

GLOBAL TRADE WATCH

TRADE DEVELOPMENTS IN 2015

Cristina Constantinescu, Aaditya Mattoo, and Michele Ruta

March 9, 2016



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Global Trade Watch

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World Bank

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Main Messages

Trade Developments in 2015

- After sharply declining in the first half of 2015, world trade began to grow, albeit at a slow pace. Preliminary data indicate that merchandise import growth was 1.7 percent in 2015, down from 3 percent in 2014.
- Recent trade developments should be seen in the context of a deceleration in trade growth since the early 2000s, and particularly since the Global Financial Crisis. These developments reflected a combination of old and new cyclical factors as well as enduring structural determinants, such as the maturation of global value chains and the slower pace of trade liberalization. Our estimates suggest, however, that cyclical factors dominated in 2015, accounting for approximately two thirds of the trade slowdown.
- While weak import demand has been mostly concentrated in advanced economies in recent years, 2015 was different. The trade downturn and (partial) rebound in 2015 can be traced back to emerging economies. Emerging Asia, which accounts for more than a quarter of world trade, was the epicenter of the 2015 trade downturn and incipient rebound. Emerging Asia's import decline accounted for 94 percent of the contraction in world import volumes. Developments in other regions also matter. In particular, trade developments in Latin America and Eastern Europe and Central Asia mostly reflected lower imports of recession hit commodity exporters such as Brazil and Russia. Latin America contributed 6 percent to the downward pull in global imports in 2015. Except for Japan, imports and exports of advanced economies did not show signs of a significant downturn, but were sluggish.
- Lower commodity prices and China's transition to a new growth path appear to be two mutually reinforcing factors that created weak import demand in emerging economies. Lower commodity prices have reduced real incomes in commodity producers and led to a contraction in their imports from all regions, including China. At the same time, the gradual shift from investment

* Global Trade Watch—a joint product of the Trade & Competitiveness Global Practice and the Trade & International Integration Team of the Development Research Group—provides up-to-date data from an array of sources, along with analysis of recent trade developments. We are grateful to Jos Ebregt, Anabel Gonzalez, Bert Hofman, Ayhan Kose, Pascal Lamy, Maryla Maliszewska, Franziska Lieselotte Ohnsorge, Sudhir Shetty, Nikola Spatafora, Marc Stocker, and Daria Taglioni for their insightful comments and suggestions.

to consumption in China, and the more significant contraction in its industrial production seen in early 2015, have reduced its imports from other regions, including commodity producers.

A Closer Look at Trade Spillovers from China's Rebalancing

- China's transition to a new, slower growth path, less dependent on investment and industrial production, was a factor behind recent trade developments. If China's imports had not fallen in 2015, world merchandise import volume growth would have been 2.1 percent rather than the actual 1.7 percent. At the same time, China too faced weaker external demand for its exports, initially in the advanced countries and more recently in the commodity producing countries. Changes in China have short-term macroeconomic and longer-term structural aspects that are affecting the pattern of production and trade in East Asia and beyond and are manifested in changes in manufacturing, commodities, and services.
- The short-term impact on *manufacturing* was most visible in East Asia. Since the slowdown was concentrated in China's industrial sector, which is both more import-intensive and more strongly linked to international (particularly East Asian) value chains than other sectors of the economy, the impact on trade was magnified. In the longer term, the scope for recovery in manufacturing exports will, on the one hand, be limited by diminished growth in demand in China. On the other hand, rebalancing from investment to consumption is likely to create opportunities for exporters of final goods and may eventually boost upstream intermediate and capital goods sectors that are now adversely affected.
- China's transition is also having an impact on *commodity* exporters even though developments in commodity markets are heavily influenced by exogenous factors, such as the glut in fuels. China accounts for 13 percent of world commodity imports and its share is as much as 40 percent for certain metals. The impact of the transition on different commodity exporters depends on their exposure to demand in China. However, the fact that commodity exporters are seeing lower commodity prices rather than declining export volumes suggests that enhanced supply is an important factor—though expectations of lower future demand may also be playing a role.
- The gradual rebalancing of the economy from investment to consumption is also shifting China's demand from goods to *services*. Part of this demand is being met by cross-border imports and consumption abroad, and growth in these areas is already visible. More time and data will be needed to determine if these shifts presage longer-term trends.
- Looking ahead, the rebalancing of the Chinese economy will influence trends in world trade. But how the transition happens will affect how much global trade fluctuates in the coming years.

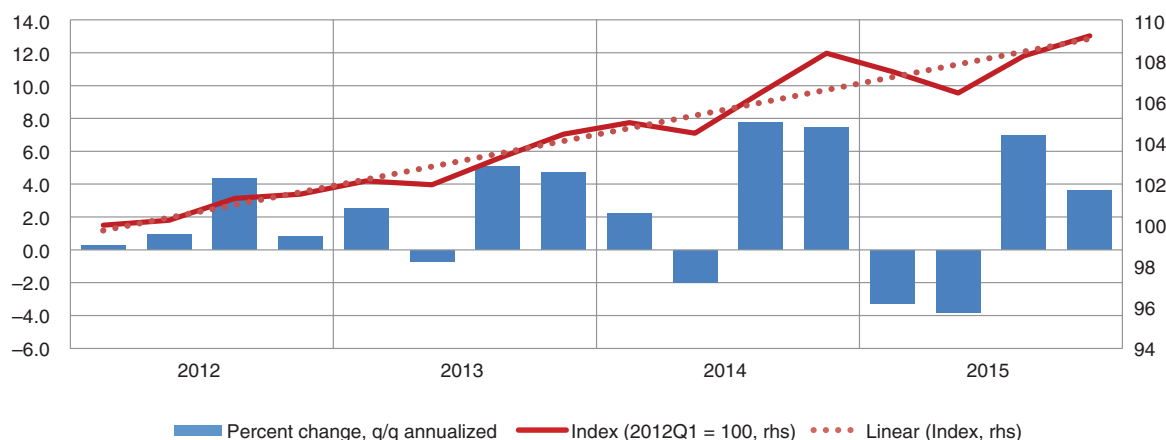
Trade Developments in 2015

Overview of Trade Developments

After sharply declining in the first half of 2015, world trade again began to grow, albeit at a slow pace. Trade developments in 2015 reflected a combination of factors: persistent weak global demand and structural changes in world trade, compounded by falling commodity prices and China's transition to a new growth path.

High-frequency statistics suggest that after the downturn in world trade volumes in the first half of 2015, trade began to recover starting in the third quarter albeit at a slower pace. During 2014 merchandise import volumes increased to levels above the trend of the past three years (Figure 1). The first half of 2015 saw a reversal of this dynamic, leading to a contraction in import volumes of around 3.5 percent (quarter over quarter [q/q] annualized), the first such occurrence since the Great Recession. In the second half of 2015, growth was positive again, yet below that seen in the second half of 2014. Preliminary data indicate that world merchandise import growth in 2015 was 1.7 percent.¹ Within the context of the broader global trade slowdown (Constantinescu, Mattoo, and Ruta 2015), the developments in 2015 appear to have distinct characteristics, which are investigated in this note.

FIGURE 1: The Recent Decline and Partial Recovery in World Merchandise Import Volumes



Source: CPB Netherlands Bureau of Economic Policy Analysis.

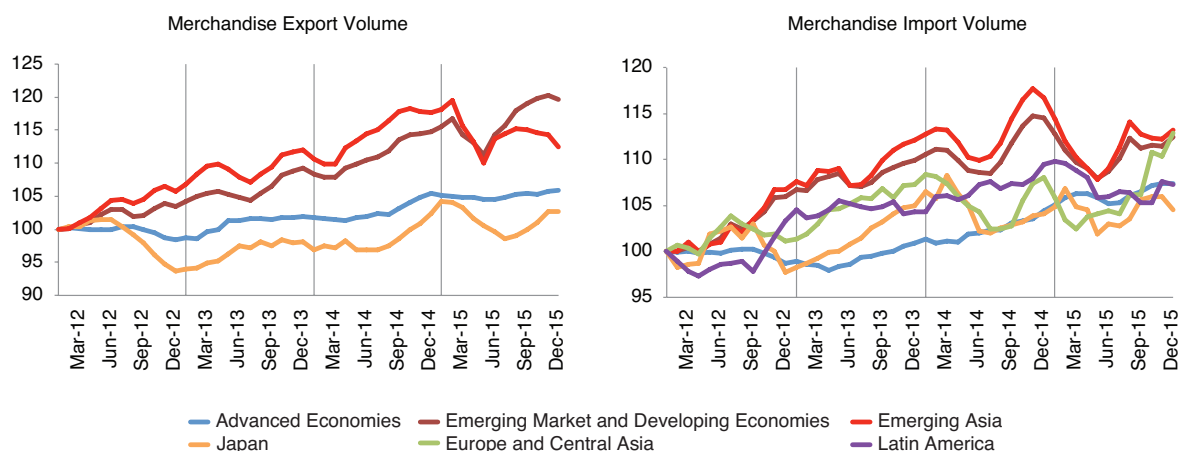
Note: Seasonally adjusted data. Country coverage explained in Data Notes.

The trade downturn and (partial) rebound in 2015 can be traced back to emerging economies. Emerging Asia, which accounts for more than a quarter of world trade, was the epicenter of the 2015 trade downturn and incipient rebound. In the first half of 2015, both exports and imports of Emerging Asia

¹ There is a statistical discrepancy between high frequency data on import and export volumes, which is due to factors such as measurement errors and incompleteness of the data. For 2015 this discrepancy is especially large, with preliminary data indicating a world export growth of 3.3 percent, which may reflect large measurement errors due to price uncertainty or even disguised capital outflows. For the trade aggregate estimates, this note draws upon import data, which are generally regarded as more reliable. But this uncertainty on the trade volume figures is an important caveat to bear in mind and only more time and data will allow to refine the findings discussed here.

dropped by 5.1 and 10.1 percent, respectively, in annualized terms, losing all the momentum gained in the last two quarters of 2014 (Figure 2). In the second half of 2015, Emerging Asia’s export volumes were stagnant, and even declining towards the end of the year, while growth in import volumes was positive, but weak. Developments in other regions also matter. In particular, import volumes of Latin America declined by 0.7 percent in 2015, while those of Eastern Europe and Central Asia dropped 3.7 percent (in annualized terms) in the first half of the year and then recovered in the second half. These developments mostly reflected lower imports of recession-hit commodity exporters such as Brazil and Russia. Except for Japan, imports and exports of advanced economies did not show signs of a significant downturn, but were sluggish.²

FIGURE 2: The Regional Pattern of the Trade Downturn and Partial Recovery



Sources: CPB Netherlands Bureau of Economic Policy Analysis.

Note: Three-Month Moving Average, Jan. 2012 = 100. Seasonally adjusted data. Group composition in Data Notes.

Recent trade developments should be seen in the context of a deceleration in trade growth since the early 2000s, and particularly since the Global Financial Crisis. Figure 3 shows that global merchandise trade volume growth was approximately 7 percent a year on average from 1986 to 2000 (“the long 1990s”), roughly two times world real GDP growth. This period was exceptional compared to the preceding and subsequent 15 years. Since the Global Financial Crisis, trade growth has been particularly subdued. From 2008 to 2014, international trade grew at half the rate of 1986–1990 and at the same pace as global output.

