The annual GATT report on International Trade¹ is published today.

The introductory chapter, which discusses the main developments in international trade from January 1979 to August 1980, has already been published in a press release (GATT/1271) of 9 September 1980.

The introductory chapter put the value of world trade in 1979 at more than $1,600 billion. In volume, the increase in trade over 1978 was 6 per cent. In 1980, world trade is expected to grow in volume by between 2 and 3 per cent over 1979.

This introductory chapter discussed current policy issues facing the world economy - recession and the payments problems caused by the most recent oil price increases - against the background of the permanent economic problem of adjustment. The GATT economists did not believe that present economic difficulties could be largely attributed to the higher oil prices. They pointed out that in 1979 the oil-importing developing countries had a deficit of $71 billion in trade in manufactures, against a deficit of $21 billion in trade in fuels. Declaring themselves encouraged by evidence of more widespread understanding of the nature of the inflationary process, and by the maintained commitment of the major industrialized countries to bring inflation under control, they also argued that expansionary monetary policies, rather than external factors such as the increased price of petroleum and other internationally traded commodities, should be held responsible for the national inflations. The GATT economists concluded that all the forms in which the adjustment problem arises imply a need for more investment, and that consequently the overriding task of economic policy is to create a more favourable investment climate.

Some highlights of chapters appearing for the first time:

- during the 1960s, the dollar value of world trade increased by about 9 per cent a year on average, reaching $275 billion in 1969, as compared with $130 billion in 1960. Most of this increase represented a rise in volume. Three developments in the 1970s - the acceleration of domestic inflation in many countries, the depreciation of the US dollar, and the sharp increase in world market petroleum prices - helped to bring about a doubling of the average annual rate of growth in the dollar value of world trade (to 18 per cent) in that decade, but the average annual growth in volume, at 6 per cent, was much lower.

- industrial production in industrial countries as a whole increased by about 5 per cent in 1979, against 4 per cent in 1978, despite the slowdown which occurred in North America. However, a noticeable deceleration appeared in the course of the year. It is estimated that in the first quarter of 1980, industrial production exceeded its level of the corresponding period of 1979 by about 4 per cent.

- a sharp increase in petroleum prices was behind the 46 per cent rise in the oil-exporting developing countries' total export revenue in 1979. In the first quarter of 1979, prices began to rise in response to strong demand and continued to do so throughout the rest of the year and into 1980. In the first half of 1980, the crude oil price was almost double its level in the corresponding period of 1979.

- in 1979, the fourth year of the current five-year planning 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.

- the value of China's imports from developed market economies rose by one-third, to reach a new peak of $9.7 billion in 1979. Imports from Japan, China's main trading partner, increased by one-fifth to $3.7 billion, those from Western Europe by 22 per cent to $2.9 billion, and those from North America by 76 per cent to $2.2 billion. China's exports to developed market economies rose by about one-half to $6 billion.

Developments in world trade during the 1970s

The GATT economists remark that the 1970s represented a sharp break with the prosperity and steady progress of the preceding two decades. Now that reasonably complete statistics are available for 1979, there is an opportunity to analyze and compare the experience of the 1970s with that of the preceding period. Such an effort is both interesting in itself and helpful in understanding the current economic developments discussed elsewhere in the report.
Selected longer-term changes in three key areas of economic activity are examined in this special chapter: domestic investment, energy and international trade. The general focus is on the reaction of various countries and groups of countries to the major disturbances in these key areas in the 1970s.

The economists note that for several reasons, 1973 was much more a turning point for the world economy than was 1970. These reasons include the abandonment of fixed rates of exchange between the major currencies, the end of a long period of low-cost energy, and a cyclical peak in economic activity. Thus, in most instances, the comparison is between the situation before 1973 (more specifically during 1963-1973) and the post-1973 situation.

The report goes on to say that the industrial economies reacted to the recession and higher petroleum prices in 1974-75 by increasing rather than reducing overall consumption and that the resulting downward pressure on savings, and the deteriorating outlook on future profitability, contributed to the disappointing level of investment.

Discussing the oil-exporting developing countries, the report says that between 1963-73 and 1973-78, the growth rate of their fixed investment increased from 10 to 20 per cent a year. The growth rate of their consumption increased three-and-a-half times, between the two periods, but still remained well below that of fixed investment.

In the oil-importing developing countries, gross domestic production increased in real terms between 1973 and 1978 at an average annual rate of 5 per cent, growing only slightly less rapidly than in the preceding ten years. This encouraging record in the face of the strains which the world economy has experienced since 1973 was made possible by a sharply increased volume of external borrowing, and by significant changes in the pattern of domestic expenditure.

The value of world trade in agricultural products expanded less rapidly during the past two decades than trade in other products. The share of agricultural products in total trade declined from more than 30 per cent in the early 1960s to 20 per cent in the early 1970s and 16 per cent in 1979.

