World
Trade
Organization

Annual Report 1996

Volume I

Special Topic: Trade and Foreign Direct Investment

WTO 1996

World Trade Organization

Annual Report 1996

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Abbreviations and symbols

APEC	Asia-Pacific Economic Cooperation
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
ASEAN	Association of South-East Asian Nations
CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States
ECE	Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
ECU	European currency unit
EFTA	European Free Trade Association
EU	European Union (15)
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
LAIA	Latin American Integration Association
MERCOSUR	Southern Common Market
MNC	Multinational corporations
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Cooperation and Development
SAPTA	South Asian Preferential Trade Arrangement
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization

c.i.f.	cost, insurance and freight
f.o.b.	free on board
n.e.s.	not elsewhere specified
n.i.e.	not included elsewhere

The following symbols are used in this publication:

...	not available
0	figure is zero or became zero due to rounding
-	not applicable
$	United States dollars
Q1, Q2	1st quarter, 2nd quarter
I	break in comparability of data series. Data after the symbol do not form a consistent series with those from earlier years.

Billion means one thousand million.

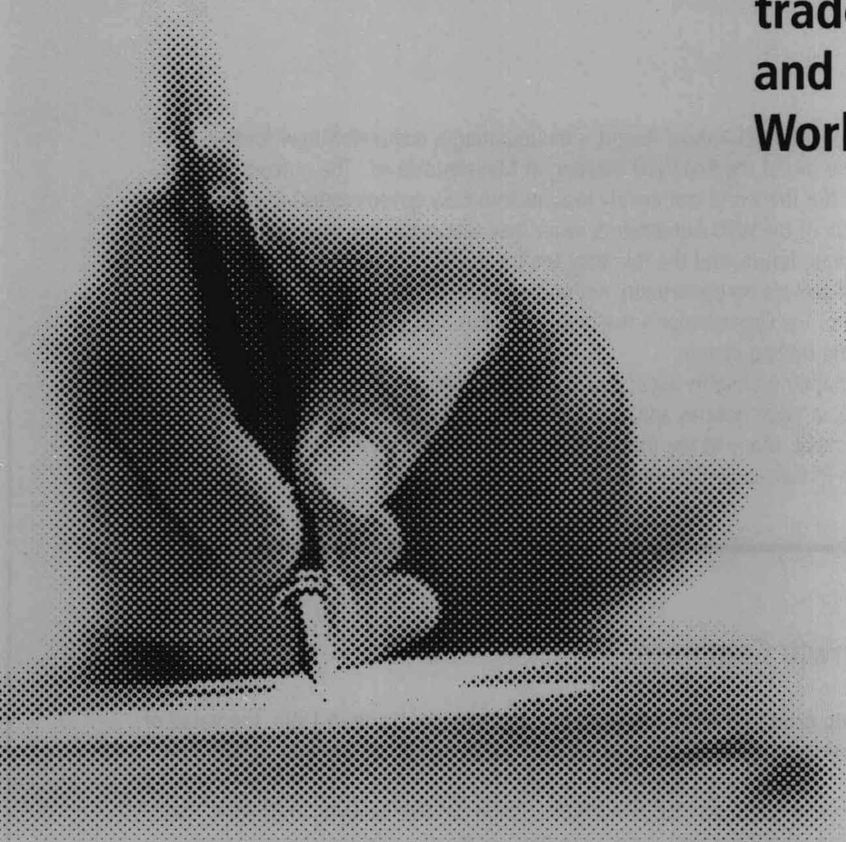
Minor discrepancies between constituent figures and totals are due to rounding.

All value figures are expressed in United States dollars. Unless otherwise stated (i) all import data are c.i.f. and all export data are f.o.b., and (ii) all merchandise trade figures are on a customs basis and include the intra-trade of free trade areas, customs unions, regional and other country groupings. Data for the latest year are provisional.

Closing date 31 August 1996

Chapter One

The state of world trade, trade policy and the World Trade Organization



The state of world trade, trade policy and the World Trade Organization

This issue of the WTO Annual Report – inaugurating a completely new format – is released on the eve of the first WTO meeting at Ministerial level.[1] The outcome of that meeting will offer the world community insights into how governments view the implementation of the WTO Agreements, what they see as the key trade issues now and for the immediate future, and the role they see for the WTO in addressing those issues. Singapore will provide an opportunity not only to evaluate and reinforce the achievements of the Organization's first two years, but also to guide the future evolution of the trading system.

