I RECENT AND SELECTED MEDIUM-TERM TRADE DEVELOPMENTS

A RECENT TRENDS IN INTERNATIONAL TRADE

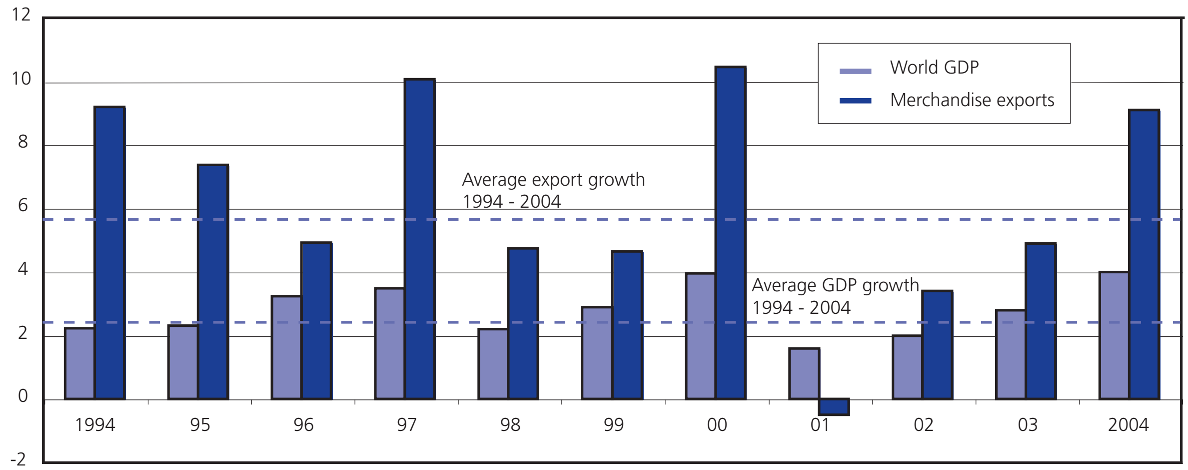
1. INTRODUCTION: TRADE AND OUTPUT EXPANDED ABOVE THE LONG-TERM GROWTH TREND IN 2004

The world economy grew at 4 per cent in 2004, the strongest annual growth rate in more than a decade. Global GDP last year was also more broadly based regionally than in the three preceding years, providing a solid basis for an acceleration in world trade growth. World merchandise trade rose by 9 per cent in real terms in 2004, the best annual performance since 2000, and more than twice as fast as world output (GDP measured at market rates) in 2004. Trade growth in 2004 also significantly exceeded average trade growth recorded over the last decade (see Chart 1 and Table 1).

At 7 per cent and 8 per cent respectively, developing Asia and the Commonwealth of Independent States (CIS) countries continued to report the strongest regional GDP growth worldwide. South America recorded GDP growth of 6 per cent, which represented not only the strongest improvement against the preceding year among regions, but also the highest growth rate since 1986. Africa and the Middle East registered GDP growth of approximately 4 per cent in 2004. This was faster than in the 1990s, and about the same rate as the global economy. North America's growth strengthened to 4.3 per cent, exceeding its expansion rate in the last two decades, which averaged slightly above 3 per cent. Economic activity picked up in Europe and Japan, but growth remained at 2.3 per cent and 2.6 per cent respectively in 2004, which was much weaker than the performance of all other regions. The weakness of European growth was concentrated in the euro-area, which recorded GDP growth of only 2 per cent.[1]

Per capita income increases do not necessarily reduce unemployment rates nor poverty. However, the strength of the economic expansion improved the employment situation in North and South America, in the CIS, and in Asia in 2004. Among the major developed countries, unemployment levels decreased in Australia, Canada, the United Kingdom and the Unites States as well as in Japan, but stagnated at high levels in the euro area.[2] According to ECLAC, urban unemployment decreased overall in Latin America, as the high unemployment rates prevailing in Argentina, Brazil, Colombia and Venezuela were significantly reduced in 2004.[3]

Chart 1
Growth in the volume of world merchandise trade and GDP, 1994-2004
(Annual percentage change)



Source: WTO.

[1] A new regional breakdown has been introduced and is applied for the analysis of international trade flows in Section IA of this Report. The change in the country composition of regions was triggered by the enlargement of the EU in May 2004 which made the former grouping of "Western Europe" and "transition economies" redundant. Another major change has been made for the Americas, by including Mexico in North America, and the creation of a new region – South and Central America (including the Caribbean). For details see Technical Notes.

[2] OECD, OECD Economic Outlook, Volume 2004/2, Nº 76, December 2004.

[3] Economic Commission for Latin America, Preliminary Overview of the Economies of Latin America and the Caribbean, 2004.

Table 1
World trade and output developments, 1990-2004
(At constant prices, annual percentage change)

	1990-2000	2000-2004	2001	2002	2003	2004
Merchandise exports	6.4	4.2	-0.5	3.5	5.0	9.0
Merchandise production	2.5	...	-0.7	0.8	2.8	...
GDP at market exchange rates	2.5	2.5	1.4	1.8	2.6	4.0
GDP at PPP	3.4	3.6	2.4	3.0	3.9	5.0

Source: WTO; IMF, World Economic Outlook.

Monetary and fiscal policies continued to accommodate the recovery in most regions. Real interest rates remained very low and public deficits remained relatively large in the major economies. However, fiscal deficits did not widen further in 2004. Stock markets recovered markedly in the course of the year.[4]

The moderate increase in global foreign direct investment (FDI) inflows in 2004, after a steep fall over three years, also suggests improved business confidence in the state of the world economy.[5] The United States, a number of Asian developing countries, and also some Latin American countries were the principal beneficiary of the increase in global FDI flows. Despite the recent recovery in FDI flows, the 2004 level of some $600 billion was less than half the peak level recorded in 2000 and still below the level reached in 1998. One of the new developments in global FDI flows was the emergence of China as an investor in natural resources in a number of developing countries.[6] Total capital flows to emerging developing markets outside Europe increased in 2004, according to estimates made by the Institute of International Finance.[7] The increased net FDI inflows and private lending, together with a decrease in net official outflows, contributed to the marked rise in foreign exchange reserves in these economies.

