I TRADE AND TRADE POLICY DEVELOPMENTS

A RECENT TRENDS IN INTERNATIONAL TRADE AND POLICY DEVELOPMENTS

1. INTRODUCTION: RECOVERY OF GLOBAL OUTPUT AND WORLD TRADE

The expansion of global output and trade gained considerable momentum in the second half of 2003 resulting in an annual average increase of world GDP and world merchandise exports of 2.5 per cent and 4.5 per cent respectively. These changes represent stronger than expected improvements when compared with the preceding year although trade growth remained below the average rate recorded in the 1990s. These annual results were negatively affected by a combination of unusual, temporary factors and longer-term structural weaknesses in a number of major economies (in particular the state of the banking system in Japan and the labour markets in Western Europe). One of the influencing temporary factors was the emergence of the severe acute respiratory syndrome (SARS) in East Asia. Although SARS remained a limited epidemic relative to malaria and the acquired immunity deficiency syndrome (AIDS), it had a dramatic short-term impact on the movement of people and on the tourism industry in the region.[1] The build up of tensions resulting in the military conflict in Iraq weakened consumer and business confidence in many regions in the first quarter of the year. In OECD countries the composite leading (business) indicator hit its lowest level in March 2003 then displayed a trend increase from May 2003 onwards. The major stock markets showed a similar development, dropping sharply until March but recovering thereafter and then expanding sharply until the end of the year.

Once the SARS outbreak was under control and the open military action ended in Iraq the world economy strengthened in the third quarter. Trade in goods and services strongly rebounded in the third quarter in both the United States and East Asia.

The moderate growth in output of the global economy precluded an improvement in the employment situation in most regions. This is not an unexpected development since employment indicators typically lag in cyclical recoveries. It requires several quarters of strong and sustained output growth before employment gains and a reduction in unemployment rates can be observed.[2] Rapid growth in productivity in the US also contributed to the lack of improvement in employment levels.

Monetary and fiscal policies have been expansionary in most regions. Consequently, fiscal deficits widened and interest rates declined or remained low. The fiscal deficit of the major developed economies in 2003 over 2002 rose from 3.4 per cent to 4.9 per cent of GDP in the United States, from 2 per cent to 2.7 per cent in the European Union and from 7.1 per cent to 7.4 per cent in Japan. Interest rates decreased markedly especially at the longer-term end in all developed markets. A sharp increase in the monetary aggregates in the developed countries, together with gains in confidence in South American markets, contributed to an improved credit rating of many developing countries. Consequently, emerging-market spreads dropped sharply from late 2002 onwards, reducing the debt-servicing costs of many developing countries.

Exceptional exchange rate developments in 2003 comprise the rise of the euro and, to a lesser extent, that of other West European currencies and the yen *vis-à-vis* the United States dollar.[3] The direction of the exchange rate changes is generally considered a positive development given the current account imbalances prevailing in early 2003. However, some observers view the magnitude and pattern of exchange rate changes in 2003 as insufficient given the size and regional structure of current account imbalances. Despite the depreciation of the dollar, the US current account deficit still continued to widen in the course of the year, amounting to $542 billion in 2003 – a sum equivalent to 4.9 per cent of US GDP and nearly 6 per cent of world trade in

[1] According to WHO (2004), 8,096 people were infected of which 774 persons died of SARS during the period from 1 November 2002 to 31 July 2003.

[2] ILO (2004) reports a decline in unemployment in the transition economies and South East Asia. An increase in unemployment occurred, however, in Africa and the Middle East. In South Asia, the regional unemployment rate remained unchanged in 2003 from the preceding year. CEPAL (2003) indicates a small increase in the average unemployment rate for Latin America in 2003, while OECD (2003a) reports an average increase in unemployment rates for both North America and Western Europe in that year.

[3] Other appreciating currencies in 2003 comprise the Canadian dollar, the Czech kouruna, the Hungarian forint and the South African rand which all appreciated by more than 10 per cent *vis-à-vis* the dollar in 2003.

goods and services. Financing of the US current account deficit in 2003 went smoothly as is indicated by low US interest rates. In the course of 2003, this financing of the US deficit was increasingly shifted to a number of Asian central banks which increased their foreign exchange reserves rather than appreciate their currencies in relation to the dollar.

Having strongly supported international trade flows in the second half of the 1990s, global FDI flows remained almost flat in 2003, at the five-year low of approximately $600 billion recorded in 2002.[4] FDI inflows into developing countries, excluding China, decreased for the third year in a row in 2003, amounting to less than $100 billion for the first time in eight years. However, capital flows to the developing countries – other than FDI – increased in 2003. Private capital flows to emerging markets in the developing world are estimated to have increased mainly as a result of increased portfolio investments and credits from commercial banks and non-banks.[5] In the past, FDI inflows to the transition countries were generally directed to those economies which had been in the process of joining the EU. In 2003, however, FDI inflows expanded faster to the CIS countries than to those acceding to the EU in 2004. Debt relief under the enhanced Heavily Indebted Poor Countries Initiative (HIPC) made further progress, covering 26 countries at the end of 2003. Debt of these countries will be reduced over time by about $50 billion (measured on a present net value basis).[6]

Despite strong monetary expansion in developed and many developing countries, domestic inflationary pressures were kept in check by a moderate increase in global economic activity. Dollar prices of internationally traded goods, however, increased by 11 per cent in 2003, their strongest increase since 1995. Prices of fuels – up by 16 per cent – were boosted by temporary supply shortfalls linked to the conflict in the Middle East and by civil unrest in Venezuela. Several developments on the demand side also contributed to the strengthening of energy prices. China's oil demand rose by 11 per cent in 2003, amounting to more than one third of the estimated 2 per cent increase in global demand. Net-oil imports rose by 30 per cent and accounted for 38 per cent of domestic demand in 2003. In the United States, the combination of increased demand and falling domestic output resulted in a 7.5 per cent increase in crude oil imports.[7] In other words, the role of international trade in global energy markets continued to rise, sustaining the rapid expansion of fuel exports in recent years from Africa and the transition economies.

Prices of non-fuel commodities in 2003 rose on spot markets by 7 per cent on average, including a 12 per cent increase in metal prices. Prices of manufactured goods evolved quite differently by region in 2003 due to exchange rate developments. Dollar prices of manufactured goods exported by Germany and other European countries increased much faster than those of the United States or Asian countries.[8] On average it is estimated that these prices rose nearly 10 per cent, the first annual increase since 1995. One reason why price increases in manufactures were not as vigorous as in other sectors is that prices of electronic goods fell steadily in 2003.

Manufactured goods represent by far the largest share (about 75 per cent) in world trade of goods and services, although the manufacturing sector accounts for only about 20 per cent of world GDP. The most dynamic segment of international trade in manufactures throughout the 1990s had been trade in office and telecom equipment, with dollar values expanding at 10 per cent per annum or twice as fast as total trade in manufactured goods. In 2000, the share of office machinery and telecom equipment in world trade exceeded the share of agricultural products, chemicals or automotive products by 12.1 per cent. Since the burst of the IT bubble in early 2001, international trade in computers[9], semiconductors[10] and telecom equipment lagged

4 UNCTAD, Press Release 12/01/04, "Global FDI decline bottoms out in 2003".

5 Institute of International Finance, Inc, 15 January 2004, "Capital flows to emerging market economies".

6 Information based on World Bank, News, 23 January 2004.

7 IEA, Oil Market Report, 11 February 2004 available at www.oilmarketreport.org and US Department of Commerce News, US International Trade in Goods and Services, December 2003.

8 Germany's export price for manufactured goods went up by 20 per cent while those of the US and Japan increased by 0.4 per cent and 3.7 per cent respectively in 2003.

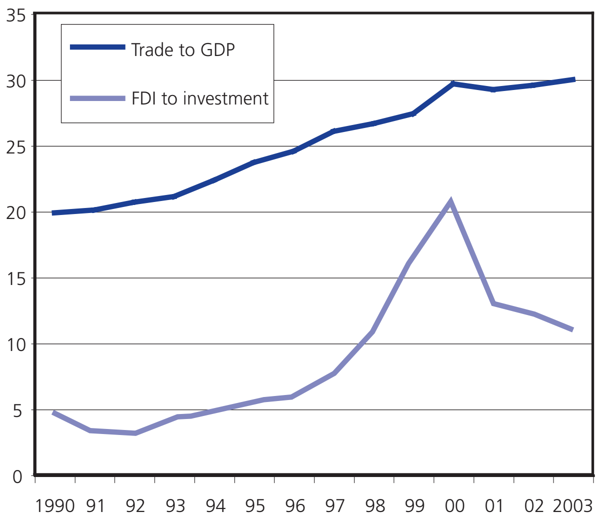
9 Gartner Dataquest, Press Release, 14 January 2004, reports that unit sales of personal computers rose by nearly 11 per cent to 168.9 million in 2003.

10 The Semiconductor Industry Association (SIA) announced on 2 February 2004 an increase in worldwide sales of semiconductors by 18.3 per cent to $166.4 billion in 2003. Global sales of semiconductors had peaked at $204 billion in 2000.

behind the expansion of world trade in manufactures. Despite a recovery in the global sales of computers, semiconductors and telecom equipment, the increase in the dollar value of trade in office and telecom equipment continued to lag behind overall trade expansion in 2003. It is partly because of the end of the IT boom that the volume of international trade expanded less than GDP in 2001, and that the typical excess of trade over output growth was unusually small in 2002 and 2003.

Globalization trends are often illustrated by an excess of trade (goods and services) over output growth and the faster increase in worldwide FDI flows compared to global fixed-investment expenditure. Since the recession in 2001 these two measures indicate – at least temporarily – a slowdown in the globalization process. The ratio of world trade to world GDP decreased in 2001 and increased only slightly thereafter. Foreign direct investment flows collapsed after the burst of the IT bubble and the stock market crashes in 2001. Due to the steep fall of FDI flows, the ratio of FDI flows to gross fixed investment decreased to 11 per cent, after a fivefold increase between the early 1990s (4 per cent) and 2000 (20 per cent) (Chart IA.1).

Chart IA.1
Ratio of world trade to GDP and ratio of global FDI flows to world fixed investment, 1990-2003
(Percentage)



Source: World Bank, World Development Indicators; UNCTAD, World Investment Report and WTO estimates.

