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Introduction

In a previous study,^{1/} the Commission attempted to make a critical appraisal of the general guidelines of trade policy in the Latin America countries, both from the point of view of how the aims of trade policy were defined and the general trend they indicated, and from that of the shortcomings that were observable in the machinery for achieving them. Attention was then drawn to the need to review and re-orient the principles and objectives which should guide the formulation and conduct of trade policy, in order to convert it into a more efficient instrument for promoting economic growth and social progress in these countries and thus fully recognizing the validity of the principle that the developing countries themselves must bear the main responsibility for their economic and social development. Moreover, by stressing the importance of this re-orientation the document brought out one of the most serious examples of the narrow horizons which still seem to bind the thinking of so many countries about what can be achieved through a well-directed internal effort to mobilize domestic resources as efficiently as possible. For a long time a large number of countries have gone on thinking that most government action should be centred on obtaining trade concessions and financial aid from developed countries to enable them to overcome the rigidity of an economic and social structure to change which little could be done on the domestic front. The discussions in UNCTAD and GATT, where the action and efforts to promote a new system of trade relations and greater international economic co-operation were concentrated, thus became for many developing countries an activity which almost completely and exclusively absorbed their capacity for action.

It is not the intention here to diminish the merit or importance of the international measures that may be adopted in favour of developing countries. In the international sphere the policies pursued by the developed countries provide a general framework which can make it easier or more difficult for developing countries to adopt their own policies.

^{1/} "La política comercial exterior de América Latina", (E/CN.12/816), 17 March 1969.

Accordingly, anything that changes the "rules of the game", which up to now have been worked out exclusively by the developed countries in line with their political and economic interests, alters the general framework and therefore makes it easier for the developing countries to take advantage of the potential resources which they have at their disposal. But the demands and preoccupations involved in such international action should not absorb each country's capacity for action to the exclusion of all else. The experience in some developing countries, which through persistent and disciplined action have given their external sector a dynamic impetus that it formerly lacked, is proof of what can be achieved if action to overcome development problems takes the form fundamentally of a national effort, expressed in the adoption of appropriate internal policies. What is required, in the last analysis, is to give practical form to the well-worn idea that international co-operation in the field of trade and external financing, however important it may be, is not a substitute for internal action, but a complement of it.

These observations seem to be timely, not because there is less interest in discussing possible solutions to the developing countries' problems forums in international, but precisely because much more has actually been done to solve them in the last few years. The summary that is given below of the huge number of suggestions, proposals and recommendations presented to international agencies or adopted by them shows that in a great many cases the same topics are still being discussed and the recommendations being adopted are only repetitions of those approved years ago; but most of them are never translated into specific action programmes or measures likely to produce the desired results. It is true that some progress is being made, as is shown for example by the change in the negative attitude adopted by some of the most important of the developed countries at the first UNCTAD session in 1964 in relation to the proposal to establish a system of general preferences. This proposal gradually won support until finally, six years later, an agreement to establish this system was concluded. In other fields, however, where agreement concerning principles and objectives was reached sooner, the recommendations adopted have remained a dead letter or have

/been side-stepped

been side-stepped because the countries which approved them do not consider themselves bound to put them into practice. The results of this analysis should not lead to the disheartening conclusion that international action is ineffective, however; on the contrary, it should produce the conviction that a great effort of persuasion is still necessary to translate what has hitherto been kept on the plane of a declaration of good intentions into facts and concrete action.

At the end of 1970 the States members of the United Nations resolved to devote the decade that is now beginning to the achievement of tasks and objectives which were not or could not be achieved in the First United Nations Development Decade. General Assembly resolution 2626 (XXV) on the International Development Strategy for the Second United Nations Development Decade establishes the goals and objectives which all the Member States undertake to fulfil and the proposed policy measures for attaining "the fundamental objectives enshrined in the Charter of the United Nations twenty-five years ago to create conditions of stability and well-being and to ensure a minimum standard of living consistent with human dignity through economic and social progress and development".^{2/}

Of the policy measures on international trade and financial resources for development included in this resolution, there is not one that has not previously been the subject of some recommendation or decision in UNCTAD or GATT or their subsidiary organs. Probably this could not be otherwise since the development strategy must reflect the general consensus of all the countries which have committed themselves to take part in this enterprise. The value of this resolution, which summarizes the goals and objectives and the policy measures for the Second Development Decade, does not, therefore, lie in a new approach but in the Governments' political will and collective determination to carry out the commitments they have assumed as a solemn undertaking.

In examining international action in the field of trade and financial resources for development, reference will be made in each case to the policy measures envisaged in the International Development Strategy for the Second United Nations Development Decade, in order to give the background of these measures and show what progress has been achieved in discussing and implementing them.

^{2/} First paragraph of the preamble of General Assembly resolution 2626 (XXV).

A. COMMODITIES

1. International commodity agreements

In the field of policy measures on international trade, the Development Strategy ^{3/} reaffirms that international commodity agreements should be concluded and refers specifically to international action in respect of a certain number of commodities agreed upon in resolution 16 (II) adopted by the United Nations Conference on Trade and Development at its second session. The resolution fixed dates for the conclusion of negotiations on sugar and cocoa and recommended that studies and consultations be carried out in order to determine what action could be adopted in respect of a broad range of other commodities, such as bananas, citrus fruit, oilseeds, oils and fats, hard fibres, cotton, tobacco, iron ore, tungsten and manganese. The part of this action programme referring to sugar has been successfully completed; but the negotiations on cocoa have bogged down, and the studies and consultations on the other commodities have reached varying stages of completion. It is obviously not feasible to negotiate international agreements on all these commodities, although the results of inter-governmental consultations in respect of many of them may lead to the negotiation of more or less formal agreements to meet critical market situations or to solve special problems affecting international trade in specific products.

In reaffirming the usefulness of international commodity arrangements as an appropriate policy measure in world commodity trade, the Development Strategy continues a tradition of more than twenty years' standing. This doctrine was formulated for the first time in 1948, in chapter VI of the Havana Charter, was elaborated in broader conceptual terms in the recommendations contained in annex A.II.1 of the Final Act of the first session of UNCTAD, and it has been repeated in many other declarations or recommendations of an international or regional character.

^{3/} For the sake of brevity, the expression "Development Strategy" will be used to refer to General Assembly Resolution 2626 (XXV) on the International Development Strategy for the Second United Nations Development Decade.

Despite the unanimity with which this recommendation has been reiterated, experience of negotiating international commodity agreements has not been encouraging: in the last twenty years only four products of interest to the developing countries (sugar, coffee, tin and, to a certain extent, wheat) have been the subject of international agreements, and the attempts to negotiate a cocoa agreement over the last twelve years have borne no fruit. This appears to show that the number of commodities on which agreements can be negotiated is very limited, either because of the characteristics of the commodity concerned, or because of difficulties in reaching agreement on terms that would be satisfactory to all the interested parties, as was the case with cocoa.

Without considering for the moment whether or not agreement can be reached on other commodities, there are other reasons for not being too hopeful about the prospects of these instruments effectively helping the developing countries to increase their export earnings by expanding sales of their products at remunerative prices. In the last analysis, this is the real objective of the agreements, which they must fulfil if their scope is not to be limited to dealing with emergency situations provoked by temporary imbalances on the international market (which have lasted for several years in the case of some products). This would be a step backwards to the narrow conception of the function of such agreements originally embodied in the Havana Charter, which had been superseded by the principles and objectives incorporated in the recommendations adopted at the first session of UNCTAD. This contention seems to be borne out by certain situations to which the operation of the Wheat and Coffee Agreements has given rise; these situations would seem to show, moreover, that certain countries subordinate their participation in the agreements to their individual interests, and pay little attention to the principles of international economic co-operation which are an essential aspect of those agreements.

Indeed, the Wheat Agreement could not achieve its objective of keeping international prices steady at the minimum levels established in the agreement because some of the major exporting countries initiated an undeclared price war with a view to increasing their share in the world

/market. The

market. The international wheat market in recent years has been characterized by a falling off of world demand and increased production in some areas. As a result, the stocks held by the exporting countries, which had reached their lowest level at the end of the 1965/1966 crop year, began to climb again in subsequent years, making competition for export markets more acute. This caused several exporting countries to sell below the minimum prices established in the Agreement, which provoked a series of mutual accusations of flagrant violation of the commitments undertaken by the signatory countries.

There are several problems in respect of the Coffee Agreement. In the first place, there is the problem of deciding on annual export quotas, which leads exporters to fix such quotas at levels compatible with estimates of world consumption, in order to protect prices or prevent them from falling, while importers try to fix them at the highest possible level, in order to obtain low prices or prevent prices from rising. Although this is an unavoidable problem in any agreement based on export quotas, it should be mentioned that it recently gave rise to serious concern for the future of the Coffee Agreement. The worsening of the difficulties was due, in part, to the rise in prices which began in the second half of 1969 and was caused by the damage inflicted on the Brazilian crop by severe frosts in the areas of production. This first upward movement in prices after the continuous decline that took place between 1964 and the first half of 1969, prompted the importing countries to propose a considerable increase in quotas, which to all intents and purposes robbed the Agreement of any effectiveness it may have had as a mechanism of market control. The exporting countries were prepared to accept a slight increase in the quotas, but put forward the view that the International Coffee Council set up to administer the Agreement should retain full powers to continue making the necessary adjustments in quotas according to the trend of prices, especially in view of the selective nature of such adjustments, which are directly related to the prices of the

/different types

different types of coffee.^{4/} Although these differences were finally ironed out, the heat that they generated served to underline the fact that some of the major importing countries have a very biased attitude: they find the Agreement is useful as long as prices are kept low or further reduced (prices fell during nearly five of the six years for which the Agreement has been in force), but they have no use for it when prices are rising.

The second problem concerns exports of soluble coffee from Brazil. This country's exports of soluble coffee increased considerably from 1966 onwards, although they continued to represent a very small proportion of its total exports of coffee beans, and the United States required a heavy tax to be imposed on such exports, most of which were directed to its shores. Although these differences were not resolved definitively, an agreement was signed between the two Governments whereby Brazil undertook to impose, as from May 1969, a duty of 13 dollar cents per pound on direct or indirect exports of soluble coffee to the United States. The two countries also agreed again to discuss the possibility of adopting new measures early in 1970, although the United States reserved the right to impose an import duty of 30 dollar cents per pound on soluble coffee,

^{4/} According to the established procedure, an initial quota is fixed (before the beginning of the commercial year), and in the course of that year any adjustments that are considered advisable in the light of market trends are introduced. The volumes of initial and final quotas in recent years have been as follows (in millions of 60 kg sacks):

| | <u>Initial quota</u> | <u>Final quota</u> |
|-----------|----------------------|--------------------|
| 1967/1968 | 47.7 | 49.7 |
| 1968/1969 | 47.9 | 48.5 |
| 1969/1970 | 46.0 | 52.0 |
| 1970/1971 | 54.0 | 56.8 ^{a/} |

^{a/} Quota in force at 30 November 1970.

/in the

in the event of not reaching a satisfactory agreement with Brazil.^{5/} According to available information, the latter situation did not arise, despite the fact that discussions held in the course of 1970 have not altered the bases of the above agreement.^{6/}

The problem of the United States' attitude to exports of soluble coffee from Brazil may be considered from several angles, two of which are of special interest from the point of view of this document. One concerns the proportion of imports of soluble coffee in the total coffee imports of the United States; the other relates to the treatment that the developed countries (including the United States) have undertaken to apply in favour of exports of manufactures and semi-manufactures from the developing countries.

As regards the first point, it should be mentioned that the volume of imports of soluble coffee to the United States is a relatively small proportion of that country's total coffee imports, viz. 1.8 per cent in 1968 and 3.5 per cent in 1969.^{7/} Even taking the percentage relationship between

^{5/} This agreement was the result of the arbitral procedure provided for in article 44 of the Coffee Agreement. The text may be consulted in G. Gordon Patton, Complete Coffee Coverage, New York, 1 May 1969.

^{6/} However, when the ratification of the Coffee Agreement was discussed in the United States Congress, mention was made of the problem of imports of soluble coffee as one of the reasons for approving United States' participation in the Agreement for nine months only, that is, up to July 1970.

^{7/} The following table shows United States' total imports of coffee and imports of coffee from Brazil, distributed between coffee beans and soluble coffee (the latter in terms of coffee beans), in million of 60 kg sacks:

| | <u>1968</u> | <u>Percentage</u> | <u>1969</u> | <u>Percentage</u> |
|--------------------------|-------------|-------------------|-------------|-------------------|
| Total imports: | 25 857 | 100.0 | 20 962 | 100.0 |
| Coffee beans | 25 379 | 98.2 | 20 233 | 96.5 |
| Soluble coffee | 478 | 1.8 | 730 | 3.5 |
| Imports from Brazil: | | | | |
| Total: <u>a/</u> | 8 746 | 33.8 | 6 419 | 30.6 |
| Coffee beans <u>a/</u> | 8 318 | 32.8 | 5 779 | 28.6 |
| Soluble coffee <u>a/</u> | 428 | 89.5 | 640 | 87.7 |

Source: Pan American Coffee Bureau, 1969 Annual Coffee Statistics, N° 33, New York.

a/ Percentages of total United States coffee imports.

