

Press Release

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GENERAL AGREEMENT ON TARIFFS AND TRADE

GATT

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GATT REPORT ON INTERNATIONAL TRADE 1982/83

The annual GATT report on International Trade¹ is published today.

The introductory chapter, which discusses the main developments in international trade from January 1982 to August 1983, and prospects for the future, has already been published in full as a press release (GATT/1340) of 30 August 1983.

In the introductory chapter, the GATT economists analyze the sharp recession of the world economy in 1982, in which world production declined by an estimated 2 per cent, the first such decline since the 1 per cent drop in 1975, and the volume of world trade also declined by about 2 per cent. The second part of this chapter then discusses the rôle which trade policy can play in efforts to sustain and expand the economic recovery and to find a solution to the international debt problem. It pays particular attention to the tightness in the world supply of savings, the impact of restrictive trade measures, and the implications of these developments for the recovery. It argues that "while the recovery will improve the climate for introducing needed policy reforms, it is unlikely that the end of the recession can by itself solve the twin problems of protectionism and international indebtedness."

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 Area².

¹GATT International Trade 1982/83. Geneva, GATT, 1983. Price Swiss Francs 30.-. Available in English and French language editions (Spanish ready shortly) from: GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, and through booksellers; in the United Kingdom, orders should be placed with HMSO, P.O. Box 276, London SW8 5DT, and in the United States with UNIPUB, 345 Park Ave. South, New York, N.Y. 10010.

²Defined as Eastern Europe, the Soviet Union, and the Asian centrally-planned economies (China, Mongolia, North Korea and Vietnam).

Trade in commodities

The report says that "the dollar value of world exports of manufactures fell by 4 per cent in 1982. This decrease resulted mainly from the pronounced appreciation of the dollar, the decline in export volume being estimated at about 1¹/₂ per cent. In the industrial countries, which contributed about 80 per cent of world exports of manufactures, the volume of deliveries dropped by some 2 per cent in 1982. The volume of exports from developing countries remained approximately at the preceding year's level; in dollar value there was a decline of about 3 per cent. This decline reflected largely the appreciation of the dollar; when expressed in SDRs, exports of manufactures from developing countries showed an increase of some 4 per cent.

"Office machinery was the only export category to increase in dollar value in 1982. The sharpest declines - due chiefly to price decreases - were recorded for household equipment and, to a lesser extent, textiles, iron and steel, sundry semi-manufactured goods and special machinery."

In 1982, the dollar value of world exports of textiles dropped by nearly 7 per cent, while those of clothing fell by 1 per cent. In the case of textiles the share of industrial countries decreased from nearly 70 per cent in 1980 to 65 per cent in 1982, while in the case of clothing it fell from 50 per cent in 1980 to 44 per cent in 1982.

In 1982, world demand for automobiles declined for the fourth consecutive year. World production is estimated to have declined by about 3 per cent, and the volume of world trade in automotive products stagnated.

Detailed information is given in the report for the first time on world trade of telecommunications equipment and electronic products. the GATT economists stress that "telecommunications and electronics have undergone rapid technological change in recent years... New and improved products - and often at a lower price - have permanently replaced traditional ones and the market positions of suppliers can be quickly eroded if they fail to keep pace with the stream of innovations.

"Trade in telecommunications equipment and electronic products expanded significantly faster than world trade in manufactures in the last three years", they add. "In 1982, a combination of a recession-induced fall in sales volume and the appreciation of the dollar, resulted in a decline in the value of exports to some \$80 billion. This decrease was less, however, than that reported for total manufactures."

The GATT report reveals that "in recent years, the developing countries have not only been an important market for telecommunications equipment and electronic products, but have also steadily increased their rôle as suppliers of these products. In 1982, the industrial countries imported more than \$11 billion (c.i.f.) of telecommunications equipment and electronic products from the developing countries. These shipments were, however, highly concentrated on certain products and regions: more than 85 per cent of developing countries' exports stem from East Asia and 73 per cent of industrial countries' imports are accounted for by North America."

As for the industrial countries, "the geographic pattern of industrial countries' exports of telecommunications equipment and electronic products differs widely between the product groups." Although their exports of ADP machines and consumer electronics go mainly to developed countries, the report notes that developing country purchases of electronic parts and telecommunications equipment amounted to 45 and 41 per cent, respectively. "Exports to the Eastern trading area are relatively insignificant for all product groups," it added.

The report goes on to say that "the value of fuel exports fell by $10\frac{1}{2}$ per cent in 1982, corresponding to an approximate decrease of 7 per cent in volume terms... The value of world trade in ores, other non-fuel minerals and non-ferrous metals, after falling by 19 per cent in 1981, declined by a further 12 per cent in 1982. These declines were due to a volume contraction in the case of iron ore, and lower dollar prices for non-ferrous metals... In 1982, average prices of primary commodities other than petroleum fell by $9\frac{1}{2}$ per cent in dollar terms (by $3\frac{1}{2}$ per cent in SDRs), the decline being more pronounced for commodities exported by developing countries."

