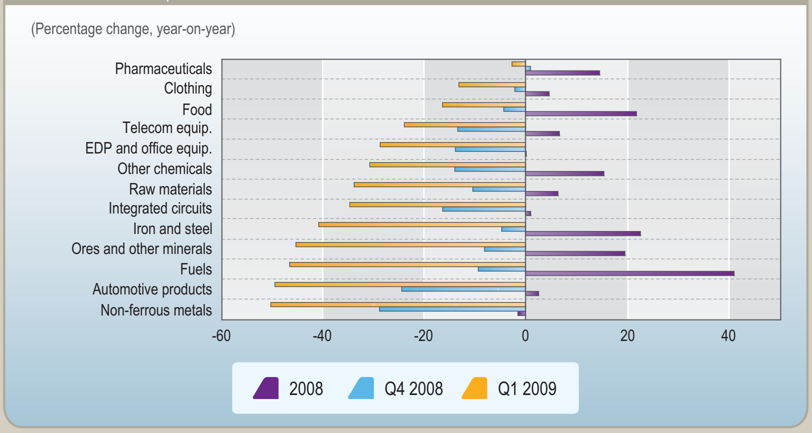
II. MERCHANDISE TRADE BY PRODUCT

Summary of developments

A devastating fourth quarter in 2008 but signs of improvement

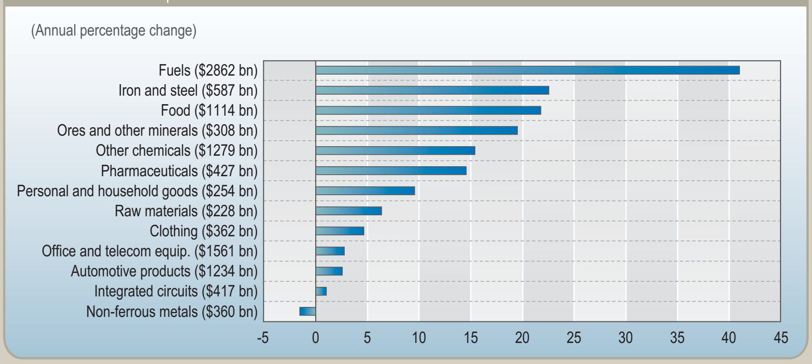
Up until the third quarter of 2008, exports of all product categories continued to experience the high growth that started back in 2003. In the fourth quarter of 2008, however, practically all product categories registered abrupt declines, which worsened in the early months of 2009. World exports of non-ferrous metals, automotive products and integrated circuits were hardest hit. However, initial data indicate a bottoming-out of the crisis in the second quarter of 2009.

Chart II.1 Quarterly developments by product category



Despite the sudden and sharp downturn in the fourth quarter of 2008, the year still ended with an annual average growth of 33 per cent for exports of fuels and mining products (compared with 15.1 per cent in 2007), growth of 18.9 per cent for agriculture (19.8 per cent in 2007), and a relatively low growth rate (9.9 per cent) for manufactures (15.3 per cent in 2007).

Chart II.2 World merchandise exports by product group, 2008



The Highlights

IN THIS CHAPTER:

Primary commodities

Severe price adjustments have taken place during the recession

Overall, exports of primary commodities went up by 28.8 per cent in value terms in 2008, far exceeding the 2007 increase (16.5 per cent). This gain came as a result of record increases in the prices of fuels and food in the first three quarters of 2008 – products which jointly accounted for 82 per cent of world trade in primary commodities.

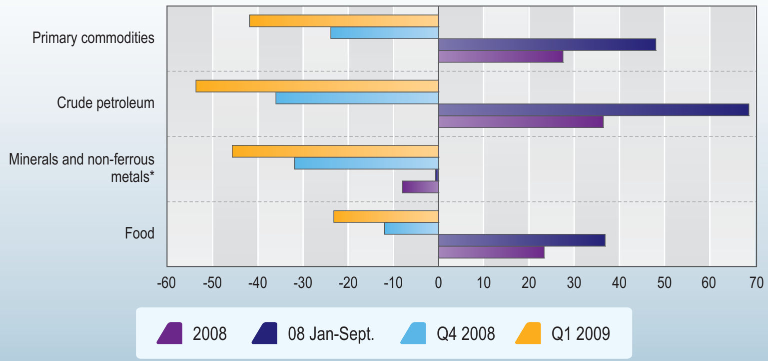
During the fourth quarter of 2008, the economic slowdown led to a decline in the export value of primary commodities. This decline increased in the first quarter of 2009.

