

# Heading towards a second International Natural Rubber Agreement?

Chances and hazards of concluding a multilateral commodity agreement\*

By *Andreas A. B. Hoffmann*

## Introduction

In June 1985 the International Natural Rubber Council extended the duration of the International Natural Rubber Agreement in accordance with Art. 67 for another two years, the longest period possible under the agreement.

Observers agree that it will take several sessions to harmonize divergent interests. Prospects to find consensus for a second agreement, however, are viewed optimistically. Does this optimism have any justification?

This paper attempts to point out successes and shortcomings of the International Natural Rubber Agreement (INRA) of 1979,<sup>1</sup> and to highlight different interests of producing and consuming countries in the renegotiation process.

For this purpose it is necessary to describe instruments and members of INRA, as well as to exemplify the working system of the agreement. The background for the negotiations from 1977 to 1979 deserves similar attention when chances and hazards for a second agreement shall be assessed in the course of this paper. Increasingly disparate viewpoints between producing and consuming members of INRA endanger a successful conclusion of a second INRA. Whether a new rubber agreement has some chances to get through despite all obstacles, becomes a central question of this article.

## INRA's history

The conclusion of the International Natural Rubber Agreement must be assessed against the background of the developing nations' demands in the 1970's, to establish a New International Economic Order.

\* I owe thanks to Hannelore von Engelhardt for meticulously drawing the charts, to Angela Gowland for reading and revising the final draft and to Prof. Dr. Rainer Lagoni for advice and support. Needless to say that all errors and omissions go to my account.

1 UNCTAD, International Natural Rubber Agreement, 1979, (TD/RUBBER/15), 17 October 1979.

In 1976, UNCTAD IV in Nairobi passed a resolution, outlining an Integrated Programme for Commodities. After much alteration, which changed important aspects of the original resolution, an agreement was signed in June 1980 to set up a Common Fund for Commodities. Money will be collected for the Common Fund to be distributed to International Commodity Agreements in case they need it for their stock-piling. Eighteen core-commodities have been identified,<sup>2</sup> natural rubber being among the less prominent.

Under the auspices of UNCTAD, INRA negotiations started in January 1977.<sup>3</sup> The reasons for the consuming countries to take part – despite their deep-seated doubts concerning UNCTAD's International Programme for Commodities proposals passed at the Nairobi meeting 1976 – are well known today.

First of all, major consumers felt threatened by the formation of the Association of Natural Rubber Producing Countries (ANRPC) and its activities, which led to the signing of an agreement in Jakarta in Nov. 1976. ANRPC-comprising of all major rubber producing and exporting nations and controlling over 90 % of world natural rubber exports- was inclined to realize a price stabilization scheme with a stock-piling mechanism and supply rationalization.

Secondly, the surge of oil-prices in 1973/74 and again in 1979/80 seriously affected production costs of synthetic rubber, which is the only substitute for natural rubber. Traditionally, synthetic rubber has been used as a counterweight against rising prices for natural rubber. When natural rubber prices soared, consumers switched to synthetic rubber.

Together with a steep increase in synthetic rubber prices, the technical requirements of the tyre-industry, which consumes up to 60 % of world natural rubber production, have changed markedly. For manufacturing of the new radial tyre instead of the old cross-ply one, industrial processes require a considerably higher input of natural rubber, a fact, which was expected to increase natural rubber demand world-wide. In hindsight, this has proved to be false, since radial tyres last about twice as long as cross-ply tyres. In the long run, both effects have levelled each other out.

Thirdly, all projections made to forecast natural rubber production showed at best a very slight increase until the year 1990, whereas consumption was projected to exceed production by far very shortly.

Fourthly, huge estates, formerly engaged in rubber planting had increasingly turned their backs on rubber and heavily invested in oil-palm, which promised double the profits compared with rubber. Hence, the proportion of rubber grown by smallholders became higher, with all the uncertainties and risks regarding quality and reliability arising thereof.

2 Bananas, cotton, coffee, cocoa, natural rubber, olive oil, other edible oils, beef, tea, sugar, tropical timber, bauxite, iron ore, phosphate, manganese, tin, copper, and hard fibres.

3 For a more thorough assessment see *Stubbs, R.* (1984): *The International Natural Rubber Agreement. Its Negotiation and Operation.* In: *Journal of World Trade Law*, Vol 18, No 1: 16–31 (17–20).

Faced with the probability of a widening gap between supply and demand, and the dangers of a producer-cartel situation, consumers decided to cooperate and find solutions rather than to abstain any longer. The chance of influencing the direction of the negotiations offered another positive aspect to participate in the first conference.

Producing countries also had strong interests in the participation of consuming nations in the bargaining process. All members of ANRPC are short of funds. They all belong to the developing world and there are better ways of spending their money than investing vast sums into a natural rubber stock-pile.<sup>4</sup>

Natural rubber remained the only new commodity where producers and consumers agreed upon a price stabilization scheme, which was operating for the last five years. INRA provisionally entered into force in November 1980, and finally in April 1982.

### **Members of the agreement and its instruments**

In Art. 4 the agreement provides for two basic categories of members:

- (A) exporting or producing countries, and
- (B) importing or consuming countries.

Accession is open to intergovernmental organizations which bear responsibilities in respect of negotiation, conclusion and application of international commodity agreements. The contracting party has to declare itself as an importing or an exporting member. Presently, as to April 1st, 1985 there are 7 exporting and 26 importing members.