This first chapter highlights aspects of the background of trends and developments in world trade, in trade policies and in the activities of the WTO against which the Ministers will meet. Many of the themes touched on in this chapter are developed at greater length in subsequent chapters.

I. Recent trends in world trade

1995: Growth Continues

With strong growth in both merchandise and services trade in 1995, the value of total cross-border trade in goods and services exceeded $6,000 billion for the first time.

Last year was a good year for world trade, as the detailed analysis in Chapter Two makes clear. True, the 8 per cent increase in the *volume* of world merchandise trade in 1995 represented a moderate slowdown from the unusually large 10 per cent gain in 1994. But it exceeded the average growth of trade over the past five years (6 per cent) and tied with 1988 for the second highest growth in the volume of trade in the past 10 years. Moreover, the 5 percentage point excess of trade growth over merchandise output growth (8 per cent versus 3 per cent) was the second largest in a decade, indicating that globalization is continuing at a rapid pace. In contrast, the last time output grew by 3 per cent – in 1986 – trade grew by only 4¼ per cent.

In *value* terms, world merchandise trade increased 19 per cent, and world trade in commercial services 13 per cent, in 1995.

Growth in merchandise trade in 1995 varied across regions, with the transition economies experiencing the strongest rates of growth: their exports and imports increased respectively by 26 and 23 per cent. Even for Africa and the Middle East, which registered below-average growth rates in 1995, the surge in trade was strong enough to exceed their performance during the first half of the 1990s. For instance, benefiting from an increase in commodity prices, the value of Africa's exports grew by 12 per cent, compared to 3 per cent in the previous year and negative growth in the three preceding years. In Africa, countries with export growth exceeding 20 per cent included Angola, Central African Republic, Kenya, Tanzania and Togo.

Countries that achieved comparatively high trade growth in 1995 covered a wide geographical area. For instance, among the top 50 merchandise exporters, the value of merchandise exports increased by 30 per cent or more for Argentina, Chile, Finland, Mexico, Poland, Republic of Korea, Sweden, and the Philippines. Similarly, among the top 50 merchandise importers, the value of merchandise imports increased by 30 per cent or more for Brazil, Chile, Czech Republic, Malaysia, Poland, Republic of Korea, South Africa, Thailand, Turkey, and Venezuela.

[1] The new WTO Annual Report format incorporates in one publication not only the former *International Trade* and *WTO Activities*, but also the Director-General's Annual Report to the Trade Policy Review Body (TPRB) entitled *Overview of Developments in International Trade and the Trading System*. The latter report is required by Part G of Annex 3 of the WTO Agreement, which provides for the TPRB to undertake, as part of the Trade Policy Review Mechanism, an annual overview of developments in the international trading environment which are having an impact on the multilateral trading system. That overview is assisted by an annual report by the Director-General setting out major activities of the WTO and highlighting significant policy issues affecting the trading system.

Prospects: after a comparative slowdown in 1996, trade growth to speed up again in 1997

At the beginning of 1996, modest slowing of trade growth was widely anticipated for the year as a whole. Based on the limited data now available for the first half of the year, it appears the slowdown may be somewhat sharper than predicted. But the volume of merchandise trade for 1996 as a whole is expected to increase by about 5 per cent. If that projection proves accurate, trade growth this year will match the expansion in 1990 and exceed the growth of trade in four of the past 10 years.

The slowdown in the rate of expansion of world trade appears to be largely the result of reduced consumer demand in Western Europe and North America. Related to this is the less rapid expansion of trade in Asian developing countries – though with merchandise export volumes expected to increase by 9 per cent, and import volumes by 10 per cent, these countries are expected to continue to expand their trade at a rate well above world average.

In fact, it is not so much a question of a sharp slowdown in global trade growth, as a return to more typical trade growth following two exceptional years. With output projected to grow this year at about the same 3 per cent as last year, a 5 per cent expansion of trade would also bring the excess of trade growth over output growth back to a level more typical of the postwar average.

