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WORLD TRADE 2007, PROSPECTS FOR 2008

WTO: developing, transition economies cushion trade slowdown

World trade growth slid to 5.5% last year from 8.5% in 2006 and may grow even more slowly in 2008 — at about 4.5% — as sharp economic deceleration in key developed countries is only partly offset by continuing strong growth in emerging economies, according to World Trade Organization economists.

WTO economists cautioned that their preliminary assessment of 2007 trade figures and forecasts for this year have been unusually difficult to gauge due to the uncertainty caused by sharp market fluctuations.

The financial market turbulence, which has considerably reduced economic growth projections for some major developed markets, has clouded the prospects for world trade in 2008.

The present economic growth forecast for these markets is 1.1%. For developing countries, growth is forecast at above 5%. Together these could result in world output growth of 2.6% and a global trade expansion of about 4.5% in real terms, that is, discounting inflation.

“These are uncertain and troubling times for the global economy,” said Director-General Pascal Lamy. “To date, the financial market turmoil, significant price surges and the slow-down of developed economies have not led to a disruption of trade. But protectionist pressures are building as policymakers seek answers to the problems that confront us. More than ever we must reinforce our global trading system with rules that are more transparent, predictable and equitable.

“A reinforced trading system is an essential anchor for economic stability and development. Clearly, the best way to achieve this is to conclude the Doha Development round. The time for posturing and delay has ended. What we need now is action,” he said.

The preliminary figure of 5.5% trade growth for 2007 is slightly lower than the 6% forecast for 2007 this time last year. The global economy and world trade started to slow down in 2007 due to the deceleration of demand in the developed regions. North America showed the weakest growth in output, measured as gross domestic product (GDP).

Developing economies and the Commonwealth of Independent States (CIS) region[1], however, maintained or strengthened their expansion of output, contributing more than 40% of world output growth in 2007. Developing countries' share of world merchandise trade (exports plus imports) reached a new record level of 34% in 2007.

These two groups of countries are expected to record faster growth in imports than exports; together they are expected to contribute more than one half of global import growth in 2008.

The sharp rise of commodity prices — particularly fuels and metals — greatly improved the financial situation of most developing regions and boosted imports. But, higher energy and food prices translated into inflationary pressures worldwide.

Significant variations occurred among major currencies, but not all exchange rate movements were helpful to redress global imbalances. While European currencies appreciated vis-à-vis the US dollar, changes in the currencies of Asian economies with large current account surpluses had a mixed impact.

The decline of the US dollar in relation to the euro and other European currencies inflated the dollar values of international trade transactions. The dollar value of world merchandise exports rose by 15% to $13.6 trillion, and that of commercial services by 18% to $3.3 trillion in 2007.

In real terms — with adjustment for price and exchange rate changes — real merchandise exports were up by 5.5% in 2007 compared to 8.5% in 2006.

The situation in 2007

Global economic growth. Growth in world output and trade decelerated in 2007. Weaker demand in the developed economies reduced global economic growth to 3.4% from 3.7%, roughly the average rate recorded over the last decade. At some 7%, growth in the developing regions was nearly three times the rate recorded in the developed regions.

Economic expansion in the least-developed countries fully matched the growth rate recorded by developing countries as a group in 2007, sustaining a pattern that has been maintained since 2000.

The contribution of the developing countries to global output growth in 2007 exceeded 40%.[2]

Domestic demand weakened sharply in the United States, which reduced the external deficit and led to the weakest annual GDP growth rate (2.2%) since 2002. A further widening of the external surplus contributed to more than one half of Japan's 2.1% GDP growth rate in 2007.

Europe recorded GDP growth of 2.8% — a somewhat better performance than both Japan and the United States last year. Stimulated by sharply higher export earnings and rising investment, Russia's economic growth of 8% was the strongest annual rate since 2000.

In Central and South America, Africa, the Middle East and developing Asia, economic expansion rates showed no signs of deceleration in 2007. The most populous developing countries — China and India — continued to report outstandingly high economic growth.

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[1] Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

[2] Measured with GDP at constant prices and market exchange rates. Measured with GDP at purchasing power parities (PPP) the contribution of the developing regions to global output exceeded one half.

Investment. The favourable investment climate maintained in developing regions and the Commonwealth of Independent States more than offset the adverse effects of financial market turbulence, especially that arising from the US sub-prime market crisis in the second half of 2007.

Despite the adverse effects of scarce credit on the volume of mergers and acquisitions, global foreign direct investment (FDI) flows continued to rise. The UN Conference in Trade and Development (UNCTAD)[3] provisionally estimated that global FDI inflows rose by 18% to $1.54 trillion in 2007.

Foreign direct investment flows to Latin America (eg, Brazil, Chile and Mexico) and Russia have been particularly strong (50% and 70% respectively). FDI flows to developing Asia and the new EU member states are estimated to have seen less dynamic growth in FDI inflows in 2007 than in the past.[4]

Exchange rates and inflation. Variations in the exchange rates of major traders in 2007 did not always result in effective exchange rate developments conducive to a reduction in global imbalances.

While the US real effective exchange rate depreciated and contributed to a smaller current account deficit relative to its GDP, the real effective exchange rate of a number of current account surplus economies in East Asia (such as Japan, Chinese Taipei, Hong Kong, China) also decreased, contributing to new peak levels in the ratios of their respective current account surpluses to GDP in 2007.[5] The real effective exchange rates of the Chinese and Singaporean currencies appreciated by 2% and 7% respectively in 2007, without arresting the rise in their respective current account surpluses.[6]

The real appreciation of the euro had differing consequences for the export performances of euro-zone economies. Thanks to a 20% increase in its exports, Germany remained the world’s leading exporter of merchandise.

The length of the global upswing and the strength of economic activity outside the industrial regions contributed to a further rise in the price of fuels and pushed up domestic inflation rates. At the end of 2007 consumer prices in developed and developing economies were increasing faster than at the beginning of the year, by about 1 and 2 percentage points respectively.

Trade. Weaker demand in the developed countries provided a less favourable framework for the expansion of international trade in 2007 than in preceding years (Chart 1). Consequently, world merchandise exports grew in real terms (that is, at constant prices) by only 5.5%, compared to 8.5% in 2006.

Lower import growth than in the preceding year was observed in North America, Europe, Japan and the net oil importing developing countries in Asia. This downward trend outweighed the higher

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[3] UNCTAD, UNCTAD Investment Brief, No.1, 2008.

[4] The Institute for International Finance observed a strong increase in net private capital flows to emerging markets, driven largely by portfolio flows. Official net flows to emerging markets were negligible in 2007 following a net outflow in 2006. (Institute for International Finance, Capital Flows to Emerging Market Economies, 6 March 2008).

[5] The ratio of the US current account deficit to US GDP is estimated to have decreased from its peak of 6.2% in 2006 to 5.5% in 2007.

[6] JP Morgan, Real broad effective exchange rate indices. Direct communication to the WTO Secretariat. Estimates for current account balances are taken from IMF, World Economic Outlook April 2008.

import growth observed in Central and South America, the CIS, Africa and the Middle East. It is estimated that the developing countries as a group accounted for more than one half of the increase in world merchandise imports in 2007.

Among the leading traders, China's (real) merchandise trade expansion remained outstandingly strong in 2007 as lower export growth to the US and Japanese markets was largely offset by higher export growth to Europe and a boom in shipments to the net-oil-exporting regions. Despite a booming domestic economy, weaker demand in some of China's major export markets and a moderate real effective appreciation of the yuan, import growth continued to lag behind export growth.

