

Crinius, Wolfgang; Weinert, Günter

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Development in world trade 1998 - 2000

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REPORT

Development in World Trade 1998 - 2000

**Wolfgang Crinius
Günter Weinert**

HWWA-Report

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HWWA-Institut für Wirtschaftsforschung-Hamburg
Öffentlichkeitsarbeit
Neuer Jungfernstieg 21 • 20347 Hamburg
Telefon: 040/428 34 355
Telefax: 040/35 19 00
e-mail: hwwa@hwwa.de
Internet: <http://www.hwwa.de/>

Günter Weinert
Telefon: 040/428 34 318
e-mail: weinert@hwwa.de

Development in World Trade 1998 - 2000

**Wolfgang Crinius
Günter Weinert**

Preface

This paper was produced by and for the Working Group on Foreign Trade of the AIECE, the Association of European Conjuncture Institutes (in French: Association d'Instituts Européens de Conjuncture Économique), founded in 1957. The Association now groups 40 members, representing 20 countries and four international organisations (EU, OECD, IMF and ECE).

This report processed the results of the Working Group on Foreign Trade meeting of end March 1999. It is based on the contributions by many institutes. Thus the analysis is not necessarily fully in line with the reporting institute's one.

The members of the group are:

COE	Chambre de Commerce et d'Industrie de Paris, Paris
CPB	Netherlands Bureau for Economic Policy Analysis, The Hague
DULBEA	Département d'Économie Appliquée de l'Université Libre de Bruxelles, Brussels
FTRI	Foreign Trade Research Institute, Warsaw
HWWA	Institut für Wirtschaftsforschung, Hamburg
INSEE	Institut National de la Statistique et des Études Économiques, Paris
ISAE	Istituto di Studie e Analisi Economica, Rome
KOPINT	Economic Research, Marketing and Computing Co., Budapest

Contents

Summary	8
World demand strengthening	9
World trade of goods recovering	13
Divergences of regional import demand abating	15
Convergence in exports goes on	20
Slight losses in market shares for industrial countries	21
Foreign trade prices will rise again	25
High imbalances in external trade to persist	28
Annex: Tables	31
Monitoring world trade at CPB (G. van Welzenis)	51

Tables

1: Main assumptions and world trade forecast 1998 - 2000	11
2: World import volume 1998 - 2000	19
3: World export volume 1998 - 2000	20
4: Exports and market performance 1998 - 2000	22
5: World trade unit values in dollars 1998 - 2000	26
6: World trade unit values in national currencies 1998 - 2000	26

Figures

1: Development of real world trade in goods	14
2: Trade volumes	16
3: Shares in world trade	18
4: Market performance, relative prices and effective exchange rates	23
5: World trade in goods and world output, volumes, 1990 - 2000	25
6: Trade balances	29

Summary

The volume of world trade in goods was practically stagnating last year reflecting the downswing in the world economy; compared to 1997 world trade increased still by nearly 4 %. The general trend is disguising a wide divergence of production and trade developments between regions, with some important emerging market economies in crisis.

In the course of this year world gdp is expected to recover with East Asian countries and, later this year, Latin America overcoming the crisis. In Japan the recession will come to an end, and in Western Europe - after a dent in last winter - demand is to increase again. Meanwhile in the US, last year the locomotive for the world economy, expansion will decelerate. Under these circumstances world trade will resume growth, too, though moderately: For this year the working group expects an increase of 2 3/4 %, and 5 1/2 % for next. At the same time there will be considerable convergence in developments of both production and trade. The period of declining prices in world markets comes to an end, as well. Export prices for oil in the year 2000 will be almost 16 % higher than this year, other commodities 7 %. In contrast to that the prices of manufactures will rise but moderately. The change in terms of trade in favour of non-industrial countries is, however, far from offsetting the loss this country group suffered this year and last. High imbalances in external trade will persist, fostering protectionist tendencies.

World demand strengthening

In a global perspective world trade is an endogenously determined variable reflecting the development of world production. As exports and imports are an important channel for transmitting changes in economic activity between countries regional analysis gives a more specific view into causes and consequences. This was confirmed again by the series of crises in Asia, Russia and Latin America spreading to other regions of the world. The production crash in a number of East Asian emerging market economies, starting in the second half of 1997, and later on the slump of production in Russia and increasing economic difficulties in Brazil triggered a sharp fall of imports in these countries. The spillover effects to other countries varied, however, according to both the importance of exports to the countries in crisis and the structure of export goods. Furthermore the way of digestion was different between countries as a consequence of their cyclical position and reactions of economic policy.

For the time being worldwide demand is weak. Global production still increased by about 2 % in 1998 vis-à-vis the year before (2,1 % according to the European Commission in its latest forecast)¹. But that was just half the rate of 1997. Moreover comparing growth rates of calendar years paints a picture too rosy. Last winter half-year there was hardly an increase in production, causing fears that the world might fall into a recession – or worse, into deflation or even depression. Though such an extremely unfavourable development cannot be excluded, prospects are not that gloomy.

Regional development was unusually divergent – from deep recession in a couple of countries to surprisingly dynamic expansion in others. The countries in recession have a weight in world production of about two fifths comprising mainly East Asian countries that suffered a deep and unexpectedly persistent fall in production last year. This is true not only for several emerging market economies of the region in the aftermath of the financial turbulence that started in summer 1997. Japan is suffering from a deep recession, too, with gross domestic product (gdp) decreasing by nearly 3 % last year.

In the second half of 1998 there was another wave of turbulence in the financial markets starting from Russia. The collapse of its exchange rate regime resulting in a sharp devaluation of the ruble and, among others, a unilateral moratorium on foreign credit repayments caused a revaluation of the risks of financial investment in emerging markets

¹ European Commission: European Economy, Supplement A, No.4, April 1999.

and thus a flight of capital to safe havens, especially to Western industrial countries. In order to contain the depreciation pressure, most central banks in emerging market economies raised interest rates sharply. Internal demand also was often dampened by fiscal policy aimed at reducing public deficits to sustainable levels. This is especially true for a couple of Latin American countries, in particular for Brazil.

On the whole contagion from Russia and Brazil to neighbouring countries and other emerging market economies was limited compared to the Asian crisis a year before. It is true, there was a significant fall in global stock markets, and interest rates were raised in emerging market economies to counteract the flight of international capital. But this proved to be temporary. In some Eastern European transition countries and in some Latin American economies interest rates came back to pre-crisis levels within one to two months, and so did a couple of currencies devalued in September. The East Asian emerging market economies were even hardly affected. Meanwhile their interest rates have fallen to levels below those of June 1997, i.e. before the outbreak of the crisis.

Mainly two regions, the US and Europe, acted as a counterweight to the strong setback of demand in many parts of the world. In Western Europe, however, expansion slowed down during the winter half markedly. In the member countries of the European Monetary Union (EMU) expansion decelerated mainly as a consequence of weak external demand, with significant spillover effects to investment in machinery and equipment. In other Western European countries, especially in the United Kingdom, the deceleration was also due to weak internal demand as a consequence of a restrictive monetary policy striving to keep inflationary tendencies in check. In Eastern European countries (without Russia) as a whole expansion decelerated as well, but overall growth was still positive.

In Western Europe the outlook for expansion is brightening up, though at a moderate rate. The near stagnation in the winter half-year is expected to be temporary. It was caused above all by the collapse of demand from outside Western Europe, though exports are only about 10 % of gdp for the area as a whole. A return to an upward development can be expected for the EMU the more as internal demand on the whole, especially private consumption, seems to be robust, and interest rates were considerably lowered for the area as a whole especially since last autumn. Furthermore dampening effects from non-industrial countries that were very strong in the second half of last year in the aftermath of the Russian crisis are abating. The annual changes of gdp are expected to be 1½ % for this and 2¼ % for next year. In the UK the deceleration will

come to an end later this year as well, mainly because of further cuts in interest rates a recession seems less probable. For other Western European countries demand is expected to increase significantly in the further course of this year.

Table 1: Main assumptions and world trade forecast 1998-2000

	1998	1999	2000
	Annual percentage changes		
GDP volume			
Industrial Countries	2.4	1¾	2
Western Europe	2.8	1½	2¼
United States	3.9	3¼	2½
Japan	-2.8	-½	1
World trade volumes goods	3¾	2¾	5½
World trade prices total (\$)	-5¼	-1¼	2¼
Crude oil (Brent, \$/b)	-31	0	16
Non-energy commodities (HWWA-index, \$)	-13.7	-7	7
Manufactured goods (\$)	-2.5	-1	¼
World trade prices total (nat. currencies)	-1	-2	1¼
	Levels		
Exchange rates			
DM per dollar	1.76	1.75	1.70
Yen per dollar	130.9	117	117

The most important support to world economic activity came from the US. Despite a temporary decline in exports last summer gdp expanded even faster in the second half of 1998, thanks to buoyant internal demand. The Fed had fostered this development by lowering interest rates markedly in autumn, thus giving clear signals at the time of turbulence in the international financial markets and indications for a credit crunch in the US that it was determined to resist contagion to the US.

Developments during this year and the next will be less divergent than in 1998. This is mainly because the fall in demand and production in East Asian crisis countries is bottoming out. There is a growing number of indicators for a stabilisation and even slow recovery of production. With large-scale restructuring in the industrial sector especially in Korea and in the financial area in Thailand as well and a marked lowering of interest rates, the still fragile recovery in these countries should strengthen this year and continue to expand in the course of 2000. Growth in this area, however, will stay far beyond the rates seen before the crisis.

A recovery in East Asian crisis countries is even more probable as Japan is going to overcome its recession. Monetary policy is expansive with extremely low interest rates and a partial monetarisation of public debt for some time now, supported by a fundamental restructuring of the financial sector in trouble since the beginning of this decade. Furthermore there is massive fiscal stimulation. Under these circumstances internal demand will recover, though moderately. All this will also help other countries in the region, especially China, to prevent a further deceleration of expansion, in spite of growing financial difficulties in the public industrial sector and in the financial sector. Taking all this into account, gdp of the emerging market economies in East Asia is expected to increase by 2 % this year and by about 5 % next, after zero growth in 1998.

In contrast to the expected economic recovery in East Asia, the decrease in Latin America will continue for some time. However, thanks to structural reforms as a consequence of the Latin American debt crisis of the eighties the decrease will not be as hard as it was in East Asian emerging market economies. But at the time Brazil is hit hard; with extremely high interest rates during the last couple of months there will be a serious setback in production. Other countries in the region will continue to suffer from the consequences of low raw material prices for some time, as is true mainly for Venezuela

Assumptions underlying the forecast

The forecast of world trade is based on the following assumptions:

- World production will be about 2 % above the level of last year, in 2000 the rate of increase will be markedly higher mainly because of strengthening growth in non-industrial countries.
- The dollar will be less strong against the euro next year as the interest rate differentials will lessen; the slight appreciation of the EMU-currencies mainly reflects differences in price increase. For the yen the dollar rate is assumed to be unchanged from the level of last February.
- The price of Brent-oil will average \$ 12¾ this year as a whole, i.e. the same as last year, and nearly \$ 15 in 2000.
- The fall of other commodity prices in dollar terms will turn to an increase this year, but on average they will be still lower than in 1998; in 2000 the rise will be 7 %.

and Mexico. With export prices hardly decreasing any longer, but increasing slightly from the latter part of this year, production in Latin America is expected to start rising again towards the end of this year. Compared to 1998, production in the region will be, however, slightly lower this year and about 2 % higher in 2000.

