CHAPTER

1

MERCHANDISE TRADE STILL IN TROUBLE[1]

While the dollar values traded at the global level as well as by the Asia-Pacific region continued to be higher than in the years preceding the global financial crisis, the growth of trade not only slowed down from a historical perspective and relative to economic growth, but turned negative in 2015. World exports recorded a fall of 13.2% in nominal terms, after a meagre increase of 0.6% in 2014. Exports and imports in 2015 by the Asia-Pacific region, which amounted to $6,601.9 billion and $5,966.2 billion, respectively, reflect a fall on the export side of 9.7% and on the import side of 15% over values in 2014. The global and regional deceleration in trade, predominantly driven by a large fall in the prices of traded merchandise, significantly threatens the economic stability of developing countries in the region.

Despite moving in the same downward direction as the global trend, the Asia-Pacific region has consolidated its share of global exports at the 40% mark and thus retained its position as the largest trading region in the world. However,

that coincided with a "normalization" of the average levels of trade openness (expressed as the share of exports or imports in gross domestic product, (GDP) as these returned to the level of the early 2000s after a decade of continuous increase. Several factors create further risks to global and regional trade prospects – i.e. the continued economic slowdown and structural change in China, prolonged economic stagnation in many of the world's larger economies, and the recent uptick in protectionism globally (as discussed in chapter 5) – without much correction through preferential liberalization and in the absence of major multilateral agreements (as noted in chapter 6). A slower than expected recovery in the United States of America and European Union countries, despite continued strong (but less trade-intensive) growth in India (7.3% in real terms in 2015), is unlikely to bring back the high levels of Asia-Pacific trade growth witnessed in the years prior to the global financial crisis. Altogether, 2015-2016 has been a worrying period for trade in the Asia-Pacific region and worldwide, and there are few signs that the current economic and trade slowdown is simply a temporary phenomenon. Instead, this pattern may be the result of a change in the fundamental structure of world trade, which may lead to persistent trade stagnation, increasingly labelled as "great normalization".

This chapter presents and explains regional trade patterns in recent years. It then explores overall regional performance, and details how subregions trade with each other and with the world. This is followed by a breakdown of trends in trade statistics by types of goods traded. The chapter then turns to examining a structural change in regional and global trade. Finally, forecasts for the near-future are presented, followed by the conclusion.

As a spoiler, readers should be warned that the messages are far from positive. According to the merchandise trade data, global and regional trade has flattened out and there are no expectations for a rebound in a near future. After decades of double or higher growth than the global economy, global trade will be barely inching up by half of that rate in 2016. As argued below, factors contributing to this flattening of merchandise trade (as well as commercial services and foreign direct investment) are of a structural nature reflecting the "new normal" in the global economy with a lesser role for cross-border flows. However, not all agree with this gloomy picture. The plateau in international trade is found to coincide with a surge in cross-border data flows, pointing to a different type of a structural shift – the rise of digital economy.

According to a McKinsey Global Institute report (2016), the flow of digital information around the world more than doubled to an estimated 290 TB per second in only two years, between 2013 and 2015. Not all of those cross-border flows generate economic value, but an increasing portion is doing so. The spread of digital economy is just substituting for the "old" ways in which the world produced and traded, goes the argument. Thus, when reversal in trade growth is recorded, it does not mean that firms and consumers are trading less; it only means that they are doing it differently and not by sending container ships across oceans. While this is certainly true, Asia-Pacific Trade and Investment Report 2016 discusses the "old" dimensions of globalization – movements of goods, services and foreign direct investment across borders as well as policies that affect such movements. Even for these century-or-more old aspects of globalization, data and statistical issues still persist for a number of countries in the Asia-Pacific region that prevent a comprehensive analysis, not to mention the statistical requirements for studying these new cross-border data flows.

A. FIFTH YEAR OF WEAK GROWTH IN REGIONAL TRADE

For five consecutive years the Asia-Pacific region's trade growth has performed below the pre-financial crisis levels. Such a long and uninterrupted trade slowdown is unprecedented, and is a cause for concern that a "new normal" of weaker trade growth is being reached. Trade by the Asia-Pacific region contracted noticeably in 2015. The contraction occurred despite an increase in GDP growth among countries in the European Union, and continued but lower than expected growth in the United States, suggesting that this growth in Asian traditional export markets did not transfer to increased demand for the regional good.[2] Furthermore, weak demand by developing countries within and outside the Asia-Pacific region set the path for regional exports to fall by 9.7% in 2015. In turn, regional imports contracted by 15%. The European Union strengthened its economic growth to 2% in 2015 from 1.4% in 2014, while the United States remained stable at 2.4%. According to the International Monetary Fund (IMF) data, the three economies classified as "developed countries" in the Asia-Pacific region grew at different speeds – Japan at 0.6%, Australia at 2.5%, and New Zealand at 3% (IMF, 2016a).[3] Developed markets in general were traditionally the main sources of demand for exports from Asia and the Pacific, although in more recent years (the turning point being the global financial crisis in 2008-2009, demand has increasingly depended on South-South (especially intraregional) links.

It comes as no surprise that declining growth among regional and world developing countries in 2015 adversely affected the Asia-Pacific region's trade. In particular, China's continued transition to a "new economic growth normal" was associated with GDP growth slowdown to 6.9% in 2015, from 7.3% in 2014 and 7.7% in 2013. In addition, the Russian Federation suffered another weak year with its GDP contracting by 3.7%, which was the result of falling oil prices and trade sanctions. Brazil, a large exporter of commodities and whose largest export partner is China, recorded a similar GDP contraction of 2.9%. These impacts, combined with continued sluggish growth in Japan and increasing recourse to protectionism globally,[4] have meant that levels of trade in Asia and the Pacific have dramatically decreased in 2015. Some economies in the region that rely largely on commodity exports have been particularly hit, both by China's continued slowdown and the persistent decreases in commodity prices through 2015.[5]

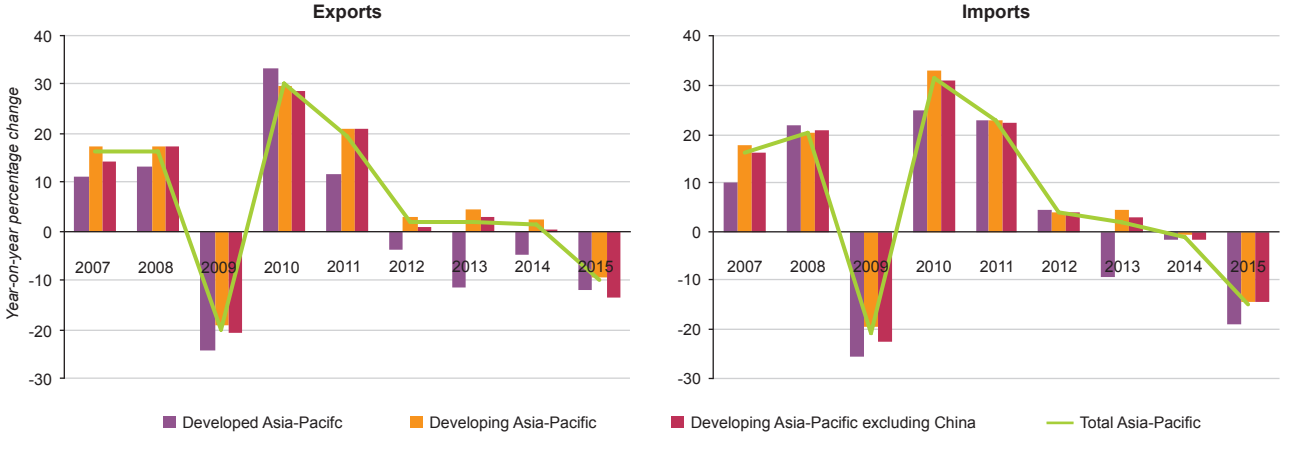
The continuing weak demand from outside and within the region has left developing Asia-Pacific economies with no choice but to rebalance their sources of demand from export to domestic consumption. However, the degree to which domestic demand can offset trade contraction differs across countries as it depends on factors including economic size and the level of trade dependency of each country. In addition, the fact that trade has been a channel for knowledge transfer and for improving resource allocation makes it challenging for small developing economies to maintain the development pace.

> *"Asia-Pacific merchandise exports fell in nominal terms by 9.7% and imports by 15% in 2015 – the single largest drop in the region's trade since the global financial crisis of 2008-2009."*

The relative success in the Asia-Pacific region in "outperforming" the global economy in 2015, with an export reduction of only 9.7% compared with the global decline of 13.1%, is largely explained by the relatively good performance of China, whose exports declined by only 2.9%. Excluding China, which accounted for 34% of the region's merchandise exports, the Asia-Pacific region registered a 13% decline in exports, which was similar to the world average (figure 1.1). While the 2015 export value growth is highly disappointing, it must be noted that the quantity (volume) of exports still grew at 3% in 2015 (a similar annual rate to that recorded since 2012).[6] The fall in export value has thus been driven primarily by a sharp fall in prices in 2015, due in turn to slower demand growth by regional powers (in particular China) and elsewhere.[7]

As stated, Asia-Pacific imports contracted by much more than the region's exports in 2015. This amounted to a 15% fall overall, including a 14.2% decline for China (the largest drop since 1976), a 14.4% fall among other regional developing economies and a 19.1% decrease among regional developed economies. Consequently, the Asia-Pacific region experienced a substantial improvement in the regional surplus, which more than doubled from $291 billion in 2014 to $635 billion in 2015.

