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WORLD TRADE LOOKED UP IN 1992, BUT GATT ECONOMISTS SEE UNCERTAIN PROSPECTS THIS YEAR

World trade growth accelerated last year for the first time since 1988. However, the prospects for the trend continuing in 1993 are uncertain with the balance of risks on the downside. These are key points from a report, released by the GATT today, which examines world trade trends in 1992 and looks ahead to 1993. Among the report's highlights are:

- world merchandise trade grew by 4½ per cent in volume terms in 1992, up 1½ percentage points on 1991 and the first reversal of a downward trend in trade growth that began in 1989;

- the value of world merchandise trade increased by 5½ per cent in 1992, reaching $3.7 trillion ($3,700 billion);

- world trade in commercial services is estimated to have grown by about 8 per cent to a value of $960 billion;

- North America (mostly the United States) and Asia (except Japan) were the highest performing regions for both export and import growth in 1992, with Latin America (mostly Argentina, Chile, Mexico and Venezuela) and the Middle East (most countries) reporting strong import growth;

*Figures for 1992 are preliminary estimates based on data available as of early March. Later in 1993, when more complete information is available, trade developments and trends will be analyzed in greater detail in GATT's new annual statistical report *International Trade Statistics 1993*. All value figures are expressed in United States dollars, all export data are f.o.b. and all import data are c.i.f.

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- Germany's slow and then negative economic growth caused a slump in import growth from 13 per cent in 1991 to 2 per cent last year and was a key element in Western Europe's lower import growth;

- Western Europe's exports to Central and Eastern Europe* once again expanded faster than its imports from those countries;

- for the first time since their transition to market economies began, the countries in Central and Eastern Europe (as a group) reported increased volumes of exports and imports in 1992;

- while current forecasts of a modest pick-up in the world economy foresee trade growth above 4½ per cent this year, the slow-down in the second half of 1992 and the uncertain outlook for economic growth in much of Western Europe and Japan suggest a downside risk for trade performance.

*Bulgaria, former Czech and Slovak Federal Republic, Hungary, Poland and Romania.

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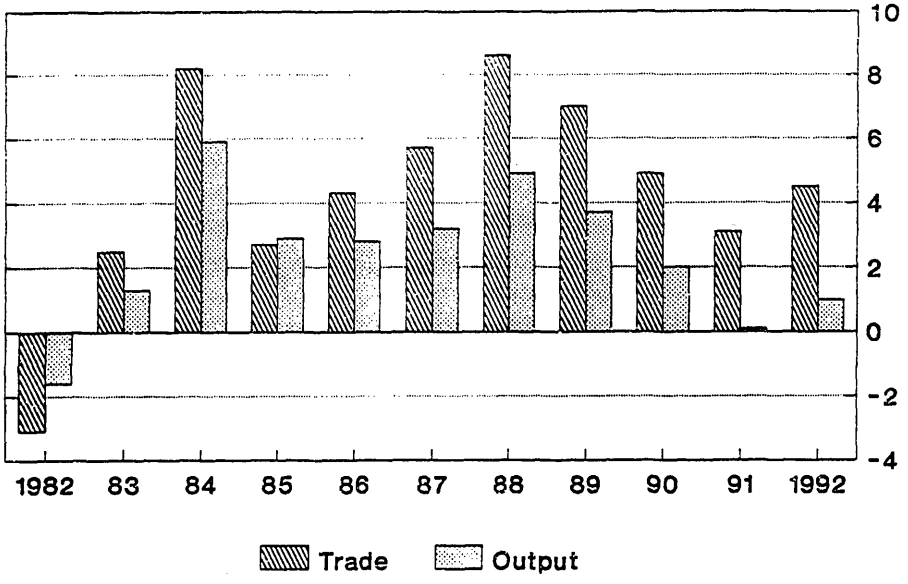
OVERVIEW AND OUTLOOK

The growth of world production and trade accelerated last year for the first time since 1988, stimulated by the economic recovery in North America and the sustained strength of import demand in Latin America, the Middle East and non-OECD Asia.[1] At 4½ per cent, the expansion in the volume of merchandise trade was considerably faster than the 3 per cent gain recorded the previous year and close to the average for the past decade (Chart 1).[2] World output growth also picked up, but remained well below the average since the 1982 recession. The reversal of the economic slowdown that began in 1989 - and in particular the brisk expansion of world trade - were bright spots in a year otherwise characterized by concerns about economic trends in key parts of the global economy.

