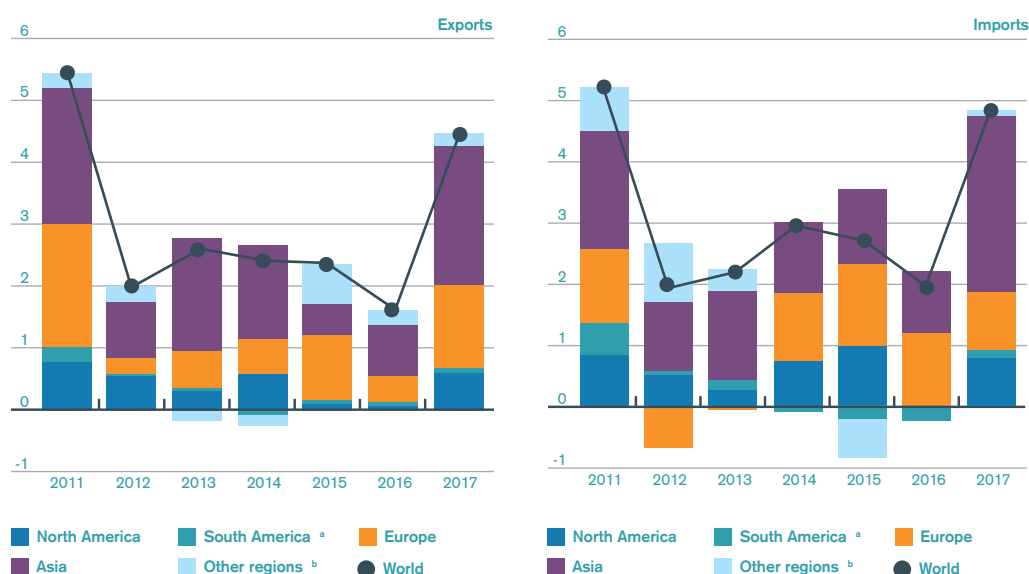
"Other regions" (encompassing Africa, the Middle East and the Commonwealth of Independent States, including associate and former members) saw steady export growth of 2.3 per cent in volume terms. This is due to the fact that demand for oil and other natural resources tends to be quite stable in quantity terms. Meanwhile, imports of these regions

increased slightly by 0.9 per cent, partly as a result of higher primary commodity prices, which raise export revenue in resource-exporting countries and allow more imports to be purchased. Energy prices have more than doubled since January 2016, but even at nearly US\$ 70 per barrel oil prices still remain below the US\$ 100 level that prevailed before the middle of 2014.

Chart 3.4 shows regional contributions to world trade volume growth. On the export side, Asia contributed 2.3 percentage points to global growth of 4.5 per cent in 2017, or 51 per cent of the total increase. Asia also contributed 2.9 percentage points to world import growth of 4.8 per cent, or 60 per cent of the overall increase.

North America made substantial positive contributions to global exports and imports as well, after adding very little to trade growth in 2016 as internal and external demand faltered. Europe added less to merchandise import growth in 2017 than it did in 2016, but South and Central America and the Caribbean made a positive contribution for the first time since 2013 as Brazil exited its recession.

Chart 3.4
Contributions to world trade volume growth by region, 2011-2017
(Annual percentage change)



2.9
percentage points. Asia's contribution to world growth in merchandise import volume in 2017.

^a Other regions comprise Africa, Middle East and the Commonwealth of Independent States (CIS), including associate and former member states.

^b Refers to South and Central America and the Caribbean.

Source: WTO-UNCTAD estimates, WTO Secretariat calculations.

Drivers of trade growth in 2017 by sector

Several factors contributed to the revival of world trade in 2017. These include increased investment spending, which is highly correlated with trade, and higher commodity prices, which raise incomes in resource-based economies and encourage investment in the energy sector, e.g. shale oil in the United States.

Chart 3.5 shows GDP growth by expenditure component in selected economies. Investment made a negative contribution to GDP growth in the United States in 2016 and negligible contributions to growth in Japan and the United Kingdom for the year, but all three saw investment rebound to varying degrees in 2017. Investment is important for trade because it is regarded as the most import-intensive component of GDP, followed by exports, private consumption and government spending.

The fluctuations in the United Kingdom may have been partly due to the uncertainty introduced by the UK referendum on withdrawal from the European Union. The long-run impact of Brexit on trade and investment remains to be seen.

