



International trade expected to slow as the world economy cools off

Geneva, 10 January: International trade is expected to decline in 2008 against the backdrop of the global economic slowdown, says the United Nations report: *World Economic Situation and Prospects 2008* (WESP).

The UN economic report launched in New York says merchandise trade has grown twice as fast as world output over the past four years. In 2007, it grew by 7 per cent, with Asia, led by China, remaining the dominant force behind the upward cycle of merchandise trade growth that started in 2001. Asian countries contributed about 40 per cent to the trade expansion while developed countries have contributed about 45 per cent of the growth in 2007 and about half of the trade expansion since 2001.

Merchandise trade continues to be a driving force of the world economy, both in volume and in dollar value terms, the UN says. Consumption growth in the United States and that of other developed economies has fuelled growth of exports of manufactures from developing countries during the last decade.

“A strong slowdown in the United States economy should therefore be expected to have a significant adverse effect on world trade. A significant weakening of import demand from the developed world is the primary reason for the slowdown in world trade growth in 2007, and further moderation expected in 2008.”

“In the United States, the weakening is due to more sluggish domestic demand and the depreciation of the dollar. Real import growth declined from 6 per cent in 2006 to about 2 per cent in 2007. It is expected that United States import growth will remain sluggish, at 4 per cent in 2008,” says the report, which is traditionally issued at the beginning of each year.

These patterns of export and import growth underpin the mild correction observed in the global imbalances, with the merchandise deficit in the United States narrowing slightly and surpluses in other developed countries reducing to a similar degree. Western Europe’s surplus position has in fact switched to a small deficit owing to slower demand from the United States and exchange-rate appreciation of European currencies, and despite continued strong import demand from developing Asia, the Russian Federation and oil-exporting countries. Japan’s trade surplus will be large but will shrink moderately into 2008, affected by demand and exchange-rate appreciation vis-à-vis the United States dollar. Trade balances in the developing world and economies in transition have remained relatively stable at the level of regional aggregates.

“Trends in merchandise trade growth have switched towards a slight correction of the global imbalances,” the report concludes. “However, the adjustments are small and do not amount to any substantial global macroeconomic rebalancing as yet.”

Trade in services: ballooning to multi-trillion dollars business

The WESP reports further that world trade in services nearly tripled in value terms between 1990 and 2005, reaching \$2.4 trillion. The share of services in gross domestic product (GDP) grew from 65 to 72 per cent in developed countries and from 45 to 52 per cent in developing countries during the same period. Services today account for over 70 per cent of employment in developed countries and about 35 per cent in developing countries.

Travel and transportation continue to account for the bulk of services exports by developing countries, the UN report says. Business services, including information and communication technologies (ICT), as well as financial and insurance services are on the rise. Since 1990, services exports from developing countries have grown at an average annual rate of 8 per cent, compared with 6 per cent for developed countries.

An increasing number of developing countries have become successful exporters of tourism, transportation and construction services, audiovisual, computer and ICT services, and business and professional services.

The UN report recommends the international community to facilitate effective integration of developing countries into the services world economy with more favourable terms and conditions. Such conditions could be realized

through the Doha Round of negotiations where developing countries can also carefully negotiate market access commitments that can ensure dynamic gains from a greater opening of their services markets. The UN report therefore expresses great concern over the lack of progress in the multilateral trade negotiations and the more so because of reduced attention given to the development dimension of the Doha Round during the resumption of talks in late 2007.

Commodity price boom continues, benefiting many developing countries

Non-oil commodity prices have continued their increasing trend on the heels of robust global demand, but they have also become more volatile. Metal prices will likely remain high in the outlook, but will be much less bullish than during 2006 and 2007, so they may reach a plateau in 2008. World market prices for many food crops have risen significantly during 2007. This has been the case for wheat and maize in particular, driven in part by increased demand from the biofuels industry.

Oil prices surged to nearly \$100 per barrel in 2007, as strong demand, especially from developing countries, has eliminated much of the slack capacity in the oil market. This, together with the weakening of the United States dollar, could drive further increases in oil prices. Oil prices are expected to stay high in the baseline outlook for 2008, but oil market conditions remain highly uncertain.

The continued boom in commodity prices have benefited many developing countries, especially the net exporters of oil and other minerals, including many African countries, which saw their terms of trade improve strongly since 2002. In contrast, many developing countries that are net exporters of agricultural products or light manufactures have seen no terms-of-trade gains.

For the primary commodity exporters high commodity prices have fuelled their strong growth performance in recent years. In the baseline outlook, prospects remain good as prices of metals and oil are expected to stay high. However, in the case of a pessimistic scenario with a stronger slowdown of the US economy and steeper dollar depreciation, commodity prices may come down and affect the growth outlook for many developing countries. On the back of the recent global financial turmoil and still unfolding housing market crisis in the United States, the UN considers there is a high risk that the pessimistic scenario may come into effect during 2008.

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