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Effects of the State Trade Countries Upon the Commodity Markets

Dietrich Kebschull, Hamburg *

This article proves that a good deal is to be said for an abandonment by the state trade countries of their financial abstention and for their active financial participation in the Integrated Programme for Commodities. At UNCTAD IV in Nairobi the Third World nations first presented their requests to the state trade countries, in an unmistakable manner, for more extensive development-policy contributions.

The discussion of the reform of international economic relations is taking part predominantly between the group of Western industrialized countries and the developing countries. The great variety of demands contained in the Action Programme for the Establishment of a New International Economic Order and for the adoption of the Integrated Programme for Commodities of UNCTAD are addressed, almost exclusively, to the "capitalist" industrialized nations. The state trade countries have so far been largely left out. The North-South dialogue is mainly confined to West-South discussion.

Recently, however, there have been increasing indications that the countries of the Third World might change course. At UNCTAD IV in Nairobi they first presented their requests to the state trade countries in an unmistakable manner, for more extensive development-policy contributions. This applies both to the provision of 0.7 % of the GNP for public development aid and to an opening-up of their markets for products from the developing countries.

Scant Development Aid

With roughly one-quarter of the world's population and something like a 10 % share in international trade (both figures 1975) the state trade countries have at their disposal an economic potential which cannot be dismissed out of hand with regard to development-policy cooperation or to rational changes in the international economy. So far, however, the development-policy contribution provided by the socialist system has been strikingly disproportionate to its capacity.

□ While the "capitalist" countries provide about 80 % of all official bilateral and multilateral aid (ODA), only 4 % comes from the socialist states

which are continually proclaiming their close friendship and ties with the Third World (1975 figures, including the People's Republic of China). As for private-enterprise performance transfers, which play an important part in the development of the economies of the developing countries, the state trade countries, in view of their economic constitution, make no contribution to these anyway.

□ Nor do the state trade countries greatly facilitate the important earning of foreign currencies through increased exports from developing countries. While the Western industrialized countries absorb almost three-quarters of deliveries from the Third World, the figure for the state trade countries is again only 4 %.

Non-responsibility for Under-development . . .

Whenever the representatives of developing countries have demanded increased contributions from the socialist countries, they have, as a matter of routine, been fobbed off with the thesis of "non-responsibility". For years the delegates of the countries concerned have repeated the stereotyped argument that the economic gulf between industrialized and developing countries is solely the result of the colonialist and imperialist policy of the Western countries, a policy still being continued in a variety of forms of neo-colonialist and neo-imperialist exploitation.

This kind of simplified single-cause theory of underdevelopment provides the state trade countries with an obvious solution to the problem.

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Capitalism with its colonialist and imperialist manifestations must be abolished. Until that has been accomplished, compensation for past "damage" to the developing countries is primarily the responsibility of the Western countries which caused that damage in the first place.

... and Unstable Raw Material Markets

Rejection of financial contributions in connection with the establishment of the New International Economic Order and the introduction of the Integrated Programme for Commodities follows this traditional line. The causes of the major price fluctuations in the international raw material markets, the consequential fluctuations in earnings and the unfavourable development of the Terms of Trade in the raw-material-producing developing countries are one-sidedly attributed to the Western industrialized countries. The burden of the argument is now shifting from the aspect of colonialism to the thesis of economic dependence (dependencia approach), according to which the cyclical and structural difficulties of the industrialized countries are the principal reasons for the economic problems of the Third World.

Along with a fall in output, the current crisis in the capitalist world has led to the growth of unemployment and a sharp increase in inflation, disorder in the monetary system and the intensification of commercial and economic contradictions, and to serious disruption of the entire machinery for international capitalist trade. The result is that there has been a deterioration in the economic situation of most of the developing countries and that their opportunities for utilizing external economic relations to solve their development problems have been reduced¹.

