Jerome D. Davis:

The New International Economic Order and the Problem of Access: A Market Structure Point of View

During the summer of 1978, the capitals of Europe buzzed with political economic activity. The highlight of the summer was the Bremen summit of the world's major economic powers. A "headline grabber" in many ways, this summit threw many of the other activities into the shade.

In Brussels, the latest in the long list of woes afflicting the European textile industry confronted the European Commission. The problem was one of industrial overcapacity of the European man-made fibres industry. Estimates of the overcapacity ran as high as 30 per cent. The solution, suggested the Commission, would be a market-sharing arrangement among the 11 major producers in the European fibre industry -- an arrangement in clear conflict with the competition rules within the European Community.[1]

In Vienna, the Organization of Petroleum Exporting Countries was confronting a flood of new oil from both North Sea and Alaskan sources. A new spirit of cooperation with the Western World (and the oil majors) seemed well under way when the major OPEC producers decided against abandonment of the US dollar as the main currency of settlement in the oil industry -- despite the dollar's decline in world currency markets.

In Pireaus, an international ship exhibition was the scene of discussions as to the forming of a tanker cartel. The cartel, "Intertank", was initiated by the Norwegians and had as its formal objective the laying up of a sizable portion of the world tanker fleet in order to make the over-all business a money earner once again. Of the forty million tons deemed necessary for the schemes success, the organizers had procured one-half the necessary amount and were awaiting a Greek response to the scheme. A similar cartel for bulk carriers, "Intercargo" was also being muted, but accord-

1) See especially Rhys David, "A Prescription to make EEC Fibres Healthy Again", Financial Times, June 23, 1978, p. 20.

ing to the Financial Times, "the outlook for such a scheme is not bright as progress has just begun".[2)]

No less a scene of hectic diplomatic activity was Geneva. Here the final stages of the Tokyo Round were being commenced -- a round which had begun with great fanfare in September 1973.

There are two ironies to this contrast between the continued advocacy of freer and more liberal trade and the initiation of market sharing regimes in oil, textiles, and shipping. The first of these ironies is that the Western World apparently would like to"have its cake and eat it too". Creeping "cartelization" and freer trade are not seen in terms of contradiction -- but rather in terms of a supplementary economic dirigism. The second irony -- more a tragedy really -- is that the significance of these developments is perhaps much greater for developing nations than it is for OECD nations. The Tokyo Round had begun with ringing declarations of faith by the GATT countries in the "need for special measures ... to assist the developing countries in their efforts to increase their export earnings", in the need to grant these countries a "generalized system of tariff preferences", and in the need for "special and more favorable" treatment of developing nations.[3)] It was now ending in a flurry of activity; all promises on a general privileged LDC access to the markets of the developed nations had been forgotten in Geneva and were being undermined in Brussels, Pireaus,and in Vienna.

Particularly odd from the developing nations point of view is the fact that it is in these three areas: textiles, oil (and raw materials in general), and shipping that efforts have been made by UNCTAD nations to better their lot. As shown elsewhere in this volume, there has been a considerable influence from the current theories of development on the manner in which the Third World poses its demands. Whether these demands are successful or not will depend largely on the problem of access to the markets of the Western World.

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2) "Bulk ship owners to discuss need for forming cartels", Financial Times June 5, 1978, p. 40. See also "U.S. Shipping policy hits trade relations", Financial Times June 6, 1978, p. 44.

3) Sidley Golt, "Special or Free and Secure Access to Markets for Developing Countries", The World Economy I (1) October, 1977, pp. 55, 58-59.

1. The Problem of Access: A Market Structure Point of View

There would apparently be two views of "access" in international economics. The conventional economic point of view would be to analyze the problem of access as being one of nominal (or effective) tariffs, of quotas, of Governmental excise taxes, and of other non-tariff barriers. These measures all have one thing in common -- they are seen to discriminate against goods, first and foremost, but also perhaps labor and capital as factors of production. Another view of access cuts across this first view: access is seen as the problem of gaining entrance to an international market which is dominated by oligopolistic firms, cartels, licensing arrangements, and marketing "understandings". It is this latter view, that provided by market structure, which we intend to examine.

There are many structural barriers to entry in most international markets which have little to do with the presence or absence of trade barriers. Many products marketed in developed economies are highly differentiated. Brand names proliferate at a rate only marginally slower than that of the proverbial fruitfly. For established firms this is an expenditure which can be borne, for a new entrant, it presents a barrier. The entrant whether from within the same national economy or from abroad must spend considerable sums of money in order to ween consumers away from competing established brands. For a textile firm from Korea or Taiwan, all too often, there is an additional bias, that of the developed country consumer against products manufactures with "cheap labour".

More important than the subtlety of market differentiation is the problem presented by economies of scale. Here too, a relatively advanced export-oriented industry in a developing nation is placed at a disadvantage. Unless, one possesses the industrial base of a Japan, it is hard to envision the successful development of an export oriented automobile industry. Similar disadvantages exist for other critical sectors: computers, petrochemicals, steel, electronics, and the aircraft and aerospace industries. That tariffs on EEC imports from LDCs (lesser developed countries) in these sectors are among the lowest in the Brussels Treaty Nomenclature is perfectly understandable. European industry has the least to worry about in precisely these areas.

Vertical integration is yet another barrier to market entry. The hold of the oil companies over OPEC, of the copper companies over CIPEC, of aluminium companies over the IBA are familiar stories in this regard. In each of these areas, LDC efforts through their producer organizations have been effective in increasing only the prices of the raw materials involved. The ultimate marketing of petrochemicals, of copper wire and of aluminum pots and pans remains securely in the hands of the multinational corporations involved.

