I. WORLD TRADE DEVELOPMENTS

Merchandise trade and GDP

Trade slows down due to weakening demand from developed economies

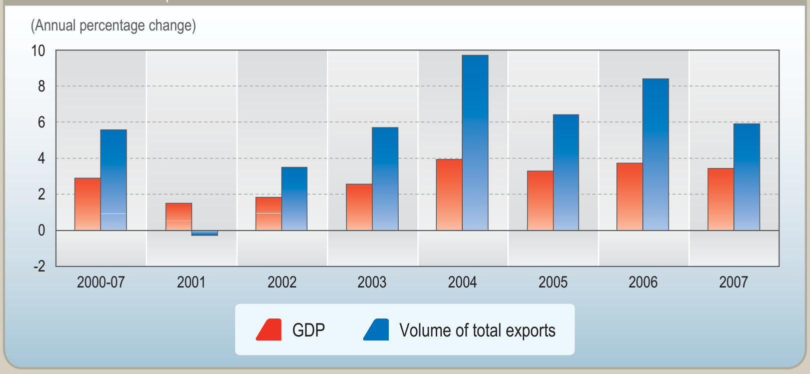
Trade slowed down in 2007 due to weakening demand from developed economies. Realignments in exchange rates and fluctuations in the prices for commodities, such as oil and gas, introduced uncertainties into the global markets. Growth in world merchandise exports slipped to 6 per cent in real terms in 2007, following a year-to-year expansion of world gross domestic product (GDP) of 3.4 per cent. The slowdown of trade growth from 8.5 per cent in 2006 is due to a deceleration of import demand, mainly in the United States but also in Europe and Japan. Trade remained strong in most developing countries. Regions such as Africa, the Middle East, the Commonwealth of Independent States (CIS), developing Asia, and South and Central America showed sustained growth in their economies in 2007. While higher commodity prices helped to improve the financial situation of certain countries, higher energy and food prices also increased inflationary pressures worldwide.

For the 2000-2007 period, exports on average increased by 2.7 percentage points faster than real gross domestic product. The only exception was in 2001, when trade marginally declined due to the dot.com bubble burst.

The Highlights

IN THIS CHAPTER:

Chart I.1 Volume of world merchandise exports and gross domestic product, 2000-2007

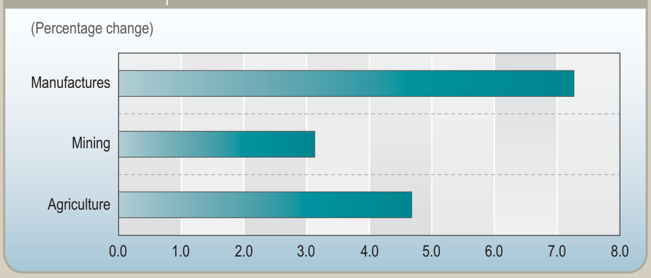


Merchandise trade by product

Trade in manufactured products is growing faster than trade in agriculture and in fuels and mining products

Exports of manufactured products expanded by 7.5 per cent in volume terms in 2007, maintaining its lead over both agriculture and fuels and mining products, which grew by 5 per cent and 3 per cent respectively. The deceleration in trade in manufactured products from the 10 per cent level achieved in 2006 is partly due to the slowdown of activity in major importing economies. Asian exports of manufactured products expanded by 13.5 per cent in 2007, but North American and European exports increased by only 4.5 per cent and 4 per cent respectively, almost half their 2006 rates. OPEC production, which declined in 2007, contributed to the stagnant volumes of fuels and mining exports from the Middle East. Crude oil exports from Africa grew by 4.5 per cent, much higher than the 1.5 per cent increases in 2005 and 2006. The CIS increased its exports of fuels and mining products by 7 per cent, the highest growth of all regions.

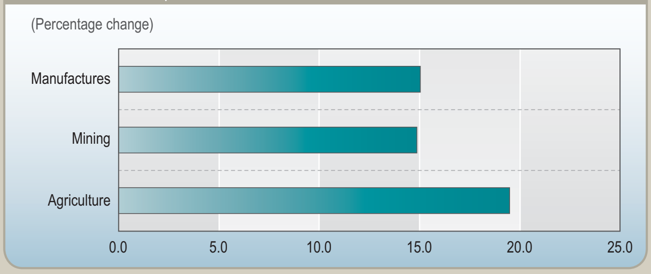
Chart I.2 Volume growth of world merchandise trade by sector, 2007