Figure 1.1 **Flattening of merchandise trade growth across Asian and Pacific economies, 2007-2015**



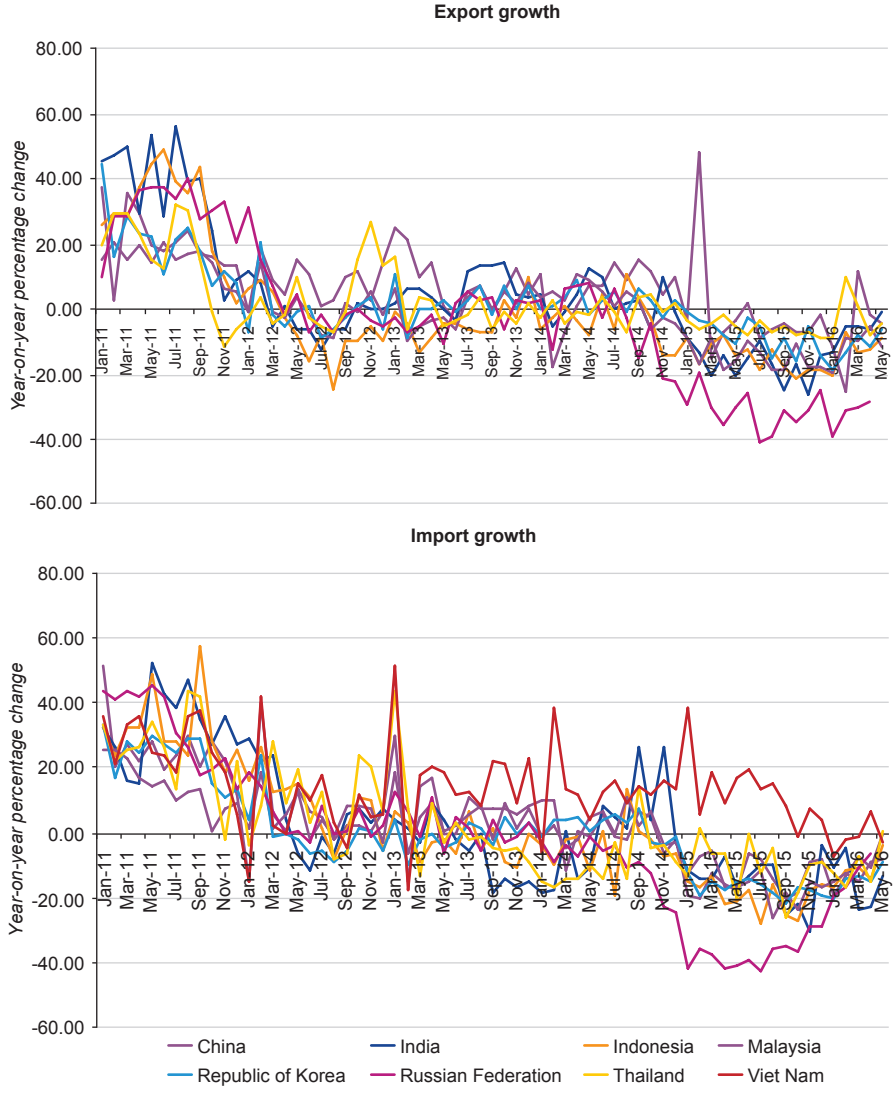
Sources: ESCAP calculation based on country data from WTO International Trade Statistics Database (accessed June 2016). Country data are available from the ESCAP website (ESCAP Statistical Database).

The deceleration of trade growth is worrying for the whole region given that the rapid growth of China and developing Asia-Pacific economies during the past 25 years is often considered to be the result of an export-led strategy.[8] In addition, a structural rebalance towards domestic demand-led growth in China will have knock-on effects for other developing countries in the region, for which exports and production have been highly integrated with China's economy through both forward and backward linkages in global value chains (GVCs). China has been the largest individual trading partner in the region; in 2015, the rest of the Asia-Pacific region exported 19.8% of their goods to China (compared with 11.3% to the United States). These linkages also mean that Asia-Pacific economies participating in GVCs will be adversely affected if China's internal rebalancing includes a shift to higher domestic content in its production and exports. This is particularly worrying given the fact that imports by China have fallen more than exports since early 2014.[9]

> *"The region's trade sector is facing a depressed immediate future."*

At the time of writing this report,[10] it was still uncertain if and by how much merchandise trade in the Asia-Pacific region could improve by the end of 2016. As depicted in figure 1.2, export and import values declined further in the first seven months of 2016 in eight major developing economies in the region. Year-on-year monthly changes continue to be negative or, if positive, they are very small with little indication

Figure 1.2 **Monthly trade growth in selected developing Asia-Pacific economies, 2011-2016**



Sources: ESCAP calculation based on WTO online short-term statistics (accessed September 2016).

Notes: Change in United States dollar value year-on-year (i.e. 10-11 January), encapsulating volume and price changes.

of an upward movement in trade values. There has been no indication of any pick-up of intraregional and global demand. China is of particular interest due to its economic size, as that country's import and export values have again contracted so far in every month of 2016 except March. Adding to this somewhat gloomy picture are the IMF (2016a) and ESCAP (2016) projections for GDP growth in 2016.[11] China's economic slowdown is expected to continue in 2016, with the projected annual growth rate declining further to 6.6%.[12] In addition, the IMF (2016b) has forecast that the United States economy will grow only 1.6% in 2016, a significant decrease compared with 2015. The expected resulting reduction in demand for regional exports to China and the United States may be countered somewhat by a better picture emerging in the European Union. Despite uncertainties stemming from the United Kingdom's decision to leave the European Union, the growth in Euro-zone countries is expected to be resilient at 1.6% in 2016, which is only slightly less than in 2015.

Of all regional economies, only India is expected to experience dynamic growth performance in 2016, at 7.6%, and might have an increase of import demand. This may provide a boost to exports from countries in South and South-West Asia, which are linked to India through a network of preferential trade agreements.

B. SUBREGIONAL PERFORMANCE: EAST AND NORTH-EAST ASIA PERFORMS BETTER THAN OTHER SUBREGIONS

> *"Asia-Pacific increased its share of world exports in 2015 to 40% while its share of imports declined to 36%."*

The Asia-Pacific region retained its position as the world's largest trading region in 2015, despite the large trade contraction discussed above. Overall, due to an even greater global reduction in trade, the region increased its share of world exports to 40% in 2015 from 38.6% in 2014 while its share of global imports fell slightly to 35.6% from 36.9% in the previous year.[13] This dominance was again driven primarily by the trade performance of the economies of the East and North-East Asia subregion, which accounted for more than 64% of total Asia-Pacific trade with the world (table 1.1). In other words, exports by this subregion are considerably higher than those by other subregions – from more than tripple that of South-East Asia, to 18 times of the Pacific subregion.

In 2015, China was the main force behind the dominant position of East and North-East Asia in regional trade, with its world export and import share of 13.8% and 10%, respectively. East and North-East Asia increased its regional export share by 3.3 percentage points in 2015, a substantial change reflecting this subregion's disproportionately small export contraction of 4.8% (in turn, driven largely by the small export decline by China of only 2.9%, as stated above). This increased share came mainly at the expense of North and Central Asian economies, whose export share fell sharply from 8.8% to 6.6%. This was largely due to the massive fall in values of exports and imports by the Russian Federation in 2015 (31% and 37%, respectively), as the result of declining oil prices and political sanctions.[14] As the Russian Federation is the dominant economy in the subregion (accounting for 78% of North and Central Asia's exports and 71% of its imports), this translates into a large fall in the world trade share for this subregion.

South-East Asia's share of the region's total exports remained large and fairly stable. Compared with other subregions, trade is relatively well-distributed among subregion's economies, although still driven primarily by the performances of five members of the Association

Table 1.1 **Shares in Asia-Pacific total trade, by subregion, 2013-2015**

(Percentage)

Subregion	Exports			Imports		
	2013	2014	2015	2013	2014	2015
East and North-East Asia	60.2	60.8	64.1	59.4	59.8	60.1
South-East Asia	17.7	17.7	17.6	17.6	17.6	18.3
South and South-West Asia	8.6	8.7	8.2	12.5	12.6	12.7
North and Central Asia	9.4	8.8	6.6	6.3	5.8	4.6
Pacific	4.2	4.0	3.5	4.2	4.2	4.3

Source: ESCAP calculation based on country data from WTO International Trade Statistics Database (accessed July 2016).

Note: Calculations in United States dollar values. Import data are not available for Guam and Nauru. Although Taiwan Province of China is not a member of ESCAP, it is included in calculations for East and North-East Asia due to its share in the region's trade.

of Southeast Asian Nations (ASEAN), i.e. Indonesia, Malaysia, Singapore, Thailand and Viet Nam. The shares held by the South and South-West Asia as well as Pacific subregions declined by 0.5 percentage points from an already low base; trade performance is highly dependent on a few economies of those two subregions. Trade by South and South-West Asia remained dominated by India, which captured 50% of the areas exports and imports, while Turkey captured a further 27%. Hit by the commodity price plunge, those two countries experienced a 17% and 10% decline, respectively, in merchandise export value in 2015. Similarly, exports by the Pacific subregion, dominated by Australia and New Zealand, have also shown a stagnant, and even slightly declining, share of world exports and imports.

