Data in real terms show that world gross domestic product (GDP) and world merchandise exports not only move in tandem, but that export growth exceeds GDP growth. Growth of world GDP is associated with an even higher growth in international trade. Declines also show the same tendency as is shown by Chart I.1 on the volatility of world merchandise trade and GDP from 1960 to 2008.

The income elasticity of manufactured exports is higher than that of total merchandise exports. In other words, trade in manufactured goods responds more than merchandise exports to changes in income. From 1960 to 2008, the average elasticity for total merchandise was 1.7, but for manufactured goods it was 2.1.

It is important to bear in mind that merchandise trade flows are recorded on a “gross basis” whereas GDP measures the value added during the production of goods and services (i.e. output less intermediate consumption). This means in particular that traded intermediate products are only taken into account in GDP through the additional value produced at each step of the production process. In merchandise trade data, intermediate goods are counted at full value each time they cross the frontier. A higher number of cross-border movements in the case of intermediate manufactured goods may therefore result in a higher growth of merchandise trade compared to GDP. The emergence of international supply chains increases this phenomenon.
What is the importance of trade in intermediate goods?

Increasing trade in intermediate goods is one of the major reasons for world trade experiencing larger changes than world GDP. Each time goods cross the frontier, an international transaction is recorded. When international supply chains include a number of tasks – as is the case for transport equipment and electronics – unfinished goods may cross frontiers several times during the assembly process. The compilation of merchandise trade statistics by customs administrations results in the recording of these goods more than once. The impact of this "double counting" can be significant. The share of intermediate manufactured products in non-fuel world trade was around 40 per cent in 2008, but it can vary among countries depending on their export specialization. For example, Chinese Taipei has an import share of 65 per cent and an export share of 71 per cent. Thus, roughly two-thirds of its trade was in intermediate goods in 2008.

What does the trade to GDP ratio reveal?

The ratio of exports and imports of goods and commercial services to GDP is often used to indicate the openness of an economy.
However, results should not be interpreted as a trade policy indicator. For example, the United States shows a relatively low ratio despite its openness to trade — as reflected, for example, by its low tariffs. This reflects the fact that service-oriented and larger economies tend to show a relatively small ratio.

An increase in the value of trade may not be a consequence of trade liberalization. For example, oil price increases lead to an increase of the value of exports of oil exporters that do not fully reflect an increase in an economy’s GDP. The situation is even more marked for importing countries because the rise in the value of fuel imports may depress domestic economic activity, leading to a higher trade to GDP ratio. Exchange rate fluctuations also have an impact on making comparisons among countries.

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## Regional merchandise trade flows

**What is the impact of the crisis on trade within regions?**

International merchandise trade continued to increase rapidly during the first half of 2008. It was not until September 2008 that the impact of the financial crisis became evident. As a result, the 2008 figure for total merchandise trade still shows a positive annual rate of growth of 15 per cent, only slightly lower than the 16 per cent in 2007 but still above the average of 12 per cent observed since 2000.

The crisis, initiated by failings in the sub-prime mortgage market in the United States and quickly spreading across world financial markets, has had a different impact across regions, with the full impact felt across all regions only in the fourth quarter of 2008. Trade levels deteriorated most in Europe, falling by nearly 16 per cent in the fourth quarter compared with the same period of 2007. Asia’s exports declined by 5 per cent and North America’s by 7 per cent (year-on-year). Trade within regions seemed to contract faster than trade between regions: trade within Europe — perhaps the most closely integrated economic area — declined 18 per cent. In contrast, trade within Asia decreased at half this rate, while trade within North America fell 10 per cent.

The first quarter of 2009, on a year-on-year basis, saw much steeper declines in each region’s export rates. The strongest decline was recorded in the “other” region, which combines the Commonwealth of Independent States (CIS), Africa and the Middle East. Falling commodity prices, due to the overall recession in the world economy, were mostly responsible for these declines.

Trade within Asia declined 9 per cent in the fourth quarter of 2008. In the first quarter of 2009 this decline increased to about 29 per cent. Trade in automotive products was the sector most affected, declining by 48 per cent during the first quarter of 2009 (year-on-year), followed by iron and steel (37 per cent), office and telecom equipment (29 per cent) and integrated circuits (31 per cent).

The most recent monthly data for world merchandise trade (see http://www.wto.org/english/res_e/statis_e/quarterly_world_exp_e.htm) indicate an end to the declining trend — world merchandise trade increased by 8 per cent between the first and second quarter (quarter on quarter) of 2009, with second quarter results still being down 33 per cent when compared with the same quarter of the previous year (year on year).

The newly industrialized countries of Asia have seen their trade flows rebound more strongly than those of developed economies, suggesting that much of their recent growth could be due to trade within Asia. Support for this theory is provided by the Republic of Korea, whose exports to the world grew more slowly in July (22 per cent) than exports to Asia (26 per cent) or exports to China (27 per cent). The fact that China’s imports grew twice as fast as its exports in June (16 per cent versus 8 per cent) also suggests that trade within Asia could be benefiting from the country’s fiscal stimulus package. China’s merchandise trade surplus narrowed in June from US$ 13 billion to US$ 8 billion.
Leading merchandise traders

What is the impact of the crisis on trade balances?