A comparison of trade (exports plus imports) to GDP ratios by region reveals that the sluggishness of the trade output ratio over the last three years was widespread. The overall stagnation of many of these trade to GDP ratios originates from contrasting country developments. During the 2000-2003 period US exports fell while imports continued to rise in line with output, leading to a near stagnation in the total trade to GDP ratio. In MERCOSUR, exports expanded strongly while imports declined sharply relative to output, leaving the average trade to GDP ratio rather flat over the 1997-2003 period. The five Asian developing countries most affected by the financial crisis in 1997 recorded such strong export expansion between 1996 and 2000 that even a dull recovery in imports could not arrest the increase in their total trade to GDP ratios. The output decline of the IT sector in 2001 led to a temporary dip in both the exports and imports to GDP ratios. Following a sharp increase in EU export and import ratios between 1992 and 2000, the two ratios roughly stagnated between 2000 and 2003. Japan's export and import to GDP ratios dipped in 2001 but recovered moderately thereafter. In 2003, its overall trade to output ratio reached 10.5 per cent, exceeding the level of 2000 by one half of a percentage point. In contrast, China is the only country which continued to record a sharp increase in both export and import ratios over the 2000-2003 period, reflecting both the increased openness of the Chinese economy and its role in sustaining the global trade expansion over the last three years (Appendix Chart IA.1).

Major trade developments in 2003

A preliminary assessment of the major developments of international trade flows in 2003 reveals the following:

- After very sluggish growth in the first half of 2003, global trade expansion markedly accelerated in the second half and registered an average real increase of 4.5 per cent for the entire year.
- Trade acceleration in 2003 was much stronger in dollar values (or nominal terms) than in real terms. The dollar value of world merchandise rose by 16 per cent and average dollar prices rose by 10.5 per cent.

- Price developments in 2003 represented a marked reversal of the downward trend observed for trade prices since 1995. Nevertheless, despite the recovery in dollar prices in 2003 they averaged below the level observed in 1995.
- Price increases in 2003 are mainly attributable to higher commodity prices – in particular for fuels (16 per cent) and metals (12 per cent) – and exchange rate movements, particularly the rise of the euro *vis-à-vis* the dollar.
- In 2003 there were marked differences in the growth of merchandise trade flows by region. The highest year-to-year growth in export values was in the major fuel exporting regions such as the transition economies (CIS) and Africa. Merchandise exports in dollar terms of Western Europe, Asia and the Middle East slightly exceeded the global average. This similarity in the three regions hides quite divergent price and volume developments. While the expansion of exports from Western Europe is almost entirely due to exchange rate changes, more than two thirds of Asia's export growth can be attributed to volume changes. The nominal rise in the Middle East's exports, however, is mostly (two thirds) accounted for by higher oil prices.
- Lowest export growth in dollar values in 2003 was reported for North America and Latin America.
- Together with the Middle East, these two regions also recorded markedly weaker nominal import growth than all the other regions. The transition economies, Western Europe, Asia and Africa were the regions with import growth exceeding the global average. China's trade was again outstanding, with import growth of 40 per cent. For the first time in more than 50 years China's imports exceeded those of Japan. If imports and exports are combined then China's total merchandise trade almost matches that of Japan in 2003.
- Commercial services trade, which accounts for about one fifth of world trade in goods and services, expanded by 12 per cent in 2003 and thus less rapidly than merchandise trade. In the two preceding years (2001 and 2002) commercial services resisted the slowdown in the world economy better than merchandise trade.

2. REAL MERCHANDISE TRADE AND OUTPUT DEVELOPMENTS IN 2003

In 2003 the average volume increase[11] of world merchandise trade was 4.5 per cent, somewhat higher than in the preceding year but well below the rate recorded in the second half of the 1990s. This modest annual increase was the result of sluggish growth in the first half of the year and accelerated growth in the second half. Trade growth exceeded output growth by an atypically small margin. In the 1990s, average trade expansion was 6.5 per cent, approximately twice as fast as merchandise output growth. Most regions experienced a cessation in the rise of the trade to GDP ratio, which is a typical cyclical feature in a period of stagnation or recession (Table IA.1).

The most dynamic trading regions in 2003 were Asia and the transition economies, recording double-digit import and export expansion of their merchandise trade in real terms. Sustained by depreciated currencies and a recovery in demand for many primary commodities, Latin America recorded a sharp volume increase in its merchandise exports. However, the region's imports grew by less than 2 per cent. North America's import growth exceeded not only the global rate of expansion but was again much stronger than its own export growth. US merchandise imports went up by 5.7 per cent while exports rose somewhat less than 3 per cent, although this was the first annual increase after two years of contracting export volumes. In 2003,

Table IA.1
World trade and output developments, 1990-2003
(At constant prices, annual percentage change)

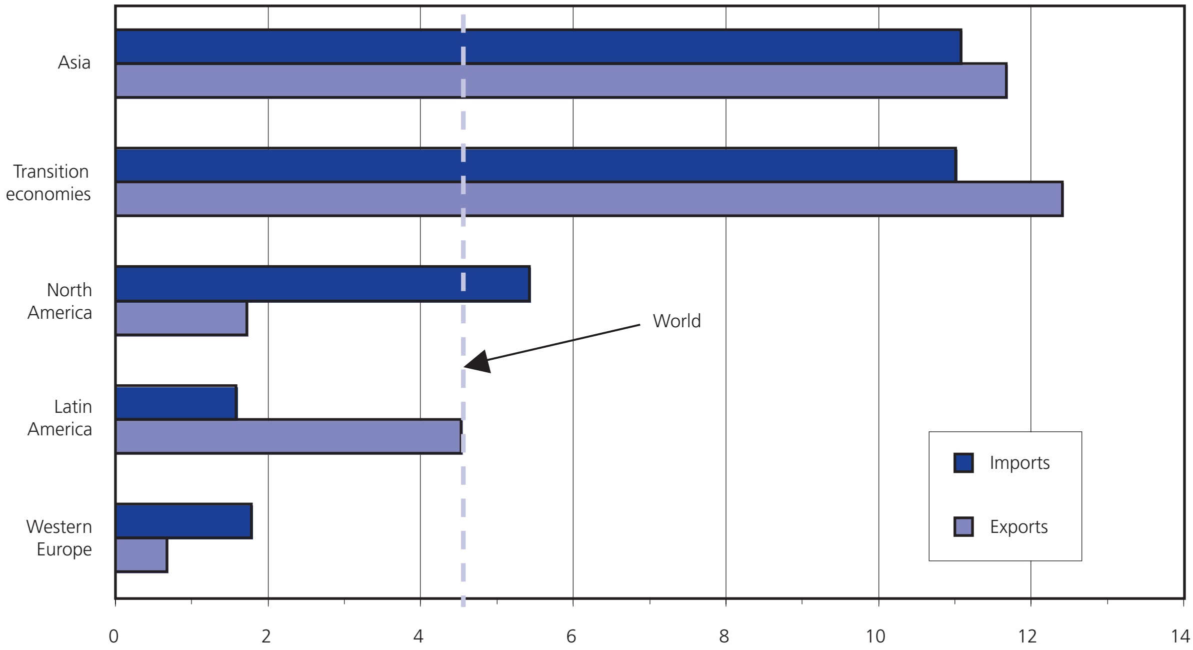
	1990-2000	2001	2002	2003
Merchandise exports	6.4	-0.5	2.8	4.5
Merchandise production	2.5	-0.7	0.8	...
GDP at market exchange rates	2.3	1.3	1.9	2.5
GDP at PPP	3.4	2.4	3.0	3.5

Note: GDP data are taken from IMF, World Economic Outlook except for 2003.
Source: WTO, IMF, World Economic Outlook, September 2003.

11 The real or volume increase in trade is based on nominal trade values adjusted for price and exchange rate changes. It is not a measure for the physical quantity of goods traded internationally.

Western Europe's merchandise exports rose by less than 1 per cent while imports edged up by nearly 2 per cent. Sluggish investment and consumer expenditure in the largest economies of the euro zone were the principal factors in Western Europe's disappointing trade performance (Chart IA.2).

Chart IA.2
Merchandise trade volume growth by region, 2003
(Annual percentage change)



Source: WTO.

3. NOMINAL TRADE DEVELOPMENTS IN 2003

It is estimated that the value of world merchandise trade rose by 16 per cent, to 7.3 trillion dollars and that of world commercial services by 12 per cent, to 1.8 trillion dollars in 2003. For world merchandise trade, it is estimated that more than two thirds of the rise in value terms must be attributed to dollar price changes (Table IA.2).

Table IA.2
World exports of merchandise and commercial services, 2003
(Billion dollars and percentage)

	Value	Annual percentage change		
	2003	2001	2002	2003
Merchandise	7274	-4	4	16
Commercial services	1763	0	6	12

Source: WTO.

Nominal trade developments in 2003 were strongly affected by highly divergent price and exchange rate developments. At a global level, it is estimated that dollar prices for merchandise trade rose by 10.5 per cent. For a more detailed review at the product group level, trade prices of some major traders can provide additional information. Price changes of US imports in 2003 varied, ranging from a 22 per cent increase for mining products, a more than 4 per cent increase for agricultural products, and a stagnation in manufactured goods. Within the manufactured goods sector, the prices of office and telecom products decreased by 5 per cent while those of iron and steel products increased by 5.5 per cent.[12] These relative sectoral price developments on the import side are very similar to those reported for US exports. The US price data are likely to reflect global price trends since corresponding relative price developments were found for German and Japanese trade flows.

[12] Price data for US merchandise imports are based on the detailed import price statistics of the US Department of Labor aggregated by the WTO Secretariat to match the standard WTO product groups.

The major features of nominal merchandise trade in 2003 include the following:

- Six out of seven geographic regions identified in this report recorded a merchandise trade surplus (on a f.o.b.-f.o.b. basis), while the seventh region (North America) registered a trade deficit. Four out of these six regions increased their surplus position in 2003 while the North American deficit widened further. The US merchandise trade deficit (f.o.b.-f.o.b.) reached 550 billion dollars, corresponding to 7.6 per cent of world merchandise exports in 2003.
- In the transition economies, a combination of relatively strong regional output growth, favourable price developments and the appreciation of many currencies in the region contributed to the exceptional expansion of trade. The region's merchandise exports and imports rose by more than one quarter, the strongest growth of all regions in 2003.
- As in 2002, Latin America recorded the lowest import growth of all regions in 2003 while the lowest export growth was again reported for North America.
- Africa and the Middle East recorded a steep acceleration in merchandise export growth between 2002 and 2003, largely due to the sharp rise in oil prices.
- Western Europe's merchandise exports and imports both expanded faster than world trade in 2003, mostly driven by exchange rate developments which boosted its trade measured in dollar terms. German merchandise exports exceeded those of the United States for the first time since 1990.
- Asia's merchandise imports and exports expanded faster than world trade, driven strongly by the expansion of China's trade. Intra-Asian trade grew considerably faster than trade with the rest of the world. For the first time since 2000, Asia's merchandise imports rose faster than merchandise exports (Table IA.3).

