WORLD BANK GROUP

2023 TRADE WATCH

QUARTER 2

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Goods trade weakened as services recovery continued

KEY MESSAGES

» Goods trade contracted slightly in the first quarter of 2023 as tight monetary conditions, growing financial stress, elevated geopolitical tensions and lingering pandemic-related disruptions in East Asia weighed on global demand.

» Services trade continued to recover, with travel already close to 2019 pre-pandemic levels and on track to exceed them in 2023 (particularly in China and the rest of East Asia).

» Global containerized shipping activity picked up globally in the second quarter of 2023. Capacity constraints and shipping rates eased back to pre-pandemic levels.

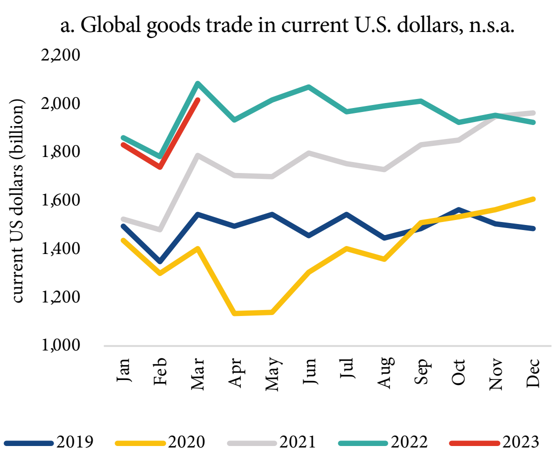
This note has been prepared by the Trade Unit in the Trade, Investment, and Competition (TIC) department. It has been prepared by a team led by Cristina Constantinescu, with contributions by Marlon Amorim, Jean Francois Arvis, Karen Muramatsu, Daria Ulybina, and Chris Wellisz, under the guidance of Sébastien Dessus and Mona Haddad. For further information please contact Cristina Constantinescu at ineagu@worldbank.org. Underlying data for some figures and additional data and charts can be found in the online Excel file that accompanies Trade Watch. The file includes data used in the latest issue. Data for previous issues can be shared upon request.

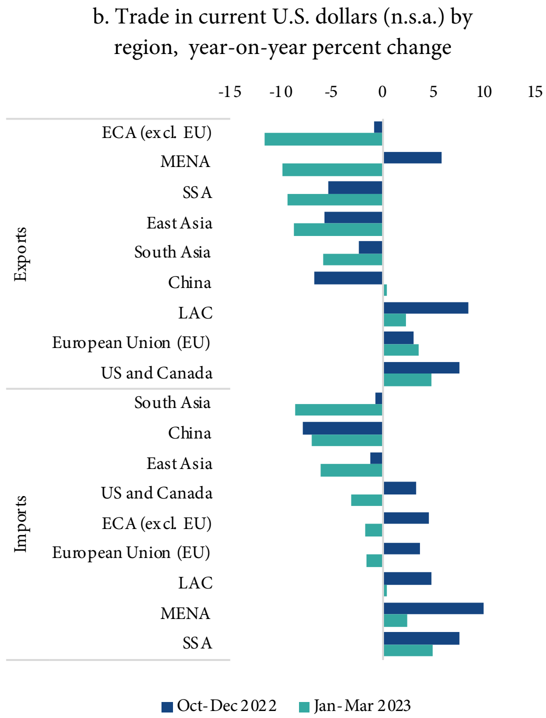
Goods Trade

Global goods trade continued to contract slightly in the first quarter of 2023 following a faster-than-expected recovery in most of 2022. The weakness reflected a post-pandemic shift in demand back to less trade-intensive services from tradeable goods, tight monetary policy aimed at combating inflation, growing financial stress in advanced economies and persistent geopolitical tensions. Trade values declined by 3.7 percent from January through March 2023 over the previous three months and by 2.5 percent relative to the first quarter of 2022, although they still exceeded levels from 2019 to 2021 (Figure 1a). Both traded volumes and prices contributed to the contraction in values. On a year-on-year basis, seasonally adjusted volumes shrank by 1.2 percent and prices declined by 1.7 percent, driven in part by a 28 percent drop in fuel prices (CPB World Trade Monitor). As of the third quarter of 2022, trade prices had retreated by 4 percent from the peak in June 2022 and have remained relatively stable since then, albeit still high by historical standards. The latest WTO goods trade barometer also points to a decline in trade in the first quarter of 2023. The factors weighing on demand are likely to persist through 2023, with growth in the global trade volumes for goods and services combined projected to slow to 1.7 percent in 2023 from 6 percent in 2022 (World Bank Global Economic Prospects, June 2023).