Though Latin America is of considerable importance, US exports will strengthen. A further decrease of deliveries to its southern neighbour countries will be compensated by demand from East Asia recovering in the course of this year. Growth of internal demand, however, will decelerate markedly – both endogenously and as a result of interest rates raised by the Fed to prevent an overheating of the economy. Price increases have been very low for about one year now, but a rise becomes more probable again with the fall of import prices abating. The working group expects US gdp to be $3\frac{1}{4}$ % higher than last year, and in 2000 the growth rate will be around $2\frac{1}{2}$ % (Table 1).

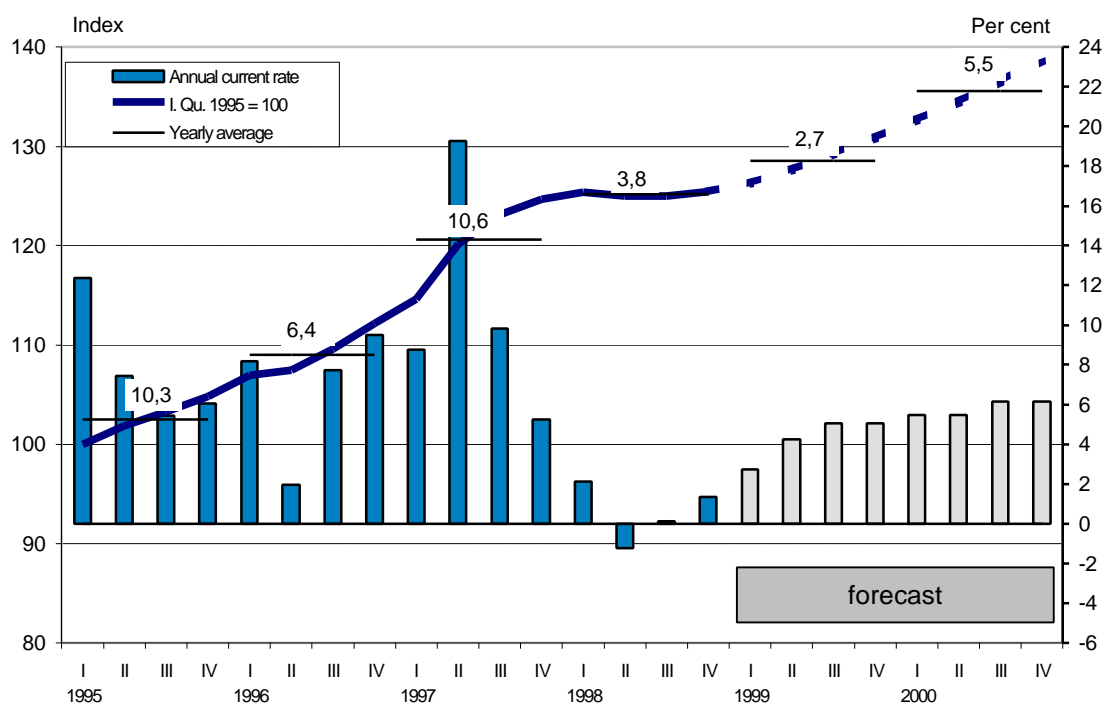
The exchange rates of the most important currencies against the dollar are assumed to be roughly constant. But the assumption for the euro might be on the high side. With the reduction of the repo rate by the European Central Bank (ECB) the dollar increased to 1.06 per euro - a new high since the beginning of this year -, corresponding 1.84 DM per dollar.

A similar risk applies to oil prices. Since the OPEC-decision of March to reduce oil production they have increased significantly. Though supply obviously is less ample, prices will stay far below the OPEC reference price of \$ 21 per barrel, however.

World trade of goods recovering

With the sharp deceleration of global economic growth, world trade practically stagnated last year. Compared to 1997 there was still an increase of nearly 4 % for trade, but that was less than half the rate of the year before. Though percentage changes from quarter to quarter were small and the data are still far from complete, there seems to have been a turning point in 1998 (Figure 1). This year a recovery of world trade will become clear. Because of a low carry over, the annual rate of increase will be even smaller than in 1998; the working group expects $2\frac{3}{4}$ %. Next year the growth rate of world trade will double with the crisis in a couple of Latin American countries largely

Figure 1: **Development of real world trade in goods^a**



a Seasonally adjusted according to ASA II (HWWA Version)

overcome, a recovery in East Asia well under way, and expansion in Western Europe relatively strong again.

Export prices in dollar terms receded significantly last year, partly reflecting a higher valuation of the dollar compared to 1997. The decline was also due to weak world demand felt especially in commodity markets. Above all oil prices continued to fall, to levels not seen since the mid-eighties. But also manufactured goods became cheaper as a consequence of growing excess capacities in a couple of countries. Prices in world trade altogether in 1998 were about 5¼ % below their level in 1997.

A further fall is stopped this year mainly because of a turnaround in oil prices. Other commodity prices will start rising again this year, too. This shows up in the annual percentage changes only in 2000 with rates of 15½ % resp. 7 %. This year the annual rates are still negative due to a negative carry over. Meanwhile, the prices of manufactured goods, in dollar terms, will hardly increase despite a slight depreciation of the dollar expected for next year. The annual rates will be -1 % this year and ¼ % in 2000.

Divergences of regional import demand abating

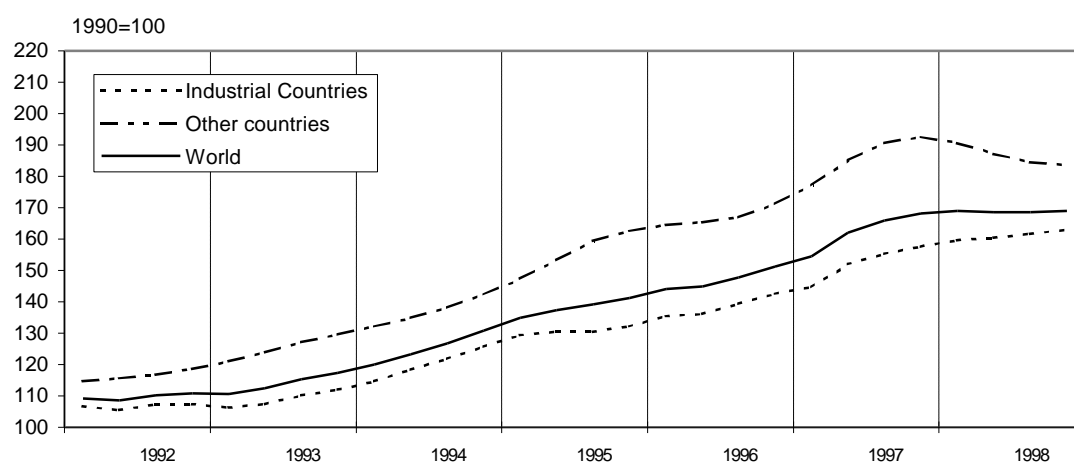
The near stagnation of world trade for most of last year (Figure 2) was the result of widely diverging developments of external trade between regions and countries reflecting differences in economic activity. This holds especially for the import side.

Imports in the crisis countries collapsed last year. In East Asian crisis countries the fall of imports had started in the second half of 1997 reflecting the sharp fall of demand and severe liquidity problems caused by the capital drain and the drastically raised interest rates to limit the sharp devaluation of their currencies. Especially in the first half of last year imports were sharply reduced, accelerated by the effects of large-scale destocking on production.

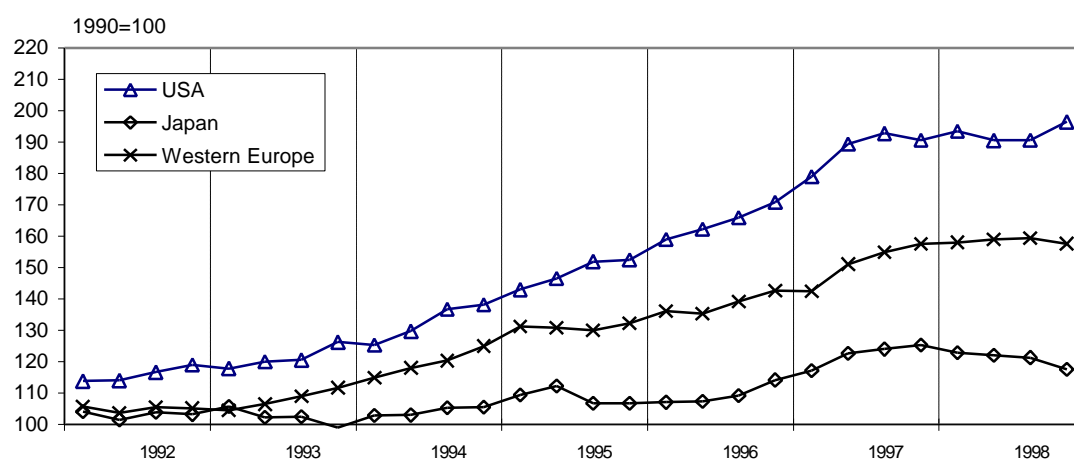
The slump in demand and thus the fall in imports was aggravated because of the interdependence among the crisis countries. Exports to this group account 7 % for the Philippines to 12,5 % for South Korea of total exports. Furthermore Japan - suffering a severe recession itself - could not play a role as a shock absorber. The best thing China could do was to keep its exchange rate against the dollar unchanged; otherwise there might have been further turbulence. In the second half of last year, however, there was a significant deceleration of the fall in demand and production in the area with a clear tendency to petering out. But in a global perspective this was hardly felt, as other regions fell into turbulence.

Especially in Russia, at the beginning of this year also in Latin America, mainly in Brazil, there was a drastic fall in imports. In Russia imports fell towards the end of last year to less than half the level of the first half of 1998. The crash of Russian imports – they were halved within a couple of months – had serious dampening effects on several members of the Community of Independent States (CIS), not least for Belorussia and the Ukraine. To other East European economies, especially to those of the Visegrad Group having achieved the greatest progress in reforms, the dampening effects from Russia were limited as their trade is now mainly oriented towards Western Europe. The share of exports to CIS-countries has been considerably reduced in the course of this decade to 3 to 10 % in the Czech Republic in Hungary and in Poland; ten years before the shares

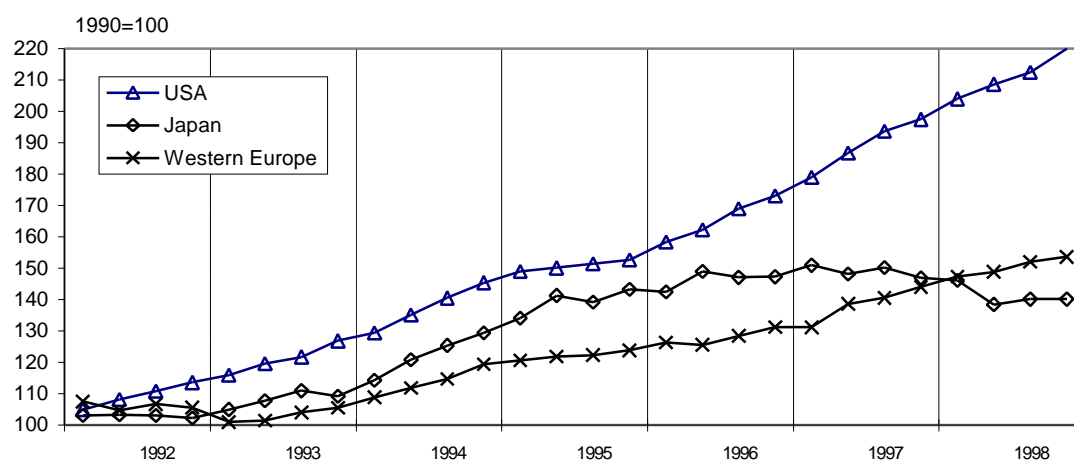
Figure 2: **Trade volumes**^a



Export volumes



Import volumes



a Seasonally adjusted according to ASA II (HWWA Version)

Source: IMF, HWWA.

