PART I

General Review

THE COMMONWEALTH IN WORLD TRADE

Trends in international trade

After a sharp check in 1967, when the slowdown of the West German and American economies contributed towards reducing the rate of growth of world trade to about 5 per cent, the rate rose to over 11 per cent in 1968. Not since 1951, when the U.S. gross national product grew by an exceptional 15 per cent as a result of the Korean war, did imports into the United States advance so rapidly. In the United Kingdom, the demand for imported goods showed little sign of satiety in spite of devaluation, high interest rates and successive restrictive measures. A tight money policy in Japan helped to bring about a swing to exports in the balance of payments while total trade advanced more strongly. With an estimated growth of real national product amounting to fourteen per cent for the year, Japan now vies with West Germany for second place among the industrial market economies. Imports into the Federal German Republic, still well ahead of Japan in foreign trade, rose rapidly and with little interruption from early 1967 through 1968, after over a year's stagnation and decline. Thus with O.E.C.D. countries' exports and imports—accounting for about 85 per cent of the world total excluding the Sino-Soviet group—up by 12 per cent, and with hardly any net change in export price averages of primary products as a whole, the picture of world trade in 1968 may be characterised in broad terms as a return, sooner than expected, to the rate of growth in the preceding years.

Special factors which affected the trade of 1968, other than those already mentioned, included the spillover effects of the previous autumn's dock strike in the United Kingdom, and the scheduled Kennedy Round duty cuts by Canada, the United States and a number of other countries on 1 January. The nationwide French strikes in springtime resulted in special (and contentious) aid for exports, as well as in temporary restrictions on imports of automobiles, textiles, electrical household equipment and steel products, practically all of which had been cancelled by 1 February 1969 along with countervailing U.S. measures. The scheduled two-fifths cuts under the Kennedy Round took place on 1 July 1968 in Britain and much of Western Europe (at the same time as the final stage in the alignment of tariffs of E.E.C. countries with each other), but owing to political exigencies in the United States the Congress found itself unable to abolish the A.S.P. system of duty valuation of chemicals by the end of the year; and this led to the stalling, at least temporarily, of some contingent Kennedy Round cuts and a subsequent package deal on tariffs designed to assist the U.S. balance of payments. The expectation of a U.S. dock strike in the autumn, deferred by legal injunction, powerfully affected the timing of shipments and also price quotations on a number of world commodity markets. Finally, too late to have much effect on the trading results for 1968, although applicable immediately, came the November adjustment of border taxes announced by the Federal German Republic, and the measures announced by France and Britain, after a meeting in Bonn of Ministers and Governors of Central Banks of the countries participating in the General Arrangements to Borrow.

World trade by major areas, excluding the Sino-Soviet group for which satisfactory data are not available, is shown in Table 1. For countries reporting imports f.o.b. or exports at place of despatch, the data in this table are adjusted to include freight and insurance.

TABLE 1

WORLD TRADE BY MAJOR AREAS *a*

	1964	1965	1966	1967	1968
		£ thousand million (f.o.b.)			
World exports *b*	54·5	59·1	64·8	68·0	88·5
of which Commonwealth ..	12·3	12·9	14·1	14·4	18·5
		percentages of world exports			
Commonwealth	22·5	21·9	21·7	21·2	20·9
United States	17·5	16·6	16·8	16·6	16·2
Latin America	6·5	6·3	6·1	5·8	5·4
European Economic Community	27·9	29·0	29·0	29·5	30·2
EFTA (Continental)	7·7	7·8	7·6	7·8	7·7
Japan	4·4	5·1	5·4	5·5	6·1
Rest of world *b*	13·5	13·3	13·4	13·6	13·5
		£ thousand million (c.i.f.)			
World imports *b*	57·4	62·5	68·6	72·3	93·7
of which Commonwealth ..	14·2	15·1	15·9	16·7	20·9
		percentages of world imports			
Commonwealth	24·7	24·2	23·2	23·1	22·3
United States	12·6	13·2	14·4	14·4	16·0
Latin America	5·3	5·0	5·1	5·0	5·0
European Economic Community	27·9	28·1	27·9	27·2	27·5
EFTA (Continental)	9·1	9·2	9·0	8·9	8·5
Japan	4·9	4·7	5·0	5·8	5·8
Rest of world *b*	15·5	15·6	15·4	15·6	14·9

a The pound sterling was devalued by 14·3 per cent in November 1967. Allowance has been made for this in the textual commentary.

b Excluding the trade of Eastern European countries, China, North Korea, North Vietnam and Cuba which according to available data would have added some 14 per cent to the world total for 1964.

About two-thirds of world trade is now accounted for by the countries of four world trading groups—the European Economic Community, the European Free Trade Association (including Britain), the Council for Mutual Economic Aid, and the Latin American Free Trade Area. This is not to say of course, that the intra-trade of these groups amounts to two-thirds of world trade, but it is worth recording that the intra-trade of the largest, the E.E.C., rose continuously from 30 per cent of its total trade in 1958 to 44 per cent in 1967, and in the first 10 months of 1968 this tendency showed no sign of abatement. Within COMECON the proportion of intra-trade, at 60 per cent, is much higher, though falling in recent years as signs of incipient multilateralism have increased.

Latin American countries, comprising the members of the Latin American Free Trade Area and the Central American Common Market, and being highly dependent on exports of primary products to North America and Europe, have suffered a continuous fall in their share of world trade in recent years in spite of the development of their trade with each other. As shown in Table 1, their share of exports fell to 5·4 per cent in 1968. Fishmeal and fish oil exports from Peru and Chile made a substantial advance over the year, and grain shipments were resumed from Argentina after a temporary suspension, due to shortage of supplies, in 1967. Moreover, the performance of the majority of Brazilian export items, including coffee, cotton, maize, sugar—but not cocoa—improved with total exports showing a 14 per cent increase. But the Argentine meat industry, which had been coping with internal difficulties for years, and faced restrictions of one sort or another in the richer markets of north America and Europe, took a further knock in 1968 with most of its British market being taken over by Yugoslavia (until imports from the last-mentioned country were temporarily embargoed because of an outbreak there of foot and mouth disease). Output at the big Chilean copper mines fell during the year. Many of the major export commodities of Latin America—petroleum, metalliferous ores and concentrates, coffee, cocoa, sugar, bananas, spices, etc.—are also of interest to Commonwealth Caribbean countries whose share of world trade has likewise been slipping, and market trends for some of these commodities are discussed in following pages.