Product differentiation, economies of scale, vertical integration -- these are only the tip of the iceberg. In addition to other formal barriers to entry of the LDCs to the markets of developed countries -- patents, government contracts, exclusive dealing relationships between buyers and producers, there is a wealth of developed country policies which tend to favor domestic industries. Such support can take many forms: outright subsidization, special financing arrangements, tax concessions, the provision of investment infrastructure -- plants, housing, roads, power, and the like; the end result is the same in all cases -- an active discrimination against exports from developed nations. To a large degree, however, it might be claimed that the large multinationals are partially exempt from this sort of exclusion. As investors, they too can partake of the supply of public goods as "domestic" industries of the developed countries concerned.

It would be mistaken to regard an argument for another form of "access" analysis -- one based on market structure rather than one based on tariff and non-tariff barriers -- as merely an exercise in economic radicalism. One could just as well argue that such an approach could be significant for economic theory in general. This is for two reasons:

(1) It is easier for multinational corporations, in many instances, to invest in the Third World than it is for native Third World industries to gain an export foothold in Western economies. This has a crucial impact on Third World exports. In the table below, the foreign participation in some critical industrial sectors is illustrated. Dubious though this material may be statistically, it does show the degree of foreign control in some of the industrially developing Third World countries.

Table 1. Indicators of foreign participation in selected industries in developed market economies and developing countries, selected years[4)]

	Estimated percentage of foreign share of:						
	Chemicals	Rubber	Iron and steel basic industry	Non-electrical machinery	Electrical machinery	Motor vehicles	Year
ISIC No.	(351-352)	(355)	(371)	(382)	(383)	(3843)	
Developing countries							
Argentina	37(O)	75(O)	...	82(O)	33(O)	84(O)	1969
Brazil	51(O)	44(O)	61(O)	55(A)	33(A)	100(A)	1976
India	27(O)	52(O)	41(O)	25(O)	33(O)	10(O)	1973
Korea, Republic of	22(E)	...	37(O)	19(O)	...	...	1970
Mexico	67(O)	84(O)	37(O)	31(O)	63(O)	...	1973
Peru	67(S)	88(S)	...	25(S)	62(S)	...	1969
Philippines	...	73(O)	...	...	...	43(A)	1973
Singapore	46(E)	76(E)	21(E)	...	...	...	1968

Key:

A = Assets

E = Employment

O = Output

R = Revenue

S = Sales

4) U.N. Commission on Transnational Corporations, op.cit., pp. 273-274.

The question remains: to what degree are Third World exports to OECD nations the products of domestic national or cottage industries and to what degree are they the result of multinational investment in a location where the factors of production are such so that the multinational corporation is the de facto exporter, exporting to either its own branches elsewhere in the world or to its oligopoly competitors in the world today? A partial answer can be seen in the recent UN study on transnational corporations:

> Many of the industries in developing countries in which transnational corporations have captured the greatest share of local output are those which have contributed most to the rapid growth of exports of manufactured goods ... Transnational corporations have contributed substantially to this growth, partly because of their knowledge of world markets and their ability to meet international standards, and partly because imports are needed by the integrated network of their activities. On the other hand, marketing [advertising etc.] is frequently one of the prime obstacles to entry to exporting of indigenous firms. 5)

(2) This structuring of world trade by the multinational corporation is not only significant for the developing world, but also should have a major theoretical and policy-making impact on the international economic policies of the OECD countries. Table 2 below indicates the degree to which U.S. multinationals engage in intracompany trade. Eighty-two percent of all goods exported by the affiliates of U.S. MNCs in developed countries to the United States were in fact inter-firm transfers of goods from affiliates to the parent company in the U.S. Such imports accounted for a total of 32 per cent of all U.S. imports by value in 1974. The proportion is therefore higher with regard to lesser developed countries, approaching forty per cent when sales of U.S. affiliates in Africa and Asia to their U.S. parents are taken into account.[6)] In the author's opinion, such intracorporate planning

5) UN Commission on Transnational Corporations, Transnational Corporations in World Development: A Reexamination, p. 85.

6) Ibid., p. 220. These figures are conservative when one recognizes that the operational definition of an affiliate was a company 50 per cent of which (or more) is held by an American multinational. Many affiliates of U.S. companies are controlled by considerably less. Thus a refining company held 33 1/3 per cent apiece by Texaco, Esso, and Chevron would not be registered as a subsidiary of an American multinational.

Table 2. Share of intra-company sales of majority-owned foreign affiliates[a] of United States-based transnational corporations in their total sales, by destination of sales and by country group 1971 and 1975[7]
(percentage)

Host country and country group	Share of affiliate exports to parent in total affiliate exports to the United States 1971	1975	Share of affiliate exports to other affiliates in total affiliate exports to third countries 1971	1975
World	74	74	53	42
Developed market economies				
Canada	74	61	45	33
Europe	85	87	62	64
Others	62	97	37	32
Total	76	65	60	60
Developing countries				
Latin America	69	85	56	73
Africa	79	95	73	74
Middle East	59	43	23	14
Asia	93	100	74	65
Total	69	82	42	30

must certainly thwart conventional balance of payments policy. Depending on how much a country was dependent on intracorporate trade a devaluation or revaluation of that country's currency could well have only a marginal effect on trade flows, trade flows being more a function of the manner in which multinational corporations structure their intracompany production and trade than it is a function of comparative costs.

Interesting as a general discussion of concentration and market access might be, such a discussion should also dwell on the more particular problems which industrial concentration poses

7) Source: Centre on Transnational Corporations, based on preliminary data supplied by the United States Department of Commerce.

for the developing nations. To this end, the three examples touched in the introduction serve admirably -- both because oil, textiles and shipping have been the focus of Third World concern and because the problems of access in each of these markets is substantially different.

