Chapter 1 THE INTERNATIONAL ECONOMIC ENVIRONMENT

Trends in world trade

During 1988 the volume of world merchandise trade was estimated to have grown 8.5 per cent, far outstripping the 5.25 per cent of the previous year and equalling the record high growth rate for the decade, reached in 1984. This performance marked four consecutive years of accelerating trade growth and six consecutive years in which world trade grew more rapidly than world production. Accompanied by moderate inflation in the industrial countries and strong investment-led expenditure growth, trade-related investment and production were leading sources of growth in the continued global economic expansion.

The 1988 trade performance brought the volume of world trade to a level nearly 40 per cent higher than at the time of the 1982 recession. The value of world merchandise trade is estimated at \$ 2 840 billion — a 14 per cent increase — reflecting for the most part increased trade volume as well as a small contribution from inflation and from a further moderate depreciation of the U.S. dollar.

The expansion was broadly based, with trade in manufactured goods up 10 per cent, mining products including petroleum up 7 per cent and agricultural trade up 4 per cent in volume terms. More important, the trade expansion was experienced by a relatively wide range of countries, in contrast to the 1984 boom which was largely triggered by U.S. import demand. Lower oil prices contributed to growth in the non-OPEC developing countries and the developed world, while OPEC economies contracted.

Trade of industrialized countries

Trade growth was particularly strong in industrial countries and in the leading newly industrialized economies (NIEs), particularly in Asia. For developing countries as a group, export volume increased 9.5 per cent versus 8 per cent for developed countries; their imports were up 10 per cent versus 9 per cent for developed countries. These positive results were even more marked for non-OPEC developing countries as OPEC imports fell by an estimated 1.5 per cent. Non-fuel primary commodities reversed a trend of most of the 1980s to show nominal growth of some 25 per cent. Non-OPEC developing countries expanded their exports by an estimated 18 per cent last year, doubling the results of the developed economies. As a group, developing countries that were neither members of OPEC nor among the leading Asian exporters of manufactures, experienced an acceleration in growth in the volume of their combined exports in 1988. Coupled with the substantial recovery in non-fuel primary commodity prices, the enhanced foreign exchange earnings of these countries helped to finance higher import volumes last year.

For the 15 heavily indebted countries, exports reached the highest level since 1981. Last year marked the second successive year in which export growth exceeded the increase in imports, and their aggregate trade surplus reached nearly \$28 billion.

Dynamic trade growth was particularly pronounced within the West Pacific region and in transpacific trade, continuing prevailing trends since 1980. Transatlantic trade and trade within Western Europe had the lowest growth rates. While each of the three major groups of countries participated in the expansion of the dollar value of world merchandise imports and exports in 1988, the strongest demand-side stimulus came from the developing countries. The supply side of world markets saw developed countries in the lead, due more to price and valuation effects than to increases in export volumes.

U.S. trade deficit

Last year witnessed the first reduction in the present decade of the U.S. merchandise trade deficit (from \$170 to \$137 billion). Japan had a minimal decline in its merchandise trade surplus to \$78 billion, whereas the surplus of the Federal Republic of Germany increased to \$72 million. The U.S. and the F.R.G. were roughly equal at the top of the list of leading exporters, followed by Japan, France and the United Kingdom. The United States remains by far the world's largest importer, taking 15.5 per cent of the world's total, or \$460 billion, followed by West Germany, the U.K., Japan and France.

The progress in reducing the U.S. merchandise trade deficit coincided with a domestic investment boom. The volume of private non-residential investment is estimated to have increased 9.5 per cent last year. This increase was reflected in trade developments as the export volume of capital goods rose 36 per cent, while the same figure for imports was 27 per cent. Capacity constraints and the U.S. drought contributed to a slowdown in export growth in the latter part of 1988.

External trade imbalances

Japan's merchandise import volume has increased rapidly over the past three years but this has been matched by a similar increase in exports, which benefited from a slight improvement in the terms of trade and large capital equipment exports due to the investment boom. Germany strengthened its performance, particularly with its European partners, while experiencing a pick-up in domestic investment at the same time.

External trade imbalances have been of concern in this decade as growth in trade has outpaced global increases in production. As economies become more interdependent,