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WORLD TRADE 2004, PROSPECTS FOR 2005

Developing countries' goods trade share surges to 50-year peak

Riding a wave of higher oil and commodity prices, and vigorous global trade growth including recovery in trade in office and telecom equipment, developing countries saw their share in world merchandise trade rise sharply in 2004 to 31%, the highest since 1950, according to WTO figures released on 14 April 2005.

However a marked slow-down in overall economic growth that began in the second half of 2004 is likely to decelerate world merchandise trade growth from 9% in 2004 to 6.5% in 2005, WTO economists say.

"As trade continues to play a growing role in economic activity, it is increasingly important for development and poverty alleviation. An ever-growing number of countries are both trading more and participating more actively in setting the trading rules," said Director-General Supachai Panitchpakdi.

"Africa's exports, for example, grew by an impressive 30% last year, after rising strongly in 2003. Attributable in significant measure to commodity price rises, this marks the highest growth in African exports since 1980. This trade growth has been associated with an improved expansion in production, which registered more than 4% growth for the continent in 2004. Forecasters predict a comparable growth rate in 2005," he said.

"It is through trade that countries can chart a path towards sustainable development and a higher standard of living. While the trend is encouraging, trade expansion is still hampered by barriers, which must be brought down. These barriers exist in all WTO members and are a drag on economic growth. The best way to reduce these barriers and to ensure more equitable trading rules for all nations is to complete the Doha Development Agenda round of trade negotiations," Dr Supachai said.

Highlights: major trade developments in 2004

A surprisingly strong global economy boosted **real world merchandise trade growth** in 2004, despite record high crude oil prices. The rate of trade expansion was close to 10% at mid-year, but decelerated in the second half in line with weaker global GDP growth.

Nominal merchandise trade growth (21%) was the highest in 25 years due to a combination of strong real trade growth (9%) and a sharp increase in dollar prices (11%).

In 2004, the dollar value of world trade in **commercial services** increased by 16%. The expansion of services trade was stimulated by strong recovery in transportation and travel services.

Commodity prices again increased faster than prices of manufactured goods in 2004. Prices for fuels and metals expanded by more than 30%, according to the IMF commodity price index. Prices for beverages and textile fibres, however, were much weaker, recording only a marginal increase in 2004.

Price developments largely determined the **value of merchandise trade growth by region**. The regions/countries with a large share of fuels in their merchandise exports recorded above average export growth in 2004 — that is, the Middle East, Africa and the Commonwealth of Independent States (CIS). In the case of the CIS, very strong economic growth also contributed to a recovery of CIS trade inside the group.

Asia's merchandise trade growth was sustained by strong US import demand, and intra-Asian trade, stoked by a recovery in electronics trade. In 2004, China became the largest merchandise trader in Asia, and the third largest exporter in world merchandise trade. It was already the third largest importer in 2003.

North America recorded the weakest growth in nominal merchandise exports and imports of all regions in 2004. North America is the only one of the seven major regions distinguished in this report which recorded a trade deficit on a f.o.b.-f.o.b. basis in 2004. The United States alone had a merchandise trade deficit of \$618 billion (f.o.b.-f.o.b.), equivalent to a record 6% of US GDP, and also to 7% of world merchandise trade.

The enlargement of the European Union to 25 members in May 2004 stimulated trade between the new and the old members of the European Union. Including intra-trade, the enlarged European Union accounted for 42% of world merchandise exports and for 52% of world commercial services exports in 2004.

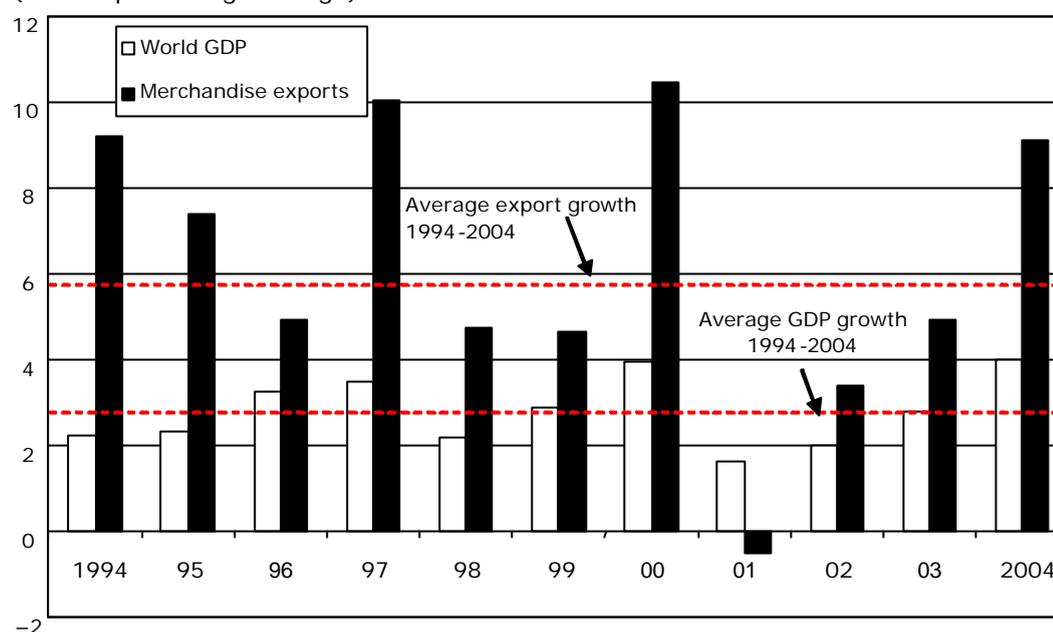
Europe was the only region for which the growth in the dollar value of merchandise and services trade did not exceed the previous year's level, but this was due entirely to exchange rate movements. Measured in euros, Europe's merchandise and commercial services exports (and imports) rose faster in 2004 than in 2003.

