I. WORLD TRADE DEVELOPMENTS

The Highlights

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- World trade in merchandise and commercial services
- Trade in commercial services by category
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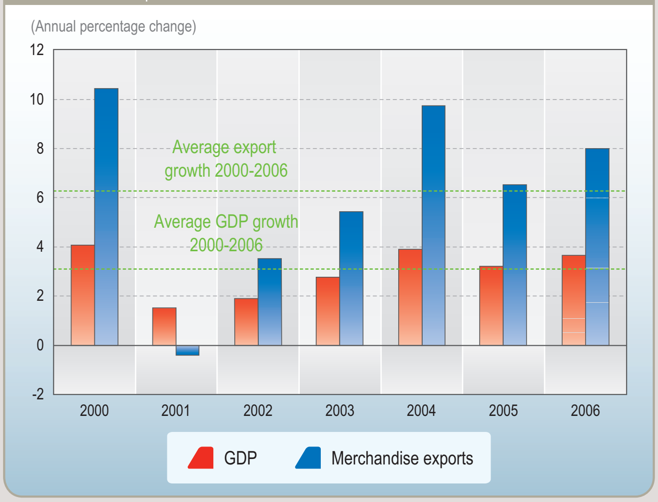
Merchandise trade and GDP

World real merchandise trade grows faster than output

In 2006, the volume of world merchandise trade grew by 8 per cent while world gross domestic product recorded a 3.5 per cent increase. This confirms the trend of world merchandise trade growing by twice the annual growth rate of output since 2000.

Chart I.1 **Growth in the volume of world merchandise trade and GDP, 2000-2006**



The strong 2006 increase in the volume of merchandise trade is backed by a robust recovery of European exports, which increased by 3 percentage points to 7 per cent. The real merchandise exports of the United States grew above the world average, at 11 per cent, and China's trade expanded by 22 per cent. Below world average export growth rates were recorded for South and Central America and the Caribbean (2.5 per cent), the Commonwealth of Independent States (6 per cent), and Africa (3 per cent). Exports of the Middle East stagnated in 2006.

