UN trade & development UNCTAD

Global trade Update

Special insight: Trade and industrial policy

Global trade recovers, but unevenly.

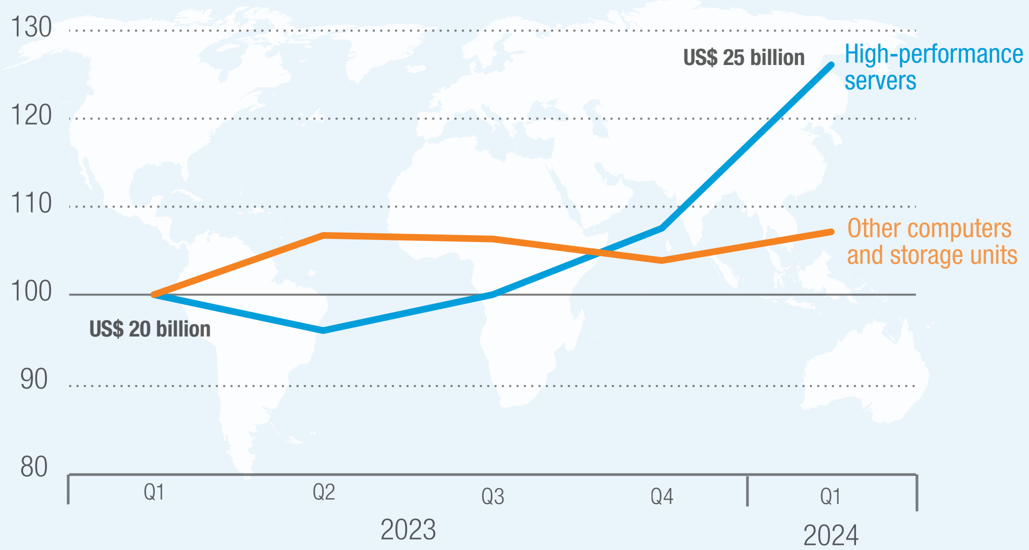
HIGHLIGHTS

- During Q1 2024, trade growth in developing countries and South-South trade outpaced that in developed countries.
- Global trade growth was driven by increased exports from China, India, and the United States, while Europe and Africa disappointed.
- Trade growth varied across sectors, with green energy and AI-related products experiencing stronger increases.
- The outlook for 2024 remains positive, but geopolitical issues and industrial policies will continue reshaping global trade patterns.

Trade in AI-related equipment surges strongly in Q1 2024

Trade value of high-performance and other automatic data processing machines

(Q1 2023 = 100)



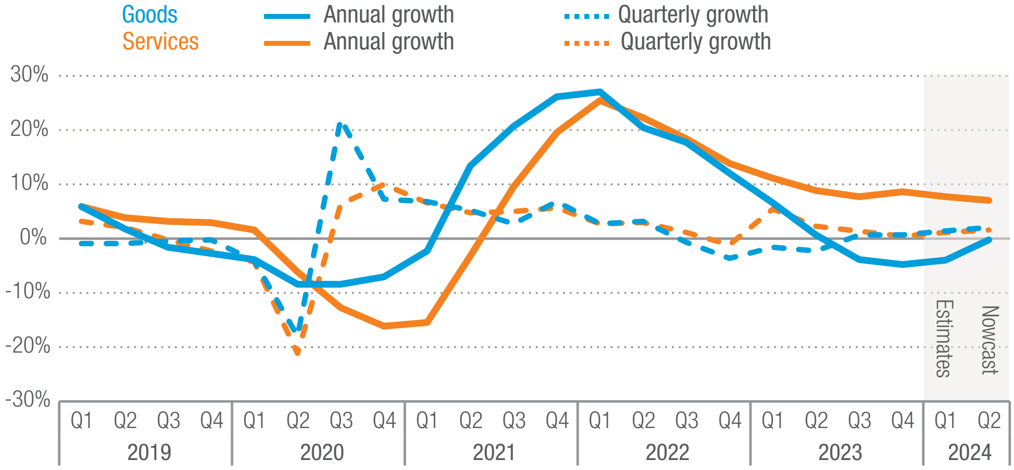
Source: UNCTAD estimates based on national statistics of China, European Union and the United States.
Note: High-performance servers are defined based on HS code 847150. This code includes processing units and servers that don't have a keyboard and a monitor. For comparison purposes, other computers and storage units are defined based on the rest of the subheading in code 8471 (Automatic Data Processing Machines and Units Thereof). US$ values are global trade estimates for the respective quarters.

