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Chapter III

TRADE FLOWS AND BALANCES

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Chapter III

TRADE FLOWS AND BALANCES

A. Recent trends

World trade expanded steadily throughout the 1990s, at a rate of more than 6 per cent per annum, exceeding growth in world output by a wide margin. This expansion continued at an accelerated pace in 2000, with growth in the volume of world trade reaching double-digit figures (table 3.1). Trade in manufactures, notably in information technology (IT) products associated with the "new economy" (see *TDR 2002*, Part One) was the main factor behind this expansion. However, the subsequent bursting of the IT bubble and the slowdown of growth in world output were accompanied by an even more marked deceleration of growth in international trade in 2001. This was compounded by the events of 11 September and the subsequent "fight against terrorism". Trade in services, particularly tourism and air transport, was hurt by the effects of an increased perception of insecurity; tightened administrative and security procedures and inspection of shipments at ports and airports slowed down the movement of goods as well as people. Not only did growth in world trade fall behind that of world output for the first time since the 1980–1982 recession, but there was also an absolute decline in trade volumes for the first time since that period. This was followed by a modest recovery in 2002. Although the growth rate of the volume of world trade again exceeded that of world output, the margin was much smaller than it had been in the previous 10 years.

While almost all countries have seen ups and downs in the growth of their exports and imports over the past three years, there has been considerable diversity across regions, particularly since the downturn of the world economy in 2001. The strong growth in world trade during 2000 was shared by almost all developing regions, with growth in both imports and exports reaching double-digit figures. They grew particularly strongly in the United States, the EU and Japan. The downturn beginning in 2001 affected some countries and regions much more than others, and changes in imports and exports also varied considerably. United States exports fell for two successive years, due partly to the appreciation of the dollar, and partly to stagnation or recession in its main in-

Table 3.1

EXPORT AND IMPORT VOLUMES, BY REGION AND ECONOMIC GROUPING, 2000–2002

(Percentage change over previous year)

	Export volume			Import volume		
Region/economy	*2000*	*2001*	*2002*	*2000*	*2001*	*2002*
World	10.8	-0.9	2.0	10.2	-1.0	1.6
Developed economies	9.2	-1.2	0.1	6.4	-1.6	0.0
of which:						
Japan	9.0	-10.9	9.6	11.1	-1.9	1.6
United States	11.3	-5.9	-3.6	13.5	-3.3	3.9
Western Europe	10.0	2.1	0.0	2.4	0.0	0.0
Developing economies	13.9	-1.5	5.8	19.6	-1.1	4.4
of which:						
Africa	2.6	2.3	2.6	18.2	-2.2	2.6
Latin America	9.7	-0.1	0.7	4.1	2.7	-8.3
West Asia	9.7	3.2	-1.9	14.4	4.6	4.8
East and South Asia	15.4	-5.4	4.8	19.4	-7.4	4.0
China	25.8	7.6	23.6	52.6	12.3	20.1
Transition economies	13.0	8.7	7.8	15.0	12.7	9.3

Source: UN/DESA, based on data of United Nations Statistics Division, ECE, ECLAC, and IMF; and *OECD Economic Outlook No. 73*, June 2003.

dustrialized trading partners and in Latin America. However, United States imports rose by nearly 4 per cent in 2002 after declining by some 3 per cent in the previous year. Given that the United States is the largest importing economy, accounting for one fifth of world merchandise imports, this was the "largest single element responsible for trade recovery" in 2002, "equivalent to one half of the global trade expansion" (WTO, 2003: 6).

Export and import volumes have been sluggish in the EU in the past two years. This is not surprising in view of slow growth in the region, since intraregional trade accounts for two-thirds of the foreign trade of EU countries. In 2002 Japan's imports rose by 1.6 per cent after falling the previous year, while its exports recovered sharply from their decline in 2001 to reach the level attained in 2000. This was due to the depreciation of the yen against the dollar and to a 20-per-cent surge in exports to China.

In Asia, several countries such as Malaysia, Thailand and the Philippines, which had achieved double-digit rates of export growth in the 1990s, saw their export volumes fall sharply in 2001 because of reduced demand for IT products. On the other hand, countries with a more diversified export structure such as China, India and the Republic of Korea bucked this trend, expanding their exports despite the generalized downturn. East and South Asia became the growth centres of world trade in 2002. These subregions benefited from strong output growth and a worldwide recovery of the IT sector, as well as from growth in regional trade. In China the growth rate of exports tripled in 2002, matched by the growth of its imports following the country's accession to the WTO and its consequent absorption of large amounts of imports from the developing economies of the region. Apart from India and China, the other developing countries of the region registered growth in export and import volumes of about 5 per cent and maintained comfortable trade balances.

