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INTERNATIONAL TRADE: WORLD TRADE IN GOODS REACHES NEW HEIGHTS

Guillaume Derrien

World trade in goods has rebounded very strongly, even though major divergences exist between regions due mainly to widely contrasting health and economic situations.

The turnaround in services exports has been much slower, with transport and tourism still holding at very low levels. Trade in information and communication technology (ICT) services was much more resilient in 2020.

Brexit triggered a sharp increase in the number of new trade agreements in 2021. Two major trade agreements negotiated by the European Union are still pending, one with Mercosur and the other with China.

Negotiations between the United States and China are also at a standstill after the failure of bilateral talks held in Alaska in mid-March.

A DISTINCT V-SHAPED RECOVERY

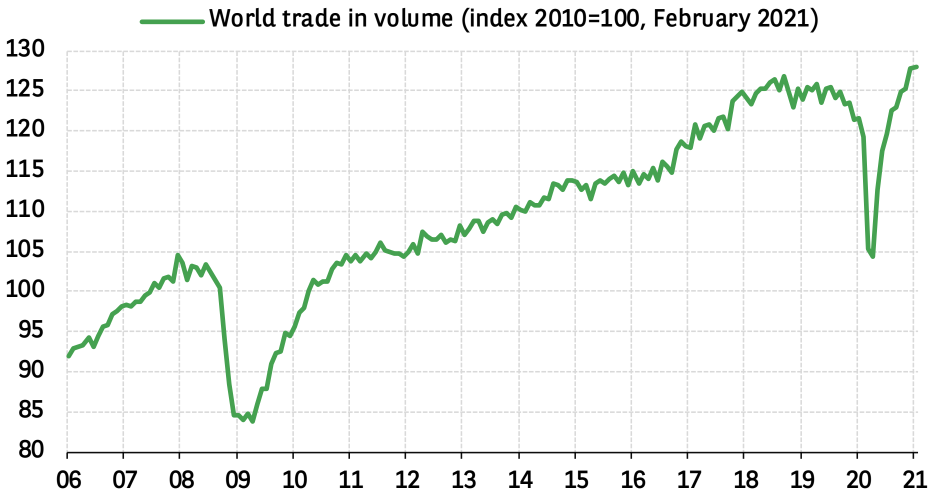


CHART 1 SOURCE: DUTCH BUREAU FOR ECONOMIC POLICY ANALYSIS (CPB)

EXPORTS OF GOODS: ASIA REBOUNDS FIRST

World trade of goods in volume[1] rose above pre-Covid-19 levels during the winter months, erasing during the 6-month period the drop-off reported in Q1 2020 (see chart 1). This V-shaped recovery underscores the unique nature of the current crisis, with demand staging a major catching-up movement and an industrial fabric that is more resilient than during previous crises. Following the 2008 global financial crisis, it took three years before world trade of goods returned to pre-crisis levels.[2] Moreover, despite the abrupt downturn in H1 2020, exports declined 5.0% in volume last year, which is less than the 12.5% decline reported in 2009.

After bottoming out in May 2020, global exports have rebounded by 25% (see table 1). Yet this robust recovery masks rather large discrepancies between regions, which is largely due to the lag in the pandemic's propagation between countries. China was the first to go in lock down and to curb the pandemic, which means that it was able to restart activity, exports and imports earlier than the rest of the world. In February, European exports and imports were still slightly below year-end 2019 levels. The lag in US exports was even bigger (after plummeting sharply in H1 2020), but imports have already risen above year-end 2019 levels.

1 Average global imports and exports
2 The January 2008 peak in trade was not surpassed until January 2011 (source: CPB).