Table IA.3
World merchandise trade by major region, 2003
(Billion dollars and percentage)

	Exports				Imports			
	Value	Annual percentage change			Value	Annual percentage change		
	2003	2001	2002	2003	2003	2001	2002	2003
World	7274	-4	4	16	7557	-4	4	16
North America	996	-6	-5	5	1552	-6	2	9
United States	724	-6	-5	4	1306	-6	2	9
Latin America	377	-4	0	9	366	-2	-7	3
Western Europe	3141	0	6	17	3173	-2	5	18
European Union (15)	2894	0	6	17	2914	-2	4	18
Transition economies	400	5	10	28	378	11	11	27
Africa	173	-6	2	22	165	4	4	17
Middle East	290	-8	1	16	188	5	3	9
Asia	1897	-9	8	17	1734	-7	6	18

Source: Appendix Table IA.1.

The dollar value of commercial services trade rose by 12 per cent to $1.8 trillion. Last year's increase was twice that of the preceding year and by far the strongest increase since 1995.

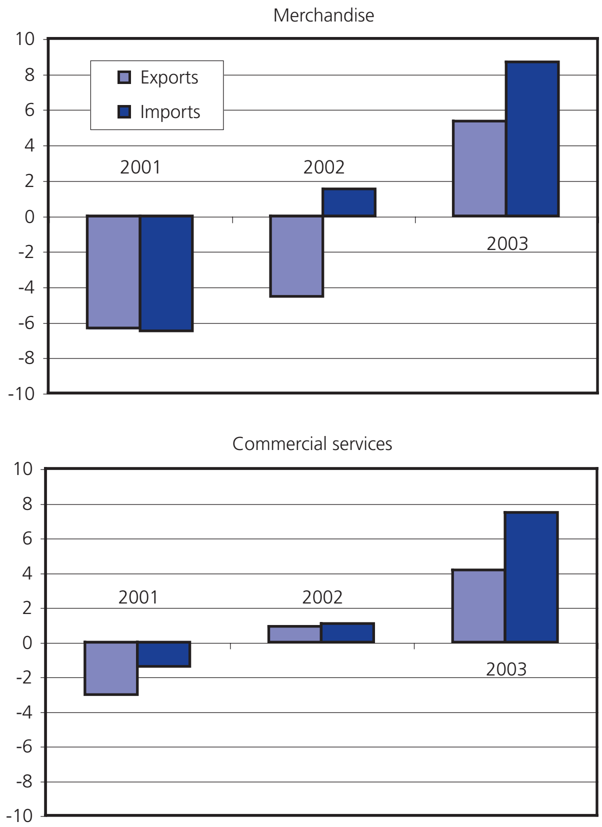
All seven major regions benefited from the strengthening of services trade, with higher export and import growth than in the preceding year. Western Europe's and the transition economies' commercial services trade was particularly buoyant, boosted by the strength of the regions' currencies *vis-à-vis* the US dollar. North America recorded the weakest export growth, at 4 per cent, while Latin America recorded the smallest import increase of all major regions, at 3 per cent. Partial data available for Africa points to strong expansion of the region's commercial services exports and imports in 2003. Despite the tensions prevailing in the Middle East, it is estimated that the region's services exports and imports recovered from their contraction in 2002. Services trade growth in Asia was modest compared to the preceding year. North America and Western Europe are the two net exporters in world services trade. As the North American surplus diminished and that of Western Europe increased, both regions recorded a surplus of approximately $55 billion in 2003. After more than a decade, Western Europe's share again rose above one half of world commercial services exports.

Travel services continued to suffer as a result of increased security concerns (particularly affected areas were the Middle East and the United States) and the threat of SARS (mainly East Asia).[13] Although some tourist flows were diverted to other regions, global revenues from travel services again declined in 2003. Consequently, the share of travel services in total commercial services decreased further, reaching 29 per cent in 2003 compared to 34 per cent ten years ago.

4. OVERVIEW OF REGIONAL TRADE DEVELOPMENTS

North America's trade recovered in both value and volume terms in 2003 despite a pronounced weakness in the first half of the year. In nominal terms, the expansion remained below that of global trade expansion leading to a further erosion of the region's shares in world merchandise and services trade. Import growth for both merchandise and services trade continued to exceed export growth (Chart IA.3).

Chart IA.3
North America's merchandise and commercial services trade, 2000-2003
(Annual percentage change in value)



Source: Appendix Tables IA.1 and IA.2.

Canada's trade growth - in particular merchandise trade - expanded faster than US trade, partly due to the appreciation of the Canadian dollar. US merchandise imports rose by 9 per cent in dollar values, faster than US merchandise exports, which grew by 4 per cent, leading to a new record merchandise trade deficit (f.o.b.-f.o.b.) of $550 billion in 2003. Although half of the US merchandise trade deficit occurred in trade with Asia, the US also recorded an excess of imports over exports with all other major geographic regions. The US trade deficit has become an important element in sustaining global trade levels, corresponding to 6.7 per cent of world merchandise trade in 2003.

In 2003, US merchandise imports from the oil-exporting countries surged, increased quantities having to be paid for at significantly higher prices. US imports from China rose by 22 per cent and exceeded, for the first time, those of Mexico, becoming second only to those from Canada. Linked to the rise in imports from China is the decline of US imports from Japan and Hong Kong, China. Between 1991 and 2003, Japan's share was cut steadily by more than half (from 18.8 per cent to 9.3 per cent) while China's share in US imports tripled to reach 12 per cent in 2003. Asia's share in US imports decreased steadily over the last ten years by five percentage points, to 36.5 per cent. Most of the corresponding gains over the ten-year period accrued to imports from Mexico. Canada's share in US imports decreased for the second year in a row, and fell to their lowest level in more than 20 years. However, the steady rise of Mexico's share in US imports

[13] According to preliminary estimates by the World Tourism Organization the number of international tourist arrivals fell by 1.2 per cent in 2003, some 8.5 million less than in 2002. See http://www.world-/newsroom/2004/janvier/data.htm

for more than a decade was – at least temporarily – arrested in 2003. US imports from Western Europe went up by somewhat more than 8 per cent in 2003, and accounted for slightly more than one fifth of US imports, a share very similar to that at the beginning of the 1990s. US imports from LDCs recovered by 20 per cent, partly due to increased oil imports.

In 2003, the Latin American region started to recover from its recession. Rising import demand in Asia and the United States, combined with higher commodity prices, helped to sustain merchandise exports which increased by 9 per cent in nominal terms, having stagnated the previous year. Merchandise imports, on the other hand, only grew by 3.5 per cent, albeit from strongly negative growth in 2002. The pattern on the services side was similar, with strong export recovery and weak import recovery.

An important feature of the region's trade developments was the sluggish growth of Mexican trade in 2003. Mexico is the region's largest trader and recorded a significantly more dynamic trade performance in the 1990s than other countries in the region. The weakness of US import demand for automotive products and the lack of competitiveness of Mexican goods in its major market contributed to this lacklustre export performance. Brazil was particularly successful, expanding its merchandise exports by more than 20 per cent, partly due to commodity price increases and strong demand from China.[14] As imports recovered only marginally, the Brazilian trade surplus (f.o.b.-f.o.b.) rose to a record level of $25 billion in 2003. Central America and the Caribbean countries continued to record a large merchandise trade deficit, although exports expanded by about 10 per cent, much faster than imports (Table IA.4).

Table IA.4
Latin America's merchandise trade, 2003
(Billion dollars and percentage)

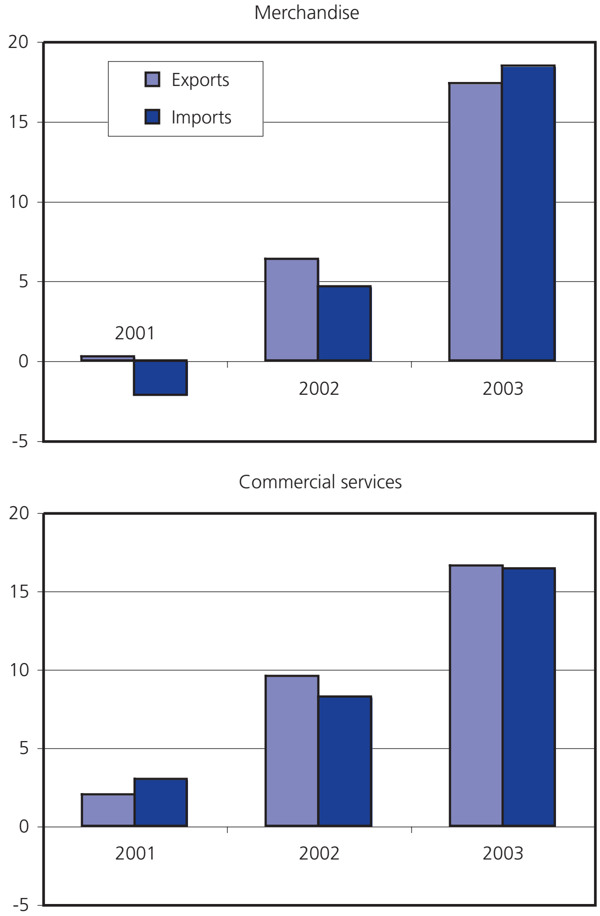
	Exports				Imports			
	Value	Annual percentage change			Value	Annual percentage change		
	2003	2001	2002	2003	2003	2001	2002	2003
Latin America	377	-4	0	9	366	-2	-7	3
Mexico	165	-5	1	3	179	-4	0	1
Central America (6)	14	-8	0	10	28	3	5	6
Caribbean countries (15)	16	-6	-6	11	28	0	-2	0
South America	181	-2	-1	14	131	-1	-18	7
Argentina	29	1	-3	14	14	-20	-56	54
Brazil	73	6	4	21	51	0	-15	2
Chile	21	-4	-1	14	19	-4	-4	13
Venezuela	24	-14	-11	-3	9	11	-34	-21

Note: For regional definitions see Technical Notes.
Source: WTO.

Western Europe's trade was principally shaped by two factors; weak economic growth in the region and the appreciation of European currencies, in particular the euro against the US dollar. Since Western Europe is the largest trading region in the world, the sluggishness of its economy was a retarding factor in the global recovery. Western Europe's GDP growth remained below even the disappointing growth performance in 2002, whereas all other regions recorded stronger growth over the previous year. Western Europe's real trade growth was the weakest of all regions (Chart IA.2). The picture of West European trade changes dramatically if one looks at these trade flows in dollar value terms. Merchandise and services trade both expanded at double-digit rates due to exchange rate changes (Chart IA.4). When measured in euro terms, both merchandise and services trade report a small decrease as compared with 2002.