2. Access Denied Through Vertical Integration: The International Oil Industry

The problem of access to the oil markets of the world should be substantially improved for Third World countries. For decades, the oil multinationals, especially the Seven Sisters,[8] have secured their dominant position in world markets through controlling oil at its source. Through ownership in companies such as Aramco, the Kuwait Oil Company, the Iraq Petroleum Company, and Abu Dhabi Marine Areas, these companies controlled the majority of the crude oil produced in the world at its source, whether in the Middle East, in Venezuela, or in Indonesia. Given the widespread OPEC nationalizations in the period 1971-1976, it has been widely anticipated that OPEC through its control of the same crude oil reservoirs would expand its control to include refining capacity, tankers, and oil products markets. (At one point, in 1974 oil executives were even thinking of looking for other jobs).[9]

To what extent has OPEC managed to overcome oil MNC control in downstream markets? Table 3 gives an indication of the major trends in industrial concentration since 1963.

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8) BP, Royal-Dutch-Shell, Exxon, Gulf, Mobil, Chevron, and Texaco.

9) Interviews. One prominent manager of a major oil company in Denmark even contemplated working for a Danish national oil company -- seeing such a step as inevitable.

Table 3. Share of activity by ownership[a)] in the petroleum industry in market economies,[b)] 1963, 1968, 1972, and 1975[10)]

(Percentage)

Activity	1963	1968	1972	1975
Crude oil production				
Majors	82	78	73	30
Governments	9	9	12	62
Others	9	13	15	8
Refining				
Majors	65	61	56	47
Governments	14	16	17	24
Others	21	23	27	29
Marketing				
Majors	62	56	54	45
Governments	11	14	15	21
Others	27	31	31	34

a) The majors are British Petroleum, Exxon, Gulf, Mobil, Shell, Standard of California and Texaco.

b) Excluding North America.

As can be seen, the oil companies have indeed lost ground. This is particularly true of the majors. The major's share of crude oil production has fallen in twelve years from 82 per cent of the total market to 30 per cent in 1975. Their control of refining capacity has fallen by almost 30 per cent (from 65 per cent of world capacity outside the US to 47 per cent of world capacity). There was also an additional decline in the marketing shares of these companies. In part these declines were due to the rise of other oil companies during this period. These -- largely those grouped under the rubric "other" in Table 3 -- have actively competed against the Seven Sisters in a wide variety of markets. Although hardly household words in Europe, companies such as Phillips Petroleum, Occidental, and Standard Oil of Indiana (Amoco) have done very well for themselves.

10) Source: G. Chandler, "The Innocence of Oil Companies", Foreign Policy, vol. 27 (Summer 1977), p. 60.

To accurately measure the growth of influence of OPEC, one must pay considerable attention to the "Government" category. Here, growth in all stages of the oil industry has been considerable. This is true of marketing -- where government firms have expanded their market share by 91 per cent. It is true as well for refining where government activity has expanded by 72 per cent in the period 1963 to 1975. Although these percentage increases sound formidable, it is well to bare in mind that the base in 1963 was extremely small. Then governments possessed no more than a 14 per cent share in refining and a 11 per cent share in marketing. (Therefore increases to 24 per cent and 21 per cent shares respectively yield a very high rate of increase).

But it is in the crude oil producing operations where governmental activity has taken the biggest jump -- from a nine per cent share in 1968 to a 62 per cent share in 1975 -- a 588 per cent increase!

Is the oil industry the exception to the rule? Does the loosening of oil industry concentration mena that the lesser developed nations have gained access to developed markets? The answer, curiously enough, in view of the statistics just presented is "no" to both questions.

The reason for this apparesnt contradiction lies in the fact that in the areas of refining and marketing, the government firms which have enlarged their market shares are overwhelmingly those government firms located in the developed OECD nations, firms such as the Ente Nazionale Idrocarburi in Italy, Elf-ERAP in France, Petrofina in Belgium, and Deminex-Veba in Germany. Of the refining capacity designated "other" and "government" in Table 3 some 76 per cent is located in the OECD nations. A goodly proportion of the remaining refinery capacity is not located in OPEC nations. Of those Third World refineries which are involved in the export of oil products, some 40 per cent are located in non-OPEC nations, off-shore centers convenient for tanker routes (and lax environmental restrictions) -- the Bahamas, the Netherlands Antilles, Trinidad, and Singapore. A goodly portion of this capacity is not owned by Third World Governments, but by the multinational oil companies. In any case, it hardly makes a difference. Only ten per cent of the world's oil in 1974 was refined in export oriented refineries.

Nor does OPEC access to upstream crude oil refineries and markets have any apparent prospect of improving. Of the new refinery capacity currently planned, only 26 per cent will be located in the Third World. This lack of penetration to "downstream" markets on the part of OPEC renders less meaning to their enhanced control over crude oil. Oil company opposition to allowing fully integrated operations fall into the hands of OPEC nations and the prospect of higher profits in the petrochemical industry has led OPEC nations to abandon oil product markets. These markets remain inaccessible and increasingly account for the major share of oil company profits. Rather, "ownership" of crude oil reserves has led these countries to contractual relationships with the oil multinationals, a contractual relationship which reflects a curious symbiotic relationship between the major OPEC producers and the oil multinationals. Cries of nationalization have increasingly been replaced by open admiration at the marketing skills of an Exxon, a Chevron or a BP. Ultimate OPEC access to oil product markets remains as much a "will-o-the-wisp" in 1978 as it did in 1973 before the Arab-Israeli conflict.

