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# SOME TOPICS OF UNCTAD IV

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CONTENTS

# INTRODUCTION

1. The fourth session of the United Nations Conference on Trade and Development is being held at a very special time in international economic relations, which makes it all the more necessary to obtain some concrete results towards solving the developing countries' problems.

The short period of improvement in the external sector of the countries of the third world, to which the boom in the developed economies contributed and which was reflected in the rise in the price of raw materials in 1973 and the first part of 1974, has come to an end and has been replaced by a period of falling commodity prices, difficulties in the sale of commodities, proliferation of protectionist measures affecting exports of manufactures, increases in import prices due to world inflation, and heavy impact of the servicing of external financing on the balance of payments, which has been accentuated by the deterioration in external debt conditions.

At the same time, a drastic change is occurring in the international economic and financial system, and some possibilities are visualized of passing on from confrontation to negotiation between developing and developed countries in order to place international economic relations on a more equitable footing.

Latin America, in particular, is experiencing serious difficulties - with the likely prospect that they will continue to be aggravated by instability and uncertainty in its external sector - which are increasingly hampering the normal functioning of the economy and the implementation of development policies. In 1975, the balance of payments deficit on current account of the non-oil-exporting countries amounted to about 16,400 million dollars, compared with 4,300 million in 1973. The trade balance showed a deficit of 11,100 million dollars in 1975 compared with 1,200 million in 1973. This rapid increase in the deficit occurred in spite of the fact that the growth rate of the gross domestic product of these countries was only 2.2 per cent in 1975 compared with 7.3 per cent in 1973.

/2. In

2. In the field of commodities, international co-operation has shown no significant progress since the second session of UNCTAD. The renewed impetus given to the international discussion of this question by the Sixth and Seventh Special Sessions of the United Nations General Assembly led to some partial results in the second half of 1975, such as the renegotiation of the international coffee, cocoa and tin agreements and the relative improvement in the IMF compensatory financing facility. However, the chronic problems of international commodity trade persist and are becoming more serious, as may be seen from the relevant section of this document which shows that real prices of most commodities declined in 1975 to the depressed levels recorded during the previous decade.1/

Although the Latin American countries have made some progress in the diversification of their exports, particularly in certain sectors of manufactures, it cannot be denied that the major proportion of their total foreign exchange receipts continues to depend on external demand and the prices of a limited number of commodities. The proposals by the UNCTAD secretariat concerning an integrated programme on commodities offers the opportunity to adopt decisions that will set in motion a process of negotiations on some fundamental aspects of commodity trade.

This document reviews data and presents criteria with the purpose of assisting the developing countries, and the Latin American countries in particular, to participate constructively in devising and formulating policy measures for solving the chronic problems of commodity trade. With this end in view, it presents figures showing the share of the various developing areas and the developed countries in world exports of 32 commodities, and the share of a selected group of commodities in the exports and imports of each country in

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1/ A detailed review of the evolution of the prices and volumes of exports of commodities of export interest to the Latin American countries is presented in the document entitled International commodity markets in 1975 (E/CEPAL/L.134), which is being issued simultaneously with this report.

the Latin American area. It suggests some guiding principles which should be taken into consideration in entrusting to an intergovernmental group the task of working out detailed proposals for the establishment of a common fund for the financing of buffer stocks. It stresses the innovations included in the international agreements on commodities renegotiated in the course of 1975, whereby machinery is established for the periodical review of current prices in order that factors of a monetary and commercial nature may be taken into account in defending prices against inflation. Lastly, in summarizing the changes recently introduced in the IMF compensatory financing facility, it is concluded that on the one hand such changes represent an improvement in that they make the machinery for determining shortfalls in export receipts more flexible and increase the total amount of credit upon which the developing countries may draw at a given moment, while on the other hand such credit continues to be granted mainly on a short-term or medium-term basis and it does not adequately compensate for the shortfalls in export receipts measured in real terms, for all of which reasons they could not be considered as substitutes for other measures that would be directly instrumental in maintaining remunerative and stable prices for commodity exports from developing countries.