"Manufactures remained throughout the last two decades the most important product category in world trade, though their share in world exports has declined slightly from the 1973 peak of 61 per cent. Industrial countries continued to be the largest suppliers during the 1970s, their proportion of world exports remaining remarkably stable at about 82 per cent. The share of developing countries in world exports of manufactures increased slightly, from 7 per cent in 1973 to 9 per cent in 1979, while that of the Eastern Trading area declined somewhat."
Trade in commodities

The report says that in 1979, world trade in manufactures increased by one-fifth in dollar value, slightly less than the year before. As in 1978, the bulk of this increment was due to higher prices, the rate of expansion in volume being about 5 1/2 per cent. Manufactures accounted for 48 per cent of the increase in the value of world trade in 1979.

"There was an acceleration in world trade in primary products in 1979, the rate of growth in value being about 35 per cent, compared with a 7 per cent increase in 1978. The difference between the two years reflects to a large extent the increase in fuel prices in 1979. World trade in fuels increased in value by 46 per cent in 1979 and accounted for 31 per cent of the total increment in the value of world trade. However, the value of trade in each of the other main categories of primary products also showed substantial increases compared with the previous year. Agricultural products grew by 21 per cent in value, almost twice the rate of the year before. Exports from the industrial countries accounted for just over one-half of this increase. World exports of non-fuel minerals (including non-ferrous metals) rose by 25 per cent in value, exports from industrial countries representing 58 per cent of this increase."

The report adds that in the industrial countries, the proportion of total exports accounted for by manufactures, which had been steadily growing in each year except 1974, declined from 76 per cent in 1978 to 74 per cent in 1979. In the oil-importing developing countries, manufactures' share remained unchanged at 40 per cent. In industrial countries the decline was concentrated on engineering products, whereas in the oil-importing developing countries there was a slight reduction in the export share of textiles and clothing.

Trade in industrial areas

The GATT economists report that in 1979, the growth of gross domestic product (GDP) in industrial countries as a whole decelerated to 3 1/2 per cent, as against 4 per cent in the two preceding years. This aggregate result combined a relatively steep slowdown in North America and in the United Kingdom with a further acceleration of growth elsewhere in Western Europe and in Japan. In the first half of 1980, the level of economic activity declined further in North America and the United Kingdom. In most other industrial countries, activity was still relatively buoyant although a deceleration appeared in some of them in the second quarter of 1980.

They add that in the first three quarters of 1979, total employment continued to grow markedly in North America, and more moderately in Japan and several European countries. Industrial employment also increased in
North America and in a few European countries, but in most other industrial countries it stagnated or declined. In the last months of 1979 and the first months of 1980, however, both total and industrial employment contracted markedly in almost all industrial countries.

"The strengthening of inflationary pressures, observable in the United States already in early 1978, extended to the other industrial countries during 1979. For the industrial countries combined, the growth of consumer prices accelerated from about 7 1/2 per cent in 1978 to 10 per cent in 1979, the acceleration being particularly pronounced in the second half of the year. Between April 1979 and April 1980 the increase in consumer prices reached 14 per cent."

... "A comparison of the inflationary phenomena in the first half of the 1970s and at the end of the decade, is of some interest here. Following the first increase of oil prices, the average rate of rise of consumer price levels in the seven most important industrial countries, which had been 4.4 per cent in 1972, accelerated from 7.7 per cent in 1973 to 13.5 per cent in 1974. In the same countries, the rise of consumer prices accelerated again from 6.8 per cent in 1978 to 9.3 per cent in 1979 and to 14.8 per cent (at annual rates) between November 1979 and May 1980."

The report adds that in 1979, industrial countries' imports expanded by 8 per cent, against 6 1/2 per cent for exports; in 1978 they had both increased by 6 1/2 per cent. Whereas in the United States imports stagnated, in Canada, Japan, the European Community as well as the EFTA countries they rose by about 10 per cent. Exports declined slightly in volume in Japan, and showed a decelerating growth in several countries (Canada, the United Kingdom), while their growth exceeded 10 per cent in the United States.

Trade of non-industrial areas

The report says that the main developments in the oil-exporting developing countries in 1979 were an increase in both the production and price of crude oil, following a slump in 1978.

It goes on to say that "despite the upturn in export revenue in 1979, imports by the oil-exporting developing countries fell in volume for the first time since the 1974 oil price rise. This decline stemmed from the middle and low income countries, where in the first half of 1979 even the value of imports in current dollars declined. The volume of imports by the high income countries, as in the previous year, continued to increase. It would appear that an important reason for this divergence in import trends has been the differing balance-of-payments positions of the different groups of oil-exporting countries".

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1 United States, Japan, Federal Republic of Germany, France, United Kingdom, Italy and Canada.
Turning to the oil-importing developing countries, the GATT economists report that a general feature in 1979 was a deterioration in the terms of their merchandise trade. The deterioration was particularly marked in countries exporting tropical agricultural products and/or manufactured goods, and in those for which petroleum accounts for a substantial part of total imports.

