Chapter V

Trading patterns: Global and regional perspectives

World merchandise trade in value terms fell by 3 per cent in 2016 following a 13 per cent slump recorded in 2015, with trade growth remaining negative or static for the world's leading traders. China remained the top trader but its share of world merchandise trade declined for the first time since 1996. Exporters of commodities, particularly fuels and mining products, continued to be hit by a decline in commodity prices. Europe was the best performing region in 2016, with a flat growth rate in the value of its merchandise trade, compared with a decline of 3 per cent for North America and 4 per cent for Asia.

In services, the Middle East recorded the highest export growth for the fourth consecutive year, thanks to its thriving air transport sector, tourism and IT services. However, in the Commonwealth of Independent States and in Africa, exports of all services categories plunged. African economies recorded a sharp decline in services imports as falling energy prices cut revenues of oil exporters in the region, reducing their capacity to buy services from abroad. The United States remained the world's leading trader of commercial services while the United Kingdom was the second-largest world exporter despite a sharp depreciation of the British pound. China slipped to fifth position in terms of exports but ranked once again as the second-largest services importer. Sustained by high-tech services, Ireland had the best services trade performance among leading traders.

Merchandise trade

Sluggish performance by the leading traders in 2016

China, the United States, Germany, Japan and France were the top five traders for merchandise exports and imports (in terms of value) in 2016, accounting for more than 38 per cent of world merchandise trade.[1] In terms of exports and imports, Netherlands and the United Kingdom ranked fifth and fourth for exports and imports respectively. Imports and exports from the top five traders both dropped by 3 per cent in 2016, compared with a decline of 11 per cent and 7 per cent respectively in 2015.

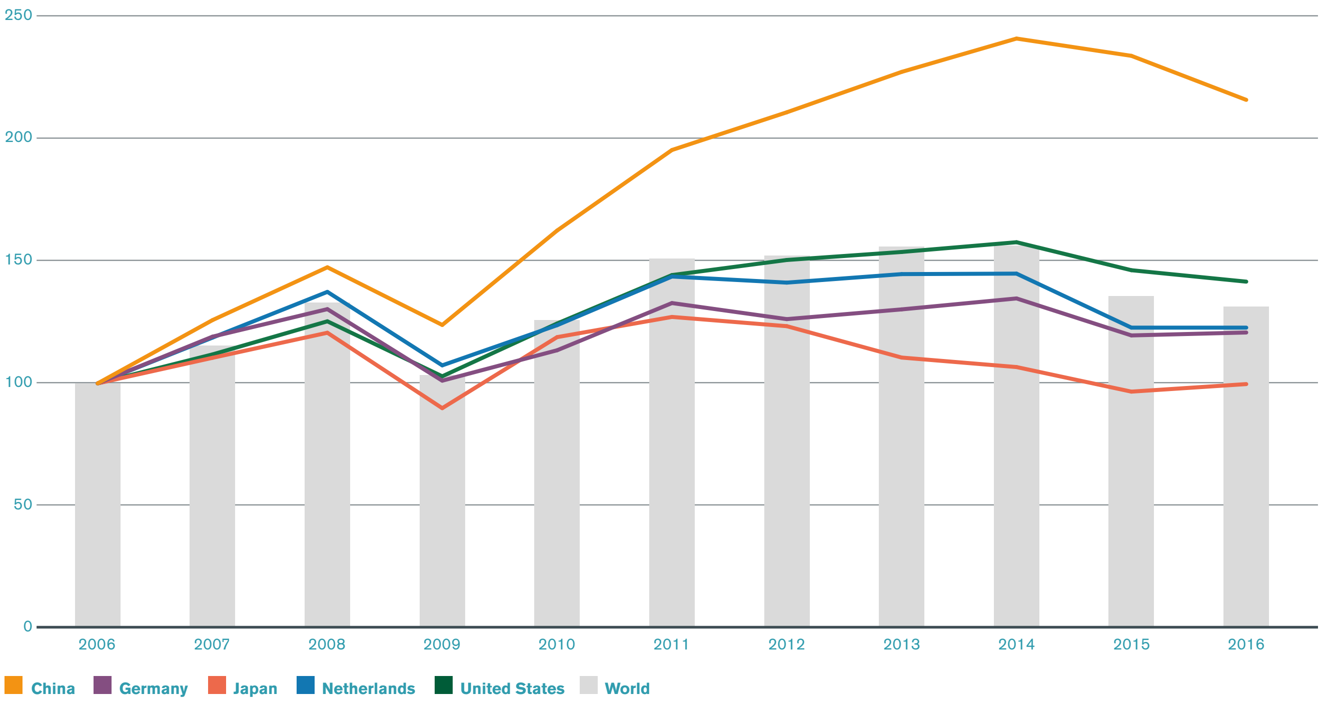
China's share of world merchandise trade in 2016 declined for the first time since 1996, falling to 11.8 per cent compared with 12.2 per cent in 2015. China's exports totalled US$ 2.10 trillion, a decline of 8 per cent following a 3 per cent decrease in 2015. Chinese exports made a slow start to 2016, with an initial decline of 13 per cent compared with the same quarter of 2015. On the imports side, a decline of 5 per cent on a year-on-year basis was less marked than the decline of 14 per cent recorded in 2015. In volume terms, import demand from China grew by 3 per cent following a decline of 2 per cent in 2015.

China's trade balance remained positive in 2016 but declined by US$ 83.2 billion to US$ 510.7 billion in 2016. This follows an improvement of US$ 124.0 billion to its trade balance in 2014 and an improvement of US$ 210.8 billion in 2015. Preliminary data shows that trade surplus in manufactured goods, which account for more than 96 per cent of China's total exports, reached US$ 969.8 billion in 2016 compared with US$ 1.06 trillion in 2015 (see Table A17).

