

Recent developments in world trade

After strong growth in 2006, world trade has continued to expand solidly in 2007. Export growth has been especially robust in China, but many economies have performed well, including India, Japan and the Association of South East Asian Nations (ASEAN) countries. Commodity exporters in the Middle East, Africa, the Commonwealth of Independent States (CIS), Canada and Australia are benefiting from high commodity prices. The outlook for global trade remains positive, notwithstanding recent moderation in United States (US) economic growth and volatility in global financial markets. Strong economic growth in China, India and other emerging economies is expected to support continuing robust trade growth through 2007.

World trade in recent years

World (goods and services) exports grew by 9 per cent in volume terms and by 15 per cent in value terms in 2006 (**Chart 1**). This was up slightly from 2005, but below the very high 21 per cent increase in 2004.

A vibrant world economy has been supporting exports growth. Since 2001, there has been broad-based strengthening in world GDP, with major emerging economies, notably China and India, prominent. In 2006, world GDP grew by 5.5 per cent, the strongest growth since 1973 (**Chart 2**).¹

The strong world economy has boosted demand for commodities, particularly those, such as

energy and metals, used in industrial manufacturing and infrastructure development (**Chart 3**). Since the late 1990s, commodity prices have trebled as growth in global demand has run ahead of the supply response. Oil prices have also been affected by geopolitical tensions, supply disruptions and concerns over declining reserves in some countries.

By comparison, prices for manufactures exports have been subdued (**Chart 4**). Increasing numbers of producers have entered the market, especially from China. Manufacturers have dispersed production across countries to make use of local efficiencies (reflected in the growth in intra-industry trade), and this has reduced costs and led to downward pressure on prices. These trends have particularly benefited commodity exporters and have been reflected in the substantial improvement in Australia's terms of trade.

¹ On a market exchange rate basis, world GDP grew by 3.9 per cent in 2006 (IMF WEO July 2007 Update).

