The annual GATT report on International Trade is published today.

The introductory chapter, which discusses the main developments in international trade from January 1981 to August 1982, and prospects for the future, has already been published as a press release (GATT/1319) of 27 August 1982.

The introductory chapter put the value of world trade in 1981 at nearly $2,000 billion, one per cent less than in 1980, while the volume of world trade in 1981 is estimated to have stagnated. World production grew by only one per cent last year, down slightly from the performance of 1980.

In this introductory chapter, the GATT economists analyze the issues confronting policy makers as they search for ways to pull the world economy out of what is, in most respects, its worst situation since the 1930s. Among other points, the analysis calls attention to the danger which protectionism poses for indebted countries and firms, and thus for the international financial system. The chapter finishes with a call for policies that will reinforce "the positive investment-strengthening effects of declining inflation and interest rates by clearing the way for structural adjustment to proceed without further distortions. This would require a reversal of current protectionist trends, a renewal of the sustained liberalization effort that characterized the earlier postwar decades, and a phasing out of the distorting incentives created by internal policies".

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.

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2. Defined 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:

- the volume of world trade in fuels declined substantially in 1981, but this decline was offset by an increase in export prices. As a result, the share of fuels in the total value of world trade remained unchanged at around 24 per cent.

- export prices of foodstuffs exported by developing countries in 1981 showed a stronger decline than those exported by developed countries, reflecting particularly sharp price declines for sugar, coffee, cocoa, and tea.

- in Western Europe, where domestic demand fell by between 1 and 2 per cent, gross domestic product (GDP) stagnated. The level of economic activity in Western Europe was maintained in 1981 through the expansion of external demand, especially from North America and the developing countries (among which the oil exporters represented the most rapidly growing markets).

- in recessionary periods, budgetary deficits generally show a rising trend. In 1981, however, government deficits expressed as a percentage of GDP were lower than in 1975 in several industrial countries (including the United States), the main exceptions being Belgium, the Netherlands and Sweden.

- total export revenue of the traditional oil-exporting developing countries fell by 3 per cent in 1981. This was a sharp reversal from the higher rates of growth in the preceding two years.

- despite a good overall performance in agriculture, where output rose at roughly the long-term average rate, GDP growth of the oil-importing developing countries slowed down to about 2 per cent in 1981. This was the lowest rate of growth recorded in the post-war period and was marginally lower than the overall population growth in these countries.

- all Eastern European countries, with the exception of Bulgaria and the German Democratic Republic, were obliged to curtail their imports from developed market economies in 1981.

- China's exports increased substantially in value in 1981, while imports stagnated; as a result, its aggregate trade deficit of the previous three years was substantially reduced.

Trade in commodities

The report says that "world trade in manufactures increased by 4 1/2 per cent in volume in 1981, roughly the same rate as in the preceding year. The dollar value of world exports of manufactures declined slightly, as a result of the fall in dollar unit values. In the developed countries, which account for 80 per cent of world exports, dollar unit values of manufactured exports declined by 4 1/2 per cent in 1981, the effect of the appreciation of the US dollar being only partly offset by the rise of domestic prices. Expressed in US dollars, unit values of manufactures exported from Western Europe declined by 11 per cent, while those from Japan and the United States rose by 6 and 12 per cent, respectively. Manufactures remained the principal category
in world trade, representing 56 per cent of the total. Among manufactures, engineering products retained their leading position, accounting for more than 30 per cent of world trade in 1981."

After noting that the share of fuels in world trade remained unchanged in 1981 at around 24 per cent, the report adds that the dollar value of world trade in ores, other non-fuel minerals and non-ferrous metals declined by 18 per cent, mainly as a result of a sharp fall in prices. Export prices of non-ferrous metals, for instance, fell by 12 per cent in 1981 from their level in the preceding year, and declined further in the first half of 1982.

Turning to world exports of foodstuffs, the GATT economists report that this main category of agricultural products showed a marginal rise in value. The share of foodstuffs in world exports of all commodities increased slightly, to nearly 11\(\frac{1}{2}\) per cent, in 1981. Prices of foodstuffs exported by developing countries in 1981 showed a stronger decline than those exported by developed countries, reflecting particularly sharp price price declines for sugar, coffee, cocoa, and tea, which are more important in the food exports of the developing countries.

The report goes on to say that "world trade in agricultural raw materials, as in the case of raw materials of mineral origin, was mostly affected by the sluggishness of demand in the industrial countries. In value, world exports of this category fell by 10 per cent, with the result that their share in the world total continued to decline, to 3\(\frac{1}{2}\) per cent. Export prices of agricultural raw materials exported by developing countries declined by 12\(\frac{1}{2}\) per cent in 1981, twice as fast as those exported by developed countries. Sharp price declines were recorded for rubber, sisal and cotton, exports of which also fell substantially in volume."

