PART I

General Review

THE COMMONWEALTH IN WORLD TRADE

Summary

The year 1969 was one of consolidation for Commonwealth trade after the events of 1966 and 1967, including the series of currency devaluations, in which most Commonwealth countries had participated except Australia, Canada, Pakistan, Malaysia, Singapore, Zambia, Nigeria and the members of the East African and South African customs areas. With commodity prices favourable to producers in 1969, notwithstanding significant and important exceptions, and the continuance of the "green revolution" in India and Pakistan, the Commonwealth shared in the expansion of world trade at a record pace.

As detailed in the relevant sections of this general review, there was no striking change in the orientation of Commonwealth trade which, at least on the side of imports, showed no variation measurable to the nearest percentage point (Table 15). Commonwealth exports rose from £18,171 million in 1968 to £20,559 million in 1969. Within this total a smaller proportion went to the United States, as was only to be expected in view of the slower expansion of this market, while greater shares naturally went to the expanding economies of the E.E.C. and Japan. Although the tendency continued for intra-Commonwealth trade to fall relative to the total trade of Commonwealth countries, the exchanges between Commonwealth countries rose by 9 per cent (as measured on the side of exports), or by 7 per cent (imports). These are high rates of increase by any standards.

Trends in international trade

The year 1969, like its predecessor, turned out towards the end to have been exceptionally favourable to world trade, and in this respect it belied earlier expectations of some of the most well-informed observers of the economic and trade scene. The volume of world production increased by about 5 per cent, compared with 6 per cent in 1968 and 4 per cent in 1967: and in spite of a slight deceleration of economic growth, confined to North America and the United Kingdom, world exports increased by about 15 per cent in value—the highest rate for nearly two decades.

Perhaps in view of the efforts of the United States authorities to bring about an improvement in the U.S. balance of payments, a more marked effect on the growth of the world trade had been widely expected. This was especially the case at the beginning of 1969, following the extraordinary growth of U.S. imports in the preceding year, and in view of the new monetary policies which, in the United States and on international capital markets, were accompanied by the highest level of interest rates for a long time. In the event, however, the growth of world trade accelerated to a rate exceeding the 11 per cent recorded in 1968.

In terms of volume, world trade grew at not very disparate rates in both the years, since a part of the 1969 value increment was due to inflation of the general level of export prices, amounting to about 3½ per cent. In the preceding year, by contrast, export prices had shown a slight decline. Thus after export prices had been adjusted for price movements the increase in the volume of world exports could be estimated at about 10 per cent for 1969—rather less than the 12 per cent gain of the previous year, which was the largest recorded for post-war years.

The expansion of world trade over the greater part of 1969 reflected an unusually fast growth of import demand in all industrial countries except the United Kingdom and the United States, combined with sustained growth of imports into developing areas. The United States and the United Kingdom, which together account for not quite a quarter of world imports, contributed only about an eighth of the growth of world imports in 1969, whereas the E.E.C., which accounts for nearly a third of world imports, contributed more than half of the increase. The expansion of U.S. imports by only 9 per cent in 1969, compared with about 24 per cent in the previous year, undoubtedly had some effect on Canada, for example, although the structural integration of Canadian with U.S. industry tended to minimise the effect. British exports to the United States, which had shown a phenomenal rate of growth in 1968, did no more than mark time for the year under review. Thus the record level of growth of world trade as a whole was largely because the European Community, which now imports half as much again as the United States, was experiencing an exceptional boom, and sucked in over 20 per cent more imports. So the rate of growth of U.S. imports dropped by two thirds without significantly cutting the growth of world trade as a whole. The import growth of Japan, Canada and of the West European countries other than the Six was about the same as the world average in 1969, and that of the developing countries as a whole was only slightly smaller.

