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Successful trade and development strategies for mitigating the impact of the global economic and financial crisis

Update on international merchandise trade

Note by the UNCTAD secretariat

GE.10-

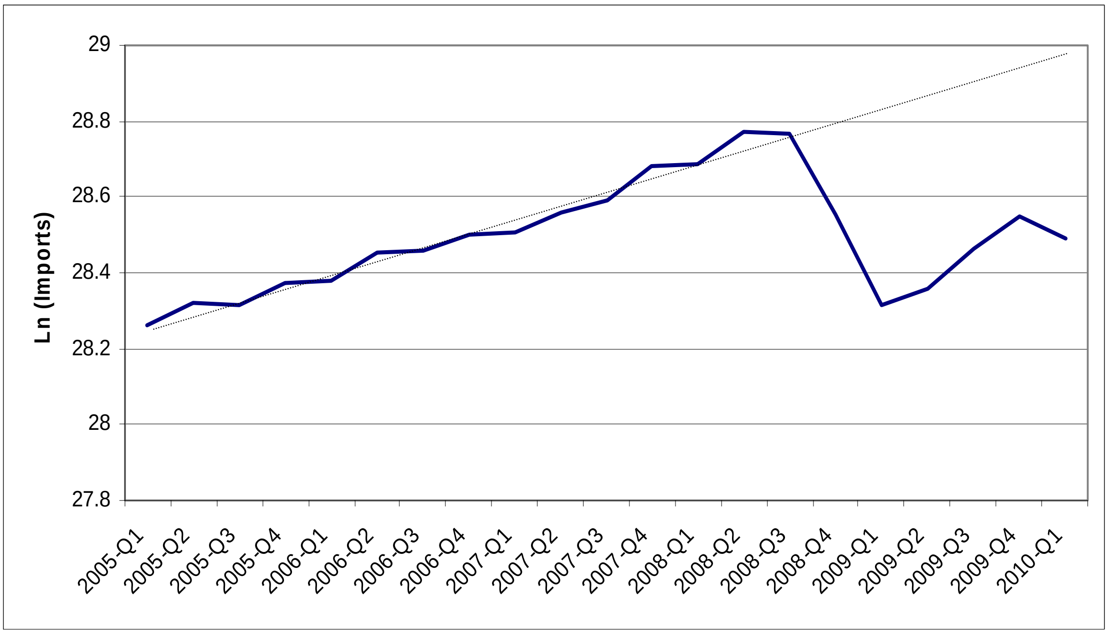
I. Latest trends in international merchandise trade

A. Trade recovery slowing down

1. The latest statistics indicate that international trade may take longer than previously expected to reach its pre-crisis level. The swift V-shaped rebound observed in 2009 appears to have substantially slowed down in the first months of 2010, especially with regard to the imports of high income countries. If continues, this trend will likely have repercussions for growth prospects in export oriented developing economies, especially those overly dependent on South–North trade and that have been counting on a fast recovery of international trade.

2. Although international trade strongly rebounded in 2009, the most recent data indicate that trade values remain approximately 30 per cent lower than pre-crisis levels and almost 50 per cent lower than what they would have been if the world economy had grown at the same rate of the 2005–2008 period (figure 1).

Figure 1. Trend in international trade (quarterly data 2005–2010)



Source: National data statistics and UNCTAD calculations.
Note: Based on a balanced sample of about 60 countries reporting data. Imports are in United States dollars.