In Latin America, after having achieved double-digit growth rates in exports and imports in 2000, the economic situation deteriorated rapidly in 2002, when the region experienced one of its worst years since the debt crisis. In combination with declining capital inflows and foreign-exchange reserves, imports fell sharply, by more than 8 per cent for the region as a whole. With the deepening of the financial crisis, imports in Argentina collapsed to less than half their 2001 level. Exports from the region held up slightly, benefiting partly from their currency declines against the dollar and a relatively strong import demand from the United States, which absorbs some 60 per cent of their exports. The disparate movements in exports and imports meant a swing in the region's trade balance by about $25 billion, from a deficit in 2001 to a surplus in 2002.

While almost all countries have seen ups and downs in the growth of their exports and imports over the past three years, there has been considerable diversity across regions.

In Africa, the volume of both imports and exports rose by 2.6 per cent despite weak demand from Western Europe, Africa's main trading partner. The region as a whole experienced a deterioration in its terms of trade for a second consecutive year, with import growth exceeding export growth in value terms by a wide margin. According to IMF data, the terms of trade of sub-Saharan Africa recovered moderately in 2002 on account of an upturn in prices of non-fuel commodities exported by the region, but they could not make up for the losses of the previous year (IMF, 2003, table 25). Imports expanded faster than exports in both volume and value terms.

The transition economies bucked the downturn in world trade in 2001, achieving strong growth in exports and imports. In 2002, both export and import growth decelerated, but still exceeded the world averages by a wide margin. Many of the candidates for EU membership have been integrating more closely into the single market in the process of accession. However, due to weakening growth in the EU, their exports started to slow down in the latter part of 2002. Most of the countries belonging to the Commonwealth of Independent States (CIS), notably the Russian Federation, saw increased export earnings in 2002, thanks to rising prices and volumes of oil exports, which account for a large proportion of domestic income in these countries. However, non-oil trade deficits have been rising in most countries in the region, increasing their vulnerability to a fall in oil prices.

Trade in services also expanded in 2002. Of special importance to developing countries are earnings from tourism, which constitute a major source of income for countries such as Malaysia and Thailand (6 to 7 per cent of GDP). After decades of uninterrupted growth and a record number of almost 700 million arrivals in 2000, the events of 11 September 2001 triggered the most severe crisis in tourism worldwide since the end of the Second World War. The decline in worldwide tourist arrivals was particularly marked in the last four months of that year. Most commentators expected tourism to decline further with a serious impact on some developing countries and regions. However, despite continued terrorist attacks (such as in Bali in October 2002), international arrivals increased by 3 per cent in 2002. In some regions, tourism grew surprisingly well. The Asia-Pacific region experienced an 8 per cent increase in arrivals, while the Middle East saw a rise of 11 per cent, despite political tensions. Sub-Saharan Africa and Europe were able to hold on to their market shares but the Americas and North Africa were negatively affected. According to the latest projections by the World Tourism Organization, international arrivals and earnings from tourism are expected to rise in 2003. However, the rapid spread of SARS has already had a negative impact on international travel to the economies affected. Presently it remains unclear how and when the spread of SARS can be contained and to what extent it will affect tourism.

Movements in prices of internationally traded products have reflected the impact of changes in the pace of economic growth, supply conditions, and swings in the exchange rates of major currencies. The unit value index of manufactured goods exported by developed countries reached a peak in the mid-1990s, but since then it has been declining. While earlier downward trends had reflected an increase in productivity in rapidly expanding sectors such as office machines and telecommunications equipment, more recently they were influenced first by the East Asian crisis and then by the global slowdown. In the past two years, the decline has been sharper in prices expressed in euros than in dollars due to the appreciation of the latter vis-à-vis the former. However, this is likely to be reversed with the recent sharp depreciation of the dollar.

The index of primary commodities of export interest to developing countries also continued its overall downward trend after reaching a peak in the mid-1990s. In 2002, prices declined for a large number of commodities, mainly as a consequence of the weakness in world economic activity. Annual average non-oil commodity prices fell by 2 per cent, with considerable variations across different commodity groups. Although prices for some commodities, particularly agricultural raw materials and metals and minerals, improved slightly at the beginning of the year, due to optimistic growth forecasts, this tendency was partially reversed as a result of the uncertainties and risks that emerged in the second half of the year. The renewed slowdown of growth in the major developed countries resulted in faltering demand for most commodities and falling prices. However, the drop in commodity prices in 2002 was generally less pronounced than in 2001. In addition, for some commodities, such as cocoa, grains, vegetable oils and seeds, and rubber, negative supply shocks actually contributed to price increases. Unlike most other primary commodities, crude oil prices stabilized in 2002 after dropping sharply the previous year (see annex for details).

