The Commonwealth in World Trade

Summary

The recovery in world economic activity in 1972 from the relatively depressed level of the previous year was the chief factor in promoting a substantial upturn in the rate of growth of world exports, from 10 per cent to about 15 per cent as measured in sterling; the value of Commonwealth exports is estimated to have risen somewhat more slowly over this period, by 8.5 per cent in 1971 and 11 per cent in 1972.

Table XIII provides a statistical summary of the trade of Commonwealth countries as a whole with the main trading areas in 1972. Intra-Commonwealth trade expanded to an estimated £5,796 million on the side of exports, and to £6,061 million (on the generally different bases of valuation and coverage) for imports. This represented a significant advance – in spite of an absolute decline in British exports to the Commonwealth for the first time since the pre-devaluation year 1967. The proportion of the total trade of Commonwealth countries conducted with each other fell slightly to 21 per cent.

Commonwealth exports to the United States in 1972 rose to 31 per cent of the total, a proportion reached only once before, in 1968, at the height of the logistical build-up for the Vietnam war and the space programme. Inflation and the United States balance of payments were even then serious problems, but only in recent years did the overvaluation of the United States dollar reach crisis proportions. Thus in 1971 and 1972, before the Smithsonian devaluation of the dollar could show much effect, there was no clear reversal of the weakening tendency of Commonwealth imports from the United States, and a growing overall surplus in trade with that country.

Trade with the EEC (the Six) has shown a balanced, relative expansion in recent years, when the British industrial trade effort has clearly been geared to an increase of turnover with the Continent, in anticipation of membership of the EEC at the beginning of 1973. The tariff barriers to trade within the enlarged EEC having begun to fall in that year, it would be reasonable to expect a continuation of this movement. Some aspects of the enlargement of the EEC are discussed in a special section of this report.

Commonwealth trade with Japan, as a proportion of the total trade of Commonwealth countries, rose by one percentage point on the side of both imports and exports in 1972. Over the past four or five years, such has been the growing competitiveness of Japanese exports, and the "under-valuation" of the Yen, that the share of total Commonwealth imports originating in Japan has risen from 5 to 8 per cent. This is a remarkable transformation by any standards.

Trends in international trade and payments

In terms of volume, world trade rose by 5–6 per cent in 1971 and 8–9 per cent in the year under review. In both these years the increase in the volume of exports of developing countries was relatively small, but an increase in unit values resulted in a substantial rise of total value; in 1971 most of the increase in unit values was due to petroleum, but in 1972 price rises were more widespread, affecting agricultural commodities particularly.

In recent years, changes in rates of exchange between some of the world's major currencies have naturally affected the valuation of movements in world trade. The rates of increase of trade in terms of sterling were slightly less, in both 1971 and 1972 (taking each year as a whole) than if a dollar yardstick had been used, owing to the slight depreciation of the latter currency against the former. The increases would be less still if measured in SDRs or a weighted average of all major currencies.

The incipient boom in British industrial activity, and declining price competitiveness, limited the growth of her exports to only 6 per cent in 1972. compared with a rise of 14 per cent in the preceding year: because of the weight of the British statistics in the Commonwealth total, this was the most important single influence in the continuation of the tendency for the Commonwealth share of world exports to fall – as shown in Table I.

The falling competitiveness of the United States in world markets, at the pre-August 1971 exchange rate for the dollar, was highlighted by the stagnation in United States exports in 1971; and though their volume increased by 8 per cent in the following year, mainly under the influence of increased sales of foodstuffs and increased purchases by Canada, the United States share of world exports, as shown in Table 1, fell to 13.4 per cent in 1972 compared with 14.0 per cent in 1971.

In line with the tendency of Japanese manufacturers to switch towards exports at times of domestic recession, the volume of Japanese exports rose by 17 per cent in 1971; in 1972, under the influence of the revaluation of the yen and greater domestic demand, the rate of growth was cut back to 8 per cent. Western Europe and other developed areas registered substantial increases in their exports in 1972, in line with rising international demand and the markedly higher prices for many temperate zone foodstuffs and wool.