Growing demand in both industrialized and emerging economies triggered an unprecedented growth in petroleum prices in the first three quarters of 2008. The price of crude petroleum attained a record high in July 2008 and despite a 36 per cent year-on-year decline in the fourth quarter, prices increased by 36.4 per cent for the year. As a result, world exports of fuels expanded by 41 per cent in value (Chart II.4) and lifted the share of fuel in total merchandise exports to 18.2 per cent – the highest level since 1984. Towards the end of the year, however, in response to the global fall in demand, prices of all primary commodities, including food, plunged. On a year-on-year basis,[1] petroleum prices dropped 53.7 per cent in the first quarter of 2009. Prices of minerals and non-ferrous metals plunged by 49.6 per cent.

The corresponding decline in price of food was 23 per cent. As a result, in the first quarter of 2009, world exports of fuels and non-ferrous metals contracted, in value terms, by an estimated 46 per cent and 50 per cent respectively. The decline in the exports of food was 16 per cent, as demand for food is less responsive to price changes.

Chart II.3 Prices of primary products

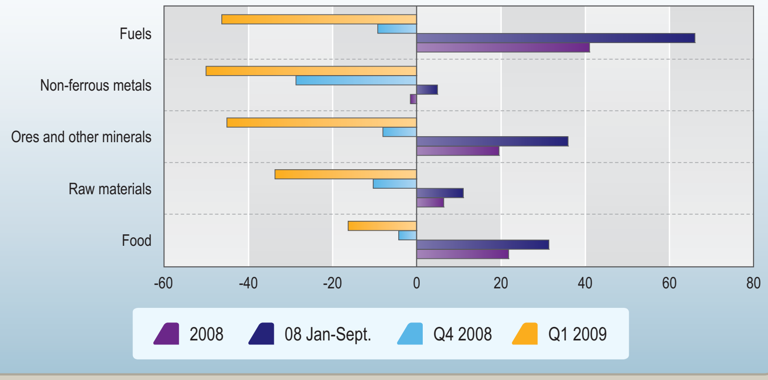
(Percentage change, year-on-year)



Source: IMF, International Financial Statistics
*Excluding petroleum

Chart II.4 Value of world exports of primary products

(Percentage change, year-on-year)



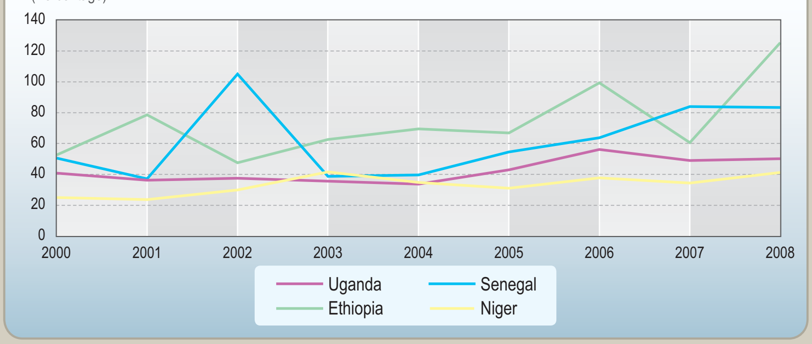
Fuel

Many least-developed countries have suffered from high fuel prices

Strong fluctuations in fuel prices, including price surges, created an additional strain on the foreign exchange positions of those least-developed countries (LDCs) which rely on non-oil merchandise exports. In 2008, for example, Ethiopia's foreign exchange earnings from its merchandise exports covered only 80 per cent of its fuel imports. Whereas in 2002 48 per cent of its merchandise exports earnings covered all its imports of fuels. Senegal's imports of fuels were the equivalent of 83 per cent of its total merchandise export earnings in 2008.