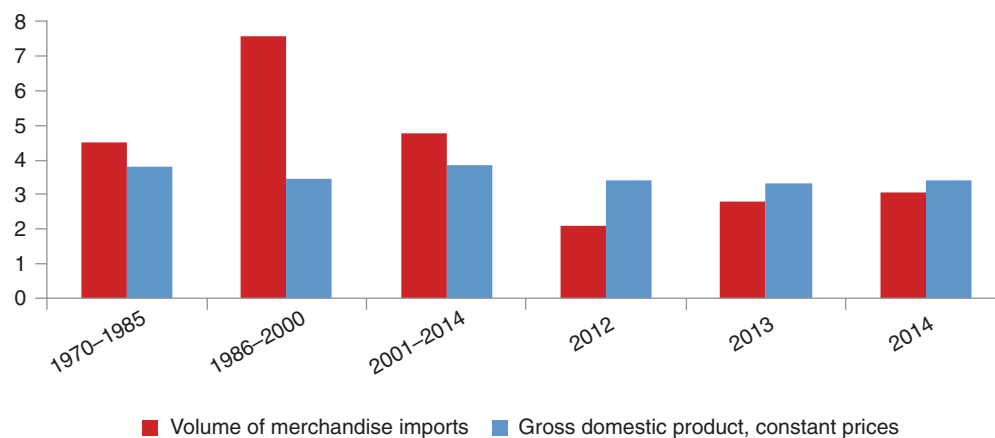
Understanding Trade Developments

The trade slowdown reflects both cyclical and structural factors. In previous work (Constantinescu, Mattoo and Ruta, 2015), we estimate the relationship between world trade and GDP in the last four decades and find that the long-term trade elasticity rose significantly in the 1990s, then declined in the 2000s. Trade appears to have grown more slowly not only because global growth is lower, but also because that growth has become less trade-intensive. A decomposition of the trade slowdown shows that short-term determinants (or cyclical factors such as weak demand) accounted for two thirds of the

² Appendix Figures A1 and A2 provide a more detailed breakdown of export and import volumes and values by region.

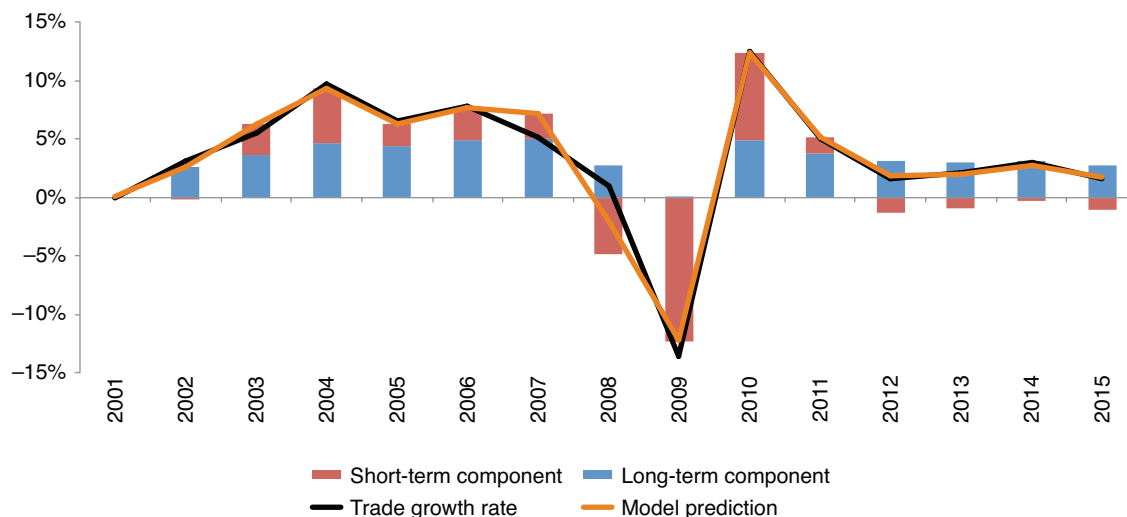
slowdown in merchandise trade volumes in 2015, while long-term (or structural) factors explain the remaining one third (Figure 4).³

FIGURE 3: Average Growth Rates in Global Merchandise Trade and GDP, Selected Periods, percent



Source: IMF World Economic Outlook.

FIGURE 4: Decomposition of Growth in World Trade Volume, percent



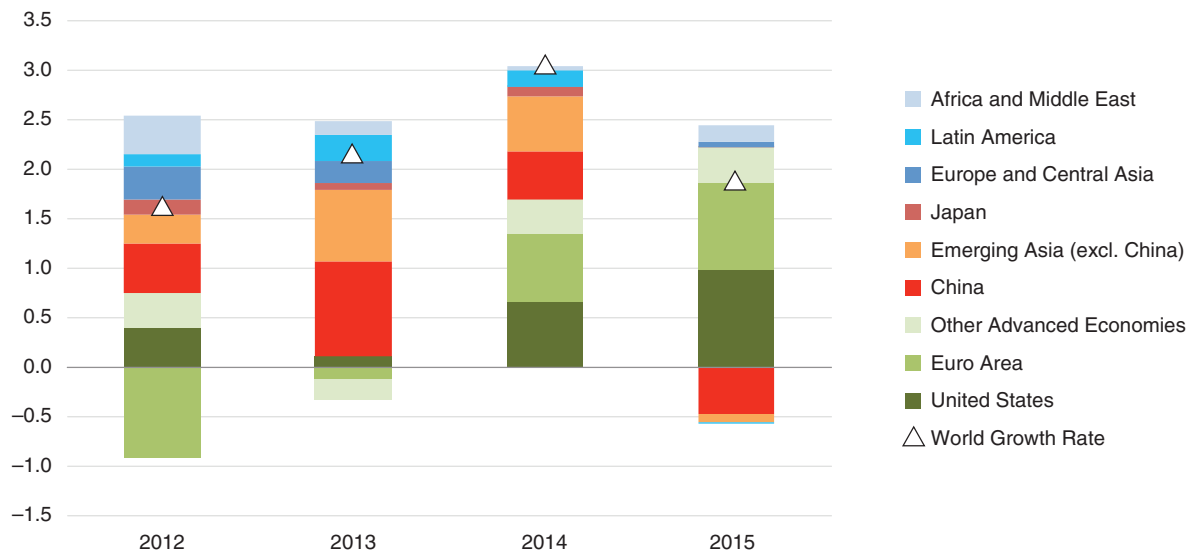
Source: IMF World Economic Outlook, CPB Netherlands Bureau of Economic Policy Analysis and authors' calculations.

Note: Trade in this figure refers to merchandise imports. 2015 GDP is an IMF WEO estimate.

³ The predicted import growth in 2015 and its average across the 2000s were 1.8 and 3.6 percent, respectively. Similarly, the long run component for 2015 and its average across the 2000s were 2.8 and 3.5 percent, respectively. Hence, long-run growth contributed 35 percent of the predicted decline in the 2000s—where 35 percent = $(3.5 - 2.8) \times 100 / (3.6 - 1.8)$ —while the remaining 65 percent can be ascribed to short-run factors.

A decomposition of the trade growth suggests the critical role of emerging economies in 2015. While weak world import demand has been mostly concentrated in advanced economies in recent years, 2015 presented some new characteristics. According to preliminary figures, Emerging Asia’s import decline accounted for 94 percent of the contraction in world import volumes, with China playing an important role (Figure 5).⁴ Latin America contributed 6 percent to the downward pull in global imports in 2015, mostly reflecting lower imports of Brazil.

FIGURE 5: Contributions to Year-on-Year Growth in World Merchandise Import Volumes, 2012–15, percent



Source: CPB Netherlands Bureau of Economic Policy Analysis.

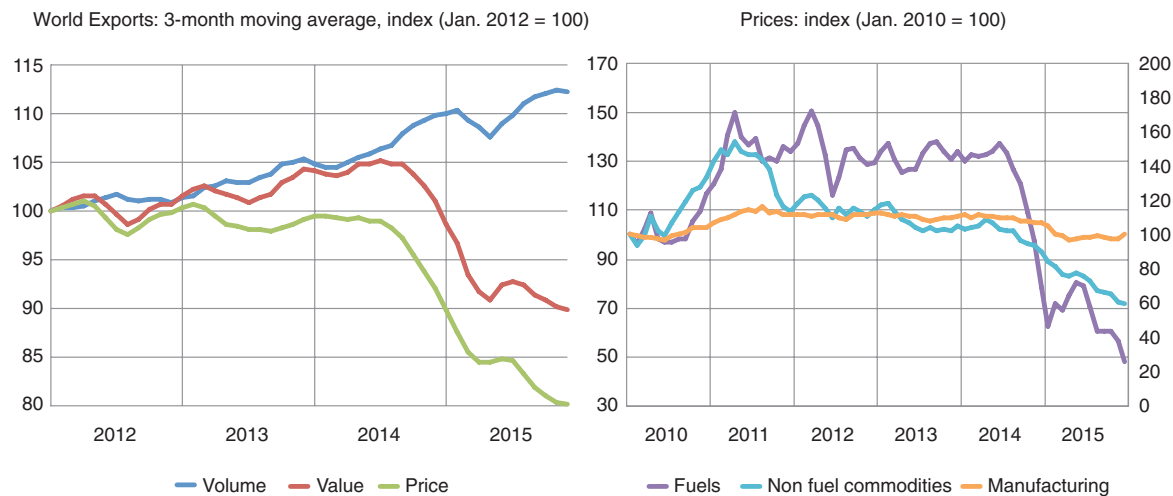
Note: Seasonally adjusted data.

Two mutually-reinforcing factors appear to drive weak import demand in emerging economies: lower commodity prices and China’s transition to a new growth path.

- Prices of commodities, particularly fuels, experienced a large decline starting in mid-2014 (Figure 6). As a result, exporters in Africa, the Middle East, Eastern Europe and Central Asia, and South America did experience a fall in trade values, even though trade volumes did not decline. This evidence indicates the important role of enhanced supply, especially in fuels—though expectations of lower demand may also matter. The deterioration in the terms of trade of commodity producers has hurt their real incomes and contributed to the recessions in countries such as Brazil and the Russian Federation, leading to a further contraction in their import volumes. That, in turn, has had an adverse impact also on China’s exports.

⁴ The aggregate for “Emerging Asia” is based on data reported by the following countries: Hong Kong, Special Administrative Region of the People’s Republic of China; People’s Republic of China; India; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taiwan, China; Thailand and Vietnam.

FIGURE 6: Values, Volumes and Prices of World Merchandise Exports, 2010–2015



Source: CPB Netherlands Bureau of Economic Policy Analysis.

Note: Seasonally adjusted data.

- Trade developments in 2015 also reflected China’s transition to a new, slower growth path that is less dependent on investment and industrial production. The changes in the Chinese economy contributed to weak global import demand. If China’s imports had not fallen in 2015, world merchandise import volume growth would have been 2.1 percent rather than the actual 1.7 percent; if China’s imports had grown at the 2014 rate, then the world import growth would have been 2.6 percent.⁵ Changes in China, however, also have longer-term structural aspects that are affecting the pattern of production and trade in East Asia and beyond and are manifested in changes in manufacturing, commodities, and services. Both these short-term and long-term aspects are analyzed in detail in the next section.

Structural factors that continue to contribute to the trade slowdown include a slower pace of trade liberalization and the maturation of global value chains. First, changes in international vertical specialization underlie the slowdown in world trade. The long-run trade elasticity increased during the long 1990s as production fragmented internationally into global value chains, leading to a rapid surge in trade in parts and components, and decreased in the 2000s as this process matured. Second, the dearth of trade reforms and the gradual buildup of protectionist measures may be structural factors that explain the slowdown in global trade growth. In particular, the slower pace of trade liberalization in the 2000s relative to the 1990s may have contributed to the lower trade elasticity.⁶

⁵ There are two caveats. First, these numbers are based on a standard comparative statics exercise, which assumes that import growth in the rest of the world remained unchanged. Second, there is some uncertainty on the preliminary numbers for 2015. This reflects the fact that high frequency value data often need to be revised, as well as the difficulties in correctly estimating trade in volume terms from trade value data. Using different data sources, however, only affects the magnitude of China’s contribution to a weakening global import demand, not its direction.