Referring again to Table 1, only brief comments are called for in this General Review on the shares in world trade of the other countries and groups, since all of them are more particularly described in later sections of this publication. First, in the case of the United States, the declining share of exports, the more rapidly rising share of world imports, and the precarious balance in favour of the export share may be noted. The growth of U.S. imports in 1968 accounted for over a third of the growth of world imports, taking the gross merchandise trade balance (imports valued c.i.f.) into deficit for the first time since the second World War. In the case of Japan, an economic policy mix involving both fiscal and monetary measures helped to correct the adverse balance of trade of the previous year while total trade forged ahead rapidly in 1968, making the rate of growth of the country's share of world trade by far the highest of any country or group of countries under consideration. As would be expected in view of the composition and size of its intra-trade, the share of world trade accounted for by the European Economic Community again expanded, this time on account of both exports and imports. More than in the case of the United States, the E.E.C.'s share of world exports considerably exceeds its share of world imports. With Continental EFTA it is the other way round, because of the merchandise imports of Norway and Switzerland financed by the proceeds of shipping, financial and tourist services. With regard to Commonwealth countries as a whole, their total share of world exports fell slightly, by 0·3 percentage points from 1967 to 1968, partly because of the (expected) adverse effect on the dollar value of exports from the United Kingdom in the first half-year following the devaluation of sterling.

Commonwealth exports, imports and trade balances

The value of exports from the Commonwealth rose by ten per cent in 1968, about four times the previous year's rate of increase but slightly below the world average. The value of imports into the Commonwealth increased by seven per cent in 1968, compared with a rise of over five per cent between 1966 and 1967, and compared with an eleven per cent rise of world imports between 1967 and 1968. Individual country totals are shown in Appendix Table I. The gross trade deficit of Commonwealth countries as a whole (exports f.o.b., imports c.i.f.) rose from £2·3 thousand million in 1967 to £2·4 thousand million in 1968. Among individual countries the trade balances of Britain, Hong Kong, Australia and Ceylon "deteriorated" while those of Canada, New Zealand, India, Pakistan and Ghana "improved" (bigger surplus or smaller deficit). The Nigerian surplus on trade was practically unchanged over the two years.

The following data, expressed in proportionate terms, abstract from the purely accounting effects of the currency revaluations of November 1967 and at the same time reveal some of the essential structural features of Commonwealth trade. Britain accounts for over a third of the trade of the Commonwealth and taken together with Canada, Australia and New Zealand, for nearly seventy-five per cent of it.

The trends of Table 2 are the generally falling shares of Britain and the developing Commonwealth countries contrasting with the rising shares of Canada, Australia and New Zealand. The long-term decline in the British share of world trade continued in 1968. Since devaluation of sterling in

TABLE 2

PERCENTAGES OF WORLD TRADE *a*

	1964	1965	1966	1967	1968
			Exports		
Commonwealth	22·5	21·9	21·7	21·2	20·9
of which:					
United Kingdom	8·4	8·3	8·1	7·5	7·2
Canada, Australia, New Zealand	8·0	7·5	7·8	8·1	8·3
Caribbean	0·55	0·52	0·51	0·50	0·47
Mediterranean	0·06	0·06	0·06	0·06	0·06
Asia	3·76	3·66	3·49	3·45	3·41
Africa	1·74	1·77	1·66	1·51	1·43
			Imports		
Commonwealth	24·7	24·2	23·2	23·1	22·3
of which:					
United Kingdom	9·9	9·2	8·7	8·8	8·4
Canada, Australia, New Zealand	7·4	7·7	7·8	7·8	7·9
Caribbean	0·69	0·68	0·66	0·64	0·58
Mediterranean	0·15	0·15	0·15	0·15	0·14
Asia	4·98	4·70	4·38	4·29	3·92
Africa	1·55	1·66	1·47	1·39	1·25

a Calculated after adjustment of data where necessary on the f.o.b. basis for exports and c.i.f. basis for imports.

November 1967 progress towards a satisfactory balance of payments has been slower than was hoped or expected. The Basle arrangements were implemented in the middle of 1968 and a deflationary package, along with an import deposits scheme, imposed after the November 1968 meeting of Ministers and Central Bank governors in Bonn. In spite of the atmosphere of financial crisis which persisted during the year steady progress was in fact made towards putting the balance of payments on a sound footing. In the first six months after devaluation Britain's net external position had been subjected to a considerable loss by the change in sterling's value. The volume of British exports went up less than could have been expected in view of the general expansion of world trade, while price increases did not succeed in deterring the rising volume of imports. But in the course of succeeding months there was some evidence that these adverse trends were beginning to be reversed. In the third quarter of 1968 the balance of payments showed a substantial turn for the better. The visible trade deficit (seasonally adjusted) which had averaged £88 million a month in the last quarter of 1967 and the first of 1968, fell to £75 million a month in the second quarter, £49 million in the third and down to £46 million a month in the December quarter of 1968. British overseas trade for 1968 is more particularly described in a later section of this report.

Canada, Australia and New Zealand, in spite of their differences, have much in common, and the buoyancy of their external trade would be even more apparent but for the fact that 1964, the base year of the tabular comparison, was a bumper year for grain exports by the first two countries to the Soviet Union. Both China and the U.S.S.R. have transacted business with Canada and Australia in preference to the U.S.A., which has supplied the major (aid financed) grain requirements of India.

The Canadian economy was exceptionally buoyant in 1968. Exports to the United States rose by about a quarter, but overseas exports were only slightly higher, partly due to the smaller total movement of wheat together with demand restraint in Britain and external payments difficulties in Japan, Canada's two largest overseas markets. Shipments to Italy, another important market, went down. About two-fifths of the overall gain related to exports of automotive products to the United States, while copper, iron and steel, lumber and woodpulp, nickel and aluminium, petroleum and natural gas and aircraft contributed importantly to export growth. The accelerated export expansion of 1968 polarized increasingly on shipments to the United States.