Trade prospects for 2008

Recent developments cloud the near-term prospects for the world economy. Among these developments are widely held expectations of recessionary tendencies in the United States, weaker demand growth in both Europe and Japan, a rise in inflation and depressed global stock markets.

More positive news come from developing countries and the Commonwealth of Independent States (CIS), where strong output and trade growth are predicted. Uncertainty arises as to how long the developing countries can maintain a strong pace of economic growth in the face of sluggish demand in the major developed markets and rising inflationary pressures.

The central projections retained by major institutional forecasters indicate a further deceleration in world economic growth in 2008.[7] If turbulence in international financial markets could be contained soon, and its impact on the real economy limited, world output could still grow at 2.6% (GDP measured at market exchange rates).

Domestic demand in the United States stagnated in the fourth quarter of 2007 and may shrink in the first half of 2008. Imports of goods and services contracted between the third and fourth quarter in 2007 (seasonally adjusted) and are likely to decrease further quarter-to-quarter in the first half of 2008. Exports, however, are expected to grow, sustained by a strong real effective depreciation and excess capacity in the US economy caused by sluggish domestic demand.

The slowdown in GDP growth in Europe is expected to be less pronounced than in the United States, maintaining developed country economic growth at slightly above 1% in 2008.

Despite signs of weaker demand in the United States and Europe in recent months, commodity prices started to rise faster again, helping to sustain short term growth prospects in most developing regions and the CIS.

In addition, these regions' reliance on developed markets for their exports has markedly decreased over recent years, which should limit the adverse effects of lower import demand from the developed countries. Foreign exchange reserves increased sharply and external debt levels have been reduced.

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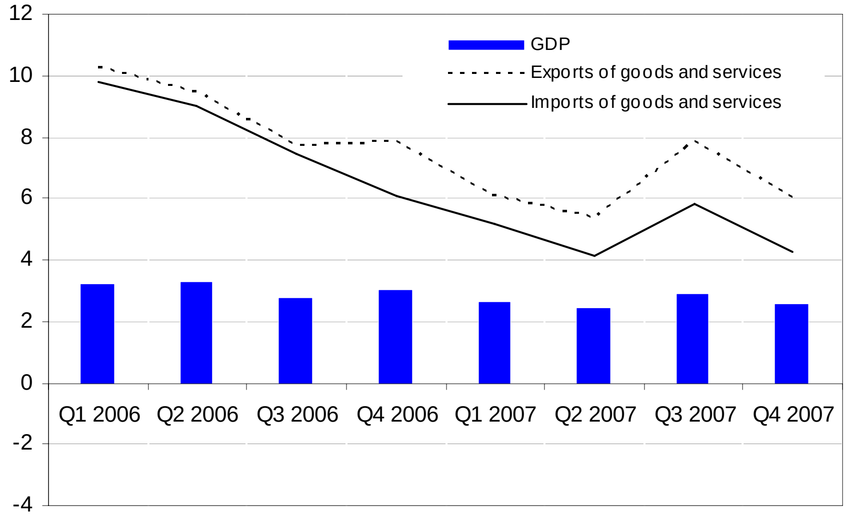
[7] All output projections for 2008 are based on IMF, World Economic Outlook, April 2008.The OECD (OECD Economic Outlook, December 2007) and the United Nations (World Economic Situation and Prospects 2008, January 2008) retained for their basic reference scenario global GDP growth forecasts in the order of 3% to 3.5% for 2008. However, the interim assessments of the global economic situation by the OECD and the IMF in March and April 2008 contain a more pessimistic outlook for economic growth in developed countries, implying a downward adjustment of global economic prospects.

These trends should help developing countries and the CIS to maintain high investment and consumption levels, even if there is some softening of commodity prices in the second half of 2008. Overall, it is expected that GDP growth in developing countries and the CIS may be maintained at a level above 5% and import growth above 10% in 2008. Broadly, this is a positive picture for developing countries as a whole. But it has to be qualified because the picture is different in many low-income food-deficit countries due to the recent sharp increase in food prices. As the prices of major cereals doubled on international markets between mid-2007 and March 2008 many developing countries are concerned about food security and a sharp rise in their import bill in 2008. Given the large share of food in the consumption of the poor in these countries, there is a risk that higher food prices could lead to an increase in poverty. The political consequences of higher food prices are already being felt through civil disturbances in some countries. This situation poses grave challenges for governments. On the other hand, the UN Food and Agriculture Organization expects world cereal output to increase by 2.6% this year, which, if realized, could ease the situation somewhat in the second half of the year.[8]

Assuming a basic scenario of global GDP growth between 2.5% and 3%, global merchandise trade could slow down to about 4.5% in 2008, or about 1 percentage point less than in 2007. This estimate is supported by the results of the WTO Secretariat's time series forecasting model which predicts a slowdown in the OECD area's imports of goods and services to 3%, a further 1.5 percentage point decrease from the already subdued rate observed in 2007.[9]

This pessimistic outlook must be seen in the context of further significant downside risks, as foreshadowed by the severe declines in business sentiment captured by the Information and Forschung (IFO) economic climate indices for the euro area and the world as a whole.

Chart 1: **Real GDP and trade growth of OECD countries, 2006-07**
% changes, year to year



Source: OECD National Accounts.

The risks attached to this scenario turn primarily on financial market developments. The repercussions of the dramatic downturn in the US property market has spread to other financial sectors (eg, investment banking), spilled over to the private international banking system, and

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[8] FAO, Crop Prospects and Food Situation, No.2 April, 2008

[9] The WTO Secretariat's forecast in April 2007 for world trade (6%) and OECD import growth of goods and services (4.5%) in 2007 were very close to the current provisional estimates for the actual outcome.

curtailed bank liquidity as inter-bank lending dwindled to a fraction of the level before the outbreak of the crisis. Some major stock markets have lost about one quarter of market capitalisation from their peak in 2007.

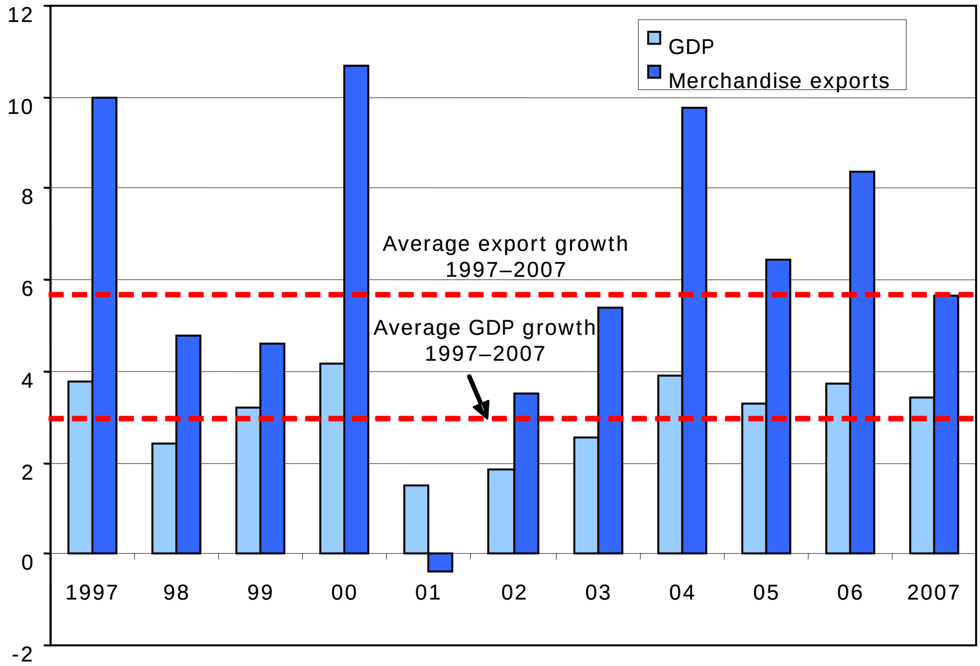
A sharp cut in US interest rates brought only short term breathing space for the financial markets but caused havoc on the exchange and commodity markets in the first quarter of 2008 as holders of dollar assets tried to limit their exposure to a likely further decline in the currency. The dollar reached record low levels against major currencies and oil and gold prices attained historic peak levels.

