International trade

STRONG GROWTH SET TO CONTINUE IN 1989

Following high growth in world merchandise trade volume in 1988 -- estimated at 8½ 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 last month. 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;
- 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;

¹ The 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.
'Industrial countries should not marginalize the least-developed', says GATT, 'give them secure access to your markets'

In highlighting the plight of the world’s least developed countries, the GATT Secretariat warns against their "marginalization" and calls upon policymakers in other countries to encourage their fuller participation in the world economy and, particularly, in the trading system.

The report, Volume I of International Trade 1988/89, points out that according to official trade figures, more than four-fifths of the foreign exchange earnings of the least developed countries of Africa depend on trade links outside Africa. For the highly indebted countries of Latin America, there is a similar degree of reliance on extra-regional trade. In neither case, say GATT economists, are those figures likely to change much in the foreseeable future. Thus, the importance of an open and efficient world trading system to these countries cannot be overstated.

In the Uruguay Round, says the report, “the industrial countries would do well to consider including in their reciprocity calculations the benefits they themselves would reap from faster growth in the least developed and highly indebted countries. This is especially true in the case of the countries in these two groups which at first glance have relatively little to offer in the way of conventional reciprocity for improved access for their own exports.”

Considering the recent experience of the forty-two least developed countries, the GATT’s economists note that in the period 1980-87, when world merchandise trade was expanding on average at 3 per cent a year in value terms, more than half of those countries saw their export revenues decline. In 1987, only eight of the 28 least developed countries located in sub-Saharan Africa reported export earnings above their peaks of the 1970s.

Although commodity prices have recovered recently, increases have not always been important for commodities of particular export interest to the least-developed countries. More generally, these countries are dependent on primary commodities for three-quarters of their foreign exchange earnings, and given the outlook for prices and the changes underway in the world economy, the Report comments that “for most countries an abundant supply of natural resources is no longer a safe ticket to economic growth”.

Looking at the 15 highly indebted countries whose trade performance has been followed by GATT’s economists for several years, 13 of the 15 reported increased export earnings last year with export growth collectively strong enough to raise the dollar value of exports above the 1981 peak for the first time since the debt service problem emerged.

Nevertheless, the most pressing problem for these countries is the effect rising international interest rates, a lack of fresh capital inflows and certain domestic policies have had on per capita income growth rates (which have declined since 1986) and on per capita investment. Aggregate imports into these countries remain well below their peak 1981 level, and despite some recovery in recent years, imports of investment goods remain depressed.

In considering the answers to these problems, the GATT Secretariat suggests the need for remedies in three areas:

- improvements in domestic economic (including trade) policies designed to increase investment and to ensure that investment funds go into areas where they can be used efficiently;
- supportive action by the international community in the area of financial flows, meaning a combination of debt relief and new money, and
- improved access to export markets for traditional and non-traditional products of interest to least-developed and highly indebted countries.

As far as export access is concerned, the Report comments:

The gains that come from limited preferential access lack the security that comes from bound reductions in trade barriers. What these countries need are commitments that their efforts to develop export industries based upon comparative advantage will not fail because of structural rigidities and protection in their principal markets. ■

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**Leading exporters and importers in world merchandise trade**

<table>
<thead>
<tr>
<th>Rank</th>
<th>1988</th>
<th>Value</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany, Fed. Rep.</td>
<td>323</td>
<td>11.2</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>322</td>
<td>11.1</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>265</td>
<td>9.2</td>
</tr>
<tr>
<td>4</td>
<td>France</td>
<td>168</td>
<td>5.8</td>
</tr>
<tr>
<td>5</td>
<td>United Kingdom</td>
<td>145</td>
<td>5.1</td>
</tr>
<tr>
<td>6</td>
<td>Italy</td>
<td>129</td>
<td>4.5</td>
</tr>
<tr>
<td>7</td>
<td>Canada</td>
<td>117</td>
<td>4.0</td>
</tr>
<tr>
<td>7</td>
<td>USSR</td>
<td>111</td>
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<tr>
<td>8</td>
<td>Netherlands</td>
<td>103</td>
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<td>Belgium-Luxembourg</td>
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<td>Hong Kong</td>
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</tr>
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<td>Korea, Rep.</td>
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</tr>
<tr>
<td>12</td>
<td>Taiwan</td>
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<td>13</td>
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<tr>
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<td>German Dem. Rep.</td>
<td>28</td>
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<tr>
<td>24</td>
<td>Belgium-Luxembourg</td>
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Total: 2398 83.3