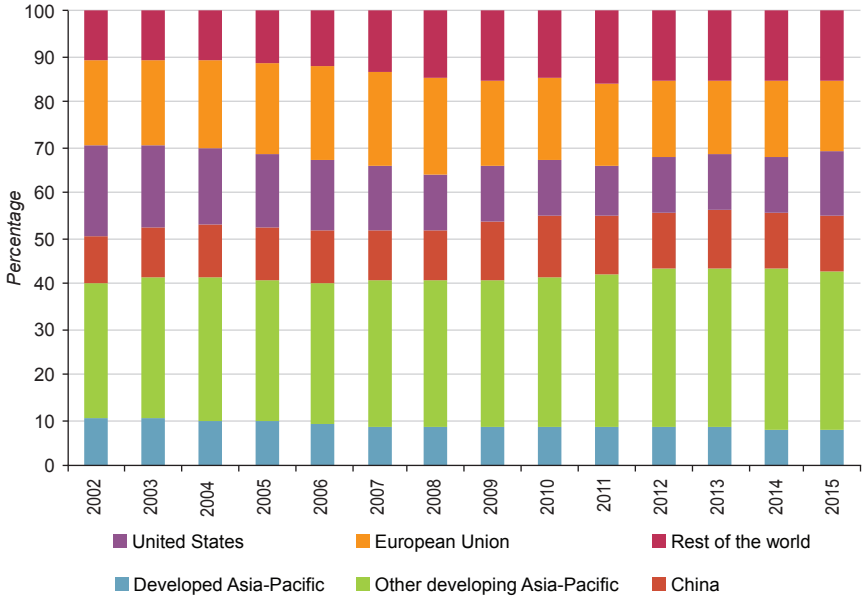
C. INTRAREGIONAL EXPORTS AND IMPORTS CONTINUE MOVING IN DIFFERENT DIRECTIONS

> *"For the second year in a row, the share of total Asia-Pacific exports going to countries within the region declined."*

While intraregional trade continues to dominate region's trade, trade with countries in the European Union and the United States remains important, as they accounted for 29% of regional exports and 21% of regional imports in 2015 (figures 1.3 and 1.4). Driven primarily by the slowdown of exports to advanced markets since the 2008-2009 global financial crisis, the share of exports to developing Asia-Pacific economies, especially to China, increased steadily from 43% in 2008 to a peak of 48.2% in 2013, before falling slightly to 47.6% in 2015.

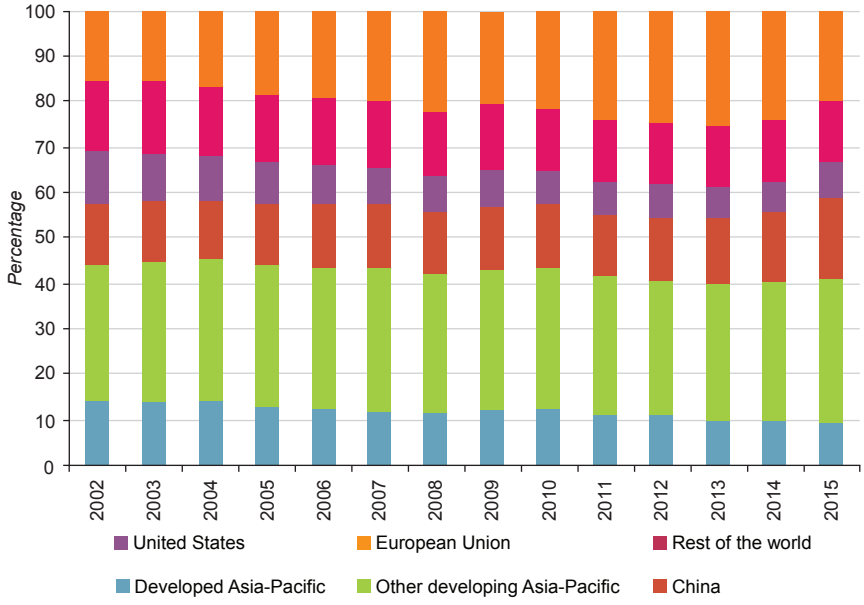
Absolute values of exports in 2015 fell for each destination in figure 1.3, except the United States, although not symmetrically. Exports to the European Union saw the largest decline in absolute value; hence its share of region's exports declined by 1 percentage point in 2015, continuing a decline that started after 2008. Similarly, the share of exports to developed Asia-Pacific countries fell by 0.4 percentage points, continuing a trend that had been evident since 2002. Exports to China also fell substantially in value terms, although given the decline of exports to all main markets that fall translates into a small decline in the share of exports, from 12.8% in 2014 to 12.6% in 2015, thus reflecting the impact of China's economic new normal on the rest of the region in 2015. Since reaching its peak in 2010, the share of regional exports to China has consistently fallen, demonstrating China's slowdown in regional integration (see section D for more details). The share of exports going to other developing Asia-Pacific economies did not change much in 2015 following a long growth

Figure 1.3 **Destinations of merchandise exports from Asia and the Pacific, 2002-2015**



Source: ESCAP calculation based on IMF Direction of Trade Statistics (accessed August 2016). Country data are available from the ESCAP online statistics database.

Figure 1.4 **Sources of Asia-Pacific merchandise imports, 2002-2015**



Source: ESCAP calculation based on IMF Direction of Trade Statistics (accessed August 2016). Country data are available from the ESCAP online statistics database.

period, with the difference being made up by an increase in the share of exports to the United States (12.3% in 2014 to 13.8% in 2015) and to the rest of the world (15.2% in 2014 to 15.4% in 2015).

> *"In 2015, interregional imports increased reaching almost 60% of total imports."*

The intraregional import share increased in 2015 to 59% of total imports in the Asia-Pacific region, a slightly higher level than that seen during 2002-2015. While the share of imports from developed Asia-Pacific countries declined slightly (continuing a long downward trend), China and other developing Asia-Pacific countries increased their share by 2.4 and 1.3 percentage points, respectively. This was mainly at the expense of the import share of the rest of the world, which shrank from 24.1% in 2014 to 20.1% in 2015 (figure 1.4).

As global economic growth remains more anaemic, intraregional South-South cooperation is in a better position and carries greater potential than cooperation with countries outside the region. The increase in the intraregional import share reflects the fact the while the absolute value of intraregional imports fell in 2015, it did so by less than the overall contraction in imports into the region. This is particularly the case for imports from China, which fell only slightly in 2015. Hence the severe contraction in world trade in 2015 and the reduced output among several extraregional developing countries has produced the opportunity for relatively more intraregional trade. However, the risk that China's demand for imports from the region will fall further (as stated above, Asia-Pacific exports to China have declined in relative terms since 2010) is looming with its move to a lower growth model that has an increased focus on services and domestic production, rather than manufacturing and product assembly for export.

> *"Exports by South and South-West Asia, and North and Central Asia are still shipped to countries outside the region, while exports by the rest of the region go mainly to East and North-East Asia."*

Intraregional trade remained dominated by East and North-East Asia in 2015 (table 1.2). Outside of South and South-West Asia, at least 50% of intraregional exports went to East and North-East Asia, reflecting a combination of the latter subregion's large demand for final goods and still strong (though weakening) role as a centre for assembling intermediate goods into final goods to be shipped globally. However, South and South-West Asia as well as North and Central Asia remain relatively disengaged from the region in terms of exports. More than 70% of exports from South and South-West Asia and 63% of exports from North and Central Asia went to countries outside of the Asia-Pacific region, highlighting the lack of integration of both subregions into regional production

Table 1.2 **Intraregional merchandise exports, by Asia-Pacific subregion, 2014-2015**

(Percentage of total exports)

Subregion	Year	Destination of exports								
		ENEA excl. China	China	ENEA	SEA	SSWA	NCA	Pacific	Total Asia-Pacific	Rest of the world
East and North-East Asia (ENEA)	2015	21.7	12.9	34.6	12.4	4.8	1.8	2.1	55.5	44.5
	2014	22.4	13.1	35.5	12.1	4.5	2.6	2.0	56.6	43.4
South-East Asia (SEA)	2015	22.1	12.6	34.7	24.4	5.3	0.5	3.8	68.6	31.4
	2014	22.7	12.4	35.2	25.4	5.2	0.5	4.3	70.5	29.5
South and South-West Asia (SSWA)	2015	5.9	5.5	11.4	5.5	9.0	2.7	1.0	29.5	70.5
	2014	6.6	7.1	13.6	5.5	9.5	3.2	0.7	32.6	67.4
North and Central Asia (NCA)	2015	8.1	10.2	18.4	1.9	8.1	7.9	0.1	36.5	63.5
	2014	7.6	9.4	17.0	2.6	7.1	5.8	0.1	32.5	67.5
Pacific	2015	24.5	28.8	53.3	9.9	4.5	0.3	7.4	75.4	24.6
	2014	26.3	30.5	56.7	10.5	3.8	0.3	7.4	78.7	21.3

Source: ESCAP calculation based on IMF Direction of Trade Statistics (accessed August 2016). Country data are available from the ESCAP online statistics database. Data given in percentages (rows show percentage of export to each destination from each source, e.g. 12.9% of East and North-East Asian exports go to China).

