

## Chapter III

# World trade developments, 2018-2019

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US\$  
**19.48**  
trillion

The value of world merchandise exports was US\$ 19.48 trillion in 2018, up from US\$ 17.33 trillion in 2017, partly due to higher oil prices.



US\$  
**5.77**  
trillion

The value of world commercial services exports grew by 8 per cent in 2018, reaching US\$ 5.77 trillion, up from US\$ 5.36 trillion in 2017.



**3.0%**

Growth in the volume of world merchandise trade, as measured by the average of exports and imports, was 3.0 per cent in 2018, down from 4.6 per cent in 2017, amid rising trade tensions.



**-0.3%**

The volume of world merchandise trade declined by 0.3 per cent in the fourth quarter of 2018 compared with the previous quarter, equivalent to an annualized rate of decline of -1.2 per cent.

# General trends in world trade in 2018

## World trade and GDP slowed in 2018 as trade tensions increased

World trade faced renewed headwinds in 2018 as trade tensions and economic policy uncertainty rose sharply. Year-on-year growth in the volume of world merchandise trade fell from 3.9 per cent in the first half of 2018 to 2.7 per cent in the second half of the year. The slowdown became more pronounced towards the end of the year, as relatively strong quarter-on-quarter growth of 1.2 per cent in the third quarter was followed by a decline of 0.3 per cent in the fourth quarter.

Slower trade growth was accompanied by weaker output growth in major economies. For example, G20 countries saw their collective GDP increase at an average year-on-year rate of 3.5 per cent in the second half of 2018, down from 3.9 per cent in the first half.

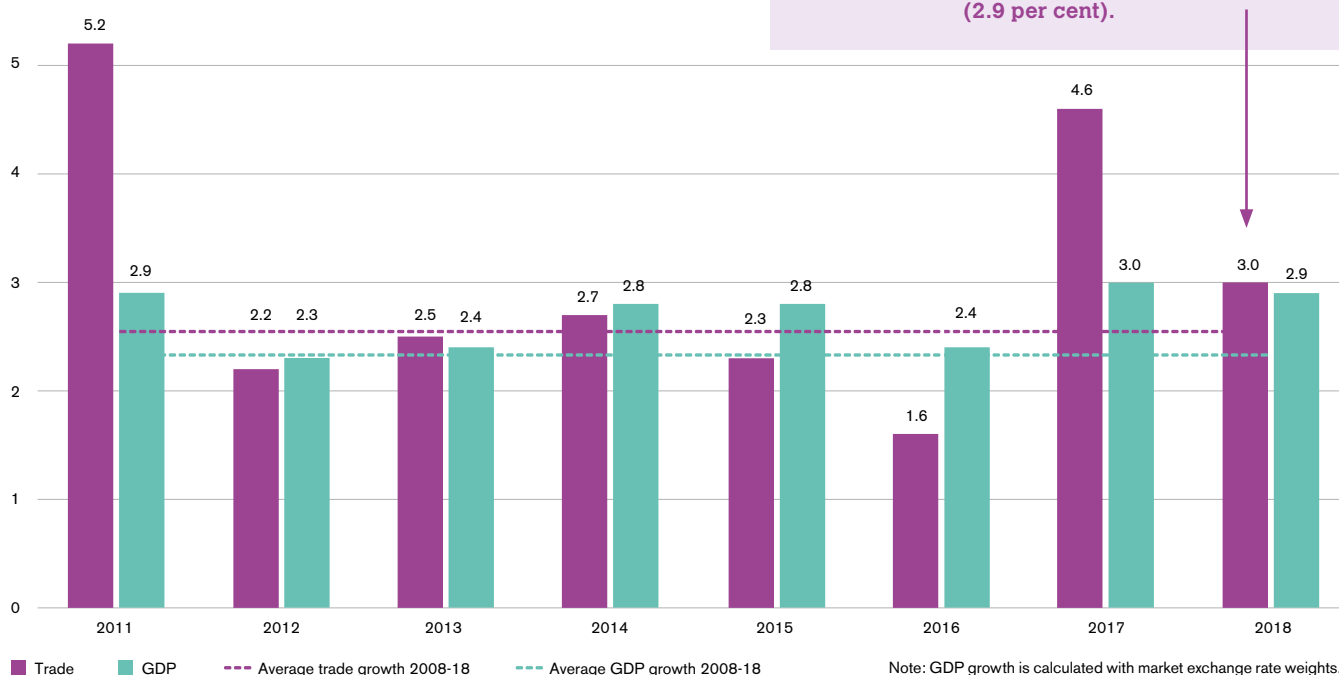
The loss of momentum in trade and GDP is partly due to tighter monetary policy, increased financial volatility and the raising of tariffs on widely traded goods in major economies. Trade tensions appear to have contributed significantly to the slowdown.

Overall trade growth of 3.0 per cent in 2018 was significantly lower than the 4.6 per cent growth recorded in 2017. This strong growth had suggested a return to the stronger pace of trade expansion that characterized the late 1990s and early 2000s but this was not sustained in 2018. Trade only grew slightly more than output in 2018 after being 1.6 times higher in 2017 (see Chart 3.1). However, trade growth remained above the 2.6 per cent average rate since 2008.

Chart 3.1

### World merchandise trade volume and real GDP growth, 2011-2018

(Annual percentage change)



## Differences by region and level of development

The slowdown in the growth of merchandise trade volume in 2018 was broad-based, reflecting weaker import and export shipments globally, although some country groupings were more affected by the slowdown than others.