Higher oil prices improved the terms of trade of **developing countries** as a group, and in particular those of the developing regions of the Middle East, Africa and Latin America. Strong commodity prices and the recovery in the trade of office and telecom equipment resulted in a sharp increase in the merchandise exports from developing economies. The share of the developing economies in world merchandise exports was 31% in 2004 — the highest level since 1950.

Trade and output: 2004 expansion above the long-term growth trend

The world economy grew at 4% 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 foundation for an acceleration in world trade growth. World merchandise trade rose by 9% 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 on page 3, Table 1 on page 4).

Chart 1 **Growth in the volume of world merchandise trade and GDP, 1994-04**
(Annual percentage change)



Source: WTO

At 7% and 8% 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%, 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% 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%, exceeding its expansion rate in the last two decades, which averaged slightly above 3%. Economic activity picked up in Europe and Japan, but growth remained at 2.3% and 2.6% 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%.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 Commonwealth of Independent States (CIS), and in Asia in 2004. Among the major developed countries, unemployment levels decreased in Australia, the United Kingdom, the United States and Japan, but stagnated at high levels in the euro area.² According to the Economic Commission for Latin America and the Caribbean (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

¹ A new regional breakdown has been introduced and is applied for the analysis of international trade flows. 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).

² OECD(2004), OECD Economic Outlook, Volume 2004/2, No 76, December 2004.

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

Table 1 **World trade and output developments, 2001-04**
(At constant prices, annual percentage change)

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

Sources: 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 and Caribbean countries were the principal beneficiaries 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 Increased net FDI inflows and private lending, together with a decrease in net official outflows, contributed to the marked rise of 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 traded goods increased by 11% in 2004. The overall increase in commodity prices by about 25% 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% and 36% 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

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

⁵ UNCTAD, Press Release 11 January 2005.

⁶ China's foreign direct investments abroad are not limited to primary commodities. Other significant investments have been reported, for example, in the auto and computer sectors.

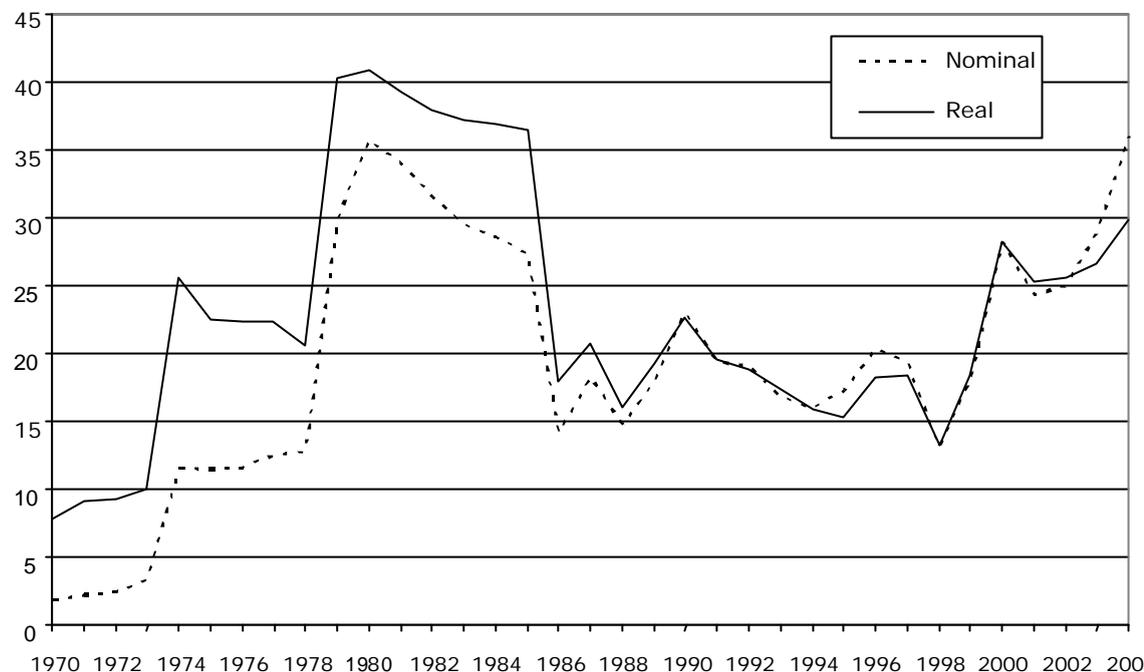
⁷ Institute of International Finance, *Capital Flows to Emerging Markets*, 19 January 2005.

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

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

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 1985¹⁰ (see Chart 2 below).

Chart 2 **Crude petroleum price developments, 1970-04**
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).

