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RECENT TRENDS IN WORLD TRADE

Note by the Secretariat

The note on recent trends in world trade, which appeared as an annex to document CG.18/W/1, circulated at the first meeting of the Consultative Group of Eighteen, described the situation with respect to international economy and trade on the basis of data available in mid-October 1975. The present note attempts to highlight the most important developments in more recent months and to give first estimates of movements in world trade during the year 1975 as a whole.

In the last quarter of 1975, the upturn of demand and production which in the United States and Japan had started during the second quarter became noticeable also in Western Europe. The decline of industrial production was reversed in the major European countries, with the exception of Italy and several smaller European countries. The gradual upswing in domestic demand, in the United States in particular, mainly reflected the cessation of destocking, together with some recovery of private consumption expenditure. Fixed investment, which had been the most severely affected category of demand during the recession, continued to decline in real terms. In the developing countries agricultural production recovered in 1975, but data on industrial production (which had begun to decline later than in developed countries) is still too sketchy to permit any appreciation of overall production trends in the latter months of 1975. Unemployment was much higher in 1975 than in previous cyclical downturns of the post-war period, and the degree of capacity utilization fell to an unprecedentedly low level. Even in the countries where production began to increase in the second half of the year, only a gradual recovery is in prospect and the social and economic problems related to the underutilization of both the labour force and production capacity remain a major preoccupation at the beginning of 1976.

World inflation tended to ease somewhat during the second half of 1975, but in general remained considerably higher than in 1973. For industrial countries as a whole the rate of increase of consumer prices, which had reached a peak in the last quarter of 1974, declined in the course of 1975, but was still running at 9 per cent in the fourth quarter. In the developing countries, although the rate of inflation of consumer prices in the last quarter of 1974 was more than double that of industrial

areas, the easing of inflationary pressure in 1975 was only moderate and during the third quarter consumer prices were still rising at a rate of more than 25 per cent (over the corresponding period of the previous year).

In the first half of 1975 the volume of world trade was about 10 per cent below the level of the preceding half-year. Some growth was achieved in the second half of 1975, but for the year as a whole world trade volume was about 6 per cent lower than in 1974. In the whole post-war period there was only one previous decline in the volume of trade, in 1958 (by 1 per cent). World export prices, which had increased by 40 per cent in 1974, are estimated to have risen by 10 per cent in dollar terms in 1975.[1] This rise resulted from the increase in world export prices of manufactures during the first half of the year and the increase in prices of petroleum in the last quarter. World export prices of primary products (other than petroleum), which had fallen in the first half of 1975, levelled off thereafter, and for the year as a whole averaged slightly less than in 1974. The value of world trade is estimated to have reached about $875 billion in 1975, roughly 4 per cent more than in 1974.

Industrial countries

(i) Movements in industrial production

For industrial countries taken together, industrial production had declined continuously from the second quarter of 1974 to the second quarter of 1975, when it fell below its pre-boom level of early 1972. Though the downward movement was reversed during the second half of the year, for 1975 as a whole it was about 8 per cent less than in 1974.

The changes in the sectoral pattern of production which had been noticeable during the preceding fifteen years had continued during the boom[2], but were less evident during the recession. For instance, between the second quarter of 1974

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[1] In 1974 as well as in 1975 the rises in world export prices expressed in dollar terms for each year as a whole were not significantly affected by changes in the exchange rate of the United States dollar. In both 1974 and 1975 the effective exchange rate of the dollar changed only by about 1 per cent as compared with the previous year, although there were wider fluctuations within the year.

[2] For industrial countries as a whole, between the first quarter of 1972 and the second quarter of 1974, when production had reached its peak, output of textiles, clothing and footwear rose by only 4 per cent, as compared with 25 per cent in the case of machinery and nearly 20 per cent in chemicals.

and the second quarter of 1975, the decline in production of textiles, clothing and footwear, of 13 per cent, was about the same as in the dynamic branches of machinery and chemicals. This can partly be explained by short-term developments on the demand side, private consumption expenditure having been affected less than investment in the recession.

(ii) Movements in the volume and value of foreign trade

In the first half of 1975, the volume of imports into industrial countries declined much more steeply than the volume of their exports. An important contributory factor to the sharper than anticipated fall in the volume of imports during the first half of 1975 was the pronounced downward adjustment of stocks, especially those of raw materials and semi-manufactures. The decline in the volume of exports had been cushioned by the sustained strong demand of developing countries and the Eastern trading area.