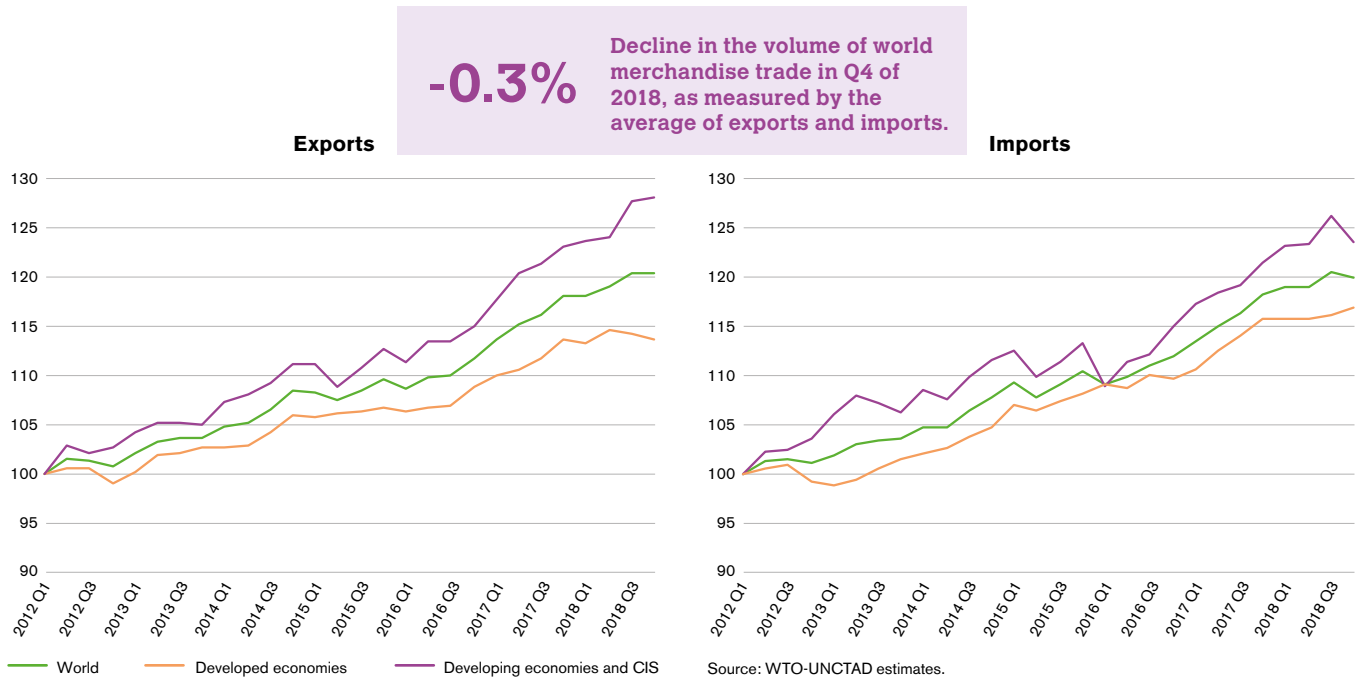
Weaker trade growth was most evident in the fourth quarter of 2018, when export volumes declined by 0.1 per cent and import volumes dropped 0.5 per cent (see Chart 3.2).

On the export side, the slowdown was mostly due to reduced shipments from developed countries, which contracted year-on-year in three out of the four quarters of 2018. On the import side, developed countries recorded slow growth throughout the year, particularly in the first half. Meanwhile, developing economies and the Commonwealth of Independent States (CIS) saw imports fall 2.1 per cent in the final quarter of 2018 despite stronger growth earlier in the year.

Chart 3.2

**World merchandise exports and imports by level of development, 2012 Q1 to 2018 Q4**

(Volume index, 2012 Q1=100)



The overall deceleration of trade in 2018 was driven primarily by Europe and Asia due to their large share in world imports (37 per cent and 35 per cent, respectively). After recording relatively strong growth up to the third quarter of 2018, Asia saw its imports fall 1.9 per cent in Q4 compared with the previous quarter (see Chart 3.3). Meanwhile, Europe's imports declined more gradually, with a drop of 1.3 per cent year-on-year in Q4. In North America, a buoyant US economy contributed to strong growth in imports, which were up

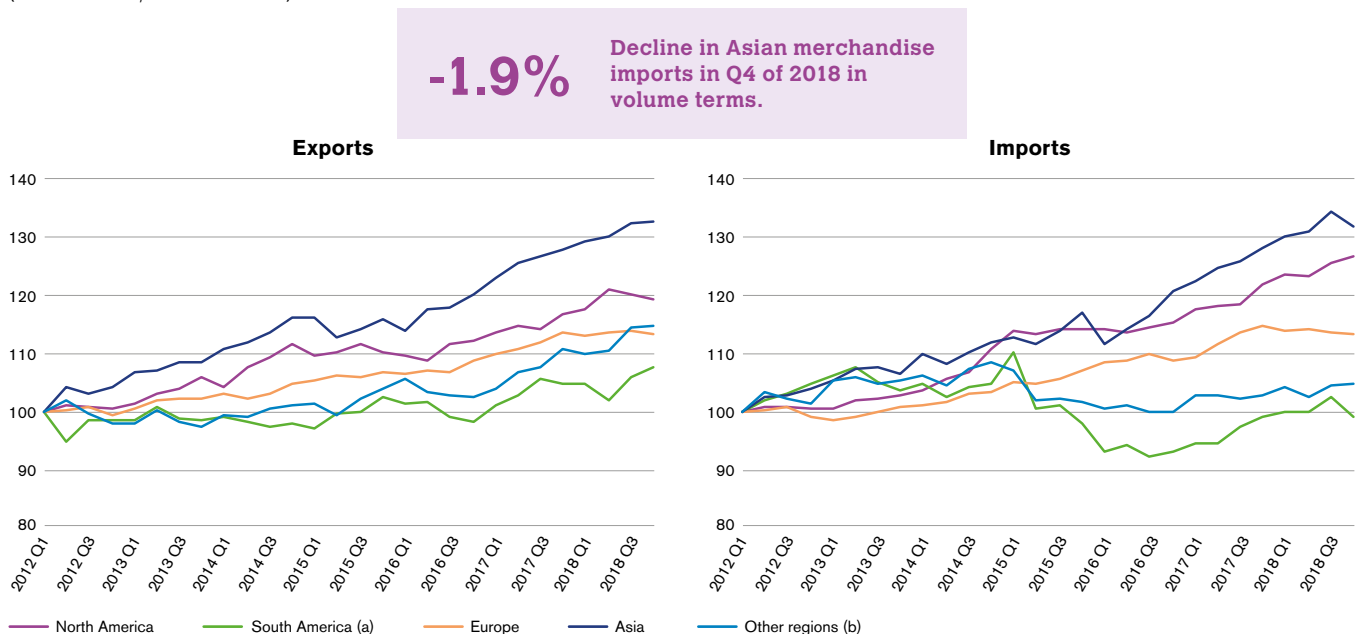
4.0 per cent year-on-year in Q4. "Other regions", encompassing Africa, the Middle East and the CIS, recorded slow but steady growth in imports. South America's imports continued to recover up to Q3 but were buffeted by uncertainty in Q4.

