World trade developments in 2003 and prospects for 2004

1. Highlights of world trade in 2003

Trade growth strengthened in the course of 2003, driven above all by demand expansion in the United States and East Asia. The 4.5 per cent gain in real merchandise exports on a year to year basis does not reveal the vigour of the expansion in the course of the year. Although foreign direct investment decreased globally, capital flows to the emerging economies recovered in 2003.

Output expanded in the manufacturing and mining sectors, and strong growth also continued in agricultural production. Merchandise trade again increased faster than output. The excess of merchandise trade over output growth is well documented, while data for the services sector are unavailable at the global level. However, partial information available for the United States indicate that the gap between trade and output growth is likely to be far smaller for the services sector than for merchandise.

Commodity price developments and exchange rate adjustments left their mark on international trade flows measured in dollar terms. The direction of exchange rate changes in 2003 is generally considered to have been helpful in partially correcting prevailing imbalances. However, the major source of the global imbalance is between dis-saving in the United States and strong savings in East Asia, and this situation barely changed in 2003. The depreciation of the US dollar has so far been insufficient to arrest the rise in the US current account deficit. The recent rise in oil prices contributes to an even further rise in the US trade deficit.

Higher commodity prices, in particular for fuels, contributed significantly to a rebound in the merchandise exports of oil exporting countries in the Middle East, Africa and among the transition economies. In a departure from past trends, prices of agricultural and mining products increased faster than those of manufactured goods. In 2003, the value of world merchandise exports rose faster than exports of commercial services. Higher commodity prices boosted the value of merchandise trade. The expansion of services trade in 2003 was dampened by reduced demand for travel services.

Changes from past trends could be observed in the commodity structure of world merchandise trade in 2003 and for the 2000-03 period. Two aspects of these changes are notable. First, following the burst of the IT bubble, global trade in office and telecom equipment lagged well behind total growth of merchandise trade, having been the most dynamic product category in world exports throughout the 1990s. In 2003, this was the only product group which did not regain or exceed the previous 2000 peak level. Second, growth in exports of chemicals began to accelerate after 2000 relative to overall merchandise trade growth due to a surge in demand for pharmaceutical products.

Among the more prominent features of world merchandise trade by region three developments stand out. First, the continued rise in the US trade deficit sustained output in other regions; this deficit is rising both in relation to US GDP (3 per cent) and world trade (5.5 per cent of goods and services combined). All six regions outside North America recorded a surplus in their goods and services balances in 2003. In Asia and in particular East Asia, the surplus has led to a large build-up of foreign exchange reserves.

Second, the rise of China as a major exporter and importer has attracted the attention of many observers. China's surging import demand for oil and other primary commodities such as copper and soybeans has contributed significantly to higher price levels. China's increased purchases of investment goods, semi-manufactured goods and machinery parts have sustained output and exports in many East Asian economies. China replaced Japan as the biggest Asian market both for Asian and EU exporters. Although China's imports expanded faster than exports in 2003, the country still recorded a significant trade surplus.

In 2003, as in the second half of the 1990s, China's merchandise export growth was two times faster than that of world exports. China became the largest source of imports in Japan and the second largest for the European Union after the United States. On the United States market, China replaced Mexico as the second largest supplier after Canada in 2003. China's shares in world exports of office and telecom equipment, and textiles and clothing range from nearly 13 per cent to 23 per cent. In office and telecom equipment, its exports have become larger than those of the United States, Japan and the extra-regional exports of the European Union. China is also the world's largest supplier of textiles and clothing if intra-EU trade is not taken into account.

Third, linked with the rise of China as a major global trader, a dramatic change in regional trade flows resulted from the new division of labour in Asia. Many producers in Japan and other high income economies in the region no longer export their finished goods to North America and Western Europe but ship high value added components to China for assembly and send the end products from China through their affiliates to the Western markets. These high income countries have also shifted large parts of their labour intensive industries such as clothing to China. The consequence of these shifts is that the share of Asia in United States and EU(15) merchandise imports has changed only a little in the 1990-2003 period, as sharply rising supplies from China replaced shrinking supplies from other Asian suppliers.

Prospects for world trade in 2004 improved on balance since the beginning of the year. While the sharp increase in oil prices is likely to affect output and trade, this development is outweighed in the current year by the stronger than expected recovery in Japan and some major West European countries. The vigorous trade expansion observed in the first half is therefore expected to provide enough momentum to lift average trade growth for 2004 to 8.5 per cent.

2. Global trade and output developments in 2003

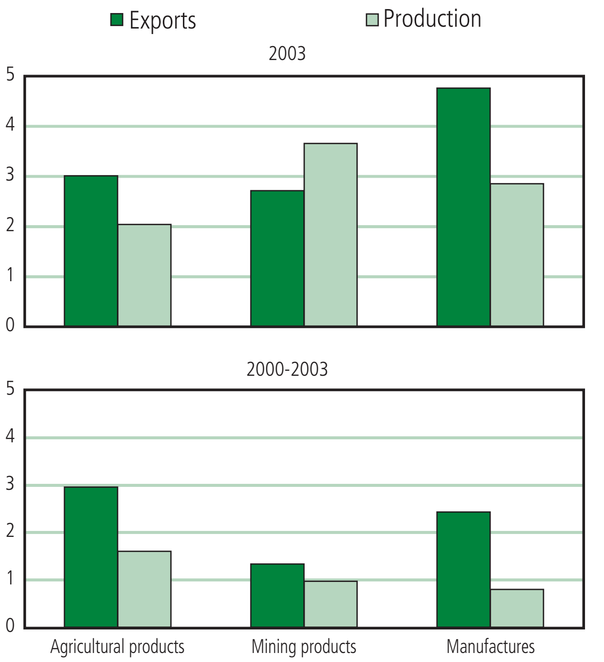
The recovery of the world economy in the course of 2003 is evident from both the annual trade and output indicators. Global merchandise production and merchandise exports recorded their highest annual growth in three years. Merchandise trade increased by 4.5 per cent, significantly faster than world merchandise production, which recovered by nearly 3 per cent. However, the average annual growth of trade and output in 2003 was still below the average expansion recorded in the second half of the 1990s.

All three broad sectors – agriculture, mining and manufacturing – recorded stronger output expansion in 2003 than in the preceding year. In a departure from long and medium-term production patterns, growth in manufacturing output (less than 3 per cent) was somewhat less than that of

Chart 1

Value of world merchandise exports and production by sector, 2000-03

(Annual percentage change)



mining production (3.7 per cent), but continued to exceed that of agriculture (2 per cent) in 2003. Mining was the only sector for which output growth in 2003 exceeded the average expansion in the second half of the 1990s. However, the volume of trade in mining products is estimated to have expanded less than merchandise trade in general.[1]

At almost 5 per cent, world exports of manufactured goods again recorded the strongest volume of trade growth among all sectors. Trade in agricultural products is estimated to have grown by 3 per cent in real terms in 2003, which was slightly less than in the preceding year. Comparing sectoral trade volume developments in 2003 with those in the second half of the 1990s, it becomes evident that despite the strength of the upswing in the course of 2003, the average rates in 2003 were still lower than the corresponding rates recorded in the 1995-2000 period.

Trade expansion in 2003 exceeded that of output in the agricultural and manufacturing sectors, but somewhat surprisingly, not in the mining sector in 2003.

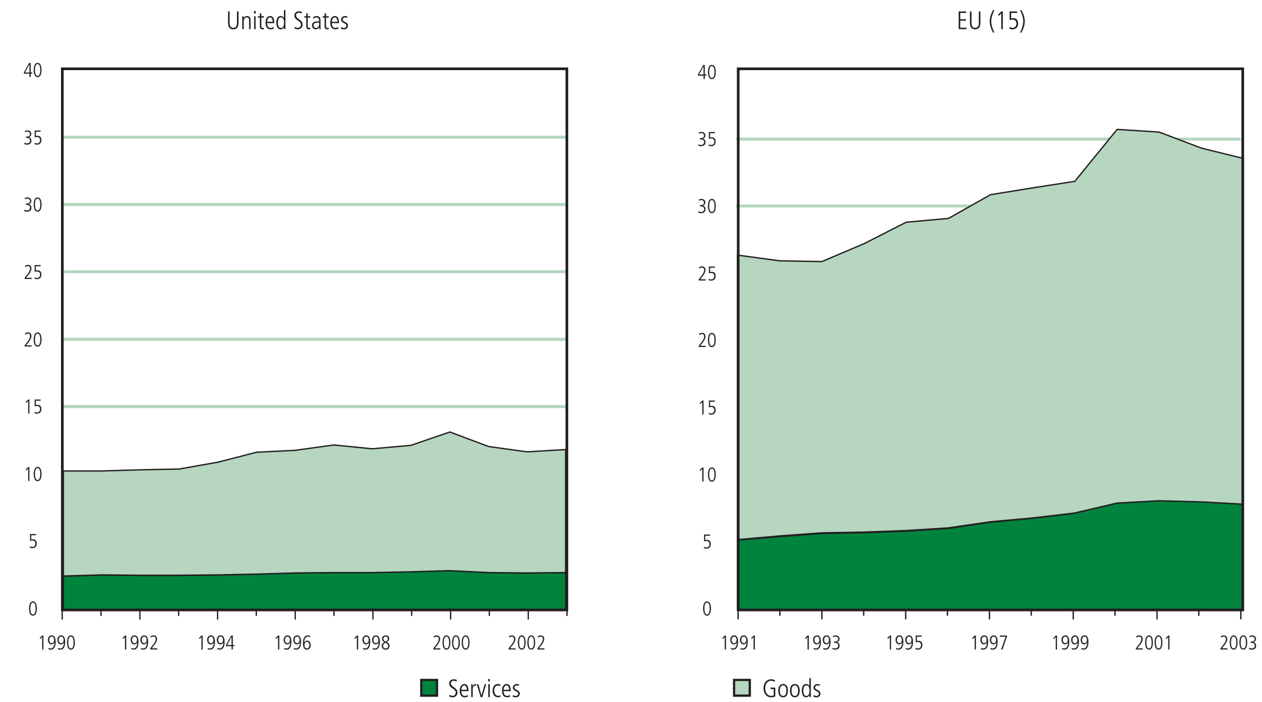
The comparison of merchandise trade and output developments by sector is a traditional feature of this report. Unfortunately, a lack of data makes it impossible to do the same thing for services at a global level. However, partial information is available for some developed countries. Comparing trade of services (exports plus imports) with GDP growth, one finds that trade in services expanded markedly faster than GDP in the EU, but only slightly faster in the United States between 1991 and 2000. However, thereafter the ratio of services trade to GDP decreased slightly up to 2003 (see Chart 2).

