The annual GATT report on International Trade is published today.  

The introductory chapter, which describes the main developments in international trade from January 1977 to August 1978, has already been published in a press release (GATT/1218) of 31 August 1978.

Judging from the trade returns of the large industrial countries, the first chapter reported that the volume of world trade grew at a somewhat faster pace in the first half of 1978, at an annual rate close to 6 per cent, as against an increase of 4 per cent in 1977 as a whole. Barring a sharp reversal of this trend in the second half of the year, the GATT economists forecast that the increase for 1978 would be somewhat larger than last year.

The same chapter concluded that the industrial countries could only move towards increased growth and employment, and towards sustainable payments positions and more stable exchange rates, by reducing their inflation rates to the levels experienced until the mid-1960's. It added that the risks of making price stability unquestionably the top priority policy goal were small compared to those created by continuing inflation, the spread of protectionist policies and the growing deterioration of international economic relations which these developments entail.

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Some highlights of chapters appearing for the first time

During the first half of 1978, petroleum production in the OPEC countries declined by 9 per cent compared with the same period of 1977, whereas it rose by 9 per cent in the developed countries (substantial increases in the United States, the United Kingdom and Norway being only partly offset by a decline in Canada), and by 5-6 per cent both in the Eastern trading area and in the developing countries other than OPEC.

Industrial countries' exports and imports, which had recovered by 11 and 14 per cent, respectively, in 1976, slowed down considerably in 1977, both increasing by 5 per cent in volume terms and 13 per cent in value terms.

Following a marked improvement in 1976, the trade surplus (f.o.b.-c.i.f.) of oil-exporting developing countries as a group declined in 1977, dropping by $10 billion to $59 billion, a level just above that recorded in 1975.

Countries exporting mainly manufactures remained the most dynamic exporters among oil-importing developing countries. Though markedly lower than in the previous year, their export growth rate in 1977 was close to 10 per cent in volume and 22 per cent in value. (This compares with a growth of less than 5 per cent in volume terms and 16 per cent in value terms for oil-importing developing countries as a whole.)

After four years in which imports had expanded substantially faster than exports, the Eastern trading area as a whole achieved, in 1977, for the second consecutive year, a substantial reduction in its overall import surplus.

With developing countries, the Eastern trading area has traditionally had a trade surplus, which almost trebled in 1977 to $4 billion. Exports to developing countries expanded by one-third, more than twice as fast as imports. The increase in the area's export surplus with developing countries was primarily due to the Soviet Union (nearly $3 billion).

China's imports from Japan, its main supplier, expanded in 1977 by 17 per cent to $2 billion, whereas its imports from Western Europe declined for the second consecutive year (by 16 per cent) to $1.2 billion. China's imports from North America and Australia, which had been sharply reduced in 1976, soared again in 1977 due mainly to increased imports of grain.

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1 Defined as Eastern Europe, the Soviet Union and the Asian centrally planned economies (China, North Korea, Viet-Nam and Mongolia).
2 f.o.b.-c.i.f. (exports: free on board; imports: cost insurance freight).
Trade in commodities

The report says that in 1977, world trade in manufactures (excluding non-ferrous metals) increased by 15 per cent in dollar value, slightly more rapidly than in 1976. In volume terms, however, the growth of world exports of manufactures slowed to 6 per cent, one-half the rate of the preceding year. For primary products, the growth in the value of world trade in 1977 was slower than for manufactures. In volume, world exports of agricultural products rose by only 3 per cent, as against nearly 7 per cent in 1976. For minerals the growth of 10 per cent in value terms was mainly due to an increase in prices.

"Manufactures' trade (excluding non-ferrous metals) among industrial countries increased by 14 per cent in 1977, while their exports to developing countries rose at a more rapid rate - 22 per cent for exports to the oil-exporting developing countries and 16 per cent for those to the oil-importing developing countries. Industrial countries' imports of manufactures from developing countries rose by 15 per cent in 1977, the fastest expansion, of more than one-fifth, being recorded for engineering products. In contrast with the long term trend, "the report says, "the value of industrial countries' imports of textiles and clothing from developing countries increased in 1977 at a slower rate than either exchanges among the industrial countries themselves or their exports to developing countries."

The GATT economists note that "in the export trade of industrial countries, there was a further increase, to more than three-quarters, in the share accounted for by manufactures, nearly 60 per cent of which consists of engineering products. In the oil-importing developing countries, the share accounted for by the principal export category, that is primary products other than fuels, increased in 1977 to nearly one-half, due essentially to the strong rise of prices of tropical beverages. The proportion accounted for by manufactures continued to rise, but only slightly to nearly 36 per cent, in 1977 when for the first time engineering products replaced textiles and clothing as the principal broad category of manufactures exported by developing countries."

