Maryland Journal of International Law

Volume 2 | Issue 1 Article 10

Commodity Trade of the Third World edited by Cheryl Payer

Andrew A. Caffey

Recommended Citation

Andrew A. Caffey, *Commodity Trade of the Third World edited by Cheryl Payer*, 2 Md. J. Int'l L. 131 (1977).
Available at: http://digitalcommons.law.umaryland.edu/mjil/vol2/iss1/10

Commodity Trade of the Third World, Cheryl Payer, ed. New York, John Wiley & Sons, 1975. Pp. xiv, 192, $24.50.

Cheryl Payer, as editor, has put together a fine collection of basic economic analyses. The book does not illustrate a grand thesis of its editor, but rather presents a sharply focused account of the building blocks of international trade theory. Seven commodities are discussed: oil, zinc, copper, cereals, sugar, bananas and coffee. As pointed out by Ms. Payer in her introduction, perhaps too apologetically, this is not a definitive study. Rather, she suggests, it is a collection of "raw materials which other analysts may refine into more advanced theories which are firmly based on actual patterns in the real world." Payer, at xi. The message made clear by all of these writers is that the price fluctuations of the late 1960s and early 1970s have had a profound impact on the vulnerable economies of developing nations. When future prices are uncertain, of course, planning and investment become increasingly difficult. In addition, poor crop planning, indecision in attracting capital, miscalculated stockpiling of trade items and failing weather have characterized the extremes of the last ten years. The pricing index, as a result, is naturally amplified into similar extremes. And these problems have become critical as energy costs climb.

The reputation of the international commodity market for wildly fluctuating prices, even in comparison with processed goods, is not entirely accurate. Those commodities at the early end of an integrated structure of production, such as copper, zinc and possibly oil, are not so vulnerable to short term supply and demand, being under close corporate control in most cases. These commodities will not vary in price any more than processed goods. On the other hand, at the other end of the production scale, commodities traded in arms-length transactions, such as coffee, bananas, and cereals, have been subject to extreme variations in selling price and fluctuation in an unstable market. The impact of these price fluctuations on the developing countries has caused each of these writers to call for improved international cooperation and as a group they offer a bleak forecast for significant improvement in this regard.

Perhaps the most pessimistic evaluation is that offered by Professor Peter R. Odell, a much published specialist on energy resources, at the Economic Institute of Eramus University, Rotterdam. His analysis is focused on the political and economic ramifications of the awesome power shift to the OPEC countries and the threat which he sees as a potential, probably impending downfall of the present world order. In discussing a situation now obvious to western industrial powers, Professor Odell overstates his case slightly:

> In brief, and quite simply, power in the system has been taken over well nigh absolutely by the oil producing and exporting nations working together through OPEC and as, in the short term at least, they seem likely to act somewhat, or even extremely, irresponsibly, the fundamental question must be whether the western economic system can be expected to survive (at 37).

More valuable in the context of this book are Professor Odell's comments on the political and economic problems within the developing countries themselves. The main problem of this last decade was oil. For various reasons they have failed to build up sufficient domestic refining industries to provide for their domestic needs, and must import refined oil to meet increasing energy needs. The rapid increase in their importation of this commodity and the fact that their earnings from the primary export commodities have diminished has had a profound impact on the balance of trade. In addition, these countries were hard hit by the traumatic events by which the producing countries established control over the supply and price of oil. As Professor Odell points out, "the poorer oil-producing countries quickly found that the 'lucky few' major oil-producing countries in the Third World seemed to have less concern for their economies than did the 'wicked' oil companies and nations that owned them (the United States, Britain and the Netherlands)," at 27. Thus caught between bankruptcy and stagnated growth, these developing countries which do not export oil will have to join the industrial nations in developing indigenous energy resources and seeking policies of energy self-sufficiency. Professor Odell's recommendation is that the industrial nations of the world be "responsible" by lowering their consumption of oil, tighten the belt on unnecessary use and develop the science and technology to make maximum use of the energy resources available. He sees this as unlikely in the foresee able future, offering his "fundamental worries" of the threat posed by the new rich of the OPEC alliance.