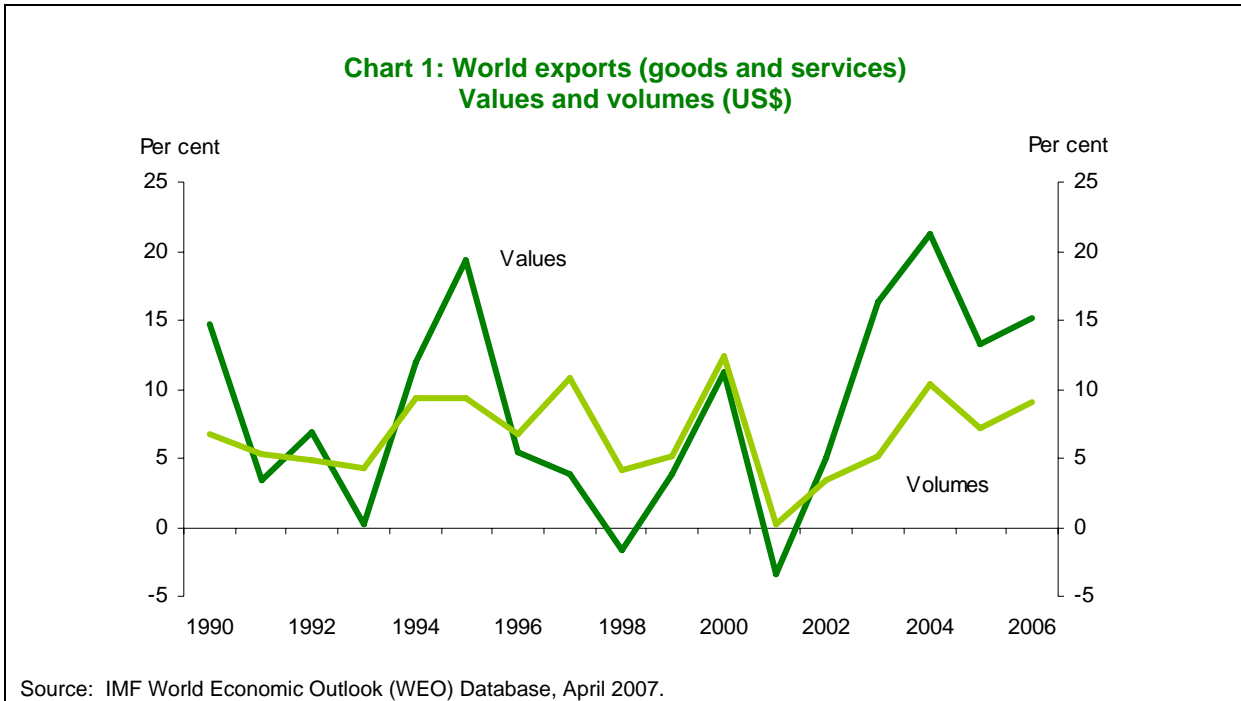
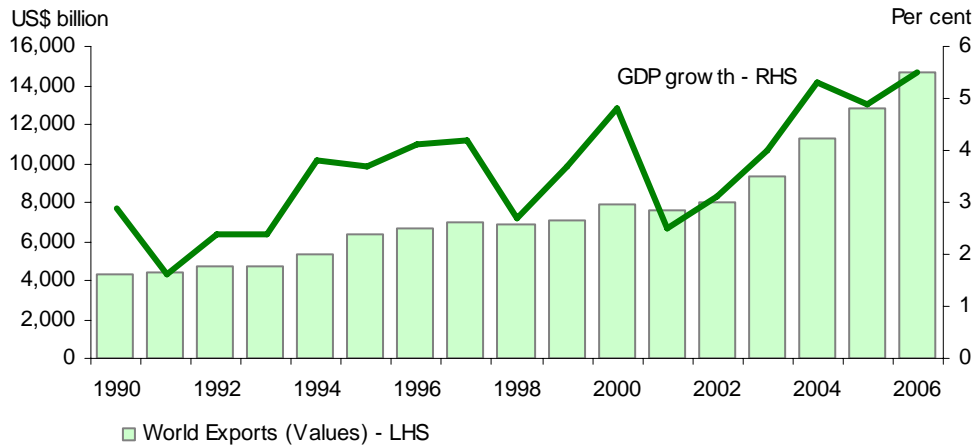
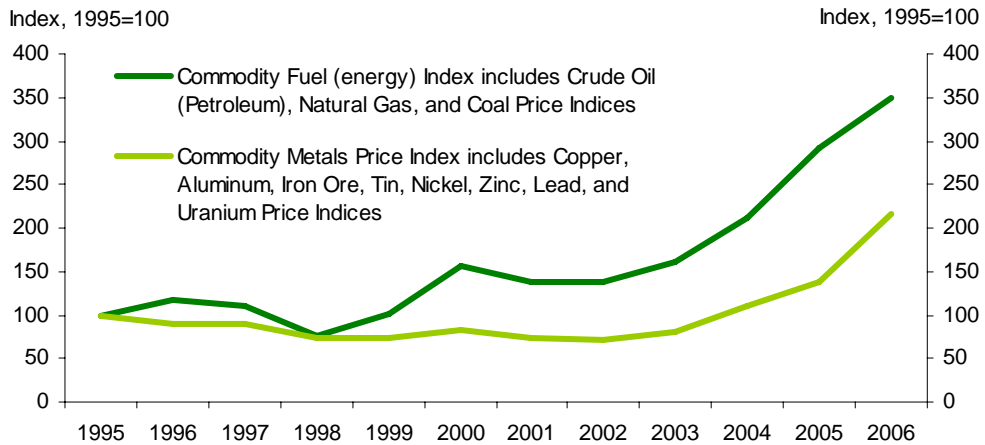