Global trade trends and nowcast

Current global trade trends have turned positive, with goods trade increasing by around 1 per cent quarter over quarter (QoQ) in Q1 2024. Services trade grew at approximately 1.5 per cent QoQ. The UNCTAD nowcast predicts a stronger positive trend for Q2 2024, projecting an approximate 2 per cent increase for the first half of 2024. This increase is expected to add around US$ 250 billion to goods trade and about US$ 100 billion to services trade in the first half of 2024 compared to the second half of 2023. If positive trends persist, global trade in 2024 could reach almost US$ 32 trillion, yet it is unlikely to surpass its record level seen in 2022.

Global trade in goods and services have resumed growth in 2024

Annual and quarterly growth in the value of trade in goods and services

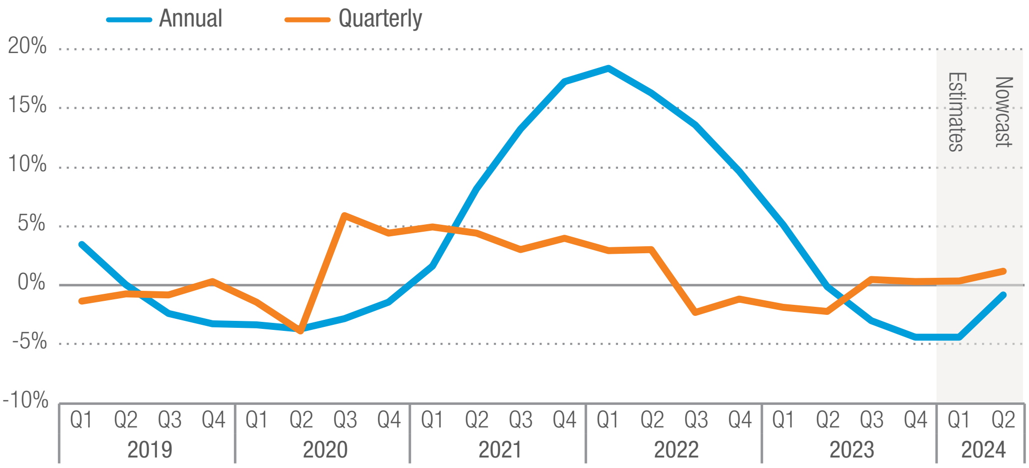


Sources: UNCTADstat; UNCTAD calculations based on national statistics.
Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. The annual growth is calculated using a trade-weighted moving average over the past four quarters. Figures for Q1 2024 are estimates. Q2 2024 is a nowcast as of 11 June 2024.

Prices for traded goods have remained constant in Q1 2024 but are expected to increase in Q2 2024, with trade growing faster in values than in volumes. Despite this uptick, the annual change in the price for traded goods is expected to remain negative.

Trade inflation turns positive, but remains below 2 per cent in first half of 2024

Annual and quarterly growth in the overall price of traded goods



Source: UNCTADstat; UNCTAD calculations based on national statistics.
Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. The annual growth is calculated using a trade-weighted moving average over the past four quarters. Figures for Q1 2024 are estimates. Q2 2024 is a nowcast as of 11 June 2024.

Summary and outlook

In the first quarter of 2024, global trade continued its modest and gradual increase that began in the second half of 2023. The upward trend of Q1 2024 has been fueled by positive trade dynamics for the United States and developing countries, particularly the strong export performance of the largest Asian developing economies. Both merchandise and services showed positive quarter-over-quarter global trade growth in Q1 2024, with expectations of further increases in Q2 2024. This points towards a return to growth in global trade of goods in 2024, while also indicating the conclusion of the robust upward trend in trade in services.

