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WORLD TRADE 2006, PROSPECTS FOR 2007

Risks lie ahead following stronger trade in 2006, WTO reports

Risks in financial and property markets and large trade imbalances in goods and services mean increased uncertainty in 2007 and raise the prospect of weaker economic and trade expansion in the coming year, according to WTO economists.

In their preliminary assessment of trade in 2006 and prospects for the coming year, they said the consensus among forecasters of around 3% global economic growth in 2007 could slow merchandise trade growth to about 6% compared with 8% in 2006.

By contrast, the world economy and trade grew vigorously in 2006, the 8% expansion in merchandise trade being the second highest since 2000. Growth in gross domestic product (GDP) — a measure of the size of the economy — was stronger than expected in Europe and Japan. The Chinese and Indian economies continued to record high growth.

Least-developed countries' trade grew by about 30%, fuelled by higher prices for petroleum and other primary commodities. They and developing countries as a whole saw their shares of world merchandise trade reach record proportions. And for some of the smaller suppliers, fear of a setback in textiles and clothing in the face of competition from China proved unfounded in 2006.

"The strong performance of 2006 is welcome, particularly the gains made by developing and least-developed countries," WTO Director-General Pascal Lamy said. "But this has to be consolidated. The uncertainties that lie ahead are a warning for us not to lose sight of the need to continue to reform the world economy."

"The best contribution the WTO can make is to keep strengthening the multilateral trading system. One of the unsung achievements of the system is its stabilizing effect on world trade and the global economy. A successful conclusion to the Doha Round holds great potential for boosting growth and alleviating poverty. An agreement would also deliver more relevant trade rules, helping to establish a more stable and certain foundation for today's dynamic global marketplace."

Overview of major trade developments in 2006

The overall picture in 2006 was of trade expanding in real terms (i.e. ignoring price changes), faster than output by a large margin. The dollar value of world merchandise exports increased by

15% to $11.76 trillion in 2006. Commercial services exports were up by an estimated 11% and reached $2.71 trillion in 2006.

Price changes affected the nominal merchandise trade growth rates of countries and whole regions. The annual average prices for fuels and metals rose sharply, benefiting the export earnings of fuels and metal exporters.

The four regions with the highest share of fuels and other mining products in their merchandise exports (the Middle East, Africa, the Commonwealth of Independent States — CIS — and South and Central America) again recorded the strongest annual export rise in 2006.

The United States recorded its best annual merchandise export growth in more than a decade but its trade deficit continued to grow. However, when adjusted for price changes, US merchandise exports expanded faster than world trade and faster than US imports.

China's trade growth continued to outstrip other major traders. China's merchandise exports grew by 27%. In the second half of 2006, its merchandise exports started to exceed those of the United States, but for the whole year US exports still exceeded those of China.

Least-developed countries' exports rose sharply in 2006 due to much larger values of fuels exports and stronger exports of other primary products and manufactured goods.

Developing countries' share of world merchandise exports reached an all time record of 36%. The 0.9%,share for least-developed countries was also a record, the highest level since 1980, the earliest data kept by the WTO.

The picture for textiles and clothing is better for small suppliers with preferences in developed country markets than many had feared following the 2005 elimination of quotas and of the WTO's Agreement on Textiles and Clothing.

As expected, China has enhanced its role as the leading supplier. Low and lower-middle income countries have seen their share of world exports of textiles and clothing increase markedly. The richer developing countries, including the newly-industrializing Asian economies (NICs) and Mexico, lost market share. Some small suppliers also lost shares, but others gained. Overall, in 2006, the least-developed countries increased their shares of developed countries' textiles imports. The fact that China, India and Bangladesh performed well also means that millions of low-income workers benefited.

Details: the state of the world economy and trade in 2006

The year 2006 witnessed robust growth in the world economy and vigorous trade expansion. Global gross domestic production (GDP) growth accelerated to 3.7%, the second best performance since 2000. All major regions recorded GDP growth in excess of population growth.

Economic growth in the least-developed countries continued to exceed 6% for the third year in a row. A large part of the stronger global economy is attributable to the recovery in Europe, which turned out to be stronger than expected in early 2006. The United States economy maintained its overall expansion as weaker domestic demand was balanced by a reduction in the external deficit, mainly due to a faster export growth. In Japan somewhat faster economic growth was achieved despite weaker domestic demand reflected in a widening of its external surplus. China and India continued to report outstandingly high economic and trade growth.

Strong economic fundamentals in many key economies contributed to stronger investor confidence worldwide. General government deficits decreased in the United States, the European Union and in Japan and inflationary pressures were contained. A high level of global monetary liquidity combined with a low level of real interest rates contributed to a rally on global stock markets. Stock markets in emerging economies again recorded much faster growth than those in developed economies. Increased investor confidence in emerging markets is also reflected in the sharply reduced spread in interest margins between emerging market bonds and those of US government bonds.

The more favourable investment climate is also reflected in a sharp rise in global foreign direct investment (FDI) flows in 2006, which approached the record levels of the past. UNCTAD[1] reports that global FDI inflows surged by one-third to $1.23 trillion, the second highest level ever. The high growth of global FDI flows can be attributed partly to increased mergers and acquisitions activity and higher share prices. A high level of total net private capital flows to emerging markets was reported by the Institute of International Finance. [2]

A further sign of high global liquidity is the rise in global foreign exchange reserves and the advanced re-payment of external public debt by a number of developing countries. Debt levels, measured by the outstanding debt to GDP ratios, decreased in all developing regions partly due to debt forgiveness. For the heavily indebted poor countries the debt levels in 2006 are estimated to have come down to half the level reported five years ago.[3]

The real effective exchange rate of the US dollar continued to depreciate moderately, contributing to the readjustment of the US current account deficit (the trade deficit in goods and services).[4] The exchange rates of the Asian economies with large current account surpluses fared differently in 2006. On an annual average basis, real effective exchange rates appreciated significantly in the case of the Republic of Korea and Singapore and moderately in the case of China. The Japanese Yen, however, continued to depreciate in 2006.[5]

High global liquidity and a further steep rise in the price of fuels and nominal interest rates has not so far translated into higher domestic inflation rates. In developed markets consumer price increases averaged between 2% and 3%, and in the developing economies the rate was about 5%. In both developed and developing regions no acceleration in consumer price inflation was observed between 2005 and 2006.[6] However, inflationary pressures can be detected in sectors for which supply is less elastic, such as real estate markets and auction prices for works of art.

The strong global macro-economic situation in 2006 provided a favourable framework for the expansion of international trade. In 2006, world merchandise exports grew in real terms (i.e. at constant prices) by 8.0%, compared to 6.5% in the preceding year. A large part of this trade acceleration can be attributed to the marked recovery in Europe's export and import growth. Higher prices of fuels and metals led to a stagnation in the quantity of mining products traded

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[1] UNCTAD, UNCTAD Investment Brief, No.1, 2007.

