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Article — Digitized Version

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Intereconomics

Suggested Citation: Kebschull, Dietrich (1975) : Raw materials in the foreign trade of the LDCs, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 12, pp. 373-376, <https://doi.org/10.1007/BF02929336>

This Version is available at:

<https://hdl.handle.net/10419/139307>

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Raw Materials in the Foreign Trade of the LDCs

by Dietrich Kebschull, Hamburg *

The developing countries' championship of what they term an "integrated approach for raw materials" is one of the liveliest subjects in the Federal Republic of Germany. Bonn suggests a pragmatic, as distinct from an ideological, approach – for the benefit of the Third World. For this reason it has to be analyzed, whether the raw material sector is the ideal basis for the improvement of the existing situation.

The main topic for discussion at the fourth UN-Conference on Trade and Development will be the integrated raw material programme worked out by the Secretary General of UNCTAD, Gamani Corea. The programme is designed to

- realize more orderly conditions in general in commodity trade,
- ensure adequate growth in the real commodity export returns,
- reduce fluctuations in export earnings, and
- improve access to markets of developed countries.

The objection frequently made to this programme by the industrial countries is this: quite apart from the grave damage such a scheme would do to the liberal world trade, it would not actually be of any benefit to developing countries for – so runs the argument – causing raw materials to rise in price and keeping them steady at a higher level would financially benefit only a few countries of the Third World. However, for the great majority of the poor countries, who are themselves large-scale importers of raw materials, higher raw material prices would be an added disadvantage. If the integrated raw material programme ever became effective, it would then be necessary to give these countries, in future, even more aid than before. It is the purpose of this article to test the soundness of this thesis by using the figures for 1972 as a basis – figures which had not yet been distorted by excessive price increases.

The part played by raw materials in the spheres of employment, GNP and industrialisation has frequently been examined before. It emerged from these studies that the extraction or production of raw materials constitutes in nearly all developing countries the basis and an indispensable part of the economy. There being no need to repeat those

findings, the following analysis confines itself to the area of foreign trade.

A glance at the export statistics makes it clear that the export proceeds of many developing countries depend in a very large measure on the export of a few raw materials. The following is a list of countries which for their exports largely depend on one single commodity:

Country	Commodity	Percentage Share in total exports
Zambia	Copper ore	90.6
Chile	Copper ore	73.0
Sudan	Cotton	61.2
Zaire	Copper ore	61.1
Ghana	Cocoa	60.3
Sri Lanka	Tea	59.4
Uganda	Coffee	59.3
Columbia	Coffee	57.9
Egypt	Cotton	57.7
Panama	Bananas	57.3

On account of the low degree of their export diversification, these countries are greatly dependent on any fluctuations in the price or demand for their commodities on the world markets, for such changes are transmitted direct to the economy of the exporting country. Diminishing demand or declining prices immediately narrow its scope for financing investments necessary for further growth.

This effect is all the more likely

- the less diversified the country's export range, and
- the fewer the possibilities a country has to influence the price of the commodity concerned.

According to the price theory, one is entitled to assume that the scope for shaping the price diminishes as the number of potential sellers and customers increases. This frequently applies to the – mostly small – raw material exporting countries. For a large percentage share of one or even

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a few raw materials in their total exports should not be equated with a significant power to influence world markets. Zambia, which derives 90.6 p.c. of its export revenues from copper ore, has only a 9.8 p.c. share in world supplies. The Sudan, whose cotton shipments abroad account for 61.2 p.c. of the country's total exports, reaches no more than 1.8 p.c. of world production. Panama, whose main export commodity — bananas — provides 57.3 p.c. of the country's total exports, occupies only a relatively unimportant position in the world market, supplying 3.8 p.c. of its needs.

Consideration of the problem from the angle of the various products concerned suffices to reach the conclusion that a great many developing countries

- depend for their further growth on the export of a single or a few raw materials, and
- are interested in influencing the raw material markets so as to improve their chances of developing their economies.