International trade policy

Among important developments in 1971 and 1972 was the signature of a treaty providing for enlargement of the European Economic Community by the

TABLE I

WORLD TRADE BY MAJOR AREAS *a*

	1968	1969	1970	1971	1972
		£ thousand million (f.o.b.)			
World exports *a*	88.7	101.5	116.9	128.4	148.4
of which Commonwealth ..	18.3	21.0	23.6	25.6	28.5
		percentages of world exports			
Commonwealth	20.7	20.7	20.2	19.9	19.2
United States	16.3	15.6	15.4	14.0	13.4
Latin America	5.4	5.1	4.9	4.6	4.5
European Economic Community	30.2	31.1	31.7	32.2	33.6
Japan	6.1	6.6	6.9	7.6	7.7
Rest of world *a*	21.3	20.9	20.9	21.7	21.6
		£ thousand million (c.i.f.)			
World imports *a*	93.7	106.5	122.7	134.7	154.4
of which Commonwealth ..	20.7	22.5	24.6	27.0	30.0
		percentages of world imports			
Commonwealth	22.1	21.1	20.1	20.1	19.4
United States	15.8	15.0	14.4	14.6	15.3
Latin America	4.9	4.7	4.7	4.8	4.5
European Economic Community	27.6	29.6	30.1	30.2	31.0
Japan	5.8	5.9	6.4	6.0	6.1
Rest of world *a*	23.8	23.7	24.3	24.3	23.7

a Excluding the trade of Eastern European countries, China, North Korea, North Vietnam and Cuba.

accession of Britain, Ireland and Denmark.* (Some of the treaty provisions and the implications for individual Commonwealth countries and groups are more particularly referred to in the section on EEC enlargement below). Coincidental with these moves towards European unity, the world witnessed the growing power of Japan as an exporting nation, and the worsening of the balance of payments position of the United States. In large part as a result of these developments, and in particular the crisis of the dollar, the United States put its influence behind moves designed to reform the international trading system, and it was agreed by Contracting Parties that multilateral negotiations in the forum of GATT would start in 1973.

Other positive developments were the introduction of GSP schemes by most developed countries† participating in the Generalized System of Preferences – the most noteworthy achievement of UNCTAD to date. However, the trading environment of developing countries remained uncertain, not only because of the impending multilateral negotiations, but also because the relations of many of them with the European Economic Community has yet to be negotiated. Moreover the United States, in particular, had still to implement its scheme of generalized preferences, while the British scheme, introduced at the beginning of 1972, was to be assimilated with that of the EEC from 1 January 1974.

Generalized tariff preferences apply in principle to manufactures and semi-manufactures listed in chapters 25–99 of the Brussels Tariff Nomenclature (BTN). Though it was generally assumed that the GSP was not intended to cover primary commodities, several preference-giving countries, namely Britain, Japan, the Nordic countries and Switzerland also provide for preferential treatment of primary commodities in BTN 25–99, and preferential treatment has been given by some countries to selected agricultural products in chapters 1–24 of the BTN, including certain primary agricultural commodities falling within these chapters.‡

The schemes of individual countries are subject to exceptions and safeguards, among the most publicized of which have been the provisions for tariff quotas by the EEC (the Six). Under the EEC scheme the amounts of imports from developing countries that benefit from duty-free entry are subject in principle to limitation within quota ceilings. These are calculated under a standard formula applicable to all manufactures and semis in BTN 25–99, under which each ceiling has two elements. The first, the basic amount, is the total value of imports of the product from the beneficiary countries in the base year 1968. To this is added a supplementary amount calculated by taking 5 per cent of total imports into the Community, from all sources other than the beneficiary countries, in a recent period. Ceilings under this formula are in principle applicable to all

* Norway, after having signed the Treaty, failed to ratify it.

†Major exceptions were the United States and Canada. The United States Administration on 10 April 1973 included in its Trade Bill a request to Congress for authority to grant generalized tariff preferences to developing countries. The Canadian Bill authorizing implementation of the Canadian GSP was given Royal Assent on 18 April 1973. The legislation provides that it will come into force on a date fixed by proclamation.