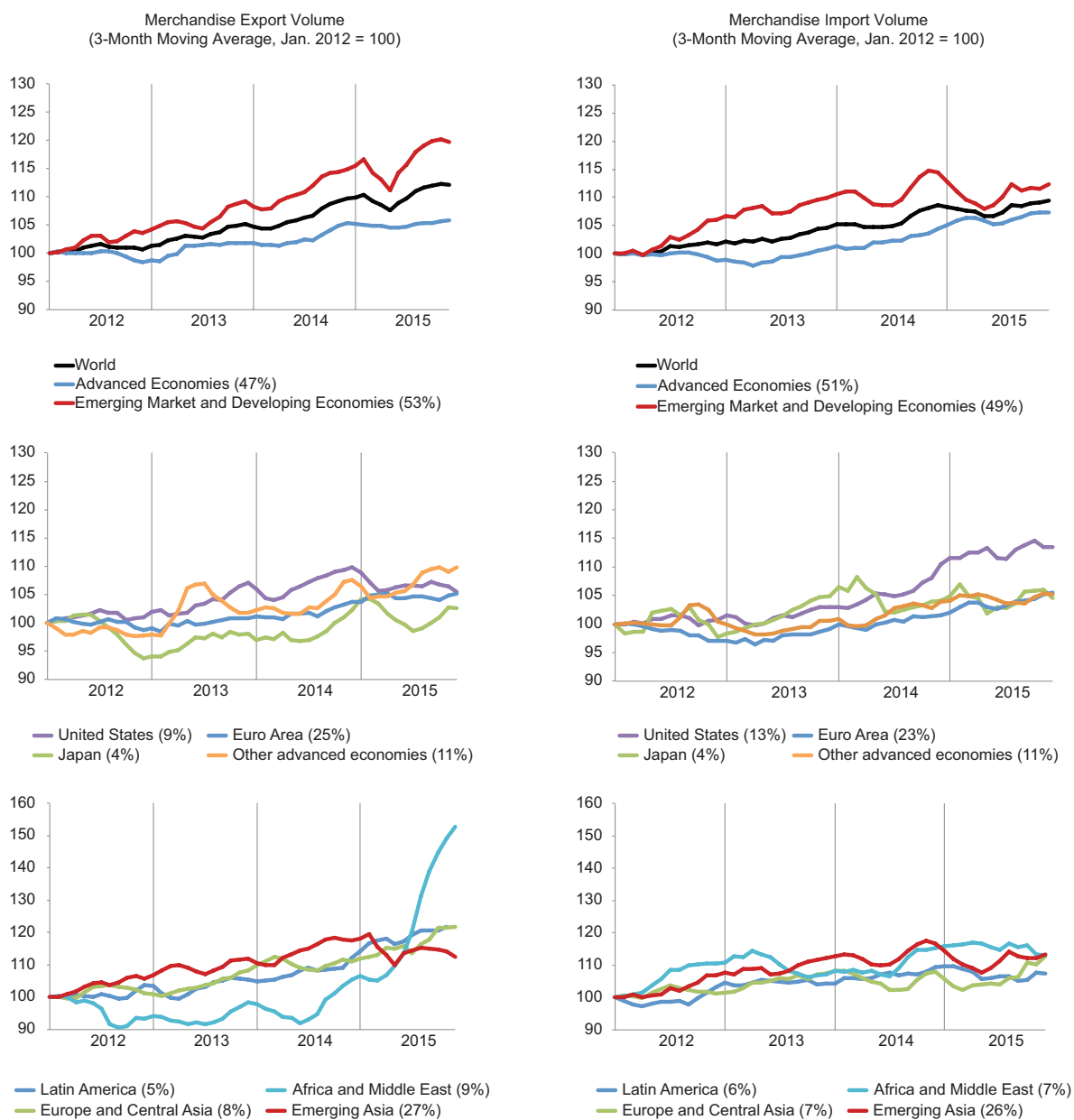
⁶ For a collection of studies on the structural and cyclical determinants of the trade slowdown, see Hoekman (2015).

References

- Constantinescu, Cristina, Aaditya Mattoo, and Michele Ruta. 2015. "The Global Trade Slowdown: Cyclical or Structural?" World Bank Policy Research Working Paper, WPS 7158. Washington, DC.
- Hoekman, Bernard. 2015. *The Global Trade Slowdown: A New Normal?* VoxEU.org e-Book. London: Centre for Economic Policy Research.

Appendix

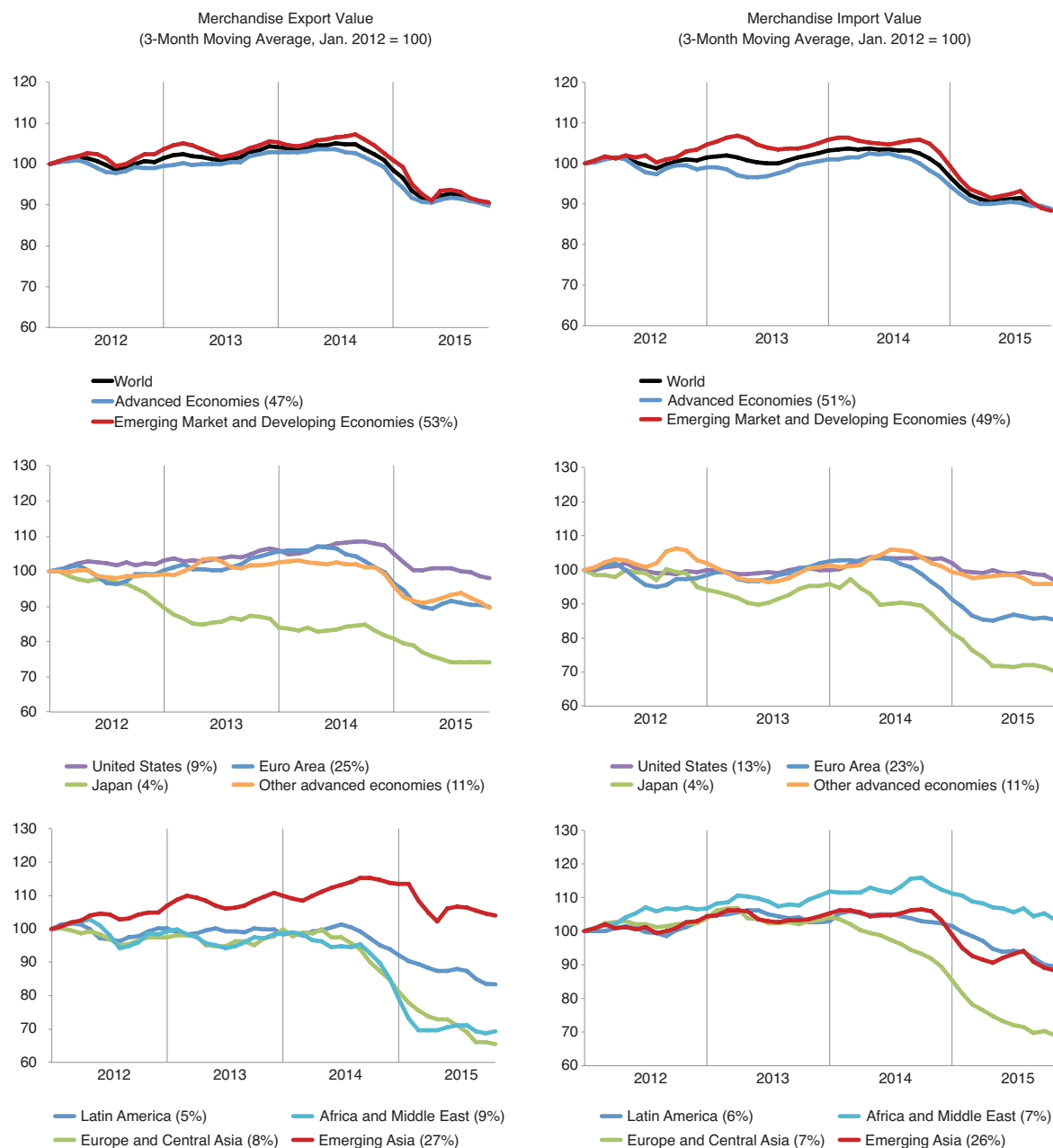
FIGURE A1



Sources: CPB Netherlands Bureau of Economic Policy Analysis, WTO.

Note: Seasonally adjusted data. In parentheses: share in world trade values in 2014. Group composition in Data Notes.

FIGURE A2



Sources: CPB Netherlands Bureau of Economic Policy Analysis, WTO.

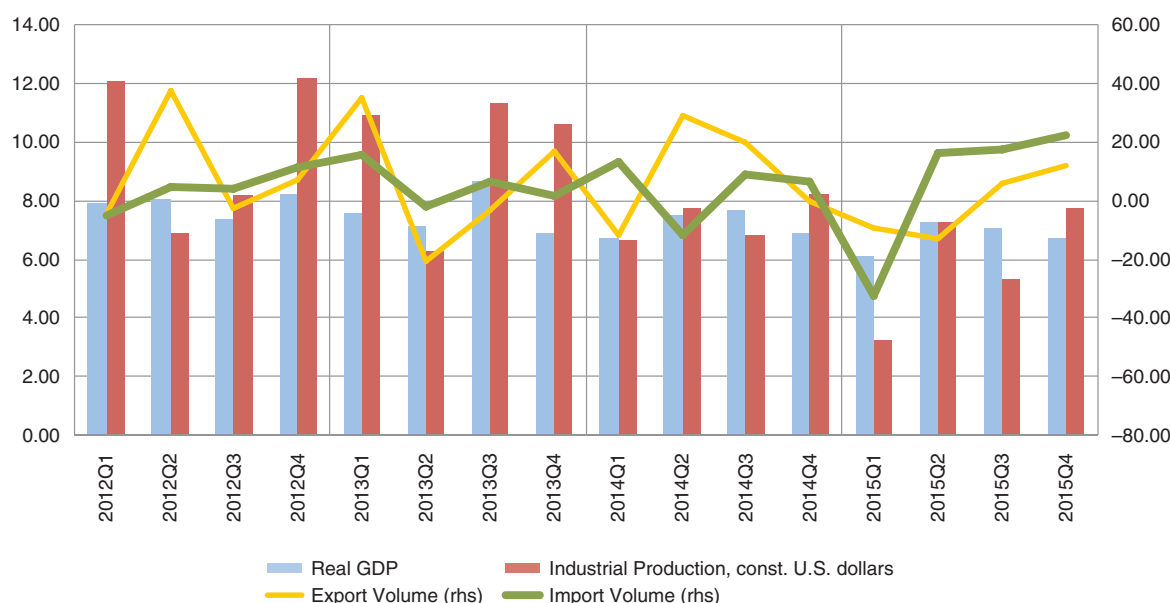
Note: Seasonally adjusted data. In parentheses: share in world trade values in 2014. Group composition in Data Notes.

A Closer Look at Trade Spillovers from China's Rebalancing

1. **China's transition to a new, slower growth path that is less dependent on investment and industrial production, along with the weaker external demand for its exports, was a factor behind trade developments in 2015.**

The behavior of trade reflects to an extent the contraction and rebound in Chinese gross domestic product (GDP) growth in 2015, which was concentrated in industrial production. Chinese GDP growth slowed down in the first quarter of 2015 and subsequently rebounded (Figure 7). This pattern was more marked for industrial output. In the first half of 2015, China saw a contraction in import volumes of 15 percent in annualized terms and was responsible for more than half of the downward pull on world imports. The reversal of these trends in the second half of 2015 is contributing to the rebound that we observe in world trade: China's imports grew by an annualized 11 percent contributing to one-third of the increase in world growth (Figure 8).