Exports of all regions were weaker in Q4 than in Q3, with quarter-on-quarter declines of 0.8 per cent and 0.4 per cent, respectively, in North America and Europe. Meanwhile, shipments from Asia were only up 0.3 per cent quarter-on-quarter in Q4 after rising 1.8 per cent in Q3.

Chart 3.3

**Merchandise exports and imports by region, 2012 Q1 to 2018 Q4**

(Volume index, 2012 Q1=100)



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

Source: WTO-UNCTAD estimates.

Heightened trade tensions cannot be the only cause of the trade slowdown in 2018 but they undoubtedly played a significant role as slower trade growth coincided with announced or anticipated trade actions, such as tariff raising, by governments. Trade and output were also influenced by temporary shocks, such as the federal government

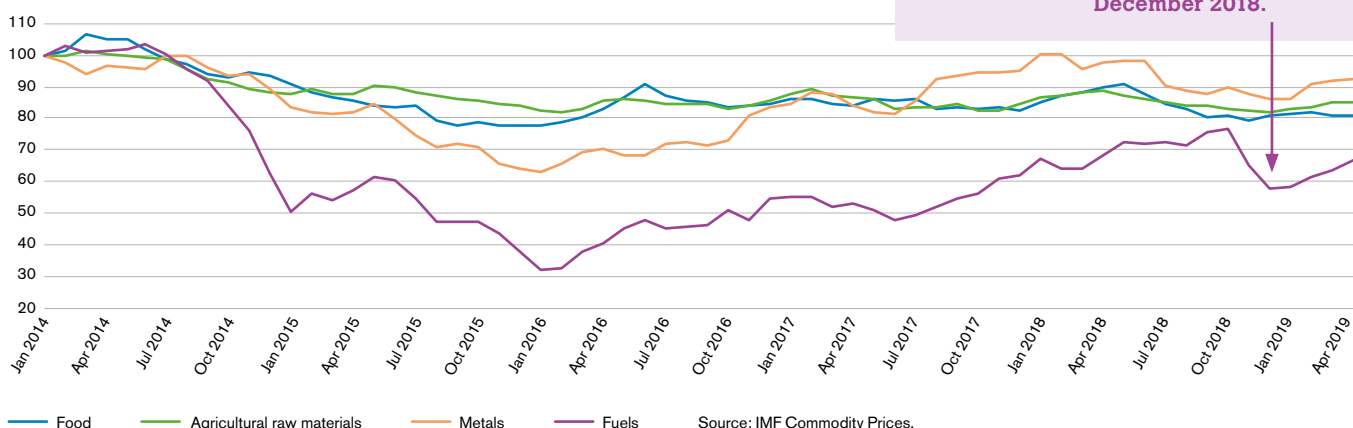
shutdown in the United States and production problems in the automotive sector in Germany towards the end of the year. These incidents were likely to have transitory effects, causing consumers and businesses to postpone purchases and production decisions rather than cancelling them outright.

### Higher oil prices lifted merchandise trade values in 2018

Nominal trade values rose in 2018 due to a combination of volume and price changes. World merchandise exports totalled US\$ 19.48 trillion, an increase of 10 per cent from the previous year. The rise was partly due to higher oil prices, which were up

roughly 20 per cent for the whole of 2018. However, oil prices fell 25 per cent between October and December as negative economic news and economic uncertainty reduced expected demand for energy in the near future (see Chart 3.4).

Chart 3.4  
Prices of primary commodities, January 2014 - April 2019  
(US\$ price indices, January 2014=100)

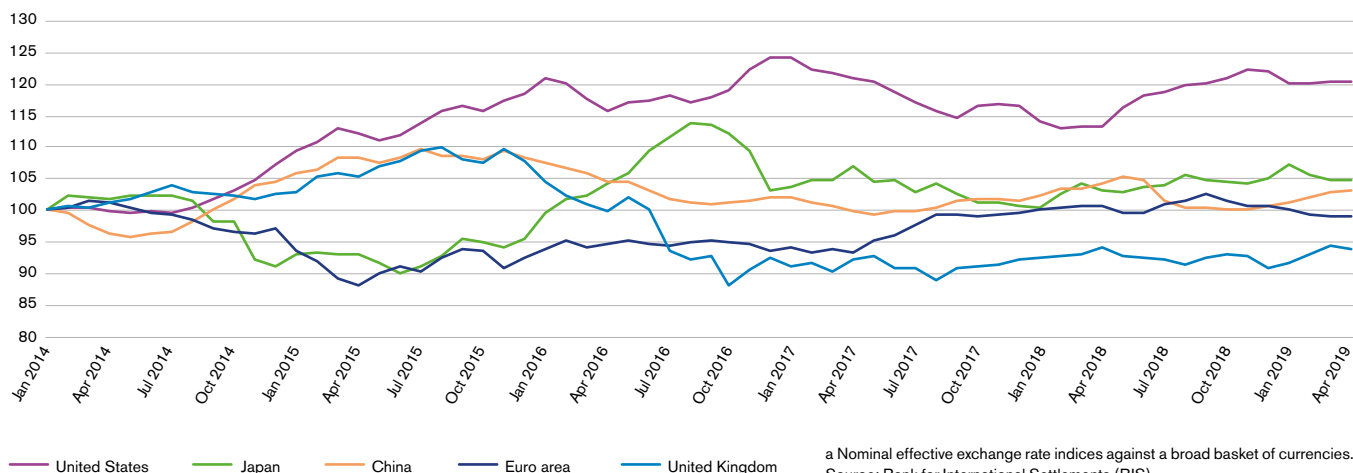


Source: IMF Commodity Prices.

