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INTERNATIONAL TRADE IN 1983 AND CURRENT PROSPECTS

First Assessment by the GATT Secretariat<sup>1</sup>

This is the GATT secretariat's first summary and assessment of world trade and major economic developments in 1983. Part I summarizes the main facts. Part II provides additional details on the impact of the first year of economic recovery on the trade balances of both the heavily indebted developing countries and the industrial countries.

PART I - DEVELOPMENTS IN 1983

Following two years of stagnation and decline, the volume of world trade increased by 2 per cent in 1983. The expansion of world exports was particularly rapid in the second half of the year.<sup>2</sup>

Although the volume of world trade last year was about the same as in 1980, the composition has changed in the interim. Trade in mineral products declined for the fourth consecutive year, due to the continuing decline in exports of petroleum (Chart I). Agricultural and manufactured exports, in contrast, continued to expand, recording increases of 2 per cent and 4 per cent respectively.

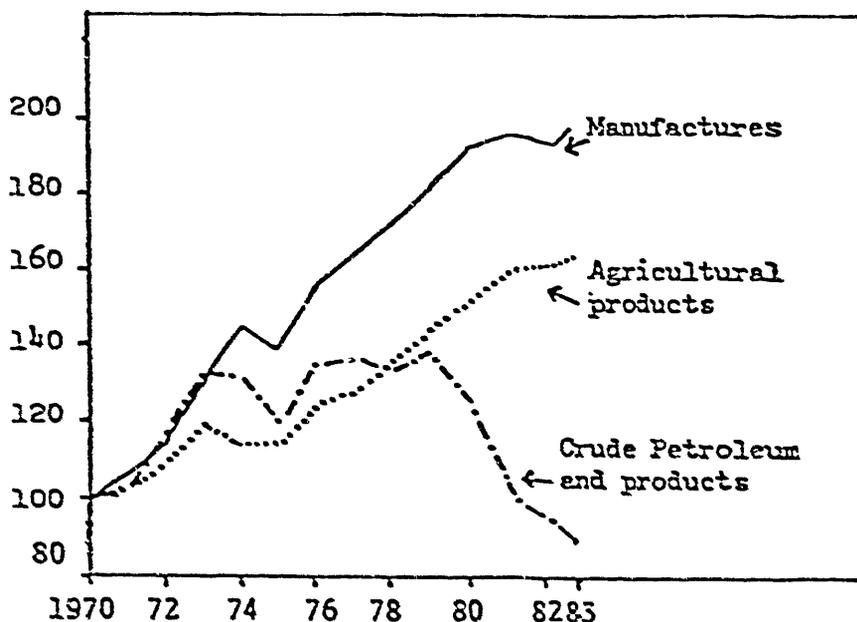
Dollar unit values of trade fell by nearly 4 per cent in 1983, matching the 1982 decline, due primarily to a further appreciation of the US dollar and a decline in fuel prices. This more than offset the increase in volume, causing the value of world trade to decline by 2 per cent, to about \$1,810 billion (Table 1).

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<sup>1</sup> Later in 1984, when more complete information is available, these preliminary indications will be elaborated in greater detail in the GATT annual report International Trade 1983/84.

<sup>2</sup> Trade statistics covering all of 1983 are available for most industrial countries. For other countries, data referring to the year 1983 are rough estimates based on the months available and on the returns of those of their trading partners for which complete data are available.

CHART I  
Development of World Exports  
1970-1983  
(Volume indices, 1970 = 100)



Source: Annex Table 1 of GATT, International Trade, 1982/83.

Among the developing countries, the trade surplus of the traditional oil exporters continued to decline. Meanwhile, the trade deficit of the non-oil developing countries reached its lowest level - relative to exports - since 1953.

#### 1. Production and Trade by Product Groups

World production is estimated to have increased by about 2 per cent in volume terms last year, matching 1983's increase in world trade and just balancing the 2 per cent decline in world production in 1982.<sup>1</sup>

Preliminary estimates for 1983 indicate that the volume of world agricultural output declined by 1 per cent in 1983, led by sharp declines in the output of coarse grains in the United States and sugar in the European Communities. Agricultural exports increased nevertheless, by about 2 per cent, due primarily to larger imports by the Eastern trading area and the non-oil developing countries.

<sup>1</sup>In this section production refers to the combined output of agriculture, mining and manufacturing, that is, it excludes services and construction.

