WTO OMC

FOCUS

March-April 2000 No. 45

Newsletter

Developing countries' exports expanding two times faster than the global average

Developing countries' merchandise exports in 1999 expanded by 8.5 per cent or about two times faster than the global average. Throughout the 1990s, developing countries' exports rose faster than world trade, with the exception of 1998. In 1999, the share of developing countries was 27.5 per cent for merchandise exports and 23 per cent for commercial services exports, both being more than 4 percentage points higher than in 1990.

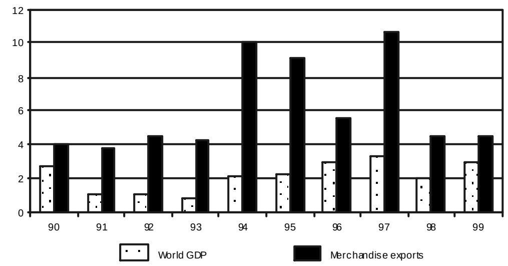
Among the least-developed countries, merchandise export growth differed sharply again in 1999. Exporters of manufactured goods like Bangladesh, Cambodia and Haiti expanded their exports faster than world trade. Oil exporters, such as Angola and Yemen, benefitted from the oil price hike and increased their exports by more than one third. While, non-fuel commodity exporters, faced with declining commodity prices, tended to record lower export values.

Global commercial services trade accelerated only slightly in 1999, as the recovery in Asia and higher growth in North America were partly offset by lower growth in Western Europe and an import contraction in Latin America and the transition economies.

These are among the findings of the WTO's preliminary report on trade developments in 1999 and the outlook for this year. Other highlights include the following:

- **Global output and trade strengthened considerably in the second half of 1999**, thereby improving the prospects for higher growth in the current year. The recovery in Asia and continued high demand growth in North America contributed most to global trade expansion last year.
- **World commodity output in 1999 increased by 1.5 per cent, the same as in 1998.** A fall in mining sector output (in particular oil) contrasted with stronger growth in the manufacturing sector (e.g. electronic goods and automobiles). The global output of services industries exceeded commodity output growth. World GDP growth increased from 2 in 1998 to 3 per cent in 1999.
- **Trade benefitted from the stronger economic activity.** Although for the year as a whole merchandise trade expanded in volume terms at the same rate as in 1998 (4.5 per cent), the pace of the expansion in the fourth quarter exceeded the average rate of 6.5 per cent recorded in the nineties.

Chart II.1
Growth in the volume of world merchandise trade and GDP, 1990-99
(Annual percentage change)



- **International capital markets remained buoyant.** Global FDI flows surged to a new record level of 800 billion dollars, driven by an exceptionally large value of cross border mergers and acquisitions. The sharp rise in global capital flows was largely concentrated among developed countries. Private net capital flows to emerging markets are estimated to have stagnated in 1999 at about 150 billion dollars.
- **Nominal and real effective exchange rates recorded major variations**, leaving their mark on trade flows. While the euro and most European currencies weakened vis-à-vis the US dollar, many East Asian currencies, in particular the Japanese yen, the Korean won and the Thai baht, appreciated markedly.
- **Average prices of internationally traded goods declined slightly.** The weakness of the Euro contributed largely to the fall in Western Europe's dollar export prices and a decrease in the prices of manufactured goods. Non-fuel commodity prices continued to weaken further, thus affecting the earnings of many raw material exporters. Oil prices, which had fallen sharply in 1998, recovered strongly in 1999 due to a cutback in oil output and an increase in global demand.
- **World merchandise trade value increased by 3.5 per cent in 1999**, faster than commercial services trade. Nevertheless for the 1990-99 period as a whole, commercial services trade still expanded slightly faster than merchandise trade.
- **Thanks to oil price developments**, the highest export

Continued on page 2

Developing countries

(Continued from page 1)

value growth of all regions in 1999 was recorded in the Middle East and Africa. However, this strong expansion last year did not fully offset the declines recorded in 1998.

- **Merchandise imports grew at double-digit rates in North America and Asia**, stagnated in Western Europe and Africa and decreased by about 10 per cent in the transition economies and in Latin America (excluding Mexico).
- **Merchandise export growth among the LDCs differed sharply again in 1999.** Oil exporters such as Angola and Yemen benefitted from the oil price hike and increased their exports by more than one-third. Exporters of manufactured goods like Bangladesh, Cambodia, Haiti and Myanmar expanded their exports faster than world trade. Non-fuel commodity exporters faced with declining commodity prices tended to record lower export values.
- **Developing countries' merchandise exports expanded by 8.5 per cent** or about two times faster than the global average. Throughout the 1990s developing countries' exports rose faster than world trade, with the exception of 1998. In 1999, the share of developing countries was 27.5 per cent for merchandise exports and 23 per cent for commercial services exports, both being more than 4 percentage points higher than in 1990.
- **Commercial services trade accelerated only slightly in 1999**, as the recovery in Asia and higher growth in North America were partly offset by lower growth in Western Europe, and an import contraction in Latin America and the transition economies. ❐

World trade developments

Main features

A strengthening of world economic output in 1999 reversed the slowdown of world trade in the first half of 1999 and led to a dynamic expansion of trade in the second half. For the year as a whole, the real growth of world trade remained unchanged from the preceding year and was below the average trade expansion recorded throughout the 1990s. Although trade growth continued to exceed both the growth in world commodity output and world GDP, the excess margin between the growth rates remained smaller in 1999 than those observed during the 1990-1997 period.

Demand in the United States and the Asian recovery were the motors of the global trade expansion in 1999. The outstanding strength of United States investment and private consumption benefitted not only the NAFTA region, but also sustained the recovery in Asia and to a lesser extent output in Western Europe. A major factor behind the excellent performance of the United States economy and the unprecedented length of the current expansion has been the high level of investment in information technology, the backbone of the "new economy". Excitement about the growth potential of the new economy has attracted large capital inflows and contributed to an extraordinary boom in the creation and valuation of high-tech companies. While the high rate of investment has increased production capacity and stimulated productivity growth of the United States economy, the question arises for how long high output and demand growth can be sustained without leading to inflationary pressures. A further risk to the strong economic expansion in the United States could arise from the widening of the current account deficit, which points to the increasing role of foreign savings in sustaining United States demand growth. An erosion of investor confidence in the outlook for the United States economy could lead to lower capital inflows and trigger a correction in the dollar rate and the stock markets.

The busy port of Hong Kong, China: the recovery in Asia was stronger than expected. (Photo courtesy of the Permanent Mission of Hong Kong, China).

The recovery in Asia was stronger than expected and led to double-digit real import growth in 1999. GDP growth was uneven among the economies in the region, ranging from 11% in the case of the Republic of Korea to stagnation in the case of Indonesia. In many countries economic growth was sustained by fiscal stimulus, replenishment of inventories and a rebound in the global demand for electronic goods.

The information technology sector and the automobile industry both recorded strong global output growth. Within the information technology sector, the unit sales of personal computers rose by 22% to 114 million units, and the dollar value of global sales of semi-conductors expanded by 18%, to a new record level of 160 billion dollars. One of the most dynamic branches of the global information technology industry in 1999 was mobile phones. It is estimated that world-wide sales of cellular mobile phones reached 283 million units, an increase of two-thirds over 1998 sales.1 New registrations of passenger cars are estimated to have expanded by 5.5%, lifting

Chart II.2 Trade contraction and recovery in Asian crisis countries, 1997-99
(Percentage change in dollar values over the previous year)

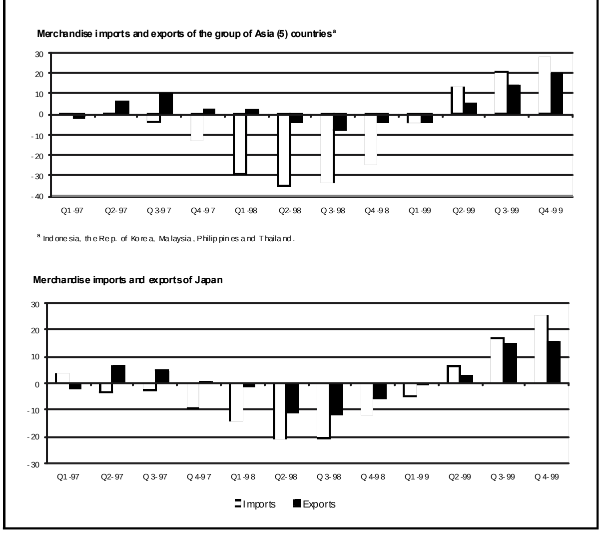
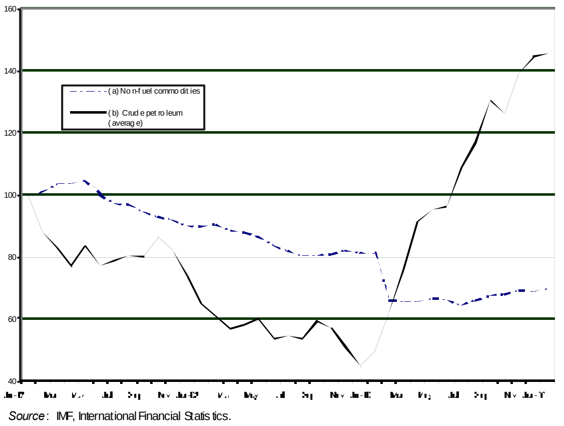


Chart II.3 Recent Commodity Price Developments, January 97- January 2000
(Indices, January 1997=100)



Source: IMF, International Financial Statistics.

the production of passenger cars to a new all time high of 48.6 million units in 1999.[2] Although trade data by product group are still incomplete, there is no doubt that exports of automotive products and of office and telecom equipment have expanded significantly faster than the global average.