The three top regional destinations for China's exports of manufactured goods in 2015 were Asia (37 per cent share), North America (26 per cent) and Europe (20 per cent). Preliminary data show that on the imports side, demand from China for manufactured goods declined at a pace of 5 per cent in 2016 following a decline of 8 per cent in 2015. Imports of fuels and mining products were affected by the decline in prices of these commodities in 2016 (see Chart 3.2).

The United States exported goods with a value of US$ 1.45 trillion in 2016

Chart 5.1:
Leading traders and world exports of merchandise trade, 2006-2016
(Indices, 2006 = 100)



Source: WTO Secretariat.

[1] Merchandise trade is defined as the average of exports and imports.

and imported goods totalling US$ 2.25 trillion. Merchandise exports decreased by 3 per cent, following a decline of 7 per cent in 2015. Agricultural goods, which represented 11 per cent of goods exports in 2016, grew by 3 per cent following a decline of 12 per cent in 2015 (see Table A14). The net trade deficit on goods was lower than in 2015 during the first three quarters of 2016 but a decline during the fourth quarter of the year dragged down GDP growth for 2016 to 1.6 per cent. The US trade balance improved by US$ 16.0 billion in 2016 following a decline of US$ 42.5 billion in 2014 and US$ 20.7 billion in 2015.

The US merchandise trade deficit with developing economies reached US$ 541.5 billion in 2016, down from US$ 558.2 billion in 2015. Exports declined 3 per cent to US$ 809.7 billion, caused primarily by a decline in machinery and transport equipment products. Imports were down 3 per cent to US$ 1.35 trillion from US$ 1.39 trillion in 2015.

The United States' two partners in the North American Free Trade Agreement (NAFTA) – Canada and Mexico - received over 34 per cent of all US merchandise exports in 2015 and were responsible for 26 per cent of all US imports.[2] The United States ran a trade deficit of US$ 87.7 billion in goods with its NAFTA partners in 2016: US$ 67.7 billion with Mexico and US$ 20.4 billion with Canada.[3] Over the past two years, US merchandise trade has declined by 4 per cent, compared with average growth of 2 per cent in 2013 and 2014.

Within the European Union, Germany was the largest exporter of goods (totalling US$ 1.34 trillion) followed by the Netherlands (US$ 569.7 billion) and France (US$ 501.3 billion). Germany recorded a trade surplus of US$ 284.8 billion in 2016 compared with US$ 43.5 billion for the European Union as a whole. Germany remains the main recipient of world exports to the European Union, with imports valued at US$ 1.05 trillion, or 20 per cent of the EU's total imports. The Netherlands remained the fifth-largest exporter of goods in the world, with a share of 4 per cent of global trade. In terms of imports, the United Kingdom overtook Japan as the world's fourth-largest importer of goods behind Germany, with imports of US$ 635.8 billion in 2016, an increase of 2 per cent. The United Kingdom accounted for 12 per cent of EU imports in 2016 while France's share was 11 per cent.

Japan was the world's fourth-largest exporter of merchandise trade and fifth-largest importer in 2015, with a 4 per cent share of total trade. Among developed economies, Japan showed the highest exports growth in value and volume terms. Japan's merchandise exports rose by 3 per cent while imports fell by 6 per cent. Export growth in 2016 followed a decline of 9 per cent in 2015, with exports US$ 20.1 billion higher than in 2015. Growth was largely driven by a recovery in exports of manufactured goods, which account for more than 87 per cent of the country's total exports. The 6 per cent decline in imports was less marked than the 20 per cent decline in 2015. Japan recorded an increase in demand for agricultural and manufactured products following a decline in 2015.

Japan's trade balance was positive in 2016, with a surplus of US$ 38.0 billion, after recording a deficit of US$ 23.2 billion in 2015 and US$ 122.0 billion in 2014.

Overall, Europe is the third-largest destination of Japanese manufactured goods, accounting for 12 per cent of these exports, with Asia and North America representing 53 per cent and 25 per cent shares respectively.[2] Within Asia-Pacific Economic Cooperation (APEC), Japan represented 8 per cent of the total merchandise trade of the group in 2016.

Europe best performing region in 2016, with steady year-on-year progress

Europe was the best performing region in 2016 followed by Asia and North America. Europe's merchandise exports amounted to US$ 5.94 trillion, followed by Asia's US$ 5.75 trillion and North America's US$ 2.22 trillion. In terms of imports, Europe accounted for US$ 5.92 trillion while Asia's and North America's imports stood at US$ 5.21 trillion and US$ 3.07 trillion respectively. Europe's exports and imports remained flat overall in 2016 compared with a decline of 13 per cent in 2015.

Africa's exports experienced a decline of 12 per cent in value terms in 2016, with oil exporters most adversely affected by lower oil prices. With average annual fuel prices 17 per cent lower in 2016, African oil exporters dragged down the region's performance. Oil exporters recorded a decline of 27 per cent compared with a decline of just 1 per cent for Africa's non-oil exporters.