Chart 1
Volume of world merchandise trade and output, 1982-92
(Annual percentage change)



[1]In this report, the North American region is composed of Canada and the United States; Mexico is included in the Latin American region.

[2]A lack of data, as well as methodological problems, rule out estimating growth rates for the volume of world trade in commercial services. Estimates of the growth in the value of trade in commercial services are given below.

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Table 1. Value of world exports, 1991-92

(Billion dollars and percentage)

	Value		Annual change	
	1991	1992	1991	1992
Merchandise	3,530	3,700	1½	5½
Commercial services	890	960	4	8

Note: Statistics on merchandise trade and on commercial services trade are not fully comparable, in part because the latter are subject to a number of (primarily downward) biases. See Section III of Volume I of *International Trade 1988-89* for additional details on these and other aspects of international trade in commercial services.

Boosted by faster volume growth, the value of world merchandise trade expanded by 5½ per cent last year, to $3.7 trillion (Table 1).[3] On the basis of the limited data currently available, preliminary estimates point to an increase of 8 per cent in world trade in commercial services in 1992, to $960 billion. Last year was the fourth consecutive year in which the value of trade in commercial services - which include transportation, tourism, telecommunications, insurance, banking and other professional services - expanded more rapidly than trade in merchandise. Factors behind the growth of services trade last year include the stimulus to trade in travel and transportation services from the economic recovery in North America and the rebound from the effects of the Gulf War.[4]

World trade's role in moderating the slowdown in global economic activity since 1989 is readily apparent from the large gap between the trade and output growth rates shown in Chart 1. Although trade growth declined, the slowdown was proportionately much less pronounced than for output, and - especially in 1991 and 1992 - trade growth has been by historical standards exceptionally

[3]Valuation effects were a factor in the excess of value over volume growth (a depreciation of the United States dollar against the currencies of the other major trading nations automatically increases the dollar value of world trade). Last year, the average value of the dollar's (trade weighted) nominal exchange rate depreciated 2½ per cent. Against the ECU and the yen, the dollar was down 4 per cent and 6 per cent, respectively.

[4]The World Tourism Organization estimates a 7 per cent rise in tourism receipts on the basis of a 4.6 per cent rise in tourist arrivals.

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strong relative to output growth.[5]

The recent excess of trade growth over output growth is both the result of recent developments and of ongoing longer-term changes in the world economy. A rising share of manufactures in world trade (manufactures are traded more intensively than most other products), the stimulus to trade in components from closer investment ties, and technological advances in communications and transportation that reduce the "economic distance" between countries are well known examples of the longer-term developments.[6] More recent developments include,

- the unification of Germany (in 1991 German import demand grew more than ten times faster than output);

- imports into the Middle East sustained a rise in consumption while the region's overall output stagnated during the Gulf War in 1991;

- the relatively sharper impact on world output than on world trade of last year's pronounced decline in economic activity in Central and Eastern Europe and the former USSR (the weight of this region in world GDP calculations is much larger than its weight in world trade);

- the booming re-export trade between Hong Kong and China, whose impact on trade far exceeds the impact on output growth; and

- the strong growth of imports into North America as the economic recovery took hold (in 1992 import volume increased five times faster than output) and into Latin America in 1991 and 1992 as a result of, among other developments, economic restructuring and a greater openness to trade.

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[5]During 1988-92 trade expanded more than twice as fast as output, a record unequalled in any five-year period in the postwar era. A rising trade-to-output ratio for the world economy indicates both the relative strength of trade as a source of output and employment growth, and the ongoing integration of the world economy.

[6]For additional details on some of these factors, see Part III of *International Trade 89-90* (Volume I), Geneva: GATT. While the discussion concerns only merchandise output and trade, it should be noted that these factors have also increased the tradability of services, further increasing trade-to-output ratios.

