CALM BEFORE THE STORM

KEY MESSAGES

» Trade in goods and services continued its robust recovery in February, on the eve of the war in Ukraine, even as trade in transportation equipment and international travel remained below pre-pandemic levels.

» Global supply chain stress and delays on major shipping routes stayed elevated in April, amid growing isolation in the Black Sea area after the outbreak of war on Feb. 24 and the introduction of new COVID-19-related lockdowns in China.

SPECIAL FOCUS

How the conflict in Ukraine is reshaping global trade and production.

RECENT TRENDS

Goods Trade

The value of global goods trade (in current U.S. dollars) jumped by 19 percent from a year earlier in February, while declining from the previous month because of seasonal variations (Figure 1). Trade values exceeded previous year levels in all regions and in all product groups. Trade in transportation equipment had yet to reach its levels before the pandemic crisis.

As measured by volume in constant U.S. dollars, trade grew by 7 percent in February from a year earlier, according to the World Trade Monitor published by the CPB Netherlands Bureau for Economic Policy Analysis. By contrast, trade prices, proxied by the gap between trade in current and constant U.S. dollars, increased by 13 percent.

Figure 1. World goods trade (current U.S. dollars, not sea-sonally adjusted) through February 2022

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 Jean Francois Arvis, Karly Dairabayeva, Ian Gillson, Alvaro Espitia, Karen Muramatsu, Mike Nyawo, Daria Ulybina, and Chris Wellisz, under the guidance of Antonio Nucifora and Mona Haddad. For further information please contact Cristina Constantinescu at ineagu@worldbank.org.
Services Trade

Global services trade in February remained above the pre-pandemic level of February 2019. In value terms, exports rose by 7 percent, and imports climbed by 8 percent. Compared with February 2021, services exports were 14 percent higher, and imports were 20 percent higher. However, on a monthly basis, services exports in February fell by 1.6 percent from January, and imports declined by 1.4 percent.

Travel remained depressed, and construction and goods-related services were slightly below pre-pandemic levels (Figure 2). Travel services are expected to gradually recover this year as more countries ease or lift COVID-19 restrictions. However, the conflict in Ukraine could limit demand for travel services, especially within Europe. The average number of commercial flights in April 2022 was about 20 percent lower than in 2019 (Figure 3).

Logistics Constraints

A measure of global stress on maritime supply chains declined in April from a month earlier but remained high by historical norms, as did traffic delays in ports on the West Coast of North America (Figure 4). Globally, 20 percent of container vessels were waiting outside a congested port; of those, close to 30 percent were in China (source: Windward).

Sources: 1: Staff estimates using Global Economic Monitor, data from WTO, IMF International Financial Statistics, OECD, and official data from China, Eurostat, Japan, UK, and the U.S. 2: Estimates based on WTO and UNCTAD data. 3: Flightradar24. 4: WBG staff based on data from MarineTraffic’s Automatic Identification System (AIS). Ship tracking data for AIS reveals real-time information on trade in motion. The analysis was conducted using a calling event database prepared for the World Bank by MarineTraffic, covering over 7,000 ships calling at over 1,000 ports worldwide. The focus is on container shipping, as opposed to commodity freight in bulk. Container shipping carries manufactured goods and is representative of GVCs. The main indicator is instant (weekly) capacity calling in countries or regions, measured in capacity units of Twenty-Foot Equivalent (TEU) boxes (Atlantic ports of France, Spain, Portugal).

Notes: 1: Mirror data are used when data for recent months are missing. Lines depict the average of exports and imports normalized by the average across selected pre-pandemic years. 2: The global aggregate includes data on services exports and imports. Data include 14 economies that reported in September 2021, which accounted for a total of approximately 38 percent of global services exports and 39 percent of global services imports in 2017 (UNCTAD). 4: 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.

Online Excel data: Some of the numbers in the text and additional data corresponding to the merchandise, services, and logistics sections 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.
The conflict in Ukraine is disrupting global supplies of wheat, oil, natural gas, and other essential commodities, pushing prices higher, slowing trade, and driving down incomes. Russia and Ukraine together account for about a quarter of global wheat exports and 14 percent of corn shipments (Figure 1). Ukraine also produces half the world's sunflower oil, which is widely used in cooking and food processing. Russia is one of the world's foremost energy suppliers, accounting for about 13 percent of crude oil exports and 9 percent of natural gas shipments.

Price increases are likely to moderate as other energy and agricultural exporters step up production. The price of crude oil has risen to over 100 dollars per barrel, and gasoline prices have reached new highs during the first weeks of conflict. Wheat prices rose about 20 percent in March from February, and corn prices rose 19 percent. Barley and sorghum also registered record increases (FAO, 2022). These increases come on top of prices that were driven higher as a result of disruptions caused by the COVID-19 pandemic. The progression of the war will determine whether price pressures will continue or undergo a mid-term correction. For now, a quick end to the conflict seems unlikely.

