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12:00 GENEVA TIME (**10:00** GMT) **23 APRIL 2003**

PRESS/337
22 April 2003
(03-2142)

WORLD TRADE FIGURES 2002

Trade recovered in 2002, but uncertainty continues.

Driven by strong demand in the United States and the big Asian economies, merchandise trade grew by 2.5% in 2002, up from a 1% decline in 2001, according to the latest WTO figures.

But trade growth, which was significantly above the 1.5% increase in total world output, was uneven and masked the sluggish trade performance in many regions including Latin America and Western Europe.

Considerable uncertainty clouds trade growth prospects for 2003. Early indications suggest that at less than 3%, growth in trade volume for 2003 will be little or no better than 2002. This is well below half the average rate of trade growth achieved in the 1990s (6.7%). The downside risks on predictions for 2003 are large, bearing in mind continued sluggishness in the world economy, the conflict in Iraq, and the possibility of the continuing spread of the Severe Acute Respiratory Syndrome (SARS).

"These trade figures reflect the growing economic and political uncertainty in the world today. This uncertainty is detrimental to economic growth and development and can give rise to greater instability across the globe. Governments must send a signal that they are prepared to address this problem. One very important contribution to this effort would be to accelerate work on the negotiations in the Doha Development Agenda," said Director-General Supachai Panitchpakdi.

Launched in November 2001 by ministers meeting in Qatar, the Doha Development Agenda comprises a wide range of negotiations on topics including agriculture, development issues, trade in services, industrial tariffs, WTO rules and trade and environment. Progress in these talks has been uneven and with the talks due to conclude by 1 January 2005, Director-General Supachai has urged the 146 member governments to summon the political courage that is required to bridge differences across the negotiations.

The WTO's assessment of the 2002 trade figures is based on the first preliminary compilation of statistics for the past year. Measured in value terms, merchandise exports rose by 4% to $6,240 billion nearly offsetting the decline of the preceding year. Commercial services trade expanded a little faster than merchandise trade reaching a new record level of $1,540 billion.

The **trade recovery** occurred amidst the weakness of the global economy, greatly reduced investment flows, major movements in exchange rates, dented business confidence, increased restrictions on international trade transactions to reduce risks from terrorism and rising geopolitical tensions.

The rise in trade in **commercial services** took place despite the lingering fear of terrorism and higher fuel prices which limited growth in international travel and transportation services. But this was more than made up for by trade in other services which continued to expand rapidly.

The weakness of fixed **investment** expenditure contributed significantly to the sluggish overall growth in the industrial countries. Worldwide expenditures on electronic equipment, IT hardware and semi-conductor plants continued to shrink.

The global economic recovery proved uneven, with significant differences in growth performance **across regions**. The driving forces of the pick up in global economic activity were the United States, the advanced economies in East Asia, China and the transition economies. In contrast, Western Europe and Japan experienced stagnation or a decline in domestic demand. In Latin America, crises in Argentina and Venezuela contributed to the severe slump.

Trade performance largely mirrored the **pattern of economic growth**. Trade expansion was strong in Asia and the transition economies. North America's imports recovered in line with stronger domestic demand although exports decreased in 2002. Trade remained stagnant in Western Europe and Japan. And it contracted in Latin America as a result of economic turmoil in a number of countries in the region.

Some details of developments in specific countries or groups of countries:

- Developing Asia's merchandise trade grew by about 12.5% in volume terms, driving the entire continent's exports and imports to grow by double digits. The region also saw diverging growth paths between Japan, still Asia's largest economy, and China and India, the two most populous nations in the world. In value terms, China's merchandise exports and imports increased by more than 20% while India's also grew at double-digit rates. China has overtaken the UK to become the fifth largest trader in the world. Japan's merchandise export growth was only 3% while imports contracted.

- Transition economies' trade continued to show strong growth with merchandise trade expanding by about 10% lifted by strong domestic demand growth and by rising foreign direct investment (FDI) inflows into the region.

- Imports into the US grew by 3% driven by continuing consumer spending and an increasingly expansionary fiscal stance. But exports declined by nearly 4% partly reflecting reduced demand from some key trading partners whose economies were either hardly growing, such as Western Europe and Japan, or in outright contraction, as in Latin America. Lack of price competitiveness might have also played a major role as US exports decreased even to those regions whose imports grew strongly.

- Western Europe's trade stagnated in volume terms with merchandise exports increasing by just 0.6% and imports declining by 0.5%.

- Latin America saw one of its worst years with the crises in Argentina, Venezuela and difficulties in Brazil in the run-up to the national elections. Latin America's merchandise imports declined by over 5% in 2002 although merchandise exports rose by about 2% with the decline in intra-regional trade (especially intra-MERCOSUR trade) being balanced by increased shipment to other regions.

- LDC exports and imports rose last year although it does not change their overall situation as marginal participants in world trade.

- Oil exporting LDCs saw a strong increase in the dollar value of their shipments as they increased their production and volume of trade. Exports of the non-fuel commodity exporting countries continued to rise after marked gains in 2001. However, exporters of manufactured goods experienced stagnation.

Prices of crude oil, gold and agricultural commodities rose in 2002 providing an important lift to commodity exporting developing countries. However prices of minerals and metals continued to fall. Prices of manufactured goods recovered somewhat but were still around 10% below their level in 1995.

In the course of 2002, the real effective **exchange rate** of the US dollar depreciated while the euro and the yen appreciated. However, the realignments did not seem to have materially affected the US trade deficit, nor current account surpluses being accumulated by the euro zone countries, Japan and developing Asia.

International **capital flows** had risen throughout the 1990s and peaked in 2000. Since then they have experienced a drastic contraction. Both developed and developing regions have been affected by the reduction in FDI flows. Noteworthy exceptions were FDI inflows to China and to Central/Eastern Europe which continued to increase very strongly.

