The annual GATT report International Trade is published today.

The introductory chapter, which describes the main developments in international trade from January 1974 to August 1975 and comments on prospects for the year ahead, has already been published in a press release (GATT/1166) of 3 September 1975. Its main theme is a description and explanation of how international trade was affected in 1974/75 by "the culmination of a world-wide inflationary wave, coinciding with a deep recession spreading from industrial countries to other parts of the world", both inflation and recession being of a magnitude unprecedented in postwar history.

The complete report International Trade 1974/75 is now published for the first time. It analyses in detail trends in a turbulent year for world trade, looking in turn at developments in commodity trade, and in trade of the industrial, developing and Eastern trading areas.

Highlights of chapters appearing for the first time:

- Repeating the experience of 1973, when for the first time in the post-war period the value of trade in commodities grew more rapidly than that of trade in manufactures, commodity trade increased by 75% in value in 1974, mainly because of a 180% increase in fuel exports, while the value of trade in manufactures rose by one-third.

International Trade 1974/75: available in English and French language editions (Spanish ready shortly) from GATT Secretariat, Villa Le Bocage, Palais des Nations, 1211 Geneva 10, and through booksellers, price Sw Fr. 27.- or US$ 11.00.
For almost every primary commodity (apart from fuel) 1974 marked the end of the upward phase of the 1972/74 commodity boom. But food prices remained generally high, showing no significant decline until the first half of 1975.

Whereas in the entire post-war period the volume of both imports and exports of industrialized countries grew much faster than their gross national product of industrial production, in 1974 export growth slowed down and imports actually fell, for the first time since 1958, at a rate faster than the decline in output.

The share of developing countries as a whole (including oil exporters) in world exports grew from 19% in 1973 to 27% in 1974. The share of oil exporters alone increased from 7% to 16%, in spite of a reduction of 4% in export volumes; that of the oil importers was almost unchanged.

The total value of developing country imports increased by 65% over 1973, with their volume increasing by about one-fifth, the highest rate of growth since at least 1951.

The oil-exporting developing countries demonstrated a greater than expected capacity to absorb imports.

In relative terms petroleum, cereals and other primary products accounted for the greater part of the increase in imports by oil-importing developing countries. However, in absolute terms the effect of higher prices for imported manufactures was at least as important as that of higher prices for petroleum.

The trade deficit of oil-importing developing countries widened from $18 billion in 1973 to $40 billion in 1974, with a sharp deterioration in the course of 1974 that has continued into 1975.

Foreign trade of the Eastern trading area continued to expand steadily in 1974. The area's deficit in trade with developed market economies expanded while its surplus with developing countries fell.

China's trade deficit with developed market economies appears to have nearly doubled in 1974, to $2.8 billion.

Trade in Commodities

According to the report, "the dollar value of world trade in commodities increased by 75% in 1974, the main contributing factor being the increase of 180% in exports of fuels". For food and raw materials, the increases in exports were 24% and 22% respectively.
"World trade in manufactures increased in value by one-third in 1974, above-average growth in exports of non-ferrous metals (48%), iron and steel (63%) and chemicals (56%) being offset by below-average increases for trade in textiles and clothing (22%) and motor vehicles (19%)."

Exports of primary products from industrial countries increased in value by one-third in 1974. From developing areas as a whole (including oil exporters), such exports more than doubled, reflecting a trebling of the value of fuel exports; food exports from these areas rose by almost 40% in value, ores and minerals (excluding fuels) by one-half, and other raw materials by 29%.

"For almost every primary commodity", the report notes, "1974 marked the end of the upward phase of the 1972/74 commodity boom". It attributes the decline to demand conditions in the industrial countries which, in the course of 1974, became increasingly depressed. "The fact that, for most commodities, the downturn was delayed until the second half of the year was largely due to supply factors for the individual commodities concerned, although the realization of the full extent of the recession, in the second half of the year, also had some effect".

Food prices remained high in 1974, mainly because of persisting tightness in grain markets and a very large increase in sugar prices. In early 1975 grain prices began to ease, although they rallied in August; sugar prices began a swift decline as consumers began to react against the high price level and stocks were rebuilt; and oilseed, cocoa and coffee prices declined in the face of falling demand.

While the most important underlying factor in the behaviour of commodity prices in 1974 was, in the view of the GATT economists, the downturn in the business cycle in industrial countries, two other factors, both on the supply side, were also significant.

First was weather conditions: drought in the United States and some developing countries was largely responsible for the continued tightness of cereals markets, while bad weather in Europe reduced the sugar beet harvest and contributed to the rise in sugar prices.