Among the leading oil exporters, Nigeria saw a decline of 36 per cent while Algeria and Tunisia fared relatively better than the average for this group, recording declines of 16 per cent and 4 per cent respectively in value terms (see Table A58). Conversely, Egypt

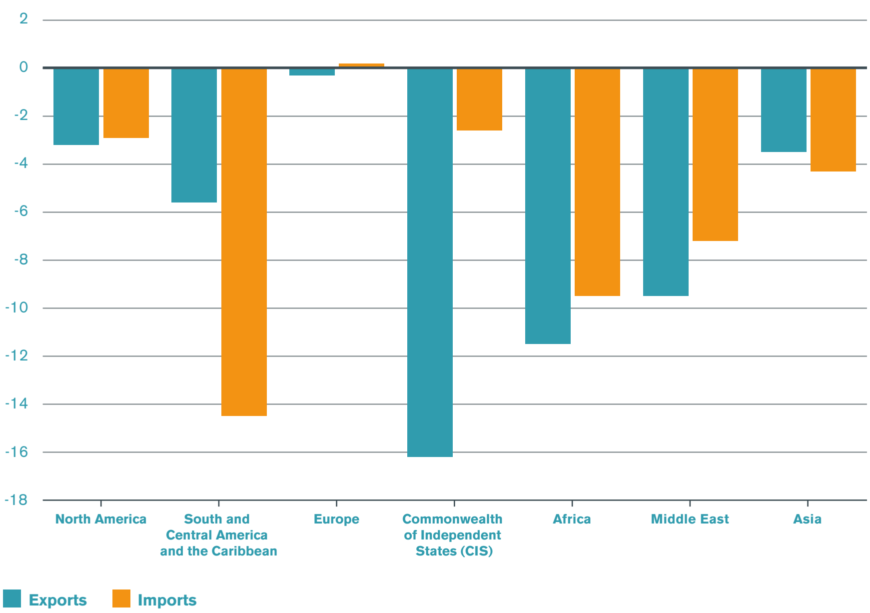
[2] Latest period for which data are available.
[3] Preliminary numbers were extrapolated on the basis of data published by UN Comtrade database.

bounced back from the previous year's poor performance, with growth of 19 per cent for its exports. The lacklustre performance of African countries overall was due to a variety of other factors, including slow economic recovery in advanced and emerging economies (notably China), the drought experienced in some African countries as well as the effects of political turmoil, particularly for North African countries.

Asia's merchandise trade continued to deteriorate in 2016 in value terms. The region experienced a decline in exports of 4 per cent. Among the larger Asian economies, India recorded a much less significant decline (-1 per cent) in its exports in 2016 compared with the decline of 17 per cent in 2015. On the imports side, falling fuel prices continued to weigh down the value of its imports in 2016. Developed economies in Asia registered growth in exports value terms of 3 per cent in 2016 following a decline of 13 per cent in 2015, largely driven by a recovery of Japan's exports. Among the exporters of manufactured goods, Malaysia and the Philippines experienced declines of 5 per cent and 4 per cent respectively (see Table A7).

South and Central America's merchandise exports were down 6 per cent in 2016 as the region remains largely dependent on agricultural and energy commodities and is therefore vulnerable to price movements for these products. Brazil, the world's third-largest exporter of agricultural products in 2016 (see Table A14), experienced a decline in exports of 3 per cent, dragging down the performance of the South American region. Argentina, Costa Rica, the Dominican Republic, Peru and Paraguay achieved positive exports trade growth in 2016.

Chart 5.2:
Merchandise trade by region, 2016
(Annual percentage change, %)



Source: WTO Secretariat.

In the Middle East and the Commonwealth of Independent States (CIS), dependence on commodities continued to weigh down their trade performance. The CIS recorded the worst performance among all regions in terms of exports, registering a decline of 16 per cent. These exports totalled US$ 418.6 billion while imports reached US$ 332.6 billion in 2016. Middle Eastern countries recorded exports of US$ 765.8 billion and imports of US$ 665.2 billion in 2016.

Regional trade agreements recorded static or declining growth in 2016

NAFTA, the European Union and the Association of South-East Asian Nations (ASEAN) accounted for 58 per cent of global trade in 2016, including 56 per cent of world exports (US$ 8.73 trillion) and 60 per cent of world imports (US$ 9.47 trillion). The members of these three regional trade agreements (RTAs) represented 53 per cent of world GDP in 2016[4], with an average growth rate of 1.9 per cent in 2016 and a market size of 1.6 billion consumers.[5]

However, total merchandise trade for all RTAs remained static or declined in value terms. NAFTA, ASEAN and the European Union recorded a weighted average decline in their merchandise trade of 1 per cent in 2016 compared with a decline of 11 per cent in 2015 (see Chart 5.3).

NAFTA's merchandise trade performance improved compared with 2015 but growth remained negative in 2016. NAFTA's exports stood at US$ 2.22 trillion while its imports totalled US$ 3.07 trillion. As a result, it increased its share of world total merchandise trade

[4] World Economic Outlook estimates, April 2017.
[5] World Bank, World Development Indicators, latest data available for 2015.

Chart 5.3:
Total merchandise trade of selected RTAs, 2014-2016
(Share and annual percentage change, %)

Source: WTO Secretariat.

from 15 per cent in 2010 to 17 per cent in 2016. Its market size is 484 million consumers.[5]

NAFTA's trade deficit for manufactured goods in 2015 amounted to US$ 828.2 billion. These goods accounted for 72 per cent of NAFTA's exports and 79 per cent of its imports.[2] Following three years of growth in import demand for manufactured goods, preliminary figures suggest a decline of 2 per cent in 2016 (see Table A17). Trade within NAFTA represented 50 per cent of exports and 33 per cent of imports. The United States accounted for 66 per cent of NAFTA's total exports in 2016, Canada for 18 per cent and Mexico for 17 per cent.

