

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Trade and Development

## REVIEW OF DEVELOPMENTS IN INTERNATIONAL TRADE

(with particular reference to recent changes in commodity prices)

Note by the Secretariat

### PART ONE - PAST DEVELOPMENTS

#### I. PRICE MOVEMENTS OF PRIMARY PRODUCTS

##### A. Underlying factors and main trends

1. The sharp upward movement in prices of primary products which had started mid-1972 reached its peak during the second quarter of 1974.<sup>1</sup> During this period the United Nations index of export prices of primary commodities<sup>2</sup>, in dollar terms, had increased by nearly 130 per cent if fuels are included and by 90 per cent if they are excluded. During the same period, unit values of manufactures exported by developed countries had risen by about 40 per cent. One of the essential features of the commodity price boom had been the coincidence of three main elements: (i) sharp price increases for raw materials (including non-ferrous metals), caused primarily by the unprecedented growth of demand in industrial countries; (ii) the outbreak of war in the Middle East and the ensuing supply and transport problems for oil and for other raw materials; (iii) the shortfall of agricultural crops in a number of important producing countries in 1972/1973 which lead to a strong rise in prices of foodstuffs<sup>2</sup>, especially of cereals. In addition, the monetary uncertainties, coupled with the general inflationary climate, stimulated buying activity on the commodity markets. Moreover, because of the low level of prices in the years preceding the boom there was not sufficient incentive to expand production capacities for a number of primary commodities.

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<sup>1</sup>Including non-ferrous metals.

<sup>2</sup>Foodstuffs are a more important export category than raw materials (excluding fuels, but including non-ferrous metals) for both developed countries (\$34 billion and \$24 billion) and developing countries \$17 billion and \$12 billion, respectively, in 1972.

2. The slowing down of economic activity and the subsequent recessionary trends in an increasing number of industrial countries during the first half of 1974 led to a sharp contraction of demand for raw materials. Although demand for several food and feedingstuffs was also checked both by the levelling off in consumers' real income and by their high prices, the overall level of food prices was maintained throughout 1974 due to developments on the supply side of several commodities important in international trade.

3. For primary products as a whole, the United Nations price index shows a slight decline between the second and the last quarters of 1974. The decline during the third quarter was followed by a partial recovery in October and November, but in December, prices of primary products moved down again. For 1974 as a whole, prices of primary products, according to the United Nations index, were more than 50 per cent higher than in the preceding year, a slightly faster rise than between 1972 and 1973. This acceleration stemmed, however, entirely from the increase in petroleum prices in 1974. If fuels are excluded, prices of primary products increased in 1974 by only 25 per cent, as compared with 45 per cent in the preceding year. Export unit values of manufactures from developed countries increased by about 20 per cent in 1974, as against 16 per cent in 1973. The overall price level of primary products fell during the first quarter of 1975, as can be seen from Table 1.

4. Whereas between mid-1972 and the first quarter of 1974, most commodities, with only a few exceptions such as tea, bananas and jute, benefited at varying degrees from the price boom, since the spring of 1974 price movements<sup>1</sup> of individual commodities or groups of commodities showed increasingly divergent trends. Raw materials were first affected by the flattening out and subsequent decline of demand in industrial countries and for most of them, prices fell substantially during the course of 1974. During the last quarter, prices of natural fibres and natural rubber were lower than those during the first quarter of the year by nearly 25 per cent and 45 per cent respectively. In the case of ores and non-ferrous metals the decline between the peak level reached during the second quarter and the last quarter was also very pronounced (23 per cent).

5. Within the broad category of foodstuffs, price movements varied considerably during the course of 1974, reflecting largely differences in the prospective and actual results of current production. Additional important factors were (i) the extremely low level of stocks for some basic foods, especially cereals, which tended to maintain prices at high levels and (ii) different reactions of consumers from one commodity to another to either lower real income or higher prices.

