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Commodity Problems of Developing Countries

by Jürgen Kühn, Bonn *

The situation of the international commodity markets continues to have considerable influence on the economic growth of developing countries. Commodities, comprising food, beverages and tobacco, raw materials, fuels, and metals, represent the biggest income items in the trade balances of the developing countries. In 1968 commodities accounted for 84 p.c. of their total exports, compared with only 16 p.c. in the case of manufactures. On the other hand, exports of commodities constituted only 40 p.c. of total world exports while the corresponding figure for manufactures was 60 p.c.

Commodity Exporting Countries

Table 1 shows that developing countries and commodity-exporting countries are no longer one and the same thing. Less than 40 p.c. of international commodity exports come from developing countries, while more than one half is supplied by industrial countries. In fact, commodities are in decreasing proportion to total exports of developing countries.

The gradual shift of developing countries' exports towards manufactures is due to the different growth rates in individual sectors (Table 2 and 3).

With the exception of fuels and non-ferrous metals, developing countries' commodity exports increased more slowly than their average total exports, chiefly on account of the falling off of

world demand for most commodities. It is striking, however, that the industrial countries apparently found it easier to sell their commodities than the developing countries. On the other hand,

Table 1
Structure of World Exports compared with Exports of Developing Countries in 1968
(\$ billions)

	World	Developing countries
Food, Beverages and Tobacco	33.4	11.0
Raw Materials	28.6	8.4
Fuels	23.9	14.8
Non-ferrous base metals	9.6	2.8
Commodities	95.5	37.0
Manufactures	143.3	6.9
Total exports	238.8	44.0

Source: UNCTAD Review of International Trade and Development 1969/70.

Table 2
Changing Pattern of Exports of Developing Countries
(In p.c.)

	1960	1968
Food, Beverages and Tobacco	29.6	25.0
Raw Materials	27.9	19.1
Fuels	27.9	33.6
Non-ferrous base metals	4.9	6.4
Commodities	90.3	84.1
Manufactures	9.3	15.5
Total Exports	100.0	100.0

Source: UNCTAD Review of International Trade and Development 1969/70.

* Spokesman of the developed market economy countries at the fifth session of the UNCTAD Committee on Commodities.

Table 3
Growth Rates of Commodity Exports
between 1960 and 1968
 (In p.c.)

	Industrial countries	Developing countries
Food, Beverages and Tobacco	+ 6.5	+ 3.3
Raw Materials	+ 4.2	+ 1.4
Fuels	+ 6.0	+ 8.5
Non-ferrous base metals	+10.0	+ 9.7
Commodities	+ 5.6	+ 5.0
Manufactures	+10.5	+11.6
Total Exports	+ 8.7	+ 5.9

Source: UNCTAD Review of International Trade and Development 1969/70.

the latter managed to exceed the growth rate of industrial countries in the manufactures sector.

The reason for these different growth rates mainly lies in the respective economic developments, and measures of economic, trade and development policy have but little influence on them. Hence a long-term solution for the commodity problems will have to be sought outside this sector. The developing countries would have better sales prospects if they processed their commodities before exporting them or produced manufactured goods.

Considering this situation, it cannot be the aim of the international commodity policy to let the developing countries permanently be dependent on commodity exports. Rather should the developing countries be helped over the period they will require to diversify their economies and to integrate them in a world economy based on a rational division of labour. During this phase any disturbances of the general process of economic growth ensuing from the commodity sector should be avoided. More ambitious aims designed to make commodities the pacemaker of economic progress in the developing countries are doomed to failure owing to the structural weakness of most commodity markets.

Possible Solutions

The commodity problems of developing countries can best be solved by affording them easier access to the markets of the industrial countries and by directly influencing market activities. In general, the first step should be to remove any trade barriers that would prevent them from expanding their commodity exports. It would appear to be more beneficial to the developing countries to increase the volume of their sales as much as possible by eliminating tariff and non-tariff barriers than to increase exports earnings by stabilising prices. It is also very important

to achieve greater market transparency, in other words to obtain a comprehensive statistical survey of the market situation and of short- and long-term market prospects. Such information can best be supplied by the various international study groups which can draw up recommendations for producer and consumer countries. Where commodity markets are subject to considerable price fluctuations international commodity agreements would perhaps be the best remedy.

The expediency and appropriateness of such measures differ of course in the various markets. General guidelines for all commodities can only be established to a limited extent. As a general rule, commodity policies should be governed by the conditions in the respective market. This implies accepting the principle of a commodity-by-commodity approach. Nevertheless, certain general principles can be drawn up for specific classes of commodities.