Chart 2: World exports (goods and services) and GDP growth



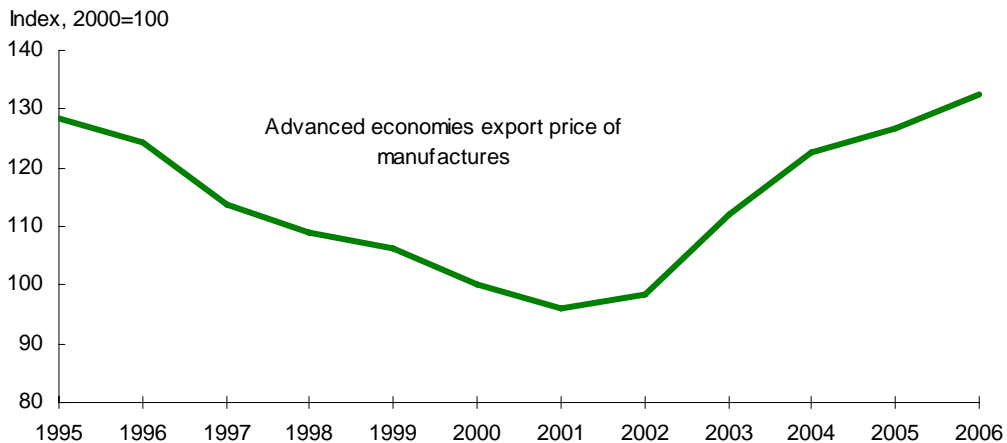
Note: World GDP growth calculated using average growth rates for individual countries, aggregated using Purchasing Power Parity (PPP) weights (IMF 2007). The data series goes back to 1980.
 Source: IMF WEO Database, April 2007 and WEO Update July 2007.

Chart 3: Global prices for energy and metals



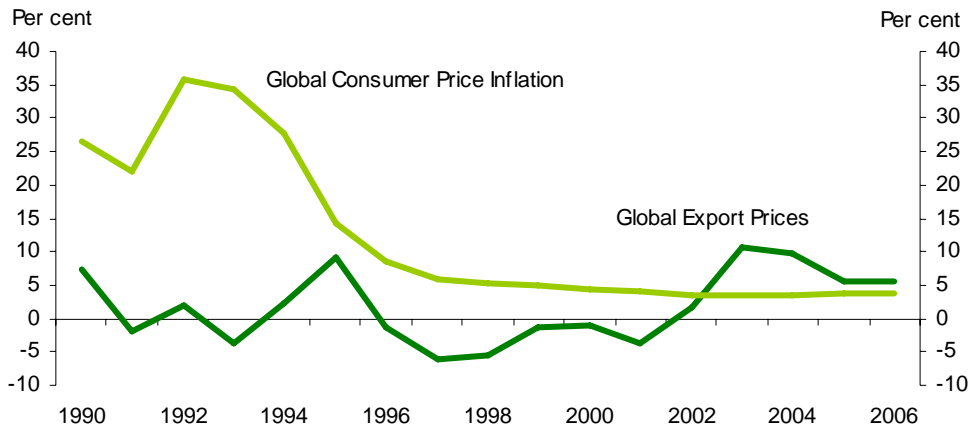
Source: IMF WEO Database, April 2007.

Chart 4: Export price of manufactures (US\$)



Source: IMF WEO Database, April 2007.

Chart 5: Global export prices (US\$) and consumer price inflation



Source: IMF WEO Database, April 2007, WTO and DFAT estimates, 2007.

The subdued manufactures goods prices, together with more focused inflation targeting by central banks, have helped to contain global inflation. Indeed world consumer price inflation fell significantly between 1992 and 2004 (**Chart 5**) and this has facilitated lower interest rates in many countries.

However, there are some indications that global inflation may be starting to rise. Global export prices, which were generally falling, have risen since 2002 (largely due to the boom in commodity prices). Prices of manufactures have risen in recent years in response to sharp rises in prices of raw materials and energy used in their manufacture. Global inflation rose (albeit slightly) in 2005 for the first time since 1992 and again in