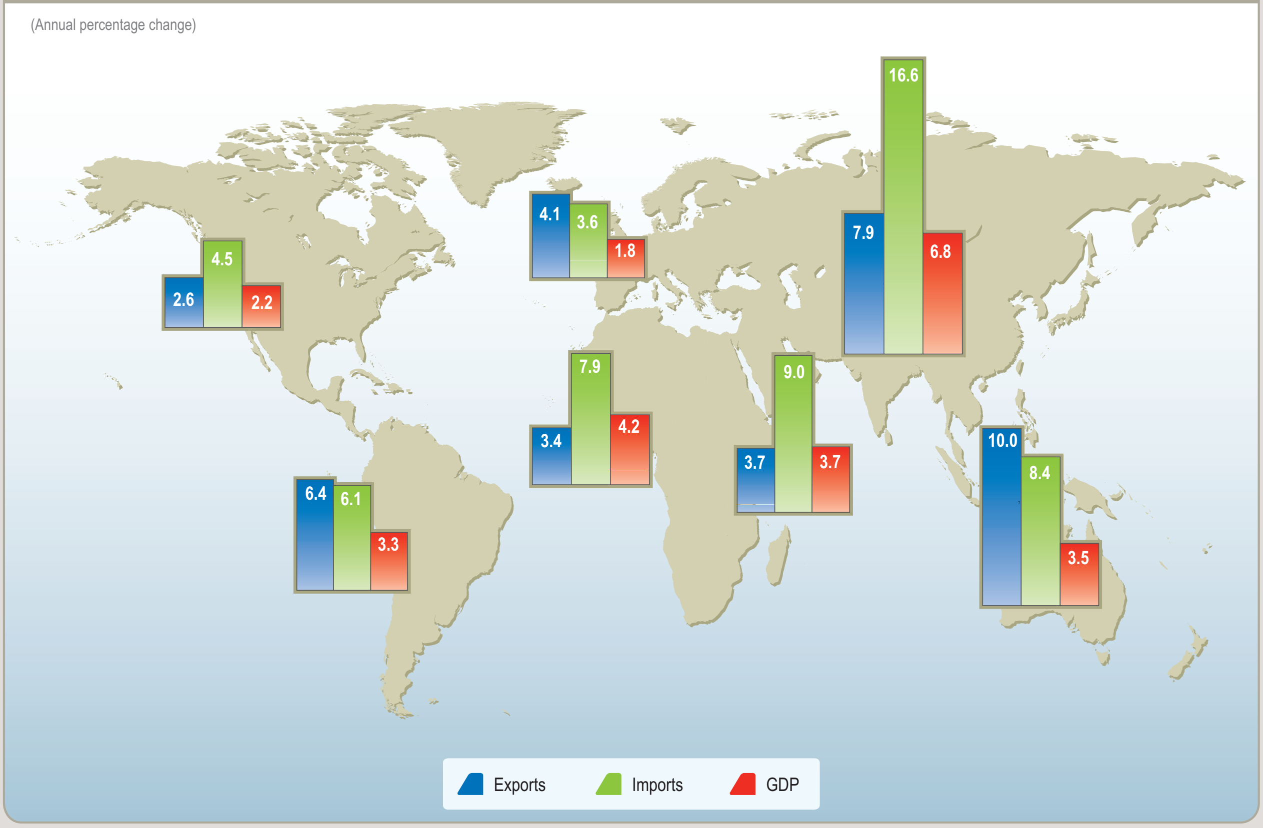
Merchandise trade by region

Asia and Europe recorded higher merchandise export growth than import growth in 2006

In 2006, merchandise exports in volume terms were sustained by robust demand, although patterns differed among regions. Exports from North America and Asia grew faster than imports to the region. Asia's exports grew by 13 per cent while imports were up 9 per cent. Europe recorded balanced export and import growth of 7 per cent. For South and Central America, the Commonwealth of Independent States, Africa and the Middle East, import growth largely exceeded that of exports. This pattern is linked to more favourable terms of trade due to increases in commodity prices in the past few years.

Since 2000, import growth has been higher than export growth in North America. This trend was shared by the Commonwealth of Independent States (CIS), the Middle East and Africa which all recorded stronger import than export growth. Import growth was particularly strong in the CIS area during the period 2000 to 2006, where on average imports increased annually more than twice as fast as exports (17 per cent and 8 per cent respectively). While South and Central America's import and export growth rates were almost balanced, Europe and Asia are the only regions where export growth has exceeded import growth since 2000, for Asia by almost one fifth.

Chart I.2 Growth in the volume of merchandise trade and GDP by region, 2000-2006



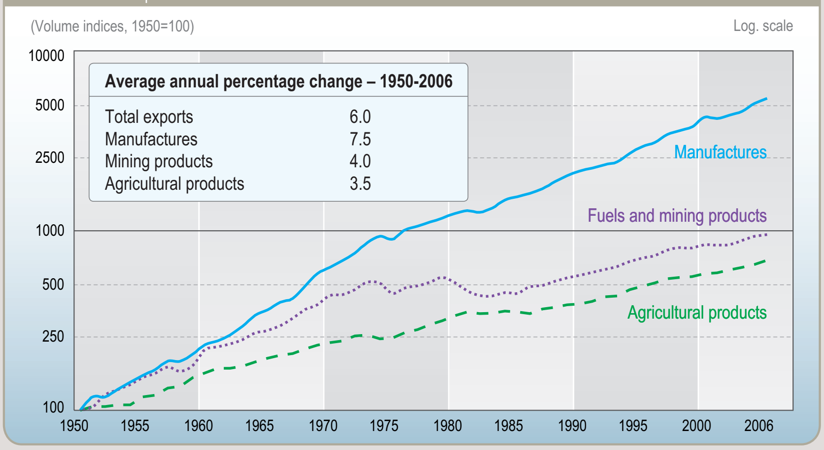
Merchandise trade by product

Manufactures remain the most dynamic product group in merchandise trade

Manufactures were again the most dynamic product group, increasing by 10 per cent in constant prices in 2006. Trade in agricultural products recorded real growth of 6 per cent. Rising prices and mild weather moderated global demand growth and slowed the expansion of trade in fuels and mining products to 3 per cent in 2006.

Since the early 1950s, the volume of trade in manufactures has largely outperformed primary products, growing at an annual rate of 7.5 per cent, while agriculture, and fuels and mining products grew at 3.5 per cent and 4 per cent respectively.

