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WORLD TRADE AND OUTPUT: RECENT DEVELOPMENTS AND CURRENT PROSPECTS

Note by the Secretariat

World trade grew by about 5 per cent in volume terms in 1978, slightly faster than in 1977. Based on preliminary indications, world production¹ again rose by about 4 per cent in 1978. Present estimates for 1979, though highly uncertain, suggest little likelihood of an appreciable increase in either of these rates. What follows is a brief summary of economic trends in 1978 and a tentative assessment for 1979.

When considered by main areas and commodity groups, there were some marked changes between the two years. In 1977, on a year-over-year basis, the dollar prices of exports of manufactures as well as fuels and non-fuel primary products had all risen by about 9-10 per cent; in 1978, however, the rate of price increase for manufactured exports was higher than in 1977 while for both fuels and non-fuel primary products prices were only 2-3 per cent above 1977 levels. Prices of the non-fuel primary products exported by the developing countries fell by 5 per cent in 1978, due mainly to a sharp drop for tropical beverages which had experienced a strong upsurge the year before. More recently commodity prices have shown some recovery. In early March, the dollar commodity price indicator of the Economist was about 20 per cent above a year earlier, the increase being due largely to higher metal prices.²

For the industrial areas, the growth of GDP was³ unchanged in 1978 at about 3½ per cent; relative to 1977, growth was slower in the United States and there were slight gains in most other countries. Nevertheless, the pace of industrial production remained much higher in the United States than in the industrial countries as a group.

¹Excluding services.

²The data published by the Economist are based on spot prices, changes in which are reflected in unit value indices only with a lag of about 3-4 months.

In volume terms, the industrial countries' exports to the oil-importing developing countries accelerated in 1978 and those to the Eastern trading area showed a strong recovery after a decline in 1977. Exports to the oil-exporting developing countries slowed significantly. The volume of imports from the oil-exporting developing countries again declined while those from the oil-importing developing countries rose more rapidly than in 1977. In value terms, the share of the developing countries in the trade of the industrial countries appears to have risen in 1978 for both imports and exports.

The value of the industrial countries' exports increased by nearly 20 per cent in 1978 and that of imports by 15 per cent, the difference being due in good part to an improvement in the terms of trade. This improvement in the trade balance helped to shift the current account of the industrial countries from a deficit of \$8 billion in 1977 to a surplus of about \$25 billion in 1978. As can be seen from Table I, this change was concentrated on higher surpluses in Japan, the Federal Republic of Germany and Italy and a strong shift from deficit to surplus in France; the deficit of the United States rose to about \$14 billion in 1978 from \$11 billion in 1977. Contrary to the conclusions that might appear from data on a year-over-year basis, an examination of quarterly figures (Tables II-IV) indicates that a strong trend toward trade adjustment was already evident in 1978 in both the United States and Japan. The volume of United States exports, stagnant in 1977, showed considerable acceleration over the course of 1978 and import volume has slowed since 1976. The growth trend for Japanese exports, measured either in yen or in volume terms, has been steadily downward since mid-1976, becoming negative in the second quarter of 1978. Because of the appreciating yen, however, the rate of increase of the dollar value of exports did not slow until early 1979. In addition, the growth of Japanese import volume showed a sharply rising trend in 1978. Though the tendency toward adjustment was less marked in the Federal Republic of Germany, in 1978 the growth of import volume accelerated to 8 per cent while that of exports remained at 5 per cent.

The current account surplus of the major oil-exporting developing countries fell from \$33 billion in 1977 to \$9 billion, down from \$68 billion in 1974. (See Table V.) The value (and volume) of oil exports declined and import growth was curtailed considerably.

Due largely to a decline in their terms of trade, the current account deficit of the oil-importing developing countries rose by about \$9 billion, reaching \$31 billion. In value terms, exports expanded more slowly in 1978 despite an apparent increase in volume growth. While import growth picked up in value terms, this was mainly due to a more pronounced rise in the dollar unit value of imports. Available projections of 1979 current account balances have been upset by the recent increase in the price of petroleum; it seems likely, however, that a major shift in 1979 will be an expansion of

the deficit of the oil-importing developing countries and a higher surplus for the oil-exporting developing countries.

In 1979, little change is projected for real GNP growth in the industrial countries as a group. Expansion will probably be weaker in the second half of the year due to a slowdown forecast for the United States. The pace of domestic demand is expected to gain further strength in the Federal Republic of Germany and to remain relatively high in Japan. These relative demand shifts should help reduce the large payments imbalances of these three countries. A resurgence of inflation is already apparent in the United States and is predicted for the United Kingdom as well; for the industrial countries as a group, a further reduction of inflation seems unlikely.

Present indications suggest that in 1979 the volume growth of world trade will not be much larger than in 1978, though the prospects for imports into the major areas are at the moment highly uncertain. Current account deficits in the oil-importing developing countries and the Eastern trading area would argue against acceleration of import growth. Reduced GNP and import growth have been predicted for the United States but have been slow in materializing, which does not mitigate fears of a later recession.