B. Prospects: To what extent can trade expand faster than production?

Most forecasters are cautiously optimistic regarding short-term prospects for world trade. Current projections by the IMF estimate growth in world trade at over 4 per cent in 2003 and at 6 per cent in 2004, together with an acceleration of growth in world output (IMF, 2003, table 1.1). Trade is expected to expand much faster in the developing world than in the industrialized countries, with growth in their imports surpassing growth in exports both in volume and value terms. World Bank projections for growth in the volume of world trade show an even faster recovery, at a rate of 7 per cent in 2003 and 8 per cent in 2004 (World Bank, 2003, table 1.1).

Clearly, the evolution of world trade will depend crucially on the speed of recovery in the major industrialized countries. As discussed in chapter I, developments in the early 2003 in this respect have not been very encouraging. Without rapid recovery in the industrialized countries, it would be very difficult for the developing countries to provide a major impetus for growth in world trade. As noted above, trends in world trade have been maintained in the new millennium both by the expansion of imports by the United States and by intraregional trade in East Asia, notably by rapidly expanding imports by China associated with its accession to the WTO. These are unlikely to persist if growth in the rest of the world – Japan and the EU, as well as developing countries in Latin America and Africa – remains sluggish. There are already signs of a slowdown of trade in East Asia, where short-term prospects depend strongly on the expansion of markets in the industrialized countries since exports from that region remain closely linked to economic activity in the industrialized countries (IMF, 2003: 35).

Trade is expected to expand much faster in the developing world than in the industrialized countries.

Significant changes can be expected in the patterns of trade and trade balances across countries in view of rapid shifts in the exchange rates of the main reserve currencies, particularly the depreciation of the dollar against the euro, as well as disparate movements of the currencies of emerging-market countries against the dollar, and, hence against each other. However, while these exchange-rate movements may bring about rapid changes in the trade of the United States with the EU, this is unlikely to be the case for its trade with East Asian countries. As discussed in chapter I, this is not only because the appreciation of the dollar is much less pronounced against the yen, but also because several economies in the region such as China, Hong Kong (China) and Malaysia continue to maintain fixed exchange rates against the dollar. Furthermore, many countries which adopted a regime of floating exchange rates after the East Asian crisis have been managing their currencies in recent months in such a way as to prevent a rapid appreciation against the dollar. This stands in sharp contrast with the recent experience of Argentina, Brazil and Turkey whose currencies have been appreciating vis-à-vis the dollar, and hence also against East Asian currencies, offsetting much of the gains in competitiveness brought about by sharp depreciations over the past two years.

Significant changes can be expected in the patterns of trade and trade balances across countries in view of rapid shifts in the exchange rates.

Over the medium term, prospects for the expansion of world trade depend not only on growth in world income, but also on a number of other factors such as the evolution of the international trading system, the pace of global integration and the level of capital flows to developing countries. As already noted, the 1990s saw a rapid expansion in world trade, which exceeded the growth of world output. In fact this occurred every year from 1985 to 2000, with the difference reaching as much as 7 percentage points in 1994, 1997 and 2000. But this was not the first period since the war when world trade grew persistently faster than world GDP; a similar episode had occurred between 1961 and 1974, followed by a decade of erratic and slower growth in world trade and GDP (fig. 3.1A). The entire post-war period has seen an upward trend in the ratio of world trade to world output, but the trend became steeper after the late 1980s. This is also true for the growth of international merchandise trade relative to growth of total world production of goods in agriculture, manufacturing and mining (fig. 3.1B).