Chart II.5 Fuel imports of selected African countries as a percentage of their total merchandise exports, 2000-08

(Percentage)



1 Unless otherwise indicated, quarterly growth rates are on a year-on-year basis.

Food

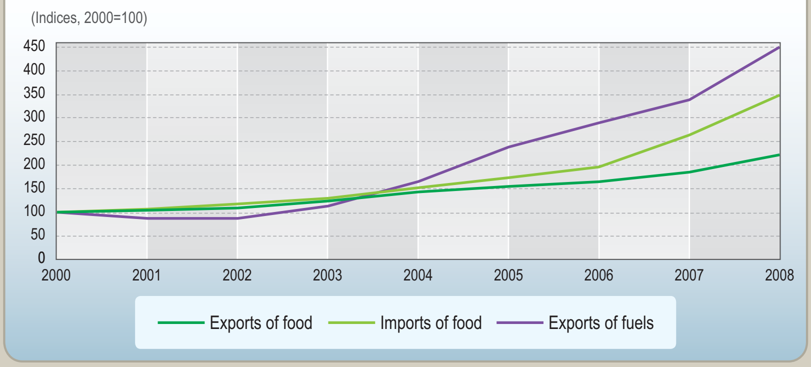
Price of rice more than doubled in 2008

In 2008, prices of food increased by 23.3 per cent, comparable only to 1974 when both demand and supply factors pushed prices up drastically.

World exports of food grew by 21.8 per cent in 2008. While food exporters benefited – Thailand's rice exports, for example, increased 65 per cent and EU exports of wheat outside the European Union expanded by 180 per cent – the burden became heavier on net-food importers.

Chart II.6

Africa's trade in food and fuels, 2000-08



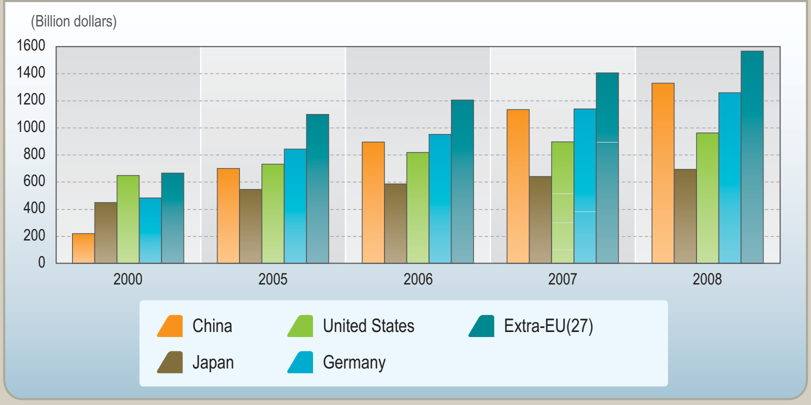
In recent years, for example, Africa's imports of food grew at a higher pace than its exports. In addition to surging prices, supply and demand factors were among the reasons for the increasing gap. A number of African countries are net-food importers because of limited arable land in relation to their populations. Others struggle to improve farm practices and lack the capacity to purchase intermediate and capital goods to increase productivity and meet the needs of their growing populations. Some countries are also confronted with adverse climatic conditions (e.g. recurrent drought) and institutional difficulties. Few of them are capable of importing more food thanks to increased earnings from oil or mineral sales.

Manufactures

China is the leading exporter

Chart II.7

Major exporters of manufactures, 2000-08

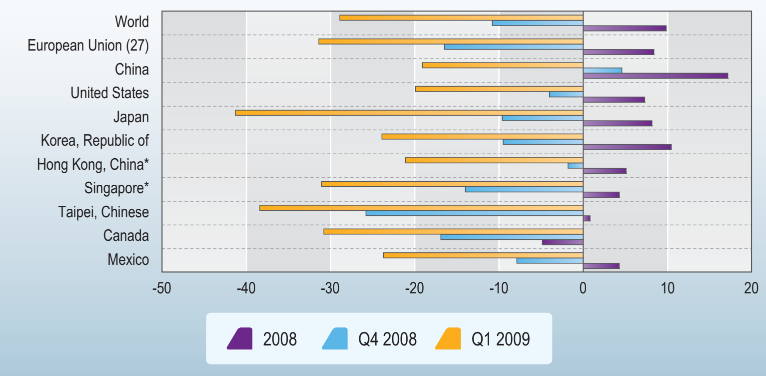


In 2008, China surpassed Germany to become the world's largest exporter of manufactured goods, although not so far of total merchandise exports. Between 2000 and 2008, China's exports of manufactured goods grew at an annual average rate of 25.2 per cent, twice that of Germany. While EU exports outside the European Union still remain at the top of the list, the gap with China has been constantly narrowing (from 67 per cent in 2000 to 15 per cent in 2008). On the import side, the hierarchy of the three major importers of manufactures – the United States, Germany and China – has not changed.

