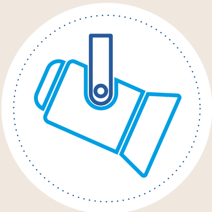
IN THE SPOTLIGHT

Trade in a year of polycrisis

World trade expanded at a moderate pace in 2022, but this growth was constrained by several related factors, including the war in Ukraine, high food and energy prices, tighter monetary policies, supply chain disruptions and COVID-19. Trade growth in 2023 is expected to be subdued but a reduction in inflationary and supply chain pressures could raise prospects for trade and output.



Merchandise trade

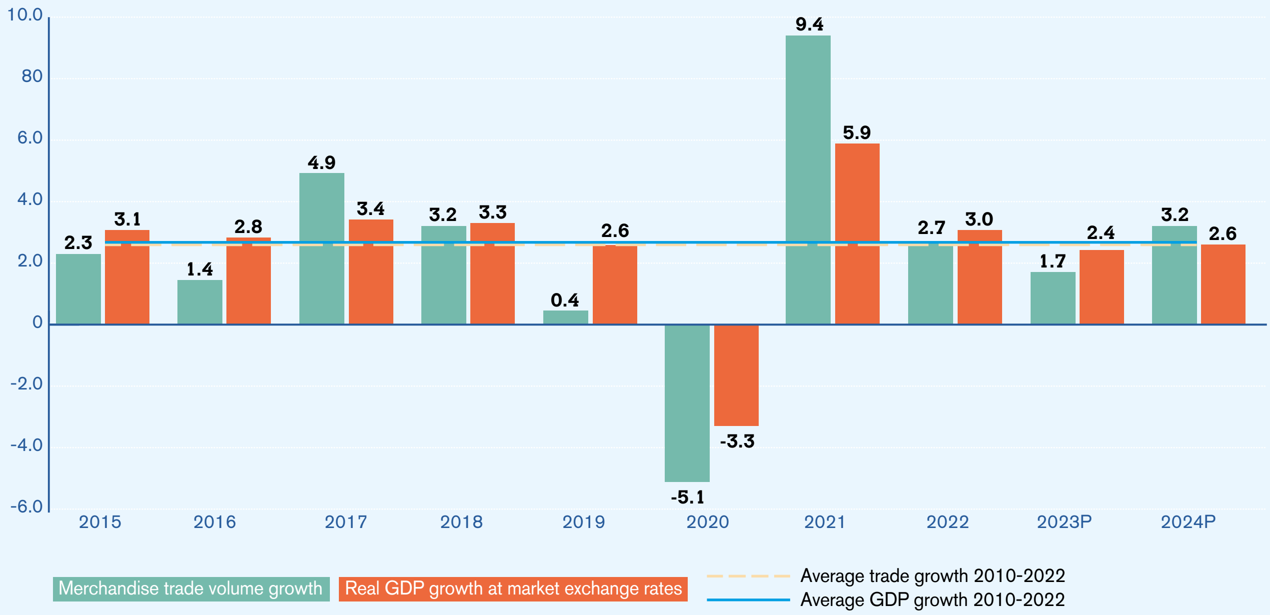
The volume of world merchandise trade grew 2.7 per cent in 2022, slightly weaker than WTO projections (see Figure 1). Trade and output growth for the year were dampened by several adverse economic factors, which collectively came to be regarded as a “polycrisis”.

The largest of these crises was the outbreak of war between Russia and Ukraine in late February, which has caused immense human suffering and extensive destruction of productive capacity in Ukraine and led to the imposition of broad economic and trade sanctions against Russia.

In a report on the crisis issued in April 2022, the WTO noted that Russia and Ukraine were key suppliers of essential goods, notably food and energy. Russia and Ukraine together accounted for 25 per cent of global wheat trade in 2019, while Russia alone made up 9.4 per cent of trade in fuels, including a 20 per cent share in natural gas trade. Countries in the Middle East and Africa were most vulnerable to the conflict in terms of food supply, with many importing around half of their grain needs from Ukraine, Russia or both.