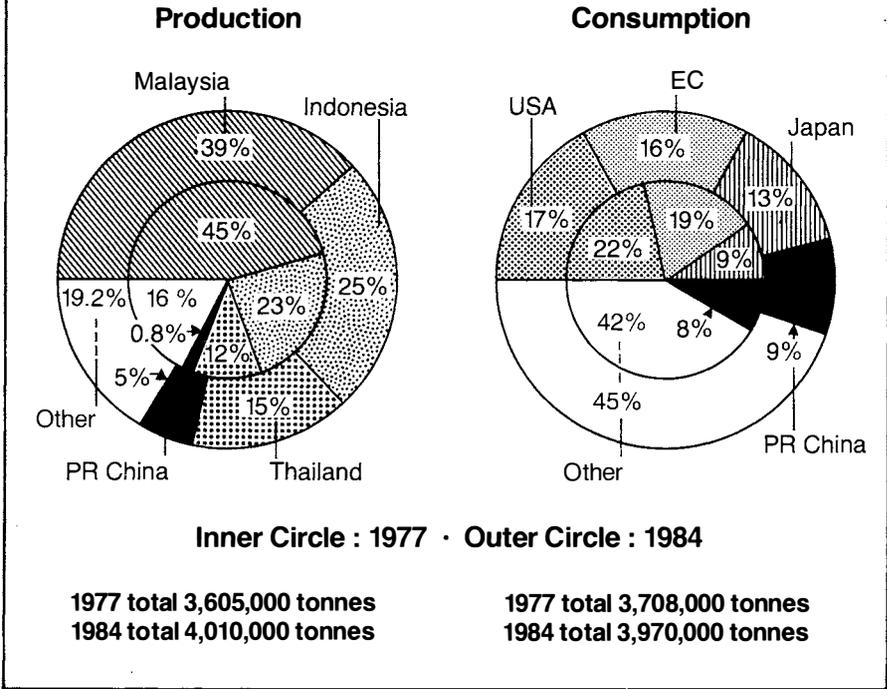
Among the latter the United States consumed in 1984 16.8 % (21.6), Japan 12.7 % (8.6), the EC 15.9 % (19.4) and the PR China 8.8 % (7.5) of the total, amounting to 3.9 (3.7) million tons.

The same year, production has reached 4.01 (3.6) million tons shared by Malaysia with 39 % (45), Indonesia with 24.9 % (23), Thailand with 14.6 % (12) and the PR China with 4.8 % (.8) of the total.<sup>5</sup> The respective shares for 1977, the year the negotiations started are given in brackets (see Figure 1).

4 For a detailed economic inquiry about the costs of a buffer stock compare *Brown, C.P. (1974): International Commodity Control through National Buffer Stocks: A Case Study of Natural Rubber. In: Journal of Development Studies, Vol 10, No 2: 188-212.*

5 *Rubber Statistical Bulletin, Vol 35, No 3, 1980 and Rubber Statistical Bulletin, Vol 39, No 10, 1985. The International Rubber Study Group. London.*

**Figure 1:  
World-Production and Consumption of  
Natural Rubber  
1977 and 1984**



Source: International Rubber Study Group (IRSG)

The agreement has four main objectives, which are:

- (i) A balanced growth between supply of and demand for natural rubber,
- (ii) stable conditions in natural rubber trade through avoiding excessive price fluctuations and stabilizing those prices without distorting long-term market trends,
- (iii) to stabilize export earnings of the developing member countries as well as to provide resources for accelerated economic growth and social development, and
- (iv) to seek to ensure adequate supplies of natural rubber and to improve reliability and continuity of these supplies.

To achieve these objectives the contracting members established two major instruments. These are the International Natural Rubber Council (INRC) and the International

Natural Rubber Organization (INRO) with its headquarters in Kuala Lumpur, Malaysia. Since 1982 branches in London and New York are operating.

The INRC constitutes the highest authority in the Organization. Each member country is represented by one delegate who disposes of voting rights according to the relative importance of his country as a consuming or producing member.

Contrary to the prevalent one-state one-vote principle applied in most UN bodies, INRA has adopted a different system for the distribution of votes in the INRC.

Each member category together holds 1,000 votes, which are allocated to the individual country on the basis of either its share in production or consumption of natural rubber.

The allocation procedure is laid down in Art. 15 of the first INRA.

All members have to contribute to INRO's budget according to their share of the votes. This means for example, if one particular country holds 380 votes it has to pay 38 % of half of the annual administrative budget.

Roughly the same applies to the financing of the buffer stock. The proportion of votes in the INRC determines the amount of money to be paid for the establishment of the regular buffer stock of 400,000 tons as well as for the contingency buffer stock of 150,000 tons.

INRO is headed by an Executive Director, elected according to the wishes of the exporting members, whereas the Buffer Stock Manager (BSM) is elected according to the wishes of the importing countries, in this case by the United States. With regard to their powers and responsibilities the BSM's job appears to be more influential, since he carries out the day-to-day operations of the buffer stock.

Formally, he is responsible to the Council and the Executive Director. In practice, his position offers a considerable degree of independence mixed with the possibility to receive a considerable amount of pressure from the various parties concerned, whose interests obviously differ widely.

The previous BSM, Mr Harvey Adams from the USA – a former purchasing manager of Firestone Tire and Rubber Co. – resigned in 1984 but was asked to stay on till a new BSM would be appointed. He said that he doubted whether the Organization had the maturity to function;<sup>6</sup> and it was talk behind the wings that his resignation was partly due to high pressure exerted on him by certain countries. In September 1985 U.S. citizen Aldo Hofmeister, formerly with Uniroyal Inc., was appointed new Buffer Stock Manager. It was INRO's third meeting to decide upon the vacant post, Hofmeister being the only candidate.

