



GLOBAL TRADE

UPDATE

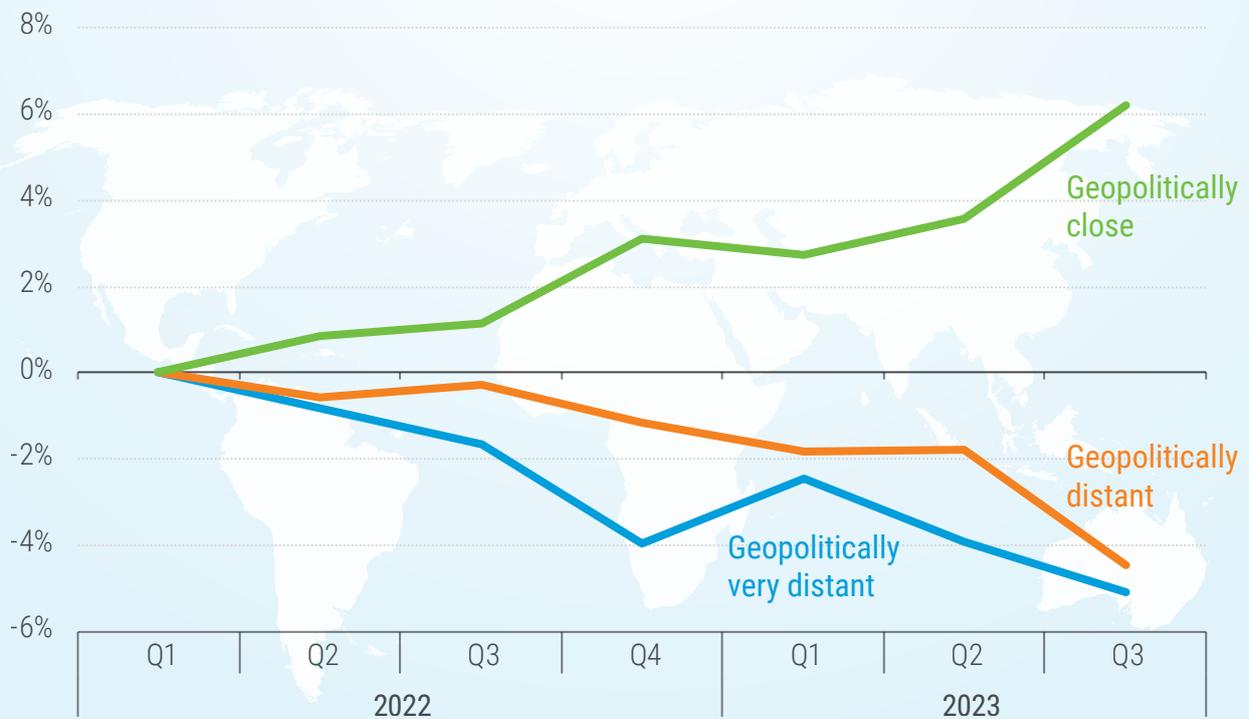
DECEMBER 2023

Global trade set to contract by 5 per cent in 2023

- Global trade in goods to decline by nearly US\$2 trillion in 2023, but trade in services to expand by US\$500 billion.
- Exports from developing countries underperformed, South-South trade sharply decreased, and East Asia trade remained below average.
- Geopolitical trends, including declining interdependence between China and the United States, are having a growing impact on global trade.
- Trade growth remains subdued in Q4 2023, indicating persisting challenges. Outlook for 2024 still uncertain but overall pessimistic.

