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GLOBAL TRADE UPDATE

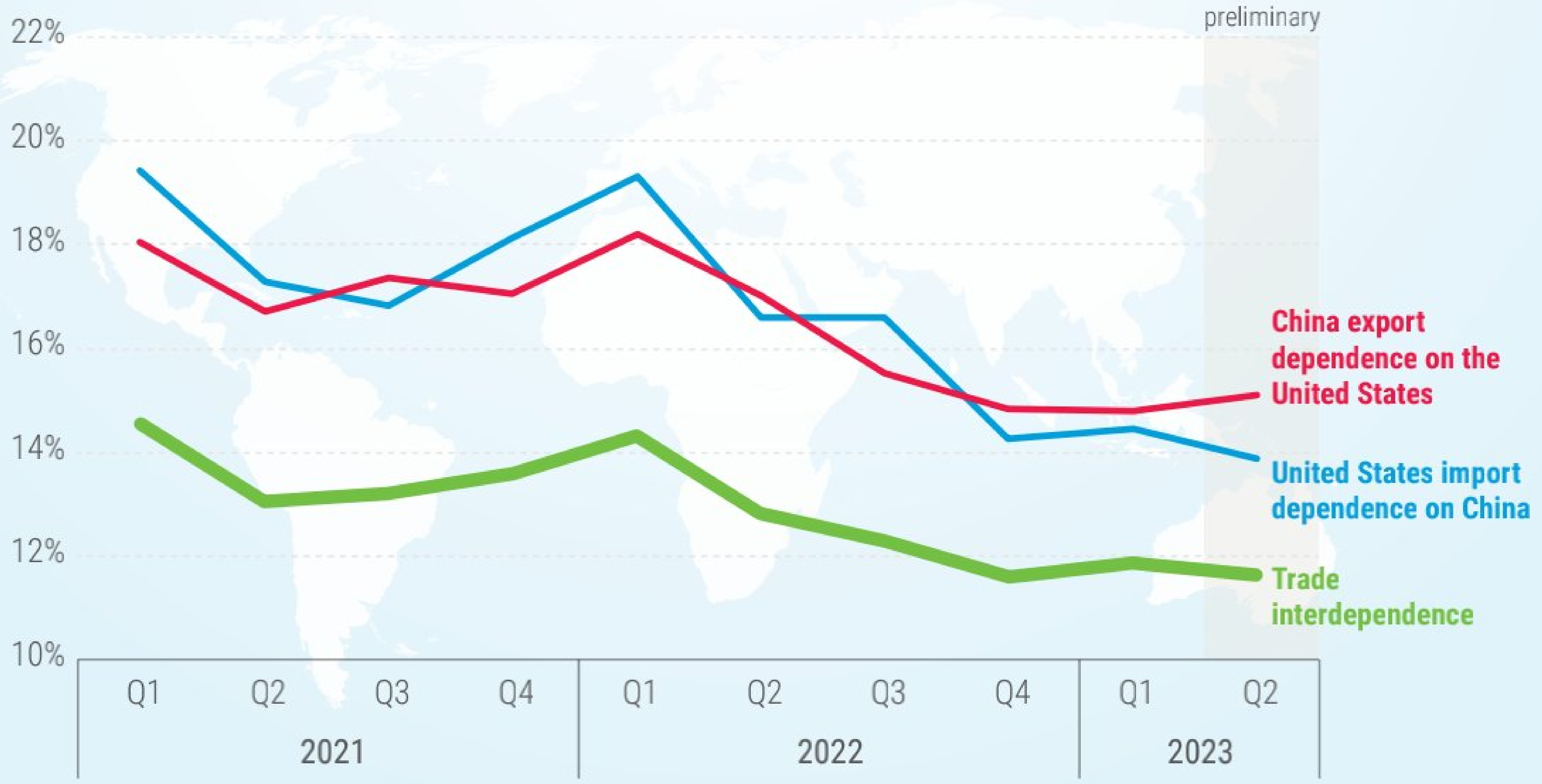
JUNE 2023

Global trade growth returns but outlook is poor

- Trade growth among major economies was mixed in Q1 2023; with notable export growth in China and India.
- Trade interdependence between China and the United States has decreased, amid global friend-shoring trends.
- Growth in services trade outperformed growth in goods trade. Trade in ICT related products continued to decline.
- Trade growth is projected to weaken in Q2 2023, with an unfavourable outlook for the latter half of the year.

