
While world trade in 1981 stagnated in volume, it fell in value by an estimated 1 per cent, the first year-over-year decline since 1958. This is brought out in the first chapter of the GATT secretariat's annual report on world trade, which observes that despite considerable progress in the difficult fight against inflation, 1981 was another disappointing year for the world economy. Nor are the first estimates for 1982 very encouraging, since the elements of strength which helped to sustain international trade in 1981 appear to be fading.

This analysis assumes particular importance at a time when GATT's member states are preparing to hold part of their annual session at Ministerial level (see article in this issue) to undertake a thorough examination of the problems now facing the trading system. "There is no single, simple cause or explanation of the difficulty the world economy is experiencing", the GATT report stresses. "There are, instead, many factors and they interact in numerous, often circular and cumulative causative chains."

(continued overleaf)

1 Each year, the GATT secretariat analyses in its report on international trade the trends of the world economy over the preceding eighteen months and its future prospects. The full text of the first chapter of the latest report on which this article is based has been issued as a press release (GATT/1319). The complete report, "International Trade 1981/82", will be published in English, French and Spanish in October.

Preparations for Ministerial session intensified

Since early September, preparations for the Ministerial session to be held in November have moved into high gear. Consultations organized by chairmen of the GATT bodies involved in these preparations, and by the GATT secretariat, have resumed particularly intensively in areas still needing a good deal of further work. The Preparatory Committee met again on 17 and 23 September to carry forward the examination, which it began last July, of the first draft of a document to be put before the Ministers. This draft includes proposals for a political declaration, and texts dealing with specific subject-matters such as safeguards, agriculture, the system of notification and dispute settlement, and the trade of developing countries.

The Preparatory Committee's goal is to make a final draft for submission to the Council by 20 October, so as to allow the Council enough time to make definitive preparations for the Ministerial. The Committee has agreed to consider itself in permanent session as from 23 September, which means that it may be convened at any time on short notice.

SAFEGUARDS

In view of the upcoming Ministerial session, intensive consultations are continuing on possible improvements to the international safeguard system. At the Safeguards Committee meeting on 13 July, a certain consensus emerged on some of the principles and objectives of an acceptable agreement on safeguards: for example, the temporary and exceptional nature of safeguard measures; and the needs for appropriate definition of the procedures to be followed in applying them, for ensuring the transparency of such measures, and for arriving at a fair and workable system.

At the same time, the GATT secretariat has been pursuing its contacts with delegations to explore whether it is possible, before the Ministerial session, to reach agreement on various specifics of a decision on safeguards. It has also continued its efforts to identify more precisely the various types of safeguard measures taken to date and the countries involved.
Stagnating volume, falling value

Growth in the volume of world production has been slowing down continuously since 1976, and in 1981 it amounted to about 1 per cent. This was due to a fall of 7 per cent in petroleum production. Growth in world manufacturing production, at 1 per cent, remained weak, while agricultural production grew by 2½ per cent in 1981.

Despite an increase in trade in manufactures (4½ per cent) and in agricultural products (3 per cent), the volume of total world trade stagnated in 1981, owing to a decline in exports of mineral products (minus 12 per cent), notably a 15 per cent drop in export of crude and refined petroleum. In 1980, world trade had risen by 1½ per cent in volume.

In 1981, world trade declined in value (by about 1 per cent) from the level of the year before, amounting to nearly $2,000 billion. This decline, which contrasts with the increase of more than 20 per cent in the preceding year and a yearly average increase of 20 per cent between 1970 and 1979, was mainly due to a decline in unit values expressed in dollars, which in turn reflected primarily the appreciation of the dollar.1

Growing participation of developing countries in world trade

Regional composition of world trade, 1963–1981

(Percentage shares in world exports (X) and imports (M))

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<tbody>
<tr>
<td>Industrial areas</td>
<td>X</td>
<td>64</td>
<td>68</td>
<td>63</td>
<td>65</td>
<td>63½</td>
<td>61½</td>
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<tr>
<td></td>
<td>M</td>
<td>64%</td>
<td>69%</td>
<td>66%</td>
<td>65½</td>
<td>67</td>
<td>66</td>
</tr>
<tr>
<td>Traditional oil-exporting developing countries</td>
<td>X</td>
<td>6</td>
<td>7%</td>
<td>13%</td>
<td>11</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>M</td>
<td>3%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Other developing countries</td>
<td>X</td>
<td>14%</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12%</td>
<td>13</td>
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<tr>
<td></td>
<td>M</td>
<td>18%</td>
<td>14%</td>
<td>15%</td>
<td>15%</td>
<td>16%</td>
<td>17</td>
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<tr>
<td>Eastern trading area</td>
<td>X</td>
<td>12%</td>
<td>10</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
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<tr>
<td></td>
<td>M</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>8½</td>
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</table>

For the two sectors of world trade which are expanding (manufactures and agricultural products) the additional import demand has come mainly from regions other than the industrial regions. It is the imports of food products by developing countries (especially the traditional oil-exporting countries) and by the Eastern countries that have increased most rapidly in recent years; the rise amounted to some 7 per cent for the former and 12 per cent for the latter in 1981, whereas imports of such products declined by 5 per cent in the industrial countries.