B. Factors affecting pace of trade recovery

3. While the signs of recovery are evident across many countries, concerns are mounting on how robust and sustained the recovery will be. Indeed, the latest trade statistics for the first few months of 2010 indicate that international trade may be headed for a period of sluggish growth, so that it will take longer than expected for international

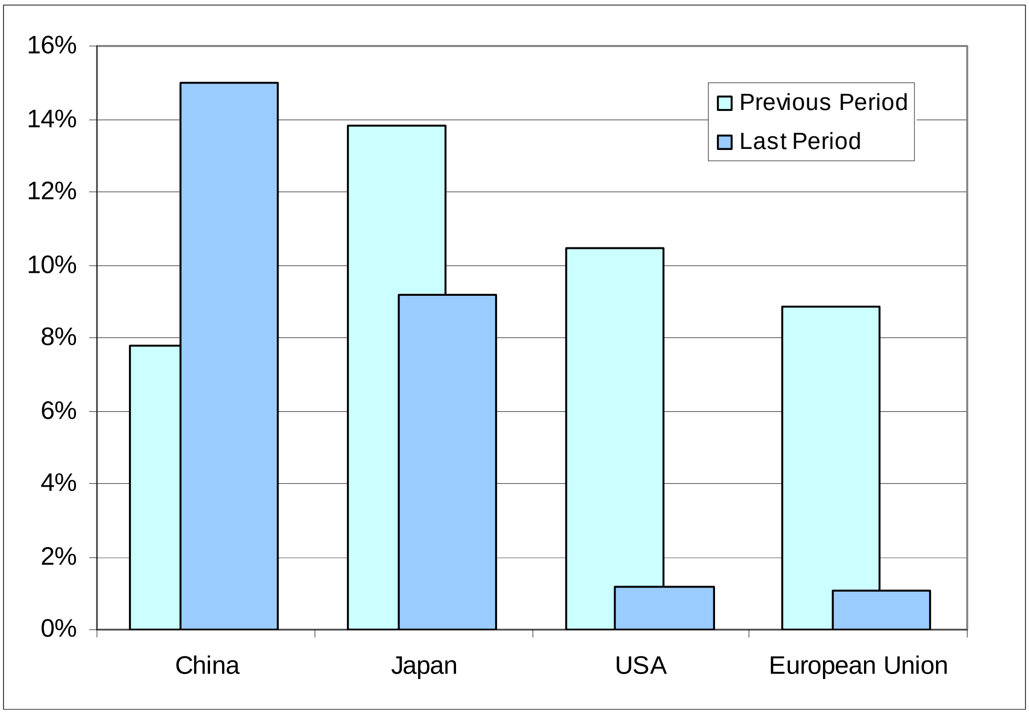
trade to fully recover. This indicates that the effects of the economic crisis on international trade may have more serious long-term implications than previously thought.

4. Three compounding factors appear to contribute to the downside trend in the rebound observed in the first few months of 2010. First, the increase in trade due to the "inventory-bounce" is nearly exhausted. Restocking, which greatly contributed to trade growth in the second half of 2009, is nearly completed and would not have a strong impact in 2010. Second, the effects of the stimulus policies that were put in place during 2009 are waning, thus causing trade levels to stabilize. And third, renewed financial problems, such as those in Europe, are being reflected in poor trade performance for some countries, and transmitted to their trading partners.

C. Inter-country and interregional variations

5. Although the magnitude of the rebound is slowing in many countries, there are evident differences across countries and geographic regions. The latest data indicates that East Asia is still experiencing a faster recovery. In particular, there are signs that demand from China is increasingly supporting global trade. On the other hand, import growth from high-income economies appears to have been fading out in the early months of 2010.

Figure 2. Three-month import growth by country (September–November 2009 to December 2009–February 2010)