3. Concentration and "Export Platforms": The Textile Industry

Of the various industries thought to be ideal for the Third World, the complex of activities designated generally "textiles" takes a preeminent position. Although generalization in a field as complex as textiles is somewhat hazardous, one could question this assumption. The assumption is questionable on two accounts: firstly, there is little to indicate that natural fibres, cotton, jute, and sisal, the product of the developing world, will outcompete man-made fibres -- a highly concentrated Western industrial sector; secondly, although the labour forces of nations such as Korea, Hong Kong and Singapore can be employed in the garment making sector, there is little to indicate that this redounds to the benefit of indigenous industry; all too often, these nations merely become "export platforms" for large European, Japanese, or American multinational firms. Let us examine each of these contentions:

3.1. Natural versus Man-Made Fibres: The Problem of Concentration

The expansion of synthetic fabrics -- produced from man-made fibres -- is a well known phenomenon. From a high of about 83.3 per cent of all fibres produced in 1952, wool and cotton have slipped to a 59.6 per cent share of world consumption in 1973. The production of man-made fibres have increased 240 per cent -- from a 1952 market share of 16.7 per cent to a 1971 total of 40.3 per cent. This trend was reflected in the textile industry. Average growth rates for synthetic textiles during this period were on the order of 21.5 per cent per annum; in contrast, consumption of wool and cotton textiles grew at an annual rate of 2.3 per cent.

Yet even more distressing than the substitution of highly concentrated industrial man-made fibres for cotton and wool is the impact which this substitution has had on Third World exports to developed nations. Table 4 shows that by value, sixty per cent of the yarn fabrics and clothing exported from the Third World in 1971 consisted of man-made fibres. Thus in the very area where according to classical trade theory and the theory of factor proportions the Third World should possess a degree of comparative advantage, it eschews this advantage for man-made fibres which for the most part must be imported into Third World countries before manufacture and further sale to the Western World.

To state that the man-made fibre industry is highly concentrated is to verge on understatement. The man-made fibre industry in Europe is dominated by eight firms. The largest three firms produce nearly 45 per cent of the European total: AKZO, ICI, and Rhone Poulenc. Nationally the concentration is even greater. In France alone, Rhone Poulenc accounts for 86 per cent of the French capacity, employing 75 per cent of the people working in the man-made fibre sector. ICI and Cortaulds between them account for slightly less of the British market. The latter of these two firms is remarkable in that it is a textile firm which integrated into man-made fibres, normally a preserve of the petrochemical industry. Cortaulds not only controls about 28 per cent of the man-made fibre market in the UK but also are significant garment manufactu-

Table 4. Imports of cotton and man-made fibre textiles and clothing by developed market economy countries from developing countries by country of origin and type of product, 1971[11)]
(Thousands of US dollars)

Country or territory	COTTON						
	Yarn	Fabrics	Clothing	Household made-up articles	Misc. fabrics and articles	Total	Per cent of total
Brazil	5,373	7,975	477	919	248	14,992	1.9
Colombia	3,772	6,760	305	1	34	10,872	1.4
Egypt	11,698	8,358	150	6	23	20,235	2.6
Hong Kong	4,780	83,484	263,942	25,313	7,773	385,292	49.0
India	4,491	39,968	10,734	13,524	2,105	70,822	9.0
Israel	3,553	1,603	5,752	125	206	11,239	1.4
Malaysia	-	2,387	3,352	118	97	5,954	0.8
Mexico	6,416	8,358	1,378	29	472	16,653	2.1
Pakistan	11,669	37,386	3,931	1,584	1,076	55,646	7.1
Rep. of Korea	13,113	18,953	8,828	891	984	42,769	5.4
Singapore	-	3,646	12.003	1,109	35	16,793	2.1
Yugoslavia	7,288	18,974	20,268	1,697	567	48,794	6.2
Other developing countries or territories	10,947	45,948	24,680	2,384	1,780	85,739	10.9
Total	83,100	283,800	355,800	47,700	15,400	785,800	100.0

Country or territory	MEN-MADE FIBRES				
	Yarn	Fabrics	Clothing	Total	Per cent of total
Brazil	1,521	37	2,689	4,247	0.4
Colombia	-	-	1,381	1,381	0.1
Egypt	159	-	4	163	-
Hong Kong	1,741	11,696	554,522	567,959	47.4
India	1,336	1,877	5,606	8,819	0.7
Israel	12,064	2,012	42,018	56,094	4.7
Malaysia	-	-	2,125	2,125	0.2
Mexico	1,609	-	35,080	35,689	3.0
Pakistan	-	332	522	854	0.1
Rep. of Korea	14,434	4,967	219.997	239.398	20.0
Singapore	-	-	14,752	14,752	1.2
Yugoslavia	1,573	3,944	92,387	97,904	8.2
Other developing countries or territories	5,163	5,135	158,717	169,015	14.1
Total	39,600	30,000	1,128,800	1,198,400	100.0

11) Source: UNCTAD, Trade and Development Board, International Trade in Textiles and the Developing Countries: Report by the UNCTAD Secretariat (June 19, 1974: TD/B/C.2/136), pp. 22-23.

rers, and textile wholesalers.[12] There has historically been a high degree of cartelization in the man-made fibre market, a market characterized by "international market-sharing reinforced by cross licensing".[13]

The extreme concentration of the man-made fibre industry is matched elsewhere only by concentration in the thread making industry. Here, together with Tootal, the British industrial firm Coats Patton enjoys a virtual world monopoly.

This is not to say that man-made fibres are immune to substitution from natural fibres. But it is remarkable how with the changed situation after the oil crisis -- the rise of oil prices affected the costs of synthetic fibres many of which are based on petroleum derivatives -- the decline in this industrial sector has occasioned widespread declarations on the part of European governments to the extent that these have waived EEC rules on cartelization and are now busily organizing the European markets.[14] The degree to which this organization will benefit man-made fibres to the cost of natural fibres will be an interesting facet of this cartelization.