### **Operation of the agreement**

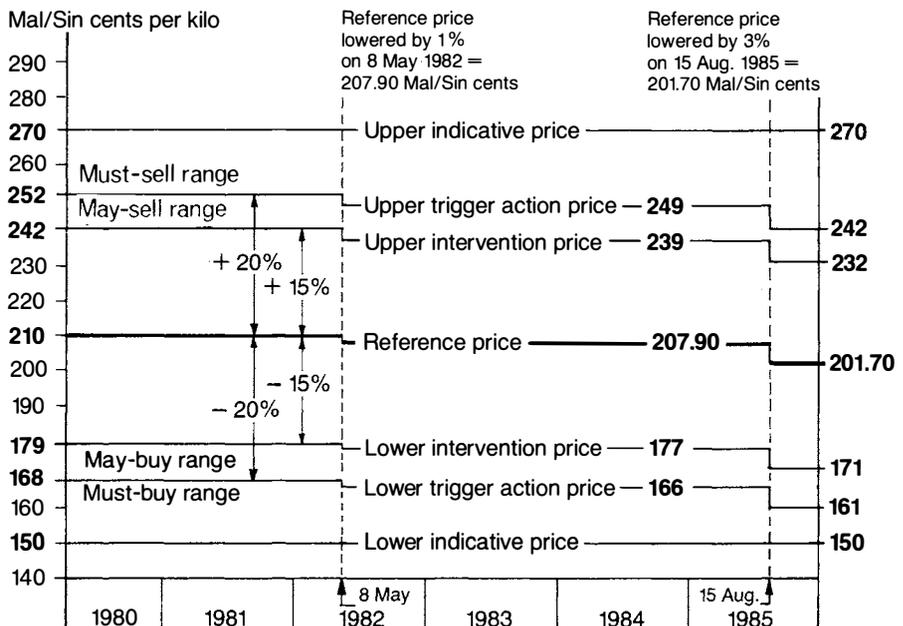
The pivotal price agreed upon in the agreement was named the reference price. It was fixed initially at Malaysian/Singapore cents 210.

<sup>6</sup> Wall Street Journal Europe, 19 February 1985.

However, the BSM's actions are determined by the movement of the Daily Market Indicator Price (DMIP). This is a composite price consisting of the daily official current month prices at four commodity exchanges – Kuala Lumpur, Singapore, London and New York – for three grades: RSS 1 (Ribbed Smoked Sheets), RSS 3 and TSR 20 (Technically Specified Rubber). The weighed average price for each grade is taken, converted into Mal/Sin currency and calculated f.o.b. Mal/Sin port. In case the average of the DMIP for the last five market days is above the Upper or below the Lower intervention price, which are set plus/minus 15 % of the reference price, the BSM *may* buy or sell natural rubber.

Once the moving average of the DMIP moves beyond the Upper or falls below the Lower trigger action price, situated plus/minus 20 % of the reference price, the BSM *must* buy into or sell natural rubber from the buffer stock. This happens to protect the Upper resp. Lower indicative prices, which are essentially floor and ceiling prices.<sup>7</sup> The indicative prices do not have any operational significance (see Figure 2 and 3).

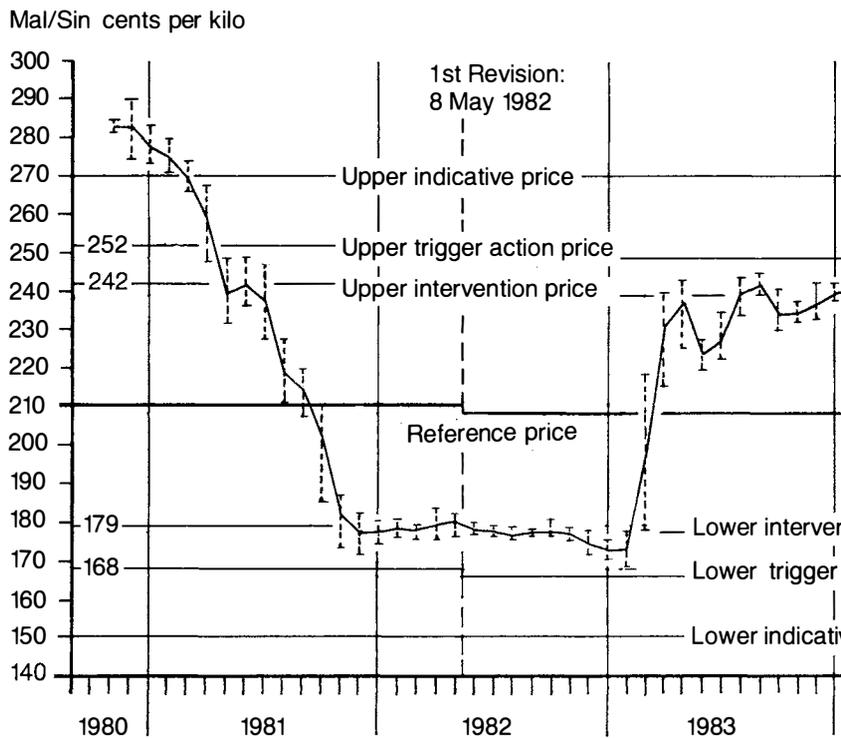
**Figure 2: Price Range and Intervention Prices from 1980 to 1985**



Source: INRA, INRO

7 *Stubbs* (1984:25) remarked that they were not labelled as such following special U.S. delegation wishes.