6. Prices of cereals and some vegetable oilseeds and oils, after having increased much more than those of the other foodstuffs between mid-1972 and the first quarter of 1974, tended to decline somewhat during the spring and early

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<sup>1</sup>The development of world export prices of selected primary products is shown in Table 2.

summer. The price-increasing effect of depleted world stocks was offset in the case of these products by the promising expectations for the current crops especially in North America where the area under the major products (wheat, maize, soybeans) had been significantly expanded and all-time record harvests forecast. Weather conditions, however, which had been unfavourable during the spring (sowing had been delayed) turned out to be almost disastrous during the summer when the drought affecting the American mid-west was one of the worst this century. Moreover, frost which started earlier than usual, adversely affected the quality and quantity of the harvested crops. As a result, the final harvest outcome in North America was significantly below expectations. Latest estimates indicate that North American production of wheat in 1974 was unchanged from the previous year (in spite of a 20 per cent increase in area) and that of maize and soybeans was down by 18-20 per cent. Given the preponderant position of North America as a supplier of these commodities on world markets - 70 per cent of world exports for wheat, 80 per cent for maize and 55 per cent for soybeans - the poor North American harvests of 1974 were among the main contributory factors to the renewed strengthening of prices of cereals and soybeans during the last quarter of 1974. Additional contributory factors were adverse weather conditions in South and East Asia, particularly in the Indian sub-continent hit both by a poor monsoon and widespread floods, and in the Soviet Union where the grain crop was well below the level of 1973. During the first quarter of 1975, the prices of wheat and feedingstuffs fell sharply from their late 1974 levels, reflecting both improved expectations for the coming harvest and the contraction of consumer income which, by reducing demand for meat, has in turn significantly lowered demand for feedingstuffs.

7. The most rapidly increasing price in 1974 was the free market price of sugar, from 15 cents a pound in January to a peak of 56 cents in November. This increase was the continuation of the steady upward trend since the 1966-1968 period when the price had fallen below 2 cents a pound, which rose well below the cost of production even in the most efficient producing countries. It may also be recalled that the free market price applies only to transactions representing roughly 40 per cent of sugar traded internationally. The sharp rise in the free market price in 1974 resulted primarily from the shortfall in production in some of the major producing areas, especially in Western Europe, where the sugar beet crop was adversely affected by prolonged rain during the harvest period, and in the Soviet Union. The first quarter of 1975 has also seen a sharp decline in the free market price of sugar, which by April was only half its November peak, in response to reduced demand at the higher price levels and estimates of a smaller deficit in Europe than previously thought.

8. Prices of tropical beverages, by contrast, which even during the commodity boom had increased less than those of other foodstuffs, started to decline in the early summer of 1974, largely reflecting improved crop prospects, especially

in the case of coffee, but also a decline in demand, as in the case of cocoa. In the last quarter of 1974, as compared with the average of 1970-71, the United Nations index shows for tropical beverages a price increase of 57 per cent, while during the same period prices of fuels had increased nearly four-fold, those of cereals by 175 per cent and export unit values of manufactures from developed countries by 70 per cent. The prices of all the tropical beverages continued to decline during the first quarter of 1975 as demand fell sharply in industrial countries. For cocoa in particular, grindings figures so far available for 1975 showed particularly sharp reductions for the United States and some European countries.

#### B. The aftermath of the commodity price boom

9. As prices of several commodities started to decline during the course of 1974, it is of interest to show the relationship between the prices of the main commodities exported by developing countries (and on which many of them rely heavily), and the prices of manufactures, fuels and grains which constitute the bulk of their imports, before and after the commodity price boom. For this purpose, ratios between the changes, since the start of the commodity price boom, in export prices of the main commodities exported by developing countries and the changes over the same period in the prices of their main imports were calculated. In each case, the change between the average for the period 1969-71 and the fourth quarter of 1974 was used. It can be seen from Table 3 that, by the last quarter of 1974 compared with the average of 1969-71, the export prices of ten commodities (copper, copper ore, bananas, rubber, coffee, tea, tobacco, hides and skins, jute and iron ore) were between 12 and 37 per cent lower relative to prices of manufactures exported by developed countries, between 70 and 80 per cent lower relative to prices of fuels and 45-60 per cent lower relative to prices of grain. Export prices of all the remaining commodities shown in the table have also declined relative to those of both fuels and grains (with the exception of sugar) although not in relation to manufactures.

#### II. MOVEMENTS IN THE VOLUME OF DEVELOPING COUNTRIES' TRADE

10. The recessionary trends increasingly apparent in developed market economies during the course of 1974 led also to a levelling off in the volume of their imports from developing countries. In the case of petroleum and a certain number of other primary products, developed countries' imports from developing countries actually showed a contraction in volume terms.

11. The import volume of the petroleum exporters showed a rapid expansion in 1974. For developing countries (excluding petroleum exporters), although the growth of imports slowed down during the course of the year as a result of growing balance-of-payments problems, the volume of imports for the whole of 1974 still exceeded substantially that of the preceding year.