The adverse consequences of turmoil on financial markets will not only affect US demand growth but also lead to further downward revisions in economic growth for Japan and Western Europe. As world trade responds strongly to variations in global economic activity a stronger than projected deceleration in world economic growth could cut trade growth much more sharply, to significantly less than the 4.5% predicted above. (Income elasticity — how much trade responds to changes in income — has been between 1.5 and 2 over the last decade, indicating that trade reacts significantly.)

Real merchandise trade and output developments in 2007

The slowdown in economic activity in developed countries was the major factor in the reduced expansion of global trade in 2007. Real merchandise export growth is provisionally estimated at 5.5% in 2007, nearly 3 percentage points less than in 2006 but still close to the average rate of trade expansion over the last decade (1997-2007). The expansion of real trade exceeded global output growth by 2 percentage points (Chart 2).

Chart 2**: Growth in the volume of world merchandise trade and GDP, 1997-2007**
Annual % change



Source: WTO Secretariat

In 2007, the variation in real trade growth among regions remained large, reflecting marked differences in economic activity and relative price developments. Major terms-of-trade gains could be observed again in countries and regions exporting primarily fuels or minerals. ("Terms of trade" is a phrase comparing export and import prices.)

More recently net-food exporters have also enjoyed gains from favourable terms-of-trade movements. Unsurprisingly, thanks to their faster income growth and increased international purchasing power, net exporters of mining products (fuels and minerals) recorded a double-digit rise in their imports, while exports tended to increase less than the global average.

South and Central America and the **Commonwealth of Independent States (CIS)** increased their real merchandise imports by about 20%, more than three times the global average in 2007. South and Central American exports were up by 5% and those of the CIS by 6% (Table 1 and Chart 3). As mining products account for more than half of **African and Middle East** merchandise exports, these regions have been major beneficiaries of relative price changes over the last three years. Consequently, these regions increased their import volume by about 12% while their exports almost stagnated in real terms.

Exports from **Asia** rose by 11.5% in real terms, again exceeding significantly the region's import growth (8.5%). Within the Asian region very large variations could be observed on the import side. While China and India recorded double digit import growth, the comparable figure for Japan was practically stagnant (1%). The trade performance of the four so-called newly industrialized economies — Hong Kong China, Republic of Korea, Singapore and Chinese Taipei — continued to be less dynamic than that of the region as a whole, but still recorded an excess of export growth over import growth (8.5% and 7% respectively).

North America's real merchandise exports rose somewhat less than global trade but more than twice as fast as imports. The excess of regional export growth over import growth can be attributed largely to the United States, where import volumes increased only marginally (1%), while exports expanded by 7% in 2007. Canada and Mexico, two net exporters of mining products, with currencies strongly appreciating against the US dollar, increased their merchandise imports much faster than exports.

Table 1: **GDP and merchandise trade by region, 2005-07**
Annual % change at constant prices

	GDP			Exports			Imports		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
World	**3.3**	**3.7**	**3.4**	**6.5**	**8.5**	**5.5**	**6.5**	**8.0**	**5.5**
North America	3.1	3.0	2.3	6.0	8.5	5.5	6.5	6.0	2.5
United States	3.1	2.9	2.2	7.0	10.5	7.0	5.5	5.5	1.0
South and Central America [a]	5.6	6.0	6.3	8.0	4.0	5.0	14.0	15.0	20.0
Europe	1.9	2.9	2.8	4.0	7.5	3.5	4.5	7.5	3.5
European Union (27)	1.8	3.0	2.7	4.5	7.5	3.0	4.0	7.0	3.0
Commonwealth of Independent States (CIS)	6.7	7.5	8.4	3.5	6.0	6.0	18.0	21.5	18.0
Africa and Middle East	5.6	5.5	5.5	4.5	1.5	0.5	14.5	6.5	12.5
Asia	4.2	4.7	4.7	11.0	13.0	11.5	8.0	8.5	8.5
China	10.4	11.1	11.4	25.0	22.0	19.5	11.5	16.5	13.5
Japan [b]	1.9	2.4	2.1	5.0	10.0	9.0	2.5	2.5	1.0
India	9.0	9.7	9.1	21.5	11.0	10.5	28.5	9.5	13.0
Newly industrialized economies (4) [c]	4.9	5.5	5.6	8.0	12.5	8.5	5.0	8.5	7.0

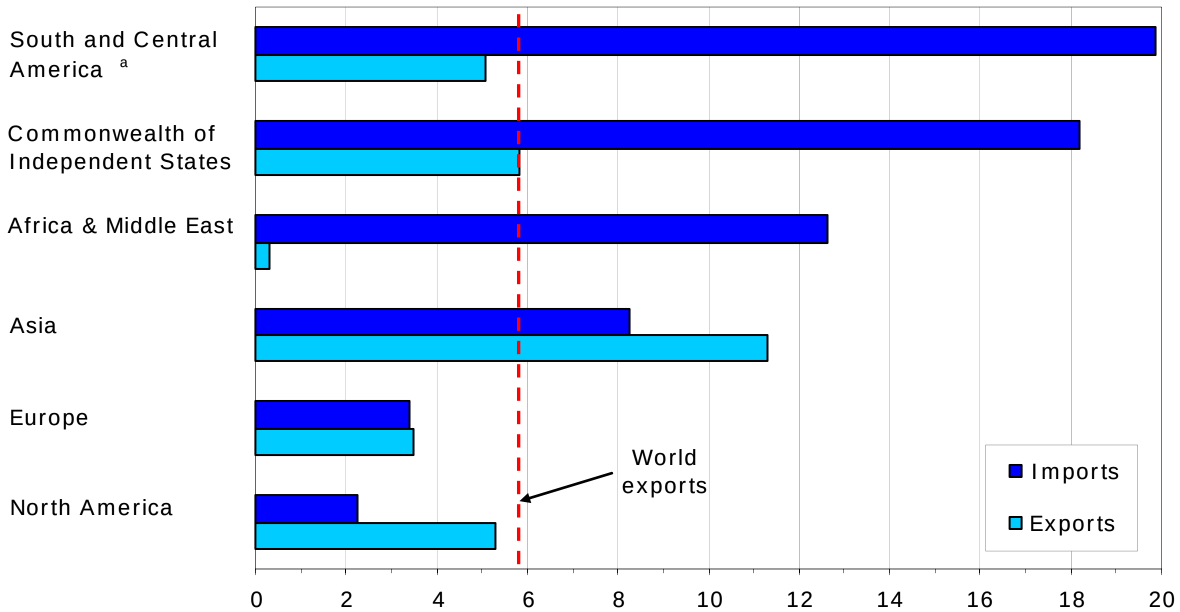
[a] Includes the Caribbean.
[b] Trade volume data are derived from customs values deflated by standard unit values and an adjusted price index for electronic goods.
[c] Hong Kong, China; Republic of Korea; Singapore and Chinese Taipei.

