Introduction

In the year 1973, international trade was dominated by high levels of demand, the international spread of rapid price inflation and large changes of relative prices, leading to major swings in the terms of trade of particular countries according to the composition of their exports and imports.

Cyclical fluctuations in the major industrial centres – the United States, Western Europe and Japan – had over the past decade pursued courses somewhat out of phase with each other: in 1972–73 they synchronized from a slack period into an economic boom the like of which had not been experienced since 1951. Coincidentally, world stocks of several major commodities fell to exceptionally low levels, resulting partly from prolonged, policy-induced destocking and partly from the temporary effects of unfavourable weather. The pressure of demand in a situation of widespread shortages, including the rapidly growing net energy deficit of advanced industrial countries, resulted in an endemic price inflation, to which sharp increases in the price of petroleum, following the October war in the Middle East, added a new element of instability in world trade and payments. Export embargoes on certain agricultural raw materials and petroleum, and growing evidence of cartelization not confined to OPEC, gave added significance to the new round of multilateral trade negotiations that had been inaugurated in GATT by ministerial declaration in September 1973. Other developments during that year related to a new multi-fibre agreement on international trade in textiles, to generalized preferences for developing countries, and to the many consequences for the Commonwealth of enlargement of the European Economic Community. Against this rapidly shifting background, world trade advanced by record proportions: the trade of Commonwealth countries with each other and with the rest of the world, together accounting for almost a fifth of the world total, shared to a great extent in this expansion.

During the course of 1974 there was a marked slowdown in economic activity in all industrial countries. This had a definite, though somewhat lagged, effect mainly on the demand for raw materials. As shown in the body of this report, export prices of agricultural raw materials fell after the first quarter of 1974 to a level averaging, in the third quarter, only about 85 per cent of the average for the first quarter. Export prices of minerals and metals (excluding fuels) reached their peak in the second quarter of 1974, dropping sharply thereafter. Food prices, on the other hand, continued their unabated rise through the third quarter of 1974. End-year estimates of total US feed grain supplies were the lowest since 1957, and the US soyabean crop was estimated to be down by about a fifth. With world agricultural production as a whole estimated no higher in 1974 than in 1973, and with falling per capita agricultural production in developing countries, and rising food prices, urgent efforts were clearly needed to stimulate food production, especially in food deficit areas.

With little or no growth likely in most of the larger industrial countries during 1974 and part of 1975, the deceleration of the growth of world trade observed at the beginning of 1974 could be expected to continue. Though expansion of exports by industrial to developing countries, stimulated by the increased foreign exchange earnings of the latter countries in 1972 and 1973, led to a temporary quickening of the tempo of world export growth by volume in the first half of 1974, the annual growth rate of the volume of imports into industrial countries, at 16 per cent in the first half of 1973 and 7½ per cent in the second, fell to 3½ per cent in January–June 1974. Difficulties emerging over the circulation of funds as a result of huge current account surpluses of certain oil exporting countries, and the growing physical problems of structural re-adjustment, especially in fields related to the automobile and construction industries, reinforced the dangers of a major slump which might impose major strains on the system of multilateral trade and payments. Against this background, and the emergence of new problems for world supply and pricing of raw materials, an early substantive engagement of the GATT multilateral trade negotiations was promised at the close of 1974 by passage of the Trade Act in the United States.

In following sections of this report, an attempt is made to summarize as briefly as possible the impact of international economic developments on the trade of the Commonwealth, special attention being paid to changes in the policy background, to commodity trends and arrangements, and to "regional" developments. These last are discussed mainly in the sections dealing with intra-Commonwealth trade and trade with the European Economic Community.