LAG BETWEEN REGIONS (% CHANGE)				
	Exports		Imports	
	Feb. 2021 / Dec. 2019	Feb. 2021 / trough*	Feb. 2021 / Dec. 2019	Feb. 2021 / trough*
World	**3.2**	**25.0**	**4.0**	**20.6**
China	27.1	57.4	15.3	21.4
Emerging Asia (except China)	10.0	34.0	9.4	45.6
Euro area	-2.0	25.7	-1.4	25.8
Japan	1.4	30.0	0,7	16.8
Latin America	-4.9	25.4	2.7	38.6
United States	-8.9	31.4	3.1	21.9
Central & Eastern Europe	-1.8	1.1	0.5	13.0
Africa & Middle East	-9.9	5.6	1.3	3.9

* Respective low point for each region

TABLE 1 SOURCE: CPB

Nonetheless, in both Europe and the United States, trade volumes should rise above pre-crisis levels this spring as the pandemic eases and restrictions are lifted.

For the moment, with Western countries lagging behind China, the capacity of Chinese industries to adapt to changes in world demand has enabled China to consolidate its share of the global export market for goods (see chart 2), to the detriment of the industrialised economies[3], whose export market share fell below the 60% threshold.[4] Yet this is only a temporary phenomenon. With the acceleration of the US economic recovery this winter and the recovery taking shape in Europe this spring, these countries are bound to regain market share. Note that Chinese exports as a share of global exports had been declining between 2015 and the outbreak of the global pandemic, squeezed by structural factors such as higher production costs.

OUTLOOK FOR H2 2021

At the global level, trade logically should continue to strengthen over the course of 2021 as vaccination campaigns progress and economic stimulus packages – foremost of which is the massive American Rescue Plan – bolster global activity. Several leading indicators highly correlated to world trade continued to improve in Q1 2021. In April, the global PMI index for export orders rose to 54.7, the highest level since May 2010 (see chart 3). A similar upward trend can also be seen in terms of new export orders in Taiwan (see chart 4).

This upturn is also corroborated by the World Trade Organization (WTO): in its latest outlook issued in March, the WTO expects global trade to rebound by 8% in 2021, after contracting 5.3% in 2020.[5] That said, there could be a downward shift in global exports once the catching-up movement of demand has eased off.

CHINA REGAINED MARKET SHARE IN 2020

CHART 2 SOURCE: IMF

THE GLOBAL PMI INDEX FOR EXPORTS MAINTAINS STRONG MOMENTUM

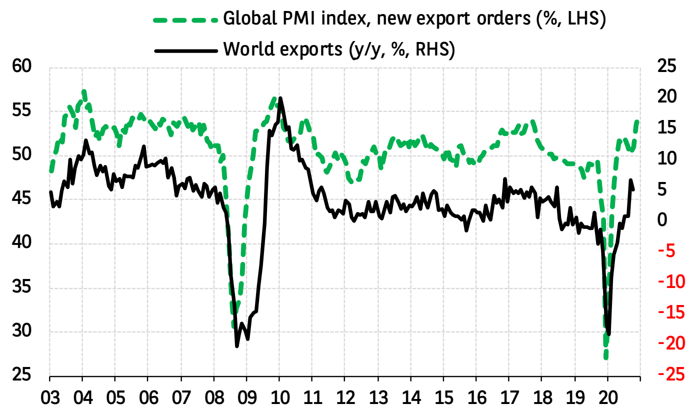


CHART 3 SOURCE: CPB, MARKIT, BNP PARIBAS

3 Based on the IMF classification.
4 IMF data.
5 WTO 2021 Press Releases, *World trade primed for strong but uneven recovery after COVID 19 pandemic shock*, Press/876.

The strong momentum of demand could drive up commodity prices and maintain global supply chains under pressure for a while longer, triggering shortages. Currently, the most striking example is the semiconductor shortage, which is spreading to more and more segments of the economy.[6] Prices of numerous industrial inputs (notably copper, iron ore and aluminium) and food commodities (corn, wheat and soybean) have increased significantly, rising well above pre-crisis levels (see chart 5). Transport costs have also come under fierce upward pressure: the China Containerized Freight Index has jumped by more than 140% relative to the end of 2019.

