World trade developments in 2002 and prospects for 2003

1. Highlights of world trade in 2002[1]

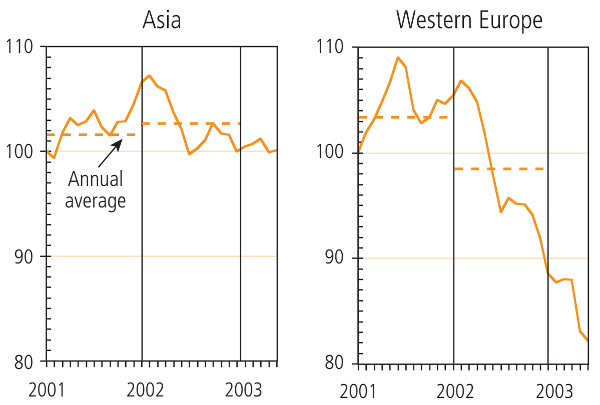
In 2002, world trade recovered from its steep decline in 2001. From the first through the third quarter, world trade expanded strongly but stalled in the fourth quarter of 2002. The average annual rate of merchandise trade expansion in 2002 was therefore limited to 3% in *real terms*, only half the rate observed in the 1990s.

The trade recovery benefited from strong import demand in developing Asia, the transition economies and the United States. Sluggish import demand in Western Europe and a sharp contraction of Latin America's imports constituted a drag on global trade expansion.

Manufactured goods again recorded above-average trade growth while trade in mining products (mainly fuels) stagnated in real terms. Total merchandise trade growth again exceeded merchandise output growth.

Exchange rates and price developments continued to affect trade flows. Exchange rate changes affect not only the competitiveness of traders but also nominal *trade values*. The depreciation of the United States dollar against the currencies of major traders in Asia and Western Europe since early 2002 was widely expected, given the prevailing current account imbalances (see Chart 1).

Chart 1
Dollar depreciation against Western European and Asian currencies[a], 2001-03
(Indices, January 2001 = 100)



[a] Currency baskets weighted by trade values. West European currencies are those of Euro-zone, the United Kingdom, Switzerland, Sweden and Norway. The Asian currencies are those of Japan, China, Republic of Korea, Chinese Taipei, Singapore and Hong Kong, China.

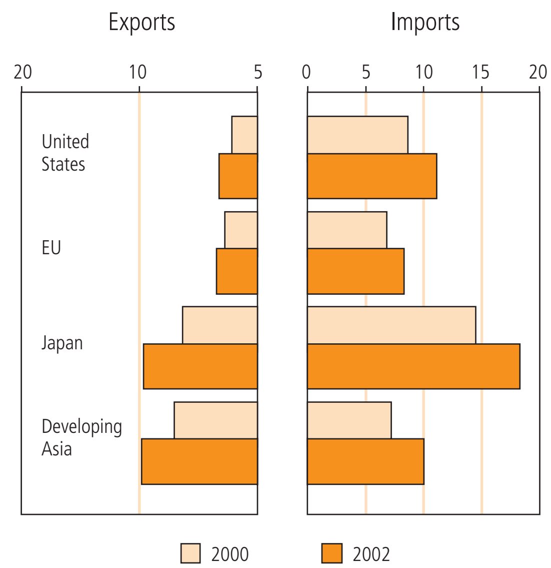
Western European currencies appreciated by 6% on an annual average basis against the dollar in 2002 leading to a strengthening of the region's dollar prices which lifted the dollar value of Western Europe's trade. Exchange rate changes had a negligible effect on Asia's nominal trade growth in 2002, the dollar value remaining on average unchanged from the preceding year. The slight average price increase reported for fuels and non-fuel commodities contributed to the overall increase in world trade prices in 2002.

Among the main features of world trade in 2002, four are outstanding:

- A combination of declining exports and rising imports by the United States has led to a record trade and current account deficit, the latter equivalent to 5% of its GDP. United States' merchandise trade recorded a deficit in all seven geographic regions, with all its six major trading partners and in 15 of the 17 merchandise product groups distinguished in this report. Trade with Asia alone accounted for one half of the United States' trade deficit (see Table A10). The reliance of the global trade expansion on above-average United States import growth bears severe risks. Already, a re-balancing of the current United States' merchandise trade deficit, solely by a reduction of imports, would – theoretically – imply a contraction of world merchandise trade by 7%. This hypothetical calculation highlights the extent to which global trade growth is sustained by the United States economy.

- China's trade expansion (both exports and imports) remained outstanding. In the 1990s, China's trade growth was three times faster than global trade and between 2000 and 2002 its exports and imports rose by 30%, while world trade stagnated. China has become the fourth largest merchandise trader (if one counts the EU as a single trader) in 2002. Across the globe, China has become a major supplier and for many economies, also a major export destination (see Chart 2).

Chart 2
Share of China in exports and imports of major traders, 2000 and 2002
(Percentage share)



- Chemicals emerged as the product group with the strongest trade growth over the last two years. Driven by pharmaceutical trade among the developed countries, its share in world merchandise exports rose above 10%, exceeding in value not only world trade in automotive products, but also that of agricultural products.

- The steady rise in the number of regional trade agreements (RTAs) suggests an increase in the share of preferential trade at

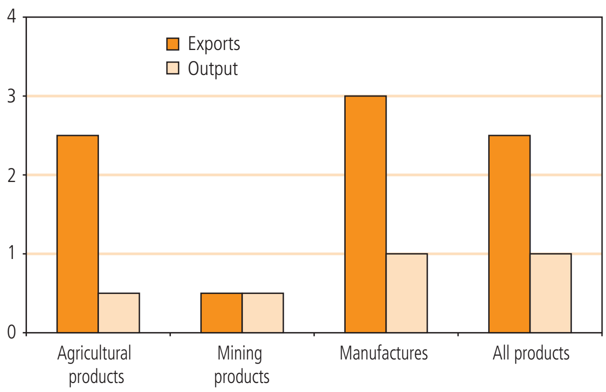
[1] In April 2003, the WTO Secretariat published in a press release (Press 337) its first account of trade developments in 2002. The *World Trade Report, 2003*, released in August 2003, includes an economic analysis of 2002 trade developments. *International Trade Statistics, 2003* adds an overview section to a comprehensive set of tables and charts, provides new information on trade by product and intra-regional trade flows in 2002 and concludes by reporting briefly on trade developments in the first half of 2003.

the expense of non-discriminatory multilateral trade. However, due to new Members, the share of world trade accounted for by WTO Members increased further to 95% in 2002 and the trade of the six major plurilateral RTAs combined did not expand faster than world merchandise trade in 2002, nor in the 1995-2002 period.

2. Global merchandise output and trade volume developments by sector

World merchandise output is estimated to have increased by slightly less than 1% in 2002. All three sectors (agriculture, manufacturing and mining) recorded a positive albeit rather moderate growth in output. The rebound in trade was stronger than that of output. The expansion of trade in agriculture and manufacturing again exceeded that of output, while for the mining sector, both trade and output recorded only marginal advances in 2002. Comparing the trade and output developments in 2002 with those of the 1990s, one notices that recent growth rates are much lower, and that the gap between trade and output growth in 2002 has become much smaller than in the previous decade, when trade and output recorded average growth rates of 6.5% and 2.5% respectively (see Chart 3).

Chart 3
World merchandise trade and production by major product group, 2002
(Annual percentage change in volume terms)



3. Development of trade values by product

The rebound of global trade in 2002 was somewhat stronger in nominal dollar terms than in real or volume terms. Exchange rate and commodity price developments contributed to the strengthening of dollar prices in international trade. Consequently, world merchandise exports recovered by 4% in *value terms* in 2002 after contracting by 4% in the preceding year. Commercial services exports expanded by 6% and therefore faster than merchandise trade in 2002 (see Table 1). Among the three major commercial services categories, the expansion of transportation and travel services again lagged well behind that of other commercial services (see Table IV.2).

All merchandise product groups benefited from the rebound of trade in 2002 and recorded an improved performance when compared with the preceding year, although two product groups recorded a further contraction in their export value in 2002. The variation of annual growth rates remained quite large among the 14 merchandise groups distinguished in this Report, ranging from less than 2% to 10%. Among the three broad merchandise product categories, agricultural products and manufactured goods expanded at above-average rates while the global trade value of mining products (mainly fuels) decreased for the second year in a row (Table IV.1). Divergent price developments contributed to this outcome due to the strengthening of prices of agricultural products and manufactured goods, while those of mining products weakened slightly.

At the more disaggregated product group level, international trade in chemicals and automotive products recorded outstanding growth. By contrast, the steepest decline in dollar value is found in the exports of non-ferrous metals, a development which can be attributed largely to weaker prices, in particular, for aluminium (see Chart 4).

For the second year in a row *chemicals* were the most buoyant component of world merchandise trade. World exports in this product category expanded by 10% and amounted to $660 billion. All three major importers of chemicals (EU, United States and China) recorded strong import demand in 2002. On the export side, large variations in growth could be observed among the leading exporters. While the EU, Switzerland and Singapore reported double-digit growth in their chemicals exports, those of NAFTA countries and the Republic of Korea remained roughly unchanged. Japan's exports of chemicals recovered by 8% in 2002 but did not fully offset the preceding year's decline (see Table IV.39).

There are two elements in the recent development of world trade in chemicals worth highlighting. First, the strength of trade in chemicals in recent years can largely be attributed to the rapid expansion of trade in pharmaceutical products, lifting the share of chemicals in world merchandise trade to a new peak level of above 10% in 2002. Strong pharmaceutical sales in the major developed markets, the spread of production-sharing networks and a rise in re-imports, sustained, according to industry sources, global trade in pharmaceuticals. Second, the United States recorded a trade deficit in its chemicals trade for the first time since the World War II. Despite this fact, it has roughly maintained its share in world chemical exports since 1990. The shift from a sizeable surplus to a deficit in the trade balance of

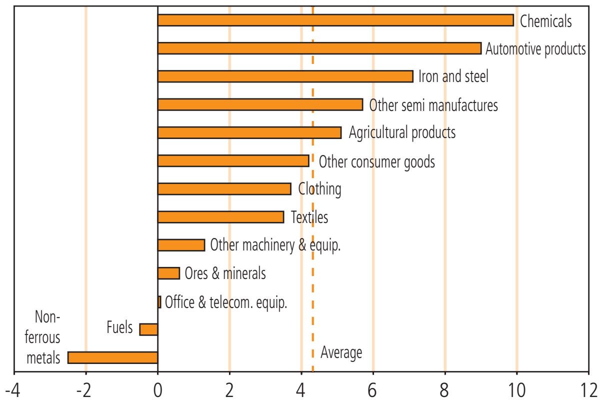
Table 1
World exports of merchandise and commercial services, 1990-02
(Billion dollars and percentage)

	Value	Annual percentage change				
	2002	1990-00	2000	2001	2002	2003 First half
Merchandise	6270	6.5	13.0	-4.0	4.0	15.0
Commercial services	1570	6.5	6.0	0.0	6.0	...