/imports of

imports of soluble coffee and production of that type of coffee in the United States (in which case the percentage is higher), it should be considered whether such imports really constitute such an unsettling influence on the market as to justify the adoption of so severe a restriction as the duty of 30 dollar cents per pound, as is asserted by the United States in the above-mentioned agreement with Brazil.

As regards the second point of interest, the attitude adopted by the United States is a flagrant violation of the principles and recommendations approved by that country in respect of exports of manufactures from the developing countries, both in the international and the inter-American spheres. Among those recommendations, mention may be made of the following:

"Industrialized countries should also prepare urgently a schedule for the reduction and elimination of tariff barriers to exports of semi-processed and processed products from less-developed countries, providing for a reduction of at least 50 per cent of the present duties over the next three years."^{8/}

"The rapid expansion of the economies of the less-developed contracting parties will be facilitated by a diversification of the structure of their economies and the avoidance of an excessive dependence on the export of primary products. There is, therefore, need for increased access in the largest possible measure to markets under favourable conditions for processed and manufactured products currently or potentially of particular export interest to less-developed contracting parties."^{9/}

"The developed contracting parties shall to the fullest extent possible ... give effect to the following provisions: (a) accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms; (b) refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less-developed contracting parties."^{10/}

^{8/} Ministerial Meeting, May 1963, conclusions and resolutions adopted, GATT, Basic Instruments and Selected Documents, Twelfth Supplement, Geneva, June 1964, p. 37.

^{9/} Article XXXVI, paragraph 5, of the General Agreement on Tariffs and Trade, ibid., vol. IV, p. 54.

^{10/} Article XXXVII, paragraph 1, of the General Agreement on Tariffs and Trade, ibid., p. 55.

"Developed countries should not, ordinarily, raise existing tariff or non-tariff barriers to exports from developing countries, nor establish new tariffs or non-tariff barriers or any discriminatory measures, where such action would have the effect of rendering less favourable the conditions of access into their markets of manufactured and semi-manufactured products of export interest to developing countries ..."11/

"To ensure compliance with international commitments to refrain from introducing or increasing tariff and non-tariff barriers that affect exports of the developing countries, taking into account the interests of Latin America."12/

"The Member States, recognizing the close interdependence between foreign trade and economic and social development, should make individual and united efforts to bring about: (a) Reduction or elimination, by importing countries, of tariff and non-tariff barriers that affect the exports of the Members of the Organization ...; (b) Maintenance of continuity in their economic and social development by means of: ... (iii) Diversification of exports and expansion of export opportunities for manufactured and semi-manufactured products from the developing countries ..."13/

In the light of the documents quoted above, it seems evident that any action by the United States to impose duties or other restrictions on imports of soluble coffee from the developing countries would run counter to both its political and its legal commitments.

The operation of the International Coffee Agreement is running into another problem that may be of even broader scope in the sense that it may affect the whole policy of commodity agreements. This is connected with a report to the United States Congress by the Comptroller-General which states, on the one hand, that United States participation in the

11/ Proceedings of the United Nations Conference on Trade and Development: Final Act and Report (United Nations publication, Sales No: 64.II.B.11), Annex A.III.4, paragraph 9, p. 38.

12/ Declaration of the Presidents of America in Organization of American States, Meeting of American Chiefs of State (OEA/Ser.C/IX.1) (Washington, D.C., Pan American Union, 1967), chapter III, paragraph 5, p. 70.

13/ Article 37 of the Protocol of Amendment to the Charter of the Organization of American States, "Protocol of Buenos Aires" (Washington, D.C., Pan American Union, 1967).

Coffee Agreement entails a transfer of resources on concessional terms and, on the other, that this transfer of resources is not subject to the terms and conditions covering the financial assistance supplied under appropriations in the fiscal budget. According to the Comptroller-General's report, the operations of the International Coffee Agreement and the establishment of import quotas for sugar are a means of transferring resources, since they enable sugar and coffee exporting countries to obtain greater earnings than they would have received otherwise:

"Sugar and coffee assistance qualify as foreign aid because they entail a transfer resources from the United States to other countries on concessional terms. In the case of sugar, foreign quota holders are able to sell sugar in United States markets at prices generally substantially above world prices. In the case of coffee, exporting countries sell at prices which are above those likely to have prevailed in the absence of the International Coffee Agreement. Since demand for both commodities is inelastic, earnings of foreign sugar quota holders and coffee-exporting countries are higher than they would otherwise have been. Resources are therefore transferred from American consumers to countries selling sugar and coffee in United States markets."^{14/}

The implications of this argument regarding sugar and coffee are vast and must be considered in some detail. First, the argument tends to undermine one of the fundamental aims of international commodity arrangements that has been accepted and supported by the United States in various recommendations adopted at the international and inter-American levels.^{15/} The raison d'être of commodity arrangements is that,

^{14/} Comptroller-General of the United States, Report to the Congress: Foreign Aid Provided Through the Operations of the United States Sugar Act and the International Coffee Agreement (23 October 1969) (excerpts from the report relating to the International Coffee Agreement were reprinted in Inter-American Economic Affairs, vol. 23, No 3, winter 1969).

^{15/} In the recommendation contained in annex A.II.1 adopted at the first session of UNCTAD, it is stated that: "A basic objective of international commodity arrangements in general is to stimulate a dynamic and steady growth and ensure reasonable predictability in the real export earnings of developing countries, so as to provide them with expanding resources for their economic and social development, while taking into account the interests of consumers in importing countries". Paragraph 6 of chapter III of the Declaration of the Presidents of America states: "To combine efforts to strengthen and perfect existing international agreements, particularly the International Coffee Agreement, to obtain favourable conditions for trade in basic products of interest to Latin America and to explore all possibilities for the development of new agreements".

to a greater or lesser extent they can guarantee the developing countries a level of export earnings that they would not achieve if their commodity exports were entirely at the mercy of the free play of the market forces.

Secondly, the argument confirms a by now traditional inconsistency in United States policy regarding commodity agreements. The United States has participated as an exporter in the various arrangements negotiated on wheat, since 1949, which have always contained clauses on floor and ceiling prices, and multilateral purchase-sale commitments i.e., regulations that tend to replace completely or partially the free play of market forces. It is not easy to understand why what is good for the United States as an exporter is not good for it as an importer, but what is certain is that the attitude of the United States to arrangements on commodities that it imports has generally been negative, as is shown by the fact that it has not participated in the various agreements on tin and by the way it has held up negotiations on the cocoa agreement.

Thirdly, the argument ignores the large number of recommendations approved with the supporting vote of the United States in international and inter-American bodies regarding remunerative prices for the exports of the developing countries. In actual fact, the policy of remunerative prices is an essential element of United States agricultural policy through the system of parity prices and measures to support domestic prices that cover, among many other products, the sugar produced in the United States. If a minimum price level is considered remunerative for domestic sugar producers in the United States, there is no reason for considering that the remunerative price for producers outside the United States should be half or less than half the price set for domestic producers.

It is superfluous to delve any deeper into the inconsistency of the position advanced in the Comptroller-General's report, which is in fact a retrograde step as regards all the principles and objectives of international economic co-operation that have been so painstakingly worked out over the past two decades. But it is appropriate to consider some of the consequences of the argument that both the operation of the International Coffee Agreement and the quotas for sugar imports contain

/a concessional

a concessional element that should be considered part of United States financial aid to the developing countries. The Comptroller-General's report notes that it is difficult to determine how the market might have developed in the absence of the United States Sugar Act and the International Coffee Agreement, and therefore to determine what the basis for assessing the volume of financial assistance should be. Nevertheless, it contains a projection of the trends of world production, exports and prices before the International Coffee Agreement came into force, giving "orders of magnitude" of the total amount of foreign aid (i.e., the difference between the actual earnings and the estimated earnings of the exporters in the absence of the Agreement). This involves, of course, in addition to the margin of error implicit in the assumptions on which the projections are based, abandoning all ideas of remunerative prices. Since the developing countries are not in a position to choose between exporting at a given floor price and not exporting at all, what happens is that they continue to export even when price levels fall below what may be considered remunerative. In this case, there is a transfer of resources from the developing to the developed countries. Past experience clearly shows that prices have been low for much longer periods than they have been high, or, to put it another way, the developing countries have transferred more resources to the developed countries than vice versa.

Basically, the argument advanced in the Comptroller-General's report is designed to make the operation of commodity agreements subject to the same principles that govern the granting of financial assistance, for it states that:

"Commodity trade assistance is subject only to limited congressional review and control. While traditional aid is reviewed annually by the Congress as part of the foreign aid authorization and appropriation process, congressional review of commodity trade is undertaken infrequently... Commodity trade assistance is made available independently of considerations of comparative self-help, performance and balance of payments requirements of the less developed countries receiving such assistance relative to each other and to the countries which do not receive such assistance... Commodity trade assistance is not tied to United States exports. In contrast, procurement under development loans and grants is tied to United States exports and Public Law 480 title I assistance is conditional upon maintenance

/of normal

of normal commercial purchases of agricultural commodities... Commodity trade assistance is in effect financed regressively through higher prices for American consumers, rather than being financed out of general Federal revenues which are more progressive in their incidence..."^{16/}

It should be noted however, that in the allocation of sugar quotas some of the conditions and restrictions mentioned in this report are already being applied. When the United States Sugar Act was adopted in 1965, the quotas for foreign producers were worked out on the basis, inter alia, of the following factors:

- (a) Stability of supply of the country allocated the quota, including the element of stability of the local government;
- (b) The economic need of the country and the relative value of a quota to it;
- (c) Purchase of, and potential market for, United States agricultural commodities, including the balance of trade relationship with the United States;
- (d) Reasons of national policy and strategy, including unusual military or strategic importance of the nation receiving the quota;
- (e) Friendliness of the government and support of United States foreign policy, particularly in the United Nations and the Organization of American States.^{17/}

In addition, the Sugar Act gave the Government wide-ranging powers to cancel the sugar quota of any country for reasons of national interest or if a country expropriated the property of United States citizens without adequate compensation.

Applying these same criteria to the operation of the Coffee Agreement or any other commodity agreement would be a complete negation of the objectives of the agreements, and in the final analysis would automatically reduce still further the already limited prospects for negotiating such agreements.

^{16/} Comptroller-General of the United States, op.cit.

^{17/} See The development of foreign sugar quotas in H.R. 11135, Committee on Agriculture, House of Representatives (U.S. Government Printing Office, Washington D.C., 1965).

Experience over the past decade leads inevitably to the conclusion that there are relatively poor prospects for international commodity agreements becoming effective instrument for organizing the world commodity market in a way that would ensure greater earnings for the exporting developing countries. On the one hand, for various reasons, there are very few commodities on which agreements have been or could be negotiated; on the other, the operation of the few commodity agreements that do exist, is hampered by conflicts of interest between exporting and importing countries and also at times by conflicts of interest between exporting developing countries themselves.^{18/} In order to overcome the growing difficulties involved in the negotiation and operation of these agreements, there must be a change in the purely formalistic way in which many countries participate in them and there must be machinery to subordinate short-term convenience to the longer term objectives inherent in this sphere of international economic co-operation. Perhaps the negotiation of a general agreement on commodity arrangements (in accordance with the recommendation in annex A.II.1 of the Final Act of the first session of UNCTAD) might solve some of the problems the arrangements have run into, but most of the developed countries and some of the developing countries have not shown much willingness to continue studies and consultations with this end in view.

^{18/} It may be said that the fact that the exporting developing countries do not present a solid front is generally one of the greatest weaknesses of commodity arrangements. An exception to this, however, is the experience of the countries members of the Organization of Petroleum Exporting Countries (OPEC). Although OPEC does not have the features of a formal agreement, such as the coffee, sugar and tin agreements, the members recently implemented a number of measures affecting the petroleum producing companies operating in their territories designed to improve price levels and increase the share of revenue received by the respective Governments. A news cable on these measures noted that: "The surrender of the western oil companies to the demands of the oil-producing Persian Gulf countries is a dramatic demonstration of the power that an efficient cartel of commodity producers is capable of exercising over the highly industrialized nations of western Europe and Japan, and over the international oil companies that formerly controlled the world oil market". See El Mercurio, Santiago, Chile, 17 February 1971.