Trade Decoupling

Trade interdependence between China and the United States is declining



Source: UNCTAD secretariat calculations based on national data of China and the United States.
Note: China export dependence on the United States is calculated as China exports to the United States over total China exports. The United States import dependence on China is calculated as United States imports to China over total United States imports. The overall trade interdependence is calculated as bilateral trade (imports+exports) of United States and China over the sum of total trade of the two countries.

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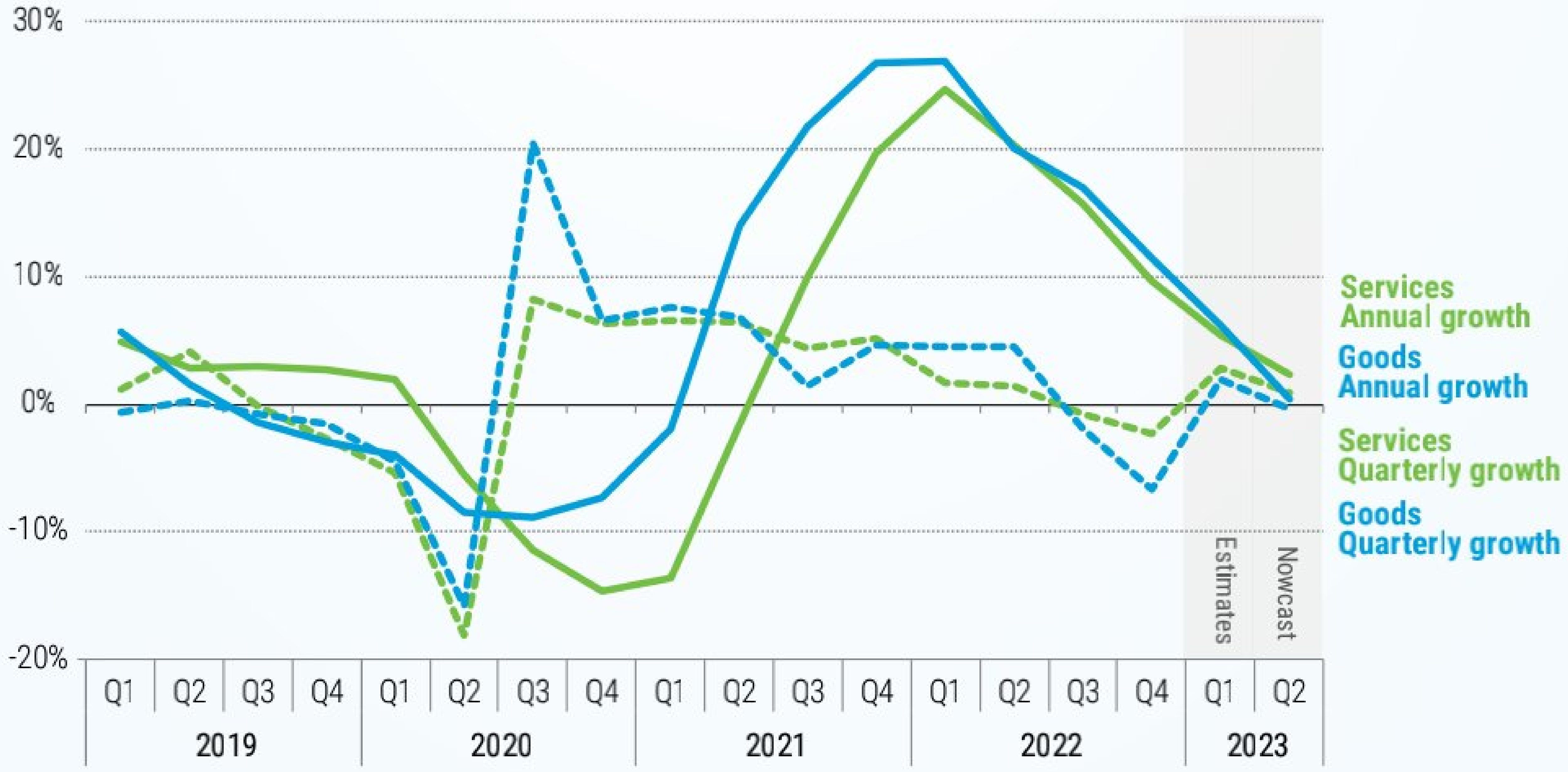
Global trade trends and nowcast