The European Union's merchandise trade remained static in 2016 following a fall of 13 per cent in 2015 (see Table A56). The EU's trade surplus reached US$ 43.5 billion, compared with US$ 66.5 billion in 2015. EU imports of manufactured goods, which represented 73 per cent of the EU's total imports, remained at the same level as in 2015, a recovery from the decline of 8 per cent in 2015 (see Table A17).

The EU's merchandise trade performed better than in 2015 during each quarter of 2016. The trade deficit for raw materials, food, fuels and mining products is compensated for by exports of manufactured goods, which accounted for 79 per cent of the EU's total exports. Trade within the European Union represents 64 per cent of the EU's total merchandise trade. Within the EU, manufactured goods account for 78 per cent of total trade while food products account for 11 per cent. The European Union had a market size of 509 million consumers in 2015.[5]

ASEAN gained its highest share of world trade since 2010, accounting for 7 per cent of the world's total merchandise trade in 2016. Exports contracted by 2 per cent in 2016 compared with 10 per cent in 2015 while imports fell by 1 per cent compared with 11 per cent the previous year.

ASEAN's trade balance remained positive at US$ 62.0 billion in 2016. Exports from ASEAN countries to the Four East Asian traders (Hong Kong China, the Republic of Korea, Singapore and Chinese Taipei) remained high at 18 per cent of total exports. The persistent weakness of import demand from developed economies for manufactured goods continued to slow down ASEAN's export performance in 2016. The main recipients of ASEAN's exports in 2015 were China (12 per cent of the total), the United States (11 per cent) and the European Union (11 per cent).[2] ASEAN represented a market of over 630 million consumers in 2015.[5]

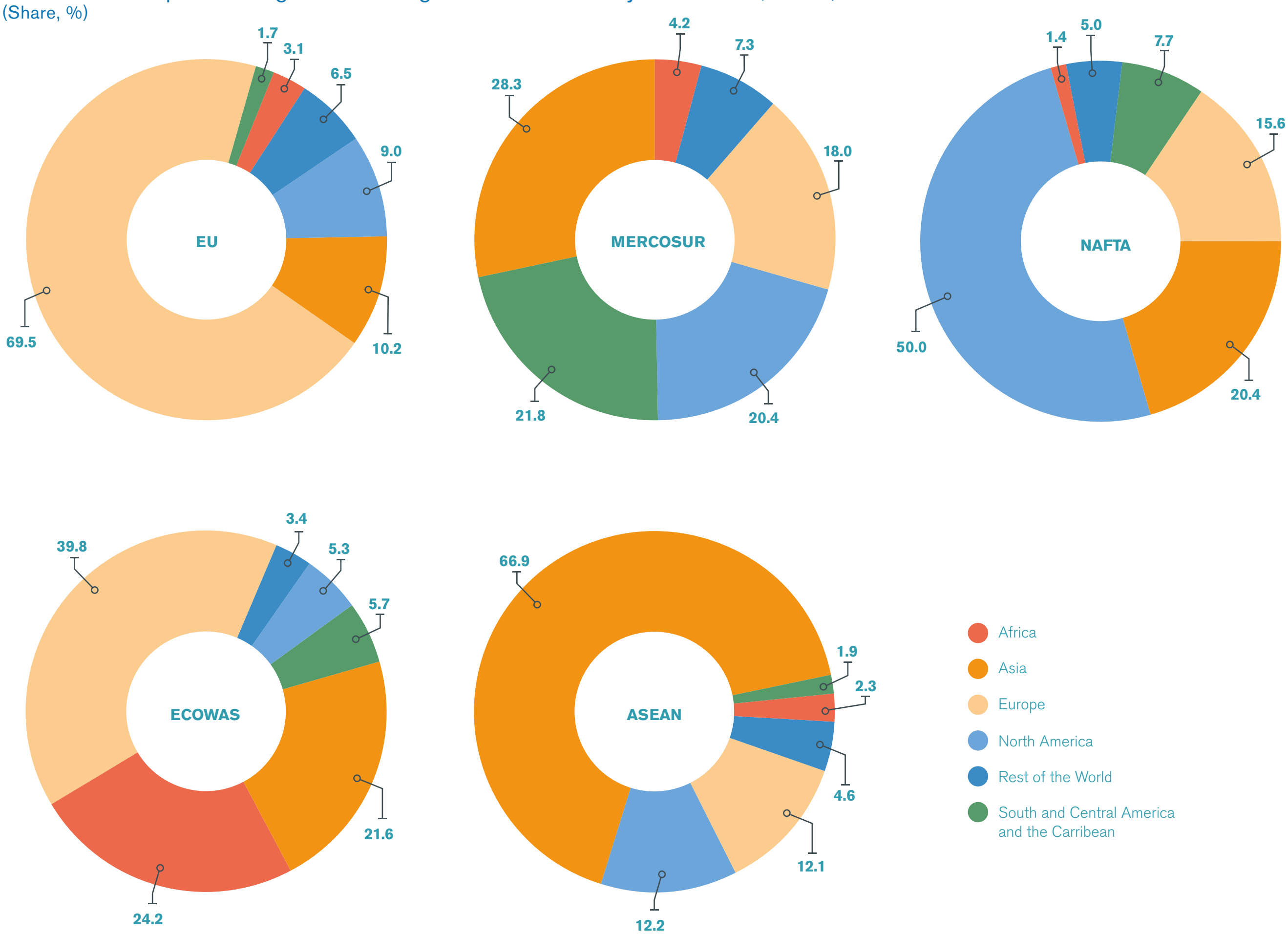
In South and Central America, the newly formed Pacific Alliance (Chile, Colombia, Mexico and Peru) accounts for 57 per cent of merchandise trade in the Latin American and Caribbean countries,[6] compared with a 28 per cent regional share for MERCOSUR (the Southern Common Market) and 11 per cent for the Andean Community (Bolivia, Colombia, Ecuador and Peru). The aggregated trade performance of the RTAs in this region was negative, with a decline of 6 per cent for the exports of MERCOSUR, 5 per cent for the Andean Community and 2 per cent for the Pacific Alliance countries. Trade within these RTAs stood at 14 per cent of total trade for MERCOSUR and 8 per cent for the Andean Community in

[6] Latin America is comprised of South and Central America and the Caribbean, plus Mexico.

