The annual GATT report on International Trade is published today.1

The introductory chapter, which describes the main developments in international trade from January 1975 to August 1976 and comments on prospects for the year ahead, has already been published in a press release (GATT/1183) of 27 August 1976. Its main conclusions were that the recovery of economic activity in industrial countries, already noticeable in the second half of 1975, continued to gain strength in the first half of 1976 and began to stimulate activity levels in other parts of the world; and that the volume of world exports in 1976 could be expected to exceed its level of the preceding year by 10 per cent—an increase of about 4 per cent over the previous peak of 1974.

The complete report International Trade 1975/76 is now published for the first time. It gives a detailed analysis of world trade, looking first at commodities and then at the trade of industrial, developing and Eastern areas.

Highlights of chapters appearing for the first time:

- The dollar value of world trade in primary commodities increased by less than one per cent in 1975, after a 75 per cent increase in the previous year when fuel exports had increased by 180 per cent.

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1International Trade 1975/76: available in English and French language editions (Spanish ready shortly) from: The GATT Secretariat, Villa Le Bocage, Palais des Nations, 1211 Geneva 10, and through booksellers. Price Sw.Fr. 27.00 or US$ 11.00.
After more than doubling in 1974, mainly because of the oil price increase, the value of exports of primary products from developing countries fell by 6 per cent in 1975. The most important single factor was a fall of $7.3 billion, or 7 per cent, in fuel exports to industrial areas.

In 1975 almost all commodity prices continued the decline begun in 1974 from their peaks of the 1972-74 commodity boom; this was the result of the recession in industrial areas and, for some raw materials, of the strong tendency to run down stocks. Although demand in the main industrial countries had been recovering since mid-1975, commodity prices began to rise only at the beginning of 1976 and continued to do so throughout the first half of the year.

For the second consecutive year the combined GNP of industrial countries showed a decline, of some 1½ per cent in real terms, if the average of 1975 is compared with that of the preceding year. The recovery of demand during the second half of 1975 and the first half of 1976 reflected mainly the strengthening of private consumption and the reversal of the de-stocking movement.

During the first half of 1975 wholesale prices levelled off, and in several countries declined slightly. In the case of consumer prices (including the prices of services), the rate of inflation also slowed down in 1975. For the year as a whole, however, it still averaged 11 per cent for industrial countries combined, the second highest in the post-war period and only marginally below the record of 1974 (12½ per cent).

With the recession deepening during the first half of 1975, industrial countries' imports fell steeply and in spite of the recovery during the second half of the year, for 1975 as a whole they averaged 7 per cent less than 1974.

In 1975 the recession in industrial countries brought about the steepest contraction of the post-war period, roughly 8 per cent, in the volume of exports from developing countries taken as a group.

For developing countries, taken as a whole, export earnings fell by about 5 per cent in 1975, the first decline since 1958. Their share in world exports shrank to 24 per cent, compared with 26½ per cent in 1974 and 18 per cent in 1971.

The value of exports from the oil-importing developing countries remained in 1975 at about the same level as in 1974. Their share in world exports, which had slightly increased (to almost 12 per cent) in 1973 and 1974, fell back to its level (11 per cent) of 1971 and 1972.
Foreign trade of the Eastern trading area continued its steady expansion, in both value and volume, in 1975. For the fourth consecutive year the growth of imports surpassed that of exports. The area’s imports exceeded $93 billion, having increased by about 23 per cent in current dollars, while exports rose by 16 per cent, reaching $83 billion. Thus, the area’s overall trade deficit again widened substantially in 1975, rising to $10 billion (in f.o.b. terms), as compared with $4 billion in 1974 and $1 1/2 billion in 1973.

The most salient feature of developments in trade of the European CMEA countries in 1975 was the swelling of their deficit with developed market economies, which, after a continuous rise from $0.8 billion in 1971 to $4.8 billion in 1974, more than doubled to nearly $11 billion in 1975. This resulted from a slight decline in the value and a more pronounced decrease in the volume of exports from the CMEA to developed market economies, while CMEA imports continued to rise at a sustained pace, of more than one-fifth in value, implying a substantial rise in volume.

