4. International market regulation : the example of tropical products

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Summary

This paper presents the main historical stages of the debate around international agreements on tropical products.

It shows that:

- Product agreement plans must be interpreted in light of two essential, historically dated facts: (a) the existence in producer countries of state offices able to administer the volumes exported and control stocks; and (b) the convergence of strategies to enter international trade by so-called "developing" countries with a shared goal of maximizing currency revenues to finance industrialization.

- The erosion of theses two "pillars" starting in the 1970s was what caused these agreements to fail.

The conclusion attempts to draw lessons for current market regulation projects.

THE FORMATION OF INTERNATIONAL MARKETS AS OLIGOPOLIES OF STATE OFFICES (1914-1950)

After a period of openness to the exterior and intensification of long-distance trade, the progressive formation of national barriers—initiated at the end of the 19th century and strengthened during World War I and after the 1929 Crash—led, immediately after World War II, to the fragmentation of the world into national or imperial markets that were isolated, or relatively isolated, from each other.

This favored development of national markets relied on a number of public and private national institutions that guaranteed price stabilization and agricultural incomes.

On their independence, the so-called "Third World" countries adopted for themselves the idea of development focused on the domestic market, instituting or consolidating strict separations between domestic markets and the international market. The stabilization funds, marketing boards and other marketing offices from the imperial era survived de-colonization. They guaranteed, in conjunction with tariff policies, domestic prices' independence from international prices.

In this way, in the post-war years, the administered and centralized management of the national levels of foreign trade characterized the operation of international agricultural product markets. Countries thus appeared as units on international markets. The global stocks held by states and the near totality of international markets could be assimilated with state/nation oligopolies. Market regulation therefore amounted to cooperation among these oligopolies.

A BROAD CONSENSUS IN FAVOR OF INTERNATIONAL COMMODITIES AGREEMENTS (1950-1970)

The issue of international agreements had its golden hours during the post-war period, even though several projects had emerged as early as the mid-19th century and more particularly between the two wars. The two key moments were the 1947 Conference on Trade and Employment and the 1964 United Nations Conference on Trade and Development.

- From the Conference on Trade and Employment (1947-1948) ...

After the war, the United States wanted to promote the creation of a wide range of multilateral institutions. Modeled on the United Nations Organization, an organization would be in charge of managing the economic relations between nations. In this way, the aim of the International Conference on Trade and Employment that was held in Havana in 1947-1948 and that gave rise to the Havana Charter, was to create the International Trade Organization.

The organization of commodities markets was included in the draft initially presented by the United States. Indeed, noting that agreements on commodities had become common practices since the 1930s, the United States wanted to channel them and limit their impact.

Thus, the agreements were supposed to bring together producer and consumer countries, and decision-making powers were supposed to be shared between the two groups. Above all, however, the Charter specified that they were transitional instruments (with a maximum duration of five years) created in response to exceptional situations (over-production) and to allow production systems to adapt. Latin-American countries were not able to ensure the recognition of either producer countries' right to unilateral action or the principle of lasting price stabilization to maintain their purchasing power.

Nevertheless, the Havana Charter did not lead to the creation of an International Trade Organization. For many years, the General Agreement on Tariffs and Trade (GATT), the only tangible outcome of the process, was the only multilateral discussion forum on international trade. Guided by the free-trade prospective but riddled with derogating clauses—in particular for agriculture—it provided, during the post-war period, only a very incomplete instrument for its management.

... to the Conference on Trade and Development (1964)

The question of international commodities agreements came back with force in 1964 during the United Nations Conference on Trade and Development. It is now profoundly linked to “import substitution policies” and industrialization, implemented first in Latin America and then in nearly all developing countries after the crisis in the 1930s and more particularly after World War II.

Import substitution policies aim to foster the industrialization of economies specialized in the export of commodities. The industrialization strategy focuses on the domestic market, unlike the export-oriented strategies practiced at the start of the century that would once again be adopted a few decades later.

They were fueled by multiple theoretical and ideological influences, notably through the work of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) Secretariat headed by Raul Prebisch.

They notably consisted of applying monetary overvaluation that allowed a direct transfer of purchasing power from the primary sector, the currency supplier, to the industrial sector, the currency user. The primary sector nevertheless conserved a preponderant place in exports, with their re-focusing on the few products for which each country had an uncontested advantage.

This increased import needs. Indeed, while industrialization makes it possible to lower foreign purchases of consumer goods, it also triggers skyrocketing equipment purchases. Thus, with the dizzying drop in international prices for commodities at the end of the Korean War, the countries “under import substitution” ran up against insupportable trade balance problems.