Developments in world financial markets continued to influence global trade developments through shifts in the direction of international capital flows and their impact on exchange rate changes. Global FDI flows have surged by about 25%, to some 800 billion dollars.[3] FDI inflows in Asia stagnated or rose only marginally, while the United States recorded net FDI inflows of 130 billion dollars.[4] The main factor behind the increase in global FDI flows was the exceptional wave of cross-border mergers and acquisitions.

While the United States attracted an unprecedented level of capital inflows, which financed its widening current account deficit, net private capital flows to the major emerging markets are estimated to have stagnated at 150 billion dollars in 1999.[1]

The increase in the United States current account deficit caused by increased imports can be seen as a positive cyclical element in the world economy as it allows output and employment to be sustained in foreign export industries facing excess capacity. At the same time, the deficit eases inflationary pressures in the United States where labour and productive capital are increasingly scarce. However, what is beneficial in a certain cyclical situation might be difficult to sustain in the medium term.

In particular, a large current account surplus of the developing countries *vis-à-vis* the United States (or any other high income country) is hardly a desirable feature over a longer period. Why is this so when most governments seem to favour a current account surplus over a deficit? A current account surplus implies that net capital (= savings) from the developing countries flows to other countries where it supports investment and/or consumption. A more desirable situation for the developing countries is a current account deficit (and a rising trade volume), and a concurrent inflow of capital that is used to enlarge (profitable) production capacity. If the capital inflow is used primarily for consumption, increased debt and debt servicing costs are unlikely to be sustainable.

The present large net capital inflows into the United States reflect, on the one hand, that foreign investors expect investment returns to be higher in the United States than elsewhere, and on the other, that United States consumers are spending an historically high share of current income (encouraged by its increased financial wealth), while United States companies maintain a high level of capital spending. A reversal in foreign investors' appreciation of future earnings in the United States or a cutback in United States consumption or investment growth could rapidly change the size of the United States current account deficit, which in 1999 was equivalent to 3.7% of GDP-a historic record level.

Prices of internationally traded goods decreased slightly as the increase in oil prices was offset by a further decrease in the prices of non-fuel commodities and manufactured goods. Among the non-fuel commodities, prices of food and beverages decreased by more than 15% while those of agricultural materials and metals remained roughly unchanged, although they started to strengthen in the second half of 1999. Despite this partial price recovery, the annual average prices of non-fuel commodities fell to a ten year low. The decrease in the dollar price of manufactured goods can be attributed to the fall in prices of office and telecom equipment as well as the strength of the United States dollar *vis-à-vis* the euro and the near absence of inflation in the goods sector of all major economies.

Given that oil prices tripled from 10 dollars per barrel in February 1999 to 30 dollars in the first quarter of 2000, concerns about a resurgence of consumer prices are understandable. However, the marked reduction in the oil intensity of output in the industrial countries - by about 40% since the first oil price hike more than 25 years ago - has reduced this risk considerably. The increased role of natural gas in world fuels trade has also contributed to moderate the increase in import prices of fuels.[5] While the impact of the rebounding oil prices have been small on consumer prices in 1999, the impact was dramatic on the export revenues of the oil exporters. The Middle East recorded export growth in excess of 20% in 1999, but this did not fully offset a corresponding decline in 1998.

World exports of merchandise and commercial services, 1997-99				
	Value	Annual change		
	1999	1997	1998	1999
Merchandise	5460	3.5	-1.5	3.5
Commercial services	1340	4.0	0.0	1.5

World trade in 1999

1. Global trade and output developments

While the negative impact of the financial crisis in Asia and Latin America on output and trade flows were initially underestimated, the more sober projections for 1999 turned out to be too pessimistic. Output of developing countries in Asia rebounded by 6%, Russian GDP recovered by 3% and Brazil's economy achieved positive growth for the full year of 1999. The United States economy again provided a major stimulus to world trade last year as domestic demand grew by 5.5%. By contrast, the Japanese economy stagnated and Western Europe's GDP growth decelerated to 2%.

On a sectoral basis, preliminary data suggest that mining output decreased as crude oil production was cut back by 1.5% and agricultural output rose for the second year in a row by only about 1%. Manufacturing output recovered and expanded by about 2.5%. The highly divergent growth rates of regional demand and sectoral output left their mark on global trade flows, which also differed strongly by region and sector.

The value of world merchandise trade rose by 3.5% in 1999 and amounted to 5.45 trillion dollars. Average trade prices decreased for the third year in a row, although the decrease in 1999 was much smaller than in preceding years.

Trade in commercial services rose by 1.5% in 1999 and thereby less rapidly than merchandise trade. Price data for United States commercial services point to a moderate increase in prices for internationally traded services. This implies that the expansion of exports of commercial services has probably also lagged behind merchandise export growth in volume terms.

Table II.2
Growth in the volume of world merchandise trade by selected region, 1997-99
(Percentage change)

	Exports			Imports		
	1997	1998	1999	1997	1998	1999
World a	**10.5**	**4.5**	**4.5**	...	...	...
North America	11.0	3.5	4.5	13.0	10.5	10.5
Latin America	11.5	7.5	7.0	22.5	8.5	-2.0
Mexico	19.5	11.0	13.5	28.0	15.5	15.0
Other Latin America	6.5	5.5	2.0	20.0	4.5	-12.0
Western Europe	9.5	5.5	3.5	9.0	8.5	3.5
European Union (15)	9.5	6.0	3.5	8.5	8.5	4.0
Transition economies	10.5	5.0	-3.0	13.5	5.0	-10.0
Asia	13.0	3.5	6.0	5.5	-8.5	9.0
Japan	12.0	-1.5	2.0	1.5	-5.5	9.5
Asia (5) b	16.5	13.0	11.5	3.0	-22.5	17.5

a Average of export and import growth.
b Indonesia, the Republic of Korea, Malaysia, Philippines and Thailand.

Note: Separate volume data are not available for Africa and the Middle East, although estimates for these regions have been made in order to calculate a world total.

Table II.3
Growth in the value of world merchandise trade by region, 1997-99
(Billion dollars and percentage change)

	Exports (f.o.b.)				Imports (c.i.f.)			
	Value	Annual percentage change			Value	Annual percentage change		
	1999	1997	1998	1999	1999	1997	1998	1999
World	**5460**	**3.5**	**-1.6**	**3.5**	**5725**	**3.5**	**-0.8**	**4.0**
North America	934	9.2	-0.7	4.0	1281	10.3	4.4	11.5
Latin America	292	10.2	-1.2	6.0	329	18.5	4.8	-4.0
Mexico	137	15.0	6.4	16.5	148	22.6	13.9	13.5
Other Latin America	156	7.2	-6.2	-2.0	181	16.4	-0.1	-14.5
Western Europe	2349	-0.6	3.4	-0.5	2417	-0.3	5.9	0.5
European Union (15)	2176	-0.5	3.8	-0.5	2233	-0.5	6.3	1.0
Extra-EU (15) trade	799	1.8	-0.3	-1.5	851	-0.3	6.2	2.5
Transition economies	212	4.1	-4.6	-1.5	211	6.5	-1.8	-13.0
Central/Eastern Europe	101	6.3	9.5	0.0	129	5.6	10.8	-2.0
Russian Federation	74	-0.4	-15.9	0.0	41	6.7	-19.8	-30.5
Africa	113	1.9	-15.5	8.0	132	5.5	1.2	0.5
South Africa a	27	6.2	-9.0	1.5	27	9.5	-9.3	-8.5
Major fuel exporters b	41	-0.1	-31.4	24.0	30	9.6	-0.8	5.5
Middle East	169	4.7	-22.4	22.0	152	8.1	-3.2	4.0
Asia	1390	5.4	-6.1	7.5	1201	0.4	-17.8	10.5
Japan	419	2.4	-7.8	8.0	311	-3.0	-17.2	11.0
China	195	21.0	0.6	6.0	166	2.5	-1.5	18.0
Asia (5) c	371	5.1	-3.5	9.5	292	-3.1	-30.9	15.5

a Beginning 1998, figures refer to South Africa and no longer to the South African Common Customs Area.
b Angola, Algeria, Congo, Gabon, Libyan Arab Yamahiriya and Nigeria.
c Indonesia, the Republic of Korea, Malaysia, Philippines and Thailand.