These are the details:

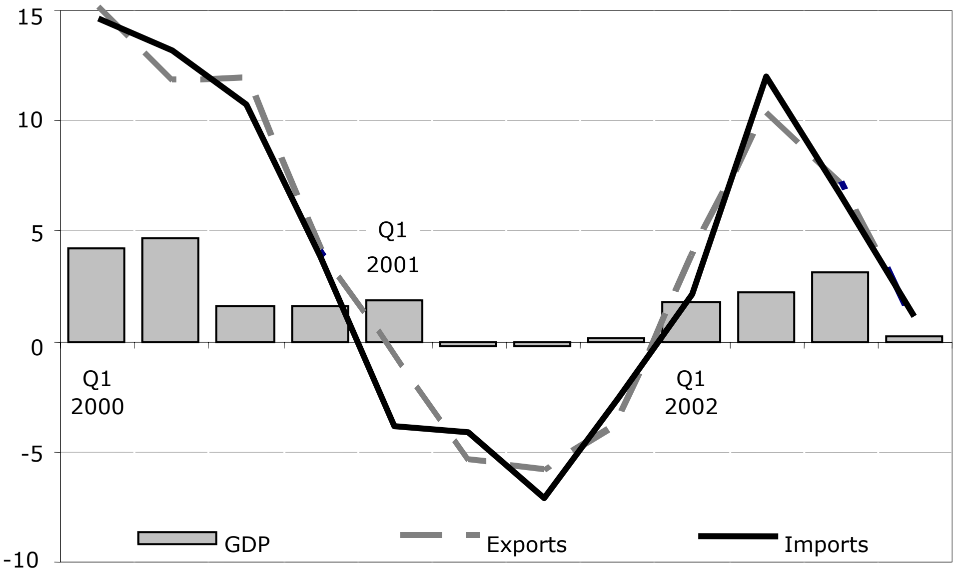
Trade developments in 2002

The global economic situation in 2002

Chart 1

Expansion of trade and output slows in fourth quarter 2002

Percentage change on a quarter to quarter basis



The global economic recovery was uneven and lost steam in the second half of 2002 limiting full-year growth of world output to only 1.5%. The driving forces of the pick up in global economic activity were the strength of the domestic demand recovery in the United States and the advanced economies in East Asia. The expansion of world GDP was also sustained by both China and the transition economies which continued to record much faster economic growth than the world economy. In sharp contrast, Japan and Western Europe continued to experience stagnant or declining domestic demand growth. And Latin America's economy plunged into a recession largely brought about by the crises in Argentina and Venezuela. The per capita income in the region declined for the second consecutive year.

In the industrial countries, the main expenditure categories of GDP differed markedly in behaviour during the cyclical slowdown and recovery. The run down in inventories and their replenishment in 2002 was the most outstanding factor in last year's cyclical recovery. Inventory changes in the OECD reduced GDP growth by 0.8% in 2001 but added 0.2% to GDP growth in 2002. In the US, public consumption expanded by 3% and was also the fastest growing component of demand in the industrial countries. Private consumption in the OECD area continued to rise by 2% in 2002 as the acceleration of consumer demand in the US was balanced by the slowdown in both Japan and Western Europe. A major element in the weakness of the recovery was the continuing contraction of non-residential investment which was even more pronounced last year than in 2001.

The threat of terrorism has led many governments and companies to take various measures to enhance security and to limit the risks of future terrorist attacks. Some of these measures have resulted in restrictions on the movement of persons and goods. The cost not only involves the direct expenditures for these security measures which governments and companies must put in place but the indirect impact on trade in the form of more cumbersome procedures and delays. The increase in geopolitical risks and tensions has also taken its toll on international trade through the recent run-up in oil prices.

The sluggishness of economic activity and the widespread excess capacity prevailing in the manufacturing sector contributed to a further decline in **inflation** rates.[1] Inflation rates decreased slightly in Western Europe, North America and Asia. While consumer prices in the transition countries receded markedly, from what were sometimes double-digit rates, they increased in South and Central America under the impact of currency devaluations. As global economic growth lagged behind both productivity and labour force growth, **unemployment** and underemployment worsened in most regions. Recorded unemployment rates rose in North America, Western Europe and Japan. In the latter country, the unemployment rate reached an historic record level of 5.5%, more than twice the level reported in the early 1990s. In Latin America, the steep decline in output has led to a sharply worsened employment situation. According to CEPAL the average urban unemployment rate in the region increased to 9.1% , the highest rate observed in the 1990s.[2]

The marked differences in domestic demand growth between the United States, developing Asia and the transition economies on the one hand and Japan, Western Europe and Latin America on the other hand contributed to major shifts in the trade and **current account balances**. Japan and Western Europe recorded an expansion of their net exports. Consequently (the trade and) current account surpluses of Japan and the EU widened with increases equivalent to 1% and 0.7% of GDP respectively. Under the impact of sharply lower capital inflows, Latin America had to cut its imports which led to a trade surplus and reduced the region's current account deficit. The United States' current account deficit widened to more than $500 billion or 5% of GDP, which was an historic peak in absolute and relative terms.

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[1] In mid 2002, capacity utilization rates in the manufacturing sector in the US, Japan and the euro zone were still well below the average utilization rates recorded on average in the 1990s.

[2] UN, Economic Commission for Latin America and the Caribbean (ECLAC), Preliminary Overview of the Economies of Latin American and the Caribbean 2002, 2003.

International **capital flows** had risen throughout the 1990s and peaked in 2000. Since then they have experienced a drastic contraction. This can be illustrated by the pronounced rise and fall in foreign direct investment (FDI). Total FDI flows surged from about $200 billion in the early 1990s to almost $1.2 trillion in 2000. In 2001, the value of these flows collapsed by about 50%, and in 2002, by another 25% falling back to about $500 billion, a level first reached five years ago. Both developed and developing regions have been affected by the reduction in FDI flows. Only FDI inflows to China and to Central/Eastern Europe continued to increase.

In the course of 2002, the real **effective exchange rate** of the US dollar depreciated while those of the euro and yen appreciated. In the medium term, the depreciation of the US dollar, after its nearly 20% rise between 1995 and 2001, could contribute to arresting the steady increase in the US trade deficit. One aspect of the dollar decline *vis-à-vis* the currency of major traders is the "inflationary" impact on world trade prices measured in dollar terms. Although intra-EU trade stagnated in 2002 in euro terms, it recorded an increase of nearly 5% measured in dollar terms. The overall impact of exchange rate developments on trade values in 2002 contrasts with the tendency prevailing between 1995 and 2001 when the dollar's appreciation had the impact of "deflating" world trade prices measured in dollar terms.