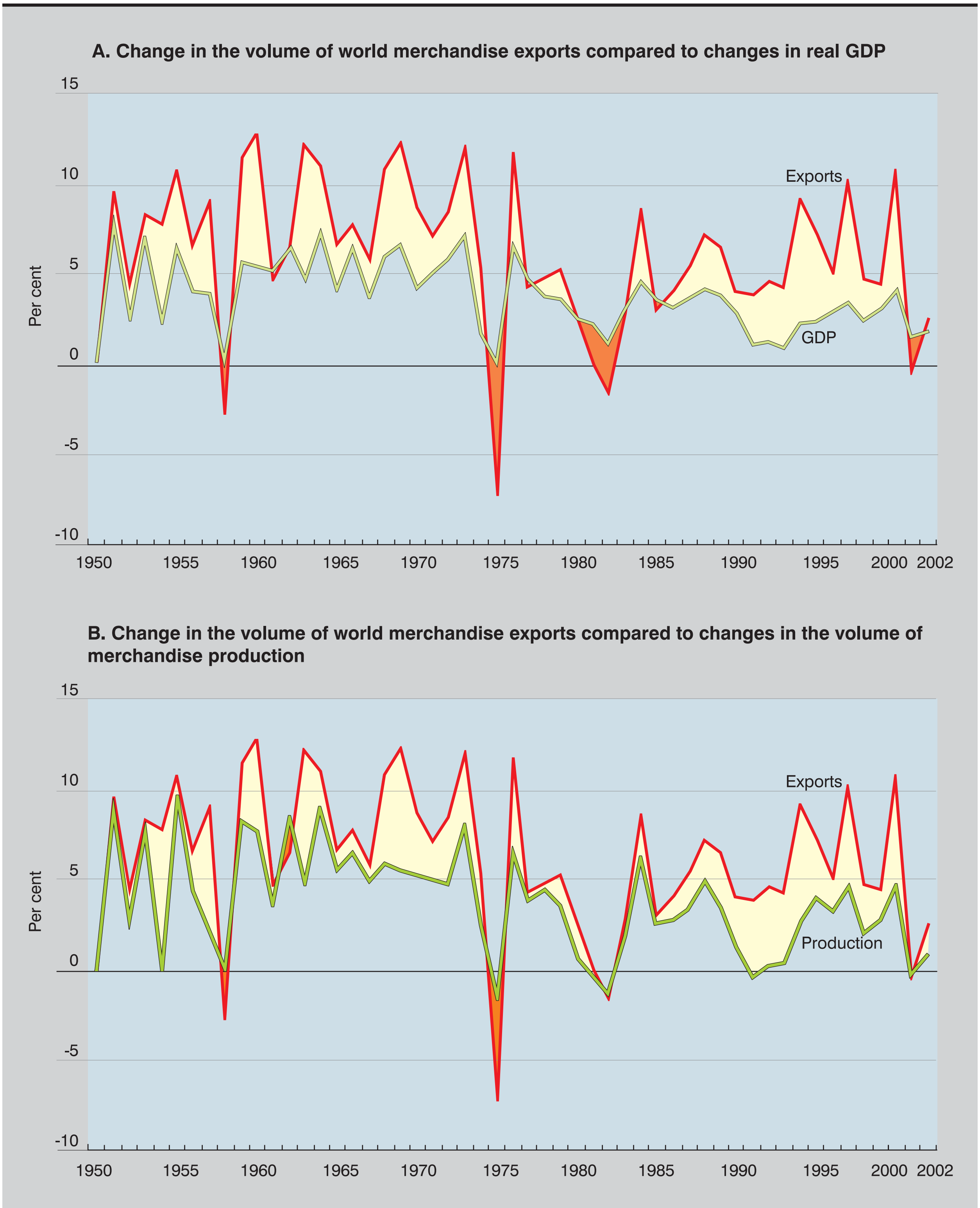
The growth of trade during the earlier period appears to have been driven by a number of structural and institutional changes, most notably in Western Europe, which accounted for two-thirds of the increase in world trade during this period. Much of this recovery reflected growing intra-European trade, particularly intra-industry trade in manufactures, which, on one estimate, accounted for three-quarters of the growth in intra-European trade in manufactures (Rayment, 1983).

The take-off of European trade in general and intra-European trade in particular in the 1960s must be seen against not only European reconstruction but also the unwinding during the 1950s of the many structural problems that had accumulated since the early 1930s. Their correction, together with new institutional arrangements designed to push forward European

Figure 3.1

CHANGES IN THE VOLUME OF WORLD MERCHANDISE EXPORTS COMPARED TO CHANGES IN GDP AND PRODUCTION, 1950–2002

(Per cent change over previous year)



Source: WTO, *International Trade Statistics, 2002.*

integration, preceded the rapid trade growth of the 1960s, much of which reflected delayed catch-up. It is notable that while intra-European trade accounted for 57 per cent of total trade by European countries in 1935, this figure had fallen to 53 per cent in 1952; by 1973, it rose to reach 70 per cent.

This process of integration was facilitated by a steady stream of measures from the late 1940s through the 1950s, which helped to erode the long-standing barriers to intra-European trade. These include: the post-war reconstruction programs themselves, assisted by Marshall Aid which was conditional on efforts to pursue European integration and to reduce trade barriers within the framework of the Organisation for European Economic Cooperation (OEEC); the establishment of European Payments Union (1951–1961), which removed currency incentives to discriminate against member countries' trade; and several rounds of tariff reductions under the auspices of the GATT (Geneva 1947, Annecy 1949, Torquay 1950/51, Geneva 1956). Following a large increase in IMF quotas in October 1958 there was a general movement towards current account convertibility of European currencies, a move accompanied in France by devaluation of the Franc and a significant liberalization of its OEEC trade. In 1960, the European Common Market (of the Six) came into effect, starting a steady process of removing tariffs and other restrictions on trade among its members and setting up a common external tariff. In the same year, the European Free Trade Association (EFTA) was created with an immediate cut of 20 per cent in tariffs on the mutual trade of the member countries in industrial products, and a new round of trade negotiations, the Dillon Round, began under the auspices of the GATT. All these developments helped to stimulate the economic recovery and to set the stage for an exceptionally rapid growth of intra-European trade, contributing to a rapid expansion of global trade in excess of world output and income.