During the first quarter of 2023, trade growth was positive for both goods and services. After the downturn in the second half of 2022, trade in goods rebounded in Q1 2023, adding about US$ 100 billion from Q4 2022. Global growth in trade of services also rebounded and increased by about US$ 50 billion in Q1 2023. The UNCTAD nowcast suggests that global trade to be weak in Q2 2023, as it is expected to remain at similar levels to Q1 2023, both for goods and services.

The value of trade increases in the first half of 2023, but growth remains low



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 Q1 2023 are estimates. Q2 2023 is a nowcast.

Trade volumes resumed their growth in Q1 2023 and have returned to a pattern like that of trade values. Trade volumes are expected to slow down in Q2 compared to Q1 2023.

Trade volumes also resumed growth

Index Q1 2019 =100

Source: UNCTADstat.

Summary and outlook

Following two consecutive quarters of decline, global trade in goods and services rebounded in Q1 2023, increasing by about 2 per cent relative to Q4 2022. Compared to Q4 2022, global trade in goods increased by 1.9 per cent in Q1 2023, driven by a revival of economic activity in China, and by an increase in the trade of road vehicles and pharmaceuticals. On the other hand, easing energy prices contribute to low global trade growth. Global trade in services has remained resilient throughout 2022 and increased about 2.8 per cent in Q1 2023. Part of this growth reflects the continuing rebound in tourism and travel following the COVID-19 pandemic.

The current projection for Q2 2023 indicates a slowdown in global trade growth. Global economic forecasts have recently been revised downwards, and factors such as persistent inflation and, financial vulnerabilities, along with the ongoing war in Ukraine and geopolitical tensions, pose challenges to global trade. Overall, the outlook for global trade in the second half of 2023 is pessimistic, as negative factors dominate the positive.

Positive factors:

- ***Increasing demand for services***
  Global commercial services are expected to continue growing in the second half of 2023, primarily driven by a rise in demand for information and communication technology (ICT) services and by the rebound in travel and tourism sectors.

- ***Trade supporting the green transition***
  The patterns of international trade are anticipated to become more closely tied to the transition towards a greener global economy. Trade and industrial policies reflecting climate commitments would necessarily affect trade flows, especially in goods and services related energy efficient products and renewable energy production.

- ***Shipping costs remain low***
  Global shipping capacity remains strong. The Shanghai containerized freight rate index has returned to pre-pandemic levels, and is expected to remain low throughout 2023.

Negative factors:

- ***Geopolitical factors***
  The war in Ukraine and geopolitical tensions remain the biggest factors impacting international trade thorough 2023.

- ***Weakening global economy***
  Global economic forecasts are being revised downwards and economic growth in many countries is expected to remain below historical trends.

- ***Potential rise in trade restrictive measures***
  Persistent inward-looking policies in large economies could result in an increase in trade restrictive measures, which would hold back international trade growth.