World exports of manufactures declined by 11 per cent in the last quarter of 2008 and 29 per cent in the first quarter of 2009. Of the ten major exporters, only China registered a positive growth rate of 4.6 per cent in the fourth quarter of 2008. During the first quarter of 2009, however, China recorded a 19.1 per cent decline. Exports of the United States shrank by 4 per cent in the last quarter of 2008 and 20 per cent in the first quarter of 2009 while exports of the European Union fell by 16.1 per cent and 31.4 per cent respectively. In the first quarter of 2009, Japan and Chinese Taipei were the hardest hit. They saw their exports contract by 41.3 per cent and 38.4 per cent respectively.

Chart II.8 Exports of manufactures

(Percentage change, year-on-year)



* Includes significant re-exports

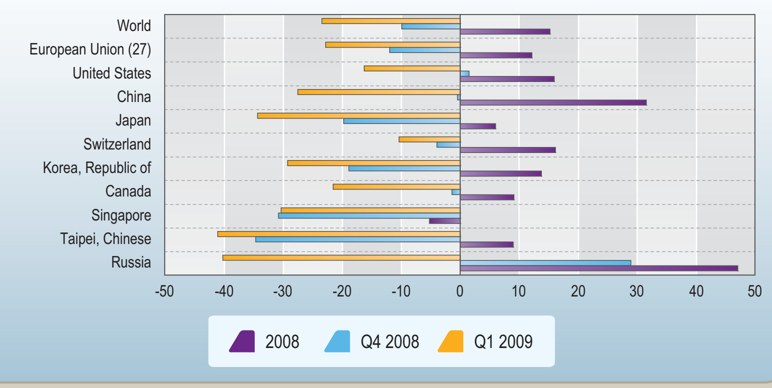
Chemicals

Pharmaceuticals are the least affected

World exports of chemicals shrank by 10 per cent in the last quarter of 2008 and 23 per cent in the first quarter of 2009. The downturn for pharmaceutical products was less abrupt than for other chemicals. In the last quarter of 2008, pharmaceuticals were one of the rare products with a positive, though marginal, growth rate (1 per cent). Among all chemical products, they experienced the lowest decline in the first quarter of 2009. In contrast, due to the fall in demand in construction, automotive and other industries, world exports of other chemical products contracted by 14 per cent in the fourth quarter of 2008 and by a further 31 per cent in the first quarter of 2009.

Chart II.9 Leading exporters of chemicals

(Percentage change, year-on-year)



Iron and steel

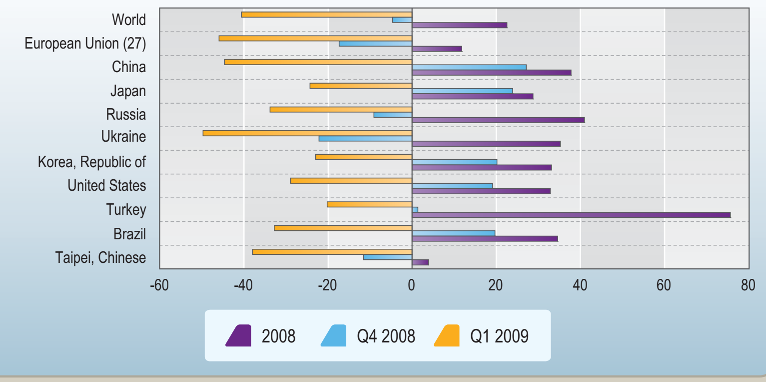
China surpasses EU exports outside the European Union

China exports of iron and steel products grew by an annual average of 41.6 per cent between 2000 and 2008, surpassing EU exports outside the European Union.

As global demand in the construction, automotive and other sectors declined, iron and steel did not escape the impact of the global economic downturn. In the last quarter of 2008, the decline was relatively modest (-5 per cent) as Japan, China, the Republic of Korea and the United States still registered substantial increases in their exports. Exports of the European Union, however, contracted by 17.3 per cent. During the first quarter of 2009, world exports of iron and steel shrank by 40 per cent. Exports of the European Union, China and Ukraine dropped by 45.9 per cent, 44.6 per cent and 49.7 per cent respectively.