Contribution of the main flows to the overall increase in trade in manufactures between 1979 and 1981 (Percentages)a

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<thead>
<tr>
<th></th>
<th>1980 over 1979</th>
<th>1981 over 1980</th>
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<tr>
<td>Increase in the volume of world trade</td>
<td>100</td>
<td>100</td>
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<tr>
<td>of which:</td>
<td></td>
<td></td>
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<tr>
<td>Intra-industrial countries</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Exports of industrial countries to traditional oil-exporting developing countries</td>
<td>20</td>
<td>45</td>
</tr>
<tr>
<td>Exports of industrial countries to other developing countries</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Exports of developing countries to industrial countries</td>
<td>5</td>
<td>10</td>
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<tr>
<td>Intra-developing countries</td>
<td>10</td>
<td>10</td>
</tr>
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</table>

a Based on values at 1979 prices.

Source: Calculated from world export matrix (Appendix Table A2. International Trade 1981/82).

Coming GATT activities

Provisional programme of meetings:

October
The Preparatory Committee will be in permanent session until 20 October

1 International Dairy Products Council
1 Council
4 Textiles Committee
6-7 Committee on Trade in Civil Aircraft
8 Technical sub-committee on Trade in Civil Aircraft
6-8 Consultative Group of Eighteen
11 Committee of Participating Countries
12-15 TSB
13-15 Committee on Technical Barriers to Trade
25 Committee on Anti-Dumping Practices
25 Committee on Subsidies and Countervailing Measures
25-28 Trade and Development Committee
26-29 TSB

November
2-5 Council
3-5 Committee on Government Procurement
8-9 TSB
10-12 Committee on Customs Valuation
22-26 Thirty-Eighth Session of Contracting Parties, at Ministerial level as from the 24th.
29-1 TSB

2
Smaller trade surpluses and deficits

In 1981, the combined trade deficit of the industrial countries (in f.o.b terms) declined by roughly one half, to $50 billion; this was due entirely to volume changes.

At the same time, the combined trade surplus of the traditional oil-exporting developing countries declined by an estimated $50 billion, to $120 billion. Their terms of trade continued to improve (by 15 per cent), though less rapidly than in the preceding two years.

The trade deficit of the other developing countries continued to rise, but at a slower pace than in the preceding two years, reaching a level in excess of $80 billion. There was a further deterioration in their terms of trade, for the third consecutive year. Although the rise in the volume of their exports was smaller than in 1980, it slightly exceeded that of imports.

For Eastern Europe, the trade deficit was considerably reduced, mainly as a result of a drop in imports from outside the region, due to balance-of-payments constraints. For the Eastern trading area as a whole, the trade surplus more than doubled. In the case of China, the trade deficit of 1980 was replaced by a surplus in 1981.

Current account balances

Current account balances by regions, 1973-1982
(billion dollars)

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</thead>
<tbody>
<tr>
<td>Industrial countries</td>
<td>18</td>
<td>-12</td>
<td>15</td>
<td>-4</td>
<td>-9</td>
<td>30</td>
<td>-15</td>
<td>-45</td>
<td>-10</td>
<td>10</td>
</tr>
<tr>
<td>Traditional oil-exporting developing countries</td>
<td>10</td>
<td>63</td>
<td>30</td>
<td>40</td>
<td>31</td>
<td>6</td>
<td>65</td>
<td>115</td>
<td>65</td>
<td>20</td>
</tr>
<tr>
<td>Other developing countries</td>
<td>-12</td>
<td>-32</td>
<td>-37</td>
<td>-24</td>
<td>-20</td>
<td>-30</td>
<td>-48</td>
<td>-70</td>
<td>-85</td>
<td>-85</td>
</tr>
</tbody>
</table>

- Excluding official transfers.
- Projections.

Sources: OECD. Economic Outlook; IMF. International Financial Statistics.

It seems that between 1980 and 1981 the aggregate current account of the industrial countries moved from deficit into approximate balance, while the surplus of the traditional oil-exporting developing countries declined by about one half. On the other hand, the deficit of the other developing countries probably increased further. to around $85 billion. It must be noted, however, that the statistical discrepancy between trading surpluses and deficits around the world has become so large since the early 1970s that year-to-year changes in current account balances indicate at best only the direction of change.