Chart 3.5 also shows that China's economic rebalancing away from investment and

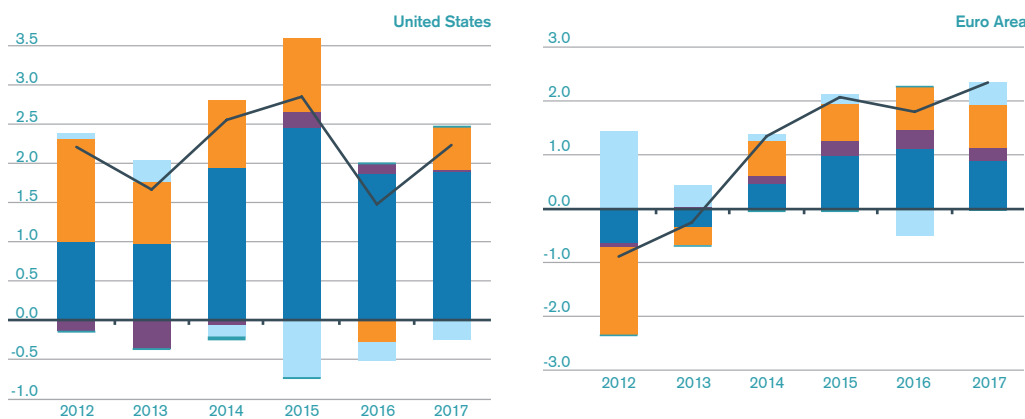
towards consumption is continuing, with investment accounting for roughly 32 per cent of GDP growth in 2017, down from 55 per cent in 2013. This development may have a negative impact on world trade growth as China imports fewer capital goods but the process has so far been gradual and not very disruptive to global trade.

Merchandise trade values boosted by commodity price rise

Dollar values of international trade flows are strongly influenced by exchange rates and commodity prices. After five years of decreasing or stagnating commodity prices, 2017 showed price hikes for energy (+26 per cent) and minerals and non-ferrous metals (+24 per cent) – see Chart 3.6, while import prices for agricultural raw materials and prices for food and beverages remained stable.

Despite these increases for two products, the price levels of all products remained under the level of 2010. Only food and beverages came close to the level of 2010 (94 per cent of the level of 2010 in 2017). Energy prices reached 70 per cent of 2010's level.

Chart 3.5
Contributions to GDP growth by expenditure component of selected economies, 2012-2017
 (Annual percentage change and percentage points)



(continued)

36%
 Percentage contribution of investment to GDP growth of the United States in 2017.

Chart 3.5
Contributions to GDP growth by expenditure component of selected economies, 2012-2017

(Annual percentage change and percentage points)

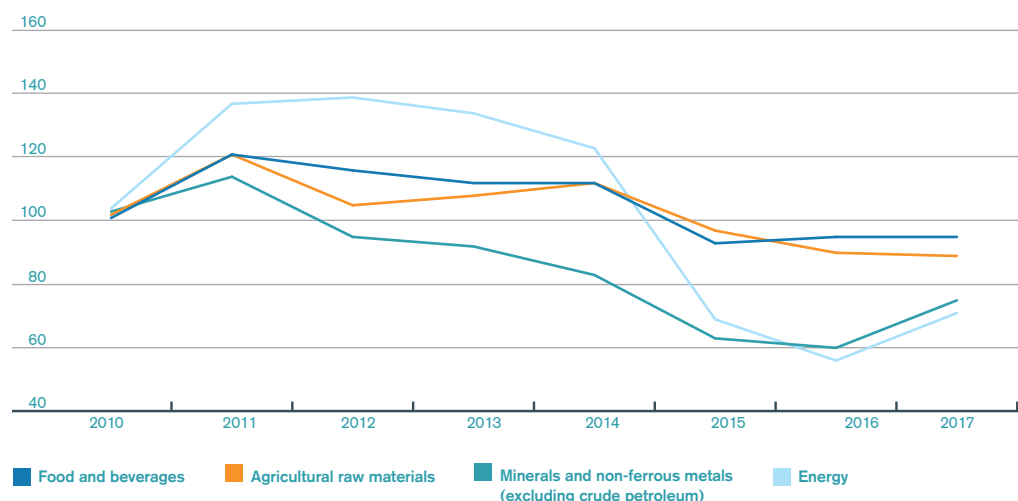


Sources: OECD Quarterly National Accounts for all countries except China, which was sourced from UN National Accounts Statistics through 2016 and the Economist Intelligence Unit for 2017.