Prices of agricultural raw materials and beverages, however, rose by only 3–6% while food prices went up by 14%. Prices of manufactured goods are estimated to have risen by 8.5% 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 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.

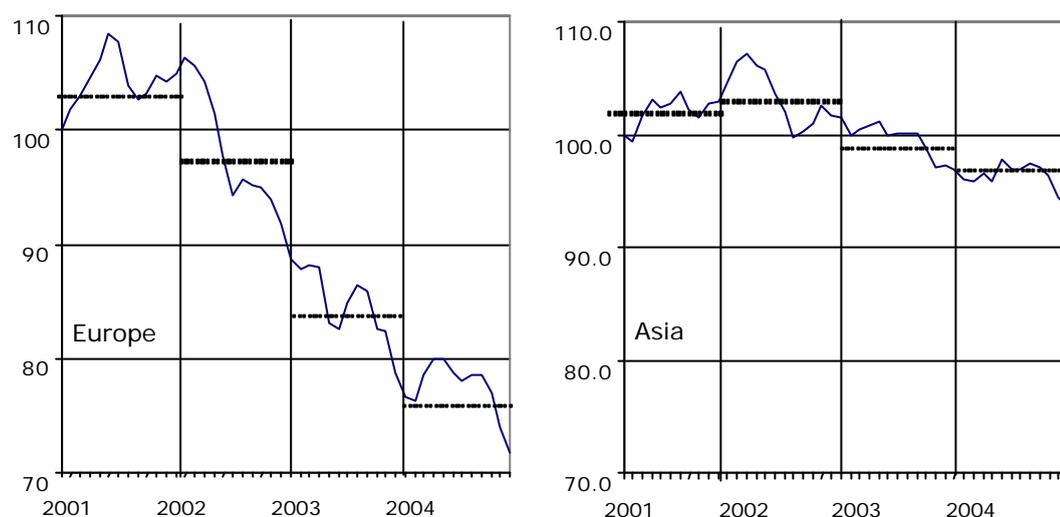
Prices, exchange rates and demand developments have all influenced global trade flows measured in dollar terms during the year. Higher oil and metal prices sharply increased the share of fuels, metals and iron and steel in world merchandise exports, to a new cyclical peak level. The Middle East, Africa 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

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.

excess of 25% in 2004, the share of the developing economies in world exports reached 31%, their highest level since 1950.

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

Chart 3 **Dollar changes vis-à-vis European and Asian currencies^a, 2001–04**
(Indices Jan 2001=100)



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

Source: WTO

Exchange rate developments contributed strongly to the nominal trade growth in Europe in 2004 although less than in 2003. The annual average depreciation of the US dollar against a basket of European currencies was 9% in 2004, which was much stronger than against a basket of Asian currencies (see Chart 3 above).

Real merchandise trade developments in 2004

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

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

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

Republic of Korea report a markedly larger real export growth 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%, which was twice as fast as world trade in 2004. Argentine and Venezuelan imports recovered dramatically, rising by at least 50%, while those of Brazil and Chile expanded by 20%. 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 grew strongly in 2004. Exports grew by some 6% and imports by approximately 11% 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 (discussed on page 9).

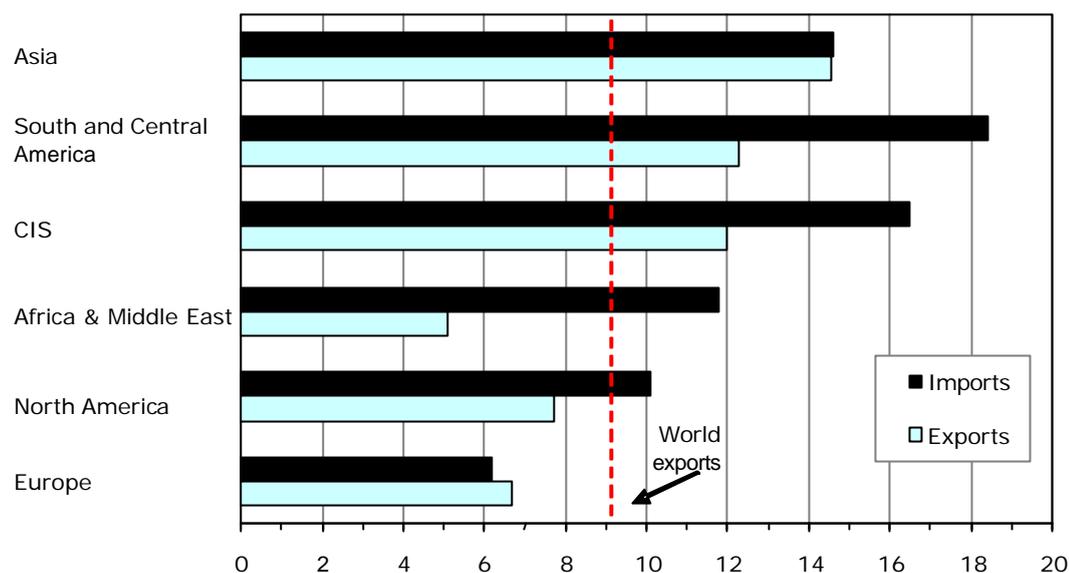
Merchandise exports and imports of the CIS continued to rise in real terms at a pace considerably faster than world trade. Benefiting from sharply higher world market prices for fuels and metals, which contributed to a sharp rise in export earnings, real imports of the CIS continued to expand, exceeding 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%, the region's exports again exceeded their previous peak level in 2000. Import growth accelerated by 10%, 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 merchandise trade contrasted with that of the United States and Mexico as Canada's exports expanded faster than imports in 2004.