PART TWO - IMPLICATIONS FOR 1975

12. The difficulties facing any attempt to assess the effect of price trends on the foreign trade, payments and receipts of developing countries were summarized in COM.TD/W/212 where hypothetical trade values for 1974 were calculated.

13. The broad conclusions reached at that time concerning the growing trade deficit of developing countries (excluding petroleum exporters) appear to be confirmed by preliminary data for 1974. The level of prices of primary commodities was much closer to the high price assumption (the average of the first quarter of 1974) than to the low price assumption (the average of 1973). However, this was partly offset by the increase in prices of manufactures exported by developed market economies (19 per cent) which was higher than assumed. The hypothetical 1975 trade values for different groups of developing countries shown in Table 4 were calculated on the basis of price assumptions made for the three main product groups and constant 1974 volumes. These hypothetical values must not be understood as forecasts of changes in trade values or balances, but merely as an indication of orders of magnitude of the payments gap that would have to be filled if the 1974 volume of imports were to be sustained.

14. The wide margins of error involved in the hypothetical trade values for 1975 (at 1974 volumes) stem from (i) the lack of reliable data, at this stage, on actual trade volumes in 1974 and (ii) the great uncertainty about price movements during the remainder of 1975, which greatly increases the difficulty of formulating realistic price assumptions for the whole of the year. Although the rate of inflation in developed countries has been somewhat less rapid in recent months, the prices of their exports of manufactures were assumed to increase in 1975 by 18 per cent, i.e. at a rate close to that of 1974, since the average for 1975 will still be heavily influenced by the prevailing high level. The price of petroleum was assumed to remain in 1975 at the same level as in 1974. For primary products, the high assumption is that prices will remain at their level of the first quarter of 1975; the low assumption, probably the more realistic one if there is no reversal of recessionary trends in developed market economies later in the year, is that prices will fall back to the level of the first half of 1973, i.e. by one third from the level of 1974.

15. On these assumptions, developing countries (excluding the oil exporters), which had already seen their combined trade deficit (imports valued c.i.f. and exports f.o.b.) more than double to \$29 billion in 1974, would experience a further strong rise in their trade deficit to \$37 and \$42 billion on the high and low commodity price assumptions, respectively, in 1975.

16. Because this deterioration is almost entirely due to the decline in commodity prices, the developing countries relying mainly on primary commodities would be the most seriously affected. Thus, the trade deficit of these developing countries (excluding both exporters of petroleum and exporters primarily of manufactures) after having nearly doubled to \$9 billion in 1974, would double again in 1975.

17. As a recovery of demand in industrial countries, strong enough to affect developing countries' export volume, is unlikely to occur, at best, before the closing months of 1975, there is little possibility of financing the growing trade deficit resulting from adverse movements in the terms of trade by means of an increase in export volume. Even to maintain, during 1975, the import volume of 1974, there is clearly an acute need on the part of the developing countries concerned, for foreign exchange in the form of increased earnings on the service account, investment of foreign capital and a greater measure of foreign aid.

18. The above analysis also suggests that the views expressed in the Committee last year when this subject was discussed, continue to be relevant. In this respect, it was mentioned, inter alia, that there was an urgent need to avoid the imposition of restrictions on imports from developing countries and to work out effective measures aimed at securing a further expansion of these imports through appropriate measures in all areas to which the Multilateral Trade Negotiations are addressed.

**TABLE I**  
**World<sup>a</sup> Export Prices of Primary Products by Product Categories**  
(Indexes, 1963 = 100)

		Food (including fats and oils)	Agricul- tural raw materials	Minerals (excl. fuels) and non-ferrous metals	Total primary <sup>b</sup> products (excl.fuels)	Fuels	All primary products <sup>b</sup>	Manufactures <sup>c</sup>
1970	Year	112	97	157	115	108	114	115
1971	Year	117	102	144	117	127	119	123
1972	Year	130	121	146	130	143	132	133
	Q I	122	113	150	124	141	127	132
	Q II	127	120	147	127	143	130	133
	Q III	133	121	144	129	143	131	134
	Q IV	138	131	141	136	144	137	135
1973	Year	192	181	197	190	188	190	154
	Q I	160	155	159	158	153	157	141
	Q II	186	168	184	180	163	177	151
	Q III	213	197	211	208	179	203	163
	Q IV	221	203	234	218	258	225	163
1974	Year	251	204	253	238	554	293	183
	Q I	245	211	262	238	537	290	161
	Q II	263	219	294	255	548	306	178
	Q III	250	204	238	234	561	291	189
	Q IV	268	192	214	238	571	296	204
1975	Q I	246	193	216	226	564	285	..

