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New tasks for the International Tin Council

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others—was dedicated to the fiftieth anniversary of the October Revolution. Although the area was smaller, it was more an exhibition than a fair, more a show than a shopwindow.

If East Germany's trade with the West accounts for only ca 25% of total foreign trade, including inter-zonal trade, and if this trade is the only chance for rationalisation and to progress automation, which is at present in its first infancy, since nothing—absolutely nothing—is to be expected from the so-called socialist "peace camp" in the way of modern equipment for automation, then it is natural for there to be a growing tendency to make better contacts, then it is economically incomprehensible that political dogmas should continue to inhibit trade. Neither is it rational that the euphoric wish for political recognition should take first place. Nothing else will explain why the Deputy Chairman of the Council of Ministers, Julius Balkow, in contrast to his normal habit, introduced a very mild note into his inaugural speech at the Leipzig Opera House on 4th March, although that was the time when East German propaganda against the Federal Republic was reaching its—though temporary—peak. The East German Government's insecurity in the face of West Germany's new policy towards the East will certainly not obscure the judgment of economic facts.

Higher Debts?

Since the Berlin Wall was built in August 1961, the Central German economy has, by and large, developed well. Supplies have improved of a large range of consumer goods and commodities available to the public, purchasing power has risen slightly, since the introduction of a five-day-week every second week, working hours have decreased, a modest degree of motorisation exists, trade with industrial countries in the West has increased, both absolutely and relatively, and East Germany's economic position has improved in the communist camp. Because of its level of indus-

trial production it holds second place there, after the Soviet Union. In many sectors of production it sets the tone for Comecon, where it is the model member. But in spite of the recession in West Germany, the gulf between East and West Germany in the sectors of production and purchasing power has not narrowed. East Germany is still extremely avid for goods in all sectors and labour is extremely short, not least because about 150,000 men in their best and most productive years "protect" "state frontiers" day and night, so that, from an economic point of view, they are employed absolutely unproductively. The production and administrative apparatus is still extremely cumbersome and also very inflated. The centrally controlled economy works to sacrosanct rules. The so-called industrial price reform concluded at the beginning of 1967 gave rise to considerable unrest in the nationalised, partially state-owned and the few private firms. Energy prices were re-assessed on actual costs to excessive "real" levels. New costs were prescribed for interdepartmental transport and for transport outside firms. Processing industries have had to buy their raw materials at prices 50, 70 or even 100% higher. Subsidies to raw material industries are to be eliminated completely. But prices to the consumer are not to be allowed to rise and wages have not really been unfrozen. How, in this situation, purchasing power is to rise by 20% by 1970—as Prime Minister Stoph prophesied to the seventh party conference in April—must be a mystery even to the East German civil servants. They believe this can be solved by increased rationalisation. But increased productivity depends upon massive investment and without Western aid it is almost impossible to achieve this, at any rate not rapidly. And since foreign currency is short and it is impossible to pay for everything in kind, the only way out will be to continue to pocket socialist pride and increase debts to the West—primarily in the Federal Republic. Leipzig is worth a Fair, certainly for East Germany.

WORLD TIN MARKET

New Tasks for the International Tin Council

By Helmut Stodieck, Hamburg

After careful and long preparation the Technical Conference on Tin met in London in March of this year. The meeting took place at the invitation of the International Tin Council. It must be regarded as part of the endeavours to solve—or at least to prepare a solution for—the specific organisational, economic and technical problems of the tin market. As this would seem to be the first time that it has been possible to call together a technical conference to deal with such a comprehensive complex of subjects within the framework of an international raw material agreement, one is bound to ask what effect the conference had. It will be necessary to examine whether

the common treatment of technical problems, which are frequently difficult to separate from economic and organisational questions, represents a progress in international cooperation. In order to decide this question it would seem to be appropriate to look back on the origin and development of the international tin agreements.

The second world war was still in progress when the governments of the Allied states already began to search for ways and means to make sure that after the war there would not be once again a decline into such an economic crisis as had characterised the years

after 1929. The government of the United States was foremost in playing an important part in the drafting and the execution of such plans. Particular importance attaches in this connexion to the American "Proposals for Expansion of World Trade and Employment." These proposals constituted an incentive after the war—within the larger framework of the United Nations—to work towards a normal functioning of the world's economy and thus to contribute to the political stability of the world.