The surge in agricultural prices dominated developments in 2007

Spurred by a 14 per cent growth in prices, agricultural exports expanded by 19.5 per cent in dollar terms in 2007, the highest growth rate since 2000. Europe, which accounts for 46 per cent of world exports of agricultural products, boosted exports by 19 per cent. Asia, the second-largest supplier with a share of 19 per cent, increased its exports of agricultural products by 20 per cent, a rate unmatched since 2000. Exports from North America, the third-largest supplier, rose by 17 per cent. Its share of world trade has been progressively declining, from 21 per cent in 2000 to 16 per cent in 2007, due to the below world average export growth during this period (6 per cent against 11 per cent for the world). South and Central America registered its highest growth rate since 2000 (23.4 per cent).

Chart I.3 Value growth of world merchandise trade by sector, 2007



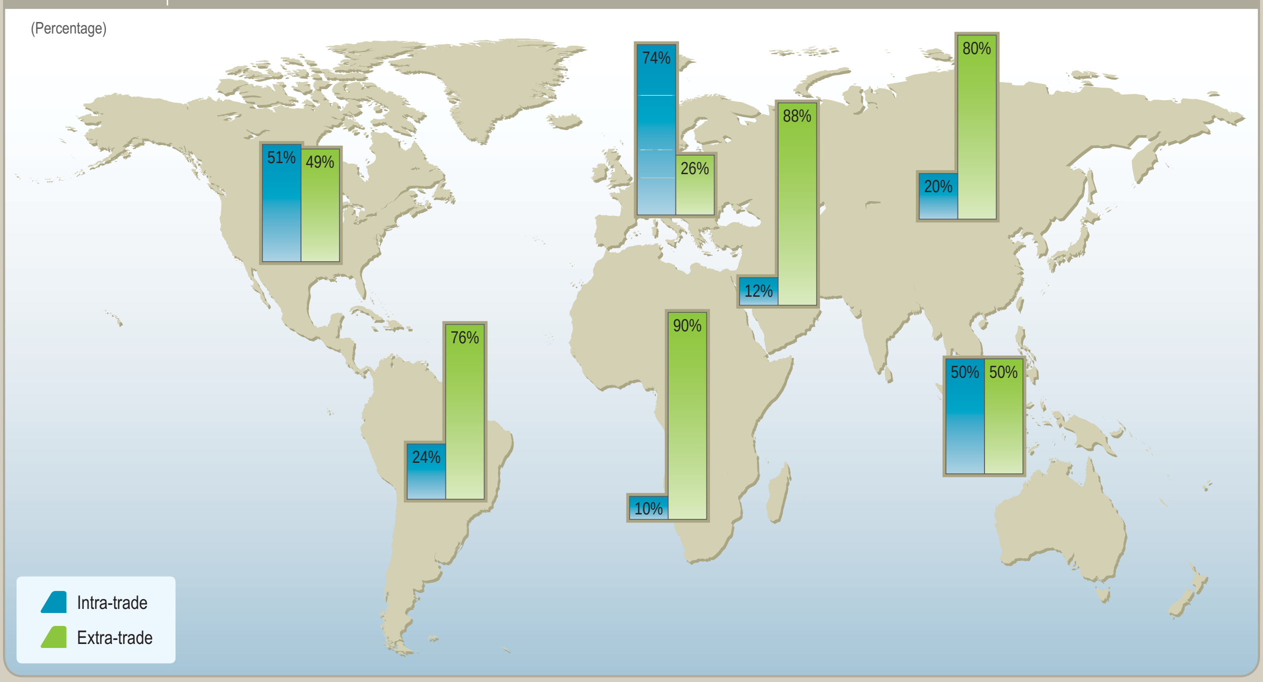
Prices of fuels and mining products increased by 11 per cent in 2007, rising by less than half as much as in 2006. As a result, the value of world exports rose by 15 per cent, the lowest rate since 2003. Growth decelerated in all regions apart from the CIS, which increased its exports by 19 per cent. The slowdown in the price rises of minerals and non-ferrous metals (from 56 per cent in 2006 to 17.5 per cent in 2007) affected particularly non-fuel mining exports in South and Central American (whose growth declined from 55 per cent in 2006 to 20 per cent in 2007). Fuel exports from the Middle East to its most important trading partner, Asia (65 per cent of total exports), increased by 13 per cent, compared with 28 per cent the previous year. Nevertheless, demand from China and India remained strong, with imports increasing by 26 per cent.