Since 1966 Australia and New Zealand have been linked in a free trade area which built upon the earlier bilateral preferences between them, and each of them conduct trade with Canada under bilateral preferences. In the past few years Australia and New Zealand have traversed a rough patch, with recurrent drought in Australia and difficulties in the marketing of primary agricultural commodities including wool—especially the crossbred and carpeting types which mainly come from New Zealand. Australia, with much greater financial reserves, a broader-based economy and more varied exports (including coal, iron ore and non-ferrous metals which have featured in the growth of exports to Japan and the U.S.A.), was able to weather the storm without difficulty, or devaluation.

The New Zealand currency was devalued to bring it on a par again with the Australian currency in November 1967, and recovery in the balance of payments and general economic outlook have since been remarkable. In the year ended September, a current account deficit of $NZ136 million in 1967 was converted to a surplus in 1968 of $NZ63 million. Improvement in the value of earnings from meat, forest products and non-agricultural exports were more than could be attributed simply to devaluation. In the early months of the 1968–69 season (coinciding with intense speculative activity in the foreign exchange markets of the world) wool prices showed a marked increase which greatly facilitated stockpile disposals. At the beginning of the 1968–69 season the New Zealand Wool Commission, and indirectly the nation, had some $NZ64 million potential export earnings locked up in the wool stockpile. By the middle of December over 100,000 bales had been disposed of at prices better than those of the previous season's buying-in price. This had netted the Commission around $NZ10 million, and enabled it to wipe out its overdraft with the Reserve Bank, but still left 588,000 bales unsold. Despite difficulties with the marketing of dairy produce, the year ended on a satisfactory note for New Zealand as exports of wool, in terms of volume, were some 40 per cent higher in the second half of 1968 compared with the corresponding period of the previous year, while prices were firm. There was a welcome swing to surplus in the balance of payments.

In Australia the balance of trade moved differently. Imports rose more than exports and a small trade surplus in 1966–67 was converted into a sizable deficit in the fiscal year ended June 1968. Heavier imports of defence equipment and producers' materials were mainly responsible for the increase in imports. Minerals made a substantial contribution to export earnings and despite a fall in rural exports, total exports edged upwards. Increased freight charges and investment income payable overseas lifted net invisibles, and the deficit on current account was the largest for sixteen years: but with a record capital inflow the balance of monetary movements left an overall surplus of $A78 million, following a deficit of $A120 million in 1966–67. In the first half of fiscal 1968–69 the excess of imports over exports (both valued f.o.b.) amounted to $A156 million, the import figures including the cost of a warship, $A37 million. Towards the end of the calendar year wheat shipments to Japan rose significantly as a result of the ban (lifted in January 1969) by the Japanese Food Agency on imports of wheat from the United States following alleged quality deterioration. Exports of cereal grains and cereal preparations for the half year were well down on year-ago levels, however, owing to otherwise dull market conditions and reduced availability which had affected the size of the contract with China.

As can be seen from Table 2, the share of world exports of the developing countries of the Commonwealth, taken collectively, declined year by year from 6·1 per cent in 1964 to 5·4 per cent in 1968. This is in line with the declining share of world trade accounted for by developing countries generally, which is one of the central factors engaging the attention of UNCTAD. While it would be difficult to try to reverse the major trends of world trade, the basic requirements of economic development lend urgency to the need to minimise the disadvantages of developing countries by enabling an adequate growth of their trade as well as their share of world trade by measures of the kind under consideration in UNCTAD.

According to the National Institute for Economic and Social Research (London), the net outcome of all the diverse factors which played upon markets in 1968 was a rise in prices for primary producers' commodity exports of rather more than one half of one per cent compared with 1967. "Much higher average prices for copper and cocoa brought about a rise of 2 per cent in the index for Latin America, but in the case of the overseas sterling area their effects were outweighed by falls in the dollar prices of wool, jute, rubber, and Commonwealth Agreement sugar." The same changes helped to produce rises of 6 per cent and 1 per cent respectively in non-ferrous metals and food prices, balanced to a large extent by a fall of $2\frac{1}{2}$ per cent in the prices of other industrial materials. The National Institute commented that the depressing effect on dollar prices of the devaluation of sterling and a number of other currencies no doubt contributed to the fall in prices of agricultural industrial materials. All in all, though the trade of the developing countries increased "quite rapidly" in 1968, this did not apply to those in the sterling area which, unlike the rest, had lost reserves in 1967.

Among individual developing countries of the Commonwealth, the value of exports in 1968 rose substantially for India, Pakistan, Malaysia, Singapore and Hong Kong i.e. for Commonwealth Asia as a whole except Ceylon, whose exports declined for the third year running. In the Caribbean, sales were higher for Trinidad and Guyana. In Commonwealth Africa the value of exports was markedly higher on balance, with a big increase for Zambia and a decline for Nigeria.

Commodity trade and arrangements

With the Commonwealth countries representing a complete cross-section of the international community, there has hardly been any primary commodity produced and traded in world markets which is not of interest to one or other of them. Nevertheless, there are a number of commodities which are of special interest and whose trading affects closely the economies of Commonwealth countries—especially the developing ones. Among such commodities sugar, tea, coffee, tobacco and cocoa are a few of the most important. Exports of cane sugar are vital for most Commonwealth countries in the Caribbean, for Mauritius, Swaziland, Fiji and, to a far less critical extent, India. Among tropical beverages, tea is associated, as an export commodity, with Ceylon and India mainly and, to a growing extent, East Africa and Malawi. Pakistan, once an important tea exporter, now consumes the whole of its own production, and there is a noticeable tendency in India also for home demand to take a larger share of production. Coffee is mainly associated with East Africa (within the Commonwealth) and cocoa with West Africa—although of course they are widely grown from the Caribbean to Papua-New Guinea. Tobacco is associated mainly with central African countries and India (among developing Commonwealth countries). Nigeria and Ghana are two of the more prominent countries having interest in cocoa.