Consequently, for the first time since 1995, the **dollar prices** of internationally traded agricultural and manufactured goods showed an annual increase. Oil prices recovered from their trough in early 2002 with annual average prices for 2002 marginally exceeding those of the preceding year. Prices for metals continued to decline, particularly for aluminium, the most heavily traded metal. The recovery in food prices was the net outcome of higher prices for all types of cereals, soybeans and vegetable oils, which outweighed the price reductions in meat, seafood, sugar and tropical fruits. Prices for cereals, in particular wheat, rose as droughts in four of the five traditional exporting regions caused a decline in production for the second year in a row.

Trade recovery exceeds output recovery

The pick up in global economic activity went together with a rebound of international trade flows. Based on preliminary estimates, **world merchandise exports rose in real terms** by 2.5% in 2002 after the contraction in the preceding year. Although global trade recovered faster than output, the expansion was less than half the average rate recorded in the 1990s. The annual average growth rates conceal the steep decrease of global trade in the course of 2001 and its rapid recovery between the last quarter of 2001 and the third quarter of 2002. In the fourth quarter of 2002, there was a notable flattening of trade growth for both the United States and Western Europe.

A major element in the more subdued expansion of trade in the last quarter of 2002 was the continued sluggishness of investment in the major developed markets and in Latin America. The continued contraction of new investment in machinery and equipment in 2002 can be linked to low capacity utilization rates in the manufacturing sector, and in particular, in information technology and telecommunication equipment. Worldwide expenditures on electronic equipment, IT hardware and semi-conductor plants continued to shrink.[3] The repercussions of the decline in investment expenditure on trade flows can be illustrated by the continuing decline in the volume of US imports of capital goods in 2002, while US imports of all other products recovered by 6%.[4]

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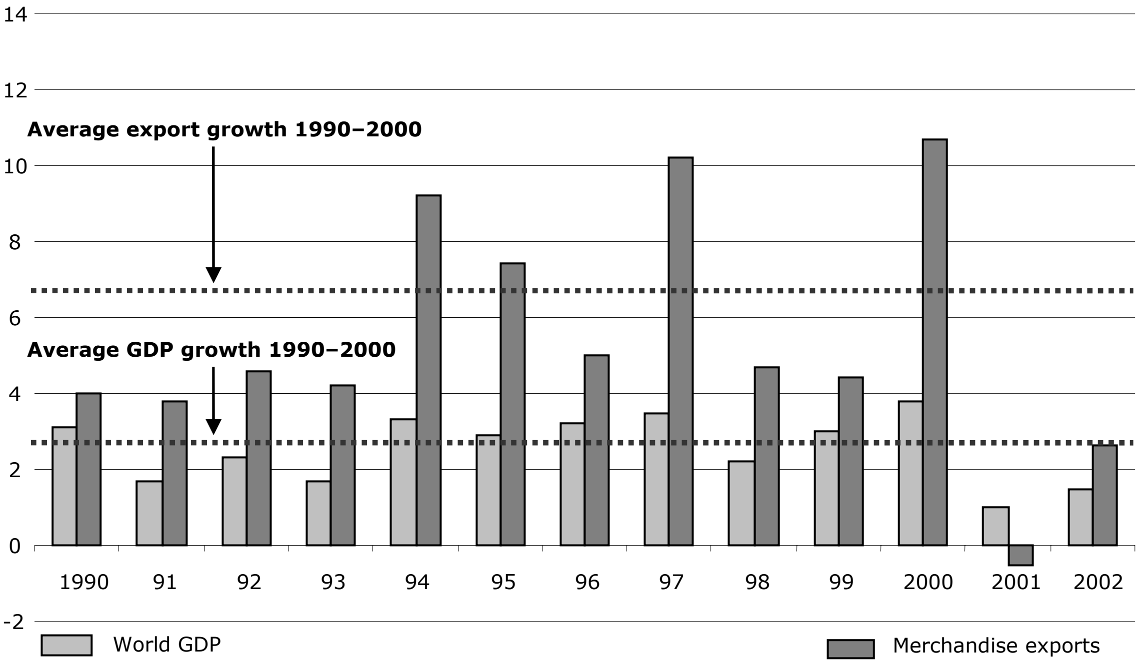
[3] According to industry sources, global sales of electronic equipment and IT hardware decreased by about 5% while sales of semi-conductor plant equipment decreased by more than 20% in 2002.

[4] US Department of Commerce, Commerce News FT-900-12, Exhibit 11, p. 16.

Chart 2
Trade recovers more strongly than output in 2002
Annual percentage change



Largely due to sluggish investment expenditures, trade expansion (average of exports plus imports) in both North America and the Western Europe lagged behind their GDP growth. In Asia and the transition economies, however, trade volume expanded at least two times faster than output, which was in each case well above the global average. The strength of these regions' trade growth, which was around 10% in 2002, stemmed largely from the vigorous expansion of domestic or intra-regional demand. The performance of these two regions explains why global trade expanded faster than output in 2002. In contrast, Latin America's output decline caused a contraction of its imports in the order of 6% while exports continued to grow despite shrinking intra-regional trade because of the expansion of trade with countries outside the region. On the whole, both trade and output declined in Latin America, with trade decreasing more than output.