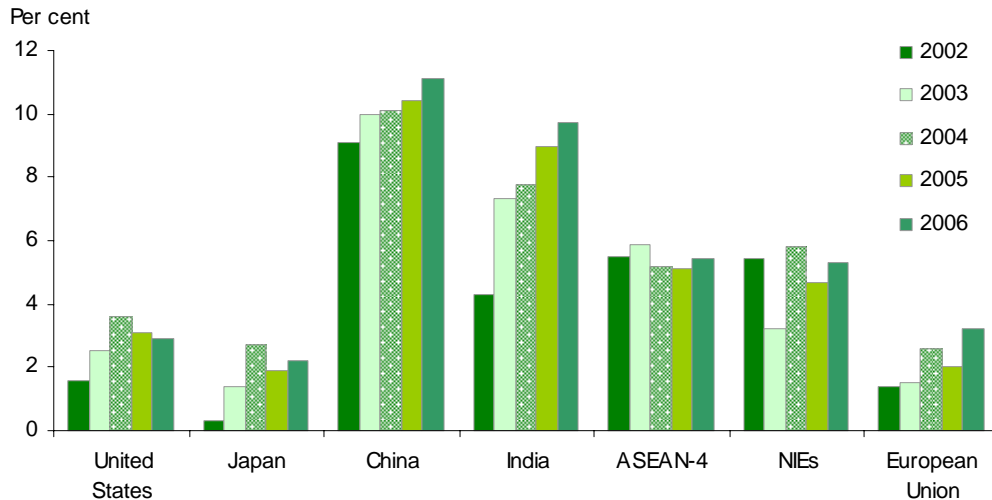
2006. World interest rates have also been on the rise.

Regional developments

Growth in the global economy over recent years has been broad-based (**Chart 6**). In most major economies, strong regional growth has been accompanied by strong growth in exports (**Chart 7 and 8**).

United States GDP grew by 2.9 per cent in 2006. Growth was mainly driven by domestic consumption, although the weak housing sector increasingly weighed on growth over the year. US export growth has improved in recent years, benefiting from a lower US dollar, and reached 12.7 per cent in 2006.

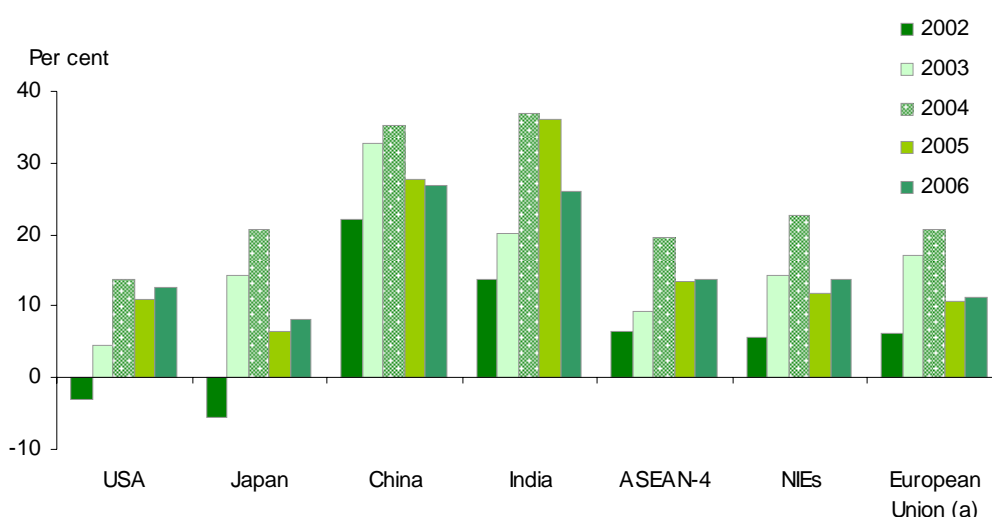
Chart 6: Real GDP growth (national currency) in major economies



Note: ASEAN-4 includes Indonesia, Malaysia, the Philippines and Thailand. NIEs include Hong Kong, SAR, the Republic of Korea, Singapore and Taiwan.

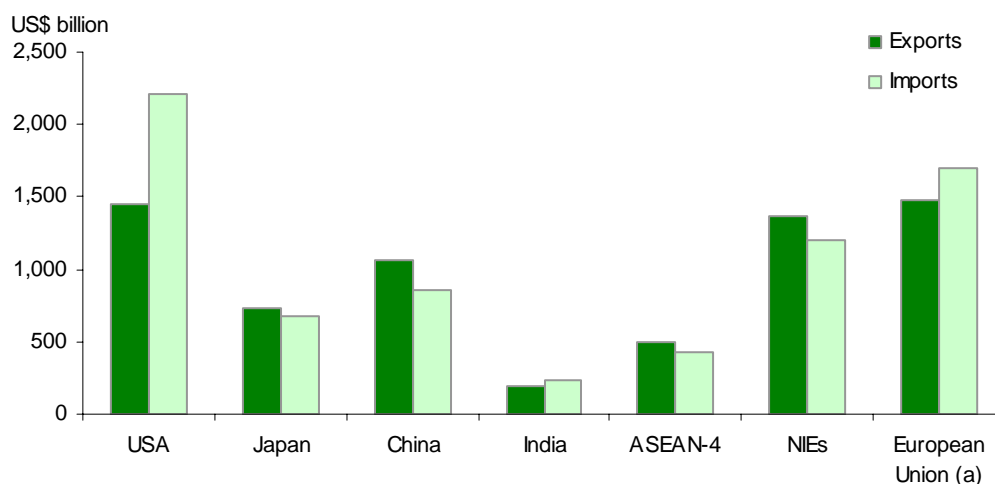
Source: IMF WEO Database, April 2007 and National Statistical Sources.