TABLE 1. - WORLD TRADE BY AREAS IN 1982 AND 1983

(Billion dollars and percentages)

	Exports (fob)				Imports (cif)			
	Value		Change over previous year		Value		Change over previous year	
	1982	1983	1982	1983	1982	1983	1982	1983
WORLD	1 850	1 810	-6	-2	1 930	1 880	-6	-2
of which:								
Industrial countries	1 147	1 133	-5½	-1	1 226	1 210	-6	-1½
Traditional oil-exporting developing countries <sup>a</sup>	217	177	-22	-18½	166	140	+6	-16
Other developing countries <sup>b</sup>	255	265	-4	+4	312	293	-10½	-6½
Eastern Trading Area	193	203	+5	+5	177	185	-1½	+4½

<sup>a</sup>Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

<sup>b</sup>Imports f.o.b.

Note: Data for 1983 are based on incomplete returns and are subject to revisions.

Sources: IMF, International Financial Statistics; UN, Monthly Bulletin of Statistics; national statistics.

There was a revival of mineral production in the second half of the year which limited the overall decline in volume in 1983 to about 1½ per cent. Crude oil production remained stagnant, an 8 per cent reduction in the output of the traditional oil-exporting developing countries (including a reduction of nearly 25 per cent by Saudi Arabia), being more or less balanced by production increases of 5 per cent in the other developing countries and 3 per cent in the industrial countries. World coal output is estimated to have declined in 1983 for the first time since 1971, as a fall in the production of the United States and the European Communities outweighed a 4 per cent rise in China's production. In North America, especially in the United States, gas production declined steeply, while in the European Communities it expanded by about 4 per cent and in the USSR by about 7 per cent, making the latter country the world's leading natural gas producer.

Exports of crude oil fell by 8 per cent, putting the volume of exports at the lowest level since the late 1960s. World coal exports, which stagnated in 1982, are estimated to have fallen by about 4 per cent in 1983. Natural gas exports, which had recorded a decline in 1982, recovered somewhat in 1983, while exports of petroleum products increased by an estimated 3 per cent.

In the industrial countries the volume of manufacturing production increased throughout the year. However, for 1983 as a whole the gain was limited to 3 per cent, compared to a 4 per cent decline in 1982. Manufacturing production rose by 7½ per cent in North America and by about 4 per cent in Japan, but only marginally in Western Europe.

It is estimated that in the developing countries the volume of manufacturing production may have increased by about 6 per cent, compared with a 4 per cent gain in the preceding year.

The 4 per cent increase in the volume of world trade in manufactures was primarily the result of an expansion of trade among industrial countries, as well as significantly larger exports from certain developing countries to the industrial countries. In contrast to the 6 to 7 per cent overall increase in imports of manufactures by the industrial countries, there was a significant decline in imports of manufactures by the developing countries, especially among the highly indebted ones and the traditional oil-exporters.

## 2. Developments in Main Areas

### Industrial countries

The combined output of all goods and services in the industrial countries expanded by about 2 per cent in volume terms in 1983, compared to a ½ per cent decline in 1982. In North America and Japan, GDP growth was around 3 per cent, whereas the increase in Western Europe was about 1 per cent. In the United States, the increase in domestic demand centred on private consumption and residential construction; investment, in contrast, was only marginally above its level of the preceding year, and thus remained well below that of 1981. An important factor in Japan's growth was the recovery of foreign demand for its exports, coupled with the growth of private consumption in Japan. Manufacturing production in the industrial countries expanded by about 3 per cent in 1983, but remained below its 1979-81 level. Most forecasters predict a continuation of the recovery in the industrial countries in 1984, with production rising more rapidly in North America and Japan than in Western Europe.

Employment and unemployment trends differed in the United States, Japan and Western Europe in 1983. Total employment in the United States was up 4 per cent in 1983, a net gain of approximately 4 million jobs. Employment in manufacturing increased still more rapidly, particularly in electronic, machinery and transport equipment. These gains in employment were a major factor in the decline in the unemployment rate from more than 10 per cent at the end of 1982, to about 8 per cent at the end of 1983. In Japan, the number of people employed increased by about 2 per cent in 1983 (a gain of about 1 million jobs), while the unemployment rate was up slightly from the 1982 level because of the large number of new entrants into the labour force. In Western Europe, on the other hand, there was little change in the level of employment, and the unemployment rate increased by about 1 percentage point in 1983 over the previous year's level.

Inflation in the industrial countries declined to about 5½ per cent from nearly 8 per cent in 1982, reaching its lowest level since 1972. In several countries, including the United States, Japan, the FR Germany, the Netherlands and Switzerland the inflation rate was close to 3 per cent, or even below. Interest rates, after declining in 1982, levelled off in 1983, thus increasing in inflation-adjusted terms, especially in the United States.