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% 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 4 on page 8).

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.

Chart 4 **Real merchandise trade growth by region, 2004**
(Annual percentage change)



Source: WTO

The first group of countries comprises new EU member states 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% 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 relatively 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 southeast 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 member states for countries in southeast 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

¹³ United Nations, Economic Commission for Europe, Economic Survey of Europe, 2005 No 1, 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.

Nominal merchandise and commercial services trade developments in 2004

In 2004, the value of world merchandise trade rose by 21%, to \$8.88 trillion, and that of world commercial services trade by 16%, to \$2.10 trillion.¹⁴ 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 exceptionally strong performance in 2004. These two sectors have 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 below). The rebound in international tourism, particularly pronounced in Asia, led to a marked increase in global travel receipts.¹⁵

Table 2 **World exports of merchandise and commercial services, 2001–04**
(Billion dollars and percentage)

	Value	Annual percentage change			
	2004	2001	2002	2003	2004
Merchandise	8 880	-4	5	17	21
Commercial services	2 100	0	7	13	16

Source: WTO

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 (CIS), 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% (Middle East) to 35% (CIS). Despite this exceptionally strong increase, the combined share of these four regions in world merchandise trade amounted only to 13% 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 25% 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% 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 on page 10).

As already noted, European trade flows measured in dollar terms were strongly affected by the rapid appreciation of European currencies. Measured by a trade-weighted basket of European currencies the dollar depreciated on average by 9% in 2004 and by 14% in 2003. Consequently, the "inflationary" impact of the exchange rate developments on Europe's dollar trade values was less pronounced in 2004 than in 2003. Measured in euro terms, Europe's merchandise and

¹⁴ Commercial services trade as measured by balance of payments statistics which cover mainly mode 1 and mode 2 as defined by GATS. For a more complete picture of services trade, the supply of services through mode 3 and mode 4 should be considered.

¹⁵ The World Tourism Organization reports that international tourist arrivals reached a new record of 760 million, an increase of 10% over 2003. World Tourism Organization, Press Release, 2 February 2005

commercial services exports rose by 8.2% and 5.4% respectively in 2004, a markedly better performance than the small decrease reported in 2003 (see Chart 5 on page 11). A detailed breakdown of merchandise trade by region is provided in Appendix Table 1 (on page 13).

Table 3 **World merchandise trade by major region, 2001-04**
(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	8 880	-4	5	17	21	9 215	-4	4	16	21
North America	1 330	-6	-4	5	14	2 010	-6	2	7	16
United States	819	-6	-5	4	13	1 526	-6	2	8	17
South and Central America^a	272	-3	0	13	28	238	-1	-13	5	27
Europe	4 024	1	7	19	19	4 133	-2	5	20	20
European Union (25)	3 708	1	7	19	19	3 784	-1	5	20	19
CIS	263	0	5	27	35	171	16	9	27	31
Africa	228	-6	3	23	30	207	4	1	22	25
Middle East	379	-11	5	21	26	243	6	4	13	23
Asia	2 385	-9	8	18	25	2 214	-7	6	19	27
China	593	7	22	35	35	561	8	21	40	36
Japan	565	-16	3	13	20	455	-8	-3	14	19

^a Includes the Caribbean

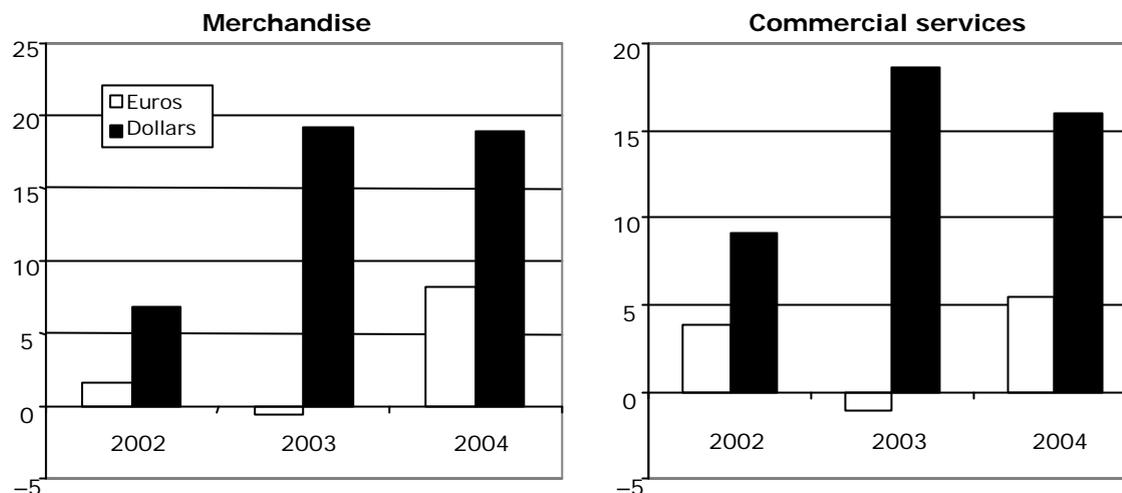
Source: WTO

On a country level, one notices that 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%), Kazakhstan (54%), Nigeria (57%) — 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 30 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. Poland, a new entrant to this list, recorded the highest export growth among the top 30 merchandise exporters. Exports of the Republic of Korea increased by 31%, making the country the twelfth largest exporter in the world. Among the top 30 importers in 2004, Turkey reported the strongest import increase and moved up three places (see Appendix Table 3 on page 15).