FIGURE 7: China's GDP, Industrial Production and Merchandise Trade Indexes
(percent change, q/q annualized)

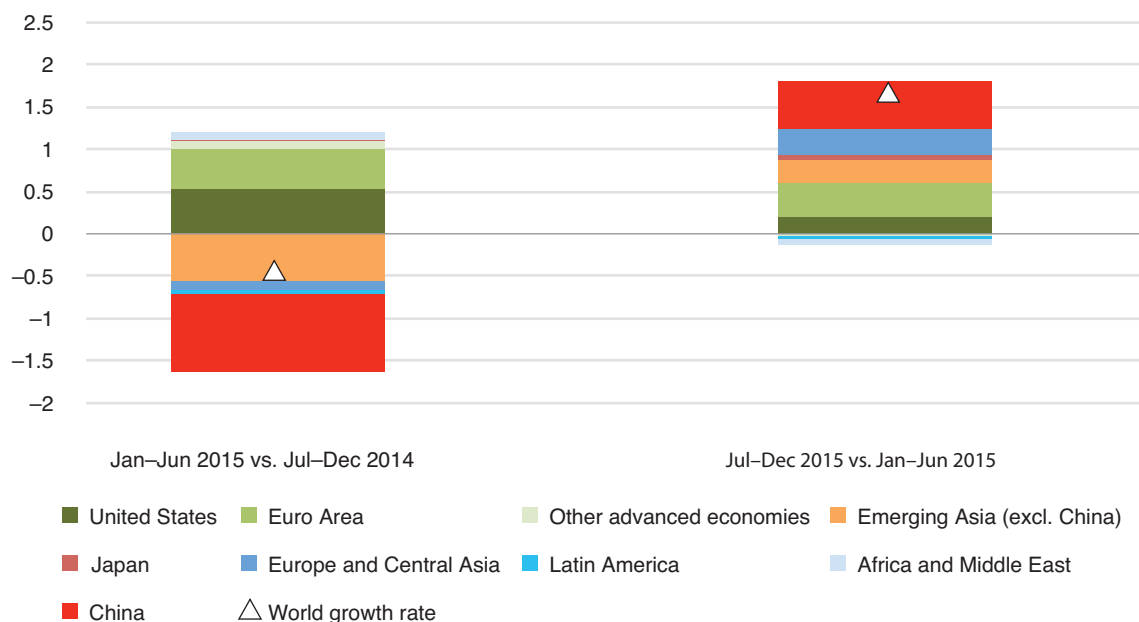


Sources: World Bank Global Economic Monitor and Haver Analytics.

Note: Seasonally adjusted data.

- Several factors magnified the impact of changes in China's GDP on imports. First, on the production side, the slowdown in GDP is concentrated in the industrial sector, which depends to a larger extent on imported inputs than other sectors of the economy—imported inputs are 11.5 percent of total inputs in the industrial sector and only about 6 percent in other sectors (see Appendix Figure A3). Second, on the demand side, we are beginning to see a decline in the share of investment, which draws in more imports than other components of aggregate demand. The import intensity of China's investment (though declining) is more than 50 percent higher than the import intensity of consumption.

FIGURE 8: Growth in Merchandise Import Volumes in the First Half and Second Half of 2015: Contributing Regions, percent



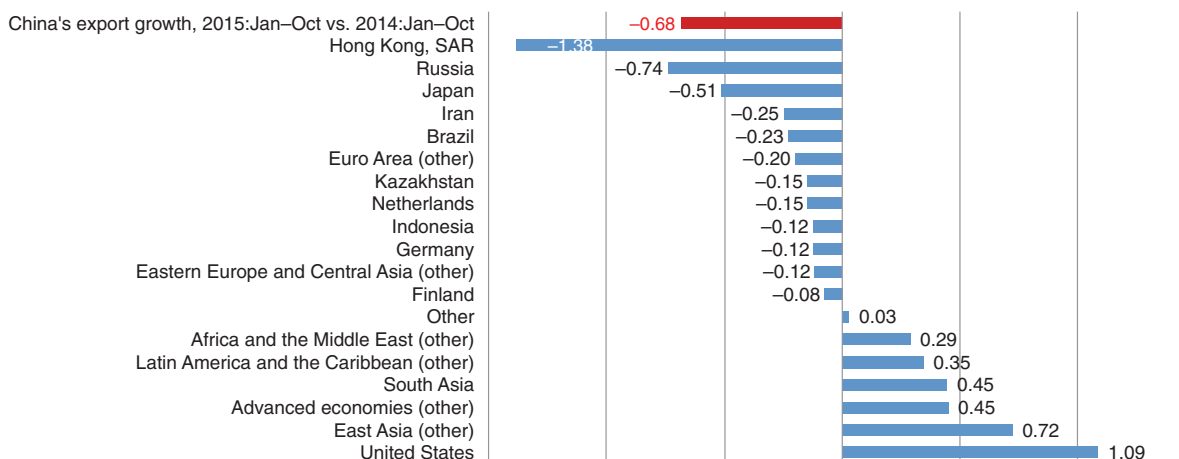
Source: CPB Netherlands Bureau of Economic Policy Analysis.

Note: Seasonally adjusted data.

Investment-related imports account for almost 60 percent of China's total imports, and for 11 percent of the world investment-related imports (second only to the United States). Third, the contractionary impact on overall trade may have been magnified because both industrial production and investment are strongly linked to international supply chains. Finally, GDP changes may amplify trade effects through inventory adjustments—that is, firms run down and then rebuild inventories in response to negative shocks, particularly along the supply chain.

- The pattern of exports affected, and was affected by, Chinese GDP and industrial production. The poor performance of Chinese exports in 2015 primarily reflected weak external demand, especially in emerging economies. For example, nearly a quarter of the decline in exports was attributable to contractions in Russia and Central Asia, which have been hit by the commodity price decline (Figure 9). In addition, changes in competitiveness of the Chinese economy, as reflected in variations in the real effective exchange rate (REER), as well as other determinants of competitiveness such as real wages, have affected exports, and hence domestic output (Figure 10). For instance, the REER increased sharply in the second half of 2014, remained broadly stable until mid-2015, and seems to have been declining since July 2015, following a depreciation of the renminbi relative to the U.S. dollar. Second, the slowdown in Chinese GDP may have adversely affected the exports of intermediate goods that are eventually reimported as parts of final goods produced abroad to meet China's demand.

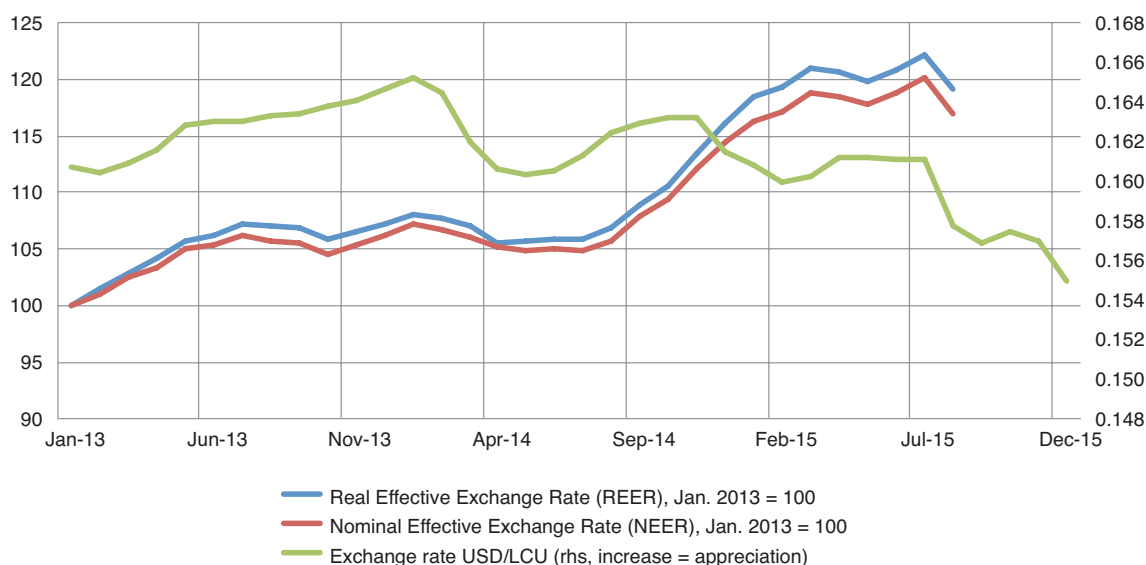
FIGURE 9: Merchandise Export Values of China: Contributions to Growth (2015: Jan–Oct versus 2014: Jan–Oct), by Destination Country, percent



Source: IMF Direction of Trade Statistics.

Note: The first 10 individual countries with largest negative contributions are plotted separately from regional aggregates.

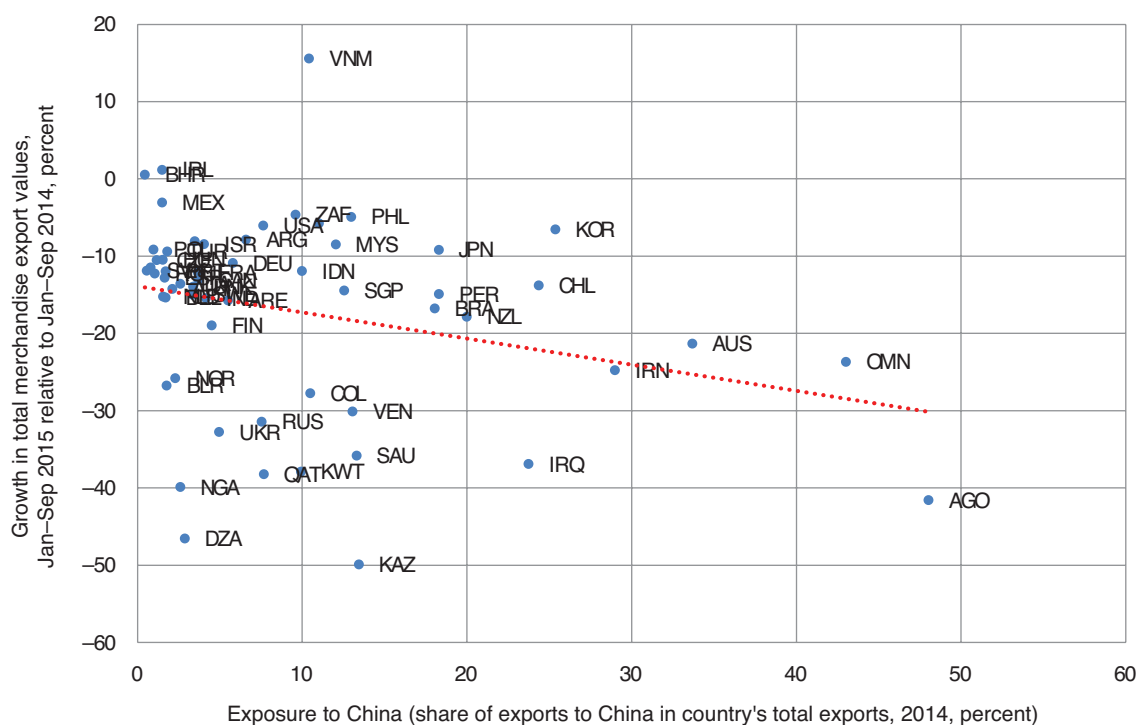
FIGURE 10: China's exchange rate, 2013–15



Source: World Bank Global Economic Monitor.

*The contraction in China's imports affected other regions of the world.*⁷ Countries more exposed to China, as measured by China's share in their total exports, tended to see a greater contraction in the value of their exports in the first three quarters of 2015 compared with the corresponding period in 2014 (see Figure 11). A 1 percent higher exposure meant a 0.3 percent greater contraction in the growth of export values.⁸ The impact on exports to China from different countries was negatively related to the share in their exports of intermediate goods and fuels, positively related to the share of consumption goods, and not sensitive at this stage to the share of capital goods (Appendix Figure A4). Furthermore, the reduction in value of exports was attributable to lower prices and lower quantities to an extent that varied across regions, depending on the composition of their exports. The slower growth in imports from large commodity exporters, such as those in the Middle East and Sub-Saharan Africa, reflected the recent drop in prices, while the sizable contraction in imports from Emerging Asia, especially in the first quarter of 2015, was to a larger extent the result of a reduction in quantities.

**FIGURE 11: Exposure to China and Contraction of Merchandise Exports
(2015: January–September versus 2014: January–September)**



Source: IMF Direction of Trade Statistics.