Chart 5.4:

Merchandise exports of regional trade agreements (RTAs) by destination, 2015,[7]

(Share, %)



Source: WTO Secretariat.

2015.[2] The main destination for exports of the Andean Community is still North America (with a share of 30 per cent of exports in 2015), followed by Asian economies, with a 20 per cent share (see Chart 5.4).

In Africa, exports from the Economic Community of West African States (ECOWAS) declined by 20 per cent in 2016, following a 37 per cent decline in 2015. The RTA recorded its largest trade deficit since 2009, amounting to US$ 16.7 billion, or 11 per cent of its total trade. The region was largely affected by dwindling demand from developed economies for fuels and mining goods, which account for 62 per cent of ECOWAS exports.

The leading trader in ECOWAS - Nigeria - accounted for a 47 per cent share of the RTA's exports in 2016, followed by Cote d'Ivoire (17 per cent) and Ghana (16 per cent). The group's exports are highly dependent on demand from countries outside the RTA. This dependence remains high compared with other RTAs, accounting for 91 per cent of its total exports.

A more diversified portfolio of exports from the Common Market for Eastern and Southern Africa (COMESA) led to a less severe decline for this RTA of 5 per cent in 2016, with agricultural products accounting for 26 per cent of COMESA's total exports in 2015 and manufactured goods accounting for 27 per cent.[2] This less marked decline was largely driven by the strong performance of Egypt, its leading trader, which achieved positive growth of 19 per cent for the first time since 2010.

[7] Rest of the World includes Commonwealth of Independent States including associate and former member states, Middle East, and NES.

Trade in commercial services

Uneven growth across regions

In 2016, world trade in services recovered from its below-average performance in 2015, expanding by 0.4 per cent. However, trade rose unevenly across regions (see Chart 5.5).

For the fourth consecutive year, the Middle East recorded the highest exports growth (+4 per cent), thanks to its thriving air transport sector, tourism and IT services. However, the region remained a net services importer.

Declines in transport, financial services and intellectual property-related services in the United States affected North America's export performance, which recorded sluggish growth. Europe's exports remained static due to contracting exports of transport, travel and financial services. Exports stagnated also in South and Central America, despite rising travel earnings, the most important services category for the region.

In Asia, robust growth in travel and high-tech services offset declining transport receipts, with total exports of commercial services up by 1 per cent. Asia also saw the most rapid rise in services imports as the region's payments for other commercial services and travel abroad increased.

Yet, in some regions services trade did not recover. In the Commonwealth of Independent States (CIS) and, in particular, in Africa, services trade continued to fall as exports of virtually all services categories plunged. Among all regions, African economies recorded the sharpest declines in imports of "other commercial services" and in travel expenditure overseas. Falling energy prices, which further deteriorated in 2016, cut revenues of African oil-exporting countries, the largest services importers in the region, reducing their purchasing power to buy services from abroad.

Chart 5.5:

Trade in commercial services by region, 2016

(Annual percentage change, %)

Source: WTO-UNCTAD-ITC estimates.

Services trade recovers for leading traders, booms in emerging economies

In 2016, the United States remained the world's leading trader of commercial services, with US$ 733 billion worth of exports and US$ 482 billion of imports. The country had a 15.2 per cent share of global exports and 10.3 per cent of global imports. The other leading traders in 2016 were China, Germany, the United Kingdom, France, Japan, the Netherlands, Ireland, Singapore, and India.

Due to a decline in transport exports and a downward revision of its travel transactions in 2016, China slipped to fifth position in the export ranking from third position in 2015. However, China confirmed its position as second biggest importer of services, with a share in world imports of 9.6 per cent.

Germany's exports bounced back as exchange rate fluctuations in the euro area stabilised following the volatility in 2015. The country ranked third in the world as exporter of services in 2016.

The sharp depreciation of the British pound led to a decline in the United Kingdom's services trade in US dollar terms. However, in national currency, services trade increased by 7 per cent in 2016 and the country retained its ranking as the second-largest exporter of services.

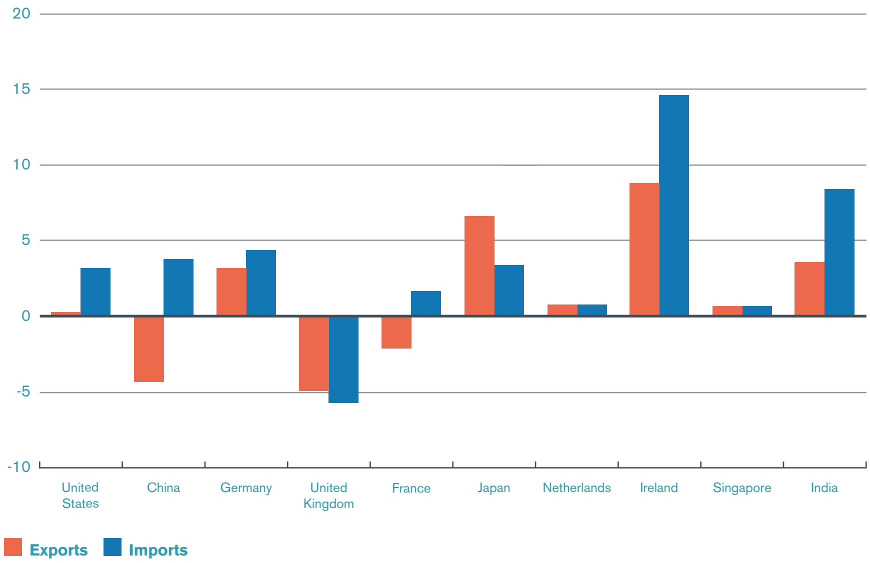
France saw a decline in its exports of "other business services" (a category that includes research and development services (R&D), as well as business, management, professional, technical, and trade-related services), which account for one-third of its services exports. Travel earnings also declined due to lower inflows of foreign tourists following recent terrorist attacks.This resulted in an overall 2 per cent reduction in its services exports in 2016.

