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Processing and Marketing Raw Materials

Structures, Opportunities and Obstacles

by Axel J. Halbach, Munich*

The concept of South-South cooperation in development policy seeks not only to enlarge traditional trading relations but also to strengthen the negotiating position of the Third World vis-à-vis the First World. An important partial aspect of this is cooperation in the raw materials sphere. The following article provides an overview of structures, opportunities and obstacles for raw material processing in the context of South-South cooperation.

Although the developing countries are in a dominant position as producers of most agricultural raw materials (prime exceptions are meats and wheat), where mineral resources are concerned the volume of economically extractable ore reserves is essentially determined by the level of world market prices and by the regional structure of prospecting activity, approximately 60 % of which has been concentrated in the industrial countries for some years. It is therefore clear that the Third World has a substantially weaker market position in this area, which also adversely affects the potential for South-South cooperation.

World trade in raw materials has been subject to unfavourable influences both in quantity and in price terms for a number of years, with the result that evident structural changes have been taking place since the early 1970s. Even though trade in raw materials (excluding petroleum¹) has multiplied four times in dollar terms since 1970 (see Table 1), the South's share of this upward trend has been less than proportionate. The declining significance of the region's raw material exports to the North (down from 22.3 % of total world trade to 17.7 % by 1982) was only partly offset by an increased share of South-South trade in the overall picture (up from 4.0 % to 6.6 %). The crucial aspect of the worldwide structural change is the supply of raw materials from the North to the South, which rose over the period from 10.3 % to 17.0 % of world trade, thus virtually equalling the exchange of raw materials in the opposite direction which had previously been such a dominant feature.

The strongest links in South-South raw materials trade are always between the countries within individual development regions. The most significant of these is the Asian region, within which one third of all South-South trade is conducted and which, on top of that, has very close ties with the neighbouring region of the Middle East; Latin America follows some considerable way behind, and Africa clearly takes up the rear. At the same time, however, intra-regional trade can be seen to be giving way to a more intensive exchange of raw materials on an inter-continental basis. Intra-trade, as it is known, took up 71 % of the total in 1970, but this proportion had fallen to 58 % in 1982. Latin America is particularly prominent in having developed trade relations reaching beyond its own region. Analyses which have been undertaken indicate that the still substantial significance of intra-trade is attributable in very small part to the integrative effect of existing regional cooperative communities and is much more a matter of geographical proximity and the better market knowledge and shorter marketing channels resulting from this.

Trends in Raw Materials Exports

In 1982, Asia accounted for almost half of total South-South trade in raw materials, at 48 %, followed by Latin America with 28 %, and Africa and the Middle East each with about 10 %; Oceania is involved in 1 % of such trade.

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¹ As in this case, raw materials are treated *excluding petroleum products* throughout.

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Table 1
World Trade in Raw Materials¹ (excl. Petroleum),
by Global Region
(in \$ billion and %)

Sector	World		North ²		South ³		
	\$ bn	%	\$ bn	%	\$ bn	%	
World	1970	103.2	100.0	—	—	—	—
	1982	399.5	100.0	—	—	—	—
North ²	1970	76.0	73.6	65.3	63.3	10.7	10.3
	1982	301.9	75.6	233.7	58.5	68.2	17.1
South ³	1970	27.2	26.4	23.1	22.4	4.1	4.0
	1982	97.6	24.4	71.1	17.8	26.5	6.6

¹ SITC groups 0, 1, 2, 4, 67 and 68.

² Includes European centrally planned economies.

³ Includes OPEC, but without their trade in petroleum.

Source: UN Yearbook of International Trade Statistics, various years.

Individual raw materials vary in their importance both in terms of the quantity traded and in trade trends (cf. Tables 2 and 3). Exports from the South as a whole (Table 2) indicate rising values in all product groups, and this is particularly marked in fish, rice, vegetable oils and fats, timber, bauxite/aluminium, and iron and steel. The picture becomes more revealing if Third World exports for each particular product are related to total world exports. A relatively high share of 50 % and over occurs primarily in a series of foodstuffs and agriculturally produced industrial raw materials, and is less prevalent with regard to mineral raw materials (the only exceptions are phosphates and tin). One can assume initially that the developing countries are able to exert a certain amount of influence over the markets for such products. Yet the industrial nations' strengthening market position makes itself felt in the fact that the Third World's share of overall world exports is in decline in almost every case. The trend is especially marked in the markets for copper, cocoa and meats; the only products where developing countries are increasing their share of the world export market are fish, rice, oils and fats, phosphates and bauxite.

