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## More rapid expansion of world trade

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economic forecasts are currently marked by particular uncertainty, since there is an unusually large degree of overlapping between the effects of longer-term efforts to improve growth conditions, trenchant external adjustment processes and short-term economic policy effects on demand. However, a great deal would indicate that the upward trend will now generally

continue once again at a more modest pace. Bearing in mind the relatively high utilisation of capacities this would reduce the risk of a marked acceleration of inflation, which would trigger restrictive measures. As against that, the latest stability signals by major central banks are merely aimed at preventing excesses and thus securing the continued economic upswing.

## More Rapid Expansion of World Trade

The marked increase in demand and production in the industrialised countries since the middle of last year also gave world trade a substantial boost. Its estimated average rate of increase of roughly 10 % in real terms on an annualised basis for the second half of 1987 was twice as high as the average increase for 1987 as a whole. The uptrend appears to have continued in early 1988. At the moment, however, it is difficult to reliably measure its momentum, especially since the statistical data on the foreign trade of the EC countries – which account for over two fifths of world trade turnover – are distorted by changes in the data-collecting methods.

The effects of cyclical factors on international trade flows intermingled with the effects of the shift in competitive positions induced by exchange rates. In the first quarter of 1988 real merchandise imports in the USA were only 6 to 7 % higher than one year previously despite the pronounced upswing. The corresponding increase in Japan was 20 % and – taking into

consideration the afore-mentioned statistical uncertainties – averaged probably about 10 % in the Western European economies. On the other hand, merchandise exports in the USA increased at the same time by over 25 %, but only by 2 % in Japan; the increase in Western Europe can be estimated at approximately 7 %. These rates of increase for a very limited period are undoubtedly influenced by chance factors. Nevertheless, the varying developments of imports and exports do reflect the processes of adjustment in the industrialised countries, caused above all by the drastic changes in exchange rates since spring 1985.

Altogether, the Yen appreciated by roughly 100 % against the dollar, and the European currencies – measured in terms of ECU – by roughly 80 %, within the three years up until the first quarter of 1988. This meant that the dollar exchange rates were even lower than at the beginning of the eighties, before its revaluation phase. The far-reaching shifts in exchange rate

The Development of World Trade

	1980-84 <sup>a</sup>	1985	1986	1987 <sup>b</sup>	1988 <sup>c</sup>	1989 <sup>c</sup>
World trade in US \$ billion <sup>1</sup>	x	1845	2010	2350	2650	2850
Growth over previous year, in %						
Value	3	1	9	17	13	7
Price level <sup>2</sup>	1	-2	4	11	7	3
Volume <sup>3</sup>	2	3	4	5	6	4
of which:						
Industrial products <sup>4</sup>	4	5	2	5	6	4
Imports by country groups <sup>3</sup>						
Industrialised countries	3	5	8	6	7	4
Oil-exporting countries	2	-12	-20	-12	0	0
Other developing countries <sup>5</sup>	2	3	1	7	10	7

<sup>a</sup> Annual average. <sup>b</sup> Partly estimated. <sup>c</sup> Forecast. <sup>1</sup> Average exports/imports, excl. trade between state-trading countries. <sup>2</sup> Average values on a dollar basis. <sup>3</sup> Value adjusted for changes in prices and exchange rates. <sup>4</sup> Only exports of industrialised countries. <sup>5</sup> Incl. newly industrialising countries.

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

relations, were, however, only partially reflected in foreign trade prices. In Japan the increase in the average prices for exports of industrial products, measured on a dollar basis, was roughly 40 % higher, and in the Western European economies on average roughly 60 % higher, than in the USA during the three years up until the first quarter of 1988. The higher figure in Western Europe is due to the overwhelming share of the internal exchange of goods, which is only indirectly affected by the dollar depreciation, but which thus reflects its arithmetical effect all the more. The average figures for Western Europe's exports to the rest of the world undoubtedly increased to a much lesser extent.