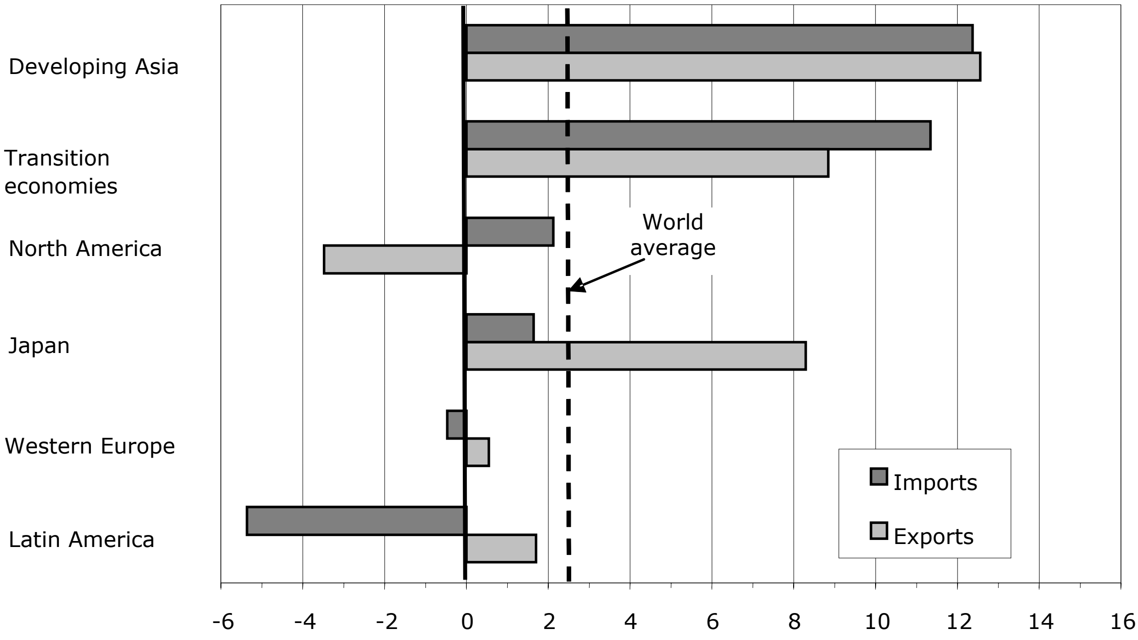
The largest single element in the global trade recovery of last year was North American, and in particular, US import growth. US merchandise imports account for one fifth of world trade but the increase in 2002 was equivalent to one half of the global trade expansion. Relatively buoyant private and public consumption growth continued to stoke US import demand. Developing Asia and the transition economies, which were the regions with the highest GDP growth, also contributed strongly to the growth in imports. Developing Asia's imports rebounded by 12.5% following a contraction in the preceding year. Two factors can be singled out for this dramatic reversal. First, the surge of FDI inflows in the aftermath of China's accession to the WTO resulted in a jump in China's real imports by nearly a quarter. And second was the recovery of imports in the developing East Asian IT traders of nearly 9% (after a decline of 8.5% in the preceding year). As regards the transition economies, most of the strength was contributed by Russian demand although import strength was broad-based with more than half of all transition economies experiencing double-digit growth.

The recovery of global trade was retarded by the stagnation of Western Europe's imports and a contraction of Latin America's imports. Among the Western European countries, imports shrank or stagnated in France, Germany, Spain and Switzerland. Some smaller Western European

Chart 3

Large variations in trade volume growth by region in 2002

(Annual percentage change)



economies, such as Belgium, Denmark, Ireland and Finland, however saw relatively buoyant import expansion. A reduction of net-capital inflows into Latin America forced the region to cut back its current account deficit. This was achieved primarily by a fall in imports in the order of 5% and a rise in extra-regional exports.

Price and exchange rate changes help raise global trade values

The recovery in the volume of trade combined with a moderate increase in prices of internationally traded goods resulted in a rise in the **value of world trade**. Merchandise and commercial services exports rose by 4% and 5% respectively in 2002. However, these rates of nominal trade expansion remained below the average recorded in the 1990s. For merchandise trade, the expansion in 2002 offset the decrease reported in the preceding year while commercial services trade reached a new peak level. For world merchandise exports, available data point to an above average rise in the exports of manufactured goods and a below average increase for both mining and agricultural products. Among the categories of commercial services, exports in the largest category, other commercial services, expanded significantly faster than those of travel and transportation services.

Table 1 World exports of merchandise and commercial services, 1990-2002

Billion dollars and percentage

	Value	%		
	2002	1990–2000	2001	2002
Merchandise	6 240	6	–4	4
Commercial services	1 540	7	–1	5

As inflation and exchange rates evolved quite differently by region, developments in nominal merchandise trade differ from those in volume terms. This is most evident in the case of Western Europe whose exports in volume terms stagnated at 0.6% while its exports in value terms increased by 5.5%. The difference can be attributed almost entirely to the 5% depreciation of the dollar against the euro and other Western European currencies. Asia and the transition economies had the strongest export value growth of all regions followed by Western Europe. North America reported the largest export contraction of regions while imports recovered by 1.7%. The double-digit import growth of the transition economies contrasts with the contraction in Latin American imports of 6.7%, the worst of all regions. Latin America's exports rose moderately despite a steep contraction of its intra-regional trade, which was balanced by a rise of shipments to other areas. Africa's exports and imports achieved small positive gains. Middle East exports are estimated to have decreased further in 2002 although at a smaller rate than in 2001. As the region's imports continued to grow, the large trade surplus of the Middle East eroded somewhat.

Trade developments by region

A notable feature of **North America's trade** in 2002 was the poor performance of its merchandise exports which decreased by 4%. A major reason for this was the reduced demand from some of its key trading partners because their economies were either hardly growing, such as Western Europe and Japan, or in outright contraction, as in Latin America. Lack of price competitiveness might have also played a major role as US exports decreased even to those regions whose imports grew strongly. US exports lost market share not only in developing Asia, the transition economies, Western Europe and NAFTA but also in the developing economies of Latin America, the Middle East and Africa. However, imports continued to grow driven by continuing consumer spending and an increasingly expansionary fiscal stance. Consumer spending, particularly on durables, remained healthy because of low inflation, tax relief and strength in the US housing market, which partly offset stock market losses. North America's export and import prices decreased slightly in 2002 and contributed to sluggish growth in merchandise trade in value terms. On the other hand, commercial services trade recorded a better performance as exports rose by 3% and imports by 11%.[5] Once again, there were big differences in the performance of the three major services sectors. While travel and transportation services shrank, that of other services saw double-digit import and export growth.

Intra-North American trade declined marginally while exports to crisis-ridden South America and stagnating Western European economies decreased at double-digit rates. Imports from these regions, however, increased slightly in 2002. Imports from Asia rose largely due to higher shipments from China. United States imports from China increased by 22% but those from Japan and the NICs(4) decreased. The steep decline of US exports and imports from Japan, Hong Kong, China and Singapore point to structural shifts in the US trade with Asian countries. For the first time, China replaced Japan as the principal Asian supplier of merchandise to the United States. Although US exports to China also rose rapidly, the bilateral trade deficit widened sharply and reached almost $103 billion, the largest with any country.