Outlook for 1993

As 1992 came to an end, earlier forecasts for output and trade growth in 1993 were revised downward.[7] While the revised figures still foresee an increase in global growth rates relative to 1992, the recovery is expected to be modest and the overall figures mask important areas of little or no growth, most notably a large part of Western Europe - including Germany (where a decline in GDP is now forecast), France and Italy - and Japan. If the forecasts of a modest pick up in world economic growth in 1993 turn out to be correct, it is plausible to expect an expansion of world trade in real terms at least equal to the 4½ per cent recorded last year.

That being said, there is a widely-shared perception that much of the risk is on the downside. Among the principal concerns is the fact that the trade expansion in the second half of 1992 was below the average for the year as a whole, which means that trade growth must accelerate moderately in the course of 1993 in order for the year-over-year gain to at least match last year's 4½ per cent increase. This may be difficult to achieve given the outlook for Western Europe and Japan, which together purchased half of world imports last year. For sources of relative strength it is necessary once again to look primarily to North America and the dynamic economies in non-OECD Asia, which together accounted for 35 per cent of world imports in 1992.

Two lessons for trade policy are evident from this brief review of recent developments and the outlook for 1993. One is the need to keep markets open. As is clear from the large excess of trade growth over output growth in recent years, trade has been a source of relative strength in an otherwise mostly weak economic environment, especially for slow-growth countries. The risks which trade frictions pose for the current economic recovery are therefore even greater than usual. Second, the opportunity to implement a major trade liberalization and an extension of the rules safeguarding market access has added advantages when the world is searching for ways to give a non-inflationary stimulus to output and employment. In this context, the failure of governments to seize the opportunity provided by the Uruguay Round, especially when the results are so close at hand, adds to uncertainty in the private sector and makes recovery harder to achieve.

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[7]See the *OECD Economic Outlook*, December 1992, and IMF, *World Economic Outlook: Interim Assessment*, January 1993.

MERCHANDISE TRADE IN 1992 BY REGION AND COUNTRY

Volume developments

The regional pattern of trade growth in 1992 was shaped by the divergent trends in economic activity among the regions (Table 2). North America's recovery, centered in the United States, lifted the region's demand for imports in volume terms by nearly 10 per cent. Export growth also increased, boosted by the recovery in intra-North American trade and the import boom in Latin America. In spite of the slowdown last year in Japan and other Asian economies, Asia's trade performance - on both the import and export side - remained well above the world average. Important factors behind the continued strength include the recovery in North America (a key market for many Asian traders) and the rapidly expanding exports and imports of China and Hong Kong. The pattern of export growth among the regions was somewhat more balanced, as exports from the slower growing regions benefitted from demand in the rest of the world.

Table 2. Volume growth of merchandise trade for selected regions, 1991-92
(Annual percentage change)

Exports			Imports	
1991	1992		1991	1992
3	4½	World	3½	5
5	7	North America	1	9½
3	6½	Latin America	13½	17½
2½	3	Western Europe	4	2
2½	3	EC	5½	3
½	4½	EFTA	-3	-1
-25	-10	Central and Eastern Europe and CIS	-33	-7½
9	7	Asia	9	8
3	1	Japan	3	-½
13	11	Six other Asian exporters of manufactures[a]	16	11

[a]Chinese Taipei, Hong Kong, Republic of Korea, Malaysia, Singapore and Thailand.

As the growth of demand slowed and then turned negative in Germany in the course of last year, import growth declined from the 13 per cent recorded in 1991 to 2 per cent. Together with absolute declines of imports into Sweden, Switzerland and Finland, this was a key development behind the slower growth of Western Europe's overall import demand last year. In spite of the sluggish growth of intra-West European trade, the region's exports were sustained by the recovery in North America and the import boom in Latin America and the Middle East, the recovery of exports to Asia, and the continuing demand for West European products in Central and Eastern Europe.