14 Brazil's shipments to China rose by 80 per cent to $4.5 billion in 2003.

Chart IA.4
Western Europe's merchandise and commercial services trade, 2000-2003
(Annual percentage change in value)



Source: Appendix Tables IA.1 and IA.2.

While the EU's overall merchandise trade growth is almost identical to that of Western Europe, the EU's imports from non-EU countries expanded somewhat faster than intra-EU trade. Trade growth diverged significantly among the EU member countries. While UK export and import performance was, in value and volume terms, much weaker than the EU average, the merchandise exports and imports of Germany, Spain, Sweden and Austria expanded by more than one fifth in dollar terms. German merchandise exports, driven by exchange rate changes, exceeded US merchandise exports in 2003 for the first time since 1990. The strongest merchandise trade performance in Western Europe, however, was recorded by Turkey which expanded its exports and imports by one third. One major element common to three of these dynamic European traders is their geographical proximity and the intensity of their trade links with the transition economies, the most dynamic global trading region in 2003.[15]

Ireland, Western Europe's most dynamic trader in the 1990s, recorded by far the weakest export and import expansion of all European countries in 2003 due to its sluggish trade in IT products. In contrast, the Balkan states which experienced difficult times in the 1990s recorded a strong trade expansion in 2003. The five successor states of the former Yugoslavia, and Albania, recorded an expansion of exports and imports by one quarter.

For the second year in a row, the transition economies recorded the most rapid output and trade growth of all major regions. Merchandise exports and imports expanded by more than one quarter and services by one fifth measured in dollar terms. Strong currencies and higher fuel prices contributed to this outcome as did strong regional demand. In particular, the recovery of the Russian Federation's GDP and trade had a stimulating effect on the neighbouring economies. Rising FDI flows and the steady deepening of westward integration of those economies that join the EU in May 2004, sustained the rapid overall trade growth of the region (Chart IA.5).

The recent impressive trade performance of the Russian Federation, and most CIS member countries, should also be viewed in a medium-term perspective, taking into consideration the poor performance of the 1990s. Much of the recent trade gains are linked to volume and price increases for fuels. Despite their rapid rise between 1999 and 2003, it was only in 2003 that the Russian Federation's imports regained the level reached before the outbreak of the financial crisis in 1997.

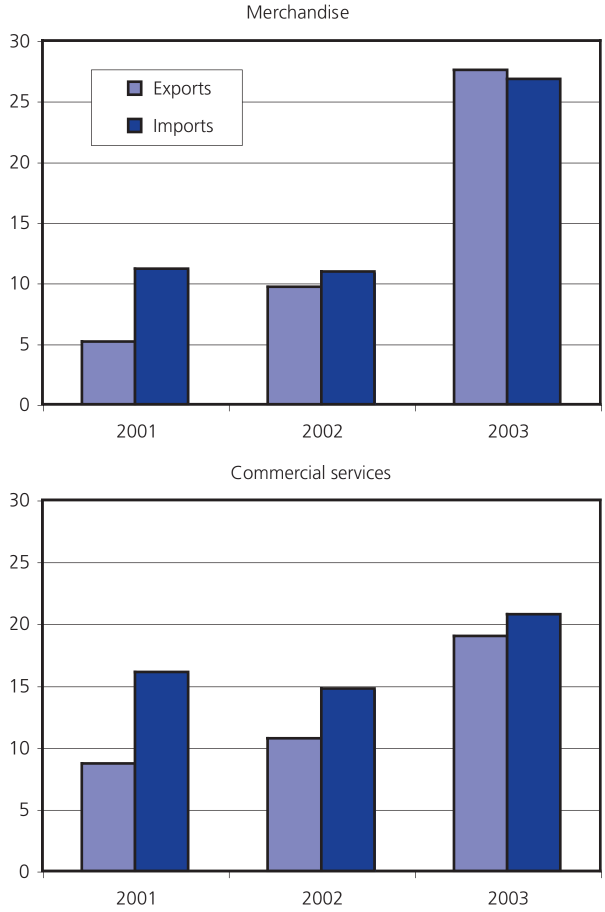
Economic growth in Africa and the Middle East again remained close to, or even below, population growth, with no improvement in the employment situation or the general standard of living. The rise in the price of fuels, the major export category for both regions, resulted in sharply higher regional export earnings in 2003.[16] In both regions, marked differences in output and trade performance can be observed at the country level, and this should be taken into account in any consideration of the aggregate regional numbers.

15 The share of the transition countries in the merchandise exports of Austria, Germany, and Turkey is 13 per cent, 11 per cent and 11 per cent respectively, and more than twice the rate of the remaining EU Members combined.

16 The share of fuels in merchandise exports of Africa and the Middle East was 49 per cent and 70 per cent respectively in 2002.

Africa's merchandise exports are estimated to have increased by more than one fifth, to $172 billion in 2003. For the first time since 1991, Africa recorded a trade surplus (f.o.b.-c.i.f.), as import growth was somewhat less strong than export growth, reaching $165 billion (Table IA.3). While the share of Africa in world merchandise exports increased in 2003, at 2.3 per cent it remained below the level recorded ten years ago.

Chart IA.5
Transition economies' merchandise and commercial services trade, 2000-2003
(Annual percentage change in value)



Source: Appendix Tables IA.1 and IA.2.

South Africa's merchandise trade growth was particularly buoyant on the import side (30 per cent), while the seven major African oil exporters experienced a surge in their exports (also about 30 per cent). The strength of South Africa's trade (merchandise and services) measured in dollars can be largely attributed to increased appreciation of the rand.[17] The sharp rise of merchandise imports benefited the EU, Asia and oil-exporting countries in the Middle East, which increased their shipments to South Africa by more than one third in dollar terms. Exports and imports of other non-oil exporting countries in Africa are estimated to have increased by more than 10 per cent in 2003.

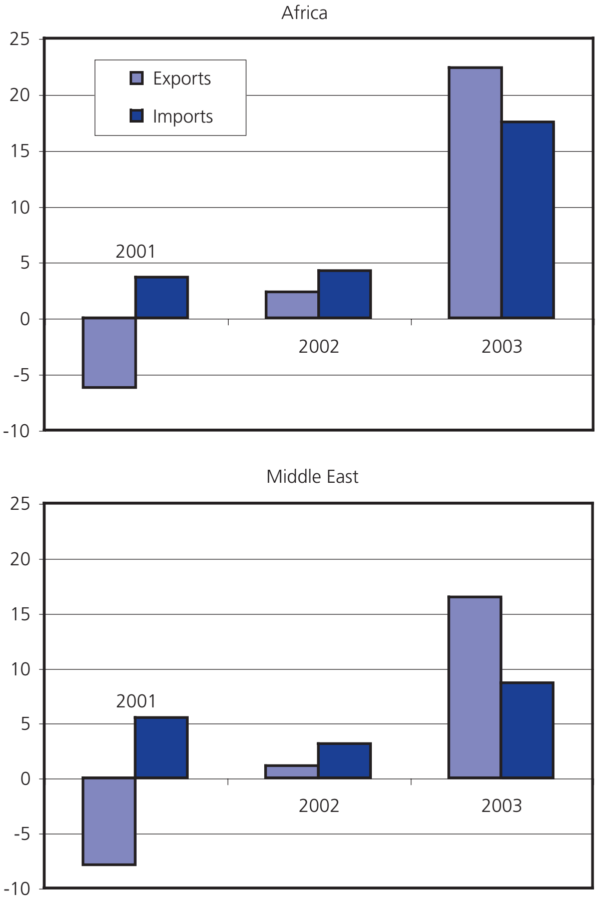
One of the various initiatives to boost Africa's participation in world trade is the US African Growth and Opportunity Act (AGOA). This non-reciprocal preference scheme for exporters from selected African countries has stimulated African shipments to the United States. In 2003, US imports from 37 African countries, beneficiaries of the scheme, rose by 43 per cent to nearly $25 billion. Although 70 per cent of these imports originate from five oil-exporting countries (Nigeria, Angola, Gabon, Congo and Cameroon), substantial increases are also reported for US imports from Kenya, Lesotho and Swaziland.[18]

Middle East trade developments in 2003 were strongly affected by political unrest in Israel and the Iraq war. The repercussions of these political developments on nominal trade flows have been partly tempered by increased regional oil output and by higher oil prices. The dollar value of the region's exports is estimated to have increased as fast as world trade, while merchandise import growth was less than 10 per cent (Chart IA.6). Consequently, the region's overall trade surplus is estimated to have risen to $100 billion, only partly offset by the region's traditional commercial services deficit, estimated to be in the order of $15 billion in 2003.

[17] Measured in rand, merchandise exports and imports decreased by 12 per cent and 6 per cent respectively in 2003.

[18] US imports from these countries nearly doubled between 2001 and 2003.

Chart IA.6
Merchandise trade of Africa and the Middle East, 2000-2003
(Annual percentage change in value)



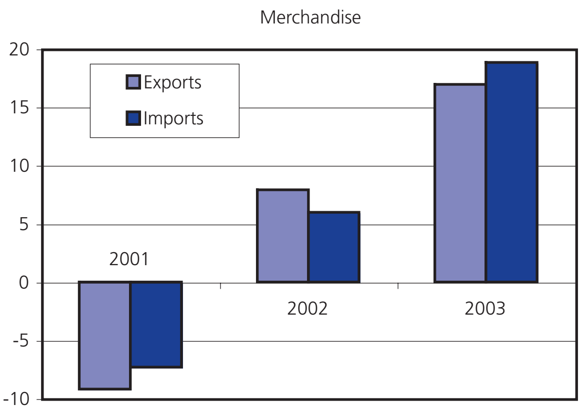
Source: Appendix Table IA.1.

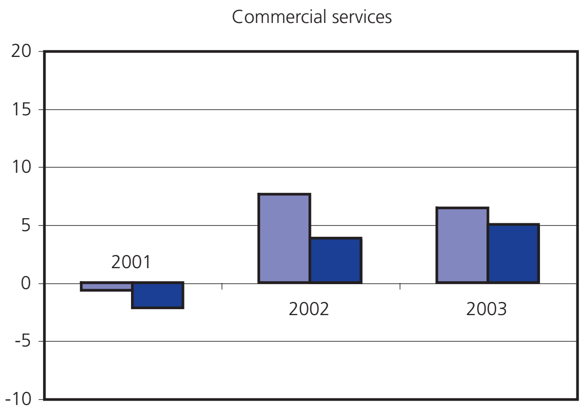
Despite the outbreak of SARS in the first quarter of 2003, the Asian region achieved an unexpected acceleration in GDP growth, to 3.5 per cent in 2003.[19] The surprisingly strong recovery of non-residential investment, together with sharply higher net exports, have been the principal factors in Japan's GDP growth of 2.7 per cent in 2003. The Chinese economy continued its outstanding expansion and despite temporary weakness in the first half of the year, reported an annual increase in GDP of 9.1 per cent for 2003. India's strong GDP growth benefited from good weather conditions, which boosted agricultural output and stimulated consumption. The Republic of Korea's economy was sustained by the sharp rise in exports to China and recovery of the IT sector.