2. Buffer stocks

The establishment and operation of buffer stocks, or international stabilization reserves, is one of the specific measures adopted in commodity arrangements and may or may not be accompanied by other controls for facilitating or increasing their effectiveness. The recommendation in annex A.II.1 of the Final Act of the first session of UNCTAD lists buffer stocks as one of several stabilizing techniques that may be incorporated in commodity agreements and, at the same time, states that they should be financed by exporting countries or jointly by importing and exporting countries. Although, in the preliminary negotiations for a cocoa agreement, a consensus was reached on how to operate a buffer stock as an integral part of the agreement, no buffer stocks have in fact been set up since the recommendation was approved; they have therefore tended to play a much smaller role than commodity agreements in stabilizing world markets, since the only one that has so far been established is that operating under the International Tin Agreement.

This can partly be explained by the stricter requirements that must be met by each commodity as regards international classification, storage risk of deterioration, market structure, etc. A list of commodities of which buffer stocks might be established could include coffee, cocoa, sugar, natural rubber, jute, hard fibres, copper, lead, zinc, tungsten and manganese ore, but this list is not exhaustive.^{19/} The most serious difficulties, however, have centred on two major problems: definition of operating norms and principles, and financing. Both were discussed at length at the second session of UNCTAD, since when a number of agreements have been reached as to how these obstacles could be smoothed over.

As regards operating norms and principles, it was decided that whenever a commodity agreement established a buffer stock conditions would be laid down governing its use to regulate the market. This was something of a defeat for the developing countries which wanted clear guidelines

^{19/} See "The development of an international commodity policy", Proceedings of the United Nations Conference on Trade and Development, Second Session (United Nations publication, Sales N°: E.68.II.D.15), vol. II, p. 26.

to be laid down specifying how such stocks were to be used and for what purposes; this would have done much to simplify subsequent negotiations on individual commodities. As for financing, the decision adopted recognizes that a regular source of income was needed for buffer stocks to be able to carry out their stabilizing function properly, that such income should be provided on an equitable basis by all the parties concerned and that, where necessary, the initial pre-financing capital should come from international financial agencies and other sources (private capital, Government loans and grants). In line with this decision, the International Monetary Fund (IMF) introduced a system in mid-1969 under which each member country could draw up to 50 per cent of its quota, so as to help countries that needed it to finance buffer stocks.^{20/} For its part, the International Bank for Reconstruction and Development agreed to consider requests for the additional financing that countries might need in order to participate in the operation of buffer stocks, particularly for the construction of suitable storage facilities, in accordance with the usual criteria governing the Bank's credit policy.

Though it is still limited inasmuch as it does not represent a direct participation in the financing but a loan to Governments, the contribution of the international financing agencies, especially the IMF, towards solving the problems of financing buffer stocks will in certain cases give developing countries more hope of establishing buffer stocks for specific commodities, provided that the burden of their external debt servicing is not too heavy to prevent them from servicing any fresh loans they may obtain for buffer stocks. On this point, the Development Strategy merely states (paragraph 23): "All possible resources for the pre-financing of buffer stocks, when necessary, will be considered while concluding or reviewing commodity agreements incorporating buffer stock mechanisms".

^{20/} The first use of this drawing system was approved in November 1970 in connexion with the financing of the buffer stock set up under the International Tin Agreement.

3. Pricing policy

During the 1950s, several United Nations agencies concentrated their attention on the problem of the prices of the commodity exports of developing countries, especially on price fluctuations and the effect of these on total export earnings. Though none of the proposals then put forward to mitigate the effects of such fluctuations were actually adopted, IMF's decision in 1963 to establish a compensatory credit system for countries whose export earnings dropped assured developing countries of a form of financial assistance that would at least temporarily offset the effects of a serious fall in the prices of their export commodities. However, since, even on the more liberal terms adopted in 1967, this compensatory credit does no more than cushion the effects of price instability, the actual problem of price levels and the causes of their instability continue to be one of the most vital aspects of international trade policy measures from the point of view of developing countries.

Among the recommendations of the first session of UNCTAD, annex A.II.1 of the Final Act listed a set of measures designed to "secure remunerative, equitable and stable prices for primary commodities, especially those exported by developing countries, having due regard for the import purchasing power of the commodities exported". While stressing the importance of international commodity arrangements as the best means of achieving this objective, other measures were also recommended, for the same purpose, particularly the liberalization of conditions of access to the markets of developed countries. The techniques that could be employed under commodity arrangements included floor and ceiling prices, quota arrangements, long-term purchase and sale arrangements and buffer stock schemes - all of which should contribute in varying degrees to maintaining remunerative, equitable and stable prices.

Other international agencies, particularly GATT, have adopted similar recommendations. The conclusions and resolutions at the GATT Ministerial Meeting in May 1963, for instance, urged "that an effort should ... be made to ensure increasing exports at remunerative, equitable and stable prices for the less-developed countries producing primary products. In

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this respect, any desirable arrangement made at the world level could be inspired by arrangements already tried out on a regional, bilateral or even national basis". These principles and objectives were subsequently included in the text of the General Agreement (article XXXVI, paragraph 4): "Given the continued dependence of many less-developed contracting parties on the exportation of a limited range of primary products, there is need to provide in the largest possible measure more favourable and acceptable conditions of access to world markets for these products, and wherever appropriate to devise measures designed to stabilize and improve conditions of world markets in these products, including in particular measures designed to attain stable, equitable and remunerative prices, thus permitting an expansion of world trade and demand and a dynamic and steady growth of the real export earnings of these countries so as to provide them with expanding resources for their economic development".

These and similar recommendations have not been properly complied with, partly because none of them defines what is meant by equitable and remunerative prices or establishes criteria for such a definition. At the national level, for example, nearly every developed country supports or subsidizes agricultural prices so as to guarantee a minimum income for the producers by means of prices that are higher than on the free market. In the agricultural sector, price-support policies are thus aimed at ensuring remunerative, equitable and stable prices for the producers and are fixed in terms of a minimum income level. At the international level, the problems that would have to be solved in order to apply a policy of remunerative prices for producers in developing countries are of course far more complicated, but it is commonly thought that they are not insuperable. This is the line taken by the Development Strategy which, stressing the need for guaranteed remunerative and stable prices with a view to increasing the foreign exchange earnings from exports of primary products from the developing countries, states (paragraph 24): "Efforts will be made to reach agreement, before the third session of the United Nations Conference on Trade and Development, on a set of general principles on pricing policy to serve as guidelines for consultations and actions on individual commodities".

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In this sense, the Development Strategy proposed going further than the agreement that was reached by the Trade and Development Board after lengthy discussions on pricing policy at its ninth and tenth sessions. Thus, the Board's resolution 73 (X) does not mention the need to "reach agreement ... on a set of general principles on pricing policy", even though it does state that efforts towards the elimination of excessive short-term fluctuations should be actively pursued and that international efforts to improve prices, where they stand at a level which is not considered remunerative to producers, should be reinforced by appropriate national and international measures to alter the underlying supply and demand situation. It further points out that the price mechanism established in international commodity arrangements should remain in force for a sufficiently long period in order to facilitate the defence of agreed price-ranges by all participants, achieve greater predictability as to the export earnings of developing countries and promote action-oriented programmes designed to correct instances of structural disequilibrium.

The conclusion to be drawn from discussions of pricing policy for basic commodities seems to be that a policy of this kind would have to be worked out in the context of international agreements on individual products, which in view of the discouraging experience of negotiating commodity arrangements, would severely limit the number of products to which could be extended. It must therefore be assumed that the application of a pricing policy for basic products would mean stepping up efforts to sign agreements on new commodities, which in turn would require a more flexible approach from both the importing and the exporting countries. If all, or most, of the countries interested in trade in a specific commodity participate in an agreement on it and there is a system of voting by a distributed majority of both importing and exporting members on the councils administering the agreement, all the important decisions involving international trade in the commodity concerned can reconcile the interests of both the exporting and the importing countries, including decision on a pricing policy. The councils administering the agreements are therefore the most suitable instruments not only for establishing a

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pricing policy for individual commodities but also for carrying out that policy in accordance with the regulatory measures laid down in the agreement, particularly if it involves operating a buffer stock.

4. Standstill commitment

The group of measures and policies covered by recommendation A.II.1 adopted at the first session of UNCTAD includes the standstill provision, according to which "no new tariff or non-tariff barriers should be created (or existing barriers increased) by developed countries against imports of primary products of particular interest to developing countries". Recommendation A.III.4 embodies a similar commitment: "Developed countries should not ordinarily raise existing tariff or non-tariff barriers to exports from developing countries nor establish new tariff or non-tariff barriers or any discriminatory measures, where such action would have the effect of rendering less favourable the conditions of access into their markets of manufactured and semi-manufactured products of export interest to developing countries". Both these recommendations were adopted without dissent at the first UNCTAD session and they both stipulate that developed countries which adopt measures that conflict with these recommendations should consult the developing countries affected.

Prior to the first session of UNCTAD, the Ministerial Meeting of GATT, in May 1963, had adopted a recommendation on the standstill provision which was subsequently included in the commitments assumed by the developed countries members of GATT under article XXXVII (Part IV) of the General Agreement. This article also establishes consultation procedures to which any contracting party which considers that the commitments specified therein have not been complied with can have recourse.

In paragraphs (25) and (33) the Development Strategy endorses the standstill commitment in practically the same terms as those used in recommendations A.II.1 and A.III.4 of the first session of UNCTAD, i.e., the distinction between primary products and manufactured and semi-manufactured products is retained and the commitment regarding the latter is less

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stringent;^{21/} but no reference is made to the consultation procedures for cases in which those commitments are violated, and they are thus subject solely to the review and appraisal of the progress made towards achieving the Development Strategy's objectives.

As regards the fulfilment of the standstill commitment, it should be noted that although some developing countries have on occasion expressed reservations about certain measures adopted by developed countries which would seem to constitute a violation of this commitment, as a rule they have not invoked the consultation procedures established in article XXXVII of the General Agreement for cases where the commitments laid down in this article, including the standstill commitment, had not been complied with. The GATT Committee on Trade and Development, which is responsible for reviewing and undertaking the necessary consultations for the implementation of Part IV of the General Agreement (articles XXXVI to XXXVIII), at its twenty-sixth session in March 1970 considered it advisable to define more clearly what procedure should be followed in cases where there had not been compliance with the provisions of Part IV. To that end it was agreed that expert or working groups could be set up - with the consent of the interested parties - to examine the question and hold the relevant consultations; a report on the results of their work would be presented to the Committee on Trade and Development within the ensuing six months. This procedure would, of course, be open to the countries members of GATT but not to countries that were not members (twelve of the twenty Latin American States), which would have to follow the system of consultations envisaged in the UNCTAD recommendations; this has not been invoked either in cases of presumed violation.^{22/}

^{21/} While in regard to primary products the recommendation reads "no new tariff and non-tariff barriers will be raised... by developed countries...", in regard to manufactured and semi-manufactured products it reads "developed countries will not, ordinarily, raise existing tariff or non-tariff barriers...".

^{22/} As regards trade relations between the United States and the Latin American countries, the establishment of the Special Committee for Consultation and Negotiation of the Inter-American Economic and Social Council (IA-ECOSOC) has provided the machinery for undertaking the necessary consultations and negotiations to solve trade problems arising between these two areas.

5. Liberalization of trade and access to markets

With respect to trade liberalization and the improvement of conditions of access to the developed countries' markets for products of export interest to developing countries, the Development Strategy suggests that inter-governmental consultations and the efforts to obtain important results before 31 December 1972 be continued and intensified. In this as in other fields, the policy measures envisaged in the Development Strategy are an endorsement of the recommendations and resolutions which were adopted at the first session of UNCTAD and at the Ministerial Meeting of GATT held in May 1963, and were subsequently embodied as commitments of the developed contracting parties in Part IV of the General Agreement. The intention expressed in the resolutions of the first session of UNCTAD and of the Ministerial Meeting of GATT was to achieve results before the end of 1965, or not later than the end of the First Development Decade, a goal which it was not possible to achieve.

The Kennedy Round undoubtedly offered the best opportunity of granting concessions in favour of exports from developing countries, but it is well known that the results of these negotiations centred mainly on manufactured products involved in reciprocal trade between the developed areas.^{23/} Furthermore, subsequent investigations have shown that the tariff concessions accorded to some products of interest to developing countries may not be so favourable as appears at first sight if as a result the effective protection enjoyed by manufactures or semi-manufactures in the developed countries' markets is increased. In fact, to the extent that tariff reductions for a primary product were greater than those made for the same product at different stages of processing, the protection for the component comprising the value added in processing would be

^{23/} For an analysis of the results of these negotiations, see The Kennedy Round Estimated Effects on Tariff Barriers (United Nations publication, Sales N°: E.68.II.D.12).

greater.^{24/} The result would therefore be that when they secured more liberal conditions of access for their exports of primary products, the developing countries would encounter even greater difficulties in exporting these same products in processed or manufactured form.