Chart 4

World merchandise exports by product, 2002

(Annual percentage change)



this sector can be entirely attributed to the dynamic development of the United States' imports of chemicals, which has nearly doubled its share since 1990 reaching 13% of world chemical imports in 2002.

World exports of *automotive products* benefited from the pick up in global automobile production/demand and recovered strongly, reaching a new peak level in 2002 of $630 billion. Western and Eastern Europe and Asia had been the regions with the most dynamic expansion of automotive product exports and imports. EU exports, accounting for nearly one half of world exports of automobiles, rose by 10%. EU exports to third countries are reported to have increased more than intra-EU trade (16% versus 7% respectively). As automobile production in the Czech Republic, Hungary, Poland, Slovakia and Turkey becomes increasingly integrated into a European automobile production network, both exports and imports of these economies continue to rise. Japan's automobile exports recovered from the sharp setback in 2001 and expanded at double-digit rates to all regions except Latin America. Japan's automotive product exports to Asia rose by nearly one quarter, with shipments to China up by 77% (see Table A16).

NAFTA members' exports of automotive products, traded very largely within the region, increased by 4% in 2002. NAFTA imports from third countries, mainly Japan, the EU and the Republic of Korea, increased by more than 15%. Mexico's exports stagnated and imports declined in 2002, in contrast to their sharp rise throughout the 1990s. The Central/Eastern European countries continued to expand their exports and imports of automotive products at double-digit rates in 2002.

A combination of trade liberalization, leading to lower domestic car prices, rising foreign direct investment (FDI) inflows in the automobile sector and strong domestic demand led to an import surge of automotive products in China in 2002. Despite the 42% rise in China's imports of automotive products, its share in world imports of this product group was still only 1% in 2002. A strong recovery of imports of automotive products was reported in a number of Asian economies (e.g. Australia (18%), Japan (7%), the Republic of Korea (49%), Chinese Taipei (11%), New Zealand (32%) and Thailand (12%)). However, Asia's imports of automotive products in 2002 still remained below their 1996 peak level, while global imports of all other regions expanded by one third over this six year period. The current import level of automotive products in many Asian markets is often rather low since the domestic automobile industry is protected by high import barriers.[2] Consequently, intra-Asian trade in automotive products is also limited and accounts for only one fifth of the region's exports. For all other manufactured goods, the share of intra-Asian trade was close to one half in 2002. Global trade in automotive products continues to be driven by EU and United States' import demand which, combined, accounts for more than two thirds of world imports of automotive products (see Table IV.53).

Although world trade in *iron and steel* recovered by 7% in 2002, this did not fully offset the decline of the preceding year. The recovery in real terms remained rather moderate given the strengthening of prices for steel trade internationally. The increase of iron and steel imports by the EU and the United States mainly benefited suppliers in their own geographic hemisphere. In the case of the EU, the beneficiaries have been Western European and transition economies while in the United States, NAFTA countries and Latin American steel exporters regained market share. It is uncertain as to what extent the special safeguard measures on selected steel products introduced by the United States in March 2002 have contributed to the observed rise in steel prices and "regionalization" of steel imports. An outstanding feature in global steel trade in 2002 was the strength of China's import expansion. China's steel imports rose by 27% to $13.6 billion and accounted for 9% of world steel imports. China's steel imports therefore exceeded those of the EU from third countries, and approached in size those of the United States. The sharp rise in China's imports sustained the recovery of the major Asian steel exporters, in particular those of Japan and Chinese Taipei which succeeded in expanding their steel shipments to China by nearly 40% in 2002 (see Table IV.33).

International trade in *clothing* continued its expansion of the second half of the 1990s in 2002 by almost 4%, approximately the average rate of merchandise trade growth in 2002. The value of world clothing exports reached $200 billion, accounting for 3.2% of world merchandise exports (see Table IV.1). The three major importers of clothing, Western Europe, the United States and Japan which account for more than four fifths of world imports, recorded quite divergent developments in 2002. While EU clothing imports from all sources rose by 5%, those of the United States stagnated and those of Japan decreased further by 8%. As in preceding years, intra-EU trade expanded less rapidly than imports from third countries, bringing down the share of the former in EU imports to a record low of 40%. Among the major suppliers of the EU market, China, Turkey and Romania expanded their shipments between 15% and 22% in 2002. Although Tunisia again increased its share in EU imports, Africa's share decreased in its principal export market due to the decline of EU imports from Mauritius and Madagascar. Madagascar's clothing exports were apparently affected by trade disruptions caused by civil strife in the country (see Table IV.68).

The sources of US imports continued to shift significantly in 2002. The weight of China increased further at the expense primarily of high-income Asian economies such as Hong Kong, China, the Republic of Korea and Chinese Taipei, leaving the share of Asia in United States imports of clothing unchanged at 57%. Clothing imports from the Latin American region decreased by 2%, mainly due to the 5% fall of shipments from Mexico and the Dominican Republic which were only partly offset by the 3% increase of imports from Honduras, Guatemala and El Salvador. Supported by the AGOA Agreement, US clothing imports from Africa expanded for the second year in a row at a rate faster

[2] In 2002, the share of imported passenger cars in domestic registrations was less than 2.5% in the Republic of Korea, India, and Malaysia. In addition, the corresponding share of imported cars decreased markedly in Indonesia, the Philippines, Chinese Taipei, and Thailand between 2000 and 2002, to levels ranging from 21% to 4.5%.

than total clothing imports and amounted to $1.67 billion or 2.5% of United States imports in 2002.

The decline in Japan's clothing imports left the structure of its supplies largely unchanged. China consolidated its already predominant position as a supplier of clothing. In 2002, China accounted for 78% of Japan's imports of clothing from all sources (see Table IV.68).

The collapse of the rapid expansion in the global information and communication technology industry continued to depress international trade flows in *office and telecom equipment*. Exports of office and telecom equipment, which was the most dynamic product category in world merchandise trade in the 1990s, stagnated at nearly $840 billion in 2002. The three major exporters of this product category, the EU, the United States and Japan all reported a further decrease in their shipments. The developing East Asian economies as a group, however, staged a strong export recovery in 2002. In particular, the intra-regional trade of developing Asia in office and telecom products is estimated to have expanded by nearly 20%, reaching $130 billion. This is a remarkable development given the fact that imports of office and telecom equipment of Western Europe, North America and Japan continued to decline in the same year. China established itself as the largest supplier of and destination for electronic goods among the developing economies. Its exports of office and telecom equipment surged by 45% to $75 billion while its imports rose by one third to $66 billion.[3] Among the Central/Eastern European countries, Hungary, Czech Republic and Poland expanded their exports and imports of office and telecom equipment at double-digit rates in 2002. These three countries have become major suppliers of electronic goods to markets in Western Europe and in the transition economies (see Table IV.45).

4. Trade by region

Overview

The recovery of global trade in 2002 was broadly shared,with all regions recording an improved performance in their merchandise and commercial services' trade in respect of the preceding year (see Tables I.3 and I.4). In the case of exports from North America and the Middle East, however, this meant a smaller rate of decline. The notable exception to this positive trend was the contraction of Latin America's commercial services trade and a marked decline of its merchandise imports (for merchandise trade see Chart 5).

Trade of the *transition economies,* which is of similar size to that of Latin America, expanded at double-digit rates for both exports and imports (merchandise and commercial services) and remained, for the second year in a row, the region with the fastest annual trade expansion. The marked difference in trade developments between Latin America and the transition economies can be partly attributed to different developments in FDI flows. While FDI flows to Latin America continued to decline, those to the transition economies rose further in 2002 (see Chart 6).

In 2002, *Asia* recorded the strongest recovery in merchandise trade of all regions, almost offsetting the sharp contraction of its exports and imports in the preceding year. Asia's commercial services exports expanded faster than global exports while the region's services imports lagged behind world commercial services' trade expansion. *Western Europe's* merchandise and services trade values were sustained, in the short run, mainly by the price effects of the strength of the euro and other European currencies *vis-à-vis* the United States dollar. The meagre economic growth of the region, however, precluded a more dynamic trade expansion. Nevertheless, Western Europe's share in world merchandise and commercial services trade again increased slightly (to 41% and 47% respectively). In the 1990s, Western Europe's share of both merchandise and commercial services trade declined sharply. Although *North American* economic activity gained momentum in the course of 2002, its nominal trade growth was weak. Marginal increases in services trade and a decline in merchandise exports led to an erosion of North America's share in global trade. Merchandise imports of the *Middle East* increased strongly, still benefiting from high oil revenues since 2000. The region's merchandise exports stagnated in 2002 after declining in the preceding year. *Africa's* exports and imports of merchandise and commercial services are estimated to have expanded at about 2% and therefore less than world trade (see Tables III.1, III.2, III.4 and III.5).

Chart 5

World merchandise trade by region, 2002

(Annual percentage change)

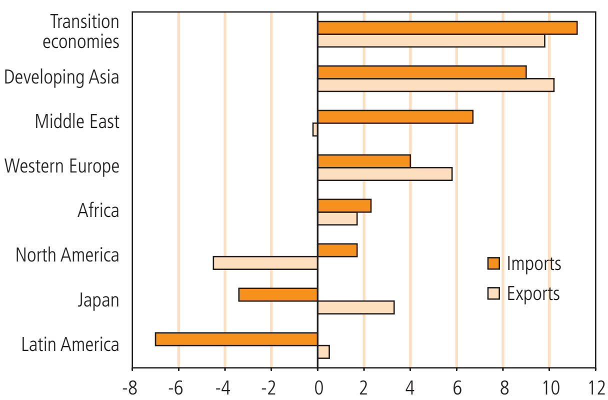
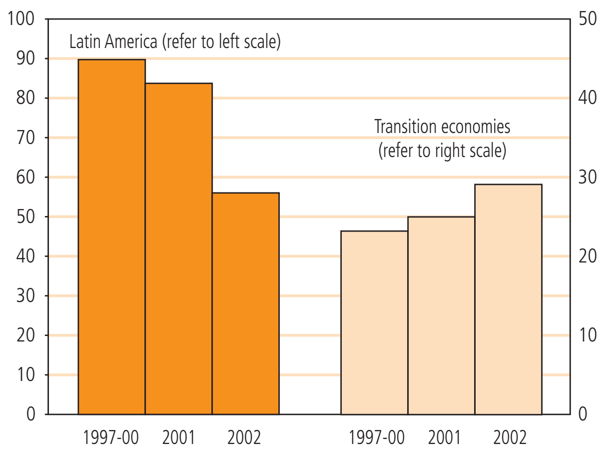


Chart 6

FDI inflows into Latin America and transition economies, 1997-02

(Billion dollars)



[3] From an economic perspective there might be some overstatement in the size and rise of China's trade in office and telecom equipment in 2002. The reported trade numbers include shipments from processing zones which after being first exported and sold are afterwards returned to China. The value of these returned goods recorded as imports (of Chinese origin) amounted to $6.88 billion in 2002. However, even if one did not take into account this particular trade flow, China would remain the most dynamic of all major traders in office and telecom equipment in 2002.