The accelerated growth in Asia's largest economies provided a major stimulus to regional trade expansion in 2003. Intra-regional trade was particularly dynamic, the negative impact caused by SARS in the first half of the year being more than offset by the large flow of capital goods to China. This was financed by strong FDI inflows related to the relocation of manufacturing assembly operations and to the recovery in the electronic goods industry. Merchandise exports and imports expanded by over 10 per cent in real terms, more than twice as fast as global trade. Asia's merchandise exports measured in dollars expanded by 17 per cent, again faster than world trade, but somewhat less rapidly than the region's imports (Chart IA.7).

Preliminary data point to a far less dynamic growth of Asia's trade in commercial services compared to the region's merchandise trade in 2003. The differences at country level also seem to be far more pronounced than those reported for merchandise trade.

Chart IA.7
Asia's merchandise and commercial services trade, 2000-2003
(Annual percentage change in value)





Source: Appendix Tables IA.1 and IA.2.

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19 GDP aggregated using market exchange rates. Measured at purchasing power parity, Asia's growth was about 5.5 per cent.

5. PROSPECTS FOR 2004

The accelerated growth momentum in the world economy over the second half of 2003 is projected to continue in 2004. Global GDP growth is expected to reach 3.7 per cent in 2004, up from 2.5 per cent in 2003.[20] Stronger global economic activity will lead to faster growth of world trade. In the OECD countries, for example, exports of goods and services expanded by 9 per cent in the second half of 2003 (Chart IA.8). Overall, global trade is expected to expand by some 7.5 per cent in 2004, more than twice as fast as projected GDP growth.

Most of the acceleration in global output growth can be attributed to expected developments in North America, Western Europe and Latin America. Asia and the transition economies are expected to record unchanged or weaker GDP growth in 2004 compared to 2003, but still above the world average.

US GDP growth is expected to expand by 4 per cent, again significantly faster than the GDP of other developed countries. In Western Europe, output is expected to pick up to almost 2 per cent in 2004, following a year with nearly stagnating output. Latin America's economy is expected to expand by some 3 to 4 per cent, driven by recoveries in Brazil and Mexico, the region's largest economies.

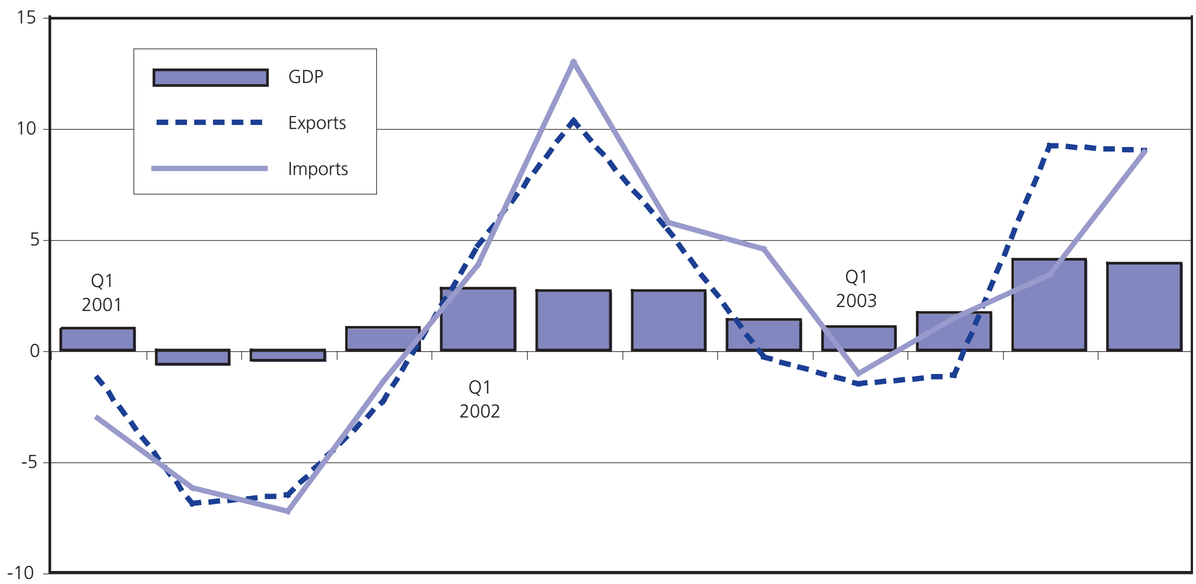
There are a number of risks associated with these output and trade projections. Among the risks are:

(a) The US current account deficit is projected to increase further in 2004, although its size is considered to be unsustainable in the medium-term. A stronger than expected rise in the US private savings ratio, provoked by a correction of house or stock prices, could lead to a slower than projected increase in imports, with negative repercussions on exports of countries dependent on the US market;

(b) Western Europe's demand recovery could falter. Growth in fixed investment could be dampened if the real appreciation of European currencies observed in the fourth quarter of 2003 and the first months of 2004 continues. Consumer expenditure could also be weaker if uncertainty about financial reforms in the pension and health systems lead to a marked rise in precautionary savings;

(c) most projections for world economic growth assume a fall in average oil prices in 2004. However, in the first months of 2004 oil prices remained stronger than most forecasters had expected.

Chart IA.8
Quarterly developments of trade and GDP in OECD countries, 2001-2003
(Quarterly percentage change in volume at annual rate)



Source: OECD, Olisnet and WTO estimates.

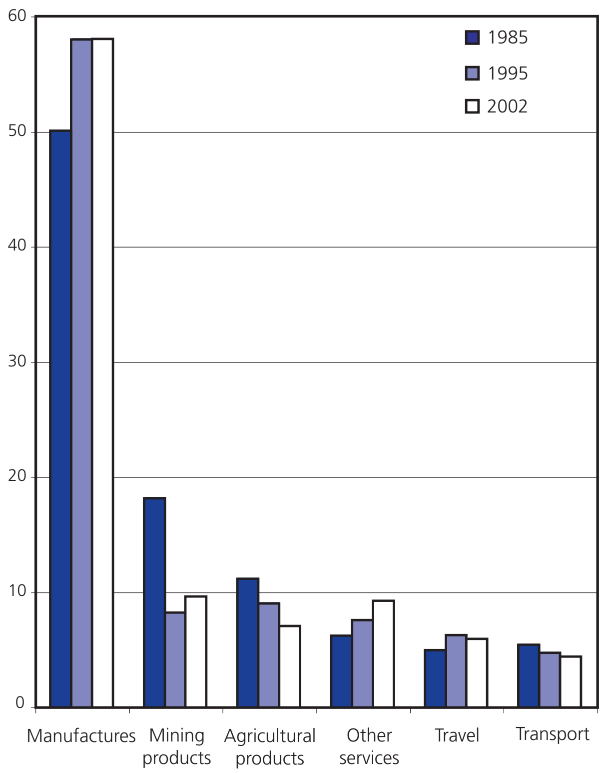
[20] Global output projections are based on those provided for the OECD countries and the transition economies in OECD (2003a) while those for the other developing countries are those provided by the World Bank (2003a).

6. SELECTED MEDIUM-TERM TRADE DEVELOPMENTS BY PRODUCT

The review of 2003 developments outlined above, prepared early in 2004, was based on preliminary and incomplete trade information which does not allow a more detailed global trade flow analysis by product group or by destination or origin.[21] Moreover, focus on a single year's changes is largely influenced by cyclical and temporary factors and may cloud longer-term trends. It would, therefore, seem useful to complement the preliminary estimates for 2003 with a broader review of some medium-term trade developments. As a first step, an overview of world trade developments (combining goods and commercial services) by broad categories is provided. Thereafter, agricultural trade flows are reviewed, reporting trends since 1990, including towards more processed goods in world agricultural exports.

There is a general perception that world commercial services trade is growing faster than trade in goods. Indeed, trade in commercial services expanded faster than goods trade in the second half of the 1980s, but thereafter the record is mixed. While at the aggregate level services and merchandise trade growth have evolved in a roughly similar way since 1990, developments are more varied at a disaggregated level. A summary of world trade developments by six broad sectors is provided in Chart IA.9 for the period 1985 to 2002.[22]

Chart IA.9
Share of major goods and services categories in world exports[a], 1985-2002
(Percentage)



[a] Goods and commercial services exports combined.
Source: WTO, International Trade Statistics, 2003.

This breakdown reveals that since 1985, one services category (transport) and two merchandise product groups (agricultural and mining products) expanded less rapidly than world trade. The share of the travel category rose between 1985 and 1995 but decreased thereafter. In contrast, trade in manufactured goods and in the "other" services category, was more dynamic, showing steadily increasing shares over the period. Among all product and services categories, mining products (including fuels) stand somewhat apart from other categories. The share of mining products shows the biggest variations owing to the impact of fluctuating oil prices throughout the 1985-2002 period. Overall, there is no indication that services categories in general have increased their share in international trade.

Within the fastest growing goods and services categories, a few subcategories play an important role in dynamic long-term growth. A further breakdown of world exports of manufactured goods reveals that the most dynamic product subcategory by far was office and telecom equipment, which expanded at twice the rate observed for total manufactured goods in the 1990s. Consequently, the share of this product group gained five percentage points between 1990 and 2000 and accounted for 12.1 per cent of

[21] Such analysis is to be found in the WTO Secretariat's report International Trade Statistics, which is published in November each year.

[22] The breakdown of goods into agricultural products, mining products and manufactured goods is based on customs statistics.

world merchandise and services exports. The gains of this group exceeded the gains made by all manufactured goods combined.[23] The crisis in the IT sector in 2000 arrested this trend, and the share of the sector in total manufactures has stagnated since then. Among the subcategories of manufactured goods which recorded below average trade growth in the 1990s are iron and steel products and textiles products, both showing a significant decline in their share in world trade over the 1990-2002 period.