As shown in Table 1, the U.S. share of world exports recorded a marked fall, to emphasise a trend which has developed since 1966: the fall in its share of world imports, on the other hand, was in reversal of a tendency for its imports to grow disproportionately as the economy was operated close to full capacity. Towards

TABLE 1

WORLD TRADE BY MAJOR AREAS *a*

	1965	1966	1967	1968	1969
	£ thousand million (f.o.b.)				
World exports *b*	59·1	64·8	68·0	88·7	101·3
of which Commonwealth ..	12·8	14·0	14·3	18·4	20·9
	percentages of world exports				
Commonwealth	21·6	21·5	21·1	20·8	20·7
United States	16·6	16·8	16·6	16·3	15·6
Latin America	6·3	6·1	5·8	5·4	..
European Economic Community	29·0	29·0	29·5	30·2	31·2
EFTA (Continental)	7·8	7·6	7·8	7·6	7·7
Japan	5·1	5·4	5·5	6·1	6·6
Rest of world *b*	13·6	13·6	13·7	13·6	18·2 *c*
	£ thousand million (c.i.f.)				
World imports *b*	62·5	68·6	72·3	93·7	106·0
of which Commonwealth ..	15·0	15·8	16·6	20·8	22·5
	percentages of world imports				
Commonwealth	24·0	23·0	23·0	22·2	21·2
United States	13·2	14·4	14·2	15·8	15·1
Latin America	5·0	5·1	5·0	4·9	..
European Economic Community	28·1	27·9	27·2	27·6	29·8
EFTA (Continental)	9·2	9·0	8·9	8·5	8·6
Japan	4·7	5·0	5·8	5·8	5·9
Rest of world *b*	15·8	15·6	15·9	15·2	19·4 *c*

a The pound sterling was devalued by 14·3 per cent in November 1967.

b Excluding the trade of Eastern European countries, China, North Korea, North Vietnam and Cuba which according to available data would have added some 15 per cent to the world total for 1965.

c Including Latin America.

the end of 1969, real national output in the United States actually declined, mainly as a result of the restrictive monetary policies in force.

The Commonwealth share of world exports showed little change, although it was subject to a number of adverse influences, especially those emanating from the United States which affected Britain and Canada, among others, and the weakness of some markets for wheat and wool. Canadian wheat sales to the Soviet Union and China were lower in 1969, and protracted work stoppages due to strikes at the mines and mills of leading producers cut exports of iron ore by a quarter. As against this, however, devaluation of sterling and a number of other currencies at the end of 1967, which had depressed export values in the first half of the following year, clearly began to have its desired effect in 1969 when the British export performance started showing encouraging results. In addition, many developing countries of the Commonwealth felt the beneficial effects of generally firm markets for tropical produce and non-ferrous metals. Largely because British imports were successfully held down to such small proportions in 1969, thus helping to bring about a major turnround for the better in the balance of payments, and a major accession of strength to the pound sterling, the Commonwealth share of world imports continued to decline.

The European Economic Community's share of world exports increased by one percentage point and its share of world imports by over two points. The Japanese share of world imports still showed no very significant change, while its share of exports bounded ahead once more as the value of its overseas shipments rose by a quarter. As from 1969, Japan took the place of Canada as the fourth trading nation of the world after the United States, the Federal Republic of Germany and the United Kingdom.

As usual trade in manufactures rose faster than total trade in 1969, industrial countries' exports faster than primary producers' exports, and industrial countries' trade with one another, particularly in Europe, faster than their trade with the rest of the world. There was, however, little change in the balance of trade between the members of O.E.C.D. and other countries.

From less detailed information on the trade of developing countries it would seem that their total exports increased by about 9 per cent in 1969, about the same as in 1968. In view of the increase in commodity prices, the rise in volume terms would have been smaller. Export growth was more rapid in Africa, the Middle East and South and East Asia than throughout Latin America. According to a preliminary announcement by the GATT Secretariat the main beneficiaries of this trade expansion, apart from petroleum exporting countries, were developing countries having a special interest in the Japanese market, as well as those whose exports comprised a relatively important proportion of manufactures. A number of countries also benefited from the large price increases of certain primary commodities such as copper, rubber, cocoa and, towards the end of the year and the early part of 1970, coffee.

According to provisional data published by the United Nations, exports of manufactured goods by industrialised countries in 1969 rose some 15 per cent above the level of the preceding year in terms of value. The unit value index for these exports went up by about 3½ per cent, a fraction less than the increase in the price index for primary commodities and substantially less than the rise in the index for non-ferrous metals. Thus the terms of exchange between manufactures and primaries in 1969 moved somewhat to the advantage of the latter.