[2] Institute for International Finance, Capital Flows to Emerging Market Economies, January 18, 2007.

[3] IMF, World Economic Outlook, April 2007, Table 40.

[4] The ratio of the US current account deficit to US GDP is estimated to have remained unchanged in 2006 and the deficit started to decline in current dollar terms in the fourth quarter of 2006.

[5] JPMorgan, Real broad effective exchange rate indices. Direct communication to the WTO Secretariat.

[6] IMF, World Economic Outlook, April 2007.

internationally but the higher export earnings of oil exporters resulted in import growth in excess of the world average. High energy prices also invigorated demand for mining equipment and investment in machinery with high energy efficiency.

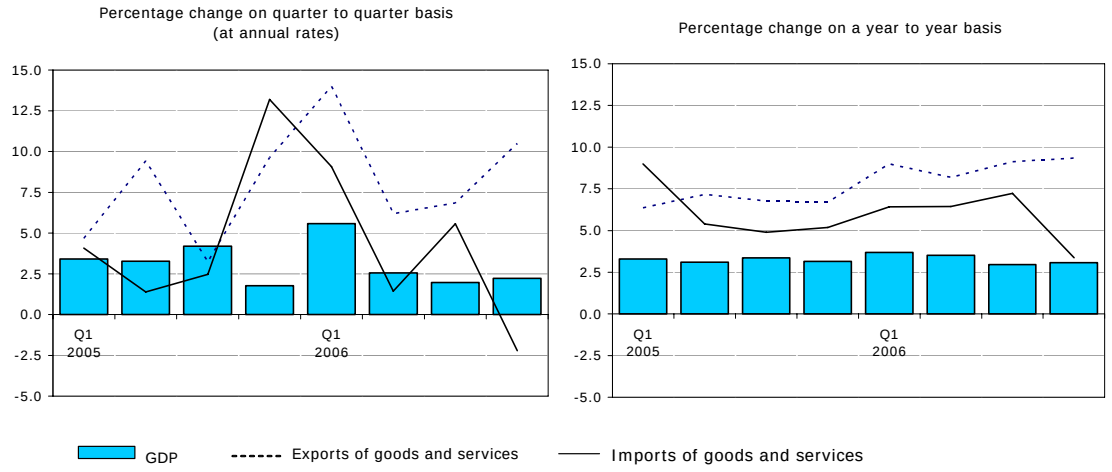
China's merchandise trade expansion remained outstandingly strong in 2006. Office and telecom equipment continued to be the mainstay of Chinese export growth but significant gains in world market shares in 2006 could be observed in "traditional" exports such as clothing and "new" products such as iron and steel. Chinese imports again rose faster than global trade but continued to lag behind export growth.

Trade prospects for 2007

The marked correction in share prices observed on global stock markets at the end of February 2007 highlighted the increased uncertainty of investors with respect to the short-term prospects of the world economy. The consensus among forecasters favours a moderate deceleration in world economic growth in 2007.[7] The economic fundamentals in the major economies are strong enough to keep global economic growth close to 3% (GDP measured at market exchange rates).

US domestic demand slowed markedly in the second half of 2006 and is expected to weaken further in the first half of 2007. Imports of goods and services contracted between the third and fourth quarter (on a seasonally adjusted basis) and should remain subdued in the first half of 2007 (see Chart 1). The slowdown in GDP growth in Europe is expected to be less pronounced than in the United States (and could be avoided in Japan), maintaining developed countries economic growth close to 2.5% in 2007. Demand in the oil importing countries is expected to benefit from on average lower import prices of fuels in 2007. Although endogenous factors have played an increasing role in developing country economic performance over the last decade, the slowdown in industrial markets is likely to contribute to less dynamic growth in the developing world, which is still expected to grow at least twice as fast as the developed markets. The most likely scenario is that GDP growth in 2007 will slow down in all regions, with relatively even growth among the regions in the developed and developing areas.

Chart 1: **Real GDP and trade growth of United States, 2005-06**



Source: OECD, Olisnet.

[7] OECD, OECD Economic Outlook December 2006, UN, World Economic Situation and Prospects 2007, January 2007 and IMF, World Economic Outlook, April 2007.

The major risks to this scenario are found in financial market developments, a dramatic downturn in the property markets, and the continued existence of large current account imbalances. The search for high yield investments has led to a rapid expansion of financial instruments (hedge funds, carry trade).

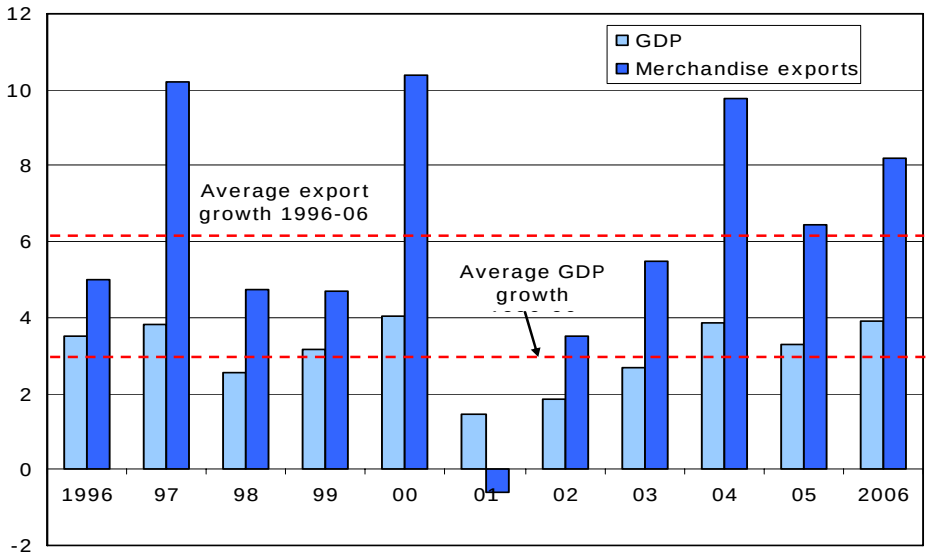
Assuming the basic scenario of global economic GDP growth of nearly 3%, global merchandise trade could slow down to about 6% in 2007, or 2 percentage points less than in 2006. This estimate is supported by the results of the Secretariat's time series forecasting model which predicts a slowdown in the OECD area's imports of goods and services to 4.5%, a 2.5 percentage point decrease from the rate observed in 2006.

The downside risks associated with this trade projection include a stronger than expected correction in highly priced property markets, a pickup in inflation, and risk perceptions that could lead to a further rise of interest rates. Interest rate rises could trigger a correction of stock and bond markets and lower then predicted levels of investment and private consumption.