Domestic inflation picked up moderately in the course of 2004, under the impact of strengthened economic activity and the increase in world fuel prices. The repercussions of higher oil prices on the domestic price level was attenuated in many countries by a currency appreciation *vis-à-vis* the US dollar, and in some cases by government measures, including price controls for petroleum products sold in local markets. Dollar prices of internationally trade goods increased by 11 per cent in 2004. The overall increase in commodity prices by about 25 per cent conceals wide differences among various product groups. Prices of fuels and metals recorded a marked increase in the course of 2004, lifting their average annual prices by 31 per cent and 36 per cent respectively. Rising global demand, combined with a decline in readily available reserves and the absence of excess production capacity provided the basis for stronger oil prices.[8] Unexpectedly strong demand from China in the course of the year, geopolitical tensions, and temporary selective transportation bottlenecks provoked large variations in monthly price developments.[9] Nominal oil prices reached $55 per barrel in November, a record monthly level. The annual average crude oil price rose to $36 per barrel in 2004, and matched the previous historic peak level of 1980. Deflated by the world merchandise export price index (base year 2000), the "real" oil price stood at $30 in 2004, double the level of 1995, and the highest level since 1985 (see Chart 2).[10]

Prices of agricultural raw materials and beverages, however, rose by only 3 to 6 per cent while food prices went up by 14 per cent. Prices of manufactured goods are estimated to have risen by 8.5 per cent on average in 2004. There were marked differences in the price developments of manufactured goods, not only regionally but also by product categories. Dollar prices in countries with an appreciating currency have recorded a much faster price

4 In respect of stock markets, the Morgan Stanley Capital International World Index reported an increase of 10.6 per cent, and the Citigroup World Government Board Index recorded a total return of 9.6 per cent on December 31, 2004, according to The Economist, January 15th-21st, 2005.

5 UNCTAD, Press Release 11/01/05.

6 The agreement reached between IBM and the Chinese firm Lenovo on the sale of the IBM's PC business in December 2004 indicates that China's foreign direct investment is not limited to primary commodities.

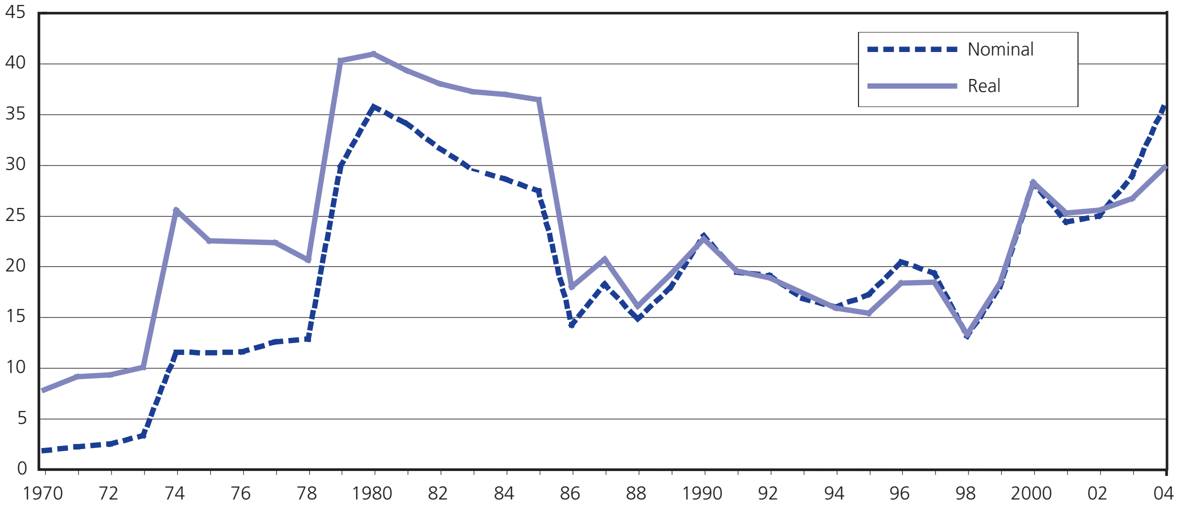
7 Institute of International Finance, Capital Flows to Emerging Markets, 19 January 2005.

8 Global oil demand rose by 3.3 per cent, to 2.66 million barrels per day in 2004, according to the International Energy Agency. See International Energy Agency (IEA), Monthly Oil Market Reports, January 2005.

9 OECD (2004) and IEA, Monthly Oil Market Reports.

10 There are different approaches to calculating the "real" oil price. Sometimes the nominal oil price is deflated by the US GDP deflator, and in other cases by the export unit value index of manufactured goods of developed countries. In reviewing global trade flows, the world export price index is considered to be the most appropriate deflator.

Chart 2
Crude petroleum price developments, 1970-2004
(US$/barrel)



Note: Real price is obtained by deflating the nominal IMF crude oil spot price by the WTO world export unit value index (2000=100).

increase in their exports of manufactured goods than those with a stable exchange rate *vis-à-vis* the US dollar. As regards relative price developments of the different product groups, it can be observed that the prices for iron and steel products surged, while those of computer and telecom equipment decreased. For iron and steel, strong global demand from the construction and investment goods industries, together with sharply higher prices of ores used as inputs, caused the steep price increase. For computer and telecom equipment, productivity gains and capacity expansion more than offset higher demand. Exports of chemicals, in particular organic chemicals and plastics, recorded price increases which exceeded those of all manufactured goods.

Prices, exchange rates and demand developments have all influenced global trade flows measured in dollar terms during the year. Higher oil and metal prices sharply increased the share of fuels, metals and iron and steel in world merchandise exports, to a new cyclical peak level. The Middle East, Africa and the CIS member countries are large net exporters of fuels and metals, and their share in world merchandise trade recovered further in 2004, largely due to these price developments. As developing Asia and South America also recorded merchandise export growth in excess of 25 per cent in 2004, the share of the developing economies in world exports reached a new peak level of 31 per cent.

The strength of developing Asia's merchandise exports can be attributed partly to recovery in the electronic goods sector.[11] Global shipments of digital cameras, mobile phones, semiconductors and personal computers expanded at double digit rates. For five Asian economies, office and telecom equipment accounted for between one-third and two-thirds of their exports in 2004, and played an important part in their export expansion.[12]

2. REAL MERCHANDISE TRADE DEVELOPMENTS IN 2004

The Asian region recorded the highest volume of real merchandise export growth in 2004, at 14.5 per cent. China, the Republic of Korea and Singapore recorded rates in excess of 20 per cent. Japan's real merchandise exports rose by 11 per cent, somewhat faster than world trade. Asia's merchandise import growth was close to 15 per cent in 2004, an acceleration in comparison to the preceding year. At a regional level, merchandise

11 Worldwide mobile phone shipments rose by 29.3 per cent, to 665 million units in 2004 according to International Data Corporation (IDC) Press Release, 27 January, 2005. Unit shipments of personal computers recovered worldwide by 11.6 per cent, to 183 million in 2004 according to Gartner, Press Release, February 2005. Global sales of semiconductors advanced by 28 per cent, to $213 billion in 2004 according to the Semiconductor Industry Association, Press Release, 31 January, 2005.

