EVOLUTIONS IN WORLD TRADE – A PICTURE BEFORE THE CRISIS

Lecturer PhD. Ramona Florina POPESCU
Lecturer Ph.D. Tiberiu AVRAMESCU

University of Pitesti, Romania
rf.popescu@yahoo.com

Abstract: *WTO observes very carefully not only the way that countries understand to apply and respect the agreements concluded under its care, but also the evolution of the world trade. This paper tries to make a suggestive comparison of the trade developments in the last three years (2005, 2006, 2007), tracking the evolutions of real merchandise, nominal merchandise and commercial services trade, by region and by country. The accent is put especially on the recent evolutions of the trade of Eastern European Countries. Finally, the authors formulate a conclusion regarding the evolution of the world trade since the present financial crisis begun.*

Key words**:** *WTO, real merchandise trade, nominal merchandise trade, commercial services trade, eastern european countries*

JEL codes: *F10, F17*

1. INTRODUCTION

Among the various functions of the WTO, some are regarded by analysts as the most important: the implementation oversee, administration and operation of the covered agreements, and the providence of a forum for negotiations and for settling disputes. Additionally, it is the WTO's duty to review the national trade policies and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.

The WTO is also a center of economic research and analysis, regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. The organization's annual reports were taken into consideration when drawing up this article, as mirrors for the latest evolutions in the world trade.

2. EVOLUTIONS IN REAL MERCHANDISE TRADE, BY REGION

Europe's real merchandise exports recorded a strong annual growth since 2000, exceeding import growth (estimated at 7%) but continued to lag behind the global rate of trade expansion.

2005 was not such a good year, because Europe's trade growth was sharply reduced, despite the depreciation of the euro, the British pound and the Swiss franc, which improved somewhat the price competitiveness of European exporters in markets outside Europe. Still, the expansion of real merchandise exports was limited to 3.5% in 2005, after 7% in 2004. The year 2006 marks a new rebound at 7%, the performers being countries like Finland and the Baltic States in the North and Turkey in the South, which registered double-digit export growth rates.

Speaking about the export growth rate it can be easily seen that Europe occupies only the 5th rank (2004 and 2005) and the 3rd rank (2006) among the six regions taken into consideration (with only half of Asia's growth rate). The import growth rate was the lowest of all regions in

2004 and 2005, and in 2006 only North America had a lower import growth rate (6.5% compared to 7%).

At country levels, Germany and the United Kingdom recorded export and import growth well above the European average, while real trade growth was sluggish in Italy and Spain and stagnated in France and Ireland.

Asia registered in the last three years the biggest export growth rates (15.5% in 2004, 11% in 2005, 13% in 2006 and 11.5% in 2007) and sat on the 3rd or 4th positions at import growth rates (14.5% in 2004, 8% in 2005, 8.5% in 2006 and 8.5% in 2007). The differences between export and import growth rates are due to China, India and Japan's contribution, the biggest traders in Asia (for example, it is estimated that in 2005 China's exports expanded by one-quarter in real terms, more than two times faster than Asia's total exports or its own import growth).

In North America region, the United States had the most significant evolution, with an export growth rate of 8.5% in 2006, the biggest one since 1997, (while its import growth rate was only of 5.5%), due to a weaker domestic demand, but only 5.5% growth rate in 2007. This evolution is even better if we think that in 2004 the United States recorded an import growth rate of 11%, compared to 8.5% growth rate for exports. Mexico recorded in 2006 double-digit growth rates both for imports and exports, but it came after a period when its imports grew much faster than its exports.Unfortunately, in 2007 the growth rate rose up only to 5.5%.