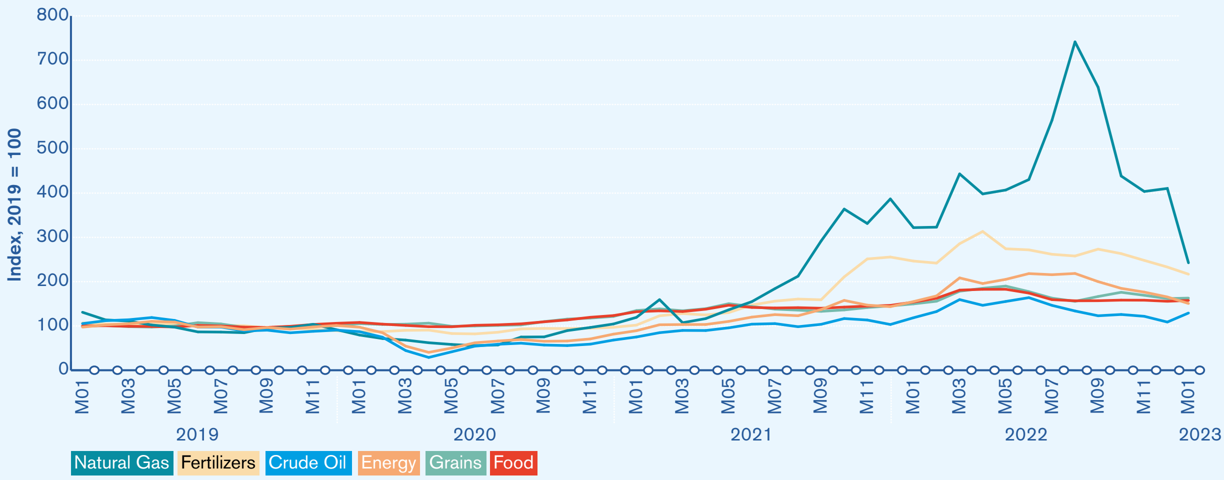
The volume of world merchandise trade grew 2.7 per cent in 2022.

Figure 1: World merchandise trade volume and GDP growth, 2015-2024



Note: 2023 and 2024 are projections.
Sources: WTO for merchandise trade volume and consensus estimates for GDP.

Figure 2: World average prices for primary commodities, January 2019 - December 2022
Index 2019=100 and US$ per million British thermal units (Btu)



Source: World Bank.

An updated WTO report issued on 23 February 2023 found that global trade remained resilient in 2022 and performed better than initially feared as economies most affected by the war found alternative sources of supply. Prices for goods affected by the war also rose less than expected. However, Ukrainian exports collapsed by 30 per cent in value terms. Russia's exports expanded by 15.6 per cent because of an increase in prices but its export volume appeared to have declined slightly.

Reduced supplies, or the threat of reduced supplies, of essential goods caused commodity prices to spike in 2022, with food prices rising 18 per cent year-on-year (65 per cent compared to 2019 – see Figure 2). Energy prices also jumped 58 per cent in 2022 (93 per cent compared to 2019), including a dramatic rise in natural gas. The curtailing of gas shipments between Russia and the European Union disproportionately affected energy prices in Europe, but efforts to find alternative sources of supply raised prices for liquified natural gas (LNG) elsewhere. Gas prices in North America, with its plentiful local production, remained low compared to the rest of the world.

Trade volume growth in 2022 was sustained by strong consumer demand in North America and Europe.

High energy prices fed into a rise in general inflation, which had already picked up following the pandemic, partly due to supply chain disruptions and partly as a result of expansionary fiscal and monetary policies in many economies, including the United States and the European Union. Central banks around the world began to raise interest rates in an effort to rein in inflation, but this could weigh on business and consumer spending in 2023 and beyond.

Measures to combat COVID-19 were relaxed in most economies over the course of 2022, but strict controls remained in some places, most notably China. Intermittent outbreaks of the virus disrupted production and shipping throughout the year, weighing on global trade volumes. China announced in early 2023 that its zero-COVID-19 policies were being wound down, boosting prospects for global trade flows and economic output.

Trade volume growth in 2022 was sustained by strong consumer demand in North America and Europe, with imports growing faster than world trade overall (6.0 per cent and 5.2 per cent, respectively). In contrast, imports of Asian economies contracted slightly, falling 0.4 per cent. On the export side, most regions recorded moderate growth. Exceptions included the Middle East, where exports were up 9.9 per cent, and the Commonwealth of Independent States (CIS) (including certain former and associate members), where the volume of exports fell 4.9 per cent.

Merchandise trade in nominal US dollar terms grew much faster than trade in volume terms last year due to rising export and import prices. The value of world trade as measured by the average of exports and imports increased 12 per cent in 2022, bringing the value of world trade to US$ 25.3 trillion.