2. Merchandise trade

A detailed review of world merchandise trade by product group in 1999 is not yet feasible at the time of writing this report. However, partial information indicates that rebounding oil prices have led to an increase of world fuels exports in excess of 20%. Above average growth was also recorded for office and telecom equipment and automotive products. Primary products, other than fuels, on average experienced price declines in 1999. Taking into account moderate demand growth, the global value of non-fuel primary products has probably stagnated or changed only very little from the preceding year.[6]

Preliminary data on merchandise trade by region are provided in Tables II.2 and II.3. The large variations in **import volumes by region** largely reflect the differences in regional demand and output growth. As can be seen from Table II.2, North America and Asia recorded import growth slightly above 10% or two times faster than the global average. While for North America this was the third year in a row in which import growth exceeded 10%, the developments in Asia illustrate the strength of the region's recovery, which offset the sharp import contraction in the preceding year. While imports of Asia recovered, those of Western Europe recorded a marked deceleration. The transition economies as a group recorded a 10% contraction due to the sharp cut back of imports into Russia and the Ukraine. Imports of Africa and the Middle East changed little in real terms in 1999, also reflecting poor export earnings in recent years.

The variation among regional export growth rates in 1999 was smaller than for imports. Despite sharply lower intra-regional trade, Latin America recorded the highest export expansion of all regions. Asian export growth exceeded the global average as Japan's exports recovered and the five Asian developing countries affected most by the 1997/98 financial crisis achieved double-digit export growth. North America's exports accelerated somewhat thanks to the dynamic performance of intra-trade. The deceleration of West European economic activity in 1999 led to markedly lower growth of intra-trade. While intra-European Union exports expanded two times faster than world trade in 1998, its growth in 1999 fell below that of world trade. The transition economies and the Middle East both recorded a contraction of their export volume.

Turning to **developments in value terms**, the Middle East reports the highest regional export growth rate despite its reduction in export volume. Africa's export growth was, at 8%, the second highest among all regions. This was largely due to the sharp recovery of shipments from the region's oil-exporting countries. However, it should be recalled that for both Africa and the Middle East, the 1999 rise did not fully offset the decrease recorded in the preceding year. Latin America's exports rose by a strong 6%, as the higher growth of Mexico's and some Caribbean countries' exports more than offset the sharp declines reported for all South American countries. A recovery of intra-Asian trade supported by stronger regional growth and appreciating currencies led Asian exports to regain their pre-crisis peak level. North American exports expanded by 4% in 1999, following a small contraction in 1998. The marginal decline in Western Europe's export value was due to a deceleration in volume growth but above all, to a fall of nearly 4% in the region's dollar export prices. The weaker export prices are principally due to the depreciation of the Euro *vis-à-vis* the US dollar. The sluggishness of Western Europe's import growth, together with the sharp contraction of Russia's imports, contributed to a further decrease in the export value of transition economies in 1999.

3. Commercial services trade

The global export value of commercial services recovered in 1999 after stagnating in 1998. Preliminary data by major services categories indicate that all categories recorded positive growth. Transportation services are estimated to have expanded less than the average growth rate of 1.5% despite the increase in fuel costs. Travel services and the residual grouping of Other business services have both expanded by about 2 to 3%.

The commercial services trade data by region shown in Table II.4 indicate that the most dynamic export and import growth in 1999 was in North America and Asia. While North America's services import growth exceeded its export growth, thereby reducing its traditional surplus in commercial services, Asia's imports and exports expanded at about the same rate (4-5%). The rebound in Asian services trade is much weaker than for Asian merchandise trade, in particular for exports. In contrast to the developments in North America and Asia, Western Europe's services trade expanded less favourably in 1999 than in the preceding year. Available data for the transition economies point to a sharp contraction of both services exports and imports.

4. Trade by region and country

The outstanding high investment and consumption growth in the United States resulted in an expansion of imports of goods and services of more than 10% in both nominal and real terms. Over the last two years United States import demand sustained world trade remarkably.

Table II.4
Growth in the value of world trade in commercial services by selected region, 1997-99
(Billion dollars and percentage change)

	Exports				Imports			
	Value	Annual change			Value	Annual change		
	1999	1997	1998	1999	1999	1997	1998	1999
World	**1340**	**4**	**0**	**2**	**1335**	**3**	**1**	**3**
North America	284	8	2	5	219	10	6	9
United States	252	9	2	5	182	11	8	10
Latin America	54	7	9	-2	60	13	4	-9
Mexico	12	5	6	-3	14	19	7	9
Other Latin America	42	8	10	-2	47	12	4	-13
Western Europe	630	2	6	0	600	0	7	1
European Union (15)	565	1	5	1	555	0	7	2
Transition economies	47	0	2	-10	44	0	1	-8
Asia	267	5	-15	4	337	2	-11	5
Japan	60	3	-9	-3	114	-5	-9	3
Hong Kong, China	35	1	-10	3	22	5	-2	-2
China	27	19	-2	...	32	34	-4	...
Asia (5) a	62	7	-23	3	73	5	-25	5

a Indonesia, the Republic of Korea, Malaysia, Philippines and Thailand

Note: Separate reliable data are not available for Africa and the Middle East, although estimates for these regions have been made to calculate a world total.

Excluding shipments to the United States, the nominal value of world merchandise and services trade in 1999 would have still been below its 1997 level and the volume expansion of world merchandise trade would have been limited to 6% instead of 9%. The share of the United States in world merchandise imports rose to 18%, the highest US share ever. Strong domestic growth was also one reason why United States merchandise exports in real terms lagged behind global trade growth. All countries having strong trade ties with the United States benefitted from this development, and in particular Canada, which expanded its merchandise exports to the United States over the last two years by about 18%, or twice the rate of global trade growth.

Commercial services' imports of the United States rose by 10% and two times faster than exports. Canada's import growth of commercial services recovered to 5.5%, but remained for the fifth year in a row behind the expansion of its services exports. Although the expansion of United States commercial services' imports has exceeded that of exports since 1997, the United States surplus in services in 1999 still amounted to US$68 billion.

In 1999, Latin America recorded its worst annual economic performance for the last decade, as regional output stagnated and the volume of merchandise imports decreased by 2%. At least eight economies recorded lower output in 1999 than in the preceding year. As in 1998, there is a striking difference in output and trade growth between Mexico and all the other Latin American countries combined. While Mexico's merchandise exports and imports rose over the last two years by more than 20%, other Latin American countries combined reported a fall in exports of nearly 8% and in imports of nearly 15%.

A large part of the divergent performance can be attributed to differences in the export structure. Manufactured goods account for 85% of Mexico's exports, but only 40% for Latin America excluding Mexico. Manufactures enjoyed more stable prices than non-fuel commodities. In addition, Mexico's exports are destined largely to the booming North American market (nearly 90%) while the other Latin American countries ship less than 30% of their exports to North America. Mercosur experienced a contraction of its intra-trade by about one quarter, as output of its member countries declined or stagnated.

For commercial services imports, one can observe a similar divergency, as Mexico's imports rose by 15%, while those of the other Latin American countries contracted by nearly 10% over the last two years. Only for commercial services exports, Mexico reports a stronger decrease than the other Latin American countries in 1999. The somewhat surprising decline reported for Mexico's commercial services exports is attributed to a decrease in revenues from both travel and other business services.

The slowdown in Western Europes output growth to 2% in 1999 contributed to a markedly lower trade growth in volume terms. As more than two-thirds of Western Europe's trade is intra-regional, weak consumption growth affected both exports and imports. As regards merchandise trade, it is estimated that exports and imports grew in volume terms by about 3.5% and thereby less than world trade. As the Euro and other European currencies weakened vis-à-vis the US dollar, the region's dollar export and import prices decreased on average by about 4%, leading to a stagnation of their trade dollar values in 1999. Austria, France and Sweden were among the West European countries which recorded only moderate import growth, while Norway and Turkey even experienced a contraction of their import volumes in 1999. Spain, Portugal and Ireland, however, continued to be the most dynamic traders in Western Europe, with imports and exports expanding much faster than the European average.

Although output in the transition economies recovered by about 2%, growth remained disappointingly low in the tenth year of transition. Poland is the only country in the region in which the output level in 1999 was above the level attained ten years ago. The sluggishness in Western Europe's economy together with a dramatic shrinkage of Russian imports depressed the region's trade in 1999. Merchandise and commercial services trade were both shrinking in dollar value and volume terms. Most of the decline was concentrated in the CIS member countries. Central and Eastern Europe's merchandise trade slowed down sharply but continued to show positive real growth in 1999. Hungary continued to record the highest trade growth among the Central/East European countries. In 1999, its merchandise exports and imports expanded by about 9% in dollar terms. A major contribution to this strong trade performance was made by the expansion of intra-industry trade in office and telecom equipment and automotive products.

Africa and the Middle East recorded one of their weakest annual GDP growth performances in the 1990s. The rebound in their merchandise exports was largely due to the recovery in oil prices. Africa's merchandise exports rose by 8% in 1999. The major fuel exporters recorded an increase of about one-quarter, which did not fully offset the decline recorded in 1998. South Africa and other non-fuel exporting African countries recorded an increase in their export earnings of less than 2%. African imports stagnated in dollar terms for the second year in a row, as sharp declines in South Africa's imports were offset by increases by African developing countries.