Goods trade declined in multiple regions, led by East Asia (excluding China) and Europe and Central Asia (Figure 1b). In early 2023, China's exports recovered from the large decline of the previous quarter, but imports remained depressed, as the effects of COVID-19 stimulus measures on domestic demand started to fade. In the rest of East Asia, exports and imports deepened their slump amid lingering disruptions in regional value chains due in part to the unbalanced rebound in China's trade. Relative to the first quarter of 2022, exports declined by 11.6 percent in Europe and Central Asia (excluding the European Union) as the drop in global fuel prices slashed export receipts in Russia and Norway by around 30 percent. The sanctions-induced drop in Russia's trade continued to be offset by diversion to alternative trading partners; for example, Russia's share in US and EU imports declined by over 70 percent each, but its share in China's imports increased by 45 percent and in India's by 360 percent. Meanwhile, Ukraine's exports remained depressed, at 34 percent below the level in the previous year. Export receipts plunged among fuel and commodity exporters in the Middle East and North Africa, Sub-Saharan Africa, and South Asia but grew in Latin America and the Caribbean on the back of robust growth in Mexico. Imports also weakened, with most regions seeing declines. Preliminary data for 13 countries suggest trade remained subdued in April 2023.

Figure 1: Goods trade contracted slightly in early 2023.

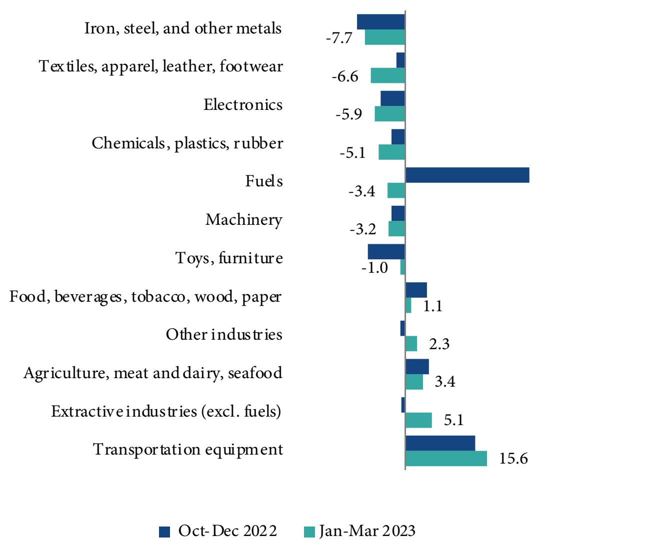




Sources: WB staff calculations using data from WTO, World Bank Global Economic Monitor, IMF International Financial Statistics, OECD, UN Comtrade and official data from China, Eurostat, Japan, UK, and the U.S.

The trade contraction affected fuels, metals, and selected manufacturing sectors, but transportation equipment and few other product groups bucked the trend (Figure 2). Fuel trade values declined by 3.4 percent in the first three months of 2023 over the previous year as global demand eased and prices fell, breaking the pattern of robust year-on-year growth rates seen since early 2021. Trade in metals remained depressed on the back of weak domestic demand in China. Declines continued in apparel, electronics, machinery, and chemicals, reflecting subdued global demand and lingering turbulence in East Asia. Meanwhile, trade in agricultural products, foodstuffs, and extractive industries other than fuels exceeded the levels in the previous year, as prices held up better than for fuels. Trade in transportation equipment stood out as the brightest spot, increasing by 15.6 percent compared to the first quarter of 2022, and exceeding pre-pandemic levels in 2019 by 16 percent, as the return to pre-pandemic transportation patterns buoyed demand, and the shortage of semiconductors used in cars eased. Trade in transportation equipment had taken longer to recover from the pandemic than other goods, staying at or below levels in 2019 until mid-2022.