World: 2880 100.0

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**Capital goods boom**

The value of world exports of capital goods reached about $850 billion in 1988, a 20 per cent increase over 1987 (compared with increases of 14 per cent for total merchandise and 17 per cent for all manufactures). Capital goods now account for about 30 per cent of world merchandise exports, up from 24 per cent in 1970 and 22 per cent in 1980. These results are included in the first volume of International Trade 1988/89.

The high level of capital goods trade was a direct reflection of the investment boom in many industrial and a number of developing countries last year. In the OECD area, the growth of gross fixed capital formation accelerated to 8.2 per cent in 1988, while the volume of non-residential investment rose an estimated 11 per cent, a rate of growth that has been matched only twice since the beginning of the 1970s. GATT’s economists report that because business investment last year focused more on machinery and equipment than on structures, it gave a particularly strong boost to trade in capital goods.

In fact, for the United States, the Federal Republic of Germany, the United Kingdom and Japan – each of which experienced a domestic investment boom last year – the
The vital and growing role played by service industries in increasingly globalized world markets, is highlighted in Volume I of the GATT report International Trade 1988/89. In their first overview of trends in services trade, GATT's economists comment that if industrial firms cannot produce necessary services competitively in-house, or if they are forced to pay above world market prices for service inputs purchased on the local market, they will be at a competitive disadvantage in the international market place. The same is true for firms in the agriculture and the service sector itself.

“In a world economy in which the level of technological sophistication is continuously rising, access to competitively-priced producer services is increasingly important in determining the ability of firms to compete at home or abroad”, says the report.

Service activities account for the largest share of national employment and production in many countries and, in both developed and developing countries, this share has been rising over a long period. In some developed countries, the share of services in employment is approaching 70 per cent.

While stressing that statistics on international trade in services are much less complete and of a generally lower quality than data for merchandise trade, GATT's economists estimate world exports of commercial services at US$560 billion in 1988. Growth in commercial services has outstripped the expansion in merchandise trade for most of the period 1980-88. The dynamic expansion of this category of trade has brought the value of recorded trade in commercial services to roughly the same level as world trade in food and fuels combined.

A rough rule of thumb, says the report, is that the transportation of merchandise and people (shipping, port services and passenger services) currently accounts for about 30 per cent of global trade in commercial services, that expenditures on services by travellers at their destinations accounts for another 30 per cent, and that other private services and income account for about 40 per cent.

Other private services and income - telecommunications, banking, management, professional and technical services, for instance - which are playing an important role in the globalization of markets have been the star performers in services. Travel, an important category for developing countries, has also expanded rapidly in the 1980s, while transportation has lagged.

Countries in Western Europe, which accounted for about 60 per cent of 1987 services exports, Asia about 15 per cent and North America about 13 per cent. In the years 1980-87, Asia showed the fastest growth in services exports (7½ per cent a year) and North America the fastest growth in services imports (9 per cent a year).

The report presents a league table of the world's leading exporters and importers of services. This shows the United States in first place as the largest exporter with a 11.2 per cent of world exports, followed by Japan with 10.6 per cent, the United Kingdom (8.6 per cent) and the Federal Republic of Germany (8.2 per cent). The largest importers are the Federal Republic of Germany with a 12.4 per cent share, the United States (10.8 per cent), Japan (10.1 per cent) and France (8.3 per cent). These countries are also among the top five exporters and importers of merchandise.