The overall trade deficit of the industrial countries remained at the previous year's level, with the dollar value of both exports and imports falling by about 1 to 1½ per cent. In volume terms, exports and imports recovered by approximately 2 and 4 per cent, respectively, despite the continued decline in the volume of oil imports. The volume of exports to the traditional oil-exporting countries declined again in 1983, while exports to other developing countries are estimated to have increased moderately.

Table 2 provides figures on changes in trade flows among the main industrial areas in 1983. Among the more interesting points is the sharp increase in the value of imports into the United States and Canada, the decline in United States exports to Western Europe, and the modest decline in trade among West European countries.

TABLE 2. - MAIN INTRA-INDUSTRIAL COUNTRY TRADE FLOWS:

Percentage change, 1983 over 1982

<u>United States' exports to:</u>		<u>Japan's exports to:</u>		<u>EC's exports<sup>a</sup> to:</u>	
Canada	12.3	United States	18.2	United States	5.9
Japan	4.1	Canada	26.9	Canada	1.0
Western Europe	- 6.3	Western Europe	7.3	Japan	4.4
EC	- 7.2	EC	9.0	Western Europe	-1.8
				EC	-1.7

<sup>a</sup>January-November 1983 compared with January-November 1982.

Sources: UN Statistical Office, Comtrade Data Bank; OECD, Series A.

The increase of imports into the United States was equivalent to one-half of the net increase in the volume of world trade in 1983. Combined with the fall in exports, this produced a substantial increase in that country's trade and current account deficits. The overall trade and current deficits of the industrial countries as a group contracted somewhat in 1983, however, as Japan's surplus expanded significantly, and the deficits of most West European countries - in particular, those of Italy and France - were lower than in the preceding year.

#### Developing countries

As was noted above, in the traditional oil-exporting developing countries petroleum production and exports fell in 1983 for the fourth consecutive year. Though the volume of these countries' exports dropped

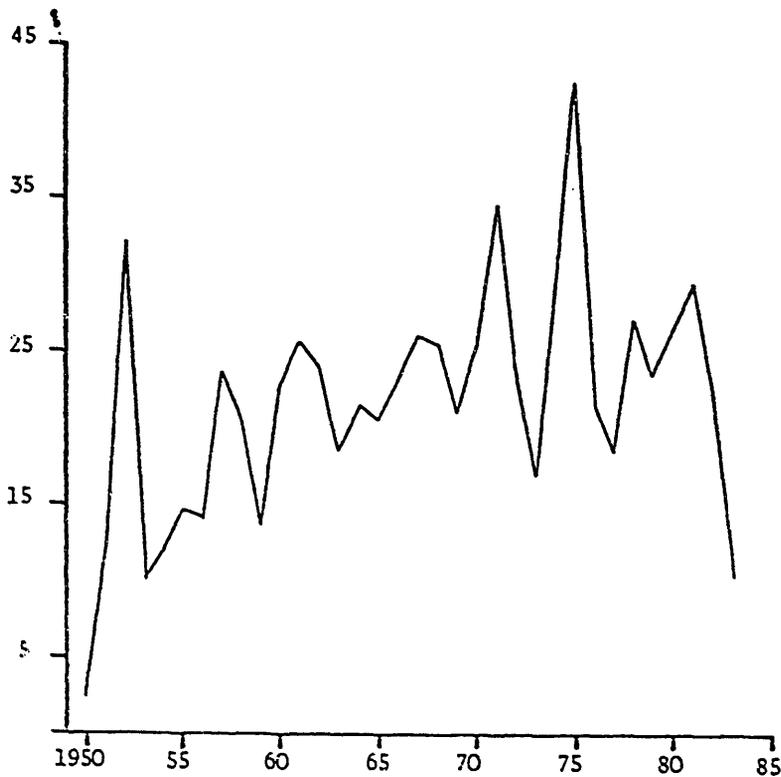
less sharply than in 1982, their aggregate export receipts were again down by around 20 per cent, to less than \$180 billion, or about 10 per cent of world trade. Reduced export earnings led Nigeria, Venezuela and, to a lesser extent, Indonesia - the three most heavily indebted traditional oil-exporting developing countries - to curtail imports severely. Imports also fell, though less sharply, in other countries in this group (except Iran) so that, in aggregate terms, imports by the traditional oil-exporting developing countries declined by 16 per cent. With export receipts down 20 per cent, their trade surplus continued to decline in 1983.