Trade in Commodities

The report says that the dollar value of world trade in primary commodities increased by less than one per cent in 1975, after a 75 per cent increase in the previous year when fuel exports had increased by 180 per cent. In 1975 the value of trade in fuels was unchanged, and a 7 per cent increase in exports of food was counterbalanced by 10 per cent declines in exports of both raw materials and ores and minerals.

The slowdown in the growth of world manufactures exports, from 33 per cent in 1974 to 7 per cent in 1975, also reflected the recession.

The value of exports of primary products by industrial countries rose by 3 per cent in 1975, due to an increase of 8 per cent in exports of food and a less important increase in exports of fuels. Even more than in 1974, the increase in world export of food products was the result of gains for industrial countries’ food exports, which rose by 8 per cent to developing areas and 19 per cent to the Eastern trading area.

After more than doubling in 1974, mainly because of the oil price increase, the value of exports of primary products from developing countries fell by 6 per cent in 1975. The most important single factor was a fall of $7.3 billion, or 7 per cent, in fuel exports to industrial areas.

The growth of total primary product trade in 1974 was almost entirely explained by increased prices; in 1975 neither aggregate volume nor unit value changed appreciably.
"In 1975 almost all commodity prices continued the decline begun in 1974 from their peaks of the 1972-74 commodity boom; this was the result of the recession in industrial areas and, for some raw materials, of the strong tendency to run down stocks."

The report notes that between 1971/72 and 1975/76 net imports of grain into the Eastern trading area increased by 22 million tons, compared with increases of 3 million tons in Western Europe, 4 million tons in Japan and 9 million tons in developing countries. On the export side the bulk of the expansion came from the United States, whose net exports rose by 40 million tons during the same period.

Coffee was the only food item of major significance to show an increase in prices for the year (up 38 per cent), due to the disastrous frosts in Brazil which are expected to at least halve the country's output in 1976/77.

"The essential difference between the 1972-74 boom and its predecessors, apart from magnitude, was the world-wide wave of inflation which occurred at the same time, and which particularly affected input costs for agricultural products and minerals. Fuels, fertilizers, machinery and capital goods were all among the fastest rising categories. Because of these increases in input prices the cost of production has shifted up for most primary commodities, thereby blurring to some extent the close relationship usually seen between demand and raw material prices."

"Though demand in the main industrial countries had been recovering since mid-1975, commodity prices began to rise only at the beginning of 1976 and continued to do so throughout the first half of the year. This time-lag can partly be explained by the tendency of manufacturers to rundown stocks rather than make new purchases until the prospects for recovery become more certain."

**Trade of industrial areas**

According to the GATT economists, for the second consecutive year the combined GNP of industrial countries showed a decline, of some 1½ per cent in real terms, if the average of 1975 is compared with that of the preceding year. Following a decline in economic activity throughout 1974, the recession reached its bottom in the first half of 1975, with the GNP of industrial countries some 6 per cent below its previous peak. In the second half it picked up to gain some 4 per cent, and for the first half of 1976 preliminary estimates suggest a further recovery of 7 per cent.

The report says that inflation rates tended to be reduced during the recession, the contraction of demand being conducive to a reduction in the pace of wage increases while profit margins were increasingly eroded. The decline in inflation was much more pronounced for wholesale prices, which exclude services, and therefore tend to fluctuate more than consumer prices.
"During the first half of 1975 wholesale prices levelled off, and in several countries declined slightly. In the case of consumer prices (including the prices of services), the rate of inflation also slowed down in 1975. For the year as a whole, however, it still averaged 11 per cent for industrial countries combined, the second highest in the post-war period and only marginally below the record of 1974 (12\% per cent).

"The average of all industrial countries conceals however wide divergencies in inflation rates between countries. The spread between the low and high rates of inflation, which had widened considerably in 1974, did not show any tendency to narrow in 1975. Thus, in 1974 the lowest rates of increase in consumer prices were 7 per cent in the Federal Republic of Germany and 9-10 per cent in Austria, Norway, Sweden and Switzerland, as against 16-17 per cent in the United Kingdom and Ireland and 23 per cent in Japan. In 1975 the rate of inflation decelerated to 6 per cent in the Federal Republic of Germany and 7-8 per cent in Switzerland. In Italy, the rate of increase in consumer prices, though less rapid than in 1974, was 17-18 per cent, and it accelerated to 21 per cent in Ireland and 24 per cent in the United Kingdom."