The varying developments of export prices in the USA and in the other industrialised countries was accompanied by similar tendencies in the shifts of the terms of trade. In the USA during the first quarter of 1988 they were slightly more unfavourable than three years previously, even though the price of imported oil fell drastically during this period. In Japan and in Western Europe, on the other hand, there was a substantial improvement over the same period. The effects of this development of the terms of trade on export and import figures were in their turn a decisive determinant for the fact that there was no visible response to exchange rate changes for a long time by nominal foreign trade balances. The USA's deficit has revealed a declining trend only since last autumn, and the reduction in the high export surpluses in Japan and the Federal Republic of Germany has got under way only hesitantly.

As opposed to previous years, the developing countries will once again contribute towards the increase in world trade. Many raw materials producing countries have slightly more scope for an increase in their imports following a recovery of their exports in the wake of the cyclical increase in the demand for raw

materials and the improvement of their terms of trade as a result of price increases on raw materials markets. The imports of the newly industrialising countries – especially in South-East Asia – will, as in previous years, increase rapidly due to the marked growth of these economies. The oil exporting countries, on the other hand, will hardly be able to increase their imports due to the reduction of their export earnings caused by the continuing pressure on prices on oil markets. Nevertheless, as opposed to previous years no noticeable contractive effects are likely to emanate from this group.

In view of the expected transition to an again slower economic upward trend in the industrialised countries the pace of their foreign trade expansion will also slow down. Above all, less stimuli will probably emanate from the USA, since the retardant effects of dollar depreciation on imports there will become more discernible as cyclical stimuli again decline. At the same time, the imports in Japan and in the Western European economies will continue to benefit from the exchange rate induced shift in competitive positions at the expense of domestic suppliers; the cyclical stimuli, however, will no longer be so pronounced here, too – particularly in Western Europe. On the whole, world trade in real terms will again increase at a slower pace during the further course of this year and next year than in the phase between mid-1987 and spring 1988. Due to the considerable overhang, however, the estimated annual average increase of 6 % in 1988 will still be slightly greater than in the previous year. With the current trend remaining more or less unchanged, a lower increase of roughly 4 % seems likely next year.

*Compiled by the Department of World Business Trends of the Hamburg Institute for Economic Research (HWWA).*

### HWWA Index of World Market Prices of Raw Materials<sup>1</sup> (1975=100)

Raw Materials and Groups of Materials	1987		1988					
	AA <sup>2</sup>	June	March	April	May	June	10. 6.	8. 7.
Total index . . . . .	149.2 <sup>p</sup>	148.5 <sup>p</sup>	142.7 <sup>p</sup>	152.9 <sup>p</sup>	149.2 <sup>p</sup>	148.8 <sup>p</sup>	153.2 <sup>p</sup>	143.1 <sup>p</sup>
Total, excl. energy raw materials . . . .	123.8	121.5	143.9	148.3	149.7	158.2	161.0	156.2
Food, tropical beverages . . . . .	91.2	90.2	100.0	101.2	103.4	116.4	113.0	122.9
Industrial raw materials . . . . .	148.6	145.3	177.4	184.2	185.0	189.9	197.5	181.5
Agricultural raw materials . . . . .	167.1	168.4	189.8	200.6	198.1	198.6	201.0	195.4
Non-ferrous metals . . . . .	150.3	142.1	201.6	205.9	217.2	234.7	256.0	211.9
Energy raw materials . . . . .	164.0 <sup>p</sup>	164.2 <sup>p</sup>	141.9 <sup>p</sup>	155.6 <sup>p</sup>	148.8 <sup>p</sup>	143.3 <sup>p</sup>	148.7 <sup>p</sup>	135.5 <sup>p</sup>

<sup>1</sup> On dollar basis. - <sup>2</sup> Annual Average. - <sup>p</sup> Provisional (due to incomplete data on oil prices).