

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Business incentives for wold trade

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1968) : Business incentives for wold trade, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 4, pp. 123-124,
<https://doi.org/10.1007/BF02930245>

This Version is available at:

<https://hdl.handle.net/10419/137930>

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World Business Trends

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Business Incentives for World Trade

The development of world trade showed first indications of an increase in business activity in the past year's last months. However, after the preceding period of weakness beginning last spring, this change in the trend could no longer prevent another strong decrease of growth rates.

In the second half of 1967 according to first estimates all countries' foreign trade turnovers (excluding East-bloc states) should have surpassed those of the previous year's corresponding period not even by 3 per cent. With that the increase for the whole of 1967 reached barely 5 per cent. This speed of expansion was only half as fast as that in the preceding four years.

This slight cyclical recuperation of foreign trade turnovers setting in recently originated exclusively from the industrial nations, particularly Western Europe. Here the internal exchange of goods as well as supplies from economies outside Europe have risen noticeably since last autumn. In comparison with a year earlier, the West European countries' imports nevertheless increased by but 3 per cent in the second half-year. For the whole of 1967, there was no higher growth rate (after + 8 per cent in the previous year). This was the smallest increase since 1958.

Outside Western Europe Japan experienced a fast import growth (23 per cent) during the whole of 1967, which was due to its continuously vigorous expansion of demand. During the last months only, an overcoming of the cyclical stagnation of imports began in

North America, too. Although there for the whole of the past year the increase of imports at 6 per cent was twice as much as in Western Europe, this was only a reflection of the different development till the beginning of 1967, while later the weak tendencies and the following recovery largely ran on parallel lines.

The cyclical stimulation of the demand for imports, starting in the industrial countries at the end of 1967, began to be reflected in their export, too, as their mutual trade relations are very close. Thus in Western Europe three quarters of foreign trade turnovers fall to the share of trade within this area as well as with North America and Japan, while in North America the corresponding share reaches two thirds still. It is true, though, that hitherto the changing trend was less pronounced in the industrial nations' exports than in their imports. This development is caused by the continuously weak demand of raw material producing countries. Even allowing for the temporary delays due to the dockers' strike in Britain, deliveries to these countries stagnated.

The OECD countries' data on their foreign trade with overseas developing nations indicate that in the second half of 1967 the less developed countries' imports were considerably smaller than in the previous year's corresponding period. Although just in this case the development had been particularly influenced by the British strike losses, the tendency had set in already earlier. Under these circumstances the developing coun-

tries' total imports—in spite of relatively high growth rates till the middle of the year—for the whole of 1967 should have surpassed those of 1966 by a small margin only.

The beginning revival of demand in industrial countries has, on the other hand, stimulated imports from developing countries already noticeably. Obviously raw material suppliers were favoured rather early by the expansive effects of orders placed by processors for additions of stocks, all the more since by that also the pressure on prices in raw material markets declined. However, this improving tendency set in too late, and thus in view of the preceding decline a considerable export increase of developing nations for the whole of 1967 should not be expected. After from 1961 to 1966 export proceeds increased by 5 to 9 per cent annually, in the past year the less developed countries' susceptibility to growth troubles in the highly developed economies was proved again for the first time in many years.

The adjustment of imports to the deterioration of the export situation in developing countries occurred—measured against past experiences—relatively soon. The pronounced worsening of the trade balance, which in the first half of 1967 was typical for the developing countries as a group, should thus have been superseded by a reversed trend already in the second half of 1967. So the import surplus for the whole year should have been about the same as in the preceding year. However, the stabilisation measures in the field of foreign trade necessarily had