Chart II.10 Exports of iron and steel

(Percentage change, year-on-year)



Automotive products

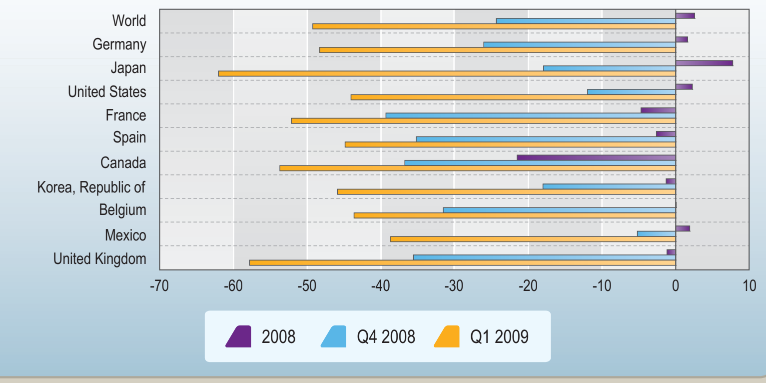
Automotive products have suffered most

Automotive products were the hardest hit of all industries by the credit crunch and the recession. World exports in value terms tumbled 24 per cent in the last quarter of 2008 and 49 per cent in the first quarter of 2009.

Of the top ten major exporters of automotive products, five recorded more than 30 per cent declines in their exports in the last quarter of 2008 and all but Mexico witnessed a decline of over 40 per cent in the first quarter of 2009. Canada's exports were the most affected, declining by more than 20 per cent in 2008 and falling by a further 54 per cent in the first quarter of 2009. Japan fared better throughout 2008, posting an 8 per cent growth rate, but subsequently recorded the sharpest decline in the first quarter of 2009.

Chart II.11 Leading exporters of automotive products

(Percentage change, year-on-year)

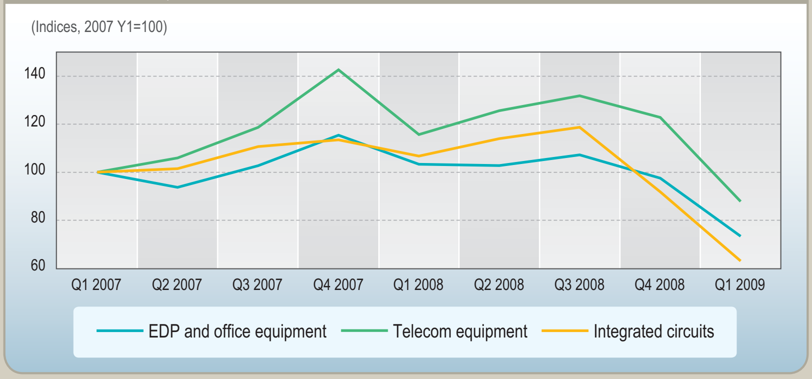


Office and telecom equipment

Office and telecom equipment are also on decline

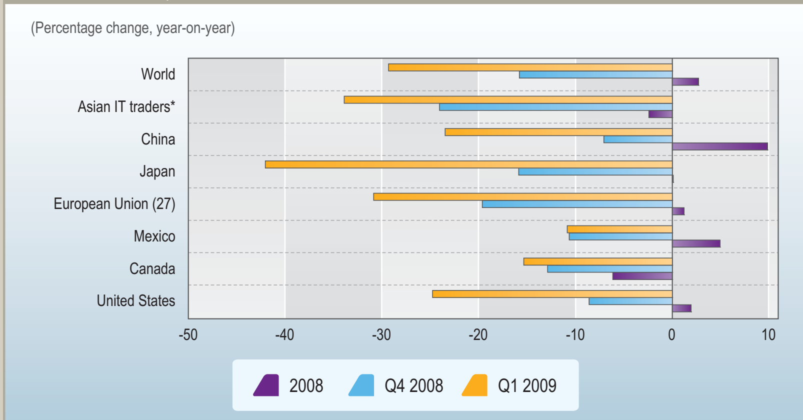
World exports of office and telecom equipment declined by 16 per cent in the fourth quarter of 2008 and slid by 29 per cent in the first quarter of 2009. Within this category, telecommunication equipment was the least affected, registering the highest year-on-year growth in the first three quarters of 2008 and the lowest year-on-year declines in the last quarter of 2008 and first quarter of 2009. As firms tend to reduce their inventories during the onset of crises, trade in integrated circuits and electronic components fell much more sharply than trade in end-use products at the end of 2008 and in early 2009.