Chart I.3 World merchandise trade volume by major product group, 1950-2006



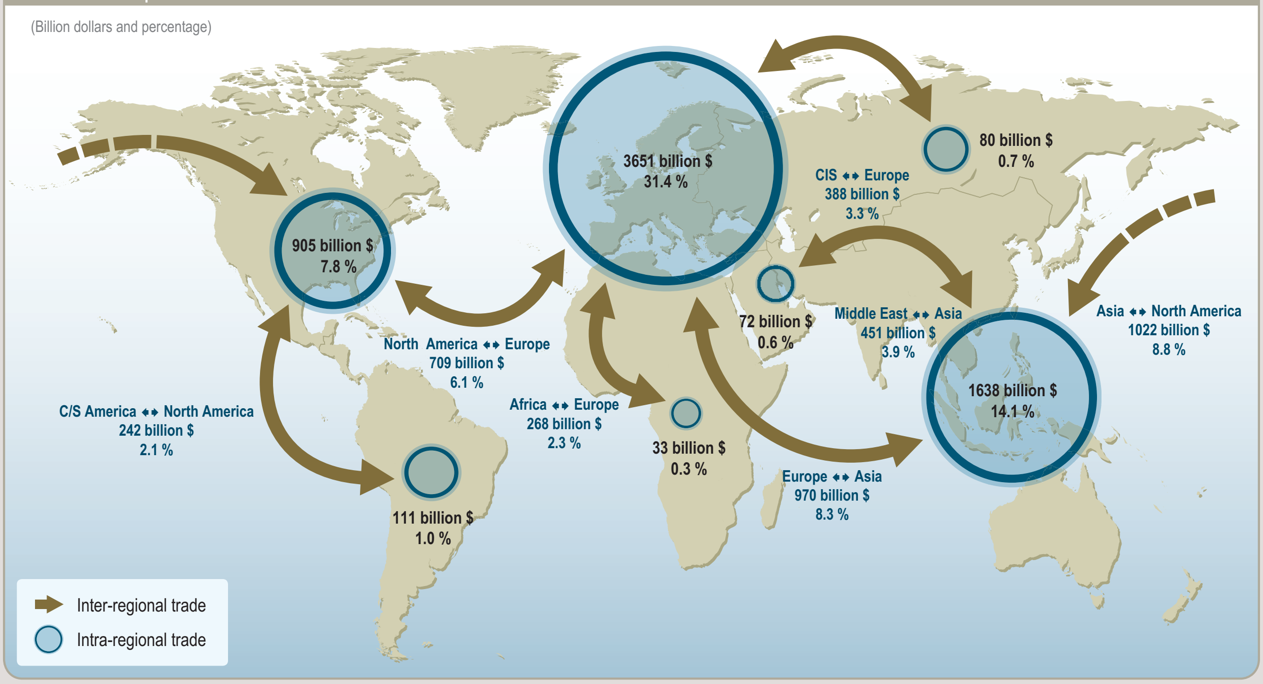
Regional trade flows

World merchandise trade is still characterised by intra-regional flows

Distances are still a barrier. Inter-regional merchandise trade flows between North America, Europe and Asia account for only 23 per cent of world trade. The most prominent growth in 2006 was recorded in Asia's exports to Europe, which increased by 21 per cent. Intra-regional trade flows of the three regions represent 53 per cent of world merchandise trade and almost two thirds of the total merchandise trade of these regions. Europe's intra-trade shows the highest share (31 per cent), followed by Asia (14 per cent) and North America (8 per cent). Intra-regional trade for other regions (South and Central America, CIS, Middle East and Africa) account for only 2.5 per cent of their total exports.

Chart I.4 Selected intra- and inter-regional merchandise trade flows, 2006

(Billion dollars and percentage)



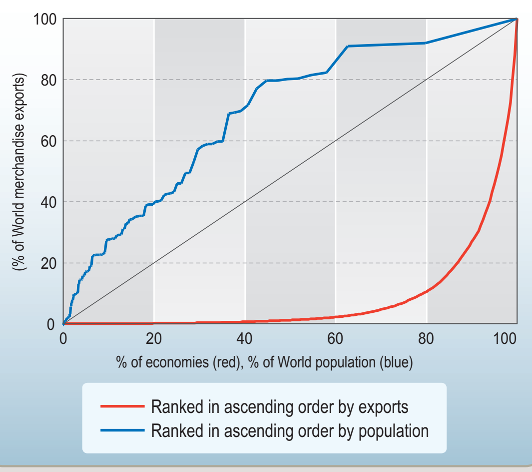
Trade concentration

Large economies determine merchandise trade but small economies participate actively

The list of major traders appears to be dominated by large economies. In 2006, for example, the smallest 80 per cent of exporters accounted for just 10 per cent of world trade (red line).