Among other commodities, rice is an important export of Guyana, and it competes with jute for land use in Pakistan. Bananas and the U.K. market are of interest especially to Jamaica and the Associated States of the West Indies, while the New Zealand market is of interest to Fiji. Spices and essential oils are of greater or less importance for many countries or territories stretching in a broad tropical belt from the Associated States of the West Indies, East Africa and its offshore islands, through Ceylon and India to Malaysia.

Among textile fibres and textiles, cotton is an important export of East Africa and Pakistan, jute of Pakistan, and sisal of Tanzania. Indian mills take most of the indigenous production of jute and cotton. Textile manufactures, footwear and clothing constitute an important segment of exports for India, Pakistan, Malaysia, Singapore and Hong Kong—as well as, latterly, of Malta. Exports of raw wool and woollen carpets from India and Pakistan are small but important. Rubber, which sometimes goes into local manufacture of footwear as well as being exported crude, is an important export item for Ceylon, Malaysia Singapore, Nigeria, and Papua-New Guinea.

The remaining industrial raw materials of agricultural origin include tropical timber (West Africa and Malaysia particularly), hides, skins and leather (India, Pakistan and East Africa), and a variety of tropical oils and oilseeds, chief of which are the products of the oil palm, coconut palm and groundnut (Ceylon, Malaysia, Fiji, Malawi and West Africa).

Finally, minerals are a major source of foreign exchange for many developing countries of the Commonwealth: petroleum oil and products for Trinidad & Tobago, Nigeria and Brunei; copper/lead/zinc for Cyprus, Uganda and Zambia; manganese ore for Ghana, Guyana and India; mica for India; diamonds for Sierra Leone, Ghana and Tanzania; iron ore for India, Malaysia and Sierra Leone; bauxite and alumina for Jamaica, Guyana and Ghana; and tin for Malaysia and Nigeria.

Questions relating to primary commodities were considered by the New Delhi session of the United Nations Conference on Trade and Development. The Conference adopted five resolutions on policy matters relating to commodities. Agreement having been reached that the best way to proceed was on a commodity-by-commodity basis, an action programme for specific commodities was drawn up. This programme set up the time table and procedures for commodity negotiations and/or intergovernmental consultations concerning 19 products, including cocoa, sugar, oils and fats, natural rubber, hard fibre and jute. Other recommendations referred to the stablization of commodity prices and access to the markets of developed countries for the commodity exports of developing countries. The final report of the Conference acknowledged that, on certain basic issues it had been unable, on account of remaining differences of opinion, to reach generally acceptable solutions, but added that the Conference had resolved to continue its efforts to reach agreement by making full use of its continuing machinery and, in particular, of the opportunities for further consultation and study provided by the Trade and Development Board.

With regard to the question of commodity price stabilization, the contents of a Fund and Bank study (agreed to in September 1967 at the annual meeting of these organizations) had weighed heavily on the deliberations of UNCTAD II. The 55 nation UNCTAD Committee on Commodities, which met for a fortnight in November 1968, had before it the first part of this study but it is only in the second part, promised for June 1969 at the latest, that the staffs of the I.M.F. and I.B.R.D. examine ways in which the two institutions might assist in finding solutions. The November 1968 meeting of the UNCTAD Committee on Commodities nevertheless succeeded in completing two proposals which the

New Delhi session had left unfinished, relating to buffer stocks and diversification. The success of the Sugar Conference, referred to below, no doubt served as a stimulus to the Committee.

At UNCTAD II, both developed and developing countries unanimously adopted a resolution inviting the Secretary-General and "Governments concerned" to "take all necessary steps" to ensure the success of the forthcoming U.N. Sugar Conference "with the objective of bringing into operation an international agreement by 1 January 1969". After failing to reach accord in April 1968, the 72 nation UNCTAD Negotiating Conference concluded a month-long session in October 1968 and set a target date of 1 January 1969 for a new agreement to become effective, dependent on ratification by 50 per cent of the exporting countries and 60 per cent of the importing countries.* The framework of the 1958 International Sugar Agreement, whose quota and price provisions lapsed in 1961, is maintained in the new Agreement, but neither the United States nor the European Economic Community is participating initially.

The new Sugar Agreement for regulating trade in the non-preferential world sugar market establishes an overall basic export quota of 8·6 million metric tons. The floor price of 3·25 c./lb compares with a New York spot price of 2 c./lb quoted before agreement was reached in Geneva. Under the Agreement, all quotas would be reduced by 10 per cent if the price fell to 3·50 c./lb and by another 5 per cent if the price fell to 3·25 c./lb. Within the price range proposed by the Secretary-General of UNCTAD, the ceiling price was fixed at 5·25 c./lb—at which point quotas would become inoperative. Although some 60 per cent of world sugar trade is conducted within the framework of preferential arrangements like the Commonwealth Sugar Agreement, the U.S. Sugar Act and the agreement between the U.S.S.R. and Cuba, the new international Sugar Agreement is important for Commonwealth countries. For example, it could mean an extra £14·6 million of export proceeds for Australia with its quota of 1·1 million tons; and Commonwealth Caribbean countries exporting to Canada at world price plus Commonwealth preference will get substantially higher returns in this market. On a wider plane a narrowing of differentials between "free" world prices and Commonwealth Sugar Agreement prices, in which devaluation of sterling also played a part, has been achieved.

The outome of the C.S.A. talks held in London in November–December 1968 was that the agreement will in future be of indefinite duration but subject to review every three years. Prices were fixed at the same level as for the three preceding years. In the event of successful completion of negotiations for entry into the E.E.C., Britain could not be committed to continuing contractual obligations under the Agreement after 1974, but the Agreement contains assurance of the efforts Britain would nevertheless make.