<sup>a</sup> Excluding the Eastern Trading Area

<sup>b</sup> Including non-ferrous metals

<sup>c</sup> Unit values of exports from developed countries, excluding non-ferrous metals

Source: United Nations, Monthly Bulletin of Statistics.

Note: Provisional data for 1975 have been calculated by the UN Statistical Office, New York.

TABLE 2/TABLEAU 2

Development of World<sup>a</sup> Export Prices of Selected Primary Products/Evolution des prix mondiaux<sup>a</sup> à l'exportation de certains produits primaires

(Indices 1963 = 100)

Products/Produits	1953-55	1960-62	1969-71	1971	1972	1973	1974	1973				1974			
								I	II	III	IV	I	II	III	IV
ALL PRIMARY PRODUCTS <sup>b</sup> /ENSEMBLE DES PRODUITS PRIMAIRES <sup>b</sup>	113	96	115	117	130	190	238	158	180	208	218	238	255	234	238
of which/dont															
Wheat/Blé	108	97	93	96	110	214	281	151	160	253	292	321	272	263	281
Rice/Riz	119	94	103	97	108	198	..	150	168	190	283	293	292	263	..
Maize/Mais	118	91	105	108	111	181	..	140	166	212	208	231	210	247	..
Coffee/Café	178	101	135	134	150	188	199	177	187	193	197	207	215	187	187
Tea/Thé	117	104	81	83	81	83	105	78	88	87	79	86	109	114	113
Cocoa/Cacao	164	91	134	100	117	220	333	143	212	280	246	259	369	350	356
Beef/Viande de bœuf	74	100	154	186	226	319	..	273	347	327	329	326	345	329	..
Sugar/Sucre	63	57	70	75	97	127	345	119	126	128	137	216	274	355	537
Wine/Vin	70	93	110	107	118	165	..	152	174	174	161	154	156	156	..
Fish/Poisson	81	96	152	176	194	281	..	244	269	285	327	348	329	335	..
Oilseed cake and meals/Tourteaux et farines d'oléagineux	96	90	109	113	140	298	231	239	345	351	256	227	165	196	231
Fruit/Fruits	92	97	88	94	96	112	..	105	116	119	108	116	130	120	..
Olive oil/Huile d'olive	63	66	77	80	102	149	..	129	150	153	166	..	..	241	235
Copra/Coprah	107	97	108	100	75	183	355	108	154	204	265	417	392	326	286
Coconut oil/Huile de coco	117	101	125	119	85	183	369	107	155	207	264	398	428	383	268
Groundnuts/Arachides	125	107	130	141	164	207	..	180	189	225	235	270	275	..	..
Groundnut oil/Huile d'arachide	129	106	115	130	128	159	259	135	144	170	185	253	259	257	269
Palm kernels/Amandes de palmiste	102	93	101	90	77	..	..	97	116	144	..	225	..	..	..
Palm-kernel oil/Huile de palmiste	101	95	114	111	85	..	377	106	156	203	..	373	442	372	321
Palm-oil/Huile de palme	98	99	105	115	103	(152)	248	113	140	187	(168)	243	229	251	269
Soyabean/Pèves de soya	115	92	107	117	127	215	..	177	225	246	212	368	329	387	..
Soyabean oil/Huile de soya	136	108	123	143	119	224	..	140	194	303	(260)	359	339	473	..
Cottonseed oil/Huile de coton	123	109	124	143	107	183	365	123	165	235	208	303	341	400	416
Wool/Laine	107	84	64	57	88	183	135	192	180	189	171	158	147	124	110
Cotton/Coton	138	101	105	113	132	201	242	135	164	233	272	277	249	235	208
Jute	73	120	108	105	112	110	..	109	115	108	105	104	116	130	..
Sisal	56	67	44	46	65	117	..	95	103	127	144	204	211	218	..
Lumber/Bois d'oeuvre	106	103	124	134	155	220	283	180	218	237	246	259	298	293	284
Tobacco/Tabac	90	94	108	112	116	129	146	(121)	129	136	130	134	151	149	150
Rubber/Caoutchouc	113	125	78	62	63	121	136	92	111	137	144	183	145	118	97
Hides and skins/Cuir et peaux	121	131	126	127	223	255	217	283	247	251	240	236	230	216	187
Bauxite	68	75	143	172	168	..	..	..	..	..	..	..	..	..	..
Copper ore/Minéral de cuivre	118	100	203	171	169	266	219	202	249	302	311	350	412	273	219
Iron ore/Minéral de fer	96	104	97	103	111	116	140	116	115	114	118	133	138	142	146
Aluminium	91	111	125	128	115	114	156	111	113	115	116	133	150	166	177
Copper/Cuivre	119	101	201	168	164	271	317	198	249	305	332	363	422	267	215
Lead/Plomb	161	102	162	143	171	241	346	193	229	258	282	368	373	326	317
Tin/Étain	80	94	141	139	150	187	323	158	171	202	217	298	366	344	285
Zinc	110	103	100	152	182	345	506	206	259	367	550	562	630	449	385
MANUFACTURES <sup>c</sup> /ARTICLES MANUFACTURÉS <sup>c</sup>	92	100	114	123	133	154	183	141	151	163	163	161	178	189	204