In this respect, the Development Strategy quite rightly indicates that the efforts to liberalize the conditions of access to markets for primary products from developing countries should apply also to processed and semi-processed products and should cover both customs tariffs and non-tariff restrictions. This recommendation, however, like all those

^{24/} See the study by Professor Bela Balassa entitled "The effects of the Kennedy Round on the exports of processed goods from developing countries" (UNCTAD, TD/69), 15 February 1968, and the report by the UNCTAD secretariat entitled "Increases in tariff differentials between raw materials, semi-manufactures and manufactures at different stages of processing resulting from the Kennedy Round of Tariff Reductions" (TD/B/C.2/92), 21 November 1969. Some examples taken from the latter document illustrate the situation:

| Country | BTN item | Tariff | | Tariff differential | |
|----------------|--|-------------|--------------|---------------------|--------------|
| | | Pre-Kennedy | Post-Kennedy | Pre-Kennedy | Post-Kennedy |
| Japan | ex 09.01 Coffee beans, unroasted | 30 % | Free | | |
| | ex 21.02 Instant coffee (soluble) | 25 % | 25 % | -5 % | 25 % |
| United Kingdom | ex 55.01 Cotton, bleached or dyed | 10 % | 5 % | | |
| | ex 55.09 Cotton fabrics not containing silk or man-made fibres | 17.5 % | 17.5 % | 7.5 % | 12.5 % |
| United States | Chamois leather, oil-tanned | 15 % | 7.5 % | | |
| | Leather footwear for men and boys | 10 % | 8.5 % | -5 % | 1 % |
| EEC | ex 44.05 Tropical wood sawn lengthwise | 10 % | Free | | |
| | ex 44.15 Plywood, other than coniferous species | 15 % | 13 % | 5 % | 13 % |

/adopted previously

adopted previously on the same subject, is too general in scope and therefore fails to establish any rule or programme through which it could be gradually put into practice. Clearly, such a programme could be prepared in the initial stages of the inter-governmental consultations; some products or groups of products could be selected, the percentage tariff reductions for each could be established beforehand, and the reduction could be made over the space of a few years, or in any other way that would guarantee similar results, for both tariff reductions and gradual elimination of non-tariff restrictions.

It does not seem to be going too far to say that the lack of a specific programme for facilitating access to developed countries' markets largely explains why the progress that has been made in this direction has been so slow and so meagre. For example, in relation to the fulfilment of commitments assumed by the developed contracting parties in accordance with article XXXVII (Part IV) of GATT, the procedure hitherto followed has been for the developed countries to notify GATT of the liberalization measures they have adopted. Under this system, a developed country which reduces the duties on a given product from 25 to 24 per cent considers that it is complying with the commitment to lower tariff barriers, even if the product is of little or no significance in the developing countries' exports. In a case like this, however, could it really be said that the developed country has accorded high priority to the reduction and elimination of barriers or that the reduction has been made to the fullest extent possible, as provided in article XXXVII?

It is clear, therefore, that the question of liberalizing conditions of access to markets for exports from developing countries must be approached in terms of more clearly defined bases, principles and measures than those of a somewhat general nature contained in the recommendations previously adopted. It must be recognized that in recent years some progress has been made in the study of this question, particularly in UNCTAD and GATT, through the preparation and compilation of adequate data on the type of tariff and non-tariff barriers to selected groups of products existing in certain markets, and a review of the policies

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pursued by developed countries with respect to those products. Thus, the bases are being laid for the subsequent preparation of specific programmes for liberalizing trade and access to markets. Part of the work that has been done in this field relates to the following questions:

(a) Non-tariff barriers

The GATT Committee on Trade in Industrial Products prepared a consolidated list of non-tariff barriers on the basis of 800 notifications made by its member countries, which were classified in five groups:

(i) State-operated trade; (ii) customs and administrative import formalities; (iii) rules applicable to imported and domestically produced products; (iv) quantitative restrictions and other similar measures; and (v) import and export restrictions through price mechanisms. A preliminary examination of these notifications revealed that they constituted examples of general and multilateral problems concerning which either there were no proper international regulations or those in force were interpreted differently by the various countries or were not wholly enforced; others related to measures which were considered by one or more countries to conflict with existing commitments. The Committee decided to prepare a limited indicative list of the barriers reported and to establish five working groups to explore the possibilities of specific action aimed at reducing or eliminating the barriers or preparing possible rules of procedure in the matter. The indicative list that has been prepared includes about thirty different types of non-tariff barriers.

The task entrusted to the working groups represents a highly positive step in an area to which due attention has not so far been paid. In fact, as progress has been made in reducing tariff barriers (particularly through the five rounds of tariff negotiations in GATT), non-tariff barriers have assumed more importance, especially those consisting in discretionary administrative regulations or regulations adopted improperly under the protection of rules governing mixtures, packing and labeling, or industrial, health and safety regulations. Some of these barriers could be reduced or eliminated through the adoption of more precise and detailed international regulations, or through understandings regarding their scope and interpretation, while for others more efficient procedures could be

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established for consultation and negotiation between the interested parties. In any case, it should be recognized that the work which has been initiated may well culminate in achieving compliance with the recommendations on the elimination of non-tariff barriers.

(b) Tariff barriers still in force after the Kennedy Round

Concurrently with the study of non-tariff barriers, the GATT Committee on Trade in Industrial Products started to prepare a comparative analysis of the tariff situation that would exist once all the concessions agreed upon during the Kennedy Round had been applied. The purpose of this analysis was to show the degree of tariff protection that still exists by calculating the general average tariff rates for categories or groups and subgroups of products. This work - which was entrusted to an Expert Group - and that of the five working groups on non-tariff barriers mentioned above, will enable the Committee on Trade in Industrial Products to fulfil carry out its mandate in the sense of exploring every possibility of making new progress in the liberalization of international trade.

(c) Special problems affecting agricultural products

The progress made towards liberalizing trade in manufactured products (which mainly benefits the developed areas) contrasts sharply with the little that has been achieved in connexion with trade in agricultural products, which are the most important items in developing countries. In view of the failure in the Kennedy Round to agree on concessions for agricultural products, the countries members of GATT decided to set up an Agriculture Committee "to examine the problems in the agricultural sector, and to explore the opportunities for making progress in the attainment of the objectives of the General Agreement in the agricultural field. The examination would cover all agricultural products important in international trade. This examination should prepare the way for subsequent consideration of positive solutions which could be mutually accepted by all contracting parties concerned. It would bear on all relevant elements of agricultural trade and production policies".^{25/}

^{25/} GATT, Basic Instruments and Selected Documents, Fifteenth Supplement (Geneva, April 1968), p. 74.

In the first stage of its work, the Agricultural Committee selected eight important products (grains, beef and other meat and meat preparations, fruit and vegetables, dairy products, oilseeds and vegetable oils, tobacco and wine), and decided to examine the problems affecting them under two main headings: (i) structure of international markets, in order to ascertain the trends in prices, quantities traded and the importance of free and regulated markets and non-commercial transactions; and (ii) the motivations and general orientation of production policies. The Committee set up four working groups to study specific questions: Group 1, the measures that affect exports (subsidies, refunds, dual price systems, subsidized credit, non-commercial transactions and other forms of government aid to exports); Group 2, import measures (quantitative restrictions, prohibitions, licence systems, discriminatory practices, tariff quotas, customs duties and compensatory charges); Group 3, production policies (price support systems, rates of self-supply); Group 4, health regulations and other questions not specifically dealt with by the other groups. Although the activities of the working groups are still in their preliminary stages, some objectives have already been established and priority will be given to studying them, including the elimination of government assistance to exports, the elimination of discriminatory practices, the establishment of self-supply ceilings, the adoption of price support policies that will not affect production, and the application of health regulations in conformity with internationally established non-discriminatory rules.

(d) Tropical products

The work entrusted to the Agriculture Committee mainly concerns those products in which exports from developing countries compete with the developed countries' own production. As indicated above, the list of selected products prepared by this Committee includes items which are produced by both developed and developing countries. Tropical products do not normally compete with production by developed countries, in spite of which they are subject in many countries to import duties and high fiscal charges on consumption. The elimination of these duties and charges has been insistently requested in statements and resolutions of GATT and

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UNCTAD, which have not yet, however, been fully implemented. Thus, in the Action Programme for the promotion of international trade adopted at the GATT Ministerial Meeting of November 1961, it was agreed to eliminate or considerably reduce fiscal charges whether customs duties or internal taxes, and this resolution was endorsed in the conclusions and resolutions adopted at the Ministerial Meeting held in May 1963, where it was expressly decided that duty-free entry into the industrialized countries should be granted to tropical products by 31 December 1963. The recommendation in annex A.II.1 adopted at the first session of UNCTAD and in article XXXVIII (Part IV) of the General Agreement confirmed the commitment to reduce or eliminate customs duties and internal charges on tropical products, whose duty-free entry was discussed, in the Kennedy Round, also with no results. It must be clearly understood, however, that although some progress has been made in the reduction of customs duties on some of these products, nothing has been done towards reducing or eliminating fiscal charges on consumption.

In recognition of this situation, GATT, at its twenty-fourth session in November 1967, agreed to reactivate the Special Group on Tropical Products with the following terms of reference: to examine problems affecting trade in tropical products and to report on ways and means of overcoming those problems, with particular attention to the study of the incidence of fiscal charges and internal taxes. This Special Group agreed to give priority to the study of the situation of coffee, cocoa, bananas, tea, oilseeds and vegetable oils, and spices, to which rubber was added later. At the same time, it was decided that the problems to be examined would bear on customs duties, fiscal charges, systems of general preferences, competition from synthetic products and substitutes, and price and market instability. However, although the Special Group has made some progress in identifying and examining these problems, it has still not reached the stage of formulating specific recommendations on ways of solving them.

The adoption of measures to liberalize trade in tropical products is of great importance to Latin America because these products account for a large share of its total exports. In this respect, the two main problems

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are probably the high fiscal charges or internal taxes on consumption which are still levied in several European countries, and the discrimination against Latin American exports owing to the systems of special preferences maintained by EEC and the United Kingdom. As regards the first problem, it has sometimes been suggested that, until such time as decisions are adopted regarding the substantial reduction or elimination of internal taxes, the developed countries which apply those taxes might consider refunding their value to the exporting countries. With regard to the second point, not only has no attempt been made to seek adequate solutions, but the agreement between EEC and some African States according the latter free access to that market have been renewed for a further five years, thus discriminating against imports from Latin America. In addition, the possible expansion of EEC through the entry of the United Kingdom and other European countries would also mean an intensification of the discriminatory policy against Latin American exports, inasmuch as the new members would have to adopt the common external tariff and also grant free access to the EEC associated States.

(e) Residual restrictions

Lastly, the GATT Committee on Trade and Development also agreed to reactivate the Group on Residual Restrictions, i.e., all those barriers which are inconsistent with the General Agreement and in respect of which no waiver has been obtained for their application or maintenance. To that effect, the Group conducted a far-reaching discussion on the nature of the existing residual barriers and laid down some rules to improve the procedures for reporting them, particularly in connexion with products of export interest to developing countries. Adopting a procedure similar to that followed in the study of other issues related to the liberalization of trade and access to markets, the Group decided to select a limited list of products - honey, cut flowers, potatoes, tomatoes, onions, citrus fruit and juices, apples, pears, peaches, molasses, wine, ethyl alcohol, fish meal, cigars and cigarettes, menthol, leather and leather products,

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thread, fabrics and articles of fibres other than cotton, carpets and material of coconut fibre, and leather footwear. It requested the preparation of statistical information on production, imports and consumption of these products in the developed countries, to be supplemented by information supplied by those same countries about any difficulties there might be in removing the barriers still in force.

This summary of recent trade liberalization activities shows that more attention is now being paid to the problems affecting the developing countries' trade. The preparation of limited lists of products to which priority will be given in the examination of problems and in the consideration and discussion of measures to solve them may be a way of obtaining satisfactory results in the not too distant future, particularly in the agricultural products sector, where general commitments have thus far proved to be of little value. It should, however, be noted that the effectiveness of the trade liberalization measures adopted is also largely dependent on the use that is made of escape or safeguard clauses. None of the committees or working groups set up to examine specific trade liberalization problems are considering the modes and forms of application of escape clauses, and it would be necessary to establish really effective notification and consultation procedures in order to restrict their use to exceptional situations and to short periods only.

6. Diversification programmes and policies

It is a well known fact that one of the most serious problems faced by nearly all the developing countries is their excessive dependence on a very small number of basic export commodities, which provokes a high degree of instability in export earnings on the one hand and, on the other, limits the possibility of making the export sector more dynamic, owing to the relatively slow growth of world demand for most of these commodities. Trade liberalization policies (particularly those that cut down excessively high agricultural tariffs in the developed countries) and measures to reduce or compensate for fluctuations in earnings may go a long way towards palliating the effects of excessive dependence on export products, although they obviously do not solve the problem in most cases. Policies for diversifying production and exports should, therefore, be given priority in all the plans or programmes of the developing countries, not only as a means of eliminating the disadvantages of excessive specialization, but also as the necessary condition for speeding up the process of economic and social development.