Real merchandise trade developments and output in 2006

The pick up in global economic activity was the major factor in the vigorous expansion of global trade in 2006. Real merchandise export growth is provisionally estimated to have grown by 8.0% in 2006, almost two percentage points faster than in 2005, and well above the average expansion of the last decade (1996-2006). The expansion of real trade exceeded global output growth by more than 4 percentage points (see Chart 2).

Chart 2**: Growth in the volume of world merchandise trade and GDP, 1996-06**
(Annual percentage change)



Source: WTO.

In 2006, the variation in regional real trade growth increased even though economic growth by region differed less than in the preceding year. These divergent developments can be attributed largely to the terms of trade changes in favour of fuel-exporting countries and regions. The North American region comprises two net exporters of fuels and the United States, which is a major net importer of fuels. The real merchandise exports of the United States rose by 10.5% in 2006, which was the highest growth rate since 1997 and almost two times faster than its import growth.

Energy related petroleum products decreased by 2.5% in volume terms. Weaker domestic demand in the United States, a lower real effective (i.e. trade weighted) dollar exchange rate, and stronger global demand growth contributed to this favourable development. Canada's merchandise exports slowed down markedly due to the combination of lower US demand and a marked appreciation of the Canadian dollar since 2002. Mexican merchandise trade expanded vigorously with both imports and exports up by double digit rates as its economy recorded its best growth since 2000.

At 13.5%, Asia's real merchandise exports remained the most buoyant of all regions. Asia's imports rose faster than in the preceding year and faster than world trade but continued to lag behind its export growth. Most of the excess of Asia's export over import growth can be attributed to the region's major traders, China and Japan. The expansion of China's exports was somewhat less dynamic in 2006 than in 2005, while Japan, the Republic of Korea and Chinese Taipei recorded a faster growth (between 10% and 15%). Imports into Japan and Chinese Taipei, however, advanced by only 2% to 3% in 2006.

Table 1: **GDP and merchandise trade by region, 2004-06**
(Annual percentage change at constant prices)

	GDP			Exports			Imports		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
North America	3.9	3.2	3.4	8.0	6.0	8.5	10.5	6.5	6.5
United States	3.9	3.2	3.4	8.5	8.0	10.5	11.0	6.0	5.5
South and Central America [a]	6.9	5.2	5.2	13.0	8.0	2.0	18.5	14.0	10.5
Europe	2.4	1.8	2.8	7.0	4.0	7.5	7.0	4.0	7.0
European Union (25)	2.3	1.6	2.8	7.0	4.0	7.5	6.5	3.5	6.5
Commonwealth of Independent States (CIS)	8.0	6.7	7.5	12.0	3.5	3.0	16.0	18.0	20.0
Africa and Middle East	6.0	5.5	5.4	8.0	5.0	1.0	14.0	13.0	8.5
Asia	4.8	4.1	4.4	15.5	11.5	13.5	14.5	8.0	8.5
China	10.1	9.9	10.7	24.0	25.0	22.0	21.5	11.5	16.5
Japan [b]	2.7	1.9	2.2	13.5	5.0	10.0	6.5	2.0	2.0
India	8.0	8.5	8.3	15.5	20.5	11.5	16.0	20.5	12.0
World	3.9	3.2	3.7	10.0	6.5	8.0	...	...	...

[a] Includes the Caribbean.

[b] Trade volume data are derived from customs values deflated by standard unit values and an adjusted price index for electronic goods.

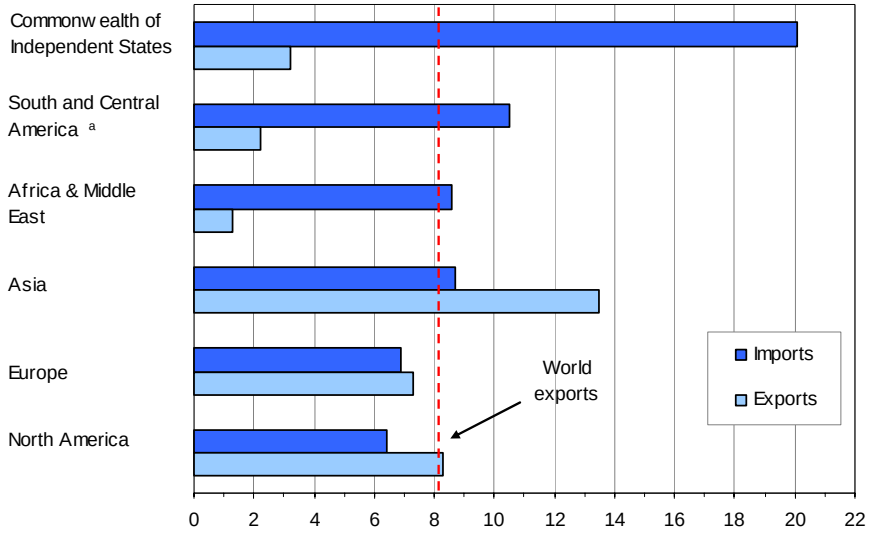
Source: WTO.

Europe's real merchandise exports recorded their strongest annual growth since 2000, exceeding import growth (estimated at 7%) but continued to lag behind the global rate of trade expansion. European countries recorded considerable variation in their trade performance. Double-digit export growth can be observed for the countries at its eastern border, ranging from Finland and the Baltic states in the North to Turkey in the South. All these countries benefited from further integration with the EU and the strength of import demand from the Commonwealth of Independent States (CIS) region. Both Germany and the United Kingdom recorded export and import growth well above the European average, while real trade growth was sluggish in Italy and Spain and stagnated in France and Ireland.

The four net fuel exporting regions (CIS, Middle East, Africa and South/Central America and the Caribbean) only recorded a small increase in their export volume (of about 2 percentage points), while their imports rose faster than global trade in 2006 (Chart 3). The most buoyant imports of all regions were observed for Commonwealth of Independent States, which are estimated to have expanded by 20%, while the region's real exports remained sluggish in 2006. In contrast to these global trade developments, South and Central America's expansion rate of both exports and imports decelerated in 2006. Venezuela recorded a marked contraction of her exports and those of Brazil rose by less than 4%. The combined exports of Africa and the Middle East are estimated to have almost stagnated, while imports, despite their deceleration, continued to expand somewhat faster than the global average. While the slowdown in the exports of these regions can be linked to reduced demand for the more expensive categories of fuels and metals, the increase in imports

might be considered modest given the outstanding income growth of these regions over the last three years.[8]

Chart 3: **Real merchandise trade growth by region, 2006**
(Annual percentage change)



[a] Includes the Caribbean.
Source: WTO.