For the region composed of Central and Eastern Europe and the republics of the former USSR, last year was the third consecutive year of declining trade volumes. All of the decline, however, was due to the trade of the former USSR, which continued to fall sharply. In contrast, expanding trade with the West made 1992 the first year since the start of the transition to market economies in which the countries in Central and Eastern Europe as a group reported increased export and import volumes.

Value developments

While the broad outlines of regional trade developments in 1992 are the same when the analysis shifts from trends in the volume to trends in the value of merchandise trade, a wider range of data is available (Tables 3 and 4). Among the 25 leading exporters and importers in world merchandise trade, China and Hong Kong recorded the strongest expansion in the value of trade last year.[8] The modest decline in the value of Japan's imports, in contrast, was a factor in France's move into third place among the world's leading importers for the first time since 1987.

Latin America's import expansion - triple the world average - was again centered in Mexico and Argentina. Mexico's imports from and exports to the United States through the *maquiladoras* (border processing zones) rose sharply, but its overall export growth was slowed by lower earnings from fuels. Imports into Argentina rose 80 per cent in 1992, with imports from within the region doubling. Intra-regional trade expansion was also behind the nearly

[8]Three-quarters of Hong Kong's exports is re-exports, of which more than one-half originates in China.

15 per cent rise in Brazil's exports (shipments to Argentina doubled), while its imports fell due to domestic recession.

Business cycle effects were also prominent in the evolution of Western Europe's trade in 1992. Imports from Africa and the Middle East were down, depressed by sluggish demand for imported fuels and other commodities, and imports from Latin and North America were also down. The growth of imports from Asia slowed, but Western Europe's exports to Asia rebounded from the small decline in 1991.

Table 3.Value of world merchandise trade by region, 1991-92
(Billion dollars and percentage)

Exports (f.o.b.)				Imports (c.i.f.)		
Value	Annual change			Value	Annual change	
1992	1991	1992		1992	1991	1992
3,700	1½	5½	World	3,830	2	6
580	5½	6	North America	685	-1	7½
150	-1	4	Latin America	170	15	18½
1,705	-1	5½	Western Europe	1,770	½	3½
1,455	-1	6	EC	1,520	2	4½
225	-3½	5	EFTA	215	-5½	1
85	-25	-10	Central and Eastern Europe and CIS[a]	90	-30	-5
95	0	-3	Africa	100	½	3½
120	-9	-½	Middle East	125	13½	13½
970	11½	9½	Asia	895	9	8
340	9½	8	Japan	235	½	-2
85	16	18	China	80	19½	26½
415	15½	12	Six other Asian exporters of manufactures[b]	430	16½	11½

[a]Figures are affected by difficulties in converting data expressed in national currencies into dollars. See Box 1 in Volume I of *International Trade 1990-91*. No data are available for trade between the members of CIS. The figures in the table for this region include the foreign trade of the Baltic states.

[b]Chinese Taipei, Hong Kong, Republic of Korea, Malaysia, Singapore and Thailand.

Table 4. Leading exporters and importers in world merchandise trade, 1992
(Billion dollars and percentage)