Prime responsibility for a policy of diversification of production and exports obviously lies with the developing countries, which must establish the targets and objectives of the policies that are to guide their development programmes. However, the possibility of these countries' being able to carry out diversification programmes depends to a certain extent on how much progress is achieved in the field of financial co-operation and international trade. Indeed, a programme of diversification requires that investment funds be made available over a period of several years, which means that there must be a reasonable guarantee that the necessary external funds would be obtained to complement investment drawn from domestic saving. Moreover, the promotion of new productive activities requires that markets (those of the developed countries in particular) should be opened up through the liberalization of trade by the adoption of a variety of measures in favour of imports from the developing countries.

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In the recommendations adopted at the first session of UNCTAD the problem of diversification was considered specifically in the context of international commodity agreements, in the Government of which funds could be established for the financing of programmes for the diversification of production. Thus, the International Coffee Agreement has a diversification fund financed by contributions from the exporting member countries of the Agreement and by voluntary contributions from other countries. Although the setting up of similar funds was not envisaged in the other agreements in existence, the Development Strategy reaffirms the principle that specific funds for diversification would be one of the features of commodity arrangements wherever considered necessary. It does not stop there, but considerably expands the targets to be aimed at by a diversification policy and binds the developed countries to co-operate in that task when it states that developed countries should give increased attention within the framework of bilateral and multilateral programmes to supplementing the resources of the developing countries in their endeavour to accelerate the diversification of their economies with a view to the expansion of the production and exports of semi-manufactures and manufactures, as well as of semi-processed and processed commodities, broadening the patterns of exports in favour of commodities with relatively dynamic demand conditions and increasing food production in food deficient countries. In this connexion, the Development Strategy summarizes the principles and objectives that should guide diversification policy according to the text approved by the UNCTAD Committee on Commodities and endorsed by the Trade and Development Board at its eighth session. To ensure the proper implementation of this policy, the Secretary-General of UNCTAD, in co-operation with the competent specialized agencies and the regional development banks, is asked to draw up detailed proposals for the study of diversification problems in respect of products that are over-produced or are subject to competition from synthetics and substitutes. In the same context, the Advisory Committee to the Board and to the Committee on Commodities stressed the advisability

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of considering diversification as an integral part of national development plans, paying due attention to its repercussions in other countries and on world market prices for the commodities included in programmes of diversification, and to the need to establish some sort of system of regional or international consultation in order to achieve a certain degree of co-ordination between national diversification plans. The same Advisory Committee agreed to devote the whole of its next session (at the beginning of 1971) to the full-scale analysis and discussion of all the problems relating to diversification policies, with a view to deciding on the orientation to be given to those measures that are considered most suitable for the efficient application of those policies.

In the context of the more pragmatic trend that is now being given to studies relating to the diversification of the economies of the developing countries, emphasis should be placed on the decision adopted by the International Bank in 1969 to support the efforts that countries are making to this end. Indeed, in accordance with the current standards and procedure of its credit policy, the Bank is prepared to consider the following:

(i) Financing of projects that provide alternative employment for the factors employed in the production of goods that are in excess supply;

(ii) Financing of new activities in the primary sector which have fairly favourable market prospects;

(iii) Financing of industrial projects that use raw materials produced in the country concerned;

(iv) Stimulating efforts towards regional co-operation between the developing countries, in particular through support for the establishment of new industries that require wider than national markets in order to be able to operate efficiently;

(v) Participating in the financing of agricultural research activities and other priority research in the developing countries, as far as possible in co-operation with national and international institutions; and lastly,

/(vi) Through

(vi) Through donations or credit, as appropriate, to provide technical assistance in the preparation of programmes and projects (including feasibility studies) directed to achieving diversified development.

7. Natural products facing competition from synthetics and substitutes

In the recommendations adopted by UNCTAD at its first session, it was recognized that special problems are involved in trade in natural products subject to competition from synthetics and substitutes. The recommendation in annex A.II.7 pointed to the need for taking national and international action to improve the competitive position of primary commodities. The action proposed included measures to: intensify technical and market research on the uses of natural products; raise the technical efficiency of the production of natural products so as to reduce costs; avoid giving special encouragement to the production of synthetics and substitutes which may compete with natural products; and increase access to developed countries' markets through the elimination of tariff and non-tariff barriers against imports of natural products facing competition from synthetics and substitutes. As a result of this recommendation, the Permanent Group on Synthetics and Substitutes was set up and entrusted with carrying out studies leading to the implementation of the measures set forth in the recommendation. The Permanent Group has already held four meetings, at which it has considered the special problems of certain natural products (rubber, cotton, sugar, hard fibres, mica and shellac); it has also held consultations with the existing specialized agencies concerned with those products, but because of the complex nature of competition between synthetic and natural products, it has not yet reached the stage of formulating concrete proposals on international action in this field, except for such proposals as refer to the elimination of tariff and non-tariff barriers, and to the need to find financing for research activities as a matter of high priority.

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In this connexion, the Development Strategy does no more than repeat the points already mentioned in the recommendation adopted by UNCTAD at its first session in annex A.II.7, in the work programme of the Permanent Group on Synthetics and Substitutes and in the declaration adopted by the Committee on Commodities at its fourth session.

8. Disposal of surpluses and reserves

The problems caused by the disposal of the developed countries' agricultural surpluses and strategic reserves on concessional terms have been considered in a number of recommendations adopted by international bodies since the mid-1950s. The first recommendation in this respect was adopted by FAO in 1954 in its Principles of Surplus Disposal, under which procedures were established for bilateral consultations between the countries exporting surpluses and interested third countries within the Consultative Committee on Surplus Disposal. Shortly afterwards, in March 1955, GATT adopted resolutions on surplus disposal and the sale of strategic reserves which also established procedures for consultation and notification. In both cases the object of consultations was to promote the orderly disposal of surpluses and reserves in order to protect as far as possible the interests of other countries that might be affected by such sales and to provide them with an opportunity to express their views on such transactions.

Although several countries have always expressed dissatisfaction with the effectiveness of the procedures adopted for notification and consultation, it was only relatively recently that it was decided to take another look at the problem.

At its forty-third session (October 1968), the FAO Committee on Commodity Problems agreed to set up a Working Group to examine the role and terms of reference of the Consultative Committee on Surplus Disposal to consider "... in the light of developments in the nature and extent of extra-commercial transactions ... what action on the part of member countries subscribing to the FAO Principles of Surplus

Disposal ... should be regarded as meeting their consultative obligations".^{26/} Virtually simultaneously, the contracting parties of GATT in November 1968 approved a proposal by the Director-General which noted that if future discussions by the contracting parties on the disposal of commodity surpluses were to be of more than a purely descriptive and historical nature, it would be useful and desirable that the notification and consultation procedures under the resolution of 4 March 1955 be fundamentally revised. The contracting parties, in consequence, requested the GATT Agriculture Committee to consider appropriate procedures for the notification, consultation and discharge of responsibilities incumbent on contracting parties with respect to the disposal of surpluses and to report to the Council on the means whereby the existing procedures could be improved.

Upon completion of the task assigned to it, the Working Group established by the FAO Committee on Commodity Problems submitted a report in which it "... recognized that important developments had occurred in the scope and nature of near-commercial and extra-commercial transactions ... more commodities were affected by problems of surplus or over-abundant supplies, and a larger number of countries were involved. Stocks of some commodities were again very heavy following a temporary reduction in the mid-sixties, when there had been an exceptional rise in demand. For some commodities, part of the supplies entering extra-commercial transactions now came from current production rather than from stocks. Also, there were increasing shipments of agricultural commodities in the 'grey area' between normal commercial trade and food aid".^{27/} The Working Group considered that a pragmatic approach should be made to the revision of procedures for notification and consultation and that the concept of surplus disposal should give way to an approach identifying the types of non-commercial transaction to which the procedures should apply. The Group itself drew up a tentative list including twenty different types of non-commercial transaction.

^{26/} See FAO, Report of the Committee on Commodity Problems on its Forty-third Session (CCP/68/19).

^{27/} See FAO, Report of the CCP Working Group on GSD functions (CCP/69/13/1), 15 July 1969.

The conclusions reached by the GATT Agriculture Committee recommended that the contracting parties should adopt a new resolution to define the principles that member countries should apply in the case of concessional transactions, the consultations that they should undertake with other interested countries, and the system of notification regarding transactions effected, including notification of the procedures used in the consultation. The Committee also recommended that the contracting parties should carry out an annual review of the development of such transactions on the basis of the notifications made by the member countries and an analytical study by the GATT Secretariat. At the twenty-sixth session of the GATT Contracting Parties, however, when the Agriculture Committee's report was examined, it was not possible to secure agreement, and the question was referred back to the Agriculture Committee for further discussion.

The UNCTAD Committee on Commodities has also concerned itself with the problems of the disposal of agricultural surpluses and strategic reserves. Recommendation A.II.1 of the first session of UNCTAD called on the developed countries to undertake to apply the FAO Principles of Surplus Disposal, adding that "the sale of surplus inventories, including strategic stockpiles of minerals, metals and raw materials, accumulated in developed countries should also be effected in accordance with internationally determined criteria, designed to ensure that such sales do not depress the prices of the commodities concerned or distort world trade to the detriment of exports from developing countries". During the second session of UNCTAD, however, it was not possible to secure agreement on a proposal sponsored by the developing countries, which was referred to the Trade and Development Board for further consideration. The Committee on Commodities, which continued the study of this proposal, subsequently adopted decision 4 (5), containing the following recommendations:

(a) Disposals of production surpluses, strategic reserves or other Government-held non-commercial inventories of primary products should be so conducted as to avoid or minimize the possible adverse effects upon:

/(i) The

(1) The trade, agricultural and mineral development of producing countries, including the investment of capital in exploration and development of new supplies;

(ii) Commercial markets and regular commercial trade in these products;

(iii) The position of developing countries receiving these surpluses as assistance.

(b) Disposals of agricultural surpluses should be made in accordance with the FAO Principles of Surplus Disposal and in keeping with the notification and consultation procedures adopted by the FAO.

(c) Disposals from strategic reserves and other Government-held non-commercial inventories of primary products not covered by the FAO Principles of Surplus Disposal should:

(i) Not be made without prior consultations, including terms and conditions of proposed sales, with Governments of producing countries which are members of UNCTAD;

(ii) Take into account the demand and supply position;

(iii) Be spread over a reasonable period of time considering the quantities involved and the interests of countries concerned;

(iv) Be re-examined promptly by the Governments concerned with a view to the moderation of such disposals if certain unforeseen adverse situations arise for producers;

(v) Be made on the basis of prevailing market prices and be conducted in such a way as to avoid or minimize the adverse effects on these prices.

Lastly, the decision recommends that consultations on surplus and strategic reserve disposals should take place between the Government making the disposals, on the one hand, and the Governments of the producing countries members of UNCTAD and, the international agencies concerned, on the other hand, and that the procedures for such consultations should be widened and reinforced, or established where they do not exist.

The Trade and Development Board considered this decision of the UNCTAD Committee on Commodities during the first part of its tenth session (September 1970), and agreed to take note of it. The recommendations made in the decision basically cover the principles and norms that should govern the disposal of surpluses and reserves and the reinforcing of the notifications and consultations system outlined in the proposals of the CCP Working Group on CSD Functions of FAO and the GATT Agriculture Committee. These are the bodies responsible for adopting the necessary resolutions, for it is they that house the machinery for notification and consultation and hence will have to comply with the recommendation on this topic contained in the International Development Strategy.