Figure 2: Declines were led by metals, textiles, and electronics (trade in current US dollars by product group, n.s.a., year-on-year percent change)



Sources: WB staff calculations using data from China Customs, Eurostat, Japan Customs, the US Census and UN Comtrade. Note: HS codes indicated in parentheses)

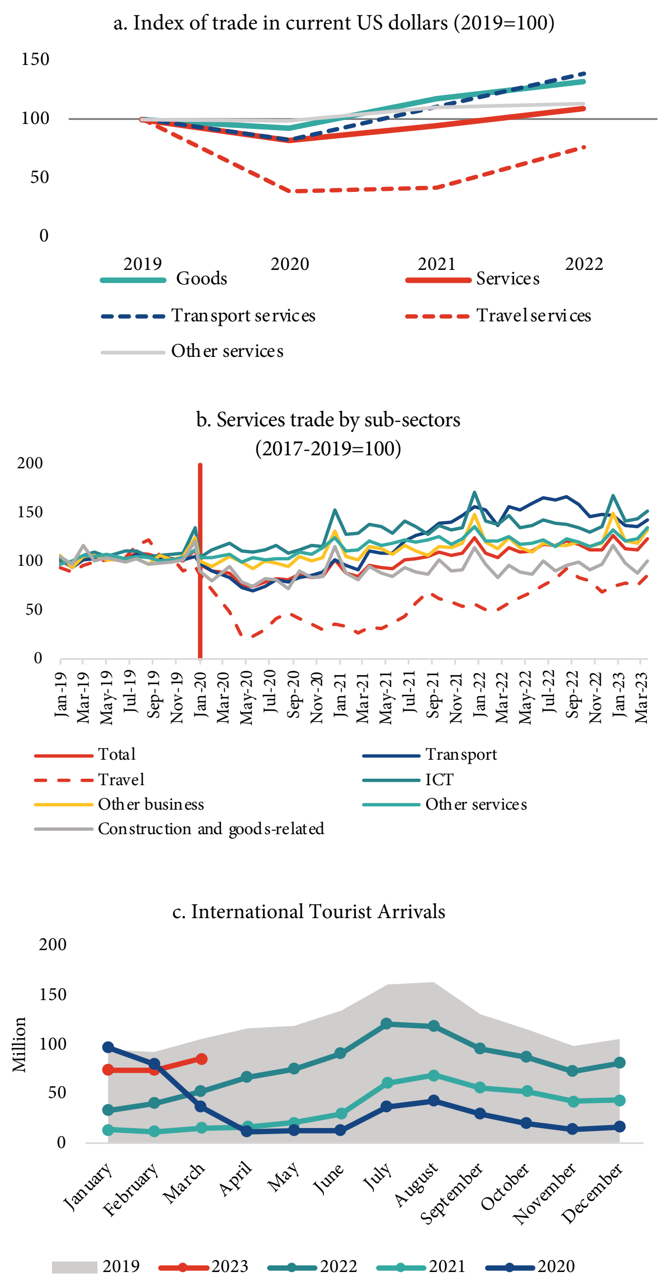
Services Trade

Trade in services continued to grow in the first quarter of 2023 after rebounding in 2022. Trade in services values (in current US dollars) increased by 15 percent in 2022 over 2021 and exceeded pre-pandemic levels in 2019 by 9 percent; transport services—which tend to track goods trade—rose by 38 percent relative to 2019, and other services (excluding travel) grew by 13 percent (Figure 3a). In the first quarter of 2023, trade in services increased by 5.3 percent relative to 2022[1], with all services subsectors trending upward (Figure 3b).

Trade in travel services approached pre-pandemic levels in the first quarter of 2023 after recovering swiftly in 2022. Travel services, which plunged by 61 percent in 2020 and remained significantly depressed in 2021, showed signs of a strong recovery in 2022, surging by 79 percent of 2021 levels, amid a gradual removal of travel restrictions (Figure 3a). Travel services continued to recover in the first quarter of 2023, increasing by 53 percent relative to 2022 yet remained below the corresponding levels in 2019 (Figure 3b). International tourist arrivals, which are closely linked to travel services, continued to improve through 2023, as more countries lifted restrictions. As of June 2023, 170 countries had no COVID-19 restrictions (up from 112 in March 2023); international tourist arrivals in March 2023 were at 78 percent of levels of 2019 (Figure 3c).

1. The global aggregate monthly data is based on data available for 35 economies, which represented 58 percent of global services exports and 57 percent of imports in 2017 according to data from UNCTAD.