The main features of the monetary situation having a close bearing on the valuation of trade in 1969, and the course of trade in succeeding years, have been the devaluation of the French franc by 11·1 per cent in August, followed by an upward adjustment of the D Mark from 30 September and its revaluation by

9·29 per cent on 24 October. It was thought that these measures at least temporarily removed some of the most pressing doubts about the international monetary system, although there was public discussion on the valuation of the Japanese yen, and the course of American policy in relation to its balance of payments continued to be closely watched. An accord was reached between the I.M.F. and the South African Reserve Bank on gold sales under the two circuit system. This, together with the end-of-year I.M.F. announcement of an average 35 per cent increase in quotas and an allocation of special drawing rights equivalent to 16·8 per cent of Fund quotas for participating countries (Singapore being the only non-participating Commonwealth country) seemed calculated to allay apprehensions on the score of international liquidity for the time being.

International trade policy

In the field of tariff reductions under the auspices of GATT, Canada unilaterally applied the final post-Kennedy rates as from 4 June 1969 and cuts were made by other countries in accordance with the original time schedule. Although legislation had been sent to the U.S. Congress by the Johnson Administration for the abolition of the A.S.P. system of duty valuation of certain chemicals, it did not reach the statute book. The other signatories of the Kennedy Round Protocol to the GATT agreed to leave open to the end of 1970 their offer to make the reciprocal concessions agreed upon. As regards the possibility of a resumption in the near future of substantive GATT negotiations, even after the urgent request of the GATT Director-General, members attending the February 1970 session were unable to authorise preparations for a new round leading to further reduction of tariffs and a concerted attack on non-tariff barriers. A major reason for this was the E.E.C.'s plea about the preoccupation of senior officials of its member countries with negotiations on the applications for membership of the Community.

The "Hague Summit" of heads of government of the Six, held in December 1969, was in some respects the most significant event of the year having a bearing on Commonwealth trade. At this meeting a major impediment to British membership of the E.E.C. was removed. After completion of outline arrangements for the financing of the Common Agricultural Policy and the Community institutions, and after filling in the details of the agricultural package deal (which finally went forward in April 1970 with an agreement on technical aspects of the internal policy for wine), it became virtually certain that negotiations for the adhesion of Britain, the Irish Republic, Denmark and Norway to the European Community would be proceeded with. About a year earlier, in mid-1969, the second Yaoundé Convention and the second Arusha Convention had been signed. These, however, still await complete ratification.

The question of generalised preferences, which again has a close bearing on the trade of Commonwealth countries, especially the developing ones, continued to be the subject of discussion during the year. The first meeting of the UNCTAD Special Committee on Preferences had taken place in November 1968 to record the progress made by preference-offering countries—mainly O.E.C.D. members—in preparing their proposals. During most of 1969, work was carried forward in several venues, mainly in the O.E.C.D., and UNCTAD, and the atmosphere of confrontation that had been detected in earlier negotiations gradually gave way to mutual understanding, as seemingly less rigid positions were taken up. Repeated setbacks to the timetable originally drawn up by UNCTAD, occasioned mainly by the re-thinking of its foreign economic policy by the new Administration in the United States, while causing disappointment among developing countries, served to some extent to soften some of the sharp edges of the controversy. The fourth protocol to the second Yaoundé Convention, when it was signed in July, stated that "The provisions of the Convention and in particular of Article 3 shall not constitute an obstacle to the realisation of a generalised system of preferences, nor to the participation of the Association States in such a system." A similar formula was drafted into the revised Arusha Convention.

On 14 November 1969, the O.E.C.D. submitted a Report to the Secretariat of UNCTAD in accordance with the earlier undertaking. The report consists of two parts, the first covering the main characteristics of a scheme of generalised preferences as seen by developed market economy countries, and the second covering individual submissions of the eighteen countries involved, i.e. the E.E.C., the Nordic countries (Denmark, Finland, Norway, Sweden), Austria, Canada, the United States, the Irish Republic, Japan, the United Kingdom, Switzerland and New Zealand. Australia participated in the discussions in the O.E.C.D. but indicated that it intended to continue the progressive development of its own system of preferences for developing countries.

These provisional proposals of the O.E.C.D. countries were discussed at the fourth session of the Special Preferences Committee of UNCTAD in April 1970. The main purpose of this meeting was to acquaint the preference-offering countries with the view of beneficiary countries on the tentative proposals already published. Informal consultations were held by representatives of Commonwealth countries at the same time. The exchange of views in both the Commonwealth and the UNCTAD forums proved useful and work is still proceeding within the O.E.C.D. with a view to resolving to the extent possible the differences in approach, before the resumed fourth session of the Committee considers the matter again and submits its Report to the Trade and Development Board of UNCTAD.