3.2. The Garment/Textile Manufacturing Industry: Export Platforms?

To focus on concentration in the man-made fibres industry is not to claim that other areas of textile industrial activity are free from concentration. In the garment manufacturing sector, for example, depending on the particular market and the particular country there can well be a high degree of concentration.

In the U.S. the giant,Burlington Industries,dominates, but there are also firms such as Vanity Fair, Blue Bell, Levi Strauss, Jantzen, and United Merchants and Manufacturers. In France, in addition to Rhone Poulanc, there are also Agache Willot and Lainiere de Roubais Provoust Masurel. Besides the British giants already

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12) Brian Bolton, The MNCs in the Textile, Garment, and Leather Industries, SecondWorld Congress, International Textile, Garment, and Leather Workers Federation, Du lin, 22nd to 26th March 1976, p. 11.

13) Pickering, Industrial Structure and Market Conduct, London, Martin Robertsen, 1973, p. 269.

14) This can also be seen in the limitations which OECD nations have placed on textile imports from the Third World in the most recent GATT Multi-Fibre Agreement.

mentioned, there is also Illingworth and Morris, and Montagu Burton. (The number of large textile companies quoted on the British stock exchange fell from 214 to 126 in the period 1958-1968; the five largest among these are estimated to hold well over 50 per cent of the market).[15)]

Many of these larger firms rely heavily on production from the Third World. Triumph International (West Germany) in 1973 sold the equivalent of 663 million DM of textiles and clothing, 47 per cent of which came from overseas operations.[16)] Coats Pattons derives 81 per cent of its profits from overseas. Although these percentages are perhaps exceptional for European firms, there is not a single one of the major textile multinationals which does have plants in the Third World. This tendency is particularly market for the Japanese conglomerates: Asahi, Kanebo-Teijin, Toyobo-Mitsubishi, Kura-Toray-Unitika, and Mitsubishi-Toweto.

Slightly over 63 per cent of clothing and textile exports from the Third World in 1972 came from four countries: Hong Kong, Korea, Singapore, and Malaysia. Of these, foreign participation and ownership were particularly noticeable in Hong Kong and Singapore. Hong Kong, the most significant Third World exporter (2o per cent by value in 1972), is largely dependent on a series of trading firms for its access to markets. Originally, largely British companies, these now include import firms, department store buyers, mail-ordercompanies and the like. These account for almost three quarters of Hong Kong's exports). It might reasonably be said that Hong Kong performs the role of a subcontractor for the developed market economies. Foreign multinational holdings in the Singapore textile industry (second to Hong Kong-18 per cent of the value of 1972 lesser developed countries exports), has been estimated to lie around the 60 per cent mark.[17)] In Korea, the share of employment by multinational corporations increased from 3 to 11 per cent in the period 1970-1973. This may not seem significant but for the fact that the industrial sector accounts for no more than 23 per cent of the South Korean GDP. The percentage of

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15) Brian Bolton, op.cit., p. vi.

16) Ibid., p. 39.

17) UN Commission on Transnational Corporations, op.cit., p. 92.

textiles and clothing in total Korean exports was 30 per cent in 1972.

Outside this area, investment by large textile combines tends towards geographical orientation. The Japanese concentrate on East Asia; the Americans focus on Latin America and Southern Europe; and the European textile manufacturers rely on Southern Europe, Africa, and Latin America. The list of European, Japanese and American subsidiaries in these geographical regions is truly impressive.[18)]

To sum up the nature of the textile industry, one might say that concentration exists at the two industrial extremes -- man-made fibres, on the one hand and garment retailing on the other. These sectors present a formidable barrier to Third World entry into the textile industry as a whole -- a barrier which the various institutionalized GATT agreements on textiles has left untouched. Concentration in the textile industry will probably continue to have mixed effects on the Third World exporters, at best confining them to the role of contractual suppliers to OECD markets, at worst, closing off even that avenue of access.

4. International Shipping: The Tyranny of the Many

If market structure prevents access vertically in the case of the oil MNC, and through concentration in the case of textiles, the situation is considerably different in the case of international shipping.

That UNCTAD should single international shipping out as a particular area of interest of Third World countries is only natural. For many of these countries, the cost of transportation is a significant portion of export prices, particularly in the case of the baser raw materials, for which the presence of synthetic substitutes in the OECD countries puts a ceiling on prices. Table 5 below illustrates the impact of liner freight rates for such commodities.

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18) See for example, Brian Bolton, op.cit., pp. 6-45.

Table 5. Liner Freight Rates as Percentage of UK Import Prices between 1951 and 1963[19)]

	Freight % at highest price	Freight % at lowest price
Hemp (Manila)	8	15
Copra (Philippines)	7	22
Rubber (Malaysia)	2	5
Tin (Malaysia)	2	4
Jute (Pakistan)	5	11
Sisal (E. Africa)	4	13
Cocoa beans (Nigeria)	1.3	4.7

The shipping market is generally composed of several component parts: the first and most important is the petroleum and crude carrier market, the second, the liner market, and the third, the tramping market. If we ignore the carriage of crude which is something of an exception, the significance of the tramp market and the liner market can be seen in table 6. Broadly speaking these are the markets which UNCTAD has focused upon.

Table 6. Total Volume of Dry Cargo Carried in 1962 by Type of Carrier[20)]

Carried by:	Tonnage:
Liners	300 million tons
Integrated fleets/ contractual tramps	165 million tons
Open market tramps	120 million tons
Totals	585 million tons

Tramps are generally dry cargo vessels which operate on a world wide basis under charter to the nationals of the countries which

19) Source: A.D. Couper, The Geography of Sea Transport, London' Hutchinson, 1972, p. 182.