With an estimated 7 per cent increase in average prices in 2007 and continuous expansion in volumes traded, the value of world exports of manufactured products rose by 15 per cent. Europe increased its exports by 16.3 per cent, an acceleration similar to 2005 and 2006. Asia maintained nearly the same level of growth as in 2006 (15.7 per cent). North America registered the lowest growth (8.5 per cent). The CIS has become a significant destination for exports of manufactured products. Imports of manufactured products in the CIS grew by an astounding annual average of 30 per cent from 2000 to 2007. As a result, 3.6 per cent of European exports of manufactured products (double the 2000 level) now go to the CIS, while Asian exports to the CIS achieved an annual average increase of 43 per cent over the same period.

Regional trade flows

Africa records the smallest share of intra-regional trade

Chart I.4 Intra- and extra-regional merchandise exports, 2007



Trade flows within regions account for a higher share of world trade than flows between regions. Since 2000, this share has fluctuated from between 55 to 58 per cent. Relatively large differences have occurred in the growth of trade within regions: North America and Asia show a relative balanced growth between inter- and intra-regional trade; Europe's intra-trade is growing much faster than its external trade due to the deepening of its economic integration while South and Central America, Africa, the Middle East and the CIS have recorded higher growth in inter-regional exports than in intra-regional.

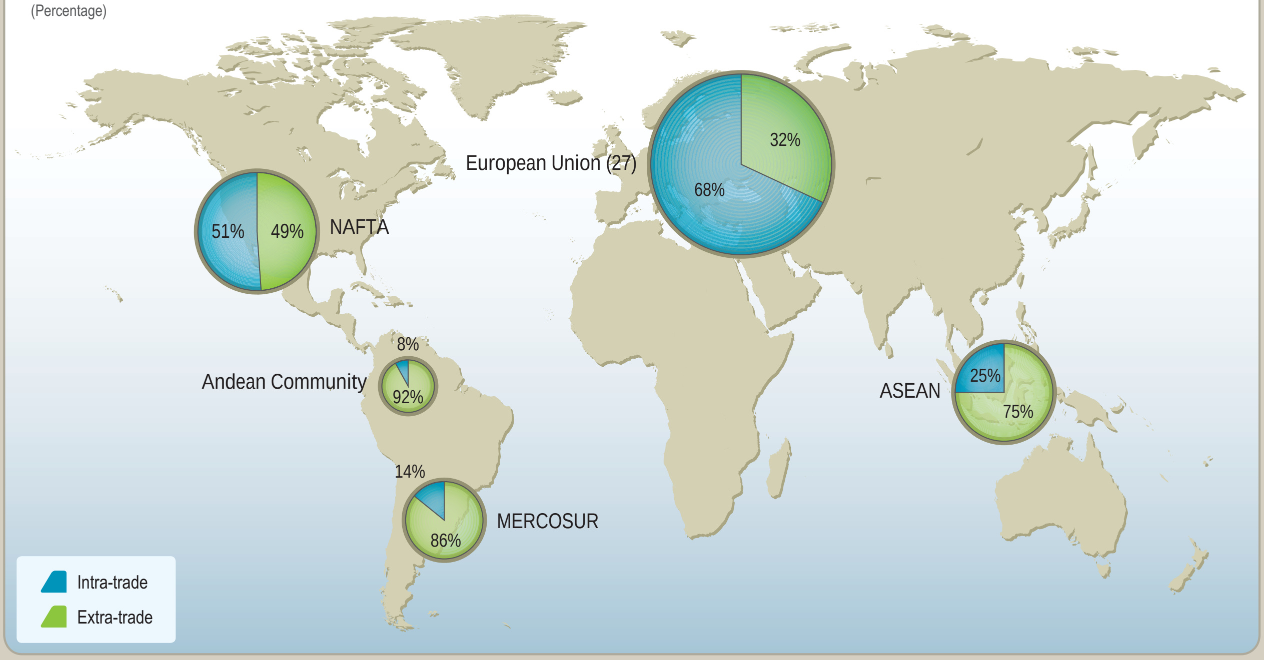
Regional Trade Agreements

Increasingly different patterns are emerging for Regional Trade Agreements

The European Union is a highly integrated marketplace, with two-thirds of its trade transactions taking place within the region. In 2007, intra-trade accounted for slightly more than half (51 per cent) of the exports of the North American Free Trade Agreement (NAFTA). In 2000, this share was 56 per cent. However, as trade with countries outside NAFTA's area has been growing at a somewhat faster pace than intra-NAFTA trade, this share has been declining.