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

Index and commodity group	1967				1968		
	February	May	August	November	February	March 1	March 15
HWHA-Index 1 (1952-1956 = 100)	92.6	92.6	90.5	94.2	99.6	99.4	99.8
Foodstuffs	85.0	87.8	83.5	87.9	91.8	90.0	90.8
Raw materials other than foodstuffs ...	96.3	94.9	93.9	97.3	103.4	104.0	104.0
Fuels	95.2	95.0	95.3	96.5	96.4	96.4	96.4
Raw materials for consumer goods ..	92.6	91.7	89.7	89.4	92.7	92.5	93.1
Raw materials for capital goods	99.9	96.9	95.2	103.3	117.6	119.5	119.1
Reuter's Index (18. 9. 1931) = 100	432.5	438.6	420.7	456.6	510.9	510.5	516.3 ²
Moody's Index (31. 12. 1931 = 100)	369.1	372.7	367.2	362.8	361.8	360.5	367.2

¹ Index compiled by the Hamburg Institute for International Economics. ² March 14, 1968

detrimental effects on growth, a problematical consequence just for developing countries.

In the next months the continuing cyclical increase of demand in industrial countries will further stimulate their mutual trade as well as exports of developing countries. On the other hand, the United States' continuous efforts to eliminate its balance of payments deficit

contribute an important element of uncertainty to the development of world trade. This applies particularly to the proposed introduction of an import equalisation tax, which would considerably stimulate the protectionist forces in the countries involved. The international endeavours to avoid such a trade-political escalation therefore play a most significant role.

done exclusively for being able to raise individual rates (e.g. for Robusta qualities). Also Brazil's quota was raised from 17.6 to 21.5 million bags, although this country was not even able to utilise the former rate. These conference results don't, however, contribute to an improvement of the confidence among the competing coffee exporting countries. Also the agreement itself is called in question in the long run, if the needs of the market remain completely ignored.

Raw Material Markets

Renewal of the Coffee Agreement

During the last months, the international coffee markets were characterised by the negotiations about a renewal of the International Coffee Agreement expiring on September 9, 1968. Already before the end of last year, the quotations for almost all important coffee qualities began to rise, after the conference of the International Coffee Council had agreed on size and distribution of the export base quota. Thus on of the most significant obstacles could be surmounted before the conclusion of a new agreement.

In view of the high world coffee stocks, which probably exceed a year's consumption, coffee prices, without the prospect of a new

stabilisation agreement, presumably would have declined yet further than in 1967. But the danger of a contractless situation appeared on the horizon only once again, when the overcoming of the differences between the USA and Brazil lasted for several weeks, because of Brazilian exports of instant coffee. Therefore, only now a new coffee agreement has been submitted for ratification to the parliaments of the member states.

Although at present only approximately 50 million bags of coffee are consumed p.a., the future base quota was fixed at 55 million bags (the rate being valid for the current coffee year is only 47.6 million bags). This was

According to the third estimate of the US Department of Agriculture, in the season 1967/68 world coffee crops will amount to 67.3 million bags, of which 50.5 million bags should be suitable for exports. If this result, which as compared with the last season already means a strong increase, is taken as a basis for the coming years, it becomes clear that a full quota utilisation is not possible, simply for supply reasons. The gap would have to be filled by high world stocks, which is, however, impossible, because a major part of them consists of not exportable qualities. Otherwise the export quotas would approach the actual world demand via the price-quota-mechanism, under which export quotas are cut, if prices are below the fixed minimum limit.

INTERECONOMICS • Monthly Review of International Trade and Development

Edited by The Hamburg Institute for International Economics (Hamburgisches Welt-Wirtschafts-Archiv), Director: Prof. Dr. Heinz-Dietrich Ortlieb, and The German Overseas Institute (Deutsches Übersee-Institut), President: Prof. Dr. Dr. h. c. Andreas Predöhl. Editorial Office: Dietrich Kobschull (Chief Editor), Wolfgang Reisener, Hubert Höping; published by Verlag Weltarchiv GmbH., Address: Eppendorfer Landstraße 106, 2 Hamburg 20. Advertising Representative: Dr. Hans Klemen. Printed by Otto Schwitzke, 2 Hamburg 70. Annual rate of subscription DM 48,— (US-\$ 12,—). Copyright by Verlag Weltarchiv GmbH.