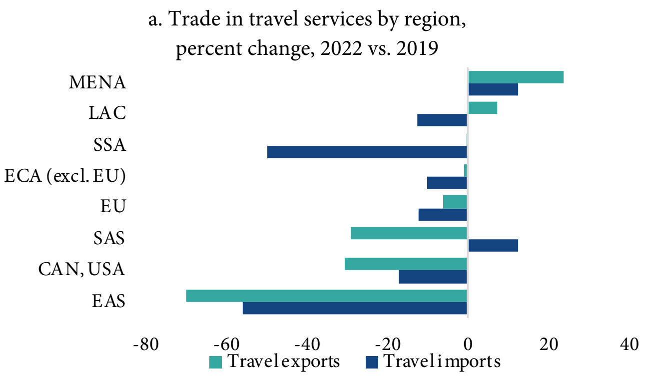
Figure 3: Trade in services increased as travel approached pre-pandemic levels.

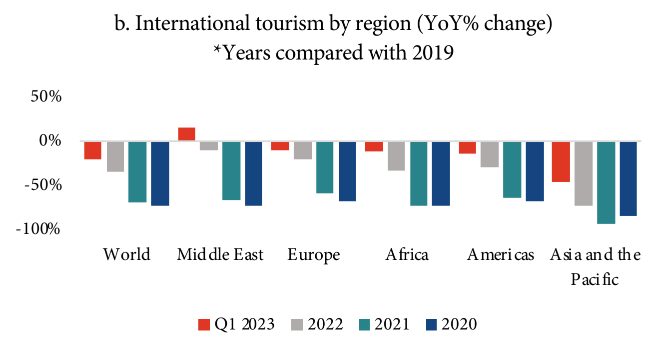


Source: a.b- WB staff calculations using on WTO and UNCTAD data; c - UN World Tourism Organization. Note: b - The global aggregate includes services exports and imports. Data include 14 economies that reported in November 2022, which accounted for approximately 38 percent of global services exports and 39 percent of global services imports in 2017 (UNCTAD). Other services include insurance and pension, financial, royalties, personal and recreational, and gov-ernment services n.i.e.

The rebound in travel services from the pandemic fallout varied by region (Figure 4a), depending on the pace at which restrictions were removed. In 2022, travel exports already exceeded 2019 levels in Middle East and North Africa (notably Saudi Ara-bia, Jordan, Morocco, Egypt as well as Kuwait and Qatar) and Latin America and the Caribbean (in Mexico, Argentina, Colombia, and the Caribbean). By contrast, travel exports (and imports) lagged on a broad basis in East Asia and the Pacific (with the largest negative contributions from Thailand, Japan, and China). Travel exports in Europe and Central Asia remained depressed, with declines in Russia, Ukraine, Norway and Switzerland offsetting strong recovery in Turkey and selected countries in Eastern Europe and Western Asia. In the first quarter of 2023, Asia and the Pacific remained the region most affected but showed signs of strong recovery, as observed in international tourist arrivals (Figure 4b).

Figure 4: Trade in travel services and tourist arrivals recovered at different speeds across regions.



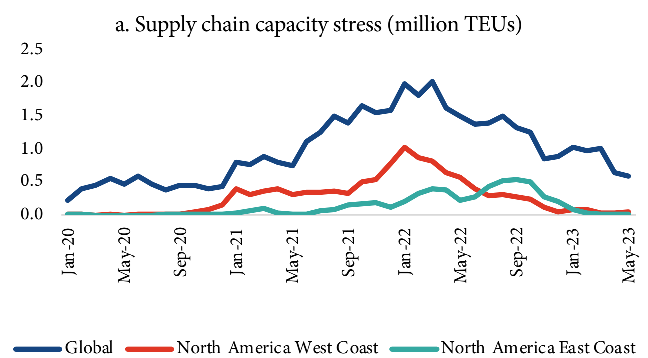


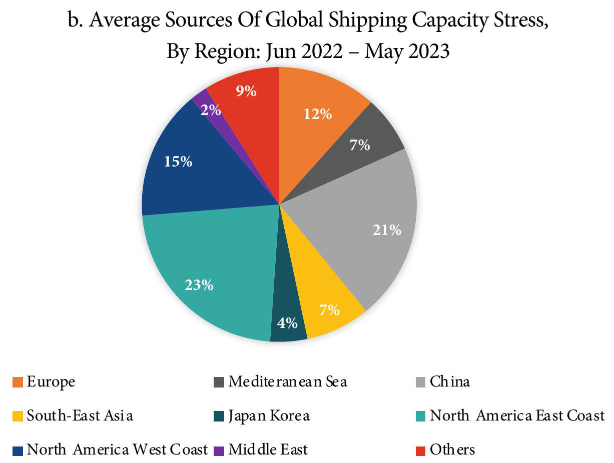
Source: a- World Trade Organization; b – UN World Tourism Organization. Notes: a. MENA – Middle East and North Africa; LAC – Latin America and the Caribbean; SSA – Sub-Saharan Africa; ECA – Europe and Central Asia; EU – European Union; SAS – South Asia, CAN – Canada; USA – United States, EAS – East Asia and the Pacific.