20) Source: Olav Knudsen, The Politics of International Shipping, New York, D.C. Heath, 1973, p. 46.

desire their services. The tramp ship owner attempts to arrange charters for his vessels so that they move around the world, minimizing their empty travel and following various shifts of supply and demand. The tramping fleet amounts to roughly 20 per cent of total world tonnage. Specialization and progress have reduced tramping's size. Still, tramps still perform an essential function particularly in the shipment of grain.[21)]

Of more concern to developing nations are the conventional liner services. These have been developed to suit the needs of modern industry: frequency of deliveries, regularity of contact with a wide variety of markets. Such specialized carriage also suited many Third World countries and cargo liners were designed to carry a wide variety of commodities. Yet what the shipper and importer gain through regularly provided services, the liner operator is liable to lose through loss of cargo. As expressed by Knudsen: "He [the liner operator] has no way of systematically relating his costs to the act of physically moving a particular item of cargo from one place to another. Yet cargo is his only source of income".[22)] The result has been to organize into liner conferences. There are currently between 350 and 400 of these organizations.

Access to shipping for the Third World is related, first and foremost, to the problem of liner conferences. It might also be secondarily linked to the difficulties of building one's own national fleet on a competitive basis. Such an enterprise requires capital and skill.

4.1. The Problem of Liner Conferences

What exactly is a "liner conference"?

> A conference is an association of competing liner owners engaged in a particular trade who have agreed to limit the competition existing among themselves ... to the agreement forswearing all forms of price competition may --- added an agreement to regulate sailings according to a predetermined pattern ... A further step may be to add a full pooling agreement under which profits and and losses on the trade covered by the conferences are shared

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21) Couper, *op.cit.*, p. 94.

22) Knudsen, *op.cit.*, p. 59.

> between the member lines. When this stage is reached competition between the conference lines has ceased completely. 23)

Are conferences in fact transportation monopolies which charge discriminatory rates in order to cover the costs of their regular services? If so, what limits should there be placed on the arbitrariness of their rates so as not to disadvantage Third World countries as against others? These questions have lead to the spilling of much ink. In fact, there are theoretical limits to the freight rates which a liner conference can charge a country such as Ghana. These limits are those imposed by the usage of tramp services. Such limits, however, depend on two factors: (1) the tramp service is available and imposes no other serious restraint on the shipper and (2) that information is available as to the presence of both the demand and supply of tramp steamers for a certain trade.

Despite disclaimers from the developed world, there can be little doubt that liner conference have the potential to exact unfair fees for the services which they provide the Third World. This potential is amply demonstrated in Table 7. What is impressive about the list of characteristics in Table 7 is the high degree of secrecy inherent in the liner conferences system. The conference agreement is regarded as a confidential document; relationships with shippers are no less secret; freight rates are unilaterally imposed on a confidential basis; the conferences have provisions which are designed to prevent outside competition and so forth. The list of practices is too long for detailed comment. Of particular importance, however, is the practice of "deferred rebates". Under this system the shipper in the underdeveloped country pays the full freight rates demanded by the liner conference, but if he subscribes to a loyalty period of one year (during which he will continue to use the conference's services), he recieves ten per cent of the payments which he has made in the first half of the year back as a rebate at the end of the year. "The conference is, in other words, always six months in arrears in its payments of refunds to the shipper. Should the shipper violate the contract, however, he loses not only the rebates he has earned

23) S.G. Sturmey, British Shipping and World Competition, London, Athlone Press, 1962, p. 322.

Table 7. Basic Features of Most Self-regulated Conferences, Loyalty Agreements and Practices

Feature	Comment
Relations between member lines	
(a) Membership	Closed conference with confidential criteria for the admission, withdrawal or expulsion of members
(b) Share of trade	The basis for the allocation of shares of cargo to members is usually kept confidential
(c) Pooling	Confidential cargo or revenue pooling agreements cover the shares of cargo or revenue due to each member line; sometimes there is provision to ensure the carriage of low-rated cargo
(d) Sactions	Agreements provide for sanctions against breaches of agreement by member lines
(e) Self-policing	Self-policing machinery exists to ensure compliance with the terms of conference agreements
(f) Publication of conference agreements	The conference agreement is considered as a confidential document
(g) Contents of conference agreements	Contents of agreements are confidential
Relations with shippers	
(a) Loyalty arrangements	Loyalty arrangements comprise fidelity clauses and ties with shippers (dual rate system, contract system and deferred rebate system)
(b) Dispensation	There are no arrangements for giving reasonably prompt dispensation to loyal shippers to use non-conference vessels
(c) Publication of tariffs and related regulations	No provision for publication is usually made
(d) Consultation machinery	There is general concentration of authority at headquarters
(e) Representation	There is no representation of merchant interests in rates and other conference committees
Freight rates	
(a) General freight rate increases	Freight rates are imposed unilaterally; the basis for freight rate changes is confidential. There are usually no specific provisions for determining freight rates, and usually no procedures for prior consultation. The time of notice is not necessarily specified

Table 7 (cont.)[24]

Feature	Comment
(b) Specific freight rates	There are procedures for determining freight rates on new cargo items and handling requests from shippers for reductions of specific freight rates, but no procedures for consultation on increases of specific freight rates
(c) Promotional freight rates	There are usually no specific provisions for determining promotional freight rates
(d) Surcharges	Surcharges are imposed without prior notice and often without specific justification
(e) Currencies-devaluation, revaluation, rates of exchange, floating currencies	Procedures for consultation existing in Western Europe in connexion with devaluation or revaluation of tariff currencies do not seem to operate effectively. There are no procedures regarding floating currencies
Other matters	
(a) Outside competition	There are devices to prevent or eliminate outside competition
(b) Averaging of freight rates	There is provision for the averaging of freight rates over port ranges
(c) Quality of service	There is usually no provision regarding the type or other characteristics of the shipping to be used
(d) Adequacy of service	The responsibility for providing adequate service usually rests with individual lines
Implementation	
(a) Settlement of disputes	There is provision for impartial adjudication machinery

in the current half year, but also the entire refund due to him from the previous half year".[25] This is only one of the more dubious of several "tying arrangements" between conferences and shippers which guarantee the former a continued clientele.

