INTERNATIONAL TRADE 1973/1974

GATT secretariat publishes annual report on trade trends

The annual GATT report International Trade is published today.¹

The introductory chapter, which outlines the main developments in international trade from January 1973 to August 1974 and comments on prospects for the year ahead, has already been published separately in a press release (GATT/1151) of 10 September 1974.

The complete volume of International Trade 1973/74 is now published for the first time. It provides a detailed analysis of trends in 1973, a year of record trade expansion. In addition to the introductory chapter, there are chapters dealing with trade in commodities, trade of the industrial areas, trade of developing countries, and trade of the Eastern trading area.

Highlights of chapters appearing for the first time are:

- In 1973, for the first time in the post-war period, the value of world commodity trade grew at a rate which exceeded that of the value of trade in manufactures. This unique situation was entirely due to the rapid escalation of commodity prices in 1973.

¹International Trade 1973/74: published in English, French and Spanish editions, and available from GATT secretariat, Villa Le Bocage, Palais des Nations, 1211 Geneva, 10 and through booksellers, price Sw.Fr. 27.-- or US$ 9.--.
- Because demand expanded simultaneously in the industrial countries there was upward pressure not only on the prices of domestic goods, but also on import and export prices. This generalized upward pressure, combined with the steep rise in commodity prices, was the most striking characteristic of recent inflationary experience.

- The acceleration of the foreign trade of developing countries continued in 1973. There was a marginal increase in their share in world exports. Their exports appear to have been 37 per cent higher in dollar value and about 8 per cent higher in volume than in 1972; both increases would be without precedent.

- In volume terms, manufactured exports appear to have continued in 1973 to be the most dynamic export category of the developing countries.

- In 1973 the developing countries as a whole recorded an f.o.b.-c.i.f. trade surplus of about $11 billion. Oil-exporting developing countries had a joint surplus of $21 billion; the non-oil-exporters recorded a deficit of nearly $10 billion.

- Foreign trade of the centrally-planned economies of the Eastern trading area continued to expand strongly in value and in volume in 1973. The recent trend for foreign trade to grow faster than production, and for exchanges with third countries to grow much faster than intra-area trade, has continued.

- China's foreign trade expanded significantly. Imports from Japan, China's most important supplier, rose by more than 70% in value, and the United States emerged as the second-largest supplier.

**Trade in Commodities**

The introductory chapter of the report, already published, discusses the repercussions of the rise in crude oil prices. The greatest impact of this increase has been felt, however, only in 1974. During 1973, it was the escalation in prices of other commodities which had the greatest effect on international trade.

As usual, a chapter of International Trade is devoted to analysis of trends in prices and trade in the major commodities. The report concludes that "the factors which combined to produce the rapid escalation of commodity prices in 1973 were rooted in the past, both immediate and more distant, so that the events of 1973 represented a culmination of these influences", which it identifies as:

1. There was a sudden, steep rise in demand, which occurred simultaneously in all industrial countries.
(ii) The supply of food, feed and certain other agricultural materials was seriously affected by adverse weather conditions over wide areas in 1972, particularly the severe downturn in Soviet grain production, failure of the monsoon in Asia, the virtual disappearance of anchoveta from the coast of Peru, and drought in Africa. The impact of these developments was mainly felt in 1973, when stocks were reduced to unprecedentedly low levels. These short-term developments were superimposed on the longer-term trends of increasing dependence of developing countries on food imports, and of a number of agricultural products being at a low point in their production cycles.

(iii) Output of livestock - particularly pigmeat, poultry meats and eggs - fell because profitability was adversely affected by sharp increases in the cost of feedingstuffs.

(iv) Stocks of most other materials were also at low levels when the industrial boom began in mid-1972.

(v) There is evidence that, in the years immediately preceding the boom, there had been a cyclical downturn in investment in productive capacity for some commodities important for industrial production (non-ferrous metals, iron, woodpulp, etc.).

(vi) Exchange rate fluctuations, monetary uncertainties and the general inflationary climate stimulated some speculative buying activities in commodity markets.

Trade in industrial countries

The combined annual growth rate of the gross national product (GNP) of the industrialized countries reached 8 per cent in the first half of 1973, the highest on record. In the second half of the year the growth rate was halved because of capacity limitations, shortages of materials and of skilled labour, and restrictive fiscal and monetary policies. Nevertheless the growth of real GNP in industrial areas for the year 1973 as a whole was some 6.5 per cent, matching or even exceeding the previous peak rate of 1966.

A striking feature of 1973 was the continued rise in the industrialized countries' dependence on international trade. With the economic boom most rapid in sectors whose growth requires a particularly large contribution from imports (non-residential fixed investment and exports), the foreign trade of these countries expanded much more rapidly than their GNP: the volume of their imports rose by 12 per cent, and that of their exports by 14 per cent. Inventory investment, which in most industrial countries is also highly import dependent, played a lesser rôle than in similar expansionary phases of previous cycles.

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This further rise in the relative importance of trade contributed in itself to strengthening the influence of international trade on domestic prices. As prices of primary products and of semi-manufactures rose much faster in 1973 than those of finished products, the inflationary impulse coming from the external sector was more pronounced in countries with a large share of primary products and semi-manufactures in either exports or imports. In several countries which had depreciated in the face of serious balance-of-payments difficulties, there was a tendency for the increase in commodity prices and the exchange rate movements to reinforce each other in achieving faster rates of growth in the prices of imports rather than of exports. Italy and the United Kingdom were particularly affected by this adverse shift in their terms of trade.