Table I - Current Account Balances (excluding official transfers)
(million dollars, not seasonably adjusted)

	United States	Japan	Germany	France	Italy	United Kingdom
1977 I	-1,329	928	1,817	-1,264	-688	-362
II	-1,360	2,294	2,162	-101	718	-40
III	-4,075	3,281	-784	-912	2,772	1,552
IV	-4,330	4,605	4,854	389	1,198	1,376
1978 I	-5,253	4,009	3,131	276	973	249
II	-1,592	4,673	3,341	2,309	2,087	1,232
III	-5,236	5,164	143	(900)	(3,800)	797
IV	(-2,000)	(2,930)	(5,127)	(500)	(1,500)	(1,100)

() estimate.

Table II - United States: Exports, Imports and Industrial Production
(Year to year percentage changes)

	Exports		Imports		Industrial Production
	US\$	Volume	US\$	Volume	Volume
1976 I	1.0	0.6	11.9	12.5	12.5
II	11.6	9.2	28.9	28.5	13.3
III	9.2	4.1	33.0	26.1	8.6
IV	7.0	0.7	27.9	20.5	6.6
1977 I	8.5	1.9	28.7	18.7	4.9
II	7.2	0.3	25.5	18.4	5.9
III	6.5	0.9	16.8	8.5	5.8
IV	0.3	-3.6	16.7	5.5	5.9
1978 I	4.4	-0.5	14.2	7.3	4.5
II	16.5	10.0	15.8	4.9	5.0
III	21.2	10.8	16.8	8.2	6.1
IV	31.7	20.6	18.1	11.7	7.4

Table III - Japan: Exports, Imports and Industrial Production
(Year to year percentage changes)

	Exports			Imports			Industrial production
	US\$	Yen	Volume	US\$	Yen	Volume	Volume
1976 I	9.3	12.4	16.9	2.0	4.7	2.7	9.2
II	19.9	23.2	26.1	10.4	13.6	9.7	11.4
III	27.0	25.1	26.9	17.6	15.8	11.8	11.6
IV	25.0	20.7	18.7	15.5	11.6	9.1	12.1
1977 I	23.3	16.8	15.2	16.8	10.8	11.2	8.1
II	19.8	10.5	9.0	12.0	3.5	3.8	4.5
III	17.9	7.6	7.6	5.4	-3.9	-1.3	2.1
IV	18.7	1.4	6.9	4.1	-10.9	-0.3	2.1
1978 I	23.4	2.9	7.7	5.0	-12.5	0.9	4.2
II	20.9	-2.2	-2.7	7.7	-12.8	5.2	6.1
III	23.2	-9.6	-3.8	13.1	-17.1	7.4	6.7
IV	18.1	-10.3	-4.8	21.7	-7.9	11.8	7.6
1979 Jan.	7.3	-12.6	-9.7	25.3	2.0	13.2	7.0

Table IV - Germany: Exports, Imports and Industrial Production
(Year to year percentage changes)

	Exports			Imports			Industrial production	
	US\$	Deutsche Mark	Volume	US\$	Deutsche Mark	Volume	Volume	
1976	I	4.5	15.0	14.4	12.1	23.3	19.3	5.3
	II	4.0	12.9	11.7	9.5	18.9	14.3	8.9
	III	21.1	20.2	16.6	24.5	23.5	16.6	8.7
	IV	24.3	15.4	11.9	26.3	17.1	16.1	6.3
1977	I	18.0	10.0	6.4	19.3	11.1	8.1	5.0
	II	17.1	8.1	5.7	14.6	5.9	2.1	1.9
	III	12.3	2.5	2.2	13.8	3.8	4.3	1.6
	IV	15.1	6.1	5.3	11.9	3.2	3.2	1.8
1978	I	16.7	1.0	2.7	17.3	1.5	4.8	0.5
	II	20.5	5.9	7.3	20.0	5.5	12.4	1.6
	III	20.2	4.3	5.4	17.4	2.1	5.7	4.2
	IV	24.1	4.7	4.9	25.0	5.4	9.6	4.6

Table V - Developing Countries: Current Account Balances^{1/}, 1973-1979

(US\$ billions)

	1973	1974	1975	1976	1977	1978
Major oil-exporters	6.6	67.8	34.9	40.3	33.2	9.0
Non-oil developing countries						
Total	-11.3	-30.3	-38.2	-25.7	-21.8	-31.0
Africa	-1.8	-2.4	-5.9	-5.8	-6.6	-8.4
Asia	-2.4	-8.7	-7.4	-1.8	-1.6	-5.2
Latin America	-4.7	-13.4	-16.4	-11.6	-8.3	-11.6
Middle East	-2.4	-5.7	-8.5	-6.5	-5.3	-5.8

^{1/} Goods, services and private transfers.

Source: IMF