Global trade patterns take a geopolitical turn

Average change in bilateral trade with each group since Q1 2022



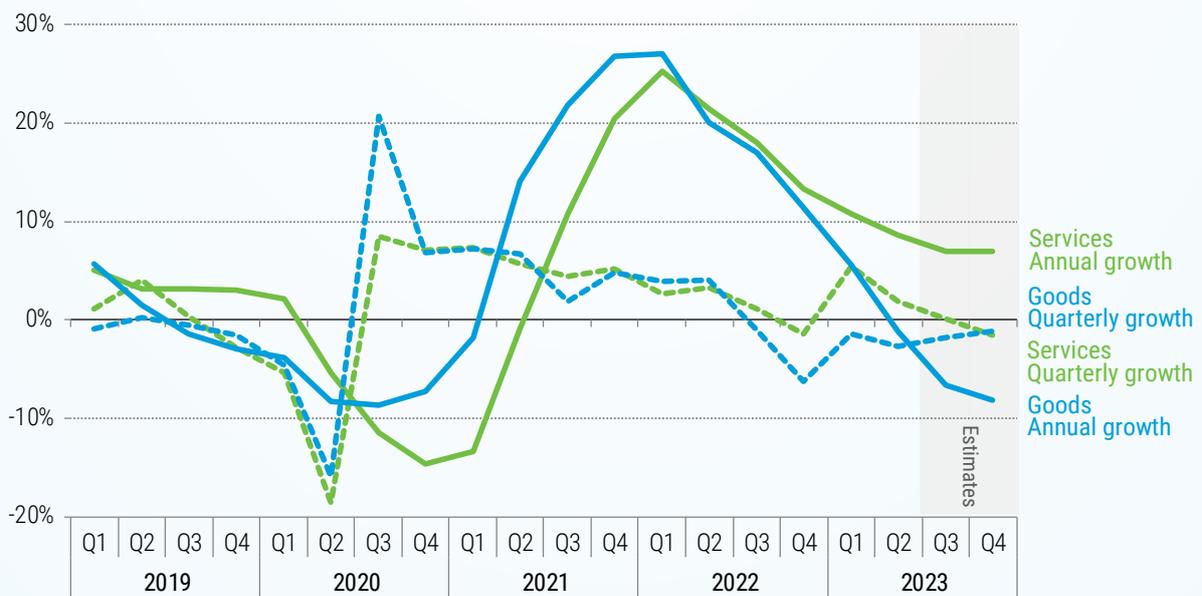
Source: UNCTAD calculations based on national statistics.

Note: Bilateral trade is categorized into 3 groups according to the geopolitical closeness index utilizing UN voting records as a metric. The figure then plots the change in the trade share of each of these groups taking Q1 2022 as basis. Data is weighed averaged and excludes intra European Union. Data excludes services.

Global trade trends

Global trade has experienced negative growth since mid-2022, primarily driven by a substantial decline in goods trade, which continued to contract in the first three quarters of 2023. In contrast, trade in services has displayed more resilience and its growth remained positive throughout the same period. Overall, the Global Trade Update projects that global trade in 2023 could drop to less than US\$ 31 trillion, representing a contraction of about US\$ 1.5 trillion (or 4.5 per cent) compared to the 2022 record high. Specifically, trade in goods is expected to contract by nearly US\$ 2 trillion in 2023, or 7.5 per cent, while services trade should gain about US\$ 500 billion, or 7 per cent.

Trade growth: strongly negative for goods but still positive for services



Sources: UNCTADstat; UNCTAD calculations based on national statistics.

Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. Annual growth refers to the last four quarters. Figures for Q3 2023 are estimates.

Even though the value of traded goods decreased in 2023, the slightly positive trend in the volume of international trade suggests a resilient global demand for imported products.

Trade volumes show marginal increases in 2023

Index Q1 2019 = 100



Source: UNCTADstat; UNCTAD calculations based on national statistics.

Summary and outlook

Global trade has experienced a decline throughout 2023, primarily influenced by diminished demand in developed nations, underperformance in East Asia economies, and a decrease in commodity prices. These factors collectively contributed to a notable contraction in the trade of goods. In contrast, trade in services witnessed growth for the majority of 2023, a surge attributed to its delayed recovery from the COVID-19 downturn. However, the rebound of the services sectors slowed down considerably during the second half of 2023. Trade downturn has been more marked for developing countries with South-South trade underperforming throughout the majority of 2023. These trends can be attributed not only to the downturn in the East Asia regions but also to diminished trade between Asian economies. Looking ahead to 2024, the forecast for global trade remains highly uncertain and generally pessimistic. While certain economic indicators hint at potential improvements, persistent geopolitical tensions, high levels of debt, and widespread economic fragility are anticipated to exert negative influences on global trade patterns.

Some of the most relevant factors influencing global trade include:

- ***Positive economic growth, but with significant disparities***

Global economic forecasts remain steady but still fall below historical averages. Furthermore, substantial disparities persist among countries and regions in terms of anticipated economic outlooks for 2024. Such disparities will influence patterns of trade.