For a further examination of general trade developments affecting the industrialized countries, reference should be made to the introductory chapter of International Trade 1973/74, already published as press release GATT/1151. In addition, International Trade also includes, as usual, a detailed examination of developments in the trade of individual major industrial areas and countries in 1973.

**Trade of developing countries**

The acceleration of foreign trade of developing countries, noted in 1972, continued in 1973. Their total export earnings (expressed in US dollars) increased by about 37 per cent as against 18 per cent in 1972 and roughly 7 per cent on annual average in the preceding decade. Nearly 40 per cent of the overall increase in developing countries' export proceeds in 1973 was accounted for by exports of petroleum. While most of this increase in value was caused by the upsurge in commodity prices, it appears that the volume of developing countries' exports increased by about 8 per cent: if confirmed this would also be without precedent.

The share of developing countries in world exports appears to have increased marginally, to 18.1 per cent, in 1973. The GATT economists note that while this rise was largely due to higher commodity prices, it also reflected the continuing and accelerating diversification of developing countries' exports into non-agricultural products, particularly manufactures. Manufactures seem to have accounted for more than one half, and petroleum for about 40 per cent, of the total volume increase in developing countries' exports in 1973.

"Fragmentary" data suggest that manufactured products continued in 1973 to be the most dynamic export category of developing countries in volume terms. Shipments of manufactures from developing countries to Japan, for example, almost trebled in value in 1973. Another outstanding feature was the further product diversification of their manufactured exports: shipments of engineering products to the developed market economies increased by two-thirds in 1973.
Only a relatively small number of those developing countries heavily reliant on agricultural exports were able to increase the volume of these exports to take full advantage of the higher prices ruling in 1972 and 1973. Ten of the 15 developing countries that enjoyed the highest rates of export growth in 1973 were exporters mainly of minerals and/or manufactures; 23 of the 35 countries with the lowest rates of growth are mainly agricultural producers.

There was a sharp acceleration in 1972 and 1973 in the value of developing countries' imports in all product categories. The most rapid increase was in imports of primary products, and especially of foodstuffs (up more than 60 per cent in 1973 and 12 per cent in 1972, compared with about 5 per cent in earlier years). Much of the increase was due to higher prices, but the volume of primary product imports also rose because of insufficient domestic food supplies and increasing needs for raw materials for industry.

The developing countries as a whole increased their apparent f.o.b. - c.i.f. trade surplus to about $11 billion in 1973, compared with $3 billion in 1972. The increase was entirely due to the petroleum exporters, whose combined surplus expanded from $12.5 billion in 1972 to $21 billion in 1973. Developing countries not exporters of petroleum, who had managed to reduce their overall deficit by about $2 billion in 1972, saw it expand again by $1 billion in 1973 to nearly $10 billion. The widening of the deficit is attributed in part to higher import orders placed as a result of the improved export earnings achieved in 1972 and in prospect for 1973, and in part to harvest failures which necessitated larger imports of food.

Trade of the Eastern Trading Area

Both exports and imports of the Eastern trading area expanded at record rates in 1973. Imports ($58 billion) increased by nearly 33 per cent in current dollars; in terms of pre-devaluation 1971 dollars they rose by 22 per cent. Exports ($56.5 billion) increased by 31 per cent, and even in terms of 1971 dollars the increase was more than 20 per cent compared with 9.5 per cent in 1972 and 8.5 per cent in the preceding decade. In volume terms, available data suggest, the total foreign trade of the Eastern trading area expanded at an accelerating rate, significantly exceeding that of production, and reflecting the increasingly important role assigned to foreign trade in central planning. Intra-area trade accounted for 56 per cent of total exports in 1973, compared with 60 per cent in 1970, and about two thirds in 1960. Trade with both developed and developing countries outside the group expanded in 1973 at the unprecedented rate of about 45 per cent in current dollars (about one third in 1971 dollars).

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1 Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies.

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In trade with the developed market economies, the European GMEA countries showed a deficit in 1973 of nearly $3.5 billion ($2.35 billion in 1972). The 1973 increase was concentrated in the Eastern European countries, and especially Poland and the Democratic Republic of Germany. Imports from the area's two main suppliers, the Federal Republic of Germany and the United States, grew most rapidly.

Incomplete data, based on the statistics of China's trading partners, show a very sharp expansion of Chinese foreign trade in 1973. Imports from developed market economies increased by about 100 per cent, or $1.7 billion, of which $0.7 billion represented the increase in imports from the United States. Imports from Japan were up more than 70 per cent, exceeding $1 billion for the first time, and imports from most other developed market economies showed dollar increases of 60 to 150 per cent. Exports to developed market economies rose by two thirds in current dollars; exports to Japan, accounting for more than half the total, doubled in 1973.

China's trade deficit with the developed market economies, which had been shrinking in previous years, expanded from $0.6 billion in 1972 to $1.5 billion in 1973. Net exports to Hong Kong and Singapore, taken together, increased from $0.8 billion in 1972 to $1.2 billion in 1973.