Nominal merchandise and commercial services trade developments in 2006[9]

World merchandise exports in dollar value terms were strongly affected by price developments in 2006. Price developments differed widely by sector in the course of the year. According to the IMF commodity price indices, the world export prices of minerals and non-ferrous metals increased by 56%, those of fuels by 20% and those of food and agricultural raw materials by 10%. Export prices of manufactured goods are estimated to have increased by not more than 3%.[10]

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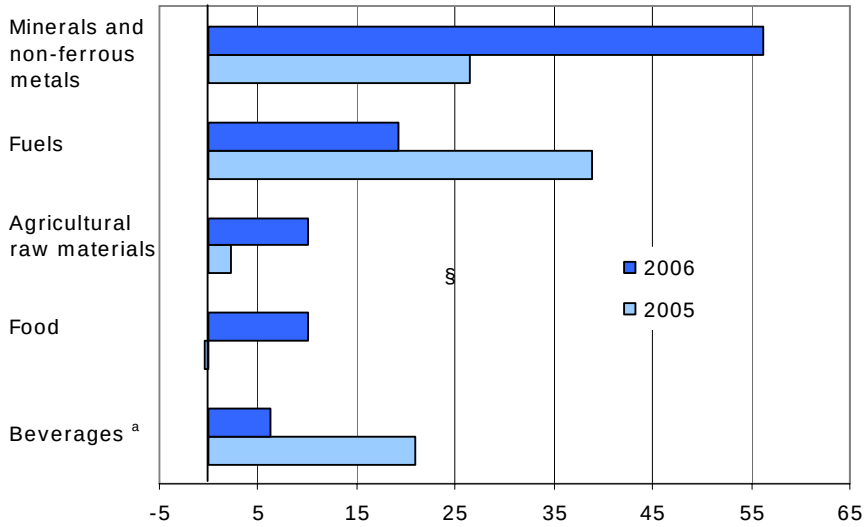
[8] There are indications that some imports are not fully covered in the regular trade returns which could lead not only to an underreporting of the level of imports but also to an underestimation of their import growth

[9] Merchandise trade values for 2006 were estimated on the basis of monthly customs data while commercial services data are derived from Balance of Payments statistics. The latter are typically available later than merchandise trade data, contributing to a greater uncertainty in the estimates for services than for merchandise trade in 2006.

[10] Dollar export prices of manufactured goods increased in the United States and Germany by 2.5% and 1.7% respectively while those of Japan decreased by 2.5% in 2006. China's export unit value index for manufactured goods rose by 3.6% in 2006.

Chart 4:**Export prices of selected primary products, 2005 and 2006**
(Annual percentage change)



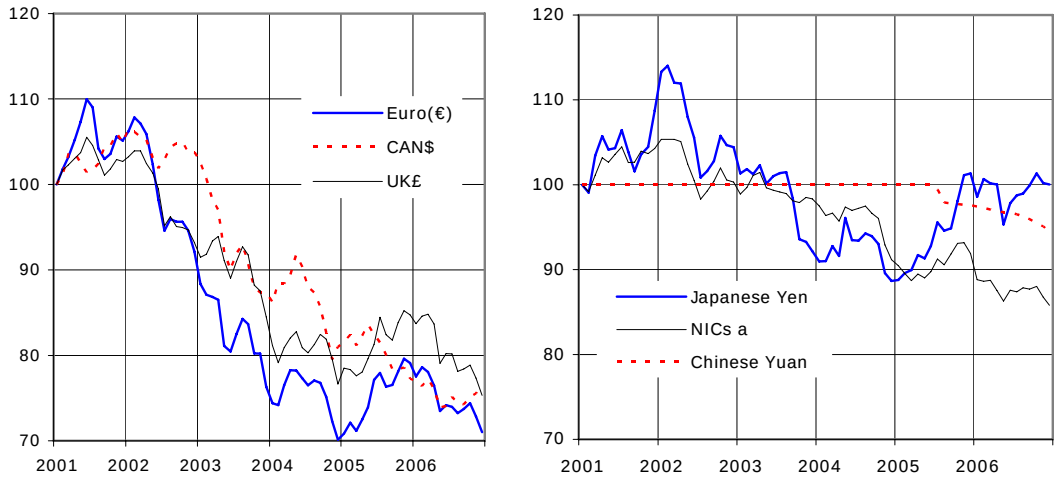
[a] Comprising coffee, cocoa beans and tea.

Source: IMF, International Financial Statistics.

Price changes for manufactured goods remained less strong than those for primary products for the third consecutive year. An important element in the moderate price trends for manufactured goods was the continued decline in prices for electronic goods, which accounted for more than one in six dollars of world exports of manufactured goods in 2005. These shifts in relative prices are explained largely by the different regional export unit values (prices) which ranged from 4% to 5% for Asia and Europe to about 18% to 20% for exports of South and Central America, Africa, the Middle East and the CIS. Information on price trends for world commercial services trade are not available. However, the price deflators for US services exports and imports increased between 3% and 4% in 2006, somewhat less rapidly than in the preceding year.

Overall exchange rate developments in 2006 only had a moderate impact on the dollar price level of internationally traded goods. Contrary to developments between 2002 and 2004, the average annual exchange rate change between the US dollar and the euro and the British pound had been rather moderate as divergent developments in the course of 2005 and 2006 balanced each other. While a weaker yen might have contributed to weaker dollar export prices of Japan, the appreciation of the Canadian dollar and the currencies of several Asian traders had the opposite effect (see Chart 5).

Chart 5: **Dollar changes vis-à-vis selected major currencies, 2001-2006**
(Indices, January 2001=100)



[a] Trade weighted currency basket of the Korean won, the Singapore dollar and Chinese Taipei dollar.
Source: IMF, International Financial Statistics.

World merchandise exports in dollar terms rose by 15.4% to $11.76 trillion. About 40% of this value change can be attributed to inflation. Commercial services exports rose by 11% to $2.71 trillion. The increase in commercial services exports in 2006 was about the same as in the preceding year and for the fourth consecutive year less pronounced than that of merchandise trade. It is uncertain to what extent divergent relative price developments have contributed to the differences in the growth of merchandise and commercial services trade values.

Table 2: **World exports of merchandise and commercial services, 2006**
(Billion dollars and percentage)

	Value	Annual percentage change			
	2006	2000-06	2004	2005	2006
Merchandise	11762	11	22	14	15
Commercial services	2710	10	20	11	11

Source: WTO.

Merchandise exports by region in dollar terms have been strongly affected again by price developments. The four regions with the highest share of fuels and other mining products in their merchandise exports — the Middle East (70% in 2005), Africa (65%), the Commonwealth of Independent States (60%) and South/Central America (37%) again recorded the strongest annual export increases in 2006. However, as prices of fuels increased in 2006 less rapidly than in 2005, the sharp rise in the export values of these regions were in effect smaller than in the preceding year. The opposite development can be observed for the net importers of fuels — North America, Europe and Asia reported a faster export growth in 2006 than in 2005, although the growth in their shipments remained less strong than that of the fuel exporting regions.