According to preliminary information for the non-oil developing countries in 1983, substantially higher rates of economic growth were recorded in India, and in a few areas of East/Southeast Asia (in particular, Hong Kong and the Republic of Korea) which benefited from the recovery in the industrial countries. This contrasted sharply with the prolonged recession in Latin America, most of Africa and in some Asian countries. Because the gains in production of crude petroleum and manufactures in the non-oil developing countries were more or less balanced by declines in agricultural output and output of non-petroleum minerals, it is estimated that there was little change in the aggregate output of the non-oil developing countries between 1982 and 1983. Inflation trends varied among the non-oil developing countries, with many reporting lower rates in 1983, while in others - including Nigeria, Israel and several of the most indebted countries in Latin America - inflation accelerated.

The volume of imports into the non-oil developing countries fell again in 1983, while exports expanded. Only a relatively small number of these countries appear to have fully participated in the export upturn, however (among them Brazil, the Republic of Korea, Malaysia and Pakistan). In aggregate terms, export earnings rose by an estimated 4 per cent in 1983, to a little more than \$265 billion, still below 1981 levels; imports declined in 1983 by around 7 per cent, somewhat less sharply than in the previous year, to about \$290 billion (in both cases, it is important to keep in mind that dollar unit values for world trade as a whole have fallen by 4 per cent in each of the past two years). The contraction in imports was particularly marked in Latin America. On the other hand, in some countries in Asia - particularly those whose exports were expanding - the value of imports increased in 1983.

The trade deficit of just under \$30 billion (c.i.f.-f.o.b.) for the non-oil developing countries in 1983 was the smallest since 1974. This is not, however, a particularly relevant comparison because of the high rate of inflation of world market prices during the past ten years. One way of partially compensating for the effect of inflation is to relate the trade deficit to the value of exports, as has been done in Chart II. It is apparent from the chart that, measured this way, the 1983 trade deficit of the non-oil developing countries was the smallest since 1953.

CHART II  
NON-OIL DEVELOPING COUNTRIES' TRADE DEFICIT, 1950-1983<sup>a</sup>  
(As a percentage of exports, f.o.b.)



<sup>a</sup>Trade deficit is here defined in the usual way, as imports (c.i.f.) less exports (f.o.b.); on a f.o.b.-f.o.b. basis, the merchandise trade of the non-oil developing countries in 1983 would be more or less in balance.

#### Eastern trading area

In Eastern Europe (excluding the Soviet Union) aggregate production, after declining by 1 per cent in 1981 and stagnating in 1982, is estimated to have increased by 3½ per cent in 1983. This increase is due in part to a 4½ per cent growth of production in Poland, following four years of declining output. Eastern Europe's exports and imports are estimated to have increased in dollar value by 5 and 4½ per cent, respectively, in 1983. The trade surplus rose by a further \$1 billion to nearly \$5 billion in 1983.

Aggregate production in the Soviet Union is reported to have also risen by 3½ per cent in 1983. The growth of industrial production accelerated to 4 per cent and that of agricultural output to 5 per cent. The dollar value of exports increased by 5½ per cent and that of imports by 3½ per cent. The overall trade surplus, which had already reached an all time high of \$9 billion in 1982, increased further to \$11 billion in 1983.

According to preliminary data, industrial production in China expanded by about 10 per cent in 1983. Agricultural output also expanded significantly. In dollar value, imports increased by about 7 per cent, while exports stagnated. As a result, the trade surplus contracted from \$3 billion in 1982 to an estimated \$2 billion in 1983.

### 3. Exchange Rates and Prices

Dollar export prices of primary commodities (excluding fuels), which had declined markedly in the two preceding years, rose by about 1 per cent in 1983 (the recovery of prices is significantly greater, however, when expressed in other currencies). Dollar prices of primary commodities originating in developing countries were up 5 per cent in 1983, with prices of agricultural raw materials increasing by 7 per cent (Table 3). There was a 1 per cent decline in export prices for food, lower prices of food exports from developed countries more than offsetting higher prices for food exported by developing countries. (In the early months of 1984, dollar prices of primary commodities continued to rise, especially those of tropical beverages, vegetable oils, rubber and zinc.) Export prices of crude petroleum, in contrast, fell by a further 13 per cent in 1983, this trend continuing into 1984 (Chart III).