12 The five Asian economies are: Chinese Taipei, Malaysia, the Philippines, the Republic of Korea and Singapore.

import growth accelerated and matched the export expansion but at the country level large differences in export and import growth could be observed. Japan and the Republic of Korea report a markedly larger real export than import growth in 2004, while all other Asian economies combined expanded their imports in constant prices faster than their exports.

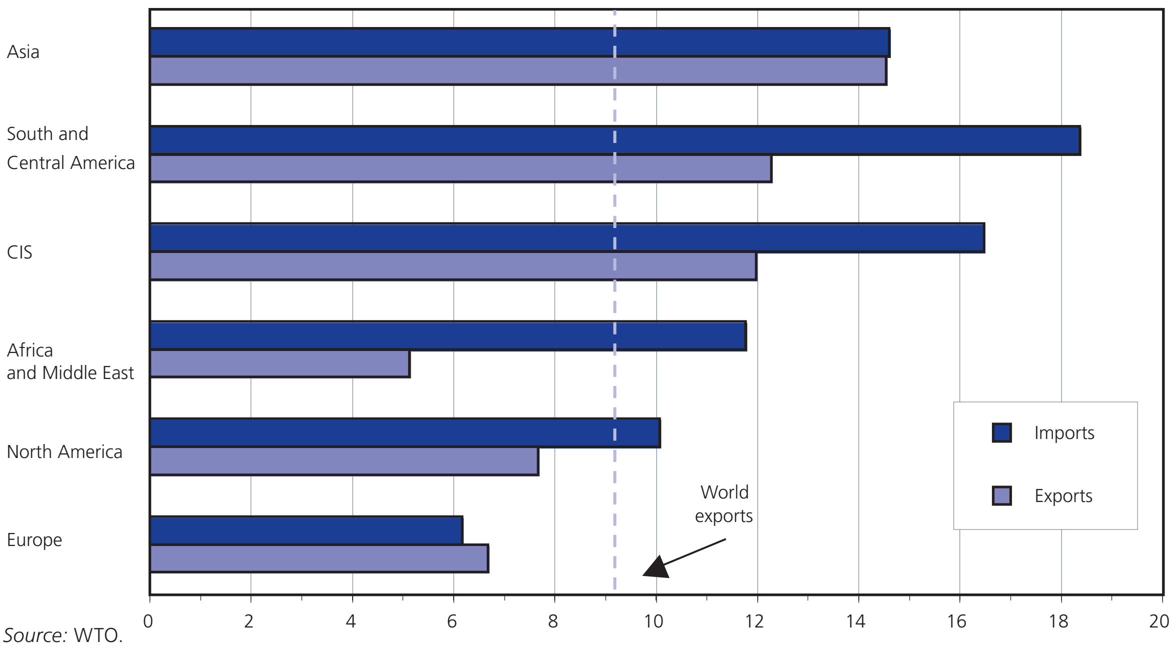
Linked to its economic recovery, South America's real merchandise trade rebounded vigorously in 2004. Real imports expanded nowhere faster than in this region. However, a number of economies in Central America and the Caribbean did not participate in this outstanding trade expansion, which was largely shaped by the region's major traders. Real merchandise imports in South America grew by 18.5 per cent, which was twice as fast as world trade in 2004. Argentinean and Venezuelan imports recovered dramatically, rising by at least 50 per cent, while those of Brazil and Chile expanded by 20 per cent. The region's export growth fell short of its import expansion, largely due to the sluggishness of exports from major traders such as Argentina and Colombia, and the incomplete recovery of shipments from Venezuela. Merchandise trade growth in the smaller economies of Central America and the Caribbean remained well below the regional average for both exports and imports.

Africa's trade expanded strongly in 2004. Exports rose by some 6 per cent and imports by approximately 11 per cent in real terms. Real export growth was about the same as in 2003 and much higher than in 2001 and 2002. On the import side, however, real growth in 2004 was considerably higher than in previous recent years. Nominal growth in African exports was, of course, dramatically higher in 2004 than in previous years because of oil price rises (see Section 4 below).

Merchandise exports and imports of the CIS continued to rise in real terms at a pace considerably faster than world trade. Benefiting from sharply higher world market prices for fuels and metals, which contributed to a sharp rise in export earnings, real imports of the CIS continued to expand, exceeding world trade growth for the fourth consecutive year. The region's real exports are estimated to have also expanded faster than global trade, although somewhat less rapidly than in the preceding year.

North America's export recovery, which started in 2003, gained momentum in 2004. Rising by 7.5 per cent, the region's exports again exceeded their previous peak level in 2000. Import growth accelerated by 10 per cent, thereby continuing to exceed the region's export growth. Mexico's import growth rebounded strongly and nearly matched the regional average while its exports recovered only moderately, remaining below their 2000 level. The development of Canada's trade contrasted with that of the United States and Mexico as Canada's exports expanded faster than imports in 2004.

Chart 3
Real merchandise trade growth by region, 2004



Source: WTO.

The pick-up in Europe's merchandise trade played an important part in the recovery of world merchandise trade, as the region accounts for about 46 per cent of global trade (exports and imports of merchandise and commercial services combined). Europe nevertheless recorded the lowest real merchandise import growth rate among all regions, a reflection of weak demand growth. Exports expanded faster than regional imports, but much less than global trade (see Chart 3).

The trade performance of individual European countries showed considerable variation, but a broad pattern can be discerned for European trade developments in 2004. Countries at the eastern border of the region reported the highest export and import growth, even exceeding the world average. The countries situated at the centre of the region recorded trade growth exceeding the regional average (exports and imports combined), while those situated at the western border of Europe experienced trade growth below the regional average. The first group of countries comprises new EU members such as the Baltic States, Poland, the Czech Republic, the Slovak Republic, Hungary and Slovenia, as well as the EU candidates, Romania and Bulgaria. The second group includes Germany, Sweden, the Benelux countries and Austria, which all reported more dynamic export than import growth in 2004. In the third group of countries, real merchandise export growth was weak (about 3 per cent in France, Ireland and Spain), stagnated (United Kingdom) or declined (Portugal). And although real merchandise import growth in this third group was stronger than for their exports, it remained below European average trade growth in 2004. Domestic demand growth was weaker in the second group than in the third, which contributed to the relative dynamic performance of exports in the central European group, and the relatively stronger performance of imports in the west European group.

