EXCHANGE RATE VARIABILITY AND
ITS EFFECTS ON TRADE

Communication from the European Communities

The following communication has been received from the Commission of the European Communities.

This theme has been suggested for discussion by Ministers in November by the Community. The objective is to draw the attention of Governments, and of Monetary Authorities in particular, to the distorting effects on international trade and production of erratic fluctuations in foreign exchange rates.

The basic contention is that erratic exchange rate fluctuations (i.e. fluctuations which do not reflect changes in fundamental variables of our economies) affect competitiveness and international trade flows especially in situations of more intense international price competition. Most immediately affected would be sectors of production where products are relatively homogeneous, where there are small producers not integrated multinationally, where imports and exports are important in proportion to national production, where profit margins are weak. The branches possessing these characteristics are primarily those which in Europe, have traditionally experienced the heaviest government intervention: agricultural products, textiles, steel, chemicals... and which now seek assistance in the U.S.A. since the dollar swung from its undervalued state at the end of the seventies to its present overvalued rates. Effects on other industries, exposed to smaller degrees of international competition may take a longer time, but are inevitably bound to appear and trigger off protective measures difficult to reverse.

In practical terms, recognition of the problem by the Ministers is sought, both in their political declaration (part one) and among the issues that will be identified as requiring further work (part three) in conjunction with IMF. The emphasis of both the declaration and the study would be mainly on trade effects.