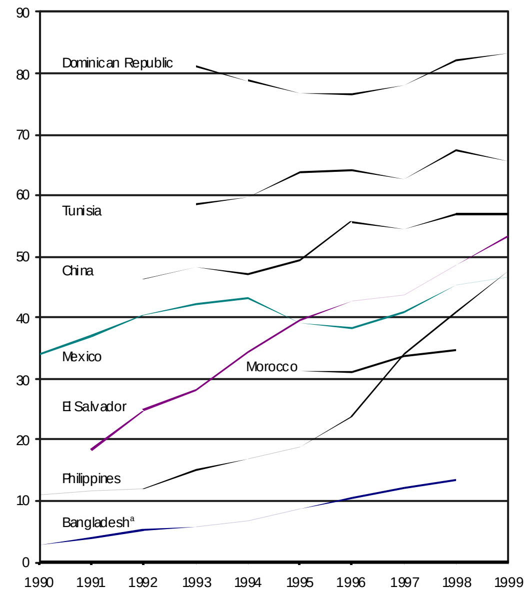
Economic growth patterns differed widely in Asia in 1999. While GDP growth in the two most populous countries in the region, China and India, was about 7%, the output in Japan, the largest economy in Asia, stagnated. Among the five Asian countries severely affected by financial crisis, the Republic of Korea recorded an outstanding recovery with double digit growth, while Indonesian output stagnated. Asian developing countries as a group recorded an output expansion of 6%, at least two times faster than any other developing region.

Information technology continued to be among the most dynamic trade sectors. In 1999, the unit sales of personal computers rose by 22% to 114 million units, and the dollar value of global sales of semi-conductors expanded by 18%, to a new record level of 160 billion dollars..

One of the outstanding developments of Asian trade in 1999 was the double digit trade volume growth of the five Asian countries most affected by financial crises in 1997-98. Their export expansion remained very strong (11.5%) and imports rebounded sharply without offsetting fully the contraction of the preceding year. The regional recovery and the cyclical recovery in the electronic goods industry contributed largely to this dynamic growth. For the Republic of Korea and Malaysia, exports of office and telecom equipment accounted for more than 80% of the overall increase of their export value in 1999.

Japan's merchandise trade recovery was strong, taking into account its stagnating economy. However, export and import values did not regain their pre-crisis peak levels. Japan's commercial services exports continued to shrink, while imports picked-up after a marked decrease in 1997-98. China's merchandise imports expanded by 18% while those of Hong Kong, China decreased for the second consecutive year. A notable feature in Asia's trade is the steady decline of the share of Hong Kong, China in Asia's merchandise trade. Hong Kong, China's domestic exports and retained imports had by 1999 fallen below their 1990 level. This decline has to be seen in the context of the relocation of Hong Kong, China's manufacturing industry to China, which in turn has greatly enhanced its share in world exports. In respect to commercial services, however, Hong Kong, China maintains its position as the leading developing country exporter. For the Asian region, exports of commercial services decreased more strongly in 1998 and recovered by far less in 1999 than did merchandise exports. For imports of commercial services, the recovery in 1999 was also far smaller than for

Chart II.4 Share of processing trade in total merchandise exports of selected countries, 1990-99
(Percentage)



[a] Refers to fiscal years. Includes only shipments from two export processing zones.
Source: National statistics.

Table II-5
Processing trade and export performance of selected countries, 1990-99
(Billion dollars and percentage)

Country	Total export growth 1990-1999 (percent)	Share of processing trade 1998 (percent)	Value of processing exports 1998 (billion $)
Dominican Republic a	n.a.	82.2	4.1
Tunisia	5.9	67.4	4.0
China	13.5	56.9	104.6
El Salvador b	16.8	48.6	1.2
Philippines	16.5	40.9	12.1
Mexico	14.4	45.2	53.1
Morocco	6.4	34.7	2.6
Bangladesh c	15.2	13.4	0.7
Memorandum item:			
World total	5.4	...	...

a Between 1993 and 1998 exports grew by 9.2% and world exports by 7.7% annually.
b Refers to years 1991-1999.
c Refers to fiscal years.

Source: National Statistics

merchandise trade.

Looking at trade performance by country, the following features emerge for 1999 trade developments (see Appendix Tables). First, the United States consolidated its leading position in world merchandise imports and world commercial services exports. Its share in world merchandise imports reached, at 18%, its highest level ever. Second, oil-exporting countries recorded in general the highest export growth in 1999 (at least 16 of them recorded export increases ranging from 15% to 50%). For most of them the increase in 1999 did not fully offset the declines recorded in the preceding year. Third, exporters of office and telecom equipment benefitted from the recovery in the global electronic goods industry. The double digit export growth of the Republic of Korea, Malaysia, the Philippines, Costa Rica and Israel was largely due to office and telecom equipment exports. Fourth, a large number (at least 24) of South American and transition economies recorded double-digit decreases in their imports and often also a fall in their export values. The main causes of these bleak developments include the steep fall of intra-regional trade and the low prices of non-fuel commodities. Fifth, the four largest traders in Western Europe (France, Germany, Italy and the United Kingdom) all recorded a small decline in their merchandise export values and minimal changes in their imports.

Making garments in the Dominican Republic: while the number of export processing zones has risen to 850, their success in expanding employment and trade is mixed. (ILO)

5. Processing trade contributes to exceptional trade expansion in selected developing countries

Over the last fifteen years, the outstanding high trade growth recorded by a selected number of developing countries can be partly attributed to the expansion of their "processing trade". Beside multilateral and regional trade liberalization, an increasing number of countries have modified their import regime by granting, under certain conditions, duty-free access to those imports which are bound for the processing and assembling of goods destined for exports. This preferential tariff treatment was initially limited to trade which went through specific areas (e.g. the Special Economic Zones in China or the maquiladoras zones in Mexico) but often extended thereafter to companies located outside these specifically designated areas. While the number of export processing zones has risen to about 850, their success in expanding employment and trade is mixed.7 In several countries employment in these zones rose sharply and trade was growing rapidly while in many other countries the creation of special zones granting tariff preferences to processing trade had a negligible impact on both trade and employment. In the 1990's the most dynamic processing traders among the developing countries are to be found in Asia and Latin America.

A comprehensive appreciation of the contribution of "processing trade" to the expansion of developing countries' merchandise exports and imports is not attempted here, as the data on processing trade are not as readily available as standard trade statistics. However, the examples given below show that the "processing trade" has gained in importance and often played a crucial part in these countries' overall trade performance. All the eight countries presented in Chart II.4 have recorded an expansion of exports well ahead of the global average in the last decade. Five of them recorded average annual export growth rates around 15%, which is about three times faster than the global trade expansion of 5.5%.

Preferential tariff treatment to "processing trade" is not only a feature of trade regimes in the developing countries. Industrial countries too are often providing duty exemption or reduction on imported goods if these products have been manufactured abroad with materials/components from the importing country. While the value of these imports can be relatively important in bilateral trade flows, their share in total imports is at present rather moderate. For the United States and the European Union the share of imports benefitting from this specific duty exemption amounted to 8% in the US and to 2% in the EU (excluding intra-trade) in 1998.8 In the United States the share of processing trade in total imports declined markedly as trade with Mexico and Canada became increasingly tariff free with the implementation of NAFTA.

6. Outlook

Global economic output is expected to accelerate from 3% in 1999 to about 3.5% in 2000. The volume of world merchandise trade growth should reach 6.5%. Higher trade growth is possible, in particular, if the demand in Western Europe and Japan pick up more strongly

Appendix Table 1
Leading exporters and importers in world merchandise trade, 1999
(Billion dollars and percentage)