- ***Slowing industrial output***
  Both China and the United States Purchasing Managers Index declined in May 2023, suggesting a decline in industrial production for the next quarters. China exports for May 2023 were also below expectations, signaling weak global demand for goods.

- ***Inflation, commodity prices and interest rates***
  Many economies are expected to maintain relatively high interest rates as a result of ongoing inflationary pressures. Despite a downward trajectory, commodity prices, particularly in the energy, food, and metals sectors, are projected to remain above pre-pandemic averages.

- ***Concerns of debt sustainability***
  The current record levels of global debt, coupled with high interest rates, will continue to negatively affect the macroeconomic conditions of many countries. Economies with underlying vulnerabilities could see further increases in borrowing costs.

Trade trends in the major economies

Merchandise trade growth has been mixed among the major economies during the last four quarters. Brazil, India, United States and the European Union saw significant increases both in relation to their imports and exports. On the other hand, other major economies' trade growth was mixed and often negative, especially in relation to exports. On a quarter-over-quarter basis, trade trends in Q1 2023 for the major economies have been more subdued, and in many cases negative. The notable exception is significant growth in exports for China and India.

Trade performance has been mixed among the major economies

GOODS (Q1 2023)	Quarterly growth		Annual growth	
	Imports	Exports	Imports	Exports
Brazil	↓ 6%	↓ 2%	↑ 17%	↑ 13%
China	↑ 2%	↑ 11%	↓ 3%	↑ 4%
India	↓ 4%	↑ 7%	↑ 17%	↑ 4%
Japan	↓ 4%	↓ 2%	↑ 10%	↓ 4%
Republic of Korea	↓ 2%	↓ 1%	↑ 11%	↓ 1%
Russian Federation	↑ 6%	↓ 19%	↓ 10%	↓ 3%
South Africa	0%	↑ 1%	↑ 14%	↓ 5%
United States	0%	↑ 2%	↑ 8%	↑ 15%
European Union	↓ 8%	↑ 3%	↑ 14%	↑ 4%

Data on services is only available with a lag of one quarter. Due to the recovery from the COVID-19 pandemic, trade in services for most major economies was higher during the last 4 quarters. However, quarterly growth rates for Q4 2022 indicate that these positive trends have turned negative, with trade in services being considerably lower than in Q3 2022.

SERVICES (Q4 2022)	Quarterly growth		Annual growth	
	Imports	Exports	Imports	Exports
Brazil	↓ 1%	↓ 1%	↑ 36%	↑ 26%
China	↓ 3%	↓ 15%	↑ 5%	↑ 9%
India	↓ 4%	↑ 1%	↑ 29%	↑ 29%
Japan	↓ 7%	↑ 2%	↑ 2%	↑ 2%
Republic of Korea	↓ 6%	↓ 8%	↑ 8%	↑ 9%
Russian Federation	↑ 1%	↓ 6%	↓ 6%	↓ 12%
South Africa	↓ 10%	↓ 6%	↑ 33%	↑ 38%
United States	↓ 2%	↓ 2%	↑ 24%	↑ 17%
European Union	↓ 8%	↓ 2%	↑ 10%	↑ 10%

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.

Regional trade trends in Q1 2023

In average terms, recent trends in global trade are similar across developing and developed countries. On a yearly basis, both imports and exports of developing countries grew by an average of 6 per cent. However, when East Asian economies are excluded, yearly trade growth for developing countries was substantially higher, about 14 per cent. Figures on a quarter-over-quarter basis indicate that the trade stagnation was widespread during Q1 2023.