Logistics Constraints

Logistics constraints continued to ease during 2023, with global capacity stress back at pre-COVID lev-els as of May (Figure 5a). North American West Coast port congestion and delays—major sources of global logistics stress since 2021—have dissipated, as the expected arrival time normalized and the number of ships waiting in line dropped to zero. However, ship delays and tensions may resurface in the region if dockworker strikes that started in June 2023 persist into summer. With the improvement of traffic in North America, the main drivers of the remaining global capacity stress shifted to Asian and South European ports (Figure 5b).

Figure 5: Stress eased on the West Coast of North America (Stress and capacity, globally and by region).

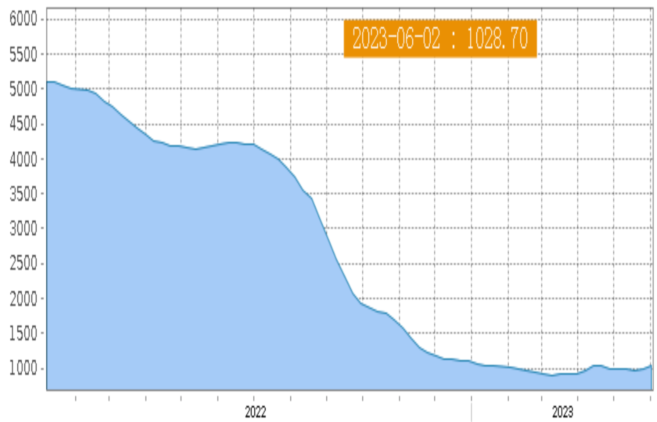




Source: WBG staff calculations using data from MarineTraffic's Automatic Identification System (AIS). Note: The indicators were derived using a global port calls database prepared for the World Bank by MarineTraffic, covering over 7,000 containerships calling at over 1,000 ports worldwide. The stress index is an estimation of shipping capacity additionally mobilized or stalled at ports when excessive delays are observed over historical port-to-port lead time.

Shipping rates have dropped to historically low levels, corroborating evidence of reduced logistics constraints. In May 2023, the Shanghai Containerized Freight Index was below 1,000 basis points (Figure 6) down from the record high values of over 5,000 points reached just two years earlier (see previous issues of the Trade Watch).

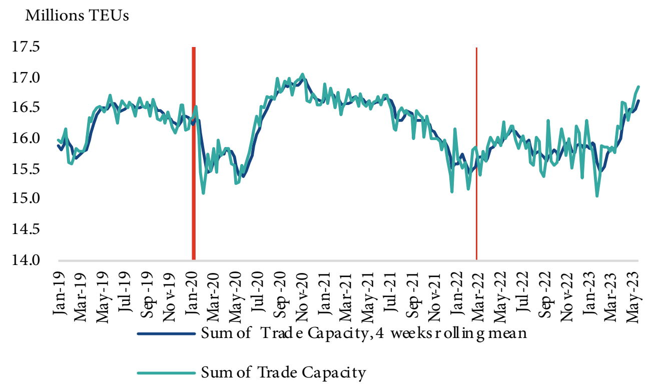
Figure 6: Shanghai Containerized Freight Index.



Source: Shanghai Shipping Exchange

Trade carrying capacity data point to robust trade trends. Between March and May 2023, trade carrying capacity picked up (Figure 7), suggesting strengthening global trade over that period. This is consistent with the recent issue of the WTO Goods Trade Barometer (May 31, 2023), which highlights a possible trade turnaround in the second quarter of 2023 based on improvements in forward-looking indicators such as export orders and output of automotive products.

Figure 7: Trade Carrying Capacity



Source: WBG staff calculations using data from MarineTraffic's Automatic Identification System (AIS). Note: The indicators were derived using a global port calls database prepared for the World Bank by MarineTraffic, covering over 7,000 containerships calling at over 1,000 ports worldwide. The main indicator is instant (weekly) capacity calling in countries or regions, measured in capacity units of Twenty-Foot Equivalent (TEU) boxes.