This is why the international commodity agreements were one of the main proposals put forth by the initiators of the UNCTAD. The approach was substantially different from the approach that had previously prevailed. The Havana Charter saw the agreements as exceptional and temporary measures to manage imbalances so as to allow sectors in crisis to adapt. Henceforth, the objective was much more to maximize export revenues through permanent price support mechanisms, with notably the establishment of minimum prices.

THE APOGEE AND DECLINE OF NEGOTIATIONS ON INTERNATIONAL COMMODITIES AGREEMENTS (1970 on)

The 1970s were the heyday of the North/South clash over international commodities markets (“coup de force” by OPEC, experiments with “untamed” cartelization of commodities markets by developing countries). The idea of an integrated commodities program was written into the Programme of Action on the Establishment of a New International Economic Order voted in 1974 by the United Nations. Adopted during the 4th UNCTAD (1976), it was finalized during the 5th UNCTAD (1979).

The program provided for the negotiation of eighteen international agreements (on bananas, bauxite, tropical wood, cocoa, coffee, natural rubber, cotton, copper, tin, hard fibers, vegetable oils, oilseeds, jute, manganese, iron ore, sugar, tea and meat). These agreements were supposed to rely on buffer stocks financed jointly by a 470 million dollar common fund, 68% of which financed by OECD countries. A second funding line (256 million dollars) was planned for research and development actions.

This dynamic came to an abrupt end with the changing of the decade. The 6th and 7th UNCTAD (1983 and 1987) produced no tangible results in the implementation of the integrated program. Only an agreement on rubber containing a buffer stock emerged. OPEC wavered starting in 1984, and the few painfully established agreements disappeared one by one (tin in 1985, cocoa in 1987, and coffee in 1989). It was then the time of the minimalist approach: agreements no longer targeted global wealth redistribution, but aimed to accompany market cycles.

This standoff in the negotiation process and the splintering of the political unity of the "Third World" reflect the growing heterogeneity of these countries' economies and their form of insertion in international trade. Indeed, the economy differentiation trend that began at the end of the 1960s was accelerated by the various economic shocks in the 1970s and 1980s (oil shock, debt crisis, etc.).

In the agricultural field, the sector taxation model ceded its place to a wide diversity of situations. Food self-sufficiency policies, agricultural export promotion policies, and policies to replace raw materials with processed products for export were accompanied by the elimination of the levies applied and even positive transfers in favor of agriculture.
From the standpoint of the agricultural trade dynamic, while developing countries as a whole were pushed to the side in international trade from 1950 to 1975 (46% of world agricultural exports in 1945, compared to 27% in 1975), their trajectories diverged afterward depending on the continent:

- The volume of agricultural imports skyrocketed in Africa and Latin America, while imports increased very slowly in Asia.
- Africa's agricultural exports dropped off starting in 1973 and stabilized starting in 1984, whereas agricultural exports grew rapidly for Latin America and Asia.

The convergence of export strategies had made it possible to find the bases for tropical market stabilization through multilateral agreements. On the contrary, the heterogeneity of these strategies, and in particular the adoption of export promotion strategies by certain countries, made any attempts at lastingly sharing the market between exporters and at price stabilization very difficult. The choice of agreements relying on buffer stocks rather than on export quotas only allowed this problem to be avoided temporarily because of the lack of production discipline by exporter countries (see, in particular, the agreements on tin and cocoa).

In addition, the oligopolies were also being dismantled. Indeed, since the end of the 1980s, the existence of states/nations as active units in international markets had progressively been challenged. The Uruguay Round agreements organized state withdrawal, removing—or at least sharply limiting—their latitude for strategic intervention (export or import volume control). In addition, much more rapid and sudden state withdrawal happened in the developing countries that had "adopted" structural adjustment policies.

BY WAY OF A CONCLUSION: WHAT LESSONS FOR INTERNATIONAL MARKET REGULATION PROJECTS?

The two pillars that allowed international agreements to exist no longer exist:

- Producer countries' export policies no longer converge around the objective of maximizing currency revenues. If there is any convergence today, it is around the objective of competitiveness...

- The governments of producer countries have lost control of exports and product stocks to companies.

This does not mean that, in the future, international agreements could not emerge around the objective of price stabilization.

But for this to happen, several things must occur:

- First, this objective must be shared by the main exporter and/or importer countries. This is far from the case for the moment. It would require, in these various countries, that the objective of price stabilization be shared by actors other than farmers, that it be seen as being in the general interest, and therefore that it would allow for the construction of vast alliances. For instance, in the 1960s and 1970s, maximizing export revenues was seen as necessary for industrialization, and therefore for "development."

- Second, governments must recover a minimal degree of control over stocks and/or exports. Yet, what countries today have the administrative and financial capacities necessary to implement a policy of export control and therefore a storage or production management policy? What countries are likely to be able to acquire these capacities rapidly? These are the questions that need further study.