Developments in 2002 further accentuated the two large regional trade imbalances in the global economy: the already large North American trade deficit widened and the substantial surplus of the Asian region increased further. North America's merchandise imports exceeded exports by $400 billion or 40%, while Asia's exports were 15% larger than imports. All other regions recorded moderate or declining surplus positions. As oil exporting countries reduced their trade surplus, the trade balances of the Middle East and that of the transition economies moved closer to equilibrium. Western Europe's trade surplus strengthened slightly while weak domestic demand and reduced capital inflows turned Latin America's trade deficit into a surplus.

Trade developments by selected regions

Following a standstill in 2001, the North American economy expanded by 2.5% in 2002. Domestic demand growth exceeded 3% but like GDP remained below its average expansion rate in the 1990s. Canada's GDP growth exceeded that of the United States for the fourth year in a row. Employment levels continued to shrink in the region, in particular, in the manufacturing sector. Inflation rates remained moderate despite strong fiscal and monetary policy stimuli.

Trade did not recover as strongly as one might have expected from the pick up of economic activity in the region and in the world economy. Canada's exports and imports increased only marginally in real terms and US exports decreased by 4%. Only US merchandise imports recovered strongly in real terms in 2002 from the contraction in the preceding year (see Table 2).

Merchandise export and import prices of North America continued to decrease slightly, in particular, those of fuels, contributing to the value decline in merchandise exports and limiting the rise in merchandise imports. North America's merchandise exports decreased by 4% overall to $946 billion in 2002. All major product groups recorded decreases on a year-to-year basis with above average decreases in office and telecom equipment (15%), mining products (9%) and other machinery and transport equipment (6%). Exports of automotive products, however, rose by 4.5% due to the recovery of intra-North American trade.

North American exports decreased to all regions in 2002. Intra-North American shipments and exports to Asia, the Middle East and transition economies decreased by 2% to 3% while those to Latin America, Western Europe and Africa decreased by 7%, 10% and 12% respectively.

Developments in 2002 further accentuated the shift in the destination of North American exports to NAFTA members which accounted, in that year and for the first time, for more than one half of total exports. The shares of all the other regions were reduced between 1995 and 2002. The focusing of North America's exports on NAFTA countries is accompanied by a steady loss of market share in Asia, Western Europe and the Middle East since 2000.

North America's imports from Asia, Western Europe and Latin America increased while imports from the Middle East and Africa, with their high share of fuels, decreased in 2002. A comparison of the North American import structure in 2002 with that of 1995 reveals that both China and Mexico recorded substantial gains in market share at the expense of all other major regions and suppliers. The largest reduction in their share of US imports is recorded for Hong Kong, China, Japan, Singapore and Chinese Taipei (see Table III.13).

North America's commercial services exports and imports increased only marginally in 2002. For travel services, a decline was recorded for both exports and imports while in transportation services only imports decreased. A strong expansion of other commercial services exports and imports in the United States more than offset the decrease of Canadian exports and imports in this services category.

In 2002, Latin America's economy recorded its worst performance in more than a decade. Merchandise imports and commercial services trade shrank as they have not done since the debt crisis in 1982/83. Several factors contributed to this. Financial turbulence in MERCOSUR economies, a further contraction of capital inflows, civil strife in Venezuela and Colombia and fewer foreign tourists all contributed to the moderate decline in GDP and the steep fall in Latin America's real imports in 2002. The trade decline was particularly strong for intra-regional trade. Given the sluggish economic activity, under-employment increased and per capita income decreased in most countries. The current account deficit was sharply reduced as a result of the impact of curtailed capital inflows and significantly reduced imports. The region's trade balance recorded the first surplus since 1990.

The decline in the dollar prices of Latin America's trade resulted in trade value changes which were even weaker than the changes reported in real terms. The dollar value of

Table 2

GDP and trade developments in North America, 2002

(Annual percentage change)

	North America					United States					Canada				
	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002
GDP	3.2	4.2	3.9	0.4	2.5	3.2	4.1	3.8	0.3	2.4	2.8	5.4	4.5	1.5	3.3
Merchandise															
Exports (value)	7	4	14	-6	-4	7	2	13	-6	-5	8	11	16	-6	-3
Imports (value)	9	11	18	-6	2	9	12	19	-6	2	7	7	11	-7	0
Exports (volume)	7	6	9	-5	-3	7	4	9	-6	-4	9	11	9	-4	1
Imports (volume)	9	11	11	-3	4	9	11	12	-3	5	9	11	10	-6	1
Commercial services															
Exports (value)	8	8	7	-3	1	8	9	7	-3	1	8	7	9	-4	-2
Imports (value)	7	10	12	-1	1	8	10	13	-2	2	5	6	8	-1	-2

Table 3

GDP and trade developments in Latin America, 2002

(Annual percentage change)

	Latin America					Mexico					Other Latin America				
	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002
GDP	3.2	0.1	3.4	0.4	-0.8	3.5	3.6	6.6	-0.3	1.5	3.2	-0.6	2.8	0.5	-1.3
Merchandise															
Exports (value)	9	7	20	-3	0	15	16	22	-5	1	6	0	19	-2	0
Imports (value)	11	-4	16	-2	-7	15	12	23	-4	0	9	-13	10	-1	-13
Exports (volume)	9	5	8	2	2	14	12	13	-3	1	6	-1	4	7	2
Imports (volume)	11	-1	12	-1	-5	13	13	19	-4	1	9	-10	7	2	-8
Commercial services															
Exports (value)	7	2	11	-2	-4	7	1	17	-7	-1	7	2	9	-1	-4
Imports (value)	7	-4	11	1	-9	5	12	19	-1	3	8	-7	8	1	-12

commercial services trade decreased more than that of merchandise trade (see Table 3).

Latin America's merchandise exports by major product group recorded divergent trends. Exports of mining products (mainly fuels) and of machinery and transport equipment both decreased by 2%, while the region's exports of agricultural products continued to expand by 4%, helped by rising commodity prices. Agricultural and mining products account for about one fifth and machinery and transport equipment for one third of Latin America's merchandise exports in 2002. Clothing and iron and steel exports recovered by 2% and 19% respectively (see Table III.22).

Latin America's merchandise exports by destination show a marked contrast between the contraction of 10% of intra-regional trade and the 3% expansion of extra-regional exports. Latin America's shipments to North America and Western Europe rose by 2% and 3% respectively, but expanded at double-digit rates to developing countries in Asia, Africa and the Middle East. The latter three destinations combined account for 8% of Latin America's exports while those to North America and Western Europe account for 61% and 12% respectively (see Table III.23).

More than half of Latin America's commercial services exports are travel receipts, the highest share among all regions. The downturn in global tourism in 2002 therefore, reduced the export potential of Latin America's services exports. Latin America's travel earnings are estimated to have decreased by 3.5% but other commercial services exports decreased two times more. Again intra-regional trade was the principal element in the shrinkage of Latin America's services exports.

A review of country trade performances in 2002 is reported in Chart 7. Throughout the different parts of Chart 7 the countries are always ranked in the same order, from left to right according to the size of the dollar value of their total trade (i.e. exports and imports of merchandise and services trade divided by two). Several features of Latin America's trade performance can be highlighted. First, the high concentration of Latin America's trade is apparent in the upper part of Chart 7. Five out of 35 countries in the region account for more than two thirds of the region's trade. Second, the smaller traders often have a higher trade per capita level than the larger traders, pointing to a higher reliance of small countries on international trade. Third, a majority of countries recorded a decline in their exports of merchandise and commercial services trade. Fourth, the variation in the country trade growth in 2002 is high, but smaller than on average in the second half of the 1990s. Fifth, a few countries in Latin America achieved a strong trade performance despite the difficult regional setting. In respect to merchandise trade, Costa Rica, Ecuador and Peru recorded high trade growth while for commercial services trade, Ecuador, Guatemala and Panama reported an outstanding expansion of both exports and imports.

Although economic activity picked up in the course of the first three quarters of 2002, the average annual increase in output of **Western Europe** was further reduced to about 1%. The sluggish growth in Western Europe is due to the weakness of private domestic demand. Private investment and consumption nearly stagnated in the Euro-zone and expansionary fiscal policies led to rising public sector deficits but failed to bring back confidence to investors and consumers. Pending structural reforms of the social security system increased uncertainty regarding consumers' income prospects. The sluggish GDP growth led to a further rise in unemployment. Weak internal demand, the appreciation of the euro and other European currencies *vis-à-vis* the dollar contributed to the further decrease in Western Europe's inflation rates. The region's current account surplus increased as both export volume and export prices increased more than import volumes and prices.

The acceleration in the value of Western Europe's merchandise and services trade has to be attributed largely to exchange rate changes which boosted the region's dollar trade prices. Western Europe's merchandise exports rose by 6% and thus faster than its merchandise imports which recovered from a 2% decline in 2001. Western Europe's commercial services exports and imports rose by 9%. Trade in other commercial services, the largest services category, was buoyant, as exports and imports expanded at double-digit rates in 2002 (see Table 4).