South-South exports of selected raw materials (Table 3), by way of contrast, generally show not only clear gains in value terms but also, for the majority of products, an increasing share in total exports from the South. Whilst there are some products (wheat, rice) which are traded almost exclusively within the region, in other cases (fish, beverages, leather, mineral raw materials) there is relatively little trade potential in evidence. The factors responsible for this are the large volumes needed to cover domestic requirements or markets which are as yet undeveloped.

Agriculturally produced industrial raw materials show below-average growth in trade volumes across the

board; both the extension of cultivation and substitution processes play a part in this. In the case of foodstuffs, fluctuations in supply and demand depending on the results of each harvest are the main cause of the frequently sporadic patterns of trade. The strong expansion in trade in a number of mineral raw materials largely reflects the NICs' successes in developing their industries.

Further Processing

An especially significant point in development policy terms is the level of further processing in its raw material trade attained by the Third World. It is particularly interesting to enquire into whether there is any marked difference in this respect depending on the region (North or South) importing the materials.

Overall, slightly under half of Third World raw materials exports at present have not first been processed; the average proportion for the world as a whole is lower than this, at 38 %. However, differences do become apparent if the figures are broken down by product group. Whilst foodstuffs to this day are for the most part (78 %) exported unprocessed, almost 75 %

Table 2
Trends in Southern Exports of Selected
Raw Materials (includes Further Processing)

Product	Exports in \$ billion		Share of total world exports (%)	
	(average for period) 1970/71	(average for period) 1980/81	(average for period) 1970/71	(average for period) 1980/81
Meats	0.6	1.7	17.8	10.8
Fish	0.5	3.6	22.6	31.6
Wheat	0.2	0.6	4.6	4.3
Rice	0.3	1.8	37.3	43.2
Fruits	1.1	4.1	36.2	36.2
Sugar	1.1	4.9	64.4	53.0
Coffee	2.7	7.8	93.8	88.4
Cocoa	0.7	2.1	63.4	46.5
Tea	0.5	1.1	84.9	83.5
Spices	0.2	0.6	88.1	81.4
Oil cake	0.3	2.2	33.5	41.8
Oil-seeds	0.5	1.3	24.1	14.9
Vegetable oils and fats	0.7	3.6	45.5	53.5
Tobacco	0.3	1.4	20.9	21.6
Leather	0.3	1.1	20.4	16.6
Rubber	1.1	4.2	98.2	98.8
Timber and timber prods.	1.4	6.6	19.0	21.1
Cotton	1.6	4.3	46.8	36.3
Jute	0.5	0.8	80.3	75.5
Phosphates	0.2	1.1	48.9	54.8
Iron and steel	1.3	5.7	11.3	13.0
Copper	2.5	3.1	46.8	27.4
Bauxite	0.2	1.8	7.9	13.1
Tin	0.6	2.3	84.9	84.1

Source: UNCTAD Data Bank print-outs for January 1985, and Ifo-Institut estimates.

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of other agriculturally produced raw materials undergo one or more stages of treatment; for metals and minerals, the ratio is 50:50. If South-South trade is viewed in isolation, the proportion of processed materials is almost as high as it is for raw materials exports from the industrial nations. Thus it is mainly where there are no established structures or specific consumer requirements to stand in the way that the initial successes in further processing have been scored. In the South-South field, however, the levels of processing carried out largely still have a low technology content, so the time is still some way off when the effective potential can be considered to be exhausted.

In general, South-South cooperation in the raw materials sphere can be said to take place in a mostly very narrow regional context; for any particular commodity the available resources, processing activities and trading relationships are largely concentrated among a very small number of developing countries. It is also apparent that in the Third World, too, complementary trading of goods (raw materials from one country exchanged against finished products from another) has already become an essential structural

characteristic. Moreover, raw materials are not only imported to meet domestic requirements but also for re-export in processed form. Accordingly South-South economic relations are tending more and more to become a mirror image of traditional North-South structures as the Third World itself begins to become increasingly differentiated and individual countries come to be the dominant economic power in their own region.