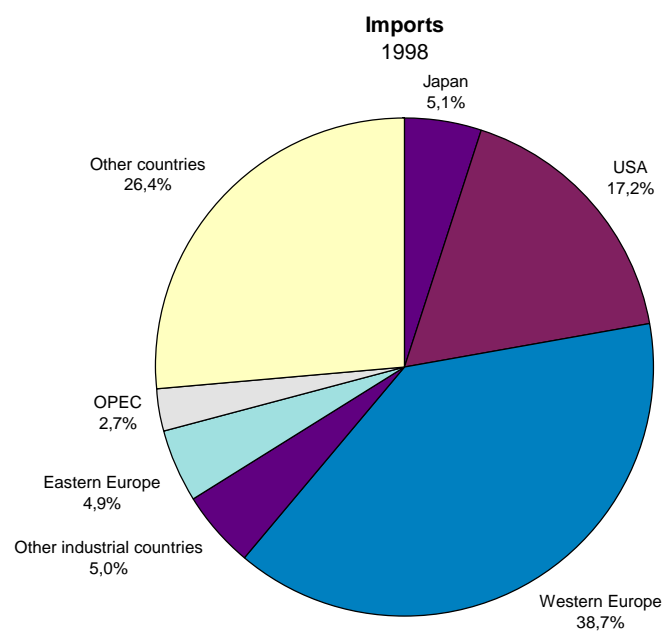
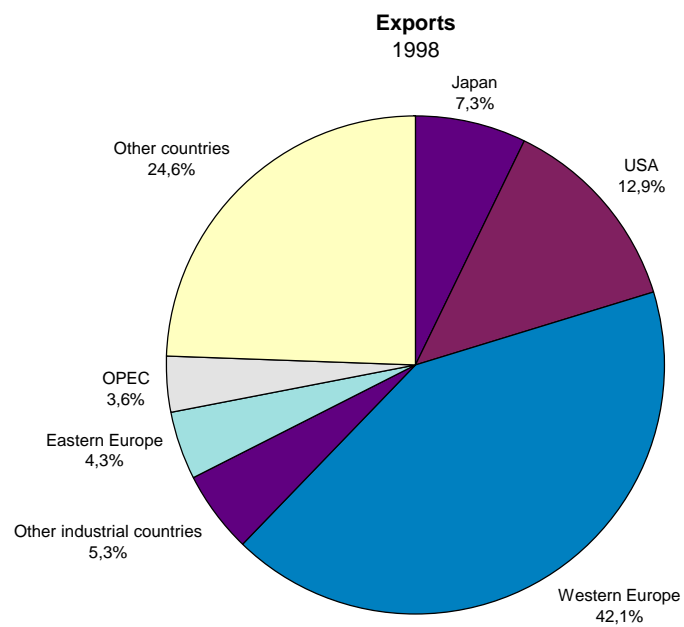
had still been 26 % for Poland, slightly more in Hungary and nearly 60 % for - then - Czechoslovakia. Their imports as a whole continued to rise though - in the wake of decelerating growth - at a lower rate. Differences in import remained large; it was still buoyant in Poland and Hungary, but even slightly shrinking in the Czech Republic.

The recession in Brazil mainly spilled over to other Mercosur countries. Lower imports of Brazil were especially felt in Argentina delivering more than 30 % of total exports to its northern neighbour. On the whole, however, the fall of production and of imports in the region was much smaller then it had been for the East Asian emerging market economies.

The direct dampening effects of the production slump in crisis countries to the industrial world were rather limited, with differences corresponding to the weights of exports to these countries in total exports resp. in gross domestic product. While Japan was more than the other industrial countries affected by the fall of imports of its neighbouring crisis countries having a share of 18 % in Japanese exports in 1997, Western Europe was more impaired by the Russian crisis, and the US by the Brazilian one.

The spillover effects from crisis countries dampening exports of the rest of the world represents only the first round of dissemination. Secondary effects for many other non-industrial countries resulted from the severe fall of raw material prices for more than two years until March 1999 reflecting the low demand, particularly in East Asia. Real export earnings of commodities exporting countries were hit the more as a consequence of a marked deterioration of their terms of trade. Imports of OPEC and several Latin American raw material producing countries e.g. fell back in the course of last year, as well. For the industrial countries the setback of exports triggered different dampening repercussions on internal demand and thus on their imports. In Japan, hardest hit by the slump in its neighbour countries, the recession was aggravated by weak exports. Thus imports were reduced considerably; last year they were 5,3 % below their level of 1997. In Western Europe the deceleration of export expansion and the decrease in the final quarter induced investment to increase more slowly; even the import volume was reduced slightly. Only in the US the fall of exports in the summer half-year 1998 did not translate into a slower expansion of internal demand. On the contrary, in the second half of last year its increase was even accelerated, and this applies also to imports. Thus mainly US imports rising at a double digit rate gave strong support to global demand (Table 2).

Figure 3: **Shares in world trade**



Source: OECD, CPB, HWWA.

Table 2: **World import volume 1998 - 2000**

	Share of world imports 1998 in %	1998	1999	2000
		Annual percentage changes		
Western Europe	38.7	8.3	3.6	5.7
United States	17.2	11.8	7.0	5.0
Japan	5.1	-5.7	1.0	4.0
Industrial Countries	66.0	7.9	4.5	5.4
Eastern Europe	4.9	7.0	-6.0	4.0
OPEC	2.7	-9.0	-5.0	5.0
Other Countries	26.4	-5.0	0.0	6.0
Non-industrial Countries	34.0	-3.6	-1.2	5.6
World	100.0	3.8	2.6	5.5

The divergence in import trends of regions will come to a halt this year, and there will be some convergence in 2000. This will mainly happen as a result of less differentiated developments of economic activity, as mentioned above. Import expansion is going to decelerate in the US in the wake of a soft landing. In Western Europe deliveries from overseas will return to growth this year, and they will be expanded at a rate of about 5½ % in 2000. In Japan the expected turn to a moderate increase in gdp in the course of 1999 will induce only a slight recovery in demand of external goods this year as the import content of government expenditure boosted is low. Next year it will be more pronounced mainly because of strengthening private demand. With the expected recovery in East Asian crisis countries their imports will rise as well. In Latin America the recession will be surpassed this year, with imports reacting correspondingly. The development of these two country groupings largely determines the trade for the "other countries" given in the tables. In Eastern European transition countries outside the CIS imports will increase more rapidly, as growth will intensify. With demand from Russia expected to stabilize, imports of Eastern Europe as a whole will show a growth of 4 % in 2000 following a fall by 6 % this year on average. For the OPEC countries export earnings - due to higher oilprices - and thus imports will start expanding again. In 2000 import volumes will increase by 5 % after a decline by 9 % in 1998 and 5 % this year.

Convergence in exports goes on

Compared to imports the divergence in export growth for countries and regions was small. The formerly strong growth of export volumes in Western Europe, the USA and Japan, which had been as high as almost 10 % for Western Europe in 1997, more than 14 % for the USA and almost 12 % for Japan, slowed down significantly last year. Exports actually fell in Japan all over the year and in Western Europe in the last quarter of 1998; for the US the weakening of exports last summer was relatively small, however, considering partly shrinking overseas markets and the strong increase of the real effective exchange rate. For 1998 as a whole export volumes were higher than in 1997, by 4.6 % in Western Europe and 2.0 % in the USA, while in Japan they were 1.0 % lower (Table 3). This year annual rates of 2.3 %, 3.0 % and 0 % respectively are expected. Only next year – under the influence of a recovery in Asia, and even in Latin America to surface later this year – export growth will return to significantly higher rates.

For East Asian crisis countries strong external stabilization effects had been foreseen via exports because of the largely improved international competitiveness of suppliers due to the drastically devalued currencies. The export increase, however, was far weaker than expected, partly due to severe liquidity problems of enterprises. This year, how

Table 3: **World export volume 1998 – 2000**

	Share of world imports 1998 in %	1998	1999	2000
Annual percentage changes				
Western Europe	42.1	4.6	2.3	5.3
United States	12.9	2.0	3.0	6.0
Japan	7.3	-1.0	0.0	4.0
Industrial Countries	67.5	3.4	2.4	5.3
Eastern Europe	4.3	6.0	0.0	5.0
OPEC	3.6	2.0	1.0	3.0
Other Countries	24.6	4.5	4.0	6.0
Non-industrial Countries	32.5	4.4	3.2	5.7
World	100.0	3.8	2.7	5.4

ever, and even more in 2000 a sizeable increase of exports from that area is likely. This is only moderately reflected in the rates for the group of "other countries" including most non-industrial countries. Export volumes, for non-industrial countries as a whole, will be 3.2 % higher this year than last, but increase by 5.7 % in 2000.

Slight losses in market shares for industrial countries

Highly different production and import developments between countries and regions and comparatively small divergence in export growth were connected with partly considerable contrasts in market performance, defined as the per cent change of an individual country's or region's export volume index as a percentage of the index of its export markets. With export changes below growth of their export markets, industrial countries lost market shares. This applies above all to Japan, but also to Western Europe (Figure 4). Only the US gained some market share despite the strong dollar. For this year the working group expects that US exports will outperform market growth again and continue to gain shares as a consequence of the assumed weakening of the dollar. The opposite will be true for Japan partly because of a loss of competitiveness as a result of the appreciation of the yen from August 1998 to January 1999. The reduction in its market share will thus continue, slowing markedly only in 2000. The increase in exports of Western European countries decelerated in the course of last year, in the later part it was temporarily even absolutely sinking, and so did their market share. The expected strengthening of the euro will only lead to a limited further loss of market share; with the high weight of intra-trade of member countries of the European Monetary Union a large part of total exports is less subject to currency influences, and they benefit fully from the expected cyclical recovery in this area.

Under these circumstances it is clear that the non-industrial world's market performance has been favourable (Annex Table 2d). Export volumes from East Asian crisis countries were rising, though the increase was far less than expected regarding their relatively good position in international competitiveness and low capacity utilization. Exports from Latin American countries remained rather dynamic. Export volume growth in the "other countries", though slower than before, still was above that of their relevant markets last year. This was even true for Eastern Europe, despite the problems of Russia, where the strong devaluation of the ruble could not help exports much - with the economy troubled by immense structural difficulties partly due to the reserved and half-hearted reform steps towards a market economy since the beginning of the transition pe-

riod. This year exports of non-industrial countries as a whole will exceed the growth of their export markets to a smaller extent, next year there will hardly be a gain in market share. Market performance of regional subgroups will again be rather different, with East Asian emerging market economies expected to extend their market share this year and the next (Table 4).