Both the machinery for the periodical review of prices contained in the commodity agreements and the changes in compensatory financing referred to are important factors for a policy designed to protect the developing countries from the effects of external inflation and other negative effects which are beyond their control.

3. Latin America's exports of manufactures, although making up only a relatively small proportion of the total, are the main dynamic element in the region's exports. The world economic recession is affecting them very severely, and it is therefore of great importance to these countries that restrictive trading practices should be corrected and that the Generalized System of Preferences should be improved and expanded.

The ECLA secretariat fully recognizes this, and it is already at an advanced stage in the preparation of studies on the policies adopted by some countries of the region for the promotion of exports of manufactures and the results obtained through them. It has also systematically assembled the available information on the use made by the countries of the region of the tariff preference schemes put into effect by the developed countries.1/ This report includes an appraisal of the United States scheme, which came into force in January 1976.

4. Latin America's external indebtedness, which has grown sharply in recent years, reflects the need to seek partial financing of the balance-of-payments deficits of the countries of the region. Faced with a severe increase in their current account deficit, these countries have applied adjustment policies which have meant big sacrifices as regards growth rates and unemployment levels. The fact that this situation is common all over the Third World does not make it any the less serious for Latin America, particularly as the great majority of the countries of the region are being excluded from the traditional sources of long-term financing.

Thus, the aggravation of their current account deficits and their limited access to long-term financing have obliged the Latin American countries to have increasing recourse to the private financial market, on which most of their recent new indebtedness has been contracted. The duration of the loans taken out on this market is very short, so that Latin America's external debt has become less favourable in composition as well as growing in amount. Similarly, the average cost of the debt is increasingly high as the proportion accounted for by official aid diminishes while the interest rates collected on the private market above the rates considered as basic increase all the time.

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1/ A recently published ECLA cuaderno, "La Coyuntura Internacional y el Sector Externo" (ECLA Cuadernos No. 7, Santiago, Chile 1975), also gives a comparative analysis of the principal preference schemes in order to provide background material for use in seeking their improvement.

/The changes

The changes made or about to be made in the international monetary system, although they represent some relief for the problems of Latin America and the non-oil-exporting developing countries in general, accentuate the problems of the faulty distribution of international liquidity, while in some respects they also create new commitments for those countries. Not more than 11 per cent of the new available resources generated by the various modifications in the international monetary system and in the operations of the International Monetary Fund will be at the disposal of the developing countries, although these account for 22 per cent of the quotas in the latter institution.

The present report contains an analysis of the problems of external indebtedness of Latin America and the other developing areas, together with a brief appraisal of the possible implications for the developing countries of the changes being made in the International Monetary Fund and its operations and in the international monetary system.

5. In view of the difficulties being experienced by the Latin American countries, it is more important than ever to strengthen co-operation among developing countries at the levels of the region and the other Third World countries. At the regional level, progress made so far in the formal integration processes, and through modalities which supplement them, provide the experience and a basis for rapidly expanding such co-operation, mainly in the areas of trade, industry, technology, financing, transport and energy. The co-operation of Latin America with other developing areas has so far been minimal and can be subject to considerable expansion. The action guidelines for co-operation among developing countries were established in the resolution adopted at the Third Meeting of Ministers of the "Group of 77" held in Manila; the main task is to put these guidelines into practice, and in many cases this requires the co-operation of the industrialized world.

The recent establishment of the Latin American Economic System (SELA) offers a new mechanism, complementing existing integration and co-operation machinery, for promoting and implementing co-operation initiatives among developing countries at the regional level.

This report presents views on some of the subjects to be discussed at UNCTAD IV. They have been selected in the light of their importance to Latin America, the relative maturity reached at the international level in their study, which could lead to the adoption of substantive decisions by the Conference, and the fact that some of them have recently been responsible for events whose importance should be brought out so that Latin America can make an effective contribution to the negotiations.

