Surprising buoyancy - but price increases outstrip volume growth


Main trends

Among the main features of trade in 1970 identified and studied by the GATT economists are:

(i) the continued rapid growth in the value of world exports, in the face of comparatively slow growth in the gross national product of the main trading nations;

(ii) a slowdown in the growth rate of the volume of exports;

(iii) a more rapid growth in the volume of trade in agricultural products and minerals than of trade in manufactured products;

(iv) slower growth than usual in trade under preferential agreements;

(v) a deterioration in the terms of trade of developing countries, reversing the improvement of 1969; and

(vi) an overall increase in the trade surplus of industrial areas, with a decline in the surplus of the Eastern trading area, and a larger trading deficit for developing countries.

\(^{1}\)International Trade 1970 is published in English, French and Spanish editions. It may be ordered from the GATT secretariat, Villa Le Becage, Palais des Nations, 1211 Geneva 10. Price: Sw F 21.00 or US$5.00.
Growth in trade value remains buoyant

In 1970, for the second year in succession, the current value of world exports rose by more than 14 per cent. The increase was in good part due to higher export prices, which continued to rise at an accelerating rate. But volume also increased, by 8.2 per cent - a rate 1.6 percentage points less than in 1969 - but still above the average for the past decade.

The result came as a surprise to most observers, since the combined gross national product of industrialized countries rose by barely 2.5 per cent in 1970. The GATT economists identify and examine a series of factors which together might have offset the retarding effect of slower economic growth. Import demand in the United States was unexpectedly strong. A number of other countries, too, were able to increase their imports significantly: some, because increases in export prices had boosted their export income; others, because they enjoyed sharply higher invisible earnings from shipping or tourism; others, again, because they were spending the higher earnings from sales of primary products that were a feature of 1969. A further major factor helping to sustain the growth of world exports was the sudden substantial increase in world liquidity, reflecting the United States deficit on official settlements, the introduction of Special Drawing Rights, and the multiplier effect of the Eurodollar market. Finally, protectionist pressures helped to accelerate the growth of world trade in value terms, since import-limiting measures tended to push up prices. To the extent that such measures encouraged anticipatory buying they might also have contributed to an increase in world trade in volume terms.

Product trends

World material production grew by about 4 per cent in 1970, compared with nearly 6 per cent in 1969. The slowdown was heavily concentrated on the manufacturing output of the developed countries; agricultural production increased slightly faster than in 1969, and the growth of mining production accelerated as well.

These trends were reflected in the product composition of trade flows. For the first time, the volume of agricultural and mineral trade grew faster than that of manufactured exports.

Trade in manufactures again expanded rapidly in value. The increase reflected the continued progress of international specialization, as well as uneven inflationary demand and cost developments, which accentuated the demand for imports, and particularly favoured low-cost exporters.

MORE
Trade of industrialized countries

All the major flows of world trade expanded in 1970. Most quickly expanding was trade among industrial countries, which increased by 16½ per cent in 1970, almost as much as in 1969. Increases under preferential agreements were smaller than usual: intra-EEC and intra-EFTA trade were both up by about 19 per cent, but trade under the United States-Canadian automotive trade agreement actually declined. Other trade among West European countries, and between Japan and all other industrial countries, grew exceptionally fast.

Trade of developing countries

Price trends in 1970 affected the trade of developing countries differently. In contrast with the experience of the industrialized nations, the value growth of their exports was slightly lower in 1970 than in 1969, while the volume growth accelerated. The overall slowdown in value growth appears to have been mainly due to a marked deceleration in the growth of exports among the developing countries themselves.

"It is fairly clear" notes the report, "that the terms of trade of developing countries deteriorated in 1970, following some improvement in 1969". Not only did the terms of trade of most primary products vis-à-vis manufactures grow worse; in addition, freight rates increased sharply. Inflation also eroded the purchasing power of aid given to developing countries while continuing high interest rates added to the burden of debt service.

Overall balance of trade

On balance, the apparent f.o.b. - f.o.b. trade surplus of industrial areas increased from $0.5 billion in 1969 to $2.5 billion, whereas the deficit of the developing areas rose from $2 billion to $3 billion, and the surplus of the Eastern trading area declined from $1.8 billion to $1.3 billion.

The problem of prices

The report devotes much attention to the problem of foreign trade prices. It argues that trade statistics generally used may considerably understate the recent inflation of prices, and, correspondingly, overstate recent increases in the volume of world trade. These errors, it suggests, derive partly from a failure in price indices to record particularly sharp increases that have taken place in the most sophisticated industrial goods, and partly from difficulties in measuring price changes in exports of many developing countries.
Trade in the first half of 1971

A sharp acceleration in the combined gross national product of industrial countries during the first half of 1971 was not fully matched by the development of foreign trade. "In the early months of 1971, the value of imports and exports of industrial countries was growing at an estimated annual rate of 12-13 per cent. This figure implies a rate of increase in volume which is below that of last year as a whole, as the rise in foreign trade prices accelerated sharply in the first quarter of 1971, and probably continued to do so after the parity changes in May".

Prospects for the rest of 1971

International Trade 1970 went to press in July 1971. In the opening chapter, the authors point out that their forecasts of trade developments for the rest of the year contained in the report "assumed that tensions in the field of the balance of payments do not become so acute as to enforce measures that would suddenly and significantly alter present trends". It is clear that monetary and trade developments in recent weeks are indeed likely to alter previous trends "suddenly and significantly", and that most of the forecasts made will need to be reviewed in the light of these developments.

The final comments of the GATT economists, however, remain relevant. Even before the recent events, they forecast that "the deceleration of world trade in volume terms, observable since 1968, will continue in 1971, when the growth of world trade in value is most likely also to slow down after many years of continuous acceleration". World trade, they point out, has been stimulated for the past four years by the annual instalments of the Kennedy Round tariff reductions. With this stimulus no longer available after 1971, they believe that an even more pronounced slackening of world trade could be expected in the years to come, unless changes can be instituted in global economic and commercial policies.