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

The introductory chapter, which discusses the main developments in international trade from January 1978 to August 1979, has already been published in a press release (GATT/1243) of 4 September 1979.

The introductory chapter put the value of world trade in 1978 at about $1,300 billion. This represented a volume increase over 1977 of nearly 6 per cent.

In this chapter, the GATT economists noted that exchange rates, current account balances, inflation and growth were the key national and international economic policy issues in 1978. Then, in the first half of 1979, a sharp increase in petroleum prices added a new element of uncertainty to the economic outlook. The authors said that while there was reason for concern over the impact of this oil price increase on the current accounts of certain groups of countries, the likely impact on inflation and growth depended very much on the policy reaction in oil-importing countries.

Looking ahead, the GATT economists saw the possibility of the world economy moving along a less than full capacity growth path for a prolonged period. The coexistence of inflation and unemployment in the 1970's strongly suggested that policy must pay at least the same amount of attention to the needs of the economy's supply side as it does to the level of aggregate demand. Although it was possible that present trends in the world economy could continue for a long time, the risks and tensions inherent in them raised the possibility of a cumulative deterioration. Viewing the challenges of the 1980's against this background, the authors concluded that "any policy which does not have price stability as its primary objective is fraught with fearful risks."

Some highlights of chapters appearing for the first time:

- One of the main sources of declining productivity growth among industrialized countries has apparently been the reduction of the relative share of productive fixed investment in gross national product. This reduction has resulted from the persistence of inflationary trends, which have made for an unfavourable relationship between interest rates and expected profit rates by intensifying a climate of uncertainty unfavourable to long-term commitments. Of particular importance in this respect, the composition of business investment as between plant and equipment, which had already shifted toward equipment in the course of the 1960s, has been distorted further, to some extent because the write-off period for equipment is shorter than for plant and thus less affected by the degree of uncertainty.

- In the non-OPEC developing countries, the proportion of exports represented by manufactures rose markedly in 1978, reaching a new peak of 39 per cent, while that of agricultural products, traditionally by far the most important category in this trade flow, declined to 43 per cent.

- Within manufactures exported by developing countries, the fastest growth was recorded by engineering products, which in 1978 accounted for one-third of total manufactures, while the share of textiles and clothing declined further to 28 per cent.

- There is clearly a close positive relationship between non-OPEC developing countries' overall export performances and the proportion of manufactures that they export, as well as the degree of processing of the manufactures exported. An important determinant of these countries' overall export performance has been the degree of their flexibility in the manufacturing sector: the industrially more advanced countries were better able to switch their production activities in response to shifts in demand and to protectionist developments.
In 1978, imports into the European CMEA countries as a group from OPEC and from Cuba rose by 28 per cent in each case, whereas those from other developing countries declined slightly.

Trade in commodities

The report says that in 1978, world trade in manufactures increased by more than 20 per cent in dollar value, as compared with 14 per cent in 1977. This acceleration in dollar value reflected essentially the faster increase of dollar unit values from 9 per cent in 1977 to 15 per cent in 1978.

Whereas in 1977 the increase in dollar value of agricultural trade was largely due to rising unit values, in 1978 the main contribution came from an 8 per cent increase in volume. Exports of foodstuffs from the developed countries increased in value by 23 per cent, or nearly $18 billion, accounting for 90 per cent of the increase in world exports of foodstuffs. Industrial countries' exports of foodstuffs to developing countries rose by 28 per cent, or $4 billion.

Turning to world consumption of petroleum, the GATT economists report that the rate of growth in consumption during 1978 by developing countries (7 per cent) continued to significantly exceed that of other areas, though it was less rapid than in the preceding year (10 per cent). Consumption of all major petroleum products recorded substantial increases in 1978. In contrast with developed countries, where the rise in consumption of gasoline accounted for more than half of the increase in aggregate consumption of petroleum products, in developing countries the bulk (almost 80 per cent) of the absolute increase in total consumption was concentrated on products other than gasoline.

The report adds that "the concentration of the consumption rise on gasoline between 1973 and 1978 occurred in all industrial areas except Japan. In North America, consumption of gasoline increased by 38 million tons and that of other petroleum products by 19 million tons. In Western Europe, gasoline consumption rose by 11 million tons, whereas that of the other refined products actually declined by 34 million tons. In Japan, consumption of gasoline and of other refined products increased by about 4 million tons each.

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1 The Council for Mutual Economic Assistance (CMEA) consists of Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and the Soviet Union (also designated here as European CMEA countries) as well as of Mongolia, Vietnam and Cuba. (Cuba is included with developing countries in this report.)
"These significant differences in consumption trends for gasoline and other petroleum products can largely be explained by the differing impact which the sharp rise in prices of crude petroleum has had on prices paid by the final users, and by the divergent price elasticities of consumption demand in various sectors. To begin with, it should be kept in mind that the increase (in relative terms) of prices paid by the final consumers was much lower for gasoline than for other products. It is also noteworthy that in real terms (that is, when prices are deflated by the increase in the index of consumer prices) retail prices of gasoline either declined or increased only slightly (by less than 10 per cent) in most European countries and in the United States."