Overall, moderating global inflation and improving economic growth forecasts suggest a reversal of the downward macroeconomic trends that have characterized most of 2023 . Additionally, rising demand for products related to energy transition and artificial intelligence should contribute to trade growth through 2024. Furthermore, the possibility of interest rate cuts in the United States later in the year and the consequently weaker United States dollar could give global trade a further boost. However, the global trade outlook for 2024 remains subject to downside risks. Persistent geopolitical tensions, rising shipping costs, and emerging industrial policies could significantly impact global trade.

Some of the most relevant factors influencing global trade in 2024 include:

- **Positive economic growth, but with significant disparities**

  Global forecasts for GDP growth remain at around 3 per cent for 2024, with the short-term outlook being cautiously optimistic. However, substantial disparities persist among countries and regions in terms of their anticipated economic outlook for the upcoming year. Such disparities will influence patterns of trade.

- **Increase demand for green energy products and AI related computers**

  Demand in some sectors such as electric vehicles, solar panels, batteries, and high-end semiconductors is expected to further increase in many countries. The trade of these products may continue growing substantially faster than average, although government policies may curb some of these trends.

- **Increase in subsidies and trade restrictive measures**

  The prioritization of domestic concerns and the urgency of meeting climate commitments are driving changes in both industrial and trade policies. The utilization of trade restrictive measures and inward-looking industrial policies are anticipated to negatively impact on the growth of international trade, especially in some strategic sectors.

- **Strong demand for container shipping, but subsiding for raw materials**

  During the last few months, there has been increasing demand for container shipping, as reflected by the strong increase in the Shanghai Containerized Freight Rate Index. On the other hand, the Baltic Dry Index has steadied, indicating constant global demand for raw materials.

- **Lengthening of supply chains**

  Global trade is being influenced by the response of supply chains to shifts in trade policy and geopolitical tensions. Some East Asian and Latin America economies may find opportunities to become more integrated into the supply chains affected by geopolitical concerns.

- **Prospects of interest rate cuts in the United States**

  Despite inflationary pressures persisting longer than anticipated, there is a possibility for the United States to reduce interest rates in 2024. Such a move would depreciate the value of the United States dollar, potentially stimulating international trade by increasing both prices and volumes, given the continued dominance of the United States dollar in global trade.

Trade trends in the major economies

The decline in merchandise trade among major economies in 2023 reversed in Q1 2024, but only for some. Specifically, imports increased for Brazil, the Russian Federation, and the United States. On the export side, China and India exhibited very strong quarter-over-quarter export performance. Exports also grew for the Russian Federation and the United States. In contrast, trade continued to decline for Japan and South Africa.

Heterogeneous trends in goods trade among major economies in Q1 2024

GOODS (Q1 2024)	Quarterly growth		Annual growth	
	Imports	Exports	Imports	Exports
Brazil	↑ 6%	↓ 2%	↓ 12%	↑ 2%
China	0%	↑ 9%	↓ 4%	↓ 5%
India	↓ 1%	↑ 7%	↓ 6%	↓ 5%
Japan	↓ 5%	↓ 5%	↓ 16%	↓ 3%
Republic of Korea	↓ 3%	0%	↓ 14%	↓ 2%
Russian Federation	↑ 2% *	↑ 4% *	↑ 6% *	↓ 23% *
South Africa	↓ 8%	↓ 7%	↓ 7%	↓ 10%
United States	↑ 2%	↑ 3%	↓ 4%	↓ 4%
European Union	↓ 2%	0%	↓ 15%	↑ 1%

Source: UNCTAD calculations based on national statistics.
Note: Quarterly growth rates are relative to the previous quarter. The annual growth is calculated using a trade-weighted average over four quarters. Data is seasonally adjusted. Data excludes intra-European Union trade. * denotes estimates.