The 1990s saw a rapid expansion in world trade, which exceeded the growth of world output.

... but this was not the first time since the 1950s that world trade grew persistently faster than world GDP.

A number of similar structural changes that occurred from the late 1980s onwards appear to account for much of this acceleration in trade relative to world GDP and merchandise production in the 1990s. Perhaps one of the most important factors was rapid liberalization by developing countries of their import regimes. Between 1990 and 2000, their exports and imports grew at annual rates of more than 9 and 8 per cent respectively, while the corresponding figures were less than 6 per cent for the industrialized countries. As a result, there was a rapid rise in the share of exports and imports in GDP in developing countries, as well as a rapid increase in the share of these countries in international trade in goods, from about 23 per cent to about 30 per cent (table 3.2).[1]

The pace of trade liberalization and integration will be an important determinant of the expansion of trade over the medium term. There is certainly scope for further liberalization of international trade. However, estimates suggest that even full liberalization would boost world trade by only 20 per cent (Hertel, 2000). Furthermore, under current circumstances the scope for liberalization is much more limited in the developing countries than in the industrialized ones. Many developing countries with relatively high tariffs in manufactures, particularly those in Latin America, Africa and South Asia, have limited potential for rapid export expansion, operate under relatively tight balance-of-payments constraints, and suffer from chronic trade deficits; their imports tend to surge relative to exports as soon as growth picks up. By contrast, most of the developing countries that have strong export performance and account for a large proportion of developing countries' share in world trade, already have low tariffs; in some cases (e.g. East Asian NIEs) their average tariffs are even lower than in the industrialized countries (*TDR 2002*, tables 4.2. and 4.3). As demonstrated in some detail in *TDR 1999* (chap. IV), the major industrialized countries have

Table 3.2

WORLD MARKET SHARES, AND GROWTH, OF EXPORTS AND IMPORTS, BY REGION, 1990–2000

(Per cent)

	Exports				Imports			
			Change in market share	Average annual growth			Change in market share	Average annual growth
	1990	2000	1990–2000	1990–2000	1990	2000	1990–2000	1990–2000
World	.	.	.	6.6	.	.	.	6.5
Developed economies	71.5	64.0	-7.5	5.5	72.5	67.3	-5.2	5.7
of which:								
Western Europe	45.9	37.6	-8.3	5.1	45.8	36.1	-9.7	4.2
United States	11.3	12.3	1.0	7.3	14.4	19.3	5.0	9.5
Japan	8.3	7.6	-0.7	4.1	6.5	5.8	-0.7	4.6
Developing economies	23.9	32.0	8.1	9.1	22.6	29.1	6.5	8.3
of which:								
Asia	16.9	24.2	7.3	9.5	15.9	21.1	5.2	8.2
East and South Asia	13.0	20.0	7.0	10.3	12.9	18.0	5.1	8.7
Latin America	4.2	5.6	1.4	10.2	3.7	5.9	2.2	11.4
Africa[a]	2.3	1.8	-0.5	3.5	2.4	1.6	-0.8	3.2
Sub-Saharan Africa[a]	1.2	1.0	-0.2	4.1	1.1	0.8	-0.4	2.6
Transition economies	4.6	4.0	-0.6	8.8	4.9	3.6	-1.3	8.7

Source: UNCTAD, *Handbook of Statistics, 2002* (CD-ROM).
a Excluding South Africa.

considerable scope for trade liberalization in labour-intensive manufactures, such as textiles, clothing, footwear and travel goods, which could create significant opportunities for the expansion of international trade and reshape international specialization to favour development. An UNCTAD secretariat estimation, based on conservative assumptions, showed that additional exports by developing countries of labour-intensive manufactures alone could be as high as $700 billion, or over 12 per cent of world merchandise trade.