Exchange rates probably had a minimal impact on nominal trade values in US dollar terms in 2018. Despite fluctuations over the course of the year, the value of the US dollar was little changed between 2017 and 2018. The nominal effective exchange rate of the US dollar against a broad basket of currencies was only down 1.0 per cent year-on-year (see Chart 3.5).

The euro registered a 4.3 per cent appreciation in nominal effective terms while the Chinese yuan and the UK pound rose 1.4 per cent and 1.5 per cent, respectively. The Japanese yen was mostly unchanged in 2018, with an average appreciation of 0.2 per cent in 2018.

Chart 3.5  
Exchange rate indices for selected economies, January 2014 - April 2019<sup>a</sup>  
(Index, January 2014=100)



<sup>a</sup> Nominal effective exchange rate indices against a broad basket of currencies. Source: Bank for International Settlements (BIS).

## Europe and Asia contributed most to slowing merchandise trade growth in 2018

All regions recorded increased exports in 2018, both in terms of volume and US dollar values. The same was true on the import side, with the sole exception of the Middle East, whose imports were down 3.3 per cent in volume terms but up 0.9 per cent in current US dollar terms.

Import volumes increased by 5.0 per cent in both North America and Asia. In the case of North America, this represented an acceleration from 4.0 per cent the previous year, while in Asia's case it marked a deceleration from 8.3 per cent in 2017. European import volume growth was sluggish, slowing to 1.0 per cent in 2018 from 2.9 per cent in 2017. Import volumes in South and Central America continued to recover from their steep decline between 2014 and 2016, with an increase of 5.2 per cent in 2018. Other regions collectively recorded weak import growth of 0.5 per cent (see Table 3.1).

The region with the highest yearly export growth in volume terms was the Commonwealth of Independent States at 4.9 per cent, followed by North America at 4.3 per cent. Asia's export volume growth slowed from 6.8 per cent in 2017 to 3.8 per cent in 2018 while South and Central America stagnated with an increase of just 0.6 per cent. Other regions taken together recorded a moderate 2.7 per cent increase in export volumes.

The large shares of Europe and Asia in world merchandise exports and imports give these regions an outsized influence on global trade growth. With exports valued at US\$ 7.11 trillion and imports at US\$ 7.15 trillion in 2018, Europe accounted for 37 per cent of world merchandise trade on both the export and import side. Asia's exports of US\$ 6.91 trillion gave it a 34 per cent share while its imports of US\$ 6.76 trillion accounted for 33 per cent of the world total. North America's exports and imports of US\$ 2.56 trillion and US\$ 3.56 trillion accounted for shares of 14 per cent and 18 per cent in world exports and imports, respectively.

Table 3.1

**Merchandise trade volume and real gross domestic product, 2015-2018**  
(Annual percentage change)

**3.0%**

World merchandise trade volume slowed to 3 per cent in 2018 following 4.6 per cent growth in 2017.

	2015	2016	2017	2018
<b>Volume of world merchandise trade<sup>a</sup></b>	2.3	1.6	4.6	3.0
<b>Exports</b>				
Developed economies	2.4	1.0	3.6	2.1
Developing economies and CIS	1.7	2.3	5.6	3.5
North America	1.1	0.3	4.2	4.3
South and Central America	-0.4	0.7	3.0	0.6
Europe	2.9	1.2	3.7	1.6
Asia	1.4	2.3	6.8	3.8
Other regions <sup>b</sup>	3.2	2.9	1.6	2.7
<b>Imports</b>				
Developed economies	4.2	2.0	3.3	2.5
Developing economies and CIS	0.6	1.3	6.8	4.1
North America	5.4	0.1	4.0	5.0
South and Central America	-8.4	-8.8	4.6	5.2
Europe	3.5	3.1	2.9	1.1
Asia	3.9	3.6	8.3	5.0
Other regions <sup>b</sup>	-4.3	-1.9	2.5	0.5
<b>Real GDP at market exchange rates</b>	2.8	2.4	3.0	2.9
Developed economies	2.3	1.7	2.3	2.2
Developing economies and CIS	3.7	3.7	4.3	4.1
North America	2.8	1.6	2.3	2.8
South and Central America	-0.8	-2.1	0.8	0.6
Europe	2.4	2.0	2.7	2.0
Asia	4.3	4.1	4.5	4.3
Other regions <sup>b</sup>	1.2	2.2	1.9	2.2

a Average of exports and imports. b Other regions comprise Africa, the Middle East and the Commonwealth of Independent States (CIS), including associate and former member states. Sources: WTO Secretariat for trade, consensus estimates for GDP.

Despite their weak export volume growth, the oil-rich regions of Africa, the Middle East and the Commonwealth of Independent States saw their export revenues surge in 2018, with increases of 13 per cent, 21 per cent and 24 per cent respectively in the US\$ value of their exports.

Major economies saw year-on-year growth in the US\$ value of their trade flows drop sharply over the course of 2018 and into 2019 (see Chart 3.6). A recovery in trade growth may depend on an easing of global trade tensions.