<sup>a</sup>Excluding the Eastern Trading Area/A l'exclusion des pays de l'Est.<sup>b</sup>Including non-ferrous base metals, excluding fuels/Y compris les métaux communs non ferreux, combustibles et carburants exclus.<sup>c</sup>Unit values of exports from developed countries, excluding non-ferrous metals/Valeurs unitaires des exportations des pays développés, métaux communs non ferreux exclus.

Source: UN, Price Movements of Basic Commodities in International Trade 1950-1970; statistical papers, Series M, No. 29, Rev.1/Add.1, New York 1971; and compilations by the United Nations Statistical Office for publication in summarized form by commodity categories in the UN Monthly Bulletin of Statistics./Nations Unies, Mouvements des prix des produits de base dans le commerce international: 1950-1970; Etudes statistiques, série M, n° 29, Rev.1/Add.1, New York 1971; compilations du Bureau de statistique des Nations Unies destinées à être publiées sous forme résumée, par catégories de produits, dans le Bulletin mensuel de statistique des Nations Unies.

TABLE 3

Ratio of the Price Changes, Between 1969-71 and the Fourth  
Quarter of 1974 of the Main Commodities Exported by LDC's,  
and Changes in the Prices of Their Principal Imports Over  
the Same Period

Indices, 1969-71 = 100

Commodity \ Ratio with change in price of	Manufactures <sup>a</sup>	Fuels	Grains
Copper	63	21	39
Copper ore	64	21	39
Bananas	72	23	44
Rubber	73	24	45
Coffee	81	26	49
Tea	82	27	50
Tobacco	82	27	50
Hides and skins	87	29	53
Jute	88	30	54
Iron ore	88	30	54
Cotton	116	39	72
Tin	119	40	73
Coconut oil	126	42	77
Groundnut oil	138	46	85
Palm oil	150	50	93
Groundnuts	153	51	94
Cocoa	156	52	96
Copra	156	52	96
Sugar	287	96	177

<sup>a</sup>Export unit values from developed market economies.

Sources: UN, Price Movements of Basic Commodities in International Trade, 1950-1970; statistical papers, Series M, No. 29, Rev.1/Add.1, New York 1971; and compilations by the United Nations Statistical Office for publication in summarized form by commodity categories in the UN Monthly Bulletin of Statistics.

TABLE 4.

Trade Values of Developing Countries in 1973 and 1974,  
and Hypothetical Trade Values in 1975 Resulting from  
Price Movements

(\$ billion)

	1973	1974 <sup>a</sup>	1975 Price movements' effect	
			High assumption	Low assumption
<u>All developing countries</u>				
Exports (f.o.b.)	109.0	215	219	205
Imports (c.i.f.)	99.0	150	165	158
<u>Trade balance (f.o.b./c.i.f.)</u>	<u>+10.0</u>	<u>+65</u>	<u>+54</u>	<u>+47</u>
<u>Developing countries, excluding petroleum exporters</u>				
Exports (f.o.b.)	65.1	85	88	76
Imports (c.i.f.)	77.6	114	125	118
<u>Trade balance (f.o.b./c.i.f.)</u>	<u>-12.5</u>	<u>-29</u>	<u>-37</u>	<u>-42</u>
<u>Developing countries, excluding petroleum and manufactures exporters</u>				
Exports (f.o.b.)	38.6	50	50	41
Imports (c.i.f.)	43.5	59	66	63
<u>Trade balance (f.o.b./c.i.f.)</u>	<u>-4.9</u>	<u>-9</u>	<u>-16</u>	<u>-22</u>

<sup>a</sup>Preliminary estimates.

Sources: International Monetary Fund, International Financial Statistics;  
United Nations, Monthly Bulletin of Statistics, and national statistics.