Another question is whether trade in private (or commercial) services increased faster than the output of services industries (excluding government). For the United States, such data on cross-border trade of private services as well as output of the private services sector can be reported. Chart 3 shows the evolution of the ratio of private services exports and imports to services output for the United States measured at constant prices since 1990. As US exports (and imports) of private services

[1] The terms "volume of trade" or "real trade" refer to trade flows in value terms adjusted for price and exchange rate changes.

Chart 2

Ratio of goods and services [a] trade to GDP in the EU(15) and the United States, 1990-03



[a] Average of exports and imports.

Note: Trade and output at current prices. Based on National Accounts Statistics. EU data include intra-trade.

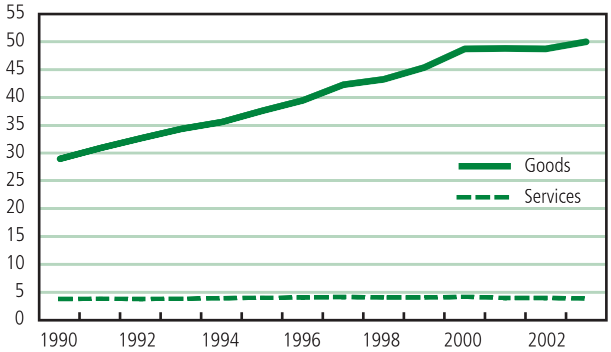
Source: US Bureau of Economic Analysis, Eurostat, Newcronos database.

expanded only marginally faster than output of the US services industry (excluding government), the trade ratio remained roughly unchanged at below 5 per cent throughout the 1990-2003 period. This development contrasts strongly with that of goods industries, for which the ratio of trade to output rose sharply, from less than 30 per cent in 1990 to 50 per cent in 2003 (see Chart 3).

Chart 3

Trade and output of goods and services in the United States, 1990-03

(Ratios based on constant 2000 prices)



Note: Ratios of goods and of services trade to the output of the goods and the services industries in the United States.Trade (average of exports and imports) and output are measured at constant 2000 prices.

Source: United States, Department of Commerce, Bureau of Economic Analysis.

Although the United States is the world's leading services exporter, the globalization of its services sector as measured by cross-border trade is far less advanced than the agriculture, mining or manufacturing sectors.[2] What might be surprising to many observers is the fact that the above data do not support the view that services industries are increasingly drawn into the globalization process in a comparable manner to goods industries. Even the more recent indicators for the United States do not show any rise in the services trade to output ratio. It is beyond the scope of this overview of 2003 trade developments to provide a more detailed discussion and explanation of this phenomenon.

3. Merchandise and commercial services trade developments in dollar values by sector

In 2003, the recovery in the nominal dollar value of world trade by far exceeded the gains reported above in volume terms. Dollar prices of internationally traded goods and services recorded their largest increase since 1995. The value of merchandise trade measured in current dollars rose by somewhat more than 10 per cent, driven mainly by higher commodity prices and the depreciation of the US dollar *vis-à-vis* many currencies in Europe.

The impact of currency changes in 2003 contrasts sharply with price developments in the second half of the 1990s, when the appreciation of the dollar contributed to a 13 per cent contraction of dollar prices of world merchandise trade. It is worth noting that the average price level for internationally traded goods in 2003 was still 3 per cent lower than in 1995, and only 6 per cent above the level in 1990 (see Table A 25). High variations in exchange rates will distort year to year analysis of trade developments, in particular at the regional level, if the impact of these fluctuations on prices is not properly taken into account. Western Europe and Central/Eastern Europe (including the Baltic States) recorded an appreciation in their currencies of 15 per cent and 10 per cent respectively against the US dollar in 2003 (measured by trade-weighted currency baskets). The rise in the dollar values of trade in all product categories in these regions was therefore largely due to exchange rate variations. By contrast, in other regions like Asia, where a few small exchange rate adjustments occurred, this impact was negligible (See Chart 4).

At the global level the dollar value of merchandise and commercial services exports expanded by 16 per cent and 13 per cent, to \$7.3 and \$1.8 trillion respectively, in 2003. This was more than three times faster than the annual average

[2] This observation is also valid if one uses nominal instead of constant price data for trade and output. Going beyond cross-border trade and taking into account trade through foreign affiliates, it may be noted that services trade through US affiliates abroad expanded faster than cross-border exports and that sales of services of foreign-owned US affiliates in the United States rose more strongly than US imports of services in the 1990s.

Chart 4

Dollar changes vis-à-vis European and Asian currencies [a], 2001-04

(Indices Jan 2001=100)

[a] Currency baskets weighted by trade values. West European currencies are those of Euro Area, the UK, Switzerland, Sweden and Norway. The Eastern European currencies are those of Bulgaria, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovak Republic. The Asian currencies are those of Japan, China, Rep. of Korea, Chinese Taipei, Singapore and Hong Kong, China.

Trade statistics and sales of foreign affiliates

Merchandise trade statistics are generally established through customs measuring cross-border flows of goods. Statistics on trade in commercial services are derived from statistics included in a country's balance of payments, measuring transactions between residents of the country and non-residents. These conventional trade statistics are used as yardsticks for developments in international trade in goods and commercial services.

Trade in services and the GATS

However for the supply of many services, the proximity of the supplier and consumer is often required and the traditional balance of payments trade in services statistics do not reflect all the different means of supply. Depending on the location of the supplier and the consumer, the General Agreement on Trade in Services (GATS) actually defines four modes of supply: In addition to the cross-border supply (mode 1), where both the supplier and the consumer remain in their respective home territories, GATS also covers cases where consumers move outside their home territory to consume services (mode 2 – consumption abroad), or cases where service suppliers move to the territory of the consumers to provide their services, whether by establishing affiliates through direct investment abroad (mode 3 – commercial presence), or through the presence of natural persons (mode 4).

A country's balance of payments, that is, trade in services and labour-related flows, can be used to derive proxies for trade in commercial services for modes 1,2 and 4. The Balance of Payments does however not include information on the local deliveries of services through foreign affiliates that is required to estimate the size of mode 3. A framework for collecting these data, the "foreign affiliates trade in services (FATS) statistics"[1], has been developed and adopted by the international statistical community in 2002.

This new statistical framework analyses the universe of foreign affiliates for which foreign investors own more than 50 per cent of the voting power or equity interest. Depending on the compiler's view, one can distinguish inward FATS, that is, activities of foreign-owned affiliates in the compiling country, or, outward FATS, that is, foreign affiliates of the compiling country active abroad.

Variables such as sales, value added, number of employees, etc. are used to describe the affiliates' activities. These variables are broken down by type of primary activity of foreign affiliates and also by country of origin or destination of investments. FATS statistics are currently available for a number of OECD countries but availability of detailed data and long-time series varies considerably between countries.

From a GATS perspective, the size of mode 3 in a given country can be approximated through the sales of foreign-owned affiliates. For example, US data show that international sales of services products of affiliates abroad exceeded the value of exports for the first time in the second half of the 90s. Since then, these sales have reached 432 billion US dollars in 2001 while the value of exports excluding travel (a proxy for mode 1), recorded in the US balance of payments, reached 179 billion US dollars, that is, more than twice as high. For Canada, sales of foreign affiliates whose primary activity falls in the service sector were more than three times higher than exports of commercial services derived from the Balance of Payments (101 billion against 28 billion US dollars)[2].

Actually, data available for the OECD countries' foreign affiliates in the services-producing activities suggest that their global sales are approximately 1.5 times the conventional cross-border trade flows (mode 1) measured through the balance of payments. These data advocate that mode 3 "commercial presence" is an important, if not, the dominant mode of delivery for trade in services.