Table 4: Exports and market performance^a 1998 – 2000

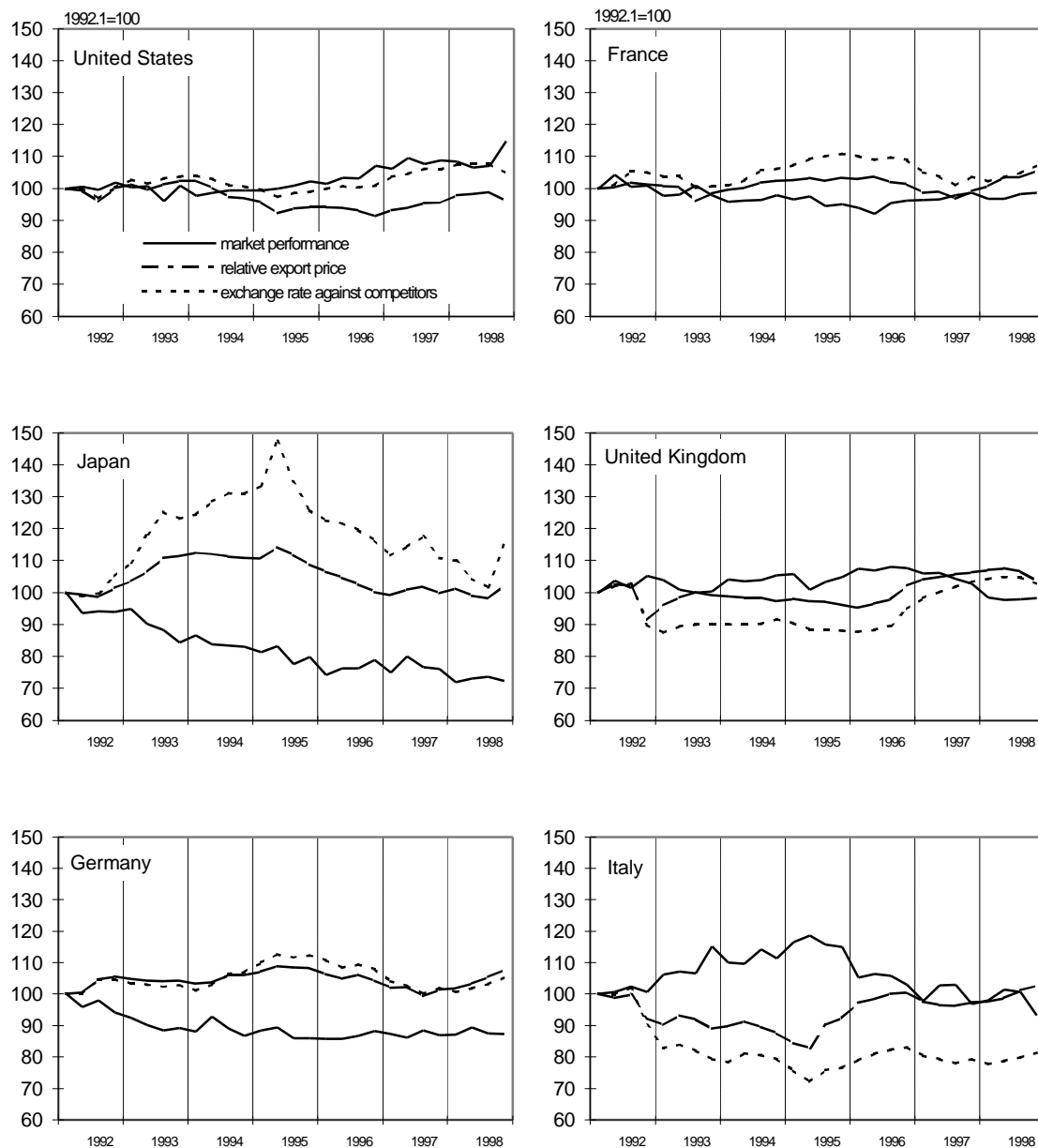
	Export volumes			Market growth			Market performance		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Annual percentage changes									
Western Europe	4.6	2.3	5.3	5.7	2.7	5.5	-1.0	-0.3	-0.2
United States	2.0	3.0	6.0	0.8	2.0	5.7	1.2	1.0	0.3
Japan	-1.0	0.0	4.0	2.1	2.8	5.6	-3.0	-2.7	-1.5
Industrial Countries	3.4	2.4	5.3	4.3	2.7	5.6	-0.9	-0.3	-0.3
Eastern Europe	6.0	0.0	5.0	5.6	-1.4	4.9	0.4	1.4	0.1
OPEC	2.0	1.0	3.0	1.3	2.4	5.6	0.7	-1.3	-2.4
Other Countries	4.5	4.0	6.0	3.8	3.3	5.4	0.7	0.7	0.6
Non-industrial Countries	4.4	3.2	5.7	2.9	2.3	5.4	1.5	0.9	0.3
World	3.8	2.7	5.4	3.8	2.6	5.5	-0.1	0.1	-0.1

^a Export volume index as a percentage of export market index.

The ex post and ex ante market performance just mentioned has to be qualified somewhat. Looking at the export volume growth of individual countries in Western Europe the projections given by the contributing members of AIECE show a similar profile with a slower export growth for this year and a fairly strong recovery next year. The main exceptions are Italy, where export growth was low in 1998 and pace is expected to pick up this year, and also the United Kingdom, Norway and Denmark with negative rates last year and a recovery thereafter. The export performance is quite different among countries, depending partly on changes in exchange rates. But obviously price competitiveness cannot fully explain the differences in development, as the performance of several countries does not fit well with the change in calculated relative export prices (Annex Table 6c). For instance the loss of market share this year is more pronounced for

Germany than for France – while the effective appreciation (Annex Table 6d) and the growth of relevant markets (Annex Table 2c) are similar. The United Kingdom is projected to continue losing market share despite a somewhat better price competitiveness in the current year.

Figure 4: **Market performance, relative prices and effective exchange rates**

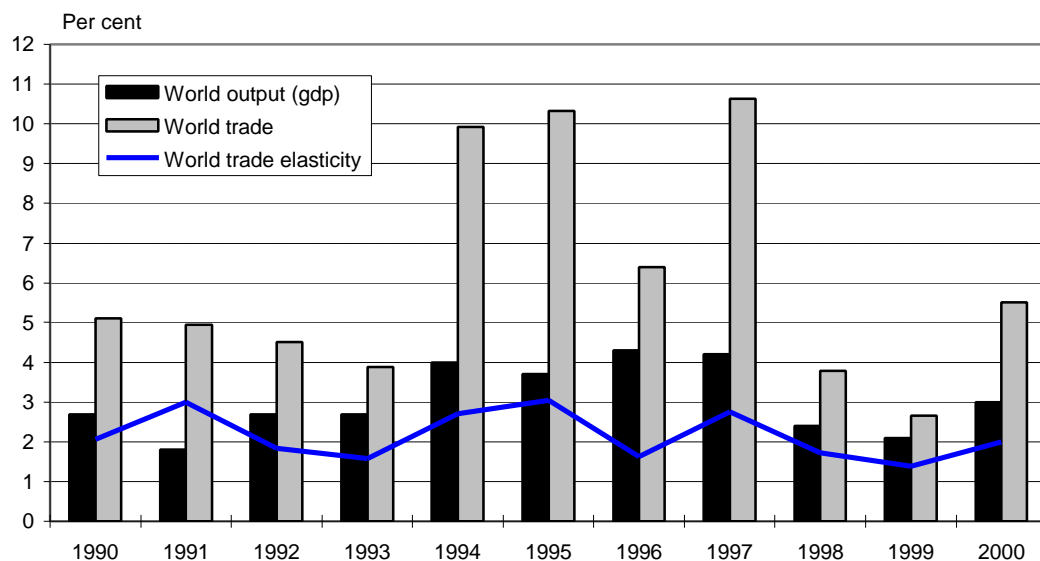


Source: CPB, HWWA.

Those inconsistencies may be a signal for some member institutes to reconsider the trade forecasts they submitted for their country. While different exchange rate and commodity price assumptions are harmonized in the working group using the CPB-model in a first step, individual views on relevant market growth remain. They are reflected in the export growth projections given by the reporting institutes. All in all the working group results appear to be too optimistic regarding the industrial countries' exports and too pessimistic for Eastern Europe and Asia. This could be attributed to the still too optimistic view on the development of imports of non-industrial countries in the second half of 1998 which appear to dominate the projections on export growth of industrial countries for this year. The annex note by G. van Welzenis, CPB, in which the monitoring of world trade up to the latest figures is briefly resumed, gives evidence to that view.

An increase of world trade by $2\frac{3}{4}$ % this year against 1998 and even of $5\frac{1}{2}$ % next year may seem rather moderate in a long-term perspective given annual growth rates of more than 6 % in this decade. The forecast may also seem to be low when taking into account the development of world production. The working group did not make a forecast for global output growth. But with a gdp forecast for industrial countries of $1\frac{3}{4}$ % this year and 2 % in 2000 it is near to what international organisations expect. Growth rates for the world - based on the latest forecasts of the European Commission, IMF and OECD for world production - can be expected to increase by about 2 % in 1999 and 3 % next year. According to this, growth rates of world trade and world production differ only slightly this year. In 2000 the difference will increase. But even then the elasticity of 1.8 will be lower than the long run average of more than 2. This might be taken as an indicator for the working group being too pessimistic. But the elasticity of world trade to global production is not a constant. As Figure 5 shows it is rather volatile, but with a clear pattern. It is below its average value in times of weak economic activity and above in periods of strong expansion. The changes in world trade elasticity are mainly due to a relatively high income elasticity of tradeable goods, reflecting the cyclical fluctuations of industrial production being stronger than that of gdp.

Figure 5: **World trade in goods and world output, volumes, 1990 - 2000**



Source: Working group, HWWA; gdp 2000: based on forecasts of European Commission, IMF, OECD.

Foreign trade prices will rise again

Dampening effects from weak export volumes were mitigated in Western industrialized countries not only as a consequence of lower interest rates not least in the capital markets as a result of the flight to "safe havens", but also by the marked fall in import prices. As economic logic suggests, a nearly stagnating demand for raw materials in world markets with ample supply led to further price decreases, in terms of US-dollar, for these homogenous goods.