TABLE 3. - EXPORT PRICES OF PRIMARY COMMODITIES

(Percentage change over previous year)

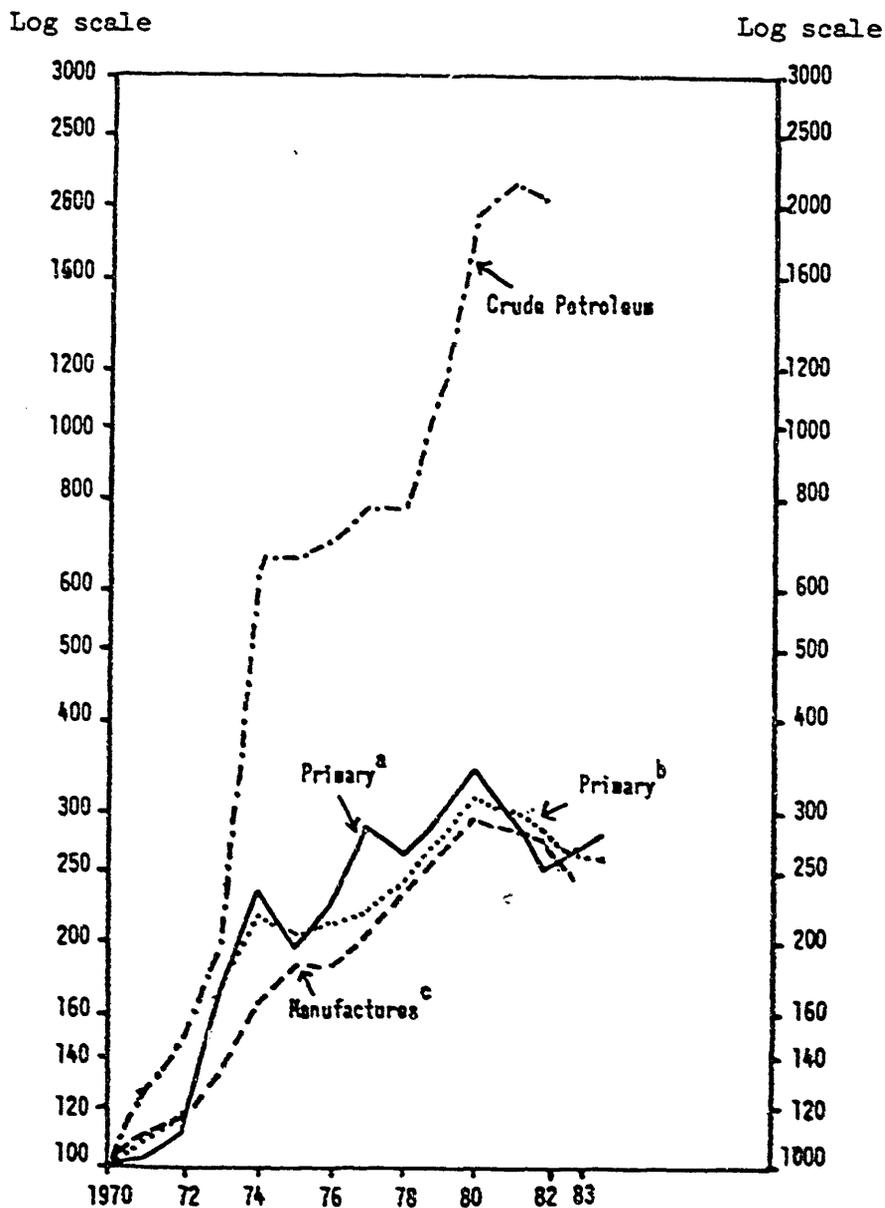
	Food		Agricultural raw materials		Non-ferrous metals		Primary commodities <sup>a</sup>	
	1982	1983	1982	1983	1982	1983	1982	1983
Developed countries	-10	-4	-6½	+2	-11	+1	-7½	-2
Developing countries	-16	+3	-13½	+7	-14	+4	-13	+5
World <sup>b</sup>	-12	-1	-10	+4½	-12½	+2	-10	+1

<sup>a</sup>Excluding crude petroleum.

<sup>b</sup>Excluding the Eastern Trading Area.

Source: UN, Monthly Bulletin of Statistics.

CHART III  
Export Prices, 1970-1983  
(Indices, 1970 = 100)



<sup>a</sup>Primary products excluding crude petroleum exported by developing countries.

<sup>b</sup>Primary products excluding crude petroleum exported by developed countries.