Chart 7: Exports growth (goods and services) in major economies (US\$)



Note: ASEAN-4 includes Indonesia, Malaysia, the Philippines and Thailand. NIEs includes Hong Kong, SAR, the Republic of Korea, Singapore and Taiwan. (a) Extra EU merchandise exports only.
 Source: IMF IFS, CEIC Asia database, Eurostat and National Statistical Sources, 2007.

Chart 8: Exports and imports (goods and services) in 2006, major economies



Note: ASEAN-4 includes Indonesia, Malaysia, the Philippines and Thailand. NIE includes Hong Kong, SAR, the Republic of Korea, Singapore and Taiwan. (a) Extra EU merchandise exports only.
 Source: IMF IFS, CEIC Asia database, Eurostat and National Statistical Sources, 2007.

Since 2003, the Chinese economy has delivered double-digit growth, reaching 11.1 per cent in 2006. GDP growth has been driven by investment and exports, with Chinese export growth exceeding 20 per cent (and at times 30 per cent) each year, over the past five years. China's merchandise exports are rapidly approaching the value of the United States. China is also an increasingly important destination for imports (particularly intermediate goods) and in 2006 imported more goods than Japan.

The European Union (EU as a group and excluding their internal trade) is the world's biggest source of exports and is the second largest importer. European GDP growth has

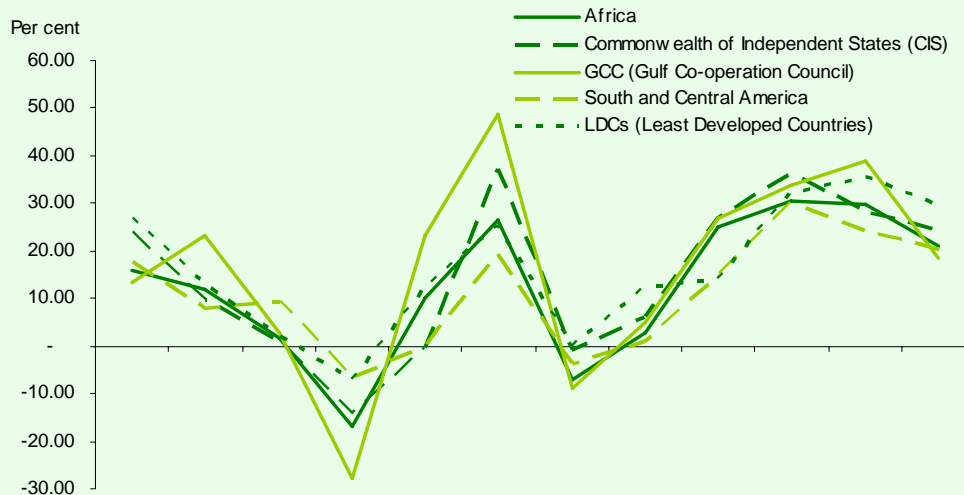
strengthened in recent years, supported by rising business and consumer confidence. In 2006, EU GDP rose by 3.2 per cent. Economic activity in Japan has also picked up, with exports playing an important role. Japan's exports rose by 8.2 per cent in 2006.

Exports growth has been strong in India and the ASEAN economies in recent years. India has now started to produce rates of export growth similar to China, with growth exceeding 25 per cent each year since 2004. ASEAN has responded well to the challenge of competition from China. ASEAN merchandise exports grew by 18 per cent in 2006, reflecting their increasing integration into regional chains of production (especially in manufacturing).