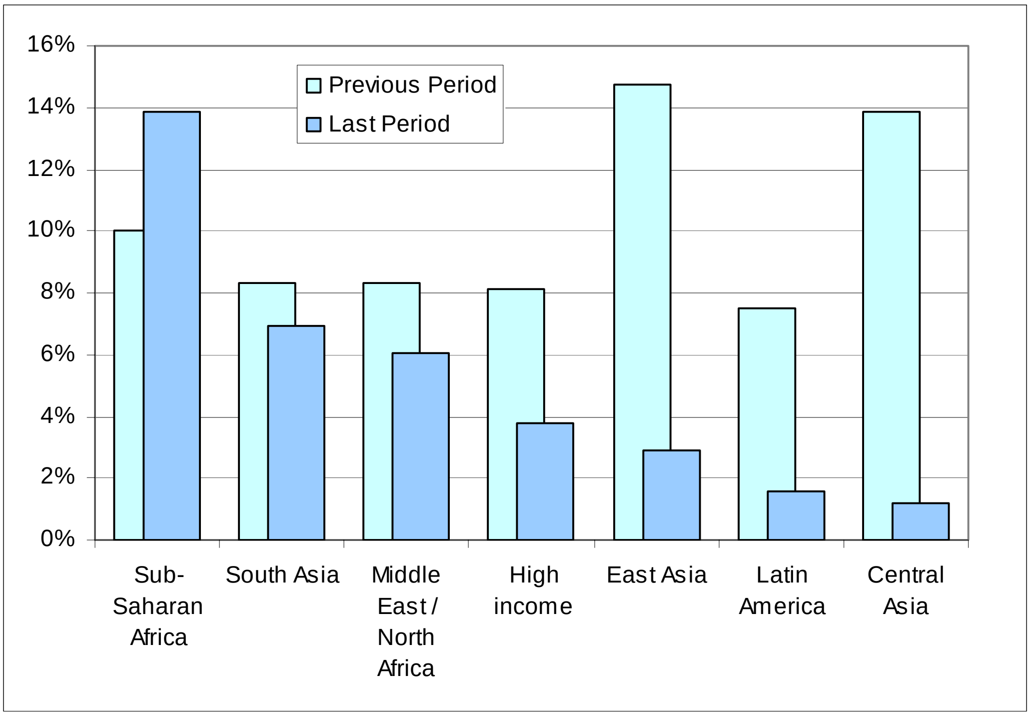


Source: National data statistics and UNCTAD calculations.
Note: Import Growth from Sept-Oct-Nov to Dec-Jan-Feb in "Last Period" and Jun-Jul-Aug to Sept-Oct-Nov in "Previous Period". Values have been controlled for seasonality.

6. Three-month average growth rates by region are shown in figure 2. The darker bars represent the most recent three-month growth rate, and the lighter bars show the previous three-month growth rate. Data for China and Japan indicate continuous growth that has been on track for the past six months or more. The latest data from Europe and the United States, although still positive, show a sharp drop in import growth in the last three months.

7. The slower rebound in many high-income countries is reflected in lower export growth in a number of developing markets. Figure 3 reports the latest data regarding the export performance of developing countries by region, and for high income countries as a whole. The rebound in exports has been fading in all regions, especially in East and Central Asia as well as Latin America, although sub-Saharan Africa has managed to improve performance.

Figure 3. Three-month export growth by region (September–November 2009 to December 2009–February 2010)