Chart 3.6  
**Merchandise exports and imports of selected economies, July 2017-March 2019**  
 (Year-on-year percentage change in US\$ values)



a January and February averaged to minimize distortions due to lunar new year.  
 Source: WTO estimates.

## Commercial services trade continued to expand

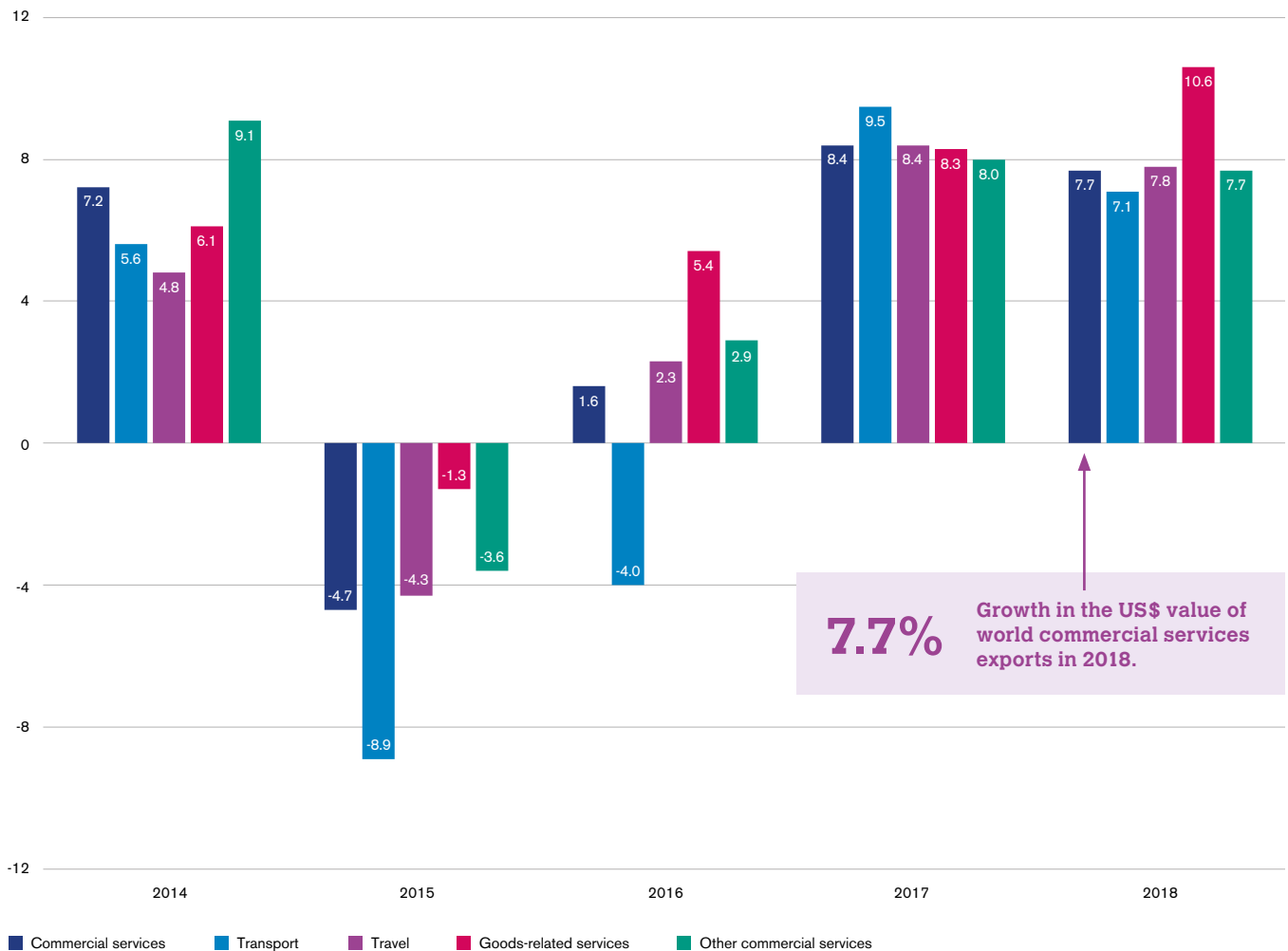
World trade in commercial services trade recorded solid growth for the second consecutive year, rising by 8 per cent in 2018 (see Chart 3.7). Goods-related services registered

the strongest expansion, with a 10.6 per cent increase in current dollar terms. The weakest growth was in transport, which still increased by 7.1 per cent.

Chart 3.7

### Growth in the value of commercial services exports by category, 2014-18

(Annual percentage change)



Source: WTO-UNCTAD-ITC estimates.

Quarterly developments show divergent trends across countries, particularly in the second half of 2018 (see Chart 3.8). In the fourth quarter of 2018, China and India continued to record strong year-on-year growth in export values (+12.9 per cent and +12.5 per cent, respectively) while other economies saw exports stagnate (growth of 0 per cent for EU trade with partners outside the EU) or decline (-4.5 per cent for Japan, -2.4 per cent for Brazil).

A similar pattern is visible for imports, with China and India maintaining strong growth and other countries weakening. The fact that currencies such as the dollar, the euro and the yen were relatively stable during this period suggests that these developments reflect real changes in activity rather than changes in prices.