A related factor affecting the growth prospects of world trade is capital flows to developing countries. As noted earlier, there was a rapid surge in such inflows in the 1990s, which helped many countries expand imports much faster than exports. This was particularly true for Latin America, where imports expanded faster than in any other region, including East and South Asia, thus making an important contribution to the growth in world trade (table 3.2). However, such capital inflows have not been sustained, and it is unlikely that their levels in the region will attain those of the previous post-war cycles so as to allow a rapid expansion of imports relative to exports. By contrast, large inflows of capital to countries in East Asia have been adding to foreign-exchange reserves, or have been used for debt repayments rather than for expansion of trade. In any case, developing countries that have experienced serious financial crises and setbacks to their development over the past decade are finding a strategy of reliance on private capital inflows to be increasingly untenable.

Finally, another area where structural change has occurred over the past decade and contributed to a rapid expansion of international trade is the spread of international production networks and the growth of intra-industry trade, examined in detail in *TDR 2002*. Since trade among countries linked through international production networks tends to be double-counted, an expansion of such networks is reflected in a faster growth of international trade in the goods concerned than of their total global production and consumption. Indeed, many of the fastest growing categories of goods in international trade (e.g. dynamic products such as electronics, electrical goods and clothing) have been increasingly produced in such networks, and hence double-counted in trade statistics (*TDR 2002*, table 3.1). Such double counting is also an important reason why the data show rapid increases in manufactured imports and exports relative to value added in countries such as China, Malaysia and Mexico that are heavily involved in international production networks (see chap. V).

Trade liberalization and global economic integration are greatly facilitated by expansion of economic activity and employment, and by improvements in living standards.

In the 1990s, the expansion of such networks was relatively rapid, as a significant proportion of the increased FDI into developing countries was designed to relocate production to low-cost countries for exports back to the home countries of the TNCs or to third markets. There is undoubtedly further scope for expansion, but it is equally true that such a process of vertical integration cannot continue at the speed with which it began following rapid liberalization of international trade and investment. Indeed, recent FDI flows to developing countries, notably to China, appear to aim at relocating production from other developing countries, including those in Central America, thereby diverting rather than creating North-South trade. Such inflows are also motivated by the opportunities offered by rapidly growing Chinese domestic consumption. Certainly, there is considerable scope for vertical integration and increased specialization within the developing world, but this is more likely to follow, rather than lead, rapid growth and structural change.

The rapid expansion of trade and further trade liberalization depend crucially on a rapid recovery of the world economy rather than the other way round.

While greater trade liberalization, deeper vertical integration and increased capital inflows can enable international trade to expand faster than global production and income, they are not in fact independent of the latter. Historical experience shows that trade liberalization and global economic integration are greatly facilitated by expansion of economic activity and employment, and by improvements in living standards. Similarly, sustainable, long-term capital flows, particularly greenfield FDI, are primarily attracted to countries that have already achieved rapid economic growth and constant improvements in human and physical infrastructure. It is precisely for this reason that the architects of the post-war international economic system emphasized full employment and growth as preconditions for the expansion of world trade and the greater integration of countries through liberalization. Given that the autonomous impact of trade on economic growth is limited and conditional upon a number of other factors, and that – in terms of what Schumpeter referred to as the process of "creative destruction" – the "destructive" impact of trade liberalization is often more readily felt before its "constructive" impulses come into play, putting trade first at a time of sluggish growth and rising unemployment may only rekindle mercantilist impulses. The rapid expansion of trade and further trade liberalization depend crucially on a rapid recovery of the world economy rather than the other way round. ■

Note

1 For a further discussion of the participation of developing countries in world trade, see *TDR 1999*, chap. IV; and *TDR 2002*, chap. III.

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Annex to chapter III

COMMODITY PRICES

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COMMODITY PRICES

The overall downward trend in commodity prices that began in 1996–1997 continued throughout 2001–2002, but price movements varied significantly across markets, primarily due to different supply conditions (table 3.A1).[1] The slowdown of demand, in addition to a chronic oversupply, was the main factor in keeping a downward pressure on the prices of many commodities including coffee, bananas and some metals and minerals. By contrast, adverse supply conditions helped to offset the slowdown in demand for a number of commodities, such as cocoa, grains, vegetable oils and seeds, thereby stabilizing and even raising their prices. For a number of other agricultural commodities, notably cotton and sugar, market-support policies in developed countries, such as the new Farm Bill introduced in the United States in May 2002, contributed to weakness in their world prices.

The price index for tropical beverages rose in 2002, after having fallen for four consecutive years. This was mainly due to a substantial increase in cocoa prices. Coffee prices remained at the level of 2001, when they hit a 30-year low. The main reason for the crisis in the coffee markets is the persistent oversupply resulting from a rapid increase in production by new entrants to the market such as Viet Nam, new plantations in Brazil, and improvements in productivity. Since the third quarter of 2002, coffee prices have recovered slightly due to increased speculation about the possible contraction of production in Brazil and Viet Nam. The Coffee Quality-Improvement Programme launched by the International Coffee Organization in October 2002, with a view to removing low quality coffee from the market, also appears to have contributed to the improvement of the balance between supply and demand in the world coffee market.