For the **Latin American** region, 2002 turned out to be one of the most difficult years since the debt crisis of the 1980s. Private net capital inflows to the region, which exceeded $60 billion in 1999 and 2000, had financed large current account deficits and supported economic activity, investment and imports. But given the loss in confidence by foreign investors in the sustainability of the economic policies of some major countries in the region, there was a curtailment of net

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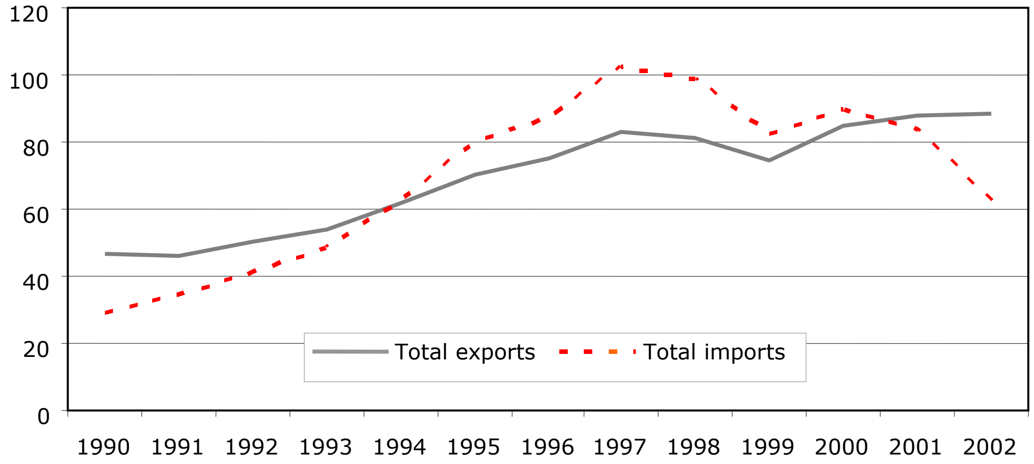
[5] Most of this increase is linked to the rise in US imports of insurance services which recovered from the fallout of insurance payments linked to the damages caused by the terrorist attacks of 11 September 2001.

capital inflows into the region. The reductions in inflows were first compensated by a reduction in foreign exchange reserves and eventually by devaluations ranging between 50% and 70% in the most affected countries. (Early in January 2002, Argentina decided to abandon the ten-year old parity link between the Argentinian peso and the US dollar and devalued the peso by 30%. This decision triggered of a series of further devaluations in the region.) Given that the level of many commodity prices remained low in 2002, this limited the export earnings of many countries in the region while the huge contraction in economic activity significantly dampened imports.

The financial crisis in Argentina, the economic repercussions on its MERCOSUR neighbours, and the civil unrest in Venezuela were the major factors contributing to the contraction of Latin America's merchandise imports by nearly 7% in 2002. Argentina experienced a massive cut in imports (-55%), which exceeded even the worst import contractions during the Asian financial crisis. The reduction in Latin America's imports was the largest of any of the seven major regions covered here and contrasts with its trade performance in the 1990s when Latin America's imports and exports expanded much faster than the global average. Merchandise exports rose slightly as falling intra-regional trade was offset by rising exports to other regions. For the first time since 1991, Latin America's merchandise trade balance (as measured f.o.b.-f.o.b.) turned positive again. Commercial services imports are estimated to have decreased by more than 10% in 2002. In contrast to merchandise exports, the region's commercial services exports experienced a contraction of about 6%.

Chart 4
Diverging developments in MERCOSUR merchandise trade in 2002
Billion dollars



MERCOSUR countries increased their overall exports by 1% as the dramatic contraction of intra-regional trade by one third was offset by an increase in shipments to all other destinations by 5%. Brazil, the country least dependent on intra-MERCOSUR trade, increased its total merchandise exports by 4%. Back in 2000, intra-MERCOSUR trade had accounted for about one fifth of both total exports and imports. But given the huge economic difficulties experienced by the region in the last few years, these shares have fallen quite precipitously. The intra-MERCOSUR share has now been cut almost by half (from 20% to 11%) in the case of exports.

Latin America's merchandise exports increased slightly as the decline in intra-regional trade was balanced by increased shipment to other regions. The recovery of commodity prices in the course of the year and the upturn in the US economy contributed to this rise. While most Latin American countries saw a reduction or stagnation in their imports, those of Costa Rica increased by 9%. Mexico benefited from the recovery of the US market while for Costa Rica, the recovery in semi-conductor shipments boosted both imports and exports. Despite the continuation of low prices for many primary commodities, exports of many Central American and Caribbean countries recovered strongly.

Economic activity in **Western Europe** remained subdued as Germany, the largest economy in the region, experienced declining domestic demand and several other countries faced sluggish domestic demand. In the euro-zone, public consumption was the most dynamic expenditure category while private consumption slowed down and fixed investment of the enterprise sector fell nearly 3%.

Given the depreciation by about 5% of the US dollar *vis-à-vis* the euro, the pound and various other European currencies, Western European trade performance, measured in dollar terms, concealed the stagnation in volume terms. Western Europe's merchandise exports in dollar terms increased by 5.5% while the expansion of imports was limited to 3.5%. EU imports from third countries languished while intra-regional trade rose by 4.5%. The most dynamic part of EU trade was exports to third countries which expanded by about 6%. Among the other Western European countries, Switzerland's merchandise exports rose by 7% largely due to the appreciation of the Swiss franc. The stagnation of the Swiss economy left its imports unchanged from the preceding year. Turkey's imports recovered strongly in 2002 from their contraction in the preceding year while exports continued to expand at double-digit rates.

Commercial services exports of Western Europe, which account for nearly one half of world services trade, increased by nearly 8%, somewhat faster than imports, with exchange rate changes accounting for most of this increase in dollar terms. Exports of transportation services experienced the weakest growth while exports of other commercial services had the most dynamic performance in 2002.