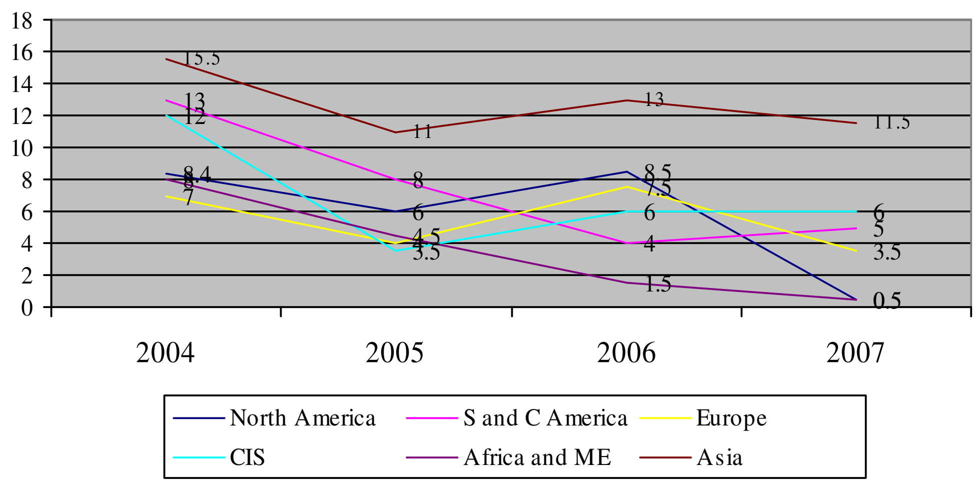

Figure 1. Evolution of real merchandise export growth rates by region (2004-2007) - annual percentage chance

Source: interpretation of WTO data.

After a period when South and Central America's merchandise exports and imports were among the most dynamic trade flows (8.5% and 8% export growth rates and 11% and 6% import growth rates in 2004 and 2005), 2006 came with an important fall in export rate - 4%, and an acceleration in import rate - 15%. A similar evolution recorded Africa and the Middle East, with a decrease of the export growth rate from 8% in 2004 at 1.5% in 2006 and of the import rate from 14.5% to 6.5%. In 2007 the evolution continued the trend and sat an export growth rate of 0.5% , but established an import rate of 12.5%.

The Commonwealth of Independent States (CIS) is taken into consideration separately in the WTO reports, and trade statistics prove a dramatic situation: it is the region with the most significant increase of import growth rates (16% in 2004 and 21.5% in 2006) and with the most significant deceleration of the export growth rate (from 12% in 2004 to 3.5% in 2006), despite the fact that it recorded one of the strongest economic growth of all regions in the last three years. A change appears in 2007 when the export rate kept itself at 6% and the import growth rate decreased to 18%.

3. EVOLUTIONS IN NOMINAL MERCHANDISE AND COMMERCIAL SERVICES TRADE, BY REGION

The merchandise trade evaluated in US dollars is strongly affected by price evolutions around the world. However, in 2006, contrary to developments between 2002 and 2004, the average annual exchange rate change between the US dollar and the euro and the British pound had been rather moderate as divergent developments in the course of 2005 and 2006 balanced each other. While a weaker yen might have contributed to weaker dollar export prices of Japan, the appreciation of the Canadian dollar and the currencies of several Asian traders had the opposite effect.

Europe's merchandise exports recorded in 2005 and 2006 the lowest regional growth rates (9% and 13%) and 10% and 14% import growth rates, with the Baltic States and the Balkan states as recorders, with over 20% growth rates. Still, Europe remains the biggest trader among the world's regions, with a 42% share.

Merchandise exports of the Asian region expanded by 24% in 2004, slightly less than imports, but still faster than global trade (21%) and faster than in the preceding year (18%). In 2005 there was a sharp deceleration in Asia's nominal merchandise export and import growth but the expansion rate remained at 15% and 12% respectively. Asia's merchandise exports and imports continued to expand faster than world trade in 2006, with 17% for exports and 14% for imports, and in 2007 with 19% (exports) and 17% (imports).

In 2006, China continued to record the highest export and import growth and its export growth continued to exceed its import growth so that its trade surplus widened further as the momentum in the export expansion was maintained while nominal import growth slackened. Since 2004, China has replaced Japan as the third world's largest exporter and as leading trader in the region; it has reported in 2005 an export growth of 28% and accounted for the first time for more than one-quarter of Asia's merchandise exports. (The date was unavailable for 2007).

In 2004 North America's merchandise exports and imports rose faster than in the preceding year (14% for exports and 17% for imports), but the tendency didn't last in the next three years (11%, 9%, 13% and 11%, 11%, 16% respectively). In 2007, the United States reported a good annual export growth performance (14%), almost the best in the last decade, and although US export growth exceeded its import growth (9%), the merchandise trade deficit had grown already so large that it continued to grow in 2007.

For the Middle East, the tendency for both exports and imports is the deceleration of growth rates in the last three years. For South and Central America, CIS and Africa the tendency shows generaly an increase.

The evolution of world commercial services trade by region in the last three years is illustrated in Figure 2.

The most significant evolution until 2006 recorded Europe, with the sharpest reduction of growth rates both for imports and exports, in a context of global reduction. In 2006, the exception is Asia, which recorded an improvement, with 17% export growth rate (compared to 15% in 2005) and 14% import growth rate (compared to 12% in 2005). Year 2007 reversed the situation for Europe and confirmed Asia's trends.