The U.N. Cocoa Conference sat during November–December 1967 and agreement was reached on a few issues, such as conversion factors and definition of the quota year. In a resolution of UNCTAD II, it was recommended that a world conference on cocoa should be convened before the end of June 1968. In that month, however, only informal consultations were held in Geneva between the main cocoa producers and consumers, without agreement on the all-important question of the price range. Subsequently, F.A.O. estimated that 1968–69 would be the fourth consecutive year in which consumption was expected to exceed production, and with the currency fever of November 1968 adding a new speculative element to the market's estimation of the depleted, rain-damaged West African crop, prices topped 450s/cwt in London. The Gill and Duffus Cocoa Price Index based on the spot price of main crop Ghana

* The Agreement entered provisionally into force on 1 January 1969, as scheduled.

cocoa in New York moved from an average of 45·48 in 1965, to 64·29 and 76·49 in 1966 and 1967 respectively, reaching 90·52 in the past year. With world stocks at a low level following three seasons of deficient production, the value of cocoa exports from Ghana and Nigeria for the whole of calendar 1968, on a firm or rising market, was highly satisfactory.

Among the beverages, coffee and tea (in sharp contrast to cocoa in recent years) have suffered from a condition of general oversupply—actual or potential. Actual surpluses of coffee have been very large indeed, but the greater part of them has been held by Brazil, the major producer, which has taken unilateral and energetic steps to reduce coffee acreages. The working of the International Coffee Agreement kept prices remarkably stable during 1967 and 1968, at which level green coffee from Brazil was as remunerative as at the beginning of the 1960's. East African coffee became substantially more profitable in the 1960's and acreages, production and exports rose substantially. The International Coffee Agreement concluded at the U.N. Coffee Conference in 1962 was renewed in February 1968 for another five years. The Agreement contains new features, notably production goals and control, a diversification fund and a flexible system for quota adjustment. The Council of the International Coffee Organisation established an initial overall annual export quota for its members of 47·8 million bags (of 60 kilograms) for the coffee year 1968–69, beginning on 1 October 1968*. In setting this the Council had adopted an estimate for total world imports and exports of coffee in 1968–69 of between 51·7 million and 53·2 million bags, of which probable exports from non-member countries were not thought likely to exceed half of one per cent.

Tea is in a much less happy situation. The world's tea exporting countries, principally Ceylon and India, have been living with a general downward drift in prices for eleven years. The last time retail prices in the United Kingdom—which absorbs nearly half the world's exportable production—was raised because of higher raw material prices was in 1957. Over 1968 as a whole the London auction price averaged 2d/lb. lower than in the preceding year. Tea stocks are very small compared with coffee stocks, but there is no international agreement to regulate supplies reaching the markets. All the tea produced is consumed, but the growth of consumption is sluggish in comparison with that of production. With world supplies continuously on the edge of surplus and a steady erosion of prices, total foreign exchange earnings have stagnated. Tea has turned out to be a particularly good diversification crop in East Africa and has fitted well into the pattern of small-holdings built up after independence. There was close agreement, among producing and consuming countries at the F.A.O. conference held at Kampala in January 1969, on the need for action to secure stable prices remunerative to producers and equitable to consumers. The conference set up a 16 nation working party to recommend ways of remedying the situation. The first meeting of the ad hoc Working Party was due to take place in May 1969.

The development of world markets for fats and oils, with the exception of lauric oils, was the opposite of that for cocoa in 1968. Although some prices (for forward delivery) recovered significantly in the closing months, for most of the year the world fats and oils situation was depressed. There was a surplus of vegetable oils and oil seeds, and the prices of many oils were at their lowest for 30 years: but the problem was not confined to vegetable oils and fats since lard had also been selling at the lowest price for 30 years, and Europe's butter surplus hung over the market. Prices for groundnut oil did not drop to the same extent as those of most other oils, in spite of Senegal's production increase and the bumper Indian crop which reduced that country's P.L. 480 requirements, but

* The Agreement itself entered into force on 30.12.68, after ratification by 41 exporting and 20 importing member states.

palm oil prices were sharply reduced. Price trends in world fats and oils markets were not uniformly unfavourable to producers, however. In terms of U.S. dollars, auction values in Colombo and Manila for coconut products were substantially higher in the first half of 1968 than in 1967, mainly due to typhoon damage having cut production and export volume from the Philippines.

Along with vegetable oils, rubber is a product of export interest to both Ceylon and Malaysia. It makes up a third of the latter's exports while for the former country it is a vital element in a bilateral trade agreement with China. In 1967, a three-month pneumatic tyre strike in the United States, and generally poor economic conditions in Western Europe, hit rubber values hard. Support buying by the Malaysian Government failed to check a continuous drift which took prices to a 19-year low. After a relatively severe "wintering" season in Malaysia early in 1968, followed by booming consumption in the Western world, the Malaysian Government was able to dispose of its stockpile, and overall stocks returned to a more manageable level. Prices on a rising market in 1968 averaged little different from those on the falling market in the previous year, but gross export volume from Malaysia in 1968 reached a new peak of 1,104,777 long tons, an increase over 1967 of 130,145 tons. By the end of January 1969 prices on the London terminal market had reached a 3½ year high, and a further sharp rise followed the announcement in February of discontinuation of U.S. stockpile sales. In September 1968 the Malaysian Government ratified the constitution of the Association of Natural Rubber Producing countries and also approved the proposal for Ceylon to become a member. The constitution, finalised in London in May 1968, was to come into force when at least four member governments had deposited instruments of approval.

Tin metal, another commodity of prime importance to Malaysia, and to a less extent Nigeria, was in potential oversupply throughout 1968 and average prices (in terms of U.S. dollars) were about ten per cent lower in the first nine months. Releases from the U.S. stockpile were discontinued by the General Services Administration in July, and in September the International Tin Council announced restrictions on the volume of exports from the major producing countries until the end of the year. The Council's buffer stock at the time amounted to 11,290 tons, and the U.S. stockpile amounted to 60,000 tons. The announcement of export controls seemed to have little immediate effect on market sentiment as it was not clear that the size of the quotas would make much difference, but prices shot up from the end of October to year's end on account of the U.S. east coast strike situation, hedge buying at the height of currency uncertainties and a calculation that 1969 might be a deficit year for the metal. In the first eleven months of 1968 tin exports from Malaysia were reported at 80,406 tons compared with 66,690 tons in the comparable period of the previous year. In December the Tin Council announced continuation of export quotas at the same quarterly rate of 38,000 tons overall.