Chart II.12 **World exports of office and telecom equipment, 2007-09**



In 2008, world exports of integrated circuits increased by only 1 per cent, one of the lowest levels of performance after automotive products. Trade within the EU, which accounts for nearly 60 per cent of EU exports, increased by 3 per cent. Exports of the United States and Japan stagnated. China, the major importer, recorded only a 2 per cent growth rate in 2008, in marked contrast to the 12 per cent rise in 2001 (the year of the dot-com bubble burst).

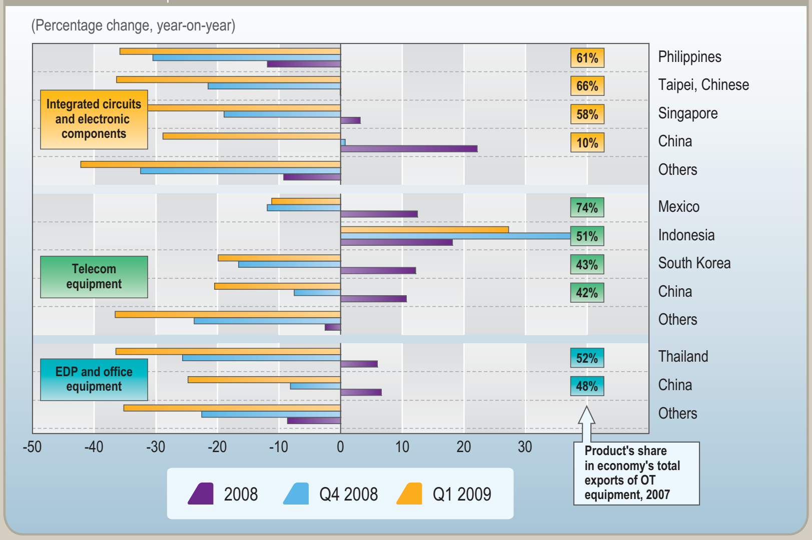
Chart II.13 **Exports of office and telecom equipment by selected economies**



World excludes Hong Kong, China re-exports
*Asian IT traders include Singapore, Republic of Korea, Malaysia, Chinese Taipei, Thailand and Philippines

China posted the strongest annual performance in office and telecom equipment in 2008. During the last quarter of 2008 and the first quarter of 2009, China's exports fell by 7 per cent and 24 per cent respectively. Japan and other Asian IT traders were on average more seriously affected by the crisis than European and North American economies. Mexico's exports, which comprise mainly telecom equipment, declined by 11 per cent in early 2009.

Chart II.14 **Performance of main developing economy exporters of office and telecom equipment**

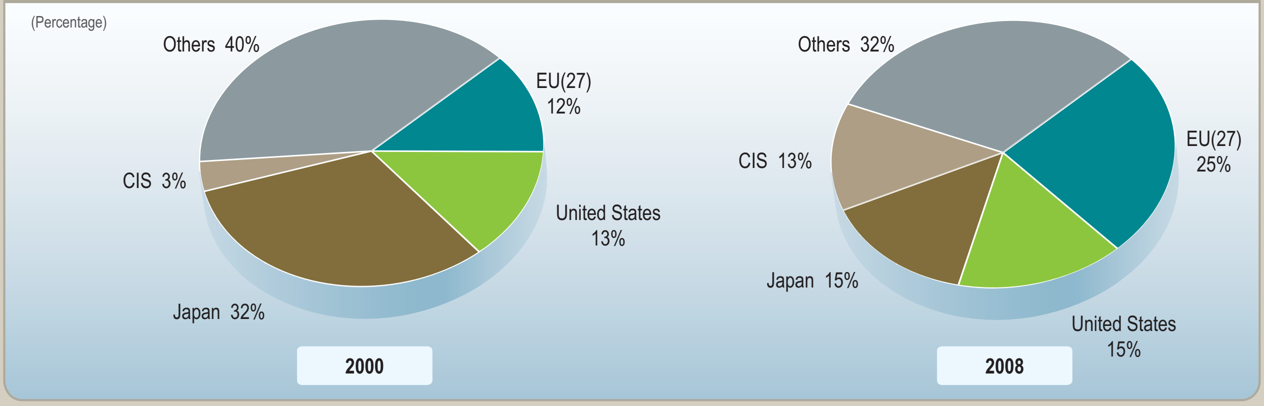


China's exports performed above-average in all three components of the office and telecom equipment category. Other developing economy exporters experienced further weakening of their exports for products in which they did not have a clear export specialization. They showed more resilience in sectors in which they are relatively specialized.