[1] Manual on Statistics of International Trade in Services, Statistical Papers, Series M, No.86, United Nations.

[2] One should bear in mind that, except for the US where data are separately available for goods and services, comparisons of FATS and traditional Balance of Payments statistics are hampered by the fact that FATS statistics are generally collected and published on a primary activity basis while BOP services data are classified by type of products traded.

growth over the 1995-2000 period (see Table 1). The six major merchandise and commercial services sectors all recorded double digit trade growth in 2003, ranging from 10 per cent for travel to 21 per cent for mining products. The category "other" commercial services exports, which accounts for nearly one half of commercial services trade, rose by 15 per cent.

Table 1
World exports of merchandise and commercial services, 2000-03
(Billion dollars and percentage)

	Value	Annual percentage change		
	2003	2000-03	2002	2003
Merchandise	7294	5	5	16
Agricultural products	674	7	6	15
Mining products	960	4	-1	21
Manufactures	5437	5	5	14
Commercial services	1795	7	7	13
Transportation	405	5	5	13
Travel	525	4	4	10
Other commercial services	865	9	10	15

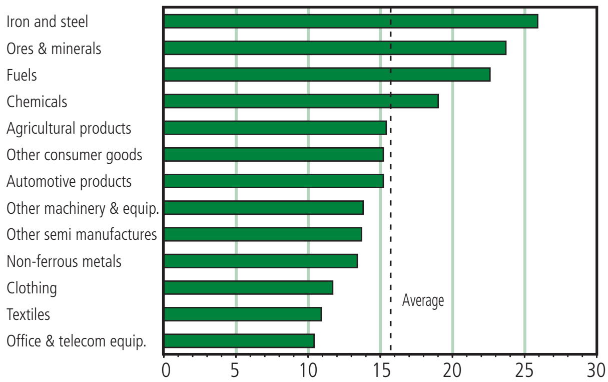
The dollar value of world trade in **mining products** rose to $960 billion and accounted for some 13 per cent of world merchandise exports in 2003. While the 2003 developments resulted in a new record value for mining products, the share of this sector in world merchandise exports is only slightly above the average for the 1990s (i.e. one per cent). Mining products showed the largest year to year variation among the three broad merchandise sectors over the 1990-2003 period, ranging from a decrease of one fifth (21 per cent) in 1998 to a rise of nearly one half (47 per cent) in 2000. In 2003, export growth of mining products was 20 per cent or more in all regions with the single exception of Latin America. The latter region's exports of mining products were held back by lower output in Venezuela, the region's largest exporter of fuels (and mining products).[3]

World exports of **agricultural products** expanded by 15 per cent to $674 billion in 2003, thereby exceeding the previous peak level of 1996. The expansion of trade in nominal terms recorded in 2003 was the highest annual increase since 1995. While the share of agricultural products was about the same as in the preceding two years, at 9 per cent, it remained 2 per cent below the average level recorded in the 1990s.

In 2003, global trade in agricultural products was largely sustained by developments in Europe. As noted above, the marked appreciation of currencies in Europe against the US dollar inflated intra-European trade, which in effect contracted in terms of Euros. Exports from Western Europe and the transition economies measured in current dollars rose 19 per cent and 26 per cent respectively. Both regions combined account for one half of world exports. Trade between the EU and the Central/East European countries was particularly buoyant, with EU imports from these countries rising by more than one third in 2003. Agricultural exports from Latin America and Africa expanded at about the global average rate, recording in each case the highest annual growth since 1995. Although the shares of agricultural products in the two regions' total merchandise exports decreased over the 1990-2003 period, at 20 per cent and 14 per cent respectively, they remained much larger than in all the other regions (See Table IV.6).

North American exports of agricultural goods recovered by 9 per cent to $110 billion in 2003. Exports by region reveal that intra-regional trade rose by only 2 per cent, while exports to Asia (its largest market) increased by 16 per cent. However, despite these larger shipments to Asia, North America's exports to the world in 2003 remained some $3 billion below the previous peak level in 1996. This recent development fits into a medium-term trend observed for the 1990s, where North America's share in world agricultural exports had been shrinking, from 19.5 per cent in the 1990-94 period, to 17.9 per cent in the 2000-03 period and 16.3 per cent in 2003. While Asian exports of agricultural products to North America have increased since 2000, Asia has remained a net importer of these products from North America. Asia's agricultural exports rose by nearly 12 per cent, to $119 billion in 2003, a new record level. Despite this strong export growth, the share of agricultural products in Asia's merchandise trade decreased further, to 6.3 per cent. Only the Middle East region reported a smaller share of agricultural products in its merchandise exports. While world exports of agricultural products rose slightly less than world merchandise trade in 2003, the expansion rate for the 2000-2003 period exceeded that of manufactures and mining products.

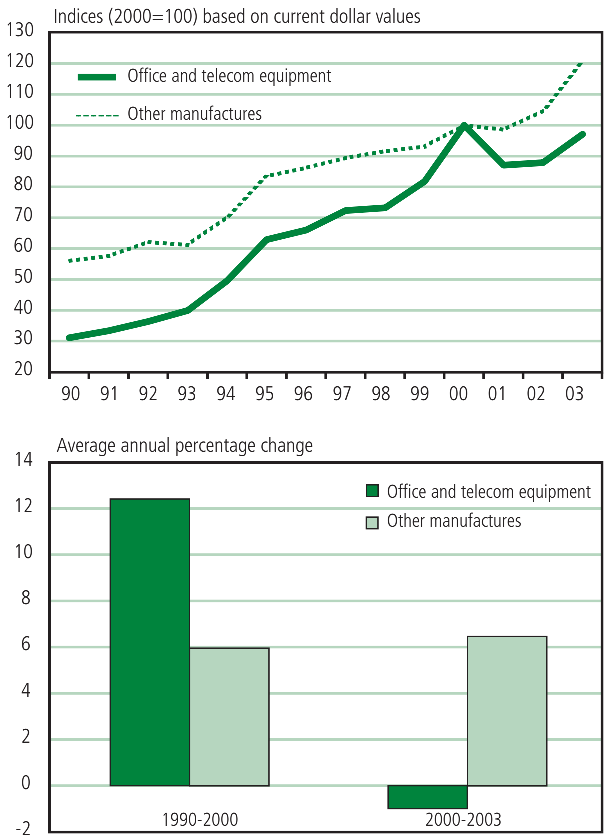
Chart 5
World merchandise exports by product group, 2003
(Annual percentage change)



World exports of **manufactures** expanded less than total merchandise trade, not only in 2003 but also over the 2000-03 period. These recent developments contrast strongly with the long-term trends in world merchandise trade, including those recorded in the 1990s. All regions experienced this reduction in the export dynamism of manufactured goods, but North America and Western Europe were most affected. This relative sluggishness of trade in manufactures since 2000 can largely be attributed to lacklustre developments in the **office and telecom equipment** sector. In the 1990s, this product group recorded an average annual growth of 12.5 per cent, nearly twice that of total merchandise trade. In the 2000-2003 period, however, this product group recorded a deep contraction in 2001 and thereafter the weakest recovery in 2002 and 2003 of all product groups (see Chart 5). Office and telecom equipment is the only product category for which the export value in 2003 did not exceed the 2000 peak level. At a more detailed product level, it can be shown that the slowdown in the trade growth of office and telecom equipment was particularly pronounced for computer and semiconductors, and less for consumer electronics and telecom equipment. It is estimated that computers and semiconductors accounted for nearly 70 per cent of world trade in office and telecom equipment in 2000.

[3] Venezuela experienced a fall in crude oil production of more than 10 per cent in 2003.

Chart 6
World exports of office and telecom equipment and other manufactures, 1990-03



World trade in **iron and steel** showed almost the opposite developments to those of office and telecom equipment. In the 1990s, iron and steel products recorded the weakest growth of all manufactured goods (3 per cent), but the strongest growth in 2003. Although price developments were an important feature, the most important factor in 2003 was the surge in import demand from Asia, which contrasted sharply with the absolute decline in North America's imports (see Table IV.1) Within three years, China replaced the United States as the world's largest steel importer.[4] On the export side, Ukraine emerged as the third largest exporter of iron and steel products ahead of the Russian Federation and the Republic of Korea (see Table IV.34).

In 2003, world exports of **chemicals** rose by 19 per cent, to $794 billion. Trade in chemicals accounted for nearly 15 per cent of global trade in manufactured goods, which is three times more than trade in clothing, and exceeds the value of world exports of automotive products by 10 per cent. Among manufactured goods, chemicals recorded the highest growth over the 2000-03 period and the second largest increase in 2003. The relative strength of chemicals trade after 2000 contrasts with developments in the 1990s, when the sector's average expansion rate (7 per cent) was in line with the overall rate for manufactures. The dynamic performance of chemicals trade is explained primarily by strong growth in world trade of pharmaceutical products, and not to a particular region.