Rank	EXPORTERS	Value (f.o.b.)	Share	Annual change 1991	Annual change 1992	Rank	IMPORTERS	Value (c.i.f.)	Share	Annual change 1991	Annual change 1992
1	United States	447	12.1	7.2	6.0	1	United States	552	14.4	-1.6	8.5
2	Germany	429	11.6	-4.3	6.6	2	Germany	408	10.7	9.6	4.7
3	Japan	340	9.2	9.5	7.9	3	France	240	6.3	-1.1	3.4
4	France	236	6.4	0.2	8.6	4	Japan	233	6.1	0.7	-1.8
5	United Kingdom	191	5.2	-0.1	3.5	5	United Kingdom	222	5.8	-5.8	5.5
6	Italy	175	4.7	-0.5	3.2	6	Italy	185	4.8	0.4	1.4
7	Netherlands	140	3.8	1.1	5.0	7	Netherlands	134	3.5	0.3	5.9
8	Canada	135	3.6	-0.4	5.8	8	Canada	130	3.4	1.2	3.8
9	Belgium-Luxembourg	123	3.3	0.4	4.0	9	Belgium-Luxembourg	126	3.3	0.4	4.5
10	Hong Kong[a]	118	3.2	20.0	20.0	10	Hong Kong[b]	122	3.2	21.6	21.5
11	China	85	2.3	15.9	18.2	11	Spain	100	2.6	7.2	6.2
12	Chinese Taipei	81	2.2	13.3	7.0	12	Korea, Rep.	82	2.1	16.7	0.2
13	Korea, Rep.	77	2.1	10.5	6.8	13	China	81	2.1	19.6	26.4
14	Switzerland	66	1.8	-3.6	6.8	14	Chinese Taipei	72	1.9	15.3	15.0
15	Spain	65	1.7	7.2	8.7	15	Singapore[b]	72	1.9	8.9	9.2
16	Singapore[c]	64	1.7	11.9	7.6	16	Switzerland	66	1.7	-4.6	-1.1
17	Sweden	56	1.5	-4.1	1.6	17	Mexico[d]	62	1.6	23.6	23.5
18	Saudi Arabia	48	1.3	9.9	-2.0	18	Austria	54	1.4	3.4	6.3
19	Mexico[d]	46	1.2	5.2	5.9	19	Sweden	50	1.3	-8.7	0.1
20	Austria	44	1.2	-0.4	8.0	20	Australia	45	1.2	1.0	7.0
21	Australia	42	1.1	5.2	0.7	21	Thailand	41	1.1	12.6	9.6
22	Denmark	40	1.1	2.4	9.9	22	Malaysia	39	1.0	25.3	7.5
23	Malaysia	40	1.0	16.8	15.0	23	Denmark	34	0.9	0.5	3.8
24	Brazil	36	1.0	0.7	14.5	24	Saudi Arabia	34	0.9	24.6	12.0
25	Norway	35	1.0	0.2	3.1	25	Portugal	30	0.8	3.4	14.0
	Total	3154	85.3	3.5	6.9		Total	3211	83.8	3.3	6.3
	World	3700	100	1.7	5.7		World	3830	100	1.8	6.0

Memorandum item: the ten leading exporters and importers if the member countries of the European Communities are treated as a single trader and intra-EC trade is excluded from all statistics, including total world merchandise trade.

1	EC	565	19.9	-4.2	6.7	1	EC	635	21.5	1.9	3.0
2	United States	447	16.0	7.2	6.0	2	United States	552	18.7	-1.6	8.5
3	Japan	340	12.1	9.5	7.9	3	Japan	233	7.9	0.7	-1.8
4	Canada	135	4.8	-0.4	5.8	4	Canada	130	4.4	1.2	3.8
5	Hong Kong[a]	118	4.2	20.0	20.0	5	Hong Kong[b]	122	4.1	21.6	21.5
6	China	85	3.0	15.9	18.2	6	Korea, Rep.	82	2.8	16.7	0.2
7	Chinese Taipei	81	2.9	13.3	7.0	7	China	81	2.7	19.6	26.4
8	Korea, Rep.	77	2.7	10.5	6.8	8	Chinese Taipei	73	2.5	15.3	15.0
9	Switzerland	66	2.3	-3.6	6.8	9	Singapore[b]	72	2.5	8.9	9.2
10	Singapore[c]	64	2.3	11.9	7.6	10	Switzerland	66	2.2	-4.6	-1.1

[a]Includes re-exports. In 1992, reexports rose by 28 per cent to $88.1 billion. Domestic exports increased by less than 2 per cent to $30.2 billion.
[b]Includes substantial imports for re-export.
[c]Includes re-exports. In 1992, re-exports rose by 9½ per cent to $22.5 billion. Domestic exports increased by 6½ per cent to $41 billion.
[d]Includes estimates of trade flows through processing zones.

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For Central and Eastern Europe, 1992 marked a continued recovery in trade, with the ongoing reorientation of trade towards Western Europe offsetting declining trade with members of the former CMEA.[9] Western Europe's imports from Central and Eastern Europe, up an estimated 20 per cent in 1992, continued to be concentrated in the traditional categories of food, steel and clothing.[10] Exports to Central and Eastern Europe increased 24 per cent, stimulated by the region's need for machinery to retool domestic industry, and food and other goods to satisfy consumer demand. Although preliminary figures suggest the margin of excess was smaller than in 1991, Western Europe's exports to Central and Eastern Europe once again expanded faster than imports from those countries, confirming that the transition to market economies has increased export opportunities for many of the reforming countries' trading partners.