The recent comparative slowdown in trade and economic growth of several Asian countries also reflects the result of domestic policies designed to achieve better macroeconomic stability and prevent emergence of inflationary pressures. This can be seen as a consolidation of gains made during the last 10 years when the volume of world trade grew by 80 per cent, and as providing a basis for stronger growth in future years. Moreover, in 1997, world merchandise trade growth is expected to accelerate as economic activity picks up in Western Europe.

The sustained high growth trend in developing countries' trade is largely explained by the implementation of domestic policies conducive to growth, and by the liberalization commitments they have undertaken in the context of the multilateral trading system. For developing countries, excluding oil exporters, the average ratio of trade to GDP has risen from 10 per cent in 1970 to nearly 30 per cent in 1995; the latter proportion is about 10 percentage points higher than the corresponding ratio for developed countries. In 1996, the growth rate of developing countries' output is expected to remain at around 6 per cent, compared to 2 per cent for industrialized countries, despite an expected lower rate of increase in import demand in industrialized countries as a group. It is estimated that by the middle of the next decade, developing countries will generate a slightly larger share of total world output than industrialized countries.

The rapidly expanding intra-developing country trade flows now constitute a significant growth stimulus not only among developing countries but for the global economy as a whole. For example, the intra-regional exports of developing Asian economies at $287 billion in 1995 are catching up with their combined exports of $314 billion to North America and Western Europe. During 1990 to 1995, North American exports to developing Asian economies grew by 13½ per cent per annum, compared to 7½ per cent for exports to the rest of the world. Exports from Western Europe and Japan to developing Asia grew even faster at 15 and 16½ per cent per annum, respectively, about three times the growth in their exports to all other regions. The total share of developing Asian economies in world trade is now about the same as that of North America, exceeds that of the European Community (excluding intra-EC trade), and is approximately double that of Japan. This share is expected to increase further in coming years and serve as a major source of growth for the global economy.

II. Trends in trade policies

It is no exaggeration to say that the last 10 years have seen a revolution in trade policies. When the Uruguay Round began in 1986, the world was a very different place. As detailed in Chapter Three, substantially reduced average tariff levels on industrial products applied by developed countries were offset by the widespread use of quantitative restrictions. Agriculture in these countries was increasingly protected from international competition by a variety of trade-distorting devices.

In many developing countries, import-substitution policies were still the norm, resulting in high tariffs as well as quantitative restrictions. As a result, these countries were marginal players in the international trading system.

Central and Eastern European countries were operating centrally-planned economies and their participation in international trade was dictated not by the market but by bureaucratic decisions.

The multilateral trading system was fragmented because membership of several key GATT agreements – and indeed of the General Agreement itself – was not universal. Trade in services was largely outside the scope of multilateral disciplines. Intellectual property rights, while governed by international standard-setting conventions, were not subject to any treaty for enforcement of these standards. This provided a fertile ground for the rise of unilateralism and bilateralism in trade relations. The dispute settlement machinery of GATT had become less effective because of the opportunities that existed for blockages. Confidence in GATT and in multilateralism was at a low ebb.

The extent and speed of the changes since then are striking. Developed countries have not only reduced further their tariffs on industrial products, but have also eliminated or undertaken to phase out quantitative restrictions on these products. They have begun the process of reforming the agriculture sector, reducing market-access restrictions, trimming trade-distorting domestic and export subsidies, and converting a variety of non-tariff measures into tariffs.

Developing countries have generally abandoned import-substitution policies and made significant progress in lowering trade barriers. During the Uruguay Round they made commitments to reduce and bind tariffs and the process of reduction has continued after the conclusion of the Round in many important countries, particularly in Asia. Some developing countries maintain quantitative restrictions for balance-of-payments reasons, but this is the exception rather than the rule and the prospects for their elimination in the near term are bright. The commitment by many developing countries to economic and trade reform has not only brought them fully into the trading system but also made them leading players.

Likewise, the erstwhile socialist economies have generally embraced the market economy and have become, or are in the process of becoming, part of the trading mainstream.

Looking at the pattern of reform overall, the WTO's experience with Trade Policy Reviews suggests that reform works best under conditions which involve a long-term policy framework, where alternative forms of protection do not replace those which are phased out, where a transparent framework is adopted for policy development and monitoring, and where there is mutually supportive domestic, regional and multilateral liberalization.