**Figure 3: INRO Daily Market Indicator Prices (DMIP) with Daily Highest and Lowest, Oct. 1980**



The buffer stock is the sole instrument for market intervention provided for under the current agreement.

### **Some results after five years of operation**

The most obvious result will be the accumulated buffer stock of about 380,000 tons today. Still a more surprising result will be that in hindsight consumers benefited more than producers.

Consumers did not suffer from high prices like in the peak-period from 1977 to 1979, rubber prices remained fairly predictable and production of natural rubber exceeded consumption, while it used to be vice versa in the past.

Producers feel the pinch. They are stuck with a price trend showing downward, the heavy burden of co-financing the buffer stock and higher production costs, all squeezing their margins.

Additionally, discussion among ANRPC members has revealed increasingly diverse viewpoints, especially between Malaysia on one side and Thailand and Indonesia on the other.

At this stage, it seems important to point out the producers' views on the shortcomings of the present agreement, and to concentrate on the question of how their perceptions of what INRA should have been, were met.

### **The paramount reason for the exporting nations' dissatisfaction with the current agreement**

Seen from the producers' side, the hope for continuously rising prices is one major expectation, which was not realized.

Increasing prices are regarded necessary for two reasons:

- (i) The inflationary trend of prices for almost all imported goods from industrialized countries, and
- (ii) rising production costs in their own countries, reflecting higher labour rates and more expensive inputs, e.g. fertilizers, insecticides, or processing equipment.

Lowering the reference price in May 1982 by 1 % from Mal/Sin cents 210 to 207.90, and again in August 1985 by 3 % to Mal/Sin cents 201.70 was a heavy blow for all producers, especially for Malaysia. Still the biggest producer, she hoped to be able to push natural rubber prices higher in order to benefit her local smallholders, who form a decisive proportion of Malaysia's electorate.

As far as perceived shortcomings are concerned it must be stressed that producers tend to express more criticism than consumers, especially in a period of depressed prices. Consumers on the other hand have little to complain of, when prices are low and they get their raw material for a relatively small amount of money.

## Consumers contend that INRA has functioned well

Four advantages receive special appreciation, as they contrast favourably with experiences with other commodity agreements.

During a sustained period of depressed prices and extremely sluggish demand the Buffer Stock Manager was able to hold rubber prices within the may-buy range. This period of contracting world trade and recession in most of the industrialized nations lasted from end 1981 to the beginning of 1983.

Since 1983, market prices have been buoyant by revived demand sparked off by improvements in the U.S., Japanese and European car-industries. Consequently, prices have stayed within or exceeded the pact's non-intervention zone when BSM action proved unnecessary.

The conclusion drawn is that the price band has been fixed according to market trends and intervention prices have been realistic.

Erratic movements of rubber prices at the commodity exchanges could be avoided. Unlike other commodities, i.e. crude oil, silver, gold or platinum, natural rubber prices remained fairly predictable for all market partners concerned. In contrast to other International Organizations, INRO is a relatively inexpensive instrument with an administrative budget of about US \$ 1.6m annually. Its headquarters in Kuala Lumpur employs approximately 35 persons, less than 10 of them are expatriates. The offices in London and New York don't even have five employees each.

Traditionally, the international natural rubber market is not very transparent. Even more secrecy is put around INRO's financial affairs.

At least this seems to be certain: the current size of the buffer stock should be close to 380,000 tons. This huge pile of rubber stored in warehouses all over the world is composed of all major grades of natural rubber roughly according to their market volume. The insurance premium per annum is guessed to be close to US \$ 500,000. Transport and warehousing are additional costs for INRO. They will exceed the insurance premium by far.

Operation costs of the buffer stock are treated as confidential. Experts' estimates vary between US \$ 30m to US \$ 100m p.a., depending on the amount of rubber purchased by the BSM.

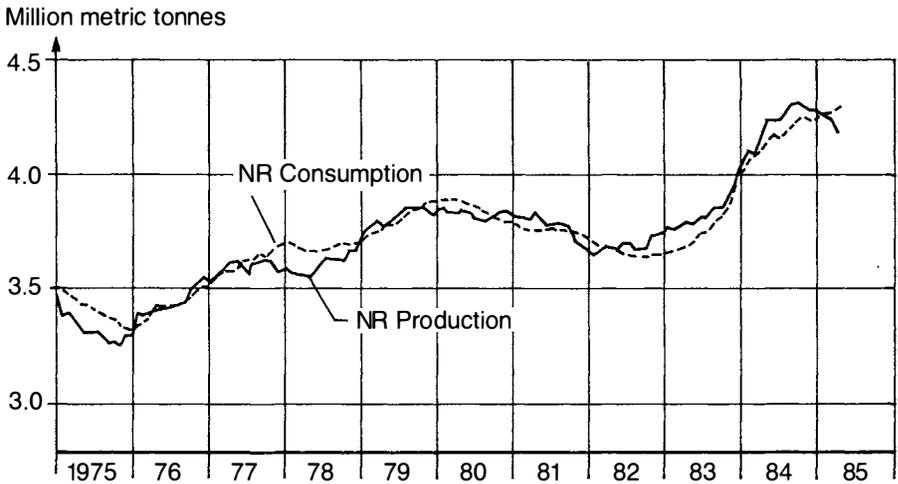
Until mid-1982 INRO asked for and got Malaysian Ringgit 500 million from its member countries.<sup>8</sup> Experts guess that until mid-1985 members' contributions have reached Malaysian Ringgit 750 million.<sup>9</sup> Quite recently INRO has called for another Malaysian Ringgit 185m in contributions from its 33 members to buy more rubber for its stockpile, insider sources reported.<sup>10</sup>

8 *Stiepel, D.* (1982): Das Internationale Naturkautschukabkommen – seine Ziele, Instrumente und Funktionsweise. In: *Gummi, Asbest, Kautschuk*, Jhg. 35, Nr. 11: 615–621 (616).