The GATT economists report that "the dollar value of world exports of agricultural products declined by 7 per cent... The share in total exports remained stable at 15 per cent... The value of world exports of food fell by $6\frac{1}{2}$ per cent in 1982... In volume, however, exports from developed countries increased by $3\frac{1}{2}$ per cent, and those from developing countries by $11\frac{1}{2}$ per cent. The decline of developing countries' food exports in value terms was thus due to a sharp decline in prices, nearly one-half of which reflected the appreciation of the dollar." As for agricultural raw materials, "the protracted weakness of demand in industrial countries again affected world exports of these products which declined by $11\frac{1}{2}$ per cent in dollar value in 1982, following a $10\frac{1}{2}$ per cent decline in the preceding year. In volume, exports from developed countries fell by 4 per cent in 1982, while those from developing countries increased marginally. Dollar prices of agricultural raw materials declined by more than 10 per cent; however, this decline in prices resulted to a large extent from the appreciation of the dollar, as in terms of SDRs the decrease would have amounted to only 4 per cent."

Trade of industrial areas

The report notes that "the combined gross domestic product of industrial countries contracted by $1\frac{1}{2}$ per cent in 1982, compared to an increase of $1\frac{1}{2}$ per cent in 1981. This reversal was essentially due to a 2 per cent fall in GDP in North America. The combined GDP of Western Europe increased by about $1\frac{1}{2}$ per cent, offsetting the small decline of the preceding year... (and) Japan's growth decelerated further." The decline in fixed investment contributed most to the fall in activity.

While total employment contracted by about 1 per cent in 1982, employment in manufacturing fell by around 5 per cent among the industrial regions. The decline was most pronounced in North America.

"Unemployment increased markedly in all industrial countries. In aggregate, it was slightly above 8 per cent of the work force in 1982, as against 6¹/₂ per cent in 1981. In the first quarter of 1983, however, it grew to nearly 9 per cent and approached 10 per cent in the EC and 10¹/₂ per cent in North America.

"For the second consecutive year the dollar appreciated substantially against all other currencies, before stabilizing in the first months of 1983... The more severe depreciation of certain currencies (such as the French franc, the Italian lira, the pound sterling and the Swedish krona) can be attributed to the domestic policies of the countries concerned.

"Inflation continued to slow down in 1981. The rate of growth in consumer prices has fallen from nearly 13 per cent in 1980 and 10¹/₂ per cent in 1981 to less than 8 per cent in 1982 and, in the first four months of 1983, to an annual rate of about 5¹/₂ per cent. The decline in inflation was particularly pronounced in the United States. Inflation remained high, however, in several European countries."

It is estimated that, "expressed in dollars, the decline in average import unit values in the industrial countries in 1982 amounted to some 5¹/₂ per cent, while their export unit values declined by approximately 3 per cent. The decline in trade prices reflected the appreciation of the dollar; when expressed in SDRs, export and import unit values rose by about 3¹/₂ per cent and 1 per cent, respectively."

The report says that "in 1982, for the first time since 1975, the average export volume of the industrial countries showed a decline, of about 2 per cent. Import volume fell for the third consecutive year, but its decline was limited to only ¹/₂ per cent. The decrease in industrial countries' exports as a whole was due entirely to a fall in shipments from the United States. The average volume of exports of the other industrial countries remained at its level of the preceding year... Imports declined only marginally as a substantial fall in the imports of North America was nearly offset by a recovery of those by Western Europe.

"The trade of industrial countries decreased in dollar terms for the second consecutive year, exports and imports falling by 5 and 6 per cent, respectively. However, as in the preceding year, this fall reflected mainly the appreciation of the dollar against the other currencies; valued in SDRs, both exports and imports showed a modest increase."

The GATT economists note that "the consolidated trade deficit (f.o.b.-c.i.f.) of the industrial countries declined by a further \$18 billion in 1982, to \$76¹/₂ billion; in 1981 it had fallen by \$53 billion. The trade deficit fell throughout 1981 and in the first half of 1982, then, after a temporary increase in the third quarter of 1982 - due to a sharp rise in imports by the United States - it contracted again in the last quarter of 1982 and in the first quarter of 1983. A few countries saw their trade deficits increase - in particular France, the United States, and the United Kingdom - or, as in the case of Japan, their trade surpluses decrease. The primary causes were

different for each country: reduced competitiveness in the case of the United States, shrinking external demand and limitations on exports for Japan, declining earnings from petroleum for the United Kingdom, and expanding domestic demand for France."