Source: WTO Secretariat.

European trade performance was somewhat atypical in 2007. A slight deceleration in economic growth (by 0.1 percentage points) is reported, together with a sharp reduction in the expansion rate of both exports and imports (3.5 percentage points). The slowdown in Europe's trade is particularly pronounced for intra-EU trade.[10]

Europe's real merchandise export and import growth of 3.5% in 2007 continued to lag behind the global rate of trade expansion, as has been the case since 2002. Within Europe, individual countries' trade performances differed widely in 2007. Three groups can be distinguished. First, most of the new EU members and Turkey expanded exports and imports by more than 10%. Second, Germany, the Netherlands, Austria, Belgium and Switzerland registered trade growth of about 5%. The third group's trade was almost stagnant (eg, France, Spain, Ireland and Malta).

Chart 3: **Real merchandise trade growth by region, 2007**
Annual % change



[a] Includes the Caribbean.
Source: WTO Secretariat

[10] It seems that the accuracy of trade between countries within Europe, as reported by some countries, has been severely affected by irregular trade transactions related to value-added tax (VAT) fraud. In 2007, UK merchandise exports and imports contracted sharply although the overall growth in the economy remained unchanged between 2006 and 2007. The recent trade decline is most likely due more to a cut in trade flows related to VAT fraud than to changes in demand or regular business transactions.

Nominal trade developments in 2007[11]

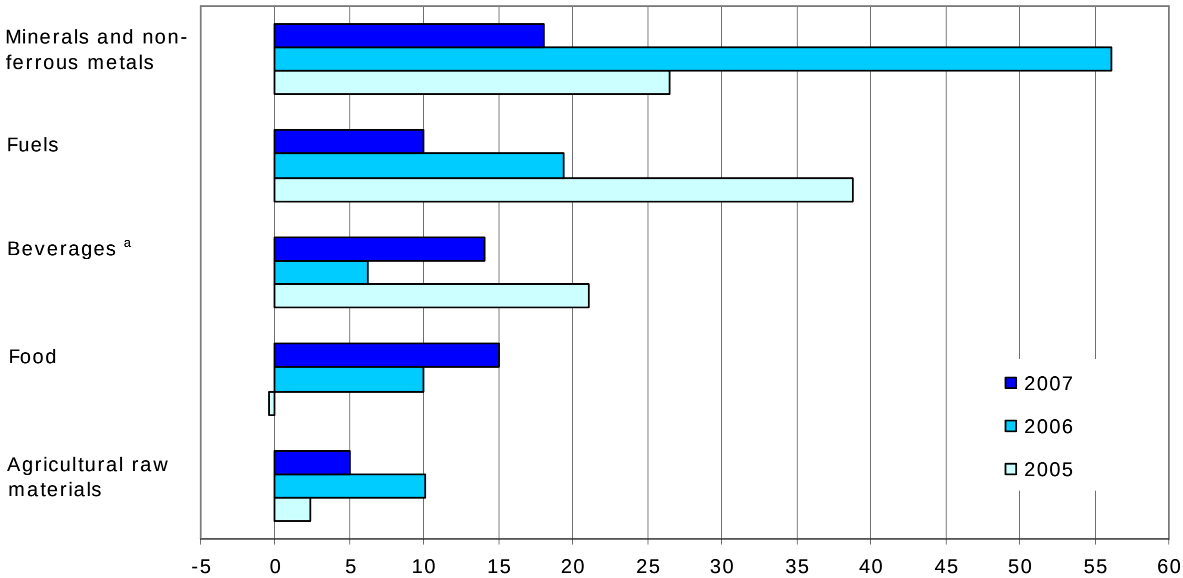
Merchandise trade

The structure of world merchandise exports in dollar value terms was strongly affected by developments in relative prices and exchange rates in 2007. Price developments differed widely by sector and region in the course of the year.

According to the International Monetary Fund (IMF), commodity price indices, world export prices of fuels, food and beverages increased sharply in the course of the year while prices for agricultural raw materials ended the year at a lower level than at the start. Prices for metals, which had risen by more than one half in 2006, continued to rise to new record levels in the first half before falling back by December to the level reached in January 2007. Comparing the annual averages, prices increased by 18% for metals, 15% for food and beverages, 10% for fuels and only 5% for agricultural raw materials (Chart 4).

Export prices of manufactured goods are estimated to have increased by about 9% in 2007.[12] Different types of manufactured goods saw quite different price movements. Export prices for iron and steel products rose at double digit rates, while those of office and telecom equipment were estimated to have decreased again. Available information on export prices for chemicals point to a faster increase in these product groups than for the average of manufactured goods, while prices for automotive products increased somewhat below average.

Chart 4: **Export prices of selected primary products, 2005-2007**
Annual % change



[a] Comprising coffee, cocoa beans and tea.
Source: IMF, International Financial Statistics.

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[11] Merchandise trade values for 2007 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 greater uncertainty in the estimates for services than for merchandise trade in 2007.

[12] Among leading traders, dollar export prices of manufactured goods increased at highly different rates in 2007. German prices rose by 10.2%. US prices rose by 3.2%, while Japan's edged up marginally and the Republic of Korea's decreased slightly. China's export unit value index for manufactured goods rose by nearly 5% in 2007.

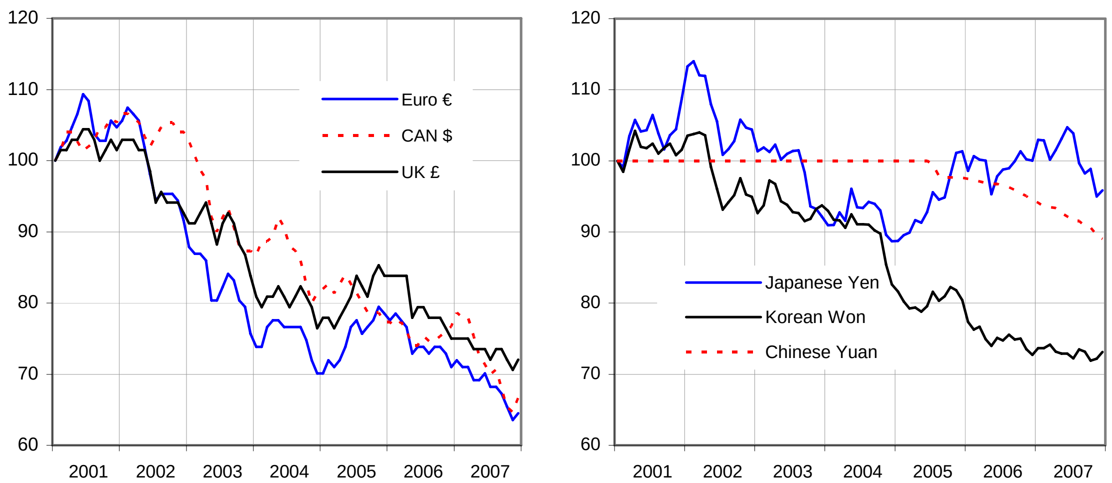
Prices of manufactured goods remained less strong than those of primary products for the fourth consecutive year. These shifts in relative prices had a significant impact on regional export unit values (prices) which ranged from increases of about 10% to 13% for the Commonwealth of Independent States (CIS), Africa and the Middle East, to between 4% and 5% in Asia and North America. Information on price developments in world commercial services trade is not available. However, the price deflators for US services exports and imports increased by 3% in 2007, somewhat less strongly than in the preceding year.