Turning to world consumption of petroleum, the report says that for industrial countries as a whole there was no rise at all in consumption between 1973 and 1977, the slight increases in North America (1.1 per cent on average per year), being entirely offset by the decline of 1.3 per cent per year) in Western Europe. In the developing countries, by contrast, petroleum consumption continued to expand strongly between 1973 and 1977, by 7 per cent on average per year.
Trade of industrial countries

The main economic developments in the industrialized countries during the first half of 1978 were described in the first chapter of the annual report published in August.

The chapter on industrialized countries published today points out that the recovery of demand in these countries, which had started in the second half of 1975 and continued through 1976, weakened markedly in 1977, especially in the second half of the year. The GATT economists add that although the policies adopted in several countries to cope with inflation or balance-of-payments deficits contributed to some extent to the sluggishness of demand, the reluctance of enterprises to engage in fixed capital formation was a major factor in the relatively poor economic performance of 1977. Fixed business investment, though expanding by about 4½ per cent in real terms, was still below its 1973 level, even in the United States, where the recovery was far more vigorous than in Western Europe. Moreover, the increase in non-residential fixed investment was concentrated on the replacement of machinery and (somewhat surprisingly) the acquisition of transport equipment, rather than on structures, and among the latter, on commercial buildings rather than manufacturing plant.

The report says that "the slow pace of recovery of fixed capital formation is due in good part to the inflationary climate which has prevailed since the late 1960s. The investment inhibiting factors have come from two sides. Inflation has created uncertainty in which it is difficult to plan new investment; it has also created difficulties for the financing of investments as can be seen from the persistently low rates of profit, especially when compared with long-term interest rates. Prices of industrial inputs have risen faster than those of outputs, which more easily lend themselves to control, thus eroding profit margins, whereas persistent budget deficits, besides their inflationary impact, have helped sustain high long-term interest rates, without giving a sustained boost to economic activity.

Trade of non-industrial areas

In 1977 the oil-exporting developing countries increased the value of their exports (almost 95 per cent of which consists of petroleum) by 11½ per cent. Most of this gain resulted from the price rise at the beginning of 1977.

The report adds: "the total dollar value of imports (c.i.f.) increased by about 35 per cent in 1977, following 22 per cent growth in 1976. However, it is estimated that in real terms import growth may have been no greater than in 1976, remaining well below that in the two preceding years. The
acceleration in the dollar value of imports was noticeable in only half of the oil-exporting developing countries and largely reflected the rapid growth of imports in Saudi Arabia, Venezuela and Libya. The faster rate of growth of imports in the high-income group of countries (70 per cent compared with 20 per cent import growth in the lower-income countries) results chiefly from their stronger balance of payments.

Although the share of the low-income group in the OPEC trade surplus increased in 1977, it was still equal to only 10 per cent, whereas this group's population represented 70 per cent of the total. The bulk of the OPEC surplus was concentrated in the high-income group. These countries accounted for 55 per cent of the OPEC surplus in 1974 and for 65 per cent in 1977.

Turning to the oil-importing developing countries as a group, the GATT economists report that the value of their exports was some 16 per cent higher in 1977 than in the previous year, when it had increased by one-fifth. "The slowdown in export growth was even more marked in volume terms from over 10 per cent in 1976 to less than 5 per cent. The dollar unit value of exports increased at a faster pace in 1977 due to an upsurge in the price of tropical beverages (coffee, cocoa and tea) in the first half of the year. The value of imports (c.i.f.) increased by about 12 per cent in 1977. Import volume growth was again low: after a fall in 1975 and two years of marginal increases, it may have reached a level in 1977 which was only 5 per cent higher than in 1974. The combined trade deficit (f.o.b.-c.i.f.) of these countries, after a decline from about $42 billion in 1975 to $26 billion in 1976, diminished only slightly (to about $26 billion) in 1977, mainly because their terms of trade improved in the first half of the year. The current account deficit of the oil-importing developing countries also declined in 1977."

Discussing the developing nations which mainly export non-fuel primary products, the report says "the aggregate value of their exports increased in 1977 by close to 17 per cent (15 per cent in 1976). As the bulk of this increase was due to booming prices for tropical beverages and most oilseeds and oils, which reached a peak in the second quarter of the year, export earnings tended to decline in the second half of 1977 and this trend appears to have continued in early 1978. The volume of exports from this group is estimated to have increased only marginally in 1977. Their imports went up by some 12 per cent in value, following a decline (3 per cent) in the preceding year."