Product Structure

Given the high concentration of South-South trade in the Asiatic region, a large number of products is predominantly traded solely within that region (cf. Table 4). Hence the relatively dynamic trend in South-South trade is to a large extent linked to the economic upswing in East and South-East Asia. Regional integration agreements (such as ASEAN) have had little influence in boosting these trends; the determining factors for trade developments among the Asian nations were the national differences in resource endowments and levels of development which also shape the structure of their involvement in the world economy. The number of products in which Latin American intra-trade is predominant is much lower than for the Asian region. Substantial shares are achieved here only by cocoa products, cellulose, oil-seeds and copper. Africa, finally, does not occupy a leading position for any product.

There are only a small number of raw materials of which one third or more is traded on an inter-regional basis. After vegetable oils (80 %), meats, jute and iron ore (approximately 50 % in each case), only a few more foodstuffs and industrial raw materials are of any particular significance (Table 4). It should be noted, however, that Table 4 only reflects the current position, and does not show the trends hidden behind those current figures. Products where inter-regional trade has proved particularly dynamic since 1970 are meats, vegetable oils, iron ore, aluminium, rice, cocoa, leather, cellulose and tin ore. An UNCTAD study has forecast a continued strong expansion in South-South trade volumes, especially for the first four of these product categories. There is a similar degree of optimism concerning tea, tobacco, grain, phosphates, rubber and copper. These, then, should be the main products associated with the further stimulation of interregional South-South trade in future years.

Regional Communities

Efforts at intensifying economic cooperation between developing nations can be traced back to the early 1960s. At present about 70 countries in all three of the

Table 3
Trends in South-South Exports of Selected Raw Materials (includes Further Processing)

Product	Exports in \$ million		Share of total Southern exports (%)	
	(average for period) 1970/71	1980/81	(average for period) 1970/71	1980/81
Meats	72	751	11.2	44.7
Fish	71	513	14.3	14.2
Wheat	104	565	68.9	89.5
Rice	278	1,606	89.7	90.4
Fruits	173	905	15.7	22.1
Sugar	115	2,010	10.2	41.0
Coffee	115	515	4.3	6.6
Cocoa	22	177	2.9	8.3
Tea	129	586	27.6	52.5
Spices	111	373	51.6	58.3
Oil cake	36	397	10.7	18.3
Oil-seeds	48	325	9.9	26.0
Veg. oils and fats	131	1,920	19.8	53.9
Tobacco	69	299	20.6	21.0
Leather	32	178	9.8	16.9
Rubber	360	1,482	32.1	35.6
Timber and timber prods.	306	2,142	21.5	32.5
Cotton	472	1,341	29.4	31.2
Jute	127	386	25.0	48.3
Phosphates	26	297	14.8	26.7
Iron and steel	153	1,440	11.4	25.3
Copper	127	640	5.2	20.8
Bauxite	40	467	21.5	26.4
Tin	89	337	14.5	14.5

Sources: UNCTAD Data Bank print-outs for January 1985, and Ifo-Institute estimates.

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developing continents are members in one or other of approximately 20 regional groupings, the basic aim of which is to reduce or completely remove barriers to trade among member countries in the hope of intensifying mutual trading links. The paradoxical aspect of this development is that about half of these preferential trade zones are concentrated in Africa alone, i.e. in the continent where intra-regional trade has been weakest so far.

The most important aim of all these integrative communities is to use step-by-step tariff reductions whilst disregarding the most-favoured-nation principle (i.e. whilst maintaining tariff protection against imports from industrial nations) to stimulate trade among the community's members. In reality, however, the increase

in trade which has actually occurred seems to be more a function of overall economic growth, even if tariff reductions can be said to have been an additional encouraging influence in individual cases. All in all, the outcome of the policy of regional integration is rated as disappointing. Trade flows with third countries are still dominant. The main instances where tangible successes have been achieved involve trade liberalisation running hand-in-hand with a unification of trade and taxation policy among the member countries, regional equalisation of tariff income, and coordinated industrial development. So far, however, only very few regional groupings have reached this level, and then only in specific areas. Factors responsible for the painfully slow progress of South-South cooperation are

