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Marketing and Distribution Systems

by Franz J. Jägerler, Hamburg *

Economic growth of LDCs depends decisively on the volume of foreign currency available to them. Apart from financial aid, such currencies can only be earned by exports. However, almost 90 p.c. of all export revenue of LDCs flows from shipments of raw and base materials, and thus, increasing these earnings will always be the main point of departure for any trade policy which does not aim at changing the structure of a given country's exports.

Up to now, LDCs have focussed their efforts mainly upon measures for increasing the exported volumes and for stabilizing and/or raising the prices of their raw materials. Of relatively recent origin is their notion to achieve higher earnings from exports through influencing and transforming the marketing and distribution systems for commodities.

New Aims of Commodity Policies

In practice, such concepts presuppose that existing marketing and distribution systems for commodities are to be streamlined and reconstructed – both in producer and in consumer countries – away from monopolistic or similar cartelization forms on the import side. Monopoly “rents” accruing from these efforts ought to be channelled to as high a degree as possible to producer countries. In view of OAPEC's¹ spectacular successes, commodity producing countries intend to emulate the example set by the oil countries and to concentrate commodity shipments not only on an international level.

It is very difficult to examine the possibility of achieving this. To carry out such a study, it would not only be necessary to make a highly detailed survey of the marketing and distribution systems for – with reference to LDCs and industrial nations – all commodities that might be suitable for becoming the objects of such efforts, but in addition, the enquiry would also have to cover all the potential costs and gains on every level to demonstrate the possibilities for improving the systems. However, some basic knowledge in this field has already been compiled in a first survey launched by the Hamburg Institute for International Economics (HWWA-Institut für Wirtschaftsforschung-Hamburg), covering four selected commodities (cocoa, cotton, natural rubber, and tin)².

The study was based on a systematic breakdown of the marketing and distribution systems for these commodities by three main functions, as follows:

- organisation of markets in producer countries;
- transport from producer to consumer countries;
- selling in buying and/or consuming countries.

The result of this examination was: In producer countries especially, it would be possible to improve the organisation of the markets considerably, leading to cost-cutting. Overseas transportation would, likewise, permit considerable economies. On the other hand, worthwhile improvements are hardly possible in marketing within consumer countries. Existing conditions of competition and the structure of consumer markets would permit only widely scattered possibilities of rationalisation, which would not lead to any fundamental change.

Higher Efficiency in Producer Countries

Marketing organisations in producer countries do not usually only look after manufacturing and/or producing raw materials but they include also a certain amount of processing, collecting, transporting and storing of commodities until the date of export. This trade network is usually characterised by a number of typical weaknesses:

- The chains of marketing are very often far too long, and this leads to grossly inflated costs of middlemen's services being added to marketing outlays;
- primitive collection and processing of raw materials, insufficient sorting, incorrect grading, defective packing, and harmful transport and storage techniques;
- monopsonic or oligopsonic influences, based on special local conditions, e.g. an underdeveloped network of traders restricting demand on one of the levels of marketing; insufficient trans-

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¹ Organisation of Arab Petrol Exporting Countries.

² For further details, see Dietrich Kobschull, Axel Borrmann, Franz J. Jägerler, H. Rasul Schams and Ursel Steuber, *Vermarktung und Verteilung von Rohstoffen* (Marketing and Distribution of Commodities), Hamburg 1973.

parency of the market; high indebtedness of small and medium-size producers, and

an inefficient government-owned marketing organisation.

Such shortcomings tend to drive up marketing margins and, often, also lead to inferior qualities of a given commodity. It is conceivable that these weaknesses might be mitigated or done away with, on principle, by entrusting marketing co-operatives and/or state intervention in the marketing process, including the creation of national marketing boards. In some of the cases, such innovations could be based on existing institutions, but frequently it would be necessary to envisage total reorganisation of the marketing system.

Cooperative Efforts

Which of the two alternatives named will be best suited for achieving a higher level of efficiency depends on existing political and social conditions. In producing countries, whose economies are based on a free market, it is advisable to form cooperatives, which act in conformity with the system. By channelling the output of small and regionally scattered producers through local and supra-local marketing cooperatives, it will be possible, on the one hand, to cut down marketing margins, through eliminating superfluous middlemen and abolishing monopsonic marketing "rents". On the other hand, costs may be further reduced through the economies of scale flowing from wholesale trading and processing. In general, however, it must be stated that private marketing cooperatives will not be able to operate over a longer term without massive government assistance, especially in the fields of finance, training, and infrastructure.