In the gradual upturn occurring in world trade in the second half of 1975, the revival of imports into industrial countries was, as could be expected, more pronounced than the upturn in their exports. Nonetheless for the year as a whole, the volume of industrial countries' imports declined by nearly 10 per cent, twice as much as the volume of exports.

The dollar value of exports of industrial countries increased by nearly 7 per cent in 1975, while that of imports stagnated.

(iii) Trade account and balance-of-payments developments

The aggregate trade deficit (c.i.f.-f.o.b.) of the industrial countries which had reached $42 billion in 1974, contracted sharply to only $11 billion in 1975. The combined trade deficit of the Southern European countries, which had reached nearly $20 billion in 1974, showed some further increase in 1975.

The marked improvement in the trade position of the industrial countries was almost entirely due to a shift in their trade account with the developing world. As exports to the oil-exporting countries continued to grow rapidly, while imports from them declined, the trade deficit of the industrial countries with the oil exporters diminished from $63 to $42 billion. In trade with the oil-importing developing countries, the industrial countries' export surplus nearly doubled to $20 billion in 1975, a 9 per cent increase in the value of exports being accompanied by a slight decrease in imports.

The trade balance (c.i.f.-f.o.b.) of the United States shifted from a deficit of $9½ billion in 1974 to a surplus of $4½ billion in 1975. In trade with other industrial countries a deficit of $2½ billion in 1974 turned into an export surplus

of $4½ billion; the trade deficit with developing countries declined by more than $7 billion under the combined effect of a decrease in the deficit with the oil-exporting countries (from nearly $12 billion in 1974 to $9 billion in 1975) and a rise in the export surplus with the oil-importing developing countries (from $1½ billion to $6 billion).

In the EEC the overall trade deficit was reduced from $17 billion in 1974 to $1½ billion in 1975, due to the decline by $19 billion in the trade deficit with developing countries. The deficit with the oil-exporting countries diminished from $32 billion in 1974 to $18 billion in 1975 and the export surplus with the oil-importing countries rose from $2 to $7 billion. In the Federal Republic of Germany the overall trade surplus was somewhat smaller in 1975 ($15½ billion) than in 1974 ($20 billion). In all the other EEC member countries except Belgium the trade deficit declined between 1974 and 1975.

Japan's trade deficit was reduced from $6½ billion in 1974 to $1½ billion in 1975. The deficit with developing countries was reduced by about one half to $5.5 billion, largely due to the decline from $16 billion in 1974 to $12 billion in 1975 in the deficit with the oil-exporting developing countries.

Canada's trade deficit increased by $3 billion between 1974 and 1975 and Finland, Norway and Sweden also recorded growing trade deficits, by about $1 billion in each country. Switzerland, however, reduced its trade deficit by more than $2 billion.

As a result of the marked improvement in the balance of trade, the large 1974 current account deficit of the industrial countries had already turned into a surplus in the first half of 1975. During the second half of the year, however, the recovery of imports tended to reduce the surplus on current account of the industrial countries as a whole.

Developing countries[1]

Under the impact of the recession in industrial countries, the export earnings of developing areas as a whole (including the oil-exporting countries) declined by some 6 per cent in 1975 while imports are estimated to have increased by about one fifth. As a result, the combined trade surplus (f.o.b.-c.i.f.) of all developing countries was reduced by nearly $50 billion, to only $15 billion in 1975.

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[1] All data given for developing countries referring to 1975 are only rough estimates, generally based on movements in their trade with developed countries, and should be considered only as indicating orders of magnitude.

This aggregate change conceals, however, important differences between the oil-exporting and the oil-importing developing countries. The export earnings of the oil-exporting countries declined by 8 per cent, the sharp fall in volume being only partly offset by price increases announced at the beginning of the last quarter. Imports continued to grow rapidly, by roughly 60 per cent in value. The combined export surplus of this group of countries, while declining by about one third, amounted to roughly $65 billion in 1975.

Export earnings of the oil-importing developing countries declined by roughly 5 per cent in 1975, essentially as a result of a decrease in the volume of exports. At the same time, these countries experienced a further rise in the average price of their imports. Despite a reduction in the volume of imports, the first experienced since 1958, the combined deficit of the oil-importing developing countries widened further by roughly $10 billion to reach about $45 billion in 1975.

International reserves of those oil-importing developing countries for which data are available had recorded a modest increase in 1974 and appear to have declined only slightly in 1975. This implies that for the second consecutive year their large current account deficit was financed through capital inflow. A problem of growing concern to many developing countries has been that the proportion of external capital inflows directed to investment has been declining relatively to shorter-term capital inflows needed to finance current account deficits.