Table 1
Percentage Share of Raw Materials in the Total Exports of Groups of Specially Disadvantaged LDCs (1972)

Group of Countries	Percentage share of raw materials in total exports	Countries
MSAC	Under 50	Sierra Leone (36.2), Pakistan (43.8)
	50 to below 70	India ³ (57.7), El Salvador ³ (67.8), Egypt (69.0)
	70 to below 80	Haiti ³ (74.1), Senegal ³ (77.1)
	80 to below 90	Central African Republic ³ (82.9), Afghanistan and Yemen AR (87.2), Kenya (87.3), Mauritania ³ (88.5)
	90 to below 95	Cameroon ³ (90.2), Mali and Mozambique (90.6), Madagascar ³ (91.2), Tanzania (92.1), West Samoa ² (93.6), Ivory Coast and Upper Volta ³ (93.7), Dahomey ³ (93.8), Chad ³ (94.6), Yemen PDR (94.4)
95 plus	Niger ³ (95.6), Guyana (95.7), Ghana (95.8), Sri Lanka ³ and Honduras ³ (97.3), Ethiopia (98.1), Somalia (98.4), Khmer Rep. ¹ (98.5), Burma (98.9), Uganda (99.7), Sudan (99.9), Laos ³ (100)	
Least Developed Countries	Under 70	—
	70 to below 80	Haiti ³ (74.1)
	80 to below 90	Afghanistan ³ and Yemen AR ¹ (87.2)
	90 to below 95	Mali ³ (90.6), Tanzania (92.1), Malawi (92.4), West Samoa ² (93.6), Upper Volta ³ (93.7), Dahomey ³ (93.8), Chad ³ (94.3), Ruanda (94.4)
	95 plus	Niger ³ (95.6), Ethiopia (98.1), Somalia (98.4), Uganda (99.7), Sudan (99.9), Laos ³ (100)
Land-locked Countries	Under 80	—
	80 to below 90	Central African Republic ³ (82.9), Afghanistan ³ (87.2)
	90 to below 95	Mali ³ (90.6), Paraguay ¹ (91.4), Malawi (92.4), Upper Volta (93.7), Swaziland (94.3), Ruanda (94.4)
	95 plus	Niger ³ (95.6), Bolivia ¹ (95.9), Uganda (99.7), Zambia ² (99.8), Lesotho (100)

¹ 1969; ² 1970; ³ 1971.

To what extent the poorer developing countries depend upon raw material exports as a whole clearly emerges from Table 1. The Table shows that it is the economically most backward countries which are least diversified and as such especially sensitive to developments on the world's raw material markets.

By the way, similar considerations also apply to the particularly rich countries of the OPEC-Group. If the oil exports are counted in, their shipment of raw materials account for more than 90 p.c. of their total exports the only exception being Iraq (with 77.5 p.c.)¹.

In the case of the remaining developing countries, which are economically more advanced than those enumerated in Table 1 and whose export range is wider and more varied, it would be wrong to speak of raw material exports playing a secondary role. The revenue from corresponding exports is admittedly smaller, but raw material exports still constitute for them in absolute terms an important source of foreign exchange.

The Import Side

To examine raw material exports by themselves is not enough, however, if one wants to form an opinion on the availability to a particular national economy to obtain additional finance. In view of the fact that numerous developing countries are large-scale importers of raw materials, it is also necessary to have a look at the balance-of-trade situation.

Raw material imports are of great importance also to developing countries. This became especially clear during the so-called oil-crisis when prices for crude oil increased spectacularly. The formation of a group of countries hardest hit by the soaring oil prices (MSAC) plainly illustrated that in the world economy due regard must be paid to developing countries, not only as suppliers of raw materials, but also as importers who, being short of certain natural resources, are obliged to buy these abroad.