Developments in the cocoa market were mainly determined by uncertainties resulting from the political situation in Côte d'Ivoire – the largest cocoa producing and exporting country in the world – that accounts for about 45 per cent of world production and exports. In 2002, there was a global shortfall in the supply of cocoa for the second consecutive year, leading to a price increase of 63.3 per cent. By contrast, tea prices fell as a result of the high level of stocks and stagnant world demand.

Average food prices deteriorated again in 2002, their annual average drop of 4 per cent reversing the rebound of the two previous years. However, there were strongly diverging trends for different commodities in this group: prices fell considerably for sugar, less for bananas and only slightly for beef. Sugar production in Brazil has continued to rise unabated, doubling over the past decade. Increased production in China and South Africa added to better-than-expected sugar output in the EU, depressing prices by more than 20 per cent, to approach the extremely low level registered in 1999. The oversupply of sugar is ex-

Annex table 3.A1

WORLD PRIMARY COMMODITY PRICES, 1997–2002

(Percentage change over previous year)

Commodity group	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
All commodities[a]	**-0.5**	**-13.1**	**-13.9**	**2.0**	**-2.9**	**-2.0**
Food and tropical beverages	**2.3**	**-14.9**	**-18.5**	**1.0**	**0.0**	**-2.0**
Tropical beverages	33.3	-17.3	-20.9	-13.2	-22.0	8.7
Coffee	54.7	-28.5	-23.2	-16.2	-28.5	0.0
Cocoa	11.2	3.7	-32.1	-22.2	22.7	63.3
Tea	35.1	4.3	-7.0	6.8	-20.2	-9.5
Food	-4.2	-14.1	-18.3	5.3	5.0	-4.0
Sugar	-4.9	-21.2	-30.0	30.5	5.6	-20.3
Beef	4.0	-7.0	6.1	5.7	10.0	-0.2
Maize	-25.3	-13.4	-5.5	-1.0	4.2	0.3
Wheat	-22.6	-19.9	-10.9	3.5	9.2	16.2
Rice	-10.7	1.3	-18.6	-18.1	-15.2	11.0
Bananas	4.3	-3.1	-9.9	-2.3	38.8	-9.6
Vegetable oilseeds and oils	**-0.9**	**7.1**	**-23.3**	**-22.8**	**-8.5**	**26.2**
Agricultural raw materials	**-10.3**	**-10.8**	**-10.3**	**1.9**	**-1.9**	**-6.7**
Hides and skins	-19.8	-22.7	-27.6	73.8	41.1	-9.2
Cotton	-8.9	-8.3	-22.9	3.5	-20.9	-3.3
Tobacco	15.6	-5.5	-7.0	-3.3	-0.3	-8.5
Rubber	-28.3	-29.8	-12.6	7.9	-14.1	33.1
Tropical logs	-5.5	-1.2	-7.2	3.8	6.3	-10.5
Minerals, ores and metals	**0.0**	**-16.0**	**-1.8**	**12.0**	**-9.9**	**-1.8**
Aluminium	6.2	-15.1	0.3	13.8	-6.8	-6.5
Phosphate rock	7.9	2.4	4.6	-0.4	-4.5	-3.3
Iron ore	1.1	2.8	-9.2	2.6	4.5	-1.0
Tin	-8.4	-1.9	-2.5	0.6	-17.5	-9.4
Copper	-0.8	-27.3	-4.9	15.3	-13.0	-1.2
Nickel	-7.6	-33.2	29.8	43.7	-31.2	13.9
Tungsten ore	-9.3	-6.4	-9.3	12.1	45.5	-41.8
Lead	-19.4	-15.3	-5.0	-9.7	4.9	-4.9
Zinc	28.4	-22.2	5.1	4.8	-21.5	-12.1
Crude petroleum	**-6.0**	**-31.8**	**38.7**	**55.6**	**-13.3**	**2.0**

Source: UNCTAD, *Monthly Commodity Price Bulletin,* various issues.
a Excluding crude petroleum.

pected to continue in the short run, although the downward trend may be mitigated by increased consumption in the emerging-market economies of East Asia and the Russian Federation. A major feature of the sugar market is the presence of market distortions, stemming mainly from subsidization in the EU and the United States that insulates domestic producers from international market pressures.