Trade of industrial areas

The report says that "the combined GDP growth of industrial countries slowed down from 1\(\frac{1}{2}\) per cent in 1980, to 1 per cent in 1981. In North America, due to a temporary recovery of economic activity in the early months of the year, GDP rose by 2 per cent in 1981. In Japan it increased by 3 per cent, mainly due to foreign demand. In Western Europe, where domestic demand fell by between 1 and 2 per cent, GDP stagnated .... Whereas consumption in Western Europe remained approximately constant, fixed investment dropped markedly, particularly in residential construction. There was also some destocking, especially in the second half of the year.

"In North America, the economic recovery which started in the second half of 1980 was short-lived. Demand stagnated from the second quarter of 1981 onwards, and fell sharply in the last quarter of the year and the first four or five months of 1982. Here too, the main cause of the decline in aggregate demand was the collapse of residential construction combined with sharp destocking. Both changes are to a large extent attributable to the high level of interest rates."
On government deficits, GATT's economists note that these generally show a rising trend. "In 1981, however, government deficits expressed as a percentage of GDP were lower than in 1975 in several industrial countries (including the United States), the main exceptions being Belgium, the Netherlands and Sweden. The United States government deficit amounted to 2 1/2 per cent of GDP, whereas the government deficit of the EEC was in excess of 4 per cent. With the main exception of Belgium, the per capita value of the public debt did not in general exceed $4,000. Economic policies, as well as the level of interest rates, are influenced by the expected future public deficits rather than the present ones; such anticipations are, however, largely speculative."

The report says that for the industrial countries combined, there was practically no change in their average terms of trade1 in 1980 and 1981. The terms of trade deteriorated, however, for most European countries, whereas they improved for North America and Japan, mainly reflecting exchange rate movements. In the United States and in Japan, the rise in export prices was approximately equivalent to that of domestic wholesale prices, but exceeded significantly that of import prices, owing to the appreciation of the dollar and the yen, whereas the opposite occurred in Europe, with the main exceptions of Switzerland and Norway. The deterioration of the terms of trade was particularly pronounced in the Federal Republic of Germany, Belgium, Austria and Italy.

"The growth of exports of industrial countries slowed down in volume terms from 4 1/2 per cent in 1980 to 3 per cent in 1981," the report adds, "whereas imports declined by 2 per cent, as in the preceding year. Net oil imports fell by 14 per cent, which was a larger decline than in 1980. It is estimated that imports of commodities other than fuels increased marginally."

Trade of non-industrial areas

The report says that the "total export revenue of the traditional oil-exporting developing countries fell by 3 per cent in 1981. This was a sharp reversal from the higher rates of growth in the preceding two years, and resulted from a decline in the volume of petroleum shipments of between 16 and 18 per cent, which outweighed a price increase averaging 10 per cent. The volume of exports of crude oil in 1981 was almost 30 per cent below that in 1979, when the second surge in oil prices began. As in 1980, the falling volume of exports resulted from a combination of weak aggregate demand in the main markets, the continued expansion of output from alternative sources of supply, and further progress in energy conservation and substitution in industrial countries. (Supplies from traditional oil-exporters accounted for about 45 per cent of industrial countries' oil consumption in 1981, compared

1Terms of trade = the relation between the average prices of a country's exports and imports.
to 59 per cent in 1979 and 65 per cent in 1974). This trend continued in the first quarter of 1982, with substantial destocking taking place as well, so that with spot prices declining, the value of exports fell further."

The report adds that the merchandise trade surplus of the traditional oil-exporting developing countries was reduced from its record level of $145 billion in 1980 to $112 billion in 1981. Preliminary data for the first half of 1982 reveals a further sharp decline in the overall current account surplus of these countries.

GATT's economists go on to report that "despite a good overall performance in agriculture, where output rose at roughly the long-term average rate, GDP growth of the oil-importing developing countries slowed down to about 2 per cent in 1981. This was the lowest rate of growth recorded in the post-war period and was marginally lower than the overall population growth in these countries ....

"The dollar value of exports of the oil-importing developing countries is estimated to have risen by 2-3 per cent in 1981, owing to increased volume, as dollar unit values declined overall. Export prices of non-fuel primary commodities exported by developing countries were on average about 13 per cent lower than in 1980. This, together with the generally depressed volume of trade in those commodities, resulted in declining export earnings in many countries, especially those where exports are still heavily concentrated on a few non-ferrous metals (e.g. Chile, Zaire and Zambldla) .... As in earlier years, market conditions were generally more favourable for exports of manufactures from developing countries than for non-fuel primary commodities. The dollar value of manufactured exports is estimated to have increased by nearly 10 per cent, due mainly to higher volume .... Total imports of the oil-importing developing countries increased by an estimated 5 per cent in value in 1981. A small number of oil-importing countries in the Far East, which succeeded in expanding exports, also increased their imports significantly. Overall, however, the volume of imports by the oil-importing developing countries as a group increased much less in 1981 than in previous years, and in many countries it declined."

The report says that balance-of-payments estimates suggest that the widening of the combined current account deficit of developing countries, excluding the traditional oil exporters, to about $85 billion in 1981, was less a consequence of the aggregate trade deficit, which was only marginally higher, than of a sharp increase in interest payments on foreign loans. "This resulted from the fact that there was a higher absolute level of medium- and long-term foreign debt in many countries, with a growing proportion of it carried at variable interest rates, as well as a sharp increase in short-term debt, in a period when commercial interest rates rose to very high levels. A considerable part of the increase in short-term debt was itself being used to finance current account deficits ....

"Falling export earnings and increases in the cost of servicing foreign debts have a direct impact on the amount of foreign exchange left over to pay for imports. They can also have an indirect effect by reducing the willingness of foreigners to extend future credits. It is

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not surprising, therefore, that in 1982 a growing number of developing countries have introduced new measures designed to ease the pressure on the exchange market by reducing the level of imports."

Trade of the Eastern Trading Area

The report says that "the growth of Eastern European trade with developed market economies accelerated significantly in the first half of the 1970s, with imports rising considerably faster than exports. In the second half of the decade, there was a deceleration in both trade flows, more pronounced in the case of exports than of imports.

"The ability of the Eastern European countries to pay for a further growth in the volume of imports was seriously hampered by three main factors. First, the recession, and the relatively slow recovery of demand in the industrial countries; second, the deterioration in their terms of trade, resulting mainly from the sharp rise of energy prices; and third, more recently, the diminishing availability of credit from international markets. Contributory factors were the rising protectionist measures taken in developed market economies, as well as the difficulties encountered in achieving competitiveness in a wider range of manufactured products. In 1980 and especially in 1981, the Eastern European countries were faced with rapidly growing interest payments which reflected both the accumulation of their debts and the rising commercial interest rates in the international financial markets.

"Against this background, all Eastern European countries, with the exception of Bulgaria and the German Democratic Republic, were obliged to curtail their imports from developed market economies in 1981."

The report adds that "exports from Eastern Europe to the developed market economies, declined in value by 8 per cent overall. Exports from Poland declined by 32 per cent, those from Hungary by 13 per cent and those from Bulgaria by 11 per cent. As a result, Eastern Europe's combined annual trade deficit with developed market economies, which was generally in the range of $5-6 billion between 1974 and 1979, was reduced to $3.3 billion in 1980 and $2.8 billion in 1981.

"In the Soviet Union the more basic factors mentioned above, leading to the fast growth of imports from developed market economies, were also discernible already beginning with the second half of the 1960s. They were strongly reinforced, especially in the last few years, by the fact that domestic supplies of agricultural products tended to lag behind the growing requirements for basic crops and, in particular, livestock products. In the Soviet Union, however, the difficulties of financing of rapidly growing imports from developed market economies were considerably alleviated by (i) the strong rise in its terms of trade, due to the high share of fuels in its exports, (ii) the recourse to gold sales. Nevertheless, it also increasingly financed its imports of merchandise through credits and borrowing on financial markets. Imports from developed market economies increased by 7 per cent in value in 1981, implying a faster rise in volume. Approximately 80 per cent of the total increase was accounted for by foodstuffs and most of the rest by textiles, clothing and other finished consumer goods."
The report goes on to say that "the value of exports from Eastern Europe and the Soviet Union to developing countries rose by 23 and 12 per cent, respectively. The fastest growth was recorded by exports to the traditional oil-exporting developing countries, which increased in value by 46 per cent from both Eastern Europe and the Soviet Union. This group of countries accounted for nearly one-half of total exports from Eastern Europe to developing countries as a whole.

"Imports from the developing countries declined by nearly one-fifth in Eastern Europe as a whole, the decline being the same for both the traditional oil exporters and the other developing countries. In the case of the Soviet Union, however, total imports from the developing countries expanded by 25 per cent."

Turning to China, GATT's economists report that its exports increased substantially in value in 1981, while imports stagnated. "As a result, the aggregate trade deficit of the previous three years was substantially reduced. "China's imports from developed market economies, which had risen strongly between 1977 and 1980, declined by 5 per cent in 1981. Exports to these countries grew by a further 20 per cent. As a result, China's trade deficit with developed market economies, which had been steadily growing in the preceding four years to attain a peak of $5 billion in 1980, was almost halved in 1981 ....

"In China's trade with developing countries, its exports increased by more than 20 per cent, double the rate of growth of imports, mainly due to the further substantial rise in exports to Hong Kong (which absorbs almost one-half of China's exports to developing countries, mainly to re-export these products) and to several other non-oil developing countries. The trade surplus with the developing countries thus continued to grow in 1981."