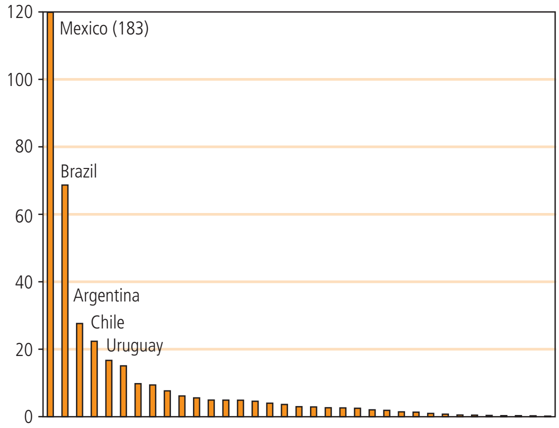
Western Europe's merchandise exports by product group recorded an unusual development in 2002, with the export value of agricultural products expanding by nearly 7%, faster than manufactured goods.[4] Among manufactured goods, double-digit increases are reported for both chemicals and automotive products (13% and 10% respectively) while exports of office and telecom equipment recorded a further decline of nearly 7%.

[4] A recovery of intra-regional trade and a double-digit increase of Western Europe's exports to both North America and the transition economies contributed to this outcome.

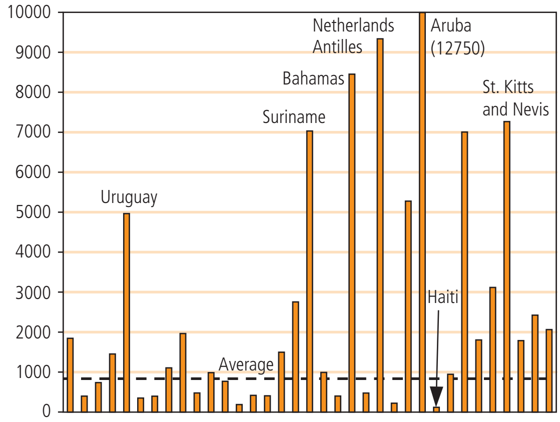
Chart 7

Latin America. Merchandise and commercial services trade, 2002

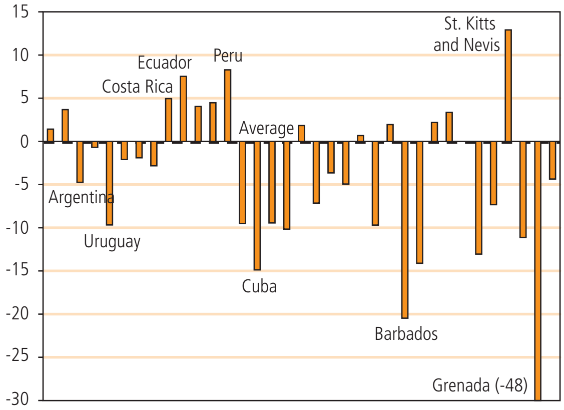
Trade of merchandise and services, 2000-02
(Billion dollars, exports plus imports divided by two)



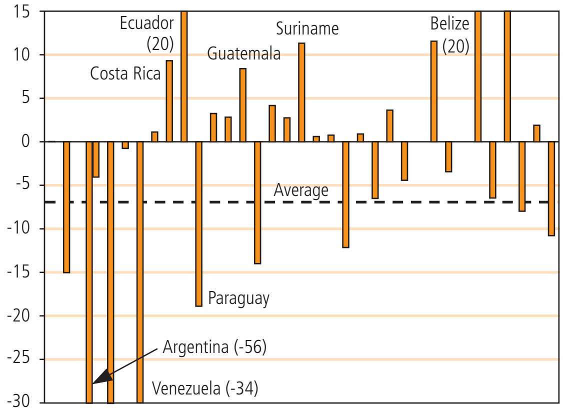
Trade of merchandise and services per capita, 2000-02
(Dollars, average of exports and imports divided by population)



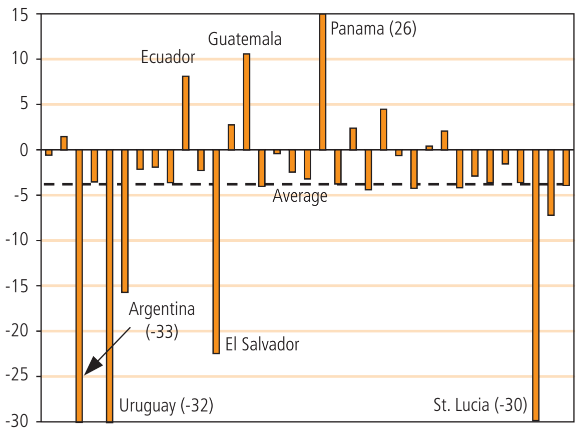
Exports of merchandise, 2002
(Annual percentage change)



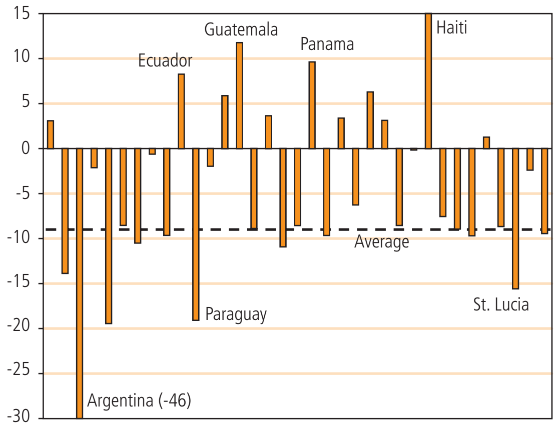
Imports of merchandise, 2002
(Annual percentage change)



Exports of commercial services, 2002
(Annual percentage change)



Imports of commercial services, 2002
(Annual percentage change)



Note: Countries are ranked in descending order (from left to right) of the sum of exports and imports in 2002.

Table 4

GDP and trade developments in Western Europe, 2002

(Annual percentage change)

	Western Europe					European Union (15)					EU (15) excl. intra-trade				
	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002
GDP	2.1	2.6	3.5	1.3	0.9	2.1	2.8	3.5	1.5	0.9	-	-	-	-	-
Merchandise															
Exports (value)	4	0	4	0	6	4	0	4	0	6	5	-1	7	1	6
Imports (value)	4	2	7	-2	4	4	2	6	-2	4	5	4	15	-4	1
Exports (volume)	5	3	9	2	1	5	3	9	2	1	4	1	13	4	2
Imports (volume)	5	5	8	0	0	5	5	8	0	-1	5	6	9	0	-1
Commercial services															
Exports (value)	5	3	2	2	9	5	4	1	3	10	...	...	...	...	...
Imports (value)	5	4	2	3	9	5	4	2	3	9	...	...	...	...	...

Clothing exports increased by 6.5% to $61 billion but continued to remain below their 1998 peak level (see Table III.32).

Western Europe's merchandise trade with transition economies was again the most dynamic regional component of its exports and imports, expanding at double-digit rates. European Union trade with this region is now close to the combined trade with Africa, the Middle East and Latin America. The EU's trade with North America recorded a further increase in the bilateral trade surplus as shipments to North America increased by 5% and imports decreased by 6%.

Although the EU's merchandise exports to Asia expanded by 5% and thus somewhat faster than imports from that region, the bilateral deficit continued to widen. Trade developments between the EU and individual Asian countries showed significant differences in 2002. While exports to and imports from Japan continued to shrink for the second consecutive year, those with China expanded at double-digit rates in 2002. As a result of these divergent trends, China became the third largest supplier to the EU, ahead of Japan and Switzerland. Despite the outstanding growth of EU exports to China, these shipments are still equivalent to less than half of EU shipments to Switzerland (see Table III.37).

The data in Chart 8 reports the trade performances of individual Western European countries in 2002. In this region, the variation in annual trade growth rates by country are much smaller for both exports and imports of merchandise and services trade in Western Europe than in other regions. Only four out of 29 countries reported a decrease in their exports or imports of merchandise and commercial services. Belgium, Denmark and Turkey reported above average export and import growth of their merchandise trade.

In the case of commercial services trade, outstanding developments in this sector are increases of 20% by Germany and Ireland. German exports of transportation services and insurance services surged in 2002, while Ireland's services growth is closely linked to the sharp rise in licence and patent fees collected by multinational companies located in Ireland.

Economic growth decelerated in the transition economies in 2002. At nearly 4%, however, growth was still the strongest of all the seven geographic regions discussed in this report. The Russian Federation, which accounts for nearly one half of the region's output, reported GDP growth of 4.5% and many member countries of the Commonwealth of Independent States (CIS) and the Baltic States recorded even stronger output growth. Only in Central and Eastern Europe was growth limited to 2.5%. FDI inflows to the region increased in 2002, defying the global downward trend. The FDI inflows together with preparations for EU accession by the Central/Eastern European countries and Baltic States stimulated the region's trade performance. Despite the solid economic growth over the 1999-2002 period, under-employment is still widespread in the region. Inflation rates have come down markedly, in particular, in the EU accession countries. In the Russian Federation, consumer price inflation was reduced, but remained at double-digit rates in 2002.

The transition countries' merchandise imports rose, in real terms, by more than 10% in 2002. Although the rise of merchandise exports by 8% was somewhat less rapid than imports, the expansion rate was still more than twice that of GDP. Export prices increased slightly in 2002, while import prices, measured in dollar terms, remained unchanged. The dollar value of the transition economies exports of merchandise and commercial services rose by 10%. Import growth exceeded that of exports for the second year in a row (see Table 5).

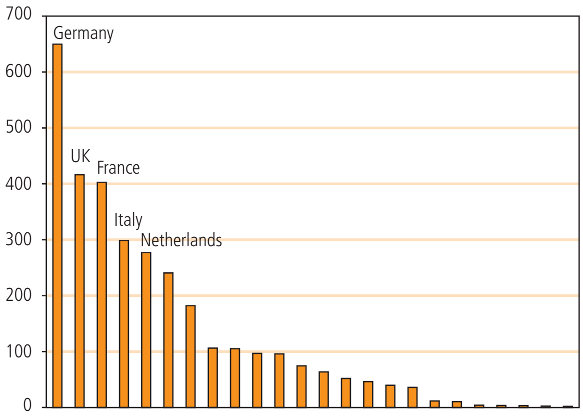
The expansion rate of major product groups in the merchandise exports of transition economies differed sharply. Exports of mining products (including fuels) recovered by 5% while those of manufactured goods and agricultural products rose by more than 10%. There was a remarkable growth in transition economies exports of fuels, whereas world trade in that product group stagnated. The outstanding rise in fuel exports can be largely attributed to the rise in Russia's oil output, while OPEC oil production decreased by 6% in 2002. Exports of agricultural products to Western Europe increased by 15% and account for 40% of the transition economies' exports in this product category. Among manufactured goods, exports of automotive products and office and telecom equipment rose by about 15% in 2002. Clothing exports, which account for less than 4% of the region's merchandise exports, rose by 6%. Available information on the breakdown of commercial services exports by category point to a very strong expansion of transportation services. Travel receipts rose by 5%, only half the rate of total services exports.