Box 1: Exports growth in emerging and developing economies

The past five years have seen strong growth in exports from emerging and developing economies beyond East Asia and India. These countries have benefited from the growth in the world economy and the rising demand for commodities. Demand for resources, notably oil, has benefited exporters from the Middle East (the Gulf Cooperation Council) and the Commonwealth of Independent States. More recently, prices for rural commodities have risen, benefiting exporters from South and Central America. Exports from many Least Developed Countries (LDCs), especially those with strong factor endowments, have also risen substantially.

Merchandise export growth in emerging and developing economies (US\$)



Notes: GCC includes Kuwait, Qatar, Oman, Saudi Arabia, Bahrain and United Arab Emirates. CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan.
Source: WTO 2007.

Resource-intensive emerging and developing economies also delivered impressive GDP growth performance in 2006; the Middle East grew by 5.7 per cent, Africa by 5.5 per cent, and the Commonwealth of Independent States by 7.7 per cent. And as noted (see Box 1) these group of countries have recorded strong exports growth over the past five years.

Trade in 2007

The world economy has continued to support strong export growth in 2007 (**Chart 9**). While the pace of export growth in the United States, ASEAN-4 and India has slowed over the course of the past year, recent months have seen resurgences in China, Japan and ASEAN-4.

Slowdowns in the US economy in the past have been reflected in lower export growth from other regions, particularly Asia, and slower economic activity in export-oriented economies. However, over the past year, continued economic strength in China, the European Union and elsewhere has

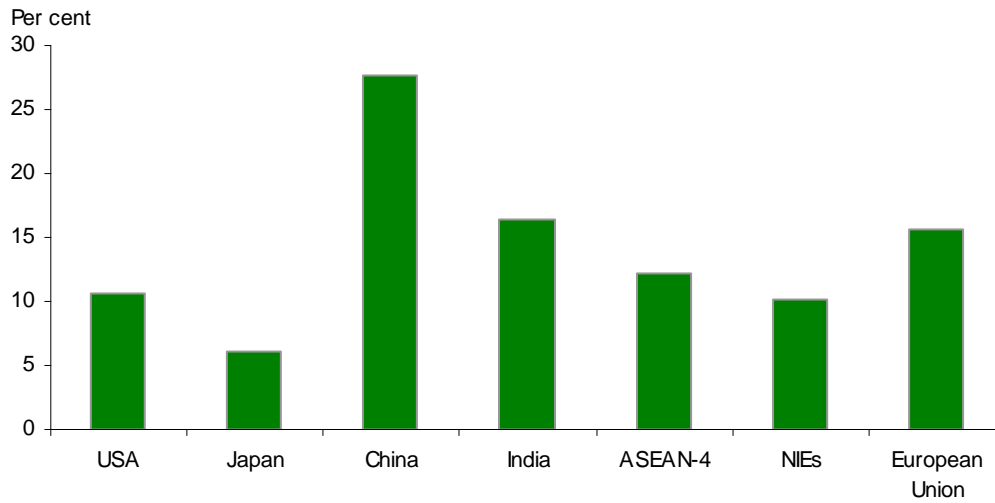
seen world growth remained strong even as the US economy has slowed.

To date the world economy and world trade has maintained momentum despite slower US growth.

Fall-out from the recent upheavals in the US sub-prime mortgage market and subsequent increased volatility in global financial markets are testing the resilience of the global economy. According to the IMF's latest *Global Financial Stability Report (September 2007)*, markets are likely to go through a protracted period of adjustment following recent financial turbulence triggered by the collapse of the US sub-prime mortgage market.

While the financial upheavals could well have a moderating effect on global economic activity, they are occurring during a period of above-average global growth. Furthermore, economic growth in China, India and other emerging economies is expected to remain strong and continue to support robust trade growth through 2007.

**Chart 9: Merchandise export growth in major economies
six months to June 2007 compared with six months to June 2006 (US\$)**



Note: ASEAN-4 includes Indonesia, Malaysia, Philippines and Thailand. NIE includes Hong Kong, SAR, the Republic of Korea, Singapore and Taiwan.

Source: IMF IFS, CEIC Asia database, Eurostat and National Statistical Sources.

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