As a result of the deliberations in the Economic and Social Council of the United Nations, there emerged the International Conference on Trade and Employment, which met in 1947 in Havana and proceeded to work out the so-called "Havana Charter". The purpose of the charter was to establish a genuinely international trade organisation. But the conference failed in its purpose because of the resistance shown by the American Congress. Decisive for their rejection of the plan may have been the dislike for a planned economy, reluctance to transfer to international institutions functions relating to national trade policies, and last but not least the changed economic and political situations since the end of the war.

First Steps towards a Regulated Market

It is against this background of general trade endeavours of the first years after the war that the foundation of the International Tin Study Group must be seen. It came into being in 1947 under the auspices of the United Nations "to keep the world tin position continuously under review". The world tin market seemed to be in particular need of so being kept under review, for the surplus production of tin was already beginning to assume threatening proportions. The tin mines of South-East Asia had relatively quickly regained their pre-war output while demand was rising more slowly. The balance between supply and demand at reasonable price levels rested—apart from the special case of the Korea boom—on the considerable purchases by the American Government for its strategic reserves. As the experiences of the pre-war years had also been pointing to a persistent surplus in output and as it was also reasonable to assume that the quantities which the United States Government was currently taking out of the market would in time diminish, it seemed appropriate to conclude an international agreement on the control of that raw material. Conferences were therefore held in Geneva in the years 1950 and 1953 at which the first post-war International Tin Agreement was concluded.

But it was not before 1956, when the USA began gradually to stop buying tin for its strategic reserves, that Indonesia was at long last prepared to ratify the agreement. After years of negotiations it finally took effect on July 1, 1956.

But what was to be achieved with the agreement? Its aim was to contribute to the stabilisation of the market in the interests of both the producers of tin and its users. The tin market, like numerous other raw

material markets, had for decades been a special problem of international trade policy, and that for two reasons:

□ For one thing: tin prices are subject to typical, frequently violent and sudden fluctuations. These result, as the quantities sold remain the same, in correspondingly large fluctuations in the profits of the producers and can seriously endanger the continuity in the economic development in the developing countries.

□ Then there is the problem of the general trend of prices. In the long run actually falling prices are without a doubt an exception. But even if they fall only relatively to the prices of these goods which the raw material countries must import, or if they show an unsatisfactory trend in comparison with the costs incurred in the production of the raw materials, the producers find themselves in a hardly enviable situation.

Already in the thirties the leading producers had for this reason got together and formed a cartel for the stabilisation of the world tin market. The first post-war agreement was designed "to prevent excessive fluctuations in the price of tin, to achieve reasonable stability of price and to ensure adequate supplies of tin at reasonable prices at all times".¹ In contrast to pre-war days these purposes were to be achieved through cooperation between the producers and consumers of tin. There was thus created on the world tin market a new form of international co-operation which from its very start opened up by far greater possibilities than the producer agreement before the war. This development was, however, less a result of a growing understanding on the part of either the producers or the consumers; rather was it a consequence of the political developments since 1945. Before the war various European industrial countries had been not only consumers of tin but at the same time as colonial powers also producers of tin.

The new world powers of the post-war period, the USA and the Soviet Union, but also the former by now sadly weakened colonial powers of Europe, occupied a totally different position in world trade. Apart from the special problem of the "Eastern bloc", they were obliged to find new means of safeguarding their economic interests in the changed circumstances. In view of the fact that tin, a strategically important raw material, is primarily to be found in the South-East Asian area, in Bolivia, Nigeria and in the Congo, the industrial countries had a special interest in the economic and political stability of these areas and states. As consumers of tin being dependent on imports they were prepared, for political but also for economic reasons, to join a tin agreement, among the declared aims of which there was admittedly "the safeguarding of adequate supplies of tin at reasonable prices at all times"² but which was nevertheless

¹ See: The Statistical Bulletin of the International Tin Council, London, January 1958, page 2.