Copper was subject to many of the same influences during the year. Generally speaking, however, prices of this metal have held much better than those of tin ever since the sharp upswing of prices starting in 1964. With no surplus overhanging the market, with world production concentrated in the hands of a few major companies, and with recurrent interruption of supplies, especially from Chile, copper producers over the past five years have enjoyed almost unrivalled prosperity among primary producers. On average, prices in 1968 were no less than in 1967. In the later months of 1967 and early in the following year there was a sharp rise in prices due to a prolonged strike of U.S. copper workers. This caused an acute shortage of immediate supplies and a wide backwardation —the premium of the L.M.E. cash price over the three months forward price— and led to some official discussion between Chile and Zambia regarding the appropriate price basis for their export contracts.

Among the fibres of chief interest to developing countries of the Commonwealth are jute, cotton and sisal. All, like rubber, face a serious challenge from synthetics and the development of more advanced industrial processes, but only in the case of sisal have prices been uniformly unfavourable in recent years.

The F.A.O. Study Group on Jute, Kenaf and Allied Fibres, at its fourth session in September 1968, projected world import requirements for jute and allied fibres during the 1968–69 season at 908,000–951,000 tons. On the other hand, the total amount of jute available for export was forecast at only some 864,000 tons. Price levels during 1967–68 resulted in extensive shifts from jute to paddy in India and Pakistan, and drought at sowing time was followed by floods in East Pakistan and West Bengal. It was expected that mill consumption in Pakistan would expand further in 1968–69, and that India, which in the previous season had met its mill requirements almost solely from domestic production, might once again have to import raw fibre. But importing countries emphasized that the Consultative Committee's recommended price was already at a level at which competition from synthetics and substitutes was making considerable progress, and it was agreed to maintain the "indicative price range" at £109 per long ton plus or minus £6 a long ton f.o.b. Chittagong/Chalna for lower grade Pakistan jute. Only a month after the Study Group's meeting in Rome, heavy speculative buying drove prices up to well over the "indicative price." The Government of India promptly put price control on sackings and imposed rationing of raw material to ensure that production was guided according to its priorities, but partial closure of mills was unavoidable. The Raw Jute and Jute Goods Buffer Stock Association was licensed to import 500,000 bales and annual production of jute goods was cut back by 20 per cent of the installed capacity of 1·3 million metric tons. Official efforts are being directed towards establishing a buffer margin of 1 million bales of fibre; already in the past decade periodic shortages, and competition from Pakistan, have brought down India's share of world exports of jute manufactures from over 80 per cent to 60 per cent.

World import requirements of sisal were expected to drop by just over 1 per cent to 634,000 metric tons in 1969, against 642,000 tons in 1968, according to estimates from the F.A.O. Consultative Sub-Committee on hard fibres which met in November 1968. But despite the drop, producers and consumers represented on the committee agreed that the global export quota should be maintained at 640,000 tons, the same as for 1968. These informal stabilisation arrangements, first agreed by the F.A.O. Study Group on Hard Fibres in September 1967, are generally thought to have had some real impact on prices though they still range below the target of £85 15s a long ton, plus or minus £5 for East African Rejects (under grade). As a further move towards the target price, producers and buyers at the meeting agreed on a new interim minimum level of £72 a ton c.i.f. Europe for the same grade until the next session of the Consultative Sub-Committee in April 1969.* This was £5 above the minimum set earlier in 1968.

International trade in cotton took on a healthier look in 1967–68. For years world price levels and trade had been depressed by U.S. cotton acreages and exports subsidised by the Commodity Credit Corporation. But in the past two seasons there was a return to relatively prosperous free-market conditions as massive world stocks, built up since 1962, were cut to less than five months

* At the April meeting a cut of 9·2 per cent in world export quotas to 581,000 metric tons for 1969 was agreed. It was decided that a minimum price of £74 a metric ton, c.i.f. Europe, should be introduced for East African sisal No. 3 long (the first time a price target had been set for this grade), while the East African Rejects price would remain the same but producers would absorb the existing Suez Canal surcharge. The price of Brazil No. 3 sisal was to be raised in steps to £66/ton c.i.f. Antwerp.

supply. For the 1968–69 season which began on 1 August 1968, the U.S. crop was estimated at over 11 million bales, or some 50 per cent higher than in the previous season, and the prospect also of an unusually large crop of South Brazilian cotton weakened prices for most raw cottons. The Liverpool c.i.f. index, based on prices of 12 American type cottons of medium staple length, stood at 28·25 cents/lb in mid-January 1969, compared with 29·25 cents two months previously and 33·10 cents in January 1968. On the other hand the extra-long staple cottons, mainly from Egypt and the Sudan, were some 10–12 per cent dearer at the beginning of 1969 compared with year-ago prices (plus $\frac{3}{4}$ of one per cent dearer in most importing countries because of the general imposition of a war risk surcharge on goods carried under Middle Eastern flags). In November 1968 it was announced by the Indian Commerce Minister that India would have to continue cotton imports at the end of its fourth five-year plan because of rising mill consumption and larger textile exports. In the following month it was announced in Kampala that the Government of Uganda had agreed to buy out the Cotton Research Station at Namulonge which had been founded in 1950 by the Empire Cotton Growing Corporation.

Both Australia and New Zealand have in recent years introduced innovations in the marketing of wool. The New Zealand Wool Commission, soon after its establishment in 1966, was faced with a "catastrophic" fall in prices and, successively reducing its floor price in an effort to keep solvent, it introduced a deficiency payments scheme. A Wool Marketing Study Group later recommended establishment of a wool purchasing authority, and while Australasian pastoralists have always evinced a lack of enthusiasm for government interference, the suggestion was put forward in New Zealand that market intervention by the Wool Commission from a permanent stockpile would give many of the advantages of a purchasing authority without depriving the farmer of his freedom in marketing. In Australia, the Wool Industry Conference in November 1968 approved a proposal to form a non-statutory Wool Marketing Corporation to operate from July 1969 and having as one of its functions the amelioration of short-term price fluctuations through the regulation of wool on to the market in times of abnormally high or low prices.