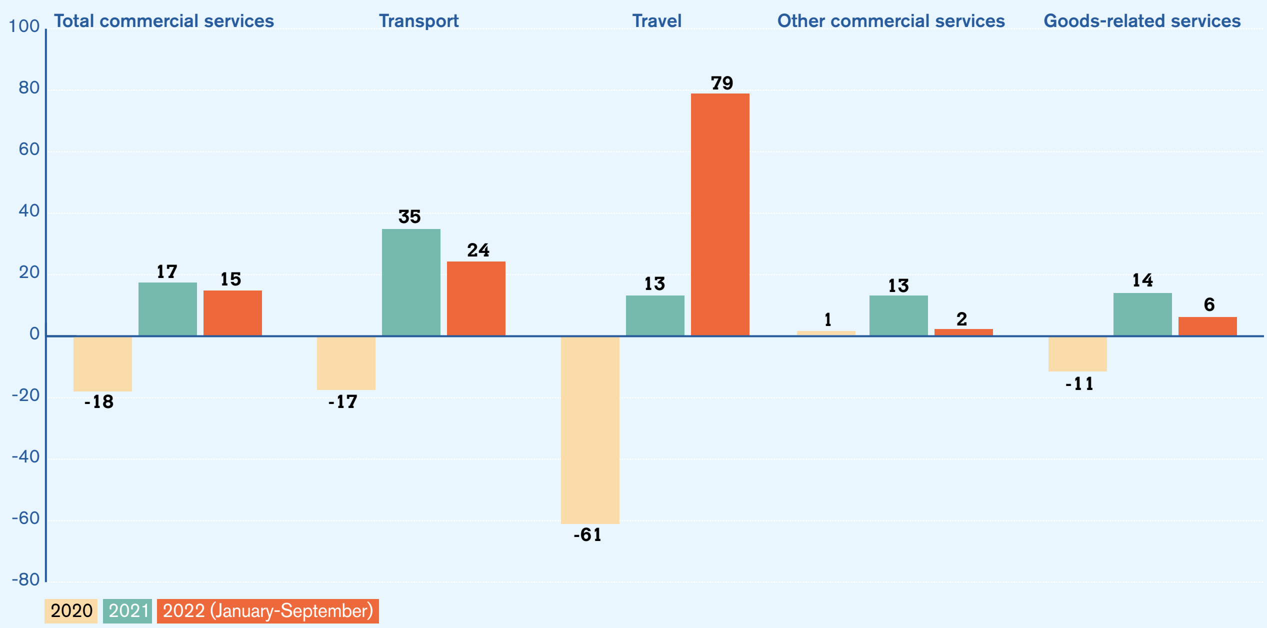
The value of trade in fuels and mining products was up around 59 per cent year-on-year, while trade in agricultural products rose 19 per cent, and manufactured goods trade increased by 21 per cent.

Services trade

Overall, commercial services trade recorded a 15 per cent increase in terms of US dollar values in 2022, led by a 79 per cent jump in spending on travel (see Figure 3), due to a lifting of COVID-19 travel restrictions. Growth of transport services also remained strong, rising 24 per cent year-on-year. Meanwhile, the categories of other commercial services (covering sectors ranging from construction to financial services) and goods-related services grew 2 per cent and 6 per cent, respectively, barely keeping pace with core inflation in leading economies.

Commercial services trade recorded a 15 per cent increase in terms of US dollar values in 2022.

Figure 3: Year-on-year growth in world commercial services trade, 2020-22
Percentage change in US$ values



Source: WTO-UNCTAD estimates in cooperation with the International Trade Centre (ITC).
Note: Data refer to average of exports and imports.

Unlike in 2021, when the value of transport services was boosted by a rise in shipping rates, most growth in transport services in 2022 was probably due to a combination of increased volume and rising fuel costs being passed on to consumers because shipping rates fell 75 per cent.

Outlook for trade in 2023

WTO economists revised their trade forecast in October 2022, raising their estimate for world merchandise trade volume growth in 2022 to 3.5 per cent from 3.0 per cent in April, and sharply lowering their estimate for 2023 to 1.0 per cent from 3.4 per cent previously. These results were broadly confirmed by the WTO's new Global Trade Outlook and Statistics in April 2023, which found trade volume growth of 2.7 per cent for the whole of 2022 and projected a slightly improved but still below-average increase of 1.7 per cent for 2023. The weak outlook for 2023 presumed that high inflation and rising interest rates would sap global GDP growth and reduce demand for traded goods in leading economies.

The WTO foresees below-average trade growth of 1.7% for 2023.

By December, commodity prices had receded from their recent peaks, although they remained high by historical standards. Purchasing managers' indices (PMIs), based on surveys of businesses around the world, also showed an uptick in export orders at the start of 2023, possibly signalling the beginning of a recovery phase in trade following a larger-than-expected decline in the fourth quarter of 2022. The PMIs also showed falling input and output prices, shorter delivery times and a recovery of inventories, suggesting easing of inflationary pressures and improved supply chain conditions. However, higher interest rates have revealed weaknesses in banking systems that could stoke financial volatility if left unchecked, which would in turn weigh on trade growth. Governments and regulators will need to be alert to these and other risks in 2023.

Shipping rates fell 75% in 2022.