This was reflected in a decline of import prices in industrial countries as a whole of 5.3 % in 1998 on the previous year with the greatest reduction in Japan (12.6 %) and the US (6.0 %). In Western Europe imports were cheaper by nearly 4 % (Table 5). These changes, however, are influenced by different exchange rate developments against the dollar. While the currencies of the Euro zone lost about 1½ % on average last year, the yen was depreciated by more than 8 %. Thus the reduction of import prices was not that strong when adjusted for variations in exchange rates. Measured in national currencies (Table 6) unit values were 2.4 % lower in 1998 in Western Europe, in Japan even 5.5 %. On the other hand export prices also fell in most industrial countries, even

Table 5: World trade unit values in dollars 1998 – 2000

	Export unit values			Import unit values		
	1998	1999	2000	1998	1999	2000
Annual percentage changes						
Western Europe	-2.2	-0.6	3.4	-3.8	-1.0	3.5
United States	-3.3	-2.0	-1.0	-6.0	-2.0	1.5
Japan	-6.6	5.2	-1.0	-12.6	2.9	0.0
Industrial Countries	-3.5	-0.4	1.8	-5.3	-1.0	2.5
Eastern Europe	-7.5	-3.0	3.0	-5.0	-3.0	3.0
OPEC	-27.0	-5.0	7.0	-4.0	-1.0	2.0
Other Countries	-6.0	-3.0	2.0	-6.0	-2.0	1.0
Non-industrial Countries	-8.2	-3.1	2.8	-5.7	-2.1	1.5
World	-5.1	-1.3	2.1	-5.4	-1.4	2.2

Table 6: World trade unit values in national currencies 1998 – 2000

	Export unit values			Import unit values			Terms of Trade		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Annual percentage changes									
Western Europe	-0.7	-0.8	0.7	-2.4	-1.0	0.8	1.7	0.2	-0.1
United States	-3.3	-2.0	-1.0	-6.0	-2.0	1.5	2.9	0.0	-2.5
Japan	1.0	-6.0	-1.0	-5.5	-8.0	0.0	6.9	2.2	-1.0
Industrial Countries	-1.0	-1.6	0.1	-3.2	-1.6	0.9	2.3	0.0	-0.8
Eastern Europe	-5.6	-4.4	3.0	-3.1	-4.4	3.0	-2.6	0.0	0.0
OPEC	-27.0	-5.0	7.0	-4.0	-1.0	2.0	-24.0	-4.0	4.9
Other Countries	-4.1	-4.4	2.0	-4.1	-3.5	1.0	0.0	-1.0	1.0
Non-industrial Countries	-0.4	-3.4	3.3	2.7	-1.9	2.3	-3.0	-1.6	1.0
World	-0.8	-2.2	1.2	-1.3	-1.7	1.3	0.5	-0.5	-0.2

in national currencies. With prices of manufactured goods being nearly stable, export unit values were down by 0.7 % in Western Europe and 3.3 % in the US. Only in Japan they were slightly up by 1 %. Thus the reduction was much smaller than the decrease of import unit values. The increasing spread in the development of import and export unit values meant a significant improvement in terms of trade for the industrial countries. It was most significant for Japan (6.9 %), but also for the US (2.9 %) and for Western Europe (1.7 %) it was considerable.

For non-industrial economies as a whole the terms of trade change was unfavourable. With many of them being exporters of raw materials their export unit values were reduced heavily, in 1998 by 8.2 % in dollar terms (Annex Table 4a). Most strongly hit by the sharp fall in oil prices were, of course, the OPEC countries. But also for countries exporting other commodities, prices were much lower than in 1997. At the same time import unit values (Annex Table 4b) for non-industrial countries fell far less in dollar terms (5.7 %). This means that the terms of trade deteriorated considerably. The deterioration by about 3 % again reflects especially the drastic change for OPEC countries by -24 %. The picture is similar when measuring export and import unit values in national currencies. This, again, applies especially to OPEC countries. For non-industrial countries as a whole the terms of trade were unchanged in 1998 compared to the previous year (Annex Table 3c).

The adverse development in terms of trade is going to change for the better for non-industrial countries this year, though compared to 1997 there will still be a deterioration. The surge in oil prices induced a strong turnaround in the export prices of OPEC countries recently; the working group, however, expects a somewhat lower price level for the next months. For other raw material prices there will be a turnaround this year as well, with the increase continuing in 2000. Meanwhile import unit values are going to increase but slightly for non-industrial countries in the further course of this year and next; the relatively modest recovery of world demand and still keen competition will keep price increases of manufactured goods in check. Following a small decline this year compared to 1998; in 2000 there will be a general increase in import unit values. But it is lower than the rise in export prices, resulting in an improvement in terms of trade for this country group.

For industrial countries import unit values, measured in national currencies, will not decrease any longer, although this year on average they will still be 1.6 % below the level of 1998. Next year they will be slightly higher. While differences between western in-

dustrial countries will be small (Annex Table 3b) there will be still a considerable reduction in Japan (8 %) this year due to the considerably higher value of the yen against the dollar. Export unit values for industrial countries, too, will stop declining from now on. This year, unit values will still be lower than last year, however. A significant increase can be excluded because suppliers in international markets will stay under severe pressure also from competitors in a number of emerging markets. Under these circumstances the terms of trade for industrial countries as a whole will be unchanged this year, and they will deteriorate slightly in 2000.

High imbalances in external trade to persist

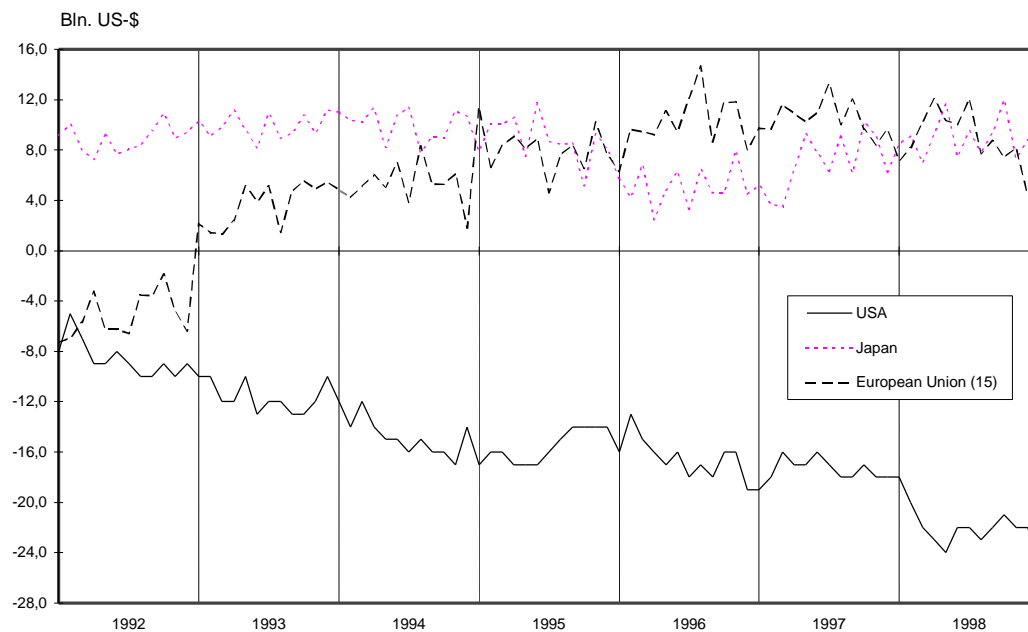
The changes in real trade flows and in terms of trade combined partly led to sharp swings in the development of trade balances. The most dramatic change in trade balances materialized in the East Asian crisis countries. In spite of the deterioration of terms of trade there was a swing in their current balances from deficits in 1997 to surplus in 1998 corresponding to 7.5 % of gdp (Philippines) to 13½ % (Thailand). This, however, was largely a result of shrinking imports reflecting the slump in demand in these countries. Real exports increased only moderately. Meanwhile, especially a couple of Latin American crisis countries underwent a strong deterioration in their trade balances with deficits rising significantly. Many of them are suffering from deteriorating terms of trade as a consequence of the fall of raw material prices. This is especially true for Venezuela - as for other oil exporting countries -, but also for exporters of other raw materials like metals and agricultural products, among them Chile and Brazil. A number of East European transition countries suffered from declining export prices for input goods as well. The increase of deficits in their trade balances, however, was relatively moderate.

On the other hand the considerable improvement of terms of trade helped the industrial countries to "digest" the adverse changes in trade volumes. This applies especially to the US. Thus, despite the divergence in the development of import and export volumes, the increase in the trade deficit was limited to 3 % of gdp last year. In Western Europe as a whole, especially for the EMU, the further improvement of terms of trade prevented a considerable reduction of the trade surplus. In Japan a considerable trade surplus remained (Figure 6).

The massive turnaround of trade balances from 1997 to 1998 - with high surpluses in nearly all East Asian countries now on the one hand side and a further widening of the

already "traditional" trade deficit of the US alongside with still surpluses in the EU on the other - and prospects for imbalances to continue even next year provide a constellation for growing tensions in international trade. Especially the US, the world's largest

Figure 6: **Trade balances**



Source: OECD, HWWA.

international debtor already, considers this as an uncomfortable situation. This is the more the case as some Latin American economies with unsustainably high trade deficits are striving for a reduction.

All this enhances anti-free trade tendencies in the US. The US Congress seems to favour a more protectionist stance. Of course, the US cannot play the role of the absorber for the world alone for a longer time. Others ought to support them, with Western Europe being a candidate in the first place.

Table 1. Spot exchange rates

	1998	1999	2000
Units of national currency per US \$			
Austria	12.380	12.280	11.970
Belgium/Luxembourg	36.300	36.030	35.110
Denmark	6.686	6.640	6.470
Finland	5.337	5.310	5.180
France	5.900	5.860	5.710
Germany	1.760	1.750	1.700
Greece	295.442	286.960	279.620
Italy	1736.892	1729.940	1685.710
Netherlands	1.984	1.970	1.920
Spain	149.400	148.360	144.560
Norway	7.520	7.630	7.430
Sweden	7.952	8.020	7.820
Switzerland	1.446	1.420	1.390
United Kingdom	0.603	0.630	0.610
Canada	1.480	1.500	1.500
United States	1.000	1.000	1.000
Japan	130.900	117.000	117.000
Eastern Europe ^a	0.741	0.730	0.730
OPEC	1.000	1.000	1.000
Other countries ^a	0.741	0.730	0.730

^a SDR-basis

Table 2. Merchandise trade volumes and export market growth

2a Export volumes

	1998	1999	2000
annual percentage changes			
Austria	7.1	4.5	6.5
Belgium/Luxembourg	4.0	3.5	4.5
Denmark	-0.5	2.5	3.5
Finland	9.2	3.0	6.5
France	6.4	2.4	5.3
Germany	6.0	0.5	5.0
Greece	5.0	4.0	5.0
Italy	2.4	3.2	5.9
Netherlands	6.5	1.8	5.0
Spain	6.0	5.7	7.0
Norway	-1.0	6.0	4.0
Sweden	5.5	4.0	6.0
Switzerland	5.0	0.1	4.0
United Kingdom	-1.7	0.0	4.0
Western Europe	4.6	2.3	5.3
Canada	7.2	5.6	5.0
United States	2.0	3.0	6.0
Japan	-1.0	0.0	4.0
Industrial Countries	3.4	2.4	5.3
Eastern Europe	6.0	0.0	5.0
OPEC	2.0	1.0	3.0
Other countries	4.5	4.0	6.0
Non-industrial Countries	4.4	3.2	5.7
Total World	3.8	2.7	5.4

2b Import volumes

	1998	1999	2000
annual percentage changes			
Austria	8.4	5.0	6.5
Belgium/Luxemburg	7.0	4.3	4.8
Denmark	6.3	2.4	3.3
Finland	10.7	6.0	7.0
France	8.4	3.3	5.7
Germany	8.5	1.0	4.5
Greece	8.0	5.0	6.0
Italy	9.4	3.6	7.4
Netherlands	7.7	2.6	5.0
Spain	10.3	10.0	10.0
Norway	8.0	0.0	3.0
Sweden	9.0	4.0	6.0
Switzerland	7.4	1.7	4.2
United Kingdom	6.2	4.0	5.0
Western Europe	8.3	3.6	5.7
Canada	7.2	5.0	6.0
United States	11.8	7.0	5.0
Japan	-5.7	1.0	4.0
Industrial Countries	7.9	4.5	5.4
Eastern Europe	7.0	-6.0	4.0
OPEC	-9.0	-5.0	5.0
Other countries	-5.0	0.0	6.0
Non-industrial Countries	-3.6	-1.2	5.6
Total World	3.8	2.6	5.5

2c Export market growth^a

	1998	1999	2000
annual percentage changes			
Austria	6.9	1.3	5.1
Belgium/Luxemburg	6.4	2.6	5.4
Denmark	6.1	2.3	5.3
Finland	5.5	1.8	5.3
France	5.0	2.9	5.7
Germany	5.5	2.6	5.6
Greece	5.8	0.9	5.4
Italy	4.9	2.1	5.4
Netherlands	6.4	2.8	5.4
Spain	5.6	2.8	5.7
Norway	6.9	3.1	5.3
Sweden	6.3	2.8	5.2
Switzerland	5.0	2.5	5.6
United Kingdom	5.8	3.3	5.8
Western Europe	5.7	2.7	5.5
Canada	9.4	6.0	5.1
United States	0.8	2.0	5.7
Japan	2.1	2.8	5.6
Industrial Countries	4.3	2.7	5.6
Eastern Europe	5.6	-1.4	4.9
OPEC	1.3	2.4	5.6
Other countries	3.8	3.3	5.4
Non-industrial Countries	2.9	2.3	5.4
Total World	3.8	2.6	5.5

^a Weighted average of growth of import volumes in the international markets of each exporting country or group of countries, with weights corresponding to the export structure of the exporting country or group.