Exchange rate developments in 2007 had a major impact on the dollar price level of internationally traded goods. Contrary to developments in 2006, the US dollar depreciated strongly (in terms of annual averages) against the major European currencies and the currencies of major exporters of mining products (such as Canada, Australia and Russia).

In Asia the picture was mixed. The currencies of Japan, Hong Kong China, and Chinese Taipei remained practically unchanged against the US dollar (annual averages) while those of India, Thailand and the Philippines increased by about 10%. An intermediate development can be observed for the currencies of China, Singapore and Malaysia, which appreciated by about 5% against the US dollar.

The combination of an export structure concentrated largely on electronic goods and other manufactures and a moderate average appreciation of the Asian currencies against the US dollar kept Asian export prices at about half the world average in 2007. In marked contrast, European dollar export prices rose at double-digit rates, largely due to exchange rate changes.

Chart 5: **Dollar exchange rates of selected major currencies, 2001-07**
Indices, January 2001=100



Source: IMF, International Financial Statistics.

World merchandise exports in dollar terms rose by 15% to $13.6 trillion in 2007. Almost two thirds of this change in the dollar value can be attributed to inflation. Commercial services exports rose by 18% to $3.3 trillion. The increase in commercial services exports in 2007 was markedly faster than in the preceding year and somewhat faster than that of merchandise trade, which expanded slightly less than in 2006 (Table 2).

Table 2: **World exports of merchandise and commercial services, 2000–07**

$bn and %

	Value	Annual percentage change			
	2007	2000-07	2005	2006	2007
Merchandise	13 570	12	14	16	15
Commercial services	3 260	12	12	12	18

Source: WTO Secretariat.

Merchandise exports by region in dollar terms are the result of a combination of factors including demand, prices, exchange rates and capital flows. The region with the highest expansion of both exports and imports in 2007 was the **Commonwealth of Independent States (CIS),** which benefited from strong domestic demand, favourable relative price developments over the last three years and increases in FDI inflows. Imports into the region rose by one third in 2007, twice as fast as world trade, while exports rose by close to 20%. Consequently in 2007 the share of the CIS in world merchandise exports and imports rose to its highest level since 1990 (Appendix Table 1).

The very high levels of primary commodity prices, in particular those of oil and metals, underpinned the strong expansion of **South and Central America's** merchandise trade values. The region continued to record a merchandise trade surplus, although imports rose by nearly one quarter while exports registered an increase of around 15%. Brazil, which alone accounts for one third of the region's exports, reported import growth of nearly one third as compared to about half that level in respect of export growth. Argentina, Colombia and Peru also recorded a strong trade performance in dollar terms, with imports and exports growing faster than the regional average.

Europe was the only region reporting a stronger increase in the dollar value of its exports in 2007 than in 2006 (16% and 13% respectively). Import growth was only slightly less than export growth, and also somewhat faster than in the preceding year. This acceleration in nominal trade growth is entirely due to the strong appreciation of the European currencies vis-à-vis the US dollar in 2007.[13] There were major differences among European traders. Some countries reported stagnation in their trade (e.g. the United Kingdom) while most of the new EU members recorded dollar value growth rates in excess of 20%. These dynamic traders benefited not only from FDI inflows but also from their proximity to the booming CIS region.[14]

Due to the sharp deceleration in US import growth **North American** imports rose by only 6%, the smallest increase of all regions in 2007. China replaced Canada for the first time as the United States' leading supplier, although US imports from its partners in the North American Free Trade Agreement (NAFTA, ie, Canada and Mexico) and Asia increased both roughly in line with total imports. United States imports from China rose by 12%, more than twice as fast as total imports, despite very weak US import demand in electronic goods (–4%) and clothing (3%), two prominent sectors of US imports from China.

In contrast to the strong import growth from China, US imports from Japan and other Asian economies declined or stagnated. United States merchandise exports to the world rose twice as much as its imports, despite sluggish exports to NAFTA partners and Japan. The expansion of US exports to Europe (16%) and China (18%) exceeded the growth in bilateral imports (6% and 12% respectively). United States exports were even more dynamic to the mineral exporting regions, rising by one fifth to Central and South America and the Middle East, and by one quarter to Africa.

[13] In euro terms Europe's merchandise exports slowed from 13% growth in 2006 to 6% in 2007. The figures for imports were 15% in 2006, down to 5.5% in 2007.

[14] The overall increase in Europe's trade in 2007 might be understated due to difficulties in accurately recording trade flows within the EU.

For the first time since 2002 **Africa's** merchandise exports rose less than its imports. The figures for 2007 were 15% for exports and 22% for imports. Exports to China alone increased by one quarter, and imports by 40%. South Africa, the region's largest merchandise trader, reported a deceleration of its import growth and an acceleration of its export growth, in marked contrast to the other African countries. Somewhat unexpected is the preliminary finding that imports of the non-oil exporting African countries increased as rapidly as those of the oil-exporting countries.

The **Middle East**'s merchandise exports are estimated to have grown by 10% in 2007, roughly in line with the increase in crude oil prices. Yet oil prices do not explain all export developments in this region, and the leading exporters in the region, Saudi Arabia and the United Arab Emirates, recorded below average growth while Israel and Jordan (both non-oil exporters) expanded their shipments more than the average growth rate for the region. Merchandise imports are estimated to have increased by 23%. Imports of Saudi Arabia and Qatar increased by about one third, while those of Iran and Yemen rose at rates well below the average.

Asia's merchandise exports continued to expand slightly more than world exports and also slightly more than the region's imports, further widening the region's merchandise trade surplus despite a stronger increase in import prices than in export prices. In 2007, the trade performance of Asian economies again showed major differences. While China, India and Viet Nam recorded export and import growth rates above 20%, Japan and the four Asian newly industrialized economies (NIEs — Hong Kong China, Rep. of Korea, Singapore and Chinese Taipei) expanded their trade by about 10% (Appendix Table 1). China further advanced its pre-eminence among Asian traders in 2007. For the first time its trade (exports plus imports) exceeded the combined trade of Japan and the Republic of Korea, the second and third largest merchandise traders in Asia.[15]

From the regional review above it is apparent that the developing countries fared well in the expansion of trade in 2007. Their combined merchandise exports rose by 16%, to $5.0 trillion, and imports rose by 18%, resulting in an aggregate surplus in excess of $450 billion. The share of developing countries in world merchandise trade reached 34%, an all-time record level.

For the least-developed countries, thanks largely to higher commodity prices, the expansion of merchandise exports was even stronger than for the developing countries over the last seven years. Least-developed country exports are estimated to have increased by about 16%, to $120 billion in 2007. At 0.9%, their share in world merchandise exports remained at its highest level since 1980 (the first year for which records were kept).

Developing countries' merchandise imports rose by 17%, somewhat faster than world trade. But these countries show differences in commodity composition, individual country performance, and relative country size. Therefore, grouping them as developing countries or least-developed countries is becoming less meaningful for trade analysis (Appendix Table 1).