Table 5

Trade of Western Europe with Central and Eastern Europe and CIS, 1991-92
(Annual percentage change in value)

Exports to			Imports from	
1991	1992		1991	1992
-1	14	Bulgaria	26	24½
21	63	Czech and Slovak Fed. Rep.	27	40
16	17	Hungary	16	11
61	6½	Poland	-6½	15½
-2	43	Romania	-10	2½
30	24	Central and Eastern Europe	12	20
-23	-4½	CIS	-7	0
3	12	Total	1½	9½

Note: The former Yugoslavia is not included in Western Europe. Growth rates for 1990-91 exclude the value trade of the former German Democratic Republic in 1990 and 1991, while the 1991-92 growth rates include the trade of the united Germany in 1991 and 1992. For statistical reasons, the trade of the Baltic states is included with that of the CIS.

[9]Statistics on the intra-regional trade of the Eastern Europe and the CIS region are affected by serious discontinuities resulting from changes in valuation methods for trade in recent years, in particular, the adjustments with respect to the transferable rouble. Since January 1991, most intra-regional trade transactions have been conducted on the basis of "world market" reference prices and settled in convertible currencies.

[10]Separate figures on trade with Estonia, Latvia and Lithuania (the Baltic states) appeared for the first time in Western Europe's trade statistics for 1992 (and thus are not shown separately in Table 5). Western Europe's exports to and imports from the Baltic states are estimated at $1.2 billion and $1.5 billion, respectively, for 1992.

Exports of the Russian Federation (which accounted for roughly three-quarters of the exports of the former USSR) were down sharply in all major product categories apart from fuels.[11] Its trade continued to shift to the West and away from traditional CMEA trading partners, with the result that the OECD countries now account for more than one-half of the Federation's total trade.

Export earnings of most fuel exporters in the Middle East, Africa and other regions declined in response to moderate price declines and weak or negative volume growth. Prices of metals and minerals were down, reflecting expectations of a slow recovery in the world economy in 1992 and 1993. Tropical beverage prices were severely depressed for most of 1992 due to the partial withdrawal of the CIS as a large customer and the uncertainty over the arrangements for trade in cocoa and coffee, but recovered somewhat at the end of the year on lower-than-expected production volumes. Among the major categories of primary commodities, only timber and fats and oils (as a group) recorded price gains in 1992.

Current account imbalances in the five leading traders

Measured in dollars, the current account imbalances of four of the five leading traders widened in 1992.[12] The onset of recession in Japan was largely responsible for the increase in Japan's current account surplus to a record $118 billion. In the United States, the economic recovery raised the merchandise trade deficit, and the resulting increase in the current account deficit, from $4 billion to $62 billion, reversed four years of declining deficits.[13] The recovery of import demand in the United Kingdom contributed to an increase in the current account deficit from $11 to $21 billion. Although the onset of recession in Germany in the second half of 1992 reduced import growth sharply, the current account deficit rose from $20 to $25 billion due to an increased deficit on trade in commercial

[11]The extent of the disruption of the trade of the former USSR is evident from the fact that the Russian Federation was not among the 25 leading traders in 1992, despite its dominant position in the trade of the former USSR, which ranked in the top 20 in 1991. To put this in perspective, last year Russia exported less than Norway and imported less than Portugal. In this regard, it should be noted that reliable data on trade between the republics of the former USSR are not available.

[12]Much of the discussion in the popular press focuses on merchandise trade imbalances, rather than on current account imbalances. This clearly is inappropriate because trade in services is an important and growing part of countries' trade.

[13]When the 1992 deficit is compared with the 1991 deficit, it should be kept in mind that the latter deficit was reduced by transfers related to the Gulf War from other countries (principally Germany and Japan) to the United States.