The report says that world exports of transport equipment reached $160 billion in 1978, accounting for about 35 per cent of world exports of engineering products. Among the various groups of transport equipment, road motor vehicles are by far the most important. The other main groups are ships and aircraft.

The report adds that a major feature of world production and trade in road motor vehicles is the dominant rôle of developed market economies. In 1963, these countries accounted for about 90 per cent of both world production and world trade in road motor vehicles. By 1978 their combined share was somewhat smaller in the case of production (85 per cent), but in the case of trade it had increased to 93 per cent.

Trade of industrial countries

The main economic developments in the industrialized countries during the first half of 1979 were described in the first chapter of the annual report published as a press release (GATT/1243) in September.

The chapter on industrialized countries published today reports that "industrial countries' exports and imports both expanded by about 6 per cent in 1978, slightly more than in 1977, but distinctly less than in the 1965-73 period. Exports of manufactured goods increased by about 5 per cent. A notable development in 1978 was that exports of manufactures expanded slightly less rapidly than other exports. It reflected, inter alia, strong increases in deliveries of foodstuffs from the United States, several European Community countries and Austria, of fuels from the United Kingdom and Norway, of wood pulp from Canada and Scandinavian countries, and of non-ferrous metals; it also reflected the near stagnation of Japan's exports of manufactures."

According to the UN index, between the first quarter of 1973 and the first quarter of 1978 world export prices of crude petroleum increased by 300 per cent.

Excluding Southern Europe.
"In 1978, the expansion of imports was linked to the recovery of domestic demand in the strong currency countries (Japan, the Federal Republic of Germany and Switzerland) and in the United Kingdom, and to the persistence of strong, although decelerating, domestic demand in the United States. The volume of imports fell, however, in several other countries (Norway, Sweden, Finland, Austria and Spain), where domestic demand showed a pronounced weakness. In the latter countries, the existence of excess availabilities boosted export volume. In Italy and Canada, the growth of exports accelerated further. Owing mainly to improved competitiveness and to some extent to the slowdown of growth of domestic demand, United States exports expanded strongly as from the second quarter of the year. The growth of industrial countries' exports and imports accelerated in the second half of 1978, but a slowdown took place in the first half of 1979."

The report adds that "the industrial countries' aggregate trade deficit started to increase rapidly in the early months of 1979. In the first half of 1979, the trade surpluses of Japan and of the Federal Republic of Germany were substantially smaller than in the corresponding period of 1978, and most other European countries also experienced a considerable deterioration. However, the trade deficit (seasonally adjusted) of the United States in the first half of 1979, while similar in size to that of the second half of 1978, was markedly smaller than in the corresponding period of 1978."

Trade of non-industrial areas

The report says that the "production of crude oil by the member countries of OPEC declined by 5 per cent in 1978, the first drop in output since 1975. The decline in Iran's production in November and December 1978 had only a minimal effect on the overall decline. It was in the first half of 1978 that output fell most sharply, falling 6 per cent below its level of the first half of 1977 (Saudi Arabia accounted for over half the decline); in the second half, production was only 1 per cent below that for the same period of 1977. The explanation lies in the weakness of world demand for OPEC oil in the earlier part of 1978. This reflected, in addition to the continuing slowdown in consumption growth, a drawing down of stocks and increased production from non-OPEC sources."

The report adds that there was a drop in the volume of OPEC exports in 1978 of equivalent size to the production decline. This volume decline, together with only a small price increase, brought about a 2 per cent fall in total export revenue and a considerably larger fall in purchasing power. The percentage decline in revenue was four times as large for the high income OPEC countries as for the low income countries1, partly reflecting their

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1The OPEC countries differ widely in per capita income and trade. They may be distinguished on this basis into three distinct groups: the "high income" group consists of (in descending order of per capita GNP) Kuwait, the United Arab Emirates, Qatar, Libya, Saudi Arabia and Gabon; the "middle income" group consists of Venezuela, Iran, Iraq and Algeria; and the "low income" group consists of Ecuador, Nigeria and Indonesia.
greater dependence on petroleum for export revenue (98 per cent, compared with 70 per cent for the low income group). The GATT economists say that OPEC export revenue should, however, make a substantial recovery in 1979. The average price increase of about 50 per cent by mid-1979 should push revenue up at least one-third above its 1978 level, even with a slight decline in volume.