But why did total trade (both exports and imports) expand more rapidly in the second than in the third group? And what could explain high trade growth in the eastern part of Europe? It seems that several factors played a role in this outcome. First, the enlargement process to the East of the European Union is fostering an integration process above all between the eastern and central part of Europe, resulting in a sharp rise in intra-industry exchanges (e.g. automobiles). Second, at the date of joining, some remaining barriers to merchandise trade between the old and new members were removed (e.g. in particular in the agricultural sector), leading to an additional boost to trade flows in 2004. Third, the trade of South-East Europe has benefited from lower trade barriers within the region in recent years, thanks to the Stability Pact for South-East Europe, with its extensive network of 28 bilateral free trade agreements. In some cases, the EU enlargement also provided improved access to the markets of the new EU members for countries in South-East Europe. Fourth, eastern and central European countries benefited from vigorous import demand in the CIS, perhaps more so than western European countries, given historical trade ties.[13]

3. NOMINAL MERCHANDISE AND COMMERCIAL SERVICES TRADE DEVELOPMENTS IN 2004

In 2004, the value of world merchandise trade rose by 21 per cent, to $8.88 trillion, and that of world commercial services trade by 16 per cent, to $2.10 trillion. For both merchandise and commercial services trade this represented an acceleration of growth for the third year in a row, and the strongest rise since 2000. A particular feature of nominal trade growth in 2004 was the fact that one major merchandise product – fuels – and one major services category – transportation – recorded an above average performance in 2004. Both these sectors had lagged well behind overall trade growth during the last two decades. In both cases, relatively strong prices contributed significantly to this outcome (see Table 2).

Table 2
World exports of merchandise and commercial services, 2001-2004
(Billion dollars and percentage)

	Value	Annual percentage change			
	2004	2001	2002	2003	2004
Merchandise	8880	-4	5	17	21
Commercial services	2100	0	7	13	16

Source: WTO.

[13] United Nations, Economic Commission for Europe, Economic Survey of Europe, 2005, Nº1, Chapter 6: Foreign Trade and Payments in the EU-10, South-East Europe and the CIS. In particular Box 62.2 Towards a free trade area in South-East Europe.

Price developments largely explain the differences in merchandise trade developments by region in 2004. Primary products and fuels are prominent in the merchandise export structure of Africa, the Commonwealth of Independent States, the Middle East and South America. The strength of global demand for fuels and metals, combined with substantial price increases, boosted the merchandise exports of these regions, with annual growth ranging from 26 per cent (Middle East) to 35 per cent (CIS). Despite this exceptionally strong increase, the combined share of these four regions in world merchandise trade amounted only to 13 per cent in 2004. All four regions are net exporters of fuels, which contributed to the fact that their merchandise exports expanded faster than their merchandise imports and that their merchandise trade surplus widened further in 2004. However, the strength in export earnings also stimulated import growth, which in each region is estimated to have grown faster than world merchandise trade. Asia, Europe and North America are all net importers of fuels and recorded an excess of import growth over export growth in dollar terms in 2004. Merchandise exports of the Asian region expanded by 24 per cent and thereby slightly less than imports, but still faster than global trade and faster than in the preceding year. Merchandise exports of Europe and North America were the least dynamic of all regions, expanding in dollar terms by 19 and 14 per cent respectively. North America's merchandise exports and imports rose faster than in the preceding year. No acceleration in the nominal trade growth could be observed for Europe's exports and imports in 2004, which expanded slightly less than the global average (see Table 3). A more detailed breakdown of merchandise trade by region is provided in Appendix Table 1.

Table 3
World merchandise trade by major region, 2004
(Billion dollars and percentage)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2004	2001	2002	2003	2004	2004	2001	2002	2003	2004
World	8880	-4	5	17	21	9215	-4	4	16	21
North America	1330	-6	-4	5	14	1727	-6	2	7	16
United States	819	-6	-5	4	13	1526	-6	2	8	17
South and Central America [a]	272	-2	0	13	28	238	-1	-13	5	27
Europe	4024	1	7	19	19	4133	-2	5	20	20
European Union (25)	3708	1	7	19	19	3784	-1	5	20	19
CIS	263	0	5	27	35	171	16	9	27	31
Africa	228	-6	3	23	31	207	4	1	22	25
Middle East	379	-8	5	21	26	243	5	4	13	23
Asia	2385	-9	8	18	25	2214	-7	6	19	27
China	593	-16	22	35	35	561	-8	21	40	36
Japan	565	7	3	13	20	455	8	-3	14	19

[a] Includes the Caribbean.
Source: Appendix Table 1.

On a country level, a large number of countries which export primarily fuels and other mining products recorded export increases between one-third and about one-half – for example, Chile (52 per cent), Kazakhstan (54 per cent), Nigeria (57 per cent) – while only a few countries recorded a decline in their merchandise exports. The latter outcome is attributable either to political instability (e.g. Côte d'Ivoire) or natural disasters (e.g. hurricane-affected Caribbean economies).

Among the 20 leading merchandise exporters, China replaced Japan as the third largest exporter. The Russian Federation moved ahead of Chinese Taipei and Singapore, and became the world's fourteenth largest exporter. China and the Russian Federation both expanded their exports by more than one-third in 2004. Exports of the Republic of Korea increased by 31 per cent, making the country the twelfth largest exporter in the world. Among the top 20 importers in 2004 the ranking of France, Belgium and Chinese Taipei improved (see Appendix Table 3).

Commercial services trade growth by region differed less than merchandise trade across regions in 2004. It is estimated that above global average growth was experienced in the CIS and Asia (for both exports and imports), while in North and South America commercial services trade was less dynamic than world trade. However, in all four regions the growth in the dollar value in 2004 exceeded that in 2003, for both exports and imports. In Europe, the world's largest services trader, however, exports and imports of commercial services expanded less rapidly in 2004 than in the preceding year. A detailed breakdown of world commercial services by region is provided in Appendix Table 2.