<sup>c</sup>Unit value of manufactures exported by developed countries

Source: UN, Monthly Bulletin of Statistics; UNCTAD, Monthly Commodity Price Bulletin and IMF, International Financial Statistics.

The dollar unit values of manufactured exports decreased by an estimated 4 per cent in 1983, almost the same rate as in 1982. Whereas in the United States unit values increased 1½ per cent, they declined by 2 per cent in Japan and by 5 per cent in Western Europe, due to the appreciation of the dollar.

The US dollar's bilateral nominal exchange rate appreciated against all major currencies except the yen in 1983. On a year-over-year basis, it appreciated by 3½ per cent against the Swiss franc, 5 per cent against the Deutschmark and by around 16 per cent against both the French franc and the pound sterling. The yen rose even more sharply against these currencies and by almost 5 per cent in terms of US dollars. In the first quarter of 1984, the dollar weakened slightly against other currencies, then recovered as United States interest rates moved up.

Trends in trade-weighted effective exchange rates in 1983 were broadly similar to those in 1982. The main exception was the effective exchange rate of the Japanese yen, which rose by 10 per cent, compared to a 5½ per cent decline in 1982. The US dollar, the Deutschmark and the Swiss franc continued to appreciate in effective terms, although the dollar's increase declined to just under 6 per cent, half that of the previous year. (In real terms, that is adjusted for inflation differentials using price indices for non-food manufactures, the increase in the effective exchange rate of the dollar in 1983 is closer to 3 per cent.)

## PART II: RECOVERY AND TRADE

As is evident from the preceding discussion, the recovery of world trade in 1983 conceals highly divergent trends by region and product groups. Imports expanded strongly in those industrial countries experiencing a consumer-led recovery (especially North America and the United Kingdom, but also in the Federal Republic of Germany), as well as in the Eastern trading area and the more advanced developing countries in South and Far East Asia. In these regions, import growth in volume terms for individual countries generally ranged between 7 and 12 per cent. Manufactured imports grew faster than total imports, as fuel imports stagnated or declined in volume. The situation was very different in countries with sluggish growth and/or severe debt service problems, where in many instances imports declined sharply.

The impact of the recovery on different product groups is also interesting. The most outstanding development was the boom in trade in electronic products, especially computers and related equipment, electronic components (such as semi-conductors and electronic microcircuits) and parts of consumer electronic goods. With the exception of personal computers and video tape recorders, on the other hand, the expansion of trade in finished consumer electronic products (such as television sets and radios) was not particularly strong. Trade in iron and steel continued to be weak, in contrast to other semi-manufactured goods such as non-ferrous metals and wood manufactures. Civil aircraft and passenger cars recorded growth rates above the average for manufactures, after years of depressed sales.

There was little change in trade in textiles and clothing globally, with the major exception of North America; in the United States, clothing imports increased by 17½ per cent in dollar terms, compared with 12 per cent for total manufactures.

Because the United States, the Federal Republic of Germany, the United Kingdom and Canada account for about 75 per cent of the industrial countries' imports of manufactures from developing countries, the recovery in these markets strongly stimulated the exports of manufactures from developing countries. Thus among the developing countries, the principal beneficiaries of the recovery in the industrial countries were those countries for which manufactures are a large part of total exports. Among the industrial countries themselves, only a few recorded high export growth rates (expressed in dollar terms). Canada's exports expanded by 9½ per cent due primarily to the United States recovery, while in Europe, export growth exceeded 10 per cent in Sweden and Ireland.

#### External adjustment in indebted countries

In International Trade 1982/83, it was reported that seven out of sixteen selected indebted developing countries had reduced their merchandise trade deficits or moved into surplus between 1981 and 1982, primarily through a contraction of imports. A similar analysis for 1983, based on the preliminary figures in Chart IV, is now possible for fifteen of those countries.