Service-related data lags one quarter behind merchandise data. Annual growth in Q4 2023 suggests the positive trend in service trade may have plateaued, with most economies showing a mix of moderate positive and negative growth rates. Quarterly growth for the same period reveals a mixed dynamic, with positive import developments for all major economies but pronounced export declines for China, the Republic of Korea, and the Russian Federation.

Trade in services stabilized in Q4 2023, but with variations among major economies

SERVICES (Q4 2023)	Quarterly growth		Annual growth	
	Imports	Exports	Imports	Exports
Brazil	↑ 4%	↓ 2%	↑ 3%	↑ 12%
China	↑ 6%	↑ 2%	↑ 17%	↓ 11%
India	↓ 2%	↑ 3%	↑ 1%	↑ 9%
Japan	↓ 2%	↑ 12%	↑ 4%	↑ 20%
Republic of Korea	↑ 1%	↑ 5%	↑ 8%	↓ 6%
Russian Federation	↓ 9% *	↑ 1% *	↑ 7% *	↓ 16% *
South Africa	↑ 3%	↑ 3%	↑ 2%	↑ 12%
United States	↓ 1%	↓ 1%	↑ 3%	↑ 8%
European Union	↓ 1%	↓ 1%	↑ 9%	↑ 7%

Source: UNCTAD calculations based on national statistics.
Note: Quarterly growth rates are relative to the previous quarter. The annual growth is calculated using a trade-weighted average over four quarters. Data is seasonally adjusted. Data excludes intra-European Union trade. * denotes estimates.

Regional trade trends

In Q1 2024, developing countries experienced a positive trend in both imports and exports (about 2 per cent increase). While developed countries saw positive exports (1 per cent increase), their imports remained unchanged QoQ. South-South trade grew by approximately 2 per cent QoQ. On an annual basis, the decline in global trade was primarily due to reduced imports in developed countries paired by lower exports from developing countries, with both flows decreasing by 5 per cent from Q1 2023 to Q1 2024. South-South trade also fell by a similar magnitude during this period.

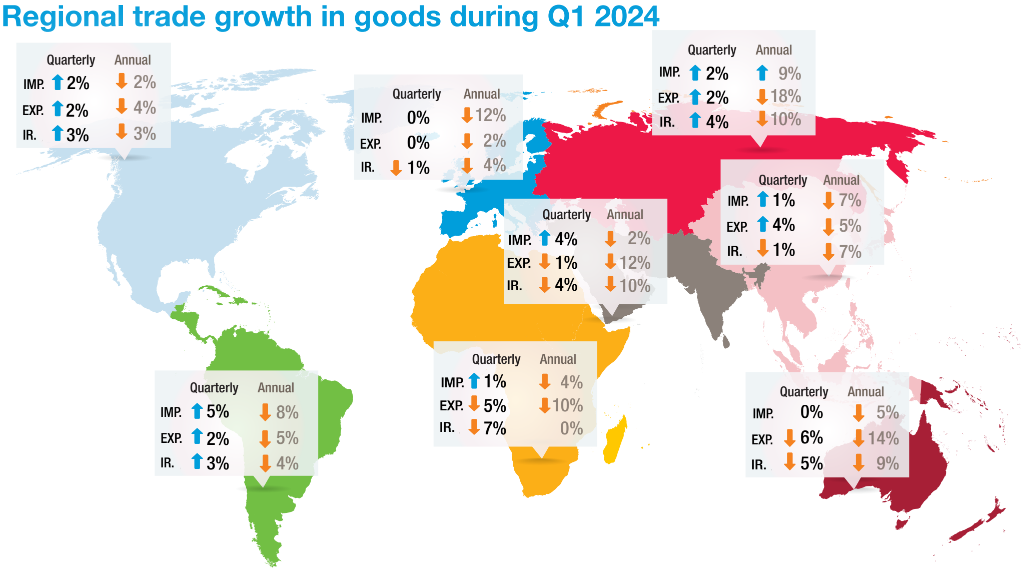
Developing and developed trade growth in goods during Q1 2024