‡Since there is no universally accepted definition of manufactures, etc., the generally more highly processed goods in BTN 25–99 were taken by most countries as a first approximation. Some items in this range, however, such as "primary" metals (refined from the ores but not fabricated), are excluded from some GSP schemes on principle. Likewise, on principle, only *processed* agricultural commodities are selectively included in the GSP, but here again there are exceptions – New Zealand, for example, having included cocoa beans in its scheme.

manufactures and semis in BTN chapters 25–99, but are enforced only on a limited range of goods which are considered to be "sensitive" – such as most textiles, which are a special case in most countries' GSP schemes, being subject to the LTA and other arrangements referred to below. Another provision in the formula is that preferential imports of each product from any one developing country are not as a general rule allowed to exceed half of the total ceiling for that product. In the case of a few sensitive items the quotas for any one country are limited to smaller proportions, e.g. 20 to 30 per cent. For a range of processed agricultural products, tariff reductions mostly averaging about a fifth apply. Preferential entry of these products is not limited by means of tariff quotas, but an escape clause relating to injury applies.

As has been mentioned above, Britain will apply the GSP scheme of the European Economic Community from the beginning of 1974. The EEC has said that at the same time it will substantially modify its scheme in the light of the experience of its working and of the wishes of developing countries. The European Commission has suggested that, in the GATT multilateral trade negotiations, efforts to help developing countries should concentrate on improving Generalized Preference schemes; it has proposed that preferences on more processed agricultural products, and increased ceilings on "sensitive" products, could be introduced.

Textiles were a further topic for which future international trade policy was to be decided during 1973. For a decade a large part of international trade in cotton textiles has been regulated under the GATT Long-Term Arrangements on Cotton Textiles, which were due to expire or be renegotiated, possibly in a different form, by the end of September 1973. In July 1973 it was announced that a GATT working party on textiles had recommended extension of the LTA for three months after the existing term, and their replacement thereafter by a new, multi-fibre agreement. This recommendation no doubt took account of the proliferation in recent years of quotas, "voluntary restraints" and other trade barriers outside the LTA. Major developments of this sort included agreements reached at the end of 1971 and at the beginning of 1972 between the United States, on the one hand, and Japan, Hong Kong, Taiwan and South Korea respectively on the other, restraining exports of textiles of wool and man-made fibres to the United States.

The British Government decided to introduce tariffs on imports of cotton textiles from the Commonwealth from 1 January 1972. As from the beginning of 1974 the new (preferential) rates of duty applied by Britain on such imports will begin a process of alignment with the common customs tariff of the EEC, except insofar as they relate to countries covered by standstill clauses of the Treaty of Accession, and except insofar as they are relaxed under the terms of the enlarged Community's GSP, then to be applied by Britain. Of immediate significance for Commonwealth textile exporting countries of Asia will be the manner of conversion of their existing cotton textile quotas in the British market into "Community" quotas. Secondly, since benefits under the Community GSP relating to cotton textiles were originally denied to developing countries outside the LTA, and in view of developments related to the United States market, it has been argued that there may be some justification for supposing that a widening of the LTA into a multi-fibre agreement would tend to facilitate a widening of GSP benefits in the field of textiles during the course of the GATT multilateral trade negotiations.

Commodity trends and arrangements

A particularly noteworthy characteristic of recent years has been the accelerating inflation of the prices of internationally traded goods. Though increases in the prices of internationally traded manufactures have commonly been less than the increases in prices of domestically traded manufactures, the gathering pace of inflation in both these areas has been a cause for widespread concern. The world export index for manufactures (unit values, dollar basis) rose by 9 per cent in 1972, and in that year and the first half of 1973 the export prices of primary products rose much more steeply. In terms of dollars, the UN index showed food prices rising from an average of 117 (1963 = 100) in 1971 to 132 in 1972 and to 174 in the April–June quarter of 1973. Non-food agricultural items rose from 105 to 120, and then to 159 on the same basis of comparison. Minerals and metals prices went up less rapidly.