The report examines the effects of relative changes in exchange rates on trade flows and direct investment among the industrialized countries. It notes, for example, that between 1971 and 1975 the dollar value of exports of manufactures from the Federal Republic of Germany to the United States increased by 38 per cent as compared with a doubling of US exports to the Federal Republic. This was accompanied by a fall in US direct investment in the Federal Republic and a rise in the flow of investment in the opposite direction.

Discussing the volume of trade in the industrial areas, the report says that in 1974 the decline of demand in these countries had been accompanied by a levelling off in imports, while exports had grown by 7 1/4 per cent, reflecting the substantial expansion of exports to the developing countries, both oil exporting and oil importing, and the Eastern trading area.

"With the recession deepening during the first half of 1975, industrial countries' imports fell steeply and in spite of the recovery during the second half of the year, for 1975 as a whole they averaged 7 per cent less than in 1974. During the first half of the year imports had declined faster than both GNP and industrial production, largely due to the prolonged decumulation of stocks of raw materials and semi-manufactures. During the second half of the year, however, the upturn was more pronounced for imports than for either production or overall demand. For 1975 as a whole the decline in industrial countries' imports was much more pronounced than for their overall GNP - in which services were a stabilizing factor - but slightly less than for industrial production. Industrial countries' exports also decreased in 1975, because of the fall in exchanges among themselves..."
and in exports to the oil-importing developing countries. The rate of decline in total exports, of 4\% per cent, was however lower than the fall in industrial countries' total imports and also less than decline in industrial production, because of the expanding deliveries to the oil-exporting developing countries and the Eastern trading area."

Developing countries

The GATT economists say that in 1975 the recession in industrial countries brought about the steepest contraction of the post-war period, roughly 8 per cent in the volume of exports from developing countries taken as a group.

"The sectors most severely hit were those producing raw materials and other industrial inputs destined mainly for export to industrial countries. This largely explains the decline in developing countries' mining production in 1975. In the case of manufactures the most export oriented branches were also affected, especially during the first half of 1975, though for some finished manufactures there was a strong recovery of demand from industrial countries during the second half of the year. For 1975 as a whole, however, manufacturing output of developing countries, of which a large proportion is destined for the home market, continued to increase, though at a slower rate than in the preceding year.

"The impact of the recession in industrial areas on the developing countries' overall production growth in 1975 was cushioned by the strong recovery of agriculture, due mainly to favourable weather conditions. The 5 per cent increase of developing countries' agricultural production in 1975, was the highest yearly increase in nearly two decades and reflected mainly a recovery (up 7 per cent) in South and East Asia. On a per capita basis, however, agricultural production in developing countries in 1975 only regained the levels attained in the early 1960s.

"For developing countries, taken as a whole, export earnings fell by about 5 per cent in 1975, the first decline since 1958. Their share in world exports shrank to 24 per cent, compared with 26\% per cent in 1974 and 18 per cent in 1971.

"The value of exports from the oil-exporting developing countries fell by about 8 per cent, the result of the sharp contraction of world demand for petroleum. Nevertheless, the share of this group of countries in world exports, at 13 per cent (versus 14.7 per cent in 1974 and 6\% per cent in 1971), remained the second largest.

"The value of imports into oil-exporting developing countries rose by more than one-half in 1975 as compared with nearly 80 per cent in 1974, and these countries remained the most rapidly expanding market. Fuelled by rapidly
increasing government spending on infrastructure and industrial equipment, imports of machinery and transport equipment into the oil-exporting developing economies nearly doubled in 1975, reflecting the accelerated rate of investment expenditures to implement their development plans."

The report notes that the oil-exporting developing countries, as a group, enjoyed in 1975 a substantial export surplus of some $57 billion (f.o.b./c.i.f.), well below the record $85 billion surplus of 1974.

"The value of exports from the oil-importing developing countries remained in 1975 at about the same level as in 1974. Their share in world exports, which had slightly increased (to almost 12 per cent) in 1973 and 1974, fell back to its level (11 per cent) of 1971 and 1972.