After a substantial increase in 2001, banana prices tumbled in 2002. There was a moderate contraction in production and exports, but global demand fell despite a small growth in consumption in the United States. Beef consumption rose due to the recovery of consumer confidence in this particular food item, but global beef supply also increased because higher feed prices encouraged slaughtering; the outcome was a slight fall in beef prices. Prices of grains improved due to reduced supply as a result of drought and other unfavourable weather conditions in the major producing areas in North America and Australia, which was not compensated by stock depletion or increased output elsewhere. Food aid to African countries affected by drought also appears to have played a role. Maize prices remained unchanged, despite downward pressure from more competitively priced, low-quality wheat supplies exported in large quantities by China. Prices of vegetable oilseeds and oils increased substantially due to a fall in production resulting from adverse weather conditions that affected crops in the major exporting countries.

Prices of agricultural raw materials, and minerals, ores and metals are most vulnerable to cyclical downturns in economic activity. As a result of high levels of stocks and weak demand from industry, prices declined for all commodities in these groups, except rubber and nickel. For cotton, the average price level continued to fall in 2002 due to sluggish growth in world demand, abundant cotton inventories and fierce competition from synthetic fibres. However, lower production during the crop year 2002/2003 and strong demand from China caused prices to recover to a certain extent during the second half of the year. Subsidized cotton production in the United States and China continued to contribute to oversupply and to the historically low level of prices reached in the 2001/2002 growing season. Particularly hard hit by these measures were the export earnings of producing countries in West Africa and Asia, many of which are among the world's poorest developing countries. The evolution of prices for the various qualities of cotton continued to vary; prices of the better qualities showing a more positive evolution than those of the lower qualities.

Natural rubber prices increased due to strong demand, exchange-rate appreciations in producer countries and an imbalance in the rubber industry, that led to falling stocks. This prompted governments in some producing countries such as Thailand to intervene in the market. Weather conditions also helped to keep rubber supply low. The establishment of the International Tripartite Rubber Organization (ITRO) by the three major producing countries – Indonesia, Malaysia and Thailand – with the objective of rationalizing and coordinating production also had some influence on rubber prices.

Prices of metals and minerals are closely related to the growth performance of the world economy. Demand for most metals has been growing only slightly due to the sluggishness of the world economy. Although prices recovered to some extent in early 2002, the overall trend has been negative, and despite some cuts in production capacities, short-term expectations of producers remain depressed, as the level of stocks is still relatively high and demand prospects are uncertain. China is playing an increasingly important role as an emerging market for many metals and minerals, due to the rapid growth of consumption. For iron ore, aluminium and copper, China's industrial expansion is critical to increasing global demand and prices. The same is true for nickel, the most important ingredient for stainless steel production, which accounts for two-thirds of the worldwide consumption of primary nickel. As production is unlikely to keep up with demand, stocks are likely to continue falling and prices rising.

After a substantial decline in 2001, oil prices have been fairly stable since the beginning of 2002, thanks to the discipline established by the Organization of the Petroleum Exporting Countries (OPEC). Production targets, set with a view to maintaining the price per barrel within the $22 to $24 range, as well as the coordination of production with non-OPEC oil exporting countries, have been working well. The rise in crude oil prices during 2002 was mainly spurred by political instability in the Middle East and Venezuela. In the end, oil prices did not rise as dramatically as had been feared. Global production expanded during the course of the year after a preliminary reduction of the OPEC target in January 2002. The target was revised upwards in December in an attempt to adjust supply to rising demand due to a colder-than-expected winter in the Northern hemisphere and to some switching to oil from other sources of energy in Japan and the United States.

This forced some depletion of stocks, particularly in the United States.

With the beginning of the war in Iraq in March 2003, volatility in the oil markets increased. But even after the war, prospects for any near-term change in oil prices remain unclear as the role of Iraq in the oil markets is still uncertain. During the second quarter of the year, some of the factors that were contributing to price rises have been easing, including the gradual recovery of production in Venezuela and Nigeria and the seasonal reduction in demand with the end of winter in the Northern hemisphere. Continuing slow output growth in the world economy and reduced travel as a result of SARS may further weaken demand growth. Clearly, the evolution of oil prices remains highly dependent on the capacity of OPEC to maintain some discipline in the new geopolitical context. ■

Note

1 There are considerable differences in commodity price statistics published by different international organizations including UNCTAD, the IMF and the World Bank. These differences arise largely from differences in the coverage of different categories of products (e.g. meat) and product groups (e.g. food, minerals, fertilizers) as well as differences in the weights used for aggregation. UNCTAD statistics define coverage and weights according to the relative importance of the different products to developing countries. Thus, while in UNCTAD statistics weights are determined according to the share of individual commodities in the total commodity exports of developing countries, in some others (e.g. IMF statistics) the shares of individual commodities in world commodity exports are used as weights. Commodity prices used are also different; UNCTAD uses prices that apply primarily to the exports of developing countries.