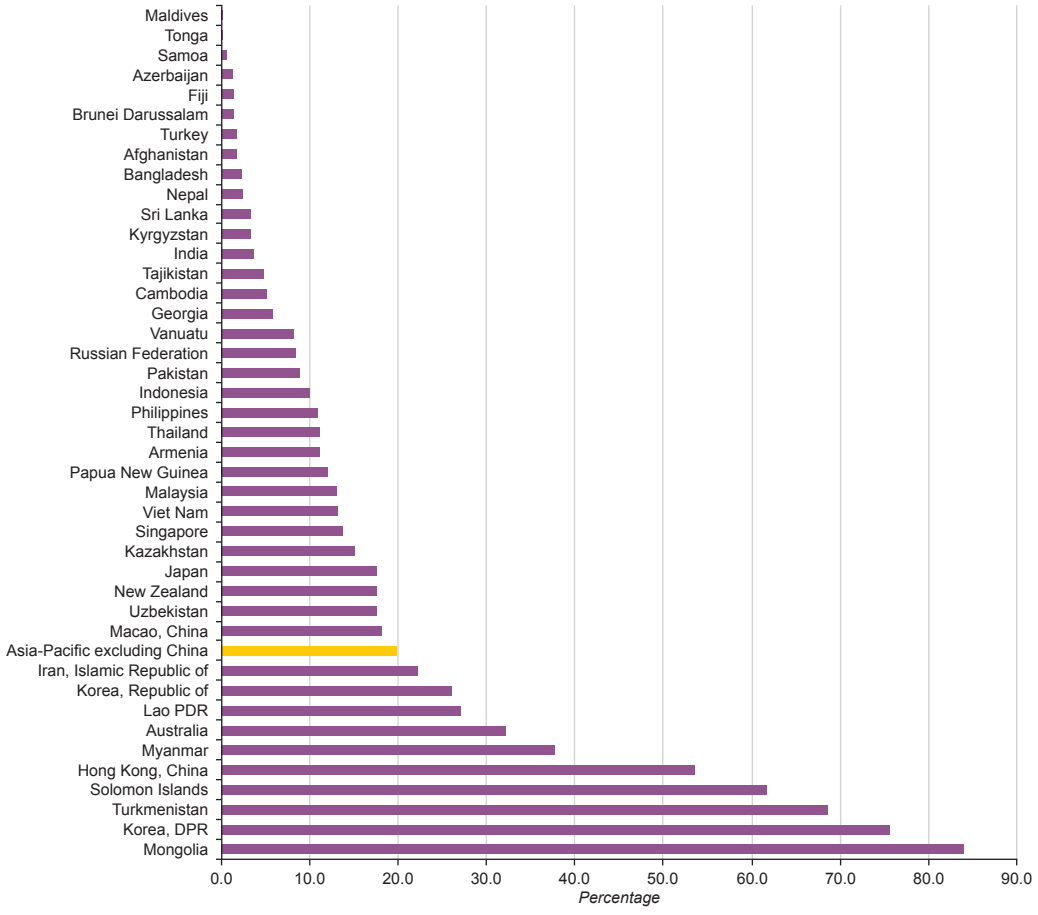
chains as well as their close ties with European Union countries (which received 25% and 47% of exports from South and South-West Asia and North and Central Asia, respectively). This is in contrast to South-East Asia and the Pacific subregions, which are highly integrated regionally in terms of exports. Of the total exports by South-East Asia and the Pacific subregions 75.4% and 68.6% were within the Asia-Pacific region, with the bulk going to East and North-East Asia.

As mentioned above, China has become a major destination for intraregional exports, accounting for nearly 20% of total exports by the rest of the region.[15] However, this number does not reveal the fact that 10 Asia-Pacific economies export to China more than 20% of their total exports (figure 1.5). Of those 10 economies, China is the destination of more than 50% of total exports by Mongolia, the Democratic People's Republic of Korea, Turkmenistan, Solomon Islands and Hong Kong, China. That strong reliance on exports to China makes those 10 economies highly vulnerable to further economic slowdown in China in the immediate future.

"East and North-East Asia is the largest destination for exports by all subregions in Asia and the Pacific."

In terms of imports, those from East and North-East Asia account for well over 60% of intraregional imports, and between 24% and 44% of total imports by every subregion in the Asia-Pacific region (table 1.3). In 2015, the share of imports by East and North-East Asia from every subregion increased (except North and Central Asia, for which a slight decline was recorded) as did the share of imports by China. Again, this should be seen in the light of a fall in trade everywhere and a disproportionately small decline in imports from China within the region (in contrast to the pattern of Chinese exports to the world). Further, there is scope for increased trade within subregions with imports accounting for less than 23% of total imports outside of East and North-East Asia, and less than 10% in South and South-West Asia and the Pacific. The share of imports from countries in the same subregion fell, both in South and South-West Asia and the Pacific, largely due to a disproportionate reduction in demand from key importers within those subregions (particularly India and Australia). Other subregions increased their within-subregion trade, although for North and Central Asia this reflects, in large part, a collapse in trade with other subregions.

Figure 1.5 **Share of exports from selected economies to China, 2015**



Source: ESCAP calculation, based on IMF Direction of Trade Statistics (accessed August 2016). Country data are available from the ESCAP online statistics database.

Table 1.3 **Intraregional merchandise imports, by Asia-Pacific subregion, 2014-2015**

(Percentage of total imports)

Subregion	Year	Source of imports								
		ENEA excl. China	China	ENEA	SEA	SSWA	NCA	Pacific	Total Asia-Pacific	Rest of the world
East and North-East Asia (ENEA)	2015	21.3	16.0	37.3	12.4	2.1	2.5	4.2	58.4	41.6
	2014	19.6	13.9	33.5	11.7	2.4	2.8	4.7	55.1	44.9
South-East Asia (SEA)	2015	22.6	21.3	44.0	23.0	2.4	1.1	2.2	72.6	27.4
	2014	21.8	17.6	39.5	23.0	2.3	1.7	2.4	68.8	31.2
South and South-West Asia (SSWA)	2015	7.4	16.7	24.1	7.7	6.8	4.1	1.5	44.3	55.7
	2014	6.7	14.8	21.5	7.6	7.2	4.4	1.5	42.2	57.8
North and Central Asia (NCA)	2015	6.1	20.2	26.3	3.0	6.3	13.1	0.3	48.9	51.1
	2014	7.5	19.3	26.8	2.7	5.8	7.3	0.3	42.9	57.1
Pacific	2015	14.6	22.2	36.8	16.5	2.4	0.3	6.3	62.2	37.8
	2014	13.6	19.6	33.2	18.8	1.8	0.6	7.0	61.4	38.6

Source: ESCAP calculation based on IMF Direction of Trade Statistics (accessed August 2016). Country data are available from the ESCAP online statistics database. Data in percentages (rows give percentage of imports from each source; e.g. East and North-East Asia sources 16% of the subregion's imports from China).

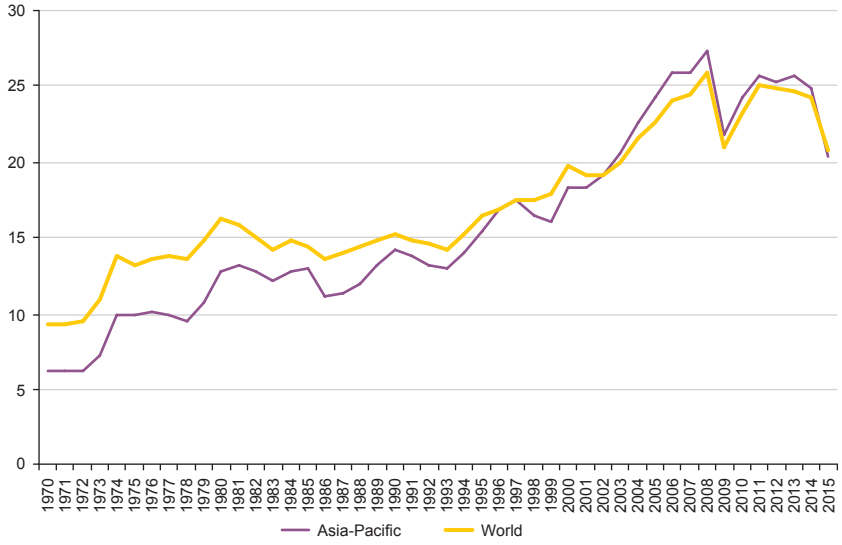
D. FACTORS AFFECTING TRADE PERFORMANCE

Since the 2008-2009 global financial crisis, the world has seen a decline in the growth rate of the ratio of global trade to GDP (figure 1.6), including Asia and the Pacific, which gives cause for concern that global trade has reached its peak, and that weak trade growth will be a new normal. This section explores whether changes in the composition of regional trade, dominated by China, have been important contributors to the new normal of global trade. Factors which might influence regional performance in future are also discussed.