B. MANUFACTURES

1. Expansion of exports of manufactures and semi-manufactures

The agreement reached by the UNCTAD Special Committee on Preferences for the establishment of a general system of non-discriminatory and non-reciprocal preferences benefiting exports of manufactures and semi-manufactures from the developing countries is undoubtedly a major step forward in the sphere of international economic co-operation, and a step that opens up new prospects for the creation of conditions that facilitate the emergence of new trade flows or the expansion of existing flows. The characteristics of preferential treatment (product, coverage, type of preference, amount of imports enjoying preference, escape clauses) are not uniform in all the developed countries but represent mutually acceptable bases susceptible of future improvement, as may be deemed advisable in the light of periodic reviews of the system and its operation. In this connexion, it should be pointed out that the Latin American countries made a declaration expressing their concern at the exclusion of products of special interest to the developing countries, in which they reiterated the need for a considerable expansion in coverage of processed agricultural products, and for an improvement in the preferential margins applied in respect of those products; they also proposed a set of additional measures that would allow the least developed of the developing countries to take advantage of the concessions established in the scheme of preferences.^{28/}

The general system of preferences still has to be ratified or to obtain legislative sanction in each of the developed countries that are granting preferences, and it is hoped that this procedure will be completed in the course of 1971. However, before the system enters into force, it will be necessary to reach agreement on certain points that were not resolved by the Special Committee on Preferences, one of which concerns the institutional machinery that should be set up to supervise the fulfilment

^{28/} See UNCTAD statement by the countries of the Latin American group members of the Group of 77 on certain aspects of the general scheme of Preferences (TD/B/AC.5/L.12), 29 September 1970.

of the objectives mentioned in resolution 21 (II) and 24 (II) adopted by UNCTAD at its second session, in respect of the system of generalized preferences and special measures to be taken in favour of the least developed among the developing countries. The powers with which this institutional machinery should be endowed were defined in the Agreed Conclusions of the Special Committee on Preferences, but the Trade and Development Board postponed a decision as regards the body that should be given such powers within UNCTAD to its eleventh session (August-September 1971). As prior agreement exists as to what these powers should be, no major difficulties are expected to arise in this connexion. However, the aspects relating to special and reverse preferences raise problems that may be more difficult to solve, in view of the attitude that has been maintained by the developed and developing countries that participate in these trade arrangements. Indeed, these countries consider that the system of general preferences is compatible with the retention of special and reverse preferences, though this position is opposed by the countries that do not take part in arrangements of this kind. Although special and reverse preferences are closely interrelated, the Special Committee on Preferences made a distinction between them in its Agreed Conclusions and noted that the problem of reverse preferences will require further consultation, which should be pursued as a matter of urgency, with a view to finding solutions before the system of generalized preferences come into force. A more flexible attitude was adopted in respect of special preferences, on the understanding that the general system of preferences will provide those countries that currently enjoy special preferences with export opportunities that at least compensate for their having to share their current advantages in some markets.^{29/} This understanding will permit special preferences to exist side by side with the general system, at least during the first few years.

^{29/} See UNCTAD, Report of the Special Committee on Preferences on the second part of its fourth session (TD/B/329).

The situation that has arisen with regard to the discriminatory nature of special and reverse preferences is partly the result of the indulgent attitude towards such arrangements adopted by the great majority of countries that do not participate in them. Indeed, recommendation A.II.1 of the first session of UNCTAD provided for the progressive elimination of special preferential arrangements, but not only was no initiative taken to that end, but, on the contrary, new preferential agreements continued to be drawn up, so that the number of countries interested in maintaining such agreements has increased considerably. Moreover, within GATT, where a decision could have been adopted to define clearly the extent of the compatibility - if any, for many countries considered there was no such compatibility - between special preferential agreements and provisions in respect of free-trade areas, it was preferred to take the line of least resistance, by neither approving nor rejecting such agreements, and deferring any decision on the subject indefinitely. Thus, on the expiry after five years of the first Yaoundé Convention, a second Convention was negotiated for a further five years, together with further special preferential agreements.

The possible expansion of the European Economic Community through the entry of the United Kingdom and other European countries is now making the problem of special preferential agreements more acute. Indeed, if the negotiations for the accession of the United Kingdom and other European countries are successful, the countries that currently have preferential arrangements with the Community will obtain the same preferential advantages in the territories of the new members, while the latter will benefit by the concessions offered by those countries; in other words, the area covered by special and reverse preferences will be considerably expanded. In addition, however, the entry of the United Kingdom would require the negotiation of new agreements to define the position within the framework of an expanded EEC of those developing countries that currently form part of the British Commonwealth system of preferences. It can be seen, therefore, that a possible extension of the area of trade covered by agreements on special and reverse preferences raises some very serious queries as to the final characteristics of the generalized system of preference and the date on which it may come into force.

/As regards

As regards the expansion of the developing countries' trade in manufactures and semi-manufactures, the Development Strategy does no more than note that special attention will be given to the expansion and diversification of the export trade of those countries in manufactures and semi-manufactures, so as to enable them to attain increased participation in the growth of international trade in these products. It also repeats the recommendation on the maintenance of the standstill commitment and the intensification of intergovernmental consultations for the progressive elimination of non-tariff barriers (to which reference was made in section 5 of this report), and confirms the decision to pursue efforts to improve arrangements for the establishment of a generalized system of preferences, in the light of the objectives of resolution 21 (II) adopted by UNCTAD at its second session.

There are two further aspects relating to the expansion of the developing countries' trade in manufactures and semi-manufactures that deserve consideration, namely, adjustment measures in the developed countries and restrictive business practices.

2. Adjustment measures in the developed countries

International action to liberalize trade and improve access to markets with a view to facilitating exports from the developing countries may be largely frustrated if the growth of exports from these countries to the developed countries gives rise to the application of restrictions of any kind based on general escape clauses or on such concepts as "market disruption". Among the recommendations adopted at the first session of UNCTAD, that contained in annex A.III.6 (on measures by the developed countries with market economies for expansion and diversification of exports of manufactures and semi-manufactures by developing countries) recommended that the developed countries should adopt programmes and measures for assisting the adaptation and adjustment of industries and workers in situation where they might be adversely affected by increased imports from the developing countries. Previously, the contracting parties of GATT, by a decision of 19 November 1959, had agreed to establish a working

/party to

party to study the problems raised by the application of import restrictions based on "market disruption"; but the report of the working party did not lead to acceptable solutions and attempts to establish standards in this field were abandoned. Subsequently, the GATT Committee on Trade and Development agreed to set up a Group of Experts on Adjustment Assistance Measures, which was instructed, inter alia, "to report on the measures being applied, or proposed to be applied, by industrialized countries for assisting adjustments in the changing structure and pattern of production, so as to permit an expansion of international trade in products of interest to less developed countries and to provide larger opportunities for imports from these countries". The establishment of this Group of Experts reflected an important change in the approach to these problems, for instead of establishing principles and standards for the application of restrictions based on "market disruption" (which in any case would always run counter to the objective of increasing imports from the developing countries), it was recognized that the solution consisted in promoting the necessary adjustments in the industries affected by competition from imported products. In this connexion, the Committee on Trade and Development expressed the following views:

"The Committee has continued its examinations of the question of adjustment assistance measures on the basis of information submitted by governments. The Committee recalled its earlier discussions on the role of adjustment assistance as an instrument of trade liberalization. It noted that the view had now evolved in at least some developed countries that adjustment assistance measures could be a more desirable alternative to measures restricting imports in dealing with sectors in the national economy which were particularly sensitive to trade liberalization, and that the governments of certain of these countries were seeking legislation which would facilitate resort to these measures. It also noted that there was a trend towards the increasing use of adjustment assistance policies, sometimes specifically to deal with the problems of trade liberalization in particular sectors and more broadly as a means for

/adapting industrial

adapting industrial structures to technological developments in a more efficient pattern of international specialization. Some members of the Committee hoped that in utilizing these measures greater attention would be paid to applying them to deal with the specific problems of developing countries. ^{30/}

In this connexion, it should be pointed out that one way of providing more suitable protection for the interests of the developing countries would be to make a distinction between the difficulties caused by increased exports from other developed countries and those that come mainly from developing countries. It is well known that the problems faced by certain developed countries as a result of the rapid growth of certain imports are largely due to increases in such imports from other developed countries, precisely because the greatest progress in the field of trade liberalization has been achieved in the sector of manufactures, which are traded mainly between the developed countries. It is therefore unfair that restrictions designed to solve the problems of increased imports should be applied to countries like the developing countries, which are not the chief culprits in this connexion. It is therefore, suggested that, without prejudice to the commitment to adopt measures to facilitate the process of structural adjustment of the affected industries, the developed countries facing problems of this kind should exempt imports from the developing countries from all restrictions.

The Development Strategy reiterates the principles that the developed countries should consider adopting measures and programmes for assisting the adaptation and adjustment of industries and workers in situations where they are adversely affected or may be threatened to be adversely affected by increased imports of manufactures and semi-manufactures from developing countries; this recommendation is particularly opportune since it comes at a time when the developed countries are proposing to grant certain preferential tariffs in favour of exports from developing countries. Indeed, the system of generalized preferences in favour of these countries,

^{30/} GATT, Basic Instruments and Selected Documents, Seventeenth Supplement, Geneva, May 1970, pp. 125 and 126.

in so far as they achieve their objective, will encourage an increase in imports from the developing countries, and it would be incongruous for the developed countries to apply restrictions to limit that increase instead of promoting the necessary adjustments in the industrial sectors affected by competition from imported products from the developing countries. In the Agreed Conclusion on the generalized system of preferences, some countries, particularly those of the EEC, chose to establish in advance a limit on the total value of imports benefiting by tariff preferences, equivalent to total imports from the beneficiary countries in a given period plus 5 per cent of total imports from other sources; other countries (the United States, the United Kingdom and Canada) do not specify an advance limit on such imports but reserve the right to apply the normal escape clause procedure when such imports seriously jeopardise or threaten to jeopardise the position of national producers. Although these countries declared that recourse to escape clauses would remain exceptional, it is obvious that such measures, and the possibility of withdrawing concessions or modifying those already granted, maintain an element of uncertainty which might, in many cases, discourage the implementation of plans for the expansion of production in the developing countries. Hence the importance of the developed countries' giving priority to the application of measures for assisting internal adjustment, instead of restrictions based on escape clauses. It should also be insisted upon that the resort to and interpretation of escape clauses, in those cases where it is essential that they be maintained, should be subject to a system of consultation between the country invoking the clause and the other interested parties, so as to restrict their use to genuinely exceptional cases and to ensure that their applications would be only temporary, or to allow the negotiation of other concessions to compensate for those that are withdrawn.

As regards the effectiveness of the adjustment assistance measures in the developed countries, the experience of the United States should be borne in mind. The Trade Expansion Act of 1962, which empowered the United States Government to make concessions in the Kennedy Round negotiations, established a procedure for supplying rapid and large-scale

/aid to

aid to industries and workers affected by increased imports; in practice, however, the Act was inoperable because of the conditions attached to that aid. In contrast, the 1965 Act on products of the motor-vehicle industry, which provided for various forms of aid over a period of three years for industries and workers affected by the agreement reached with Canada, made it possible to satisfy most requests for aid submitted in accordance with the provisions of that agreement. The lack of a legal instrument of this kind has doubtless favoured the growth of protectionist pressures in certain industrial and labour circles in the United States, as is shown by the large number of protectionist bills submitted to Congress during the last two years and which have been reintroduced this year. In all fairness, it must be said that the executive branch of Government in the United States has been more inclined to apply a programme of adjustment assistance than to apply restrictive measures, being aware that such measures would be a deterrent to further progress in the process of trade liberalization, and of the danger involved in the application of such measures by other developed countries. ^{31/}

3. Restrictive business practices

Resolution 25 (II) of the second session of UNCTAD requested that the organization's secretariat carry out a study on the question of the restrictive business practices adopted by private enterprises of developed countries, with a view to examining the effects of such practices on the export interests of the developing countries. The topic of restrictive business practices has been on the agenda of international agencies for

^{31/} In this connexion, it is appropriate to quote a paragraph from a letter sent by the President of the United States to the Chairman of the House Ways and Means Committee, recommending the approval of a bill on trade legislation: "It is my intention to marshal the forces of the executive branch to expedite efficient adjustment to economic changes brought about by increased imports. I intend to activate the Trade Adjustment Assistance Advisory Board called for in the Trade Expansion Act of 1962 to lead a broad co-ordinated effort to make adjustment assistance more effective in opening opportunities for workers and firms. I also intend to request additional funds for adjustment assistance as they are needed". The Department of State Bulletin, vol. LXII, N° 1614, June 1970, p. 698.

many years (above all in the United Nations Economic and Social Council and GATT) but it has so far proved impossible to adopt appropriate international norms. Chapter V of the Havana Charter was the first attempt to establish a procedure for investigating these practices, which were defined as measures adopted by public or private commercial enterprises to restrain competition, limit access to markets or foster monopolistic control. Around 1955, a number of developed countries members of GATT proposed that the General Agreement be amended to include provisions governing restrictive business practices similar to those adopted at Havana, but no agreement could be reached; later, in 1960, the contracting parties adopted a decision on Arrangements for Consultations on Restrictive Business Practices under which at the request of any contracting party, consultations should be initiated on a bilateral or multilateral basis so as to reach satisfactory solutions on these matters. The consultation arrangements were established in view of the fact that most countries felt that it was not feasible to negotiate a multilateral agreement on the control of restrictive business practices. ^{32/}

The Development Strategy recommends that restrictive business practices particularly affecting the trade of developing countries should be identified with a view to the consideration of appropriate remedial measures. Thus both UNCTAD resolution 25 (II) and the Development Strategy implicitly recognize the extreme difficulty of setting as a target the negotiations of an international agreement on the subject. The approach adopted and the investigation and identification of these practices and of their impact on the trade of developing countries may, however, be the quickest way of promoting international discussion of the steps that could be taken to offset their harmful effects.