The significance of these changes has sometimes been obscured by the dramatic geo-political shifts of the last decade. Yet, though they lack a symbol like the fall of the Berlin Wall, their importance over the longer term may be even greater. The emergence of a virtual global consensus on the fundamentals of trade policy reinforces economic and political liberalization and lessens the risk of a reversion to old ways. Furthermore, open trade policies help encourage the rapid advance of global economic interdependence, not only releasing enormous energy for growth but also promoting a community of interest among countries at different levels of development. The WTO in turn embodies the new trade policy paradigm and gives it contractual solidity and enforceability.

A number of indicators show the growing economic interdependence among nations. Over the period 1973-1995, the estimated value of annual outflows of foreign direct investment multiplied 12 times (from $25 billion to $315 billion), and the value of merchandise exports multiplied eight and a half times (from $575 billion to $4,900 billion). Sales of foreign affiliates of multinationals are estimated to exceed the value of world trade in goods and services (the latter was $6,100 billion in 1995).

The reality of the global economy has outstripped international trade rules and policy approaches agreed half a century ago, in a different world. More than adjusting specific rules and disciplines in periodic negotiating rounds, what has become increasingly necessary is a permanent framework around which the trading system can grow and evolve continuously in a way which reflects the changing nature of world trade and of the participants in it.

This is why the establishment of the WTO deserves to be seen as one of the outstanding international achievements of the decade, as important in its time as the original foundation of the multilateral system was in its.

In systemic terms, the change that the WTO represents is clear. For example, the dispute-settlement machinery of WTO is now much more effective in dealing with disputes among Members and defusing them at an early stage. Expansion of the scope of multilateral rules to cover trade in services and intellectual property rights, coupled with the more effective dispute settlement machinery, discourages recourse to bilateralism and unilateralism and thus reduces international trade friction. All the past ills of the trading system may not have been cured, but it is now better equipped than ever before to promote growth and bolster stability.

III. WTO activities in 1996

When the WTO took over from the GATT, it did not have the luxury of a relaxed beginning and a gradual build-up to its new and greatly expanded mandate. The demanding pace of work in its first year, and again now in its second year, is a good indication of the central role the WTO is playing in the ongoing integration of the world economy. At the most basic level, the pace of the work is evident from the number of meetings. There were 1,650 meetings in 1995 (up 5 per cent from an already busy 1994), and in the first half of this year, the number of meetings was running 17 per cent ahead of 1995 (and 55 per cent above the first half of 1994). Allowing for periods when there are few, if any meetings, this means an average of nearly 40 meetings a week in 1995 and 46 meetings a week in 1996. All delegations in Geneva, and especially the ones with relatively smaller staff and fewer back-up resources in capitals, are feeling the pressure of this work load.

As regards the substance of those meetings, even a brief glance at the review of WTO Activities in Chapter Five reveals the extraordinary breadth of the WTO's mandate. The trade issues covered included:

- market access
- rules pertaining to specific product categories such as agriculture and textiles and clothing
- rules relating to anti-dumping, subsidies and safeguards, regulations and standards covered by technical barriers to trade and sanitary and phytosanitary measures
- import licensing procedures
- rules of origin
- trade in services
- trade-related intellectual property measures
- trade and environment
- accession

The work was carried out through some 30 different bodies. The discussions in these bodies provide Members with an opportunity to clarify and monitor the policies used by other Members; this process is the first stage of the mutually beneficial interaction among Members which eases trade tensions and helps to contain possible disputes.

For issues that cannot be resolved in other ways, the WTO's reinforced **dispute settlement** system continues to prove its effectiveness. The WTO dispute settlement procedures offer both a pragmatic approach which encourages the resolution of differences through consultations and a formal mechanism for resolving disputes through their submission to a panel and the WTO Appellate Body.

As of 16 October 1996, 59 requests for consultations covering 41 matters had been made under the WTO's Dispute Settlement Understanding. Of these, nine matters were settled without even the establishment of panels, and three were settled after the panel's establishment but prior to the conclusion of the panel process. Two panels (the Gasoline case and the Japan Taxes case) have completed their work, and these cases have also been reviewed by the Appellate Body. Currently, there are seven active panels on a variety of issues.

In a marked change from the past, when the dispute settlement system was mostly used by developed countries, both developed and developing countries are actively using the system to settle their trade disputes. This is a sign of increased confidence in the impartiality and effectiveness of the WTO's multilateral dispute settlement system. Ministers at Singapore can justly regard the dispute settlement system as an outstanding success story of the WTO's first two years.