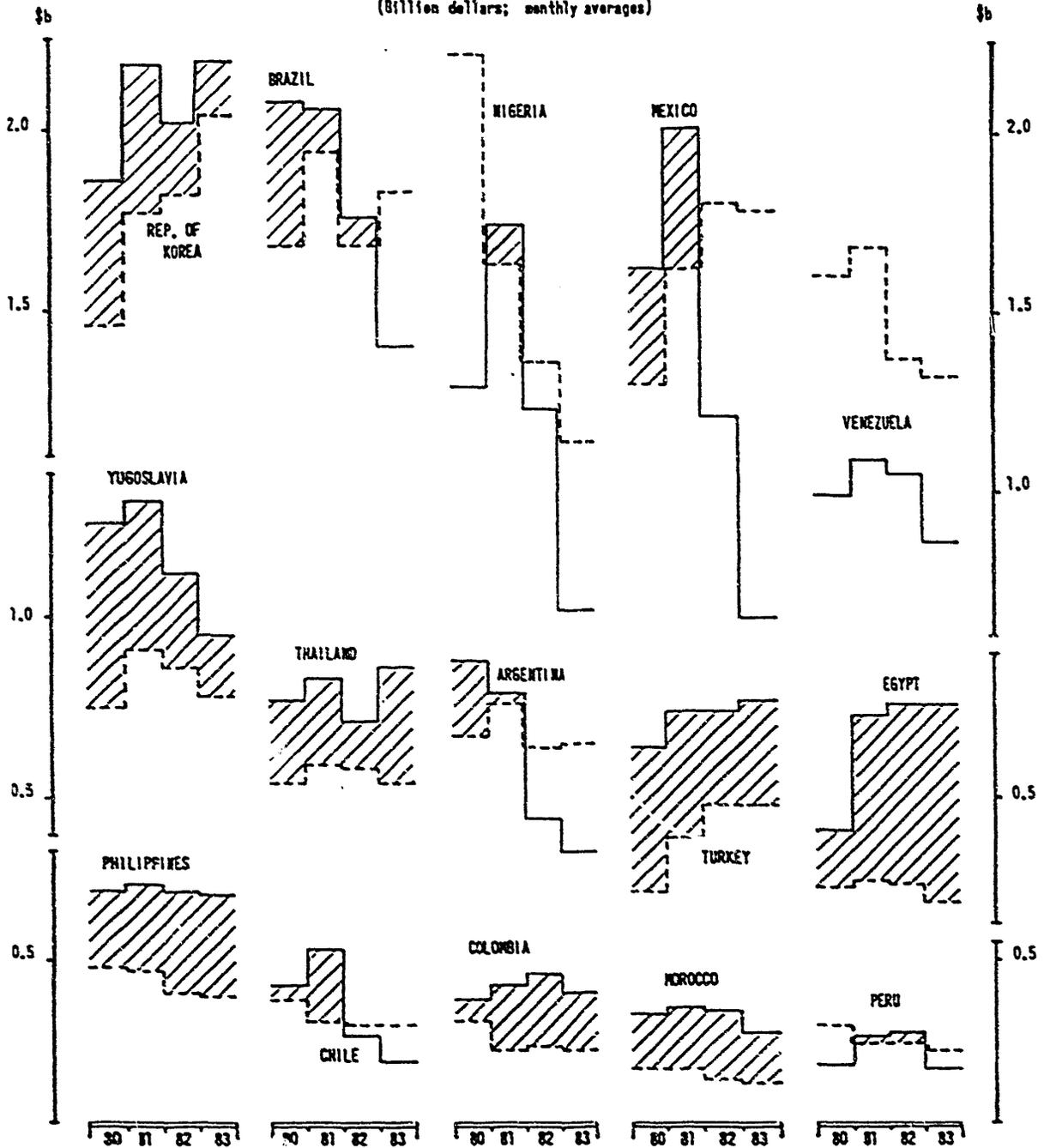
A comparison of monthly average trade balances in 1983 with those for 1982 reveals a number of interesting aspects of last year's balance-of-payments adjustment process in the indebted countries. Eleven of the fifteen countries experienced either a reduced merchandise trade deficit (Colombia, the Republic of Korea, Morocco and Yugoslavia), a move from deficit into surplus (Brazil and Peru), or an increased surplus (Argentina, Chile, Mexico, Nigeria and Venezuela). However, in only two of those countries was there an increase in exports (Brazil and the Republic of Korea), and Korea was the only one of the eleven in which imports increased; in the other countries the move of the trade balance in the desired direction depended on a sharp decline in imports.

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<sup>1</sup>Indonesia is not covered in the current analysis because of a lack of data. Data for all of 1983 are available for seven countries, and at least nine months of data are available for seven others; the figures for Egypt are based on data for six months.

This grouping does not imply that each of the fifteen countries faces a payments problem of equal seriousness, nor even that all of them have a payments problem. However, all but five (Republic of Korea, Venezuela, Philippines, Thailand and Egypt) have been reported as having formally rescheduled debt in the last three years (IBRD, World Debt Tables - 1983-84 Edition, p.xviii). In four of those countries (Argentina, Brazil, Chile and Mexico) over 45 per cent of merchandise exports were used in interest payments (net) in 1982, while the corresponding share in Nigeria and Venezuela was less than 10 per cent.