The second factor was the effect of the long-term production cycles of some agricultural products: the beef cycle reached a peak in 1974, resulting in overproduction and surpluses, and production cycles for cocoa and cane sugar were at a point below the long-term trend as a result of the lack of encouragement given to investment by low prices in the 1960's.

Among other factors affecting commodity trade in 1974, the report notes:
(i) the exceptionally low stocks of most important commodities (especially wheat),

(ii) capacity shortages in the materials processing industries (non-ferrous metals, iron and woodpulp) because of lower investment in the pre-boom years,

(iii) exchange rate movements and the prevailing inflationary climate (which encouraged currency hedging and speculation), and

(iv) a long-term shift in the pattern of grain imports, with developing countries and the Eastern trading area accounting for a relatively larger share of these imports, while the share of traditional developed-country importers has fallen.

As usual, the report examines in detail developments in trade in each of the major commodities.

"In 1974, for the first time in the post-war period, world consumption of petroleum fell. Although the decline was slight - 1% - it represented a significant interruption in the long-term growth rate, which had been nearly 8% per annum for the decade ending 1973." The report suggests that the most important reason for this interruption to the long-term trend in petroleum consumption was the cyclical downturn in economic activity in the industrial countries, which reduced demand for energy. Second, the rise in the producer prices of petroleum, insofar as they were passed to the consumer, resulted in reduced consumption, particularly of gasoline. Third, an exceptionally mild winter in the Northern Hemisphere led to reduced demand for heating purposes."

The dollar value of world exports of textiles and clothing increased by about 22% in 1974, less than the increase in world exports of manufactures, and less also than the 33% increase in 1973. Higher prices appear to have been a major factor in the increase in the value of trade; according to the report, available data do not permit an assessment of the changes, if any, in volume.

Trade of industrial areas

"The foreign trade of industrial countries was characterized in 1974 by a pronounced slowing down in the volume growth of exports, while for the first time since 1958 imports actually showed a marginal decline for the year as a whole. During the second half of 1974 and the first half of 1975, exports also declined in volume, and the decline in imports progressively steepened. There was also..."
a sharp acceleration of the increase in trade prices which for 1974 as a whole was stronger for imports than for exports. This deterioration in the terms of trade was confined, however, to the first half of the year, when oil prices rose substantially. Thereafter the terms of trade have tended to move in favour of industrial countries, as prices of non-oil primary products declined and those of manufactured exports continued to increase.

"The movement in the volume of industrial countries' trade in 1974 was in sharp contrast with the experience of the entire post-war period, and especially during the 1960's and the early 1970's, when both exports and imports grew much faster than GNP or industrial production (measured by value added). In 1974, however, with the decline of domestic demand in several major industrial countries, especially the United States, the Federal Republic of Germany, Japan and the United Kingdom, imports into these countries and also into industrial countries as a whole declined. Another factor contributing to the decline in the volume of imports was the response to the rapid increase in import prices for a number of products. The bulk of the increase in the volume of exports of industrial countries (7½% compared with nearly 14% in 1973) was accounted for by expanding markets in developing countries and the Eastern trading area." 

"Although the prices of finished manufactured goods in world trade (excluding chemicals) rose less rapidly than semi-manufactures prices in 1974, they did rise considerably faster than in 1973. This acceleration was due to the cost pressures deriving from two sources: first the lagged effect of the rise in the prices of raw materials and other industrial inputs which had occurred in 1973; and, second, the sharp rise in domestic unit labour costs throughout the industrial world." 

The aggregate trade deficit (f.o.b.-c.i.f.) of industrial countries as a group, excluding Southern Europe, widened sharply from $12 billion in 1973 to about $24 billion in 1974. The deterioration was most pronounced in the first half of the year, when there was a heavy decline in the group's terms of trade. In the second half of 1974 the deficit began to diminish as the terms of trade recovered partially, and the deepening recession resulted in a fall in the volume of imports. This trend continued and became more pronounced in 1975.

The report includes an examination of longer-term trends in movements of trade in relation to production, based on a series of charts which trace, for six major industrialized countries, how the ratio of trade to gross national product grew over the past 20 years up to mid 1974 and declined thereafter.

**Trade of developing countries**

For developing countries as a whole (including oil exporters) in 1974, exports expanded much more rapidly than imports, reflecting largely the higher price of petroleum. "With export volume estimated to have increased only about 5%, as
against about 10% in each of the preceding two years, it was basically a doubling of export prices in 1974 which lifted the value of developing country exports from $109 billion to $233 billion and their share of world exports from 19 to 27%. The total value of developing country imports reached $170 billion (f.o.b.), a 65% increase over 1973. Following an increase of 15% in 1973, the volume of imports grew by about one-fifth, the highest rate since at least 1951."