	Quarterly growth		Annual growth	
	Imports	Exports	Imports	Exports
Developed countries	0%	↑ 1%	↓ 5%	↓ 3%
Developing countries	↑ 2%	↑ 2%	↓ 3%	↓ 5%
South-South Trade	↑ 2%		↓ 5%	
Developing countries (excluding East Asia)	↑ 1%	↓ 1%	↓ 3%	↓ 8%
South-South Trade (excluding East Asia)	0%		↓ 5%	

Source: UNCTAD estimates based on national statistics.
Note: Quarterly growth rates are relative to the previous quarter. The annual growth is calculated using a trade-weighted average over four quarters. Data is seasonally adjusted. Data does not include trade in services.

Trade trends for Q1 2024 have varied across regions. Most regions experienced positive trade growth during this period. However, exports from the African and Pacific regions decreased. Exports also declined in the region comprising South and West Asia, though to a lesser extent. Additionally, all these regions saw a significant decline in intra-regional trade. In contrast, trade growth was stronger in the East Asian regions and the Americas. On an annual basis, trade growth remains negative for all regions, except for the region comprising the Russian Federation and Central Asian economies, where trade trends have been volatile.

Regional trade growth in goods during Q1 2024



The designations employed and the presentation of material on any map in this work do not imply the expression of any opinion whatsoever on the part of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

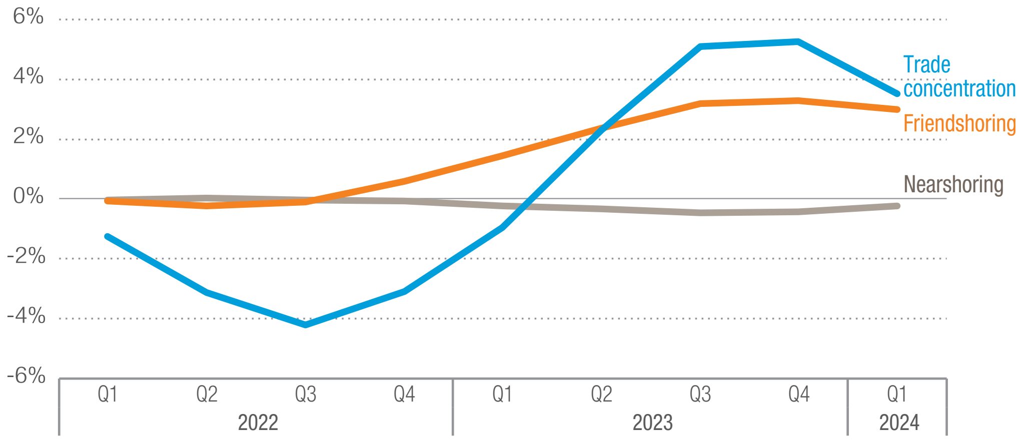
Source: UNCTAD estimates based on national statistics.
Note: Quarterly growth rates are relative to the previous quarter. The annual growth is calculated using a trade-weighted average over four quarters. IR denotes intra-regional. Data is seasonally adjusted. Data does not include trade in services. Imports and exports exclude intra-European Union trade.

Global trade dynamics and trade dependence

Since the latter part of 2022, there has been a noticeable rise in the political proximity of trade. This indicates that bilateral trade patterns have been favouring trade between countries with similar geopolitical stances (i.e. friend-shoring). This trend stabilized from the second half of 2023. Concurrently, there has been an increasing concentration of global trade to favour major trade relationships, although this trend also began to soften.

Friendshoring and trade concentration trends continue to shape global trade in Q1 2024

Annual change relative to 2021 (per cent)



Source: UNCTAD estimates based on national statistics.
Note: Nearshoring is calculated as reverse of trade-weighted average distance in km. Friendshoring is calculated as trade-weighted political proximity as measured by the United Nations voting patterns. Trade concentration is calculated based on the Herfindahl concentration index.

Geoeconomic issues continue to play a significant role in shaping key bilateral trade trends. These factors not only impact trade between the major economies but can also influence their trade dynamics with other trading partners. Another significant factor impacting bilateral trade is the ongoing reshaping of value chains.