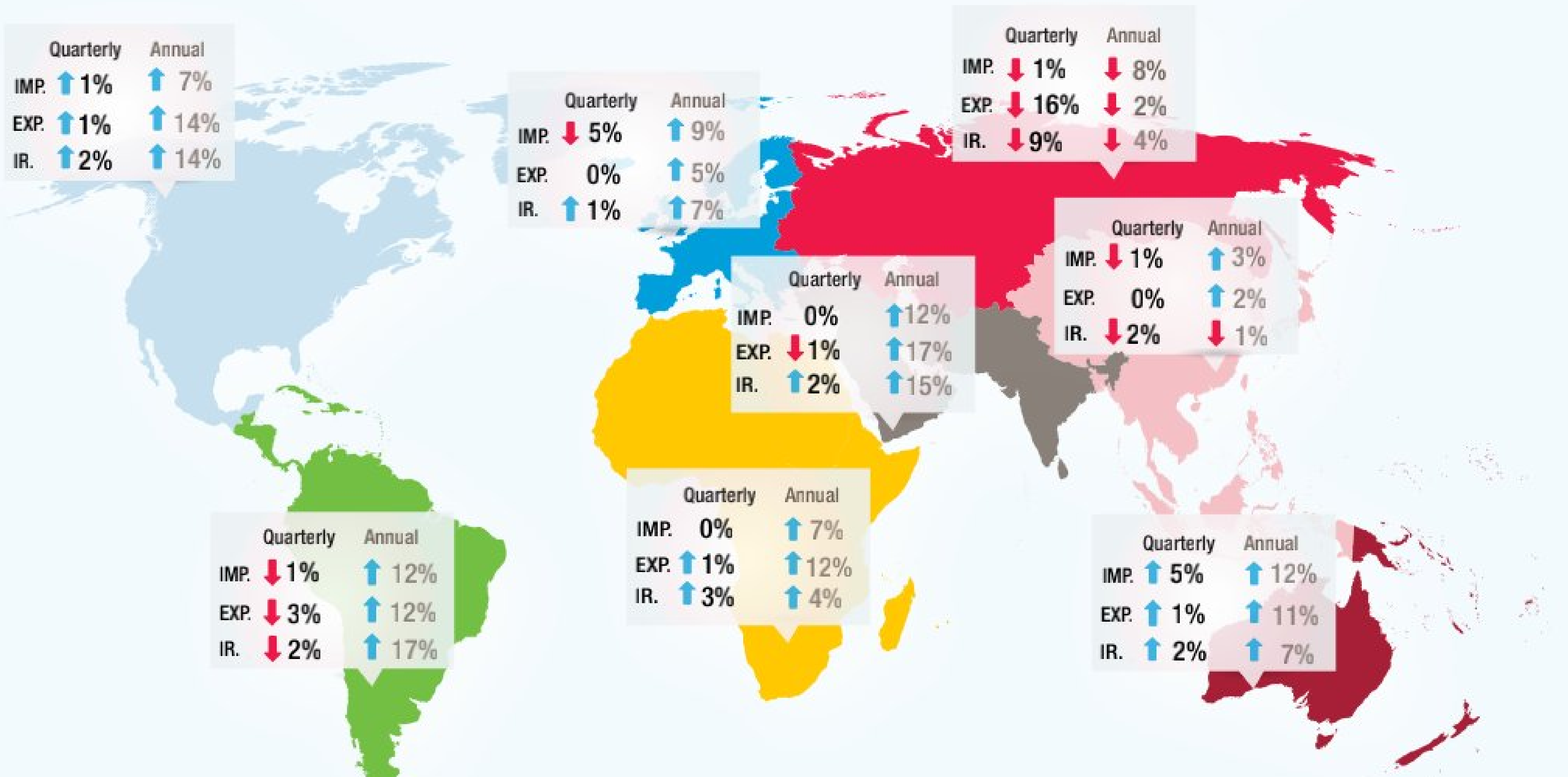
Aggregate trade patterns are similar for developed and developing countries

	Quarterly growth		Annual growth	
	Imports	Exports	Imports	Exports
Developed countries	↓ 1%	0%	↑ 7%	↑ 6%
Developing countries	0%	0%	↑ 6%	↑ 6%
South-South Trade	↓ 1%		↑ 6%	
Developing countries (excluding East Asia)	0%	↓ 1%	↑ 12%	↑ 15%
South-South Trade (excluding East Asia)	↓ 1%		↑ 13%	

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.