Particular stress is laid in this context on the role of multinational firms. These are being accused of having consolidated the already one-sided economic relations even further in favour of the capitalist countries. This argument provides the grounds on which any obligation by the socialist countries to provide financial support for the Integrated Programme for Commodities by way of

- conclusion of buffer stock agreements for price stabilization,
- establishment of a Common Fund,
- creation of a world-wide system of export yield stabilization,
- support for further processing of raw materials is consistently rejected. — This is revealed by the

¹ UNCTAD, TD/211 of 28. 5. 1976, joint statement by socialist countries at the fourth session of the United Nations Conference on Trade and Development, p. 3.

official attitude taken at UNCTAD IV, which again emphasized that the responsibility for the developing countries' sad situation lies wholly and entirely with the imperialist powers and their monopolies, which are striving to preserve and perpetuate the unequal and dependent position of the developing countries of Asia, Africa and Latin America and to shift on to them the financial burdens of crisis and inflation. Consequently, it is with complete justification that the socialist countries reject any suggestions that they should be lumped together with the imperialist states when it comes to apportioning responsibility for the backwardness and the current problems of the developing countries. In the final analysis, such ideas are inspired by the forces which are seeking to drive a wedge between the socialist and the developing countries and to erect obstacles to joint action by them².

Doubts about Non-responsibility

However, these arguments are no longer being put forward by all socialist countries. This is due, in particular, to the growing conflicts between the Soviet Union and the People's Republic of China. The Chinese representatives are unambiguously siding with the group of 77 developing countries. In their view it is not only the Western countries who are responsible for North-South differences but also the Soviet Union, which, as the second super-power alongside the USA, is being consistently included in the group of imperialist and colonial forces hostile to the developing countries³. Chinese criticism is therefore directed in particular against the Soviet Union's rejection of a share in responsibility for existing market upheavals, a rejection designed to create the impression "as if that super-power did not even exist in this world"⁴.

In view of the unmistakable doubts within the socialist camp about the thesis on "non-responsibility" it is small wonder that these arguments are meeting with increasing criticism among the other developing countries and the Western industrialized countries. Thus, for instance, Willy Brandt, the Chairman of the North-South Commission, called for a greater involvement of the socialist countries in the current negotiations about commodity problems and the New International Economic Order. "It would befit the

² UNCTAD, TD/211 op. cit., p. 4.

³ Cf. the speech by the delegate Chih-Yuan at the first Conference on the Common Fund, quoted from UNCTAD Press Release, TAD/INF/860 of 11. 3. 1977, Conference on Common Fund continues debate.

⁴ Cf. Chih-Yuan's speech on the same occasion, UNCTAD Press Release, TAD/INF/864 of 4. 4. 1977, UN Conference on Common Fund adjourned, President sums up discussions; also UNCTAD Press Release, TAD/INF/896 of 8. 11. 1977, Spokesmen for Group B, Group of 77 and China make opening statements of position.

Soviet Union and its allies in Eastern Europe if they participated, on a scale appropriate to their economic potential, in development in the southern hemisphere, including the drafting work⁵. Such an involvement would seem impossible without extensive financial engagement. Rainer Offergeld, the new German Minister for Economic Cooperation, likewise expressed some undisguised criticism of the East Bloc's financial abstention. In his view, "the state trade countries . . . are posturing as the champions of the interests of the developing countries but they offer no aid that can stand comparison with ours"⁶. Hans-D. Genscher, the German Foreign Minister, has similarly, over the past few months, made increasing pleas for greater financial contributions from the socialist countries⁷.

Possible Forms of Influence

Demands of this kind would gain considerably in weight among the competent international bodies if the assertion of the non-responsibility of the socialist countries could be disproved at the same time. For the sphere of raw material policy this would presuppose proof that it is not the capitalist countries only which are responsible for the characteristic market instability and their consequences but the state trade countries as well. An influence by these countries upon the raw material markets — which would be incompatible with the thesis of a neutral attitude — could be assumed to exist if the state trade countries

- took a significant share, as major producers, in shaping the supply of certain raw materials,
- regularly intervened in world market events as importers or exporters on the basis of their own resources situation,
- exerted an influence on short-term price trends through deliberate individual purchases or sales.