Although Europe's merchandise exports recorded the weakest regional growth rate (13%), its share in world merchandise exports, at 42%, remained the largest of all regions. Europe's imports rose by 14% to $5.22 trillion. Intra-EU (25) trade rose by 13%, which was somewhat stronger

than export growth to third countries (11%) but slower than imports from third countries (15%). The Baltics and the Balkan states continued to record export and import growth in excess of 20%. The combined exports/imports of the Balkan states exceed those of Turkey, whose exports and imports also expanded faster than those of total Europe.

In North America, Mexico reported stronger export and import growth than its NAFTA partners. The United States reported its best annual export growth performance (14%) in more than a decade, and although US export growth exceeded its import growth (11%), the merchandise trade deficit had grown already so large that it continued to grow in 2006. Only in the fourth quarter, supported by the decline in import volumes and falling import prices for crude oil, did the US merchandise trade deficit started to decrease.

Asia's merchandise exports and imports continued to expand faster than world trade in 2006. Among the six major Asian traders China continued to record the highest export and import growth, and as its export growth continued to exceed its import growth, the merchandise trade surplus rose sharply. In the course of 2006, China's trade surplus widened further as the momentum in the export expansion was maintained while nominal import growth slackened, partly due to weaker oil prices. The dollar value of Japan's merchandise exports grew by nearly 9% but continued to lag behind the expansion of world trade and its own import growth. The fast growing economies of India and Viet Nam reported a vigorous expansion of exports and imports, in the range of 20% to 35% in 2006. Since 1995, the exports and imports of these two countries have expanded faster than Asia's trade and their share in world merchandise exports increased markedly. Among the smaller Asian traders, Bangladesh, Cambodia and Mongolia continued their double-digit export expansion, a feature since 2003, with exports up between 20% and 44% in 2006. The merchandise trade of New Zealand virtually stagnated while that of Chinese Taipei and the Philippines was less dynamic than world trade in 2006.

Africa's merchandise exports rose by 21%, again faster than imports, which are estimated to have increased by nearly 16%. The share of Africa in world merchandise exports reached its highest level since 1990. Although most of Africa's export growth can be attributed to the rise in oil exports, it is a noticeable development that non-oil exporting African countries increased their exports by about 16%. It is estimated that about one in 10 African countries experienced a decline in their exports, while half of them recorded an export expansion which exceeded the global average. South Africa, the region's largest merchandise trader, reported a rise in its imports of 24% while exports advanced by 13%.

Middle Eastern trade has been strongly affected by political and oil market developments. The region's merchandise exports are estimated to have grown by 19%, roughly in line with crude oil prices. Merchandise imports increased by 14% which must be considered a rather moderate increase given the surge in the region's export earnings and foreign exchange reserves in the past years.

Among the seven geographic regions distinguished in this report, the Commonwealth of Independent States (CIS) recorded the most dynamic export and import growth in 2006. Benefiting from strong fuel and metal prices on world markets, the region's exports increased by one-quarter last year to $422 billion, more than twice the level recorded only three years ago. Imports rose by nearly one-third to $278 billion, but the region's merchandise trade surplus continued to expand by about $20 billion in 2006.

South/Central America's merchandise exports and imports continued to expand faster than world trade in 2006 even though their growth was less pronounced than in the preceding year. The deceleration in the region's export growth is attributable largely to the performance of the region's

oil exporters and Brazil. Sharply higher prices for metals benefited exports from Chile, Jamaica, Peru and Suriname. The exports of Chile and Peru surged by more than 40%, the highest export growth rates reported in the region in 2006.

Box: Textiles and clothing trade developments in 2006

In the second year after the phasing out of the Agreement on Textiles and Clothing, the structural changes in world trade of textiles and clothing continued unabatedly. Exporters from developed countries and those from advanced developing economies in East Asia are losing market share, together with major developing suppliers in Central America and the Mediterranean region, which process textiles originating from developed countries. China's exports continued to gain market share in all major developed import markets despite restrictions introduced in 2005. Some smaller suppliers expanded their textiles and clothing exports even faster than China and the share of least-developed countries in imports of the United States and the European Union increased sharply in 2006.

The annual expansion rate of textiles and clothing imports from China into Canada, the United States and the EU was roughly halved between 2005 and 2006 in each of these three markets. The combined textiles imports of the three economies from China rose by 41% in 2005 and is estimated to have increased by 15% in 2006. Despite the sharp deceleration this rate is still about twice the rate of imports from all sources (with EU intra-trade excluded). These import developments suggest that the introduction of quotas in the United States and the EU in the course of 2005 had a restrictive effect on textiles imports from China. On the other hand, the deceleration in textiles exports from China to Canada was about the same as to the United States in the absence of any new quotas. The new restrictions also had no apparent effect on China's overall exports of textiles and clothing to the world, which increased in 2006 by one quarter — somewhat faster than in 2005 (21%).

Imports of textiles and clothing of the four major developed markets (incl. Japan) are estimated to have increased by 5.5%, to about $350 billion in 2006. This increase was slightly faster than in the preceding year despite the deceleration in US import growth, to less than 4%. In contrast to the moderate overall import growth, intra-NAFTA textiles (and clothing) trade was declining and that of intra-EU(25) stagnated in 2006. US imports from CAFTA members and the Dominican Republic, and Sub-Saharan Africa, declined by 7% and 10% respectively. The strongest decline in US imports (–14%) was observed for the more advanced economies in Asia (i.e. Hong Kong, China, Chinese Taipei and the Republic of Korea). US imports from the EU (25), which still exceeded those from India in 2005, decreased by 2.5% in 2006.

The import decline from these suppliers was balanced by a double digit increase of imports from six Asian countries. While imports from China increased by 15% and accounted for nearly 30% of total US imports of textiles and clothing, the rise in imports from Indonesia, Viet Nam, Bangladesh and Cambodia exceeded that from China. Imports from India, a major supplier to the United States, rose 12% in 2006, which was less than the rate recorded by China.

The re-shuffling of EU import shares had similarities with those of the US market. Some of the major traditional suppliers (e.g. Turkey, Romania, Morocco, Tunisia) lost market shares while Asian developing countries increased their share. As in the US market, China expanded its role as leading supplier, but imports from smaller Asian suppliers tended to rise faster than those from China. Rather untypical is the sharp rise of EU clothing imports from Hong Kong, China in 2006.

Among the developed markets Japan's textiles and clothing imports are the most concentrated on China due both to geographic proximity and the absence of import quotas in the recent past. More than three quarters of Japan's textiles and clothing imports originated from China in 2006. The share exceeds 80% for clothing imports.

At nearly 9%, Canada recorded with the strongest rise in textiles and clothing imports of the four major developed markets in 2006. Imports from China rose by more than 20%. The structural shifts among suppliers observed in 2006 were similar to those observed in the US market.