- ***High interest rates and weakening industrial output***

Economic activity is being hindered by persistently high interest rates in several economies. The latest Purchasing Managers' Index (PMI) readings for China and the United States suggest a subdued outlook for industrial output in the coming months.

- ***Commodity prices volatility***

Regional conflicts and persistent geopolitical tensions are likely to add further uncertainty to commodity markets. Additionally, the increasing importance of securing critical minerals for the energy transition is expected to affect prices and further contribute to market volatility in these commodities.

- ***Lengthening of supply chains***

Global trade is being influenced by the way supply chains respond to shifts in trade policy and geopolitical tensions, with notable impacts observed in supply linkages between China and the United States. Companies from other regions, particularly in East Asian economies and Mexico, have had opportunities to become more integrated into the supply chains affected by geopolitical concerns.

- ***Increase in subsidies and trade restrictive measures***

The resurgence in the use of industrial policy and the urgency of meeting climate commitments are driving changes in trade policies, both in the form of tariffs and non-tariff measures. Use of trade restrictive measures has risen in 2023. These inward-looking policies are anticipated to impede the growth of international trade.

- ***Low demand for container shipping, and increasing demand for raw materials***

There is currently low demand for container shipping, as reflected by the lagging performance of the Shanghai Containerized Freight Rate Index. Conversely, the Baltic Dry Index has exhibited a positive trend in the second half of 2023, indicating a rise in global demand for raw materials.

Trade trends in the major economies

Merchandise trade across major economies has experienced a consistent downturn over the past four quarters. However, the Russian Federation recorded annual positive growth in imports, while Brazil and the European Union have shown positive trends in exports. Quarter-over-quarter statistics indicate a persisting negative trend, with all major economies except the United States reporting declines in either imports or exports, or both. The comparison of annual and quarterly growth suggests some improvement in trends for several economies, however the overall baseline remained negative in Q3 2023.

Merchandise trade has decreased across major economies

| GOODS (Q3 2023) | Quarterly growth | | Annual growth | |
|--------------------|------------------|---------|---------------|---------|
| | Imports | Exports | Imports | Exports |
| Brazil | ↓ 5% | ↑ 2% | ↓ 7% | ↑ 4% |
| China | ↓ 3% | ↓ 5% | ↓ 7% | ↓ 6% |
| India | 0% | ↓ 2% | ↓ 6% | ↓ 7% |
| Japan | ↓ 5% | ↓ 1% | ↓ 7% | ↓ 5% |
| Republic of Korea | ↓ 5% | 0% | ↓ 9% | ↓ 11% |
| Russian Federation | ↓ 7% * | 0% * | ↑ 10% * | ↓ 24% * |
| South Africa | ↓ 6% | ↑ 1% | 0% | ↓ 11% |
| United States | 0% | ↑ 2% | ↓ 4% | 0% |
| European Union | ↓ 4% | ↓ 1% | ↓ 8% | ↑ 3% |

Service-related data is reported with a one-quarter lag compared to merchandise data. On an annual basis, services trade has increased in most economies between Q2 2022 and Q2 2023. However, quarterly growth Q2 2023 has been lower compared to the annual averages, signaling that the increasing trend for the service sector may be reaching a plateau.

| SERVICES (Q2 2023) | Quarterly growth | | Annual growth | |
|--------------------|------------------|---------|---------------|---------|
| | Imports | Exports | Imports | Exports |
| Brazil | ↑ 5% | ↑ % | ↑ 13% | ↑ 18% |
| China | ↑ 5% | ↓ 3% | ↑ 10% | ↓ 10% |
| India | ↑ 6% | 0% | ↑ 13% | ↑ 20% |
| Japan | ↓ 2% | ↑ 5% | ↑ 7% | ↑ 11% |
| Republic of Korea | ↑ 2% | ↑ 6% | ↑ 6% | ↓ 5% |
| Russian Federation | ↑ 12% * | ↑ 1% * | ↓ 1% * | ↓ 23% * |
| South Africa | ↑ 3% | ↓ 1% | ↑ 17% | ↑ 24% |
| United States | ↑ 1% | ↑ 3% | ↑ 11% | ↑ 11% |
| European Union | ↑ 4% | ↑ 6% | ↑ 7% | ↑ 5% |

Source: UNCTAD calculations based on national statistics.

Note: Quarterly growth rates are relative to the previous quarter. Annual growth refers to the last four quarters. Data is seasonally adjusted. Data excludes intra-European Union trade. * denotes estimates.