Note: Sixty largest world exporters, excluding Switzerland and Hong Kong, SAR.

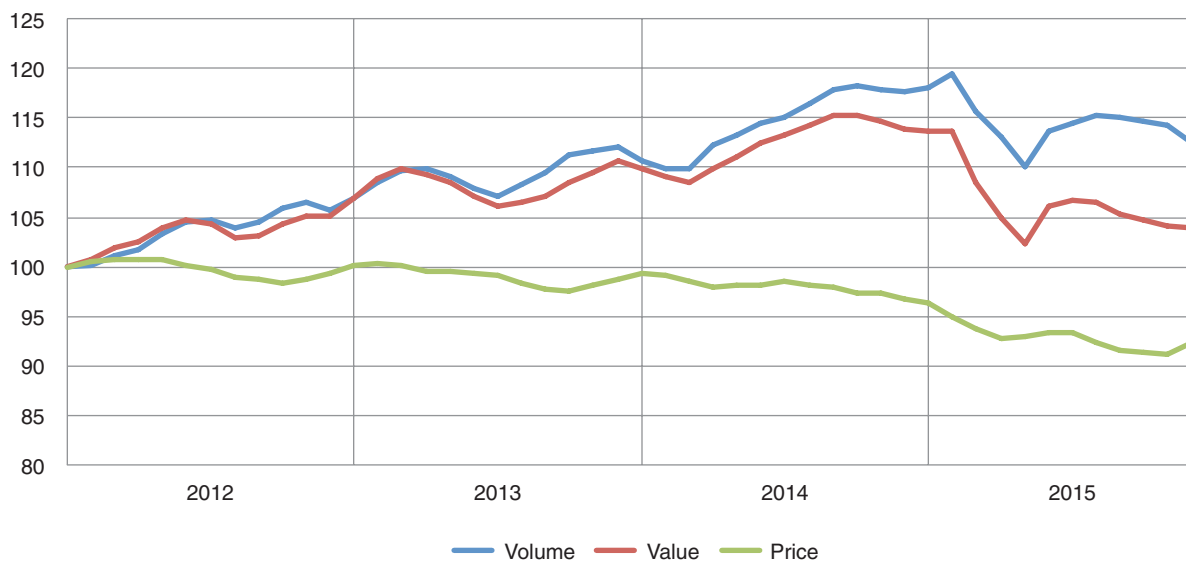
⁷ For a broader discussion of spillovers (trade, investment, financial) from a growth decline in China, see World Bank (2016b). Several studies look at spillover effects on specific regions such as East Asia and the Pacific (World Bank 2016a) and Sub-Saharan Africa (Lakatos and others 2016).

⁸ Figure A5 in the appendix shows the extent to which different countries of origin accounted for the contraction in the value of China's imports.

2. The short-term impact on *manufacturing* was most visible in East Asia, which experienced a regional trade contraction in the first half of 2015 and is now beginning to see a rebound. Since the slowdown was concentrated in the industrial sector, which is both more import-intensive and more strongly linked to international value chains than other sectors of the economy, the impact on trade was magnified. In the longer term, the scope for recovery will be affected by a number of factors with contrasting effects.

The contraction and rebound in Emerging Asia's merchandise exports primarily reflected a change in volumes rather than prices (Figure 12). A large fraction of Emerging Asia's exports are manufactured products, which have more stable prices than commodities. However, even within Emerging Asia, countries such as Indonesia have a relatively large share of commodities in their export basket and saw significant export price declines.⁹

FIGURE 12: Merchandise Exports of Emerging Asia: Value, Volume, and Price
(3-month moving average, January 2012 = 100)



Source: CPB Netherlands Bureau of Economic Policy Analysis.

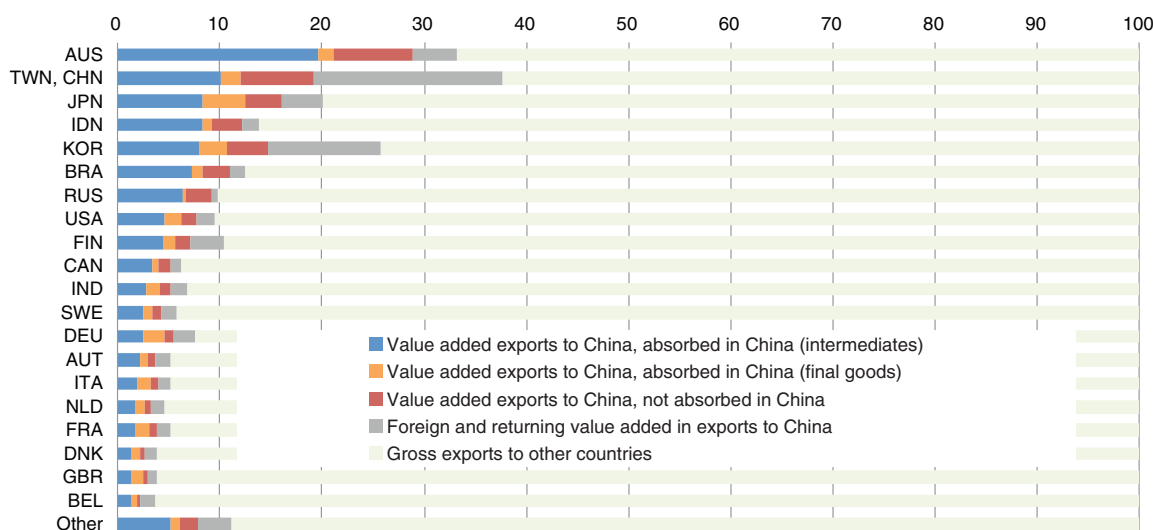
Note: Seasonally adjusted data.

China is important as the ultimate destination for both the gross and value added exports of a number of East Asian countries. Data available (at this stage, only until 2011) for selected countries reveal that not only does China account for a significant share of the gross exports of East Asian economies, it also is the ultimate destination of a large part of their value added exports. For Taiwan, China, Japan, Indonesia, and the Republic of Korea, around 50 percent of gross exports to China consists of value added ultimately absorbed in China, and therefore only dependent on Chinese demand (Figure 13).

⁹ The World Bank database on Measuring Export Competitiveness (MEC) is a useful tool to further decompose exports along several dimensions beyond values and volumes, such as product composition and destination. The database can be accessed at <http://mec.worldbank.org/>

Another 20 percent of the regional exports are re-exported by China and consumed in third countries, and therefore not dependent on China's demand. The remainder constitutes foreign value added in a particular country's gross exports to China, which originates in other countries in the region and outside. This last segment is larger for countries such as Korea and Taiwan, China, which rely more on imported inputs, and smaller for economies such as Japan, which is mostly an upstream producer of industrial goods, and Indonesia, which mostly exports commodities to China.

FIGURE 13: Share of China in Gross Exports of Goods and Services of Selected Countries by Source of Value Added (percent of total exports)

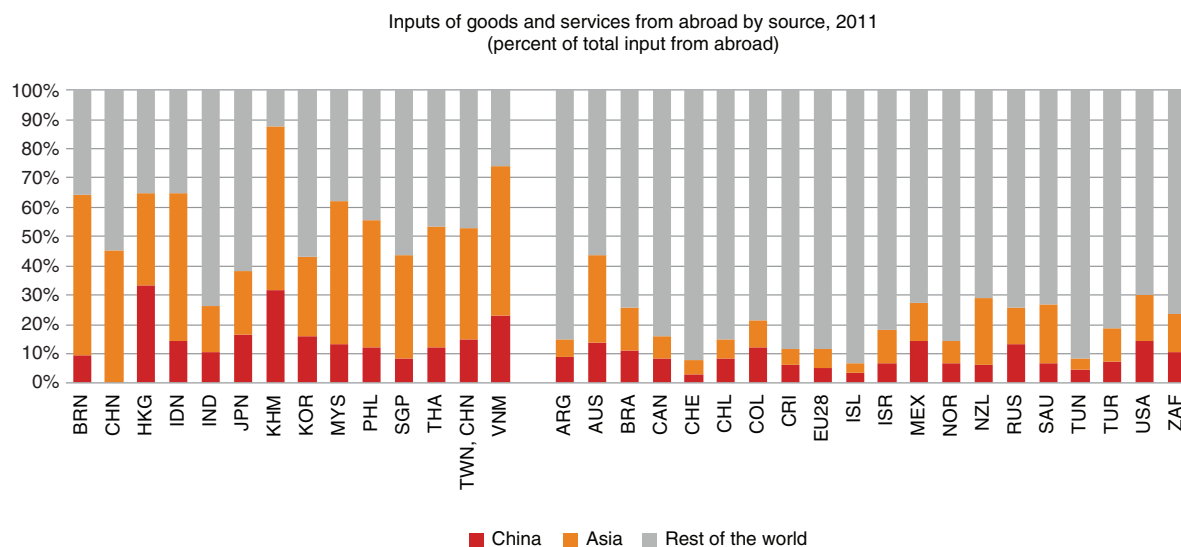


Source: World Input Output Database, 2011.

The impact of changes in China's demand on regional trade were magnified by value chain linkages. As noted above, the changing composition of Chinese production may have magnified the trade impact as production shifted away from sectors that are associated with global value chains—that is, from industrial production to services, and within industrial production from capital goods to consumption goods. Given the relative intensity of regional value chains in East Asia (Figure 14), this magnification effect is likely to have impacted intra-regional trade flows more than inter-regional trade (Appendix Figure A6).

South Asia felt a less severe direct impact of developments in China than did other regions. The merchandise exports of Bangladesh, Pakistan, and Sri Lanka continued to grow, buoyed by positive developments in the United States and parts of the Euro Area (Figure 15). Among other factors, an adverse effect of the import contraction in China was felt primarily by India. For India, markets in the Middle East are more important than those in China, and so it suffered export contraction as much as a consequence of the downturn in exports to the Middle East (particularly the United Arab Emirates) affected by the fall in commodity prices as it did from lower direct exports to China.

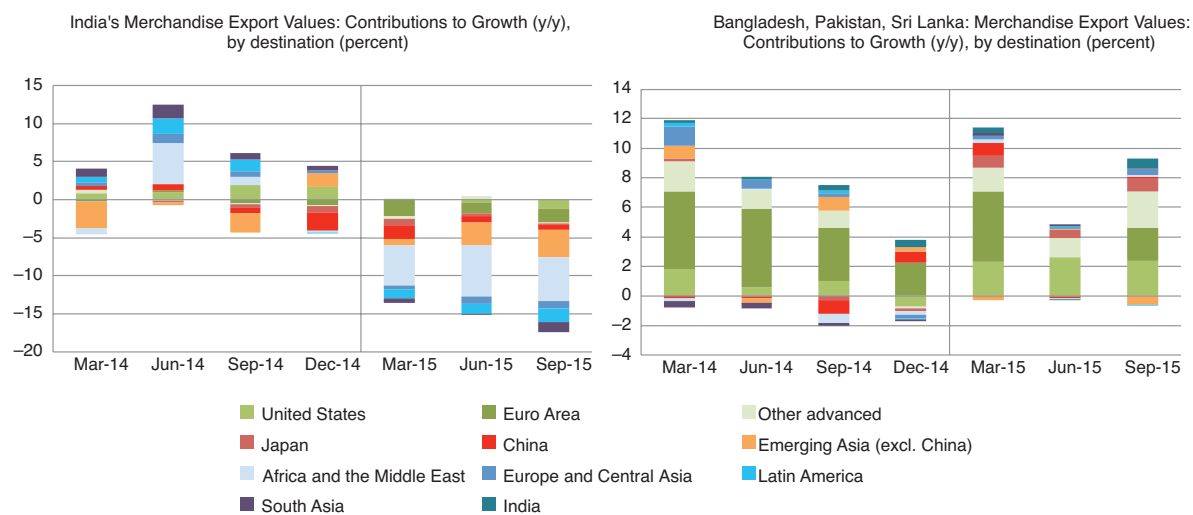
FIGURE 14: The Sources of Imported Inputs of Goods and Services: A Comparison of Selected Countries in Asia and the Rest of the World



Source: OECD Inter-Country Input-Output (ICIO) Tables, edition 2015.