Against the background of the developing countries' demands for political and economic measures to help them with their raw material problems, the HWWA-Institute has attempted to obtain as wide a view as possible of the relative importance to these countries of raw material imports and exports by

- firstly*, looking at the net results of their trading in raw materials. In order to ascertain what effects these transactions had on the country's

¹ The relevant figures are: Saudi Arabia c (91.1), Ecuador d (91.7), Gabon d (92.5), Algeria b (93.5), Iran d (94.8), Indonesia c (98.2), Venezuela c (98.3), Nigeria c (98.8), Libya d (99.6). (a: 1969, b: 1970, c: 1971, d: 1972.)

economy as a whole, the net results of the trading in raw materials were compared with the net position of the general trade account,

secondly, by selecting a number of raw materials of particular importance to industrial as well as developing countries and using them as basis for certain calculations concerning their imports and exports.

These calculations comprise 136 industrial and developing countries.

Developing Countries' Surpluses

The analysis of the net positions of their total foreign-trade accounts, and the net results in 1972 of their dealings in raw materials (SITC-groups 0-4) shows the following results:

the foreign trade positions reflect the great relative economic weakness of the majority of developing countries (see Table 2). Among the countries of the Third World a mere 30 have trade surpluses, and these include oil-exporting countries like Saudi Arabia, Libya, Iran, Venezuela and Nigeria as well as major raw material exporters such as Zambia, Zaire, Chile, Peru (copper), Malaysia (tin, rubber), Ghana and the Ivory Coast (cocoa/coffee).

If one looks at the international raw material trade only, the figures reveal that here the position is exactly the reverse: The majority of developing countries (81 against 21) show surpluses which are in part considerable (see Table 3). In as far as some of them register record deficits, these countries are as a rule small and thinly

populated. More than half of the territories included in the survey have fewer than one million inhabitants.

Deficits of the Industrial Countries

The main deficit-countries, as far as trading in raw materials is concerned, are the industrial countries of the West (in order of the size of deficit: Japan, Federal Republic of Germany, Great Britain, Italy, USA, France, Belgium/Luxemburg, Spain, Switzerland, Austria) as well as a few countries of the Eastern Bloc such as Czechoslovakia, the German Democratic Republic, Yugoslavia and Hungary. Thanks to their large export surpluses in semi-finished and finished goods, several of these countries are, however, able to over-compensate for these deficits (Federal Republic, Japan, Belgium/Luxemburg, CSSR). The Federal Republic and Japan register, in absolute terms, the highest trade surpluses. Among the group of developing countries Barbados would seem to have been the only country to manage such a compensation.

In the case of 52 developing countries, however, the surpluses achieved in the raw material trade are insufficient to finance the import of other goods needed for further growth.

As a result of this investigation it may thus be said that:

the majority of developing countries achieve on balance surpluses on raw material account,

straight price increases for all raw materials (given unchanged sales terms) would benefit the developing countries.

Thus an adjustment of raw material policy on these lines would be in the interest of most developing countries. Moreover, it must not be forgotten that, quite apart from the developing countries, certain industrial countries and Eastern bloc states, being rich in raw materials, would likewise benefit. This applies primarily to Canada, Australia, USSR, New Zealand, South Africa, Netherlands, Bulgaria and Denmark.

It is necessary, however, to correct the above findings in the light of the fact that the term "raw materials" as used in the SITC 0-4 grouping comprises also non-tropical farm products. If the inquiry is restricted to raw materials in the supply of which developing countries play an important part², the following result emerges:

In narrowing the scope of the inquiry down to the group of raw materials which would be included in a far-reaching integrated programme, the

² Into account were taken in this connexion wheat, rice, sugar, coffee, cocoa, tea and mate, skins and hides, oil seeds and oleaginous plants, rubber, wood, cotton, jute, hard fibres, iron ore, copper, aluminium, lead, zinc, tin, fats, vegetable oils.