At the ninth session of the UNCTAD Trade and Development Board in September 1969 a resolution was adopted, with 43 countries in favour and with seven abstentions, laying down general directives for implementation of a supplementary financing system which would to some extent insure the developing countries against the risk of having their economic development disrupted as a result of the considerable fluctuations experienced in export proceeds from one year to the next. Among the abstentions, particular mention may be made of France, which adhered to the principle that stabilisation of receipts could more easily be obtained by the stabilisation of markets, and Belgium, which was unable to accept that supplementary funds should not be linked with the stabilisation of prices. It was generally recognised that fluctuations in export proceeds, including invisibles in some cases, could indeed jeopardise development plans. The resolution requested I.B.R.D. to work out intervention schemes and to apply them should opportunity present itself.

Commodity trends and arrangements

The year 1969 was full of striking contrasts and marked price changes in world commodity markets. Wheat prices slumped, wool prices fell sharply (crossbred to the lowest level for about 10 years) especially during the latter half, and the depression in the tea market worsened. On the other hand boom conditions were encountered by all metals, rubber and (after a weak start to the year) by coffee and oils and fats. Several new attempts were made to bring more stability to commodity markets. The first steps towards regulatory agreements were taken for tea and sisal; Asian coconut producers formed a joint agency; and facilities were offered by the I.M.F. and I.B.R.D. for relatively easy financing of buffer stocks or other operations aimed at stabilisation of markets. Progress was limited, however. The cocoa negotiations ended with no result, and each of the major international agreements already in operation came under great stress. For wheat, sugar and coffee, prices at some points of the year sank below the agreed price range: for tin, and later in the year coffee, they rose above it.

The International Sultana Agreement between Australia, Greece and Turkey came close to collapse in the early part of 1970.

Commodity prices in general, however, showed increases, comparing average quotations in 1969 with the averages of the preceding year. The most notable rises were in prices of non-ferrous metals. According to the indices published by the National Institute of Economic and Social Research in London, export prices of all "commodities" were on average 10 per cent higher in 1969 than in the preceding year. While prices of non-ferrous metals showed an average rise of 16 per cent, the increases in the cases of foodstuffs and agricultural raw materials were 10 per cent and 6 per cent respectively. However, the price indices of world exports by commodity classes, compiled by the United Nations Statistical Office, show smaller rises for 1969 compared with 1968: the rise for primary commodities amounted to 4 per cent on this basis and 9 per cent for non-ferrous base metals.

Apart from special factors which affected prices for particular commodities, such as strikes in the copper mining industry and poor harvests of coffee, pepper and sunflower, two general economic factors underlay the rise in commodity prices in 1969. These were, first, the strong economic expansion in Western Europe and Japan, and second, the monetary uncertainty which prevailed during the first half of the year and which led to speculative buying in commodities.

Among the principal foodstuffs the most striking rise in price was that of 68 per cent in the free market price of sugar following the entry into operation of the new International Sugar Agreement at the beginning of 1969. Although the price at the end of the year under review had fallen below the lowest price mentioned in the Agreement, the average price of 3·2 cents/lb was the highest recorded since 1964. In the first four months of 1970, free market sugar prices in London made a strong recovery, the London daily price reaching a peak of over £40/ton, which compares with the negotiated price of £43 10s 0d under the Commonwealth Sugar Agreement.*

Another notable rise was that in the case of coffee, prices of which went up 25–30 per cent in the second half of 1969. A declining trend during the first half of the year was reversed in July when a reduction in export quotas coincided with the news of severe frost damage in Brazil. The International Coffee Organisation's indicator prices for all coffees rose from 35·4 cents/lb in July 1969 to 46·3 cents/lb in December, and prices of each of the four main grades of coffee exceeded the ceilings fixed by the Organisation in the 1969–70 season, particularly so in the case of arabica coffees. For the year 1969 as a whole, however, the average price of all coffees was only 3 per cent higher than in 1968. In spite of even higher prices and shortages the International Coffee Council ended its quarterly meeting in March 1970 without deciding on any fresh measures concerning export quotas and prices.