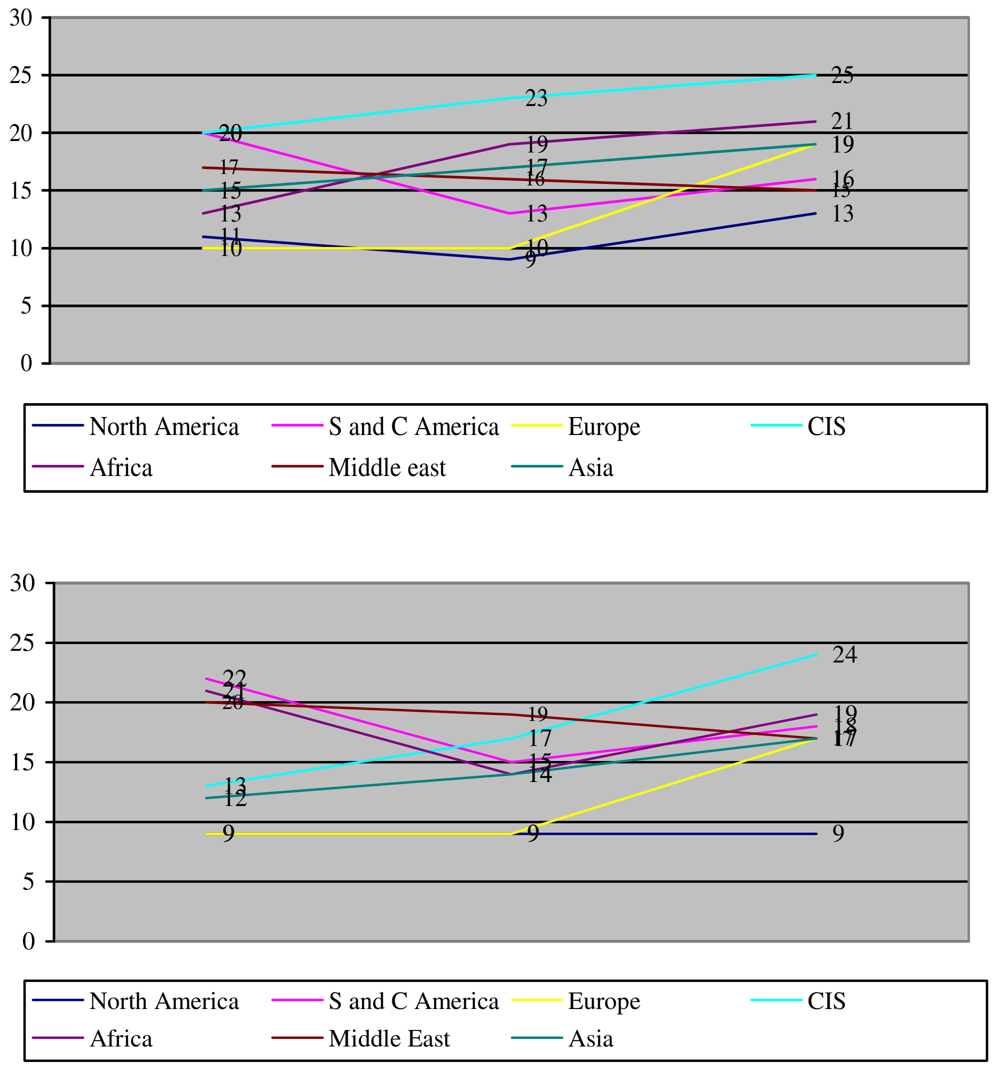

Figure 2. Evolutions of world commercial services trade by region (2005-2007) – exports (up) and imports (down) – annual percentage chance

Source: interpretation of WTO data.

4. TRADE EVOLUTIONS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

The Central and Eastern European Countries (CEE Countries) are not performers in international trade, but some of them may be found among the first fifty exporters and importers of the world (in statistics that include intra EU trade). In 2006, Poland, Czech Republic, Turkey, Hungary and the Slovak Republic are ranked (in this order) from 30 to 48 in the list of first 50 exporters in world merchandise trade (with shares from 0,9% to 0,3%). In the list of importers, Turkey, Poland, Czech Republic, Hungary, Romania, Slovak Republic and Ukraine are ranked from 22 to 45 (with shares from 1,1% to 0,4%).

The statistics that exclude intra EU (25) trade are somewhat different because here there can be found countries like Turkey, Ukraine, Romania and Bulgaria ranked from 22 to 47, with shares between 0,9% to 0,2% of world exports in 2006. In the list of importers, Turkey, Romania, Bulgaria, Croatia and Serbia are ranked from 15 to 50, with shares between 1,5% and 0,1% of total imports value.