^{32/} The text of the decision and the report of the Group of experts on which it was based can be found in GATT, Basic Instruments and Selected Documents Ninth Supplement, Geneva, February 1961, pp: 28 and 170.

C. EXTERNAL FINANCING

As for international trade, the Development Strategy reiterates principles, objectives and policies concerning external development financing which have already been the objective of decisions and recommendations in many international forums over the past few years. All these decisions and recommendations have aimed, on the one hand, at promoting a substantially increased flow of financial resources to developing countries and, on the other, at further liberalizing the corresponding terms and conditions. Like all recommendations on external financing before it, the Development Strategy recognizes that financial assistance for development plays only a secondary role to internal investment designed to promote the fullest possible mobilization of each country's domestic resources. In order to ensure the most effective use of their internal and external resources, developing countries undertake, inter alia, to adopt any fiscal and administrative reforms that may be necessary, evolve strategies for expanding agricultural activities, and strengthen their systems for formulating and implementing development plans. In the global approach of the Development Strategy there is a close link between the measures to be taken at the national level by developing countries and those that lie essentially within the sphere of international economic co-operation; the fulfilment of the targets and objectives laid down in the Strategy will depend on the achievement of proper co-ordination between domestic and international measures and policies, both in the field of trade and in that of external financial assistance. Consequently, the periodic review and appraisal of these targets and objectives provides an opportunity not only to discover any possible shortcomings and the reasons for them, but also to examine at the international level the various measures and policies adopted by developing countries, in tacit recognition of the fact that the Development Strategy is an enterprise undertaken by the world community with reciprocal commitments whose fulfilment is of concern to all countries equally.

In the field of external financing, or as it is usually called, development assistance, international action has been rather more successful than in the field of trade. The reason is simple enough: whereas trade

/liberalization in

liberalization in favour of developing countries poses a number of domestic market problems for the developed countries, financial assistance (largely in the form of loans) not only is mostly recoverable but also helps to promote the donor countries' own exports, especially when it is in the form of tied loans. This aspect will not, be re-examined here, however. In adopting the Development Strategy, the countries that voted for it opted for a concerted effort at both the national and the international levels to give developing countries more opportunities for their trade and more financial resources for their development. This is the context in which the external financing measures are examined below.

1/ Target for the transfer of financial resources
to developing countries

Among the recommendations on international financial co-operation adopted at the first session of UNCTAD, annex A.IV.2 established that each economically advanced country should endeavour to supply financial resources to the developing countries of a net minimum amount approaching as nearly as possible to 1 per cent of its national income. This recommendation was endorsed in 1965 by the developed countries members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) which set a dead-line of three years for its implementation and specified the various forms the transfer of financial resources could take (grants, official transfer payments and private loans, etc.). Nevertheless, from 1960-1962 to 1965-1967 there was in fact a relative decline in the total volume of net private and public financial transfers to developing countries by the members of DAC as a whole, since they dropped from an average of 1.11 per cent of the national income of the developed countries to 0.95 per cent over the period indicated.^{33/} This was due mainly to the reduction in transfers from the United States (which just managed to exceed the 1 per cent target only in 1961) and from certain European countries (notably, Belgium, France, the Netherlands,

^{33/} See OECD, Development Assistance: Efforts and Policies of the Members of the Development Assistance Committee, 1968 Review, December 1968.

the United Kingdom and Switzerland) which had reached much higher percentages during the three-year period from 1960-1962. .

With a view to increasing the net volume of financial resource transfer to developing countries at its second session UNCTAD adopted resolution 27 (II), which raised the previous target to 1 per cent of the gross national product at market prices. In accepting this target, some developed countries pledged themselves to reach it by 1972, or 1975 at the latest, while others felt that they could not set any specific date for fulfilling such a commitment. Total external development financing, however, has continued its relative decline: thus, the average volume of transfers, which had stood at 0.91 per cent of the gross national product in 1961-1962, had dropped to 0.76 per cent by 1968-1969. In the latter period, only four European countries (Belgium, France, the Federal Republic of Germany and the Netherlands) succeeded in bettering the target of 1 per cent of their gross national product, while Italy and Denmark exceeded it in 1969. Transfers from the United States (which is still the major source of development assistance) continued to fall off, standing at 0.65 per cent in 1968 and 0.49 per cent in 1969, compared with an average of 0.79 for 1960-1962.^{34/} The total net transfers of all the developed countries members of DAC in 1968 and 1969 were 0.78 per cent and 0.74 per cent of the gross national product, respectively.

These figures show that the trend in recent year has been to drift further away from, rather than come closer to, the target for the transfer of financial resources from developed to developing countries. In the Development Strategy, the developed countries have nonetheless reaffirmed their determination to attain the target by 1972, or by 1975 at the latest, which necessarily implies a change in the trend of net financial resource transfer from the United States whose percentage share of the gross national product has shrunk considerably in recent years and may be expected to shrink still further in view of the cut-back in the appropriations

^{34/} Figures taken from OECD, Development Assistance: Efforts and Policies of the Members of the Development Assistance Committee 1970 Review, December 1970, table 8 p. 180.

under this head. The relative decrease in United States transfer payments hits the Latin American countries, particularly hard since this is the source from which they receive most of their external financial assistance.

2. Composition of financial resource transfer

The total volume of financial resource transfers to developing countries is only one of the important factors in evaluating financial assistance for development. Another significant factor is the composition of these flows: grants, official loans, private investment, suppliers' credits, credit from multilateral financing agencies. The importance of bilateral and multilateral flows in the total volume of financial resource transfers is recognized in UNCTAD resolution 27 (II), and although there was no consensus in determining the minimum percentage which official resources should represent within the general target of 1 per cent of the gross national product, a number of developed countries expressed their intention of bringing the official flows up to at least 0.75 per cent of the product; other developed countries, even though they did not believe it was possible to establish a minimum percentage, agreed that endeavours should be made to ensure that official flows should represent a substantial part of the total financial resources provided.

Official financial resource transfers showed an unfavourable trend in the 1960s. For the group of countries members of the Development Assistance Committee, the average percentage dropped from 0.53 per cent of the gross national product in 1960-1962 to 0.49 per cent in 1965-1967, and 0.38 and 0.36 per cent in 1968 and 1969 respectively, according to the above-mentioned source. In the last two years mentioned, none of the countries members of DAC came close to the 0.75 per cent target.

In these circumstances, the following recommendation made in the International Development Strategy is of particular importance: "In recognition of the special importance of the role which can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will

/progressively increase

progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade".

3. Softening of the terms and conditions of financial aid

A third important factor in the examination of financial resource transfers to developing countries relates to the terms and conditions on which financial assistance is provided. In recommendation A.IV.4 of the first UNCTAD session, which was adopted with the developed countries voting against it or abstaining, stress was laid on the need for financial assistance to be provided in such a way as to constitute meaningful aid to developing countries, as consistent with the following conditions: (i) aid should be a blend of grants and loans; (ii) repayment of loans may be accepted in national currencies of the debtor countries or in the form of goods exported by them; (iii) repayments should be spread over a considerable period at low interest rates; and (iv) there should be a more flexible policy with respect to tied loans. Although this recommendation was not supported by the developed countries, the members of DAC adopted another recommendation in July 1965 in which they recognized the need, first, for a certain degree of harmonization of the terms and conditions on which financial aid was provided by the various countries and, secondly, for the softening of financial terms and conditions. As regards the second point, the above-mentioned recommendation establishes that developed countries should endeavour to meet one or other of the following conditions: (a) that 70 per cent or more of all official aid commitments be given in the form of grants or as grant-like contributions (involving no repayment in foreign exchange); (b) that these official commitments be extended in three ways: (i) a proportion of 81 per cent to be given either as grants or at 3 per cent or less interest charges,

(ii) 82 per cent to comprise grants and loans with repayment periods of twenty-five years and more, and (iii) the weighted average grace period of new loan commitments to be seven years or more.^{35/}

It should be noted that, in some respects, the targets established in the recommendation for the softening of the terms and conditions of official financial aid were no more ambitious than those which the group of countries members of DAC had already attained in 1964. To a large extent, the essential objective seemed to be to achieve greater harmonization of the terms applied by the various countries. The apparent result, however, was to achieve such harmonization at the level of the least favourable terms accorded by some countries. In fact, for all the DAC member countries the weighted average terms and conditions of official financing had deteriorated in 1967 compared with 1964, as shown by the following figures:

| | 1964 ^{a/} | 1967 ^{b/} |
|---|--------------------|--------------------|
| Grants as a percentage of total commitments | 59 | 55 |
| Maturity (years) | 28.4 | 23.4 |
| Interest rate (percentages) | 3.0 | 3.8 |
| Grace period (years) | 6.9 | 5.3 |

a/ OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee, 1966 Review, pp. 159-160.

b/ OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee, 1968 Review, p. 62.

In the face of this relative deterioration in the terms of official financial assistance, UNCTAD, at its second session, adopted resolution 29 (II), in which it recommended that developed countries should renew their efforts to achieve by the end of 1968 the objectives established

^{35/} See OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee, 1965 Review, (September 1965), page 119.

in the 1965 DAC recommendation. Considering further that developed countries were prepared to review this recommendation, it proposed that, in the interests of achieving a greater measure of liberalization, either developed countries might provide 80 per cent or more of their official aid in the form of grants, or they might provide 90 per cent as grants or loans, at 2.5 per cent interest or less, with a repayment period of thirty years or more and a minimum grace period of eight years. The supplementary recommendation adopted by DAC in February 1969, while not in line with the proposals adopted at the second session of UNCTAD, made for further liberalization by establishing that: (i) countries extending 70 per cent or more of their total official financial assistance in the form of grants or grant-like contributions were considered to meet the terms objectives of the DAC, and (ii), countries not falling under the above provision should use their best efforts to provide at least 85 per cent of their official development assistance commitments so that each transaction has a minimum concessional element of 61 per cent, or to ensure that 85 per cent of those commitments contain an average concessional element of at least 85 per cent.^{36/} It should be recognized that the efforts to achieve a further softening of the terms and conditions of official financial aid are showing some progress, at least in relation to those recorded in 1967. The 1968 and 1969 figures show the following results:^{37/}

| | <u>1968</u> | <u>1969</u> |
|---|-------------|-------------|
| Grants as a percentage of total commitments | 58 | 66 |
| Maturity (years) | 30.7 | 28.4 |
| Interest rate (percentages) | 2.7 | 2.9 |
| Grace period (years) | 7.2 | 6.7 |

^{36/} See OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee, 1969 Review (December 1969), p. 269.

^{37/} See OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee, 1970 Review, (December 1970), pages 48 and 49.

The Development Strategy reaffirms the developed countries' decision to continue their efforts to reach, before 31 December 1971, the norms set out in the supplementary recommendation adopted by DAC in 1969, and to consider, in the further evolution of their development assistance policy, the suggestions contained in UNCTAD resolution 29 (II).

4. Untying financial assistance

Tied credit is another of the aspects relating to the softening of the terms and conditions of financial assistance for development that has been a matter of some concern to the developing countries. It is generally recognized that one of the reasons why the developed countries tie credit to purchases in the donor country is to reduce the foreign exchange cost of financial assistance, particularly if they are running balance-of-payments deficits. Furthermore, it is also recognized that tied credits force up the import costs of the recipient countries, limit their freedom to choose more economic sources of supply, even in other developing countries, and in general run counter to the basic principle of multilateral trade without discrimination. Nevertheless, it has not proved possible to bring any appreciable reduction in the use of tied credit because it has been thought that this might well bring a reduction in the total amount of financial assistance.

This last point has been borne in mind in UNCTAD's recommendations on the question of tied aid, notably resolution 29 (II) adopted in 1968, which states that: "The Conference, therefore, considers that, in principle, financial assistance should be untied. Many donors, however, find it necessary to tie their aid, mainly in order to protect their balance of payments or to secure public support for their aid programmes. The tying of aid is therefore directly related to the level of aid".

Resolution 29 (II) also suggested practical steps for mitigating the effects of aid tying, including the following: (i) a greater provision for the use of aid funds to cover local costs; (ii) allowing of procurement in developing countries; (iii) a broadening of the range of commodities or services to which aid may be devoted so that recipients have reasonable freedom of choice; (iv) improvement in the administration of procurement;

/and (v)

and (v), a development of pooling systems under which contracts might be decided by international competitive bidding within a group of donor countries.

The International Development Strategy gives formal expression to the decision of the developed countries to take what measures they can to reduce the extent of tying of assistance and to mitigate any of its harmful effects. In this respect, the United States in late 1969 agreed to some degree of liberalization so in the conditions of the financial aid supplied through its Agency for International Development (AID) by authorizing purchases with AID funds in the United States and in developing countries, and eliminating other costly restrictions such as the requirement of additionality.