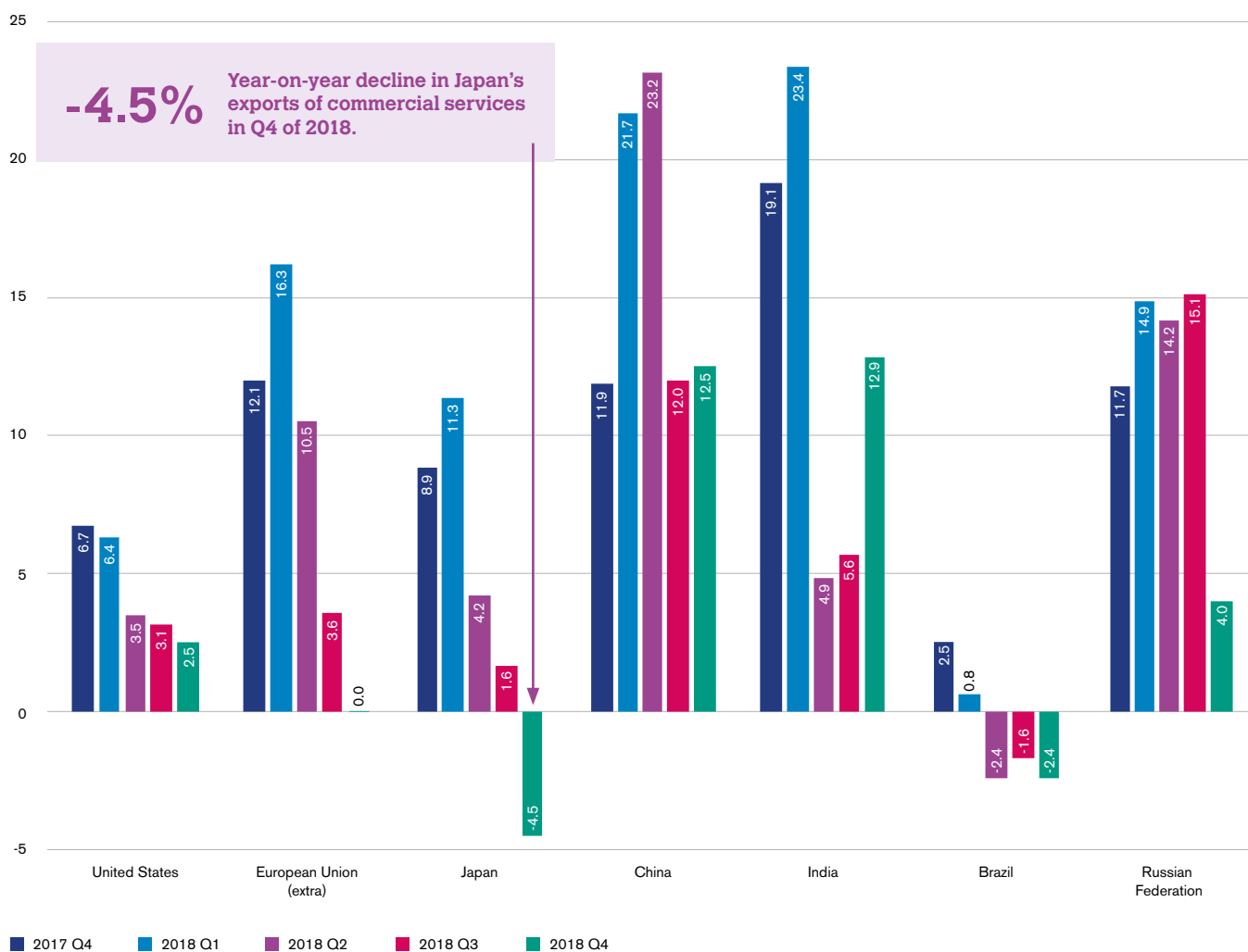
The category of “other commercial services”, which includes financial services and other business services, contributes disproportionately to services trade growth.



Year-on-year growth in EU exports of other commercial services outside the EU slowed to 0 per cent in Q4 of 2018 after recording double-digit increases earlier in the year (15 per cent in Q1 and 10 per cent in Q2). Exports of other commercial services from the United States slowed less dramatically, from 7 per cent in Q1 to 3 per cent in Q4. Japan's exports of other commercial services contracted by 4 per cent in Q4 while China's exports of commercial services increased by 19 per cent in the final quarter of the year.

Most services trade is not directly affected by trade measures targeting goods but the economic uncertainty generated by these actions can still have an impact by discouraging businesses from engaging with new clients and from spending funding on services. An easing of trade tensions would probably help to give a boost to services trade.

Chart 3.8  
**Commercial services exports and imports of selected economies, 2017 Q4 to 2018 Q4**  
 (Year-on-year percentage change)



Source: WTO-UNCTAD-ITC estimates.

# World trade and GDP in early 2019

## Leading indicators point to weaker trade growth in first half of 2019

A number of leading economic indicators and trade statistics suggest continued weakness in trade and output in the first half of 2019. Year-on-year growth in monthly merchandise exports and imports, shown in Chart 3.6, remained depressed up to March.