Before the global crisis, an increasing number of countries were experiencing trade imbalances. Many analysts identify this trend as one of the reasons for growing global tensions, if not directly one of the causes of the crisis. Since the early 1980s, both Germany and Japan had recorded significant merchandise trade surpluses. During the early 1980s, Germany’s trade surplus constantly increased, reaching its peak in 1988 at 5.9 per cent of GDP. After the steep drop in the early 1990s, the trade surplus quickly increased again until 2008 to reach 8 per cent of GDP. Japan’s merchandise trade balance in relation to GDP peaked in 1986 (4.1 per cent). Before the crisis, its export surplus amounted to 2.1 per cent of its GDP. The US deficit reached 3.6 per cent in 1987, and then fell to 1.4 per cent in 1991. It grew to its peak of 6.8 per cent in 2006 and has declined since then.

Economic downturns, such as in the early 1990s or the latest crisis, tend to redress these trade imbalances. In 2008, Japan’s trade surplus represented 0.4 per cent of GDP, but turned into a trade deficit during the first quarter of 2009 (-0.02 per cent of GDP). Germany’s export surplus fell to 7 per cent of GDP and the United States deficit to 6.2 per cent in 2008, further shrinking to 3.4 per cent in the first quarter of 2009.

For the BRIC countries (Brazil, Russian Federation, India and China), trade balances as a percentage of GDP were more volatile. This was especially the case where primary commodities, such as copper or grain, and products based on oil or other natural resources comprise a high share of total exports. For example, Russian Federation’s trade surplus was strongly affected by crude oil prices while Brazil’s trade balance has moved between deficit and surplus several times since the 1980s. Throughout this period, India has faced a structural deficit in merchandise trade, that has grown especially from 2000 onwards. China’s trade balance turned into a surplus in the mid-1990s, reaching 7.8 per cent of GDP in 2007. Although its trade surplus fell to 6.7 per cent during 2008, and to 4.7 per cent in the first quarter of 2009, the latest monthly figures indicate that China is benefiting noticeably from the initial recovery of world trade.

The crisis and least-developed countries (LDCs)

How has the crisis affected trade in LDCs?

Total exports of goods and commercial services (on Balance-of-Payments terms) from LDCs grew at a high average rate of more than 20 per cent over the 2000-2008 period, thanks to a succession of double-digit annual growth rates since 2003. As a result, the LDCs out-performed the global trends in world trade (12 per cent growth), even though their share in total trade of goods and services remained under one percentage point (0.9 per cent).
The sustained increase in export values was principally the result of the surge in commodity prices, particularly for fuels and other minerals, in international markets. Exports of fuels and mining benefited from this international trend, growing at an annual average of 28 per cent since the beginning of the decade. Average annual growth in other goods was less impressive (11 per cent since 2000), despite good results in 2008 that were due to a strong increase in exports of food products. Despite year-to-year fluctuations, LDC exports of commercial services have enjoyed double-digit growth since 2004, averaging an annual 14 per cent over this period.

The recent crisis lowered commodity prices and demand for tourism services, which affected the LDCs during a particularly strong phase of export growth. The recovery of fuel and mineral prices after the first quarter of 2009 has benefitted commodity exporters, but the effect of the crisis on other LDCs translated into larger external deficits, compounded by their dependence on external financing.

**Trade in commercial services**

**Are exports of commercial services more resilient in times of crisis?**

Overall, world exports of commercial services grew by 12 per cent in 2008, compared with 19 per cent in 2007. An analysis of quarterly export data of leading exporting economies (representing 82 per cent of world exports of commercial services) shows that in the first two quarters of 2008, world exports of commercial services increased by 20 per cent on average on a year-on-year basis. In the third quarter of 2008, export growth decelerated, and dropped by 6 per cent in the last quarter of the year. Preliminary figures for the first quarter of 2009 suggest a more pronounced decline, by 19 per cent.

Data from leading exporters of commercial services show that in 2008, export growth slowed down significantly in several economies. In both the European Union and the United States, which last year together accounted for 60 per cent of world exports of commercial services, exports increased respectively by 10 and 11 per cent, considerably less than in 2007. Exports from the BRIC countries continue to grow overall at a steady rate, much higher than the world’s average. However, their individual export performance varies. Despite the ongoing economic recession, in 2008 Russia’s exports of commercial services increased by 30 per cent, more than in 2007. Similarly, exports from Brazil recorded a 27 per cent increase in 2008, in the same range as in the previous year.

For India and China, however, export growth slowed down significantly compared with 2007. China’s exports, which reached US$ 146.4 billion in 2008, rose by 20 per cent, down from 33 per cent in 2007. However, the economy has
become the third largest exporter of commercial services in the world. Exports from India grew by 17 percentage points in 2008, compared with 23 per cent in 2007.

The crisis principally affected services closely linked to trade in goods, such as transportation, while business services remained relatively untouched. Although some sectors have proved more resilient than merchandise trade during the initial phase of the crisis, trade in business services and travel might be particularly vulnerable to the secondary effects of the global crisis if private investment and household consumption levels continue to be sluggish.

Foreign affiliates and services trade

How has services trade changed over the past decade?

The globalization of business and the firms’ increasing ownership of different stages of the production process have increased the role of intermediate goods in merchandise trade over the last decade. A similar fragmentation of production has been emerging in the field of services. The United States has recorded an increasing share of trade between multi-nationals and their majority-owned foreign affiliates, growing from 21.5 per cent to more than a quarter of its total trade (27.5 per cent) in 2007 (covering only non-bank affiliates, and excluding transportation services and travel).