Among the other major export commodities common to Australia and New Zealand are meat and dairy produce. Meat did well in 1968 but butter, cheese and skimmed milk not so well. There was some concern during September and October that increased shipments of beef from Australia and New Zealand to the United States would bring total imported supplies on that market to the figure (1,045 million lb. for 1968) at which quantitative restrictions would be invoked. The New Zealand Meat Board co-operated with the Australian Board to limit shipments on a "voluntary" basis to obviate this, but the restrictions came as a setback to New Zealand meat producers at a time when noteworthy increases in beef production were being achieved. While other markets for beef could be found, none were so profitable as those in the United States.

The dairy products situation in 1968 was dominated by Europe's 300,000 ton butter surplus which hung over the market. Early in the 1967–68 season there was a threat to the quota system in the form of increasing imports into the British market of "near butter" and butter oils. After approaches by New Zealand, Australia and other interested parties the British Board of Trade revoked existing licences for the import of "near butter" in 1967–68 and restricted imports of this description to 9,000 tons, provided they were not used for reconversion into butter, for the quota year 1968–69. The overall situation with regard to cheese was hardly more satisfactory. Revised quotas were imposed by the United States on certain cheeses as well as on condensed milk in 1968, affecting mainly the Netherlands and Australia—New Zealand successfully lobbying to have its cheese quotas in this market increased. In June 1968 the

New Zealand Government formally approached Britain seeking the imposition of a quota system similar to that for butter, but it was not until early 1969 that formal arrangements could be arrived at. The Irish Republic found difficulty in accepting a quota system within the terms of the Anglo-Irish free trade agreement, and reserved its position while exercising restraint.

The International Grains Arrangement negotiated in Rome, July and August 1967, and embodying the Wheat Trade Convention and the Food Aid Convention, came into force on 1 July 1968 after a year in which the International Wheat Council had had no jurisdiction over wheat prices or purchase obligations. The Wheat Trade Convention, like the former International Wheat Agreement, takes the form of a multilateral contract between exporting and importing member countries; but the undertaking by importing countries is stronger in the new Arrangement than under the I.W.A. since their obligation to buy within the approved price range applies to purchases from non-member countries as well as to those from exporting members. The International Wheat Council, which administers the Wheat Trade Convention, met in November 1968 to review the current wheat situation, and the outlook for 1968–69. The Council observed that world production and stock prospects for 1968–69 showed a significant change from the 1967–68 season; that world production was likely to reach a record level while the volume of international trade was unlikely to show a major change; and that carry-over stocks in some of the major exporting countries could be expected to show a considerable increase.

Manufactures and semi-manufactures:
trade liberalisation and preferences

With the increasing needs of foreign exchange for the implementation of their plans for economic development, developing countries have in recent years been looking more and more towards the expansion of markets for their manufactured and semi-manufactured products. World trade in manufactures has indeed been expanding rapidly—by an annual average of about 12 per cent from 1964 to 1968, compared with about 9 per cent for world trade as a whole. This has especially benefited the industralised world and it is noteworthy that, over the same five year period, the average annual expansion of the trade interchange between O.E.C.D. countries themselves, equalling the 9 per cent growth of world trade, exceeded the average annual advance of their imports from primary producing countries by two percentage points. The conclusion has been drawn that the greatest scope for a more rapid expansion of the foreign exchange earnings of developing countries would lie with manufactures and semi-manufactures exported to the richer countries of the world.

The problems connected with the export of manufactures and semi-manufactures from developing countries are many. Among the most important of them is the lack of adequate access to the developed-country markets of the world by virtue of the existence of a number of tariff and non-tariff barriers to the products of developing countries which, owing to their stage of development, are unable to compete effectively with the exports of developed countries themselves. Some of the other problems are poor productivity, absence of adequate techniques for preparing goods for export and marketing, and lack of merchandising skills and of effective promotional measures. The solutions to these problems are to be found in various fields—in trade liberalisation, involving mainly preferential treatment of products of developing countries, in technical and financial assistance for assisting efficient production and active promotional efforts by national governments of developing countries assisted by international agencies. In recent years, greater regional and inter-regional co-operation has been attempted in order to secure economies of scale, and the elimination of barriers within developing countries.

In the field of trade liberalisation, although a series of proposals emerged from the committees set up by GATT in the early '60's for dealing specially with the problems of the less advanced countries, the moves that were actually made proved to be tardy and insufficient. Consideration was mainly given to certain tropical products like tea, tropical hardwoods and certain spices, and the field of manufactures and semi-manufactures was scarcely touched. The Kennedy Round of trade negotiations which began in 1964 and ended nearly three years later, and which was hailed as the single most ambitious step so far taken by GATT for securing tariff cuts for the trade of industrial goods, was generally recognised as benefiting essentially the industrialised participants. Disappointment was, therefore, expressed by many developing countries and further moves urged for special exercises with a view to taking account of the unresolved problems of developing countries. In the meantime, fundamental changes in thinking had taken place both within GATT and outside and the creation of UNCTAD foreshadowed a new deal for the developing countries of the world. In the GATT too, the special importance attaching to the question of trade and development was borne out by the incorporation of Part IV on Trade and Development.

The question of according special treatment to the products of developing countries was raised in the wider international plane at the First United Nations Conference on Trade and Development held in Geneva in 1964. At this Conference, Britain had welcomed the initiative of developing countries and offered to "generalise" Commonwealth preferences provided Commonwealth countries concerned were agreeable and provided other developed countries accorded similar preferences to developing Commonwealth countries so as to compensate the latter for having to share their preferred position within the Commonwealth with non-Commonwealth developing countries. Not much progress could be made at the first UNCTAD on this question but international opinion continued to gain ground in favour of such special treatment and eventually led to a crucial and fundamental change during 1967 in American trade policy in favour of a consideration of temporary special tariff treatment for products of developing countries. These and other moves aided a conclusive consideration of the question at UNCTAD II held in New Delhi early in 1968, and led to the adoption of a unanimous resolution under which the principle of the grant of non-discriminatory non-reciprocal generalised preferences for the products of developing countries in developed-country markets was accepted, and a special committee on UNCTAD was set up in order to work out such a scheme of generalised preferences for implementation as far as possible early in 1970. The first meeting of the Special Committee on Preferences took place towards the end of 1968 to record the progress made by preference-giving countries—mainly O.E.C.D. members—in preparing their proposals, and to draw up a rough timetable of further action during 1969.