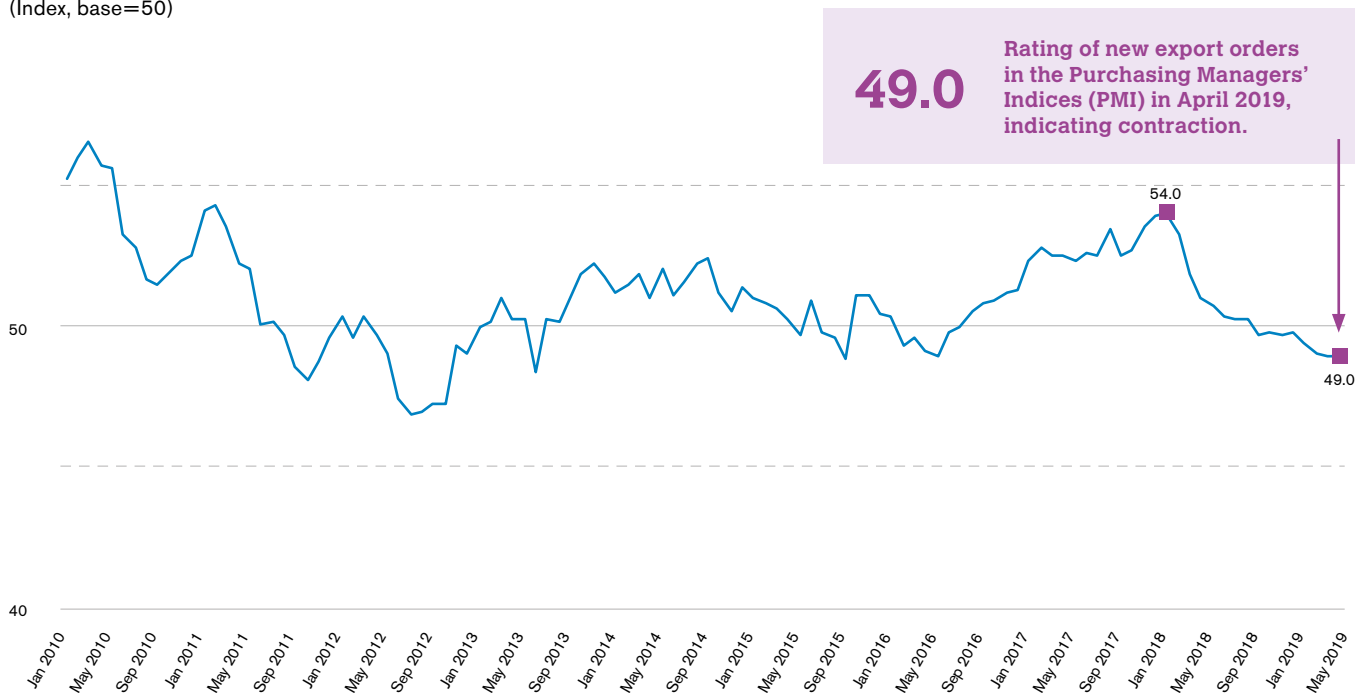
In March, the dollar value of exports from the United States, the European Union and Japan were down 1 per cent, 7 per cent and 7 per cent respectively. China's exports were up 14 per cent over the previous year but the increase was mostly due to a weak performance in March 2018. Imports also stalled, with no growth (0 per cent) in the United States and declines of 2 per cent, 4 per cent and 8 per cent in the European Union, Japan and China respectively. Part of the decline may be due to lower oil prices in 2019 compared with 2018.

Purchasing managers' indices (PMIs), based on business surveys, are an early indicator of economic activity.

The Global Manufacturing PMI compiled by IHS-Market and JPMorgan dipped to 50.3 in April 2019, just above the threshold value of 50, indicating expansion. This suggests that economic growth will remain weak into the second quarter of 2019. The PMI reading for the United States was relatively strong (52.6) but the value for the euro area (47.9) was weak, indicating contraction. China's PMI of 50.2 suggests steady if somewhat sluggish growth. Overall, these indices paint a mixed picture of the global economy, with some countries growing faster than others.

The new export orders component of the Global PMI is a reliable leading indicator of merchandise trade volume. This index, shown in Chart 3.9, continued to indicate contraction in April (49.0) but at a slower pace than in March (48.9). This could be an early sign of a turnaround in world trade but any significant improvement would probably depend on an easing of trade tensions.

Chart 3.9  
**Global PMI new export orders index, January 2010 – April 2019**  
 (Index, base=50)



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

An index of economic policy uncertainty, based on the frequency of phrases related to uncertainty in press accounts, currently stands at 203.8 (as of April 2019), down from the peak value of 341.3 recorded in January 2019 (see Chart 3.10). A baseline value of 100 denotes the “average” level of uncertainty from 1997 to 2015.

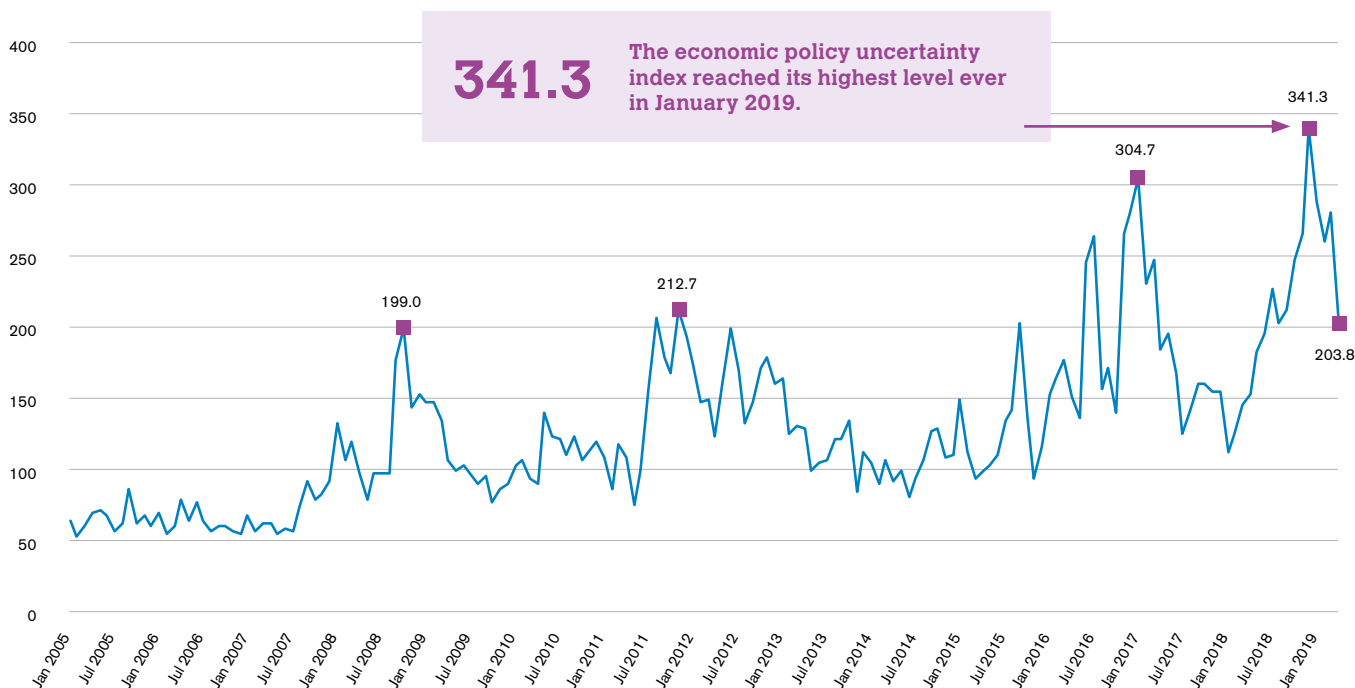
The peak of 341.3 coincided with the US government shutdown and US trade negotiations with China. As economic uncertainty deters investment, it can have a negative impact on trade since investment spending tends to rely on imports. Conversely, a lowering of trade tensions would be expected to stimulate both investment and trade.