The strength of economic activity in the region did not lead to an above-average growth for intra-regional trade, as might have been expected. Transition economies' exports to Western Europe and Asia rose at double-digit rates to $176 billion and $24.3 billion respectively, while intra-regional trade rose by 5% to $80 billion. The combined shipments to North America, Latin America,

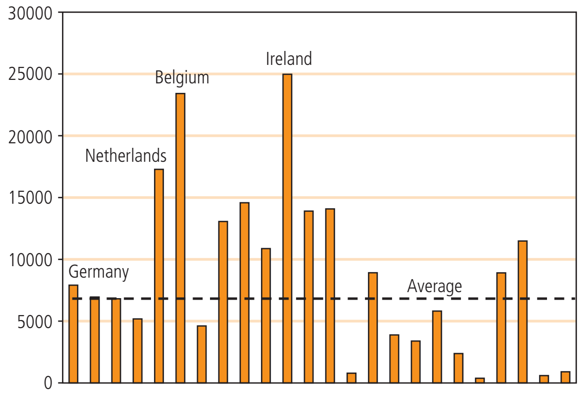
Chart 8

Western Europe. Merchandise and commercial services trade, 2002

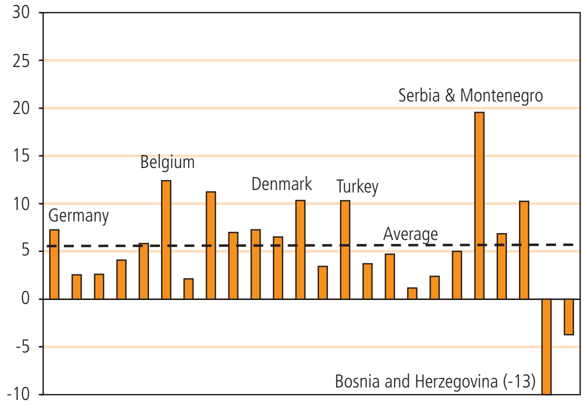
Trade of merchandise and services, 2000-02
(Billion dollars, exports plus imports divided by two)



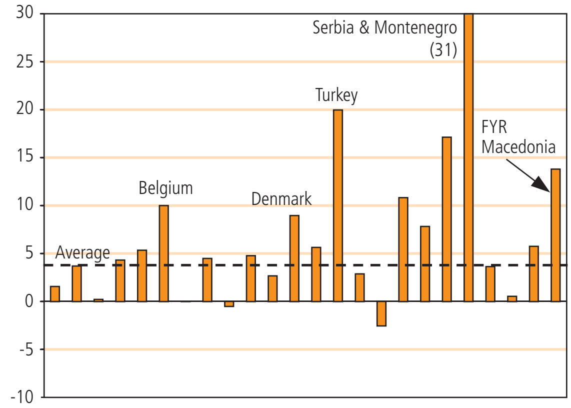
Trade of merchandise and services per capita, 2000-02
(Dollars, average of exports and imports divided by population)



Exports of merchandise, 2002
(Annual percentage change)

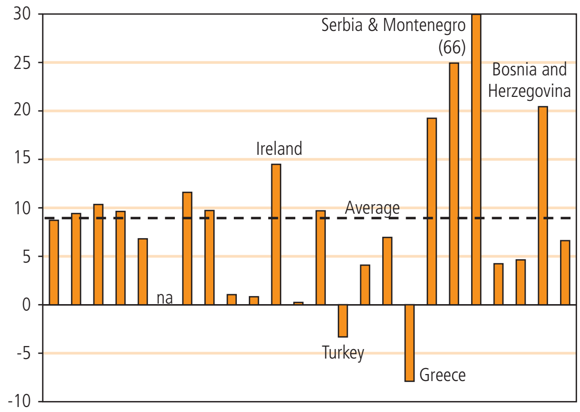


Imports of merchandise, 2002
(Annual percentage change)



Exports of commercial services, 2002
(Annual percentage change)

Imports of commercial services, 2002
(Annual percentage change)



Note: Countries are ranked in descending order (from left to right) of the sum of exports and imports in 2002.

Table 5

GDP and trade developments in transition economies, 2002

(Annual percentage change)

	Transition economies					C./E. Europe					Russian Federation				
	1995-00	1999	2000	2001	2002	1995-00	1999	2000	2001	2002	1995-00	1999	2000	2001	2002
GDP	2.3	4.3	7.0	4.5	3.7	3.2	2.6	3.8	2.7	2.5	1.6	6.4	10.0	5.0	4.3
Merchandise															
Exports (value)	7	0	26	5	10	8	1	14	12	14	5	1	40	-2	4
Imports (value)	4	-12	14	11	11	9	-1	13	9	11	-6	-32	13	20	13
Exports (volume)	7	-2	17	8	8	...	...	...	...	...	...	...	...	...	...
Imports (volume)	8	-9	16	15	11	...	...	...	...	...	...	...	...	...	...
Commercial services															
Exports (value)	2	-14	10	7	10	2	-11	14	6	3	-2	-27	5	10	22
Imports (value)	2	-8	15	12	16	4	1	11	7	13	-4	-19	22	14	16

Africa and the Middle East accounted for only 10% of exports by transition countries in 2002.

Trade developments of individual transition economies in 2002 are reported in Chart 9. Although the Russian Federation remains by far the largest trader in the region, the combined trade of the Czech Republic, Hungary and Poland, with their much smaller economies, exceeded that of the Russian Federation. The higher trade intensity (as measured by per capita trade) of the Central/Eastern European countries and Baltic States, in comparison to other transition economies, is also highlighted.

Out of 22 transition countries, 14 recorded an increase in their exports or imports in excess of 10% in 2002. Azerbaijan is the only country reporting a decrease in its merchandise exports in 2002. In commercial services trade the performance across the region is even stronger, with 16 economies recording a rise in their commercial service trade (exports or imports) in excess of 10%. Lower commercial services trade is only reported for Tajikistan for exports and the Ukraine for imports.

Africa's economic growth in 2002 at 2.7% remained below expectations and only marginally above its population growth. South Africa's economy, accounting for more than one third of the region's output, grew somewhat faster than the regional average, while Nigeria, the most populous country in Africa, recorded a near stagnation in its output. Despite sluggish overall growth in the region, ten African economies expanded faster than 5% and five countries recorded GDP growth above 10%. Unfavourable weather conditions and political turmoil contributed to a steep fall in the GDP of Madagascar and Zimbabwe. FDI inflows decreased sharply from their peak level in 2001, largely due to developments in Morocco and South Africa which, in 2001, attracted 45% of Africa's FDI inflows[5]. The privatization of state-owned enterprises could attract substantial amounts of FDI, however the privatization process is "still slow and reluctant" in the region.[6]

Provisional 2002 trade data indicate a moderate expansion of Africa's merchandise and commercial services trade. Prices for Africa's principal commodities recorded no uniform developments. While the yearly averages of world market prices for petroleum, gold, coffee and cocoa beans edged up in 2002, those of non-ferrous metals, iron ore, tea and groundnuts continued to soften. Despite a recovery in the second half of 2002, cotton prices averaged for the full year, in nominal terms, their lowest level in 30 years. Total merchandise (and commercial services) exports and imports increased by 2%, pointing to a further loss in Africa's share in world trade (see Table 6).

Africa's trade picture brightens if one does not look at total trade but at the arithmetic average growth of African countries'

[5] UNCTAD, World Investment Report, 2003.

[6] Economic Commission for Africa, Economic Report on Africa 2003.

Table 6

GDP and trade developments in Africa, 2002

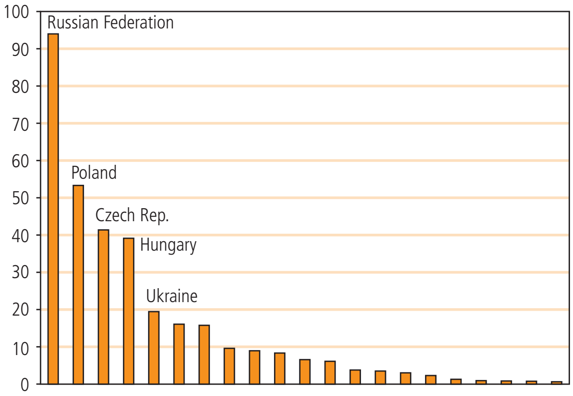
(Annual percentage change)

	Africa					South Africa					Other Africa				
	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002	1990-00	1999	2000	2001	2002
GDP	2.1	2.6	3.1	3.1	2.7	1.7	2.0	3.5	2.8	3.0	2.3	2.9	2.9	3.2	2.5
Merchandise															
Exports (value)	3	11	26	-6	2	3	1	12	-2	2	4	14	30	-7	2
Imports (value)	3	-4	1	2	2	5	-9	11	-5	4	2	-3	-1	4	2
Commercial services															
Exports (volume)	5	9	0	0	2	4	-4	-3	-7	0	5	12	1	2	3
Imports (volume)	4	-3	5	2	2	4	2	0	-9	3	4	-3	5	3	2

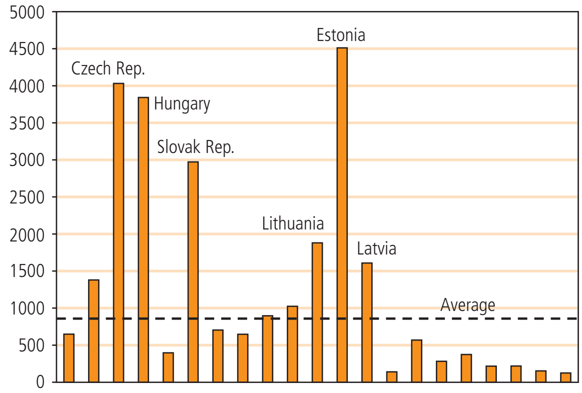
Chart 9

Transition Economies. Merchandise and commercial services trade, 2002

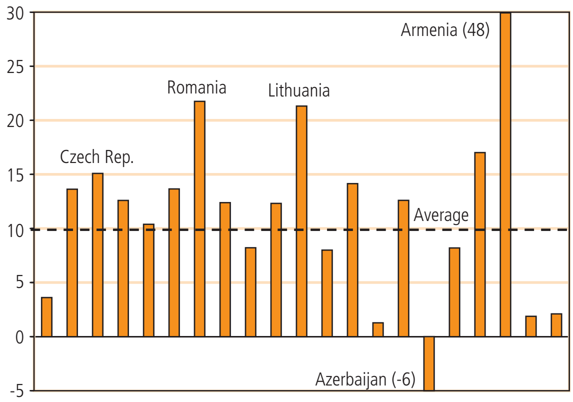
Trade of merchandise and services, 2000-02
(Billion dollars, exports plus imports divided by two)