Western Europe plays a prominent role in global chemicals trade, with its exports accounting for 60 per cent of the world total in 2003. The intra-regional trade of Western Europe alone accounts for 40 per cent of global trade. The corresponding shares for Western Europe are not at such a high level in any other major product category. This prominent role of Western Europe should not conceal the fact that a number of Asian developing countries have enhanced their share in world chemical trade. In particular China, the Republic of Korea, Singapore, Chinese Taipei, India and Malaysia gained significant market shares between 1990 and 2003 (see Table 2 and Table IV.39).

Table 2
Exports of chemicals and manufactures, 1990-03
(Billion dollars and percentage)

	Value	Annual percentage change	
	2003	1990-00	2000-03
World exports of manufactures	5437	7.0	5.0
World exports of chemicals	794	7.1	10.7
Major exporters of chemicals			
United States	92	7.7	3.5
Canada	17	8.3	5.0
Mexico [a]	6	11.8	2.9
EU(15)	442	5.3	13.0
EU(15) extra	175	6.6	13.4
EU(15) intra	268	4.5	12.8
Switzerland	34	4.9	15.2
Asia	131	11.6	9.0
Japan	39	8.3	3.5
Developing Asia [b]	78	14.2	13.6
China	20	12.4	17.4
Rep. of Korea [a]	17	18.6	7.0
Singapore	17	11.2	20.7
Chinese Taipei	12	12.8	9.6
India [a]	7	13.5	14.2
Malaysia	5	22.8	13.0

[a] Partly estimated.
[b] Six major chemical traders: China, Rep. of Korea, Chinese Taipei, Singapore, India, Malaysia.

World exports of **automotive products** rose by 15 per cent, to $724 billion, which was marginally faster than the growth of trade in manufactures in 2003. Regional developments showed quite large variations last year, with Western European exports up by 21 per cent, mainly driven by higher dollar prices. Western European exports account for more than one half of world exports and intra-regional trade alone for 37 per cent. Western Europe's trade in automotive products was particularly strong with the transition countries as exports to this region went up by one third and imports from the region rose by more than one quarter. A noteworthy development in trade between the two regions is that the large foreign direct investment inflows into the automobile sector in Central/East Europe have changed dramatically the pattern of bilateral trade since the mid-1990s. In 2003, automotive product exports (worth $23.0 billion) from the Central/East European countries to the EU(15) exceeded EU exports to the Central/East European countries, while the opposite was observed in the early 1990s. This reversal in the net exporter position of the EU(15) with the Central/East European countries is a feature which might be compared to the development of United States' trade with Mexico in the 1980s. FDI in the Mexican automobile industry and Mexico's industrial integration with the North American market through NAFTA led to a surge in bilateral trade and to a sizeable Mexican trade surplus in automotive products (see Table A16).

[4] United States imports of iron and steel decreased by 11 per cent, to $13.9 billion in 2003.

Asia's exports of automotive products recorded divergent developments by region. While shipments to North America, the region's major market, stagnated in 2003, intra-regional trade and exports to Western Europe rose by more than one third, reflecting stronger demand in Asia and more attractive price conditions in the latter market (see Table IV.51).

International trade in **textiles and clothing** expanded far less rapidly than total trade in manufactured goods in 2003, despite the further partial lifting of quota restrictions under the ATC at the beginning of the year. There are no indications in developed country statistics that the prices of these two product groups were weaker than for other manufactured goods, implying that trade was also relatively weak if measured in real terms. While the value changes of world textiles and clothing were generally moderate in both 2003 and over the 2000-03 period, marked shifts could be observed between regions and also within the Asian region.

Asia is the principal exporting region for both textiles and clothing, accounting for about 45 per cent of world exports in each product group. While Asia's shares remained stable in 2003 and decreased only slightly over the last three years, major changes could be observed among the leading Asian suppliers of textiles and clothing. Four major Asian textiles exporters (Rep. of Korea, Chinese Taipei, Japan and Indonesia) recorded a steep value decline of their shipments between 2000 and 2003. In contrast, China and Pakistan increased their textiles exports by two thirds and more than one quarter respectively. The gains in market share of these two countries combined constituted nearly 6 per cent of world trade over the three years 2000-03, which was nearly matched by the losses of the four traders indicated above (see Table IV.61). For Asia's clothing exports, a similar development can be observed. A contraction of clothing exports of Hong Kong China, Indonesia, Bangladesh, Thailand, the Republic of Korea and Chinese Taipei, ranging from 5 per cent to 30 per cent between 2000 and 2003, contrasts with a marked expansion of clothing exports from China (44 per cent or $16 billion), Viet Nam (95 per cent), Cambodia (62 per cent) and Pakistan (26 per cent) (see Table IV.69).

Clothing exports of Western Europe and the transition countries expanded significantly faster than world trade in 2003, largely due to exchange rate developments. Within these regions the exports of Turkey and Romania are notable, with exports up by about one quarter in 2003 and more than one half since 2000.[5]

North American and Latin American exports of clothing continued to shrink in 2003 for the third consecutive year, leading to a further erosion of these regions' share in world markets. Mexico, which alone accounts for one third of Latin America's clothing exports, recorded an even steeper decline than the region as whole. In contrast to Latin American exports, African exports of clothing rose steadily faster than world trade over the last three years, and went up by more than one quarter alone in 2003. Although Africa's estimated share in world exports of clothing remained small (less than 4 per cent), it exceeded that of North America for the first time in 2003.

4. Trade by region

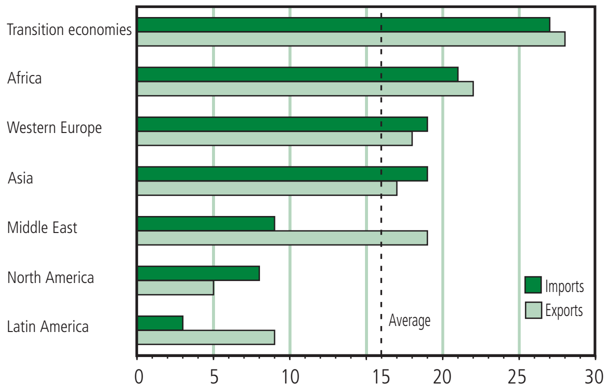
North America

The acceleration in North America's economic growth in 2003 conceals divergent developments between Canada and the United States. While US GDP growth expanded faster than in the preceding year and exports recovered, the corresponding growth rates weakened in Canada. The region's import expansion continued to exceed its real export growth for the seventh year in a row. North America's real merchandise exports rose by only 1.5 per cent, or less than half the rate of global trade. Imports, however, expanded at 5 per cent, which was somewhat faster than world trade. The increase in the North American merchandise trade deficit measured in constant prices in 2003 was equivalent to one fifth of global trade expansion, underlining the continued stimulus provided by this region to world trade.

Chart 7

World merchandise trade by region, 2003

(Annual percentage change)



Although year to year trade volume changes in 2003 remained moderate and well below those reported for the 1990s, the expansion of trade from the cyclical trough in the first quarter up to the fourth quarter was quite strong.[6]

North America's export and import prices both rose by about 3 per cent in 2003, after declining in the preceding year. Price developments were quite different by sector. Strong price increases are reported for both agricultural and mining products, while prices for manufactured products increased only marginally.

The dollar value of North America's merchandise exports rose by 5 per cent, to $997 billion, and for merchandise imports the increase was 8 per cent, to $1549 billion in 2003. The expansion of commercial services trade (both exports and imports) lagged somewhat behind that of merchandise trade (Table 3).

The large differences observed in the value growth of the North American merchandise exports by sector in 2003 can often be attributed to different price developments. Exports of fuels and agricultural products rose by 24 per cent and 8.5 per cent respectively, with most of the increase due to price changes. The value increase of 3.5 per cent for manufactured goods, however, reflects mainly volume changes, as prices remained almost unchanged. Among manufactured goods, exports of chemicals and iron and steel expanded at double digit rates, while those of aircraft and clothing continued to shrink for the third consecutive year (see Table III.10). In most product categories, North American imports expanded faster than exports, leading to a widening gap between the region's merchandise imports

[5] EU imports from Turkey and Romania increased slightly faster than those from China between 2000 and 2003, and exceeded those of China in 2003 (see Table IV.68).

[6] US exports of goods and services expanded by 8.5 per cent on a seasonally adjusted annual basis between the first and the fourth quarter of 2003.

Table 3

GDP and trade developments in North America, 1990-03

(Annual percentage change)

	North America					United States					Canada				
	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003
GDP	3.2	3.9	0.4	2.5	3.0	3.2	3.8	0.3	2.4	3.1	2.8	4.5	1.5	3.3	1.9
Merchandise															
Exports (value)	7	14	-6	-4	5	7	13	-6	-5	4	8	16	-6	-3	8
Imports (value)	9	18	-6	2	8	9	19	-6	2	9	7	11	-7	0	8
Exports (volume)	7	9	-5	-3	1	7	9	-6	-4	3	9	9	-4	2	-2
Imports (volume)	9	11	-3	4	5	9	12	-3	5	6	9	10	-6	2	4
Commercial services															
Exports (value)	8	8	-3	3	5	8	7	-4	2	5	8	11	-3	4	5
Imports (value)	7	13	-1	3	9	8	14	-1	2	8	5	9	-1	3	12

and exports. Fuels and chemicals recorded the strongest import growth in 2003, with 33 per cent and 16.7 per cent respectively. The largest gaps between export and import expansion in 2003, however, were in respect of iron and steel and clothing. Steel imports shrank by 7 per cent, while the region's exports expanded by 12 per cent in 2003. While most of the latter increase was due to intra-regional trade, a large rise was also reported in shipments to China. The region's trade deficit in iron and steel products was reduced to $8.6 billion.