Exporters	Value	Share	Annual percentage change 1998	Annual percentage change 1999	Importers	Value	Share	Annual percentage change 1998	Annual percentage change 1999
United States	695.0	12.4	-1	2	United States	1059.9	18.0	5	12
Germany	540.5	9.6	6	0	Germany	472.6	8.0	6	0
Japan	419.4	7.5	-8	8	United Kingdom	320.7	5.5	2	2
France	299.0	5.3	5	-2	Japan	310.7	5.3	-17	11
United Kingdom	268.4	4.8	-3	-2	France	286.1	4.9	7	-1
Canada	238.4	4.2	0	11	Canada	220.2	3.7	3	7
Italy	230.8	4.1	1	-5	Italy	216.0	3.7	3	0
Netherlands	204.1	3.6	4	2	Netherlands	188.9	3.2	5	1
China	194.9	3.5	1	6	Hong Kong, China	181.7	3.1	-12	-3
Belgium-Luxembourg	184.1	3.3	6	3	retained imports a	29.2	0.5	-30	-20
					Belgium-Luxembourg	169.4	2.9	7	2
Hong Kong, China	174.8	3.1	-7	0	China	165.7	2.8	-1	18
domestic exports	22.2	0.4	-10	-10	Mexico	148.2	2.5	14	13
Korea, Rep. of	144.2	2.6	-3	9	Spain	145.0	2.5	8	9
Mexico	136.7	2.4	6	16	Korea, Rep. of	119.7	2.0	-35	28
Taipei, Chinese	121.6	2.2	-9	10	Taipei, Chinese	111.0	1.9	-8	6
Singapore	114.6	2.0	-12	4	Singapore	111.0	1.9	-23	9
domestic exports	68.6	1.2	-13	8	retained imports a	65.0	1.1	-31	18
Spain	109.4	2.0	5	0	Switzerland	80.1	1.4	5	0
Malaysia	84.5	1.5	-7	15	Australia	69.0	1.2	-2	7
Sweden	84.5	1.5	2	0	Sweden	68.2	1.2	4	0
Switzerland	80.6	1.4	4	2	Austria	67.8	1.2	5	0
Russian Fed. b	74.3	1.3	-16	0					
Ireland	69.6	1.2	20	8	Malaysia	65.5	1.1	-26	12
Austria	62.0	1.1	7	-1	Brazil	51.8	0.9	-7	-15
Thailand	58.4	1.0	-5	7	Thailand	50.6	0.9	-32	18
Australia	56.1	1.0	-11	0	Ireland	45.6	0.8	14	2
Saudi Arabia	50.5	0.9	-35	27	Poland	44.8	0.8	11	-5
Indonesia	48.5	0.9	-9	-1	India	44.6	0.8	3	4
Brazil	48.0	0.9	-4	-6	Denmark	43.3	0.7	4	-6
Denmark	47.8	0.9	-1	-1	Russian Fed. b	41.1	0.7	-20	-30
Norway	44.9	0.8	-18	13	Turkey	39.2	0.7	-5	-15
Finland	41.5	0.7	6	-4	Portugal	37.6	0.6	5	2
Total of above c	4927.0	87.8	-	-	Total of above c	4976.0	84.7	-	-
World c	**5610.0**	**100.0**	**-2**	**3**	**World c**	**5875.0**	**100.0**	**-1**	**4**

a Retained imports are defined as imports less re-exports.
b Includes trade with the Baltic States and the CIS.
c Includes significant re-exports or imports for re-export.

than currently projected.

In 2000, GDP growth of industrial countries could expand by 3% or one half% faster than in 1999 as moderately lower growth in the United States is more than offset by higher growth in Western Europe and Japan. Latin America and the Middle East should see a strong pick-up in their GDP growth afterexperiencing a stagnation of output in 1999. Higher growth is also projected for the transition and African economies. GDP growth of the Asian developing countries is projected to remain unchanged as the impact of the expansionary fiscal policies and the rebuilding of inventories will be less important in 2000 than in 1999, but offset by a strengthening of fixed investment and private consumption.

More robust growth of the world economy in 2000, together with the carry-over effect due to the trade acceleration in the second half of 1999 is projected to lead to export volume growth of at least 6.5%. Most of this higher growth is expected to come from Western Europe and to a lesser extent from Latin America, the Middle East and the transition economies. North America and the developing countries in Asia, which recorded double digit import growth in 1999, are likely to expand their imports less rapidly in 2000, and the projected deceleration of North America's final demand should lead to less dynamic import growth in 2000.

The projections above assume that the oil price will recede from its US$30 per barrel level in the first quarter back to a range of US$20 to US$25 and that major financial market turbulence - in particular a sudden sharp cor-

Appendix Table 2
Leading exporters and importers in world merchandise trade (excluding intra-EU trade), 1999
(Billion dollars and percentage)

Exporters	Value	Share	Annual percentage change 1998	1999	Importers	Value	Share	Annual percentage change 1998	1999
European Union(15)	798.6	18.9	0	-1	United States	1059.9	23.6	5	12
United States	695.0	16.4	-1	2	European Union (15)	851.2	18.9	6	3
Japan	419.4	9.9	-8	8	Japan	310.7	6.9	-17	11
Canada	238.4	5.6	0	11	Canada	220.2	4.9	3	7
China	194.9	4.6	1	6	Hong Kong, China	181.7	4.0	-12	-3
Hong Kong, China	174.8	4.1	-7	0	retained imports a	29.2	0.6	-30	-20
domestic exports	22.2	0.5	-10	-10	China	165.7	3.7	-1	18
Korea, Rep. of	144.2	3.4	-3	9	Mexico	148.2	3.3	14	13
Mexico	136.7	3.2	6	16	Korea, Rep. of	119.7	2.7	-35	28
Taipei, Chinese	121.6	2.9	-9	10	Taipei, Chinese	111.0	2.5	-8	6
Singapore	114.6	2.7	-12	4	Singapore	111.0	2.5	-23	9
domestic exports	68.6	1.6	-13	8	retained imports a	65.0	1.4	-31	18
Malaysia	84.5	2.0	-7	15	Switzerland	80.1	1.8	5	0
Switzerland	80.6	1.9	4	2	Australia	69.0	1.5	-2	7
Russian Fed. b	74.3	1.8	-16	0	Malaysia	65.5	1.5	-35	12
Thailand	58.4	1.4	-5	7	Brazil	51.8	1.2	-7	-15
Australia	56.1	1.3	-11	0	Thailand	50.6	1.1	-32	18
Saudi Arabia	50.5	1.2	-35	27	Poland	44.8	1.0	11	-5
Indonesia	48.5	1.1	-9	-1	India	44.6	1.0	3	4
Brazil	48.0	1.1	-4	-6	Russian Fed. b	41.1	0.9	-20	-30
Norway	44.9	1.1	-18	13	Turkey	39.2	0.9	-5	-15
India	36.5	0.9	-4	9	Norway	33.8	0.8	1	-7
Philippines	35.0	0.8	18	19	Israel	33.2	0.7	-5	13
United Arab Emirates	29.5	0.7	-13	15	Philippines	32.6	0.7	-18	4
Czech Rep.	26.8	0.6	16	2	Saudi Arabia	30.0	0.7	4	0
Poland	26.8	0.6	10	-5	United Arab Emirates	28.9	0.6	-9	6
South Africa c	26.7	0.6	-9	1	Czech Rep. d	28.9	0.6	6	0
Turkey	26.2	0.6	3	-3	Hungary	27.7	0.6	21	8
Israel	25.3	0.6	2	10	South Africa c	26.8	0.6	-9	-8
Hungary	24.6	0.6	20	7	Argentina	25.5	0.6	3	-19
Argentina	23.3	0.6	0	-12	Indonesia	23.9	0.5	-34	-13
Venezuela	18.9	0.4	-21	10	Egypt	16.2	0.4	22	0
Total of above e	3884.0	91.8	-	-	Total of above e	4073.0	90.7	-	-
World (excl. intra-EU trade) e	**4232.0**	**100.0**	**-4**	**4**	**World (excl. intra-EU trade) e**	**4494.0**	**100.0**	**-3**	**5**

a Retained imports are defined as imports less re-exports.
b Includes trade with the Baltic States and the CIS.
c Beginning 1998, figures refer to South Africa and no longer to the South African Common Customs Area.
d Imports are valued f.o.b.
e Includes significant re-exports or imports for re-export.

rection of stock markets and the dollar rate - can be avoided in the remaining months of the year. A sharp correction of the stock markets, together with a marked slowing down of United States demand and imports, could alter the trade forecast significantly. Note, for example, that at nearly 350 billion dollars, the United States merchandise trade deficit in 1999 exceeded the total imports of Japan. A disruptive adjustment of the current external imbalances would imply a major risk to trade growth in the near future. ❐

__

[1]Gartner Group Dataquest, Press Releases, various issues.
[2]*Financial Times*, 29 February 2000.
[3]UNCTAD, Press Release, 8 February 2000.
[4]U.S. Dep. of Commerce, BEA News Release, 15 March 2000. Institute of International Finance, Capital Flows to Emerging Market Economies, 24 January 2000.
[5]Import prices of natural gas decreased in several countries in 1999 as these prices are often adjusted to the oil price with some delay.
[6]The value of United States agricultural exports decreased by 6 percent while corresponding imports increased by 5.5 percent.
[7]International Labour Organization, "Labour and social issues relating to export processing zones", Geneva 1998.
[8]United States International Trade Commission, "Production sharing: Use of United States components and materials in foreign assembly operations. (US imports under production sharing provisions of Harmonized Tariff Schedule Heading 9802)", December 1999 and EUROSTAT, Intra and Extra-EU trade, supplement 12, 1999 (CD-ROM).