The State Trade Countries as Commodity Producers

An analysis of the production of what are known as the 18 Nairobi commodities⁸ by the state trade countries shows that an influence upon world market events is entirely probable. For the main categories of raw materials the following picture emerges for 1975:

- In the sphere of mineral primary materials the state trade countries are among the world's principal producers. This is true both of the group of countries as a whole and for the Soviet Union

⁵ Cf. Brandt, *Einen Teil des Wachstums für den Nord-Süd-Ausgleich*, in: *Handelsblatt* of 28./29. 4. 1978.

⁶ *Vorwurf mangelnder Hilfe*, in: *Frankfurter Rundschau* of 10. 4. 1978.

⁷ *Entwicklungshilfe aus dem Ostblock reicht nicht aus*, in: *General Anzeiger* of 1. 3. 1978.

and the People's Republic of China individually. Thus, by a wide margin, the USSR occupies the leading position in the world in the extraction of manganese and copper ore.

In copper ore and copper refining together it comes second to the USA, but still with a marked lead over the „familiar“ copper countries Chile, Zambia, Zaïre and Canada. In the extraction of tin ore the People's Republic of China holds fourth place and the USSR sixth. In view of their relatively well developed processing capacities these two countries actually occupy the second and fifth position, respectively, in the production of tin metal. Their position among the world's producers is equally favourable in respect of bauxite/aluminium.

It should also be remembered that more especially the Soviet Union but also the People's Republic of China possesses large reserves of the mineral raw materials referred to above — possibly with the exception of tin. Even though these reserves have only been partially explored and are frequently situated in almost inaccessible regions, the importance of these two producer countries will, at the least, remain unchanged in the future.

- As producers of tropical foodstuffs and semi-luxury crops on an agricultural basis, on the other hand, the state trade countries are of no significance, if only because of climatic conditions. The only exceptions are Cuba — principally for sugar cane — and the People's Republic of China which produces limited quantities of sugar cane, coffee, bananas and tea. Whenever raw material production in this group is not necessarily tied to tropical locations — e.g. meat — the production of the state trade countries is of considerable quantitative importance if only to meet domestic demand.

- The data for tropical industrial raw materials produced agriculturally are similar to those for foodstuffs and semi-luxury crops. The only items worth mentioning on a world scale are, at best, the production and processing of hard fibres, hemp and flax. Timber production is very probably of major importance; precise statements, however, are difficult because of the lack of statistical differentiation between tropical timber and other types of timber.

Increasing Dependence on Foreign Trade

Foreign trade in raw materials generally matches the production situation. Tropical agricultural

⁸ This group consists of the 10 core commodities (sugar, coffee, tea, cocoa, jute, hard fibres, cotton, unvulcanized rubber, tin and copper) as well as the 8 commodity categories (bananas, vegetable oils and oil seed, meat, tropical timber, bauxite/aluminium, iron ore and phosphates).

raw materials and products have to be imported on a considerable scale while exports of mineral primary materials are increasingly gaining in importance.

□ With the exception of Cuba and the People's Republic of China all state trade countries are dependent on imports of foodstuffs and semi-luxury crops. Because of foreign currency difficulties, of lower purchasing power compared with Western industrialized countries, as well as of state measures for the guidance of consumption, the value of imports is not proportional to the population figures. Among exports, tea, meat and sugar are important.