Imports of textiles and clothing into major markets by origin, 2006
(Billion dollars and percentage change)

	United States	EU(25) (Jan-Nov)	Japan	Canada
World (value)	*106.4*	*183.6*	*30.0*	*11.2*
	Annual Growth			
World	4	6	6	9
China	15	10	8	22
India	8	13	12	6
Pakistan	12	12	-7	9
Bangladesh	22	34	4	19
Cambodia	25	19	...	21
Indonesia	25	19	4	18
Philippines	9	26	...	5
Viet Nam	18	51	6	33
Thailand	1	11	-2	0
Sri Lanka	2	24	12	...
East Asia(4)	-14	33	-5	-12
Sub-Saharan Africa	-10	9	...	...
Egypt	32	14	...	...
Morocco	69	3	...	...
Tunisia	...	0	29	—-
CAFTA	-7	...	...	...
Mexico	-10	13	6	7
Canada	-7	6	-7	...
United States	...	11	-3	-1
EU(25)	-3	1	-2	2
Romania	15	0	...	...
Bulgaria	-18	12	...	...
Turkey	-17	4	20	-1
Memorandum items:				
Least-developed countries	14	30	27	17
Hong Kong, China	...	67	...	...

Note: East Asia(4) comprises Chinese Taipei, Hong Kong China, Macao China and the Republic of Korea. EU(25) imports include intra-trade.

Source: Global Trade Atlas and Eurostat, COMEXT data base.

It is clear from the discussion above that trade expansion in 2006 was very favourable for the developing countries as a group. Their combined merchandise exports rose by 20%, to $4.27 trillion, and imports rose by 17%. The share of developing countries in world merchandise exports reached with 36%, an all-time record level. The share of developing countries in world merchandise imports was 31%, the largest share in more than a quarter of a century. For the least-developed countries, the expansion of merchandise exports has been even stronger than for the developing countries over the last six years, including 2006. Least-developed countries' exports are estimated to have increased by about 30%, to $108 billion in 2006. Their share in

world merchandise exports reached 0.9%, the highest level since 1980 (the first year for which records are kept). Merchandise imports rose by 17%, which was far less rapid than merchandise exports, leading the least-developed countries as a group to record a trade surplus for the first time. Because of differences in commodity composition, individual country performance, and relative country size, aggregations such as developing countries and least-developed countries are increasingly less meaningful for trade analysis (see Appendix Table 1)

The review of world merchandise trade by leading exporters and importers reconfirms the importance of price developments and the outstanding trade performance of China and India. Among the thirty leading merchandise exporters, the eight most dynamic (with export values up by more than 20% in 2006) comprise five oil exporters, one metal exporter (Chile) and China and India.[11] Moderate and sluggish export value growth of less than 10% was reported by Japan (9%), France (6%), Spain (7%) and Ireland (3%). The merchandise imports of these latter countries also expanded far less rapidly than the world average. The ten leading exporters comprise the same countries as the group of the top ten leading importers, and although the annual variation of trade differed markedly between the leading traders, the ranking did not change from the preceding year, with the single exception of the merchandise imports of the United Kingdom, which again surpassed those of Japan (see Appendix Table 3 and 4).

Since 2000, China has more than doubled its share in world merchandise exports and ranks as the third largest exporter and importer in merchandise trade. Despite its strong export expansion, China remained the third largest merchandise exporter in 2006. However, in the second half of 2006, China's merchandise exports exceeded those of the United States for the first time.

World commercial services exports rose by 11% to $2.7 trillion in 2006[12]. The expansion rate of global services trade was basically unchanged from the preceding year and that of the last six years. Since 2003, commercial services exports expanded less rapidly each year than merchandise trade.

Among the three broad commercial services categories, transportation, travel and "other commercial services", the latter is by far the largest and also the fastest growing category. In 2006, other commercial services categories expanded by 13% while transportation and travel services were up by 9% and 7% respectively. In the 1990s, transportation services expanded less rapidly than travel, but since 2000 the situation has been reversed. The relatively sluggish growth of travel services can be observed in all major exporting regions but is most pronounced in North America's services trade.

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[11] Although India is a net-fuel importer it exports large volumes of oil production processed from imported crude oil.

[12] Commercial services data are derived from Balance of Payments statistics which do not include the sales of majority-owned foreign affiliates abroad (commercial presence).

Table 3: **World exports of commercial services trade by major category, 2006**
(Billion dollars and percentage change)

	Value	Annual percentage change			
	2006	2000-06	2004	2005	2006
Commercial services	2710	10	20	11	11
Transport	626	10	25	12	9
Travel	737	7	18	8	7
Other commercial services	1347	12	19	12	13

Source: WTO

Commercial services trade by region is presented in Appendix Table 2. Europe and North America, recorded — as in the preceding year — export and import growth below the world average. Within the European Union services trade developments by member differed widely: services exports of France and Finland are reported to have declined, while those of Luxembourg and Poland expanded by one-quarter or more.[13] The CIS region reports export and import growth rates of commercial services of about 20%, the fastest growth of all regions.

Asia's commercial services exports continued for the third consecutive year to expand faster than the global average and faster than the region's services imports, thereby reducing the region's deficit in services trade. Japan, the region's largest commercial services trader, increased its commercial services exports by 12% and its imports by 8%. Among the major Asian traders India continues to excel in terms of its services trade expansion. While the dynamic growth of India's commercial — and in particular software services[14] — exports are widely reported, the dynamic expansion of its services imports attracts less attention even though the growth rate in 2006 exceeded that of exports. According to the most recent numbers, India's commercial services imports are only about 5% short of its commercial services exports.

The commercial services trade of Africa and the Middle East are provisionally estimated to have expanded close to the world average in 2006. But limitations in data availability could make these estimates subject to larger revisions than for the estimates provided for other regions.

The trade performance of the leading commercial services exporter and importer differed widely in 2006. The shifts in ranking should be interpreted with caution as they might be due to changes in methodology, and given the incomplete data of major traders, will be subject to revisions.

On the basis of the preliminary data, it appears that the three top leading traders, namely the United states, the United Kingdom and Germany, maintained their rank for both exports and imports. If the export contraction of France's commercial services is confirmed, Japan would replace it as the world's fourth largest services exporter. Italy moved ahead of Spain to rank as the sixth largest exporter. China's commercial services exports are estimated to have surpassed

[13] The decline in services exports of France and Finland are concentrated in the group "other commercial services". Economic explanations for this decrease have yet to be identified. In the case of Luxembourg the marked rise in services exports can be attributed to the strength in financial services.

[14] Comprising computer services, IT enabled services and business process outsourcing.

those of the Netherlands and India, entering the group of the top ten exporters by moving ahead of Hong Kong, China.[15]

On the import side, no change occurred among the top ten positions in 2006. According to the provisional data, India's imports are estimated to have exceeded slightly those of the Republic of Korea, even though the latter imports also increased strongly in 2006.[16]

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[15] At the time of writing (early March 2007) published information on China's services trade is limited to the first half of 2006.

[16] India's services imports are adjusted to include all freight transportation services to conform to the standard definitions of the IMF, Balance of Payments Manual (5th edition).