State Interventions

Direct government interventions would have the same aim as the formation of private marketing cooperatives: to eliminate the weaknesses of existing marketing and distribution systems named above. Such government intervention may be based on a political ideology, which intends simultaneously to transform property relations, but it may also be useful in cases where the basis for cooperatives is not given (too narrow a field in which cooperatives would have to operate; lack of willingness to cooperate), or where existing cooperatives are not working satisfactorily.

Yet also in this respect, reservations have to be made: national "Marketing Boards" in countries which have promised to respect foreign investments are often not the key to the solving of pressing problems where the share of foreign companies in production or extraction of a given

commodity is too high, and where the producing country could hardly do without their financial and technological knowhow and strength. Government marketing which, in theory, might offer a favourable instrument for the overcoming of marketing problems, frequently also suffers from the immobility of the bureaucratic machine and from the lack of organisational and management talent of civil servants.

Potential Savings in Overseas Shipping

Marketing and distribution of commodities which are largely produced in LDCs suffer from another disability: the geographical remoteness of most LDCs from consumer countries, which generally can only be bridged by overseas shipping.

In the cases of certain raw materials, the form which shipping them overseas takes has been found inefficient and expensive. Costs might be reduced in such cases by using modern forms of transporting goods in "paletted", containerised, and lash-shipping "bundles", etc. In the case of some raw materials, it might even be possible to abandon the present shipping system (freight liners) and to replace it by bulk transport. Finally, the further possibility would have to be studied of concentrating the transport of a given raw material, perhaps after part-processing in the producing country, in a few selected export ports. In which way, and to what extent, export shipping might be rationalised will always depend on the particular qualities of a given commodity, the quantities of it to be shipped, and the geographical dispersal of demand. In this context, another important problem arises: LDCs frequently accuse liner shipping conferences of discrimination against them³.

Chances for Rationalisation in Consumer Countries

By far the most important consumers of commodities are the industrialised countries of the world. Contrary to the opinion held by LDCs, it will not be possible to achieve fundamental improvements of their marketing and distribution systems. Though import trade is usually organised in the form of an oligopoly⁴, this has not the effect — as is usually claimed for this stage of marketing — of generating disfunctional profits due to the changing market situation. Such dangers are scotched by powerful influences: including the complete absence of further trading middlemen, foreign competition which is usually powerful, the countervailing forces of manufacturing industries

³ Cf. Karl Fasbender, Wolfgang Wagner, Shipping Conferences, Rate Policy and Developing Countries — The Argument of Rate Discrimination, Hamburg 1973.

⁴ This is the case in the Federal Republic of Germany which, for the present purpose, was used in the study mentioned above.

(which usually also take the form of an oligopoly), an almost perfect transparency of the market through daily publication of international commodity prices, and finally, the fact that gross profit margins of commodity importers are much lower than average profit margins of other wholesale traders.

Under such conditions, cutting out national import traders does not promise any advantage. Only in very exceptional cases, it might be possible to achieve higher efficiency through other forms of marketing — either by direct selling of producer countries in consumer countries, or by direct purchases of manufacturing industries in producer countries.

One problem remains — that of the commodity exchanges dealing in futures. Their general influence on the trade in commodities is twofold: They offer importers and/or manufacturers the chance to hedge against price fluctuations on the buying or selling side, by buying and selling futures. Moreover, the exchanges dealing in futures form world market prices upon which both producers and consumers base their decisions. Thus, in the case of all commodities whose production and consumption fluctuate strongly, these exchanges obviously have important functions to fulfil.

This leaves us with the question whether this kind of price formation on the exchanges — through hedging and speculation — does not produce more frequent and stronger price fluctuations than would occur in their absence. In the theoretical discussion of this problem, no consensus has ever been achieved, and it is well-nigh impossible to test the answers empirically.

Solution: Worldwide Concentration of Supplies?

Should world markets be manipulated by controls and regulations enforced by worldwide concentration of supplies in one hand, or through a commodity agreement, commodity exchanges dealing in futures will, however, lose at least part of their efficiency and thus also their justification.

For producer countries, such a concentration of supplies might lead to a strengthening of their market position which would enable them to control the development of world market prices, to take marketing and distribution into their own hands, eventually to enjoy the gains from rationalisation. However, there are only limited possibilities for doing so and differing with individual commodities. One important condition for operating in this way would be the pre-existence of national marketing boards, which would have to be the only national suppliers to world markets. Another essential factor would be the number of both suppliers and potential buyers, their geographical distribution, the elasticity of demand, and last, but not least, the homogeneous character of the commodity in question.