Table 1

Share of State Trade Countries in World Imports and Exports of Selected Commodities

(1975 in %)

Commodity group	Commodities in % of world trade
1. Imports	
Foodstuffs and semi-luxury crops	Sugar 24 %; cocoa beans 27 % (cocoa butter 10 %, powder 1 %); tea 11 %; coffee 6.3 %; fresh meat 7 %; coconut oil 10 %; olive oil 5 %; palm oil 2 %; natural rubber 25 %; sisal 2 %; jute 2 %
Agriculturally produced industrial raw materials	
2. Exports	
Foodstuffs and semi-luxury crops	Tea 10 %; peanut oil 3 %; sugar 4 %; fresh meat 13 %;
Agriculturally produced industrial raw materials	sisal 0.5 %; jute 0.5 % (1973)

□ Imports of agriculturally produced industrial raw materials, for the above-mentioned reasons, are on a low level. Substitutes are used whenever possible. The only exception is natural rubber. The only exports worth mentioning are sisal and jute.

□ In foreign trade in metallic raw materials the USSR plays an outstanding part within the framework of the state trade countries and partially also in international trade. Largely because of its huge export potential, compared with all the other CMEA countries, in respect of all metallic raw materials — possibly with the exception of tin, where the People's Republic of China is gaining in importance — it has assumed the function of raw material supplier for most of the state trade countries. Moreover, the Soviet Union has appeared as a supplier of most metallic raw ma-

terials also in markets other than those of the state trade countries. This applies more particularly to copper, aluminium and iron ore.

Adverse Trade Balance for Nairobi Commodities

A foreign trade analysis of the 18 Nairobi commodities or the 10 core commodities generally shows that the state trade countries are not self-sufficient. Examination of import and export figures for the 18 commodities during the period 1970 to 1973 reveals only the Soviet Union and Cuba as net exporters. However, the surplus achieved by them only covers 66.1 % of the total deficit of the remaining state trade countries. The picture for 1974 is a little more unfavourable, with the Soviet and Cuban surplus amounting to only 62.0 %. A striking feature is the increase of the deficit of the People's Republic of China in line with the abolition of its complete isolation from outside⁹.

As for the 10 core commodities all the state trade countries with the exception of Cuba and the Soviet Union — although the latter also shows a clear deficit for 1974 — are net importers. The "cover contribution" of the surpluses for the period 1970—1973 was 48.0 % for the core commodities, i.e. considerably less than for the wider group of Nairobi commodities. For 1974, due to a marked price rise in Cuban raw materials, the figure was 56.0 %.

This situation is unlikely to change much in the future. A projection made for the balance of trade position in respect of 17 of the 18 Nairobi commodities for the year 1980, taking into account OECD forecasts (for the growth of the national product) and World Bank Estimates (of future price trends for raw materials) likewise revealed Cuba and the USSR as net exporters¹⁰. Their cover quota for the overall deficit amounts to 55.8 %.

These estimates show clearly that the state trade countries are dependent now, and will continue to be dependent in the future, on supplies from non-socialist countries to cover their own raw material requirements. This applies to the 10 commodities as much as to the 18. It should be borne in mind that the cover quotas shown are by no means indicators of the real degree of self-sufficiency since neither the USSR nor Cuba export their raw materials exclusively to the socialist countries.

Changes in the raw material markets concerned cannot leave their economies unaffected. Because of the limited transferability of their currencies and their general shortage of foreign currency they should be interested mainly in assured

⁹ For the basis of calculation cf. D. Kebschull, Die Rolle der Staatshandelsländer . . . The numerical data appear also in Stenographisches Protokoll der 10. und 12. Sitzung des Ausschusses für wirtschaftliche Zusammenarbeit und der 10. und 11. Sitzung des Ausschusses für Wirtschaft on 23. and 25. Mai 1977, pp. 204 ff.

¹⁰ Not included is the highly heterogeneous group of vegetable oils. A detailed exposition of this calculation is found in a study made for UNCTAD by D. Kebschull, Some Aspects of the Impact of IFC with Special Reference to the USAC and LLDA, Hamburg 1977 (publication impending).

supplies and stable prices. Even though, with a view to saving foreign currency, a clear priority is given to raw material supplies from third countries in exchange for supplies of other goods (barter transactions) with special long-term price agreements, a rise in the price of raw materials over a broad front would mean considerable additional burdens for all CMEA countries (with the exception of the Soviet Union) and for the People's Republic of China.