TRADE IN SERVICES IS STILL FRAGILE AND EVOLVING

In the services sector, the dynamics continued to be much more fragile in the first part of the year. Business restrictions imposed to curb the pandemic had a more harmful impact on this sector, especially on tourism and transport, two segments that accounted for nearly 40% of all global exports of services before the outbreak of the pandemic.[7] In 2020, these two segments reported record declines (see chart 6), along with maintenance and repair services, which also contracted sharply. The decline in "other services" was more moderate.[8]

Note that the "other services" category is comprised mainly of services closely linked to the technology sector (finance, telecommunications, intellectual property rights, research & development and consulting/management). The rest pertains to construction and cultural & leisure activities, which have a relatively small weighting in the export of services.[9] "Other services" account for a growing share of the export of services, a trend that has already been visible over the past decade[10], and which rose to 55.9% in 2020. Growth is mainly concentrated in exports of services of Information and Communication Technology. This trend could continue to amplify further given the major structural changes engendered by the Covid-19 crisis (notably the increase in remote working and online retailing).

INCREASE IN THE NUMBER OF FREE TRADE AGREEMENTS

The UK's effective exit from the European Union on 1 January 2021 led to a significant increase in the number of new regional trade agreements (see chart 7). Of the 38 new trade agreements registered with the WTO that have taken effect since the beginning of 2021[11], 35 include the UK. Yet this increase has followed a slight slowdown since 2016. All in all, the WTO has registered 348 free trade agreements effective worldwide.[12]

Europe is still the focus of attention with two major free trade agreements that are currently blocked:

- The first concerns the free trade agreement between the EU and the four big Mercosur countries: Argentina, Brazil, Paraguay and Uruguay. Officially approved in July 2019, the treaty must still be signed by national governments and the European Parliament. This agreement would gradually eliminate the tariff barriers on numerous products (automobiles, textiles, machinery). But several European countries, including France and Ireland, are now having reservations about the treaty in its current form and want to add greater environmental and health criteria.

SAME UPWARD TRAJECTORY FOR TAIWAN'S EXPORT ORDERS

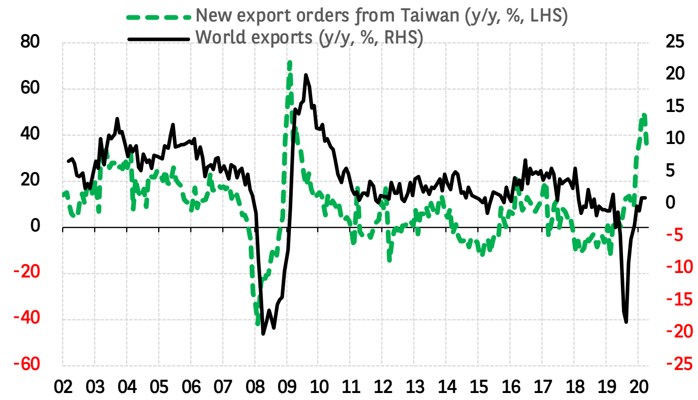
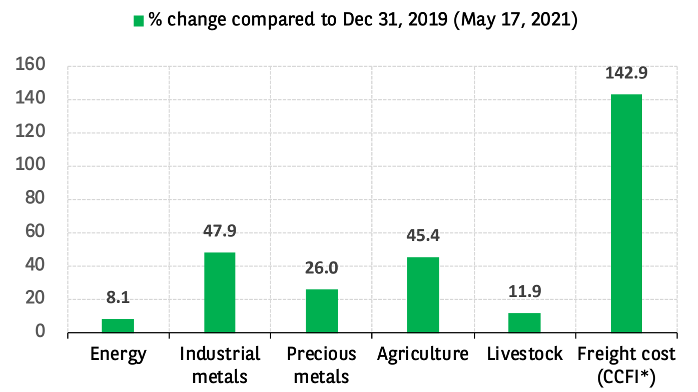


