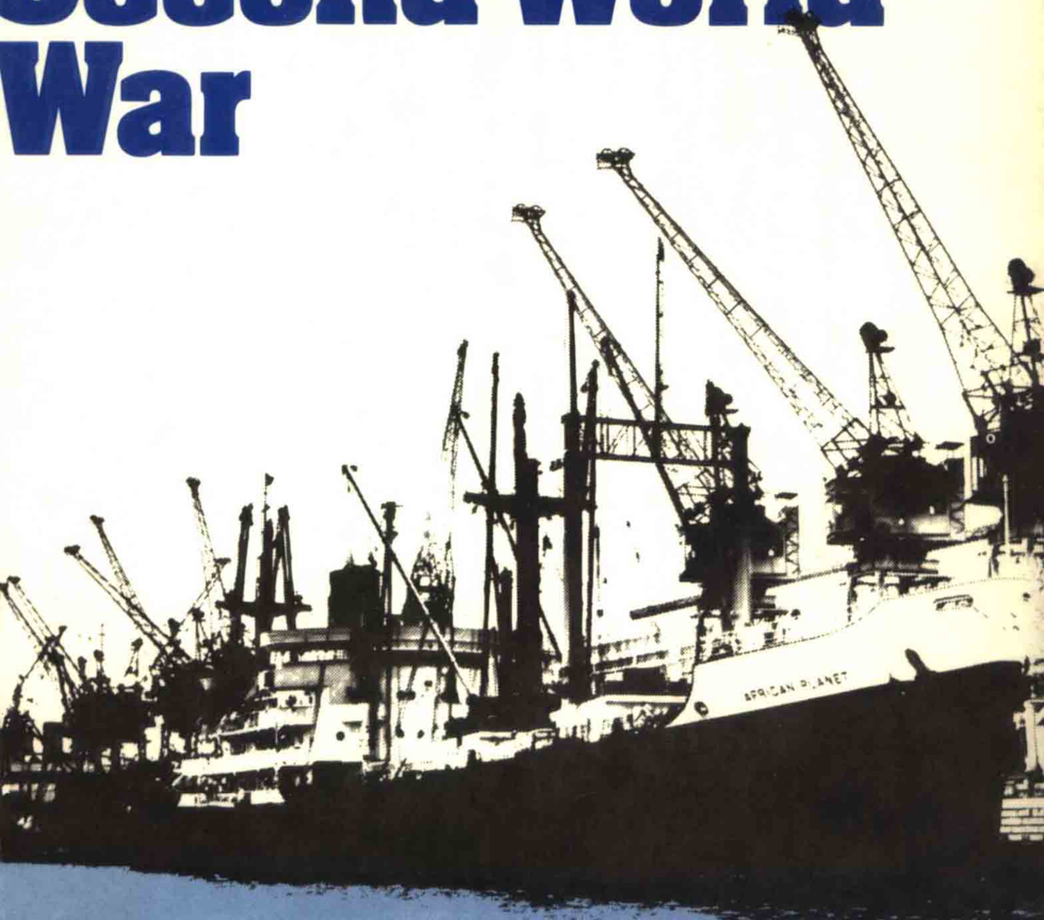
LYNDEN MOORE

The Growth and Structure of International Trade Since the Second World War



The Growth and Structure of International Trade Since The Second World War

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Preface

It is the author's belief that a democracy only works effectively if the background to its major policy decisions is understood by a significant number of people. The governments of industrial countries are now faced by persistent demands for greater protection for their agriculture and declining manufacturing industries at the same time as developing countries are endeavouring to gain greater access to their markets. The developing countries are faced with urgent social pressures to reduce poverty but many are in precarious balance of payments positions. Protection by industrial countries affects the trade and financial links between the groups of countries. Economic theory also states that it will reduce the economic welfare of most, if not all, countries. This argument is considered together with the actual changes in trade and commercial policy that have occurred.