Detailed statistics on commercial services trade are not yet systematically available. Improvements in coverage and reporting are made each year, but these may in some cases compromise the historic comparability of a country's services trade statistics.[24] Nevertheless, it appears that on the basis of a sample of large services traders, one can indicate a few subcategories of international services (other than travel and transportation) trade which report outstandingly strong export growth between 1995 and 2002. These subcategories comprise (in descending order of their estimated growth rate) computer and information services, financial services, insurance, personal, cultural, and recreational services; and royalties and licence fees.[25] An absolute decrease in trade values could be observed for trade in construction services between 1995 and 2002.

In summary, global trade flows have experienced major structural changes at the disaggregated product level over the last decade. The share of agricultural trade in world trade has decreased steadily in the longer term. Nevertheless, agricultural trade remains very important for many countries and exports of some agricultural products have also expanded strongly.

Selected medium-term developments in agricultural trade

Major highlights of agricultural trade[26] between 1990 and 2002 include the following:

- The volume growth of world agricultural trade during the 1990-2002 period was close to 4 per cent annually, roughly twice that of agricultural production. Taking a longer-term view, one observes that real trade growth in agriculture during the 1990-2002 period exceeded growth over the 1973-1990 period (2.4 per cent) and nearly matched the expansion recorded in the 1963-73 period.[27]
- The dollar value of world agricultural trade rose by 40 per cent between 1990 and 2002, to $583 billion. The growth in agricultural trade was less strong than total merchandise trade so the share of the former decreased, reaching 9.3 per cent in 2002. This medium-term relative decline of agricultural trade can also be observed over the longer term. In 1963, the share of agricultural products in merchandise trade stood at 29 per cent. However, a small recovery of the share of agricultural exports could be observed between 2000 and 2002 as the value of agricultural trade expanded by 5.5 per cent while that of world merchandise trade stagnated over that period (Chart IA.10).

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23 These gains are measured in value terms. As prices for office and telecom equipment declined sharply in the 1990s while those of other merchandise products remained roughly unchanged, the gains are even more pronounced if trade is measured at constant prices.

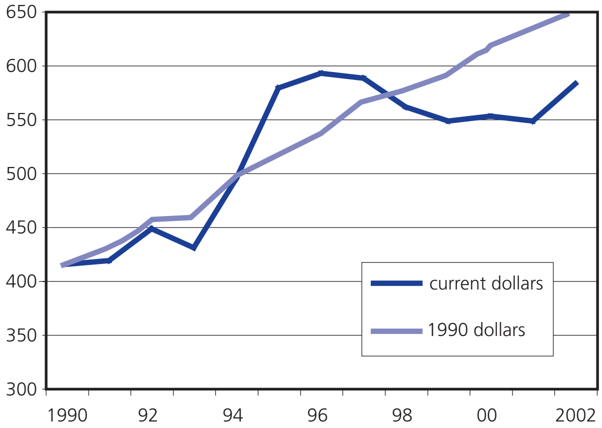
24 In addition BOP statistics only cover transactions between residents and non-residents and exclude important services flows covered under the GATS and delivered through commercial presence.

25 A major uncertainty associated with these estimates derives from the fact that detailed services statistics by subcategory are not available for US intra-affiliated company trade.

26 The definition of agricultural products in this report is that applied in WTO International Trade Statistics 2003, which differs from the definition applied in the WTO trade negotiations on market access in agriculture. One of the major differences is the inclusion of fish and fish products in the former but not in the latter.

27 The calculation of the shares and of nominal and real trade growth is based on WTO International Trade Statistics 2003, Appendix Tables A1 and A8.

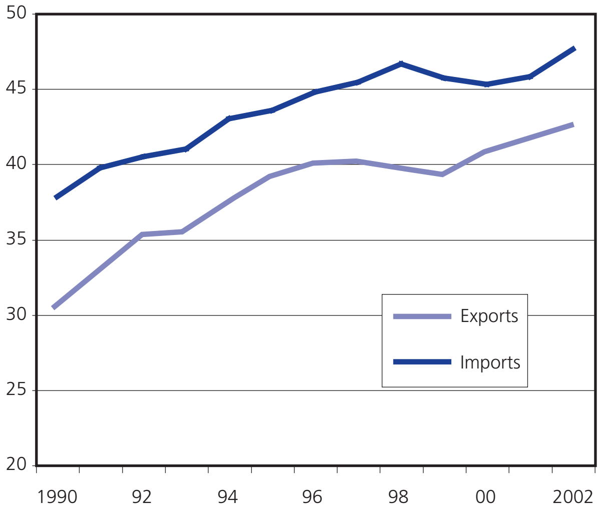
Chart IA.10
World exports of agricultural products[a], 1990-2002
(Billion dollars)



[a] Refers to WTO, ITS definition of agricultural products.
Source: WTO, International Trade Statistics, 2003.

- The steadily declining share of agricultural products in world merchandise exports in the 1990s could be observed in most regions. Only in Africa and the Middle East is it estimated that the share of agricultural trade in 2002 was roughly similar to that observed in 1990, at 15.8 per cent and 3.5 per cent respectively.
- In 2002, the share of agriculture in regional merchandise exports was highest in Latin America (19.3 per cent) and in Africa (15.8 per cent). Excluding Mexico from Latin American exports lifts the share of agricultural products in the region's trade to 29 per cent in 2002, still five percentage points less than in 1990.
- Agricultural products remain, for many countries, the mainstay of their merchandise exports. In recent years (1999-2001) agricultural exports accounted for more than one quarter of total merchandise exports in more than 55 countries (developed and developing). For 32 countries, agricultural exports exceeded one half of their merchandise exports.
- Only small changes were recorded in the regional shares of global agricultural trade between 1990-2002. Western Europe's and North America's share in world exports of agricultural products each recorded a decline of two to three percentage points. Western Europe's share shrank above all between 1990 and 1997 while that of North America decreased mainly between 1997 and 2002. The export share of Australia/New Zealand (combined) is about 4.5 per cent in 2002, unchanged from 1990. Latin America and the transition economies increased their share by about two percentage points between 1990 and 2002. Developing Asia recorded only marginal gains over the entire period, while the share of Africa is estimated to have decreased slightly as losses in the early nineties were partly offset thereafter. For the developing countries as a group, the share amounted to 30 per cent in 2002 compared to 27 per cent in 1990.
- The share of agricultural products in trade among the developing countries has decreased from 15.5 per cent in 1990 to 10.7 per cent in 2002.

Chart IA.11
Share of intra-trade in developing countries' exports and imports of agricultural products[a], 1990-2002
(Percentage)



[a] Refers to WTO, ITS definition of agricultural products.
Source: WTO, International Trade Statistics, 2003.

- The share of intra-developing country trade in developing country agricultural exports has increased from 31 per cent in 1990 to 43 per cent in 2002. Most of this increase occurred between 1990 and 1996.
- The share of intra-developing country trade in developing country imports of agricultural products is even larger than for exports. In 2002, nearly one half (47.6 per cent) of developing country imports originated from other developing countries, an increase of ten percentage points since 1990 (Chart IA.11).
- A breakdown of agricultural trade by 15 product groups[28] reveals that expansion rates among the groups differed sharply over the 1990-2002 period. High average annual growth rates are found for three groups: beverages, other agricultural products (including cut flowers), and fish. For three other product groups (natural fibres, hides and skins, and tobacco) the value

[28] Based on WTO, Committee on Agriculture (2000).

of trade is unchanged or lower in 2002 than in 1990. The two largest agricultural product groups (cereals, and meat and live animals) recorded an expansion in their trade value that was less than for agricultural products in general.

- Agricultural trade can be also analysed by grouping agricultural products by their stage of processing (or value-added content) rather than by sectors. Various analyses have been undertaken which reach the same basic finding that the most dynamic segment of world agricultural trade has been in processed agricultural goods.

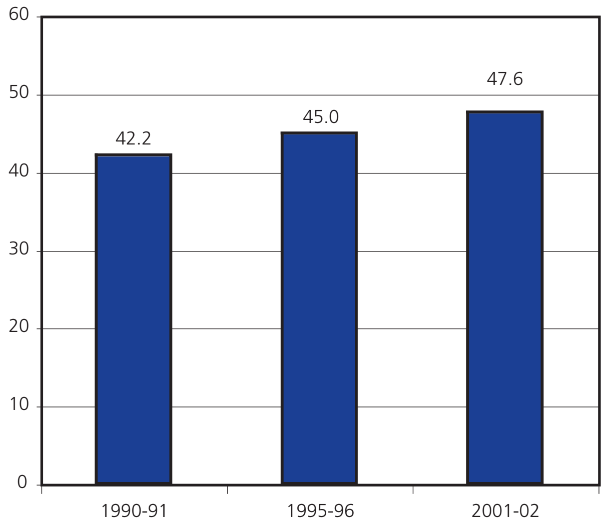
The rise of processed goods in world exports of agricultural products, 1990-2002

Available trade classifications under which international trade is recorded only allow for an approximate categorization of products by stage of processing. Out of the four available categorizations[29], the one applied in a previous WTO evaluation of GATT/MTN trade negotiations was retained in its updated version for this review.[30, 31]

The main finding of the review is that exports of processed agricultural products expanded significantly faster than those of semi-processed and unprocessed agricultural products between 1990 and 2002. The share of processed products showed a clear upward trend throughout the 1990s, rising from 42 per cent in 1990-91 to 48 per cent of global agricultural trade in 2001-02 (Chart IA.12).[32]

The trend towards more processed goods in world exports of agricultural products has been observed by Gehlhar and Coyle (2001) for the 1962-97 period and more recently by the OECD Secretariat (in respect of OECD countries). The empirical evidence of a shift from unprocessed to more processed agricultural products is consistent with a well-known trend in world trade – the shift to an increased share of manufactures at the expense of primary products. Two factors favour the expansion of processed goods over unprocessed goods. First, processed goods have a larger potential for intra-industry trade and offer more possibilities for product differentiation than unprocessed goods. Cocoa-producing countries will not see much bilateral trade in cocoa beans, for example, while chocolate-bar/snack producing countries can exchange their products, satisfying a broad variety of different tastes. Second, the potential to increase

Chart IA.12
Share of processed goods rises in world exports of agricultural products, 1990-2002
(Percentage)



Source: Appendix Table IA.3.

[29] There are at least four categorizations of agricultural trade by stage of processing or value-added content. Gehlhar/Coyle (2001) distinguish between "bulk commodities", "processed intermediates", "produce and horticultural products" and "high value processed goods". OECD (2003b) is using three categories: agricultural commodities, agricultural raw materials and agricultural processed products. The WTO Secretariat used two classifications in the past. One distinguished high value added (mostly processed products) and medium and low value-added products (WTO 2000) which can be assimilated only roughly with stages of processing, and the second was used in past trade negotiations (GATT, 1980).