In the clothing sector, exports decreased by 6.5 per cent, while imports rose by 7 per cent to a new record level of $16 billion. Import growth for clothing differed markedly between the major suppliers: imports from Mexico decreased, while those from China and other Asian developing countries (excluding the high income countries) expanded at double digit rates. Imports from Latin America, excluding Mexico, rose by 4.5 per cent to $11.4 billion. The strongest import increase of all regions was reported for Africa, which surged by nearly 30 per cent to $2.2 billion (see Table IV.68).

North America's intra-trade expanded by 5 per cent, which was as fast as the region's export growth to all other regions combined. Extra-regional imports, however, rose by 9 per cent, or almost twice as fast as intra-regional trade. Consequently, the share of intra-regional trade continued to account for slightly more then 40 per cent of exports, while the corresponding share in imports decreased to a record low of 24 per cent. Fuels and automotive products are the product categories for which intra-regional trade is most important, with the respective shares at 80 per cent and 75 per cent of total trade in the products concerned. For all regional trade flows one could observe that imports expanded faster than exports in 2003. The gap between import and export growth was particularly large with the developing regions in the Middle East, Africa and Latin America. Imports from Africa rose by 46 per cent, driven mainly by a surge in fuel exports.[7] Imports from Asia rose on average by 8 per cent, but marked differences were recorded among the Asian suppliers. Imports from China, the leading supplier, increased by 23 per cent to $176 billion in 2003 while those from Japan, Chinese Taipei and Hong Kong, China continued to shrink for the third consecutive year. North America's imports from Western Europe rose by 8 per cent, boosted by double digit growth in chemicals and automotive products.

Although trade with Asia and intra-regional trade combined still account for 58 per cent of total merchandise imports, their shares have decreased since 1995 while those of Western Europe, Latin America, the Middle East and the transition economies have increased. On a regional level, the developments since 1995 have, to a large extent, offset the gains in market share made by Asian and intra-regional trade in the first half of the 1990s. The only steady rise in import share over the entire 1990-2003 period has been made by China, which accounted for 11.4 per cent of North America's imports in 2003, compared to 2.8 per cent in 1990. Mexico nearly doubled its share in North American imports between 1990 and 2002, but as its share slipped in 2003, Mexico was overtaken by China as the largest single country supplier to North America. Focusing on United States, Chart 8 highlights the shift in United States imports from Asia. Although the share of China was rising steeply from 1990 to 2003, the share of Asia in US imports decreased due to the relative decline in supplies from China and the high income developing economies in Asia.

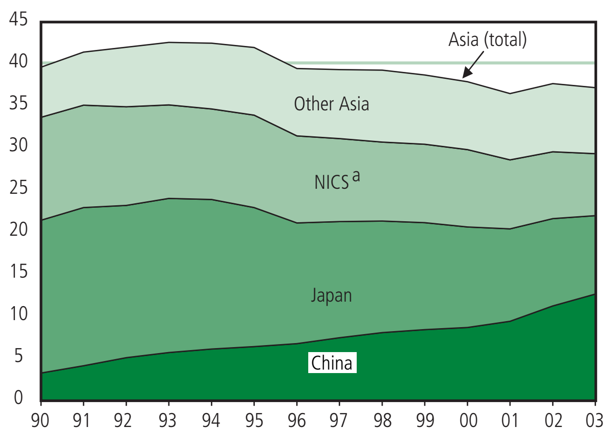
Latin America

Economic recovery in Latin America remained subdued in 2003 as the region's largest economy, Brazil, stagnated and

Chart 8

Share of China and other Asian countries in United States merchandise imports, 1990-03

(Percentage)



[a] Comprising Chinese Taipei; Hong Kong, China; the Republic of Korea and Singapore.

[7] Imports of agricultural products and manufactured goods from Africa are estimated to have increased by one fourth and one fifth in 2003.

that of Venezuela contracted by 9 per cent. Argentina's GDP recovered strongly which partially offset the decline of the previous years, while Mexico's economy continued to expand moderately. The volume of Latin America's merchandise exports rose by 5 per cent and the contraction of imports in 2001-02 was followed by only a moderate upswing. Nominal export growth of merchandise and commercial services, at 9 per cent and 7 per cent respectively, matched the average growth rates recorded in the 1990s. As the region's export expansion continued to exceed that of imports for both merchandise and commercial services, the regional trade surplus increased further (see Table 4).

The recovery in the region's merchandise trade was held back by the sluggish growth of shipments to North America, its principal market, and the failure of some countries in the region to grasp the opportunities provided by the rise in global demand for primary commodities, in particular fuels. The recovery in intra-regional trade, by 9 per cent in 2003, did not fully offset its contraction in 2002. The share of intra-regional trade in exports stayed at 15.6 per cent in 2003 or more than five percentage points below the 1977 peak level of 21 per cent. Merchandise shipments to Western Europe and Asia advanced by 17 per cent and 20 per cent, to new record levels. Exports to China, the region's largest market in Asia, surged to $9.2 billion, only slightly less than the region's shipments to Africa and the Middle East combined. Exports to the transition economies and Africa rose by more than one third, but even combined account for less than 3 per cent of the region's merchandise exports (see Table III.23).

Latin America's exports by product group varied in 2003 as exports of ores and minerals, iron and steel, fuels and food increased between 15 per cent and 21 per cent while exports of automotive products and clothing stagnated and those of office and telecom equipment contracted (Table III.22).

The region's recovery in commercial services exports was driven by a sharp rise in transportation services, which increased by 13 per cent, to $12.1 billion. The region's travel receipts recovered by nearly 9 per cent to a new record level of $33 billion in 2003. Other commercial services exports decreased to $15.5 billion in 2003, mainly due to a further sharp decline in Mexican exports.

Looking at the merchandise trade performance of individual countries one notices that 30 out of 35 countries recorded positive value growth, the best result since 1997. The arithmetic average growth for exports and imports was also stronger than the weighted average of the region, indicating that many smaller traders performed better than the regional average in 2003.

The variation in the trade performance of individual countries in the region continued to differ sharply in 2003. While Brazil, Chile, Uruguay and some oil exporters (such as Ecuador, Trinidad and Tobago and the Netherlands Antilles) reported merchandise export gains of between 16 per cent and 21 per cent, those of Venezuela and several Caribbean islands decreased (Table III.29). In respect of commercial services exports, the strength of the recovery in Argentina's exports and the double digit growth in Chile, the Dominican Republic, Panama and Jamaica contrast with the stagnation of the services exports of Mexico and the decline of those of Columbia in 2003 (Table III.29).

Western Europe

In 2003, economic growth in Western Europe remained somewhat below 1 per cent for the second year in a row. The stagnation in the first half was followed by a moderate pick-up of economic activity in the second half of the year. Real import growth expanded by about 2 per cent while exports of goods and services stagnated. Trade growth gained momentum in the last two quarters of 2003, in line with stronger economic activity. Dollar prices for both exports and imports rose by about 18 per cent, reflecting to a large extent the appreciation of West European currencies – in particular that of the euro *vis-à-vis* the US dollar.[8]

The region's merchandise exports rose by 17.5 per cent to $3145 billion and imports by 19 per cent to $3178 billion in 2003 (Table 5). Several trade developments in 2003 differed from those typically observed in the 1990s, as trade in both agricultural and mining products expanded somewhat faster than trade in manufactured goods. The relatively weak trade growth in manufactures can be attributed largely to the dismal performance of one product group – office and telecom products. Western Europe's exports and imports of this product group registered only a weak recovery in 2003 (2.5 per cent and 6 per cent respectively) while trade in manufactures without office and telecom products rose as much as total merchandise trade. The sluggishness of Western Europe's trade in office and telecom equipment is entirely due to the shrinkage

[8] The euro, the pound sterling, the Swedish kronor and the Swiss franc appreciated on an annual average basis by 16.6 per cent, 8.1 per cent,17 per cent and 13.6 per cent respectively in 2003.