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 (on page 14).

Chart 5 **Europe's merchandise and commercial services exports, 2002-04**
(Percentage changes)



Information (albeit incomplete) on commercial services trade by country in 2004 points 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 Balance of Payments statistics in 2003, 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. The Republic of Korea gained two positions among the exporters and importers of commercial services in 2004. 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 commercial 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 on page 17).

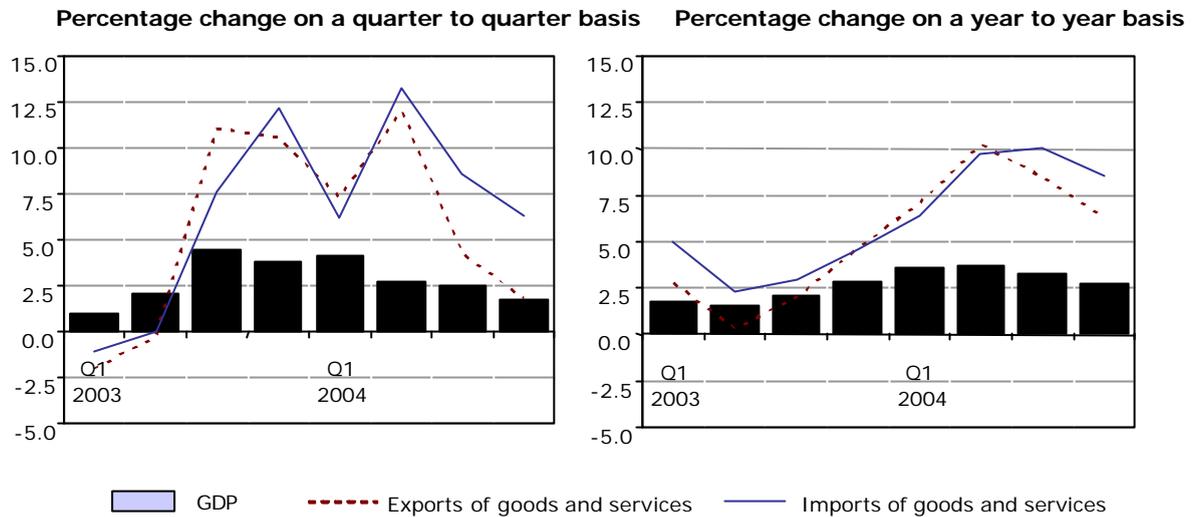
Trade Prospects for 2005

The world trade expansion started to lose momentum in the second half of 2004. In the second quarter, trade in goods and services in the OECD countries expanded at an annual rate of 12%, but this fell to 6% in the third quarter and 4% in the fourth quarter (see Chart 6 on page 12). In the last six months of 2004, economic growth slowed down markedly in Europe and Japan, while in the United States and a number of large developing economies (e.g. China and Brazil), GDP growth remained vigorous. At the global level, these diverging developments resulted in a weakening of economic activity. For 2005, the global economy is projected to follow a more moderate growth path, and expand by about 3% to 3.5%. Growth in the euro area and Japan, is predicted to weaken further, partly due to the projected reduction of their external surplus. For the United States and China, projections suggest that a deceleration of investment growth will be a major factor in a moderate slowdown in GDP growth.

Compared to 2004, real interest rates are expected to be higher in the developed markets and the impact of higher energy costs worldwide is expected to contribute to some weakness in the global economy. Changes in global gross domestic product (GDP) growth typically lead to even larger changes in global trade growth and, if expected weakening in the information and telecom equipment sectors turns out to be as pronounced as projected, then the deceleration in trade could be more pronounced than in a "normal" slowdown due to the prominent share of the latter sectors

in international merchandise trade. Import demand in the CIS, the Middle East, Africa and Central and South America is expected to remain relatively strong and attenuate somewhat the global trade deceleration.

Chart 6 Real GDP and trade growth of OECD countries, 2003-04



Source: OECD, OIisnet.

The marked real effective appreciation of the yen and many European currencies since 2002 is likely to add slack to export performance in Japan and parts of Europe in 2005. Despite the depreciation of the United States dollar vis-à-vis the yen, the Canadian dollar, the euro and other European currencies, US imports continued to expand faster than exports up to the fourth quarter of 2004. However, for 2005 the accumulated strong real effective depreciation of the US dollar is projected to weaken import growth and strengthen export growth. Summing up these diverse developments, world merchandise trade growth is projected to decelerate from 9% in 2004 to 6.5% in 2005.