However, this calculation does not take into account the population of economies (e.g. China and Tonga are given equal weight.) To better account for differences in population, cumulative shares of economies in world population are plotted against their collective shares in world merchandise exports, after sorting them in ascending order by population (blue line). This second curve is not smooth because economies with similar populations (e.g. Singapore and Eritrea, or Italy and Myanmar) may make very different marginal contributions to world trade, but it does suggest that trade in terms of people rather than countries is more evenly distributed. On a per capita basis, small economies contribute more to world trade than their export values suggest, for example, the smallest economies representing 20 percent of the world's population account for 39 percent of the value of world merchandise exports in 2006.

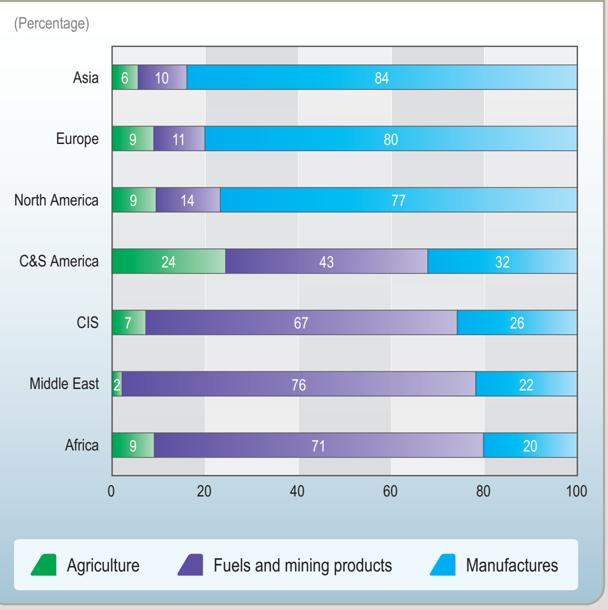
Chart I.5 Shares in world merchandise exports, 2006



Regional trade patterns in merchandise

Manufactures dominate the merchandise export structures of Asia, Europe and North America

Chart I.6 Sectoral structure of merchandise exports by region, 2006



Asia has the highest share of manufactures in total exports, with more than 80 per cent of the region's exports stemming from this product group. In contrast, the Middle East, Africa and the CIS are highly dependent on fuels and mining products, with more than two thirds of their export revenues originating from this product group. This pattern of specialization was accentuated with the rise in international commodity prices.

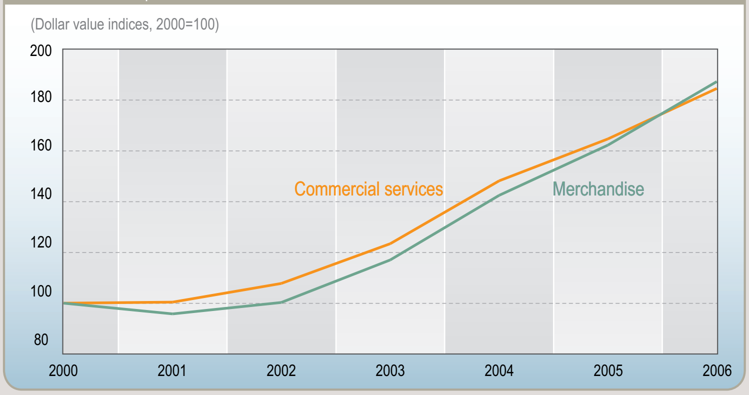
Least-developed countries show a similar structure with almost three quarters of their export revenues originating from primary commodities and only a quarter earned through manufactures (mainly clothing). South and Central America show the highest share of agricultural exports in their total trade.