Chart IV - MERCHANDISE TRADE DEVELOPMENTS IN FIFTEEN UNDERDEVELOPING COUNTRIES, 1960 - 1983<sup>a</sup>  
(Billion dollars; monthly averages)



<sup>a</sup> 1983 data are provisional. They are based on estimates for the whole year or available months.

— Imports, c.i.f.	- - - Exports f.o.b.
▨ Trade deficit	□ Trade surplus

Sources: IMF, International Financial Statistics; and national statistics.

In three of the countries, there was little change in the deficit in 1983 (Egypt, the Philippines and Turkey), while a sharp rise in imports was the main cause of the big increase in Thailand's deficit.

In addition to the continued heavy reliance of the adjustment process on import contraction, the other striking feature of Chart IV is the previously mentioned point that only two of the fifteen countries reported an increase in the value of merchandise exports in 1983 (it should be added that there was a strong expansion of Mexico's non-petroleum exports, which represent about one-quarter of total exports, but it was not sufficient to offset the decline in petroleum exports).<sup>1</sup> Thus, with the limited exception of certain countries for which manufactures are an important part of total exports, the recovery in the industrial countries has yet to have a significant impact on the trade of the more heavily indebted developing countries.

#### Developments in industrial countries' exports

Among the major industrial countries, the one most affected by the 16 per cent decline in the dollar value of imports into the traditional oil-exporting developing countries was the United States, while below average declines in exports to the oil producers were recorded by the EC and Japan. Japan's exports to the fifteen indebted countries shown in Chart IV (which includes two traditional oil-exporters - Nigeria and Venezuela) declined less in 1983 than those of the other major industrial areas. While the dollar value of total imports into this group is estimated to have declined by around 20 per cent, their imports from Japan are estimated to have decreased between 5 and 10 per cent. This can be partly explained, however, by the fact that Japan is a traditionally large supplier of the Republic of Korea and Thailand, each of whose imports increased sharply in 1983. Exports of the United States and the EC, on the other hand, were particularly affected by the decline in imports into the heavily indebted developing countries.

Altogether, declining exports to the indebted developing countries in Chart IV and to the traditional oil-exporting developing countries were equivalent to about two-thirds of the United States' export decline in 1983 and to about 60 per cent of the decline in the dollar value of the European Communities' merchandise exports. In the case of Japan, depressed sales to these two groups of developing countries caused export growth to be smaller than it otherwise would have been.

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<sup>1</sup>Trade developments play a crucial role in the external adjustment process but it should be stressed that in certain countries there are other important sources of foreign exchange (e.g. migrants' remittances and tourism receipts). Trends in trade are therefore not the only factor to be considered in assessing external adjustment.

OUTLOOK

Considering both the current forecasts for the growth of GNP in the main countries and the fact that the recovery is entering a more mature phase, it seems likely that the volume of world trade in 1984 will be between 5 and 6 per cent above the 1983 level.<sup>1</sup>

Turning to the challenges confronting policy makers, it is apparent that the resumption of growth in a number of industrial countries and some developing countries has improved the economic outlook, but only to a degree. Unemployment continues to be a major concern in Western Europe and throughout the developing world. The analysis in Part II, which revealed the continued reliance on import contraction to "improve" the payments positions of the more heavily indebted developing countries, makes it clear that a satisfactory resolution of the debt crisis is still to be found. The demand for borrowed capital remains strong relative to available savings, helping to keep interest rates high. And on the inflation front - the source of much of the good news in the past three years - there is as yet no clear evidence of a permanent victory in the fight against inflation in the major industrial countries.

The point of these remarks is not to detract from the gains of the past year or so, but rather to note that durable solutions have yet to be found for two of the fundamental economic problems of the early 1980s - the need for an orderly resolution of the debt crisis, and the need for a return to sustained non-inflationary growth in the world economy (including a resumption of the development process throughout the developing countries). The policy challenges presented by these two problems, which merge into one to the extent that the solution to the debt crisis lies in a resumption of economic growth worldwide, will be considered in detail in International Trade 1983/84.

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<sup>1</sup> Although a 5 or 6 per cent gain in 1984 would be well above the 2 per cent gain in 1983 over 1982, this outlook actually assumes that trade will grow at a moderate rate in 1984. The explanation lies in the fact that the figure for 1983 as a whole is relatively small because most of the growth in trade occurred in the second half of the year, when world exports were running 5 per cent ahead of the year earlier level.