Appendix Table 1

World merchandise trade by region and selected country, 2004
(Billion dollars and percentage)

	Exports						Imports					
	Value	Annual percentage change					Value	Annual percentage change				
	2004	1995-00	2001	2002	2003	2004	2004	1995-00	2001	2002	2003	2004
World	8880	5	-4	5	17	21	9215	5	-4	4	16	21
North America	1330	7	-6	-4	5	14	2010	11	-6	2	7	16
United States	819	6	-6	-5	4	13	1526	10	-6	2	8	17
Canada	322	8	-6	-3	8	18	276	8	-7	0	8	13
Mexico	189	16	-5	1	3	14	206	19	-4	0	1	16
South and Central America^a	272	5	-3	0	13	28	238	3	-1	-13	5	27
Brazil	96	3	6	4	21	32	66	2	0	-15	2	30
Other South and Central America ^a	175	6	-7	-1	9	26	172	4	-1	-12	6	25
Europe	4024	2	1	7	19	19	4133	4	-2	5	20	20
European Union (25)	3708	2	1	7	19	19	3784	4	-1	5	20	19
Germany	915	1	4	8	22	22	717	1	-2	1	23	19
France	451	2	-1	3	18	15	464	3	-3	0	21	16
United Kingdom	346	4	-4	3	9	13	462	5	-3	4	13	18
Italy	346	1	2	4	18	16	349	3	-1	5	20	17
Other Western Europe	204	3	0	4	14	19	165	1	-1	2	15	18
Switzerland	118	0	1	7	15	18	111	1	1	-1	15	16
South-East Europe	112	5	10	15	29	32	183	8	-8	20	32	36
CIS	263	5	0	5	27	35	171	-3	16	9	27	31
Russian Federation	183	5	-2	4	27	35	95	-6	20	12	23	28
Africa	228	6	-6	3	23	31	207	0	4	1	22	25
South Africa	46	1	-2	2	23	26	55	-1	-5	4	40	34
Africa less South Africa	183	7	-7	3	23	32	152	1	6	0	16	22
Oil exporters ^b	113	12	-13	1	27	41	52	0	20	-5	21	32
Non oil exporters	69	0	2	7	18	19	100	1	1	2	14	18
Middle East	379	12	-11	5	21	26	243	4	6	4	13	23
Asia	2385	5	-9	8	18	25	2214	3	-7	6	19	27
Japan	565	2	-16	3	13	20	455	2	-8	-3	14	19
China	593	11	7	22	35	35	561	11	8	21	40	36
Four East Asian traders ^c	637	5	-14	5	15	26	586	2	-16	3	13	28
India	73	7	2	14	16	27	95	8	-2	12	26	34
Memorandum items:												
MERCOSUR (4)	135	4	4	1	19	28	94	2	-6	-26	10	37
ASEAN (10)	550	6	-10	5	12	20	491	1	-8	4	10	26
EU (25) extra-trade	1203	-	1	6	17	20	1279	-	-4	1	19	20
EU (15)	3447	2	0	6	19	18	3485	3	-2	4	20	18
EU (new members, 10)	260	8	11	14	29	32	299	9	6	11	26	28
Developing economies	2780	8	-7	7	18	26	2523	5	-4	4	16	27
Developing Asia	1712	7	-7	10	20	27	1629	4	-7	9	21	30

^a Includes the Caribbean.

^b Algeria, Angola, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, Sudan.

^c Chinese Taipei, Hong Kong China, Rep. of Korea, and Singapore.

Source: WTO.

Appendix Table 2

World trade of commercial services by region and selected country, 2004
(Billion dollars and percentage)

	Exports						Imports					
	Value	Annual percentage change					Value	Annual percentage change				
	2004	1995-00	2001	2002	2003	2004	2004	1995-00	2001	2002	2003	2004
World	2100	5	0	7	13	16	2081	4	1	5	14	16
North America	380	7	-4	2	5	11	334	9	-1	3	9	13
United States	319	7	-4	2	5	11	259	10	-1	2	8	13
Canada	47	9	-3	4	5	12	56	6	-1	3	12	12
Mexico	14	7	-7	-1	1	11	19	13	-1	3	4	8
South and Central America^a	55	6	-2	-3	9	15	57	4	0	-12	5	14
Brazil	11	8	-3	1	9	20	16	3	2	-15	8	12
Other South and Central America ^a	44	6	-2	-4	9	13	41	4	0	-10	4	15
Europe	1114	4	3	9	19	16	1019	4	3	8	19	14
European Union (25)	1005	4	4	9	18	16	948	4	4	8	19	14
Germany	126	2	5	17	18	9	191	1	4	4	18	11
United Kingdom	169	9	-1	11	13	16	135	9	0	9	13	13
France	108	-1	2	5	15	10	95	-1	3	11	22	13
Italy	85	-2	2	4	18	21	80	0	3	9	20	9
Other Western Europe	64	3	-3	9	15	15	46	2	5	8	15	15
Switzerland	37	2	-6	11	14	12	21	1	6	5	12	8
South-East Europe	44	8	-11	1	35	21	24	9	-12	8	26	30
CIS	32	2	13	20	16	22	49	0	24	16	15	27
Russian Federation	20	-2	17	20	18	25	34	-4	23	15	16	27
Africa	47	3	1	4	21	22	54	2	2	5	13	19
South Africa	8	2	-7	1	40	24	9	0	-9	2	40	24
Middle East	36	10	-5	-2	11	18	66	5	-2	1	22	17
Asia	436	3	-1	8	9	21	501	2	-2	4	8	22
Japan	94	1	-6	2	8	23	134	-1	-7	0	3	21
China	59	10	9	20	18	...	70	8	9	18	19	...
Four East Asian traders ^b	156	3	-1	5	7	20	145	4	-1	6	4	22
India	32	21	19	12	20	...	38	14	16	-2	25	...
Memorandum items:												
MERCOSUR (4)	18	6	-5	-11	14	21	24	4	-2	-25	10	15
ASEAN (10)	87	-1	-1	7	-2	21	108	2	-1	4	4	18

^a Includes the Caribbean.