35%
 Percentage contribution of consumption to GDP growth of Japan in 2017.

Chart 3.6
Fluctuations in international prices for goods, 2010-2017

(Index, 2010=100)



Source: IMF (2010-16), WTO estimates based on UNCTAD (2017).

26%
 Rise in world energy prices between 2016 and 2017.

At the short term level, despite daily ups and downs, the nominal effective exchange rate of the US dollar against a broad basket of currencies was little changed in 2017 (up less than 4 per cent) while prices for energy, food, raw materials and metals climbed between 7 per cent and 24 per cent (see Chart 3.7). The latter partly explains why growth in merchandise trade was so much stronger in value terms than in volume terms for the year.

The dollar value of world merchandise exports was up 11 per cent in 2017 to US\$ 17.73² trillion. World commercial services exports increased by 8 per cent to US\$ 5.28 trillion in the same period.

Chart 3.8 shows year-on-year growth in monthly merchandise exports and imports of selected major traders up to February 2018. Trade values have been growing at stable rates in most countries since 2017. China and the European Union show an uptick in growth in the early months of 2018 while India and Korea appear to be losing momentum.

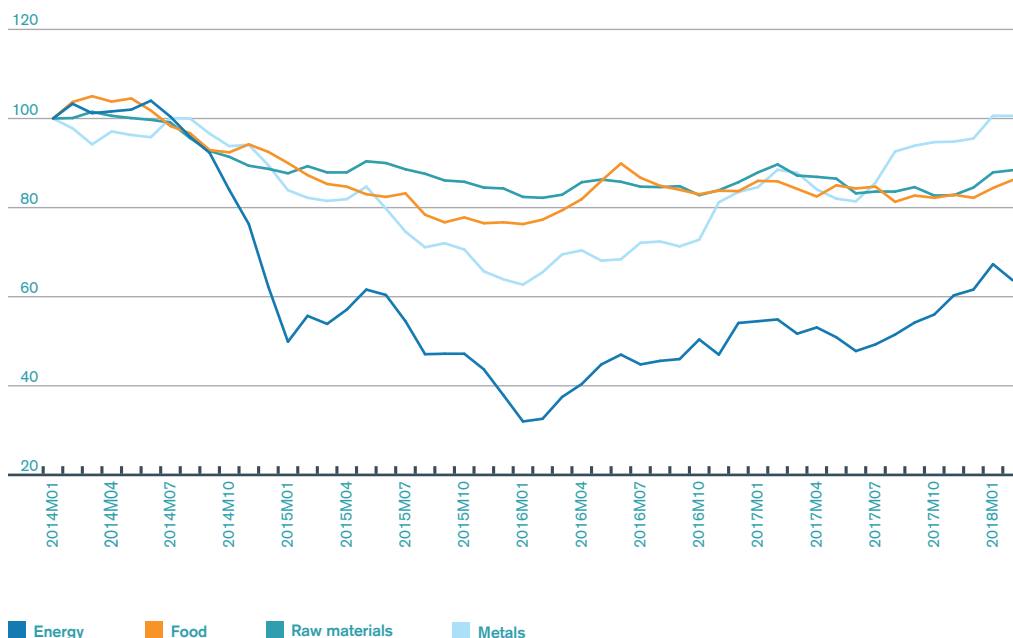
However, these figures should be viewed with caution as they may be strongly influenced by fluctuations in prices and exchange rates.

Growth in commercial services trade due to real growth, not exchange rates

In recent years exchange rates have significantly affected values and growth rates in commercial services trade, particularly in 2015 when a 5 per cent decline in world exports and a 9 per cent drop in Europe's exports were explained in part by the strong appreciation of the US dollar that year (11 per cent in real effective terms against a broad basket of currencies according to the Bank for International Settlements, and 20 per cent against the euro according to the United States Federal Reserve).

In contrast, growth in commercial services trade in 2017 largely reflected real increases since the dollar was relatively stable, appreciating less than 4 per cent for the year in real effective terms.

Chart 3.7
Prices of primary commodities, January 2014 to February 2018
(Indices, January 2014=100)



Source: World Bank Commodity Price Statistics.
Note: Weights based on 2002-04 developing economies' export values.