Regional trade trends in Q3 2023

On average, the recent decline in global trade has been more marked for developing countries. On an annual basis, imports and exports of developing countries declined by an average of 6 and 7 per cent, respectively. When East Asian economies are excluded, yearly trade declines for developing countries were lower. Figures on a quarter over quarter basis indicate more similar patterns across developing and developed countries averages. On an annual basis, South-South trade demonstrates a notable decrease, yet preliminary data for Q3 2023 indicate a milder decline.

The decline in global trade is driven by developing countries and South-South trade

Developing and developed countries' trade growth in goods during Q3 2023

| | Quarterly growth | | Annual growth | |
|--|------------------|---------|---------------|---------|
| | Imports | Exports | Imports | Exports |
| Developed countries | ↓ 2% | ↓ 1% | ↓ 4% | ↓ 1% |
| Developing countries | ↓ 1% | ↓ 2% | ↓ 6% | ↓ 7% |
| South-South Trade | 0% | | ↓ 8% | |
| Developing countries (excluding East Asia) | ↓ 1% | ↓ 1% | ↓ 3% | ↓ 5% |
| South-South Trade (excluding East Asia) | 0% | | ↓ 8% | |

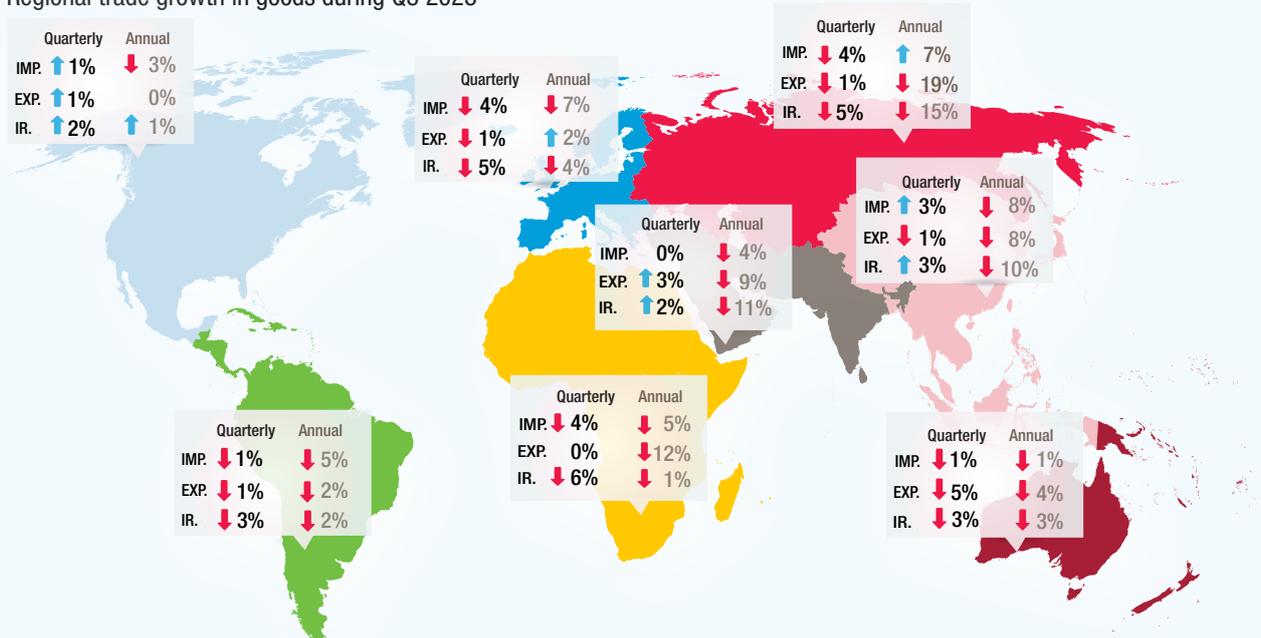
Source: UNCTAD estimates based on national statistics.

Note: Quarterly growth rates are relative to the previous quarter. Annual growth refers to the last four quarters. Data is seasonally adjusted. Data does not include trade in services.

Most regions have undergone negative trade growth, both on annual and quarterly bases. Notably, the North American region has experienced better performance, particularly in intra-regional trade. In contrast, East Asian trade exhibited notable weakness throughout 2023, with some signs of recovery observed in Q3 2023. The region comprising the Russian Federation and Central Asia, and the African region show a strong decline in exports, especially on an annual basis. During the last quarter, intra-regional trade was particularly weak in Africa, Europe, and in the region comprising the Russian Federation and Central Asian economies.