The report stresses the close link between the provision of services and merchandise trade as well as the provision of services for the production of other services:

The greater the availability and the lower the costs of the needed services, the faster the pace of globalization of markets. Thus, while there are many factors behind the growing emphasis on global markets and the declining importance of national boundaries for many production and investment decisions, it is clear that technological advances in services are playing a pivotal role.
New minimum prices set for dairy products

Members of the GATT International Dairy Arrangement on 20 September raised the minimum export prices of all dairy products covered by the three Protocols under the Arrangement. The new prices reflect continuing favourable market conditions for dairy products and the successful efforts of participants to maintain supply in balance with demand. The prices were previously raised in September 1988.

The three Committees which operate under the Arrangement made the decisions during meetings at the GATT headquarters in September:
- The Committee of the Protocol Regarding Certain Milk Powders increased the minimum export prices for skimmed milk powder and buttermilk powder from US$1,050 to $1,200, and for whole milk powder from $1,150 to $1,250 per metric ton, f.o.b.
- The Committee of the Protocol Regarding Milk Fat raised the minimum export price for anhydrous milk fat from $1,500 to $1,625 and for butter from $1,250 to $1,350 per metric ton, f.o.b.
- The Committee of the Protocol Regarding Certain Cheeses lifted the minimum export price for certain cheeses from $1,350 to $1,500 per metric ton, f.o.b.

The 16 signatories to the Protocols are: Argentina, Australia, Bulgaria, the European Communities, Egypt, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay. The Protocols are part of the 1979 International Dairy Arrangement negotiated during the Tokyo Round.

GATT issues final trading-system review

The GATT Secretariat has published the twelfth and last in a series of reports which have been the basis for bi-annual reviews of developments in the trading system by the GATT Council. The Review of Developments in the Trading System September 1988-February 1989 was considered by the Council in June (see Focus No. 63). It is available in English, French and Spanish for Swiss Francs 25 each.

As a consequence of decisions taken by Ministers at the Mid-Term Review meeting of the Uruguay Round Trade Negotiations Committee, the Council has instituted a new system of regular reviews of trade policy developments in individual countries. The United States, Australia and Morocco will be the first countries subject to the trade policy review mechanism and the Council is expected to consider reports on these countries in December this year. The reports will be published.

In addition to the new review mechanism, the Director-General of GATT will provide the Council with an annual report on developments in the international trading environment.

WP on China to resume work

As a result of an informal meeting held on 14 September, GATT contracting parties have decided to resume the work in the Working Party on the Status of China as a Contracting Party. It was agreed that the next meeting of the group will be held on 12-14 December 1989.

The contracting parties would, however, like a clarification of economic and trade policies in China as they affect the work of the Working Party. They have suggested that the Chairman of the Working Party asks the Government of China to prepare, preferably in advance of the next meeting, a statement giving such clarification.

Off the press

MacMillan Press Ltd. of London has just published three new books about the the Uruguay Round and developing countries. Edited by Mr. J. Whalley and supported by the Ford Foundation, the books are available in hard cover and paperback editions.

The new titles are: Uruguay Round and Beyond - The Final Report; and Developing Countries and the Global Trading System: Thematic Studies from a Ford Foundation Project (Volumes I and II). The University of Michigan Press will soon publish the United States editions.

Correction

The headline on page one of the last issue of Focus (No. 64, August-September 1989) inadvertently suggested that Bolivia has already acceded to the GATT as the 97th contracting party. As the subsequent article made clear, while Bolivia has signed the Protocol of Accession to the General Agreement, its formal accession is subject to the approval of its parliament which, as we go to press, is still awaited.

Trade

(continued from page 1)

The following is a tentative schedule of meetings for November 1989:

1-2 NG on Textiles and Clothing
1-3 NG on Safeguards
3 Committee on Trade and Development
6 Committee on Import Licensing
7-8 NG on Natural Resource-Based Products

COUNCIL
15-17 NG on Tropical Products
Week of
20 NG on MTN Agreements and Arrangements
20-22 GN on Services
23 GN on Tariffs
27-28 NG on Agriculture
27-29 NG on Trade-Related Investment Measures
29 Surveillance Body
30 NG on Subsidies and Countervailing Measures

Trade

- 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”