² See: United Nations Tin Conference 1950 and 1953, Summary of Proceedings, published by the United Nations, New York 1954, page 14.

firmly aimed at guaranteeing a "reasonable return to producers,"³ which is exactly in the spirit of the Havana Charter. The industrial countries took this step because they saw in the stabilisation of world commodity prices a possibility to support the developing countries, and this they regarded as part of their development aid programme. The tin market was particularly suited for this purpose in view of the fact that nearly the whole tin output comes from the developing countries, their share in the world tin mining production amounting in 1966 to 94 %.⁴

Limited Effectiveness of the Agreement

These long-term economic-political aspects apart, it was, however, not unimportant that the considerable short-term price fluctuations apparently also militated against the interests of the consumer countries. For one thing, booms caused by speculative laying-in of stocks, provided they occur on a wide front, are capable of producing a considerable inflationary impulse. For another, economic risks incurred in the trading and stocking of raw materials must in the end be paid for. If short-term fluctuations in the prices of raw materials increase normal risks, the tin consuming industry has no choice but to find an additional risk premium and recoup itself from the final consumers.

It follows from this that producers and consumers alike have a considerable interest in keeping the tin market stable. In view of this it is all the more astonishing that the United States, of all countries, after participating in all the negotiations, should in the end have failed to ratify the agreement. The superficial interests of the tin consuming industries in keeping raw material prices as low as possible and the distaste for interventions to influence prices had prevailed over the political and economic interests of the Western World. The effectiveness of the newly devised form of international cooperation has thus been jeopardised all the more so as the Soviet Union and the Federal Republic of Germany have also not become members. For the stabilisation of a raw material market can be successfully effected only in circumstances "in which the economic power suffices to carry the costs and in which the political power exists to carry through the proposed stabilisation."⁵ But it is in this very respect that the non-membership of the United States exercises a negative effect. The financing of the Buffer Stock is a burden carried by the producing countries exclusively, while the export controls and the output restrictions connected with them primarily concern the developing countries. The economic capability to bear the cost of the stabilisation

is therefore very limited although numerous well-to-do industrial countries adhere to the agreement as consumers. The lack of political power to effect a price stabilisation also became obvious by the time American stock-pile disposals began. The negotiations between the USA and the ITC on this point were broken off in July 1962 when it was stated: "that they (the talks) had not resulted in agreement as to the specific rate and conditions of disposals which would be most appropriate."⁶ In view of this the promise of the United States to adjust its sales policy to the market conditions of the day was but cold comfort.

If during the first agreement the International Tin Council nevertheless succeeded to a large extent in balancing supply and demand on the world tin market and to stabilise price trends, it was largely due to the adjustment of the Council's machinery to the then prevailing market conditions. Purchases of tin by the Buffer Stock Manager, export controls and the output restrictions indirectly connected with them, proved to be suitable instruments in an "era of burdensome supply". Apart from September 1958 when the Manager of the Buffer Stock ran out of funds for the purchase of tin, when he had to stop buying and to let the price fall further, the stabilising influence of the agreement can hardly be contested.

The second tin agreement was concluded in 1960 at the conference of the United Nations in New York and took effect in July 1961. It was provided with the same instruments. But in the meantime the situation on the world tin market had undergone a considerable change. The production surplus of the fifties had turned into a shortage of supplies. It became apparent that the instruments of the ITC, which during the first agreement had proved eminently practicable, had become ineffective by the end of 1963 when the Buffer Stock was sold out. Once again the free market influences came into play. Strikes in tin mines—transport difficulties, lock-outs in the tin consuming industry once again caused the usual price fluctuations, the very fluctuations which one had intended to avoid by means of the tin agreement. The sales policy of the GSA in the United States, though not always successful, did manage partly to close the gap in supplies, on the other hand, however, it caused uncertainty on the tin market and aggravated the price fluctuations, particularly in 1962 and 1963. Lack of agreement between ITC and GSA became apparent when towards the end of 1963 a delegation of the International Tin Council went to Washington to draw attention to the importance of "a greater degree of certainty as to disposal policy and the basing of disposals on criteria known publicly and taken into account by producers and consumers".⁷ It was not before March 1964 that the GSA announced a long-range disposals programme. In view of the persistent supply deficit the ITC finally decided in November 1964 to form a committee which was to concern itself with all the organisational, economic and technical

³ Compare:— United Nations Conference on Trade and Employment, held at Havana, Cuba, from November 21, 1947, to March 24, 1948; Final Act and Related Documents, New York 1948.