/I. INTERNATIONAL

## I. INTERNATIONAL CO-OPERATION IN THE FIELD OF BASIC COMMODITIES

In the mid-term review and appraisal of progress in the implementation of the International Development Strategy, particularly as regards international trade policy measures, the General Assembly concluded that "little progress has been made on international action in the field of commodity trade".1/

This opinion, based on a detailed review of developments in the field of international commodity trade during the first half of the present decade, sums up the feeling of frustration of the great majority of the developing countries and the meaning of their efforts to promote substantive changes in the system of international economic relations.

The Programme of Action included in the Manila Declaration states, in the section on commodities, that the present situation of commodities contains a number of new factors which could form the basis for a fresh initiative that would contribute to the establishment of a new international economic order, including the setting up of new production and market structures for commodities. During the three stages into which the eighth session of the Committe on Commodities was divided in the course of 1975, the various elements of the Integrated Programme were intensively discussed and the conclusion was finally reached that the task of preparing studies could be considered to have been completed and the next phase would be that of policy decisions and negotiations. This is one of the fields in which it is hoped that substantive decisions will be adopted at the fourth session of UNCTAD, as regards both the various elements of the programme and the time-table for the negotiations.

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1/ General Assembly resolution 3517 (XXX), section III.

/Objectives of

Objectives of international action in the commodity field

Even though it may appear redundant to repeat here the objectives laid down in the Manila Programme of Action for international action in the field of commodities, it is useful to summarize them in order to analyse them in terms of the policy measures and institutional arrangements proposed for achieving them. These objectives, in the terms approved by the developing countries, are:

"(a) Improvement of the terms of trade of the developing countries in the field of commodities;

(b) Supporting commodity prices at levels which in real terms are remunerative and just to producers and equitable to consumers, taking full account of the rate of world inflation and fluctuations in the exchange rates of the main currencies;

(c) Reduction of excessive fluctuations in commodity prices and supplies in the interests of both producers and consumers;

(d) Improving and stabilizing in real terms the purchasing power of the export earnings of individual developing countries;

(e) Expansion of developing countries exports of primary and processed products, improvement of the competitiveness of natural products vis-à-vis synthetic substitutes and harmonization of the production of synthetics and substitutes in developed countries with the supply of natural products produced in developing countries;

(f) Diversification of production, including food production, and expansion of the processing of primary commodities in developing countries with a view to promoting their industrialization and increasing their export earnings;

(g) Assurance of access to markets of developed countries for exports from developing countries;

(h) Increasing the participation of developing countries in the transport, marketing and distribution of their exports and their share in the earnings therefrom."1/

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1/ Manila Declaration and Programme of Action, (TD/195), 12 February 1976.

To analyse these objectives in the abstract would be of no interest since it is not possible, in principle, to disagree with them. In order to achieve those objectives, however, it is necessary to devise and provide suitable instruments for the policy measures which the developing countries consider appropriate. It seems desirable, therefore, that the analysis of the Programme of Action included in the Manila Declaration should centre on the policy measures and institutional arrangements proposed by the developing countries as a whole, relating them to the achievement of the aforementioned objectives.

International measures of the programme 1/

"(a) Establishment of a common fund for the financing of international commodity stocks or other necessary measures within the framework of commodity arrangements."

The establishment of a common fund for the financing of commodity buffer stocks was one of the proposals discussed at the second session of UNCTAD in 1968 and on which no agreement was reached. In the new proposals put forward by the secretariat of UNCTAD, the common fund for financing of buffer stocks is regarded as the cornerstone of the whole Integrated Programme for Commodities. The decision expected on this point is basically a policy decision, that is, whether or not a common fund for the financing of buffer stocks should exist, since the amount of such a fund, the lines along which it should be set up, its operational arrangements and the commodities it may finance are matters that would have to be negotiated by an intergovernmental group specially convened for the purpose. In adopting a decision on the establishment of this common fund and the procedure for its negotiation, the Conference may deem it advisable to recommend to the negotiating agency some important guiding principles for the negotiations, such as:

1/ The sub-titles on the following pages are the international measures of the Manila Declaration and Programme of Action.