^b Chinese Taipei, Hong Kong China, Rep. of Korea and Singapore.

Source: WTO.

Appendix table 3

Leading exporters and importers in world merchandise trade, 2004
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	Germany	914.8	10.0	22	1	United States	1526.4	16.1	17
2	United States	819.0	9.0	13	2	Germany	717.5	7.6	19
3	China	593.4	6.5	35	3	China	561.4	5.9	36
4	Japan	565.5	6.2	20	4	France	464.1	4.9	16
5	France	451.0	4.9	15	5	United Kingdom	462.0	4.9	18
6	Netherlands	358.8	3.9	21	6	Japan	454.5	4.8	19
7	Italy	346.1	3.8	16	7	Italy	349.0	3.7	17
8	United Kingdom	345.6	3.8	13	8	Netherlands	319.9	3.4	21
9	Canada	322.0	3.5	18	9	Belgium	287.2	3.0	22
10	Belgium	308.9	3.4	21	10	Canada	275.8	2.9	13
11	Hong Kong, China	265.7	2.9	16	11	Hong Kong, China	273.0	2.9	17
	domestic exports	22.6	0.2	15		retained imports ^a	29.9	0.3	24
	re-exports	243.1	2.7	16	12	Spain	249.8	2.6	20
12	Korea, Republic of	253.9	2.8	31	13	Korea, Republic of	224.4	2.4	26
13	Mexico	188.6	2.1	14	14	Mexico	206.4	2.2	16
14	Russian Federation	183.2	2.0	35	15	Taipei, Chinese	167.9	1.8	32
15	Taipei, Chinese	181.4	2.0	21	16	Singapore	163.8	1.7	28
16	Singapore	179.5	2.0	25		retained imports ^a	82.8	0.9	30
	domestic exports	98.5	1.1	23	17	Austria	115.1	1.2	16
	re-exports	81.0	0.9	26	18	Switzerland	111.5	1.2	16
17	Spain	179.0	2.0	15	19	Australia	107.8	1.1	21
18	Malaysia	126.5	1.4	21	20	Malaysia	105.2	1.1	26
19	Sweden	121.0	1.3	19					
20	Saudi Arabia	119.6	1.3	28					
21	Switzerland	118.4	1.3	18	21	Sweden	97.6	1.0	17
22	Austria	115.7	1.3	19	22	Turkey	97.2	1.0	40
23	Ireland	104.1	1.1	12	23	Thailand	95.4	1.0	26
24	Thailand	97.7	1.1	22	24	India	95.2	1.0	34
25	Brazil	96.5	1.1	32	25	Russian Federation ^b	94.8	1.0	28
26	Australia	86.6	0.9	21	26	Poland	87.8	0.9	29
27	Norway	82.0	0.9	22	27	Czech Republic ^b	67.9	0.7	31
28	United Arab Emirates	79.5	0.9	21	28	Denmark	67.2	0.7	17
29	Denmark	75.6	0.8	14	29	Brazil	65.9	0.7	30
30	Poland	74.1	0.8	38	30	Ireland	60.1	0.6	12
	Total of above^c	7753.5	85.0	-		Total of above^c	7971.8	84.3	-
	World^c	9123.5	100.0	21		World^c	9458.3	100.0	21

^a Retained imports are defined as imports less re-exports.

^b Imports are valued f.o.b.

^c Includes significant re-exports or imports for re-export.

Appendix Table 4

Leading exporters and importers in world merchandise trade (excluding intra-EU (25) trade), 2004