Table 4
Share of Intra-regional and Inter-regional South-South Trade, for Selected Products, 1980/81
(in \$ million and %)

	South-South exports 1980/81 in \$m	Share of intraregional trade (%)			Share of interregional trade (%)
		Latin America	Asia	Africa	
Meats	745	24.6	18.2	0.6	56.6
Rice	1,606	4.0	63.0	0.7	32.3
Coffee	515	24.4	19.4	20.4	35.8
Tea	586	8.5	60.2	2.8	28.5
Cocoa beans	55	7.0	76.5	3.2	13.3
Cocoa butter	70	61.4	33.5	0.5	4.6
Chocolate	34	60.2	34.3	2.3	3.2
Oil-seeds	325	47.1	23.9	8.2	20.8
Vegetable oils	686	12.9	5.4	2.3	79.4
Vegetable fats	1,234	0.8	89.5	1.0	8.7
Tobacco, raw	132	15.7	38.0	12.3	34.0
Tobacco, processed	167	10.4	71.0	12.0	6.6
Hides and furs	35	38.9	23.8	14.9	22.4
Leather	97	39.5	38.7	0.6	21.2
Rubber	1,482	0.7	81.5	0.1	17.7
Tropical raw timber	536	2.3	90.5	3.1	4.1
Sawn timber	614	18.6	66.1	1.6	13.7
Cellulose	169	75.7	11.6	0.2	12.5
Veneer and plywood	618	9.6	68.6	2.8	19.0
Wood manufactured products	205	9.8	81.0	1.2	8.0
Cotton	383	7.6	55.1	2.8	34.5
Jute	49	0.8	32.7	0.2	66.3
Jute fabric	138	5.8	55.5	0.3	38.4
Jute sacks etc.	196	6.2	50.5	0.7	42.6
Iron ore	222	30.7	17.2	0.7	51.4
Manganese ore	52	11.6	24.1	26.4	37.9
Sectional iron & steel	541	15.0	63.5	0.8	20.7
Iron & steel products	412	26.4	60.6	1.2	11.8
Copper ores	103	0.1	66.3	.	.
Copper	510	90.0	6.9	0.0	3.1
Aluminium oxide	87	28.6	0.6	.	.
Aluminium, unprocessed	163	25.3	35.3	0.1	39.3
Aluminium, processed	205	19.3	49.6	10.1	21.0
Tin ores	34	10.5	69.0	0.0	20.5
Tin alloys	291	2.1	96.3	0.0	1.6

Sources: UNCTAD Data Bank print-outs for January 1985, and Ifo-Institute estimates.

not only the inhibiting effect of domestic and international economic structures, but also above all else the heterogeneity of individual nation states and communities, the varying links members of any community have with outside countries, and the primacy of national politics which makes its presence felt in all cases.

Obstacles to Trade and Cooperation

Even though the major restrictions and obstacles applying to South-South trade can be ascertained on various widely differing levels, they are nevertheless attributable in the vast majority of cases to internal or external inhibiting factors arising out of structures with a historical origin. Certainly it is true that ideological and power-political differences have on several occasions prevented cooperation or have led to existing communities being disbanded but, taking an overall view, such factors have not played nearly such a large part as the one taken up by inhibiting economic structures, whether on a domestic or on a world level.

Very significant among national inhibiting factors is the relative inability of regional groupings to compromise, due to the polarisation tendencies which frequently result from markedly different levels of development. Other strongly inhibiting influences flow from the primacy of national autonomy and the economic protectionism which goes with it. Closely linked with this are budgetary and monetary policy constraints which it hardly seems possible to eliminate in the short term. Technological deficiencies in many areas mean there is a constant transfer of technology, and inadequate productive, transport, storage and handling capacities can be ranked equally important alongside institutional and administrative bottlenecks and those due to lack of manpower or finance.

Among the external inhibiting factors the most prominent are established trade flows, the strong position in production, processing and marketing taken up by transnational corporations, discriminatory cost structures in the field of (sea) transport, along with technical progress which shows up in the development of substitute products and reduction of input needs. All of these obstacles ultimately fall within the category of established market structures which are prohibitive for developing countries. At a rough estimate, 70 %-80 % of worldwide raw materials trade in 1980 was carried out by multinational corporations; in some product areas they even have a share of 90 % and over. Intra-company trade where production shows a pronounced vertical integration is also a major factor (e.g. bauxite 88 %, rubber 80 %, cotton 68 %). Only a few of the more

advanced developing countries have so far managed to make partial inroads into the vertically integrated raw materials companies' established chains of production and marketing relationships, setting up national processing capacity and marketing channels of their own.