Appendix Table 1
World merchandise trade by region and selected country, 2006
(Billion dollars and percentage)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2006	2000-06	2004	2005	2006	2006	2000-06	2004	2005	2006
World	11762	11	22	14	15	12080	11	22	13	14
North America	1675	5	14	12	13	2546	7	17	14	11
United States	1037	5	13	11	14	1920	7	17	14	11
Canada	388	6	16	14	8	357	7	14	15	11
Mexico	250	7	14	13	17	268	7	16	13	15
South and Central America [a]	426	14	30	24	20	351	9	28	23	18
Brazil	137	16	32	23	16	88	7	31	17	14
Other South and Central America [a]	289	13	29	25	22	262	10	27	25	19
Europe	4957	11	20	9	13	5218	11	20	10	14
European Union (25)	4527	11	19	8	12	4743	11	20	9	14
Germany	1112	12	21	7	15	910	11	18	9	17
United Kingdom	443	8	14	11	15	601	10	20	9	17
France	490	7	15	3	6	533	8	18	7	6
Italy	410	9	18	5	10	436	11	19	8	13
Commonwealth of Independent States (CIS)	422	19	36	28	24	278	23	31	25	29
Russian Federation	305	19	35	33	25	164	24	28	29	31
Africa	361	16	31	30	21	290	14	28	20	16
South Africa	58	12	26	12	13	77	17	35	17	24
Africa less South Africa	303	17	32	34	23	213	13	26	22	13
Oil exporters [b]	212	19	40	46	25	81	18	33	25	18
Non oil exporters	90	13	20	14	17	131	11	23	20	10
Middle East	644	16	33	35	19	373	14	31	19	14
Asia	3276	12	25	16	18	3023	12	27	17	16
China	969	25	35	28	27	792	23	36	18	20
Japan	647	5	20	5	9	577	7	19	13	12
India	120	19	30	30	21	174	23	37	41	25
Four East Asian traders [c]	844	9	25	12	15	787	9	27	13	17
Memorandum items:										
MERCOSUR	190	14	28	21	16	134	7	38	20	17
ASEAN	771	10	20	15	18	683	10	25	17	14
EU (25) extra-trade	1480	11	21	11	11	1697	11	21	15	15
Developing economies	4274	14	27	22	20	3749	13	29	18	17
Least Developed Countries	108	20	32	36	30	101	15	18	21	17

[a] Includes the Caribbean. For composition of groups see the Technical Notes of WTO, International Trade Statistics, 2006.
[b] Algeria, Angola, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, Sudan.
[c] Chinese Taipei; Hong Kong, China; Republic of Korea and Singapore.

Source: WTO.

Appendix Table 2

World exports of commercial services by region, 2006

(Billion dollars and percentage)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2006	2000-06	2004	2005	2006	2006	2000-06	2004	2005	2006
World	2710	10	20	11	11	2620	10	19	11	10
North America	460	6	13	10	9	401	7	15	9	9
United States	387	6	14	10	9	307	7	16	9	9
South and Central America [a]	77	9	16	18	14	80	7	14	21	14
Brazil	18	12	21	28	21	27	9	12	38	20
Europe	1382	11	20	9	9	1223	10	17	8	8
European Union (25)	1247	12	19	9	9	1132	10	16	8	8
United Kingdom	223	11	25	5	9	169	10	18	10	6
Germany	164	13	17	10	11	214	8	13	4	7
France	112	6	11	6	-2	108	10	19	8	3
Italy	100	10	18	7	13	101	11	12	9	14
Spain	100	12	16	9	8	77	15	24	11	18
Commonwealth of Independent States (CIS)	51	20	29	20	21	74	21	28	19	19
Russian Federation	30	21	26	21	22	45	18	23	18	17
Africa	64	13	21	12	12	80	13	23	21	12
Egypt	16	9	30	3	10	10	6	24	27	9
South Africa	12	16	16	15	8	14	16	28	18	17
Middle East	63	11	16	14	9	96	12	23	19	10
Israel	19	4	21	10	9	15	4	15	7	8
Asia	614	12	27	14	15	666	10	24	12	14
Japan	121	9	25	14	12	143	4	21	2	8
China	87	...	34	19	...	100	...	31	16	...
India	73	...	...	...	34	70	...	...	...	40
Four East Asian traders [b]	208	10	22	9	14	197	10	23	10	12

[a] Includes the Caribbean. For composition of groups see the Technical Notes of WTO, International Trade Statistics, 2006.
[b] Chinese Taipei; Hong Kong, China; Republic of Korea and Singapore.

Note: While provisional full year data were available in early March for 33 countries accounting for more than 60% of world commercial services trade, estimates for most other countries are based on data for the first three quarters (the first six months in the case of China).

Source: WTO.

Appendix Table 3
Leading exporters and importers in world merchandise trade, 2006
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	Germany	1112	9.2	15	1	United States	1920	15.5	11
2	United States	1037	8.6	14	2	Germany	910	7.4	17
3	China	969	8.0	27	3	China	792	6.4	20
4	Japan	647	5.4	9	4	United Kingdom	601	4.9	17
5	France	490	4.1	6	5	Japan	577	4.7	12
6	Netherlands	462	3.8	14	6	France	533	4.3	6
7	United Kingdom	443	3.7	15	7	Italy	436	3.5	13
8	Italy	410	3.4	10	8	Netherlands	416	3.4	14
9	Canada	388	3.2	8	9	Canada	357	2.9	11
10	Belgium	372	3.1	11	10	Belgium	356	2.9	12
11	Korea, Republic of	326	2.7	15	11	Hong Kong, China	336	2.7	12
						retained imports [a, b]	36	0.3	...
12	Hong Kong, China	323	2.7	10	12	Spain	319	2.6	10
	domestic exports [b]	23	0.2	...					
	re-exports [b]	300	2.5	...					
13	Russian Federation	305	2.5	25	13	Korea, Republic of	309	2.5	18
14	Singapore	272	2.3	18	14	Mexico [b]	268	2.2	15
	domestic exports	143	1.2	15					
	re-exports	129	1.1	22					
15	Mexico	250	2.1	17	15	Singapore	239	1.9	19
						retained imports [a]	110	0.9	16
16	Taipei, Chinese	224	1.9	13	16	Taipei, Chinese	203	1.6	11
17	Saudi Arabia [b]	209	1.7	16	17	India	174	1.4	25
18	Spain	206	1.7	7	18	Russian Federation [c]	164	1.3	31
19	Malaysia	161	1.3	14	19	Switzerland	141	1.1	12
20	Switzerland	147	1.2	13	20	Australia [b]	140	1.1	11
21	Sweden	147	1.2	13	21	Austria	139	1.1	9
22	United Arab Emirates	139	1.2	21	22	Turkey	137	1.1	17
23	Austria	138	1.1	11	23	Malaysia	131	1.1	14
24	Brazil	137	1.1	16	24	Thailand	129	1.0	9
25	Thailand	131	1.1	19	25	Sweden	126	1.0	13
26	Australia	123	1.0	16	26	Poland	124	1.0	22
27	Norway	122	1.0	17	27	United Arab Emirates [b]	95	0.8	17
28	India	120	1.0	21	28	Czech Republic	93	0.8	22
29	Ireland	113	0.9	3	29	Brazil	88	0.7	14
30	Poland	110	0.9	23	30	Denmark	86	0.7	14
	Total of above [d]	10033	83.2	-		Total of above [d]	10340	83.5	-
	World [d]	12062	100.0	15		World [d]	12380	100.0	14

[a] Retained imports are defined as imports less re-exports.
[b] Secretariat estimates.
[c] Imports are valued f.o.b.
[d] Includes significant re-exports or imports for re-export.