The central focus of the WTO's work in 1996, as in 1995, has been the **implementation** of the commitments undertaken at the end of the Uruguay Round. These included commitments to continue negotiation in a number of vitally important sectors of trade in services. Two of these negotiations were due for completion in 1996: **maritime services and basic telecommunications.**

Though the negotiations in maritime services were suspended this year, the negotiators were able to agree on some positive points. Negotiations will resume in the next major round of services liberalization, which is only three years away, and they will resume on the basis of the best offers tabled in this negotiation. Meanwhile, there is an understanding that countries will respect a "peace clause", i.e. not take measures to improve their negotiating position except in response to measures taken by others. In basic telecommunications, 34 members, counting the EC as one, made offers to grant foreign access to domestic telecoms markets for a wide variety of services. Thirty of these members also offered commitments in the vital area of domestic regulation. This was the first time that multilateral commitments were negotiated on fundamental competitive principles. Since the negotiations could not be completed by April this year, it was decided to freeze the existing offers until a one-month period beginning 15 January 1997, when participants will be able to improve, change or withdraw their offers.

Concluding the telecoms negotiation is clearly a top priority for the new year – as is improving on the result obtained in 1995 in financial services. The telecom sector alone is worth over $500 billion in global revenue annually, and the offers tabled so far cover 93 per cent of this amount. These sectors are the arteries and the nervous system of all economies, whatever their level of development.

These negotiations also open a window on the future of trade negotiations. Negotiations in new knowledge-based sectors transcend the traditional notions of exchanging concessions among opposing interests. In a world where economic prospects will more and more depend on access to an efficient financial and communications infrastructure, all parties to the negotiations have essentially the same interest. Liberalization within agreed rules can thus be seen as a shared understanding, not a trade-off of conflicting agendas. A more widespread appreciation of this perception would contribute significantly to the momentum for successfully concluding these negotiations – and others like them in the future.

Another way in which the WTO is embracing its future potential is through expanding its membership. Since the establishment of the WTO, the **accession** process for four countries (Ecuador, Bulgaria, Mongolia and Panama) has been completed, three of them in 1996. With the accession of Panama, all countries in the Latin American region are now Members of the WTO. The WTO currently has 28 accession Working Parties. The most recent requests for accession were from Georgia, the Kyrgyz Republic and the Sultanate of Oman. Existing requests include important economies like Belarus, China and Chinese Taipei, the Russian Federation, Saudi Arabia, Ukraine and Vietnam, economies in transition like those of the CIS, Estonia, Latvia and Lithuania, Croatia and the Former Yugoslav Republic of Macedonia, and important developing economies like Jordan. These are all important players on the international economic and trade scene.

They are also among the most significant emerging markets. The strong desire among these countries to join the WTO shows the growing appeal of the concept of a truly universal trading system based on internationally agreed and enforceable rules.

The accession of new Members and the more active participation of many existing ones have placed an added importance on the **technical cooperation** activities of the WTO. This programme, which involves a very modest budget commitment relative to other international development aid activities, aims at building human and institutional capacity in developing and in transition economies so that they can benefit to the maximum from their trading opportunities.

Since the entry into force of the WTO in January 1995, a total of 173 technical co-operation activities has been organized both in developing regions and in transition economy countries, of which 94 were organized in 1996. These activities, including those organized at the regional level, benefited over 100 countries. A lasting, structural impact of these activities is sought through human resource development and institutional capacity building. In this context, a joint framework agreement[2] was concluded between WTO, UNCTAD and the International Trade Centre (ITC), to promote complementarity among these institutions and to avoid duplication of technical assistance activities provided by them to African countries. Furthermore, as a result of an initiative by the Director-General following his visit to Africa in January 1996 with the Executive Director of the ITC, an "Integrated Technical Assistance Programme in Selected Least-Developed and other African Countries" was developed in close coordination between WTO, UNCTAD and the ITC.

This Integrated Programme initially covers eight African countries, including four least developed countries: Benin, Burkina Faso, Tanzania, Uganda, Côte d'Ivoire, Ghana, Kenya and Tunisia. It is envisaged to extend this programme to other countries in the short- and medium-term. The objective is to enhance the development prospects and competitiveness of African and least developed countries through increased participation in international trade. Other joint technical cooperation activities include WTO collaboration with the ACP Secretariat and the European Union, which resulted in a series of subregional seminars for ACP countries undertaken between February and October 1996, including five in Africa, one in the Caribbean and one in the Asia-Pacific region.