Table 4

GDP and trade developments in Latin America, 1990-03

(Annual percentage change)

	Latin Amercia					Mexico					Other Latin America				
	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003
GDP	3.2	3.4	0.4	-0.8	1.2	3.5	6.6	-0.3	1.5	1.3	3.2	2.8	0.5	-1.3	1.2
Merchandise															
Exports (value)	9	20	-3	0	9	15	22	-5	1	3	6	19	-2	-1	14
Imports (value)	12	17	-2	-7	3	15	25	-4	0	1	9	10	-1	-13	6
Exports (volume)	9	8	2	0	4	14	13	-2	-1	0	6	4	6	0	7
Imports (volume)	11	13	-1	-7	1	13	22	-4	-1	-1	9	7	1	-12	3
Commercial services															
Exports (value)	7	11	-3	-3	7	7	17	-7	-1	1	8	9	-2	-3	8
Imports (value)	7	10	0	-9	4	5	19	-1	3	4	8	8	0	-12	5

of EU intra-trade by 3 per cent in 2003 (in euro terms this reflects a contraction of nearly 20 per cent). This development is somewhat surprising, as it cannot be explained by weak demand (as extra-regional imports rose by 17 per cent) nor by a loss in competitiveness (as extra-regional exports went up by 15 per cent). It is therefore most likely that the contraction of intra-EU trade in this product group is – at least partly – linked to statistical recording problems of EU intra-trade, aggravated by the arrest of carousel trade used for VAT tax fraud.[9]

Western Europe's textiles trade also remained sluggish in 2003 if one takes into account that the rise in the dollar export values by about 12 per cent is equivalent to a decrease in euro terms. The share of textiles in Western Europe's exports fell to a record low of 2.1 per cent of total merchandise exports and largely reflects the relative decline in output of the textiles and clothing industry.

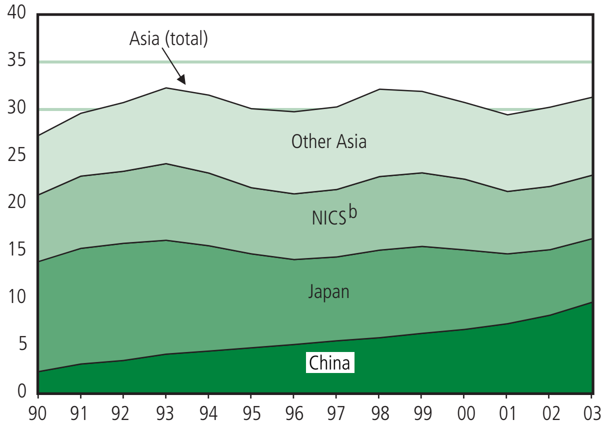
The most dynamic trade growth among manufactured goods in West European trade in 2003 was recorded by iron and steel, automotive products and chemicals. Iron and steel benefited from a strong cyclical recovery in global demand and a strengthening of prices in international markets.[10] West European exports and imports of automotive products expanded by somewhat more than one fifth in 2003. Particularly buoyant trade was reported with Central and Eastern Europe, stimulated by intra-firm trade and shipments to China. However, exports to these two markets still accounted for less than 6 per cent and 2 per cent respectively of Western Europe's exports to all regions. Shipments to North America rose by 13 per cent, accounting for $41 billion or 7 per cent of Western Europe's automotive products exports. Latin America was the only region to which West European exports of automotive products shrank in 2003.

The acceleration of Western Europe's merchandise trade in 2003 was not evenly shared across regions. Above average growth was recorded for both exports and imports with the transition economies, Asia, the Middle East and Africa, while trade with North America was, measured in dollar terms, rather sluggish. North America remained Western Europe's largest export market but has fallen behind the transition economies as a supplier to Western Europe (Table III.55). The share of West European intra-regional trade remained slightly above two thirds in 2003, expanding in line with overall exports and imports. Another noteworthy development is the change in Western Europe's trade with Asia. Imports from China amounted to $115.4 billion in 2003 and exceeded not only those from Japan, but also those from the NICs(6) combined. More than one half of Western Europe's merchandise trade deficit with Asia ($128 billion, f.o.b-c.i.f.) now accrues in its trade with China. Office and telecom equipment have become the largest product in Western Europe's import from China and are more than two times larger than clothing imports from this country ($31.9 billion and $13.5 billion respectively). The sharp increase of China's market share in Western Europe should be seen in connection with the declining share of other Asian suppliers. Chart 9 shows that the share of Asian suppliers in EU imports remained roughly stable between 1993 and 2003, as the increased share of China was balanced by a decline in the share of Japan.

Chart 9

Share of China and other Asian countries in EU (15) merchandise imports[a], 1990-03

(Percentage)



a Excluding EU-intra trade.
b Comprising Chinese Taipei; Hong Kong, China; the Republic of Korea and Singapore.

9 Carousel trade between the United Kingdom and Ireland, concentrating on shipments of mobile phones and computer equipment, was generated by tax fraud and amounted to £11.1 ($16.4) billion in 2002. Following the discovery of the fraud, these particular trade flows disappeared in 2003 and the value of UK exports to Ireland of office and telecom equipment contracted by two thirds in dollar terms in 2003 from the preceding year. Articles explaining this fraud, the impact on the trade figures as well as the adjustments made, can be found at http://www.statistics.gov.uk/articles/economic_trends/ETAug03Ruffles.pdf (D. Ruffles and others, VAT missing trader intra-Community fraud: the effect on Balance of Payments Statistics) and UK National Accounts and UK First release: UK trade, June 2004 page 7 Special Note: "VAT missing trader intra-community fraud" found at http://www.statistics.gov.uk/pdfdir/trd0804.pdf and accessed on 25 August 2004

10 German dollar export and import prices of iron and steel increased by one quarter in 2003.

Table 5

GDP and trade developments in Western Europe, 1990-03

(Annual percentage change)

	Western Europe					European Union (15)					EU(15) excl. intra-trade				
	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003
GDP	2.1	3.5	1.3	0.9	0.8	2.1	3.5	1.5	0.9	0.7	...	...	...	...	...
Merchandise															
Exports (value)	4	4	0	6	18	4	4	0	6	18	5	7	1	7	17
Imports (value)	4	7	-2	5	19	4	6	-2	4	19	5	15	-4	2	20
Exports (volume)	5	9	2	1	0	5	9	2	1	0	4	13	4	3	1
Imports (volume)	5	8	0	0	2	5	8	0	0	1	4	9	0	-1	5
Commercial services															
Exports (value)	5	3	3	9	19	5	2	4	10	18	...	...	...	...	...
Imports (value)	5	1	4	8	18	5	2	4	8	18	...	...	...	...	...

Table 6

GDP and trade developments in transition economies, 1995-03

(Annual percentage change)

	Transition economies					C./E. Europe					Russian Federation				
	1995-00	2000	2001	2002	2003	1995-00	2000	2001	2002	2003	1995-00	2000	2001	2002	2003
GDP	2.3	7.0	4.5	3.7	5.8	3.2	3.8	2.7	2.5	3.8	1.6	10.0	5.0	4.3	7.3
Merchandise															
Exports (value)	7	26	5	10	28	8	14	12	15	30	5	40	-2	4	25
Imports (value)	4	14	11	11	27	9	13	9	11	28	-6	13	20	12	23
Exports (volume)	7	17	8	8	12	...	...	...	...	...	...	...	...	...	...
Imports (volume)	7	15	15	7	11	...	...	...	...	...	...	...	...	...	...
Commercial services															
Exports (value)	2	10	8	10	16	1	14	6	5	21	-2	5	17	20	18
Imports (value)	2	15	15	14	17	4	11	6	12	19	-4	22	23	15	16

Performance of individual West European traders differed markedly in 2003. The Federal Republic of Germany, France and the Netherlands reported a marked acceleration in both merchandise exports and imports. The highest trade growth, however, was recorded by Turkey and Greece, with imports up by more than one third. In 2003, both countries recorded outstanding economic growth of 5.3 per cent and 4.2 per cent respectively, well above the average regional growth rate (0.8 per cent). Ireland's trade, which was by far the most dynamic in Western Europe in the second half of the 1990s, recorded the lowest trade growth among the regional traders. Several factors played a role, ranging from a marked slowdown in economic activity, a contraction of non-residential investment combined with a fall in FDI inflows, an arrest of carousel trade which had inflated bilateral trade flows with the United Kingdom, and perhaps also changes in the corporate tax regime (Table III.36).

GDP growth in the **transition countries**, at 5.8 per cent in 2003, was greater than world economic growth by a substantial margin for the fourth consecutive year. The stronger economic activity also stimulated trade growth. Both exports and imports recorded double-digit growth in 2003, making the transition economies one of the most dynamic traders in 2003 (Table 6). Merchandise exports and imports were up by more than one quarter due to a number of quite distinct factors – high prices for fuels and metals, a significant appreciation of many currencies, and the integration of Central/Eastern Europe in the global production networks for automobiles and electronics. Commercial services exports and imports rose by somewhat more than 15 per cent. Receipts of travel services recorded a marked acceleration in growth compared with the preceding year, expanding at 16 per cent – that is, as fast as transportation services, the region's largest services category.