1. Trade composition by the stage of processing and use[17]

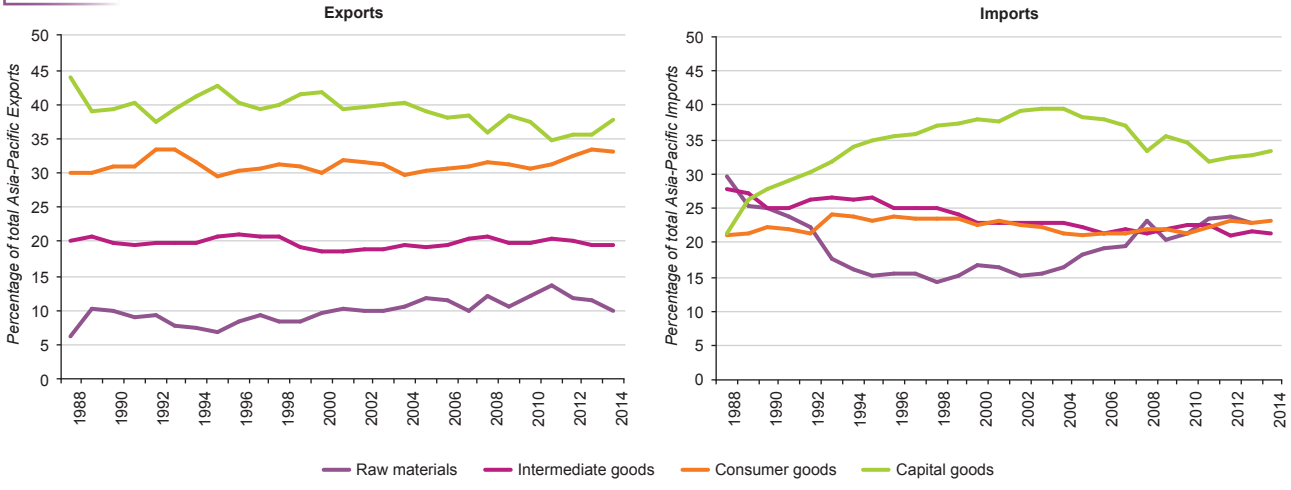
Since 1988, the share of exports for each production stage (raw materials, intermediate goods, consumer goods and capital goods) has remained fairly constant, with a slight downward trend for capital goods (figure 1.7). The Asia-Pacific region as a whole is a manufacture exporting region, and is predominantly an exporter of capital and consumer goods. These two categories contributed 65%-75% of total regional exports from 1988 to 2002. Raw materials accounted for a share of between 5% and 15% of regional

Figure 1.6 Ratio of imports to GDP



Source: ESCAP Statistics Online, accessed in November 2016.

Figure 1.7 Asia-Pacific exports and imports, by production stage, 1988-2014[a]



Source: ESCAP calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions (WITS) database (accessed July 2016).[b]
Note: Product classification follows the list of UNCTAD Stages of Processing provided in WITS.

[a] 2015 data on international trade by stages of processing and uses are not available for most of the large Asia-Pacific economies at the time of writing this report (September 2016).

[b] The World Bank's World Integrated Trade Solutions (WITS) database does not include trade data for Taiwan Province of China, which is not an ESCAP member, but is included in other figures and tables as explained in endnote 1.

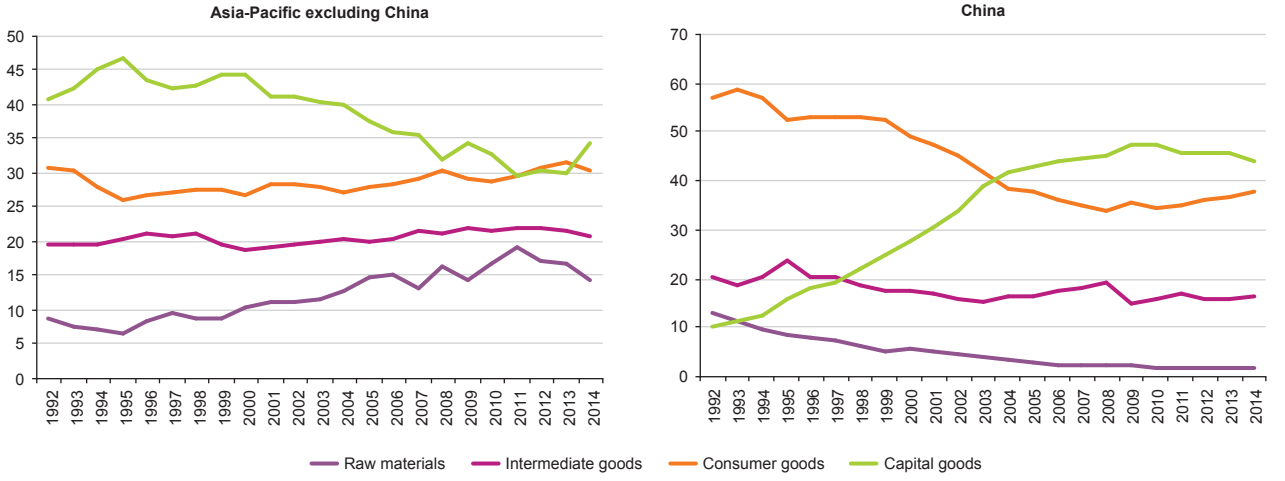
exports, although there are commodity-based exporting countries that still have a relatively small share in total regional exports. The import composition shows a mirroring trend between raw materials and capital goods. After peaking at 39.4% of regional imports, the import shares of capital goods have fallen since 2003 in a reverse pattern to that of raw material imports.

2. The influence of China: increasing exports of capital goods

However, there is significant variation among countries within the Asia-Pacific region. In particular, the above patterns are heavily influenced by China, which accounted for 35% of total regional exports and 28% of imports. Since 1992, China has seen a significant increase in its ratio of capital goods exports to total exports, from 10% to a peak of 48% in 2010 and then a decline to 44% of Chinese exports in 2014 (figure 1.8).

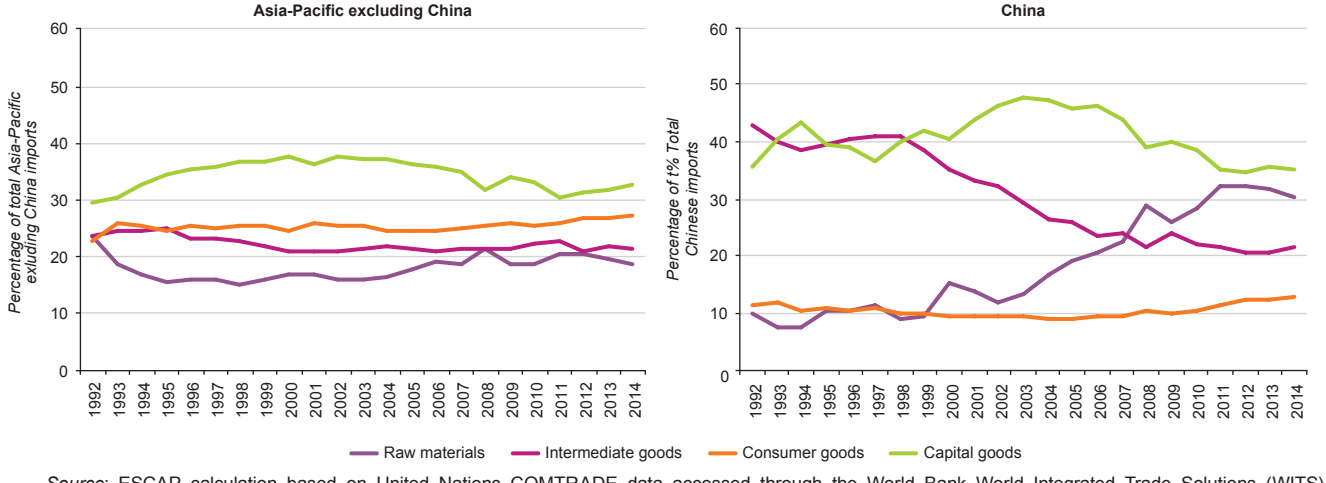
The pattern is reversed when looking at exports by the rest of Asia and the Pacific. This may be a result of China's rising position as an export platform of capital goods for the rest of the region during those years. Further, despite the perception that China is simply a final assembly centre for parts and components from the rest of the world, China has seen a large drop in imports of intermediate goods as a percentage of total imports since 2000 (figure 1.9), compared with the stable (or even increasing) ratios for other countries in the region. Imports of intermediate goods have

Figure 1.8 Exports for the Asia-Pacific region (excluding China) and for China, by production stage, 1992-2014



Source: ESCAP calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions (WITS) database (accessed July 2016).

Figure 1.9 Imports for the Asia-Pacific region (excluding China) and for China, by production stage, 1992-2014



Source: ESCAP calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions (WITS) database (accessed July 2016).

largely been replaced by imports of raw materials. One possible reason for the faster growth of raw material imports than those of intermediate imports by China during those years is the rapid rise of commodity prices during those years. Another possible reason could be that China's need for raw materials was pushed up by the rapid growth of domestic consumption as well as production for exports while the country's need for intermediate imports was mainly for the latter purpose.

3. Sectoral contributions to export growth

Sectoral growth in the Asia-Pacific region has been highly heterogeneous, with various sectors contributing in different ways to overall trade growth. Overall, exports grew at a rapid rate of 14% from 1988 to 2008, before dropping to a 7.6% growth rate since 2009 (due, in part, to the large declines in export value levels in 2009). Capital goods contributed around 40% to total export growth until 2008,[18] the highest level of any category (table 1.4). The export growth of capital goods, consumer goods and intermediate goods was in the 12%-16% range until 2008. Thus, it is largely the relative size of the sectors that determine their contribution. While exports of raw materials grew faster (around 17.5%), the small share of overall exports (reaching a maximum of 12% of total exports in 2008) limited the contribution of that export sector. Since 2011, falling prices have meant that the value of exports of raw materials has shrunk, while consumer goods and capital goods accounted for most of the (limited) growth. Since the 2008-2009 global financial crisis, consumer goods have been the largest contributor to export growth, while the contribution of intermediate goods has fallen, perhaps suggesting a decline in the relative importance of GVCs to regional trade (see discussion below).

