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World Trade Increasing at a Modest Pace

The recovery of demand in the majority of industrialised countries which began at the start of this year has also stimulated world trade. While the first quarter of 1983 still saw a stagnation in volume as a result of delayed oil imports in anticipation of price reductions, thereafter expansionary forces gained the upper hand. The stimuli provided by the industrialised countries markedly outweighed the retarding influences from oil-exporting and other developing countries. However, due to the low level at the start of the year, in real terms world trade during the first half of 1983 was still well over 2 % down on the level for this period last year.

In dollar terms the foreign trade figures were still considerably below the previous year's level. Averages were easily 5 % down on the figures a year ago. This trend has even increased during the course of this year due to the appreciation of the US-dollar. Even calculated in terms of special drawing rights – which says more about the price development proper – the averages were still almost 2 % lower than those of last year. This decrease reflects the drop in world market prices for crude oil. With demand growing, prices for other raw materials and world market prices for semi-manufactures and manufactures – measured in terms of export averages – hardly changed.

There has been a clear containment of inflation for industrial products. This is not least a result of tougher international competition. Primarily due to the

development of exchange rates the price relations have shifted further at the expense of suppliers from the USA. Thus during the first six months of 1983 the average values of exports of semi-manufactures and manufactures (on a dollar basis) in the USA were 25 % up on the levels three years ago, whereas during the same period they had hardly changed in Japan and had fallen on average by 15 % in Western Europe.

Although comparability is limited due to the different ranges of export products and markets, these divergences are a clear indication of substantial shifts in competitiveness.

The spring drop in oil prices contributed to an improvement in the terms of trade of the oil-importing countries. The improvement was particularly marked for developing countries as these countries are exporting primarily raw materials for which prices were rising again. As, in addition, imports have in many cases been cut back even further, the combined trade deficit for this group of countries showed another substantial decrease in the current year; with inflows of private capital running dry their balance-of-payments situation, however, remained precarious. The combined balance-of-trade deficit has also decreased in the industrialised countries, although marked differences have emerged between individual countries in this group, reflecting the differing state of the business cycle. The deficit in the USA has increased considerably and there has also been an increase in the United Kingdom. France and

Table 1
Prices and Price Relationships in World Trade¹

	1980	1981	1982	1982				1983	
				Q1	Q2	Q3	Q4	Q1	Q2 ²
World Trade Prices									
	Change over previous year in %								
Total world exports ³	19	-1	-4	-5	-3	-3	-6	-5	-6
Industrial Products ³	10	-5	-3	-3	1	-1	-7	-3	-4
Oil ⁴	67	12	-3	-3	-3	-3	-3	-8	-15
Other raw materials ⁵	14	-14	-13	-16	-12	-13	-13	-8	1
1980 = 100									
Terms of Trade ^{6,7}									
Industrialised countries	100	98	101	100	102	100	101	102	103
Oil-exporting countries	100	117	117	115	116	120	120	110	103
Other developing countries ²	100	93	91	90	91	90	91	92	97

¹ On a dollar basis; annual and quarterly averages. ² Partially estimated. ³ Average value. ⁴ Export prices of the OPEC countries. ⁵ HWWA Index, total excluding energy raw materials. ⁶ Average values of exports compared to average values of imports. ⁷ New series.

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

Table 2
The Development of World Trade

	1975-79 ^a	1981	1982	1983 ^b	1984 ^b
World trade in US \$ billion ¹	—	1873	1737	1680	1750
Growth over previous year, in %					
Value	15	-1	-7	-3	4
Unit value index ²	10	-2	-5	-4	0
Volume ³	5	0	-2	1	4
of which					
Industrial products ⁴	7	2	-2	1	4

^a Annual average. ^b Estimate.

¹ Average exports/imports, excl. trade between state-trading countries.

² Average values on a dollar basis. ³ Value adjusted for changes in prices and exchange rates. ⁴ Only exports of major industrialised countries.

Sources: Calculated from UN and IMF data; own estimates.

Italy, on the other hand, currently experiencing a period of stagnation or recession, respectively, are marked by a trend towards decreasing deficits. The most obvious improvement in the trade balance, however, occurred in Japan, at present the only country whose economic recovery is being propelled by its exports.

During the course of 1983 world trade will continue to be stimulated by the increase in demand in industrialised countries, particularly in the USA and to a lesser extent in the Western European countries. However, in line with the general economic trend, the recovery in world trade will remain weaker than at the start of earlier cycles. In any case, there are no signs indicating that the improvement in the overall economic climate will be so great as to warrant expectations of pronounced stockbuilding in industrialised countries, which would represent a stimulus especially to foreign trade. Finally, the sorry state of the balance of payments in developing countries means that a recovery of

imports is unlikely in the near future in this group of countries.

The stabilisation and readjustment successes achieved in major industrialised countries together with the subsequent easing-up of economic policies would support expectations of a continued albeit restrained upward economic trend well into the coming year. However, there are still no signs of a marked improvement in the framework conditions – such as a noticeable reduction in real interest rates – which could support an economic upswing. Imports by industrialised countries can therefore be expected to increase at a relatively modest pace in 1984, too. At the same time, it is doubtful whether the debt crisis facing many developing countries can be defused in such a way as to enable a recovery worth mentioning of the imports of these countries. As in the majority of oil-exporting countries, the further consolidation of the balance-of-payments position is likely to have priority. The industrialised countries' growing inclination to resort to protectionist import barriers also has an adverse effect on the situation.

On the whole, the increase in world trade can be expected to continue at a modest pace in the further course of 1983 and beyond. However, there will only be a very slight average increase for 1983 as a whole due to the substantial negative overhang at the beginning of the year. The average for 1984 – without such a handicap – is expected to be somewhat higher: almost 4 %. Yet even this growth rate is not quite half as high as the long-term average up to the beginning of the seventies. Too much hope should not therefore be pinned on the dynamism of world trade with regard to overcoming the weakness of economic growth.

Compiled by the Department of World Business Trends of the HWWA-Institut für Wirtschaftsforschung-Hamburg.

HWWA Index of World Market Prices of Raw Materials¹ (1975=100)

Raw Materials and Groups of Materials	1982		1983					
	AA ²	August	May	June	July	August	Sept. 2	Sept. 16
Total index	228.6	225.8	204.0	204.0	204.8	205.8	206.4	205.9
Total, excl. energy raw materials	117.9	113.4	122.2	122.7	124.2	127.4	129.2	127.8
Food, tropical beverages	106.1	99.7	113.6	115.2	116.3	124.0	127.9	125.0
Industrial raw materials	126.4	123.8	128.8	128.4	130.3	129.9	130.3	129.9
Agricultural raw materials	127.1	123.9	124.6	125.8	130.3	130.3	130.1	131.4
Non-ferrous metals	134.9	131.8	152.5	150.4	150.4	149.3	149.2	145.5
Energy raw materials	293.4	291.5	251.7	251.4	251.8	251.6	251.5	251.6

¹ On dollar basis. ² Annual Average. For the method of computation of the HWWA Index cf. INTERECONOMICS No. 5, 1980, p. 261 ff.