World trade in merchandise and commercial services

In 2006, trade in merchandise was boosted by commodity prices, growing faster than trade in commercial services

At current prices, 2006 world merchandise trade increased by 16 per cent while trade in commercial services expanded by 12 per cent. High commodity prices explain the higher growth rate of trade in merchandise. Data for trade in commercial services are derived from balance of payments statistics and mainly refer to modes 1 (cross-border), 2 (consumption abroad) and 4 (presence of natural persons). Information on the size of commercial presence (mode 3) is not covered in these «traditional» trade in commercial services statistics. Mode 3 trade can be approximated through the sales of services of foreign affiliates. Available statistics nevertheless indicate that this mode surpasses trade in commercial services in other modes, adding further to the dynamics of world trade in services.

Chart I.7 World exports of goods and commercial services, 2000-2006



Trade in commercial services by category

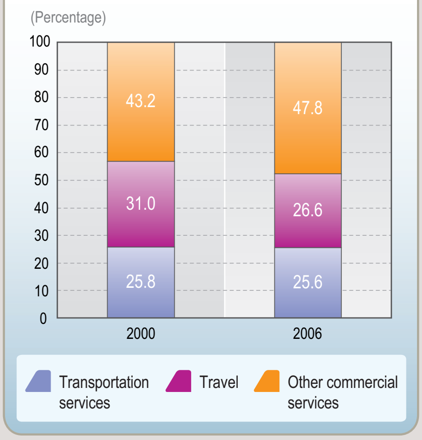
The share of travel continues to decline in commercial services trade

The share of travel in world commercial services exports has constantly been declining in recent years, from 31 per cent in 2000 to 26.6 per cent in 2006. Over this period North America's share was reduced by over 5 percentage points (from 23.2 to 17.9) whereas Africa gained almost 1.3 points (from 3.0 to 4.3 per cent).

For the first time since 2003, the growth of transportation services was lower than that for trade in other commercial services, but the share of transportation in total commercial services has remained stable since 2000. Other commercial services, which include business services, were the largest contributor to total trade in commercial services, for the first time representing almost half of this trade in 2006.

Europe was the largest exporter of other commercial services with 54 per cent of world exports of this product group (37.4 if intra-European Union trade is excluded), followed by Asia (21.8 per cent) and North America (17.9 per cent). Although in value terms positive growth was recorded, the share of Europe and North America in world trade in other commercial services declined, mainly in favour of Asia and to a lesser extent the CIS.

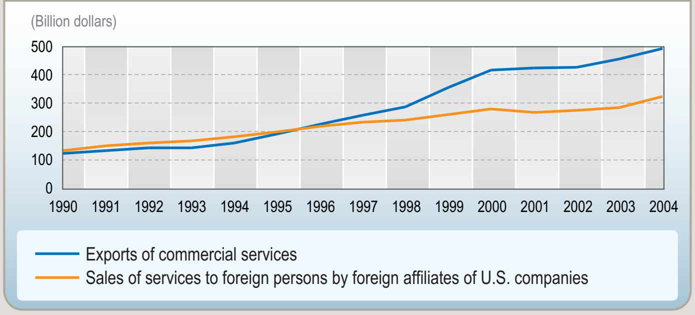
Chart I.8 World commercial services exports by category, 2000 and 2006



Foreign affiliates trade in services

Sales of foreign affiliates in services rise faster than traditional trade in services

Chart I.9 US international sales of services through conventional trade and through foreign affiliates, 1990-2004



In 2004, the year for which the latest comprehensive data are available, sales of services through foreign affiliates of United States (US) firms on foreign markets (non-bank majority-owned) reached $490 billion, more than twice as high as conventional services exports which amounted to $322 billion. From 1996, sales of services of US majority-owned foreign affiliates have consistently exceeded conventional US exports of commercial services according to the US Department of Commerce.

Similar conclusions can be drawn from Australia's data in 2002-03. Traditional trade in services was surpassed by sales of foreign affiliates by a margin of $18 billion, confirming the increasing importance of this mode of delivery.

Actually, data available for the foreign affiliates of OECD countries in services-producing activities suggest that these global sales are approximately 1.5 times larger than conventional cross-border trade flows (mode 1) measured through the balance of payments. These estimates suggest that GATS mode 3 or commercial presence is an important –if not the dominant– mode of delivery for trade in services (see WTO International Trade Statistics, 2005).

Chart I.10 Australian international sales of services through conventional trade and through foreign affiliates, 2002-2003