Experience of the general pattern of trade has been garnered during the twenty or so years I have been doing research intermittently on the subject. I was able to work intensively on the book during the Hilary Term 1980, which I spent at Nuffield College, Oxford and then the whole of the academic year 1981–2 which I spent at the Institute of Agricultural Economics, Oxford. I am very grateful to both institutions for their hospitality and also to Somerville College which elected me a member of the SCR for the latter period. I am also grateful to the University of Manchester for granting me sabbatical leave for these periods.

I am indebted to George Jones, Michael Artis, Peter Stubbs, Colin Jones, Ashok Desai, Stanley Metcalfe and my father Ronald Moore for reading and commenting on chapters of the book, and I would like to thank Pete Martin for his research assistance with the tables on agriculture; and Jeanne Ashton and her Secretarial Reserve for typing the book.

I am also grateful to Manchester University Press for allowing me to use some extracts from my previous book, under the name of Lynden Briscoe *The Textile and Clothing Industries of the United Kingdom* (Manchester, MUP, 1971).

Lynden Moore

List of Abbreviations

ACP	African–Carribean–Pacific developing countries which have signed the Lomé convention with the EEC
Benelux	Customs Union of Belgium, Netherlands and Luxemburg, established 1948
BTU	British Thermal Units
CAP	Common Agricultural Policy of the EEC
CCC	Commodity Credit Corporation of the US
CEC	Commonwealth Economic Committee, London
CET	Common External Tariff of the EEC
CFP	Compagnie Française des Pétroles
c.i.f.	Cost of Insurance and Freight
CP	Centrally Planned
CPE	Centrally Planned Economies
CPI	Consumer Price Index
CPRS	Central Policy Review Staff
CSO	Central Statistical Office, London
ECE	Economic Commission for Europe
ECSC	European Coal and Steel Community, established 1951
ECU	European Currency Units, established 1979 initially of same value as u.a. but based on a basket of currencies which included the pound sterling
EEC	European Economic Community, from 1957–72 of 6 (France, Germany, Italy, Belgium, Netherlands, Luxemburg), then from 1973–80 of 9 (original 6 plus UK, Denmark, Ireland), 1981– of 10 (the 9 plus Greece)
EFTA	European Free Trade Association, founded 1960
EIU	Economist Intelligence Unit
ENI	Ente Nazionale Idrocarburi
ETA	Eastern Trading Area comprising Russia and Eastern Europe, China, Mongolia, N. Korea and Vietnam
FAO	Food and Agricultural Organisation of the UN

FEOGA	Fonds Européen d'Orientation et de Garantie Agricole—in English The Agricultural Guidance and Guarantee Fund
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GM	General Motors
GNP	Gross National Product
GSP	Generalised System of Preferences
IBRD	International Bank for Reconstruction and Development, now generally known as the World Bank
IEA	International Energy Agency, OECD
IMF	International Monetary Fund
LNG	Liquified Natural Gas
LTA	Long Term Arrangement Regarding International Trade in Cotton Textiles
MAFF	Ministry of Agriculture, Forestry and Fisheries, Japan
MCA	Monetary Compensatory Amounts
ME	Market Economies
MFA	Multi-Fibre Arrangement—that is the Arrangement Regarding International Trade in Textiles
mfn	Most Favoured Nation
MITI	Ministry of International Trade and Industry, Japan
m.t.	Million Metric Tons
m.t.o.e.	Million Metric Tons Oil Equivalent
NIC	Newly Industrialising Country
NIESR	National Institute of Economic and Social Research, London
NIER	National Institute Economic Review produced by the NIESR
OECD	Organisation for Economic Co-operation and Development (includes all the developed market economies) established 1961
OEEC	Organisation for European Economic Co-operation, established 1948 to co-ordinate Marshall Aid; replaced by the OECD in 1961
OPEC	Organisation of Petroleum Exporting Countries (Algeria, Ecuador, Gabon, Indonesia, Iraq, Iran, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela)
PEEE	Primary Energy Equivalent of Electricity
PEP	Political and Economic Planning Institute
R and D	Research and Development