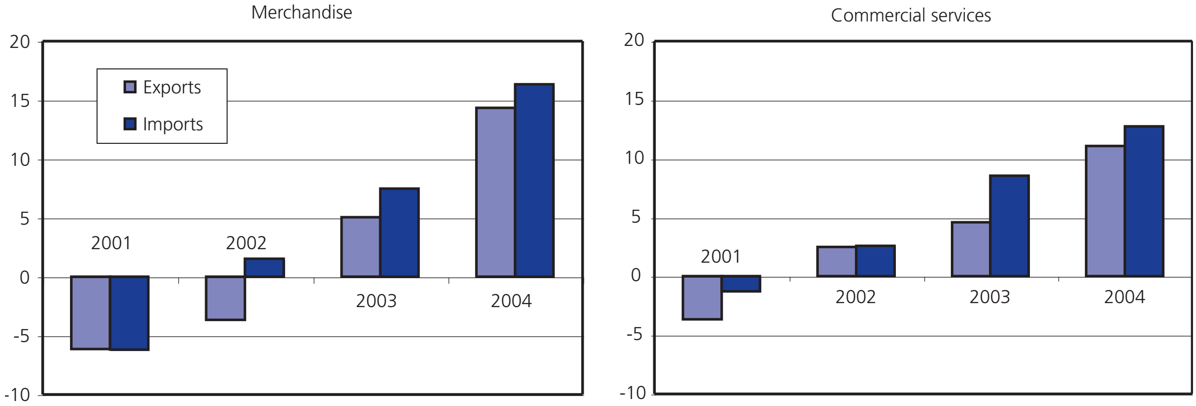
Information (albeit incomplete) on commercial services trade by country in 2004 point to faster growth in commercial services trade in the Asian economies than in North American or European economies. The services exports and imports of the United States rose somewhat less rapidly than world services trade, but the United States remained the world's largest exporter and importer of commercial services. Partly due to a revision of its services statistics, Japan is now ranked as the fifth largest exporter of commercial services, moving ahead of Italy and Spain. Although Japan's commercial services imports rose faster than world services trade in 2004, Japan continued to be the fourth largest importer. Among the major European traders, the United Kingdom recorded the strongest export growth, thereby confirming its position as Europe's leading services exporter. Although German services exports and imports rose less rapidly than world services trade, Germany kept its position as the world's second largest services importer and the third largest exporter in 2004 (see Appendix Table 5).

4. REGIONAL TRADE DEVELOPMENTS

North America's GDP grew 4.3 per cent in 2004, the highest rate since 1999. This acceleration in economic growth can be attributed largely to the strengthening of US domestic demand (4.7 per cent), which benefited from a rebound of nearly 9 per cent in fixed investment. Mexico's GDP growth of 4 per cent in 2004 contrasted favourably with its sluggish growth in the three preceding years. Despite a deceleration in domestic demand growth, Canada's GDP grew faster in 2004 than in 2003 due to the reversal in its external balance.

As economic activity picked up, the trade expansion accelerated in 2004. North America's merchandise exports rose by 14 per cent to $1.33 trillion, again less than merchandise imports, which increased by 16.3 per cent to $2.01 trillion. It is estimated that the region's commercial services trade expanded less rapidly than merchandise trade, with imports up by nearly 13 per cent and exports up by 11 per cent in 2004 (see Chart 4). Consequently, the region's overall merchandise trade deficit continued to rise and the surplus in commercial services was further eroded.

Chart 4
North America's merchandise and commercial services trade, 2001-2004
(Annual percentage change in value)



Source: Appendix Tables 1 and 2.

Trade developments of the North American region are largely driven by the US economy. The United States accounted for more than 70 per cent of the region's merchandise imports and more than 60 per cent of its exports. Trade developments in the United States also have a major impact on global trade flows as US merchandise imports are the largest in the world, and at $1.526 trillion exceeding the extra-regional imports of the enlarged European Union(25) in 2004.

The US merchandise trade deficit continued to rise to a new record level, while the commercial services trade surplus stagnated. The United States recorded a merchandise trade deficit with all seven major regions and in all these bilateral trade flows US imports rose faster than US exports in 2004. Seemingly, exchange rate adjustments had only a limited impact on trade flows in 2004, as imports from countries and regions with appreciating currencies also increased faster than US exports to these regions (e.g. Japan and Europe). Although nearly one-half of the US merchandise trade deficit is accounted for by trade with Asia, the excess of imports over exports in relative terms is even larger with Africa, the CIS and the Middle East. US imports from the latter regions are two to three times larger than the corresponding export flows.

The large and rising deficit in 2004 underlines the role of the United States in the global trade expansion, even though the share of US imports in world merchandise imports decreased slightly for the second year in a row. These value developments conceal the fact that US imports continued to rise in real terms (11 per cent) faster than world merchandise trade, as US import prices increased far less rapidly than global trade prices.

In 2004, US merchandise imports from its three major trading partners – Asia ($568bn), North America ($418bn) and Europe ($317bn) – increased less rapidly than from South America ($105bn), the Middle East ($54bn), Africa ($48bn) and the CIS ($15bn). On the export side a similar development could be observed, with shipments to the latter regions growing faster than those to the three major trading partners of the United States. Although the performance of US trade by region largely reflects the relative strength of the various markets in 2004, it should be noted that US exports continued to lose market shares, as US export growth remained well below overall import growth in Asia, Europe, North America and South America.

US trade with Asia, its largest trading partner (exports and imports combined), has undergone marked changes since the middle of the last decade. While the share of Asia in US imports decreased from 42 per cent in 1995 to 37 per cent in 2004, the share of China more than doubled from 6.2 per cent to nearly 14 per cent over the same period.