Individual inhibiting factors, however, vary in importance depending on the product. With agricultural foodstuffs the main problem is the availability of a level of supply (with exportable surpluses) conforming to quality standards, and the need to find markets in potential consumer countries; the situation is similar for beverages. It is not so much technological obstacles which here stand in the way of the development of further processing facilities as the oligopolistic supply and marketing structures with their restriction of competition. The main hurdles which agriculturally produced industrial raw materials need to overcome are consistent quality and regular delivery; sales outside the country may well be impaired by competition from other suppliers or from substitute materials. There are clear differences in the structural bottlenecks facing minerals. The predominant difficulty here is lack of capital and technical and organisational know-how, frequently in combination with equally oligopolistic production and marketing structures, and with fierce competition because of worldwide surplus capacity.

Other restrictions, meanwhile, of which the continually stressed information deficit, structural foreign exchange shortages and inadequate infrastructure are examples, are all very general in nature and have their effect on all products, even though their importance does vary from one raw material, or one country, to another.

Strategies for Overcoming the Barriers

The notions in North and South as to how the obstacles described above can be overcome differ very widely in some cases. While the demands made by the developing countries very often contain elements of dirigism designed to achieve (more quickly) the desired improvement in competitive position, the view of the industrial nations is that South-South cooperation is, above all, a field of activity where the Third World should be left to its own devices. They are essentially only willing to change and improve conditions relating to historically evolved world market structures if the means used conform to market principles.

The developing countries' demands regarding raw materials policy are lumped together in the Integrated Commodity Program, as it is known. The focus is upon

measures intended to stabilise and strengthen raw materials markets by drawing up direct contractual agreements between producing and consuming countries, upon establishing producer associations and concluding raw materials agreements, all of which is ultimately associated with the aim of stabilising or even raising export earnings. To supplement the Integrated Commodity Program, the *raison d'être* of which relates primarily to South-North relations, a programme to encourage South-South cooperation has also been worked out, the various, differentiated approaches of which contain four main elements, namely

- the creation of what is known as a General System of Trade Preferences (GSTP),
- the encouragement of trading relationships between state trading organisations (STOs),
- the establishment of Multinational Production and Marketing Enterprises (MPEs and MMEs) for the Third World itself, and
- the development of a Trade Information Service (TIS) to improve market transparency.

The GSTP is regarded as the keystone of the programme to intensify South-South trade. The plan is to bring in a graduated linear reduction (10 % in the first

instance) in Third World customs duties, exempt from the most-favoured-nation principle. South-South trade expansion is intended to occur at the expense partly of imports from industrial nations (trade diversion) and partly of domestic production in certain developing countries with a comparative disadvantage in cost terms (trade creation). In practice, however, such preferences are likely to be seen less as a means of liberalising South-South trade – especially as there is hardly any prospect at present of the Third World agreeing to common tariff reductions – than as a welcome opportunity to substitute for goods which up to now have always been imported from industrial nations.

Langhammer and Spinanger have endeavoured to estimate the trade creation effect generated by such a tariff reduction.² Their results are not encouraging. They show that even a round of 50 % linear tariff reductions would only result in developing countries increasing their South-South imports by between 2 % (for Saudi Arabia, with its low tariffs) and 25 % (India, with its high tariffs). If, on the other hand, one makes the far more realistic assumption that tariffs are reduced by a maximum of 10-15 %, the global trade-creating effect

² Rolf J. Langhammer and Dean Spinanger: *Wirtschaftliche Zusammenarbeit zwischen den Entwicklungsländern, Chancen und Risiken*, Tübingen 1984, p. 43.