Note: Data are based on gross exports statistics, hence inputs labelled “Asia” and “China” may include re-exports from non-Asian countries.

FIGURE 15: Merchandise Exports of South Asia: Contributions to Growth by Destination Country



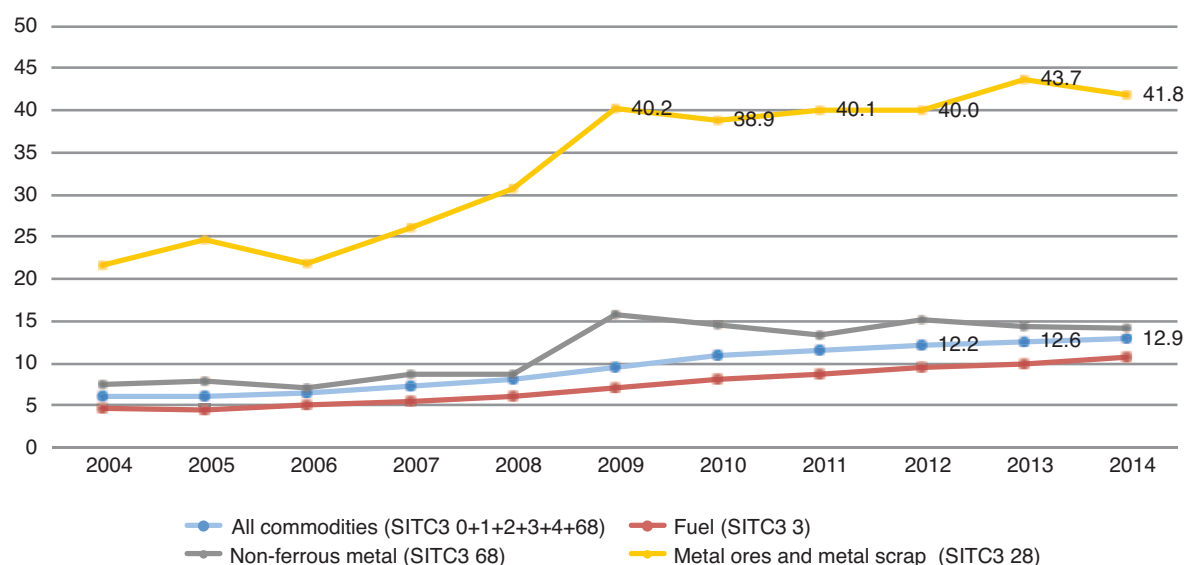
Source: IMF Direction of Trade Statistics.

Note: Quarterly data.

In the longer term, the scope for trade growth in manufacturing will be affected by a number of factors with contrasting effects. On the one hand, trade growth may be limited by diminished growth in demand in China. On the other hand, the gradual rebalancing from investment to consumption is likely to create opportunities for exporters of final goods—evidence of which is already emerging (Figure A4), and it may also eventually boost upstream intermediate and capital goods sectors that are now adversely affected. Furthermore, increasing real wages in China may encourage relocation of production toward other lower-cost economies.¹⁰

3. **While developments in commodity markets are influenced by exogenous factors, such as the glut in fuels, China’s transition is also having an impact on commodity exporters. China accounts for 13 percent of world commodity imports with peaks of 40 percent for certain metals** (Figure 16). The fact that commodity exporters are seeing lower commodity prices rather than declining export volumes indicates that enhanced supply is an important factor—though expectations of lower future demand may also be playing a role.

FIGURE 16: Share of China in World Commodity Imports, by Type, percent



Source: UN Comtrade (via WITS).

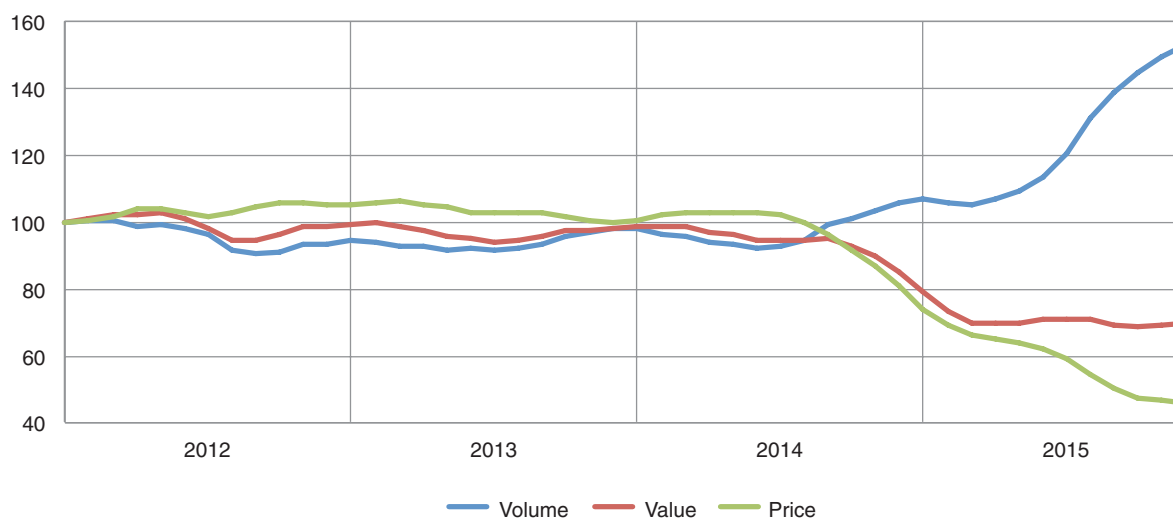
Africa and the Middle East

Having experienced a deep plunge in export values since mid-2014, Africa and the Middle East contributed significantly to the recent decline in world trade values. This was mostly a nominal phenomenon (Figure 17). The downturn in oil and commodity exports also reflects sluggish volume growth in recent years, which can be explained by factors such as depressed global demand (Figure 18). China and other Emerging Asian countries together account for more than half of the decline in export

¹⁰ The extent of this effect is itself difficult to assess. The reason is that, alongside cross-border relocation of production, there is scope for relocation within China. For a discussion and key references, see Gaulier and others (2015).

values of Africa and the Middle East. The recent pickup in exported volumes may reflect the gains in competitiveness from lower prices, although this was not sufficient to avoid the revenue losses.

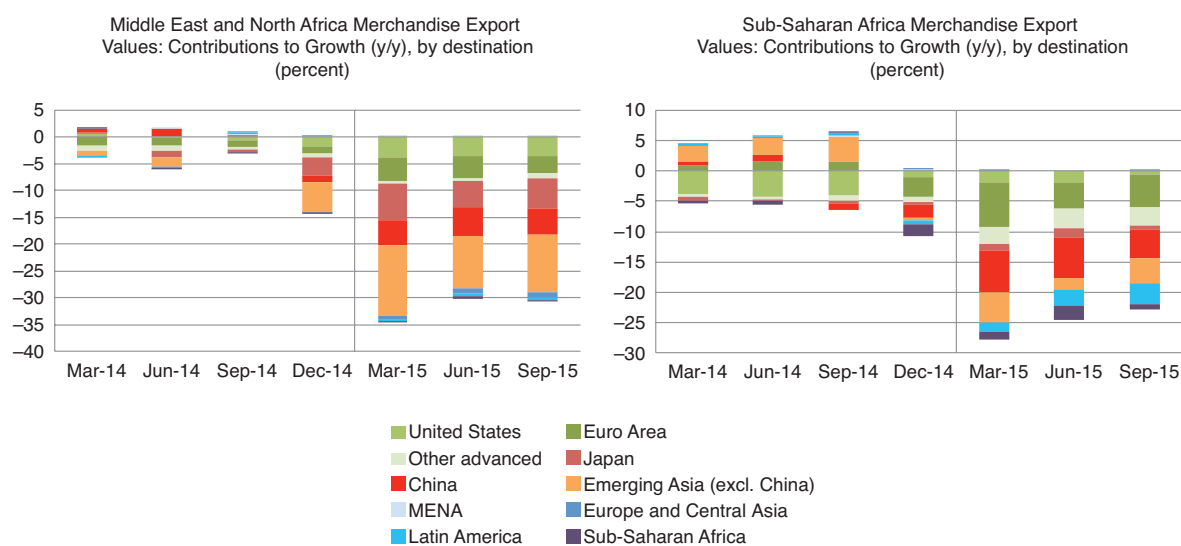
FIGURE 17: Merchandise Exports of Africa and the Middle East: Value, Volume and Price (3-month moving average, January 2012 = 100)



Source: CPB Netherlands Bureau of Economic Policy Analysis.

Note: Seasonally adjusted data.

FIGURE 18: Contributions to Growth in Merchandise Exports of the Middle East and Sub-Saharan Africa by Destination Country



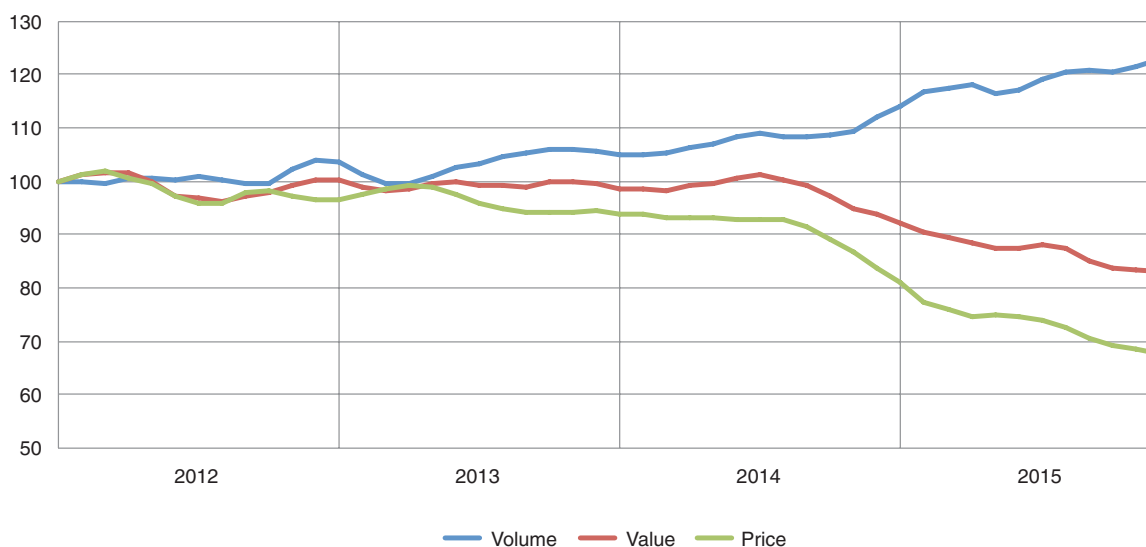
Source: IMF Direction of Trade Statistics.

Note: Quarterly data.

Latin America

Volume data for Latin America and the Caribbean also do not appear to mirror the downturn seen in export values (Figure 19). The drop in export values for Latin America and the Caribbean as a whole is indeed milder: less than 10 percent, relative to 25–30 percent for Africa and the Middle East. However, there is an interesting difference between Central America and the Caribbean, which are more oriented toward the United States, and South America, which is vulnerable to developments in East Asia (Figure 20). Even though exports of South America fell by nearly 20 percent, the overall outcome for Latin America and the Caribbean is less gloomy because of the dominance of Mexico, which accounted for 37 percent of Latin America's exports in 2014, and mainly exports to a strengthening U.S. economy.

