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## Vigorous Expansion of World Trade

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offered and sold metal there, a few occasional sales do not make for a representative and balanced London market. In any case, within three days of fixed prices being abandoned, the London forward price fell by more than £ 140 and thus dropped below the Chilean sales price. Producers have recently re-affirmed their preference for fixed prices and it is feared that they may turn their backs on the Metal Exchange as soon as they can and hinder the free play of supply and demand by ad hoc transactions. Meanwhile copper users are trying to guess the level at which the world market price will ultimately settle. They know that the producers could accept a price of less than £ 300 although they might have to revise their calculations in the light of the latest taxation measures in Chile and Zambia; they also know that there is a threat of large-scale substitution of copper by aluminium and plastics unless the price drops below £ 400. These then would be the margins within which the world market price should settle.

The collapse of a fixed price for copper illustrates the difficulties of any cartellisation and producer control

of raw materials. As long as a real emergency—such as inadequate prices or insufficient markets—compels producers on the one hand to co-operate and on the other offers them a chance of adjusting the market by operating sales quotas or stock piling, such agreements work more or less satisfactorily, though often to the consumer's disadvantage. But where it is a question of directing consumption and of distributing a limited supply fairly among various categories of users, international agreements are, as a rule, too rigid and strict. In this respect there is no difference between private co-operation among copper producers and agreements which enjoy State approval and support like the international Tin Agreement. The Copper Agreement, too, had increasingly political undertones and finally led to an official British demarche in Zambia to give a warning against demanding excessive taxes from the producers. A free world market certainly has an advantage, which should not be under-rated, in that it prevents the international raw material economy from becoming the object of political considerations, which would be particularly dangerous in the case of strategic metals such as copper.

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## **World Business Trends**

### ***Vigorous Expansion of World Trade***

Turnovers in world trade during the first months of the current year have been considerably higher than a year ago. From January to April 1966 exports of the five most important Western industrial countries (USA, Germany, UK, France, and Japan) representing 45% of world trade surpassed their previous year's corresponding value by a total of 13%. The rise of imports reached 15% even. Although these rates of increase do not justify the conclusion that an accelerated growth of world trade has taken place, since they are exaggerated due to the effects of the dockers' strike in the USA in the beginning of 1965, they are proving anyway that taking seasonal deviations into consideration—a continuation of the vivid expansion cannot be overlooked.

Naturally increases conditioned by the strike have been most vigorous in the foreign trade of the USA. The extraordinarily high growth of exports (January to April + 18%) and of imports (+ 23%) in a considerable degree reflects the previous year's losses. This above all applies to export values. Adjusted for seasonal

variation they have been slightly higher only in the first third of 1966 as compared with the last one of 1965. Import values, however, also under this aspect increased considerably at a rate corresponding to that of the previous year (1965: + 14%). This reflected clearly the vigorous expansion of demand together with an increasing utilisation of domestic resources. So the export surplus, calculated for a full calendar year, was already 20% smaller than in 1965. For the time being prospects for another reduction of the USA's balance of payments deficit thus darkened considerably again.

According to data available so far, in the first months of 1966 also in Western European countries imports from other parts of the world have been increasing more than exports to those areas. The trend towards reducing the West European balance of trade deficit, effective from mid-1964 until mid-1966, has thus proved to be a temporary feature only. And from this it results that after a temporary interruption contractive

influences on the development of incomes appeared again. Concurrently the internal European exchange of goods was influenced by the change in the regional differentiation of the business trend. Thus e.g. Italy's and France's export surpluses decreased slightly again, mainly due to a strong revival of imports—while vice versa a tendency towards greater surpluses prevailed in the Federal Republic of Germany.

In Japan too the beginning of a cyclical upward trend was reflected clearly by the development in foreign trade. After industrial production since the end of 1965 has been increasing again, imports have also increased considerably. From January to April 1966 they surpassed the results of the previous year's corresponding period by 13% (1965: + 3%). At the same time exports continued growing although at 14% they did not reach the previous year's level (1965: + 27%). Japan is profiting particularly from the buoyancy of imports in North America, for in 1965 almost one third of its exports went to the USA. Sales in this market in the first two months of 1966 have risen by 31% above their level a year ago. Also in Western Europe Japan achieved

an export growth of 24% while its exports to raw materials producing countries rose considerably less.