The report adds that in the oil-importing developing countries, taken as a group, "the value of exports rose by nearly one-quarter in 1979, maintaining their share in world exports at around 12 1/2 per cent. In volume terms, these exports expanded by about 8 per cent, exceeding the growth of world exports for the second consecutive year. Imports increased by nearly 30 per cent in value in 1979; this was largely due to the rise in unit values, the volume growth being 8 per cent. In the first half of 1980, the value of both imports and exports is estimated to have expanded by roughly one-third compared to the corresponding period of the previous year."

Discussing the composition of the current account in oil-importing developing countries during the period 1973-79, this year's report goes into considerably more detail than past issues about Latin America, noting that "an intensive reappraisal of the basic goals of national economic policy has already been going on for some time (since the early or mid-1970s) leading to significant changes in the policies pursued by a number of countries in this area ....

... "More recently, an increasing number of Latin American countries have discussed, prepared and partly implemented more comprehensive programmes of economic policy reform with the stated aim of promoting a more efficient allocation of domestic resources based on a broader opening of the national economies towards the international market."

The GATT economists add later that the resurgence of inflation in Latin America (as well as in the rest of the world) in the last few years not only obscures but also threatens the hoped-for results of these new economic policies. It is clear that the objective of a more efficient allocation of resources, a more rapid growth of manufacturing employment in particular, through an intensification of international transactions, can be fully achieved only in a non-inflationary world.

Trade of the Eastern Trading Area

The report says that "in 1979, the fourth year of the current five-year planning 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

1Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies (China, North Korea and Viet Nam).
below the plan target. In the European CMEA countries\footnote{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, Viet Nam and Cuba.} as a whole, the growth of national income decelerated further to 2 per cent, the lowest rate of expansion in the post-war period. This reflected not only the 3 per cent fall in agricultural output, due to adverse weather conditions, but also the further slowing down, to 3 1/2 per cent, in industrial growth. The rise of labour productivity in industry decelerated to around 3 per cent and there was only a marginal increase in industrial employment. In China, aggregate production increased in 1979 by 7 per cent, less rapidly than in the preceding two years.

"The value of exports from the Eastern trading area as a whole increased by nearly one-fifth in 1979, somewhat more rapidly than in the preceding year. The growth in the value of imports decelerated to 14 per cent. The area's overall import surplus was substantially reduced to about $500 million, its lowest level for the decade.

"The largest part of the rise in the dollar value of foreign trade was due to the continuing increase in unit values. In volume terms, according to fragmentary indications available, the growth of both exports and imports slowed down in 1979, the deceleration being particularly pronounced in the case of imports."

The report adds that value of trade of the European CMEA countries with both developed and developing countries expanded faster in 1979 than exchanges among themselves. Their imports from the developing countries grew by more than one-fifth, while their exports to these countries grew by 15 per cent.

The Eastern Trade Area's imports from developing countries remain heavily concentrated on primary products, which represent about 90 per cent of total imports. Fuels accounted for about 27 per cent (compared with 15 per cent in 1973) of the area's imports of all commodities from developing countries.

In the section on the Soviet Union, the GATT economists report that "fuels (including other minerals and metals) reinforced their leading position in exports, accounting in 1979 for 53 per cent of the total (as against 47 per cent in the preceding year). Mainly due to the strong rise in prices of crude petroleum, this category became even more preponderant
in Soviet exports to the developed market economies, where it represented 73 per cent of the total in 1979. Exports of machinery (including transport equipment), which represented 18 per cent of all exports were, however, destined mainly for Eastern Europe and developing countries. In exports to developed market economies, machinery accounted for no more than 3 per cent of the total in 1979.

"On the import side, machinery (including transport equipment) remained the most important category (accounting for 38 per cent of the total) but its growth was less than the average because of a slight decline in value in imports from developed market economies. The fastest import growth (30 per cent) was recorded for foodstuffs, mainly due to a rise by more than one-half in imports from developed market economies, which reached $3.7 billion in 1979."

Turning to China, the report says that although in relative terms the value of China's exports to developed market economies grew faster than imports from them, China's trade deficit with these countries rose further in 1979, to $3.7 billion. This growing trade deficit was financed mainly through a surplus in trade with Hong Kong (which increased by nearly $0.8 billion), as well as by earnings from services and by borrowing on Western financial markets.

"Regarding the product composition of China's trade with industrial countries as a whole, import growth in 1979, as in the preceding year, was concentrated on engineering products, steel and foodstuffs, which accounted for 58, 12 and 10 per cent respectively of the total increase of $2.7 billion. On the export side, the increase was also concentrated on three product groups: fuels, textiles (including clothing) and foodstuffs, which accounted for 28, 24 and 16 per cent of the total increase of $1.9 billion."

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