Global interdependence trends are shaped by geopolitical and economic factors

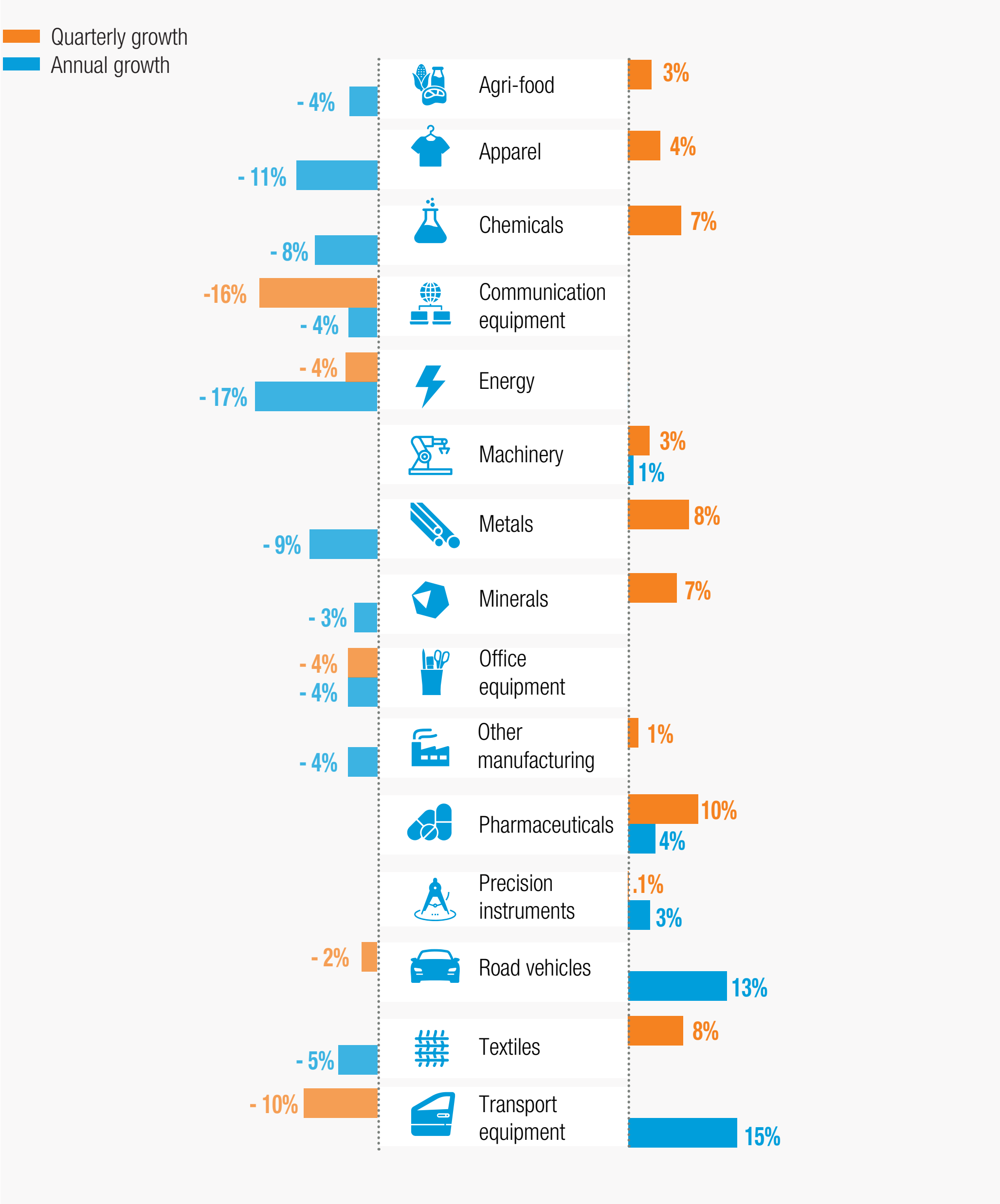
Increasing trade dependence		Annual change	Decreasing trade dependence		Annual change
Dependent	Depending on		Dependent	Depending on	
Russian Federation	China	5.8%	Russian Federation	European Union	-4.0%
Brazil	China	3.3%	Philippines	China	-3.1%
United Kingdom	European Union	2.4%	Brazil	United States	-1.3%
Viet Nam	China	1.6%	United States	China	-1.1%
Japan	United States	1.5%	Brazil	European Union	-0.8%
India	China	1.2%	Republic of Korea	China	-0.7%
Republic of Korea	United States	1.1%	China	United States	-0.6%
India	European Union	1.0%	India	Saudi Arabia	-0.5%
Malaysia	United States	0.9%	Viet Nam	Republic of Korea	-0.4%
United States	European Union	0.8%	China	European Union	-0.4%