The average price for pepper in 1969, which was 25 per cent higher than in the previous year, was the highest reached since 1960.

Despite a fall in December 1969, the average spot price of Ghana cocoa in New York reached 45·7 cents/lb, a level slightly higher than the average for 1968. Prices for the year as a whole showed less fluctuation than in the preceding year. Over 1·3 million tons of cocoa were produced throughout the world during the crop year 1969–70 making it out to be the second largest crop in history and exceeding the much reduced consumption for the first time in 5 years. It was expected that the low level of stocks would on this occasion slow down any

* Plus variable payments of from £1 10s 0d to £4/ton.

decline in prices in 1970, but this did not happen. Financial problems arising from falling stock markets had a depressing effect, and the July delivery contract on the London cocoa futures market in May, 1970, at about £270/ton, compared with average second position quotations of £400/ton in 1969.

During most of 1969, movements in the prices of the two main groups of vegetable oils and oilseeds were notably divergent. Until August, prices of soft oils fluctuated while those of lauric oils declined. Subsequently, prices of both groups of oils rose. In 1969 as a whole, however, prices of soft oils showed rises of between 10–25 per cent compared with 1968, while those of lauric oils suffered falls of 10–15 per cent. The surpluses of sunflower and fish oil supplies, which had overhung the market in 1968, disappeared during the course of the following year as a result of some crop failures and a sharply reduced catch of the Peruvian anchoveta. The good soya bean crop in the United States was insufficient to fill the gap.

The recovery of natural rubber consumption in 1968 and 1969 was reflected in a recovery of prices from March 1968 onwards, the rise being particularly marked in 1969. Although the average price of RSS1 rubber in Singapore in 1968 was no higher than the depressed level of 1967, the average for 1969 showed a rise of almost a third compared with the two previous years, as high demand almost everywhere—and particularly in the United States, Western Germany, China and Eastern Europe—coincided with the cessation of American stockpile releases.

Following a steep decline in the first half of 1969, reflecting the existence of exceptionally heavy stocks in the United Kingdom, tea prices recovered in the last 5 months of the year. Though partly seasonal, the recovery also owed something to a reduction of stocks due to a strike on Indian tea plantations. Nevertheless, the average price of tea in 1969 showed a further fall of about 6 per cent, compared with the preceding year, to a level which was 22 per cent below that of 1967.

In December 1969, countries accounting for 94 per cent of world exports of tea (excluding centrally planned economy countries) confirmed their intention to remove some 90 million lb of black tea from the 1970 export market, in line with the scheme agreed upon some four months earlier at a conference in Mauritius. This measure, which was designed to hold world market prices for tea as near as possible to the 1968 level, was welcomed by importing countries. Prices in 1968 were the lowest for 15 years, and it was estimated that without the implementation of the Mauritius plan, the average price per lb at the London auctions for 1970 might fall by another 4–6d. The agreement is, however, entirely voluntary: there is no enforcement and there is no means of stopping the spread of tea cultivation to more areas. A marked feature of 1969 was the increase of tea consumption in India attributed by trade experts to a general rise in incomes, following the two very good monsoons which boosted agricultural production. If the "green revolution" and plans for industrial development in India prove to be as beneficial as is hoped during the current decade, India's exportable surplus of tea may be expected to dwindle further.

The principal exceptions to the general rise in price levels in 1969, apart from tea, were wheat, rice, cotton and wool. After being in chronic deficit for practically the whole of the post-war period, rice is now once again in plentiful supply and prices have eased back considerably. Japan, owing to heavy subsidies to its farmers, found itself encumbered in 1969 with an accumulated surplus of over 5½ million tons of rice.

The fall in world import demand and the high levels of production and stocks in the principal exporting countries kept wheat prices below the minimum specified in the International Wheat Agreement throughout 1969. The successful introduction in India of a new type of wheat, supported by more modern cultivation, could make that country self-sufficient by 1971. In Ottawa, in the early part of 1970, representatives of the United States, Australia, Argentina and the European Economic Community joined Canada for a discussion on action toward the curtailment of world wheat production, to meet the demands of importing countries under the International Wheat Agreement. Earlier, the Canadian Government had announced completion of a national programme for limiting cereals production, including the granting of bounties for the reconversion of cereals-growing areas.