Except for the region comprising the Russian Federation and central Asian economies, global trade growth has been positive on a yearly basis in all geographic regions. However, trade growth in the East Asian region has been significantly below average. When considering trade growth on a quarter-over-quarter basis, Q1 2023 witnessed a decline in the value of trade in most regions, except for the Pacific region, North America, and Africa. However, trade growth in these regions was marginal during Q1 2023. Similar patterns are observed in terms of intra-regional trade. Notably, during Q1 2023, trade growth within Africa showed a 3 per cent increase, outperforming other intra-regional trade.

Trade remains positive for North America, Africa and the Pacific region



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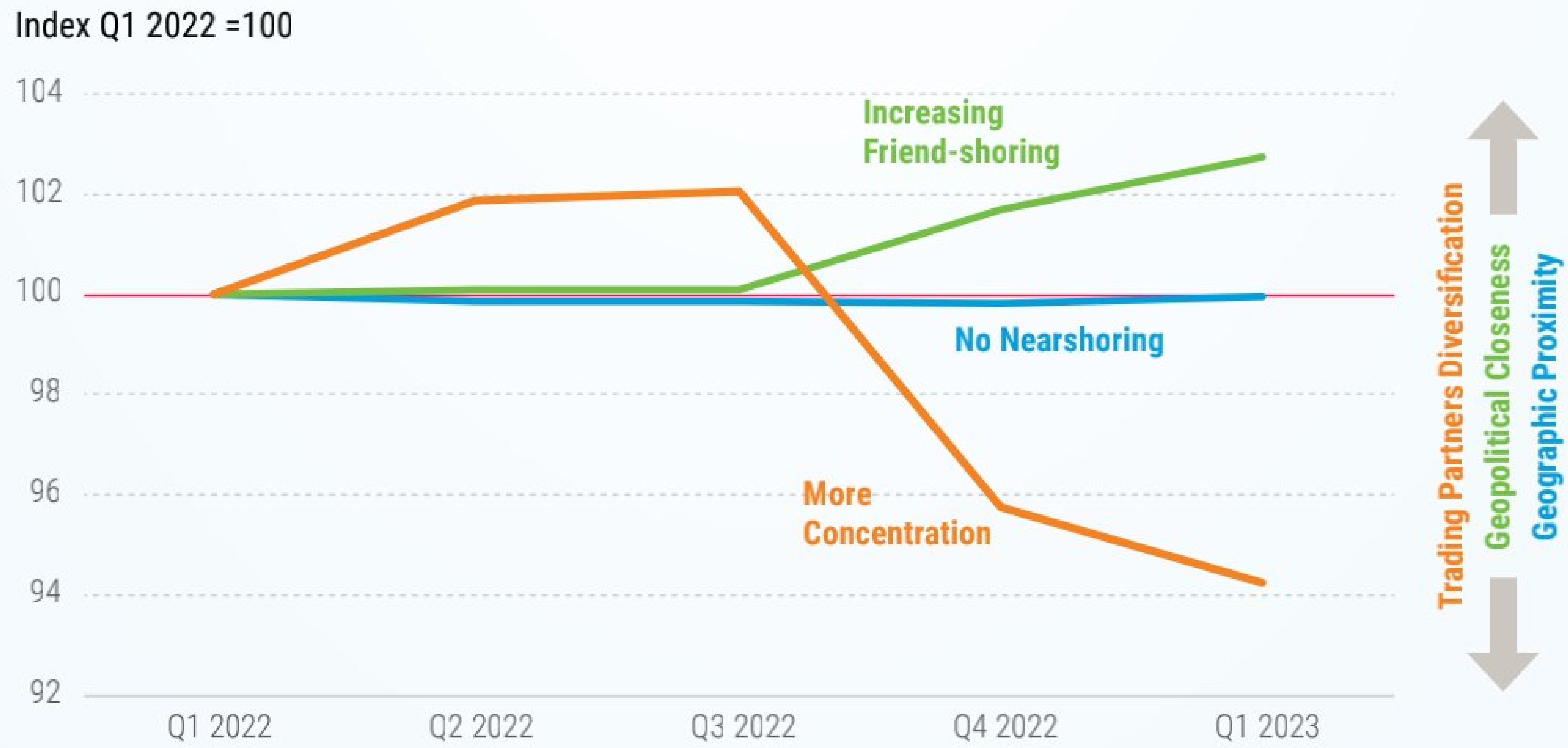
Source: UNCTAD estimates based on national statistics.
Note: Quarterly growth rates are relative to the previous quarter. Annual growth refers to the last four quarters. IR denotes intra-regional. Data is seasonally adjusted. Data does not include trade in services. Imports and exports exclude intra-EU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