More than a decade after the fall of the Berlin Wall and the dissolution of the USSR, the **transition economies** are still struggling with their transformation from planned to market-oriented economies. One of the outstanding features of the transition process has been the massive re-direction of trade flows from within the region to trade with countries outside the region, and in particular, to Western Europe. This shift in structure can be observed not only in the trade of Central/Eastern Europe or the Baltic States but also in the Commonwealth of Independent States (CIS) countries. Despite the relatively strong economic growth in the region, the share of intra-regional trade in CIS merchandise exports and imports declined to one third and one fifth respectively.

Merchandise trade of transition economies was sustained by strong domestic demand growth, above all in private consumption, and by rising FDI inflows into Central/Eastern Europe. The region's merchandise and commercial services imports rose at double-digit rates. Export growth was somewhat less dynamic than imports but it was still two times faster than the growth in world merchandise and commercial services trade.

Merchandise exports of the transition economies expanded by 8%, reaching a new record level of $310 billion in 2002. The Russian Federation, the leading trader in the region, recorded merchandise export gains of 3.5% while 14 other transition economies recorded import growth in excess of 10%. Preliminary data suggest that the transition economies' commercial services exports and imports rose by about 8% and 12% respectively in 2002.

The preliminary data available on **Africa's** output and trade in 2002 do not indicate a reversal of past trends with respect to incomes or participation in world trade. Average per-capita income levels changed little and Africa's trade growth lagged behind the global trade expansion. Although various debt indicators improved and non-oil commodity prices recovered somewhat from their depressed levels in 2001, a broad-based expansion of output and trade has not yet occurred.

In 2002, Africa's merchandise and commercial services trade lagged behind the global trade expansion.[6] Merchandise exports and imports recorded only marginal gains. The African oil-exporters saw a further decline in their exports (-3%) and a fall in their imports in the order of 5 to 10%. South African exports and imports recovered by 2% to 3% from the preceding year's decline. Exports of the other non-oil exporting African countries were probably much stronger and expanded by about 6%. A strong rebound in exports in 2002 from the preceding year's decline in a number of countries (including Morocco, Egypt, Côte d'Ivoire and Ghana) accounted for most of this strength in the export growth of non-oil exporters in Africa. However, it is estimated that only six out of 53 African countries achieved a sustained expansion of their exports over the 1999-2002 period.[7] Africa's overall merchandise import growth was held back by the import contraction in Nigeria and Egypt, the third and second largest merchandise importers in Africa in 2001. In at least 15 other African countries however, there was double-digit import growth.

Table 2 Growth in the value of merchandise trade by region, 1990-2002

Billion dollars and percentage

	Exports				Imports			
	Value	Annual percentage change			Value	Annual percentage change		
	2002	1990–2000	2001	2002	2002	1990–2000	2001	2002
World	**6 240**	**6**	**−4**	**4**	**6 501**	**6**	**−4**	**3**
North America	946	7	−7	−4	1 431	9	−6	2
United States	694	7	−7	−5	1 202	9	−6	2
Latin America	351	9	−3	1	355	12	−2	−7
Mexico	161	15	−5	1	176	15	−4	0
MERCOSUR	88	6	4	1	62	12	−6	−26
Other Latin America	102	6	−7	0	116	7	3	−3
Western Europe	2 648	4	0	5	2 644	4	−2	4
European Union (15)	2 441	4	0	5	2 438	4	−2	3
Excl. intra-EU trade	939	5	1	6	931	5	−4	1
Intra-EU trade	1 502	4	−1	5	1 507	4	−1	5
Transition economies	309	10	5	8	297	8	11	10
Central/Eastern Europe	145	10	12	12	176	12	9	10
Russian Federation	107	–	−2	4	60	–	20	12
Africa	139	3	−6	1	133	3	2	1
Middle East	236	6	−7	−2	183	5	4	2
Asia	1 610	8	−9	8	1 457	8	−7	6
Japan	416	5	−16	3	336	5	−8	−4
Developing Asia	1 114	11	−7	10	1 033	9	−7	9
China	326	15	7	22	295	16	8	21
IT traders (6) a	618	10	−13	7	561	9	−13	6
Memorandum item:								
Developing economies	1 841	9	−7	6	1 704	9	−4	4
LDCs	38	7	1	4	45	5	4	3

a Chinese Taipei, the Rep. of Korea, Malaysia, Philippines, Singapore and Thailand.

[6] At the time of writing (in early March 2003) only four African countries have reported full year data on their merchandise trade.

[7] The six countries are: Equatorial Guinea, Lesotho, Mozambique, Seychelles, Sierra Leone and Tanzania.

In 2002, the **Middle East's** trade and output growth was curbed by a fall in the region's oil production and growing political tensions. As fuels account for more than three quarters of the region's merchandise exports, a decline in oil output has immediate repercussions on export revenues. One notable feature of Middle East trade in recent years is the increased orientation of its exports to Asia, to which more than one half of the region's fuels exports are shipped.

Merchandise and commercial services trade of the Middle East lagged behind world trade growth in 2002. Merchandise exports of the region are estimated to have decreased only slightly despite lower exports from various large oil exporters in the region. This is due to a number of smaller traders who reported double-digit export growth. Given the rising tensions in the region, earnings from tourism suffered, leading to an overall decline in the commercial exports of the region estimated at about 4%. In Israel both exports and imports continued to be at depressed levels.

In 2002, trade developments in **Asia** were shaped by the diverging growth paths between Japan, still Asia's largest economy, and China and India, the two most populous nations in the world. While Japanese domestic demand stagnated, China and India continued to grow rapidly. ASEAN countries and other East Asian economies also experienced stronger economic growth in 2002 compared to the preceding year, but for most of them, the expansion was less than the rates of growth achieved in the early nineties.