Appendix Table 3
Leading exporters and importers in world trade in commercial services, 1999
(Billion dollars and percentage)

Exporters	Value	Share	Annual percentage change		Importers	Value	Share	Annual percentage change	
			1998	1999				1998	1999
United States	251.7	18.8	2	5	United States	182.3	13.7	8	10
United Kingdom	101.4	7.6	7	2	Germany	127.2	9.5	3	2
France	79.3	5.9	5	-6	Japan	113.9	8.5	-9	3
Germany	76.8	5.7	3	-3	United Kingdom	81.4	6.1	11	4
Italy	64.5	4.8	0	-3	Italy	62.7	4.7	7	0
Japan	59.8	4.5	-9	-3	France	59.2	4.4	5	-9
Spain	54.1	4.0	12	11	Netherlands	46.5	3.5	4	0
Netherlands	53.1	4.0	3	3	Canada	37.1	2.8	-4	5
Belgium-Luxembourg	37.6	2.8	6	4	Belgium-Luxembourg	35.5	2.6	8	4
Hong Kong, China	35.4	2.6	-10	3	China	32.1	2.4	-4	…
Austria	32.6	2.4	9	3	Spain	30.9	2.3	13	12
Canada	32.4	2.4	2	7	Austria	29.5	2.2	6	-2
Switzerland	27.2	2.0	5	5	Korea, Rep. of	26.7	2.0	-19	14
China	26.6	2.0	-2	…	Ireland	23.5	1.8	32	18
Korea, Rep. of	25.0	1.9	-6	5	Taipei, Chinese	23.2	1.7	-4	0
Singapore	22.9	1.7	-40	25	Sweden	22.8	1.7	11	5
Sweden	18.0	1.3	1	2	Hong Kong, China	22.4	1.7	-2	-2
Australia	17.2	1.3	-13	9	Singapore	19.3	1.4	-7	8
Denmark	16.0	1.2	6	8	Australia	18.0	1.3	-8	6
Turkey	16.0	1.2	21	-31	India	17.3	1.3	16	22
Taipei, Chinese	14.8	1.1	-2	-11	Denmark	16.2	1.2	13	5
Thailand	14.1	1.1	-16	8	Switzerland	15.7	1.2	8	3
Norway	13.7	1.0	-3	-2	Norway	15.4	1.2	4	2
India	13.2	1.0	24	19	Thailand	13.9	1.0	-31	17
Mexico	11.6	0.9	6	-3	Mexico	13.7	1.0	7	9
Malaysia	10.8	0.8	-24	…	Malaysia	13.0	1.0	-24	…
Greece	10.5	0.8	6	…	Indonesia	12.7	0.9	-28	8
Israel	10.3	0.8	8	14	Russian Fed.	11.7	0.9	-14	-27
Poland	9.8	0.7	21	-10	Brazil	11.6	0.9	9	-26
Russian Fed.	9.7	0.7	-9	-25	Israel	10.7	0.8	5	12
Total of above	1165.0	87.1	-	-	Total of above	1145.0	85.9	-	-
World	**1340.0**	**100.0**	**0.0**	**1.5**	**World**	**1335.0**	**100.0**	**0.5**	**2.5**

Agriculture talks reach swift agreement on "phase 1"

In their first meeting on 23–24 March, WTO agriculture negotiators reached quick agreement on the timetable for the first phase of negotiations.

WTO members will submit proposals setting out negotiating objectives by the end of this year—with some flexibility allowing new or more detailed proposals early in 2001—to enable all governments enough time to examine them and take stock at a meeting in March 2001.

"This is the WTO working at its best...the good will shown at this meeting is a good omen for the future"- Mike Moore

Delegates also agreed to conduct technical work on agricultural subsidies and protection within the framework of Article 20 of the Agriculture Agreement (see below), and to hold negotiating sessions in June, September, November 2000 and possibly January 2001.

"The meeting was constructive and businesslike," said WTO Director-General Mike Moore. "Delegates had clearly done their homework. They'd found out from each other exactly what could be achieved and spoke almost as one voice. Several said they would have preferred the talks to go faster or to give them more time, or for the talks to be organized differently, but they didn't dwell on this and so they reached consensus swiftly.

"This is the WTO working at its best. The hard bargaining still lies ahead, and I'm sure that will be much more difficult. But the good will shown at this meeting is a good omen for the future," he said.

"It's also clear that delegations have not allowed their differences over picking a chairperson to obstruct the negotiations," Mr Moore added.

The new negotiations on agriculture have to start this year under the deal struck at the end of the 1986–94 Uruguay Round of multilateral trade talks. It is written into Article 20 of the WTO Agriculture Agreement, part of the Uruguay Round package.

WTO members have not yet agreed on a chairperson for the negotiations, and under an interim solution agreed by the WTO General Council, Ambassador Roger Farrell of New Zealand, the chairperson of the Goods Council, presided over the 23–24 March meeting.

General Council chairperson Kåre Bryn and his Goods Council counterpart, Ambassador Farrell, are continuing consultations with member governments on a chairperson for agriculture. Ambassador Bryn has said he hopes to have agreement on this by the next meeting.

Loading fruits for export: the next round of negotiations to further liberalize trade in agriculture is underway. (ILO Photo)

First phase

The decision reached on 24 March deals with the "first phase" of the negotiations and contains three parts:

- **Technical work:** countries need information on what's been happening in agriculture and the effects of the current round of reductions in subsidies and protection, in order to negotiate the next stage. This is also required under Article 20 of the Agriculture Agreement. The secretariat will compile the factual information and has been assigned a set of tasks for the next meeting at the end of June 2000.
- **Date for receiving proposals:** countries can submit proposals from now until the end of December, with a little flexibility for those who cannot meet that date or want to make additions. In March 2001, the committee will take stock of the proposals, so they must have arrived in time for all members to examine all the proposals by that meeting.
- **Timetable of meetings**: in the first phase these will take place in June, September and November 2000, and March 2001—all as "special sessions" of the Agriculture Committee, taking place immediately before or after regular committee meetings—with the possibility of an extra January 2001 meeting.

No date has been set yet for concluding the talks.

General statements

Countries also made general statements about their positions on agriculture, largely echoing what they had said before Seattle.

Several Cairns Group members (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay) also stressed that they consider the agriculture negotiations to be "stand-alone" because they obtained the commitment to resume negotiations in return for the moderate reforms agreed in the Uruguay Round. European countries, Japan, Rep of Korea, and some others said they believe agreement in the agriculture talks will need a comprehensive round that covers a wide range of topics. East and Central European countries said the talks should also look at the special problems of countries in transition, and how to deal with domestic subsidy commitments (which are made in current prices) when countries experience high rates of inflation. Many developing countries (including some Cairns Group members) said their priority is dealing with the special problems of developing countries and net food importers. ❐

SPS Committee completes draft on risk "consistency"

National authorities could soon be given WTO guidelines to help them treat risk consistently in their measures on food safety and animal and plant health. After five years of deliberation on this difficult topic, the chairperson of the WTO Sanitary and Phytosanitary (SPS) Measures Committee concluded in the committees' 15-16 March 200 meeting that there was "fairly general agreement" on draft guidelines.

Draft guidelines on consistency completed

The committee completed a final draft for guidelines on dealing with "consistency", removing remaining square brackets (signifying parts of the text which had not been agreed). Some members said they need time to look at this final draft. It will be considered for adoption at the next meeting in June.

The guidelines are not legally binding. They are intended as tools to help officials follow SPS Article 5.5 when they make decisions on levels of health protection, and adopt and implement measures on food safety, or animal or plant health.

Art. 5.5 requires countries to be consistent when they deal with risk over a range of measures and products, so as to avoid disguised protectionism for specific products. The key is the concept of the "level of protection" which measures provide for food safety, and animal and plant health. Clearly, these levels are not easy to specify, measure and compare.

The guidelines suggest means for authorities to try to deal with these difficulties. For example it suggests that when new measures are introduced or existing measures modified, the authorities could as a matter of course compare these with other measures they have adopted.

Risk and precaution

The recent debate surrounding some food safety and animal health issues — including disputes in the WTO over the use of hormones in beef production and over regulations for salmon — raises the question of whether the SPS Agreement's preference for scientific evidence goes far enough in dealing with possible risks for consumers and producers.

A phrase that has emerged in the debate is the "precautionary principle", a kind of "safety first" approach to deal with scientific uncertainty. To some extent, Article 5.7 of the SPS Agreement addresses this, but some governments have said outside the WTO that they would like the principle strengthened. However, at the time of writing no proposal had been received. It is also unclear whether this would be handled under the SPS Agreement or through some other means.

Article 5, paragraph 7 of the SPS Agreement reads: "In cases where relevant scientific evidence is insufficient, a Member may provisionally adopt sanitary or phytosanitary measures on the basis of available pertinent information, including that from the relevant international organizations as well as from sanitary or phytosanitary measures applied by other Members. In such circumstances, Members shall seek to obtain the additional information necessary for a more objective assessment of risk and review the sanitary or phytosanitary measure accordingly within a reasonable period of time." ❒

EU paper on precautionary principle

The EU presented its discussion document, which was adopted in Brussels 2 February 2000 and addressed to the EU Council and Parliament. It said this is not the last word, but a contribution to a debate that has arisen because of a need to clarify certain issues. It underscored that the principle should not be used to justify arbitrary measures.

Commenting countries:

(1) welcomed the transparency — the fact that the EU was sharing its discussion with WTO members

(2) expressed concern that this might weaken WTO rules by reducing the certainty and predictability of the rules, upset the "balance of rights and obligations" struck in the Uruguay Round (the negotiation which led to the current set of rules), and could allow every country to use precaution as an excuse for protectionism.

(3) stressed that the of the SPS Agreement and some questioned the legal status of the EU's interpretation.

Speakers included Hong Kong China, Australia, Canada, US, Bolivia, Chile, Brazil, Argentina, Mexico.