4. Structural changes affecting global and intraregional trade

There are several possible factors causing global trade slowdown, some of which are structural factors (box 1.1). Among them, GVC proliferation is one of the factors highlighted in the literature (e.g. Constantinescu, Mattoo and Ruta, 2015). GVCs, in which production stages for the manufacturing of a good are split across countries, spread rapidly from the 1980s onwards, according to a study by Gangnes, Ma and Van Assche (2015), particularly in East and South-East Asia. The same study indicated that as trade patterns are usually measured in gross, not value-added, terms, GVCs entail "double counting" for intermediate goods. Consequently, a rapid increase in GVCs is expected to temporarily increase the growth in trade and trade elasticity:[19] this is termed the "adoption effect" (Gangnes, Ma and Van Assche, 2015). Further, if GVCs are mainly focused on more elastic sectors, an increase in GVC trade as a proportion of total trade would increase trade elasticity permanently (the "composition effect"), a pattern exacerbated by an international "bullwhip effect". A slowdown or reversal in GVC expansion would then lower trade growth and elasticity correspondingly. Although limited data are available for assessing this effect, one measure (the share of foreign value-added in gross exports) shows limited evidence for a slowdown in international production-sharing for the world as a whole. However, it also shows stronger evidence that following a sharp increase in the late-1990s, China has reduced its reliance since the mid-2000s on foreign inputs for export production (figure 1.10). This complements the data in the previous section showing that China reduced its imports of intermediate goods as a percentage of total imports during the 2000s, suggesting that it has moved to produce intermediate goods previously produced abroad. Further, there is evidence of a slowdown of GVC proliferation in several specific industries, e.g. the electronics industry (Thorbecke, 2015).

Table 1.4 **Asia-Pacific export growth decomposition, 1988-2014**

(Percentage)

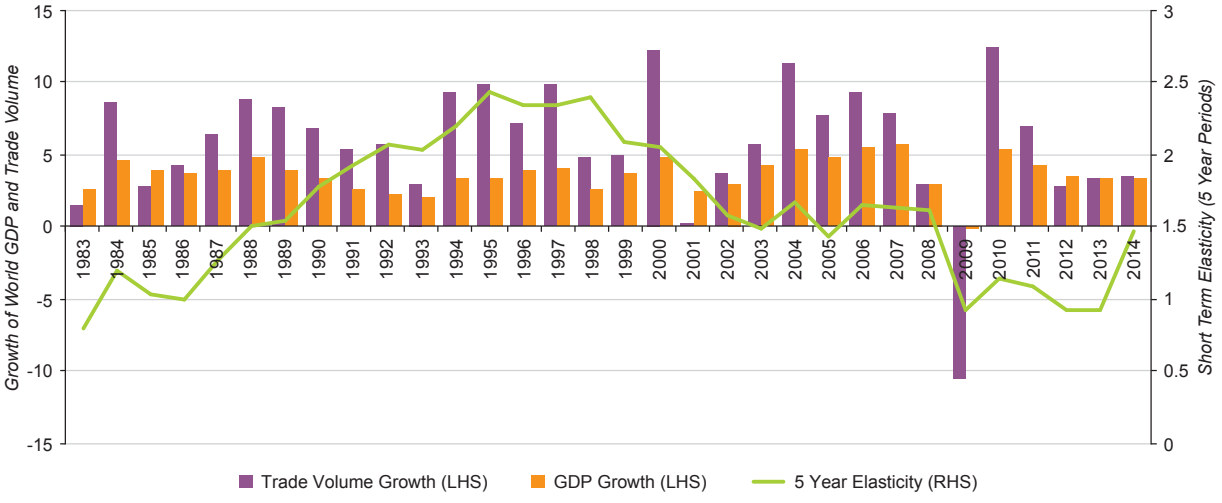
	Average annual contribution				
	Raw materials	Intermediate goods	Consumer goods	Capital goods	Total export growth
1988-2000	11.8	17.5	30.9	39.8	13.7
2001-2008	10.4	20.4	28.7	40.5	14.7
2009-2014	-14.3	13.3	55.3	45.7	7.6

Source: ESCAP calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions (WITS) database (accessed July 2016).

Box 1.1 **Is the global trade slowdown cyclical or structural?**

Since 2011, world trade has exhibited a pronounced slowdown, provoking a flurry of academic literature. While world trade volumes (i.e. real trade) grew at an average of 6.9% per year from 1990 to 2007, the average annual growth from 2008 to 2015 was only 3.1%. This slowdown can also be seen in terms of the elasticity of trade with regard to GDP, which refers to the percentage change in global trade, given a 1% change in global GDP. Calculated in five-year periods,[a] trade elasticity has fallen from a high of 2.5 (i.e., a 1% increase in GDP is linked to a 2.5% increase in global trade) in the mid-1990s to around 1 since 2009 (see figure below[b]). This therefore suggests that trade growth has become less responsive to global GDP growth in recent years. Further, using a more formal econometric technique (an error correction model[c]) to capture the long-term elasticity of trade with regard to GDP, Constantinescu, Mattoo and Ruta (2015) found that this elasticity fell in the early 2000s, from 2.2 during 1986-2000 to 1.3 in post-2000. Other authors have found that this pattern also holds for China and the ASEAN-5 countries (European Commission, 2015), which have exhibited declining trade elasticities in recent years (e.g. from 2 in 1999-2003 to 1 in 2009-2013 for China). While some authors question these findings,[d] this apparent fall in elasticity has led to a debate over its potential causes, and in particular whether it is the result of temporary fluctuations in the world economy ("cyclical" factors) or the result of changes to the macroeconomic structure underlying world trade ("structural" factors).

Figure. Global trade and GDP growth, and five-year elasticities of trade with regard to GDP



Source: ESCAP calculation based on IMF World Economic Outlook data (accessed August 2016).

A fall in trade growth is certainly an expected outcome of the prolonged (cyclical) financial crisis seen since 2008, particularly as the crisis has disproportionately affected major global trading powers. The European Union, in particular, saw GDP growth rates fall from an average of 2.6% in 2000-2007 to an average of 0.4% in 2008-2015 in a protracted slump. Consequently, this lowered the average annual growth of European Union exports from 11.3% during 2000-2007 to only 0.8% during 2009-2015 (with similar figures for regional import growth). As intraregional trade among European Union countries accounts for one third of world trade (Hoekman, ed., 2015, p. 8), this slowdown has dragged down the global rate of trade growth. Further, the global crisis has reduced demand disproportionately in trade-intensive areas of GDP: in particular, due to the 2008-2009 global financial crisis, GDP composition has shifted away from trade-heavy investment towards government consumption and private non-durables consumption, which have lower trade intensities (Ollivaud and Schwellnus, 2015). However, several authors have argued that in addition to these cyclical factors, the slowdown in trade and the related fall in the trade elasticity have occurred, at least in part, due to changes in the macroeconomic structure of global trade.[e] Key to this argument is the observation that global trade elasticity began falling in the early 2000s, prior to the global financial crisis in 2008-2009, thus suggesting that the subsequent cyclical downturn is not solely responsible for the trade slowdown. Constantinescu, Mattoo and Ruta (2015) found that while cyclical factors explained most of the trade patterns in 2009-2010, by 2013 at least 48% of the decline in import growth compared with the pre-crisis period could be explained by structural factors. Many structural changes to global trade may be rooted in the Asia-Pacific region, particularly in China, and the impact of a trade slowdown will be felt throughout the area.

Box 1.1 *(continued)*

[a] This figure gives the average annual trade growth over the five preceding years divided by the average global GDP growth over the five preceding years.
[b] This figure is an updated version of that presented in the European Commission's Winter 2015 Economic Forecast.
[c] An error-correction model is an econometric technique used for time series processes exhibiting co-integration. It gives estimates for the long-term relationship between variables, the short-term response function and the speed at which the relationship returns to equilibrium. Specifically, the model is:

