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World Business Trends

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The Developing Countries' Deteriorated Trade Balance

In the first half of 1967 the growth of world trade slowed down noticeably. All countries' foreign trade (excluding the East-bloc states), it is true, surpassed the previous year's value by about 7 per cent, but the growth rate of 9.7 per cent in 1966 was not reached anymore. As far as seasonal influences can be taken into consideration, the available data even indicate that cyclically world trade has increased hardly at all since last spring. This reflects the slackening growth of demand, that in Western Europe set in already in mid-1966, and at the beginning of the current year started in North America, too.

The development of imports clearly indicates the power of the braking factors in the most important economic areas. This applies above all to the West European countries. In the first half of 1967 their imports rose more slowly (+ 3.6 per cent after + 8.2 per cent in the whole of 1966), and even this almost exclusively in their mutual exchange only, while the imports from other regions did hardly grow at all. In North America the import values surpassed the previous year's corresponding level considerably still (+ 9.5 per cent after + 18.7 per cent), but already since last autumn their cyclical expansion has almost stagnated. In Japan, on the other hand, the development of imports (+ 23.1 per cent after + 16.5 per cent) was completely marked by a vigorous boom.

In view of these countries' close economic links as indicated by the fact that—apart from Japan—the major part of their foreign trade is effected between them, their

exports have simultaneously been slowed down noticeably by the slackening of demand for imports. All the same, in the first quarter of 1967 in Western Europe as well as in North America and Japan exports surpassed their previous year's corresponding values by 8 to 9 per cent (for the whole of 1966 + 9.2 per cent, 12.2 per cent and 15.7 per cent, respectively). This still comparatively high growth rate is indicating that the other regions of the world economy increased their total imports vigorously. The available data of the OECD countries show a corresponding development regarding sales to East-bloc countries, on the one hand (exports in this direction between January and April, 1967: + 18.1 per cent), and, on the other, also to overseas raw material producing countries.

The group of developed raw material producing countries experienced a particularly marked stimulation of imports, after in 1966 they had limited their imports still (+ 17.0 per cent after — 2.7 per cent). The import increase started from South Africa (+ 35.0 per cent) and Australia (+ 10.7 per cent). Simultaneously these countries were able to expand their exports considerably (+ 15.7 per cent and + 13.0 per cent, respectively). While sales and prices of one of their main export products, i.e. wool, developed unfavourably, the world market situation of other farming products (in particular grain) admitted a considerable increase of export proceeds. In the aggregate, however, the import surplus of the developed raw material producing countries has grown strongly again.

In the overseas developing countries, too, there was a remarkable deficit in the balance of trade in the first half of 1967, in contrast to the previous year's corresponding period. The available foreign trade data of these countries are most fragmentary still, but the industrial nations' statements on their corresponding exports allow us to suppose that in the first half of 1967 the developing countries' imports accelerated more quickly than in 1966 (+ 7 per cent). On the other hand, however, the cyclical slowing down of demand in Western Europe and North America has obviously and very clearly affected the developing countries' export proceeds. Their increase should have been considerably smaller than in 1966 (+ 6.7 per cent).

The developing countries' export values were not only impaired by a smaller increase of sold quantities of industrial raw materials and foodstuffs—more than 80 per cent of exports still fall to the share of raw materials—but, moreover, in the first half of 1967 the price decline in the international raw material market was particularly pronounced as compared with the previous year's corresponding period. (Index compiled by the Hamburg Institute for International Economics: — 8.5 per cent). Although world market prices of the industrial nations' products did at least not rise, the developing countries experienced a continuous deterioration of the barter conditions on the world market. Apparently the developing countries' balances of payments improved simultaneously by an increased influx of capital, so that for the whole of 1967 their currency reserves were still growing.

The improving business prospects in the two leading Western econ-

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

Index and commodity group	1966		1967				
	August	November	February	May	August	Aug. 25	Sep. 8
HWWA-Index 1 (1952—1956 = 100)	93.5	92.4	92.6	92.6	90.5	90.3	90.3
Foodstuffs	85.1	83.8	85.0	87.8	83.5	83.1	84.0
Raw materials other than foodstuffs ...	97.6	96.5	96.3	94.9	93.9	93.8	93.4
Fuels	95.4	95.6	95.2	95.0	95.3	95.6	95.6
Raw materials for consumer goods ..	95.2	91.2	92.6	91.7	89.7	89.3	89.4
Raw materials for capital goods	101.8	101.5	99.9	96.9	95.2	95.0	93.8
Reuter's Index (10. 9. 1931 = 100)	443.8	425.3	432.5	438.6	420.7	419.4	416.6
Moody's Index (31. 12. 1931 = 100)	394.3	369.0	369.1	372.7	367.2	363.7	361.6

¹ Index compiled by the Hamburg Institute for International Economics.

omies make us expect that in the coming months the industrial states' demand for imports will gradually rise more rapidly again. For the time being, however, these tendencies will not suffice to keep the raw material producing countries' export proceeds in step with an import increase at the present rate. A corresponding intensifica-

tion of capital aids by industrial nations is hardly to be expected, and also the currency reserves can tide over a trade balance deficit of this magnitude for a limited period only. Therefore, a slowing down of imports in the raw material producing countries has to be anticipated in the foreseeable future.

At the beginning of the strike in the USA processors had approximately 620,000 sht on stock. Moreover, as a result of the vacation-time, a very slow demand was predominant. The mining companies in the USA not affected by the strike were allowed to export copper concentrates for processing. The then re-imported refined copper is at the processors' disposal in addition to their stocks.

Raw Material Markets

Copper Market: In spite of Strike no Bullish Mood

During the last months there has been hardly any change in the relatively weak constitution of the international copper market. Only during the Middle-East war has there been a sharp temporary rise in prices. They showed a weak reaction to the outbreak of the strike in the American copper industry on 15th July, and also after eight weeks of strike prices of wire rods in London are still at 375 £/lgt.

In the second quarter of this year after a long interval copper supplies in the Western world returned to normalcy, after production in Zambia had fully started again, and the copper mined there could be transported without frictions. Not only in Europe was copper available at large quantities,

due to a slack demand, but also in the United States. Under these circumstances a supply surplus to the amount of 140,000 sht was reckoned on till the end of this year.

This expectation, however, was jeopardised by the strike for almost all important American copper producers. The consequent loss of production is likely to have reached approximately 250,000 sht already now. In Peru, too, an important copper mine was recently strike-bound for a fortnight. Together with the US-strike there was thus a temporary loss of a quarter of the whole copper production in the Western world. The rise in prices was, however, very limited, as the supply situation was favourable.

Consequently, the American Administration hitherto renounced the application of the Taft-Hartley-Act, through which it would be able to interrupt the strike for 80 days. But the governors of the states affected by the strike are urging, so that the Administration may soon make this decision, particularly as prospects of a rapid agreement between management and labour are becoming increasingly unfavourable. On the other hand, for the time being the Administration should wait, whether the sectional strike in the motor industry will continue to spread, as thus a large copper consumer would be out of the picture and the danger of supply bottlenecks would decline. Even in the case of a continuation of the strike, for the time being considerably rising copper prices can therefore hardly be reckoned with.

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