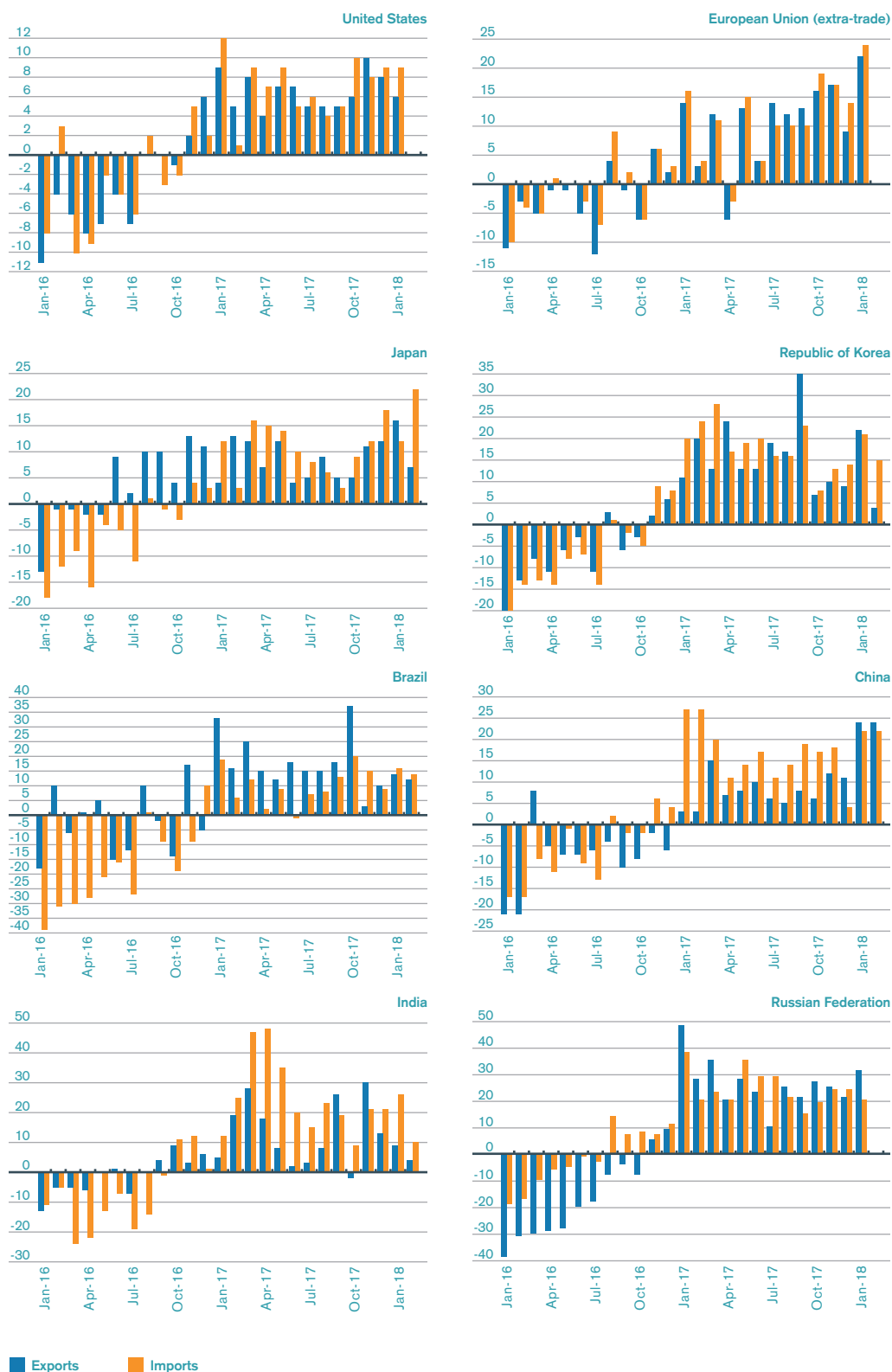
A climb in world prices of energy, food, raw materials and metals between 2016 and 2017.

² Includes significant re-exports or imports for re-exports

Chart 3.8

Merchandise exports and imports of selected economies, January 2016 to February 2018

(Year-on-year percentage change in current US\$ values)



^a January and February averaged to minimize distortions due to lunar new year.
Sources: IMF International Financial Statistics, Trade Data Monitor, national statistics.

World trade and output in early 2018

Continued strong trade growth to rest on policy choices

In light of recent trade policy developments, risks must now be considered to be tilted to the downside.