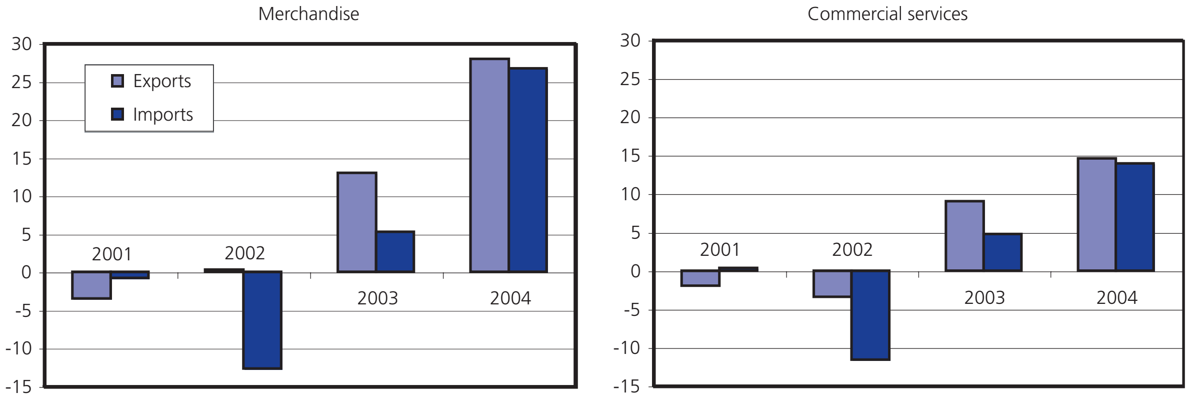
The further decline of the overall Asian share in US imports in 2004 was partly due to the one-third rise in US fuel imports, to $206 billion, which are largely sourced from the Americas, Africa and the Middle East. Imports of manufactured goods, which predominantly originate in Asia, increased by 14 per cent to $1175 billion. The rise in fuel imports was largely due to an average price increase of 28 per cent over the year. Adjusted for price changes, the real increase of US fuel imports was limited to 5.5 per cent, or about one-half of the overall volume increase. Among manufactured goods, imports of office and telecom equipment rose by 18 per cent, to $208 billion, and were only surpassed by imports of iron and steel products which went up by 102 per cent, to $22 billion. Imports of clothing ($72bn), toys, sporting goods ($22bn) and footwear ($16.5bn) increased in a range of 4 to 6 per cent. Imports of road vehicles rose by nearly 9 per cent, which was less than growth in all manufactured good imports.

US merchandise exports expanded less rapidly than imports in every sector with the exception of aircraft (incl. parts) and chemicals. Exports of all manufactures goods rose by 11.7 per cent while the corresponding imports increased by 14 per cent. Consequently, the US trade deficit in manufactured goods rose to a new record level ($562bn f.o.b-c.i.f), while the surplus in agricultural commodities trade shrank (to $7bn).

In 2004, US commercial services trade was marked by a rebound in transportation and travel services, which expanded at double digit rates on the export and import side. The strong rise in transportation services can be attributed partly to increased trade activity and partly to sharply higher prices for many transportation services. The acceleration in the expansion of commercial services trade in 2004 was attenuated by a deceleration in the growth of the "other commercial services" trade category (both exports and imports).

At almost 6 per cent, economic growth in South and Central America (including the Caribbean) was outstandingly strong in 2004, and contributed to a marked expansion of exports and imports. The region's merchandise exports rose by 28 per cent, to $272 billion, and its imports by 27 per cent, to $238 billion. Although commercial services trade accelerated too, its expansion was only half that of merchandise trade and less than the growth rate of world trade in commercial services (see Chart 5).

Chart 5
South and Central America's merchandise and commercial services trade, 2001-2004
(Annual percentage change in value)



Source: Appendix Tables 1 and 2.

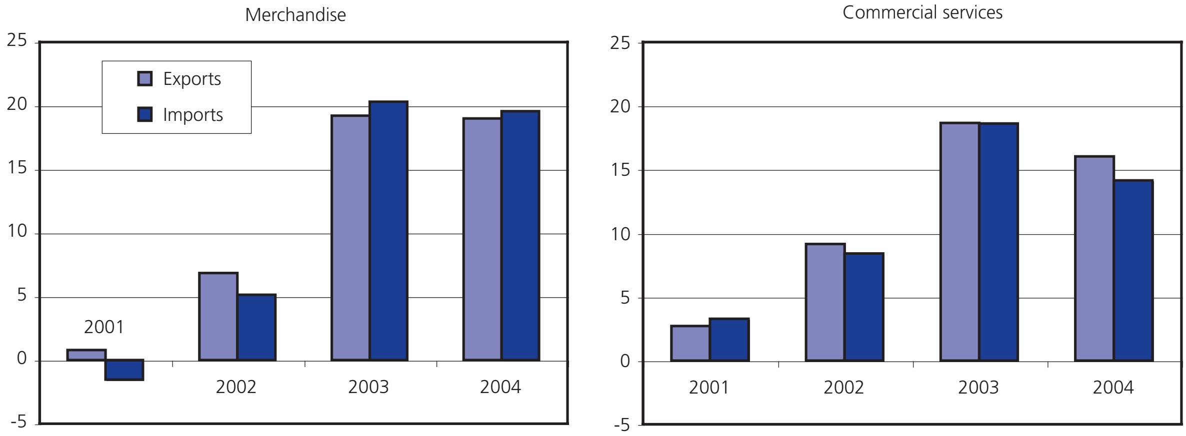
The region's merchandise exports benefited from favourable global demand trends for many of its major products (fuels, metals and agricultural products), which led to higher prices and a recovery of intra-regional trade. Among the four major exporters in the region, three of them – Brazil, Chile and Venezuela – recorded an increase in merchandise export earnings of more than 30 per cent in 2004. Argentina, the second largest merchandise exporter in the region, reported an increase of "only" 16 per cent, but its merchandise exports reached a new peak level. Despite the outstanding surge in the merchandise imports of Argentina and Venezuela (62 per cent and 87 per cent respectively) in 2004, the value of imports remained well below their previous peak levels in both countries. This highlights the severity of the import contraction in preceding years caused by a financial crisis (in Argentina) and domestic unrest (in Venezuela). Merchandise trade of both Central America and the Caribbean was far less dynamic than that of South America in 2004. Exports and imports of the seven Central American countries combined, and those of the group comprising 16 Caribbean countries, are estimated to have increased by about 9 per cent. A small number of them, affected by bad weather, even experienced a decrease in merchandise exports. Commercial services exports are in many Caribbean countries larger than merchandise exports. For the Caribbean countries combined, however, merchandise exports of about $18 billion still exceeded commercial services exports, as the latter are estimated to have grown at about the same rate as merchandise exports.

The dollar value of Europe's merchandise exports and imports increased by about 20 per cent in 2004, roughly the same rate as in 2003. Commercial services trade rose by about 15 per cent, which was less than Europe's merchandise trade and less than in the preceding year (see Chart 6).