Table 3 Growth in the value of commercial services trade by region, 1990-2002
Billion dollars and percentage

	Exports				Imports			
	Value	Annual percentage change			Value	Annual percentage change		
	2002	1990–2000	2001	2002	2002	1990–2000	2001	2002
World	**1538**	**7**	**−1**	**5**	**1522**	**6**	**−1**	**5**
North America	304	7	−4	3	260	7	−5	11
United States	268	7	−4	3	218	8	−5	13
Latin America	55	7	−2	−6	63	7	0	−12
Mexico	13	7	−7	0	16	5	−1	−1
MERCOSUR	13	8	−5	−13	19	10	−3	−26
Other Latin America	30	7	1	−5	28	7	3	−6
Western Europe	744	5	1	7	695	5	2	6
European Union (15)	673	5	2	8	651	6	3	6
Transition economies	58	...	7	8	63	...	11	12
Central/Eastern Europe	33	...	6	3	29	...	7	12
Russian Federation	12	...	10	18	21	...	12	13
Africa	29	5	1	−6	40	4	4	1
Middle East	32	9	−7	−4	47	4	−6	3
Asia	316	9	−1	5	354	7	−4	1
Japan	65	5	−7	2	105	3	−7	−2
Developing Asia	230	11	2	6	227	11	−1	2
China	37	18	9	13	44	24	9	13
Hong Kong, China	44	8	2	6	24	8	−1	−2
Korea, Rep. of	29	13	0	−1	34	13	0	2
Singapore	27	8	−2	3	21	10	−6	1
Memorandum item:								
Developing countries	346	9	0	2	377	8	−1	−1
LDCs	6	6	−4	5	16	4	13	4

Asia's merchandise trade showed a vigorous recovery in the course of 2002, but the level of trade was still lower than in 2000. Commercial services trade was less dynamic than merchandise trade in 2002 with exports up by 5% and imports advancing only marginally. While the deflation of the IT boom was the largest single factor leading to the sharp fall of Asia's exports in 2001, the moderate output gains in this sector were a major element in the 2002 recovery. The six Asian economies with a high share of electronic goods in their exports benefited from the recovery in the IT sector. However, the rebound of their exports and imports of about 6% was not strong enough to offset fully the severe contraction experienced in 2001.

Two main features left their mark on Japan's trade in 2002. Weak domestic demand and the depreciation of the yen *vis-à-vis* the US dollar on an annual average basis favoured export over import growth and led to a decline of both dollar export and import prices. Consequently, the recovery in the dollar value of Japan's merchandise exports was limited to 3% and imports contracted further by nearly 4%. The second outstanding feature in Japan's trade in 2002 was the sharp increase in its bilateral flows with China. Japan's exports to China rose by 20% while its imports increased by 7%. Last year China replaced the United States as Japan's largest supplier of goods.

China's export and import growth accelerated sharply during the year. For 2002 as a whole, merchandise exports and imports increased by more than 20%, while in the fourth quarter of 2002, trade value exceeded by one third that of the corresponding period in 2001. The boom in China's trade can be attributed largely to the record investment inflows in 2002, which in the past were largely directed to its export sector. Trade liberalization in the automobile sector caused a fall in domestic prices which contributed to a large increase in demand for passenger cars, a surge in imports of automotive products (an increase of 40% in value terms) together with a huge increase in domestic production. On trade in agriculture, China's exports of agricultural products increased (in value terms) at 13%, faster than its imports, which grew at 8.5%. In many ways, the momentum of China's ascendancy in Asia continued last year as a result of its continuing high growth, increasing FDI inflows and the outstanding expansion of its trade. China's trade expansion last year accounted for more than one fifth of the increase in world merchandise exports (and imports). China has not only become a major supplier but also a prominent market for many countries.[8] Having overtaken the UK in 2002, it now ranks as the world's fifth largest merchandise trader.

Another interesting feature of Asia's trade has been the relatively less dynamic performance of Singapore and Hong Kong, China in recent years. This can be attributed to at least two factors. First, both Singapore and Hong Kong, China have become high income economies which have lost their competitive edge in many of their traditional exports of manufactured goods and have therefore shifted their economic development strategies to the services sector. Following a double-digit decrease in 2001, domestic exports of Hong Kong, China contracted by 18% while those of Singapore recovered by only 1.5%. Second, within the services sector, these economies' position as regional distribution/transit centres is being challenged by their neighbours.

Prospects for 2003

At the time of writing (April 2003) the war in the Middle East is clouding short term prospects for the world economy. Projections on the course of global output and trade depend strongly on the developments in the conflict in Iraq. Even in a best-case scenario of a short war, much depends on how quickly political stability can be re-established in Iraq and maintained throughout the region.

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[8] For eight developing countries China was the principal export market in 2001 and for five other economies, the second largest market.

In this best-case scenario for the global economy, one could expect a decline in oil prices from their current crisis level of 33 dollars per barrel which would provide a stimulus to global economic activity.

The impact of a military conflict in the Middle East could also pose a challenge to international relations which go far beyond the questions of oil supplies and regional stability. Military intervention could have the effect of testing the whole system of international institutions and agreements, which have until now provided the basis for global governance, ushering in a new and more uncertain era in international relations.[9] The erosion of confidence in global institutions could encourage the creation of like-minded blocs and inward-looking policies.

The observed slowdown in economic expansion in the industrial economies in the last quarter of 2002, the continued sluggishness of business and consumer confidence in the first months of 2003, reflected also in weak stock markets, together with higher oil prices call for a downgrading of the economic projections made in late 2002 which predicted a moderate acceleration in global output growth and a significant rise in global trade on a year to year basis. In the light of the recent exchange rate developments — in particular the strong appreciation of the euro and yen *vis-à-vis* the US dollar — growth projections need to be lowered for the EU and Japan, and raised for the United States, thereby increasing further the projected gap in demand growth among these economies.

Global trade flows are projected to expand by less than 3% in 2003. On the assumption that trade growth remains weak but positive in the first quarter of 2003 and picks up at a moderate rate thereafter — as economic activity strengthens on a world-wide basis — the year to year trade expansion is expected to be in the range of 2%–3%. This rate of trade growth would be lower than the average rate recorded in the 1990s.

On the WTO website

Last year's press release (2 May 2002):
Trade to pick up slightly in 2002 after sharp drop in 2001
http://www.wto.org/english/news_e/pres02_e/pres02_e.htm

Press release on latest International Trade Statistics (7 October 2002)
Supachai: disappointing trade figures underscore importance of accelerating trade talks
http://www.wto.org/english/news_e/pres02_e/pr316_e.htm

Trade statistics gateway:
http://www.wto.org/english/res_e/statis_e/statis_e.htm

WTO economic research and analysis:
http://www.wto.org/english/res_e/reser_e/reser_e.htm

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[9] See Martin Wolf, "America may not like the new world it is about to create," Financial Times, 12 March 2003.