1996 has also been the year in which the **least-developed countries** began to receive the attention their situation deserves. The urgent need for concrete measures to counter their marginalization was one of the main themes at the G7 Summit in Lyon this year, at which the WTO was present for the first time. On that occasion, and on numerous occasions thereafter, the Director-General has put forward proposals to improve the situation of least-developed countries. These include:

- full and rapid implementation of the Marrakesh Declaration on the Least-Developed Countries
- improving their market access by working towards the elimination of all tariff and non-tariff barriers faced by their exports
- helping to improve their investment climate, especially by negotiating, when appropriate, multilateral rules on investment
- helping build human and institutional capacity by improving the effectiveness and coordination of technical cooperation.

The collective effort to help least-developed countries continues to be a major theme for the **cooperation between the WTO and other international organizations**. In 1996 these links were further developed and deepened. In particular, the Marrakesh Ministerial mandate to work for greater coherence in global economic policymaking was acted upon through the negotiation of cooperation agreements between the WTO and the IMF and World Bank. These agreements provide a basis for, *inter alia*, improving the exchange of information among the three organizations, attendance at each other's relevant meetings and pursuing mutually consistent and supportive policies. At the time of writing they were in the process of final approval by the respective governing bodies of the three institutions.

In addition, the WTO's already close cooperation with UNCTAD has been further strengthened, through the joint technical cooperation projects noted above, and through collaboration between the two secretariats at all levels. The Director-General

[2] "Technical Cooperation for Africa in the Multilateral Trading System, Main Activities by the International Trade Centre (UNCTAD/ITC), the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO)".

has continued to hold regular meetings with Mr. Ricupero, the Secretary-General of UNCTAD, and made addresses to UNCTAD IX and UNCTAD's Trade and Development Board; Mr. Ricupero has in turn addressed the WTO General Council and Committee on Trade and Development.

Cooperation has likewise been intensified with the United Nations and its specialized agencies, notably in the context of the campaign for the least-developed countries. The WTO has also maintained cooperative contact in 1996 with a wide range of other organizations such as the OECD, WIPO, the World Customs Organization and the FAO, whose World Food Summit in November the Director-General is scheduled to address.

Throughout this increasing network of contact and collaboration the WTO is reinforcing the message that **trade is a central concern of international relations** and that the **trade dimension of growth and development** is one that cannot be underestimated.

Another very important area in which the WTO made significant progress in 1996 was the consideration of **regional trade agreements** in relation to the multilateral system. The considerable recent expansion in the number, scope and ambition of such initiatives has made it all the more essential to ensure not just that they conform to WTO rules but also that, in a wider sense, they reinforce, rather than detract from, the multilateral system. This year, the WTO's Members greatly improved the Organization's capacity to handle these issues by establishing a Committee on Regional Trade Agreements, which met for the first time in May 1996. The Committee was able to identify, through the examinations it conducted, a number of issues related to the relevant WTO rules which are of importance for its consideration of the systemic implications of regional trade agreements. In addition, the Committee undertook the examination of 21 regional trade agreements out of the 32 outstanding as of June 1996; provided a single forum for consideration of a variety of issues related to regional trade agreements under the WTO; and developed the "Standard Format for Information on Regional Trade Agreements" which is expected to accelerate the provision of information on agreements notified to the WTO.

Lastly, as the scope of the multilateral trading system has evolved and traditional external barriers have been reduced by Members, domestic deregulation and international investment have assumed greater importance. The **special topic** in this year's annual report is "**Trade and Foreign Direct Investment**" (Chapter Four), which examines the evidence and the literature concerning the subject, sets out the policy choices WTO Members face, and concludes that only a multilateral negotiation in the WTO, when appropriate, can promote a global and balanced framework for dealing with the linkages between trade and investment.

The Significance of the Singapore Ministerial

This brief survey of the challenges and achievements of the WTO's second year makes clear the significance of the issues that are on the table at Singapore.