An analysis of the effects of these different price movements on the terms of trade of different groups of countries is made difficult by the fluctuation of currency exchange rates. In terms of dollars, the British terms of trade showed a very slight firming, comparing the averages of 1971 and 1972, though the sterling terms of trade fell continuously from 112 (base 1963 = 100) in the second quarter of 1972 to 99 in March 1973. In view of the changes in the sterling/dollar rates in the first half of 1973, and the substantial price rises for primary commodity imports, including metals and petroleum, the dollar terms of trade of Britain must have shown a significant drop. For developing countries as a whole, and in terms of dollars, the UN terms of trade index moved from 102 in 1971 to 103 in 1972. However, the dollar terms of trade showed no rise for developing countries in Africa, and in South and South-east Asia, and must have fallen for a number of countries having an unfavourable composition of exports.

Following the Smithsonian Agreement, all export prices tended to move upward, in terms of US dollars, early in 1972. This adjustment was succeeded by a marked upswing in the second half of 1972, which gathered momentum in the first quarter of 1973 – about double the rate of increase of the preceding six months. These price movements tended especially to benefit the export trade of the industrial and advanced countries that are primary producers, since some of the stronger movements were for temperate zone commodities, such as meat and grains. Behind the price increases lay such diverse factors as the quickening pace of economic activity in industrial countries, supply shortages, shifts in demand, exchange rate changes, and uncertainty about international monetary conditions. The international monetary crisis in early 1973 introduced a further element of unsettlement in the commodity markets.

Tight supply situations emerged for a number of food commodities. The setback in 1972 in world grain production and the purchases of large quantities of grains and other commodities by the USSR and China, as well as the more critical balance of supply and consumption in Asia and developing regions elsewhere, caused exceptionally large increases in some prices. As the supply situation became more difficult in the second half of 1972, the price of rice showed a significant increase, though this was much less marked than the approximate doubling of wheat prices between the middle of 1972 and the middle of 1973. Demand for meat outpaced exportable supplies in 1972, and the rise in animal feedingstuffs prices also contributed to a rise in prices of certain livestock products. On the other hand, there were signs that the European dairy products surplus, which had been dissipated in previous years, was beginning to re-emerge.

For the few commodities subject to international commodity agreements, prices rose above current or previous objectives for price stabilization. The operative parts of the arrangements for coffee and wheat were suspended, and prices moved far beyond those expected earlier. For sugar in particular there was a spectacular rise in the free market price, which reached an average level 62 per cent above that for 1971. There was a steady rise in the average monthly price from September 1971 to March 1972, when export quotas under the International Sugar Agreement were lifted and minimum stocks held by member countries were released. This supply situation was due mainly to a short-fall in the Cuban 1971/72 crop and aggravated by large free market purchases by the USSR, normally a net exporter. After July 1972 prices rose again, rapidly, for the rest of the year: with the entry of the USSR once again on the free market and purchases by China, the free market price rose to almost 10 cents/lb towards the end of December 1972. This was the highest level reached since the 1963/64 price boom which saw prices of over 12 cents/lb. Negotiations for the prolongation or renewal of the ISA were taking place in the autumn of 1973, when perhaps the major uncertainty – the possibility of accession to the Agreement by the EEC and USA – arose out of lack of any firm agreement on the treatment to be given to CSA sugar in the enlarged EEC.

The price of cocoa, which had fallen over the previous two years due to excess production, rose steadily in 1972. There were two factors largely responsible for this reversal: increased consumption due to the low 1971 price levels on the one hand, and a fall in production due to adverse weather conditions in West Africa on the other. Against this background, and after efforts extending back sixteen years, an approved text of an International Cocoa Agreement, designed to avert excessive price fluctuations, was adopted at the UN Cocoa Conference in Geneva, October 1972. The main features of the Agreement, to which neither the United States nor the Federal Republic of Germany are parties, are an export quota system, a fixed price range for cocoa, and a buffer stock mechanism. The price range is from 23 to 32 US cents/lb. The Agreement, which will be supervised by an International Cocoa Conference, went provisionally into force at the beginning of July 1973.

