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## World trade on a recessive course

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## World Trade on a Recessive Course

In line with the weakening of economic activity in the industrialized countries international trade has been on a clearly recessive course for about a year. In the average of the year 1980 the real volume of foreign trade rose by an estimated 1 % but only because of the high backlog at the beginning of the year and a – partly speculative – expansion during the first few months. In the second half of the year, to go by the available data, the trade volume lagged increasingly behind the previous year's figures. There are however still large information gaps particularly about the OPEC and other developing countries.

In nominal – US dollar – terms world trade was almost one-quarter larger than in 1979. The average prices were still rising more than in the previous year – by about 22 % compared with 18 %. This reflects the steeper rise of crude oil prices – for OPEC oil on average by 68 % against 44 % in 1979. The price rise for other raw materials and industrial products slowed distinctly compared with the previous year (see Table 1). The weakness of the demand in the industrialized countries was not the least important cause of the marked flattening of the curve of the world

trade prices in the course of the past year. In the final months the world market prices as expressed in US currency were also depressed by the strength of the dollar rate.

### Industrialized Countries' Deficits Easing

The price changes for the various categories of goods brought about a shift in the terms of trade during the past year to the detriment of the industrialized and oil-importing developing countries. In the second half of 1980, however, the latter alone suffered further losses while the industrialized countries by and large held their position.

Owing to the worsening of the terms of trade, the aggregate trade deficit of the industrialized countries, which had risen by more than US \$ 60 bn in 1979, increased in 1980 by another US \$ 45 bn. The trade balances weakened most in Italy and France but there was also a marked deterioration in this respect in the Federal Republic of Germany, Switzerland and Belgium (see Table 2). Great Britain in contrast recorded a greatly reduced trade deficit because the volume of imports declined substantially due to the severe recession and Great Britain is now self-sufficient in oil.

**Table 1**  
**World Trade Prices and Terms of Trade<sup>1</sup>**

	1978	1979	1980 <sup>2</sup>	1980		
	Annual average			2nd qu. <sup>2</sup>	3rd qu. <sup>2</sup>	4th qu. <sup>2</sup>
	Year-on-year change (in %)					
World trade prices						
World exports, total <sup>5</sup>	10	20	22	25	20	15
Industrial products <sup>3</sup>	15	14	11	13	12	10
Oil	0	44	68	81	60	41
Other raw materials <sup>4</sup>	-7	22	14	13	11	8
Terms of trade <sup>5</sup>						
Industrialized countries	101	98	91	90	91	91
Oil exporting countries <sup>6</sup>	95	118	174	176	177	182
Other developing countries <sup>7</sup>	108	106	(99)	(99)	(97)	(97)

<sup>1</sup>On dollar basis; –<sup>2</sup>Partly estimated; –<sup>3</sup>Average figures; –<sup>4</sup>HWWA Index: total without energy materials; –<sup>5</sup>Average of export prices in relation to average of import prices; –<sup>6</sup>Export prices of oil in relation to average of prices of exports from industrialized countries; –<sup>7</sup>1980 figures estimated.

Sources: IMF, International Financial Statistics; UN, Monthly Bulletin; HWWA.

**Table 2**  
**Balances of Trade<sup>1</sup> of the Industrialized Countries**  
(in US \$ bn)

	1977	1978	1979	1980 <sup>a</sup>
Industrialized countries <sup>2</sup> , total	-66.9	-4.5	-106.6	-152.0
of which:				
USA	-36.3	-39.4	-37.1	-32.3
Japan	+9.7	+18.4	-7.5	-10.8
Austria	-4.7	-3.8	-4.8	-6.6
Belgium	-2.9	-3.7	-4.2	-7.5
Denmark	-3.2	-2.9	-3.7	-3.6
Finland	+0.1	+0.7	-0.2	-1.5
France	-5.5	-2.4	-6.3	-19.3
FR Germany	+16.6	+20.7	+12.2	+4.9
Great Britain	-6.3	-6.9	-11.9	-5.8
Italy	-2.8	-0.4	-5.7	-22.6
Netherlands	-2.2	-3.7	-4.5	-4.1
Sweden	-1.1	+1.2	+1.1	-2.9
Switzerland	-0.3	-0.2	-2.8	-7.0

<sup>1</sup>Exports fob, imports cif; –<sup>2</sup>Western Europe, USA, Japan, Canada; –<sup>a</sup>Partly estimated.

Source: IMF, International Financial Statistics; supplemented by own estimates.

In line with the trend of the terms of trade the – seasonally adjusted – aggregate trade deficit of the industrialized countries was largest in the first quarter of 1980. Later it shrank in emulation of the strong trend improvement in the USA and Japan. In Western Europe a significant improvement of the balance of trade seems to have occurred only late in the year.

### The Outlook

For the time being the development of international trade will be overshadowed by the cyclical downturn in the industrialized countries. The continuing decline of demand and production will show up clearly in the foreign trade figures even though they will probably from now on recede more slowly than during the early recessive phase which was dominated by inventory cutbacks. The international exchange of goods – and Japan's export trade in particular – is likely to be impeded in various areas by protectionist measures. The overall effect of such measures will however probably be insignificant compared with the cyclical factors.

Uncertainties about the economic trend in the world beyond the next months add to the hazards of international trade forecasts. The factors making for a cyclical improvement in the industrialized countries before the end of this year seem however to carry more weight than other influences. International trade may therefore be expected to pick up in the second half of 1981; inventory cyclical effects will again play a part in this. The expansion will be sustained by a further rise of imports into the OPEC countries as well as the impulses from the industrialized countries. The OPEC current account surpluses as a whole will however decline only slowly, not least because the war between Iraq and Iran has caused a shift in oil exports and revenues away from these two countries which have a relatively high absorptive capacity for imports.

**Table 3**  
**World Trade Indicators**

	1972-76 <sup>a</sup>	1977	1978	1979	1980 <sup>b</sup>	1981 <sup>c</sup>
World trade in US\$ bn <sup>1</sup>	–	1046	1211	1526	1870	1980
Year-on-year change (in %)						
Value	23	14	16	26	23	6
Prices <sup>2</sup>	16	9	9	18	22	8
Volume <sup>3</sup>	6	4	5	6	1	-2

<sup>a</sup>Annual average; – <sup>b</sup>Partly estimated; – <sup>c</sup>Forecast; – <sup>1</sup>Average of exports and imports excl. trade between state trading countries; – <sup>2</sup>Average on dollar basis; – <sup>3</sup>Value adjusted for price and exchange rate variations.  
S o u r c e : Calculations on the basis of UN and IMF data, own estimates.

### Non-Oil Developing Countries

Predictions about the demand for imported goods from other developing countries are difficult. Their balances of payments reveal very heavy current account deficits which may well be made worse by a further deterioration of their terms of trade. Together with the increasingly problematical debt position of these countries in the financial markets, this suggests that they will have to curtail their imports. Such fears however have in the past always been found to be at least premature. As the difficulties have not yet become acute, it does not seem too optimistic to assume that the real imports of the developing countries will not yet decline in 1981 – although there will be great differences between individual countries. The outlook for the state trading countries is similar, the more so as some of them have made notable progress in reducing their external deficits during the last few years.

All in all, there are thus chances for a revival of world trade in the second half of this year. Following on a decline, it will however certainly fail to raise the overall figures for 1981 to the level of the preceding year; according to our calculations the decline compared with 1980 will in real terms work out at about 2 % (see Table 3).

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