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Axel Borrmann, Christine Borrmann, Christian Langer, Karl Wolfgang Menck

THE SIGNIFICANCE OF THE EEC'S GENERALISED SYSTEM OF PREFERENCES

– Trade Effects and Links with other Community Aid Policies –

This study, which was conducted for the EC Commission, undertakes a detailed analysis of the significance for foreign trade of the EC's Generalised System of Preferences (GSP), both from the point of view of the Community and from that of the beneficiary developing countries. It focuses on examining the contribution of the GSP to the liberalisation of trade and on estimating the trade effects of preferences and their repercussions within the EC with the aid of a gravity model. The study also demonstrates relationships between the GSP and the EC's other development policy instruments such as export promotion measures and industrial cooperation. (In English.)

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

would be unlikely to exceed 4-6 %. Weighing against this limited improvement are decidedly negative effects such as the strongly increasing potential for conflict within the Third World itself whenever the maintenance of internal preference margins creates clashes of interest between existing integration zones. The GSTP ultimately means that particular trading partners are discriminated against, and the consequence is increasing regionalisation of world trade; the fact that this concept can be presumed to have little chance of realisation is therefore welcome rather than regrettable.

Comparatively speaking, secured import and export guarantees by way of long-term bilateral trade agreements with a prominent role intended for the state trading organisations (STOs) carry a greater promise of success. Even today, STOs occupy a significant position in many developing countries, though it should be said that there are no cases as yet where encouraging South-South cooperation has been listed among their official responsibilities. Nevertheless, it is generally recognised today that, in principle, the STOs represent a useful operational instrument towards fulfilling this aim. Examples already in practice show that, in raw materials trade in particular, STOs are in a position to be especially effective in reducing the importance of traditional trade paths, stabilising export prices and securing markets or sources. A large part in these activities is played by compensatory trade deals (barter trade, countertrade), which are presently estimated to have already achieved a 10-15 % share within the Third World. All in all, however, contacts between STOs in different developing countries are still so minimal that any rapid increase in the significance of this type of instrument can hardly be expected. Industrial countries are also aware of the possibilities in this field, even if the trend towards compensatory trade deals is not generally welcomed and there is talk in this connection of an increase (instead of a decrease) in discriminatory practices.

The aim in establishing and expanding Third World multinationals in both production and marketing (MPEs and MMEs) is to create major concerns able to compete with the industrial nations, thus gaining greater market shares, opening up new markets and, as a result, improving their own knowledge of markets and marketing. Here too, though, apart from problems such as capital requirements and internal organisation (structure, know-how, staffing), regional conflicts come to the fore regarding the distribution of advantages flowing from the multinational. Hence it is mainly in sub-regional and regional associations – and again primarily in the field of raw materials and foodstuffs imports – that

cooperation between STOs, MMEs and MPEs appears meaningful and promises improvements in efficiency, ranging a certain buyer concentration of power against the strong position of the suppliers and achieving a more satisfactory regional balance in the availability of supplies. Another point which must be seen in a positive light is that the Third World is not averse to working together with industrial countries in setting up what it would like to be its own MMEs and MPEs, meaning that new opportunities are also offered for closer corporate cooperation with the developed countries.

The Trade Information System (TIS) can essentially be regarded both as being a necessary element for the functioning of the other three elements already mentioned and as being complementary to them: if the information base is improved the other instruments can be deployed with more effectiveness.

Summary and Outlook

All in all, a trend towards increased competition is more apparent in the structures and developments in the field of South-South cooperation set out above than is the danger that the developing countries may gradually isolate themselves through dirigism. Even among the developing countries themselves, dirigistic measures hardly appear capable of finding a consensus. Moreover, given that expansion of South-South raw material trade so far has essentially been a consequence of overall economic development and not of preferential agreements and regional discrimination, development according to market principles can be expected to continue to predominate in the future. This means that neither side is spared the painful processes of adaptation which result from structural change. Just as the Third World has had to struggle for years with stagnating or declining world demand, falling prices and substitution for many agricultural raw materials, and in some cases has suffered an acute loss of significance as a supplier of minerals, so too changes in location factors and relative factor costs have meant that certain raw-material-processing industrial sectors are subject to increasing pressures in the industrialised countries; the stronger NICs, especially, are working their way to the head of the race at a remarkable rate in this regard.

The gradual loosening of established structures associated with these processes, though, goes hand-in-hand with opportunities for both sides to enter into more entrepreneurial cooperation. Ultimately, then, South-South cooperation ought to prove to be more of an instrument for worldwide integration than one for decoupling and isolating the South from the North.