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NEW GATT REPORT SEES MODERATE 1986 TRADE GROWTH MAINTAINED IN 1987

The first chapter of GATT's Annual Report on trends in international trade and trade policies is published today.* Among the principal results highlighted in the Report are the following:

VOLUME

- The volume of world merchandise trade is estimated to have increased by 3½ per cent in 1986.

- In the first half of 1987, the volume of world merchandise trade was running 3 to 3½ per cent above the level in the first half of 1986. For 1987 as a whole, the increase in the volume of world trade is likely to be close to the 3½ per cent recorded last year.

- Led by a sharp recovery in petroleum exports, the volume of trade in mining products increased by 7½ per cent in 1986.

- Trade in agricultural products declined marginally last year, by about 1 per cent in volume terms.

- The 3 per cent increase in the volume of trade in manufactures in 1986 was well below the 4½ per cent average annual increase for the years 1980 to 1986.

- In volume terms, the export performance of the United States has been gaining momentum for the past twelve months and, in the second quarter of 1987, export volume was nearly 15 per cent above the second quarter of 1986.

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*This press release reproduces the complete text of Chapter I of International Trade 1986/87. The full report is scheduled for release in November in English, French and Spanish language editions. It may be ordered from the GATT Secretariat or through booksellers at a price of 30 Swiss francs.

HIGHLIGHTS CONTINUE

VALUE

- The value of world merchandise trade is estimated to have increased by 10 per cent to $2,120 billion in 1986 (largely as a result of the substantial devaluation of the US dollar).

- Among the fastest growing product categories, in value terms, were clothing, road motor vehicles, machinery for specialized industries, household appliances, textiles, and office and telecommunication equipment.

- Partly as a result of currency changes, Western Europe and Asia reported large gains in the dollar value of exports in 1986.

- In contrast, declines in the range of 12 to 20 per cent in the dollar value of exports were recorded by Latin America, Africa and the Middle East, mostly due to sharply reduced dollar earnings from fuel exports.

- Overall, the decline in fuel prices reduced the total merchandise exports of developing areas to a level 6 per cent below the 1985 level. Non-fuel exports of developing areas increased by nearly 15 per cent, virtually matching the increase in the dollar value of total exports from the developed countries.

- In 1986 - for the first time ever - the developing areas earned more foreign exchange from exports of manufactures than from exports of agricultural products or exports of mining products.

POLICY ISSUES

In examining current policy issues (pages 23 to 35), the Report observes that the widespread expectation of faster growth in the world economy in 1986 and 1987 has been disappointed. Last year more or less matched the 1985 performance, and current forecasts for 1987 and 1988 do not anticipate a major pick-up in world economic activity.

GATT's economists note that sluggish business investment has been one of the key elements in the weak performance of world output and trade. They conclude that, over the past eighteen months, the growth-retarding effects of the changes in exchange rates and petroleum prices on investment, output and trade dominated the growth-stimulating effects. But they suggest that the world economy could be at or near the point where the expansionary effects of these key price changes will take over.

They note, nevertheless, that there are factors at work which are exerting a continuing dampening effect on investment, output and trade, both through their direct impact and by increasing the level of uncertainty confronting firms:

- Debt and trade. In 1986 the dollar value of merchandise imports into fifteen heavily indebted countries was more than 40 per cent below the 1981 level. The main impact of this severe cut-back in

HIGHLIGHTS CONTINUE

imports, of course, has been on living standards and investment in the indebted countries. But there have also been repercussions on their trading partners in the form of lower employment and smaller profits in the export industries.

The debt problem has had a further spillover effect on developing countries which do not currently have serious debt service problems. There has been a sharp decline in the flow of financial resources to all developing countries since 1981. Many of these countries are running large current account deficits, and the reduced availability of foreign capital could affect their ability to maintain current import levels of consumer and investment goods.

The debt strategies followed thus far have prevented a banking crisis. But that is not enough to judge them a success. The debt problem remains sufficiently severe to be a factor affecting not only the debtor countries and their creditors, but economic recovery worldwide.

- The United States twin deficits. While export volume is picking up and import volume slowing, the depreciation of the dollar has thus far failed to bring about a reduction in the current account deficit. This has intensified protectionist rhetoric and protectionist demands in the United States. However, a major increase in protectionism in the United States would fail to produce a lasting reduction in the trade and current account deficits. It could worsen the situation by inviting large-scale retaliation by other countries and a subsequent loss of export markets all around.

  Since there is a direct connection between the fiscal deficit and the current account deficit, there is a very good chance that substantial progress in reducing the current account deficit can be achieved if the targets for further cuts in the budget deficit are realized. It is encouraging that estimates of the budget deficit for the current fiscal year ending September 30th show a decline of nearly $65 billion, from $221 billion in the previous fiscal year to $157 billion this year.

- Exchange rates and trade. The third factor is the concern of producers and traders that exchange rates between the major currencies can be affected by a large number of apparently extraneous developments. Longer-term deviations in exchange rates, as well as large short-term fluctuations, are particularly serious for investment decisions in the export and import-competing industries. A perception that the exchange rate system is not functioning properly erodes, in addition, political support for relatively open and liberal trade policies.

Turning to the rôle of a strengthened trading system, the Report notes that while protectionist pressures always increase during periods of slow growth, these pressures are being reinforced in the present situation by the difficulties in the other policy areas noted above. The consequence has been an increased tendency to regard imports as threatening and export markets as difficult to enter and uncertain.

HIGHLIGHTS CONTINUE

Because repercussions of policy actions transcend national boundaries, they have to be judged in an international rather than a purely national context. As the Report shows, such international policy interactions have become more and more pronounced. Thus, there is a more important rôle than ever for a framework of rules and disciplines that reduces the uncertainty surrounding future trade policies and ensures that policy decisions taken at the national level take into account the repercussions on other countries.

Launching the new round of negotiations did not, of course, put an end to protectionist pressures and trade frictions. To contain the pressures and frictions which inevitably will arise in the course of the negotiations, the Punta del Este Declaration includes a standstill agreement and provides for a surveillance mechanism to monitor compliance with that commitment.

Safeguarding existing levels of trade liberalization is essential, but by itself not enough. Disappointing rates of growth in world output and trade, the new stresses and strains which are affecting the economic and trading environment, as well as the state of trade policies highlight the need for an improved and extended framework for the conduct of international trade. The Uruguay Round offers a unique opportunity to provide the international community with a trading system that can function effectively for the rest of this century and beyond.

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HIGHLIGHTS END