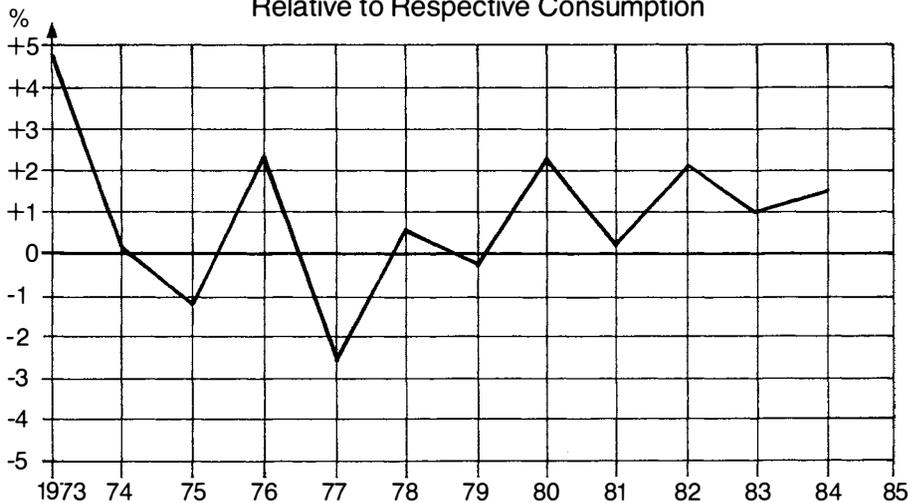
9 *Financial Times*, 14 August 1985.

10 *Reuters* (London), 3 September 1985.

**Figure 4: World Rubber Production and Consumption: 1975 to 1985**



**Estimated Percentage Excess (+) or Deficit (-)  
of Production of Natural Rubber  
Relative to Respective Consumption**



Source: IRSG

Finally, consumers stress the point that in the last five years, from 1979 to 1983, rubber production exceeded consumption by some 40,000 tons. Depressed prices in 1985 are not caused by either market manipulation or inefficiency of the INRA, but to a good deal by a production surplus and the latent threat of an ever increasing buffer stock (compare Figure 4).

Nobody knows what to do with the buffer stock rubber. During the preparatory renegotiation session in Geneva from 22 April to 8 May 1985, delegates suggested to relieve the buffer stock of certain quantities of rubber. The meaning of the formulation ». . . to dispose of . . . « was left open. Probably the delegates considered destroying the rubber following the example of the EEC, when she is »disposing of« surplus foodstuff.

Generally, consumers regard this agreement to be a successful one, though purists of free market economy, especially in the U.S., argue that manipulation of market forces will ultimately cause the collapse of the whole rubber economy. In the eyes of EC officials, but most markedly in those of U.S. delegates, who are under pressure from their domestic rubber industry lobby, their INRA participation represents a deviation from the laws of a pure market economy.

Consequently, they try to use this instrument as careful as possible. Furthermore, they are generally inclined to limit the producers' ambition to transform the agreement into an efficient tool for changing the present world commodity order.

Heterogenic composition of the consumer group – including the U.S. and the EEC as well as the PR China and the USSR – nevertheless makes it difficult to outline views which are shared by all consuming countries. Obviously, the stand on a free market economy is shared by neither the USSR nor the PR China.

These states, on the other hand, do not promote any changes in favour of the developing, rubber producing nations, although their ideology and propaganda would point in this direction.

It is noteworthy to point out that the USSR is member of the agreement as a consuming country. Up to now, it is the only commodity agreement the Soviet Union is taking part in. Her negotiating position is closely related to the U.S. standpoint and it is openly known that if the U.S. should withdraw from INRA the Soviet's would follow her.

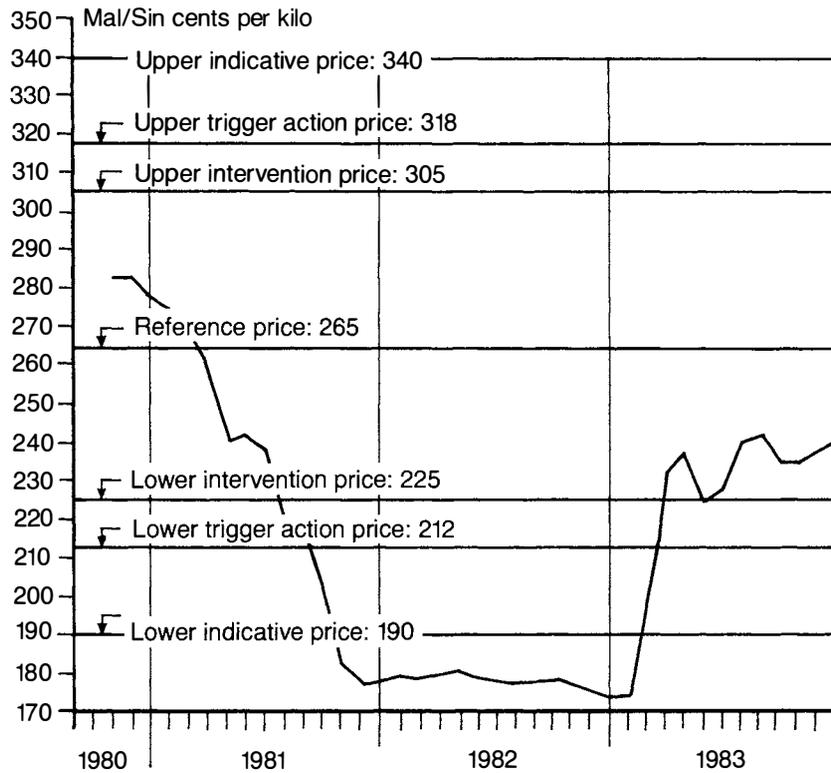
### **Production costs are in the centre of the exporting countries' renegotiation efforts**