In the first half of 1972 the prices of all varieties of coffee rose slowly after their fall in 1971. From July 1972 onwards they rose more sharply and remained firm for the rest of the year. The recovery in the first part of the year was as a result of the revival of imports into the US following settlement of the US dock strike and a low 1971/72 Colombian crop. A worsening of the supply position was expected as a result of frost damage in one of the main producing areas of Brazil, and this helped to strengthen prices in the second half of the year. On average, coffee prices increased by 13 per cent in 1972 as against an 11 per cent fall in the previous year.

As far as tea is concerned, the fall in price which had begun in 1971 continued and there was a further fall of 3 per cent at the London auctions in 1972. This decline was halted in October and prices rose in the last quarter of 1972, due mainly to seasonal factors.

Prices of vegetable oilseeds and oils fell sharply from the beginning of 1971 to the third quarter of 1972, after which prices turned upward. This early weakness of prices reflected the overabundant supplies resulting from two years of record crops, while the stronger tone of the market later on was due primarily to the banning of exports of fish oil and meal by Peru on 1 October. This led to a shortage of high-protein meals for livestock feed and created upward pressure on the prices of vegetable oilseeds. Large purchases of soya beans by the USSR and the entry of China and India as buyers in the world market, as well as crop losses in the United States, all contributed to the upward pressure on prices. The situation was further exacerbated for some countries in the middle of 1973 by a temporary ban on US exports of soya beans and products.

Prices of *agricultural raw materials* rose somewhat during 1971 and the first few months of 1972, but fell in the second and third quarters of 1972 to recover sharply again in the final quarter. This upturn was due to the revival of demand in industrial countries together with a tightening supply situation for fibres.

Throughout 1971 and the first four months of 1972, the price of natural rubber tended downward, reaching its lowest post-war level in April 1972. In October the price began to recover, being down on average for the year by 3 per cent as against 17 per cent in 1971.

In the wool market in 1972, the situation was one of buoyant demand and progressively tighter supply. By September or early October stocks in importing countries were exhausted and prices soared. The average price in 1972 of merino 64s in Britain exceeded that of the previous year by 66 per cent and by December 1972 it was more than double the price at the beginning of the year.

Cotton prices failed to maintain the high levels which had prevailed in the previous two years and at the beginning of 1972. Prices weakened during the year but became firmer in the final three months with the halt of the downward movement in prices in October. Here again the main influences were strong import demand both for consumption and for rebuilding stocks depleted by the shortage of cotton in the preceding two years.

The disturbances in Bangladesh and the India/Pakistan conflict in 1971 led to a decline in jute output in the 1971/72 season, following a reduced 1970/71 crop. The price of jute therefore rose to very high levels in the second half of 1971 and early 1972. From the second quarter of 1972, however, there was a downward movement in price. This, however, levelled out in the last six months of the year in the expectation that crops in both India and Bangladesh would be below normal because of drought.

Metal supplies in 1972 were abundant and so prices tended to be low for most of the year, but they began to recover in December with a revival in demand. This was especially so in the case of copper, whose price on the LME had remained depressed during most of the year as stocks rose to record levels. There was some upward movement in the second quarter following reduced production in Zambia, and after the floating of the pound in June there followed a rise in price in sterling terms in the third quarter. By October, however, the surplus situation led to a downward turn in prices. The rebuilding of low working stocks in the hands of users in December, with the recovery of industrial activity in Western Europe, led to a large fall in LME copper stocks and prices moved upwards.

Tin prices were relatively low at the beginning of 1972, but these were sharply reversed in March as a result of heavy buying for working stocks and a temporary scarcity of spot supplies of metal. At the beginning of March the LME price was below the minimum of the intermediate price range* under the International Tin Agreement, but by the first week in April it had risen almost to the top end of the range. After the floating of the pound, the International Tin Council decided in July 1972 temporarily to express price ranges for the operation of its buffer stock in terms of the ex-works price of tin on the Penang market, instead of the LME price in sterling. Throughout the second half of 1972 the LME price continued to rise strongly as demand recovered.

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* That is, was at a level at which the Buffer Stock Manager would be permitted to buy tin in the market.