The same countries may be found as important exporters and importers of commercial services in 2006.

It is important to analyze the annual percentage change of CEE Countries trade because the conclusions are quite encouraging: most of them record higher percentages than the world average (in some cases, they even double the world average).

5. EVOLUTIONS IN WORLD'S TRADE BY PRODUCT

WTO's statistics divide merchandise into three major categories of goods: agricultural products, fuels and mining products and manufactures. The manufactures are sub-divided into six categories of goods: iron and steel, chemicals, office and telecom equipment, automotive products, textiles and clothing.

Analyzing the evolution of *agricultural products*, it can be noticed that it was the less dynamic category: in 2004 the trade rose by 14%, more than the 2000-2006 average (9%) but the rhythm was lost in 2005 (with a trade growth of 8%) and in 2006 (11% of growth). The most dynamic category was the one of fuels and mining products, with annual percentage change of 35 in 2005 and 27 in 2006, based differently on the contribution of fuels trade (with 43% of growth in 2005 and 23% in 2006).

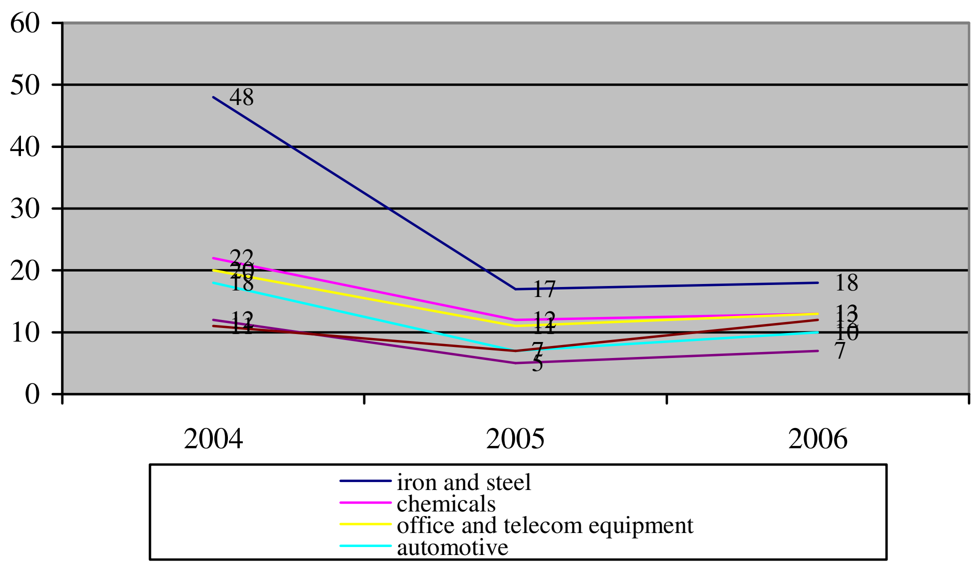

Figure 3. Evolution of manufactures (2004-2006) – annual percentage change

Source: interpretation of WTO data.

The *manufactures* recorded a decline of the annual percentage change, from 20% in 2004 to 13% in 2006. The most dynamic sub-category was the one of iron and steel, with 48% of trade growth in 2004 and 18% in 2006. The less dynamic sub-category was textiles, with 5% of growth in 2005 and 7% in 2006 (see Figure 3).

None of the CEE Countries can be found among the first 15 importers or exporters of agricultural products in 2006. Turkey is the only CEE Country placed among the first 15 importers and exporters of manufactures in 2006 (rank 15).

6. CONCLUSION

In the past year, world trade has started to decelerate sharply, weakening its role as a major engine of global economic growth in recent years. Growth in the volume of trade is estimated to have slowed to 4.4 per cent in 2008, nearly half of the average annual growth of 8.6 per cent during the period 2004-2007. This trend is expected to continue in 2009, with the volume of world exports anticipated to slow further to about 2 per cent on the heels of the global economic recession. The value of trade flows has increased significantly over 2008, but unlike a similar rise in 2004 which took place because of robust volume growth; this increase is largely due to extraordinary rises in the prices of oil and most commodities during the first half of the year.

At this critical juncture, as policymakers seek a stable and efficient system for global finance, it is important that it not be separated from the goal of a fair and inclusive system for international trade which allows for the full participation of developing countries in line with their development objectives and potential. Devising a coherent, rule-based and authentically multilateral international system requires an integrated approach.

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