Developing countries that are highly dependent on food and fuel imports are vulnerable. Nicaragua, for example, buys 89 percent of its wheat consumption from Russia and Ukraine; the figure for the Republic of Congo is 67 percent, and for Egypt it is 46 percent. Russia supplies 94 percent of Algeria’s coal and the same proportion of Kyrgyzstan’s natural gas. The world’s poor are disproportionately affected by higher prices for these commodities. On average, for the poorest households, food accounts for 54 percent of their spending, and energy accounts for 7 percent (Figure 2).

We simulate the impact on trade and production of disruptions to agricultural and energy markets caused by the conflict and resulting sanctions against Russia. The scenario calls for an oil-price rise of 7 percent, and a 20 percent jump in wheat, both over the course of a year. Global exports decline by 1 percent. Outside of the Black Sea area, imports of natural resources fall 2.3 percent in volume, and agricultural commodities decline 0.1 to 0.2 percent. Purchases of energy-intensive trade-exposed goods, which include things like chemicals and steel, fall 0.7 percent. The simulation shows a decline in global GDP of just under one percent, with low-income countries marking a 1 percent drop.

Rising fertilizer prices will contribute to food shortages. The price of nitrogen fertilizer in New Orleans soared 29 percent during the first week of the conflict, which began on Feb. 24. Russia and Belarus, its closest ally, are the world’s largest exporters of potash, another type of fertilizer. Brazil, the world’s largest soybean producer, buys about half of its potash from the two countries. Most of Brazil’s soybeans are sold to China, which uses it to feed livestock. As a result, a disruption in potash supplies might affect meat prices in China and around the world.

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1 Price as of April 2nd 2022.

Based on “Impacts of the war in Ukraine on trade of developing countries” by M. Chepeliev, M. Maliszewska and M. Pereira, M. Nyawo (2022), Chapter 1 in “The impact of the War in Ukraine on Global Trade and Investment”, M. Ruta (Ed.), World Bank.
Higher commodity prices create incentives for exporters to expand production to replace some of the exports from the Black Sea region. In our simulation, net exporters of wheat and other crops step up shipments, partially replacing lower exports from Ukraine and Russia. Wheat exports from Western Europe, the Europe and Central Asia (ECA) region, the United States, and India expand the most. Exports of other crops (close substitutes of wheat) from Turkey, China, Brazil, India, and the United States expand also increase. Exporters of fossil fuels in Middle East and North Africa, ECA, Sub-Saharan Africa, and Latin America and Caribbean boost production and exports. Nigerian exports of oil, for example, grow by 0.3 percent of GDP (Figure 3).

Exports of energy intensive manufacturing sectors decline in most regions (-1 percent at the global level). With higher energy prices, production of Wood and paper products; Chemical products; Non-metallic minerals; Metals becomes much more expensive. Exports of non-energy intensive manufacturing sectors and services also decline as demand shifts towards food, energy and transport for which demand is quite inelastic (Figure 3). This leads to lower integration in global value chains (GVCs) for commodity rich exporters such as ECA region (Figure 4). Exports of agricultural and energy commodities from ECA expand and these sectors become more integrated into GVCs – primarily through increasing backward participation. At the same time, a reduction in the GVC participation for a higher-value and more GVC-integrated goods, such as motor vehicles, electronics and other manufacturing leads to an overall reduction in the GVC participation rate.

There are winners and losers. Net importers of energy and agricultural products are likely to see the biggest declines in income. Among them are Turkey, with an expected 1 percent drop, followed by Thailand, with a 0.9 percent decrease. India and South Africa are likely to see declines of 0.6 percent each. On the other hand, net exporters of crude oil will see real income gains amounting to 0.9 percent in Nigeria and 0.5 percent in Mexico (Figure 5).

The war’s impact is being felt in many other ways. Bus fares, home heating costs, and gasoline prices have risen. Fallout from the destruction in Ukraine, along with Western sanctions aimed at isolating Russia’s economy, will be felt in Egypt, Tunisia, and Thailand, which are all highly dependent on tourist arrivals from the belligerents. Tajikistan and the Kyrgyz Republic, former Soviet republics with close economic ties to Russia, are likely to be hurt by the loss of remittances from their nationals who are working there.

Figure 1: Russia and Ukraine’s shares of key commodity exports, 2019

![Figure 1](image1.png)

Source: UN Comtrade, 2022

Figure 2: Share of Consumption by Sector and Consumption Segment, 2010 (%), 92 Countries, lowest and highest consumption segment

![Figure 2](image2.png)

Source: Global Consumption Database.
Large energy and agricultural exporters could gain

Net energy and agricultural importers are the most vulnerable

Figure 3: Change in Exports relative to reference year as a share of real GDP, percent

Note: EITE sectors: Wood and paper products (WDP); Refined oil (P_C); Chemical products (CHM); Non-metallic minerals (NMM); Metals (MET); Non-EITE: all remaining manufacturing sectors.
Source: GTAP 11p2.

Figure 4: Change in GVC participation for Europe and Central Asia (selected sectors), percent-age points

Source: Authors’ estimates using Envisage model.

Figure 5: Change in real income in selected countries and regions, percent

Source: Chepiliev et. al. (2022).