Trade of the Eastern trading area

The value of exports from the Eastern trading area in 1977 increased by 15 per cent, that of imports by nearly 10 per cent and the area's trade deficit, which had reached a peak of nearly $10 billion (in f.o.b. terms)
in 1975 and declined to $7 billion in 1976, was reduced to $2.5 billion, the report says. The expansion of the area’s foreign trade in 1977 reflected mainly higher volume. However, unit values of both exports and imports also rose in 1977, the increase being probably more pronounced on the export side. There was, in particular, a further substantial upward adjustment in prices of fuels of which the area is still a significant net exporter.

"Intra-area exchanges expanded in 1977 by 15 per cent in value, to $60 billion, as compared with 11 per cent in 1976. This acceleration in value terms was mainly due to a more rapid rise in the volume of intra-area exchanges but prices also rose, probably faster in 1977 than in 1976. Manufactures (excluding non-ferrous metals) accounted for nearly 72 per cent of the total value of intra-area trade in 1977, about the same proportion as in the preceding year."

The GATT economists say that in 1977, for the second consecutive year, trade of the European CMEA countries with the rest of the world expanded less rapidly than intra-area exchanges. There was in particular a pronounced slowing down in the growth of imports from outside the area, reflecting to a large extent the endeavour to reduce the large trade deficit. The growth of the European CMEA countries’ imports from the developed market economies had slowed down in the preceding two years, and in 1977 these imports declined absolutely, by nearly 2 per cent in value. Exports to developed market economies continued to expand by 10 per cent in value, which was, however, only half the rate attained in 1976. As a result, the area’s deficit with developed market economies was reduced to $6.8 billion in 1977.

The report says that in trade with industrial market economies, Eastern trading area imports are heavily concentrated (80 per cent of the total) on manufactures of which the most important are engineering products (40 per cent of the total). On the export side, however, manufactured products represent only one-third, and engineering products only 10 per cent, of the total. Textiles and clothing represented 5% per cent of exports in 1977, about the same share as on the import side. It is also noteworthy that the share of fuels in total exports of the Eastern trading area to the industrial market economies has almost doubled between 1973 and 1977, being now the most important export product category (35 per cent of the total). In trade with the oil-importing developing countries, manufactures in 1977 represented 56 per cent of exports, but only 14 per cent of imports. About

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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.
one-half of manufactures exported to the oil-importing developing countries consist of engineering products, whereas textiles and clothing account for one-half of manufactures imported from these countries."

In the section on the Soviet Union, the report says that "fuels, other minerals and metals, as well as machinery (including transport equipment), remained the two principal export categories, accounting for nearly one-half and one-fifth, respectively, of total exports. Exports of petroleum and petroleum products rose by one-fifth in value terms in 1977, accounting for 28 per cent of total exports, as compared with 15 per cent in 1973. In exports to developed market economies fuels, other minerals and metals increased by 14 per cent, representing more than two-thirds of this trade flow. Exports of fuels, other minerals and metals to the other CMEA countries increased by 15 per cent and those of machinery by more than one-fifth, accounting for one-half and one-quarter, respectively, in total exports to them.

"On the import side, machinery grew twice as fast as the average, and its share in the total reached 36 per cent. Foodstuffs declined in value, their share falling to one-fifth. The decline in imports from developed market economies stemmed almost exclusively from the fall (by one-third) in imports of foodstuffs, while those of machinery continued to rise and accounted for nearly one-half of this trade flow."

In the absence of published national statistics, the GATT economists say that indications of China's foreign trade developments must be derived from the data of her trading partners. Imports from the developed market economies, which had been substantially reduced in 1976 (by one-quarter), rose by 11 per cent in 1977, but still remained well below their peak of 1975. Exports to the developed market economies increased by 9 per cent in 1977, as compared with a rise of only 2½ per cent in the preceding year. As a result, the estimated deficit (f.o.b.-c.i.f.) of $1.5 billion remained almost unchanged. Imports from Japan, China's main supplier, expanded by 17 per cent to $2 billion, whereas those from Western Europe declined for the second consecutive year (by 16 per cent) to $1.2 billion. Imports from North America and Australia, which had been sharply reduced in 1976, soared again in 1977 due mainly to increased imports of grain. Exports to Japan, recovering strongly from their setback of the preceding year, reached $1.5 billion in 1977. Exports to other developed market economies also increased, although at a slower pace.

"Exports to Hong Kong, which had become China's largest market in 1976, rose further, by 16 per cent, to $1.7 billion. Exports to Singapore increased slightly to $270 million. China's combined export surplus with Hong Kong and Singapore reached $1.9 billion in 1977, exceeding for the second consecutive year her deficit with developed market economies."

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"The value of imports from the European CMEA countries was reduced by 16 per cent to $640 million in 1977, mainly due to a fall of one-third in imports from the Soviet Union. The value of exports to the European CMEA countries rose by 30 per cent to $800 million, mainly due to a rise of 35 per cent in shipments to Romania, China's main trading partner in this area."