FIGURE 19: Merchandise Exports of Latin America and the Caribbean: Value, Volume and Price (3-month moving average, January 2012 = 100)



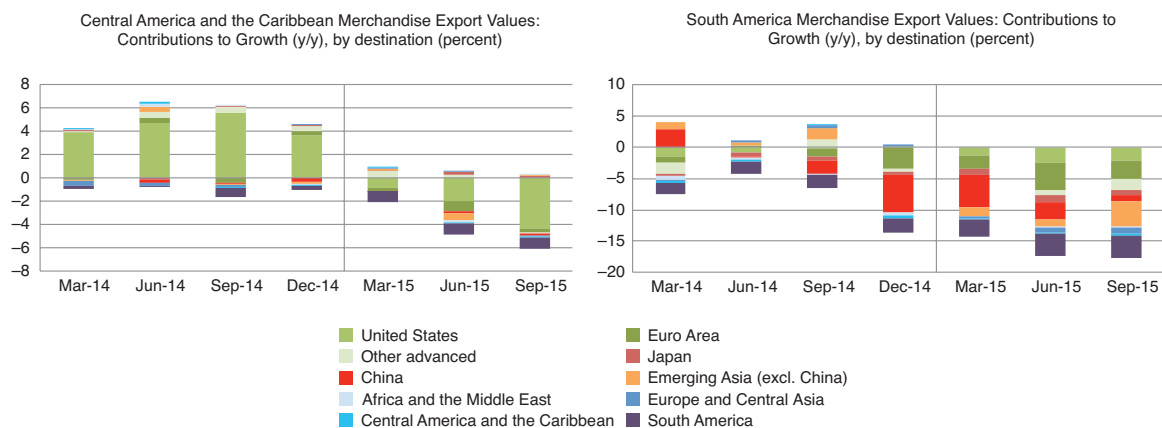
Source: CPB Netherlands Bureau of Economic Policy Analysis.

Note: Seasonally adjusted data.

Eastern Europe and Central Asia

Recent dynamics in value export data for this region are dominated by commodity exporters, including, but not limited to, Russia, which accounts for more than a quarter of the region's trade (Figure 21). The region as a whole was only marginally affected by developments in China. The geopolitical tensions surrounding Russia and Ukraine in 2015, and the associated spillovers to Commonwealth of Independent States (CIS) countries, appear to have had a substantially more significant impact on export volume growth in the region.

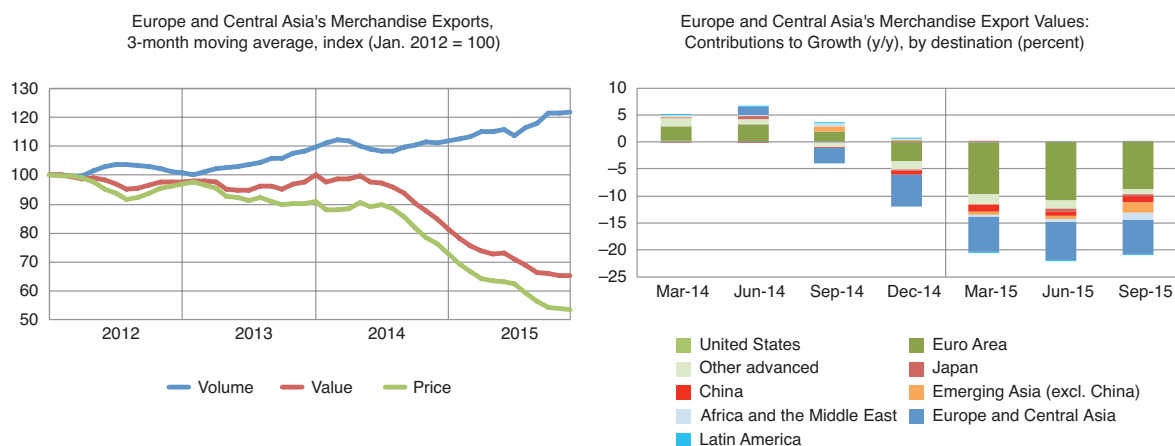
FIGURE 20: Merchandise Exports of Latin America and the Caribbean: Contributions to Growth by Destination Country



Source: IMF Direction of Trade Statistics.

Note: Quarterly data.

FIGURE 21: Merchandise Exports of Eastern Europe and Central Asia: Value, Volume, and Price and Contributions to Growth by Destination Country



Sources: CPB Netherlands Bureau of Economic Policy Analysis, and IMF Direction of Trade Statistics.

Notes: Seasonally adjusted data and quarterly data.

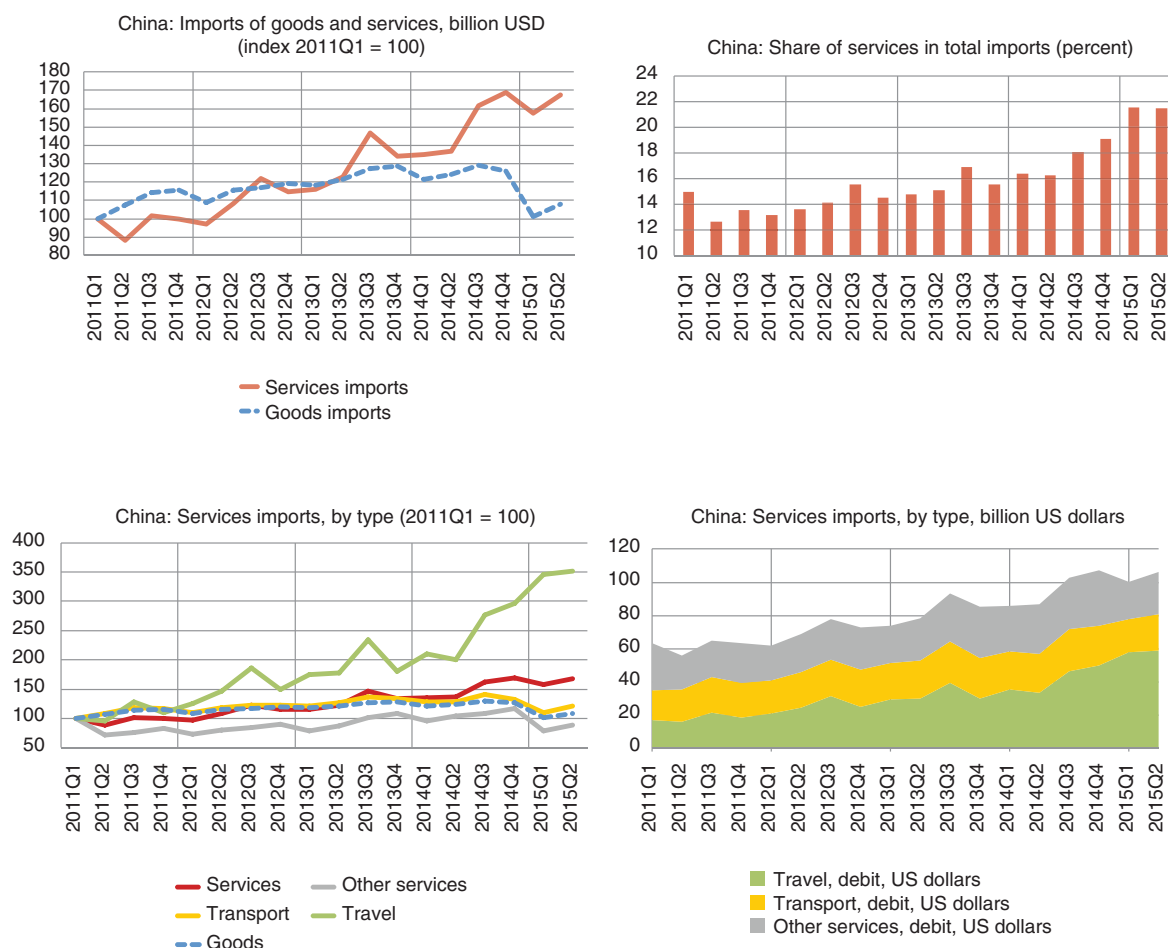
4. The rebalancing of the economy from investment to consumption is also shifting China's demand from goods to services. Part of this demand is being served by cross-border imports and consumption abroad—growth in these areas is already visible—although more time and data will need to be assessed if these trends are durable.

The rebalancing of the economy from investment to consumption affects the level and composition of trade. Rebalancing in China involves a shift from investment to consumption and, therefore, also in demand from goods to services. Available data indeed show the different dynamics of goods and

services imports in recent years, with slowing imports of goods and rising services imports, especially travel (Figure 22). The latter may reflect consumption abroad of services ranging from tourism to education and health; although it is also possible that these data capture other short-term factors such as disguised capital outflows.

While services imports are growing, goods trade developments continue to dominate. The net effect, however, is still largely dominated by the negative developments in imports of goods, as services accounted for a relatively small share of total imports of China in 2014. But the share of services has grown—from around 15 percent at the beginning of 2011 to close to 22 percent in the first half of 2015.

FIGURE 22: China's Import Values of Goods and Services (Indexes)



Source: IMF Balance of Payments Statistics.

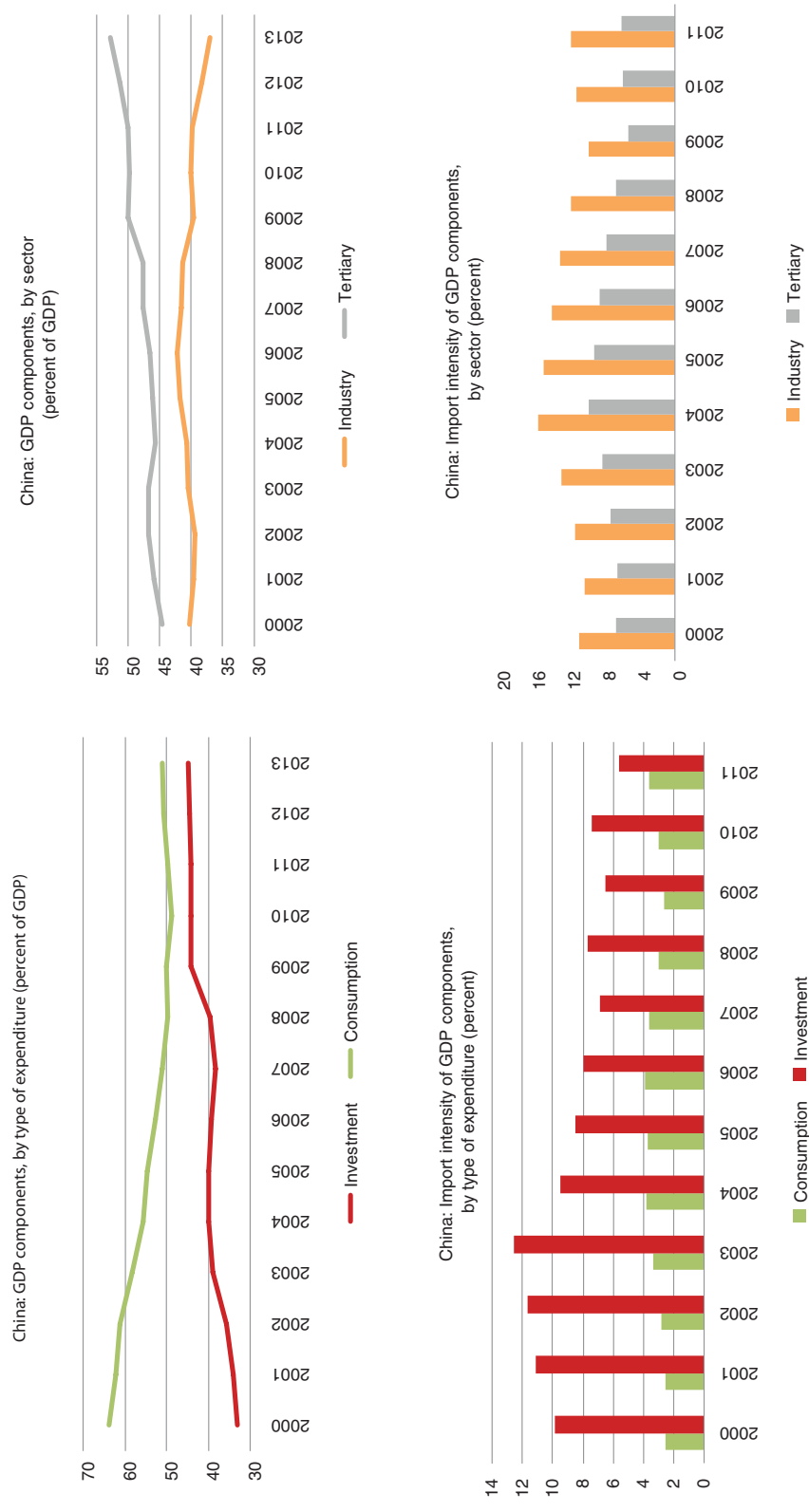
5. Looking ahead, the rebalancing of the Chinese economy will influence trends in world trade, but how the transition happens will affect the extent of trade fluctuations.