4.2. The Building of a National Fleet

A national fleet poses several advantages to developing nations: it enables the developing nations to retain earnings from their

24) Source: UNCTAD Secretariat, The Regulation of Liner Conferences, New York, 1972, TD 104/Rev. 1, p. 5.

25) Knudsen, op.cit., p. 61.

exports which they might otherwise lose to foreign shipping lines; a national fleet also can be used to combat questionable shipping practices (such as those imposed by liner conferences; a national fleet finally can minimize a nation's import bill.

Off-setting these advantages, however, there are severe structural problems associated with the development of a national fleet, the two most serious being a lack of capital and a lack of highly skilled manpower.

The capital intensiveness of the shipping industry is relatively high compared to most other alternative investments which might be made. Not only are ships relatively expensive compared to other investments but the building up of a national fleet involves considerable foreign exchange costs. The Third World in this respect is confronted with the heavily subsidized, government supported and financed ship building industries in the developed world. Of the world's major ship builders, virtually all have more than three forms of government assistance. Table 8 in addition to illustrating

Table 8. Government Assistance to Shipbuilding[26)]

Countries	Forms of Assistance							
	A	B	C	D	E	F	G	H
Denmark			x	x	x		x	x
France	x	x	x	x		x	x	x
Italy		x	x	x			x	x
Japan			x	x			x	x
Netherlands			x	x	x		x	x
Norway	x		x	x	x	x	x	x
Spain			x			x	x	x
United Kingdom	x	x	x	x	x	x	x	x
Sweden			x	x	x	x	x	
United States	x	x		x	x		x	x
West Germany	x		x	x		x	x	x

Key: A = operation and crew subsidies
B = construction subsidies
C = tax/customs measures
D = finance for investment research
E = guarantee for finance
F = public ownership
G = export credit facilities
H = home credit facilities

26) Source: I. Chrzanowski, Concentration and Centralization of Capital in Shipbuilding, Massachusetts, Lexington Books, 1975, p. 163.

the wide prevalence of shipbuilding subsidies also gives an impression of the degree of government intervention into areas such as operations subsidies which are connected only tangentially with subsidized ship construction. The result of these measures is ultimately discouraging for any nation planning to build its own national fleet. This has been true as well of some of the OPEC nations. Algeria has abandoned its plans to build its own fleet of liquid natural gas tankers. When asked the reason why, one Algerian authority responded frankly that his government could not compete with the subsidized yards elsewhere. "The Algerian national fleet will have its own tankers, but these are being built at La Ciotat, a French yard".[27)]

As difficult a problem to entering the international shipping market is the lack of skilled manpower: "... together with a scarcity of capital, the shortage of skilled seamen and officers, of entrepreneurs and of managerial personnel, is the principal obstacle to the establishment of merchant marines in the developing countries".[28)] Even in areas where the interest in national lines has not been hindered by lack of capital and access to ships, the lack of operating personnel has constituted a hindrance to the development of national lines. Thus within the OPEC nations many have adapted a policy of shipping cooperation with the oil multinationals through joint enterprise companies.[29)]

In spite of these considerable barriers, the Third World has had some success in dealing with the developed nations shipping industry. While the problem of access has not been solved, UNCTAD has sponsored a series of measures which hold some promise. To counteract the liner conferences, the UN has adopted a code of conduct; to counter practices such as deferred rebates, the UN has encouraged the development of shippers councils, national shipper groupings which can negotiate with liners councils from positions of strength. To counteract some of the problems of developing national shipping lines, UNCTAD has explored the possibility

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27) Interview information, London, September , 1977.

28) UNCTAD Secretariat, Multinational shipping enterprises, Geneva, UNCTAD, 1972, 72.II.D17 TD/B/C.4/68, p. 6.

29) This is particularly the case with Saudi Arabia and its relations to the oil MNCs within Aramco.

of setting up multinational shipping lines, shipping lines in which various Third World countries pool their resources for mutual benefit.

Yet in spite of this progress, the Third World has a long way to go. An UNCTAD recommendation that liner traffic ownership should be divided 40 per cent to exporting nations, 40 per cent to importing nations and 20 per cent to "other",[30] (a state corresponding to the share of the Third World in actual quantities of goods carried) has thus far been signed by only West Germany, France and Belgium. The European Community has taken these signatures with deep reservations -- in fact "rapping the knuckles" of the signing nations.[31] In fact there appears to be as much difficulty in Third World access to international shipping markets as there is to Third World access to final textile and oil products markets.

5. Conclusion: Market Structure -- A Third Analytic Approach?

Discussion around the implementation of the United Nations New International Economic Order might be said to concentrate methodologically on polar opposites: the equilibrium theory of international trade as developed by Western economists, and the theory of dependency as propounded by a host of Third World theoreticians.

"Market structure" or more formally defined: "The underlying characteristics of a market which determines the competitive relations between sellers or between buyers and sellers",[32] has been the focus of our analysis -- in particular the all-important problem of access. As a concept, market structure has little explanatory power. Rather it is largely a descriptive concept laying great emphasis on such market characteristics as size-distribution of firms, size-distribution of buyers, barriers to entry of new buyers and sellers, degree of product differentiation, vertical and horizontal integration, and degree of capital intensiveness.