David N. White's discussion of the copper industry is by far more constructive. Very enlightening statistically, this section is the most informative and interesting portion of the book. A major problem faced by the Third World is the delay inherent in the copper industry between investment and production. In addition, as copper is used in various forms in building and industry, it is naturally insulated from market demands. The mechanics of this market and the nature of the commodity cause prices to fluctuate to extremes which are not in any way indicative of market demands. White points out that three of the CIPEC *(Counceil Intergovernmental des Pays Exportateurs de Cuivre)* countries are virtually "one-commodity" exporters (Zambia, Zaire and Chile) heavily dependent on the price index of copper to raise revenue for their import needs. Planning for such needs, as White concluded, is virtually impossible when prices fell from an average of £621/ton in 1969 to £427/ton in 1972 and then soared to an average of £875/ton in 1974.

Nevertheless, advances have been noted for the last ten years. Developing countries have moved away from purely private control of copper production toward national-private joint venture arrangements and national interests have been more clearly perceived in striking a balance between foreign capital and equipment and local technicians and labor. Some steps have been taken to secure more stable prices; however CIPEC talks with North American and Japanese producers have achieved only modest limited results. The problems of the future will lie in the obvious difficulties inherent in competing in an open world market with highly industrialized countries replete with extensive reserves, massive production facilities and the financial resources to exploit them. Price stability for planning purposes will take committed cooperation of all interests — an occurrence seen by White as doubtful at best.

While the Third World countries are not a "major source" of zinc, Ian M. Robinson offers a brief look at the world trade in that commodity. The zinc production situation has surprisingly remained virtually unchanged in the last ten years. Australia and Canada are the exclusive major producers and the great bulk of their trade is with the three consuming areas of the world, Western Europe, the United States and Japan. All of these consuming nations have placed heavy trade restrictions on the importation of zinc to protect their own mining and smelting industries. Mr. Robinson sees these restrictions, mostly in the form of tariffs, as not only working to the detriment of the Third World countries' trading ability, but also defeating the purposes of the industrialized consumers by eventually driving up the prices of the imported material needed to meet increasing demand for the metal. He calls on all countries, therefore, to formulate and coordinate their policies to the "ultimate benefit of all," a weak call in light of the respective self-interests involved.

In his discussion of the cereal trade, Sinon A. Harris, formerly an economist with the UK Ministry of Agriculture involved in world cereal trade, presents an interesting review of the field by a seasoned expert in cereal trade. He, too, calls for less interference by the developed countries so that price uncertainties can be eliminated.

Of course, the simultaneous bad weather in several producing areas in 1972 has had a tremendous impact on the price stability of cereals in the last few years. This, and the large volume "deals" struck between consuming nations, such as the controversial grain deals between the United States and the Soviet Union in 1972, have grossly distorted prices. However, says Mr. Harris, the grain deals of a few years ago, conducted in total secrecy, point to a need of the Western consuming countries to more effectively deal with such centrally planned economies. As they were conducted, the secret grain deals may have a long-term effect which may not be to the advantage of the Soviets. Not only were prices for other grain importers forced up, but there will be increased suspicion of Russian motives in the future. Whether this holds true or not, the point is a straightforward one: pricing stability is a necessity if the international system is to provide grain and other basic foodstuffs to the poor of the world; without it neither producers nor consumers can "make realistic plans for the future."

The sections on sugar, bananas and coffee make less interesting reading, but have some fascinating highlights. For instance, the banana industry, "the most important fruit in international trade," supplies over sixty consuming countries with the fruit production of fewer than fifteen South American nations. However, more revealing are the statistics on the distribution of the income generated: with a retail sales value of $2.1 billion, only $245 million accrues to the producing nations. It is obvious, as F. F. Clairmonte points out, that there is an immediate need for the producer to participate more effectively at every level of the production, marketing and distribution chain.

Clairmonte has also noted a revolution in banana boxing and shipping techniques. Traditionally, bananas were simply wrapped and shipped on the stem. Now they are boxed in "hands" (clusters) in cardboard boxes. This reduces bruised merchandise, it is faster, and the bananas remain in these original containers until they reach the retail shelf. Not only does this obviate shipping the useless stem, but it allowed mass advertising and the advent of "branding" in the 1960s.

In her afterword, Ms. Payer explores an interesting thesis in light of the preceding "fundamental worries" centered on fluctuating commodity prices. She tests the hypothesis that when commodity prices fall off, the means of production become more diversified within the producing country; that as large producers sell their land to maintain their "liquid" capital, the small, local owners are drawn in, thereby channelling more income to the poorer classes. Payer's testing of this theory is inconclusive, but she does reach a vital conclusion in the face of the calls in her book for stabilized price structures; commodity price levels are no *deus ex machina* for Third World poverty. "The social concern, wisdom and determination of governments will probably weigh heavier in the long run than the level of the price index" at 187.

Andrew A. Caffey