The EU concluded by stressing that it did not see its white paper as adding to or detracting from the SPS Agreement.

Specific SPS measures and issues

Several countries informed the committee of latest developments: EU on African swine fever and avian influenza; Chile on its status as free from Classic Swine Fever and expressed optimism at discussions with the EU, US and others on recognition of this; the EU on the Belgian dioxin contamination problem (the EU said it had been cleared up and urged countries which still have restrictions to lift them).

Brazil said it is close to agreement with the EU on gelatin (BSE-related). Canada and the EU complained about Indian restrictions on bovine semen, arguing there is no scientific evidence that BSE is transmitted by semen.

Thailand welcomed the recent change in Mexico's restrictions on Thai rice but questioned why certain conditions seemed to discriminate against Thai rice (certification and fumigation at port of entry).

Argentina sought confirmation about Iceland's market opening for some kinds of meat .

Developing countries' concerns

The committee agreed that its next meeting (21-22 June) will include substantial discussion of the first of a list of developing countries' concerns — the implementation of the SPS Agreement's provisions on special and differential treatment for developing countries. ❒

US implementation of DRAMS report referred to panel

The Dispute Settlement Body (DSB), on 25 April, referred to the original panel Korea's complaint that the United States had not implemented DSB recommendations regarding its anti-dumping duty on dynamic random access memory semiconductors (DRAMS).

Korea complained that new US standard on revocation of anti-dumping duties and the continued application of the US antidumping order on Korean DRAMS without substantial evidence were not in line with the panel's recommendations. It requested that the US' implementation of the DSB recommendations be referred to the original panel.

The United States maintained that it had fully implemented the DSB recommendations. It said that a US Department of Commerce review had showed that Korean exporters had resumed dumping.

The European Communities reserved its right to participate as a third party in the reconvened panel.

On another matter, Canada informed the DSB that it intended to implement fully the DSB recommendations and rulings regarding its patent protection of pharmaceutical products. It said it would need a reasonable period of time to do so due to legal changes that would be necessary to bring the measures into conformity with the WTO.

The EC, who brought the case against Canada, said it was ready to discuss with Canada a reasonable period of time for implementation.

ACTIVE PANELS (As of 2 May 2000)		
Complainant	**Subject of the complaint**	**Date established**
Canada	*EC - Measures affecting the prohibition of asbestos and asbestos products*	25.11.1999
US, Australia	*Korea - Measures affecting imports of fresh, chilled, and frozen beef*	26.05.1999
EC	*US -Section 110(5) of the US Copyright Act*	26.05.1999
EC	*US - Import measures on certain products from the EC*	16.06.1999
US	*Australia - Measures affecting the importation of salmonids (*Panel suspended until 29.04.2000)	16.06.1999
EC	*Argentina - Measures on the export of bovine hides and the import of finished leather*	26.07.1999
Japan	*US - Anti-Dumping Act of 1916*	26.07.1999
EC	*US - Definitive safeguard measure on imports of wheat gluten from the EC*	26.07.1999
US	*Argentina - Measures affecting imports of footwear*	26.07.1999
Mexico	*Guatemala - Definitive anti-dumping measures regarding grey Portland cement from Mexico*	22.09.1999
US	*Canada - Patent protection term*	22.09.1999
India	*EC - Anti-dumping duties on imports of cotton-type bed-linen from India*	27.10.1999
New Zealand, Australia	*US- safeguard measure on imports of lamb meat*	19.11.1999
Poland	*Thailand - Anti-dumping duties on angles, shapes and sections of iron or non-alloy steel H-beams from Poland*	19.11.1999
Korea	*US - Anti-dumping measures on stainless steel plate in coils and stainless steel sheet and strip from Korea*	19.11.1999
Brazil	*Argentina - Transitional safeguard measures on certain imports of woven fabrics of cotton and cotton mixtures originating in Brazil*	20.03.2000
Japan	*US - Anti-dumping measures on certain hot-rolled steel products from Japan*	20.03.2000

Report on patent dispute adopted

The DSB, on 7 April, adopted the report of a panel that had examined EC's claim that Canada did not provide sufficient protection to patents of pharmaceutical products as required by the TRIPS Agreement.

The panel found that use by Canadian firms of patents without consent by the patent holders in preparation for seeking regulatory approval of competing products once the patents expire was covered by an exception in the TRIPS Agreement (Article 30). But it found that this provision did not allow the advance stockpiling of competing products for sale after the expiry of the patents.

Canada said it was pleased by that the panel had confirmed the consistency of what it called "early working exception" with the TRIPS Agreement. Although it was disappointed on the ruling about the stockpiling exception, it was prepared to join in a consensus to adopt the panel report.

The European Communities said it was disappointed that the panel's conclusion had only partially recognized the EC's rights. However, it could join a consensus in adopting the report as the findings had provided useful clarifications to Article 30.

Nicaragua's measures on imports from Honduras and Colombia

Colombia requested a panel to examine what it described as discriminatory measures by Nicaragua: the imposition of an additional 35% tax on imports from Honduras and Colombia, and the cancellation of fishing licenses of vessels flying the Colombian and Honduran flags. It said these measures violated the mfn provisions of the GATT 1994 and the General Agreement on Trade in Services.

Nicaragua said that the measures are justified under the security exceptions of the GATT (Article XXI) and the GATS (Article XIV bis). It said that they were taken in response to the Ramírez-López Treaty between Colombia and Honduras, which it said was aimed at depriving Nicaragua of substantial maritime territory.

Honduras urged Nicaragua to reconsider the measures in question.

The DSB agreed to revert to this matter.

Arbitrator's report on bananas

Ecuador said that arbitrators have estimated that the damage it had suffered due to the EC's banana regime was US$201.6 million. It said that this did not take into account indirect damage to other sectors of the economy such as unemployment and displacement of rural population. Ecuador said that it was a small country confronted by a trading partner like the EC, but it had started the retaliation process to encourage the EC to amend its banana regime in a WTO-consistent manner. It said it would prefer compensation over suspension of concessions.

The EC said it recognized Ecuador's right to retaliate. It said it was committed to implementing a WTO-consistent banana regime as soon as possible, and that this commitment was not affected by retaliation that could be taken by a big or a small partner. It expressed concern regarding the arbitrators' finding that Ecuador may "cross-retaliate" against the EC under the TRIPS Agrement.

Implementation of DSB recommendations

The United States said that it intended to implement the DSB recommendations regarding its tax treatment of "foreign sales corporations" in a manner that respected its WTO obligations and consistent with the goal of ensuring that US exporters would not be at a disadvantage vis-à-vis their foreign competitors. The EC, the complainant in this case, said it expected the United States to fully implement the findings by 1 October 2000, as recommended by the panel.

The EC said it had continued bilateral discussions with all concerned members regarding the DSB recommendations on its regime for the importation, sale and distribution of bananas, but that it had not been possible to bridge the divergent positions of the main parties. Ecuador, Panama, Guatemala, Honduras and the United States criticized the lack of progress in EC implementation.

Japan reported that regarding the DSB's recommendations on its measures affecting agricultural products, it was continuing constructive consultations with the United States with a view to reach agreement.

FSC reports adopted

The DSB, on 20 March, adopted the Appellate Body report and the panel report, as modified by the Appellate Body, on the EC's complaint against US tax treatment for "foreign sales corporations" (FSC).

The Appellate Body upheld the panel's finding that the US measure constituted a prohibited export subsidy but reversed the panel's ruling that it was a subsidy aimed at reducing the cost of marketing agricultural exports. It further found that the US was applying export subsidies that resulted in, or threatens to lead to, circumvention of its export subsidy commitments on agricultural products. The Appellate Body emphasized that its ruling did not mean that a member must choose one kind of tax system over another so as to be consistent with its WTO obligations.

The EC said it was pleased over what it said was a clear ruling from both the panel and the Appellate Body that the FSC scheme constituted a prohibited subsidy in violation of the WTO Subsidies Agreement. It said that the FSC had worked for so many years to the detriment of EC companies. The EC added that it expected the US to comply with the ruling by 1 October 2000, as established by the panel.

The United States said it was disappointed with the Appellate Body report and its contents. It continued to believe that the FSC complied with the principles in an understanding adopted by the GATT in 1981 and subsequently incorporated into the WTO Subsidies Agreement. The United States said that the Appellate Body's reversal of one panel finding could not offset what it described as erroneous conclusions on other issues, and thus it could not support the adoption of the reports.

Canada said that it was broadly supportive of the EC position. Australia said it would follow closely the US implementation of the recommendations, particularly on agricultural products.

Report on Australia's implementation of salmon findings

The DSB considered the report of the original panel that examined Canada's complaint about Australia's implementation of the DSB recommendations regarding the salmon dispute between the two countries.

Canada said it was pleased that the panel had supported its position, including finding delays in implementation and concluding that measures by Tasmania, for which Australia was responsible, were contrary to the WTO Agreement on Sanitary and Phytosanitary Measures. It said it was already implementation of the report with Australia, and that it would keep the DSB informed of developments.