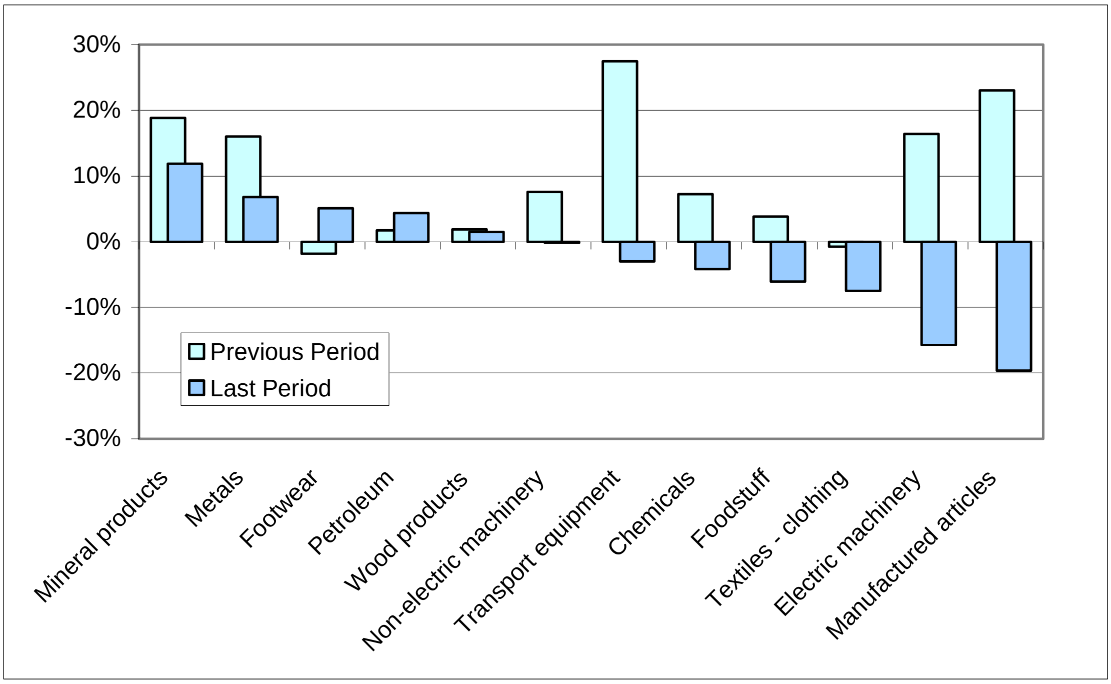
Source: National data statistics and UNCTAD calculations.
I Import Growth from Sept-Oct-Nov to Dec-Jan-Feb in "Last Period" and Jun-Jul-Aug to Sept-Oct-Nov in "Previous Period". Based on imports data from Brazil, China, European Union, Japan and the United States. Values have been controlled for seasonality.

8. Although updated sectoral data across countries are not available for many countries, statistics from the United States indicate that the slowdown in the rebound is widespread across economic sectors (figure 4). On a three-month basis, United States imports in all sectors but petroleum and footwear have slowed down in early 2010 with

respect to the last months of 2009. Moreover, important sectors such as textiles, clothing, and electric and electronic equipment have registered a downward trend.

9. In summary, this latest data suggest that, although international trade is still rebounding, the V-shaped recovery that was observed in the latest months of 2009 will probably not continue in 2010. This slower recovery would have more severe implications for export-oriented countries that were hoping for a swift resume of international trade. For these countries to sustain their export-led growth strategy, it will be essential to diversify their exports into other markets, especially those where demand appears to still be growing fast.

Figure 4. Three-month United States imports growth or decline, by sector (September–November 2009 to December 2009–February 2010)



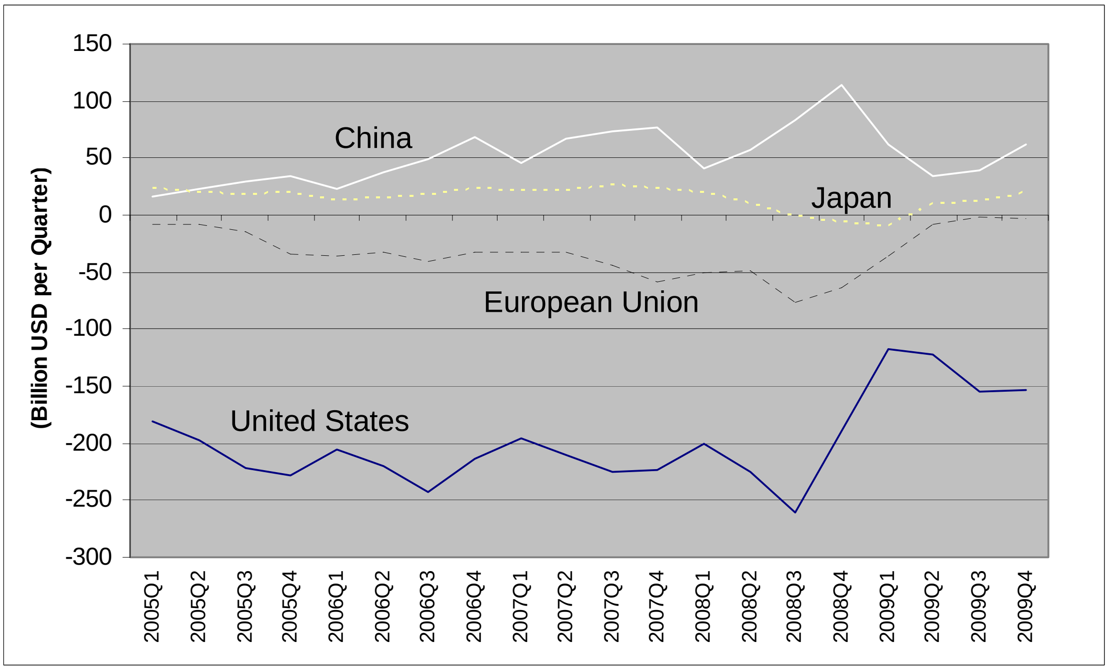
Source: USITC data and UNCTAD calculations.
Note: Import growth from Sept-Oct-Nov to Dec-Jan-Feb in “Last Period” and Jun-Jul-Aug to Sept-Oct-Nov in “Previous Period”. Based on imports data from Brazil, China, European Union, Japan and the United States. Values have been controlled for seasonality.