The export earnings of the oil exporters more than trebled in 1974, reaching $135 billion despite a reduction by 4% in export volume. Their share in world exports increased from 7½% in 1973 to 16% in 1974. Exports to industrial countries, which accounted for about 80% of total exports, increased by more than 220% and those to oil-importing developing countries rose by nearly 200%.

"The increase of 70% or more in the value of imports for the oil-exporting developing countries in 1974 demonstrated a greater than expected capacity for import absorption. Although the rise from $20 to $35 billion was largely due to price increases, it included a substantial increase in import volume. For several of these countries the chief limitation on import growth in 1974 appears to have been the inability of physical facilities, such as ports, inland transport, storage, etc., to absorb a much higher volume of foreign goods. Imports from developed market economies increased more rapidly than the average, raising their proportion of total imports to 82% in 1974.

"For the oil-importing developing countries, the growth of total import value, at 64%, was well above the 47% growth of export value. The value of imports jumped from $84 billion in 1973 to $137 billion in 1974 while exports moved from $66 to $97 billion. The export volume of these countries grew by roughly 4%, less than in 1973 (6½%) and in 1972 (9½%). The growth of export unit values was about the same as in 1973 (36%) in 1974 as a whole, though there was a decline from about the middle of the year. The share of oil-importing developing countries in total world exports remained in 1974 practically unchanged (1.7%) as compared with the preceding year.

"The largest part (about 70%) of the increase of $53 billion in the import value of non-oil developing countries' imports stemmed from higher prices, which in 1974 were 47% above the level of the preceding year. In relative terms the increase was greatest for petroleum, cereals, and other primary products imported by developing countries. In absolute terms, however, the effect of higher prices for imported manufactures, among which steel and chemicals, in particular fertilizers, were the most rapidly expanding items, was at least as important as for petroleum."
There were some marked changes in the geographical pattern of trade of the oil-importing developing countries between 1973 and 1974. The share of industrial countries in their exports dropped from 70 to 63%, and in their imports, from 66 to 55%, while the share of the oil-exporters in their total imports rose from 8 to 15%.

"For developing countries as a whole the strong expansion of the export surplus (f.o.b./f.o.b.) between 1973 and 1974 was dominated by the rise from $23 billion to $100 billion in the surplus of the petroleum exporters. In the oil-importing countries, however, the trade deficit of nearly $18 billion in 1973 widened to $40 billion in 1974, the bulk of which was accounted for by deficits incurred with developed-market economies ($20 billion) and oil-exporting developing countries ($17 billion). At the same time, the data for 1974 as a whole conceal the sharp deterioration which took place during the course of 1974 and which has continued into 1975. The trade deficit of most oil-importing developing countries was larger during the second half of the year and from indications available it appears to have widened further during the first half of 1975. Relative to the import prices of manufactures, petroleum and cereals, the export prices of a large number of commodities on which developing countries are heavily dependent had either lost the largest part of the gains made during the commodity boom or even fallen below their pre-boom level."

Trade of the Eastern Trading Area

The foreign trade of the Eastern trading area continued its steady expansion, in both value and volume, in 1974.

For the third consecutive year the growth of imports exceeded that of exports: total imports rose by more than 30% in current dollars, to $75.5 billion and exports by more than one quarter, to $71.5 billion.

The longer-term trend for total trade of the Eastern countries to become less concentrated on intra-area exchanges continued in 1974, the share of intra-area trade in total exports declining to 50%, compared with 60% in 1970 and about two-thirds in 1960. "In terms of current dollars, the growth of intra-area exchanges, where prices remained relatively stable, was only half as rapid as that of trade with the rest of the world."

1Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies.
In trade with the developed market economies, exports grew by 50% in current dollars, slightly more than imports (46%). The combined deficit of the European members of the Council for Mutual Economic Assistance with the developed market economies reached $4.7 billion (f.o.b.), although the Soviet Union alone showed a surplus of $0.3 billion, largely because of sharply higher petroleum prices.

"In the absence of published national statistics, indications of China's foreign trade developments must be derived from the data of trading partners. For the second consecutive year the expansion of more than one-half in imports from developed market economies, was faster than that of exports to these countries, which rose by about one-third. As a result, the estimated trade deficit (f.o.b.-c.i.f.) almost doubled to $2.3 billion in 1974. Imports from Japan, China's main supplier, almost doubled between 1973 and 1974 when they exceeded $2 billion, representing nearly 40% of total imports from developed market economies. China's growing trade deficit with developed market economies was financed to a lesser degree than in the past by earnings of convertible currencies from its net exports to Hong Kong and Singapore which, taken together, rose from $1.2 billion in 1973 to $1.3 billion in 1974."