[30] GATT, The Tokyo Round of Multilateral Trade Negotiations, Volume II, Geneva 1980. This classification distinguishes three categories: unprocessed, semi-processed and processed goods. The choice of the classification was also determined by the fact that the distinction by stages of processing is available for all products and is not limited to agricultural products as defined in GATT/WTO negotiations (which excludes fish and wood).

[31] This review applies the standard WTO/ITS definition of agriculture and includes EU intra-trade in global trade flows. Limitations on detailed data availability reduce the global coverage. In particular, trade of the transition economies could not be included in the world aggregate. The trade flows of all excluded countries represent less than 10 per cent of world agricultural exports.

[32] This observation remains valid if one excludes non-MTN agricultural products – fish and wood – and also if one excludes EU intra-trade. By excluding fish and wood, the share of processed agricultural products is always larger and by gaining five percentage points reaches 51 per cent in 2001. Conversely by excluding EU intra-trade, the corresponding ratios fall to lower levels but the gains in percentage points are very similar.

value added for a given consumer food product is, in general, far larger than for unprocessed foods.[33] As per capita income levels increase, consumers appreciate a larger variety of similar products and increasingly buy goods with a brand label. In developed countries, the trend to smaller household size and an increase in participation by women in the labour force strengthens consumption trends towards more processed food at the expense of unprocessed food.

Having observed a global trend towards an increased share of processed goods in agricultural trade, the question arises as to whether all regions and countries shared in this development. The general answer to this question is affirmative, with some noticeable exceptions. About three quarters of the countries for which data were available in the UN Comtrade database recorded an increase in the share of processed goods in their agricultural trade between 1990-91 and 2001-02. This observation holds for both exports and imports.[34]

At the country level, there was a marked increase in the share of processed products in total agricultural exports for the 14 major global exporters[35] with the exception of two Latin American countries (Brazil and Chile). The largest shifts to more processed agricultural products could be observed in Asian developing countries (China, Indonesia, Malaysia and Thailand, with gains in shares of processed over unprocessed agricultural exports of 14, 17, 28 and 11 percentage points respectively). Marked increases could also be observed for Canada and Mexico (13 and 21 percentage points respectively). The share of processed trade in agricultural exports in 2001-02 appears not to be as strongly related to income levels as one might have expected. Lower income countries such as Bolivia and Peru have a higher share of processed goods in their agricultural exports than New Zealand. While there is no strong overall link in the sample between income levels and the share of processed agricultural products, it appears that all countries with a very low share of processed goods in their agricultural exports (15 per cent or less) are low or low middle-income countries (e.g. Cameroon, Ethiopia, Honduras, Pakistan, Sri Lanka, Uganda and Zimbabwe) (Appendix Table IA.3).

On the import side the trend toward a higher share of processed goods is even more striking. Among the 38 traders shown in Appendix Table IA.3, only eight recorded a decrease in the share of processed goods. One notable exception to the general trend on the import side is China. China’s agricultural imports recorded an average annual increase of 9 per cent in the 1990s, the highest rate among the major agricultural importers. China’s imports of unprocessed goods surged ahead of processed products over the entire period.[36]

The increased share of processed goods in agricultural trade can also be reviewed by distinguishing 15 agricultural product categories at the global level. Not all these agricultural product categories have three stages of processing. Five have three processing stages, seven have two stages of processing and three are grouped within one stage of processing. The distinction among 15 categories enables us to see if the shift to more processing can be observed widely across categories or whether it is limited to a few sectors. It could also be that one single product group comprising processed goods expands strongly (or a group of unprocessed goods expands far less than the average), resulting in a structural shift in the aggregate of agricultural products to more processed goods.

Indeed, the data reveal that trade in beverages (which are considered 100 per cent processed) recorded an above average expansion in the 1990-2002 period (4.8 per cent annually) while natural fibres and hides and skins (which are considered 100 per cent unprocessed) recorded an absolute decrease or near stagnation in the observation period. In addition, wood products, which do not include a “processed stage” within our definition of agricultural products, recorded positive but less than average growth.

33 For unprocessed goods an increase in value added may be achieved by a shift to higher quality. It has been observed that in many cases prices for unprocessed goods may differ significantly from low to top quality products.

34 If one excludes fish and wood from the data, the results at the country level are very similar to the observations made above: four out of five countries in our sample increased the share of processed goods in agricultural trade.

35 Countries with exports of agricultural products exceeding $6 billion in 2002.

36 There was a strong increase in the share of processed products in China’s agricultural imports up to 1996 followed by a marked decrease thereafter. Among the unprocessed products, import increases were particularly strong in oilseeds and wood (reporting tenfold and fourfold increases respectively between 1992 and 2001). The sharp rise in imports of oilseeds (unprocessed goods) went together with a sharp decline in imports of vegetable oils (a processed good) since 1997, which contributed significantly to the declining trend for processed goods at the end of the 1990s.

However, the more dynamic expansion of processed goods is not limited to the divergent performance of these four product categories. In eight other categories (with the potential to move from unprocessed and semi-processed to processed goods) there was a marked shift to more processed goods within the group (cereals and products, coffee, tea, cocoa and spices, fish, other foodstuff, meat and live animals, other agricultural goods (including cut flowers), tobacco and sugar and sugar products). A moderate decrease or stable share of processed goods was observed for the remaining categories (dairy products, eggs, fruits, vegetables and nuts and oilseeds, cakes and vegetable oil).

This leads to the conclusion that for the period under investigation, and on the basis of the data available, a shift to more "processed" agricultural trade on a global scale can be confirmed. This shift is broad-based, since it can be observed across most product categories, across regions and among a large majority of countries.

The widespread shift to the more dynamic category of processed goods does not necessarily imply that individual countries cannot achieve high export growth in unprocessed and semi-processed goods, as demonstrated by Chile. Chile's outstanding export expansion in agricultural products is not related to a structural shift to more processed goods. Chile's exports expanded at 9 per cent annually, while global agricultural trade rose 3 per cent annually in the 1990-2001 period. Chile's dynamic export performance was broadly based with strong growth across destinations, product categories, and stages of processing. Many distinct agricultural categories showed a strong expansion in their export value. Particularly strong growth was observed for beverages, fish and wood. The United States and Japan had been the two most dynamic export destinations for Chile in the 1990s, but Chile also gained market shares in the EU. Chile's exports to China rose from very low levels in 1990 to $376 million in 2001, thereby exceeding Chile's shipments to MERCOSUR countries.

To summarize, processed agricultural products have been a more dynamic component of international agricultural trade in the 1990s than unprocessed and semi-processed goods. This is true for a large majority of developed and developing countries across a wide range of products. Agricultural exports of developing countries to high-income markets also experienced this structural change. However, with respect to agricultural exports of low-income countries to the three major high-income markets, no shift towards an increased share of processed goods could be observed. This discussion has not addressed the possible influence of trade or other policies on structural shifts in agricultural trade. Interesting questions arise, such as what these statistical results reveal about the effects of tariff escalation. Further research would be needed, however, to address such issues.

Appendix Table IA.1
World merchandise trade by region and selected country, 2003
(Billion dollars and percentage)

	Exports						Imports					
	Value	Annual percentage change					Value	Annual percentage change				
	2003	1990-95	1995-00	2001	2002	2003	2003	1990-95	1995-00	2001	2002	2003
World	7274	8	5	-4	4	16	7557	8	5	-4	4	16
North America	996	8	6	-6	-5	5	1552	8	10	-6	2	9
United States	724	8	6	-6	-5	4	1306	8	10	-6	2	9
Canada	272	9	8	-6	-3	8	246	6	8	-7	0	8
Latin America	377	9	10	-4	0	9	366	14	9	-2	-7	3
Mexico	165	14	16	-5	1	3	179	12	19	-4	0	1
Latin America less Mexico	212	7	5	-3	-1	13	187	15	3	-1	-13	6
Brazil	73	8	3	6	4	21	51	19	2	0	-15	2
Western Europe	3141	7	2	0	6	17	3173	6	3	-2	5	18
European Union (15)	2894	7	2	0	6	17	2914	6	3	-2	4	18
Germany	748	4	1	4	8	22	602	5	1	-2	1	23
France	385	7	2	-1	3	16	388	4	3	-3	0	18
United Kingdom	304	5	4	-4	3	8	388	4	5	-3	4	12
Italy	290	7	1	2	4	14	289	3	3	-1	5	17
Switzerland	101	5	0	1	7	14	96	3	1	1	-1	15
Transition economies	400	13	7	5	10	28	378	12	4	11	11	27
Central and Eastern Europe	191	11	8	12	15	29	225	15	9	9	11	27
Russian Federation	135	-	5	-2	4	26	74	-	-6	20	12	24
Africa	173	1	6	-6	2	22	165	5	0	4	4	17
South Africa	36	3	1	-2	2	23	38	11	-1	-5	4	30
Africa less South Africa	136	0	7	-7	3	22	126	3	1	6	4	14
Oil exporters [a]	80	-3	12	-13	-1	30	42	3	0	17	6	19
Non oil exporters	56	5	1	1	7	12	85	4	1	2	4	12
Middle East	290	2	12	-8	1	16	188	5	4	5	3	9
Asia	1897	12	5	-9	8	17	1734	12	3	-7	6	19
Japan	472	9	2	-16	3	13	383	7	2	-8	-3	14
China	438	19	11	7	22	35	413	20	11	8	21	40
Six East Asian traders [b]	686	14	5	-12	6	14	615	15	2	-13	3	12
India	55	11	7	2	14	11	70	8	8	-2	12	23
Memorandum items:												
NAFTA (3)	1161	9	7	-6	-4	5	1730	8	11	-6	1	8
MERCOSUR (4)	106	9	4	4	1	19	69	22	2	-6	-26	10
ASEAN (10)	452	17	6	-10	5	11	387	17	1	-8	4	9
EU (15) extra-trade	1099	7	3	1	7	17	1114	4	6	-4	2	19
Euro Zone (12)	2422	7	2	1	7	18	2385	6	3	-1	4	19
EU accession countries (10)	198	-	8	11	14	28	233	-	9	6	11	25
LDC (49)	44	5	8	0	9	...	54	6	4	6	4	...
Developing countries	2178	10	8	-6	6	17	1963	13	5	-4	4	15
Developing Asia	1338	15	7	-7	10	19	1244	15	4	-7	9	20

[a] Algeria; Angola; Congo; Equatorial Guinea; Gabon; Libya; Nigeria and Sudan.

[b] Hong Kong, China; Korea, Rep. of; Malaysia; Singapore; Chinese Taipei and Thailand.