The larger the number of producer countries is, and the more widely scattered they are situated geographically, the more likely is the constant recurrence of divisions of interest between them, e.g. because of differences in conditions of production, leading to differentials between cost structures, because of higher or lower levels of development, differing cultural and social systems, and last, but not least, because of antagonistic government policies. All these influences make it much more difficult to reach agreement on quantities of output, prices and stockpiling, all of which are essential for an effective concentration of supplies.

The manner in which supplies react to price changes, both in the short and in the long term, is therefore of great importance for the question, whether it will be at all possible to achieve worldwide concentration of supplies, because it determines the needs for accumulating buffer stocks and/or for establishing export and production quotas. If price rises meet with elastic supplies in the short run, stockpiling will always be indispensable, but for worldwide attempts at market regulation this is very difficult, and it can only be

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attempted in the case of commodities which do not deteriorate when kept in stock for a long period. Even more difficult is agreement on export and/or production quotas which are needed if supplies are elastic in the long run, for stabilising high prices. All these problems become the more thorny, the less the commodity in question shows homogeneity.

Uncertainty of Success

But even if worldwide concentration of supplies could be engineered, it does not do to overrate the possibility of increasing export earnings in this manner. On principle, this is only conceivable in cases in which direct and cross-reference price elasticity towards price rises of a given commodity remains very low and technological chances for substitution are remote. In all other cases, price rises will induce deformations of the de-

mand curve, which means lower exports, which again might cause the original price increase effect to fade away in the end.

Similar reservations must be placed on the expectations of producer countries, which believe that rationalisation gains created by the measures under discussion would largely benefit the producers. The profit distribution pattern which seems to dominate the notions of producer countries, is a highly simplified one which remains valid only under special conditions, which are not those of real, practical life. How potential profits may be distributed depends in detail on empirical conditions and on the path along which rationalisation is approached. In conclusion: recommendations of a general character can hardly be formulated, because of the differences between individual commodities and between the measures for their improvement.

Investments in Education for Trade

by Edmund Köhn, Berlin

In spite of its importance for the economy, trade in developing countries has been falling short of the attention it deserves in discussions about development policies. It is all the more necessary, therefore, henceforth to make the very existence, and the increasing use, of trade consulting services part and parcel of development strategy.

Trade in LDCs is bound to grow incessantly. Factors that have been leading to downright trade expansion in the industrial countries ever since the middle of the last century are either already apparent in the LDCs or at least make themselves noticeable there as forces of future influence. For instance, no government will in the long run be able to prevent the increasing urbanisation or the trend towards town-consumers' habits encroaching upon folks in small townships and even villages. A higher level of education, and the resulting progressive division of labour together with improved means of communication and wider sources of information available through media of all kinds, lead to a continuously dwindling degree of self-sufficiency. This, in turn, entails bigger tasks for trade within the national economy¹.

Importance of Internal Trade

There are also other reasons for looking upon a well-functioning trade not only as desirable especially for the LDCs but also as a sheer necessity. After all, higher agricultural production depends on relevant marketing facilities for the goods

additionally provided. The same applies to the newly-to-be-established industrial units meant to contribute lastingly to the economic development².

It is largely due to lack of reliable data about internal trade in LDCs that trade as a whole, and particularly domestic trade, has, important though it is, in comparison with other branches of the economy, so far been grossly neglected in deliberations about possibilities for the solution of development problems. In addition there have been basic attitudes and approaches stemming from various influences, that make the experts in donor countries as well as official quarters in the LDCs devote little attention only to matters concerning internal trade; it seems ultimately as though one was to rely on marketing to organise itself as sort of matter-of-course in as far as it would not be taken over by existing enterprises and organisations without additional effort.³

¹ See Robert Nieschlag, *Binnenhandel und Binnenhandelspolitik (Internal Trade and Internal Trade Policy)*, Berlin, 1972, p. 33.

² See Werner Kalnzbauer, *Der Handel in Tansania (Trade in Tansania)*, Berlin-Heidelberg-New York, 1968, pp. 1.

³ See Awil Al-Ani and Horst Geschka, *Der Binnenhandel in Entwicklungsländern (The Domestic Trade in LDCs)*, in: *WIRTSCHAFTSDIENST*, Vol. 10, 1967, pp. 529.