Trade of non-industrial areas

The report says that, in value, total exports from the traditional oil-exporting developing countries "declined by an unprecedented 21 per cent in 1982. This was largely due to reduced shipments of petroleum, which in recent years have accounted for 80 per cent of total export receipts and 94 per cent of merchandise exports... In contrast to the previous year, exports from the high-income countries declined more rapidly than those from the lower-income ones... In the first half of 1983, export revenue fell even more sharply than in the previous year, as the official export price was reduced by 15 per cent and the volume of sales continued to decline.

"Imports remained unchanged in value and increased by around 4 per cent in volume in 1982, compared to a 20 per cent increase the year before.

"After three years at record levels, the combined merchandise trade surplus (f.o.b./c.i.f.) of the traditional oil-exporters declined by almost one-half in 1982 to \$62 billion. In real terms, the 1982 surplus was roughly equivalent to that recorded in 1978, prior to the second round of oil price increases."

Turning to the other developing countries (i.e. excluding the traditional oil-exporters), the GATT economists report a further slowdown in their aggregate economic growth, with per capita income falling for the second year in a row, and note that "the pressure imposed on developing countries' external payments by the deep and persistent downswing in industrial areas, and by growing financial constraints, was the primary cause of the slump."

In 1982, it is estimated that "a smaller volume of manufactures was exported by the developing countries, at lower average dollar prices. The effect of virtually stagnating sales to industrial areas was compounded by falling exports to other areas. Manufactures earn over 40 per cent of total export receipts of the developing countries other than the traditional oil-exporters. The poor performance of manufactured exports in 1982 therefore contributed importantly to the estimated 5 per cent decline in these countries' export income. At roughly \$256 billion, it fell back to its 1980 level... The combined value of fuel exports levelled off in 1982, despite increased crude petroleum shipments. Export receipts from non-fuel primary commodities were, as in 1975, the hardest-hit by the recession. Average export prices fell sharply for agricultural products and there was a strong reduction in the volume of non-fuel mineral exports (including non-ferrous metals)."

The report adds that most of the decline in the developing countries' trade deficit, from \$74 billion in 1981 to \$60.5 billion in

1982 (customs values, f.o.b. basis), can be attributed to volume movements. "The estimated increase in the volume of exports was relatively small, whereas imports are estimated to have declined in volume by about 4 per cent, reflecting the efforts of several countries to adjust to the unfavourable world economic environment. In a few cases, the decline in imports was particularly abrupt, because of a sudden contraction in credit or as part of a debt rescheduling programme."

The GATT economists also point out that "the current account deficits of the last three years clearly mirror the massive recent increase in developing countries' foreign debt, the servicing of which will need concerted efforts from debtor and creditor countries, especially in the trade area."

Trade of the Eastern trading area

The report says that "during the last twenty-seven years the share of the area's trade in total world trade fluctuated only slightly - between 9 and 12 per cent. However, exchanges of the centrally planned economies with countries outside the Eastern trading area, and especially with industrial countries were growing in importance at the expense of intra-area trade."

In the case of Eastern Europe, "the accumulation of foreign debt in convertible currencies in the 1970s and early 1980s was a major element in the present economic difficulties of these countries. The bulk of this debt was used to finance high and persistent trade deficits with industrial countries. During the twelve years up to 1981, this cumulative trade deficit amounted to \$45 billion... Considering the slow growth of their production and the widespread recession prevailing elsewhere, most East European countries were obliged to reduce their imports... Eastern Europe's trade deficit with industrial countries declined each year between 1979 and 1981. In 1982, owing to a further sharp fall in imports (21 per cent) and only a moderate decline in exports (3¹/₂ per cent) a trade surplus of \$1.8 billion was achieved."

The GATT economists note that "the total trade of the Soviet Union continued to expand. The country's foreign debt is minor and regular surpluses have been recorded in foreign trade since 1977; in addition, Soviet Union's terms of trade have continuously improved. The value of Soviet exports grew at a sustained pace during the last decade, nearly 20 per cent annually between 1970 and 1980. Since 1978, however, this has mainly reflected price gains. When prices in the industrial economies started to decline, as they did in 1981 and 1982, the Soviet Union was able to preserve its hard currency revenue by increasing the volume of exports, mainly fuels. Gold sales were another important source of hard currency inflow. All these factors permitted the Soviet Union to maintain a rapid growth of imports, some 7 per cent in volume terms in each of the last three years."

The report goes on to say that for the East European countries "in 1982, both imports from and exports to the traditional oil-exporting countries rose marginally, whereas imports from other developing countries declined by 17 per cent and exports to them by 7 per cent, the trade surplus rising further to \$1.4 billion."