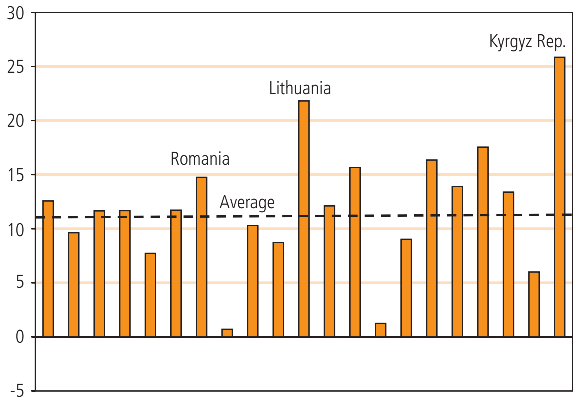
Trade of merchandise and services per capita, 2000-02
(Dollars, average of exports and imports divided by population)



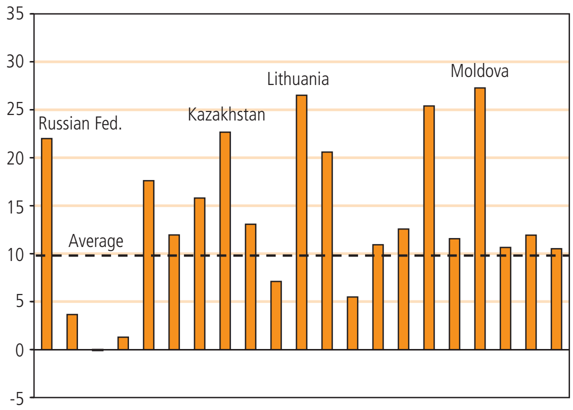
Exports of merchandise, 2002
(Annual percentage change)



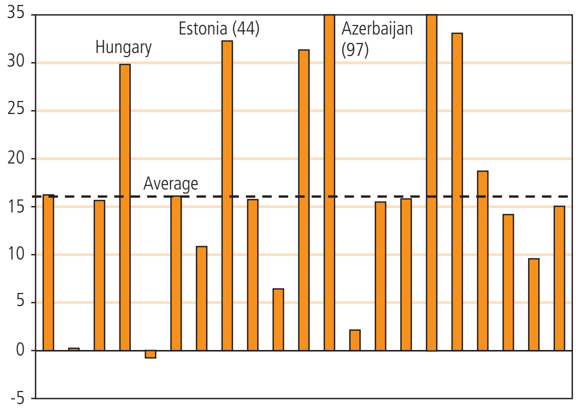
Imports of merchandise, 2002
(Annual percentage change)



Exports of commercial services, 2002
(Annual percentage change)



Imports of commercial services, 2002
(Annual percentage change)



Note: Countries are ranked in descending order (from left to right) of the sum of exports and imports in 2002.

merchandise exports and imports which exceeded world merchandise trade growth in 2002 by 5.5% and 7% respectively. The arithmetic average growth is far less affected than total merchandise trade by the trade contraction in Nigeria, and gives a more accurate view of the performance of the fifty-plus countries of this continent.

A breakdown of Africa's merchandise exports by product indicates that exports of agricultural products rose by 9% to $22.1 billion in 2002. Agricultural products, which account for 16% of total merchandise exports by region, expanded significantly to Western Europe and North America.[7] Exports of fuels are estimated to have stagnated at $69 billion, accounting for almost one half of Africa's total exports. Exports of manufactured goods only increased marginally in 2002, while other semi-manufactures, among which diamonds are prominent, declined at double-digit rates. Africa's exports of clothing ($7.4 billion), machinery and transport equipment ($7 billion) and iron and steel ($2.9 billion) have expanded faster than world trade in these categories.

Developments of Africa's merchandise exports by region differed strongly in 2002. Shipments to Western Europe decreased slightly while those to North America stagnated. Exports to Asia, however, increased by 10%. Despite recent developments, Western Europe still accounted for more than one half of African exports. North America and Asia account each for 17% and thereby roughly twice as much as African intra-trade.

Chart 10 reports on African trade performance by individual countries in 2002. The upper part of this chart highlights the major traders as well as trade intensity measured by per capita trade level. Out of the 50 African countries displayed in this Chart, 34 countries have a trade per capita level of less than $200 dollars.[8]

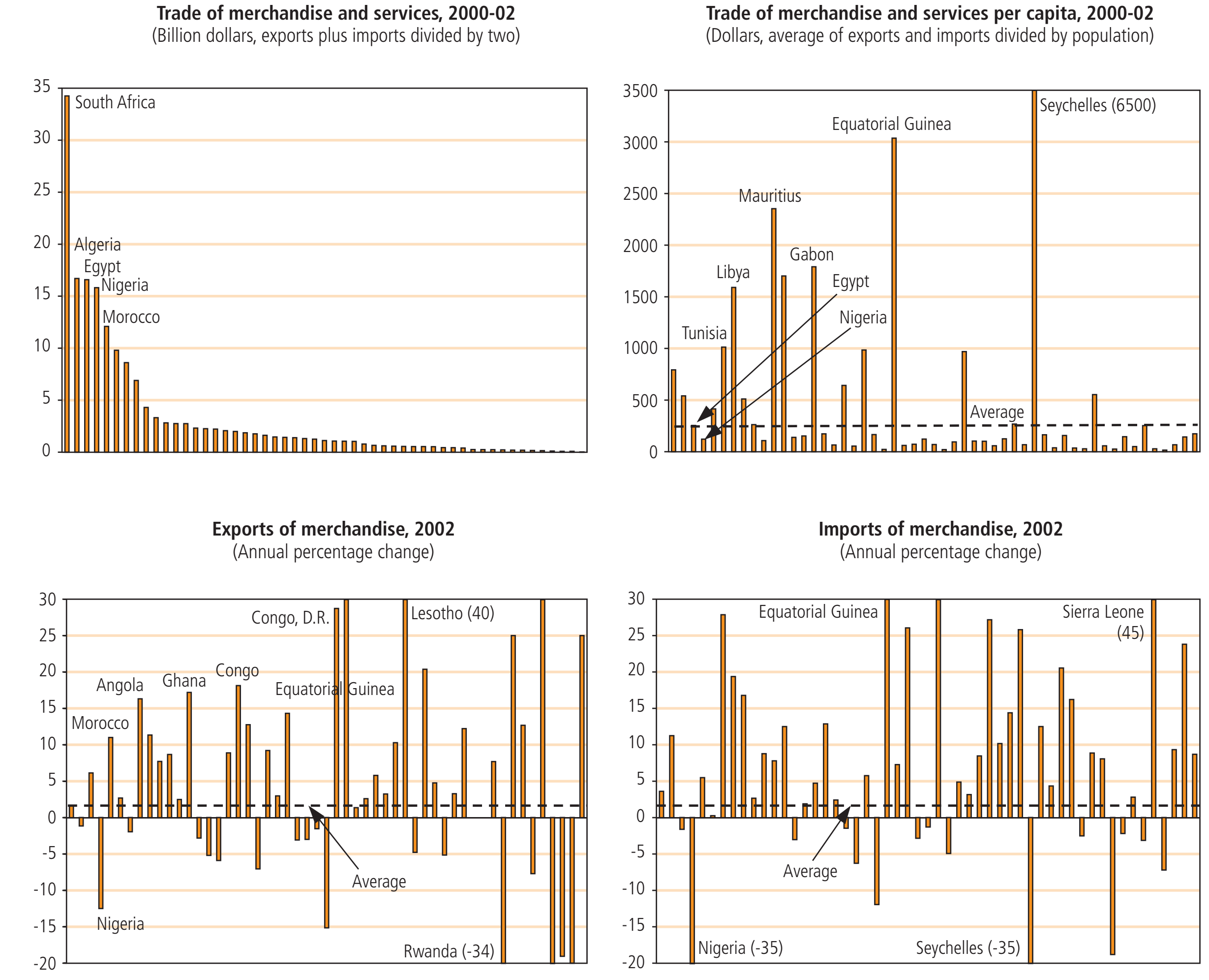
The annual variation of African countries' merchandise exports and imports shown in the lower part of Chart 10, reveals an extreme diversity in trade performance. Merchandise exports increased by more than 10% in 17 African countries in 2002, while 18 other African countries recorded a fall in their exports. Merchandise imports of 18 African countries increased by more than 10%, while 15 other African countries reported a reduction in their imports. Among Africa's major traders, only Nigeria recorded a sharp contraction of both its exports and imports in 2002. This trade development is closely linked to the cut in Nigeria's oil production agreed within OPEC.

[7] In 2002, EU imports of agricultural products from Africa increased by 9% to $12.5 billion, while those of the United States rose by 8% to $1.2 billion.

[8] The world average trade per capita level in 2000-2002 was $1300 and $590 for developing countries.

Chart 10

Africa. Merchandise and commercial services trade, 2002



Note: Countries are ranked in descending order (from left to right) of the sum of exports and imports in 2002.