Consumers are perturbed by exporters insistence that the new pact should include production costs in its formula for calculating the price range via the reference price.

Talks showed a clear divergence between exporters seeking to get a pact that would stabilize prices at levels above production costs and importers who want a new agreement to hold prices within a market-oriented range.

Producer sources said they were eager to protect the livelihood of their local smallholders.

**Figure 5: Producers' Proposals Regarding a Revi**



The renegotiation position of the procuding members can be described like this: Concentration is focussed on the formula for calculating the new price range. Producers want it to include production costs. Under a second agreement, they insist, prices have to be stabilized at levels higher than production costs. In order to achieve this goal, the reference price must be pushed to Mal/Sin cents 265, up from the current Mal/Sin cents 201.70. Consequences for all other prices and intervention levels are shown in Figure 5. At this stage it seems necessary to shed some light on divergent viewpoints in the producing members group and to explain about their background.

What are the exporting nations' reasons for insisting on the inclusion of production costs into the formula for calculating the reference price?

The Malaysian States of Johore, Selangor and Negri Sembilan especially suffer from severe labour shortages. Major rubber growing areas are located in these states. Prominently younger tappers leave the estates and migrate to larger agglomerations. Even higher income cannot hold them back, since they are attracted by the cities, which promise a better »life quality«.

In contrast, both Thailand and Indonesia do not have problems with their labour force and wish to expand their rubber industries and acreage under rubber. The former has received considerable World Bank loans for replanting old fields with modern, high-yielding hevea varieties<sup>11</sup> ad to improve the standard of processing facilities, especially in the sector of latex-processing.

Indonesia constantly invests into her rubber economy and regards natural rubber to be a competitive cash crop, which offers employment opportunities to a great many of currently un-or underemployed people in the agrarian regions of her country.

Therefore, rubber production costs in Malaysia are higher compared to Thailand and Indonesia, due to higher wages for labourers and tappers.

As Malaysia considers the current intervention level to be below production costs, other producing members follow her only half-heartedly. Strictly speaking, Malaysia is pressing the production cost issue because of increasing domestic problems. More and more she stands alone with her arguments in this group and in ANRPC.

Furthermore, producers consider inevitable a price defence mechanism supplementary to the buffer stock. Their suggestions range from production controls like work stoppage or limitations of the use of chemical stimulants over supply management via production quotas to finally export quotas. Export quotas being an idea at the heart of their interest. If consumers should not agree to additional price defence mechanisms, producers consider other means they possess for curbing supply at short and long sight. They could cut short on their replanting programmes or increase stockholdings outside the buffer stock.

Which other arguments are put forward by producers to substantiate their demand for a 31.4 % increase of the reference price? It can be seen that their arguments are not very much different from those used in the negotiations for the first INRA.

11 Botanic name for the rubber tree species.

They stress that growers are losing confidence in the future of rubber as a cash crop. Financial incentives for them are not sufficient to encourage replacement of old trees and expansion of plantings. As it takes about six years for trees to become productive, incentives contained in the second agreement will have important consequences for rubber supplies in the 1990's onward.

Additionally, they turn to the »development argument«. In short this means that commodity agreements should stabilize prices around levels, which are remunerative to producers neglecting market trends.

Since the first agreement has proved unable to raise prices to the benefit of smallholders and other growers, supply side management is necessary to remove certain »inconsistencies« as producers see it, contained in the old pact. This means to implement export quotas and certain measures for production control which would become applicable in times of depressed prices. The decision to set these measures into force could rest with the INRC.

### **Views of the consuming countries**

Consumers follow a different approach altogether.

They stress a consolidation of the pact, achieved by carefully improving well-tried instruments and checking a number of clauses on their practicability.

Their wish to reduce the current price range was often mentioned publicly, and even during the confidential first renegotiation session in Geneva. Although important, this point seems unlikely to be a pretence to let renegotiations fail.

Though the two groups are far apart with respect to prices, and certainly on the inclusion of production costs into the reference price formula, there seems to be no obstruction policy from either side. But importers prefer to deal with the price band issue only together, and not separated from the other topics.

Consumers' interests are concentrated in one field:

They feel that a thorough review of the price revision mechanism is absolutely necessary. Under the current agreement reviews take place always when the buffer stock grows beyond certain bench-marks,<sup>12</sup> or automatically every one and a half year.

If the average of the DMIP over six months prior to a review is below the Lower intervention price, the reference price is automatically revised downward by 5 %, unless the INRC decides otherwise as it did in May 1982, when it allowed for a 1 % drop of the reference price.