Non-responsibility Untenable

Analysis of production and foreign trade thus leads to the conclusion that the state trade countries are integrated into international trade in raw materials to a far greater extent than might be assumed from their attitude in international negotiations. Both their purchases and sales, because of the associated quantitative changes in supply and demand, exert an effect upon the formation of raw material prices. This applies not only to transactions performed against currency in the free markets but also to the prices fixed for barter transactions within the framework of purchase and supply agreements.

That prices are being affected or have been affected by the state trade countries in a variety of ways can be proved for nearly all raw materials.

In the category of foodstuffs and semi-luxury crops, for instance, the Soviet Union most recently exerted a particular influence upon price quotations by its purchases of wheat and maize. In May 1976 it became known that the USSR was buying 1 mn t of wheat in Australia and 0.3 mn t through private wholesalers in the USA. In April the Soviet Union had already bought 2 mn t of wheat in Canada. Moreover, orders for 1.4 mn t of maize were placed officially in the USA and for 1.7 mn t through private firms¹¹. A strengthening of the price trend on the basis of such purchases, and indeed even of a suspected appropriate demand, occurred for wheat also towards the end of 1977¹². Although the effect of these did not measure up to the Soviet stockpiling of 1972/1973 and 1975/76 they nevertheless revealed the exertion of an effect by the state trade countries that should not be underestimated.

The Example of Wheat

The halt in the decline of the wheat price during the course of 1972 was largely due also to purchases by the People's Republic of China. Preliminary estimates indicate, for that year, world-wide im-

ports of altogether 66 mn t of which 13 mn t, obtained in Canada and Australia, were by the People's Republic of China during the first seven months of the year alone¹³.

These purchases are used not only to meet domestic requirements but also for deliveries to third countries within the CMEA or to developing countries. This would seem to be proved at least for the Soviet purchases of 1972. "In the course of a hearing by the American Senate, intended to get to the bottom of the American-Soviet grain deal and of many a dark detail, a nutrition expert declared that the American grain sales to the Soviets during the past season 1973/74 had enabled the Soviet Union to deliver grain to India and Bangla Desh. He thereby spoke out plainly what observers have been criticizing for a long time. Even if the Soviets did not directly pass on American wheat to third countries, their wheat purchases nevertheless enabled the Soviets to divert grain from their own production to foreign customers. Certainly without the American supplies they would only have been able to do so on a very limited scale. If one goes along with the assertions of certain experts and politicians, including Congressman Neal of the House of Representatives, as quoted by the 'Washington Post', and if one assumes that during the past harvest year the Soviets bought twice as much wheat as required, the transaction becomes even more interesting. It means that, because of the US export subsidies at first granted on a large scale, the Soviets were in the position of buying exceedingly cheaply and subsequently, at the temporary peak of the price rises, selling large quantities to third countries."¹⁴ In connection with last year's transactions it is similarly assumed in many quarters "that a part of these purchases is earmarked for barter transactions with third countries"¹⁵.

Sugar and Cocoa

Effects on prices in the international market are observed also in the case of sugar. Here the clearing price of the USSR vis-à-vis Cuba, for political reasons, stood at 20 c/lb in 1975 (June), while the world market quotation was below 16 c. These high prices represented an additional stimulus to Cuban sugar production. As only about one-third of this production was delivered to the USSR, Cuban sugar exerted a marked effect on the remaining markets. Moreover, the supply in the free markets was increased by the fact that the USSR was reselling part of the purchased

¹¹ Cf. Erhöhte Aktivität Moskaus im Getreidegeschäft, in: Neue Zürcher Zeitung of 1. 5. 1976.