2d Export performance^a

	1998	1999	2000
annual percentage changes			
Austria	0.2	3.2	1.3
Belgium/Luxemburg	-2.3	0.9	-0.9
Denmark	-6.2	0.2	-1.7
Finland	3.6	1.2	1.2
France	1.3	-0.5	-0.4
Germany	0.5	-2.0	-0.6
Greece	-0.8	3.0	-0.4
Italy	-2.4	1.0	0.4
Netherlands	0.1	-1.0	-0.3
Spain	0.4	2.8	1.2
Norway	-7.4	2.8	-1.3
Sweden	-0.8	1.2	0.8
Switzerland	0.0	-2.3	-1.5
United Kingdom	-7.1	-3.2	-1.7
Western Europe	-1.0	-0.3	-0.2
Canada	-2.0	-0.4	-0.1
United States	1.2	1.0	0.3
Japan	-3.0	-2.7	-1.5
Industrial Countries	-0.9	-0.3	-0.3
Eastern Europe	0.4	1.4	0.1
OPEC	0.7	-1.3	-2.4
Other countries	0.7	0.7	0.6
Non-industrial Countries	1.5	0.9	0.3
Total World	-0.1	0.1	-0.1

^a Differences of export volume changes to export market growth.

Table 3. Unit values in national currencies and terms of trade

3a Export unit values in national currencies

	1998	1999	2000
annual percentage changes			
Austria	0.0	0.0	0.8
Belgium/Luxemburg	0.0	0.0	1.0
Denmark	-0.5	-2.0	0.0
Finland	-3.3	-2.5	2.5
France	0.5	-0.4	0.8
Germany	0.9	-0.5	1.5
Greece	1.0	-0.5	2.0
Italy	1.0	0.2	-0.6
Netherlands	-2.3	-3.7	-0.6
Spain	-0.3	0.4	1.0
Norway	-10.0	-3.0	6.0
Sweden	-0.5	-1.0	0.0
Switzerland	-0.9	-0.9	-0.1
United Kingdom	-5.7	-1.0	0.0
Western Europe	-0.7	-0.8	0.7
Canada	-1.0	-2.0	0.0
United States	-3.3	-2.0	-1.0
Japan	1.0	-6.0	-1.0
Industrial Countries	-1.0	-1.6	0.1
Eastern Europe	-5.6	-4.4	3.0
OPEC	-27.0	-5.0	7.0
Other countries	-4.1	-4.4	2.0
Non-industrial Countries	-0.4	-3.4	3.3
Total World	-0.8	-2.2	1.2

3b Import unit values in national currencies

	1998	1999	2000
annual percentage changes			
Austria	-1.5	-0.5	0.8
Belgium/Luxemburg	-1.8	-1.0	1.0
Denmark	-2.5	-2.0	1.0
Finland	-3.3	-2.5	2.5
France	-0.1	-0.6	1.0
Germany	-2.0	-2.0	1.5
Greece	0.0	0.0	2.0
Italy	-2.6	0.5	-2.1
Netherlands	-2.5	-4.0	-0.5
Spain	-1.2	0.2	2.5
Norway	2.0	0.0	1.0
Sweden	-1.0	-1.0	1.0
Switzerland	-3.5	-0.6	-0.7
United Kingdom	-7.0	0.0	1.0
Western Europe	-2.4	-1.0	0.8
Canada	1.5	0.0	1.0
United States	-6.0	-2.0	1.5
Japan	-5.5	-8.0	0.0
Industrial Countries	-3.2	-1.6	0.9
Eastern Europe	-3.1	-4.4	3.0
OPEC	-4.0	-1.0	2.0
Other countries	-4.1	-3.5	1.0
Non-industrial Countries	2.7	-1.9	2.3
Total World	-1.3	-1.7	1.3

3c Terms of trade

	1998	1999	2000
annual percentage changes			
Austria	1.5	0.5	0.0
Belgium/Luxemburg	1.8	1.0	0.0
Denmark	2.1	0.0	-1.0
Finland	0.0	0.0	0.0
France	0.6	0.3	-0.2
Germany	3.0	1.5	0.0
Greece	1.0	-0.5	0.0
Italy	3.7	-0.3	1.5
Netherlands	0.2	0.3	-0.1
Spain	0.9	0.2	-1.5
Norway	-11.8	-3.0	5.0
Sweden	0.5	0.0	-1.0
Switzerland	2.7	-0.3	0.6
United Kingdom	1.4	-1.0	-1.0
Western Europe	1.7	0.2	-0.1
Canada	-2.5	-2.0	-1.0
United States	2.9	0.0	-2.5
Japan	6.9	2.2	-1.0
Industrial Countries	2.3	0.0	-0.8
Eastern Europe	-2.6	0.0	0.0
OPEC	-24.0	-4.0	4.9
Other countries	0.0	-1.0	1.0
Non-industrial Countries	-3.0	-1.6	1.0
Total World	0.5	-0.5	-0.2

Table 4. Unit values in US dollars and appreciation against the dollar

4a Export unit values in dollars

	1998	1999	2000

	annual percentage changes		
Austria	-1.5	0.8	3.4
Belgium/Luxemburg	-1.5	0.7	3.6
Denmark	-1.7	-1.3	2.6
Finland	-6.0	-2.0	5.1
France	-0.6	0.3	3.4
Germany	-0.6	0.1	4.5
Greece	-6.7	2.4	4.7
Italy	-1.0	0.6	2.0
Netherlands	-3.9	-3.0	2.0
Spain	-2.3	1.1	3.7
Norway	-15.4	-4.4	8.9
Sweden	-4.5	-1.8	2.6
Switzerland	-0.6	0.9	2.1
United Kingdom	-4.6	-5.2	3.3
Western Europe	-2.2	-0.6	3.4
Canada	-7.4	-3.3	0.0
United States	-3.3	-2.0	-1.0
Japan	-6.6	5.2	-1.0
Industrial Countries	-3.5	-0.4	1.8
Eastern Europe	-7.5	-3.0	3.0
OPEC	-27.0	-5.0	7.0
Other countries	-6.0	-3.0	2.0
Non-industrial Countries	-8.2	-3.1	2.8

Total World	-5.1	-1.3	2.1

4b Import unit values in dollars

	1998	1999	2000
	annual percentage changes		
Austria	-3.0	0.3	3.4
Belgium/Luxemburg	-3.3	-0.3	3.6
Denmark	-3.7	-1.3	3.7
Finland	-6.0	-2.0	5.1
France	-1.1	0.0	3.7
Germany	-3.4	-1.4	4.5
Greece	-7.6	3.0	4.7
Italy	-4.5	0.9	0.5
Netherlands	-4.1	-3.3	2.1
Spain	-3.2	0.9	5.2
Norway	-4.1	-1.4	3.7
Sweden	-5.0	-1.8	3.6
Switzerland	-3.2	1.2	1.4
United Kingdom	-5.9	-4.2	4.3
Western Europe	-3.8	-1.0	3.5
Canada	-5.0	-1.3	1.0
United States	-6.0	-2.0	1.5
Japan	-12.6	2.9	0.0
Industrial Countries	-5.3	-1.0	2.5
Eastern Europe	-5.0	-3.0	3.0
OPEC	-4.0	-1.0	2.0
Other countries	-6.0	-2.0	1.0
Non-industrial Countries	-5.7	-2.1	1.5
Total World	-5.4	-1.4	2.2

4c Appreciation against the US dollar, import weighted totals

	1998	1999	2000
annual percentage changes			
Austria	-1.5	0.8	2.6
Belgium/Luxemburg	-1.5	0.7	2.6
Denmark	-1.2	0.7	2.6
Finland	-2.8	0.5	2.5
France	-1.1	0.7	2.6
Germany	-1.5	0.6	2.9
Greece	-7.6	3.0	2.6
Italy	-2.0	0.4	2.6
Netherlands	-1.7	0.7	2.6
Spain	-2.0	0.7	2.6
Norway	-6.0	-1.4	2.7
Sweden	-4.0	-0.8	2.6
Switzerland	0.3	1.8	2.2
United Kingdom	1.2	-4.2	3.3
Western Europe	-1.4	0.0	2.7
Canada	-6.4	-1.3	0.0
United States	0.0	0.0	0.0
Japan	-7.6	11.9	0.0
Industrial Countries	-2.2	0.6	1.5
Eastern Europe	-2.0	1.5	0.0
OPEC	0.0	0.0	0.0
Other countries	-2.0	1.5	0.0
Non-industrial Countries	-8.2	-0.3	-0.7
Total World	-4.2	0.4	0.8

4d Appreciation against the US dollar, export weighted totals

	1998	1999	2000
annual percentage changes			
Austria	-1.5	0.8	2.6
Belgium/Luxemburg	-1.5	0.7	2.6
Denmark	-1.2	0.7	2.6
Finland	-2.8	0.5	2.5
France	-1.1	0.7	2.6
Germany	-1.5	0.6	2.9
Greece	-7.6	3.0	2.6
Italy	-2.0	0.4	2.6
Netherlands	-1.7	0.7	2.6
Spain	-2.0	0.7	2.6
Norway	-6.0	-1.4	2.7
Sweden	-4.0	-0.8	2.6
Switzerland	0.3	1.8	2.2
United Kingdom	1.2	-4.2	3.3
Western Europe	-1.5	0.1	2.7
Canada	-6.4	-1.3	0.0
United States	0.0	0.0	0.0
Japan	-7.6	11.9	0.0
Industrial Countries	-2.6	1.3	1.6
Eastern Europe	-2.0	1.5	0.0
OPEC	0.0	0.0	0.0
Other countries	-2.0	1.5	0.0
Non-industrial Countries	-7.9	0.3	-0.5
Total World	-4.4	0.9	0.9

Table 5. Relative import unit values in national currencies and effective appreciation against supplying countries

5a Import unit values in national currencies

	1998	1999	2000
annual percentage changes			
Austria	-1.5	-0.5	0.8
Belgium/Luxembourg	-1.8	-1.0	1.0
Denmark	-2.5	-2.0	1.0
Finland	-3.3	-2.5	2.5
France	-0.1	-0.6	1.0
Germany	-2.0	-2.0	1.5
Greece	0.0	0.0	2.0
Italy	-2.6	0.5	-2.1
Netherlands	-2.5	-4.0	-0.5
Spain	-1.2	0.2	2.5
Norway	2.0	0.0	1.0
Sweden	-1.0	-1.0	1.0
Switzerland	-3.5	-0.6	-0.7
United Kingdom	-7.0	0.0	1.0
Western Europe	-2.4	-1.0	0.8
Canada	1.5	0.0	1.0
United States	-6.0	-2.0	1.5
Japan	-5.5	-8.0	0.0
Industrial Countries	-3.2	-1.6	0.9
Eastern Europe	-3.1	-4.4	3.0
OPEC	-4.0	-1.0	2.0
Other countries	-4.1	-3.5	1.0
Non-industrial Countries	2.7	-1.9	2.3
Total World	-1.3	-1.7	1.3