Australia said it had reservations about the report although there were findings in its favour. It confirmed that it had started talks with Canada.

The United States said a panel had been established to examine a similar complaint it had lodged against Australia. It said it did not wish to litigate the case a second time and looked forward to Australia's compliance with the report.

The EC and Norway said that the report was balanced.

The DSB adopted the panel report.

Two new panels

The DSB established panels to examine, respectively, Brazil's complaint against Argentina's transitional safeguard measures on certain imports of woven fabrics of cotton and cotton mixtures originating in Brazil, and Japan's complaint against US anti-dumping measures on certain hot-rolled steel products from Japan. Both panel requests were being considered by the DSB for the second time.

Brazil expressed the hope that the matter could be settled before the composition of the panel as a MERCOSUR arbitral tribunal is set to decision on this dispute. Argentina stressed that the MERCOSUR process is distinct from WTO dispute settlement.

Pakistan, Paraguay and the United States reserved their third-party rights to participate in the panel's proceedings.

Japan reiterated its claim that US' determinations of dumping and injury on Japanese hot-rolled, flat-rolled carbon-quality steel products as well as the underlying laws and regulations violated WTO provisions. The United States said it defend the WTO consistency of its determinations before the panel.

Canada, Chile, the EC and Korea reserved their third-party rights to participate in the panel's proceedings.

Under "Other Business", the EC expressed concern over Indonesia's introduction of a new luxury tax as part of its implementation of DSB recommendations in the automobile cased. It also expressed concern over Argentina's extension of a safeguard measure for sport footwear, which it said had been found to be inconsistent with the WTO. ❐

TPRB: Iceland

Liberal trading regime helps "outstanding recovery"

The Trade Policy Review Body concluded its second review of Iceland's trade policies on 2 and 4 February. Excerpts from the Chairperson's concluding remarks.

We have had positive and open discussions on Iceland's trade policies and measures. Members of the TPRB were clearly impressed by Iceland's outstanding economic recovery since its first Review in 1994, due in good part to Iceland's generally liberal trade regime, disciplined macroeconomic management and continued structural reforms. Those policies and the deft exploitation of its fish and energy resources have permitted Iceland to reap the benefits of international specialization and freer trade, thus achieving one of the world's highest living standards. In the current favourable conjuncture, Iceland major short-term challenge was preventing the economy form overheating.

Members commended Iceland's strong support for an open multilateral trading system and its commitment to liberal trade policies, evidenced by its generally low tariffs. Iceland was also commended for its leadership in the ongoing efforts to commence work in the WTO concerning subsidies in fisheries. Noting Iceland's applications for accession to the WTO Plurilateral Agreement on Government Procurement, Members expressed their hope that the negotiations be completed soon.

Members noted the important changes already implemented in the agricultural sector but encouraged Iceland to introduce further trade-liberalization and restructuring measures to reduce protection and assistance to that sector. Concern was expressed with respect to Iceland's over-reliance on earnings from exports of fisheries to finance imports and Iceland was encouraged to seek diversification of its export basket. The increasing complexity of Iceland's trade regime, resulting from the increasing number of preferential agreements subscribed by EFTA, was noted. Members also noted the existence of investment restrictions on strategic sectors and enquired whether Iceland intended to relax these restrictions.

Fish, aluminium are main exports

Fish and fish products continue to be Iceland's main export accounting for 71% of all exports, according to the WTO Secretariat report. Aluminium exports have increased substantially in recent years, to over 13% of total exports, reflecting the strong foreign direct investment.. Iceland's imports are dominated by manufactures, with motor vehicles and other equipment the main items. The report notes that Iceland's balance-of-payment continues to be vulnerable to changes in fish catches, and to fish or aluminium prices. It states that, benefiting from EEA membership and WTO participation, trade has expanded faster than the economy as a whole.

Fish and fish products make up 71% of the country's exports. (Photo courtesy of the Icelandic Tourist Board)

While noting the effort undertaken to reform and liberalize its trade regime, Members encouraged Iceland to examine areas were further liberalization could be implemented, to review and simplify its system of indirect taxes, and to narrow the gap between applied and bound tariff rates.

Members also asked for details in a number of more specific areas including:

- measures affecting the importation, distribution and retail sales of alcoholic beverages;
- duty suspension schemes;
- legislation on government procurement and market access and national treatment for foreign enterprises;
- some aspects of trade-related intellectual property rights, particularly regarding patents and geographical indications;
- certain aspects of competition policy, including the non-application of national legislation to export cartels;
- MFN exemptions in audiovisual and air transport services;
- national treatment limitations to non-EEA enterprises under the GATS;
- integration of textiles under the attached;
- customs tariff bindings;
- the allocation and effects of tariff quotas in agriculture;
- the allocation of fish quotas;
- the import licensing regime; and
- support programmes and measures taken to achieve self-sufficiency in agriculture.

Members appreciated the comprehensive oral and written responses provided by the Icelandic delegation in the context of this meeting, as well as Iceland's undertaking to respond in writing to some additional specific questions as soon as possible.

In conclusion, it is my sense that Members fully acknowledged Iceland's recent success in managing a specialized, resource-based economy, and trusted that current efforts to bring it to a "soft landing" would do well. They recognized Iceland's structural reforms over the past few years and encouraged it to continue in this path as to secure the flexibility necessary to ride out future external shocks. Members welcomed Iceland commitment to trade liberalization; they pointed out the arguments in favour of non-discriminatory liberal policies to secure Iceland's past gains. ❒

Moore notes with sadness the passing of Appellate Judge Beeby

WTO Appellate Judge Christopher Beeby of New Zealand.

Director-General Mike Moore announced with great sadness the passing of Christopher David Beeby, of New Zealand, one of the Members of the Appellate Body. Mr. Beeby died peacefully in his sleep on 19 March in Geneva at the age of 64.

"I am deeply saddened by the loss of my countryman and friend, Chris Beeby. Chris' record of public service both to New Zealand and to the WTO was one of outstanding achievement and integrity. We will all miss him terribly," Mr. Moore said.

Mr. Beeby was appointed in December 1995 as one of the original seven Members of the Appellate Body. The WTO Dispute Settlement Body in December 1999 re-appointed him for a further four-year term. He served as Chairman of the Appellate Body in 1998. He was very active on the Appellate Body, serving on the very first appeal brought under the WTO Dispute Settlement Understanding in *United States – Standards for Reformulated and Conventional Gasoline*. Since that time, Mr. Beeby has served on 15 appeals and one arbitration hearing.

Before his appointment to the Appellate Body in 1995, Mr. Beeby had a long and distinguished career with the Ministry of Foreign Affairs and Trade in the Government of New Zealand.

Mr. Beeby was a highly recognized public international lawyer who participated in eight sessions of the United Nations General Assembly, in the United Nations Law of the Sea negotiations and in a wide-range of other international meetings on legal and political issues.

The Chairman of the Appellate Body, Judge Florentino Feliciano, said:

"Mr. Beeby was fully involved in the life and work of the Appellate Body, from its very beginning. He has contributed significantly to the work of the Appellate Body during its first four years of service. He is remembered by his colleagues for his unfailing courtesy and willingness to listen and consider the views of others, and for the seriousness and open-mindedness with which he approached and engaged in the work of the Appellate Body. He will be missed by all the Members of the Appellate Body both as a colleague and collaborator, and as a personal friend." ❐

MEETINGS

JUNE 2000

7-8	Working Group on Transparency in Govt. Procurement
8-9	Working Group on Trade and Investment
14	ITA committee; Committee on Trade in Civil Aircraft
15-16	Committee on Balance-of-Payments: Romania; Working Group on Trade and Competition Policy
19	Dispute Settlement Body
19-21	Textiles Monitoring Body
21-22	Committee on Sanitary and Phytosanitary Measures
21, 23	Trade Policy Review: Norway
22	GENERAL COUNCIL: Special Session on Implementation
23	Committee on Rules of Origin; Working Party on China
26-30	Council for TRIPS
27	Committee on Market Access
28	Committee on Agriculture
28-29	Committee on Balance-of-Payments: Romania
28	Committee on Trade and Development
29-30	Committee on Agriculture - Special Session
30	Committee on Import Licensing

WTO workshop on rules of origin

About a hundred delegates participated in a seminar/workshop on rules of origin organized by the WTO Secretariat on 30-31 March in Geneva. The aim of the workshop was to familiarize Geneva- and capital-based delegations with the technical issues in the ongoing negotiations to harmonize national rules of origin.

In opening the workshop, WTO Market-Access Director Heinz Opelz said that one reason why the harmonization work programme, launched in 1995, has not yet been completed was "the enormous technical complexities deriving form the realities of globalization and related multi-country production in goods".

Presentations were given by Mr. Eki Kim of the WTO Secretariat and by two origin experts from the World Customs Organization: Deputy Director of Tariffs and Trade Affairs Miroslaw Zielinski and Technical Officer Hiroshi Imagawa.❐

WTO FOCUS

Newsletter published by the Information and Media Relations Division of the WTO.

Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland Tel. 7395111 *Fax:* 7395458 *Web Site:* http://www.wto. Org

ISSN 0256-0119