In the meantime, Australia, alone among the developed countries of the world and ahead of international initiatives in this behalf, introduced with the concurrence of GATT a scheme of preferential duties on imports of certain manufactures and semi-manufactures and handicraft products produced in developing countries. A first list of products and quotas was issued in 1966 and has since been followed by two more lists with a view to improving the operation of the scheme and progressively widening its scope. Towards the end of 1968 the Australian representative stated at the annual session of GATT that the total value of preferential quotas available to developing countries had increased from about £5·5 million in the first year to slightly more than double that sum, while the total quotas actually issued within the permissible limits had very much more than doubled even by 1967–68.

The developing countries of the Commonwealth have also had under consideration, meanwhile, the effects of the generalised scheme of preferences on existing Commonwealth preferences. All of them have been emphasising the importance of securing adequate compensation for the loss of existing trading benefits consequent on any scheme that may come into being in pursuance of the efforts at UNCTAD. Accordingly, Commonwealth Prime Ministers who met in London in January 1969 decided that there should be continuing consultations among Commonwealth countries on this subject during its consideration by UNCTAD and in other international forums and that the Commonwealth Secretariat should be in touch with developments in order to assist member countries in such consultations.

Trade expansion among developing countries and regional co-operation

While pressing in various international forums for the removal of the existing barriers to trade in developed countries, developing countries have simultaneously been considering, both in UNCTAD and in regional organisations, measures for liberalisation of trade among themselves. Despite the fact that owing to the requirements of their economic development and of satisfactory balance of payments, many developing countries have necessarily had to impose certain restrictions on their non-essential imports, developing countries have expressed their readiness to consider relaxation of restrictions to trade among themselves and, more positively, concrete measures for the expansion of such trade. This has led in recent years to various forms of regional and inter-regional co-operation both within and outside the Commonwealth, calculated not merely to reduce trade barriers but to harmonise industrial and development plans and, in a few cases, to the formation of customs unions and common markets.

In the context of expansion of trade among developing countries, India entered into a Trade Expansion and Economic Co-operation Agreement with two non-Commonwealth countries, namely, the U.A.R. and Yugoslavia, towards the end of 1967. Under this arrangement, which came into force on 1 April, 1968, and which was formally approved by GATT towards the end of that year, the three countries have cut tariffs on a range of imports from one another, consisting mainly of manufactures and semi-manufactures by 40 per cent (raised to 50 per cent from 1 April 1969). The common preferences list has been negotiated with reference to the interest of the individual countries and mutuality of benefit, and covers six to ten per cent of the trade of the three countries with each other. There is provision for new entrants to the scheme, with a corresponding review of the common list, and for a possible merger with other similar systems.

Another Commonwealth country, Pakistan, entered a few years ago into an Agreement for Regional Co-operation and Development with two non-Commonwealth countries, namely, Iran and Turkey under which a number of measures for co-operation in trade, and in various economic fields have been agreed on. An instance of a regional arrangement between a developed Commonwealth country, namely, Canada and the United States of America is the Automotive Products Agreement entered into between them in 1964, and it is a striking fact that since the operative date of the Agreement the expansion of trans-border trade in complete vehicles and automotive parts has accounted for about 15 per cent of the increase in world trade (of all countries).

The Lagos Agreement, associating Nigeria with the E.E.C., was still a dead letter in the absence of ratification by the French Parliament, while the Arusha Agreement signed in 1968, and linking Kenya, Uganda and Tanzania in a similar manner with the E.E.C., could not operate for lack of the necessary ratifications before its expiry date—timed to coincide with termination of the Yaounde Convention in May 1969. Progress was made with the Maltese Government's request for negotiations "with a view to establishing a relationship between Malta and the Community in such form as may be considered most appropriate."

Outside the European context, Zambia, Ethiopia, Somalia and Burundi applied in 1968 to join the East African Community which was launched at the end of the preceding year—following the Philips Commission's report on the working of the former East African Common Market and the Kampala Treaty of Co-operation signed in June 1967. The treaty under which E.A.C. was formed provided for the introduction of a transfer tax to promote balanced industrial development among the three countries. Any one of the countries in deficit on its total trade in specified manufactured goods with the other two countries may, conditionally, impose transfer taxes limited to half of the relative (external) customs duties on such goods originating in those countries. The formation of E.A.C. was a major step in African economic co-operation and development, and the hope was soon entertained for its expansion. No set procedure was laid down by the Treaty of East African Co-operation for carrying out this process, which would necessarily be lengthy and difficult for several reasons, but an exploratory series of talks was held in Mombasa in November 1968.

At a summit conference in Barbados in October 1967, Commonwealth Caribbean Heads of Government agreed on the establishment of a regional free trade area to enter into effect on 1 May 1968. The CARIFTA Agreement provides essentially for the removal of tariffs on all trade between signatories with the exception of products specified in a relatively short Reserve List. Trinidad & Tobago, Guyana, Barbados and Jamaica have five years to abolish tariffs on reserve items and the smaller members ten years. A supplementary agreement includes an agricultural protocol requiring member countries to reduce their extra-zonal imports of 22 basic food commodities over three years to 30 per cent of their 1966 level.

The Eastern Caribbean Common Market Agreement, which was signed in Grenada on 11 June 1968, creates a common market comprising the five Associated States of the West Indies (Antigua, Dominica, Grenada, St. Kitts and St. Lucia) and St. Vincent.* The elimination of import duties among the Common Market territories follows the schedule used by CARIFTA. Article 7 of the Agreement provides for the establishment of a common external tariff within three years.

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* All of which are members of CARIFTA.