Theoretically the reverse occurs once the DMIP moves beyond the Upper intervention price. Something which happened twice in the past but did not last long enough to cause an upward revision of the reference price. In August 1985, the reference price was lowered by 3 % to Mal/Sin cents 201.70 because the buffer stock had exceeded the critical 300,000 tons level earlier.

<sup>12</sup> INRA Art. 32, A: 1.-4.

Greater flexibility could be achieved by reviewing prices more often and by giving extended discretion to the BSM to buy and sell, and to INRC to decide upon percentage changes in the crucial reference price more easily.

In order to back up their proposal, consumers point out that funds for buying into the regular buffer stock are almost exhausted. This hampers the ability of the BSM to act decisively against future price deteriorations.

Prior to the recent price cut, Malaysia suggested to suspend market operations altogether in order to allow the declining rubber price to find its own level. She feels that suspension removes an element of predictability from the agreement, which up to now encouraged short-selling, when prices got close to »must-buy« levels in anticipation of »compulsory« price cuts, as they are fixed in the present natural rubber agreement. Experience has proved that market forces, who know the »corridor« in which prices are permitted to fluctuate, tend to anticipate price movements and react accordingly.

Taking this development into account, chances for a consensus to change the whole price review mechanism should be good.

Turning back to the arguments of consumers they express concern about a widening gap between supply and demand, expressed in a production surplus for the fifth consecutive year. Peculiar enough, the Soviet Union is said to have remarked that the trend leaning towards a demand exceeding production will be aggravated or at least continued in an environment of stabilized prices at artificially high levels.

The prolonged downward market trend is not solely caused by overproduction but to a considerable extent by over-enthusiastic projections of experts in producing countries that rubber prices will double and triple in the foreseeable future. The effects have been that consumers became nervous and turned to substitutes wherever possible and producers, relying on these projections, expanded rubber production. It makes little sense to promise local producers higher prices in the future thus inducing smallholders to extend their acreage under rubber, and to forget about the consequences once production exceeds consumption.

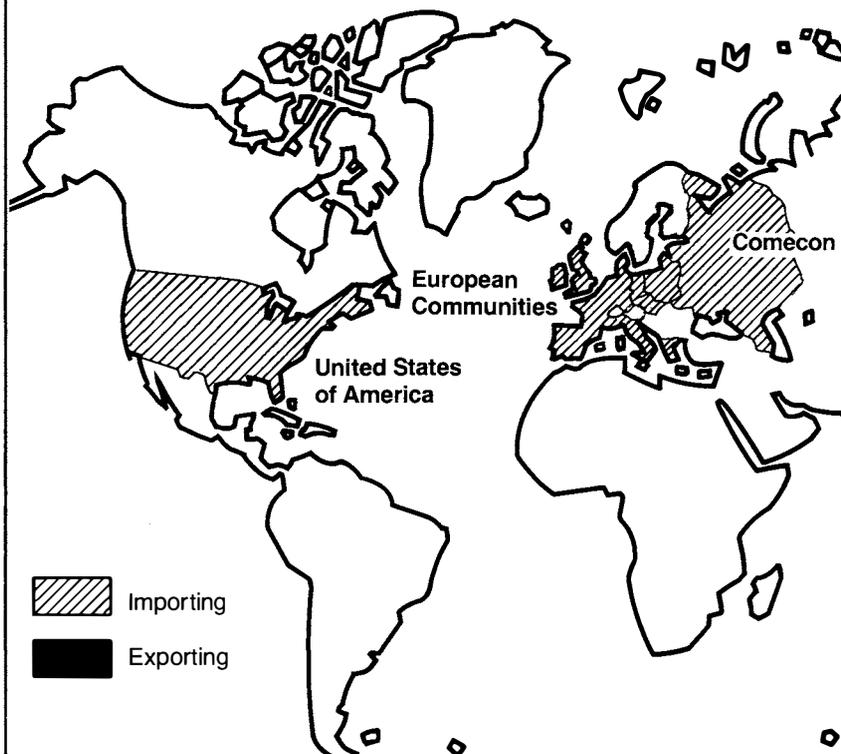
The reverse occurs in Malaysia now, which is as unhealthy as the situation described before: smallholders, unsatisfied with their returns on rubber uproot their three to four year old replanted rubber lots and switch to oil-palm, where they expect to break even faster than with rubber.

In addition, the large buffer stock is now looming in the background, making things worse and more complicated.

### **Some reasons to compromise on a second pact**

Although it might be unavoidable to touch sensitive ideological professions while attempting to find mutually beneficial solutions, differences between rubber exporters and importers are comparatively small. All participants agree on their main objective: to ensure a normal supply situation today and tomorrow, coupled with remunerative prices

Figure 6:  
Major Rubber Exporting and Importing Areas in the W



for growers and exporting nations, which is beneficial to both, producers and consumers. All three major rubber exporters (Malaysia, Indonesia and Thailand), which control more than 3/4 of world exports, follow a more or less open market economy type of development model.

Major consumers, which import more than half of all annually exported quantities, are located in the western industrialized hemisphere (see Figure 6). Therefore, bargaining is rather concerned with facts and figures than with programmes and concepts.

Today, the producers' position appears to be weaker than it was during the first negotiating period from 1977 to 1979.

The threat of a producer-cartel situation using ANRPC as an OPEC type of tool to dominate markets has disappeared, moreover, there are rifts among producers today, with Malaysia on one side and Indonesia and Thailand on the other. Although producers try to create a united image for outside observers, their individual interests are far apart and difficult to reconcile.