⁴ See: Programme for the Liberalisation and Expansion of Trade in Commodities of Interest to Developing Countries, UN-Conference on Trade and Development, Geneva, December 1966, Annex F, page 1.

⁵ See: — Report on the Problem of Stabilising World Raw Material Markets in Connexion with the United Nations Conference on World Trade and Development, published by the European Assembly, Sessional Documents 1966-1967, Brussels, June 1966, Document 76, page 4.

⁶ See: ITC: Statistical Year Book 1964, London, page 12.

⁷ Ibid., page 13.

problems standing in the way of a rapid increase in production. The USA and the Federal Republic of Germany took part in these endeavours which, though understandable in view of their interests, was nevertheless remarkable. But participation by these two countries did not mean a fundamental change in their attitude towards the International Tin Agreement.

This became apparent when the third international tin agreement provisionally took effect on July 1, 1966, once again without these two countries. This agreement, taking account of the principles laid down in 1964 by UNCTAD, has given itself the additional task "to make arrangements which will help to maintain and increase the export earnings from tin, . . . , to make arrangements for the continuing study of the short-term and long-term problems of the world tin industry, and to encourage wider participation in organizations devoted to research for promoting the consumption of tin".⁸⁾

Extension of Scope

To what extent, however, is it possible to reach the aims of this agreement as long as important individual countries are not prepared to adhere to it? The experiences of over ten years of international tin agreements have shown that such an agreement can function perfectly satisfactorily in times of excessive output, provided all important producing countries are members of it and submit to the measures proposed by the Tin Council. As soon, however, as the market begins to suffer from a shortage of supplies,

⁸ See: UNCTAD Commodity Survey 1966 (part II A), published by United Nations Conference on Trade and Development, Geneva, November 1966, page 118 seqq.

the agreement proves to be largely ineffective, if some of the leading tin consumers stay outside. To this must be added the uncertainty surrounding the stock-pile disposals by the GSA as this did not exactly act as an incentive for the developing countries to intensify their production of tin.

There is without a doubt every justification for setting up as original and primary aim of the international agreements the stabilisation of the price of tin. It was precisely over the price that the representatives of the producing and consuming countries had their differences of opinion. All the more important would therefore seem to be the latest development in the third tin agreement. It proved, after all, possible to get together in London for a technical conference all the countries interested in the production and the consumption of tin. To be sure, a technical conference is as such nothing special. But what raises the London conference above the level of the ordinary is the possibility that it may prove the first step away from the present tin agreement with price stabilisation as its main aim towards a world organisation whose purpose it is to see to it that the limited tin deposits are systematically exploited.

In this respect, the International Tin Council would seem to have a unique opportunity. It could become the organisation "through which all the latest ideas, developments and techniques in the uses and applications of tin from all over the world could be assembled, considered and disseminated from time to time".⁹⁾

⁹ See: Tin International, London, March 1967, page 62.

SOVIET BLOC ECONOMY

Bilateralism in East-West Trade

By Ernst Lederer, Frankfurt/Main

The political side of the relations between the Federal Republic and the socialist states of South-Eastern Europe has made the problems regarding West Germany's trade with these countries take second place, although they had for many years formed the object of lively discussion in this country's financial and daily press. In view of the efforts made by the Federal Republic at reshaping its policy towards Eastern bloc countries this is only too understandable. It may, however, be assumed that quite a few problems regarding our trade relations have been solved satisfactorily in the last few years and that some progress has been made on both sides.

Nonetheless, this sector of our foreign trade, which constitutes only a small percentage of our overall balance of trade, is still far from being free from all difficulties, and constantly requires special efforts and careful cultivation. It may be expected that the

new course which the German Government has adopted in its policy towards Eastern bloc countries will lead to an expansion of trade relations with the countries concerned,^{*)} even though the extent to which they may be expanded is limited by factors which are largely outside the scope of our own influence. Here it is thought particularly of the difficulties which East European countries—especially those which still lack an efficient industry—meet when selling their products in Western countries, especially in the Federal Republic of Germany.

The Principle of Bilateralism

It must be borne in mind that it has always been, and in most cases still is, the principle of these countries to engage in trade with other countries on

^{*)} For the purpose of this report, the socialist countries of Europe, excluding Yugoslavia, and the People's Republic of China.