CHART 4 SOURCE: CPB, TAIWAN MINISTRY OF ECONOMIC AFFAIRS BNP PARIBAS

SHARP RISE IN COMMODITY PRICES AND TRANSPORT COSTS



** China Containerized Freight index*

CHART 5 SOURCE: S&P, BNP PARIBAS

- The second blocked treaty concerns the EU-China Comprehensive Investment Agreement, whose principles were officially signed on 30 December 2020. For the moment, however, the EU member states and the European Parliament do not want to ratify the agreement. Diplomatic tensions have intensified between the two parties since the agreement was announced last December, notably over the question of China's respect for human rights. The agreement would enable European companies to invest more easily in China in numerous sectors, from finance to production, construction and telecommunications. In exchange, China would gain access to the European energy market, with the possibility of investing in renewable energies.[13]

6 Article in the Financial Times, *Global chip shortage spreads to toasters and washing machines*, 25 April 2021.
7 In 2019, exports of travel and transport services accounted for USD 2 492,976 million compared to total service exports of USD 6 129,480 million.
8 We use the term "other services" because currently available data on global exports of services cannot be broken down any further for the year 2020.
9 These other components accounted for only 4.5% of global exports of services.
10 See for example Loungani et al., *World Trade in Services: Evidence from A New Dataset*, IMF working paper, March 2017.
11 At 18 May 2021.
12 http://rtais.wto.org/UI/PublicAllRTAList.aspx
13 On condition that China remains below the threshold of 5% markets share in each member state.

Another sensitive subject is the trade relations between the United States and China. The bilateral meeting between representatives of the Biden administration and their Chinese counterparts in Alaska on 18 and 19 March ended in failure. Moreover, the US Senate is currently discussing the Strategic Competition Act, which further targets China as a strategic competitor and risks aggravating diplomatic and economic tensions between the two countries.

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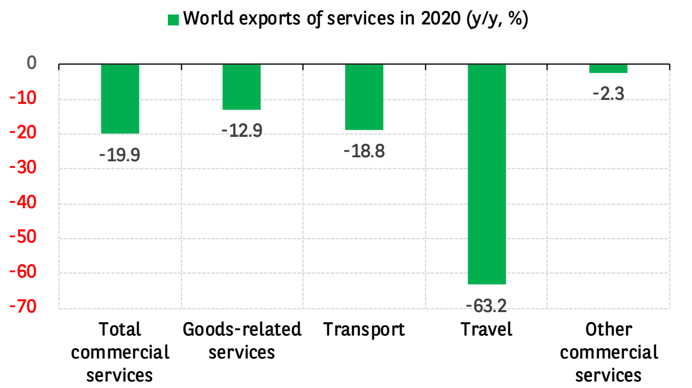
TOURISM-RELATED TRADE PLUNGES IN 2020



* corresponds to services pertaining to the manufacture of inputs, maintenance & repair and cargo transport and insurance.

CHART 6 SOURCE: WTO

IMPACT OF BREXIT ON FREE TRADE AGREEMENTS

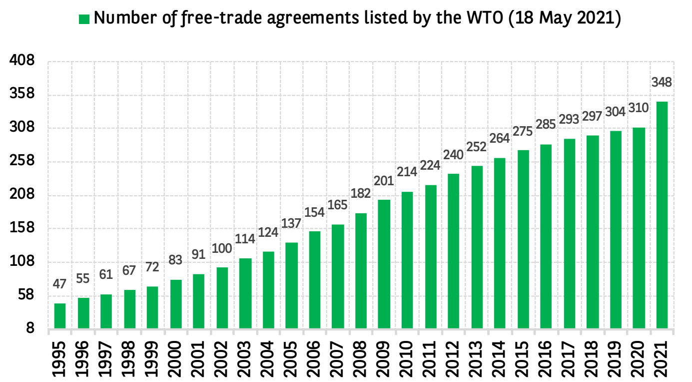


CHART 7 SOURCE: WTO

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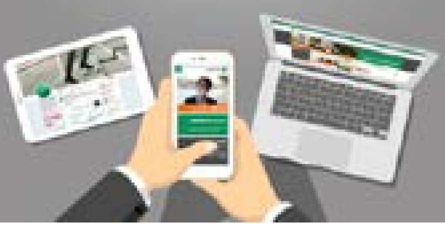

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