Resilient Trade in North America Amid Underperformance in East Asia and Africa

Regional trade growth in goods during Q3 2023



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Source: UNCTAD estimates based on national statistics.

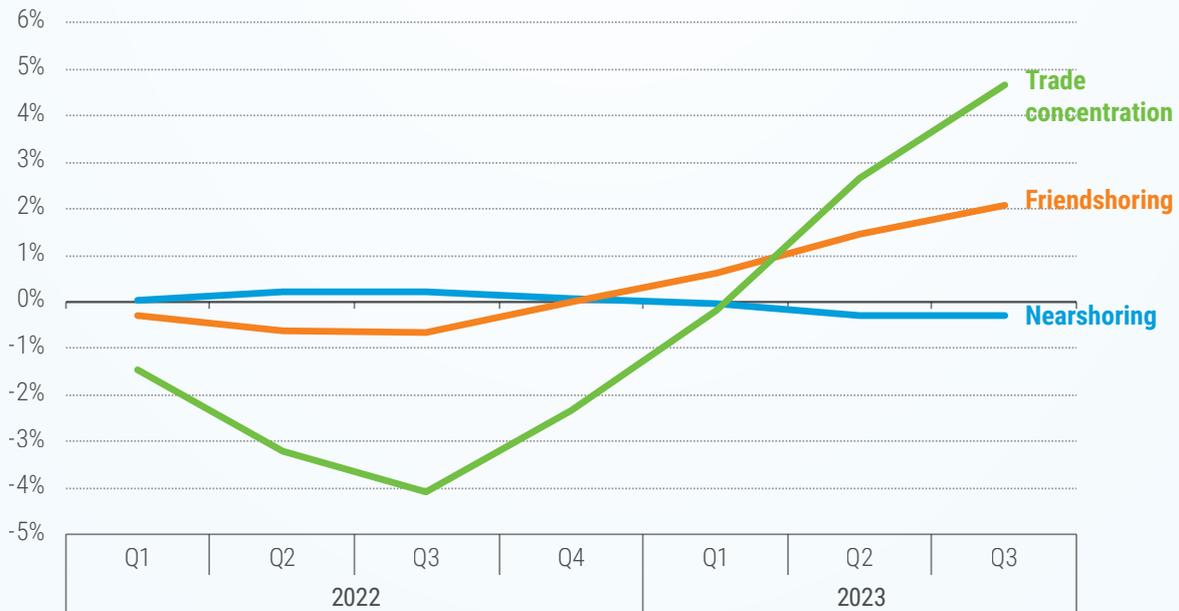
Note: Quarterly growth rates are relative to the previous quarter. Annual growth refers to the last four quarters. IR denotes intra-regional. Data is seasonally adjusted. Data does not include trade in services. Imports and exports exclude intra-EU trade.

Global trade dynamics and trade dependence

Since 2022, the geographical proximity of international trade has stayed relatively consistent, showing minimal nearshoring or far-shoring trends. However, there has been a noticeable rise in the political proximity of trade since the latter part of 2022. This suggests a shift in bilateral trade preferences toward countries with similar geopolitical stances (friend-shoring). Concurrently, there has been an overall decrease in the diversification of trade partners, indicating a concentration of global trade within major trade relationships.

Shifting Dynamics: Global trade becoming more concentrated and geopolitically close

Annual change relative to 2021 (per cent)



Source: UNCTAD estimates based on national statistics.

Note: Nearshoring is calculated as reverse of trade-weighted average distance in km. Friendshoring is calculated as trade-weighted political proximity as measured by the United Nations voting patterns. Trade concentration is calculated based on the Herfindahl concentration index.

The war in Ukraine, the sanctions on the Russian Federation, and the de-risking in the United States-China trade relationship are playing a significant role in shaping key bilateral trade trends. These factors not only impact the economies directly involved but also indirectly influence trade dynamics of other economies.