Table 2
Distribution of Trade Surpluses or Deficits
by Groups of Countries (1972)

Group of Countries	Number of Countries Showing	
	Surpluses	Deficits
Western industrial countries, including Japan	8	17
Eastern Bloc	3	6
Developing countries	30	72
Total	41	95

Table 3
Surpluses or Deficits in the Raw Material Trade
of Certain Groups of Countries
(SITC-groups 0-1; 1972)

Group of Countries	Number of Countries Showing	
	Surpluses	Deficits
Western industrial countries	10	15
Eastern Bloc	4	5
Developing countries	81	21
Total	95	41

position of the developing countries — leaving aside oil and oil products — turns out to be again favourable, in fact, similar to what it was shown to be in the analysis of the total trade in raw materials. 75 countries achieved surpluses and 19 chalked up deficits, but, in comparison with industrial countries with unfavourable balances these deficits are small. With the exception of Iran, Iraq, Algeria and Morocco, the last-mentioned group consists once again of small countries of few inhabitants.

□ The principal deficit and surplus countries are not the developing countries, but the highly developed industrial nations. The biggest favourable balances were achieved by Canada, Brazil, Australia and the USA. The USSR followed behind Chile, Zambia, the Philippines and Zaire. The greatest deficits have Japan, and the EC-states France, the Federal Republic of Germany, Great Britain and Italy, but the Netherlands and Denmark are also in the red (see Table 4).

Table 4

Distribution of Favourable or Unfavourable Balances on Foreign Trade Accounts for Certain Selected Raw Materials (oil excluded), by Groups of Countries (1972)

Group of Countries	Number of Countries with	
	Favourable Balances	Unfavourable Balances
Western industrial countries	11	14
Eastern Bloc	4	3
Developing countries	75	19
Total	90	36

Even such a restricted examination shows, therefore, that an increase across the board of the revenues from a group of *selected* primary products (without quantity changes) would also be primarily of *benefit* to the developing countries just as a straight increase of *all* raw material prices was before; it would also be at the *expense* of the EC-states and Japan, whereas the economic giants, the USA, USSR, Canada and Australia would profit.

Taking the Oil Trade into Account

The result for the industrial states would be more unfavourable still, if to the above-mentioned products the foreign trade in oil and oil products were to be added. In that case only Canada, Australia, Norway and Iceland would be left with a foreign trade surplus. On the other hand, the following developing countries would clearly benefit: the petrol-exporting countries in the first instance (i.e. Saudi Arabia, Iran, Venezuela, Libya, Nigeria and Indonesia), whereas the largest deficits would be sustained by the memberstates of the EC, Japan and also the USA (see Table 5).

Table 5

Distribution of Favourable or Unfavourable Balances on Account of Foreign Trade in Certain Selected Raw Materials (Including oil), by Groups of Countries (1972)

Group of Countries	Number of Countries with	
	Favourable Balances	Unfavourable Balances
Western industrial countries	4	21
Eastern Bloc	3	4
Developing countries	80	21
Total	87	45

It is worth pointing out that among the group of developing countries showing deficits there are three different types: Some small countries such as the Bahamas, the New Hebrides, Martinique and the Lebanon; states whose economic structure is strongly geared to the export of finished goods (for example Hongkong, Korea and Israel) but also India.

While any kind of measures to raise price levels for the investigated raw materials would benefit nearly all important developing countries, densely populated India should confront those responsible for international development policy with some fair-sized problems. For any possible equalization measures for countries poor in raw materials would have to take account of that country and, because of it, would have to be a great deal more generous.

Yet, at first glance, the result of this relatively simple examination argues plainly in favour of an integrated scheme because the foreign trade position of most developing countries would be appreciably improved by straight across-the-board increases in raw material prices. However, a linear increase would appear to be rather unrealistic. Quite apart from the fact that such an increase presupposes the conclusion of relevant raw material agreements, the formation of buffer stocks and the like, it would be necessary to prevent decreases in the quantities sold. A mere consideration of the problem from the elasticity angle makes it plain that this would be impossible. In such a context the developing countries believe to be quite justified in demanding the introduction of sweeping restrictions in regard to the manufacture of synthetics (such as the freezing of their output at today's levels) and the conclusion of long-term and comprehensive sales agreements — all measures which are likely to meet with a dusty answer from industrial states. If one assumes, therefore, individual price alterations for the various raw materials, the above examination may well lead to completely different results. It would not necessarily exclude the possibility of a major group of developing countries being placed at a disadvantage.