World merchandise trade by leading exporters and importers in 2007 is reviewed in Appendix Tables 3 and 4. Despite a marked variation in trade performance, the changes in the ranking of the top 30 exporters has largely been limited to a rise or fall of one position. Only India, and the Czech Republic gained two positions in the rankings. Among the top ten exporters two North American traders lost one position, with China moving ahead of the United States to number two and Belgium replacing Canada as number nine. The decrease in recorded UK exports of 3% helped Italy to move up and become the seventh largest exporter.

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[15] China's customs trade data include shipments which temporarily leave China and are re-imported afterwards. Recorded as China's "imports from China" they amounted to $86 billion or 9% of total imports (corresponding to 7% of exports).

On the import side Japan again imported more than the United Kingdom, although both recorded rather weak import growth. Major downward shifts in the import ranking are observed for Switzerland (down four positions), which was overtaken by Turkey and Poland (up 3 and 4 positions respectively). Among the 10 Asian traders in the top 30 importers five recorded a lower ranking than in 2006, three maintained their position and two (Australia and Japan) recorded a higher ranking.

Since 2001, when China joined the WTO, its exports and imports have expanded on average by 25% annually, more than twice as much as world trade. Since 2004 China's merchandise trade (exports and imports) overtook that of Japan and in 2007 its merchandise exports outstripped those of the United States. Despite this strong trade expansion, China remained the second largest merchandise exporter in 2007 after the EU (or Germany).

Commercial services trade

World commercial services exports rose by 18% to $3.3 trillion in 2007.[16] The acceleration in services exports could be observed in all major regions and in all three services categories.[17]

Much of this acceleration is due to exchange rate movements and in some cases also to higher costs of transportation fuels. It can be assumed that exchange rate changes played a stronger role in the dollar value change of services trade than in merchandise trade, as Europe (with its appreciating currencies) accounts for a larger share of services than merchandise exports.

Among the three broad commercial services categories, transportation, travel and "other commercial services", the last of these has been the fastest growing category over the last seven years and accounts for slightly more than one half of total services exports. In 2007, other commercial services expanded by 19%, again more than transportation and travel. Higher fuels cost contributed to the relatively sharp rise in the dollar value of transportation services (Table 3).

Table 3: **World exports of commercial services trade by major category, 2000-07**
$bn and percentage change

	Value	**Annual % change**			
	2007	2000-07	2005	2006	2007
Commercial services	**3 260**	**12**	**12**	**12**	**18**
Transport	742	11	13	9	18
Travel	862	9	7	9	14
Other commercial services	1 653	14	14	15	19

Source: WTO Secretariat.

Commercial services trade by region is presented in Appendix Table 2. **Europe's** commercial services exports and imports were up by 19% and 17% respectively, consolidating Europe's leading position in world services trade by region.[18] Europe's other commercial services and transportation services expanded markedly more than travel services for both exports and

[16] Commercial services data are derived from balance of payments statistics which do not include sales of majority-owned foreign affiliates abroad (commercial presence). Balance of payments data are reported with a greater delay than customs merchandise trade data which implies that the preliminary information on commercial services given in this report is less certain than for merchandise trade.

[17] According to preliminary estimates the Middle East is the only region in which services trade expanded less rapidly in 2007 than a year earlier.

[18] Measured in euro terms Europe's commercial services exports and imports rose by 8% and 7% respectively in 2007.

imports. For the latter category the preliminary data indicate that Europe's travel receipts lagged somewhat behind the expansion rate of global travel receipts.

The United Kingdom and Germany, the two largest services traders in Europe, experienced an increase in their services exports in line with European exports. The increase in France, Italy and the Netherlands was weaker than the European average, but much stronger than the average in Spain, Ireland, Sweden, Switzerland and Poland. On the import side Spain, Denmark and Sweden recorded services import growth in excess of 20% (Appendix Table 5).

The **Commonwealth of Independent States (CIS)** registered the highest export and import growth in commercial services trade of all regions in 2007, but still has the smallest share in world services trade.

Asia's commercial services trade rose only slightly faster than the world total in 2007. Exports of all three services categories expanded at roughly the same rate, while on the import side travel expenditure is estimated to have been much weaker than the other two services categories.

The development of commercial services trade differed widely among the Asian economies. Somewhat weak export and import growth in dollar terms was reported for Japan and Chinese Taipei, while growth remained moderate for Hong Kong China, and Singapore. Services exports and imports rose by more than 20% in China, Malaysia and Australia.[19] India is estimated to have one of the strongest import expansion rates for commercial services in Asia, while its services exports rose less than the global average for the first time since 1996.

North America's commercial services trade recorded the weakest export and import expansion of all regions in dollar value terms I n2007. Although exports rose more than in the preceding year, for the seventh year in a row, annual growth lagged behind that of global trade expansion.

US services imports grew by 9%, one of the smallest increases among the 30 leading traders reported in Appendix Table 5. US services exports rose by 14%, contributing to a rise in the US trade surplus in commercial services of $120 billion. Canada's services exports was among those most affected by the slowdown in the US economy, rising by a mere 6% in 2007. The appreciation of the Canadian dollar stimulated Canadian travel expenditure in the United States and contributed to a rise in services imports of 11%.

In **South and Central America** commercial services imports expanded more than exports in 2007. According to preliminary data this development was largely due to the travel account, as it is estimated that travel expenditure in the region rose by about one quarter, or twice as fast as receipts. Brazil, the leading services trader of the region, was also one of the most dynamic, as exports and imports rose by about one quarter in 2007.

The trade performance of the **leading commercial services exporters and importers** differed widely in 2007. The shifts in ranking among the leading traders reported in Appendix Table 5 should be interpreted with great caution. For many countries changes in methodology are reported and only in a few cases can the new method be applied to previous years without a break in the time series. In addition, for a large number of major traders the data are still preliminary and subject to future revisions.

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[19] In the first half of 2007 China's commercial services exports reportedly increased by 39% while imports rose by one quarter.

On the basis of the preliminary data, the four leading traders, namely the United States, the United Kingdom, Germany and Japan, maintained their rank for both exports and imports. Although China's full-year data are not yet available it seems to have moved ahead of Italy and become the seventh largest exporter of commercial services. Among the major shifts in the export ranking, Canada and Austria lost four and eight positions respectively, while the Republic of Korea gained five positions. Austria's lower ranking is largely due to a revision in methodology which also caused a similar drop on the import side. As discussed above, Canada recorded one of the weakest export growth rates among the leading traders due to sluggish exports to the United States, its major market. The gains in Korea's services exports are based on the strong performance reported for transportation services.

On the import side, a gain of at least two positions could be observed for Spain, Russia and Australia, which all reported import growth of over 20% in 2007. Based on preliminary data, France has probably lost its number five position in the importer ranking to China.