Source: WTO.

Appendix Table 4

Leading exporters and importers in world merchandise trade (excluding intra-EU(25) trade), 2006

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	Extra-EU (25) exports	1480	16.4	11	1	United States	1920	20.6	11
2	United States	1037	11.5	14	2	Extra-EU (25) imports	1697	18.2	15
3	China	969	10.7	27	3	China	792	8.5	20
4	Japan	647	7.2	9	4	Japan	577	6.2	12
5	Canada	388	4.3	8	5	Canada	357	3.8	11
6	Korea, Republic of	326	3.6	15	6	Hong Kong, China	336	3.6	12
						retained imports [a, b]	36	0.4	...
7	Hong Kong, China	323	3.6	10	7	Korea, Republic of	309	3.3	18
	domestic exports [b]	23	0.3	...					
	re-exports [b]	300	3.3	...					
8	Russian Federation	305	3.4	25	8	Mexico [b]	268	2.9	15
9	Singapore	272	3.0	18	9	Singapore	239	2.6	19
	domestic exports	143	1.6	15		retained imports [a]	110	1.2	16
	re-exports	129	1.4	22					
10	Mexico	250	2.8	17	10	Taipei, Chinese	203	2.2	11
11	Taipei, Chinese	224	2.5	13	11	India	174	1.9	25
12	Saudi Arabia [b]	209	2.3	16	12	Russian Federation [c]	164	1.8	31
13	Malaysia	161	1.8	14	13	Switzerland	141	1.5	12
14	Switzerland	147	1.6	13	14	Australia [b]	140	1.5	11
15	United Arab Emirates	139	1.5	21	15	Turkey	137	1.5	17
16	Brazil	137	1.5	16	16	Malaysia	131	1.4	14
17	Thailand	131	1.4	19	17	Thailand	129	1.4	9
18	Australia	123	1.4	16	18	United Arab Emirates [b]	95	1.0	17
19	Norway	122	1.3	17	19	Brazil	88	0.9	14
20	India	120	1.3	21	20	Indonesia	78	0.8	5
21	Indonesia	104	1.2	21	21	South Africa [b]	77	0.8	24
22	Turkey	85	0.9	16	22	Saudi Arabia [b]	65	0.7	9
23	Iran, Islamic Rep. of [b]	75	0.8	34	23	Norway	64	0.7	15
24	Bolivarian Rep. of Venezuela [b]	63	0.7	14	24	Philippines [b, c]	52	0.6	10
25	Chile	59	0.7	45	25	Romania	51	0.5	26
26	South Africa	58	0.6	13	26	Iran, Islamic Rep. of [b]	51	0.5	34
27	Kuwait [b]	54	0.6	21	27	Israel [b]	50	0.5	6
28	Algeria	53	0.6	15	28	Ukraine	45	0.5	25
29	Nigeria [b]	52	0.6	23	29	Viet Nam	44	0.5	20
30	Philippines	47	0.5	14	30	Chile	38	0.4	18
	Total of above [d]	8160	90.5	-		Total of above [d]	8513	91.2	-
	World (excl. intra-EU (25))[d]	9015	100.0	16		World (excl. intra-EU (25))[d]	9333	100.0	15

[a] Retained imports are defined as imports less re-exports
[b] Secretariat estimates.
[c] Imports are valued f.o.b.
[d] Includes significant re-exports or imports for re-export.

Source: WTO.

Appendix Table 5
Leading exporters and importers in world commercial services trade, 2006
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	United States	387	14.3	9	1	United States	307	11.7	9
2	United Kingdom	223	8.2	9	2	Germany	215	8.2	7
3	Germany	164	6.1	11	3	United Kingdom	169	6.5	6
4	Japan	121	4.5	12	4	Japan	143	5.5	8
5	France	112	4.1	-2	5	France	108	4.1	3
6	Italy	101	3.7	13	6	Italy	101	3.9	14
7	Spain	100	3.7	8	7	China	100	3.8	...
8	China	87	3.2	...	8	Netherlands	78	3.0	7
9	Netherlands	82	3.0	4	9	Ireland	77	3.0	11
10	India	73	2.7	34	10	Spain	77	2.9	18
11	Hong Kong, China	71	2.6	15	11	Canada	72	2.7	12
12	Ireland	67	2.5	17	12	India	70	2.7	40
13	Singapore	57	2.1	12	13	Korea, Republic of	69	2.7	20
14	Belgium	57	2.1	7	14	Singapore	61	2.3	12
15	Canada	56	2.1	7	15	Belgium	54	2.0	6
16	Korea, Republic of	51	1.9	16	16	Russian Federation	45	1.7	17
17	Denmark	50	1.9	19	17	Denmark	44	1.7	17
18	Luxembourg	50	1.9	25	18	Austria	40	1.5	...
19	Austria	50	1.8	...	19	Sweden	39	1.5	12
20	Sweden	50	1.8	17	20	Hong Kong, China	35	1.3	7
21	Switzerland	50	1.8	8	21	Taipei, Chinese	33	1.2	3
22	Greece	36	1.3	5	22	Thailand	32	1.2	18
23	Australia	32	1.2	6	23	Australia	32	1.2	6
24	Norway	32	1.2	10	24	Norway	31	1.2	7
25	Russian Federation	30	1.1	22	25	Luxembourg	31	1.2	23
26	Taipei, Chinese	29	1.1	13	26	Switzerland	27	1.0	5
27	Thailand	24	0.9	18	27	Brazil	27	1.0	20
28	Turkey	24	0.9	-8	28	Indonesia	27	1.0	...
29	Poland	21	0.8	28	29	Malaysia	23	0.9	6
30	Malaysia	21	0.8	5	30	Mexico	23	0.9	8
	Total of above	2305	85.1	-		Total of above	2185	83.5	-
	World	2710	100.0	11		World	2620	100.0	10

Note: While provisional full year data were available in early March for 33 countries accounting for more than 60% of world commercial services trade, estimates for most other countries are based on data for the first three quarters (the first six months in the case of China).

Source: WTO

END