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Moderate Expansion of World Trade

World trade expanded at no more than a moderate pace in 1985; on an annual average its volume was probably a good 3 % up on the previous year's level. This restrained expansion primarily reflected the easy pace of overall economic expansion in the industrialised countries after the upswing in the USA had already begun to flag towards the end of 1984. The imports of oil-importing developing countries, too, increased again more slowly in 1985 than during the previous year: it became more difficult to finance the – again growing – deficits on current account. The oil-exporting countries substantially reduced their imports for the third year running as their exports continued to fall; the export earnings of the OPEC countries in 1985 were only just over half the 1980 figure.

In dollar terms, nominal world trade in 1985 was a good 1 % up on the level recorded in the previous year. The average values calculated in the same currency fell by about 2 %. This resulted primarily from the cyclically induced drop in the world market prices of raw materials and oil. The prices of industrial products, on the other hand, calculated in terms of averages on a dollar basis, were almost as high on an annual average as in the previous year. During the course of the year, however, there was a markedly pronounced increase. This was mainly due to the change in the exchange rate of the dollar, which, for example, depreciated by roughly 20 % against the yen and the European Currency Unit (ECU) between the first and the final quarter of 1985. On a dollar basis the average values for exports of industrial

products in the final quarter were probably about 15 % higher than in the first quarter; calculated in special drawing rights the increase was only 3 %.

This course of events was the result of a very differentiated development of export prices corresponding to the shift in exchange rate relations. In the USA, for example, the average values for exports even fell slightly. In Japan, on the other hand, the average export prices on a dollar basis during the fourth quarter were about 15 % higher and in the Western European economies between 20 and 25 % higher than during the first quarter. Besides, the prices on the North American market had apparently only been raised to a relatively slight extent, since the exporters were keen on asserting the market positions they had secured during recent years. The particularly marked increase of export prices in Western Europe is – in view of the predominant role of foreign trade within this area – to a large degree an arithmetical phenomenon. Nevertheless, a considerable deterioration of the competitive position has resulted vis-à-vis competitors from the dollar area. This has lasted beyond the turn of the year. In the USA, on the other hand, the average prices of industrial products on a dollar basis at the beginning of 1985 were a quarter higher than in 1980 – the year in which the surge of the dollar began – whereas in Western Europe they were a third down and in Japan a tenth down on the 1980 level.

The sharp drop in oil prices and the devaluation of the dollar, which has continued during the first months of this

The Development of World Trade

	1977-81 ^a	1982	1983	1984	1985 ^b	1986 ^c
World trade in US \$ billion ¹	x	1755	1702	1805	1830	1940
Growth over previous year, in %						
Value	16	-7	-3	6	1	6
Price level ²	11	-4	-5	-2	-2	2
Volume ³	4	-2	2	9	3	4
of which:						
industrial products ⁴	5	-3	4	11	4	5
Imports by country groups						
Industrialised countries	2	-1	4	12	5	6
Oil-exporting countries	11	-1	-12	-9	-7	-10
Other developing countries	6	-6	-1	5	3	3

^a Annual average. ^b Partly estimated. ^c Estimated. 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 IMF and UN data; own estimates.

ECONOMIC TRENDS

year, have changed major key data for world trade. On the one hand, the shift in the terms of trade induced by oil price changes leads to a massive redistribution of real income between oil-exporting and oil-importing countries as well as to accompanying dynamic processes in which the expansionary stimuli to demand in the case of the "winners" will probably be markedly stronger than the contractionary impulses in the case of the "losers" of this development. On the other hand, the continuing depreciation of the dollar against the currencies of most other industrialised countries has induced a shift in the competitive position in favour of US suppliers, particularly since the possibilities for their competitors to counteract this development by reducing their profit margins are more and more limited. On the whole, therefore, the effects of the slump in oil prices and the devaluation of the dollar will markedly overlap the cyclical tendencies induced by economic policy.

Particularly in Western Europe a heavy increase in imports can be expected as a result of the interaction of "endogenous" expansionary forces, the demand stimuli induced by lower oil prices and the boost to imports caused by the substantial appreciation of most Western European currencies. The recovery in Japan, on the other hand, will probably be less pronounced, since the import elasticity is markedly lower and the dampening effects of the currency appreciation on the overall business climate are greater due to the considerable significance of the dollar area for exports. In the USA imports will increase at a relatively moderate pace, since the cyclical stimuli will probably be offset by the depreciation-induced improvement of the competitive position.

The foreign trade situation of the developing countries is affected in markedly different ways by the changed key data. Oil-importing developing countries, for example, often experience substantial real income gains; in addition, there is an improvement of their sales prospects in the industrialised countries. Depending on

the respective regional and commodity structure of foreign trade, however, this group of countries is in some cases faced by a deterioration in the terms of trade as a result of the dollar depreciation; at least in the short term this will not be offset by positive quantity effects of this depreciation. Although the drop in interest rates on the international financial markets will provide a certain degree of relief, external consolidation measures are urgently required in a number of countries. All in all, only a very moderate increase in imports can again be expected this year in the oil-importing developing countries. The oil-exporting countries will continue to cut back their imports in the face of the drastic reduction in their export earnings. Among the state-trading countries the Soviet Union in particular will probably be forced to reduce its imports as a result of the substantial drop in foreign exchange earnings from its exports (primarily oil and natural gas) to Western markets.

The retardant influences on world trade emanating from the oil-exporting countries compare with the stimuli primarily emanating from the emerging recovery of imports in Western Europe. The boost to expansionary forces will probably be more significant. The estimated annual average increase in world trade of 4 % in real terms, therefore, will be somewhat greater than in 1985. The considerable shifts in the terms of trade resulting from the decline in the value of the dollar and in the price of oil will lead to a pronounced tendency towards surplus in foreign trade and on the current accounts in Western European economies. The deficit in the USA is, for the time being, unlikely to decrease significantly. On the other hand, there will be a sharp increase in the deficits of oil-exporting countries. Trends in the remaining developing countries will be extremely differentiated; on the whole, a defusing of the debt crisis is not yet in sight.

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	1985				1986			
	AA ²	October	November	December	January	February	28. 2.	14. 3.
Total index	197.3	195.6	196.7	198.5	196.2	177.4 ^P	174.7 ^P	174.6 ^P
Total, excl. energy raw materials	112.5	109.3	112.0	116.6	119.8	119.1	121.5	121.6
Food, tropical beverages	106.9	100.8	105.7	114.2	120.5	117.3	119.9	120.0
Industrial raw materials	116.8	115.8	116.7	118.4	119.2	120.5	122.8	122.9
Agricultural raw materials	112.4	114.3	114.6	117.8	120.1	123.5	125.5	126.9
Non-ferrous metals	131.5	127.2	125.5	128.4	126.9	125.1	127.3	128.4
Energy raw materials	246.7	246.0	246.2	246.4	240.8	211.5 ^P	205.7 ^P	205.5 ^P

¹ On dollar basis. - ² Annual Average. - ^P Provisional (due to incomplete data on oil prices).