Appendix Table 1

Merchandise trade, world, by region and selected country, 2007

$bn and %

	Exports					Imports				
	Value	Annual % change				Value	Annual % change			
	2007	**2000-07**	**2005**	**2006**	**2007**	**2007**	**2000-07**	**2005**	**2006**	**2007**
World	**13 570**	**12**	**14**	**16**	**15**	**13 940**	**11**	**14**	**15**	**14**
North America	**1 854**	**6**	**12**	**13**	**11**	**2 704**	**7**	**14**	**11**	**6**
United States	1 163	6	10	15	12	2 017	7	14	11	5
Canada	418	6	14	8	8	390	7	15	11	9
Mexico	272	7	13	17	9	297	7	12	16	11
South and Central America [a]	**496**	**14**	**25**	**21**	**15**	**455**	**12**	**23**	**22**	**26**
Brazil	161	17	23	16	17	127	12	17	23	32
Other South and Central America [a]	335	13	26	24	14	328	12	25	21	23
Europe	**5 769**	**12**	**9**	**13**	**16**	**6 055**	**12**	**10**	**15**	**16**
European Union (27)	5 314	12	8	13	16	5 569	12	10	14	15
Germany	1 327	13	7	14	20	1 059	11	9	17	17
France	552	8	3	7	11	613	9	7	7	13
United Kingdom [b]	436	6	11	17	-3	617	9	9	17	3
Netherlands	551	13	14	14	19	491	12	14	15	18
Commonwealth of Independent States (CIS)	**508**	**20**	**28**	**25**	**19**	**377**	**24**	**25**	**31**	**34**
Russia	355	19	33	25	17	223	26	29	31	35
Africa	**422**	**16**	**30**	**19**	**15**	**355**	**15**	**21**	**14**	**22**
South Africa	70	13	12	13	20	91	17	17	24	18
Africa less South Africa	352	17	34	20	14	264	15	23	11	24
Oil exporters [c]	247	19	44	21	14	97	18	28	9	25
Non oil exporters	105	13	15	17	16	167	13	21	11	24
Middle East	**721**	**15**	**35**	**21**	**10**	**462**	**16**	**21**	**13**	**23**
Asia	**3 798**	**13**	**16**	**18**	**16**	**3 528**	**13**	**17**	**16**	**14**
China	1 218	25	28	27	26	956	23	18	20	21
Japan	713	6	5	9	10	621	7	13	13	7
India	145	19	30	21	20	217	23	43	23	24
Newly industrialized economies (4) [d]	936	10	12	15	11	935	9	13	16	12
Memorandum items:										
Developing economies	4 967	15	22	20	16	4 517	14	18	17	18
MERCOSUR [e]	224	15	21	16	18	184	11	20	23	31
ASEAN [f]	863	10	15	18	12	773	11	17	14	12
EU (27) extra-trade	1 695	12	11	11	16	1 949	11	15	16	15
Least Developed Countries (LDCs)	120	19	36	24	16	118	15	21	15	17

a. Includes the Caribbean. For composition of groups see the Technical Notes of WTO, International Trade Statistics, 2007.
b. The 2007 annual change is affected by a reduction in trade associated with fraudulent VAT declaration. For further information, refer to the special notes of the monthly UK Trade First Release (www.statistics.gov.uk/StatBase/Product.asp?vlnk=1119)
c. Algeria, Angola, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, Sudan.
d. Hong Kong, China; Republic of Korea; Singapore and Chinese Taipei.
e. Common Market of the Southern Cone: Argentina, Brazil, Paraguay, Uruguay
f. Association of Southeast Asian Nations: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam

Source: WTO Secretariat.

Appendix Table 2
Commercial services, world exports by region and selected country, 2007
$bn and %

	Exports					Imports				
	Value	Annual % change				Value	Annual % change			
	2007	**2000–07**	**2005**	**2006**	**2007**	**2007**	**2000–07**	**2005**	**2006**	**2007**
World	**3 260**	**12**	**12**	**12**	**18**	**3 060**	**11**	**11**	**11**	**16**
North America	**533**	**7**	**11**	**9**	**13**	**440**	**7**	**9**	**9**	**9**
United States	454	7	11	10	14	336	7	9	9	9
Canada	61	7	11	7	6	80	9	11	11	11
Mexico	17	4	15	2	6	24	5	9	7	9
South and Central America [a]	**91**	**10**	**20**	**13**	**16**	**97**	**8**	**22**	**15**	**18**
Brazil	23	14	28	21	25	34	12	39	21	24
Europe	**1 662**	**13**	**10**	**10**	**19**	**1 434**	**12**	**9**	**9**	**17**
European Union (27)	1 512	13	9	10	19	1 337	12	9	9	17
United Kingdom	263	12	6	10	17	193	10	10	7	13
Germany	197	14	10	12	18	245	9	6	6	15
France	130	7	5	0	11	120	11	8	2	12
Italy	109	10	6	10	12	117	11	8	11	19
Spain	127	14	10	12	21	97	17	13	17	24
Commonwealth of Independent States (CIS)	**64**	**20**	**20**	**23**	**25**	**90**	**21**	**18**	**17**	**29**
Russia	38	22	21	24	25	57	20	18	15	30
Africa	**84**	**15**	**13**	**19**	**21**	**97**	**15**	**21**	**14**	**19**
Egypt	18	10	3	10	16	12	7	27	8	15
South Africa	13	15	15	7	8	16	16	18	18	14
Middle East	**79**	**13**	**17**	**16**	**15**	**125**	**14**	**20**	**19**	**17**
Israel	21	5	9	10	10	18	6	7	9	24
Asia	**745**	**13**	**15**	**17**	**19**	**778**	**11**	**12**	**14**	**17**
Japan	136	9	14	14	11	157	5	2	9	9
China	127	...	19	24	...	129	...	16	21	...
India	86	...	...	35	15	78	...	...	33	24
Newly industrialized economies (4) [b]	243	11	11	13	15	230	11	11	13	15

a. Includes the Caribbean. For composition of groups see Chapter IV Metadata of WTO International Trade Statistics, 2007.
b. Hong Kong, China; Republic of Korea; Singapore and Chinese Taipei.

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 Secretariat.

Appendix Table 3
Merchandise trade: leading exporters and importers, 2007
$bn and %

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	Germany	1 327	9.5	20	1	United States	2 017	14.2	5
2	China	1 218	8.8	26	2	Germany	1 059	7.5	17
3	United States	1 163	8.4	12	3	China	956	6.7	21
4	Japan	713	5.1	10	4	Japan	621	4.4	7
5	France	552	4.0	11	5	United Kingdom [a]	617	4.3	3
6	Netherlands	551	4.0	19	6	France	613	4.3	13
7	Italy	492	3.5	18	7	Italy	505	3.6	14
8	United Kingdom [a]	436	3.1	-3	8	Netherlands	491	3.5	18
9	Belgium	432	3.1	18	9	Belgium	416	2.9	18
10	Canada	418	3.0	8	10	Canada	390	2.7	9
11	Korea, Rep	372	2.7	14	11	Spain	374	2.6	14
12	Russia	355	2.6	17	12	Hong Kong, China	371	2.6	10
						—retained imports [b]	96	0.7	...
13	Hong Kong, China	350	2.5	8	13	Korea, Republic of	357	2.5	15
	—domestic exports [b]	19	0.1	...					
	—re-exports [b]	331	2.4	...					
14	Singapore	299	2.2	10	14	Mexico	297	2.1	11
	—domestic exports	156	1.1	9					
	—re-exports	143	1.0	11					
15	Mexico	272	2.0	9	15	Singapore	263	1.9	10
						—retained imports [c]	120	1.1	9
16	Taipei, Chinese	246	1.8	10	16	Russia [d]	223	1.6	35
17	Spain	242	1.7	13	17	Taipei, Chinese	220	1.5	8
18	Saudi Arabia [b]	229	1.6	8	18	India	217	1.5	24
19	Malaysia	176	1.3	10	19	Turkey	170	1.2	22
20	Switzerland	172	1.2	16	20	Australia	165	1.2	19
21	Sweden	168	1.2	14	21	Austria	162	1.1	18
22	Austria	162	1.2	19	22	Poland	161	1.1	27
23	Brazil	161	1.2	17	23	Switzerland	161	1.1	14
24	United Arab Emirates [b]	154	1.1	8	24	Sweden	150	1.1	18
25	Thailand	152	1.1	17	25	Malaysia	147	1.0	12
26	India	145	1.0	20	26	Thailand	141	1.0	8
27	Australia	141	1.0	14	27	Brazil	127	0.9	32
28	Norway	139	1.0	14	28	United Arab Emirates [b]	121	0.9	24
29	Poland	138	1.0	24	29	Czech Republic	118	0.8	27
30	Czech Republic	122	0.9	29	30	Denmark	99	0.7	16
	Total of above [e]	**11 497**	**82.7**	**-**		**Total of above [e]**	**11 726**	**82.5**	**-**
	World [e]	**13 900**	**100.0**	**15**		**World [e]**	**14 200**	**100.0**	**14**