SIC	Standard Industrial Classification
SITC	Standard International Trade Classification published in 1950, revised in 1961 (Rev. 1) and then again in 1975 (Rev. 2)
SMMT	Society of Motor Manufacturers and Traders, London, UK
Tera	Unit multiplied by 10^{12}
u.a.	Unit of account -monetary unit used by the EEC equivalent to the pre 1971 dollar
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UN ECE	UN Economic Commission for Europe
UN ECLA	UN Economic Commission for Latin America
USDA	United States Department of Agriculture
VAT	Value Added Tax

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HISTORICAL, FINANCIAL AND COMMERCIAL BACKGROUND TO TRADE

I Introduction

Trade is the most visible of relationships between countries. As such, people's reaction to its growth may vary. Some welcome it as representing a relaxation of political tension between countries. Some regard it with apprehension as a harbinger of new technologies, new tastes and maybe new attitudes. But some will always fear it as a threat to their jobs or livelihood.

In contrast, an international trade economist regards the removal of barriers to trade and its expansion as a means of increasing the level of world output. This is because he would regard the maintenance of full employment as an objective that could be separately achieved, that is as a result of macroeconomic policy. Trade, on the other hand, is the exchange of goods and as such will affect the distribution of production and employment within a country rather than the total level of employment. If each country specialises in the production of commodities for which it has the lowest relative cost of production, then the total output of all countries together will be greater, and each country will have a greater real income. This is a simple account and a somewhat more detailed one with a few qualifications is given in Chapter 7.

Nevertheless, this is the basic argument for the removal of barriers to trade and is the credo on which all the international financial and commercial institutions are based.

A macroeconomist would agree that trade leads to an optimum allocation of factors of production, but might well question the assumption of full employment, particularly as governments appear to have increasing difficulty in simultaneously achieving the macroeconomic targets of full employment, price stability and economic growth. To a macroeconomist, trade represents a link between countries through which changes in aggregate demand and thus employment are transmitted from one country to another. The more open an economy, that is the greater its ratio of trade to Gross National Product (GNP),the more vulnerable it is to shifts in demand in other countries. Generally, the small industrialised countries are very open, with ratios of imports and exports to GNP of between 20 and 50%, the medium-sized ones less so with ratios of 10%, and the US is the least open.

On the other hand, the greater the country's proportion of international trade, the greater the impact of its own fluctuations on the rest of the world.

In terms of these ratios, the US has occupied the most asymmetric position. For instance, in 1960, imports and exports accounted for only 2.9% and 4.0% respectively of her GNP, whereas they accounted for 11% and 16% of world trade (OECD, 1972, pp. 139 and 140). This meant that her government could pursue policies to attain internal objectives as though she were a closed economy, although these might have a considerable impact on the rest of the world. For instance, if she reduced imports by 1% of GNP this would represent a reduction in effective demand on the world market of nearly 4%. But this situation has gradually changed so that US imports now account for 14% of world trade and 9% of her GNP (1982).

The UK occupied an intermediate position with imports and exports representing 17.5 and 14.1% of GNP in 1960 and 9.3 and 8.0% of world trade. The former ratios increased and the latter declined so that the UK has become more vulnerable to transmission and less of a transmitter.

These short-run stabilisation problems are, in fact, not the subject of this book. But they are important because they affect the policies adopted by governments. Inability to maintain full employment has often induced a government to espouse protectionist policies which have affected both the growth and composition of trade.

It is this growth, and the changes in the composition of trade, that form the subject of this book. To begin with, a brief account will be given of the historical development of trade which provided the initial links between countries. The disruption and devastaion of two world wars and the Great Depression in between them also provided the backdrop against which Allies viewed the task of reconstruction as they approached the end of the Second World War. The financial and commercial institutions they established are described in Chapters 3 and 4.

The international institutional structure together with US assistance appear to have contributed not only to the rehabilitation of the war-devastated economies, but also to have provided the basis for a rapid exansion in output and trade for the whole world.

This is best documented for the developed countries. The output of countries belonging to the Organisation for Economic Cooperation and Development (OECD) increased by 4.7% p.a. in real terms between 1955 and 1968. However, there were considerable differences between the developed countries with Japan achieving