STRONG TRADE GROWTH EXPECTED AGAIN IN 1989 - GATT ECONOMISTS SEEK EXPLANATIONS FOR POSITIVE TRENDS

Following high growth in world merchandise trade volume in 1988 - estimated at 8¾ per cent - GATT's economists believe growth in 1989 could be similarly healthy at around 7 per cent.

This outlook is reported in the first volume of International Trade 1988/89¹, published today. The report sets out a number of possible factors behind the unexpectedly high recent growth rates in world trade and comes to the conclusion that some significant changes are taking place in the world economy. In fact, GATT's economists suggest that, taking a longer term view, it may have entered a period in which the average growth rates for output and trade over the business cycle will be higher than they have been since the onset of economic difficulties in the late 1960s and early 1970s.

In analyzing this favourable environment for world commerce - in which growth in trade volume is now outstripping growth in world output by almost two to one - they point to a number of significant structural changes:

- technological innovations are widening the scope of goods and services traded internationally;

¹The GATT Secretariat's annual report International Trade appears in two volumes. Volume II, which will be published later in the year, is devoted primarily to statistical tables and charts. The two-volume set is available in English, French and Spanish language editions, and may be ordered from the GATT Secretariat or through booksellers at a price of 50 Swiss francs.
the real cost of petroleum has fallen by one-half since its peak in 1980 bringing substantial savings to enterprises and households;

the share of manufactures in world trade, in value terms, has increased by one-third since 1980 and now accounts for 73 per cent of the value of world merchandise trade and about one-half of the exports of developing countries;

the numbers of international joint ventures and mergers are growing alongside the rapidly expanding interdependence of national financial markets.

But changing economic policies are having their own effects on trade performance says the GATT Secretariat. Among the more important are:

- improvements to the functioning of markets through deregulation and denationalization;

- continued confidence in the ability and willingness of the major central banks to prevent a return of high inflation in the industrial countries;

- further liberalization of capital flows;

- economic reforms in the Soviet Union, some East European countries and China;

- commitment to trade policy reform and liberalization through the Uruguay Round as well as through more limited regional or bilateral arrangements.

Taken together these changes and their interactions create for firms a perception - which was also evident in the 1950s and 1960s - of a world economy moving in the direction of more open markets. This means an expansion of opportunities to employ resources more efficiently; in other words, investment, job creation and economic growth.

Nevertheless, warn the economists, this does not mean that the business cycle has been conquered. "External shocks, periodic over- and under-investment in key sectors, macroeconomic miscalculation and other disturbances will continue to affect the rhythm of economic activity in individual countries and in the global economy".