5b Calculated import unit values^a

	1998	1999	2000
annual percentage changes			
Austria	-1.3	-1.3	0.6
Belgium/Luxemburg	-1.7	-2.0	0.2
Denmark	-2.8	-2.0	0.6
Finland	-1.6	-1.8	0.2
France	-2.8	-1.6	0.2
Germany	-2.7	-1.6	-0.2
Greece	3.1	-3.8	0.5
Italy	-2.5	-1.5	0.6
Netherlands	-2.5	-1.8	0.4
Spain	-2.1	-1.8	0.1
Norway	2.4	0.1	-0.2
Sweden	-0.3	-0.5	0.5
Switzerland	-3.0	-2.4	0.9
United Kingdom	-5.0	3.8	-0.8
Western Europe	-2.5	-1.0	0.1
Canada	2.6	-0.4	-0.1
United States	-6.2	-1.6	1.7
Japan	0.0	-12.8	1.9
Industrial Countries	-2.8	-2.0	0.7
Eastern Europe	-3.0	-3.1	3.4
OPEC	-4.0	-1.3	2.4
Other countries	-3.4	-2.7	1.5
Non-industrial Countries	2.8	-0.9	2.6
Total World	-0.9	-1.6	1.3

^a Average export prices of suppliers weighed with import shares.

5c Relative import prices in a common currency^a

	1998	1999	2000
annual percentage changes			
Austria	-0.2	0.8	0.2
Belgium/Luxemburg	-0.1	1.0	0.8
Denmark	0.3	0.0	0.4
Finland	-1.7	-0.7	2.3
France	2.8	1.0	0.9
Germany	0.7	-0.4	1.7
Greece	-3.1	4.0	1.5
Italy	-0.1	2.0	-2.7
Netherlands	0.0	-2.2	-0.9
Spain	0.9	2.1	2.4
Norway	-0.4	-0.1	1.2
Sweden	-0.7	-0.5	0.5
Switzerland	-0.5	1.9	-1.6
United Kingdom	-2.1	-3.6	1.8
Western Europe	0.1	0.0	0.7
Canada	-1.1	0.4	1.1
United States	0.2	-0.4	-0.2
Japan	-5.5	5.5	-1.8
Industrial Countries	-0.5	0.3	0.2
Eastern Europe	-0.1	-1.4	-0.4
OPEC	0.0	0.3	-0.4
Other countries	-0.7	-0.8	-0.5
Non-industrial Countries	-0.1	-1.0	-0.3
Total World	-0.3	-0.1	0.1

^a Differences of import price changes to calculated import price changes.

5d Effective appreciation against supplying countries

	1998	1999	2000
annual percentage changes			
Austria	1.2	0.2	0.7
Belgium/Luxemburg	0.5	0.5	0.6
Denmark	1.7	0.5	0.7
Finland	0.3	-0.1	0.9
France	1.6	0.3	0.9
Germany	2.3	0.4	1.8
Greece	-5.0	2.8	1.0
Italy	0.6	0.1	1.1
Netherlands	1.4	0.4	1.0
Spain	0.3	0.2	1.0
Norway	-3.0	-1.8	0.9
Sweden	-1.5	-1.2	0.6
Switzerland	2.6	1.4	0.1
United Kingdom	5.5	-5.1	1.9
Western Europe	1.6	-0.2	1.1
Canada	-4.8	-1.8	-0.3
United States	6.3	-1.5	-0.5
Japan	-2.8	11.5	-0.4
Industrial Countries	1.4	0.6	0.5
Eastern Europe	1.6	1.5	-0.7
OPEC	4.7	0.2	-0.5
Other countries	4.6	0.1	-0.6
Non-industrial Countries	-2.7	-1.2	-1.0
Total World	0.0	0.0	0.0

Table 6. Relative export unit values in national currencies and effective appreciation against competing countries

6a Export unit values in national currencies

	1998	1999	2000
annual percentage changes			
Austria	0.0	0.0	0.8
Belgium/Luxembourg	0.0	0.0	1.0
Denmark	-0.5	-2.0	0.0
Finland	-3.3	-2.5	2.5
France	0.5	-0.4	0.8
Germany	0.9	-0.5	1.5
Greece	1.0	-0.5	2.0
Italy	1.0	0.2	-0.6
Netherlands	-2.3	-3.7	-0.6
Spain	-0.3	0.4	1.0
Norway	-10.0	-3.0	6.0
Sweden	-0.5	-1.0	0.0
Switzerland	-0.9	-0.9	-0.1
United Kingdom	-5.7	-1.0	0.0
Western Europe	-0.7	-0.8	0.7
Canada	-1.0	-2.0	0.0
United States	-3.3	-2.0	-1.0
Japan	1.0	-6.0	-1.0
Industrial Countries	-1.0	-1.6	0.1
Eastern Europe	-5.6	-4.4	3.0
OPEC	-27.0	-5.0	7.0
Other countries	-4.1	-4.4	2.0
Non-industrial Countries	-0.4	-3.4	3.3
Total World	-0.8	-2.2	1.2

6b Export unit values of competitors^a

	1998	1999	2000
annual percentage changes			
Austria	-2.8	-2.1	0.6
Belgium/Luxemburg	-2.7	-2.2	0.4
Denmark	-3.6	-2.1	0.4
Finland	-2.1	-2.2	0.4
France	-3.8	-1.9	0.2
Germany	-3.3	-1.8	-0.4
Greece	3.4	-4.2	0.2
Italy	-2.6	-1.7	0.4
Netherlands	-2.6	-1.8	0.7
Spain	-2.2	-1.9	0.3
Norway	1.4	-0.3	0.5
Sweden	-0.9	-0.6	0.5
Switzerland	-5.1	-3.0	0.5
United Kingdom	-5.8	3.6	-0.8
Western Europe	-3.2	-1.4	0.2
Canada	0.3	-0.5	1.6
United States	-6.0	-1.2	1.6
Japan	2.0	-12.2	1.6
Industrial Countries	-2.6	-2.6	0.7
Eastern Europe	-2.8	-3.3	3.0
OPEC	-6.6	-0.8	1.7
Other countries	-4.1	-2.8	1.7
Non-industrial Countries	2.0	-1.7	2.3
Total World	-1.1	-2.3	1.2

^a Weighted average of import prices in the international markets of each exporting country or country group, with weights corresponding to the export structure.

6c Relative export unit values in a common currency^a

	1998	1999	2000
annual percentage changes			
Austria	2.9	2.1	0.2
Belgium/Luxemburg	2.8	2.2	0.6
Denmark	3.3	0.1	-0.4
Finland	-1.2	-0.3	2.1
France	4.5	1.6	0.6
Germany	4.3	1.3	1.9
Greece	-2.3	3.9	1.8
Italy	3.7	1.9	-1.0
Netherlands	0.3	-1.9	-1.2
Spain	2.0	2.4	0.7
Norway	-11.2	-2.7	5.5
Sweden	0.4	-0.4	-0.5
Switzerland	4.4	2.2	-0.6
United Kingdom	0.1	-4.4	0.8
Western Europe	2.5	0.6	0.6
Canada	-1.3	-1.5	-1.5
United States	2.8	-0.8	-2.6
Japan	-1.0	7.1	-2.6
Industrial Countries	1.7	1.0	-0.6
Eastern Europe	-2.9	-1.2	0.0
OPEC	-21.8	-4.2	5.2
Other countries	0.0	-1.7	0.3
Non-industrial Countries	-2.4	-1.7	1.0
Total World	0.3	0.1	-0.1

^a Differences of export price changes to export price changes of competitors.

6d Effective appreciation against competing countries

	1998	1999	2000
annual percentage changes			
Austria	2.2	0.4	1.4
Belgium/Luxemburg	2.3	0.2	1.3
Denmark	2.6	0.1	1.4
Finland	1.1	-0.1	1.3
France	2.9	0.0	1.4
Germany	2.3	-0.1	1.7
Greece	-4.1	2.5	1.5
Italy	2.1	-0.3	1.5
Netherlands	1.8	0.2	1.2
Spain	1.8	0.1	1.3
Norway	-2.4	-2.0	1.4
Sweden	-0.2	-1.5	1.3
Switzerland	4.4	1.1	1.0
United Kingdom	5.3	-4.8	2.1
Western Europe	2.4	-0.5	1.4
Canada	-0.7	-2.7	-0.5
United States	4.4	-0.9	-0.7
Japan	-2.4	10.2	-0.6
Industrial Countries	1.6	0.4	0.6
Eastern Europe	1.8	1.2	-0.9
OPEC	4.9	-1.1	-0.8
Other countries	3.1	0.3	-0.7
Non-industrial countries	-3.1	-0.9	-1.2
Total World	0.0	0.0	0.0

CPB Netherlands Bureau for Economic Policy Analysis

Monitoring world trade at CPB

by G. van Welzenis

1 April 1999

Short description of sources and methodology of the processing of
short-term data on international trade in goods.

1 Trade values

1.1 Sources

The standard source for seasonally adjusted trade values of industrial countries (c.f. IMF classification) is the OECD Main Economic Indicators (MEI), updated on a weekly basis with the OECD Hotfile (free access for OECD government agencies). The most recent data can be drawn on a daily basis from the commercial provider on-line service of “Financiële Diensten Amsterdam” (FDA, Financial Services Amsterdam) and from the internet, in particular from sites of central banks and national statistical offices.

The standard source for unadjusted trade values of non-industrial and transition countries is the IMF International Financial Statistics (IFS), available at the beginning of each month on CD-rom. However, data for the OECD member countries among them are taken from MEI, and updated in the same way as for the industrial countries. Many countries in this part of the world are updated from the internet. In addition to this we estimate trade values for OPEC countries; import values are updated with the help of OECD exports to these countries, taken from the OECD Series A; export values of OPEC countries are updated with the help of energy production data in these countries and energy prices on the world market.

Annex A shows the coverage rates of world (import) values for recent months. The coverage rate at the first of April 1999 for December 1998 is 89%; for January 1999 it is 78% and for February 1999 it is 29%. This implies that we can make a reliable estimate of world trade values with a delay of two to three months.

1.2 Estimating seasonal adjustment factors and missing trade values.

Seasonal adjustment factors for trade values of non-industrial countries are calculated per sub-region with the standard CPB-method (SEA). Missing values are added to the seasonally adjusted series using estimated monthly growth values. They are equal to the sum of the estimated volume and price changes. Volumes are assumed to increase with a fixed monthly rate (currently put at 0.2%). For the estimation of missing trade prices see below.

2 Trade prices

2.1 Sources

The standard source for trade prices in national currencies of industrial countries (and Korea) is the OECD Series A (SA). For some countries more recent data can be drawn from FDA and from the internet, particularly from sites of central banks and national statistical offices. Dollar exchange rates taken from internal CPB files are used to convert national currency prices into dollar prices.