Table 7

GDP and trade developments in the Middle East, 2002

(Annual percentage change)

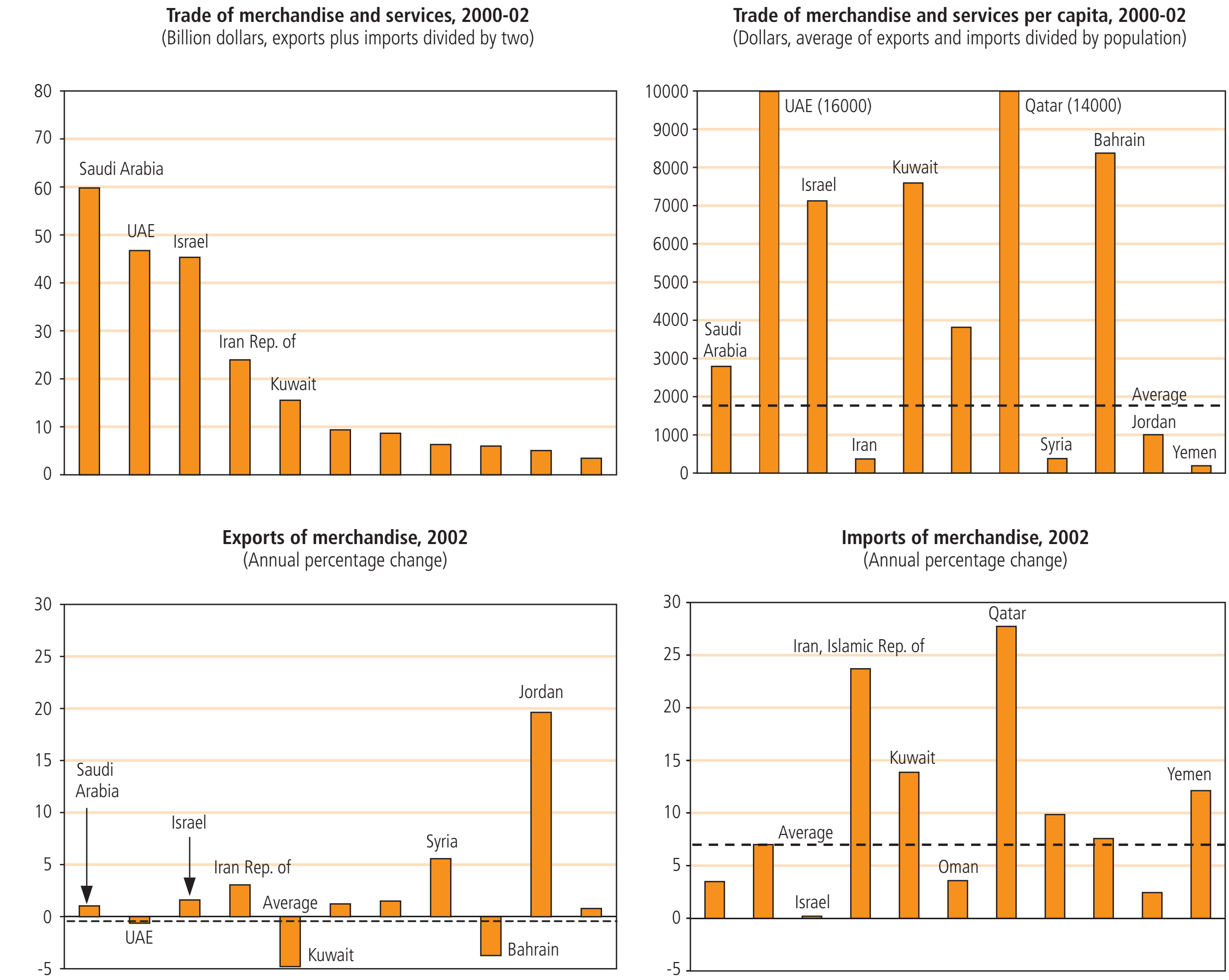
	1990-95	1995-00	1990-00	1998	1999	2000	2001	2002
Merchandise								
Exports (value)	2	12	7	-20	29	44	-8	0
Imports (value)	5	4	4	-3	-1	12	6	7
Commercial services								
Exports (value)	8	10	9	6	10	18	-10	-1
Imports (value)	3	5	4	-11	1	9	-6	1

Political conflicts continued to hamper economic development and the trade expansion of the Middle East. Economic growth remained subdued. Oil production decreased by more than 5% while gas production continued to expand. Israel, the major non-oil exporting economy in the region, recorded a further decline of its GDP, as economic activity, in particular tourism, had been negatively affected by insecurity linked to the prevailing civil strife.

Merchandise exports of the region are estimated to have stagnated at $245 billion. It is estimated that the decrease in the volume of oil exports was partly offset by higher oil prices and increased gas supplies. Fuels exports are estimated to have decreased by 3% and account for about 70% of the region's merchandise exports. Chemicals (mainly petrochemicals) have become the second biggest merchandise export category in the Middle East. Shipments of chemicals increased by about 5% to

Chart 11

Middle East. Merchandise and commercial services trade, 2002



Note: Estimated data for Iraq are not shown separately but included in the regional aggregate.

Table 8

GDP and trade developments in Asia, 2002

(Annual percentage change)

	Asia					Japan					Developing Asia[a]				
	1995-00	1999	2000	2001	2002	1995-00	1999	2000	2001	2002	1995-00	1999	2000	2001	2002
GDP	3.3	2.5	4.2	1.5	1.5	1.5	0.2	2.8	0.4	-0.7	6.7	6.4	7.1	3.4	5.4
Merchandise															
Exports (value)	9	7	18	-9	8	5	8	14	-16	3	11	7	21	-7	10
Imports (value)	8	9	23	-7	6	5	11	22	-8	-3	10	9	25	-7	9
Exports (volume)	8	6	16	-4	11	3	2	9	-10	8	8	6	16	-4	11
Imports (volume)	8	10	17	-2	10	5	10	11	-1	2	8	10	16	-2	9
Commercial services															
Exports (value)	9	5	12	-1	7	5	-2	13	-7	2	11	7	13	2	8
Imports (value)	7	5	8	-2	3	3	3	1	-7	0	11	6	13	1	5

[a] Defined as Asia excluding Japan, Australia and New Zealand.

10% and amounted to $16 billion. Merchandise imports rose on average by a further 7% reaching $178 billion in 2002 (see Table 7).

Merchandise exports of the Middle East to Asia stagnated in 2002, the rise in exports to developing Asia of 6% being offset by a decrease in shipments to Japan. As the Middle East's exports to North America and Western Europe decreased, the share of Asian developing countries in the Middle East's exports rose to 30%, equal to the combined share of North America and Western Europe.

Import growth continued to be sustained by the large trade surplus in the region. The high level of oil prices since 2000 resulted in sharply higher export earnings which, after a short time lag, led to substantial increases in imports (see Chart III.15). The stagnation of the Middle East's exports and imports of commercial services is the outcome of two divergent developments which offset each other. There is a marked contraction of Israel's commercial services exports (-13%) and imports (-9%) while for most of the other countries in the region, services trade expanded strongly. The Middle East region's exports and imports of commercial services are estimated to have each risen by more than 5% if one excludes Israel from the regional aggregate values.

Middle East trade by country is reported in Chart 11. Seven countries in the region show a rather high trade per capita when compared with developing countries in general. However, for three others (Islamic Republic of Iran, Syrian Arab Republic and Yemen) trade per capita remained below $400 dollars. Most countries in the region recorded a small increase or a decline in their merchandise export earnings in 2002 with the two exceptions of the Syrian Arab Republic and Jordan who recorded strong increases. A contrasting picture is provided for merchandise imports which rose strongly in most countries in the region, but stagnated in Israel.

In 2002, economic growth in **Asia** was limited to only 1.5%, unchanged from the preceding year and only half the average rate recorded for the 1990s. The aggregate growth of Asia conceals the divergent economic performance of Japan and of all the other economies in the Asia-Pacific region. While Japan's economy slowed further and recorded a slightly negative GDP growth, developing Asia, Australia and New Zealand have seen an acceleration in their GDP growth. Developing Asia's 5.5% GDP growth in 2002 matched the average growth of the second half of the 1990s. Among the Asian developing economies, the recovery was less pronounced in Hong Kong, China, Singapore and Chinese Taipei which had already experienced a decline or stagnation of their output in the preceding year. Despite the recovery, under-employment and low investment levels remain a concern in most of the Asian economies and are important factors in explaining the pursuit of expansionary fiscal policies in many countries.

There was a further decline in FDI inflows to Asian developing countries if China is excluded from the total. In Indonesia, foreign disinvestment continued for the fifth year in a row. The unabated strength of FDI flows into China and the sluggishness of FDI flows to other Asian developing economies is leading to a concentration of FDI inward stocks in three economies (i.e. China, Hong Kong, China and Singapore). In 2002, these three economies already accounted for more than three quarters of the total FDI inward stock in developing Asia in 2002.

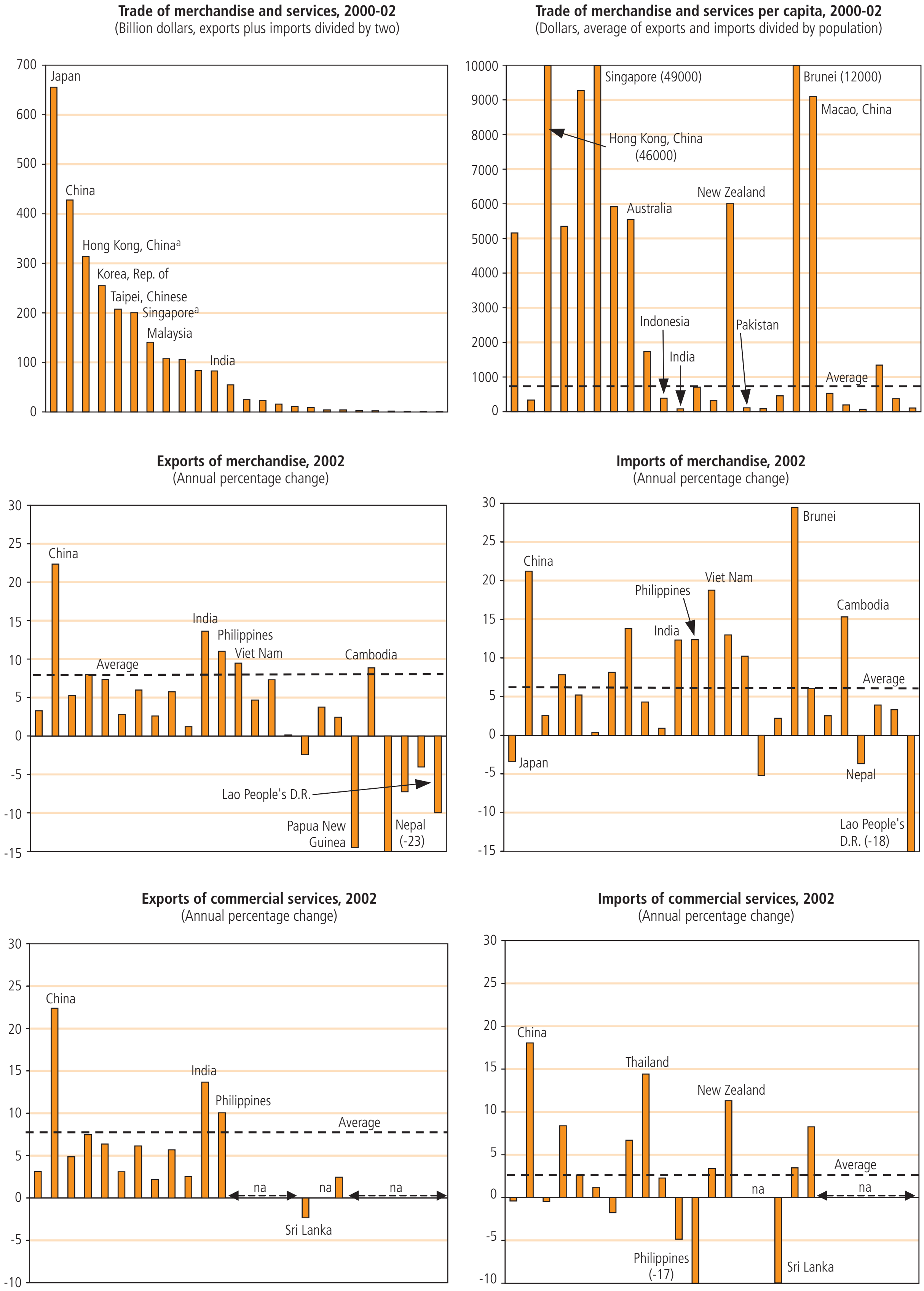
Asia's trade rebounded strongly from its contraction in 2001. Despite the strength of the recovery in its merchandise trade export and import growth (by 8% and 6% respectively) in 2002, recovery remained incomplete as the respective trade values remained below their 2000 peak levels.