Appendix Table 1 **Leading exporters and importers in world merchandise trade, 2002**
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	United States	693.5	10.8	-5	1	United States	1 202.5	18.0	2
2	Germany	612.2	9.5	7	2	Germany	493.3	7.4	1
3	Japan	416.0	6.5	3	3	United Kingdom	339.8	5.1	2
4	France	329.5	5.1	2	4	Japan	336.4	5.0	-4
5	China	325.6	5.1	22	5	France	326.4	4.9	-1
6	United Kingdom	275.9	4.3	1	6	China	295.2	4.4	21
7	Canada	252.5	3.9	-3	7	Italy	241.1	3.6	4
8	Italy	252.0	3.9	5	8	Canada	227.6	3.4	0
9	Netherlands	243.4	3.8	5	9	Netherlands	217.7	3.3	4
10	Belgium	213.2	3.3	12	10	Hong Kong, China	208.6	3.1	3
						retained imports a	24.7	0.4	-21
11	Hong Kong, China	200.6	3.1	5	11	Belgium	195.7	2.9	10
	domestic exports	16.7	0.3	-18	12	Mexico	176.5	2.6	0
	re-exports	183.9	2.9	8	13	Spain	153.7	2.3	-1
12	Korea, Rep. of	162.5	2.5	8	14	Korea, Rep. of	152.1	2.3	8
13	Mexico	160.8	2.5	1	15	Singapore	116.2	1.7	0
14	Chinese Taipei	130.3	2.0	6		retained imports	57.7	0.9	-5
15	Singapore	125.6	2.0	3	16	Chinese Taipei	112.6	1.7	5
	domestic exports	67.0	1.0	1	17	Switzerland	83.5	1.2	-1
	re-exports	58.6	0.9	5	18	Malaysia	80.2	1.2	9
16	Spain	118.9	1.9	2	19	Austria	77.7	1.2	4
17	Russian Fed.	106.9	1.7	4	20	Australia	72.7	1.1	14
18	Malaysia	95.7	1.5	9					
19	Ireland	88.6	1.4	7					
20	Switzerland	87.6	1.4	7					
21	Sweden	80.7	1.3	7	21	Sweden	65.9	1.0	4
22	Austria	79.1	1.2	12	22	Thailand	64.5	1.0	4
23	Saudi Arabia	73.9	1.2	1	23	Russian Fed.	60.0	0.9	12
24	Thailand	68.6	1.1	5	24	India	56.3	0.8	12
25	Australia	65.0	1.0	3	25	Poland	54.8	0.8	9
26	Brazil	60.4	0.9	4	26	Ireland	51.9	0.8	3
27	Norway	60.3	0.9	2	27	Brazil	49.5	0.7	-15
28	Denmark	56.8	0.9	10	28	Denmark	49.2	0.7	9
29	Indonesia	52.0	0.8	0	29	Turkey	48.8	0.7	18
30	India	50.0	0.8	15	30	Czech Rep. b	40.6	0.6	11
	Total of above c	5 538	86.2	-		Total of above c	5 651	84.5	-
	World c	6 424	100.0	4		World c	6 685	100.0	3

a Retained imports are defined as imports less re-exports.
b Imports are valued f.o.b.
c Includes significant re-exports or imports for re-export.

Appendix Table 2 **Leading exporters and importers in world trade in commercial services, 2002**
Billion dollars and percentage

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	United States	267.8	17.4	3	1	United States	218.4	14.3	13
2	United Kingdom	121.0	7.9	10	2	Germany	142.8	9.4	4
3	Germany	94.9	6.2	14	3	Japan	105.3	6.9	-2
4	France	84.0	5.5	5	4	United Kingdom	98.0	6.4	6
5	Japan	64.7	4.2	2	5	France	64.3	4.2	4
6	Spain	61.1	4.0	6	6	Italy	61.7	4.0	11
7	Italy	58.7	3.8	3	7	Netherlands	55.9	3.7	5
8	Netherlands	54.7	3.6	5	8	Belgium-Luxembourg	47.9	3.1	12
9	Belgium-Luxembourg	53.3	3.5	9	9	China	44.2	2.9	...
10	Hong Kong, China	44.0	2.9	6	10	Canada	41.7	2.7	0
11	China	37.3	2.4	...	11	Ireland	38.8	2.5	12
12	Canada	36.2	2.4	2	12	Spain	36.2	2.4	9
13	Austria	36.1	2.3	11	13	Korea, Rep. of	33.9	2.2	2
14	Korea, Rep. of	29.3	1.9	-1	14	Austria	33.8	2.2	8
15	Switzerland	27.3	1.8	5	15	Denmark	24.6	1.6	5
16	Singapore	27.0	1.8	3	16	Chinese Taipei	24.4	1.6	3
17	Denmark	26.9	1.8	0	17	Hong Kong, China	23.9	1.6	-2
18	Ireland	26.2	1.7	31	18	Sweden	23.1	1.5	1
19	Sweden	22.0	1.4	1	19	Russian Fed.	20.7	1.4	13
20	Chinese Taipei	21.3	1.4	10	20	Singapore	20.6	1.4	1
21	India	20.7	1.3	8	21	Australia	17.0	1.1	3
22	Greece	18.9	1.2	-3	22	Norway	16.5	1.1	8
23	Norway	18.8	1.2	5	23	Mexico	16.4	1.1	-1
24	Australia	16.0	1.0	1	24	Thailand	16.3	1.1	13
25	Thailand	14.9	1.0	16	25	Indonesia	15.7	1.0	...
26	Turkey	14.4	0.9	-10	26	Malaysia	15.6	1.0	-5
27	Malaysia	14.1	0.9	-2	27	India	15.5	1.0	-14
28	Mexico	12.6	0.8	0	28	Switzerland	15.3	1.0	1
29	Russian Fed.	12.4	0.8	18	29	Brazil	13.6	0.9	-14
30	Poland	9.8	0.6	0	30	Israel	12.5	0.8	1
	Total of above	1 345.0	87.5	6		Total of above	1 315.0	86.4	6
	World	1 540.0	100.0	5		World	1 520.0	100.0	5

END