Chart I.5 Share of intra in total merchandise exports of selected Regional Trade Agreements, 2007

(Percentage)



Other trade blocs, such as MERCOSUR, the Andean Community or ASEAN, show a less pronounced integration. MERCOSUR countries carry out only around 14 per cent of their trade with other countries in the agreement, the Andean Community only 8 per cent, and ASEAN a quarter.

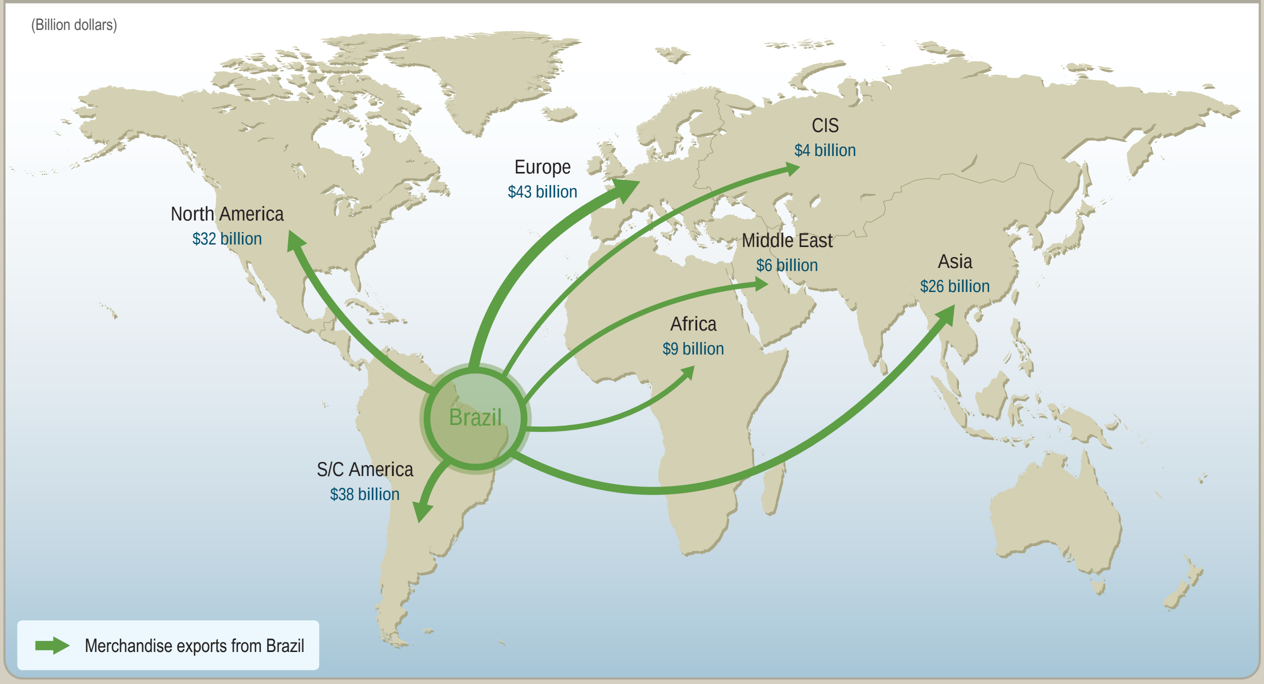
Merchandise trade flows of Brazil, India and China

Brazil, India and China record strong growth in exports

Brazil, India and China are illustrative of a clear trend of vigorous growth among a number of emerging economies. While this growth implies a growing share of world trade, the share in world exports remains relatively small for most of the emerging economies individually. The share of Brazil and India, for example, is still just over 1 per cent, while China's share is approaching 10 per cent. In 2007, Brazil exported merchandise worth $161 billion. With imports accounting for $127 billion, it recorded a positive trade balance of $34 billion. Since 2000, Brazil's exports have grown at an annual average of 17 per cent. Its main partners are in Europe, which receives almost 27 per cent of Brazil's exports. South and Central America absorbs almost a quarter of its exports, North America a fifth and Asia accounts for slightly above 16 per cent of Brazil's total merchandise exports.

Chart I.6 Brazil – Merchandise exports by region, 2007

(Billion dollars)



India's merchandise exports reached $145 billion in 2007, growing at an annual average of 19 per cent since 2000. More than 30 per cent of its exports go to Asia, with Europe being the second-largest trading region (23 per cent). The Middle East absorbs 17 per cent of India's merchandise exports while North America receives 15 per cent. In 2007, India's imports reached $217 billion, resulting in a negative trade balance of $72 billion.