The weakness of the nominal trade recovery has to be partly attributed to the further decrease in the region's dollar export and import prices. The depreciation of the yen against the US dollar, on an annual average basis, contributed to the nearly 5% decrease in Japanese export prices. In real terms, Asia's exports and imports are estimated to have expanded by about 10% and thus more than twice that of world trade. The recovery in Asia's commercial services trade was somewhat weaker than that of merchandise trade. Commercial services exports rose faster than imports, a development which can be found across all three major services categories. For both exports and imports, transportation services was the least dynamic component of services trade while travel and other commercial services expanded somewhat faster than the average rates for total commercial services (see Table 8).

Asia's merchandise exports by main product groups show quite distinct developments in 2002: Exports of mining products rose by 2%, agricultural products by 7% and manufactured goods by 8.5%. The region's exports of office and telecom equipment, automotive products, chemicals and iron and steel products all increased by more than 10%. Exports of other consumer goods, clothing and textiles increased between 3.5%

Chart 12

Asia. Merchandise and commercial services trade, 2002



[a] Includes significant re-exports.

Note: Countries are ranked in descending order (from left to right) of the sum of exports and imports in 2002.

and 7%. In a number of product groups, however, the recovery observed in 2002 was not strong enough to offset the declines in the preceding year (e.g. office and telecom equipment, clothing, textiles, iron and steel and mining products).

Asia's merchandise exports by destination reveal that the rebound of intra-regional trade was the principal factor in overall trade expansion. The 9% growth of intra-Asian trade exceeded the expansion rate of shipments to North America and Western Europe of 5% and 3% respectively. The share of intra-regional trade recovered and accounted for nearly one half of Asia's exports but still less than in 1996, before the Asian financial crisis. Asia's combined exports to Latin America, the transition economies, Africa and the Middle East accounted for 8.5% of total exports (see Table III.71).

Chart 12 reports on Asian trade developments by country in 2002. In the right upper part of the chart one can find the trade per capita level of individual Asian economies. A marked contrast is apparent between the high-income economies, mainly grouped at the left side of the chart, with a high level of trade per capita and the low-income countries with a large population such as Bangladesh, China, India, Indonesia, Myanmar and Pakistan which report a per capita trade level ranging between nearly $400 (Indonesia) and $80 dollars (e.g. Bangladesh, India and Myanmar).

One of the main features of Asia's merchandise trade development in 2002 was the contrasting trade growth of the two largest traders in the region. Although Japan's trade recovered from the steep contraction of 2001, its export growth of 3% remained sharply lower than the average growth rate of the region and its imports continued to shrink. China's exports and imports, however, both expanded by more than 20%. Above-average rates of growth for both exports and imports are reported for Cambodia, India, the Philippines and Viet Nam. Cambodia's trade performance is outstanding among the smaller traders in Asia which, in many cases, recorded a contraction of their exports or imports in 2002.

Three of the four high-income newly industrialized developing economies in Asia (e.g. Hong Kong, China, Singapore and Chinese Taipei) recorded below average trade growth not only for merchandise but also for commercial services trade. The fourth economy, the Republic of Korea, experienced strong trade recovery in 2002 with its exports and imports matching the regional average growth rates.

China, India and the Philippines recorded above-average growth of their commercial services exports as they did for merchandise trade. However, in respect of commercial services imports, only China recorded double-digit growth while those of India and the Philippines decreased.

5. Merchandise trade of major regional trade agreements

The tendency to conclude new RTAs continued unabated in 2002 and in the first half of 2003. At the end of 2002, 176 RTA's were in force and notified to the WTO, 17 more than at the end of the preceding year. Recent RTAs are often spread across geographic regions and are increasingly of a bilateral type. Reviewing RTA trade developments, one should bear in mind that in many RTAs only a fraction of intra-regional trade is conducted at preferential terms and duty free.[9]

Trade developments of six major plurilateral reciprocal RTAs in 2002 are reviewed below. Four observations highlight prominent trade aspects of these RTAs:

- Intra-trade developments of the six RTAs were very much affected by the overall trade developments of their region. Consequently, the value of intra-trade decreased in the three RTAs located in South and North America with its lacklustre trade growth in 2002 (ANDEAN, MERCOSUR and NAFTA), but increased in the three RTAs situated in Europe and Asia (EU, CEFTA and AFTA) where trade expanded faster than the global average (see Table I.9).
- In 2002, there was no clear trend in respect to the relative development of intra-RTA trade. The share of intra-trade increased in a majority of RTAs on the import side but not on the export side. AFTA is the only RTA which reported a recovery of the intra-regional trade share for both exports and imports in 2002.
- The relative weight of intra-regional trade of the major plurilateral RTAs has not increased in 2002. Intra-regional trade of the six RTAs combined expanded as fast as world trade leaving the share of these trade flows in world merchandise trade (exports plus imports) unchanged at 35%.
- Neither the short- nor the medium-term developments (1995-2002) point to a general increase of the share of intra-RTA trade. For the EU and CEFTA, the share of intra-regional trade decreased in the medium term, partly due to the dynamic bilateral trade generated by the EU enlargement process. MERCOSUR's relative decline in intra-regional trade is particularly pronounced on the export side and reflected the impact of the regional financial crisis. On the import side, the share of intra-regional trade started to decline with the sharp devaluation of the Brazilian currency in 1999. The share of AFTA's

[9] For a detailed discussion of the economic, political and institutional aspects of RTAs see WTO, World Trade Report 2003, pp. 46-66.

Table 9

Intra-regional trade of major RTAs, 1995 and 2002

(Billion dollars, percentage)

RTA	Intra-trade		Share of intra-trade in:			
	Value	Share in world exports	Exports		Imports	
			1995	2002	1995	2002
EU (15)	1509	24.1	64.0	61.6	65.2	61.9
NAFTA (3)	626	10.0	46.0	56.5	37.7	38.1
AFTA (10)	97	1.6	25.5	24.0	18.8	23.6
CEFTA (7)	19	0.3	14.6	12.2	11.3	10.2
MERCOSUR (4)	10	0.2	20.5	11.5	18.1	17.0
ANDEAN (5)	5	0.1	12.3	10.2	12.9	13.9
Total	**2266**	**36.3**	-	-	-	-

intra-regional trade increased steadily on the import side since 1995. However, for exports, the corresponding share has not yet regained the level prevailing before the Asian financial crisis. NAFTA is the only RTA which recorded a significant increase in the share of intra-trade between 1995 and 2002 (see Table 9).

The summary provided in Table 9 also reveals the marked differences in size and integration among the six plurilateral RTAs. For the EU and NAFTA, more than one half of their exports are intra-regional while for the other four RTAs, the corresponding share ranges between 24% and 10%. The differences between the two groups of RTAs on the import side are, in general, as pronounced as on the export side. Only for RTAs with a significant trade imbalance, the intra-trade shares differ between exports and imports (i.e. NAFTA and MERCOSUR).

6. Trade developments in the first half of 2003 and prospects

In the first half of 2003 world merchandise exports rose by 15% in dollar terms over the corresponding period in 2002, a strong acceleration compared to the average 4% annual growth in 2002. The main factor behind this buoyant nominal trade growth has been the depreciation of the US dollar against the currencies of major traders in Europe and Asia in the first six months of 2003 (see Chart 1). Higher oil and non-fuel commodity prices also contributed to the dollar price increase in international trade.

The exports and imports of Western Europe and the transition economies expanded by more than 20% in dollar terms, largely due to price and exchange rate developments. In Asia, where currency changes against the dollar were more limited, exports rose by 15% and imports by nearly 20%. China's trade remained the strongest component of Asia's trade. China's imports growth is reported to have increased by 45% and exceeded in value to that of Japan. Partly due to higher oil prices, Japan's import growth (17%) was stronger than that of exports (13%). The six newly industrialized economies expanded both exports and imports by 12.5%. Latin America's imports remained unchanged from the preceding year's level while exports recorded an increase of 8%, thereby strengthening the region's trade surplus. In contrast to the Latin American trade balance, the North American trade deficit continued to widen in the first half of 2003, as imports rose by 10%, or twice as fast as exports.

Adjusted for price and exchange rate changes, a different and less bright trade picture emerges. OECD countries' real trade in goods and services (exports plus imports) expanded by only 4% in the first half of 2003. In addition, most of this increase has to be attributed to the trade expansion in the second half of 2002 as OECD exports have stagnated from the fourth quarter of 2002 through the second quarter of 2003 (on a seasonally adjusted basis). OECD countries' imports were less sluggish and picked up in the second quarter of 2003, mainly due to higher imports of the United States (see Chart 13).

Developments in the first half of 2003 and improvements of the leading indicators in the third quarter lead to a projection of world merchandise trade growth of 3%, basically unchanged from the preceding year's rate.

Chart 13

Real GDP and trade growth of OECD countries, 2001-03

(Percentage change on a quarter to quarter basis)