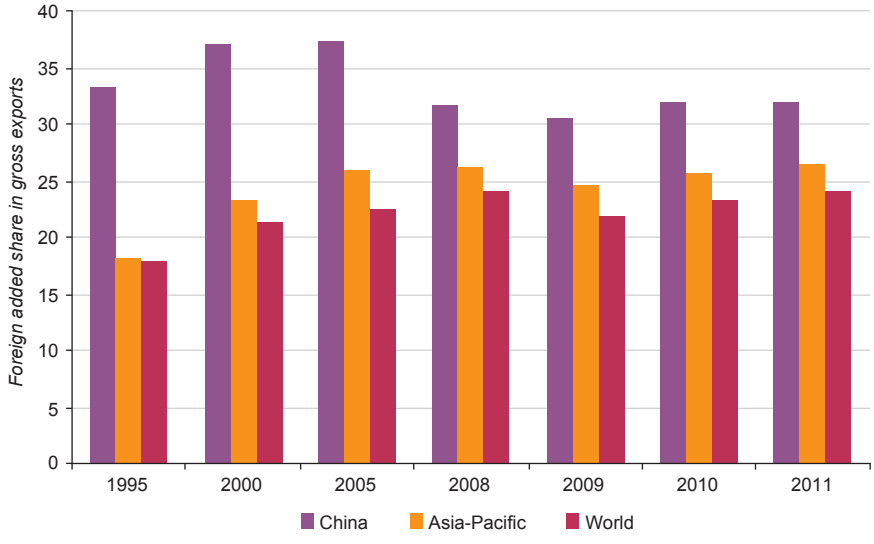
$$\Delta lnTradeVol_t = \beta_0 + \beta_1 \Delta lnGDP_t + \beta_2 lnTradeVol_{t-1} + \beta_3 lnGDP_{t-1} + \varepsilon_t$$

where Δ refers to first differences. The long-term elasticity is then given by $-\frac{\beta_3}{\beta_2}$, the short-term response function by β_1, and the speed of adjustment by $-\beta_2$. Formal tests can be carried out to determine structural breaks in the long-term elasticity. The likelihood of reverse causality means that these coefficients cannot be taken to indicate a causal relationship between global income and trade, but rather they highlight the correlation between the two variables.
[d] Ollivaud and Schwellnus (2015) argued that the decline in elasticity after 2000 captured by Constantinescu, Mattoo and Ruta (2015) was mainly due to the latter's use of a PPP-based GDP measure rather than a market exchange rate measure. Using the latter, they found a reduction in the long-term elasticity of trade with regard to GDP only after the global financial crisis of 2008-2009. They thus argued that this could be explained by the cyclical effect of the global economic downturn.
[e] See Hoekman, ed. (2015) for a summary of several articles discussing the structural and cyclical causes of the recent trade slowdown.

Another potentially important factor in the structural change is the slowdown in China's integration into world trading markets following an initial rapid increase in the 1990s and following China's accession to the World Trade Organization in 2001 (Pei, Yang and Yao, 2015). Alongside the re-integration of East European countries into world trading markets in the 1990s this could have caused a temporary spike in trade growth and elasticity, which could not be sustained indefinitely. Similarly, the slowdown in Chinese GDP growth (the new normal) in recent years may have played a role in reducing global trade growth. Further, China's recent adjustment in its policy on domestic consumption led growth away from an export focus (Pei, Yang and Yao, 2015), which may lower supply-side incentives for exporting, while at the same time increasing Chinese imports of some final goods.

ESCAP (2016) indicates that the growth of total factor productivity declined by more than half in developing countries in the region, averaging only 0.96% between 2008 and 2014, while labour productivity declined by more than 30% to 3.9% in 2013. As the productivity wedge determines countries' trade competitiveness, the decreased productivity of developing Asia-Pacific adds another structural factor behind the economic and, consequently, trade slowdown in the Asia-Pacific region in the aftermath of the 2008-2009 economic and financial crises.

Figure 1.10 **Foreign-added share in gross exports, 1995, 2000, 2005 and 2008-2011**



Source: ESCAP calculation based on OECD Trade in Value-Added (TiVA) data (accessed August 2016). Data are only available for 1995, 2000, 2005 and 2008-2011. The Asia-Pacific category excludes several economies for which data are unavailable.

A final argument often made to explain the apparent slowdown in trade is a recent increase in protectionism, within and outside the region. While Constantinescu, Mattoo and Ruta (2015) argued that there had only been a minor increase in formal measures of protectionism since the 2008 crisis,[20] other authors have argued that informal methods of protectionism, in particular export subsidies, may have cut least developed country exports by 5.5% annually, on average, since 2008 (Evenett and Fritz, 2015). Further, protectionist measures, both formal and informal, may have increased by as much as 50% in 2015 (Evenett and Fritz, 2016), which may be an explanatory factor for the slump in global trade shown in previous sections of this chapter. Even without a rise in protectionism, it may be the case that rapid trade growth in the 1990s and early 2000s was spurred by a rapid liberalization of trade, which has stalled with the continued failure of the WTO Doha Round.

5. Implications of a trade slowdown, and long-term regional performance

The main implication of the reduced elasticity of trade is that as the prolonged economic downturn in developed countries lifts, and global income returns to a higher level of growth, global trade may not reach the high growth rates seen throughout the 1990s and early 2000s. This is particularly important, especially for the Asia-Pacific region, as fast-growing developing countries in recent years have often utilized an export-led growth model in which they increased production to meet foreign demand. While levels of trade will remain high as long as trade growth is positive after 2015 declining trade growth means that there will be fewer opportunities for new countries to grow through an export-led strategy. In turn, countries will be less able to incorporate foreign technology and knowledge, which tends to flow with trade. In particular, the Chinese move to produce their own intermediate goods may lessen the potential for low-income countries in the region to kick-start growth through entering global value chains.

However, there are several reasons why new structural changes may increase the elasticity of trade once again, even if not to the level seen previously. First, trade growth in new areas within and outside the region (e.g. South Asia and Africa) may boost world trade growth as obstacles to trade are removed and trade openness levels reach similar heights to those in integrated countries. Second, certain technological advances (e.g. in transport and communications) may allow even greater specialization across countries. Third, an increased move to the trade in services provides scope for the impact of further liberalization, as services typically face larger trade barriers (Hoekman, ed., 2015). Consequently, there is potential for trade to expand once again in the coming years, although it is unlikely to return to pre-financial crisis levels for some time.

E. NEAR-TERM PROSPECTS AND CONCLUSION

The Asia-Pacific region has continued to face threats to its trade prospects in 2016, and is expected to once again see a reduction in the value of imports and exports. This is especially the case for commodity exporting countries, particularly those in North and Central Asia as well as those tied to China through global value chains. The expected declining growth rates within the region and in key world importing economies in 2016, alongside falling price indices, means that a regional trade recovery is not expected until 2017.

ESCAP estimates that the Asia-Pacific region as a whole is expected to exhibit a 5.2% and 4.9% decline in nominal export and import values, respectively, in 2016, before bouncing back in 2017 with 4.5% growth in nominal exports and 6.1% growth in nominal imports (table 1.5). These estimates are based on a lingering uncertainty with regard to the movement of oil and commodity prices. If these estimates materialize they might again cause export and import price indices to fall substantially by 5.9% and 5%, respectively. In other words, countries that export primary commodities, largely low income economies, are still exposed to the risks of declining commodity prices, due to declining global demand – especially in China – for energy and non-energy commodities.[21] The volume of trade in the region is expected to grow in 2016, although only feebly, by 0.7% and 0.1% for exports and imports, respectively; this is far from the heights of around 7% seen globally in the early 2000s. The 2017 expansion of trade will be due to a mixture of expected increased prices and expected real growth; export and import price indices are expected to grow by 3% and 2.3%, respectively, while export and import volumes are projected to increase by 1.5% and 3.8%, respectively. Thus, as discussed in section D, trade (nominal and real) is expected to bounce back in the coming years, but not to the heights seen prior to the 2008-2009 global financial crisis.

Table 1.5 **ESCAP forecasts for merchandise trade growth, by selected Asia-Pacific economy, 2016-2017**

(Annual percentage change)

	Exports						Imports					
	2016[a]			2017[a]			2016[a]			2017[a]		
	Value	Price	Volume	Value	Price	Volume	Value	Price	Volume	Value	Price	Volume
Australia	-0.98	-3.80	2.93	11.58	10.30	1.16	-2.24	-3.20	0.99	9.56	4.20	5.14
Bangladesh	5.00	4.20	0.77	5.50	3.80	1.64	4.10	3.20	0.87	5.60	0.80	4.76
China	-6.13	-6.40	0.29	3.34	0.80	2.52	-8.80	-8.50	-0.32	5.51	3.40	2.04
Hong Kong, China	-3.53	-2.30	-1.26	3.11	0.80	2.29	-3.62	-1.70	-1.96	3.78	1.60	2.15
India	-0.29	-3.70	3.54	8.38	5.60	2.63	-1.67	-0.60	-1.08	9.14	-7.30	17.73
Indonesia	-6.43	-5.80	-0.67	3.00	2.30	0.68	-8.13	-7.30	-0.90	3.85	1.90	1.92
Islamic Republic of Iran	10.85	-6.10	18.05	21.27	10.80	9.45	14.00	24.20	-8.21	19.00	25.20	-4.95
Japan	4.84	3.60	1.20	2.56	7.30	-4.42	0.43	-1.30	1.75	1.86	-1.90	3.83
Kazakhstan	-23.16	-18.60	-5.60	18.38	17.00	1.18	-25.72	-3.30	-23.19	7.19	4.10	2.97
Malaysia	-4.78	-6.70	2.05	2.25	0.10	2.15	-5.55	-4.90	-0.68	2.11	0.60	1.50
New Zealand	-6.66	-5.30	-1.44	4.32	4.80	-0.46	-3.29	-4.30	1.06	7.47	4.20	3.14
Pakistan	-7.81	-1.40	-6.50	5.44	1.90	3.48	-2.65	-7.90	5.70	5.97	4.20	1.70
Philippines	-6.09	-8.80	2.98	3.14	-0.50	3.66	-1.17	-5.60	4.70	8.96	3.50	5.28
Republic of Korea	-7.25	-6.70	-0.59	1.44	0.60	0.83	-5.47	-8.80	3.65	7.57	3.90	3.53
Russian Federation	-23.69	-21.70	-2.54	11.61	9.80	1.65	-13.91	-2.60	-11.61	5.59	0.90	4.65
Singapore	-6.45	-8.00	1.68	3.22	3.80	-0.56	-6.84	-6.60	-0.25	4.67	4.30	0.35
Sri Lanka	-0.50	-5.30	5.06	8.58	2.60	5.83	4.08	-1.30	5.45	7.54	0.70	6.79
Taiwan Province of China	-8.46	-7.20	-1.36	-0.33	-1.70	1.39	-8.31	-9.00	0.76	1.51	1.90	-0.38
Thailand	-10.43	-9.50	-1.03	3.81	2.60	1.18	-3.38	-1.20	-2.20	8.95	8.30	0.60
Turkey	-0.21	-3.70	3.62	5.05	0.80	4.22	0.24	-6.50	7.21	8.99	2.60	6.23
Viet Nam	4.45	-3.20	7.91	18.68	10.20	7.69	4.58	-4.70	9.74	19.78	7.50	11.42
Asia-Pacific[b]	-5.21	-5.89	0.68	4.53	3.03	1.49	-4.90	-5.03	0.13	6.09	2.26	3.83
Developed Asia-Pacific[b]	3.07	1.53	1.54	4.56	7.34	-2.78	-0.36	-1.91	1.55	3.88	-0.21	4.10
Developing Asia-Pacific[b]	-6.46	-6.99	0.53	4.52	2.30	2.22	-5.73	-5.56	-0.17	6.51	2.74	3.78

Source: ESCAP calculation based on the Economist Intelligence Unit, as of August 2016.