Primarily, the pronounced import expansion in Western industrial countries is reflecting the increasing division of labour between them. But in addition their growing demand for raw materials guarantees the overseas raw materials producing countries a lasting increase of their exports. Thus during the first two months of 1966 Western Europe's and Japan's purchases from these countries—data applying to North America are of little value due to the distortion caused by the strikes—surpassed those of the previous years's corresponding period by 8%. On the other hand deliveries to the overseas raw materials producing countries rose by 3% only. And since the middle of 1965 also the development of the foreign trade of industrial countries in total is indicating an improvement in the raw materials producing countries' balance of trade.

The all in all favourable prospects for economic growth in the industrial countries during the current year (gross national product: + 4.5% in real terms) make us expect a continuation of the vigorous expansion of world trade. Strong incentives should originate from the USA in the first place as its continuing expansion of demand together with almost full employment of its domestic economy is favouring imports. Also in Italy, France and Japan the upward trend in business will lead to rapidly increasing imports which will offset to a high degree the trend towards slower growth of imports prevailing in other industrial countries. Under these circumstances the overseas raw materials producing countries will be able to continue to expand their exports noticeably. This is why they should be in a position again to increase also their imports from industrial countries at a somewhat higher rate—particularly since their foreign exchange reserves kept augmenting until the end of 1965.

to be characterised by the fact that the slight production deficit is being balanced by American stockpile releases. In 1965 world production of natural caoutchouc increased by 3.8% to 2.325 million lgts as compared with the preceding year, thus in 1965 there had been a slight consumption surplus of 25,000 tons. Nevertheless producer stocks of natural caoutchouc increased by another 1.5% to 820,000 lgts, because in 1965 the USA disposed of about 120,000 lgts of their stockpile.

In the current year there is expected an increase in world caoutchouc consumption by 40,000 lgts (+ 1.7%) to 2.390 million lgts. World production should rise by about 55,000 lgts (+ 2.3%) to 2.380 million lgts so that the production deficit should continue to decline. Under these circumstances it is understandable that the producer countries would like to induce the USA Administration to at least not increase sales from stockpile. Already initiated negotiations have not achieved any results as yet. However, the Stockpile Authority already pointed out that in future it will reduce or temporarily even stop caoutchouc releases if there is a major price decline.

## Raw Material Markets

### Caoutchouc Prices Remaining under Pressure

The development of caoutchouc prices during the first months of 1966 is showing once more that if there is a well-balanced relation between production and consumption the market is influenced in the main by American stockpile policies. From November, 1965, to March, 1966, caoutchouc prices increased because due to failure of production and export in Indonesia the direct purchasers of Indonesian caoutchouc (especially China) had

to cover their demand in Singapore again. Middle of March, however, a pressure on prices began when it became known that in future the USA intended to accelerate its stockpile sales. This pressure on prices has continued so far although since that time in effect no larger quantities of caoutchouc than before (6,000 tons monthly) have reached the market.

However, the statistical situation on the caoutchouc market continues

Competition of synthetic caoutchouc too will go on to have a damaging influence on prices in the market of natural caoutchouc. For 1966 e.g. it is being expected that the natural caoutchouc share in total consumption will decline to 43.8% vis-à-vis 44.5% in 1965. So during the next years the producer countries will meet with some difficulties in selling the still growing production of natural caoutchouc without experiencing great depressions of prices.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1965			1966			
	May	August	November	February	May	13. 5.	3. 6.
<b>HWWA-Index<sup>1</sup> (1952—1956 = 100)</b> ....	96.8	94.1	95.3	98.8	96.9	96.7	96.3
<b>Foodstuffs</b> .....	87.1	83.8	85.1	86.9	85.3	85.6	84.8
<b>Raw materials other than foodstuffs</b> ...	101.4	99.0	100.2	104.6	102.5	102.1	101.9
Fuels .....	95.7	95.4	95.6	95.6	95.5	95.7	95.7
Raw materials for consumer goods ..	90.1	91.0	92.1	92.7	96.3	96.4	96.2
Raw materials for capital goods .....	114.7	108.1	110.4	121.6	113.8	112.3	112.4
<b>Reuter's Index (Sep. 18, 1931 = 100)</b> ...	459.7	445.1	447.6	472.0	463.3	459.7	464.7
<b>Moody's Index (Dec. 31, 1931 = 100)</b> ...	382.8	391.0	392.5	414.5	397.4	395.9	401.4

<sup>1</sup> Index compiled by the Hamburg Institute for International Economics.