5. Excessive external indebtedness

In recent years, certain developing countries have been facing increasing problems because the share represented by foreign capital servicing in their total earnings from exports of goods and services has been expanding. To some extent, the situation has become worse because of the slow growth of their total export earnings, but it is also due to the growing weight assigned in certain countries to forms of financial transfers, such as suppliers' credits, which are generally short- or medium-term liabilities. It should be remembered, however, that although the volume and composition of the external public debt has been one of the main factors responsible for the situation in some developing countries, servicing of the debt cannot be considered in isolation from other factors, such as the external private debt and the profits earned by foreign private investment. Taking servicing only of the external public debt, in only five Latin American countries did debt servicing represent 20 per cent or more of total export earnings in respect of goods and services in 1968; but, if the total external debt is taken into account, then this proportion is considerably above 20 per cent in fifteen countries of the region.

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Clearly, the problems deriving from the excessive burden of servicing the external public debt can be mitigated as and when some of the objectives set for the liberalization of official financial assistance are met and the developing countries experiencing these problems manage to speed up the rate of growth of their export earnings. This latter, in turn, depends upon making considerable progress in liberalizing access to the developed countries' markets (to promote expansion of the developing countries' exports) and on whether the investment effected with external credit generates the increments in the payments capacity that are required to service it. UNCTAD recommendations and the International Strategy emphasize that the developing countries must apply sound principles to the administration of the external debt but they also note that in debt crises the countries concerned should stand ready to take suitable measures to refinance the debt or reschedule servicing on more favourable terms.

6. Promotion of foreign private investment

There is general agreement that foreign private investment can make a contribution to speeding up the economic growth of the developing countries, not only as regards expanding the total amount of investment resources but also because such investment is usually accompanied by an inflow of technical know-how and management expertise. In the particular case of the Latin American countries, it is quite certain that the attitude has been generally favourable towards foreign private investment, and this is confirmed by the fact that foreign private investment in Latin American countries amounted to 15,700 million dollars in 1966, compared with a total of 30,000 million dollars for the developing countries as a whole. This favourable attitude, however, is not incompatible with the tendency of some developing countries to apply more selective criteria to foreign private investment, a tendency which is really an expression of the concern of these countries regarding the scale of foreign private investment, which has taken the form of the purchase, pure and simple, of established commercial, industrial and financial establishments and which therefore involves a gradual "de-nationalization" of productive activities. The developing countries are thus facing a situation in which,

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on the one hand they need foreign private investment to supplement domestic saving, but on the other they have to delimit the areas in which they consider that foreign private investment is not appropriate or incompatible with the objectives and priorities of national development policy. In the Latin American Consensus of Viña del Mar, the countries of the region stated some of the principles they consider essential with respect to foreign private investment, and also their concern regarding some of its adverse effects, in the following terms:

"Foreign private investment, subject to national decisions and priorities, should try to promote the mobilization of internal resources, create income and prevent outflows of foreign currency, promote savings and national research, make a real technological contribution, and act as a complementary factor in national investment, preferably in association with it. This has not always been so in the past. Concern was shown for the over-all scale of the external financial flow caused by private foreign investment and also for the excessive use of local financial resources and the effect of certain marketing agreements which distort competitive conditions in internal and external markets, and their possible effects on the economic development of the region." 38/

This statement reaffirms the need for the developing countries to carry out a thorough review and appraisal of their policy regarding foreign private investment, in order to identify clearly not only the fields in which such investment can contribute most efficiently to economic development, in accordance with national objectives and priorities, but also the terms and conditions it must meet in order to be compatible with such objectives and priorities.

This would assist in establishing the proper basis for the foreign investor and the country concerned to conclude agreements of a kind that would ensure stability and security for the investment, and would also comply with all the many recommendations on the promotion of private foreign investment contained in the resolutions adopted by UNCTAD and the United Nations General Assembly.

38/ The Latin American Consensus of Viña del Mar, document approved by the Extraordinary Meeting, at Cabinet level, of the Special Committee on Latin American Coordination, 15-17 May 1969, published by the Ministry of Foreign Affairs, Santiago Chile, para. 33.

In this respect, the International Development Strategy, while recommending that the developing countries should adopt appropriate measures for stimulating the inflow of foreign private capital in a manner consistent with national development plans, also recommends that foreign investors should endeavour to provide for an increase in the local share in the management and administration of foreign enterprises and facilitate the participation of local capital. This part of the Strategy is in line with certain suggestions designed to promote participation by local capital and foreign capital in joint enterprises, or alternatively establishing from the outset under what terms and conditions local capital will be brought in over a predetermined period.^{39/} It is worth mentioning too that the Commission of the Cartagena Agreement, in its decision No. 24 of December 1970, approved a common regime for the treatment of foreign capital and for trade marks, patents, licenses and royalties, which contains principles and standards that may be extremely useful as guidelines for the contribution of foreign private investment during the current stage of Latin American development. The regime contains, inter alia, the following provisions:^{40/}

(i) Access of fresh foreign investment will be restricted in the following sectors: insurance, commercial banking and other financial institutions, internal transportation, advertising and the domestic marketing of goods of all types;

(ii) During the first ten years following the entry into force of the common regime, foreign investment in the basic commodities sector may be granted concessions for periods not exceeding twenty years;

(iii) Foreign investment will not be authorized in activities which are considered to be adequately covered by existing enterprises;

(iv) Participation by foreign investors in national or mixed enterprises may be authorized where such participation would bring an

^{39/} In this connexion see La inversión privada extranjera en el desarrollo latinoamericano, a report submitted to the Sixth Annual Meetings of the Inter-American Economic and Social Council (IA-ECOSOC), document CIES/1371, 28 April 1969.

^{40/} The complete text can be found in Carta Semanal IPE, La Paz, 18 January 1971.

expansion of capital and provided that it does not alter the level of national ownership of the enterprise concerned;

(v) Contracts for the import of technology or covering patents or trade marks must be approved by the competent authority of the respective country; authorization will not be extended to contracts which impose restrictions as to sources of supply, volume of production, price of products, or other restrictions of equivalent effect;

(vi) Conditions are established governing the extent to which existing foreign enterprises may benefit from the advantages of the liberalization of subregional trade;

(vii) Conditions and dead-lines are established for the phased transformation of fresh foreign investment into mixed enterprises.

7. Supplementary financial measures

Discussions on the question of establishing a scheme of supplementary financing, designed to deal with the problems caused by adverse movements in the export earnings of the developing countries, have not yet achieved positive results. The proposals developed by the International Bank, following the recommendation in annex A.IV.8 of the first session of UNCTAD, were examined by the Inter-governmental Group on Supplementary Financing, which was unable to reach agreement on the principles and method of operation of the scheme. Resolution 30 (II), adopted at the second session of UNCTAD, reaffirmed the objectives set for the scheme of supplementary financial measures at the first session and requested the Inter-governmental Group to continue its examination of the measures proposed. Subsequent developments led to the adoption of resolution 60 (V) by the Trade and Development Board, containing a set of conclusions intended to constitute a basis for the preparation of a discretionary scheme of supplementary financing, and again invited IBRD to consider working out arrangements for the scheme. In the interim, following consultations within IBRD, the conclusion was reached that even on the most optimistic assumption, there would be only very limited support on the part of the developed countries members of IDA for the provision of additional resources for supplementary financing, at least during the period of the third replenishment of IDA funds. Hence,

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IBRD thought it wise to defer further detailed consideration of a scheme for supplementary financial measures. Nevertheless, the Trade and Development Board, during the first part of its tenth session (September 1970), adopted a declaration stating that it "... considers ... that it is necessary for an effort to be made to work out the details of a discretionary scheme of supplementary financing that could be implemented within the World Bank group, and to assess the probable cost of such a scheme. The member countries of the World Bank would then be in a position to judge whether the additional resources required might be made available".^{41/}

The reason for the discrepancy between the Bank's decision to defer the preparation of proposals on a discretionary scheme of supplementary financing and the Board's statement requesting the Bank to give further consideration to the possibility of working out such a scheme, was the expressed concern of the developing countries that the establishment of a supplementary financing scheme would not involve simply diverting the resources available for basic development financing, but would be an addition to them. As the conclusions of the Inter-governmental Group on Supplementary Financing put it: "It is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing".^{42/} Furthermore, it should be remembered that it is impossible to estimate the scale of the resources required for supplementary financing until the basis of the scheme has been worked out.

The Trade and Development Board's decision to request the World Bank to continue to examine the basis for a supplementary financing scheme has now been supported by a similar recommendation in the International Development Strategy, which gives grounds for thinking that the Bank will revise its decision to defer consideration of the scheme.

^{41/} Report of the Trade and Development Board on the first part of its tenth session (TD/B/327), 30 September 1970, p.47.

^{42/} Ibid., p. 48.

8. Role of Special Drawing Rights in development financing

The establishment of IMF's system of Special Drawing Rights (SDR) towards the end of 1969 was a means of increasing international liquidity, so that the growth of foreign exchange reserves could automatically adjust to the expansion of world production and trade. The way it was decided to apply SDR did not, however, follow closely the recommendation contained in annex A.IV.19 of the first session of UNCTAD, which stipulated that any provisions adopted in relation with the international monetary system should devote particular attention to the needs of the developing countries. Prior to the creation of SDR, international discussions had adopted the line that one way of meeting the needs of developing countries might be to establish a link between the creation of additional reserves and the provision of development financing. Eventually, the view prevailed that additional reserves and development resources were two aspects that should be kept strictly apart, and the SDR were therefore distributed in proportion to the quotas of member countries in IMF. Logical though it appears, the system of distribution proved unfair, since it meant in effect that a small group of countries received most of the additional reserves at virtually no cost whatsoever. The report of an Expert Group set up by UNCTAD stated in this respect:

"One of the important features of the new system of Special Drawing Rights is that reserves can be treated costlessly, without such a surrender of real resources. It would be an expression of international solidarity and an auspicious beginning of the Second United Nations Development Decade if the developed countries declared that this saving of resources, whether viewed at the national or at the world level, should accrue to those most in need, the poorest countries, and that the richer countries should have to earn at least part of the addition to their reserves."^{43/}

Noting the agreement to create special drawing rights, at its second session UNCTAD adopted resolution 32 (II) in which it invited Governments of States members of IMF "to continue to give careful consideration to

^{43/} See International monetary reform and co-operation for development, Report of the Expert Group on International Monetary Issues (United Nations publication, Sales No.: E.70.II.D.2), p. 13.

applications from developing countries for increases of quotas so as to enable these countries to benefit more from the facilities of the Fund". However, the resolution also urged States members of IMF to consider at an early date the forging of a link between the creation of SDR and the provision of external development finance. The Development Strategy includes a similar recommendation, adding that the question will, in any case, be examined before the allocation in 1972 of the remaining SDR created in 1970 and amounting to 9,500 million dollars.

According to the various expert groups that have studied the matter, it should be technically feasible to establish this link. Among the several suggestions put forward, two deserve special mention. Under the first, IMF would contribute directly to the International Development Association a certain proportion of the SDR allotted to developed countries - this would entail further amending IMF's statutes. Under the second, the developed countries themselves would make a contribution to IDA in their respective currencies and in proportion to the SDR allocated to each country. A report of the Sub-committee on International Exchange and Payments of the United States Congress proposed amending IMF's statutes to permit it to retain 25 per cent of the SDR of the developed countries members of IDA, to be used for expanding the IDA's financial development assistance. The report refers to the need to establish a link between the creation of special drawing rights and the provision of external development finance in the following terms:

"In view of continuing and increasing needs of the developing nations for financial assistance, and considering the failure of the industrialized world to fulfil the commitments undertaken at the New Delhi UNCTAD conference in 1968 to furnish aid for development equivalent to one per cent of GNP, the wealthy countries should not be content to use the Special Drawing Rights facility for reserve creation alone. It can also be employed, without compromising its fundamental purpose or impairing its usefulness, to help raise financial transfers to the promised level." 44/

44/ See A proposal to link reserve creation and development assistance, Report of the Sub-committee on International Exchange and Payments of the Joint Economic Committee, Congress of the United States (Washington, United States Government Printing Office, 1969), p. 2.

The report goes on to point out some of the advantages of this formula: (1) it would double IDA's loan capacity, raising it to the previously recommended level of 1,000 million dollars annually; (2) it would solve the balance-of-payments difficulties that have restricted the provision of financial development assistance in certain countries; (3) it would prevent tying financial assistance to purchases from the donor countries and thus enable the recipients to buy on the most suitable markets; (4) it would render budgetary allocations and annual legislation for granting financial assistance unnecessary.

It can thus be said that general agreement is being reached on the need to link the creation of international monetary reserves with the provision of financial development assistance and that the only thing needed to establish this link is a policy decision by the developed countries.