(continued overleaf)

COUNCIL

On 21 July, the Council held another thorough discussion on the compatibility of the United States DISC programme with GATT provisions. The debate centred on interpretation of the Council’s decision of December 1981 concerning the definition of export activities. The EEC, emphasizing the high level of export subsidies accorded by the United States through DISC companies, asked the Council to take a decision in principle regarding the possibility of adopting retaliatory measures. The Council agreed to revert to this question at its next meeting.

The Council discussed various other questions, in particular the conclusions of a panel concerning an EEC complaint against the U.S. over vitamin B12, and a United States request concerning EEC treatment of citrus imports.

Production and trade prospects for 1982: erosion of elements of strength

Manufacturing production in the industrial countries was declining in the first half of 1982. Data from developing countries are incomplete, but in several of the leading exporters of manufactures, industrial production has been stagnating or declining since the middle of 1981. In the Eastern trading area there was a further slowdown in the growth of manufacturing production.

In trade, the volume of exports by the industrial countries has levelled off since the second half of 1981; there was a further sharp decline in their imports of petroleum, while imports of other products showed some increase.

Corresponding to these import trends, the growth of exports by the leading exporters of manufactures among the developing countries has continued to slow down. Faced with large current account deficits and growing debt-service charges, numerous developing countries, both exporters of manufactures and those which export mainly primary commodities, are introducing policies to dampen domestic demand and curtail imports. Thus the elements of strength which sustained the level of world trade in 1981, appear to be fading in 1982.

GATT FOCUS

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Centre William Rappard, 154 rue de Lavaux, 1211 Geneva 21 (tel. 31 02 31)
Anticipating the Ministerial session to be held in November, the GATT economists analyse in the first chapter of their annual report the general economic context in which trade policy operates and the issues confronting the trading system. Taking as their point of departure the fact that in all the major industrial countries the proportion of investment in GNP has declined substantially since 1973, they offer two explanations for that phenomenon, while stressing that the two factors are interdependent.

The general investment climate

The most general cause of the weakness of investment is increased economic uncertainty. Any increase in uncertainty has far-reaching effects not only on the level, but also on the pattern of production investments. Investments with short pay-off periods will be preferred to investments which pay for themselves only in the long term. However, the GATT economists say, it is innovative but highly risky investments that make the largest contribution to the growth of productivity.

Distortion of investment plans

The authors point out that "in addition to the increased uncertainty, there are numerous domestic rigidities which limits firms' ability to respond to the changing economic environment"; in particular “protection against imports, in the form of trade barriers and/or subsidies of one kind or another, are among the most important factors causing the backlog of adjustments”, and the effects of such policies extend well beyond the borders of the protecting countries. Furthermore, industrial cartels (price-raising and market-sharing agreements, national and international, among firms in particular industries) which are common in industries experiencing excess capacity, can be highly effective obstacles to adjustment.

Weakening of the financial system

The authors consider that “many of the current problems can be traced to the fact that the 1970s saw a large and rapid increase in international indebtedness”, which they estimate currently at $500 billion for the developing countries, and $80-90 billion for the countries of Eastern Europe. What is serious is that a significant proportion of this indebtedness represents debt to which there correspond no additional production facilities from which to service it, and which seeks only to maintain consumption levels in the face of a sharp adverse shift in the terms of trade. “Perhaps even more important is the fact that the rate of return on many of the investment projects ... is well below the original expectations", owing mainly to protectionism.

Effects on exports of a tax on imports

The various measures of protection against imports “testify to the persistence of mercantilist habits of thought and a less than complete understanding of the effects of protection on the protected economy,” the GATT economists point out.

Analysis of the actual experience of a number of countries suggest that some two thirds of an import duty is shifted into the export sector in the form of a "tax". This explains why protection does not increase total employment. Protection of certain sectors is "paid for" by unintended shrinkage of other sectors. Similarly, the grant of an export subsidy sets into motion adjustments that transform a part of it into an import subsidy.

Strategy based on principles

Only a strategy based on general principles, not a series of short-run tactics, can lead the world economy out of its present impasse. There is a need, the GATT report concludes, for "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". A general liberalization would stimulate all production sectors, especially the export industries. "Being a credible re-affirmation of the rules, such a policy would signal the return to a more stable and predictable economic environment in which investments could be planned with more assurance. The process of investment-led recovery would offer the financial institutions an opportunity to increase the number of good-quality loans in their portfolios and to phase out the bad paper accumulated in the period of blocked adjustment. This would offer a real prospect of restoring confidence by dispelling the uncertainty and pessimism characterizing contemporary economies."