Increased use of restrictive trade policy measures and the uncertainty they bring to businesses and consumers could produce cycles of retaliation that would weigh heavily on global trade and output. Faster monetary tightening by central banks could trigger fluctuations in exchange rates and capital flows that could be equally disruptive to trade flows.

On the other hand, structural reforms and more expansionary fiscal policy may cause economic growth and trade to accelerate in the short run. The fact that all regions have been experiencing upswings in trade and output at the same time could also make recovery more self-sustaining and increase the likelihood of positive outcomes.

Mixed signals from monthly container shipping, export orders

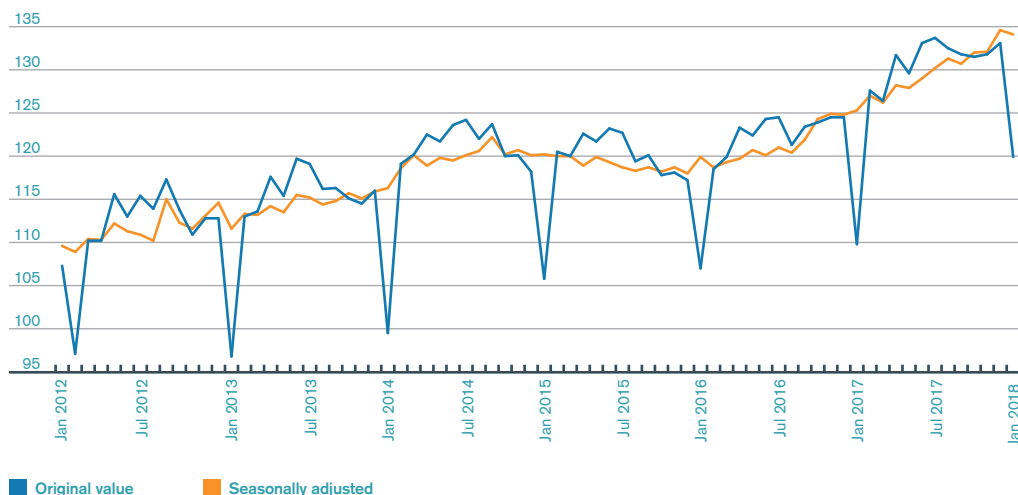
Some leading indicators of merchandise trade continued to point in a generally positive direction in the first quarter of 2018 while others have taken a negative turn. For example, an index of container port throughput was close to its highest level ever recorded in February (see Chart 3.9), suggesting strong trade growth at least up to February.

On the other hand, a measure of global export orders derived from purchasing managers' indices dipped in March, falling to 51.8, its lowest level since December 2016. A value above 50 still indicates expansion but the recent erosion in the index could be attributed to rising anti-trade rhetoric (see Chart 3.10). Export orders are a strong short-run predictor of merchandise trade volume growth, preceding world trade figures by about one quarter.

Chart 3.9

RWI/ISL container throughput index, January 2012 - February 2018

(Indices, 2010=100)



Source: Leibniz Institute for Economic Research (RWI) and the Institute of Shipping Economics and Logistics (ISL).

7%
Year-on-year growth of container throughput in February 2018.

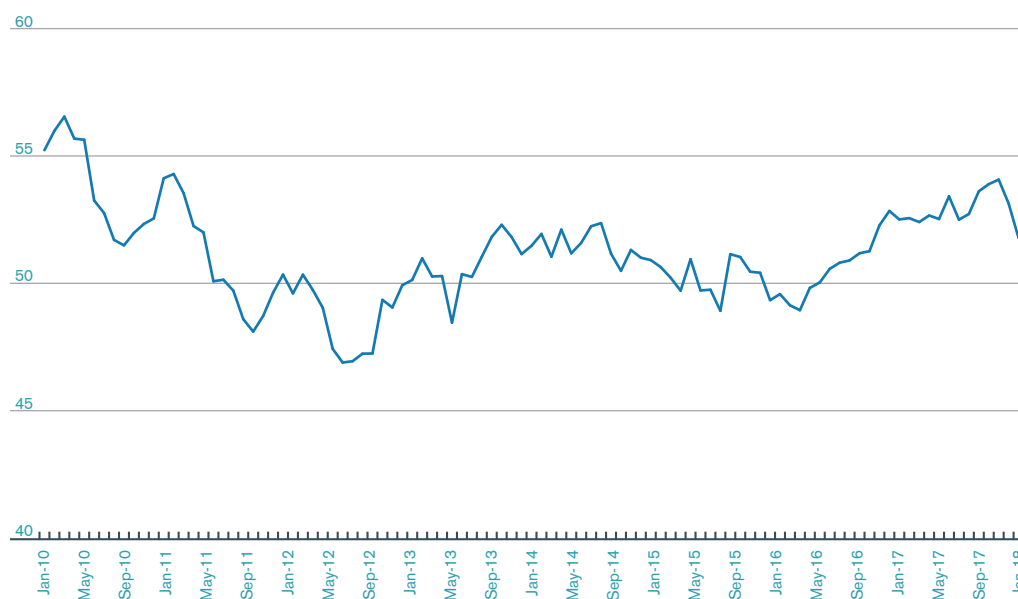
Impact of increased uncertainty on investment, trade recovery