Lower growth in China, as well as the gradual shift away from industrial production and investment, is affecting all regions of the world. Recent experience suggests that how rebalancing takes place is likely to affect how much global trade fluctuates in the transitional period. The trade consequences of rebalancing are also likely to have positive aspects. The changing composition in demand may well favor exporters of consumption goods and eventually of upstream intermediate and capital goods used in their production. In the longer term, rising wages in China may encourage industrial production and exports in lower-cost economies. The rebalancing is also shifting China's demand from goods to services, and services imports may grow even faster if services markets become more open.

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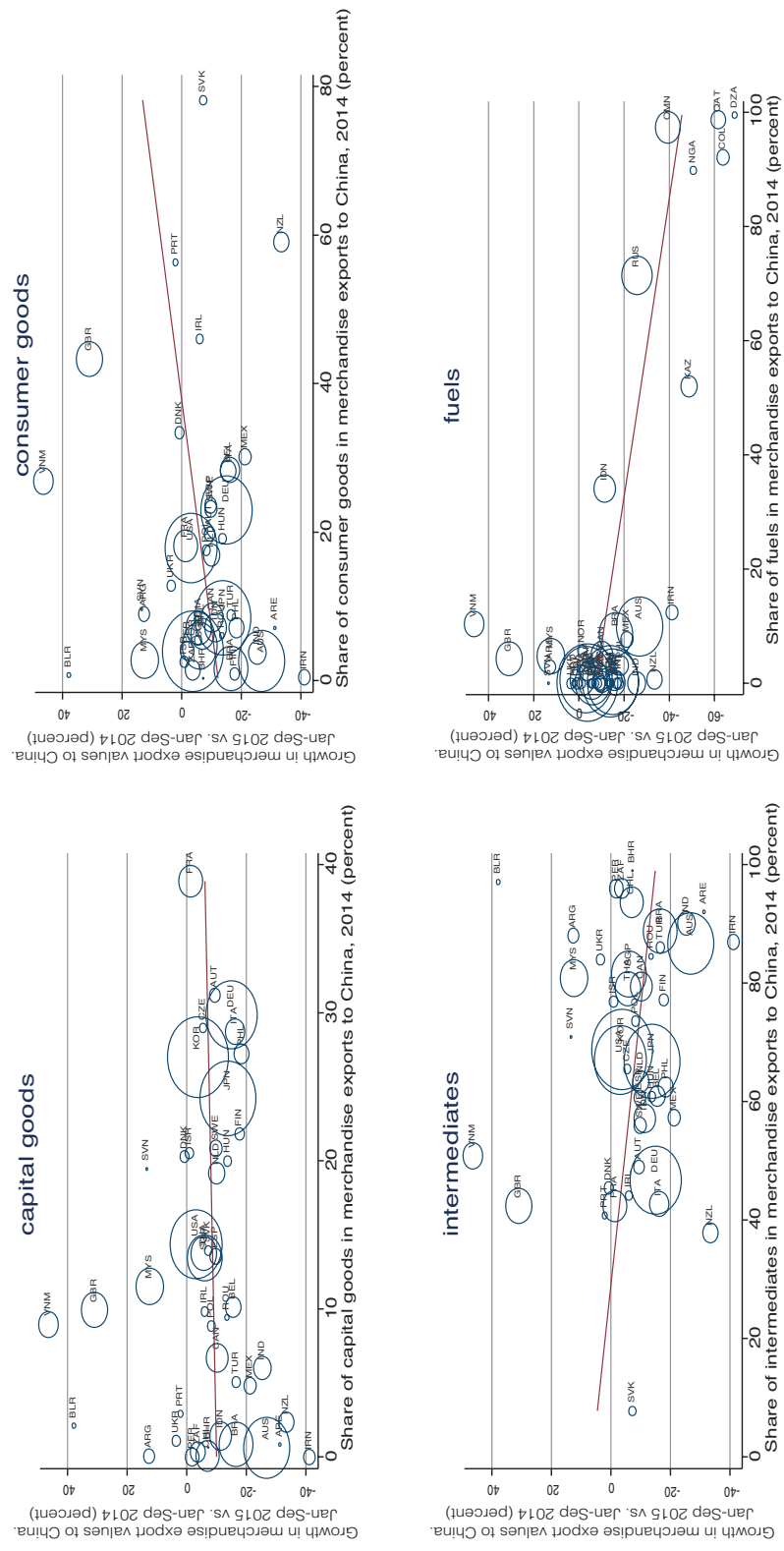
FIGURE A3: China's GDP Components, by Type of Expenditure and Sector: Share in Total GDP and Import Intensity



Note: Computed as the share of imported intermediates in total intermediates used to produce value added in a sector.

Source: World Input Output Database, OECD, China Statistical Yearbook, 2014.

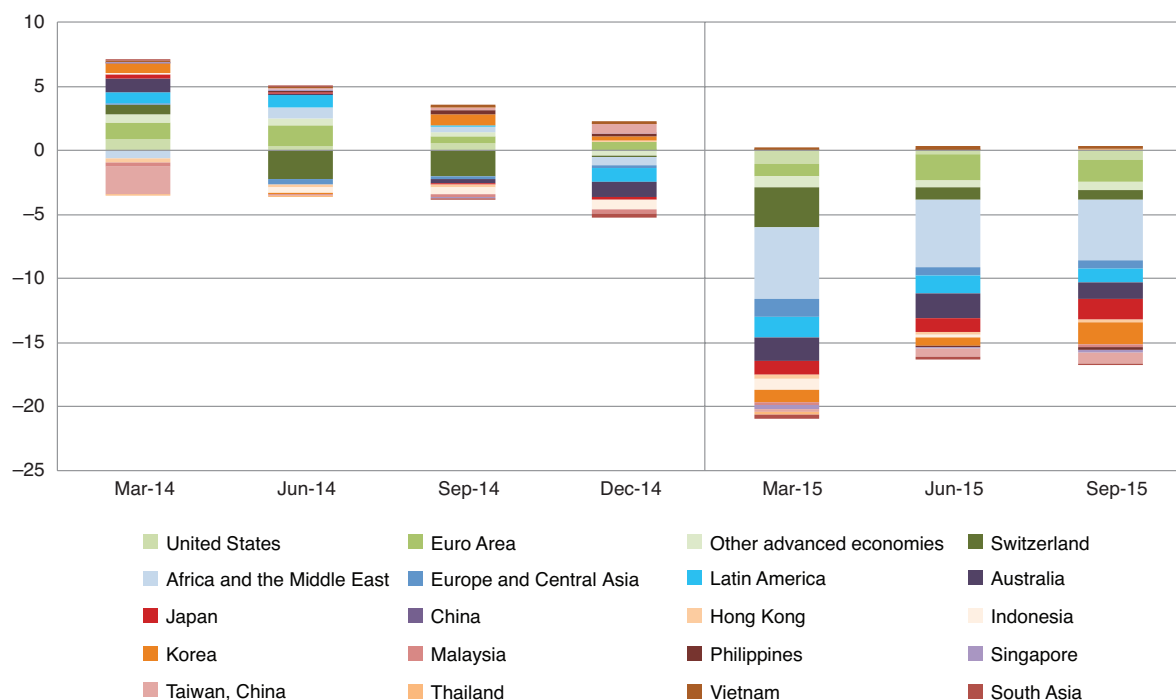
FIGURE A4: Contraction of Exports to China, by Type of Exports



Sources: IMF Direction of Trade and UN Comtrade.

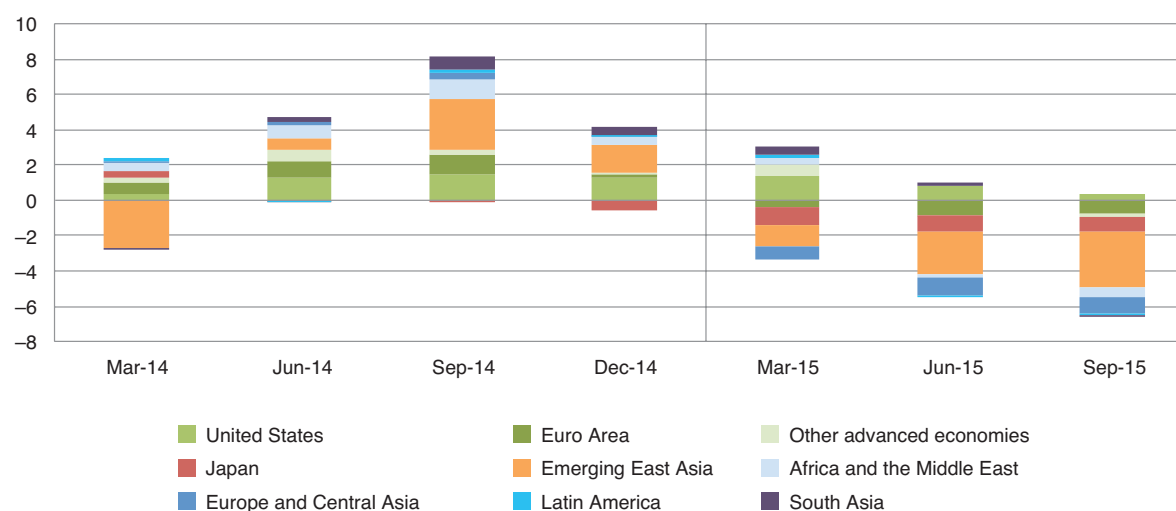
Note: Sixty world largest exporters.

FIGURE A5: Contributions to Growth in China's Merchandise Imports by Country of Origin (year-on-year growth, percent)



Source: IMF Direction of Trade Statistics.

FIGURE A6: Contributions to Growth in Emerging East Asia's Merchandise Exports by Destination (year-on-year growth, percent)



Source: IMF Direction of Trade Statistics.

Note: Quarterly data.

Data Notes

With two exceptions explained below, group country composition follows the one used in the World Trade Monitor issued by the CPB Netherlands Bureau of Economic Policy and Analysis.

Advanced Economies: United States, Japan, Euro Area, and other advanced economies.

Euro Area: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, Spain.

Other advanced economies: Australia, Canada, Denmark, Iceland, New Zealand, Norway, Sweden, Switzerland, United Kingdom.

Emerging and Developing Economies: Emerging Asia, Europe and Central Asia, Latin America and the Caribbean, Africa and the Middle East.

Emerging Asia: Hong Kong SAR, China, India, Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan, China, Thailand, Vietnam.

Europe and Central Asia: Belarus, Bulgaria, Croatia, Czech Republic, Hungary, Kazakhstan, Latvia, Lithuania, FYR Macedonia, Poland, Romania, Russian Federation, Turkey, Ukraine.

Latin America and the Caribbean: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay.

Africa and the Middle East: Algeria, Egypt, Islamic Republic of Iran, Iraq, Israel, Kenya, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, South Africa, Tanzania, United Arab Emirates, Zambia.

Country composition for the Sub-Saharan Africa group in Figure 18: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Ivory Coast, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Seychelles, Sierra Leone, South Africa, Sudan, Tanzania, Uganda, Zambia, Zimbabwe.

Country composition for the South Asia group in Figure 9 and Figures A5 and A6: Bangladesh, India, Pakistan, Sri Lanka.