Clothing

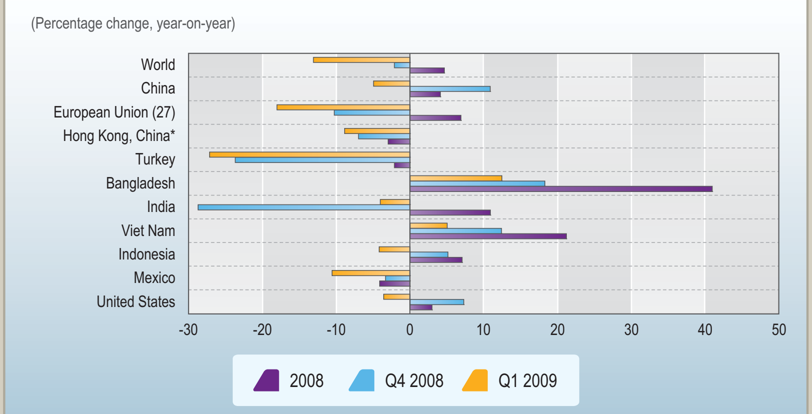
Clothing is showing resistance to downward trends

Chart II.15 Clothing exports of China by destination, 2000 and 2008



Among all exports, clothing is one of the least-affected so far, showing a mere 2.1 per cent decline in the fourth quarter of 2008. Growth during January-September 2008 was modest, resulting in exports expanding by 4.6 per cent in 2008. China, which accounted for 33 per cent of world exports, saw its exports expand by only 4 per cent in 2008, far below the 20.8 per cent growth registered in 2007. With the expiry of the European Union's growth caps on ten categories of textiles and clothing imports from China, exports to the European Union surged by 37 per cent.

Chart II.16 Leading exporters of clothing



* Includes significant re-exports

Between 2000 and 2008, the least-developed countries (LDCs) benefiting from preferential market access increased their share in the EU clothing market from 8.3 per cent to 9.1 per cent. Ninety-nine per cent of EU imports from the LDCs originated from five countries – Bangladesh (81.5 per cent), Cambodia (9.5 per cent), Madagascar (3.7 per cent), Myanmar (2.5 per cent) and Laos (1.9 per cent).

For the United States, the second major clothing market after the European Union, imports shrank by 2.8 per cent. Imports from China, its major supplier, nearly stagnated at previous year levels. Imports from Viet Nam and Bangladesh increased by 19.8 per cent and 11 per cent respectively. Imports from LDCs increased by 3 per cent, with LDCs increasing their share in the clothing market of the United States from 6.4 per cent in 2000 to 8.8 per cent in 2008. Bangladesh, Cambodia, Haiti, Lesotho and Madagascar dominated, accounting for 98.9 per cent of this market share.

In the last quarter of 2008, exports from China increased by 10.9 per cent and started to decline only during the first quarter of 2009, by a modest 5 per cent. This contributed to the relatively better performance of world trade in clothing compared with other sectors. In contrast, the European Union saw its exports drop by 10.3 per cent in the last quarter of 2008 and further contracted by another 18.1 per cent during the first quarter of 2009. Turkey was particularly hard hit as its exports shrank by 23.7 per cent and 27.2 per cent consecutively over the same period.

EU imports from outside the European Union declined moderately by 2.7 per cent in the last quarter of 2008 and by 9.4 per cent in the first quarter of 2009. The corresponding declines in the imports of the United States were practically of the same magnitude: down by 2.2 per cent during the last quarter of 2008 and down by 10 per cent in the first quarter of 2009. US imports from its major suppliers (China, Viet Nam, Indonesia and Bangladesh) increased in both quarters. Imports from Bangladesh in particular expanded substantially, by 18.4 per cent and 12.9 per cent respectively during the last quarter of 2008 and the first quarter of 2009. Imports of the European Union from China and Bangladesh increased respectively by 19.7 per cent and 13 per cent in the last quarter of 2008 and by a further 3 per cent and 6.9 per cent in the first quarter of 2009. Imports from other countries, especially Turkey, Tunisia and Morocco, shrank considerably in both quarters.