In India, robust increases in "other business services" offset static growth for exports of computer services, with total exports of commercial services rising by 4 per cent. Rapid growth in imports was due to "other commercial services", which expanded by 24 per cent in 2016.

Sustained by high-tech services, Ireland recorded the best exports and imports performance among leading traders (see Chart 5.6). In 2016, exports of computer services, largely computer software, were up by 11 per cent. Computer services represent almost half of Ireland's services exports. Ireland's growth in imports was driven by higher payments for research and development (R&D) services (+38 per cent).

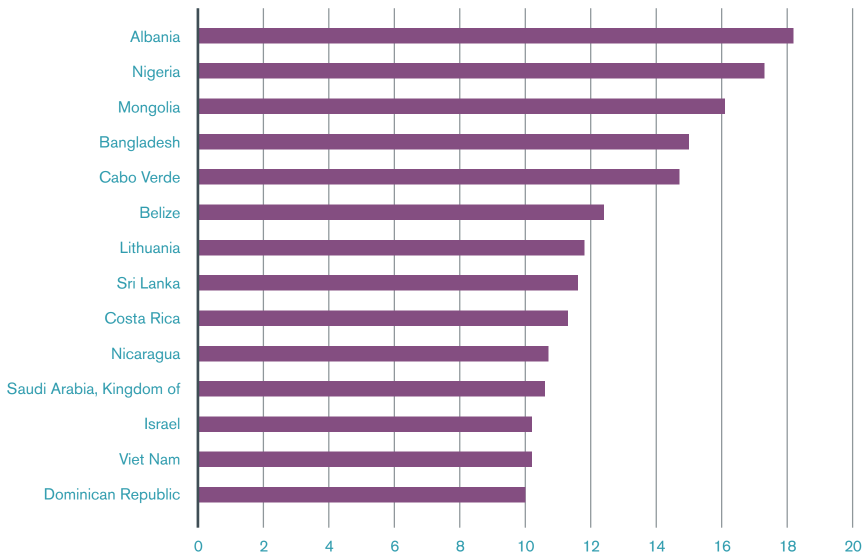
In 2016, several emerging services exporters in developing regions saw double-digit export growth (see Chart 5.7). Although the export values for some of these countries are still quite small, the trend is encouraging. For some of these economies, such as Sri Lanka, Mongolia and Nigeria, 2016 was already the second or third year of rapid export expansion. International tourism was a key driver of growth for many of these economies.

Chart 5.6:
Leading traders of commercial services, 2016
(Annual percentage change, %)



Source: WTO-UNCTAD-ITC estimates.

Chart 5.7:
Commercial services exports in emerging services traders, 2016
(Annual percentage change, %)



Source: WTO-UNCTAD-ITC estimates.

Commercial presence of African companies on the rise in Zambia

Zambia is among the few developing economies and the first least-developed country to compile detailed inward foreign affiliates statistics (FATS). These statistics provide important indicators of the activities of resident majority-controlled foreign affiliates (MOFAs) of foreign firms (see Chart 5.8). In 2014, the latest available year for data, Zambia hosted 164 MOFAs, which accounted for 16.5 per cent of the country's GDP. MOFAs contribute significantly to domestic employment. Between 2011 and 2014, they created some 21,000 jobs in the country, or 9 per cent of Zambia's total employment.

In 2014, total sales by MOFAs reached US$ 14.7 billion (+7 per cent). While mining and quarrying made up the largest share, services activities and construction represented 29 per cent of total sales. Sales by MOFAs engaged in services activities provide the closest measure of Zambia's imports of services through the commercial presence of a foreign firm (mode 3 of the General Agreement on Trade in Services). Wholesale and retail trade, and finance and insurance were the most important services sectors. Transport and information and communication technology (ICT) were the next important but some way behind.

The bulk of MOFAs' sales in Zambia were made by developed economies, in particular Ireland, the United Kingdom, Canada and Switzerland. However, the share of trade with other developing economies, especially sales within Africa, is increasing steadily, with MOFAs from Africa accounting for close to 19 per cent of total sales. South Africa was the top-ranking developing partner country, followed by Mauritius.