¹² Cf. Der Weizenpreis steigt wieder, in: Blick durch die Wirtschaft of 25. 10. 1977.

¹³ Cf. Getreidevorräte decken Importbedarf, in: Die Welt of 10. 8. 1972.

¹⁴ Wurden die Amerikaner über's Ohr gehauen? in: Blick durch die Wirtschaft of 9. 10. 1973.

¹⁵ Cf. Erhöhte Aktivität Moskaus im Getreidegeschäft, in: Neue Zürcher Zeitung of 1. 5. 1976.

sugar — the amount not required for its own needs — considerably below the clearing price¹⁶.

The Soviet Union's purchases in the cocoa market are also relatively important for price formation. Thus in April 1976 it was announced that "fairly extensive purchases by the Soviet Union and other East European countries... [were] further driving up quotations"¹⁷. Conversely the price collapse during the harvest year 1977 is partly being linked with the fact that, within the framework of the International Cocoa Agreement, the Soviet Union conspicuously restricted its demand compared with the preceding year¹⁸.

Other Instances of Intervention

In agriculturally produced industrial raw materials the role of the state trade countries in price formation is particularly obvious in natural rubber. There is general agreement that their purchases represent an important factor in future price formation¹⁹. This effect is likely to increase since, according to estimates by the International Institute of Synthetic Rubber Producers, they will be the largest consumer group in the world by 1987²⁰.

The role played by the state trade countries in cotton and other natural fibres is likewise by no

¹⁶ Cf. Preisbefestigung am Zuckermarkt, in: Neue Zürcher Zeitung of 6. 1. 1975; World sugar and molasses production lower in 1974/1975 than in 1973/74, in: US Department of Agriculture: Foreign Agricultural Circular, sugar, FS2-75 of July 1975.

¹⁷ Weiter steigende Kakaopreise erwartet, in: Blick durch die Wirtschaft of 20. 4. 1976.

¹⁸ Cf. Kakaoversorgung erst 1980 wieder normal, in: Blick durch die Wirtschaft of 16. 3. 1977; also Some easing in cocoa futures, in: The Financial Times of 5. 4. 1977.

¹⁹ Cf. Günstige Aussichten für Naturkautschuk, in: Neue Zürcher Zeitung of 12. 3. 1977.

²⁰ Cf. Ostblock verbraucht mehr Kautschuk, in: Blick durch die Wirtschaft of 21. 7. 1977.

means a subordinate one. In 1975/76 the USSR was the world's biggest exporter of cotton, delivering about half its exports to the markets of the Western countries. Price policy then was in line with the world market trend²¹ — which itself was affected as a result — although the USSR made frequent use of its favourable purchasing facilities through clearing prices in order to pick up profits in the world market²².

Conclusion: Financial Participation

In respect of mineral raw materials it is likewise possible to conclude from the relatively extensive sales in the markets of the Western industrialized countries — as already shown in the analysis of production and foreign trade — that world market prices are affected also, to a not inconsiderable degree, by the CMEA countries (e.g. through sales of copper and aluminium) and by the People's Republic of China (e.g. as an "outsider" with tin).

All these transactions have largely taken place without consideration of the price or profit ideas of the raw-material-producing developing countries. Even if one excludes speculative purchases and sales by the state trade countries, their own economic concerns are clearly a decisive reason for any intervention in the market by them. Such behaviour deprives the initial arguments — non-responsibility for the instability of the raw material market — of their foundation. There is therefore a good deal to be said for an abandonment by the state trade countries of their financial abstention and for their active financial participation in the Integrated Programme for Commodities.

²¹ Cf. World cotton trade up in 1975/76. US exporter slip for second year, in: US Department of Agriculture, Foreign Agriculture Circular, Cotton, FC1-77, January 1977.

²² Cf. World cotton trade up in 1975/76; US exporter slip for second year, op. cit., p. 14.

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