Africa

A favourable world economic environment, with strong demand for Africa's major export products, contributed to the pick-up in the region's economic growth. Africa's GDP growth is estimated to have reached 3.6 per cent in 2003, the highest expansion rate since 2000. Differences in economic growth among the 53 African countries remained large. While most of the oil exporting African economies expanded by more than 5 per cent, South Africa, the region's largest economy, experienced a deceleration in economic activity. Real merchandise trade growth in the region was boosted above all by a higher export volume of mining products (in particular fuels), the region's principal export sector. Sharply higher commodity prices, combined with increased export volumes, resulted in a marked increase in the region's export value. The rise in export earnings sustained the growth of imports, which rose by more than 20 per cent, to $165 billion in 2003. The region's merchandise exports continued to exceed its imports for the fourth consecutive year (Chart III.13). In contrast to the region's surplus in merchandise trade, the region's commercial imports continued to exceed exports, although the former are

Table 7

GDP and trade developments in Africa, 1990-03

(Annual percentage change)

	Africa					South Africa					Other Africa				
	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003
GDP	2.1	3.1	3.1	2.7	3.6	1.7	3.5	2.8	3.0	1.9	2.3	2.9	3.2	2.5	4.0
Merchandise															
Exports (value)	3	26	-6	2	23	2	12	-2	2	23	4	30	-7	3	22
Imports (value)	3	1	4	2	21	5	11	-5	4	40	2	-1	7	1	16
Commercial services															
Exports (value)	5	1	0	4	21	4	-3	-7	1	40	5	2	2	5	18
Imports (value)	4	4	2	5	16	5	1	-9	2	40	4	4	4	6	12

estimated to have increased by 16 per cent, which was less rapid than exports in 2003 (Table 7). Data on Africa's commercial services exports are fragile, but the available information indicates that Africa's commercial services exports were the most dynamic of all regions in 2003, and matched the global services trade expansion for the 1995-2003 period. This outstanding performance can be attributed largely to the expansion of travel receipts, which rose by one quarter in 2003 – more than twice as fast as global travel receipts.

Africa's merchandise exports expanded by 23 per cent, to $173 billion in 2003, a new record level. Mining products rose sharply, by 24 per cent to $95 billion following two years of contraction. Although the rise in African exports of manufactures and agricultural products was, at 22 per cent and 16 per cent respectively, smaller than those of mining products, these rates exceeded the respective growth rates of world exports.

Africa's merchandise exports to North America surged by nearly one half. This was the most dynamic regional trade destination in 2003. Shipments to Asia expanded roughly at the overall export growth rate, while those to Western Europe and Africa were somewhat less dynamic. Consequently, the share of intra-regional trade decreased slightly, but at 10.2 per cent, remained at one of the highest levels since 1990. Intra-African trade shares are markedly affected by oil price developments, as mining products play a smaller role in intra- than extra-regional trade of Africa. It is estimated that the share of intra-regional trade in manufactured and agricultural goods (approximately 18 per cent) is much larger than in the case of mining products.

The heterogeneity of the 53 African economies in size and resource endowments tends to limit the analytical value of aggregated regional data. As regards merchandise exports, the concentration of Africa's trade on a few major economies is striking. In 2003, three countries alone (South Africa, Algeria and Nigeria) accounted for nearly one half of all merchandise exports, and six countries for two thirds of the total (Table III.58). In respect to commercial services exports, the concentration is even greater than for merchandise, and only three countries (Egypt, South Africa and Morocco) accounted for more than one half of the regional total in 2003.

Comparing the region's merchandise export (import) growth with that of the arithmetic average and the median value for all 53 African countries over the last three years, it transpires that the African trade recovery was broadly based, though less sharp than suggested by the (weighted) regional average growth. In addition, the number of African countries reporting a decline in their export (import) value in 2003 dropped to four (six), the lowest level for the entire 1990-2003 period. Despite this overall improved picture, one has to take note that eight African countries exported less in 2003 than in 1990.

Middle East

The resumption of fuel exports from Iraq in 2003 remained below expectations and well below the levels prevailing prior to 2003. This development contributed, in a situation of strong global oil demand growth, to a further tightening of markets.

The increase in the region's merchandise exports by 19 per cent, to nearly $300 billion, has to be attributed largely to the rise in oil prices, although the export volume also increased. Saudi Arabia, the United Arab Emirates, the Islamic Republic of Iran, and Kuwait expanded their merchandise exports between 23 per cent and 29 per cent in 2003, while those of Iraq continued to shrink. The strongest decrease in merchandise exports (12 per cent) is, however, reported by the Syrian Arab Republic (Table III.66).

Slower regional import growth (9 per cent to $192 billion) in 2003 contributed to a trade surplus in excess of $100 billion (fob-cif) (Table 8). Israel's merchandise imports were virtually stagnant, and shipments to Iraq contracted. Saudi Arabia and the United Arab Emirates – the two largest traders in the Middle East – increased their imports by somewhat more than 10 per cent, only half the expansion rate of their merchandise exports.

The geographical distribution of Middle East merchandise exports has experienced a marked shift to Asia and North America at the expense of Western Europe during the 1990s. In 2003, a continuation of this trend could be observed as Middle East's exports to Asia and North America continued to increase faster than to Western Europe (Table III.64). This change in the export pattern is most pronounced for trade in fuels. In 2003, North America's imports of fuels from the Middle East ($28.7 billion) exceeded those of Western Europe for the first time. In 1995, Western Europe's imports from the region were still twice the value of North America's imports. Fuel imports of both regions are, however, dwarfed by those of Asia, which amounted to $128 billion in 2003, more than twice the combined imports of North America and Western Europe (Table III.65).

Despite various efforts to enhance regional integration, the share of intra-regional trade in total merchandise trade did not increase between 1995 and 2003, and remained at less than 10 per cent, one of the lowest levels of all regions.

Asia

The recovery of the Japanese economy was a major element in the acceleration of Asia's economic growth in 2005. The region's GDP grew at 3.5 per cent in 2003, exceeding the average growth rate for the 1990s. Asian developing countries' GDP growth continued to exceed 5 per cent. The stronger

Table 8

Trade developments in the Middle East, 1990-03

(Annual percentage change)

	1990-95	1995-00	1990-00	1999	2000	2001	2002	2003
Merchandise								
Exports (value)	2	12	7	29	43	-8	2	19
Imports (value)	5	4	5	-1	14	5	5	9
Commercial services								
Exports (value)	7	11	9	11	16	-7	-3	10
Imports (value)	1	6	3	3	11	-2	1	23

Table 9

GDP and trade developments in Asia, 1990-03

(Annual percentage change)

	Asia					Japan					Developing Asia[a]				
	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003	1990-00	2000	2001	2002	2003
GDP	3.3	4.2	1.5	1.5	3.5	1.5	2.8	0.4	-0.7	2.7	6.7	7.1	3.4	5.4	5.2
Merchandise															
Exports (value)	8	19	-9	8	17	5	14	-16	3	13	11	21	-7	10	19
Imports (value)	8	23	-7	6	19	5	22	-8	-3	14	10	25	-7	9	21
Exports (volume)	8	14	-3	10	12	3	9	-10	8	5	8	16	-1	12	15
Imports (volume)	8	16	-1	9	11	5	11	-2	2	7	8	16	-1	11	12
Commercial services															
Exports (value)	9	12	-1	7	8	5	13	-7	2	9	11	12	2	9	7
Imports (value)	8	8	-2	4	7	3	1	-7	0	3	12	13	1	6	7

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

economic activity in Asia went together with faster trade growth. Merchandise exports and imports expanded by 12 per cent and 11 per cent respectively in real terms – rates much faster than those recorded for the 1990s. In 2003, real merchandise trade expansion in Asia was more than twice as fast as the rate of global trade growth (Table 9). Measured in current dollar values, however, Asia's merchandise trade growth only marginally exceeded that of world trade, as exchange rate appreciations were less frequent and less pronounced than in other regions.

Asia's merchandise trade growth was driven primarily by intra-regional trade, which rose by 20 per cent to $950 billion in 2003. The share of intra-Asian trade recovered further to nearly one half of the region's total merchandise exports, but still remains below the peak reached before the outbreak of the Asian financial crisis in 1996. Asia's exports to China were particularly buoyant, rising by more than 40 per cent in 2003. China became the largest market for its Asian neighbours. China accounted for 10.1 per cent of Asia's exports in 2003, exceeding for the first time the share of Japan (8.8 per cent).

Asia's exports to North America, its largest market outside the region, rose by 7.5 per cent to $430 billion, while shipments to Western Europe rose by 24 per cent to $320 billion. Above average export growth can be observed in Asia's shipments to the transition economies and Africa (52 per cent and 24 per cent respectively) with each region accounting for 1.7 per cent of Asia's exports. Asian exports to Latin America recovered by 3 per cent in 2003, following a 6 per cent accumulative contraction in the two preceding years.

Looking at the product pattern of Asia's exports, one notices that manufactured goods play a larger role than in any other region. Machinery and transport equipment alone accounted for one half of Asia's merchandise exports, while the shares for agricultural and mining products were rather small, at 6.3 per cent and 7.2 per cent respectively in 2003. The major contribution to the acceleration of Asia's export growth in 2003 was made by machinery and transport equipment other than automotive products. Exports of chemicals and iron and steel expanded by about one quarter while those of textiles and clothing increased by 11 per cent to 12 per cent (Table III.70).

Asia's commercial services exports rose by 8 per cent, to $1795 billion in 2003. Exports of transportation services and other commercial services increased by 12 per cent and 14 per cent respectively, while travel receipts decreased by 4 per cent in 2003. Tourist arrivals declined sharply in East Asia, which led to a steep fall in travel receipts for China, Hong Kong, China, Malaysia, the Republic of Korea and Chinese Taipei. Although Australia, New Zealand and India benefited from a re-direction of the tourist flows, their increased travel receipts did not offset the decline in the East Asian region.

