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Raw Material Supplies and Development Policy

by Alwin Brück, Bonn *

The shortage of raw materials and the difficulties of ensuring adequate supplies of primary products are subjects whose topicality has become evident to everybody at least since the energy crisis. The policy of ensuring adequate supplies of raw materials, however, raises the question of whether, and if so in how far, its objectives and measures can be reconciled with the avowed principles of development aid and the long term interest of Germany's own foreign trade policy.

The initial study published by the Club of Rome on the limitations to growth has, for the first time, brought to the notice of a somewhat broader public that a finite world does not possess access to infinite resources. But it was not before autumn 1973 that the inhabitants of industrialised countries were personally hit. The artificial restrictions of the supply of mineral oil, the world's most important source of energy, and the hefty price increases for this essential raw material were no longer an abstraction but a concrete experience. It was brought home to everybody at the filling station when paying the bill for fuel oil, in the supermarket when suddenly charged for his plastic bags and on the Sunday on which he had to leave his car at home.

Oil Crisis — a Technical Challenge

Until recently the world economic system was characterised by low primary commodity costs and constantly rising prices for manufactured goods. There seemed to be no limit to economic growth and with it the rise in living standards of the citizens of the industrial countries. But the rapid growth aided by apparently inexhaustible supplies of raw materials, by widening the gap between peoples not only menaced world peace, but it also undermined the very economic foundations of the industrialised countries themselves in that it led to a thoughtless consolidation of production patterns which, in the long run, were bound to prove irrational. We were turning ourselves into a throw-away society; social prestige and thus self-esteem was fostered not by the safest and most endurable motor car but by the latest available model. There is no end to new ways of packaging for no other reason than to charge a higher price for the same article.

The steep rise in the price of oil has undoubtedly presented us with a series of problems; but it may also have a salutary effect. We are being

forced to develop raw material-saving technologies and thereby economise on reserves and diminish the gravity of some of our environmental problems. The rise in the oil price represents a challenge to our technical know-how and may stimulate us to make efforts for which our children may well bless us.

Discrimination Against Primary Producers

From the point of view of less developed countries (LDCs) the world economic system has never been functioning properly. They exported primarily raw materials and owing to the unfavourable price trend their share in the world's exports was reduced from 32 p.c. in 1950 to 17 p.c. in 1971. In these circumstances their only chance would have been the production of industrial goods which, however, are kept out of the markets of the industrial countries by means of a graduated tariff system. Primary products can, as a rule, be imported free of duty, but the duty charged on finished goods is even higher than that on semi-finished products. The tariff preferences granted by the European Community do not alter this situation basically, for non-tariff barriers and special regulations for sensitive goods continue to obstruct imports from LDCs. Industrial raw materials are imported duty-free, whereas agricultural ones are liable to customs duties. In 1970 the effective customs duties charged by the EC on all finished products from all parts of the world averaged 11 p.c., whereas goods imported from LDCs carried on average 17 p.c. To this must be added such decisions as the abrupt ban on beef imports this year which do great harm to the economies of LDCs.

The boom of the early seventies led to speculative excesses of demand and thus to a rise in raw

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material prices; at the same time bad harvests caused an increase in the prices of foodstuffs which nearly all LDCs must import. The great recession did not occur until the autumn of last year.

The Real Losers

The abrupt rise in oil prices meant an unexpected capital transfer of hitherto unknown dimensions. The World Bank speaks of US \$ 60–80 bn additional oil revenues during 1974, the World Bank figure for 1975 is US \$ 106 bn. This figure is estimated to rise over the next ten years to US \$ 292 bn. Such enormous movement of capital in an unexpected direction was bound to upset the world economic system. Uncertainty and perplexity are still prevailing, one year after the first shock. No one knows in which direction these billions will flow.

One may feel tempted to applaud; is it not high time, one may think, that some LDCs become conscious of their power as raw material producers and gain, by their own efforts, their rightful position on the world market – a position which had hitherto been denied them. But it is not as simple as all that. The energy crisis is not confined to the terms of trade between oil producers and industrial countries. The industrial countries may have been hit hard and most of them are not – or at least not within the near future – able to make good their balance of payments deficits by increasing their exports; their stability is threatened but not their existence.

By contrast, the position of the oil importing LDCs is very different. The total value of their exports amounts in this year to US \$ 70 bn. Their 1974 oil bill alone is by US \$ 10 bn higher than before. To this must be added their considerably higher payments for fertilisers, foodstuffs and other raw materials. The sky-rocketing of energy prices has become a global problem, and it is the poorest countries which, according to their degree of integration into the world market, are hardest hit.

A Sensible Compromise

A future worldwide economic policy will have among its main objectives to find an internationally satisfactory raw material supply strategy. Development aid may be one of the factors contributing to a sensible balancing of interests. For most of the LDCs raw material problems are just as important as they are for us: they have at their disposal primary products the exploitation and export of which may decisively improve their economic situation, particularly their balance of

payments. We need raw materials and possess capital and know-how.

Raw material policy appears to me to be the example which best demonstrates how the economic interests of a primary producing LDC and those of a raw material consuming industrialised country can be matched provided they cooperate as partners. Looked at from our point of view it would be dangerous – especially in the long run – if we regarded development aid as *nothing but* an instrument to insure our raw material supplies. Such an attitude would have nothing to do with a true partnership. Thanks to development aid links have been forged with many primary producing LDCs. These links have created relationships of trust which facilitate our access to raw materials. Measures designed to facilitate the export of raw materials through public development aid contribute to the provision of the Federal Republic with raw materials even if they are not directly linked with German interests, for they increase overall raw material supplies and strengthen the mutual trust still further.

We know from our own experience that the basis for our own rapid industrialisation was an ample supply of raw materials. Regions like the Ruhr and Saar districts which are rich in mineral resources were the pioneers of our industrial development. Going by our own experience it would therefore be mistaken to want to confine the LDCs to the role of mere primary producers instead of regarding their natural riches as a basis for their own economic development. Everybody knows what problems the Ruhr and Saar regions were suddenly confronted with when it was found that the German coal mined in these districts ceased to be competitive, and what it means for a region if the demand for its primary products slackens because they are being substituted by other raw materials. We must therefore right from the start work on the assumption that the LDCs will not confine themselves to the production and export of primary commodities but will also develop industries of their own for their processing. In this way they will be able to share in the advantages of the worldwide division of labour. The creation in the LDCs of manufacturing industries is essential also to meet their enormous demand for jobs. Moreover, we should help them to continue diversifying their economic structure.

It is legitimate to use all instruments of German policy in the pursuit of our interests, but in the long run it would be against our own interests if in the pursuit of our raw material policy, we neglected the interests of our partners. Lasting cooperation based on true partnership offers the only possible means of securing our own raw material supplies.