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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 United States as well as in Japan, but stagnated at high levels in the euro area.<sup>2</sup> 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.<sup>3</sup>

**Chart 1**

**Growth in the volume of world merchandise trade and GDP, 1994-2004**

(Annual percentage change)



Source: WTO.

<sup>2</sup> OECD, OECD Economic Outlook, Volume 2004/2, N° 76, December 2004.

<sup>3</sup> Economic Commission for Latin America and the Caribbean, *Report on the State of the Americas 2004*, p. 10.

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.<sup>5</sup> 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

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.<sup>4</sup>



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 re



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

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 someve1TTrispi-2.3-1(ry e)-9.1(c)1.2(ow)e

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



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).

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

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

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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.<sup>16</sup> 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.

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.<sup>17</sup> 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.

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).

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