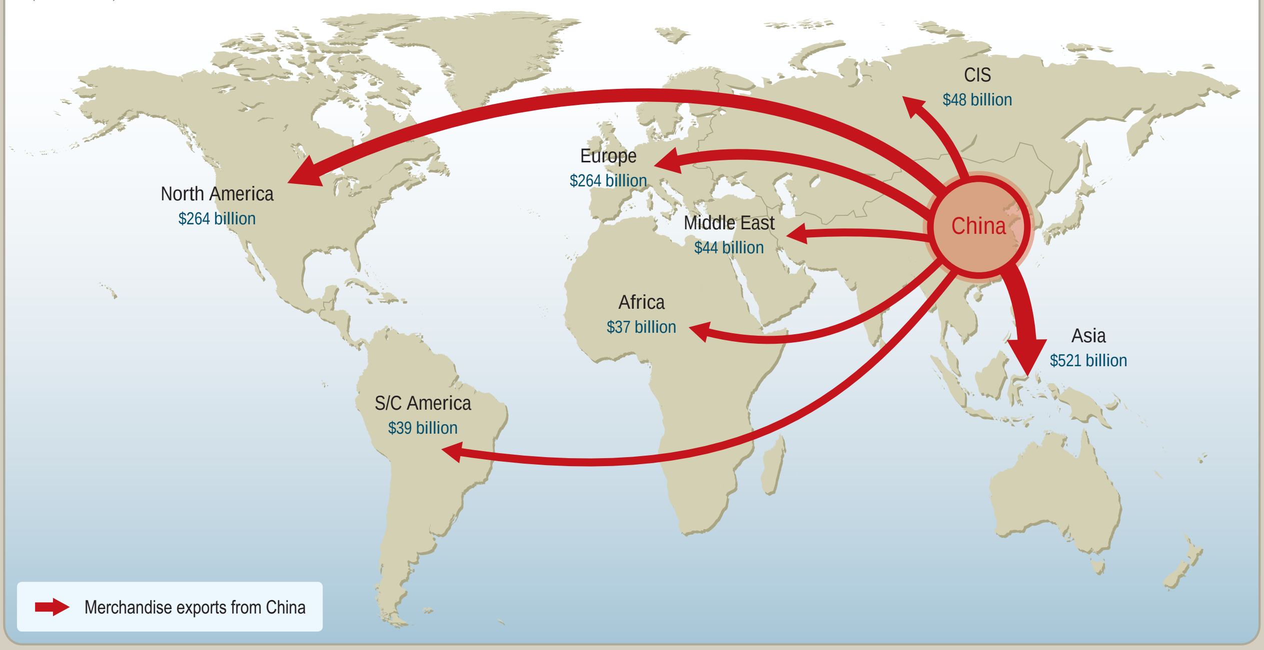
Chart I.7 India – Merchandise exports by region, 2007

(Billion dollars)

Since China joined the WTO in 2001, it has almost quadrupled its exports while imports have more than tripled. In 2007, its trade surplus reached $262 billion. Some 45 per cent of its trade receipts stem from Asia, while Europe and North America each receive 21 per cent of China's exports. It should be noted that China Customs Statistics record the country of origin for imports and the country of final destination for exports. However, if the country of final destination cannot be ascertained, exports are attributed to the last known country of dispatch.

Chart I.8 China – Merchandise exports by region, 2007

(Billion dollars)



