GATT REPORT ON INTERNATIONAL TRADE 1980/81

The annual GATT report on International Trade is published today.

The introductory chapter, which discusses the main developments in international trade from January 1980 to August 1981, has already been published as a press release (GATT/1295) of 9 September 1981.

The introductory chapter put the value of world trade in 1980 at nearly $2,000 billion. In volume, the increase in trade over 1979 was 1 1/2 per cent, as against a 6 per cent gain in 1979. The GATT economists reported that world production grew by only one per cent last year; and they added that barring a sharp turnaround in the second half of this year, the volume of world trade in 1981 would fall below that of 1980.

In this introductory chapter, the GATT economists analyze the central problems of economic policy; they continue to recommend that priority should be given to arresting inflation, resisting protectionist pressures and facilitating structural adjustment.

The present press release outlines new information contained in the four chapters of the report which have not so far been published, covering trade in commodities, the industrialized nations, the developing countries, and the Eastern Trading Area.2


2Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies (China, Mongolia, North Korea and Vietnam).
Some highlights of chapters appearing for the first time:

- though the share of manufactures in total world exports declined from 58 per cent in 1979 to 55 per cent in 1980, they remained the most important product category entering world trade.

- since 1974, fuels have become the second most important product category entering world trade.

- industrial countries' exports increased in volume by 4 1/2 per cent in 1980, compared with an approximate 7 per cent increase in each of the two preceding years. Imports, which had increased by 8 per cent in volume in 1979, declined by 3 per cent in 1980.

- the deterioration of the average terms of trade of the industrial countries in 1980 resulted mainly from the sharp increase of oil prices in 1979 and in the first half of 1980.

- taken as a group, the developing economies, excluding the traditional oil exporters, grew at a slower pace in 1980 than in any of the preceding four years.

- preliminary information suggests that a more marked slowdown in output and domestic expenditure has taken place in developing countries in the first-half of 1981 than in the period 1974-75 (the first oil shock and recession).

- exports by the Eastern Trading Area as a whole increased in value by 17 per cent in 1980, as did imports. There were, however, considerable differences among the major countries within the area. The most rapid expansion in trade occurred in China, where exports grew by about one-third and imports by about one-quarter in 1980.

Trade in commodities

The report says that "world trade in manufactures increased by 15 per cent in 1980, mainly due to higher prices. The growth in volume slowed down from 5 1/2 per cent in 1979 to 3 1/2 per cent in 1980, reflecting an even stronger deceleration in the growth of world manufacturing production, from 5 to 1 per cent .... Among manufactures, engineering was the principal category, representing 30 per cent of world trade in 1980. The export unit value (in dollars) of manufactures exported by developed countries, the principal world suppliers, increased by 11 per cent in 1980, a little less rapidly

1 Terms of trade = the relation between the average values of a country's exports and imports.

2 In 1980, manufactures exported by developed areas represented 82 per cent of world exports of manufactures, and those exported by developing countries and by the Eastern Trading Area 9 per cent each.
than in 1979. Export prices of engineering products increased by less than the average for all manufactures. In the first half of 1981, export unit values of manufactures exported by developed countries declined, due essentially to the strong appreciation of the dollar during this period."

The GATT economists report that "in 1980, as in the preceding year, the value of world exports of fuels rose considerably faster than the average for all products, due to the fast rise in prices, especially for crude petroleum (74 per cent). As a result, despite a decline in volume, the share of fuels in the total value of world trade reached a new peak of 24 per cent in 1980, as against 20 per cent in the preceding year. Among non-fuel primary products, world exports of the most important category, foodstuffs, rose in value by 13 per cent in 1980, less than the average of all products. As a result, the share of foodstuffs in world exports declined from 12 per cent in 1979 to 11 per cent in 1980. The rise in prices accounted for practically the entire increase in value. The stagnation in the volume of trade in 1980 can largely be attributed to the fact that, in contrast to 1979, agricultural production declined markedly in several major exporting, rather than importing, countries .... Though export prices of some commodities, particularly coffee and cocoa, declined, world export prices of foodstuffs as a whole increased by 14 per cent, the average increase being more pronounced (16 per cent) for products exported by developing countries largely because of the sharp increase in sugar prices. In the first half of 1981, world export prices of foodstuffs declined."

The report adds that the value of world exports of raw materials (excluding fuels, but including non-ferrous metals) increased by nearly one-fifth in 1980, due to a rise in prices. The largest part of the increase in export prices of raw materials resulted from their rise during the course of 1979 and the first quarter of 1980, when industrial production in the developed countries was still rising at a sustained pace. Since the second quarter of the year, however, export prices of most raw materials have been declining, the downward movement continuing in the early months of 1981.

Trade of industrial areas

GATT's economists report that "due to the tightening of monetary policies, needed to cope with inflation and to reduce the currency account deficits generated by the sharp rise in oil prices, the growth of gross domestic product (GDP) in industrial countries as a whole decelerated to 1 1/2 per cent in 1980, from between 3 1/2 and 4 per cent in each of the three preceding years. Economic activity contracted in the second quarter of 1980 in most industrial countries, the major exception being the United Kingdom, where the recession had already begun in 1979. Whereas in the United States, GDP recovered in the second half of the year and gained momentum in the early months of 1981, in Western Europe economic activity declined only moderately in the second quarter of 1980, but remained weak throughout the year and in the first months of 1981. In Japan, GDP growth remained higher than in the other industrial countries, though weakening somewhat during the course of 1980 and in early 1981."
The economists remark that despite general recognition of the fact that public budget deficits raise the level of interest rates and thus depress private investments, the share of government financing requirements in gross national product (GNP) increased further in 1980, with the main exceptions of the United Kingdom and Italy. In 1980 the financing requirements of the public sector were approaching or exceeding 10 per cent of GNP in Italy, Belgium and Japan, and remained substantial in the Netherlands, the United Kingdom and the Federal Republic of Germany.

The report says that "in 1980, consumer prices in the industrial area rose by 13 per cent, against 10 per cent in 1979 and 8 per cent in 1978. The rise of consumer prices decelerated, however from 14 1/2 per cent in the first half of 1980, to 11 per cent (at annual rate) in the second half of the year, and there was further moderation in the first half of 1981, reflecting mainly the developments in the United States, the United Kingdom and Japan. In most continental European countries, inflation continued to rise. It is to be emphasized that the sharp acceleration of inflation occurred in a period of relatively mild economic growth, and that inflation remained strong during the subsequent near-stagnation of aggregate output."

The GATT economists note that the deterioration of the average terms of trade of the industrial countries in 1980 resulted mainly from the sharp increase of oil prices in 1979 and in the first half of 1980. In the second half of 1980, the terms of trade levelled off. In the first months of 1981, there was a slight deterioration of the terms of trade of the United States, and a more pronounced deterioration in Western Europe, the latter reflecting to a large extent the depreciation of exchange rates against the United States dollar in which oil imports are priced.

Trade of non-industrial areas

The report looks at the developing countries as a whole, but also by groups (differentiating, for example, between the traditional oil-exporters and the oil-importers), and by region.

Focussing on the traditional oil-exporters, the report says that "the most striking development in 1980 .... was the 12 per cent decline in their combined output of crude oil. This was even larger than the decline in production in 1975 following the first escalation in oil prices. As a result, aggregate production was lower than that recorded in any year in the previous decade .... Export revenue of the traditional oil-exporters as a group increased by 40 per cent in 1980, only a little less rapidly than in the previous year. The average export price for crude oil rose by 74 per cent, following a 45 per cent rise in 1979, but the volume of shipments dropped by 12 per cent compared with a 3 per cent increase the year before."
The report adds that "the volume of imports by the traditional oil-exporters rose by an estimated 16 per cent in 1980, following a decline in the previous year (the only decline since 1973).... Their current account surplus reached a record level of $115 billion in 1980. This is especially remarkable when compared with the mere $5 billion surplus recorded in 1978, the lowest in the post-1973 period".

Turning to the other developing countries, the report says that taken as a group, they grew at a slower pace in 1980 than in any of the preceding four years. Their real GDP growth is estimated to have barely exceeded 4 per cent, compared with a yearly average of about 5 per cent in the period 1976-1979. A marked slowdown in manufacturing and in non-petroleum mining activity outweighed progress in other sectors. Agricultural GDP, which had stagnated in 1979 due mainly to bad weather in South Asia, expanded at about the same rate as total output in 1980, despite the adverse effect of a prolonged drought in some Far East countries.1 Petroleum mining also expanded rapidly in 1980, owing primarily to a further sharp rise in Mexico's oil output.

The report says that "in the new oil-exporting developing countries2, where petroleum was also the major export in 1980, the value of exports rose by 45 per cent, due mainly to higher prices, following a 35 per cent gain in 1979. Imports grew by 43 per cent in value, twice as rapidly as in the preceding year, primarily as a result of higher volumes. Thus, despite an overall improvement in the terms of trade, the current account deficit of these countries widened from $7 billion in 1979 to $10 billion in 1980 (excluding official transfers).

"In the oil-importing developing countries", the report continues, "the value of exports grew by 19 per cent in 1980, as against 30 per cent in 1979. In both years, the largest part of the increase in value was due to higher prices. In volume, the growth of exports showed a marked deceleration in 1980. The value of imports grew by nearly one-quarter, as in 1979, although there was a sharp decline in volume growth. The deficit on current account (excluding official transfers) widened for the third consecutive year to reach $60 billion in 1980".

The GATT economists review developments during the period 1973-80 in four regional groups of developing countries, seeing this "as a compromise between a global and a country-by-country approach.3 Each region, while

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1"South Asia" covers Bangladesh, India, Pakistan and Sri Lanka. The "Far East" refers to other countries in South and East Asia.
2Egypt, Mexico and Syria and the following exporters of crude and/or refined petroleum products: Bahamas, Bahrain, Brunei, Netherlands Antilles, Oman, Trinidad and Tobago.
3Individual country reports are found in the second part of this chapter.
being heterogeneous, presents some distinct characteristics which not only help to explain its own economic performance, but also yield insights into the situation facing countries, with similar features, in other regions". They divide the post-1973 era into three periods: 1974-1975 (the first oil shock and recession), 1976-1978 (recovery) and 1979-1980 (second oil shock and recession).

"Preliminary information suggests," the report adds, "that a more marked slowdown in output and domestic expenditure has taken place in developing areas in the first-half of 1981 than in 1974-1975. This reflects mainly the fact that, unlike in the mid-1970s, the high levels of cumulated debt and less favourable maturity and interest conditions in private financial markets have substantially narrowed the margin of alternative policy responses to deteriorating terms-of-trade and weak demand for the exports of developing countries."

Trade of the Eastern Trading Area

The GATT economists report that "national income\(^1\) grew by 2 1/2 per cent in the European CMEA\(^2\) countries in 1980, the last year of the five-year planning period. As in 1979, this was a lower increase than at any time in the postwar period, reflecting a slowing down in industrial growth and a decline in agricultural production. In the Soviet Union, the growth of national income increased from 2 1/2 per cent in 1979 to 3.2 per cent in 1980. In Eastern Europe, however, national income slowed down from 2.2 to 1.2 per cent, reductions in Poland and Hungary and a deceleration in Bulgaria and Romania being only partly offset by higher growth in Czechoslovakia and the German Democratic Republic.... In China, owing primarily to the sluggishness of agricultural output, the rate of overall economic expansion also slowed down, though it remained higher than in the European CMEA countries."

The report adds that exports by the Eastern Trading Area as a whole increased in value by 17 per cent in 1980, as did imports. There were, however, considerable differences among the major countries within the area. The most rapid expansion in trade occurred in China, where exports grew by about one third and imports by about one-quarter in 1980; the result was a reduction in China's trade deficit of nearly one-half, to $1 billion.

\(^1\)National income refers to net material product, i.e., it excludes a number of services.

\(^2\)Council for Mutual Economic Assistance (CMEA) consists of Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and the Soviet Union (the European CMEA countries) as well as of Mongolia, Viet Nam and Cuba.
In the Soviet Union, the report continues, "both exports and imports rose by nearly one-fifth, a further improvement in the terms of trade being accompanied by a greater increase in the volume of imports than of exports. The trade surplus of the Soviet Union reached a new peak of $8 billion. Eastern Europe experienced the slowest growth in the value of both exports and imports, of 13 and 12 per cent, respectively. There was a deterioration in the terms of trade, while the growth of exports in volume, though modest, exceeded that of imports. The trade deficit of Eastern Europe was reduced slightly in 1980, to $4.8 billion."

The report notes that "China's trade with the developed market economies continued to expand rapidly in 1980. The growth of exports (44 per cent) having exceeded that of imports (30 per cent) the trade deficit was somewhat reduced, to about $6 billion."

"The trade of the European CMEA countries with developing countries also expanded faster in 1980 than exchanges among themselves. Their exports to developing countries rose by 20 per cent in value and their imports almost twice as rapidly. There was a remarkably fast expansion of imports from developing countries in both the Soviet Union and Eastern Europe, though the origin of imports differed considerably between the two areas."

"In the Soviet Union," the report continues, "where imports from the oil-exporting developing countries and from Cuba declined, the growth was entirely concentrated on imports from the oil-importing developing countries, which expanded by nearly 90 per cent. Imports from Argentina trebled, and those from India rose by three-quarters, the increase in imports from these two countries having accounted for nearly one-half and one-fifth, respectively, of the total increment in imports from the oil-importing developing countries other than Cuba."

The GATT economists report that China's "fastest growing trade was achieved with North America. Exports to this area increased by 62 per cent to $1.2 billion, while imports doubled for the second consecutive year to $4.5 billion. Therefore, in 1980, about 70 per cent of the Chinese trade deficit with the developed market economies was accounted for by North America. Trade with Japan also increased at an above-average rate, with a 45 per cent rise in exports and a 39 per cent rise in imports, to $4.3 and $5.1 billion, respectively. By contrast, with Western Europe, China managed to balance its trade through a 38 per cent rise in exports and a 10 per cent decline in imports."