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30) "Cross carriers" -- those ship owners whose nations are not directly involved in the trade. This arrangement in fact discriminates against these owners.

31) "U.S. Shipping Policy Hits Trade Relations", Financial Times, June 6, 1978, p. 44.

32) G. Bannock, R.E. Baxter, and R. Rees, A Dictionary of Economics, Harmondsworth, Penguin Books, 1974, p. 274.

In the context of this short article, we have applied one aspect of market structure, that of market access to bring Third World trade problems more clearly in focus. To this end we have perhaps too briefly described market structure in the oil industry, textiles, and shipping. What remains is to discuss the greater theoretical implications of this analysis.

Analysis of North-South problems from the point of view of market structure poses some decided advantages for classical international trade theoreticians. To take an extreme example, let us assume that there are two types of trade -- the first is an exchange of goods and payments between two independent entities in two different nations; the second an exchange of goods and payments between two branches of a single corporation each located in a different country. Classical trade theory to date has generally failed to observe that there are differences in the two types of trade. That is to say, classical international trade theory is based more on the exchange of goods and services than on a concern as to who benefits from the exchange. International economists will be quick to point out that both parties to trade benefit irrespective of whether they are two branches of the same firm located in two countries or they are in reality separate entities.

Yet it is precisely here where the market structure perspective is perhaps the most useful. Whether accepted or not by Western economists, most Third World countries would claim that there is a difference between the two types of exchange described. To this interchange of views, the analysis of market structure raises the following questions:

(1) Is there a substantial difference between the multiplier effect of international trade as classically conceived and that of international trade between subsidiaries of the same multinational corporation? There could be considerable evidence that such a difference does exist, if only in the ability of horizontally or vertically integrated affiliates to make use of transfer prices, to evade national taxes through interfirm cash flows,[33] and to

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33) This tendency is not reserved to lesser developed nations. The British were astonished in 1971 to find that the oil MNCs were piling up losses and charging them to their British subsidiaries so that the latter could avoid British North Sea taxes.

repatriate their profits (thereby depriving the host economies of reinvested earnings).

(2) To what degree are the classical remedies to national balance of payments -- devaluation or revaluation thwarted by a high degree of concentration internationally? The degree to which a nation's imports and exports are determined by intra-firm trade within one or more multinational corporations, the concept of comparative advantage may not matter overly much. The degree to which Coates Patton has placed its factories in Spain and depends on these factories for its European sales, for example, locks Coates Patton into a certain pattern of production on which a revaluation or devaluation of the Spanish peseta may only have a marginal effect. The same characteristic is probably even more true of the oil MNCs.

(3) And, finally, the question which we have posed in this essay, to what gain can lesser developed nations utilize tariff preferences, and the abolition of other national barriers if they are prevented from marketing their exports through a high degree of concentration in the European and American markets. One might even go so far as to question if the ultimate beneficiaries of tariff reductions are not the indigeneous industries in the Third World but those multinational corporations which have established themselves in the Third World to use Third World preferences to export to their home markets. Here however there is unquestionably a lack of evidence _pro_ or _con_:

If the problem with classical trade theory is that despite its high degree of theoretical rigour, it ignores the problem of _who_ benefits through asserting that all benefit, one might well argue that the problem with dependency theories lies in its emphasis on the structural exchange relationship. The author will eschew any extensive treatment of dependency theory in this context. (Other contributions made to this issue are devoted to this question). Yet, it could be argued that the great advantage of dependency theory, its global nature, is also a disadvantage. To illustrate, one need only take the solutions to break Third World dependency as porposed by Oswaldo Sunkel. The solutions sound grand: the breaking of multinational corporate controls in traditional exporting sectors through state intervention in the first instance,

or through nationalization in the last instance; the creation of large specialized industrial units capable of securing economies of scale - multinational Latin American firms which would develop Latin American markets. The problem with these solutions is that they do not face the critical questions: what is the degree of developed nation control of the product markets within the traditional export markets? To what degree do large Latin American multinational firms stand a chance competing with the MNCs from the developed world both within Latin America and within the more important world markets? Or to take more concrete examples, to what degree could the problems of Chilean copper on world markets have been avoided after the Allende nationalizations? To what degree could a Latin American automobile firm enter Latin American markets and outcompete General Motors, Ford, Datsun, and Fiat? Sunkel's remedies offer no solutions to problems such as these. Here, it is suggested, an awareness of market structure would add empirical depth to what is largely today a macro-theory.

Finally one could well ask if market structure presents an interesting focus on its own. In particular, such an approach raises questions about the role of international oligopolies and how these influence international trade. "As multinational companies become increasingly important, so a new form of oligopoly arises, the oligopoly of international markets", writes J.F. Pickering, in a recent textbook on industrial structure and market control.[34] Unfortunately this "new form of oligopoly" merits no more than a page of comment. The application of oligopoly theory to international trade remains a largely unwritten chapter in international political economy despite the efforts of Stephen Hymer and a few others.[35] The use of market strucutre could well be one manner

34) Industrial Structure and Market Conduct, op.cit., p. 269.

35) See for example, Stephen Hymers publications: The International Operations of National Firms: A Study of Direct Foreign Investment, Cambridge, MIT, 1976, "The Multinational Corporation: An Analysis of Some Motives for International Business Integration", Revue Economique, XIX, nr. 6, November 1968, "The Efficiency (Contradictions) of the Multinational Corporation", Papers and Proceedings of the American Economic Association, May 1970. "Multinational Corporations and International Oligopoly: The Non-American Challenge", in C.P. Kindleberger, ed., The International Corporation, Cambridge, MIT, 1970.

of meeting the need to study international trade in the focus of oligopoly relationships.