a. The 2007 annual change is affected by a reduction in trade associated with fraudulent VAT declaration. For further information, refer to the special notes of the monthly UK Trade First Release (www.statistics.gov.uk/StatBase/Product.asp?vlnk=1119).
b. Secretariat estimates.
c. Singapore's retained imports are defined as imports less re-exports.
d. Imports are valued f.o.b.
e. Includes significant re-exports or imports for re-export.

Source: WTO Secretariat.

Appendix Table 4
Merchandise trade: leading exporters and importers, 2007
Excluding intra-EU (27) trade — $bn and %

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	Extra-EU (27) exports	1 695	16.5	16	1	United States	2 017	19.0	5
2	China	1 218	11.8	26	2	Extra-EU (27) imports	1 949	18.4	15
3	United States	1 163	11.3	12	3	China	956	9.0	21
4	Japan	713	6.9	10	4	Japan	621	5.9	7
5	Canada	418	4.1	8	5	Canada	390	3.7	9
6	Korea, Republic of	372	3.6	14	6	Hong Kong, China	371	3.5	10
						— retained imports [a]	96	0.9	...
7	Russia	355	3.5	17	7	Korea, Republic of	357	3.4	15
8	Hong Kong, China	350	3.4	8	8	Mexico	297	2.8	11
	— domestic exports [a]	19	0.2	...					
	— re-exports [a]	331	3.2	...					
9	Singapore	299	2.9	10	9	Singapore	263	2.5	10
	domestic exports	156	1.5	9		— retained imports [b]	120	1.1	9
	re-exports	143	1.4	11					
10	Mexico	272	2.6	9	10	Russian Federation [c]	223	2.1	35
11	Taipei, Chinese	246	2.4	10	11	Taipei, Chinese	220	2.1	8
12	Saudi Arabia [a]	229	2.2	8	12	India	217	2.0	24
13	Malaysia	176	1.7	10	13	Turkey	170	1.6	22
14	Switzerland	172	1.7	16	14	Australia	165	1.6	19
15	Brazil	161	1.6	17	15	Switzerland	161	1.5	14
16	United Arab Emirates [a]	154	1.5	8	16	Malaysia	147	1.4	12
17	Thailand	152	1.5	17	17	Thailand	141	1.3	8
18	India	145	1.4	20	18	Brazil	127	1.2	32
19	Australia	141	1.4	14	19	United Arab Emirates [a]	121	1.1	24
20	Norway	139	1.4	14	20	Saudi Arabia [a]	94	0.9	35
21	Indonesia	118	1.1	14	21	Indonesia	92	0.9	14
22	Turkey	107	1.0	25	22	South Africa [a]	91	0.9	18
23	Iran, Islamic Rep. of [a]	83	0.8	8	23	Norway	80	0.8	25
24	South Africa	70	0.7	20	24	Viet Nam	61	0.6	36
25	Bolivarian Rep. of Venezuela	69	0.7	6	25	Ukraine [a]	60	0.6	34
26	Chile	68	0.7	18	26	Israel [a]	59	0.6	17
27	Nigeria [a]	67	0.6	13	27	Philippines [a]	57	0.5	6
28	Kuwait [a]	63	0.6	14	28	Bolivarian Rep. of Venezuela	49	0.5	45
29	Algeria	60	0.6	9	29	Chile	46	0.4	20
30	Argentina	56	0.5	20	30	Iran, Islamic Rep. of [a]	45	0.4	10
	Total of above [d]	**9 331**	**90.8**	**-**		**Total of above [d]**	**9 646**	**91.1**	**-**
	World [d] (excl. intra-EU (27))	**10 278**	**100.0**	**15**		**World [d]** (excl. intra-EU (27))	**10 591**	**100.0**	**14**

a. Secretariat estimates.
b. Singapore's retained imports are defined as imports less re-exports.
c. Imports are valued f.o.b.
d. Includes significant re-exports or imports for re-export.

Source*:* WTO Secretariat.

Appendix Table 5

Commercial services: leading exporters and importers, 2007.

$bn and %

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	United States	454	13.9	14	1	United States	336	11.0	9
2	United Kingdom	263	8.1	17	2	Germany	245	8.0	15
3	Germany	197	6.1	18	3	United Kingdom	193	6.3	13
4	Japan	136	4.2	11	4	Japan	157	5.1	9
5	France	130	4.0	11	5	China	129	4.2	...
6	Spain	127	3.9	21	6	France	120	3.9	12
7	China	127	3.9	...	7	Italy	117	3.8	19
8	Italy	109	3.3	12	8	Spain	97	3.2	24
9	Netherlands	91	2.8	13	9	Ireland	93	3.0	18
10	Ireland	87	2.7	27	10	Netherlands	89	2.9	13
11	India	86	2.7	15	11	Korea, Republic of	85	2.8	21
12	Hong Kong, China	82	2.5	13	12	Canada	80	2.6	11
13	Belgium	73	2.2	—	13	India	78	2.6	24
14	Singapore	66	2.0	13	14	Singapore	70	2.3	14
15	Korea, Republic of	64	2.0	28	15	Belgium	66	2.2	—
16	Sweden	63	1.9	26	16	Russia	57	1.9	30
17	Denmark	62	1.9	17	17	Denmark	56	1.8	21
18	Canada	61	1.9	6	18	Sweden	48	1.6	21
19	Switzerland	61	1.9	20	19	Hong Kong, China	40	1.3	9
20	Luxembourg	60	1.8	18	20	Australia	38	1.2	21
21	Austria	54	1.7	18	21	Thailand	38	1.2	18
22	Greece	43	1.3	21	22	Austria	37	1.2	12
23	Australia	40	1.2	22	23	Norway	37	1.2	19
24	Norway	39	1.2	18	24	Luxembourg	36	1.2	18
25	Russia	38	1.2	25	25	Taipei, Chinese	35	1.2	8
26	Taipei, Chinese	30	0.9	5	26	Brazil	34	1.1	24
27	Thailand	28	0.9	17	27	Switzerland	33	1.1	14
28	Poland	28	0.9	36	28	Indonesia [a]	32	1.0	...
29	Malaysia	28	0.9	29	29	United Arab Emirates [a]	28	0.9	...
30	Turkey	27	0.8	12	30	Malaysia	27	0.9	15
	Total of above	**2 755**	**84.6**	**–**		**Total of above**	**2 530**	**82.7**	**–**
	World	**3 260**	**100.0**	**18**		**World**	**3 060**	**100.0**	**16**

a Secretariat estimates.

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 Secretariat.

END