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	Extra-EU(25) exports	1202.8	18.2	20	1	United States	1526.4	22.0	17
2	United States	819.0	12.4	13	2	Extra-EU(25) imports	1279.5	18.4	20
3	China	593.4	9.0	35	3	China	561.4	8.1	36
4	Japan	565.5	8.5	20	4	Japan	454.5	6.5	19
5	Canada	322.0	4.9	18	5	Canada	275.8	4.0	13
6	Hong Kong, China	265.7	4.0	16	6	Hong Kong, China	273.0	3.9	17
	domestic exports	22.6	0.3	15		retained imports ^a	29.9	0.4	24
	re-exports	243.1	3.7	16	7	Korea, Republic of	224.4	3.2	26
7	Korea, Republic of	253.9	3.8	31	8	Mexico	206.4	3.0	16
8	Mexico	188.6	2.8	14	9	Taipei, Chinese	167.9	2.4	32
9	Russian Federation	183.2	2.8	35	10	Singapore	163.8	2.4	28
10	Taipei, Chinese	181.4	2.7	21		retained imports ^a	82.8	1.2	30
11	Singapore	179.5	2.7	25	11	Switzerland	111.5	1.6	16
	domestic exports	98.5	1.5	23	12	Australia	107.8	1.5	21
	re-exports	81.0	1.2	26	13	Malaysia	105.2	1.5	26
12	Malaysia	126.5	1.9	21	14	Turkey	97.2	1.4	40
13	Saudi Arabia	119.6	1.8	28	15	Thailand	95.4	1.4	26
14	Switzerland	118.4	1.8	18	16	India	95.2	1.4	34
15	Thailand	97.7	1.5	22	17	Russian Federation ^b	94.8	1.4	28
16	Brazil	96.5	1.5	32	18	Brazil	65.9	0.9	30
17	Australia	86.6	1.3	21	19	South Africa	55.2	0.8	34
18	Norway	82.0	1.2	22	20	Norway	48.2	0.7	22
19	United Arab Emirates	79.5	1.2	21					
20	India	72.5	1.1	27					
21	Indonesia	69.7	1.1	14	21	United Arab Emirates	47.4	0.7	20
22	Turkey	62.8	0.9	33	22	Indonesia	46.2	0.7	42
23	South Africa	45.9	0.7	26	23	Israel	43.4	0.6	20
24	Iran, Islamic Rep. of	42.5	0.6	26	24	Saudi Arabia	43.0	0.6	16
25	Philippines	39.6	0.6	7	25	Philippines	42.6	0.6	8
26	Israel	36.9	0.6	17	26	Iran, Islamic Rep. of	32.7	0.5	25
27	Argentina	34.3	0.5	16	27	Romania	32.7	0.5	36
28	Ukraine	32.7	0.5	42	28	Viet Nam	31.0	0.4	23
29	Chile	32.0	0.5	52	29	Ukraine	29.0	0.4	26
30	Algeria	31.7	0.5	29	30	Chile	24.8	0.4	28
	Total of above^c	6062.2	91.6	–		Total of above^c	6382.2	91.8	–
	World^c	6618.7	100.0	22		World^c	6953.5	100.0	22

^a Retained imports are defined as imports less re-exports.

^b Imports are valued f.o.b.

^c Includes significant re-exports or imports for re-export.

Appendix Table 5

Leading exporters and importers in world trade in commercial services, 2004
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	United States	319.3	15.2	11	1	United States	259.0	12.4	13
2	United Kingdom	169.2	8.1	16	2	Germany	190.8	9.2	11
3	Germany	126.1	6.0	9	3	United Kingdom	134.7	6.5	13
4	France	108.4	5.2	10	4	Japan	133.6	6.4	21
5	Japan	93.8	4.5	23	5	France	94.5	4.5	13
6	Italy	84.6	4.0	21	6	Italy	79.6	3.8	9
7	Spain	84.2	4.0	10	7	Netherlands	72.4	3.5	11
8	Netherlands	72.4	3.4	15	8	China	69.7	3.3	...
9	China	58.9	2.8	...	9	Ireland	58.2	2.8	11
10	Hong Kong, China	54.0	2.6	20	10	Canada	55.9	2.7	12
11	Belgium	49.5	2.4	15	11	Spain	53.3	2.6	17
12	Austria	47.2	2.2	12	12	Korea, Republic of	49.6	2.4	24
13	Canada	46.9	2.2	12	13	Belgium	48.4	2.3	15
14	Ireland	46.2	2.2	22	14	Austria	48.0	2.3	16
15	Korea, Republic of	39.7	1.9	26	15	India	37.9	1.8	...
16	Sweden	37.8	1.8	25	16	Singapore	36.2	1.7	23
17	Denmark	37.5	1.8	18	17	Denmark	34.3	1.6	21
18	Switzerland	37.1	1.8	12	18	Russian Federation	33.5	1.6	27
19	Singapore	36.6	1.7	19	19	Sweden	33.2	1.6	16
20	Luxembourg	33.4	1.6	35	20	Taipei, Chinese	29.9	1.4	20
21	Greece	33.2	1.6	37	21	Hong Kong, China	29.3	1.4	16
22	India ^a	32.2	1.5	...	22	Australia	25.5	1.2	21
23	Norway	25.5	1.2	19	23	Norway	23.9	1.1	21
24	Taipei, Chinese	25.4	1.2	11	24	Luxembourg	22.7	1.1	38
25	Australia	24.6	1.2	19	25	Thailand	22.0	1.1	22
26	Turkey	23.4	1.1	23	26	Switzerland	20.7	1.0	8
27	Russian Federation	19.9	0.9	25	27	Indonesia ^a	19.9	1.0	...
28	Thailand	18.1	0.9	15	28	Malaysia	19.2	0.9	11
29	Malaysia	18.0	0.9	34	29	Mexico	19.1	0.9	8
30	Israel	14.4	0.7	18	30	Brazil	16.3	0.8	12
	Total of above	1 815.0	86.5	–		Total of above	1 770.0	85.1	–
	World	2 100.0	100.0	16		World	2 080.0	100.0	16

^a Secretariat estimate.

Note: Figures for a number of countries and territories have been estimated by the Secretariat. Annual percentage changes and rankings are affected by continuity breaks in the series for a large number of economies, and by limitations in cross-country comparability.

END