The Ministerial Meeting will be an event of political significance and it should send a strong political message, one which emphasizes the opportunities in the new global economy while not ignoring the challenges. It should be a message of ambition and confidence for the multilateral system as it approaches its 50th anniversary in 1998.

Unlike most of its GATT predecessors, the Singapore Ministerial will not be the start or the end of a major negotiation. The first ministerial meeting of the WTO will, instead, be a very important point on a continuum – the evolution of the multilateral trading system. This report sets out some of the challenges that the pace and the extent of global economic integration pose to the system. The new effectiveness and credibility that it has gained through the WTO must be maintained by ensuring that the Organization is mandated and equipped to respond to these challenges, and to assist its Members to do so. As the trading world moves ahead, the WTO cannot stand still. The issues at stake are not just ones of growth and prosperity, vital though these are; the existence and expansion of a trading system based on internationally agreed and enforceable rules and disciplines is one of the great successes of postwar international relations, and the world needs it to continue as an example of cooperation and a guarantee of stability.

Chapter Two

World trade in 1995 and prospects for 1996

World trade in 1995 and prospects for 1996

Overview

World GDP grew at almost the same rate in 1995 as in 1994, or by roughly 2 per cent.[1] At the same time, and despite increasing commodity prices, inflation declined by about one half in the developing and transition economies as a group, while continuing to be very low in the industrialized countries. The expansion of world output was broadly based. For instance, 103 out of 137 countries are estimated to have recorded positive per capita income growth in 1995, compared with 93 countries the previous year, and 63 countries in 1993.[2] However, many countries continue to suffer from a sluggish growth in total and per capita income.

World *merchandise exports* expanded 8 per cent in *volume* terms in 1995, moderately below the unusually large 10 per cent increase in 1994 but above the 6 per cent average annual gain for the previous five years. Following the pattern evident since 1991, the expansion of world merchandise trade exceeded by a wide margin the expansion of world merchandise production. With the possible exception of the Middle East, this large gap between trade growth and output growth was evident in 1995 in all the main regions.

Data on the volume of trade in services are not available, but the *value of trade in commercial services* is estimated to have expanded by 13 per cent, compared with the 9 per cent expansion in 1994 and stagnation in 1993. However, the growth in the value of trade in commercial services again fell substantially short of the growth in the *value of merchandise trade*, which expanded by 19 per cent 1995.

The *volume* of exports of all three main categories of world merchandise trade – agricultural products, mining products and manufactures – grew during 1995 by between 5½ and 9 per cent, with agricultural products and manufactures growing at a slightly slower pace than in the preceding year, and mining products expanding somewhat faster.

At a more disaggregated level, exports of non-ferrous metals, ores and minerals, and iron and steel increased by more than 24 per cent in *value* terms, benefiting from rapid price increases in US dollar terms. Office and telecom equipment continued its brisk expansion also in 1995, growing by more than 25 per cent in value terms, reflecting the strength of demand stimulated by new products and relatively stable prices in the electronic sector. Among sectors with below-average growth were fuels and clothing. The value of trade in agricultural products expanded at a pace slightly below that of all merchandise, as above-average unit value increases were more than offset by below-average volume increases.

At the regional level, GDP growth in the industrial countries and the developing countries slowed slightly in 1995 compared to 1994, while for the transition economies the *rate of decline of output* slowed down substantially (and output is expected to turn upward during the first half of 1996). GDP growth in non-OECD Asia, Central and South America, and several of the transition economies continued to be more dynamic than in the industrial countries.

The growth in the *value of merchandise trade* was unevenly distributed across regions, with above-average rates experienced by the transition economies and Western Europe, as well as by Latin American exports and Asian imports. In the remaining cases, rates of growth of imports and exports fell short of the average rates for the world as a whole. But, even if below the world average, the growth of the exports of Africa, North America and the Middle East was significantly higher than during the earlier part of the 1990s.

[1] This figure is obtained using market exchange rates when aggregating the GDP growth rates of different countries. An alternative approach, used since 1993 by the IMF, is to use GDP on a purchasing power parity basis as weights when estimating regional and global output growth. This has the effect of increasing the relative contribution of the GDP of many non-OECD countries to world GDP, and thus increasing the weights of these countries in calculations of the average GDP growth for the world as a whole. Since the non-OECD countries (as a group) have experienced faster GDP growth than the OECD countries in recent years, the IMF figures show higher output growth rates than do figures based on the traditional approach, which uses market exchange rates to convert each country's GDP into US dollars. For the year 1995 the IMF approach yields a world GDP growth of 3½ per cent, slightly lower than the preceding year (in other words, the *change* between 1994 and 1995 is very similar to the *change* indicated by the traditional approach). For an explanation of the IMF approach, see IMF (1993, Section VI).