Table 10

Intra-regional trade of major RTAs, 1995, 2000 and 2003

(Billion dollars, percentage)

	Intra-trade				Share of intra-trade in:					
	Value	Share in world exports			Exports			Imports		
RTA	2003	1995	2000	2003	1995	2000	2003	1995	2000	2003
EU (15)	1795	26.6	23.1	24.6	64.0	62.4	61.9	65.2	60.3	61.7
NAFTA (3)	651	7.9	10.9	8.9	46.0	55.7	56.1	37.7	39.6	36.8
AFTA (10)	105	1.6	1.6	1.4	25.5	24.0	23.3	18.8	23.5	23.3
CEFTA (7)	29	0.3	0.3	0.4	16.2	13.0	13.6	12.3	10.2	11.3
MERCOSUR (4)	13	0.3	0.3	0.2	20.5	21.0	11.9	18.1	19.8	19.0
ANDEAN (5)	5	0.1	0.1	0.1	12.2	8.9	9.4	12.9	13.8	17.7
Total	**2598**	**36.7**	**36.2**	**35.6**	-	-	-	-	-	-

5. Trade developments in major regional trade agreements (RTAs)

Trade of the six largest regional trade agreements is summarized in Table 10 (see also Table I.10 and Chart I.1). It should be noted, however, that several CEFTA members have now joined the European Union. The enlargement of the European Union will result in a moderate increase in the share of intra-regional trade in EU imports (61.7 per cent in 2003) and a small increase of intra-regional trade flows in world exports. The combined intra-trade of the six major RTAs accounted for 35.6 per cent of world merchandise exports, a share somewhat lower than in 1995 or in 2000.

The data provided in Table 10 suggest that a high level of intra-regional trade is positively related to the overall value of trade, market size, the depth of integration and income levels. Both the European Union and NAFTA have larger markets, higher income levels, larger trade volumes, and are more deeply integrated than ASEAN, Mercosur and the ANDEAN countries. The latter RTAs report a far smaller share of intra-trade than NAFTA or the European Union. In contrast to developments in the early 1990s, when intra-RTA trade was growing faster than extra-RTA trade, the record has been mixed for both the second half of the 1990s and in the 2000-03 period. Between 1995 and 2003, the share of intra-regional trade in the exports of the six RTAs increased only in the case of NAFTA. On the import side the record is mixed, with the share of intra-trade decreasing for the EU(15), NAFTA and CEFTA, but increasing for ASEAN, Mercosur and ANDEAN. As the first mentioned RTAs are all net importers of fuels, the rise in oil prices boosted the extra-regional trade share.

The review above excludes numerous smaller RTAs, in particular those in Africa and the Middle East, for which up-to-date information is incomplete. It also excludes the increasing number of bilateral free trade agreements between the major RTAs and countries outside the region (which are often members of another RTA) and all the non-reciprocal preferential trade schemes in favour of the LDCs and other groups of developing countries.

6. Trade development in the first half of 2004 and projections for 2004

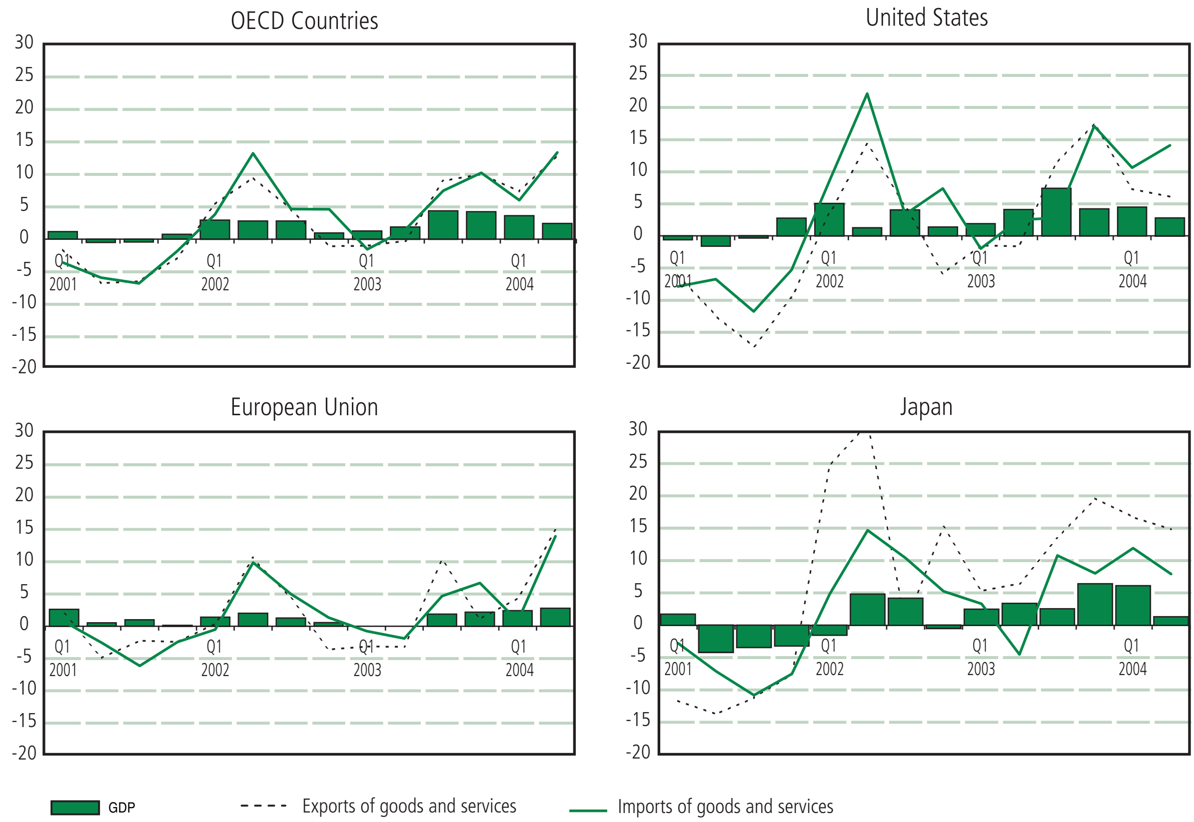
In the first two quarters of 2004, commodity prices continued to rise markedly and exceeded the preceding year's level by about 20 per cent. Non-fuel commodity prices increased even faster than fuel prices, but peaked in April. Dollar export prices of European countries and Japan increased further under the impact of the depreciation of the dollar *vis-à-vis* the euro and the Japanese yen. Although the dollar slightly strengthened again in the second quarter, the average appreciation of the euro and the yen *vis-à-vis* the US dollar exceeded 10 per cent in the first half of 2004. Commodity price and exchange rate developments led to an increase in dollar prices of internationally traded goods, at close to 10 per cent.

These strong inflationary trends in international trade have to be taken into account in assessing the high nominal trade growth rates observed in the first half of 2004. According to preliminary and incomplete information, it is estimated that the dollar value of world merchandise trade increased by about 20 per cent in the first half of 2004. Above average export

Chart 10

Real GDP and trade growth of OECD countries, 2001-04

(Percentage change on a quarter to quarter basis)



growth is reported by the transition economies, Asia and to a lesser extent Latin America. Exports of Western Europe and North America expanded by 18 per cent and 14 per cent respectively, which was less rapid than world exports.

The expansion of trade in goods and services measured in constant prices and adjusted for seasonal variations is provided for the OECD countries in Chart 10. The chart reveals that trade growth remained very strong up to the second quarter. For the OECD countries as a group, the available data indicate a year to year growth of 8 per cent for the exports of goods and services in the first half of 2004. An encouraging feature in the quarterly trade developments is the acceleration of trade in the European Union in the second quarter of 2004. The US rate of import expansion in the first half (nearly 10 per cent) exceeded those of Japan and the European Union. These volume developments indicate that the adjustment in exchange rates over the last two years has not been sufficient to stimulate US export growth beyond import growth levels, a precondition for reducing the United States current account deficit.

While the merchandise trade expansion in the first half of 2004 reached nearly 10 per cent, the momentum of this expansion is not expected to ease in the second half. The impact of higher oil prices on world GDP is expected to be rather small in 2004 but become more significant in 2005. According to IEA estimates[11] a permanent $10 rise in oil prices could lower global GDP growth by 0.4 per cent in the year following the oil price hikes. Given the stronger than expected recovery in Japan and major European countries, global economic growth in 2004 will most likely be stronger than projected at the beginning of the year. The higher than projected economic activity results in an upward revision of global trade growth for 2004, despite the sharp increase of oil price.

Real merchandise exports are now expected to increase by some 8.5 per cent in 2004, or nearly twice as fast as in the preceding year.

[11] IEA, Analysis of the Impact of High Oil Prices on the Global Economy, May 2004 found at http://www.iea.org/Textbase/Papers/2004/High_Oil_Prices.pdf and accessed on 23 August 2004.