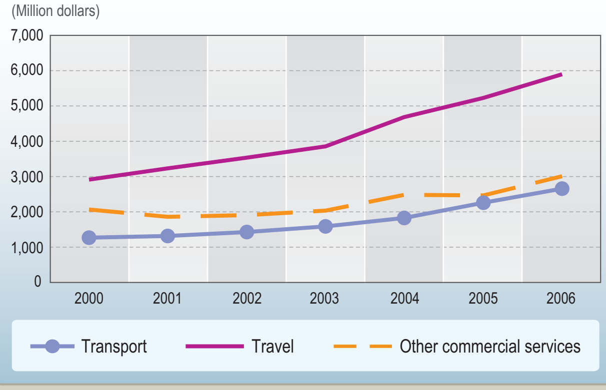
Least-developed countries

Least-developed countries show an improved trade performance in services

The participation of Least-Developed Countries (LDCs) in world trade has been increasing over the past five years, albeit slowly. In 2006, the ratio of trade to GDP in LDCs continued to grow. For merchandise, LDCs' share in world trade grew to 1 per cent due to the higher international prices of commodities. Their share of trade in commercial services amounted to 0.4 per cent only. However, trade in commercial services is increasing in all major sectors, such as transportation, travel and other commercial services. Transportation services showed steady growth between 2000 and 2006, resulting in an average annual increase of 14 per cent. Other commercial services show more volatile growth, ranging from negative growth in 2001 (-10 per cent) to very strong growth of almost 29 per cent in 2006. Travel remains the most important revenue source in terms of trade in commercial services (51 per cent of total trade), advancing by an annual average of 13 per cent between 2000 and 2006. For many small developing islands, such as Comoros or the Maldives, the share of travel in total exports of commercial services ranges from 80 to over 90 per cent.

Chart I.9 Commercial services exports by LDCs, 2000-2006

(Million dollars)

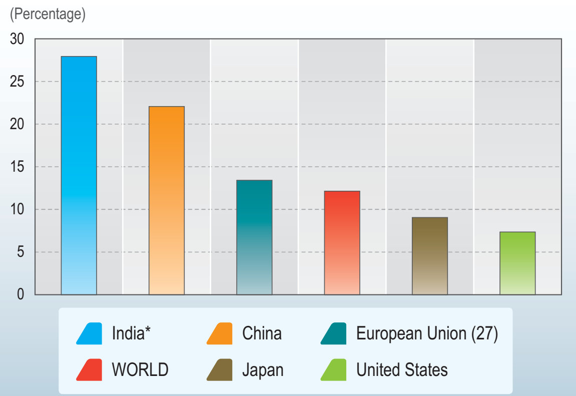


Trade in services

The international supply of services is rapidly increasing

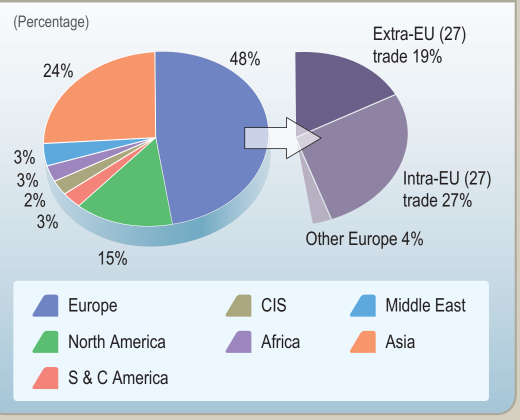
In 2007 the value of trade in commercial services increased at a faster rate (18 per cent) than trade in goods (15 per cent) for the first time in five years. This was mainly due to the expanding international supply of many services and to the increase in transportation prices. While the services sector generates approximately two-thirds of the total world value added, its share in total trade remains below 19 per cent. In 2007, the major exporters of commercial services remained the European Union, the United States, Japan, China and India, which together represented just under two-thirds of world exports. In recent years, China and India's exports of commercial services have increased much faster than the world average.

Chart I.10 Leading exporters of commercial services, growth 2000-2007



* Growth of India for 2004-05 is partly affected by a break in series following an improved coverage of other business services exports.

Chart I.11 Total commercial services trade, 2007



Trade in commercial services in 2007 was highly concentrated in North America, Asia and Europe (representing 15, 29 and 50 per cent respectively of total commercial services trade). Trade within the European Union represented more than one-quarter of world trade. However, the market share of these regions has either stagnated or decreased (in the case of North America) in recent years, while other regions – principally the CIS, Africa and the Middle East – have increased their share. Although it has the smallest share in terms of world trade (2.5 per cent), the CIS has seen its share increase by 75 per cent since 2000. This is mainly due to trade of Russia and Ukraine and also imports of Kazakhstan, which has become the second-largest commercial services importer in the CIS after Russia.

Suppliers of services sometimes decide to establish a commercial presence (an affiliate or a branch) in another country to supply particular services (this mode of delivering services through affiliates is not included in international trade flows measured by a country's balance of payments). Foreign direct investment in enterprises active in the services sector indicates that at least 50-55 per cent of total foreign direct investments are made in this sector. Available information shows that in 2005 the use of foreign affiliates remained the dominant mode used by major exporters to supply services abroad. For instance, Canada and the United States registered high growth rates of their sales of services by their majority-owned foreign affiliates (excluding most financial intermediation services) between 2003 and 2005 (10 and 12 per cent average annual growth rate respectively).

Chart I.12 International sales of services through conventional trade and through foreign affiliates, Canada and United States, 2005