The standard source for trade prices of non-industrial and transition countries in dollar terms is the IFS, updated from the internet. Recent price data for these parts of the world are scarce, the four tigers in Southeast-Asia being the major exceptions. Even for the past we do not have full information on trade prices for these parts of the world: at least 40 % has to be

estimated at all times.

Annex B gives an overview of the availability of trade prices. At world level at most some 85% of trade prices is available for the past. The coverage rate at the first of April 1999 for November 1998 is 75%; for December 1998 it is 67% and for January 1999 it is 41%. This may seem insufficient to make a reliable volume/price split of the value data, but the estimation of the missing price data is not that difficult, given the data we do know already.

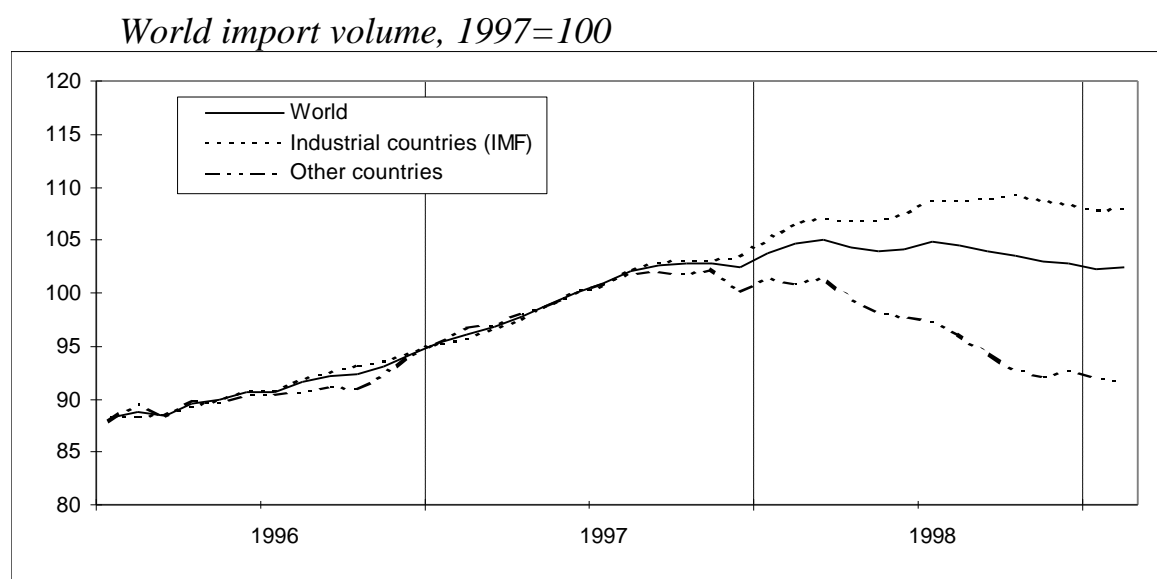
2.2 Estimating missing trade prices

Missing trade prices of industrial countries are estimated on the basis of available trade prices in the industrial region, taking into account exchange rate shifts. That trade prices for the United States, Japan and Germany become available very quickly is very helpful in this respect.

Missing export prices for non-industrial countries and transition countries are estimated for certain groups of countries, i.e. the transition countries, the OPEC countries and the other non-industrial countries excluding the four tigers. Export price estimates are based on available international prices of manufactures, raw materials and energy, taking account of the export product mix of these regions. Raw material and energy prices are readily available and can be drawn from a number of sources, a.w. HWWA. Missing import prices are calculated for the same regions from the export prices of the supplying countries.

3 World trade volumes up to January 1999

The graph below shows the three months moving average of the seasonally adjusted world import volume of goods, in total and for the industrial countries and the rest of the world. Import volumes of the latter group suddenly stopped growing from August 1997 and started to decline very rapidly from March 1998. In the final months of 1998 they seem to stabilize again; an upward trend can still not be detected. The import volume growth of the industrial countries decelerated



from September 1997. They reached a top in October 1998 and fell slightly thereafter. Thus total world trade steadily fell from the middle of last year. At the beginning of 1999 it was more than 1½% down on the average of last year, according to our latest calculations. An average rise of plus 1½% for 1999 as a whole (i.e. the latest official CPB forecast) requires a growth of the world trade volume during the year of 7½%, which may be on the optimistic side.

Annex A: response of world import values at the beginning of April 1999

	Imports 1997		Listed %	Response of trade values in % (b)				
	\$	%		98.10	98.11	98.12	99.1	99.2
World	5551.0	100.00	96.28	95.30	94.43	92.00	83.40	30.19
Industrial countries	3627.0	65.34	64.80	64.80	64.09	62.93	58.94	11.44
Australia	65.88	1.19		1	1	1	1	1
Canada	200.93	3.62		1	1	1	1	0
Japan	338.75	6.10		1	1	1	1	1
New Zealand	14.52	0.26		1	1	1	1	1
United States	899.02	16.20		1	1	1	1	0
Austria	64.78	1.17		1	1	0	0	0
Belgium/Luxemburg	157.95	2.85		1	1	1	0	0
Denmark	44.04	0.79		1	1	1	1	1
Finland	29.78	0.54		1	1	1	0	0
France	269.64	4.86		1	1	1	1	0
Germany	445.49	8.03		1	1	1	1	0
Ireland	39.28	0.71		1	0	0	0	0
Italy	208.27	3.75		1	1	1	1	0
Netherlands	179.14	3.23		1	1	1	1	0
Norway	35.71	0.64		1	1	1	1	1
Portugal	33.82	0.61		1	1	1	0	0
Spain	122.72	2.21		1	1	1	1	0
Sweden	65.02	1.17		1	1	1	1	1
Switzerland	71.06	1.28		1	1	1	1	1
United Kingdom	311.42	5.61		1	1	1	1	0
Non-industrial countries	1695.5	30.54	27.49	26.50	26.50	26.23	21.76	17.37
China	142.19	2.56		1	1	1	1	1
Hongkong	208.61	3.76		1	1	1	1	1
India	41.02	0.74		0	0	0	0	0
Indonesia	41.69	0.75		1	1	1	0	0
Korea	144.62	2.61		1	1	1	1	0
Malaysia	79.05	1.42		1	1	1	1	1
Pakistan	11.59	0.21		1	1	0	0	0
Philippines	38.28	0.69		1	1	1	1	0
Singapore	132.44	2.39		1	1	1	1	1
Taiwan	113.92	2.05		1	1	1	1	1
Thailand	62.85	1.13		1	1	1	1	1
Argentina	30.35	0.55		1	1	1	1	0
Bolivia	1.85	0.03		1	1	1	0	0
Brazil	65.01	1.17		1	1	1	1	1
Chile	19.66	0.35		1	1	1	1	1
Colombia	15.38	0.28		1	1	1	1	0
Ecuador	4.96	0.09		1	1	1	1	0
Mexico	109.81	1.98		1	1	1	1	1
Peru	10.26	0.18		1	1	1	1	0
Uruguay	3.72	0.07		1	1	0	0	0
Venezuela	14.61	0.26		1	1	1	0	0

Response of world import values at the beginning of April 1999 (continued)

	Imports 1997		Listed %	Response of trade values in % (b)				
	\$	%		98.10	98.11	98.12	99.1	99.2
	bln							
Morocco	9.53	0.17		0	0	0	0	0
South Africa	32.94	0.59		1	1	1	0	0
Tanzania	1.19	0.02		1	1	1	0	0
Israel	30.78	0.55		1	1	1	1	1
Jordan	4.09	0.07		0	0	0	0	0
Turkey	48.58	0.88		1	1	1	0	0
OPEC n.e.i. (a)	106.74	1.92		1	1	1	0	0
Transition countries	261.65	4.71	4.00	4.00	3.84	2.85	2.70	1.38
Belarus	8.69	0.16		1	0	0	0	0
Croatia	9.11	0.16		1	1	1	1	1
Czech Republic	27.33	0.49		1	1	1	1	0
Estonia	4.44	0.08		1	1	1	1	0
Hungary	20.76	0.37		1	1	1	1	0
Kazakhstan	4.28	0.08		1	1	0	0	0
Latvia	2.72	0.05		1	1	1	0	0
Lithuania	5.64	0.10		1	1	1	0	0
Poland	42.31	0.76		1	1	0	0	0
Romania	11.28	0.20		1	1	1	1	0
Russia	67.62	1.22		1	1	1	1	1
Slovak Republic	8.25	0.15		1	1	0	0	0
Slovenia	9.36	0.17		1	1	1	1	0

(a) Derived from OECD exports to these countries

(b) One means available, zero is not yet available

Annex B: response of international trade prices / unit values at the beginning of April 1999

	Imports 1997		Listed %	Response of trade prices in % (a)				
	\$ bln	%		98.10	98.11	98.12	99.1	99.2
World	5551.05	100.00	85.03	75.14	73.67	66.21	41.54	33.88
Industrial countries	3627.00	65.34	64.19	61.97	61.26	56.41	37.10	31.49
Australia	65.88	1.19		1	1	1	0	0
Canada	200.93	3.62		1	1	1	0	0
Japan	338.75	6.10		1	1	1	1	1
New Zealand	14.52	0.26		0	0	0	0	0
United States	899.02	16.20		1	1	1	1	1
Austria	64.78	1.17		0	0	0	0	0
Belgium/Luxemburg	157.95	2.85		1	1	1	0	0
Denmark	44.04	0.79		0	0	0	0	0
Finland	29.78	0.54		1	1	1	0	0
France	269.64	4.86		1	1	0	0	0
Germany	445.49	8.03		1	1	1	1	1
Ireland	39.28	0.71		1	0	0	0	0
Italy	208.27	3.75		1	1	1	0	0
Netherlands	179.14	3.23		1	1	1	0	0
Norway	35.71	0.64		1	1	1	0	0
Spain	122.72	2.21		1	1	1	0	0
Sweden	65.02	1.17		1	1	1	1	1
Switzerland	71.06	1.28		1	1	1	0	0
United Kingdom	311.42	5.61		1	1	1	1	0
Non-industrial countries	1695.48	30.54	19.70	12.03	12.03	9.43	4.44	2.39
Hongkong	208.61	3.76		1	1	1	0	0
India	41.02	0.74		0	0	0	0	0
Indonesia	41.69	0.75		0	0	0	0	0
Korea	144.62	2.61		1	1	0	0	0
Malaysia	79.05	1.42		0	0	0	0	0
Pakistan	11.59	0.21		0	0	0	0	0
Philippines	38.28	0.69		0	0	0	0	0
Singapore	132.44	2.39		1	1	1	1	1
Taiwan	113.92	2.05		1	1	1	1	0
Thailand	62.85	1.13		0	0	0	0	0
Argentina	30.35	0.55		1	1	1	0	0
Bolivia	1.85	0.03		0	0	0	0	0

Brazil	65.01	1.17		0	0	0	0	0
Colombia	15.38	0.28		0	0	0	0	0
Ecuador	4.96	0.09		1	1	1	0	0
Peru	10.26	0.18		0	0	0	0	0
Venezuela	14.61	0.26		0	0	0	0	0
Morocco	9.53	0.17		0	0	0	0	0
South Africa	32.94	0.59		1	1	1	0	0
Israel	30.78	0.55		0	0	0	0	0
Jordan	4.09	0.07		0	0	0	0	0
Transition countries	261.65	4.71	1.14	1.14	0.37	0.37	0.00	0.00
Hungary	20.76	0.37		1	1	1	0	0
Poland	42.31	0.76		1	0	0	0	0

(a) One means available, zero is not yet available