Source: UNCTAD estimates based on national statistics.
Note: The dependence of an economy on another is calculated as the ratio of their bilateral trade over the total trade of the dependent economy. Annual change is calculated using a trade-weighted moving average over the past four quarters. Data for Russian Federation includes estimates.

Global trade trends at the sectoral level

On a quarterly basis, most sectors experienced a rebound in Q1 2024. Most notable exceptions were transport and communication equipment, where trade contracted. In contrast, quarterly increases were more pronounced for chemicals, pharmaceuticals, textiles, metals and minerals. On an annual basis, global trade remains negative for many sectors, except for machinery, precision instruments, pharmaceuticals, transportation equipment, and road vehicles, the latter experiencing a strong increase in the trade of electric cars, which continued to rise even in Q1 2024, by about 25 per cent. The value of trade in the last four quarters was still significantly lower for the energy and apparel sectors. Notably, trade in the communication and office equipment sectors continued to slide during Q1 2024.

Amid generalized recovery, global trade in ICT continued to decline in Q1 2024

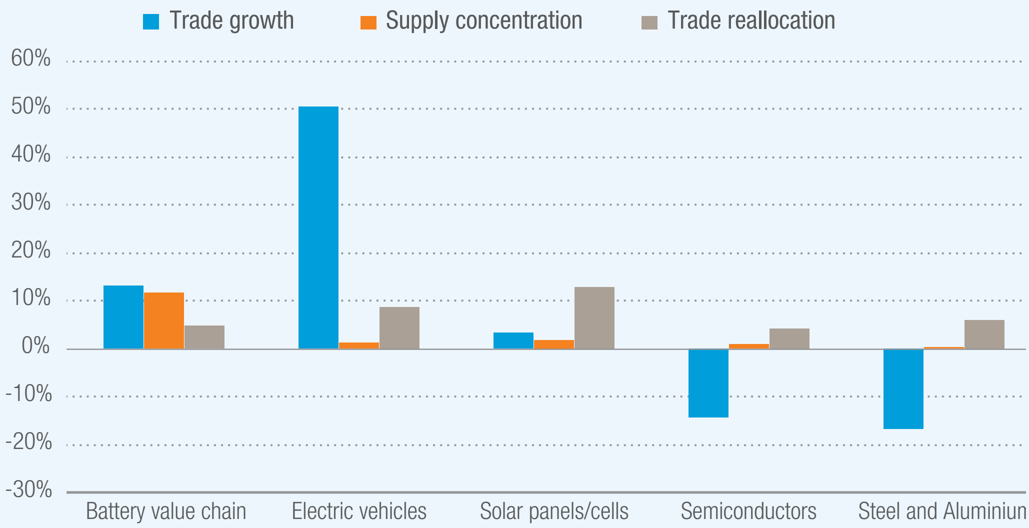


Source: UNCTAD estimates based on national statistics of China, European Union and the United States.
Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. The annual growth is calculated using a trade-weighted average over four quarters.