Changes in bilateral trade dependences Q3 2023

| Increasing trade dependence | | | Decreasing trade dependence | | |
|-----------------------------|----------------|---------------|-----------------------------|--------------------|---------------|
| Dependent | Depending on | Annual change | Dependent | Depending on | Annual change |
| Ukraine | European Union | 10.0% | Russian Federation | European Union | -6.4% |
| Russian Federation | China | 8.0% | Taiwan Province of China | China | -2.2% |
| Kazakhstan | European Union | 2.9% | United States | China | -1.8% |
| Iraq | China | 2.8% | Viet Nam | United States | -1.4% |
| Australia | China | 2.5% | Republic of Korea | China | -1.4% |
| Viet Nam | China | 2.3% | Japan | China | -1.2% |
| Saudi Arabia | European Union | 2.2% | Türkiye | Russian Federation | -1.2% |
| Taiwan Province of China | European Union | 1.5% | Chile | China | -1.1% |
| Taiwan Province of China | United States | 1.3% | China | United States | -1.0% |
| United States | European Union | 1.3% | European Union | Russian Federation | -0.7% |

Source: UNCTAD estimates based on national statistics.

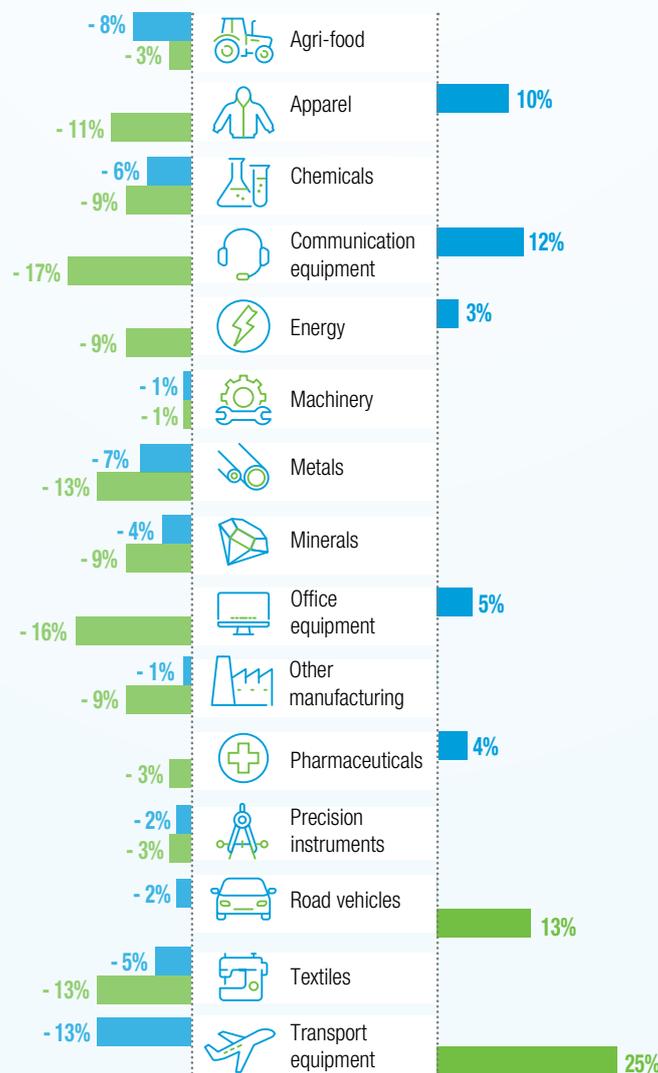
Note: The dependence of an economy on another is calculated as the ratio of their bilateral trade over the total trade of the dependent economy. Change is computed as a four quarter average of this ratio relative to the same period in the previous year.

Global trade trends at the sectoral level in Q3 2023

Global trade trends over the past four quarters were negative for most sectors. Annual statistics indicate that the decline in global trade was driven by lower trade in the office and communication equipment, as well as textiles and apparel sectors. Conversely, global trade was supported by a positive trend in the road vehicles and transport equipment sectors. On a quarterly basis, most sectors experienced a decline in trade, although apparel, communication, and office equipment sectors rebounded from previous low. In contrast, trade trends remained negative in agri-food, textiles, metals, and minerals. Notably, the positive trajectory observed in the trade of transport equipment and motor vehicles sectors observed in the annual statistics reversed during Q3 2023.

Among general declines, the trade of apparel and communication equipment rebounded in Q3 2023

■ Quarterly growth
■ Annual growth



Source: UNCTAD estimates based on national statistics of China, European Union and the United States.

Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. Annual growth refers to the last four quarters.



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