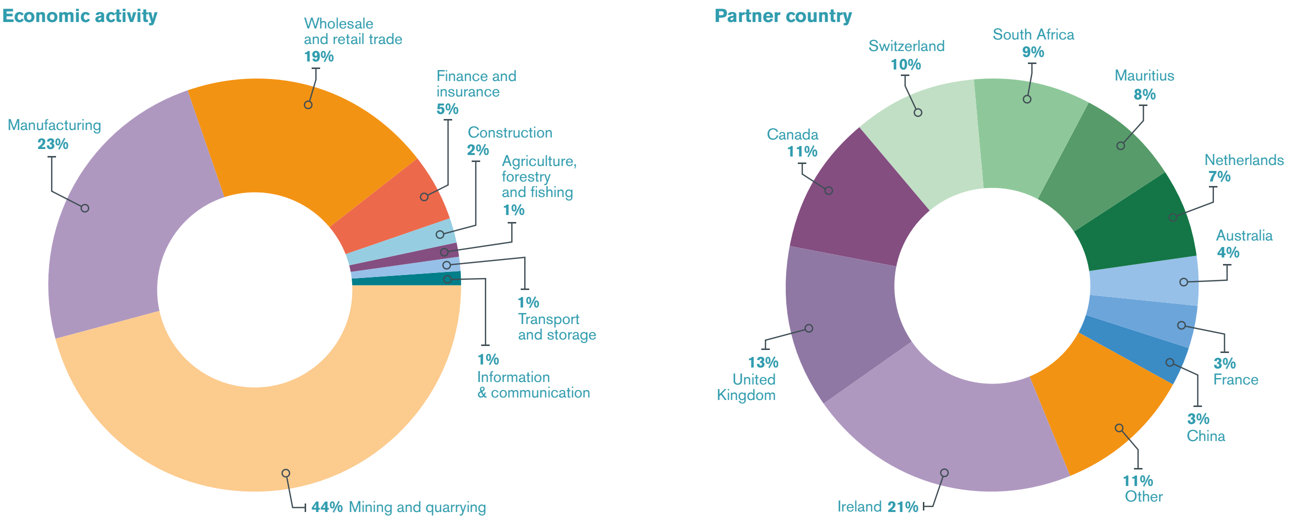
MOFAs established in Zambia exported services totalling US$ 40 million to other countries, accounting for only 5 per cent of Zambia's total exports of commercial services. They imported services worth US$ 130 million, representing 8 per cent of Zambia's total services imports. Services exports targeted predominantly Mauritius, while services imports originated from Canada, Singapore and South Africa.

European Union: Services are exported outside the EU mainly through mode 3

Mode 3 - a foreign company setting up subsidiaries or branches to provide services in another country - was the predominant mode of supply for the

Chart 5.8:

Zambia: Inward FATS sales by main economic activity and immediate partner country, 2014
(Percentage, %)



Source: Bank of Zambia and I-Tip Services database.

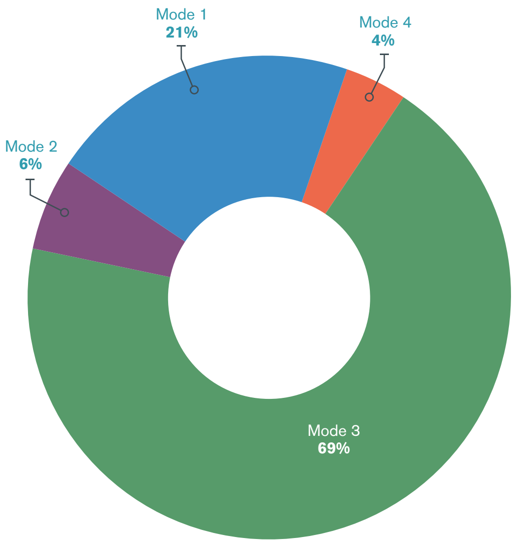
European Union for exports of services outside the EU, according to a recent estimate by Eurostat for 2013 (see Chart 5.9).

With a share of 69 per cent, the value of services supplied through the establishment of a commercial presence abroad was higher than the combined shares of mode 1 (services supplied from one country to another, officially known as cross-border supply), mode 2 (consumers or firms making use of a service in another country, officially consumption abroad) and mode 4 (individuals travelling from their own country to supply services in another, known as the presence of natural persons). A similar pattern was also evident for services imports. Mode 4 was estimated at only 4 per cent of total services supplied to partners outside the EU. However, the distribution of modes of supply by individual EU member countries may vary.

Chart 5.9:

European Union: Total services exports to partners outside the EU, by mode of supply, 2013

(Percentage, %)

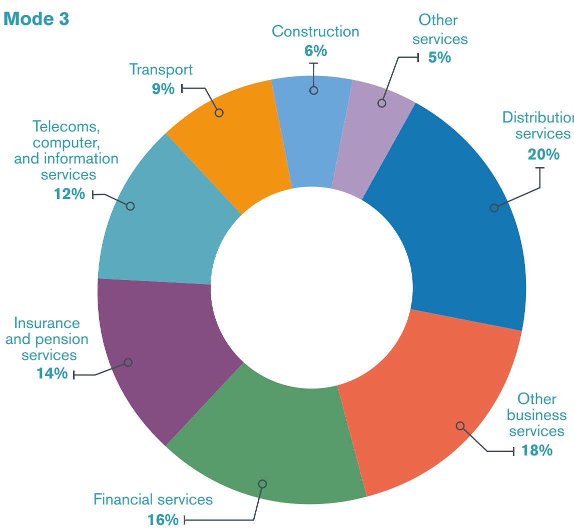


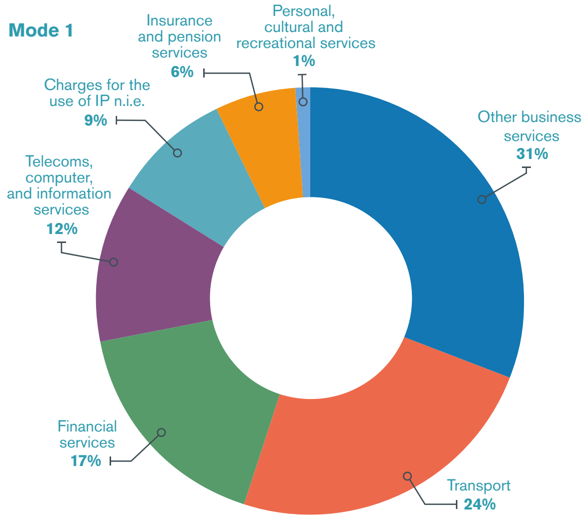
Source: Eurostat estimates.

