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Rapid Expansion in World Trade

For two years now world trade has been expanding at a current rate of some 10% in real terms, even somewhat faster than during the world economic upswing at the end of the 80s, although overall demand and production in the industrial countries have risen slightly slower than at that time. Progress in the international division of labour has evidently speeded up. To a major extent, however, the rapid increase in international trade has been the result of the persistently strong economic momentum in the developing countries and especially the newly industrialized countries. Foreign trade in the Central and Eastern European countries has also undergone renewed rapid growth; closer integration into the world economy, and particularly growing linkages with Western Europe, is part of these countries' transformation process.

The forceful expansion in world trade attests to the breadth of the world economic upswing. The foreign trade of the individual countries has also been affected by the aftermath of the exchange rate turmoil in 1992/1993. In Japan, for example, the marked deterioration of competitiveness due to currency appreciation resulted in a rapid expansion of imports despite a poor business climate, with exports recording only sluggish growth. In the Western European economies, in contrast, the cyclical impulses have prevailed.

In 1994, most of the "depreciation countries", Italy, Spain, Sweden and Finland, have recorded even markedly more substantial import growth than the countries whose currencies had risen, Germany, France, Belgium and the Netherlands. A similar gap has, however, opened in exports; over the last two

years nearly all the countries whose currencies had depreciated have made considerable gains in market shares abroad.

Most of the renewed tangible shifts in exchange rate relations this spring were in the same direction as in 1992/1993. In many industrialized countries this has meant pronounced changes in relative unit labour costs within three years. A measure of this is the real external value of currencies calculated by the International Monetary Fund on this basis. It put the yen 46% higher than in the first half of 1992. The D-mark appreciated in real terms during the same period by 21% and the Swiss franc by 15%. For the currencies of France, Belgium, Denmark and the Netherlands the range was between 8 and 11%. On the other hand, the Italian and Swedish currencies depreciated in real terms by 37% and 33%, respectively, and those of Finland, the United Kingdom and Spain by rates between 10 and 20%. Although adjustment to these shifts is partly taking the shape of varying cost and price rises, to a large extent it comes about via real processes which tend to be connected with a dampening of exports and a stimulation of imports in those countries whose currencies have appreciated and converse effects in the depreciating countries.

The further development of world trade as a whole will continue to be determined largely by economic trends in the industrialized countries. Only in Japan have the exchange rate effects caused by the renewed substantial appreciation of the yen remained dominant for the time being; its imports will thus continue to expand powerfully despite the flagging economy. In the USA, in contrast, import growth will

ECONOMIC TRENDS

Trends in World Trade

	1987-91 ^a	1992	1993	1994 ^b	1995 ^c	1996 ^c
World trade, in US \$ billion ¹	X	3650	3600	4050	4700	5020
Change over preceeding year, in %						
Value	11	6	-1	12	16	7
Price level ²	5	1	-5	2	6	0
Volume ³	6	5	4	10	9	7
Imports by country groups ³						
Industrialized countries	6	4	2	10	8	6
Oil exporting countries	5	13	-2	-1	0	3
Other developing countries ⁴	11	13	14	11	11	10

^a Average year-on-year change. ^b Partly estimated. ^c Forecast. ¹ Average exports/imports. ² Averages on dollar basis (decline in 1993 and increase in 1995 largely due to exchange rate changes). ³ Turnovers adjusted for price and exchange rate changes. ⁴ Including newly industrialized countries.

Sources: IMF (International Financial Statistics, World Economic Outlook); own calculations and estimates.

slow down with the flattening out of the upswing. At the same time, the cyclical impulses for foreign trade in the West European economies, stemming at first to a large extent from more expansionary stockpiling activity, will drop back slightly as compared with the initial recovery phase. Altogether, the industrialized countries' imports will probably expand more slowly than they did at the start of this year.

The demand impulses emanating from the industrialized countries have also underpinned the buoyant forces in the rest of the world. The strong economic growth in many developing countries, and in particular the newly industrialized countries, will continue to be attended by a rapid growth in imports. In a number of cases the improved terms of trade due to the pronounced rise in raw material prices will enable them to step up their imports substantially. In contrast, imports by the oil-exporting countries will still take some time to recover since the prime aim will presumably be to reduce the high deficits on their current accounts. The Central and Eastern European countries whose balance of payments position has eased, not least thanks to the improved business

climate and the resulting better sales opportunities in Western Europe, will step up their imports considerably.

On the whole, world trade will go on expanding substantially for the rest of this year and in the next, though at a slower pace than during the upswing to date. At some 9%, the real growth rate for 1995 will drop only slightly below the 1994 figure due to the large overhang; in 1996 it will reach an estimated 7%. This means that world trade will have risen by more than one-quarter in three years, even without the trade concessions agreed in the Uruguay Round having taken any tangible effect. This is the result of the marked rise in world production during this period, on the one hand, and the ongoing intensification of the international division of labour, on the other, which is itself a major impulse for growth but which also compels all countries to keep making fresh adjustments.

Compiled by the Department of World Business Cycles of the Hamburg Institute for Economic Research.

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

Raw Materials and Groups of Materials	1994		1995					
	AA ²	June	March	April	May	June	30.6	14.7
Total index	147.8	154.0	164.2	171.7	170.1	164.4	160.7	157.4
Total, excl. energy raw materials	143.2	142.3	165.3	166.3	164.5	166.7	168.1	167.0
Food, tropical beverages	113.5	114.8	121.0	121.0	119.8	119.7	118.8	116.5
Industrial raw materials	165.9	163.3	199.1	200.7	198.5	202.4	205.6	205.6
Agricultural raw materials	171.8	167.0	216.5	220.1	222.0	222.4	225.6	219.7
Non-ferrous metals	171.2	172.0	205.7	206.1	198.9	210.4	214.9	223.6
Energy raw materials	150.4	160.7	163.6	174.9	173.3	163.2	156.4	151.7

¹ On dollar basis. ² Annual Average.