II. Trends in global imbalances

10. Since their peak in the months before the financial crisis, trade imbalances have improved as a result of the sharp drop in trade. Over 2009, China’s surplus shrunk by over 3 percentage points and the United States deficit improved by 2 percentage points. The question is how much of the rebalancing that has occurred is due to adjustment

between exports and imports (a structural shift) and how much is simply a result of the global decline in trade (a scale effect). Preliminary calculations suggest that about half of the rebalancing of 2009 was due to structural shift. In 2010, for a sustained improvement in global imbalances, more of the adjustment would need to come from a structural shift and less from scale effects. However, this is not borne out by the manner in which recovery in international trade has been taking place, thereby indicating continued risk of a rebound of global imbalances (figure 5).

Figure 5. Merchandise trade imbalances ($ billion per quarter)



Source: National data statistics and UNCTAD calculations.

III. Near-term outlook for international trade in 2010

11. Providing reliable estimates on the trend of international trade in the near future is difficult because most economies have not yet fully stabilized. However, the latest data provide some initial indications. In particular, the strong effect of stimulus packages of 2009 are unlikely to continue in 2010, and their influence on improving demand will wane over time. Consequently, trade growth will rely more on the underlying trend in consumers and business spending. This, in turn, will depend substantially on the job markets, as well as on business confidence. While business confidence has strengthened in many parts of the world, businesses in developed countries remain cautious as regards hiring intentions. The job markets in these countries are likely to remain weak. These factors indicate that the overall level of trade for 2010 may remain below the pre-crisis level.

12. A slower rebound would impose additional risks to the world trading system. In particular, the lack of external demand and weak labour markets could provide new incentives for inward-looking policies, as well as for trade-restrictive measures with protectionist intent. As regards the latter, a recent joint UNCTAD–Organization for Economic Cooperation and Development–World Trade Organization report on G-20 trade and investment measures (March 2010) indicates that the number of trade-restrictive measures introduced in the period between September 2009 and February 2010 has been falling with respect to the high of the crisis, those new measures affect about 0.4 per cent of the world imports (or 0.7 per cent of the G-20 imports). This notwithstanding, there is a continued concern that some of the trade-restrictive measures could potentially degenerate into standing features of policy in the aftermath of the crisis, thus further dampening the recovery of international trade. In this regard, multilateral cooperation should ensure that any protectionist pressures remain circumscribed.

13. Most importantly, the latest data indicate that extent of the rebound in trade appears to diverge among different countries. While the high-income countries’ rebound is significantly slowing down, developing countries’ imports appear to be more resilient, at least at this stage. As a consequence, international trade could receive a substantial boost from an increase in South–South trade. This could provide great opportunities to export-oriented developing countries. However, the magnitude of such a boost would depend upon whether developing countries are successful in enacting trade policies aimed to reduce the obstacles that still affect a large part of South–South trade.