Chart 5.10:

European Union: Services exports through mode 3 and mode 1 to partners outside the EU, 2013

(Percentage, %)





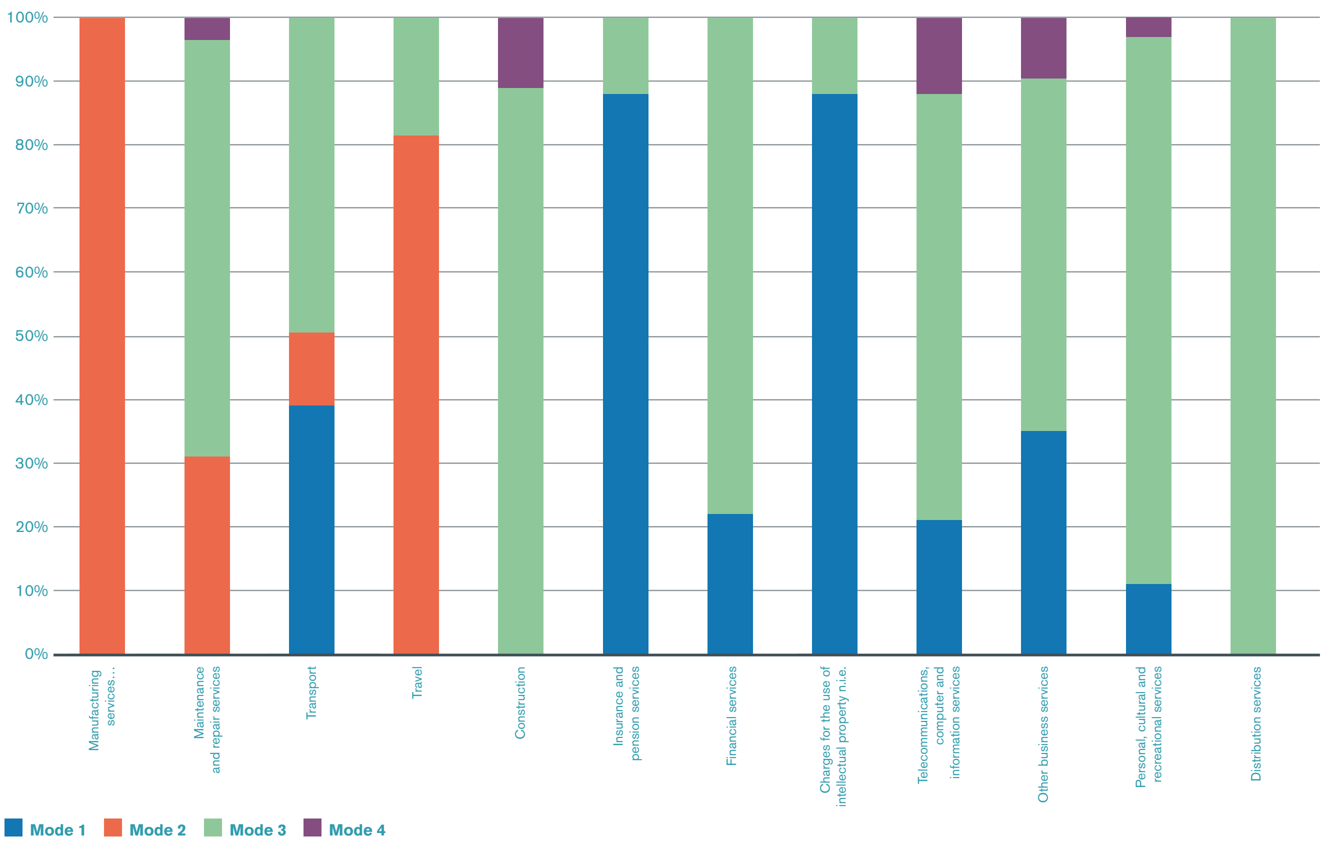
Source: Eurostat estimates.

A breakdown of services exports outside the EU through mode 3 shows that this mode of supply was widely used to export various types of services, ranging from distribution services (wholesale and retail) to ICT services and transport (see Chart 5.10). The largest shares were found in distribution services (20 per cent), other business services (18 per cent) and financial services (16 per cent). By contrast, almost one-third of the value of mode 1 exports consisted of other business services (31 per cent), followed by transport services (24 per cent) and financial services (17 per cent).

An analysis of distribution by main service sectors shows that mode 1 is predominant in insurance and pension services, charges for the use of intellectual property not included elsewhere (n.i.e.), and other business services (see Chart 5.11). Mode 3 was prevalent in distribution services, construction, financial services, telecommunications, computer and information services, personal, cultural and recreational services, as well as maintenance and repair services. Mode 2 was dominant in manufacturing services on physical inputs owned by others, including activities such as processing, assembly, labelling, packing on a contract basis, and travel transactions. The largest shares of mode 4 were in computer services, construction and other business services.

Chart 5.11:

European Union: Estimated total services exports outside the EU by main service sectors and modes of supply, 2013
(Percentage, %)



Note: Travel excludes the value of goods purchased by non-EU travellers.
Source: Eurostat estimates.