Another potential major risk is an unanticipated hike in inflation in one or more countries, which could cause monetary authorities to raise interest rates precipitously and cause economic growth to slow, with negative consequences for trade. The United States Federal Reserve is already in the process of raising interest rates closer to historical norms while the European Central Bank is moving closer to phasing out its own stimulus measures. Economic forecasters generally expect monetary authorities to manage these challenges successfully but, with less room to manoeuvre, some financial volatility could come to the fore if conditions change.

The increased level of policy uncertainty is illustrated by Chart 3.11, which shows an index based on the frequency of phrases linked to economic uncertainty in press accounts. This would encompass all types of policy uncertainty, including monetary, fiscal and trade policy.

Planned investments in particular could be postponed or curtailed by rising economic uncertainty. This is important because investment is highly correlated with world trade due to its high import content. An escalating cycle of retaliation may yet be avoided if negotiations manage to diffuse tensions but this is not guaranteed.

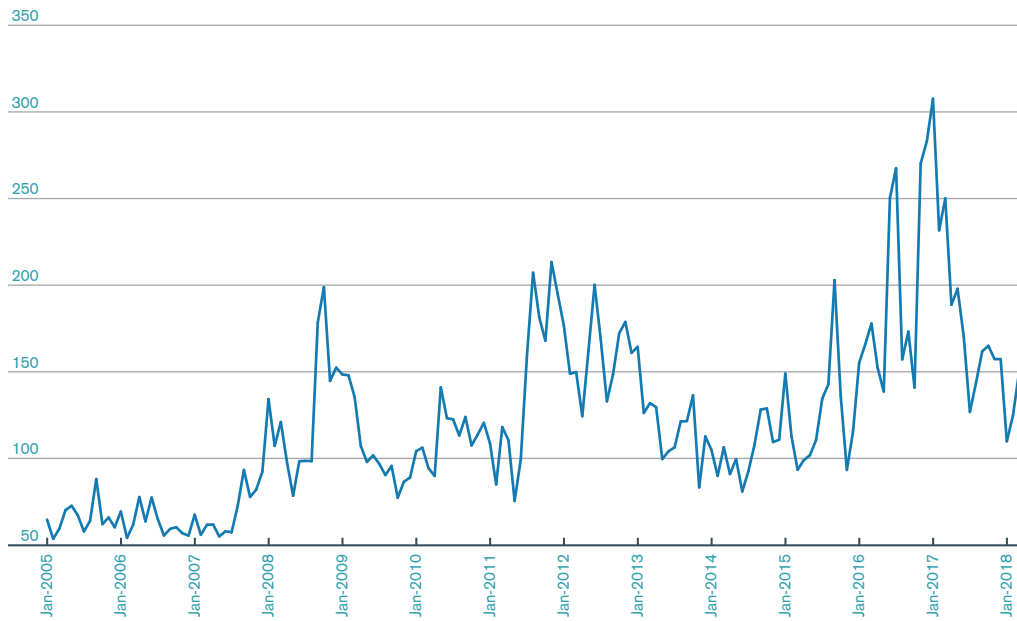
Chart 3.10
Global PMI new export orders index, January 2010 to March 2018
 (Index, base=50)



51.8
 The value of new export orders index in March 2018 (down from 54.1 in January).

Note: Values greater than 50 indicate expansion while values less than 50 denote contraction.
 Source: IHS Markit.

Chart 3.11
Global economic policy uncertainty, January 2005 to March 2018
 (Index, mean of 1997-2015=100)



Source: PolicyUncertainty.com

150
 Value of policy uncertainty index in March 2018 (long-run average = 100).