Global trade dynamics and trade dependence

During 2022 and Q1 2023, the geographical proximity of international trade remained relatively stable, suggesting a lack of significant nearshoring or far-shoring trends, at least on average. However, there has been a notable increase in the political proximity of trade since the latter part of 2022. This indicates a reorientation of bilateral trade flows to prioritize countries that share similar political values (friend-shoring). Concurrently, there has been a decline in diversification of trade partners, implying that global trade has become more concentrated among major trade relationships.

Friend-shoring and increasing concentration for global trade



Source: UNCTAD secretariat calculations based on national data, UN voting data, and CEPII geographical data.
Note: Geographic proximity is based on the average geodesic distance of global trade. Geopolitical closeness is measured by the similarity of foreign policy position based on voting patterns at the United Nations General Assembly. Trading partners' diversification is based on the Herfindahl concentration index. All variables are normalized to 100 in Q1 2022.

The war in Ukraine, the decoupling of the United States-China trade relationship, and the consequences of Brexit have played a significant role in shaping key bilateral trade trends over the past four quarters. These factors show in the changes of bilateral trade relationships among the interested economies and their main trading partners.

Trade dependencies have shifted due to the war in Ukraine, United States-China tensions, and Brexit

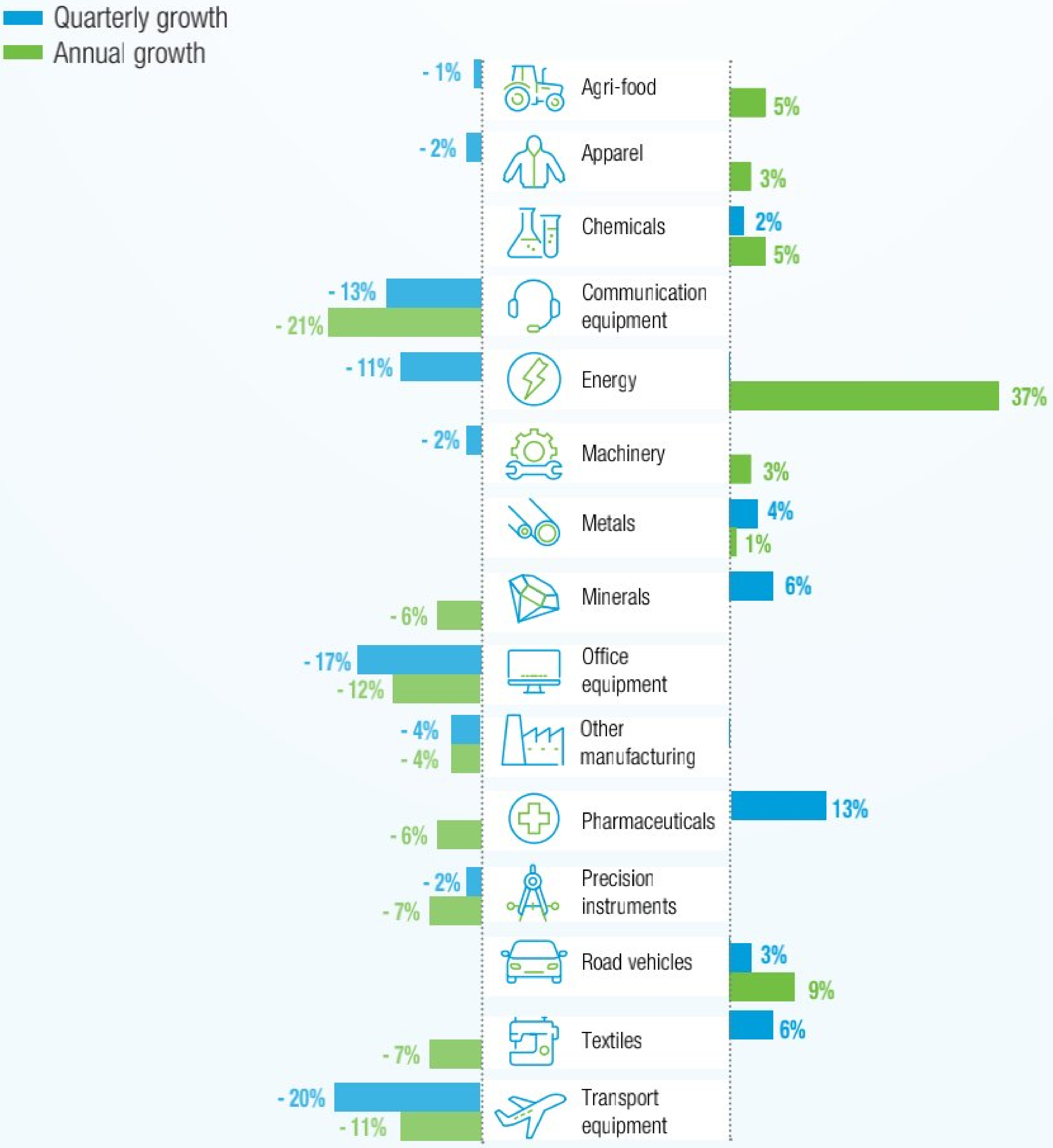
Increasing trade dependence		Change in dependence	Decreasing trade dependence		Change in dependence
Dependent	Depending on		Dependent	Depending on	