The data in Chart 3.10 do not reflect major trade measures announced in May 2019, which would tend to increase uncertainty.

Chart 3.10

**Global economic policy uncertainty, January 2005 – April 2019**

(Index, average 1997-2015=100)



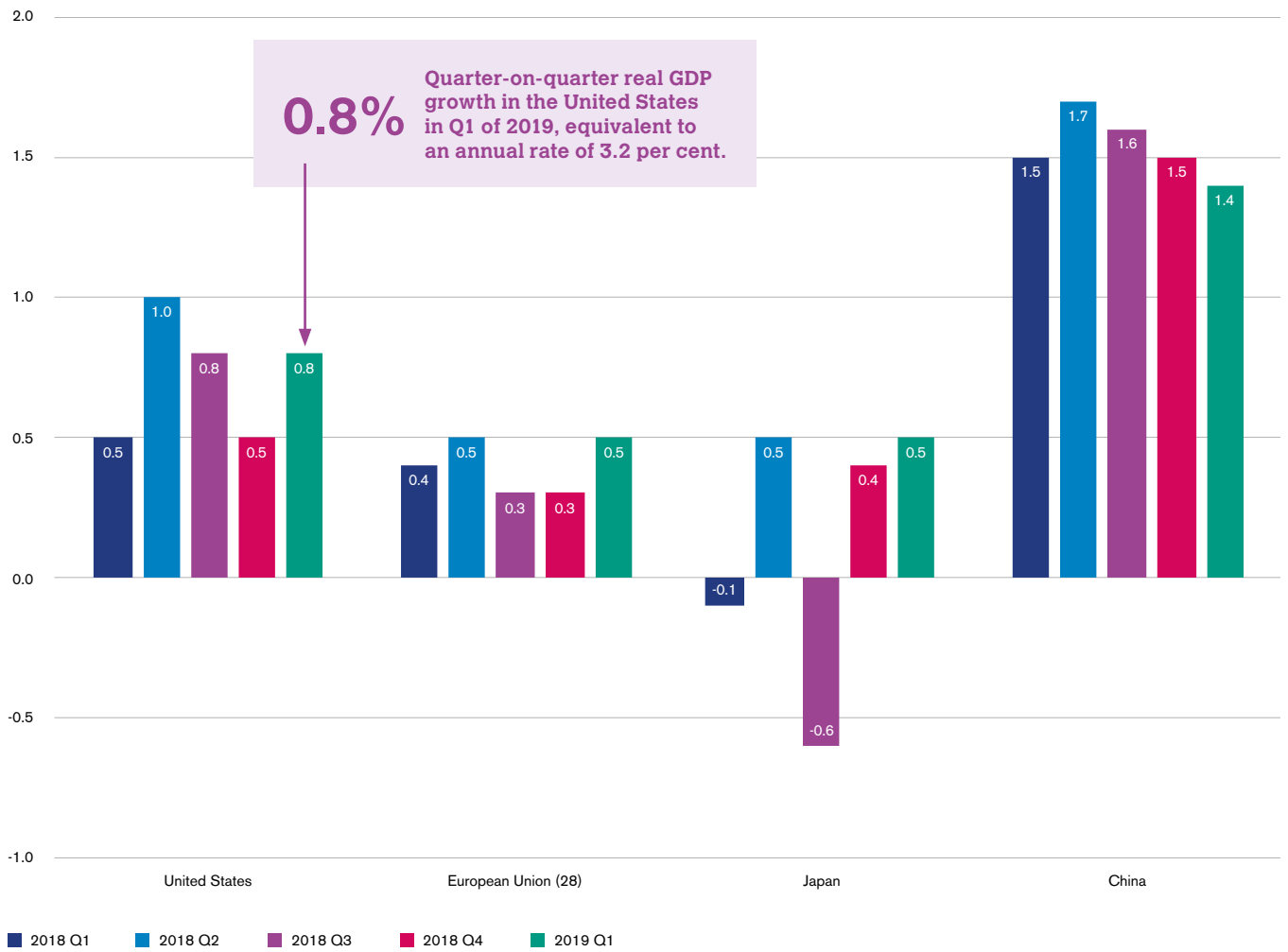
Source: PolicyUncertainty.com

**Sustained GDP growth could boost trade in 2019**

Economic growth slowed more than expected in the middle of 2018, prompting governments and central banks to adopt more expansionary fiscal and monetary policies. This appears to have provided a boost to GDP in the first quarter of 2019 for major economies but whether this will continue remains to be seen. Trade forecasts for 2019 depend on sustained GDP growth up to the end of the year.

China continues to expand faster than most other manufacturing economies while the United States registered a healthy increase in output in the first quarter of 2019 (see Chart 3.11). A further escalation in trade tensions could derail trade and GDP growth.

Chart 3.11  
**Real GDP growth of selected economies, 2018 Q1 to 2019 Q1**  
 (Quarter-on-quarter percentage change)



Source: OECD National Accounts Statistics.