

B SELECTED MEDIUM-TERM DEVELOPMENTS

International trade in fuels and pharmaceuticals has expanded at above-average rates in recent years, affecting the structure of global merchandise trade flows. These developments are examined here.

1. OIL MARKET DEVELOPMENTS AND DEVELOPING COUNTRIES

Developing countries have been the principal exporters of fuels over the last four decades, accounting for well over 50 per cent of world fuel exports. Developing countries as a group. The surplus has fluctuated with oil price changes, in a range between \$110 billion and \$230 billion per year over the period 1990 to 2003 (see Chart 10).

Developing countries as a group have accounted for between 58 and 63 per cent of annual world fuel exports since 1990. Clothing is the only other sector where developing countries have accounted for a dominant share of world exports. Although most developing country fuel exports are destined for developed country markets, the latter's share decreased sharply between 1990 and 2003 (from 71 to 56 per cent). Meanwhile, trade in fuels among developing countries rose from 25 to 40 per cent of the total exports of this group of countries during the same period (see Chart 11).

In 2004, developing country fuel exports exceeded the \$500 billion mark for the first time, more than twice the average level recorded in the 1990-99 period. The sharp rise in the value of merchandise exports of oil-exporting developing countries contributed prominently to the rise in the share of developing countries in world merchandise exports.

Among the developing regions, the Middle East and Africa are the two largest net exporters and greatly inorus35473 18PME 473

2. WHY IS GLOBAL TRADE IN PHARMACEUTICAL PRODUCTS EXPANDING SO FAST?

In the 1990s, world trade in pharmaceutical products²² expanded much faster than world merchandise trade and trade in chemical products. Between 1990-91 and 2001-02, the average annual growth in world exports of pharmaceutical products was close to 12 per cent, more than twice as high as the rate for chemical products. Chemicals are a rather heterogeneous product group, including inorganic chemicals, paints, detergents, fertilizers, petrochemicals, plastics, and pharmaceutical products. Among the 25 major chemical product groups, trade growth varied widely, but as already noted, of these groups pharmaceutical products grew very strongly over the decade ending 2001-02 (see Appendix Table 9).

The relative strength of global pharmaceutical trade compared to that of manufactures and other chemical products was even more pronounced in the 2000-03 period than in the 1990s. Trade in pharmaceutical products expanded at an average annual rate of 23 per cent between 2000 and 2003, twice as fast as

product exports (1990-2003) 17.1% (vs. 7.1% for chemicals and 5.8% for pharmaceuticals). In 2003, pharmaceutical exports were valued at \$17.1 billion, up from \$10.4 billion in 1990. The pharmaceutical sector has become a major export sector for many developing countries, particularly in Asia and Latin America. In 2003, pharmaceutical exports accounted for 1.5% of total exports, up from 0.4% in 1990. The pharmaceutical sector has also become a major import sector for many developed countries, particularly in Europe and North America. In 2003, pharmaceutical imports accounted for 1.5% of total imports, up from 0.4% in 1990. The pharmaceutical sector has become a major trade sector for many countries, particularly in Asia and Latin America.

²² Pharmaceutical products are defined to correspond to SITC Rev. 3 division 54.

²³ In R&D expenditure and in the introduction of top selling new chemical entities (NCE) US firms have a lead over European firms according to various reports. See Gambardella, A. et al. (2000) "Global Competitiveness in Pharmaceuticals A European Perspective", report prepared for the Directorate General, Enterprise and Industry, of the European Commission, November.

Second, mergers and acquisitions as well as outsourcing have led to a concentration in the production of bulk ingredients and end products on fewer plants and locations, in order to reap benefits from increasing returns to scale.²⁵ The stronger specialization of pharmaceutical plants within large multinationals and the development of production networks in this industry have led to increased shipments between the different locations and a rise in cross-border transactions.

Third, cross-border shipments have benefited from trade liberalization since 1995, following the elimination of tariffs for pharmaceutical products in the Uruguay Round negotiations in all major producing markets.²⁶ For the Quad countries (United States, EU(15), Japan and Canada), it is estimated that the average MFN bound duty of pharmaceuticals stood at 6.2 per cent in 1994 and became zero by 1999.

Fourth, the dynamic growth of Ireland's pharmaceutical industry and exports is due to a substantial FDI inflow, attracted by a well developed infrastructure and favourable tax conditions. According to the Industrial Development Agency of Ireland (IDA), 13 out of the top 15 pharmaceutical companies in the world currently have substantial operations in Ireland and employ more than 17,000 people at 82 production facilities.²⁷

Fifth, there were a number of specific developments which boosted trade flows, unrelated to strong demand growth or the re-allocation of production among affiliates or unaffiliated firms through network-related companies. At the end of 2001, Belgium became a hub for the distribution of pharmaceuticals produced in Ireland. This resulted in a jump of Belgium's imports and exports of pharmaceuticals of more than 100 per cent in 2002, and turned Belgium into the world's largest exporter of pharmaceuticals and the second largest importer (after the United States).²⁸ However, once established as a trading hub, the growth in Belgium's pharmaceutical exports and imports slowed down sharply in the subsequent year. Obviously, this

APPENDIX TABLES

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

Appendix Table 3
Leading exporters and importers in world merchandise trade, 2004
 (Billion dollars and percentage)

Rank	Exporters	Value	Share
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Appendix Table 4
Leading exporters and importers in world trade in commercial services, 2004
(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage 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	2	6	Italy	84.6	4.0	2

Appendix Table 6

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Appendix Table 9