Tropical Products

Initially, all barriers to exports of tropical products that are produced exclusively in developing countries and for which there are no direct substitutes should be removed. This applies especially to such products as coffee, cocoa, tea, and bananas. The European Economic Community has already made considerable progress in this respect by reducing various tariffs, e.g. for coffee from 16 to 7 p.c. and for cocoa from 9 to 4 p.c., while the tariffs for tea and tropical timber have been removed altogether. In so far as there is a surplus of tropical commodities or where substantial price fluctuations occur, it may be necessary to restrict production and exports. The purpose of such restrictions should be to stabilise prices in harmonisation with the long-term trend of the market in question. Basically the aim should be to ensure an adequate margin between minimum and maximum prices. It is up to the producing countries to check surpluses, since there will be little prospect of adapting production to demand unless these countries exercise a certain amount of self-discipline and are conscious of their own responsibility. The principal task of the importing countries in this respect should be to help keep a check both on exports and sales quotas. Countries with liberal market economies cannot be expected to pledge themselves to buy tropical products at certain prices or subject to fixed quotas. If the stabilisation of a particular market calls for financial resources, for example for international buffer stocks or for regional diversification programmes, producer countries should be in a position to provide them themselves as a result of the improved market situation. Where it seems appropriate, an export tax

could be imposed in producing countries for this purpose.

Other proposals, such as those put forward by French experts, which are orientated to a more detailed organisation of tropical product markets, are bound up with sizable problems. They would require higher international prices, the imposition of import levies and the transfer of such proceeds to developing countries. But although such arrangements would provide additional funds for developing countries without any extra burden on the taxpayer, they would aggravate international commodity markets which are already in a difficult situation. Artificially increased prices generally serve to maintain the production of uneconomical commodities and thus tend to decrease consumption. The immanent danger here is overproduction, which has already been the case in some world markets. Moreover, the criteria on which such funds are raised and distributed are alien to the particular market situation. This is because the major importing countries would have to carry the main financial burden while it is the developing nations whose economics rely on only a few commodities who benefit most when the proceeds are distributed.

Agricultural Products of the Temperate Zone

The stabilisation of world markets for agricultural products of the temperate zone (e.g. cereals, meat, sugar and milk products) presupposes a change in policy by all producer countries. Changes of this kind can only be considered within the framework of international arrangements embracing both industrial and developing countries. As a prerequisite to negotiations with this aim in view, all participants would have to undertake to ensure that the effects of existing protective measures would not be worsened. A "standstill" pledge of this kind should not be confined to commercial policy but cover agricultural policy as a whole. Apart from this it might be worthwhile first of all to consider the possibility of lowering or removing trade barriers and then introduce multilateral measures designed to minimise agricultural protectionism. In addition, efforts should be made to establish arrangements that will help the developing countries, for instance consultations with the objective of maintaining traditional flows of trade. World-wide increases in the prices of agricultural products, higher food production in the industrial countries and the distribution of the surpluses among developing countries will not solve international agricultural problems, for this process requires quite substantial financial resources but does not remove the causes of market instability.

It is more important that developing countries should be enabled to boost their own food production rather than be given food aid from industrial countries.

Raw Materials

Raw materials, such as copper, rubber and cotton, are produced by industrial as well as developing countries. In many cases they are in strong competition with synthetic and other substitutes. International co-operation in the raw material markets should help to preserve and increase the competitiveness of natural products as against industrial substitutes. This requires above all a rationalisation of production by reducing costs and improving quality. On the other hand arrangements leading to higher prices would tend to exclude raw materials and as a result fail to raise developing countries' export earnings. Precisely in the raw materials sector the artificial maintenance of the production of uneconomical products has, in the long term, given rise to far more difficult problems than the timely adjustment to the market situation. This process of adjustment should be facilitated by means of structural remedies without any direct interference in the market. Government subsidies for the promotion of sales and the export of industrial substitutes should be discontinued to the same extent as the artificial protection of existing production patterns is avoided, though without hampering economic progress.

Germany's Contribution to International Commodities Policy

Germany has proved to be a particularly favourable market for the products of developing countries. Since 1960 their export surpluses in trade with Germany have risen continually, a fact which has clearly improved their trade balance. In 1968 the developing countries exported goods to the value of 15.6 bn DM to Germany, including 12.8 bn DM worth of commodities. This development is the result of Germany's economic policy which is orientated to world-wide trade relations and ensures a constant growth of domestic demand.

In critical cases Germany has participated in international measures to stabilise the market. The Federal Republic of Germany is a party to the cereals and coffee agreements, and is a member of all international study groups. Germany also played an active part in the negotiations on the tin and cocoa agreements. Germany's participation is a confirmation of the Government's will to play a constructive part in purposive economic measures to promote the export of commodities of developing countries.