"As regards the product composition of exports from the oil-importing developing countries, an estimated 2 per cent decline in the value of primary products in 1975 resulted mainly from a substantial fall in exports of raw materials (including non-ferrous metals), while exports of foodstuffs increased somewhat. Exports of manufactures, which account for more than 30 per cent of total exports from the oil-importing developing countries, rose slightly in value in 1975.

"Imports into the oil-importing developing countries in 1975 were 5 per cent higher than in 1974 in value terms, implying a decline in volume.

"The combined trade deficit (f.o.b.-c.i.f.) of the oil-importing developing countries, which had almost trebled between 1973 and 1974, reaching $34 billion, rose further to $45 billion in 1975. This record deficit, occurring in spite of the decline in the volume of imports, resulted from the stagnation of export earnings and the continued rise in prices of imports, which in 1975 was concentrated on manufactures. These developments in the trade balance were largely responsible for the increase in the current account deficit, from $29 billion in 1974 to $37 billion in 1975. For 1976 a reduction of the current account deficit is likely, but preliminary estimates indicate that it will still be higher than in 1974".

Trade of the Eastern trading area

"The foreign trade of the Eastern trading area continued its steady expansion, in both value and volume, in 1975. For the fourth consecutive year the growth of imports surpassed that of exports. The area's imports exceeded $93 billion,  

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1Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies.
having increased by about 23 per cent in current dollars, while exports rose by 16 per cent, reaching $83 billion. Thus, the area's overall trade deficit again widened substantially in 1975, rising to $10 billion (in f.o.b. terms), as compared with $4 billion in 1974 and $1½ billion in 1973.

"In the preceding years the area's foreign trade had expanded less rapidly in value terms than world trade, mainly because in intra-area exchanges, which account for more than half of the total, prices had increased significantly less than in other trade flows. In 1975, however, the area's foreign trade expanded more rapidly than world trade. Consequently, the share of the Eastern trading area in world imports increased from 8½ per cent in 1974 to 10½ per cent in 1975, about the same as in 1970. This was the result of movements in both volume and price. As the net material product of the Eastern trading area continued to expand steadily in 1975, the volume of their intra-area exchanges, as well as of their imports from outside the area, continued to grow at a pace which exceeded the rise in production."

For the first time in the post-war period, prices in intra-area exchanges increased faster than prices in other world trade flows.

Intra-area exchanges expanded by 27 per cent to $46 billion in 1975. Roughly two-thirds of this increase can be attributed to the increase of prices in intra-CMEA exchanges. Exchanges among the European CMEA countries, by far the most important of the area's trade flows, rose by 28 per cent to $43 billion in 1975.

The report says the most salient feature of developments in 1975 was the swelling of the trade deficit of the European CMEA countries with developed market economies, which, after a continuous rise from $0.8 billion in 1971 to $4.8 billion in 1974, more than doubled to nearly $11 billion in 1975. This resulted from a slight decline in the value and a more pronounced decrease in the volume of exports from the CMEA to developed market economies, while CMEA imports continued to rise at a sustained pace, of more than one-fifth in value, implying a substantial rise in volume.

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1Member states of the Council for Mutual Economic Assistance (CMEA) are: Bulgaria, Cuba, Czechoslovakia, German Democratic Republic, Hungary, Mongolia, Poland, Romania, Soviet Union.
"The distribution of the deficit with developed market economies between the Soviet Union and Eastern Europe differed significantly in 1975 from that of previous years. Between 1971 and 1974 the bulk of the deficit with developed market economies had been accounted for by Eastern Europe whose deficit expanded continuously from $0.7 billion in 1971 to $5.1 billion in 1974. The Soviet Union had had the higher deficit, of $1.12 billion, in 1972 when it had imported large quantities of grain, and in 1974 had recorded even a small export surplus, largely as a result of the sharp increase in oil prices. In 1975, however, the Soviet Union shifted back to a deficit which reached the unprecedented level of $4.8 billion, as imports rose by nearly 60 per cent while exports declined slightly. Because of the size of their deficits in the preceding years, and the growing problems of financing these deficits, most Eastern European countries had to reduce the volume of their imports from developed market economies. As, however, their import prices continued to increase while their export earnings failed to show any rise, the combined trade deficit of the Eastern trading area increased further to $5.9 billion in 1975."

The report notes that the further widening of the trade deficit of the European CMEA countries with developed market economies in 1975 reflected temporary factors such as the cyclical downturn in the volume of exports due to the recession and crop failures. But the GATT economists also examine longer-term factors which they say continued to play an important rôle in the Eastern Trading Area's imports and exports.

Among these factors was the reorientation of investment policies by the CMEA countries toward greater selectivity, the main aim being to increase the productivity of labour employed in the most promising branches and plants. Another major cause of concern, the report says, was the growing need of investment funds, arising from the shift in the exploration and exploitation of mineral resources, especially of fuels, from the European to the Asian part of the Soviet Union, the area's main supplier of minerals and other raw materials. An essentially new feature was the gradually increasing emphasis placed by planners not only on a quantitative increase in supplies of consumer goods, but also on their diversification, i.e., on widening the range of consumer choice. These more fundamental changes reinforced the need to rely more heavily on international specialization through foreign trade.

"As imports into the European CMEA countries from developing countries expanded faster (26 per cent) in 1975 than their exports to them (14 per cent), the trade surplus of the CMEA declined to $1 billion, from $1.7 billion in 1974 and $2.1 billion in 1973. This decline reflected essentially the shift in the trade balance with Cuba from an export surplus (of $0.1 billion) in 1974 to an import surplus (of $0.5 billion) in 1975. The export surplus of the European CMEA countries with other developing countries, at 1.5 billion, was little changed as imports expanded in 1975 at about the same rate (roughly 14 per cent) as exports."
The report notes that in 1975, the final year of the 1971-1975 five year plan, the national income (net material product) of the European CMEA countries continued to expand, growing by 5 per cent as compared with 6 per cent in both preceding years. Industrial production rose by 8 per cent, only slightly less rapidly than in the preceding year, while agricultural production declined by about 4 per cent for the second consecutive year. In both years the decline in agricultural output was more pronounced in the Soviet Union than in Eastern Europe and was concentrated on crop products, especially grain.

"The growth of petroleum production in the two main producing countries of the area, the Soviet Union and Romania, was about the same as in the preceding year, i.e., roughly 7 and less than 1 per cent, respectively. In the Soviet Union output reached 490 million tons and in Romania 14.5 million tons in 1975. Exports of crude petroleum from the Soviet Union, of which about one-half go to other CMEA countries, increased by about 15 per cent to 93 million tons and those of petroleum products by 5 per cent to 37 million tons. Romania's exports of petroleum products, following a strong rise in 1974, declined by 5 per cent. In value terms exports of petroleum and petroleum products rose from $5.8 billion to $7.9 billion in the Soviet Union, reflecting the increases in both volume and prices, while in Romania they remained without much change at about $0.5 billion."

The GATT economists note that in the Soviet Union the value of imports of machinery (including transport equipment) rose by nearly one half or $3.95 billion. Imports of machinery from developed market economies rose by 86 per cent or $2.25 billion and those from the European CMEA countries by nearly 30 per cent or $1.58 billion. In the case of foodstuffs the rise in the total value of imports (90 per cent or $3.9 billion) was largely concentrated on two commodities, grain and sugar, imported mainly from outside the area and accounting for more than 80 per cent of the total increase between 1974 and 1975.

Commenting on China's foreign trade, the report concludes:

"After two years of rapid expansion, imports from the developed market economies showed hardly any increase in 1975, while exports to them rose by 9 per cent, less rapidly than in the preceding year. As a result, the estimated trade deficit (f.o.b.-c.i.f.) with developed market economies, which had almost doubled between 1973 and 1974, was slightly reduced in 1975, though still amounting to $2.7 billion. Imports from Japan, China's main supplier, continued to expand at an above average rate and reached $2.4 million, representing nearly 45 per cent of total imports from developed market economies. Imports from Western Europe increased, by 30 per cent, for the third consecutive year, while those from the United States and Canada fell by 62 and 17 per cent, respectively. Imports from Australia, which had more than doubled between 1973 and 1974, showed almost no increase in 1975."
Exports to Hong Kong increased by 17 per cent in 1975, twice the rate of the previous year, and those to Singapore by nearly 10 per cent. Consequently, China's trade deficit with developed market economies was again financed largely by earnings of convertible currencies from its net exports to these two countries, which rose from $1.3 billion in 1974 to $1.6 billion in 1975.