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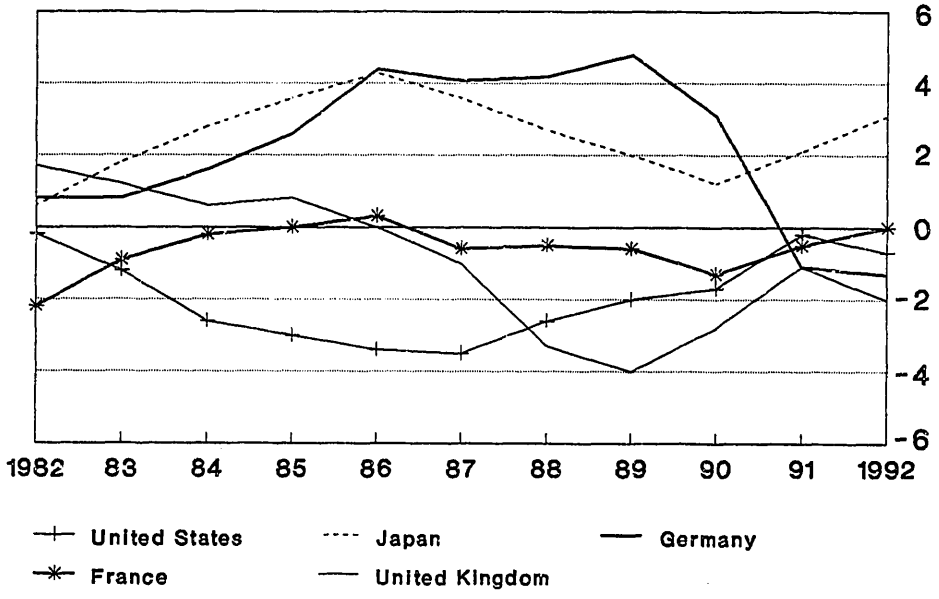
services and a decline in the surplus on investment income. France, alone among the leading traders, reported a move from deficit to virtual balance in the current account, as strong export growth caused the merchandise trade balance to shift from deficit to a small surplus.

Chart 2
Current account imbalances of the G-5 countries as a percentage of GDP, 1982-92



When considering recent current account developments, it is important to keep in mind that the widening of last year's current account imbalances is to a large extent the result of the divergent trends in economic activity in 1992. Relating the imbalances to GDP, as is done in Chart 2 for the five leading traders, provides an even better perspective since it eliminates most of the effects of inflation and changes in exchange rates, and adjusts for the fact that a current account imbalance of a given size declines in significance as GDP expands. Last year's imbalances clearly are much smaller relative to GDP than was the case five years ago. More generally, it is evident that on this basis the current account imbalances of four of the five leading traders in 1992 were considerably smaller than in most other years

since the early 1980s. Although Japan's surplus as a share of GDP increased for the second consecutive year, it remained below the levels recorded during the three years 1985-87.

The Single Market

The entry into force on 1 January 1993 of the single market for goods and services within the European Communities brings the international community closer to the point at which a decision may be taken to no longer count intra-EC trade as part of world trade.[14] By way of illustrating how the ranking of leading traders would be affected, the lower part of Table 4 indicates which traders would have been among the top ten in 1992 if the international community had decided to exclude intra-EC trade from world trade and to treat the EC as a single trading entity. Not surprisingly, the changes are dramatic. The EC is in the top spot, ahead of the United States, and four low and middle-income traders from Asia, plus Switzerland, move into the top ten. Removing intra-EC trade also lowers world merchandise exports from $3.7 trillion to $2.8 trillion, and causes the share of non-OECD countries in the total to rise from 30 to 40 per cent. Since intra-EC trade expanded more slowly than world trade in 1992 in volume terms, excluding intra-EC trade raises the growth rate of world merchandise trade in 1992 from 4½ to 5 per cent.

[14]Data on trade between members of the EC will continue to be collected through information contained on the Single European Document, whose primary purpose is to ensure VAT tax collection. However, these data will not be fully comparable to merchandise trade data collected on a customs-cleared basis, in particular as regards the coverage, but also the level of detail available.

END