About two-thirds of the increase in the dollar value of Europe's merchandise trade can be attributed to the impact of the appreciation of European currencies *vis-à-vis* the US dollar and some genuine price changes.[14] The newly enlarged EU, with its 25 member states, accounted for somewhat more than 90 per cent of Europe's total trade. Merchandise trade growth in the 10 new EU members was, at about 30 per cent, far more dynamic than the trade growth of the old 15 members. The share of the new members in total EU merchandise exports and imports reached 7 per cent and 8 per cent respectively in 2004. The dollar value of the new EU members' imports ($300bn,c.i.f) exceeded not only their own exports of $260 billion, but also the merchandise imports of the Middle East ($243bn), South America ($238bn) and Africa ($207bn). Exports and imports of South-East Europe, comprising seven Balkan countries and Turkey, also expanded much faster than the European average in 2004. Among the major European traders, German merchandise exports expanded by 22 per cent, much faster

14 Measured in euro terms Europe's merchandise exports rose by 8.2 per cent in 2004 following a stagnation in 2003.

Chart 6
Europe's merchandise and commercial services trade, 2001-2004
(Annual percentage change in value)



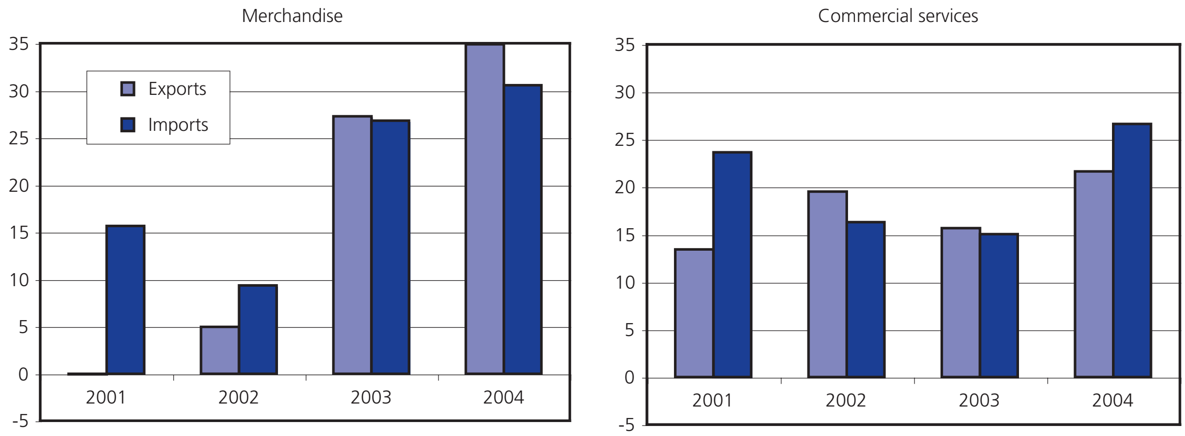
Source: Appendix Tables 1 and 2.

than those of Italy (16 per cent), France (15 per cent) and the United Kingdom (13 per cent) in 2004. Merchandise import growth was more uniform among these four major traders, with German imports only a few percentage points ahead. The relatively dynamic export and import performance of Germany in 2004 might be attributed partly to its close economic ties with the fast growing new EU members, and the global recovery in demand for investment goods, which figure prominently in the German export structure.

Europe's commercial services exports (and imports) rose by 16 per cent (14 per cent) to $1114 billion ($1019 billion) in 2004, consolidating Europe's moderate commercial services trade surplus.[15] According to preliminary information, Europe's receipts from transportation services rose faster than those from other commercial services and travel in 2004. The EU(25), other western Europe (comprising Iceland, Norway and Switzerland) and South-East Europe each recorded a surplus in their commercial services trade.

The dollar value of the merchandise and commercial services trade of the Commonwealth of Independent States again expanded much faster than global trade in 2004. Merchandise exports and imports were up by 35 and 31 per cent respectively, and commercial services trade is estimated to have risen by more than 20 per cent (see Chart 7). The CIS merchandise export surplus, which was already large in 2003, increased further in 2004. As this surplus of about $100 billion (f.o.b-f.o.b.) is substantially in excess of the region's commercial services deficit ($15 billion to $20 billion), the resulting size of the current account surplus led to a sharp rise in foreign exchange reserves, in particular in the Russian Federation.

Chart 7
CIS merchandise and commercial services trade, 2001-2004
(Annual percentage change in value)



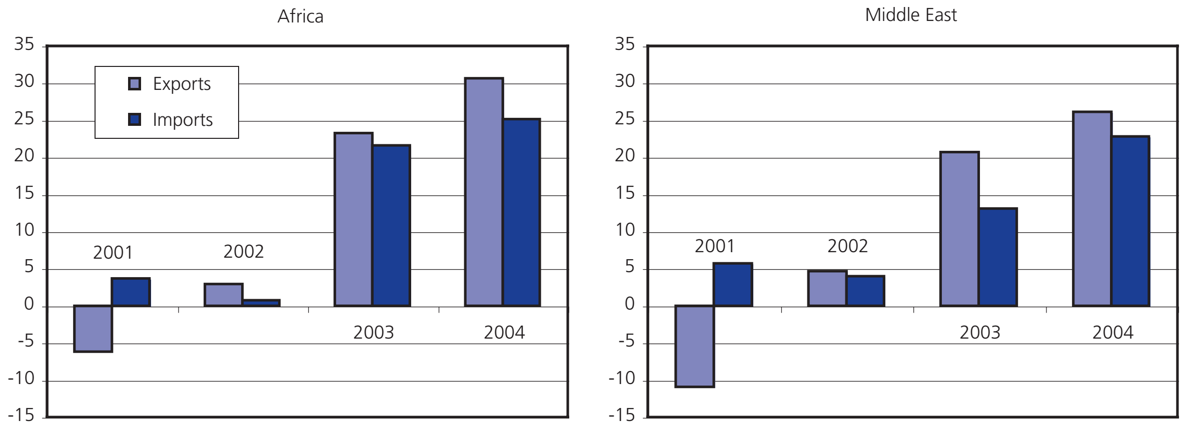
Source: Appendix Tables 1 and 2.

[15] The euro value of Europe's commercial services exports (imports) is estimated to have increased by 5.4 per cent to € 897 billion (€ 820 billion) in 2004.

The Russian Federation alone accounts for nearly 70 per cent of the CIS exports and 55 per cent of its imports. Ukraine and Kazakhstan, accounting for 12 per cent and 8 per cent of the CIS exports, expanded their export shipments by 42 and 54 per cent respectively in 2004. These outstandingly high growth rates are linked to the strong price increases for fuels and metals, which figure prominently in the export structure of these countries. Shipments from Armenia, Belarus and Turkmenistan are estimated to have increased by only between 5 and 12 per cent.

Preliminary information on the merchandise trade of Africa and the Middle East highlights the importance of oil market developments for these two regions. The sharp rise in both regions' merchandise exports in 2004 was driven by markedly higher volumes of oil exported and sharply higher average oil prices (see Chart 8). The export strength in volume terms was due to an expansion of African oil production of about 10 per cent and a recovery of the production in the Middle East of about 7 per cent.[16] Merchandise export growth of 31 per cent in Africa and 26 per cent in the Middle East was much greater than global merchandise trade growth in 2004. Although merchandise imports also expanded faster than in the preceding years, their rise was less pronounced than for exports. Consequently, Africa and the Middle East recorded a further increase in their trade surpluses. For the Middle East, the surplus is estimated to be in the order of $150 billion on a f.o.b.-f.o.b. basis in 2004.

Chart 8
Merchandise trade of Africa and the Middle East, 2001-2004
(Annual percentage change in value)



Source: Appendix Table 1.

The merchandise export performance of individual African countries showed very large variations in 2004. Exports of Chad are estimated to have increased fourfold under the impact of increased oil shipments, while the exports of Zimbabwe stagnated and those of Côte d'Ivoire decreased. Many of the established oil exporters in the region have increased their exports by more than one-third (Angola, Equatorial Guinea, Libya, Nigeria and Sudan). Mozambique also recorded a very large increase in its merchandise exports, above all due to a further substantial increase in shipments of aluminium. Morocco and Mauritius, however, recorded a rather subdued export expansion due to sluggish exports of clothing and fish to Europe. South Africa, the largest trader in the region, increased its exports in dollar terms by one-quarter in 2003 and 2004, most of this value increase is due to price and exchange rate changes. The sharp appreciation of the Rand in 2003 and 2004 stimulated South Africa's imports, which rose by one-third in dollar terms and by about 15 per cent in real terms in 2004.

Partly linked to oil market developments, the regional breakdown of African merchandise exports continued to shift from Europe, its major market, to Asia and North America.[17] Imports of the United States and Japan from Africa have increased by 44 and 35 per cent respectively. Imports of the European Union are estimated to have increased by 14 per cent. Thanks to AGOA, US imports of clothing from Africa have expanded by 16 per cent. A number of African countries like Uganda, Ethiopia, Namibia and Ghana have nearly doubled their exports to the United States. Finally, Chinese imports of cotton from Africa increased by 192 per cent in dollar terms from $223 million to $650 million.

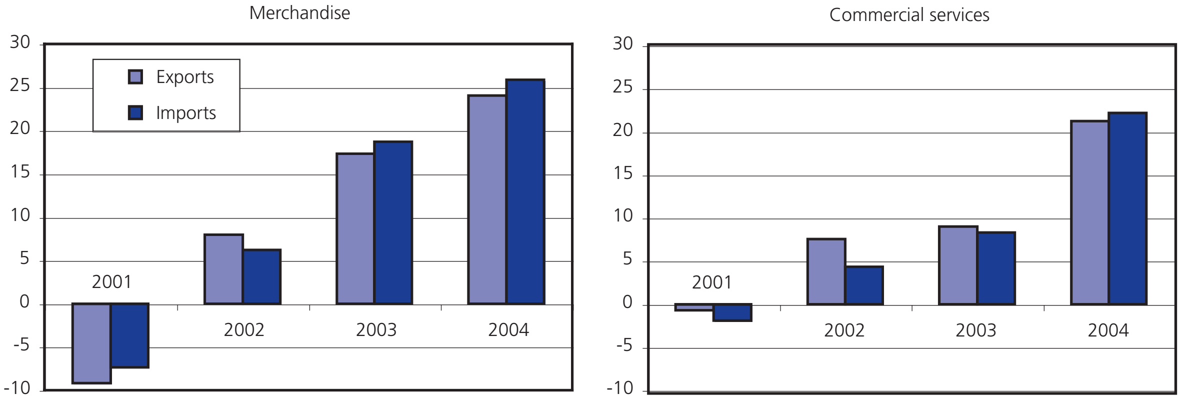
[16] Estimates are taken fom IEA, Monthly Oil Report, January 2005.

[17] In 2004, imports from Africa grew by 43 per cent (to $48.3 billion) in the United States, by 87 per cent (to $15.6 billion) in China and by 28 per cent (to $8.7 billion) in Japan.

In the Middle East, merchandise exports of the oil exporting countries rose on average by more than one quarter, with exports of Iraq up by more than three-quarters in 2004. The value of Israel's merchandise exports rose less than the regional average in value terms, but due to moderate price changes, its real exports expanded by nearly 10 per cent, which was faster than the average for the region.

Merchandise and commercial services trade in Asia continued to expand faster than world trade. Asia's merchandise exports rose by one quarter, to $2385 billion, and its commercial services exports by 21 per cent to $436 billion. The region's dollar import value expanded faster than the export value for both merchandise and services trade (see Chart 9).

Chart 9
Asia's merchandise and commercial services trade, 2001-2004
(Annual percentage change in value)



Source: Appendix Tables 1 and 2.

Intra-regional trade was particularly strong as the region continued to enjoy one of the highest economic growth rates in the world. The Chinese economy continued to expand vigorously, with GDP growing 9.3 per cent and stimulating its own and the region's trade expansion. For the first time, China's exports exceeded those of Japan. The most dynamic product category in China's exports was office and telecom equipment, which increased by 45 per cent to $171 billion in 2004. Clothing exports were far less dynamic, advancing by 19 per cent to $62 billion. Chinese merchandise imports rose by 36 per cent in 2004, somewhat faster than its exports. The stagnation of the Japanese economy in the last three quarters of 2004 kept the growth of Japan's merchandise trade well below the regional average. The recovery in global demand for a number of electronic products (e.g. personal computers, semiconductors and mobile phones), and the surge in the demand for a number of new or sharply improved products (e.g. digital cameras), is reflected in the high trade growth of economies which largely export office and telecom equipment (e.g. Chinese Taipei, the Republic of Korea, Malaysia and Singapore). High GDP growth combined with more open trade policies stimulated India's trade performance in 2004. Merchandise imports rose by more than 34 per cent, compared to a 27 per cent growth rate for exports.

Although the share of the United States in the region's merchandise exports (and imports) continued to decline in 2004, the bilateral merchandise trade surplus of Asia with the United States widened further in absolute terms. According to US statistics, in 2004 merchandise exports of the United States to Asia rose by 12 per cent to $226 billion, while imports went up by 17.4 per cent, to $568 billion (c.i.f).