Source: WTO

Appendix Table IA.2

World trade of commercial services by region and selected country, 2003

(Billion dollars and percentage)

	Exports						Imports					
	Value	Annual percentage change					Value	Annual percentage change				
	2003	1990-95	1995-00	2001	2002	2003	2003	1990-95	1995-00	2001	2002	2003
World	1763	9	4	0	6	12	1743	8	4	1	5	12
North America	322	8	7	-3	1	4	266	5	9	-1	1	7
United States	282	8	7	-3	1	4	218	5	10	-2	2	6
Canada	39	7	9	-4	-2	8	48	4	6	-1	-2	14
Latin America	60	8	6	-3	-4	6	67	9	5	0	-9	3
Mexico	12	6	7	-7	-1	0	17	-2	13	-1	3	2
Latin America less Mexico	47	9	6	-2	-4	7	49	13	4	1	-12	3
Brazil	10	10	8	-3	1	9	15	14	3	2	-14	7
Western Europe	895	6	4	2	10	17	839	6	4	3	8	16
European Union (15)	802	7	4	3	10	16	782	7	4	3	8	16
Germany	112	8	2	5	15	12	167	9	1	3	3	12
United Kingdom	130	7	8	-5	12	5	112	7	9	-3	9	11
France	98	5	-1	0	7	14	82	5	-1	3	10	20
Italy	73	5	-2	2	4	23	74	3	0	3	10	21
Switzerland	33	7	2	-6	7	17	20	6	1	6	4	17
Transition economies	72	17	2	9	11	19	82	14	2	16	15	21
Central and Eastern Europe	40	23	1	6	5	21	38	18	4	7	12	28
Russian Federation	16	10	-2	17	20	18	27	11	-4	26	15	13
Africa	36	7	3	1	3	...	46	5	2	3	2	...
South Africa	6	6	1	-7	0	26	7	10	-1	-9	3	36
Middle East	33	7	11	-9	-4	...	49	2	5	-5	-1	...
Asia	345	15	3	-1	8	6	394	13	2	-2	4	5
Japan [a]	70	9	1	-7	2	8	110	8	-1	-7	0	3
China	45	26	10	9	20	13	54	43	8	9	18	...
Six East Asian traders [b]	156	17	3	-1	6	3	149	17	3	-3	4	4
India	25	8	21	19	12	7	20	11	15	16	-1	...
Memorandum items:												
NAFTA (3)	334	8	7	-3	1	4	283	5	9	-1	1	7
MERCOSUR (4)	15	11	6	-5	-11	12	20	16	3	-2	-24	8
ASEAN (10)	72	20	-1	-1	7	-1	89	22	2	-1	4	3
Euro Zone (12)	609	7	2	5	10	18	611	8	2	5	8	17
EU accession countries (10)	48	-	1	5	8	20	41	-	4	6	16	26
LDC (49)	7	10	3	0	6	...	17	5	3	11	2	...
Developing countries	377	14	5	0	5	6	419	13	4	0	2	6
Developing Asia	249	18	4	2	9	5	258	19	4	1	5	5

[a] The travel category is estimated according to the 2002 methodology.

[b] Hong Kong, China; Korea, Rep. of; Malaysia; Singapore; Chinese Taipei and Thailand.

Source: WTO

Appendix Table IA.3

World exports of agricultural products by stage of processing, 1990-2002

(Billion dollars and percentage)

	Billion dollars			
	Processed	Semi-processed	Unprocessed	Total
1990	150.1	30.8	182.6	363.5
1991	159.8	29.9	181.6	371.3
1992	177.9	32.9	188.2	399.0
1993	173.0	35.1	174.8	382.8
1994	196.0	40.3	201.8	438.0
1995	228.0	44.6	239.1	511.7
1996	235.3	45.2	238.5	519.0
1997	232.2	44.8	233.5	510.5
1998	226.0	40.3	218.5	484.8
1999	223.0	38.6	210.6	472.2
2000	215.6	36.5	215.2	467.3
2001	226.9	37.3	212.9	477.0
2002	237.6	40.0	216.7	494.3
	Percentage shares			
	Processed	Semi-processed	Unprocessed	Total
1990	41.3	8.5	50.2	100
1991	43.0	8.1	48.9	100
1992	44.6	8.2	47.2	100
1993	45.2	9.2	45.7	100
1994	44.7	9.2	46.1	100
1995	44.6	8.7	46.7	100
1996	45.3	8.7	46.0	100
1997	45.5	8.8	45.7	100
1998	46.6	8.3	45.1	100
1999	47.2	8.2	44.6	100
2000	46.1	7.8	46.1	100
2001	47.6	7.8	44.6	100
2002	48.1	8.1	43.9	100

Note: Agricultural products include fish and wood. EU intra-trade included.

Source: UN Comtrade database and WTO.

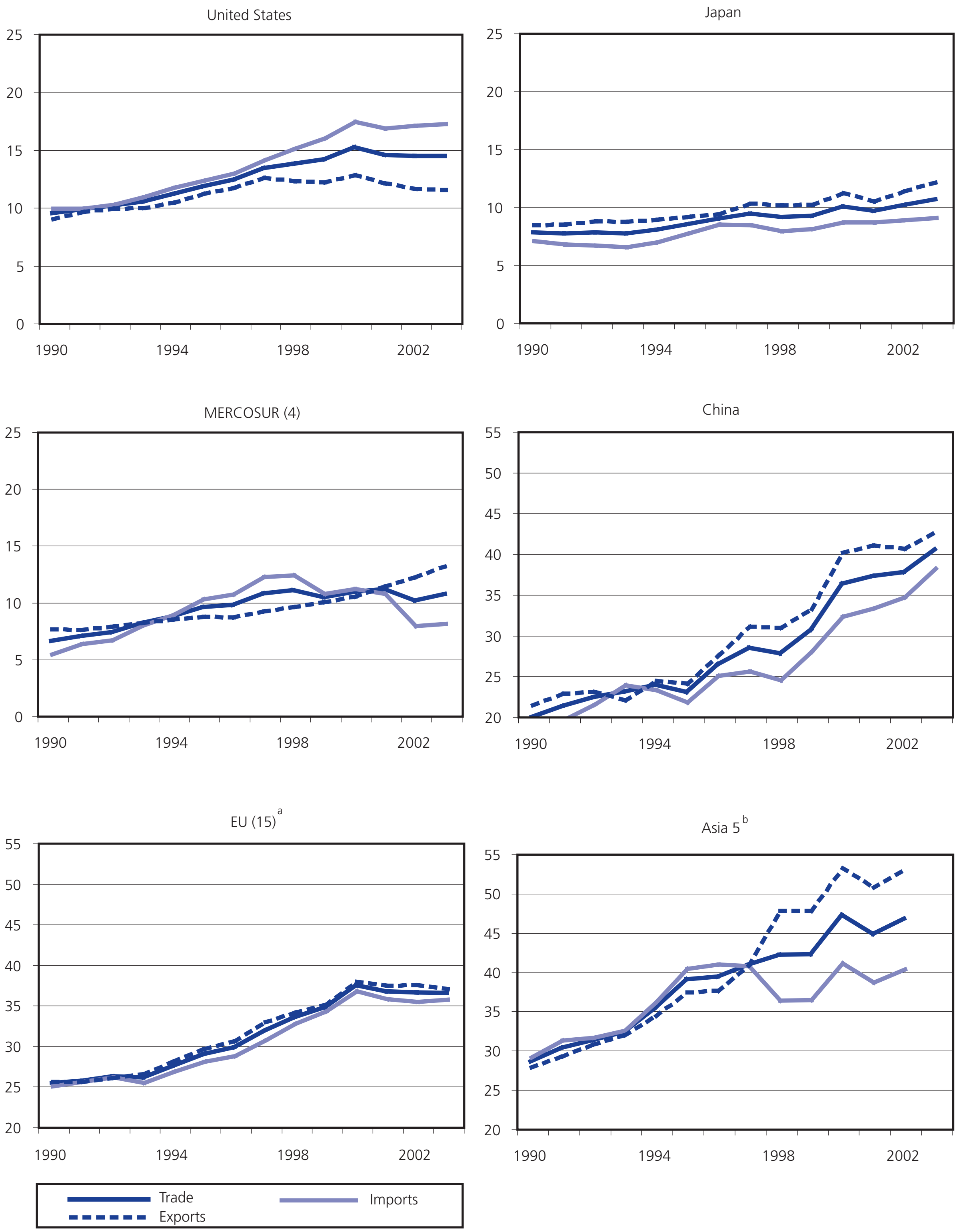
Appendix Table IA.4
Share of processed products in exports and imports of agricultural products in selected economies, 1990-91 and 2001-02
(Percentage)

	Exports		Imports	
	1990-91	2001-02	1990-91	2001-02
North and Latin America				
Argentina	*50*	51	*55*	46
Brazil	47	40	29	32
Canada	15	28	42	47
Chile	30	*29*	36	57
Colombia	*7*	19	*35*	39
Ecuador	6	20	28	50
Honduras	13	15	57	67
Mexico	21	42	39	45
Paraguay	19	29	94	75
Peru	*67*	61	*36*	45
United States	30	38	36	41
Western Europe				
EU 15	57	61	44	49
extra-trade	63	65	25	30
intra-trade	53	59	54	58
Iceland	8	26	50	48
Norway	18	14	37	43
Switzerland	76	80	41	50
Turkey	23	35	38	25
Africa and Middle East				
Cameroon	*4*	4	*48*	39
Israel	43	44	27	42
Jordan	27	54	34	42
Kenya	13	20	36	*53*
Oman	30	77	52	72
Saudi Arabia	...	...	*56*	50
South Africa	*24*	28	*32*	48
Tunisia	54	50	30	25
Zimbabwe	5	15	32	46
Asia				
Australia	37	43	48	60
China	*28*	42	*20*	19
India	18	19	20	*41*
Indonesia	21	38	19	24
Japan	60	48	27	40
Korea, Rep. of	26	47	16	31
Malaysia	36	64	35	38
New Zealand	52	62	49	61
Pakistan	3	6	40	34
Philippines	*41*	46	*47*	50
Sri Lanka	3	5	24	33
Taipei, Chinese	53	*27*	25	*37*
Thailand	29	*40*	21	*33*

Note: Country names in bold indicate a major net exporter of agricultural goods. Numbers in italics indicate that data of the nearest year available to reference years have been used.

Source: UN Comtrade database and WTO.

Appendix Chart IA.1
Trade to GDP ratios in selected countries and regions, 1990-2003
(Percentage, exports and imports of goods and services at constant 1995 prices)



[a] Including intra-trade.

[b] Countries most affected by the Asian financial crisis: Indonesia, Korea Rep. of, Malaysia, Philippines and Thailand.

Source: World Bank, World Development Indicators and WTO estimates.