Special Insight: Industrial policy and global trade

Industrial policies are targeting both traditional and high-growth sectors, leading to significant trade reallocations and increased supply concentration

Trade growth, change in supply concentration and trade reallocation in 2022-2023



Source: UNCTAD estimates based on national statistics of China, European Union and the United States.
Note: Growth is annual between 2022 and 2023, Trade growth and trade reallocation are in per cent. The change in supply concentration is measured by percentage change in the Herfindahl–Hirschman index.

What is the issue?

Heightened geopolitical risks, the need for energy transition toward renewable sources, and significant technological advancements in computing power and artificial intelligence (AI) have led to an increase in government interventions in the economy. Many of the interventions in developed and emerging markets have focused on support measures aimed at enhancing the competitiveness of strategic industries, positioning domestic firms as key suppliers of low-carbon products, and bolstering the resilience of supply chains for critical and strategic products. Policies such as the United States Inflation Reduction Act, the Made in China 2025 initiative, and the European Union's Net Zero Industry Act are largely motivated by strategic considerations related to the rapidly evolving environmental, technological, and geopolitical landscape.

How this relates to global trade?

The policy interventions currently implemented or considered by many governments take the form of industrial policy. From a trade perspective, industrial policy typically seeks import substitution by providing support to domestic producers, imposing restrictions on trade, and facilitating vertical consolidations. These types of interventions typically have a negative effect on trade.

One particularity of the policies being currently implemented is that, besides targeting well-established sectors like steel and aluminum where lobbying for support has historically been active, they are also forward-looking, focusing on sectors expected to experience a rapid increase in demand, both domestically and globally. Government support in several major economies is now actively targeting industries associated with advanced technologies (such as high-end semiconductors) and renewable energies (such as electric batteries, electric vehicles, and solar panels). Despite the generalized trade downturn, global demand in many of the sectors targeted by industrial policy has increased during 2023. For instance, detailed product level data from the three major economies suggests that the trade in electric vehicles experienced a remarkable 50 per cent rise.

During the last few years global supply concentration, as measured by the Herfindahl–Hirschman index, has increased in most of the sectors targeted by industrial policy, but to varying degrees. For instance, between 2022 and 2023, supply concentration rose significantly for batteries and their precursors, whereas it increased to a lesser extent in other sectors targeted by the industrial policies of major economies. There has also been a varying degree of change in trade reallocation, indicated by the percentage of global supply shifting across countries, as measured by changes in global market shares. Generally, higher trade reallocation rates indicate a more competitive market landscape where suppliers are vying for gains in market share. For example, product level data for three major economies indicates that about 12 per cent of the global supply of solar panels shifted between 2022 and 2023. Importantly, while global competition appeared to have remained robust for solar panels and electric vehicles, this is not the case for battery value chains. In this sector, the increase in supply concentration has been accompanied by low trade reallocation, suggesting that global supply is becoming increasingly concentrated in the hands of a few major exporters.

What are the possible implications for global trade?

Increased supply concentration. Industrial policy is likely to increase the concentration of the global supply of strategic products in even fewer economies. By providing heavy subsidies to their own industries, developed countries and major emerging economies are expected to enhance their global competitiveness in these sectors. This will impact not only their domestic markets but also global trade, potentially marginalizing smaller economies from entering these lucrative markets. This may have important implications for developing countries.

Global trade fragmentation among major blocs. A subsidy race could lead to trade fragmentation among major suppliers seeking to gain trade dominance within their major trade relationships. This will further affect the configuration of global value chains and global market segmentations, including upstream and downstream sectors. Such an outcome would also increase tensions with the multilateral trading system, as many rules embedded in multilateral and bilateral or regional preferential trade arrangements limit countries' ability to implement discriminatory trade policies or subsidy schemes with significant effects on trade.

Increased protectionism, trade costs, and uncertainty. Unilateral actions in the form of industrial policies often distort trade. Consequently, trading partners may respond with trade restrictions, escalating protectionism and potentially triggering retaliatory actions that undermine the rule-based global trading system. Weaker international trade rules increase uncertainty in cross-border transactions, add complexity to business strategies, make it challenging to forecast costs and prices, and ultimately raise the costs of expanding into new markets for many firms, especially small and medium enterprises.

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