The report goes on to say that the "export earnings of the developing countries other than members of OPEC rose by 13 per cent in 1978, as against 18 per cent in the preceding year. While in 1977 the value increase was almost entirely due to higher export prices (for tropical beverages, in particular), in 1978, export prices increased only marginally, but a rate of about 9 per cent was achieved in volume growth. The volume of manufactured exports rose even faster than in the previous year, and considerable gains were registered by agricultural exports.

"The volume of their imports increased by 7-8 per cent in 1978, following three years of very slow expansion. This, in addition to higher prices for manufactured imports, brought about an increase in the value of their imports of 17 per cent, compared with 13 per cent in 1977... In the balance of payments of these countries, the increase in imports was the main cause of a deterioration in the deficit on current account, which reached $31 billion for 1978. In 1979 ... the current account deficit is estimated to reach a new peak of $40 billion for the non-OPEC developing countries as a whole.

"The size of the trade deficit and its changes in recent years have varied considerably among countries. Nevertheless, certain groups of countries have experienced striking similarities... In most country groups, the trade deficit increased in absolute terms between 1977 and 1978. But only in the case of countries in the Indian sub-continent, exporting resource-based semi-manufactures, and those exporting unprocessed products, did the trade deficit in 1978 reach or surpass previous record levels. Even more significant differences exist if the size of the trade deficit is related to total exports. Whereas for the countries with a more diversified export pattern the trade deficit/export ratio fell sharply after 1975 to a level lower than in the period 1970-73, in these two groups it was much higher in recent years than at the beginning of the decade."

1 The classification of developing countries is based on the product composition of their exports.
The report says that "in 1978, the third year of the current five-year plan period 1976-1980, the overall rate of economic expansion in Eastern Europe and the Soviet Union was below that of the preceding year and also below the plan target. In the European CMEA countries as a whole, national income increased by 4 per cent in 1978, the lowest growth rate in the post-war period, continuing the trend towards decelerating growth noticeable since the mid-1960s."

The report adds that the slowing down in the expansion of national income of the European CMEA countries has been due essentially to the industrial sector. In the first half of 1979, partly due to the exceptionally severe winter conditions and problems of obtaining adequate energy supplies during the early months of the year in some countries, the area's combined growth of industrial output can be estimated to have slowed down further to a rate close to 3½ per cent.

"In the European CMEA countries, imports from the developed market economies, which had expanded strongly in the first half of the 1970s, leading to a record trade deficit of nearly $10.5 billion (in f.o.b. terms) in 1975, slowed down in 1976 and declined in value terms (implying an even stronger fall in volume) in 1977, as a result of their endeavour to reduce their persistently high deficits on current account and to check their growing indebtedness."

The report goes on to say that in 1978, as in the preceding years, the growth of European CMEA countries' imports from the developing countries (12 per cent) was lower than that of exchanges among the European CMEA countries themselves. The growth of exports to developing countries (13 per cent) was less rapid than in the preceding year. As a result, the combined trade surplus of Eastern Europe and the Soviet Union with developing countries increased further, reaching a new peak of $4.5 billion. The bulk ($3.8 billion) of this surplus was accounted for by the Soviet Union.

In the section on the Soviet Union, the report says that fuels, minerals and metals maintained their leading position in exports in 1978, accounting as in the preceding year for about 48 per cent of total export receipts. Exports of petroleum (including refined products) increased in value terms by 16 per cent, to represent 28 per cent of total exports in 1978. Exports

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1Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies (China, Mongolia, North Korea and Viet-Nam.)

2F.o.b. (exports: free on board).
of machinery (including transport equipment) rose by one-fifth, their share of the total rising slightly to nearly 20 per cent. Imports of machinery (including transport equipment) increased by 37 per cent or $5.8 billion in 1978 (of which $4.8 billion came from Eastern Europe), representing nearly 60 per cent of the total increase of imports in that year.

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.

The report says that "following three years of stagnation in China's imports, and only a slight growth in her exports, there was a pronounced expansion in 1978, estimated at nearly one-half for imports and one-quarter for exports. The value of imports from developed market economies rose by about two-thirds, to reach a record level of over $7 billion in 1978.... China's trade deficit with developed market economies increased from $1 billion in 1977 to $3 billion in 1978. This growing trade deficit was financed, inter alia, through a surplus in trade with Hong Kong (which increased by $0.5 billion), by earnings from services and by borrowing on Western financial markets ....

"As regards the product composition of trade with industrial countries as a whole, China's import growth was concentrated on steel engineering products and foodstuffs, which accounted for 40, 23 and 13 per cent, respectively, of the total increase of $3 billion. On the export side, the increase was also concentrated on three product groups, textiles (including clothing), foodstuffs and fuels, which accounted for 27, 19 and 18 per cent of the total increase of $840 million."