Ukraine	European Union	20.5%	Russian Federation	European Union	-5.6%
Belarus	Russian Federation	8.5%	Taiwan Province of China	China	-2.7%
Norway	European Union	3.8%	Australia	China	-2.2%
Russian Federation	China	3.7%	Brazil	China	-2.2%
Canada	United States	1.2%	United Kingdom	European Union	-2.0%
Taiwan Province of China	United States	1.1%	United States	China	-2.0%
United Kingdom	United States	1.0%	Republic of Korea	China	-1.9%
United States	European Union	0.8%	China	United States	-0.9%
United States	Mexico	0.8%	India	United States	-0.5%
European Union	United States	0.4%	European Union	China	-0.4%

Source: UNCTAD calculations 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. Percentage point change is computed as a four-quarter (Q2 2022 – Q1 2023) average relative to the same period in the previous year (Q2 2021 – Q1 2022).

Global trade trends at the sectoral level in Q1 2023

Global trade trends over the past four quarters were influenced by several factors, but mainly by the energy sector, where the rise in energy prices resulted in higher trade values. Other sectors experiencing trade increases were agri-food products, apparel, chemicals, and road vehicles. Conversely, trade declined in the office and communication equipment, and in the transport sectors. On a quarterly basis, the value of trade in the energy sector experienced a reversal and declined in Q1 2023 relative to Q4 2022. During the same period, the downward trend continued for trade in office and communication equipment. On the other hand, trade increased for metals, chemicals, minerals, pharmaceuticals, and motor vehicles sectors.

During Q1 2023 trade in the transport and ICT related sectors has continued to decline



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