Malaysia will prefer a second INRA rather than to have none at all. An unregulated market would affect her more seriously than Thailand, for instance. Acting as an almost monolithic block against a divided consumer group with heterogenic interests is a matter of the past.

Furthermore, it would mean over-straining the capacity of a basically contra-market instrument like the International Natural Rubber Organisation, if producing members tried to burden it with additional tasks like pushing prices up actively, or controlling observance of export quotas resp. production limitations.

With depressed prices, a continued downward price trend and overproduction, consuming countries are situated in a more favourable position than in 1977. Consumers could impair their situation without a second INRA. Even the limited transparency of the rubber market would be at stake, again, and erratic price fluctuations would be the rule instead of the exception. The most important negative consequence could be on the supply side. The risk of serious shortage situations with very high prices and problems to substitute fast enough could cause dangerous disruptions in the western and eastern rubber industries.

## **C o n c l u s i o n**

The rubber group's troubles are symptomatic of the problems faced by many international commodity price stabilization organizations in their attempts to reconcile disparate interests. Global overcapacity in a number of commodity producing industries, from cocoa to sugar, has foiled many ambitious efforts to stabilize prices. Still, prospects for a second INRA are relatively good, provided there will be no basic change in the beliefs of either partner.

Contrasted with each other, bargaining positions of rubber producing and consuming countries did not change very much from 1977, the year the negotiations for the first

INRA began, to 1985, the year INRA was extended for two years to allow for sufficient time to renegotiate the pact.

Rubber importing, industrialized countries find themselves in a slightly improved position, benefiting from over-production and depressed rubber prices. Rubber exporting, developing countries might have fared better without an agreement, because huge contributions to finance the buffer stock are binding valuable financial resources. Furthermore, necessary adjustment processes to changing market conditions are delayed through basically contra-market means, applied to defend rigid price levels.

Both groups are interested in a second agreement. Consumers shun the accusation to have destroyed the last functioning commodity agreement. Producers, and it is particularly Malaysia, who is pressing for it, believe that they need an intervention mechanism to stabilize export earnings.

One of the crucial points in the negotiations will be to answer the question whether financial burdens still justify efforts to conclude a second agreement. If it is felt that net gains for both, producers and consumers, are still likely to occur, there will be a new accord. In this respect, efforts are concentrated to find the smallest denominator in order to avoid disruption and open resentment, as INRA negotiations are only small part of a global North-South dialogue.

*The International Natural Rubber Agreement to be a prototype for other commodity accords?*

If INRA II can be concluded, it will be a rare example of a commodity agreement, which has shown its capability to work and, in spite of all obstacles, its modest efficiency. One could ask, however, whether or not the agreement should be taken as a pattern or prototype for other commodity price stabilization schemes. If background and fundamental structures of the other commodity markets, e. g. the markets for sugar or cocoa, were to resemble the conditions in the rubber market they could possibly use the framework of INRA for reference. As it became evident out of the description of the rubber market, the special situation which led to the first International Natural Rubber pact is unlikely to arise ever again.

The modest optimism regarding the successful conclusion of a second INRA stems to a good deal from the past performance of the first agreement. Experience from other commodity pacts has shown that their intervention rules could not meet the interests of all parties. Consequently, their operation was suspended and, though they formally remain in force, it is an open question, whether a new consensus can be reached to make them operate again. The collapse of the tin market in November 1985 offers an excellent example for the fragility of commodity agreements, which appear to be stable and functioning. From this point of view, the STABEX and SYMEX system, which is included in the Lomé III convention between the European Communities and the ACP-countries would offer a viable alternative to direct attempts to conclude multilateral commodity price stabilization accords.

account that the choice of which sectors of society are to bear the burdens entailed by adjustment programmes is a decision of their own governments. Protests ought therefore to be directed against governments and not against the IMF.

### **Heading Towards a Second Natural Rubber Agreement?**

By *Andreas A. B. Hoffmann*

The International Natural Rubber Agreement of 1979, a commodity price stabilization accord between natural rubber exporting and importing nations, will be renegotiated in 1986. The two groups are divided over the question, whether to include production costs into the formula for calculating the reference price.

Despite diverging views on most issues, producers and consumers agree that chances for concluding a second pact are rather high, compared to futile efforts to achieve working agreements for other raw materials.

It is argued, however, that industrialized rubber importing countries fared better with the present agreement than did the developing exporters, who start to feel the financial burden of maintaining a 380,000 tons buffer stock.

### **The Chinese Economic Reforms since 1978 with Particular Regard to the Special Economic Zones**

By *Martin Klingst*

Since 1978 the People's Republic of China (PRC) has undertaken vast agrarian and industrial reforms. These reforms were distinctly welcomed in capitalist countries as well as harshly criticized by Chinese opponents and various foreign communist movements and parties.

This article, therefore, starts with a question: Is the PRC returning back to capitalism? In the following it deals with the different legal, economic and political aspects of the economic reforms and focuses on the establishment of the so-called »Special Economic Zones«, because it was mainly these that gave rise to the above mentioned discussion. Special Economic Zones are zones of free enterprise – mostly export-processing-zones – and are to be found all over the world. But especially in the so-called developing countries they provide many favorable conditions for local and foreign investors.

After describing and analyzing the various general aspects of Special Economic Zones and details about the Chinese Special Economic Zones the article ends with the conclusion that the PRC is changing but will nevertheless remain a socialist country, because: