GATT REPORT ON INTERNATIONAL TRADE 1976/77

The annual GATT report on International Trade is published today.\(^1\)

The introductory chapter, which describes the main developments in international trade from January 1976 to August 1977, has already been published in a press release (GATT/1196) of 7 September 1977. It noted that developments so far in 1977 indicated a continuation of the slow-down in the pace of economic recovery in industrial countries. Its tentative estimate is that the increase in the volume of world trade for 1977 will be around six per cent.

The same chapter noted a proliferation of trade restrictions and suggested that these reflected an unwillingness to adjust that was weakening the recovery and growth capacity of the industrial economies. The GATT economists concluded this chapter by saying that without a clear return to more liberal trade practices, accompanied by the necessary adjustment measures, the stage would appear set for a further build-up of economic difficulties.

Highlights of chapters appearing for the first time

- In 1976, world trade in primary commodities increased by nearly 1\(^4\) per cent in dollar value, largely the result of a recovery in volume after the recession-induced decline of the preceding year.

The growth of world exports of manufactures accelerated to 12½ per cent in 1976, based on a strong recovery of volume, which had declined in the preceding year.

Following a decline in 1975, prices of primary products recovered during the course of 1976, particularly for raw materials, of both agricultural and mineral origin, which benefited from the recovery of manufacturing production in industrial countries.

Following two years of slack, the combined gross domestic product (GDP) of the industrial countries showed a 5 per cent gain in 1976, a rate comparable to the average of the 1962-72 period. For a year of cyclical recovery this was a comparatively low rate of increase.

The most serious weakness in the 1976 economic recovery was the sluggishness of demand for fixed industrial investment.

In 1976, exports and imports of industrial countries, after declining in volume terms in 1975, rose by 10¼ and 13½ per cent in volume respectively, exceeding their 1973 levels by 13 and 6½ per cent respectively.

In the oil-exporting countries, the value of total exports, of which an estimated 95 per cent comes from petroleum, increased by 20 per cent in 1976, compared with an 8 per cent decline the year before.

An important feature of developments in 1976 was the growing disparity among the oil-exporting developing countries. The trade surplus of the higher income group was $41 billion (f.o.b.-c.i.f.) in 1976, nearly as high as in 1974. In the lower income group, however, the trade surplus, though recovering to $23 billion in 1976, was 40 per cent below its peak of 1974.

The combined exports of oil-importing developing countries, which had declined in 1975, increased sharply in 1976 both in value (by nearly one-quarter) and in volume. The report notes a marked diversity of developments among these countries.

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1Unless otherwise specified all percentage changes refer to changes in the dollar value of trade.

2f.o.b.-c.i.f. (exports free on board, imports, cost insurance freight).

3On current account, i.e. including services as well as merchandise trade, the oil-exporting developing countries as a group had a surplus exceeding $40 billion in 1976.
- The foreign trade of the Eastern trading area\textsuperscript{1} continued to expand in 1976. Exports increased by 12\% per cent to $94 billion. For the first time in five years imports expanded in value terms at a slower rate (7 per cent) than exports. As a result, the area's overall trade deficit, which had reached a peak of nearly $10 billion (in f.o.b. terms) in 1975, declined to $7 billion.

- Trade within the Eastern trading area expanded in value by 10\% per cent in 1976 to nearly $52 billion, mainly as a result of a rise in volume.

\textbf{Trade in commodities}

The report says that in 1976, world trade in primary commodities increased by nearly 1\% per cent in dollar value, largely the result of a recovery in volume after the recession-induced decline of the preceding year.

"World exports of fuels, which account for about one-half of all primary product exports, rose by about 16 per cent and those of raw materials (excluding products of mineral origin) by 22 per cent, in both cases reflecting not only a recovery in volume but also an increase in dollar unit values. World exports of ores and minerals expanded by 5 per cent and those of foodstuffs by 8 per cent."

"The growth of world exports of manufactures accelerated to 12\% per cent in 1976, based on a strong recovery of volume, which had declined in the preceding year. Relatively large increases were recorded for the main categories of manufactured consumer goods, in particular, road motor vehicles (19 per cent), household equipment (22 per cent), and clothing (17 per cent). There was also a strong rise (more than one-fifth) in world exports of office and telecommunications equipment. For chemicals and textiles, gains of 14 and 12\% per cent, respectively, were close to the average for all manufactured products. Finally, reflecting mainly the continued weakness of investment demand in the industrial countries, world exports of machinery and equipment for specialized industries increased by only 5\% per cent and those of steel declined."

The GATT economists note that following a decline in 1975, prices of primary products recovered during the course of 1976, particularly for raw materials, of both agricultural and mineral origin, which benefited from the recovery of manufacturing production in industrial countries.

\textsuperscript{1}Defined as Eastern Europe, the Soviet Union and the Asian centrally-planned economies (China, North Korea, Viet-Nam and Mongolia).
"During the first four months of 1977, the aggregate index of export prices of primary commodities continued to move upwards, due mainly to a further rise in food prices. Beginning in May, the upward movement in prices of primary products (other than petroleum) was reversed, due to declines for both foodstuffs and raw materials. Among foodstuffs, prices of those commodities which had increased most sharply during the early months of the year, in particular, coffee, oilseeds and vegetable oils, fell back from the peak levels reached in April, chiefly because of improved prospects for the crops to be harvested later in the year. For raw materials, the decline reflected mainly the continued sluggishness of demand, particularly in Western Europe and Japan, where industrial production had been levelling off since the beginning of the year."

Trade of industrial areas

The report says that following two years of slack, the combined GDP of the industrial countries showed a 5 per cent gain in 1976, a rate comparable to the average of the 1962-72 period. For a year of cyclical recovery this was, comparatively speaking, a rather low rate of increase. The revival of economic activity, which started in North America and Japan in the second quarter of 1975 and in Europe in the last quarter of 1975, lost momentum everywhere in the course of 1976. Moreover, there was a contrast between the relatively sharp recovery in the United States, Japan and to a lesser extent, the larger European countries, with the main exception of the United Kingdom, and the persistent slack in most of the smaller countries of Europe.

"Private consumption played an important role in the revival of economic activity in 1976, although its growth slowed down somewhat in the course of the year. Public expenditures also increased quite significantly, although less than in 1975.

"The most serious weakness in the 1976 economic recovery was the sluggishness of demand for fixed industrial investment, which had declined generally in 1975 and in some countries already in 1974.

"Among the causes of the investment weakness during 1976, one may cite the level of unused productive capacities for several types of goods (metals, in particular), these levels differing from one country to another, the insufficient recovery of corporate profits, especially when compared with the level of interest rates, and the correspondingly depressed situation of equity markets; and, finally, the uncertainty about future demand and inflationary trends, coupled in a few countries with political uncertainty."
The GATT economists say that in the first half of 1977, while slack continued to be observed in Europe, economic activity gained momentum in the United States, where first quarter GDP, boosted by a new wave of stockbuilding and a further increase in residential construction, rose at an annual rate of 7.5 per cent, and in Japan, where the growth of first quarter gross national product (GNP), on an annual basis, exceeding 10 per cent; in Japan, some deceleration seems to have taken place in the second quarter of the year.

The report notes that in 1976, exports and imports of industrial countries, after declining in volume terms in 1975, rose by 10½ and 13½ per cent in volume respectively, exceeding their 1973 levels by 13 and 6½ per cent respectively.

"Import growth, after dropping severely in the preceding year, was spurred by the rebuilding of stocks, which played a major role in overall economic growth in 1976, and by the recovery in industrial production. The growth rate of exports slowed down in the second half of 1976, reflecting the curtailment of imports into the oil-importing developing countries and the Eastern trading area of balance-of-payments reasons, whereas imports remained buoyant throughout the year. However, both exports and imports levelled off in the first months of 1977, the main exceptions being the further rise in exports of the United Kingdom and in imports of the United Kingdom and the United States."

Trade of non-industrial areas

In the oil-exporting developing countries, the value of total exports, of which an estimated 95 per cent comes from petroleum, increased by 20 per cent in 1976, compared with an 8 per cent decline the year before. The increase in export value was largely due to changes in volume (up 12 per cent), which, however, remained below the record levels of 1973 and 1974.

"Import growth was substantial in 1976, but less than in recent years. The value of imports rose by 25 per cent, or half the average rate of increase for the preceding three years, and import volume grew by 24 per cent, compared with 32 per cent in 1975. Part of the reason for this deceleration may be found in the failure of growth of infrastructure (e.g. port facilities) to keep pace with the rapid expansion of import demand in certain countries.

"The acceleration since 1974 in the import demand of the oil-exporting developing countries as a group is evident for almost all product categories. However, the growth of imports of manufactures (of which industrial goods account for almost two-thirds) has been stronger than that of primary products (75 per cent food), due essentially to new government programmes aimed at the expansion of industry and infrastructure."
The GATT economists note that an important feature of developments in 1976 was the growing disparity among the oil-exporting developing countries. The trade surplus of the higher income group was $41 billion (f.o.b.-c.i.f.) in 1976, (Saudi Arabia accounting for $24 billion), nearly as high as in 1974. In the lower income group, however, the trade surplus, though recovering to $23 billion in 1976, was 40 per cent below its peak of 1974. In the higher income group, the value of exports rose by 27 per cent in 1976, mainly because of a particularly large increase in the volume of exports from Saudi Arabia (22 per cent); import value increased by 50 per cent, only slightly less rapidly than in the previous year. In the lower income group, however, where the growth of exports was only 16 per cent, the rate of growth of imports fell sharply to 14 per cent, compared with 63 per cent in each of the preceding two years.

The report says that the combined exports of oil-importing developing countries, which had declined in 1975, increased sharply in 1976 both in value (by nearly one-quarter) and in volume.

"There was a marked diversity of developments in the oil-importing developing countries. First, a few countries (for example, Trinidad and Tobago and Netherlands Antilles) derive most of their export income from petroleum, mainly of refined products, and account for the bulk of oil-importing developing countries' export earnings from fuels. With some exceptions, these countries' major activity consists in refining imported oil for export. It is thus not surprising that their exports and imports have recently moved in step, with the changes reflecting mainly volume shifts, both stagnated in 1975 but increased sharply in 1976 as world petroleum demand resumed growth. As a group, these countries had a small import surplus (41 billion f.o.b.-c.i.f.) in 1976.

"A second group of oil-importing developing countries, including among others Hong Kong, the Republic of Korea, and Singapore, export mainly manufactures; lacking natural resources, they rely heavily on imported raw materials and semi-manufactures for their export-oriented manufacturing industry. Their import needs are thus closely related to activity in manufacturing which, in turn, depends to a large extent on foreign demand for its output. The export earnings of this group of countries stagnated in 1975 but reacted strongly to the recovery of demand in some industrial countries in 1976 and increased in value by some 47 per cent, a rate above the long-term trend (1963 to 1972) and even faster than during the boom years 1972-1974."
The third group of countries contains most of the population living in developing areas and accounts for 68 per cent of the trade of oil-importing developing countries. The variety of situations in this group, which contains a large number of countries, is extremely wide. Common features are that all countries rely mainly on exports of primary commodities and that the majority of them lack important energy resources. After increasing sharply in 1972-1974, their combined export receipts declined in 1975; they then went up again in 1976, mainly as a result of (i) some recovery in world demand for industrial raw materials, (ii) good 1975/76 harvests in some regions and (iii) very large price increases for some commodities, particularly coffee. The value of their imports, which had risen at a somewhat faster rate than exports in 1972-1974, continued to increase in 1975 but fell by 5 per cent in 1976; this decline was due almost entirely to lower food import requirements in some developing areas.

Trade of the Eastern trading area

The foreign trade of the Eastern trading area continued to expand in 1976. Exports increased by 12 per cent to $96 billion. For the first time in five years imports expanded in value terms at a slower rate (7 per cent) than exports. As a result, the area's overall trade deficit, which had reached a peak of nearly $10 billion (in f.o.b. terms) in 1975, declined to $7 billion.

The expansion of the area's foreign trade in value terms in 1976 reflected mainly higher volume. This contrasts with 1975 when the sharp increases in value (16 per cent for exports and 24 per cent for imports) were to a significant extent due to rising prices. In 1975, for the first time in the postwar period, prices in intra-area exchanges had increased faster than prices in other world trade flows. Intra-area exchanges expanded in value by 10½ per cent in 1976 to nearly $52 billion, mainly as a result of a rise in volume.

The report notes that exports from the European CMEA1 countries to developed market economies grew by nearly 20 per cent in 1976, double the rate for imports from these countries. Nevertheless, in 1976 the import surplus (in f.o.b. terms) in trade with developed market economies, at $10 billion, was not significantly lower than the peak level of 1975.

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1 European member states of the Council for Mutual Economic Assistance (CMEA) are: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, Soviet Union.
The growth of trade of the European CMEA countries with developing countries slowed down in 1976. The deceleration was more pronounced for imports, which increased by 5 per cent, versus 27 per cent in the preceding year; exports increased by nearly 10 per cent, versus 13 per cent in 1975. In consequence, the area's export surplus with developing countries, reduced to $0.9 billion in 1975, rose to $1.4 billion in 1976 (still less than in 1974). This was almost entirely due to the fact that the export surplus of the Soviet Union, which had almost disappeared in 1975, was again sizeable in 1976 ($1 billion).

In the section on the Soviet Union, the GATT economists say that the growth in the value of its exports was due mainly to increases of about one-fifth for the two main export categories, fuels (including other minerals and metals) and machinery (including transport equipment), which accounted for 55 per cent and nearly one-quarter, respectively, in the value of total exports. For machinery, more than one-half of the increase in exports was absorbed by Eastern European countries. In the case of fuels, however, two-thirds of the increase was accounted for by developed market economies, the volume of exports of petroleum (including petroleum products) to them rising by 24 per cent to 65 million tons.

The largest part of the increase in imports was accounted for by machinery (including transport equipment) and foodstuffs, also the two most important categories. Imports of industrial consumer goods increased only slightly, while those of fuels (including other minerals and metals), chemical and agricultural raw materials declined in value terms.

In the absence of published national statistics, the report says that indications of China's foreign trade developments must be derived from the data of trading partners. Imports from the developed market economies, which did not grow in 1975, declined by one-quarter in 1976, while exports to them rose only moderately (2½ per cent). As a result, the estimated import surplus (f.o.b.-c.i.f.) with developed market economies was halved to $1.3 billion. Imports from Japan, China's main supplier, were cut by one-quarter to $1.7 billion and those from Western Europe increased by 13 per cent to $1.6 billion. Imports from North America and Australia declined particularly sharply, due mainly to a fall in imports of grain. Exports to Japan declined by 10 per cent to $1.3 billion but those to most other market economies increased in 1976.

Exports to Hong Kong, which in 1976 became China's largest market, increased by 15 per cent in 1976 to $1.6 billion, while those to Singapore declined slightly to $250 million. China's combined export surplus with Hong Kong and Singapore reached $1.8 billion in 1976, exceeding for the first time in four years its import surplus with developed market economies.