Note: The estimated growth rates are calculated based on constant prices (in 2013 terms).

[a] Projections.
[b] Regional trade growth is the trade-weighted, time-varying average growth rate.

However, there is also substantial heterogeneity in the trade prospects for Asia-Pacific economies, highlighting the different environments that they face. The clearest distinction is between developing and developed economies in the region. While developing economies are expected to see only a small increase in real exports (0.5%), a small decrease in real imports (0.2%) and a sharp contraction in nominal trade, exports for developed Asia-Pacific countries are expected to grow in both real and nominal terms, and imports are expected to grow in real terms and fall in nominal terms. The trend for developed countries is mainly due to the expected strong real export performance by Australia, and an increase in the export price index in Japan, for which nominal exports are expected to recover from a sharp contraction. Developing economies within the region – most notably India and Viet Nam – with strong trade connections to the United States as well as the advanced economies in the European Union are expected to see better trade growth performance than countries trading intensively with China. While the growth of the United States and European economies is still not at pre-financial crisis levels, and is expected to fall slightly in 2016, reasonable growth recovery in these regions will benefit their close trading partners.[22]

In contrast, countries tied to China through global value chains (e.g. Thailand, the Philippines and the Republic of Korea) are expected to experience large export (and smaller import) contractions in 2016, before witnessing a smaller than average rebound in 2017. China's economic slowdown and transition to a new growth strategy, which is focused on domestic demand rather than exports and investment, has helped lower its own trade forecast, which gives an expected nominal contraction of 6.1% and 8.8% for exports and imports, respectively, with real trade almost unchanged. Thus upstream GVC members, in turn, face export contractions, exacerbated by the "bullwhip effect", during which downturns upstream manufacturers run down inventories rather than importing new parts.

Finally, countries in North and Central Asia are expected to see the largest trade contractions in 2016, although strong growth is expected in 2017. Due, in large part, to falling export prices (particularly in the case of fuel-based commodities), nominal exports from the Russian Federation and Kazakhstan are expected to collapse by 23.7% and 23.2%, respectively. In turn, this is expected to cause a sharp contraction in real imports of 11.6% for the Russian Federation and 23.2% for Kazakhstan, with relatively little change in the import price index.

Therefore, the recent trade slowdown is expected to continue throughout 2016 as the post-financial crisis recovery in developing countries remains sluggish and developing countries are experiencing deep structural changes. A projected continued fall in prices (if that materializes), matched with sluggish real trade will lower the nominal value of trade in 2016, before improvements in both prices and real trade bring about a projected recovery in 2017. Therefore, countries within the region face challenges to export-led growth in the near future; therefore public policies for improving trade environments, including bilateral, regional and multilateral trade agreements, are more essential than ever.

Endnotes

[1] The numbers for merchandise trade were compiled by the ESCAP secretariat, based on data available from the World Trade Organization and International Monetary Fund at the time of preparing this report. More recent revisions of trade data by those data sources may result in different trade balance values. The numbers include trade data for Taiwan Province of China, which is not a United Nations ESCAP member, but represents 4.3% of merchandise exports in the Asia-Pacific region. The use of other sources of trade data may produce different estimates. Individual economic data for ESCAP member States are available from the ESCAP online statistical database.

[2] A possible explanation can be that the growth recovery was still driven by household spending which is relatively less import intensive compared to private investment which is still on a sluggish path (Bussière and others, 2013). As discussed later in the chapter, both the global and regional economies are experiencing falls in trade elasticity, thereby indicating less chance of trade recovery even with a revival of the economic growth.

[3] Data from the IMF World Economic Outlook Database, accessed July 2016. More recent revisions of GDP growth data by IMF may result in different growth rate estimates.

[4] The nineteenth Global Trade Alert Report (Evenett and Fritz, 2016) calculates that there was a 50% increase in protectionist measures in 2015 compared with 2014, largely by G20 countries and largely affecting G20 countries.

[5] Data from IMF Primary Commodity Prices track a 37% and 17% decline in fuel and non-fuel prices, respectively, in 2015.

[6] Data from the IMF World Economic Outlook Database, accessed July 2016. More recent revisions of data by the IMF may result in different growth rate estimates.

[7] ESCAP calculations based on data from the Economist Intelligence Unit, accessed August 2016, show that for the Asia-Pacific region as a whole, export prices fell by 10% and import prices by 12%, in 2015.

[8] The IMF estimates that exports contribute about 30% in terms of value-added to output growth of China, up from 15% in the 1990s. This large contribution reflects rapid growth in exports (on average by 18.5% since the end of the 1990s until before the 2008-2009 global financial crisis and an increase in the domestic content of exports (Guo and N'Diaye, 2009).

[9] The import-export ratio consistently trended upwards in 2014 and 2015, from 1 to 1.18 in January 2014 to 1 to 1.47 in December 2015.

[10] Pre-copy edited version of the Report was finalized on 15 September 2016.

[11] The IMF projected growth figures are taken from IMF July 2016 World Economic Outlook update. These figures have been used, rather than the more comprehensive April 2016 World Economic Outlook database, in order to account for the impact of the United Kingdom of Great Britain and Northern Ireland's vote to withdraw from the European Union. Growth estimates have mainly been revised downwards as a result of this decision. The estimate for the United Kingdom itself has been lowered from April to June by 0.2 percentage points for 2016 and 0.9 for 2017, while the projection for advanced economies fell by 0.1 and 0.2 percentage points, respectively; the projection for emerging and developing economies remained constant overall.

[12] ESCAP (2016) projects the declining growth of China from 6.5% in 2016 to 6.3% in 2017. In addition, according to the IMF, the economic turmoil in other major developing countries is also expected to continue (the Russian Federation is projected to remain in recession until 2017, and Brazil until 2018).

[13] This includes both intraregional trade flows and flows with the rest of the world.

[14] See Russell (2016), Sanctions over Ukraine: Impact on Russia, European Parliament Briefing, available from http://www.europarl.europa.eu/EPRS/EPRS-Briefing-579084-Sanctions-over-Ukraine-impact-Russia-FINAL.pdf (accessed 15 July 2016).

[15] This number is larger than that given in figure 1.3 (12.6%) as figure 1.3 includes exports from China, lowering the amount. Exports to China from all Asia-Pacific countries excluding China amount to 19.8 % of these economies' total exports.

[16] Indian imports from South and South-West Asia fell by 33%, while those from South-East Asia fell by 6.6%. Those from East and North-East Asia rose by 2.9%. Imports by the Russian Federation from North and Central Asia fell by 37.2%, while those from East and North-East Asia fell by 34%, and those from South-East Asia declined by 16%.

[17] Following the UNCTAD-Stages of Processing provided in WITS, international trade is classified, based on the Broad Economic Categories (BEC) classification, into four major economic categories, depending on the stage of processing and use. Primary products comprise raw materials and resources used in the productive process. Intermediate products comprise semifinished goods that are used in the production of other products. Consumer products are those that are intended for final consumption. Capital goods are manufacturing goods such as machinery that are intended to be used in the production of other goods.

[18] Decomposing export growth to analyse the contribution of different constituent parts involves weighting the average annual growth rates of each part by the share of that part in the total level of exports. Thus, if two constituent parts have the same growth rate, the part with the largest share of exports will contribute more to overall growth.

[19] Trade elasticity with regard to GDP refers to the percentage change in global trade given a 1% change in global GDP. See further details in box 1.1.

[20] Constantinescu, Mattoo and Ruta (2015) stated that the increase in various measures of protectionism had been only "modest" and that adding a variable for protectionism into their core Error Correction Model barely changed the core coefficients, while the coefficient on protectionism was not significant.

[21] As China accounts for 18% of world economic activity in 2016 (IMF estimate), its demand for commodities has been a key factor in commodity prices in the past two decades. Falling GDP growth in China has been considered a key factor in falling prices in recent years. See www.ft.com/cms/s/2/30441208-b548-11e5-b147-e5e5bba42e51.html#axzz4HkYkfLUm.

[22] These predictions were made prior to the presidential election in the United States.

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