[2] United Nations (1996, Table I.1).

Prospects for 1996

GDP

Based on IMF projections, world GDP is expected to expand at a slightly higher rate during 1996 than during 1995.[3] The output of the *industrial countries* is expected to grow slightly faster than in 1995, or 2.3 per cent. The outlook for *developing countries* as a group remains excellent as they are projected to increase their output by nearly 6½ per cent. For the *economies in transition*, the previous years' negative output growth is expected to change into a modestly positive rate of roughly 0.5 per cent.

The projected developments diverge with regard to the industrialized countries. Growth is expected to slow down in the *European Community*, from 2.4 per cent in 1995 to 1.5 per cent in 1996, with a slight increase expected for the latter part of the year. Western Europe continues to be plagued by high unemployment and subdued consumer confidence, leading to low consumer demand. At the same time, fiscal policies are expected to remain tight in order for countries to meet the convergence criteria for the Economic and Monetary Union (EMU). However, the successful curbing of inflation and inflationary expectations, and the associated declines in nominal and real interest rates, are expected to gradually stimulate economic activity.

After a prolonged period of slower growth, *Japan's* recovery began in mid-1995, and is expected to accelerate in 1996. This growth is stimulated by supportive fiscal and monetary policies and the depreciation of the yen starting in mid-April 1995. For the *United States*, economic growth is expected to increase to 2.3 per cent from the previous year's 2.0 per cent, largely driven by strong consumer and business investment demands. Other contributing factors include expanding net exports.

Although projections for *developing Asia* point to a slight reduction in GDP growth (to 8 per cent) in 1996, this region is expected to be once again the fastest-growing region in the world. *Latin America* is expected to grow more rapidly than in the preceding year, in part as a result of the resumption of growth in Argentina and Mexico after the recent financial turmoil (the peso crises). *Africa* as a whole is expected to increase its growth from 3 to 5 per cent in 1996. The growth picture will continue to be heterogenous, however. Morocco and Tunisia are projected to recover strongly and grow at markedly above-average rates. Nigeria and South Africa are expected to expand by about 4 per cent, a moderate improvement compared with 1995.

The *Middle East* region is expected to continue to grow at about half the average rate of developing countries, but with considerable differences between individual countries. The *economies in transition* are expected to see a turn-around from negative to a modest positive growth of 0.4 per cent. Rapidly falling inflation, structural adjustments, and general improvements in macroeconomic conditions are providing a foundation for more rapid growth.

World trade

Although global GDP growth is expected to remain roughly unchanged in 1996 as compared with 1995, *the rate of increase in global trade is expected to slow significantly.* The *value* of world merchandise trade is estimated to have slowed from an annual increase of 19 per cent in 1995 to less than 5 per cent in the first half of 1996 (relative to the first half of 1995). A marked slowing of growth in the value of trade could be observed for North America, Latin America, Western Europe and Asia. For all regions the deceleration affects both exports and imports. The decrease is more pronounced on the import side than on the export side in North America and Western Europe, while the opposite holds true in Asia. This pattern of trade developments among these three regions was already evident in 1995 and reflects principally differences in demand growth.

A large part of this sharp slowing of growth in the value of merchandise trade is due to developments in dollar prices. "Valuation effects" due to exchange rate movements, especially of the yen and some Western European currencies vis-à-vis the US dollar, were the key factor.[4] For example, Japanese exports rose in dollar terms by 11½ per cent in 1995, while they decreased by 10 per cent in the first six months of 1996.

[3] This section draws on IMF (1996). It should be recalled that IMF's aggregate growth numbers are based on purchasing power parity weights (see footnote 1).

[4] In 1995, the US dollar depreciated against the Japanese yen and the ECU by 8 and 9 per cent, respectively, which automatically raises the dollar value of trade flows invoiced in those (and other appreciating) currencies. In the first half of 1996, the dollar *appreciated* vis-à-vis the yen and the ECU by 18 and 2½ per cent, respectively.