/- direct

- direct contributions from governments and criteria for establishing the scale of such contributions;

- participation of international financial institutions and procedures for such participation;

- limitations which may or should be imposed on the common fund in obtaining resources on private capital markets or in contracting credit lines with commercial banks;

- whether the common fund should act as a central bank or financing agency of the group of buffer stocks, without intervening in their individual operational arrangements;

- whether as financing agency its resources would be available only for such buffer stocks as fulfilled certain requirements, and whether in addition to acting as financing agency the common fund could in certain circumstances (for example, a critical market situation for a commodity for which no institutional arrangement of any kind exists) intervene directly in the market until such time as the appropriate intergovernmental arrangements could be made towards the establishment of a buffer stocks.

- lastly, whether the common fund should be set up as an independent institution or whether its functioning and operation may be entrusted to one of the existing international financial institutions.

It does not seem relevant here to revive the discussion on the advantages or possible disadvantages of a common fund for the financing of buffer stocks. The developing countries have already defined their position in favour of this common fund and, therefore, what is required is to obtain the co-operation of the developed countries which still oppose this proposal in order to establish the rules and procedures for negotiations. Nor does it seem relevant in dealing with this point to reopen the discussion regarding the nature and mode of operation of the buffer stocks that may be set up for specific commodities, since these are questions which should be discussed by those negotiating each particular stock. On the other hand, it would seem highly desirable that the support given to this initiative by the developing countries at the Manila session, and especially the financial contribution announced by the Government of the Philippines, should be reinforced by similar announcements by other governments of developed market-economy and socialist countries and developing countries which are already in a position to make commitments in this respect.

"(b) Setting up of international commodity stocking arrangements."

Once the decision is taken to establish a common fund for the financing of buffer stocks, the next step would be to decide on the list or group of commodities on which it was proposed to negotiate agreements for the operation of buffer stocks. In preparing this list, two different groups of commodities should be considered: (i) those mainly exported by developing countries (e.g., tropical commodities); and (ii) those which are largely exported by developed countries but which are also of considerable importance among the exports of certain developing countries (for example, cereals, cotton, wool and several metalliferous ores). This list should reflect a proper balance of interests among the various developing areas or groups of developing countries in order to ensure that all or most of them are directly linked with the management of the buffer stocks. It is necessary here to reconcile the need for the list to be as representative and comprehensive as possible with the need to confine it to the number of commodities for which it is expected to obtain the necessary financial resources.

Table 1 presents a list of 32 important world trade commodities, together with the share of the various trading areas in the average value of world exports in the years 1970-1972. A preliminary study by the UNCTAD secretariat identified 18 commodities (indicated with an asterisk in table 1) of which stocks could feasibly be set up, although in preparing the list no comments were made regarding the cost of maintaining or the problems of financing such stocks.

/Table 1

Table 1

PERCENTAGE SHARE OF DEVELOPING REGIONS AND THE REST OF THE WORLD IN MAIN WORLD COMMODITY EXPORTS

(Average for the period 1970-1972)

| Commodity and SITC code | Developing regions | | | | | Rest of the world |
|---|---|---|---|---|---|---|
| | Latin America | Africa | Asia | Other | Total | |
| I. Bananas (051.3)a/ | 76.5 | 6.7 | 9.8 | 0.3 | 93.3 | 6.7 |
| Coffee (071.1)* | 64.0 | 28.1 | 3.9 | 0.8 | 96.8 | 3.2 |
| Bauxite (283.3)* | 62.6 | 3.0 | 4.2 | - | 69.8 | 30.2 |
| Fish meal (081.4) | 59.5 | 3.6 | 1.0 | - | 64.1 | 35.9 |
| Sugar (061.1/2)* | 50.8 | 5.7 | 11.9 | 1.3 | 69.7 | 30.3 |
| II. Cocoa (072.1)* | 16.3 | 80.3 | 0.4 | 2.2 | 99.2 | 0.8 |
| Groundnuts (221.1) | 5.8 | 57.2 | 8.2 | 0.3 | 71.5 | 28.5 |
| Groundnut oil (421.4) | 21.0 | 56.7 | 0.5 | - | 78.2 | 21.8 |
| Sisal (265.4)* | 40.1 | 56.7 | 0.8 | - | 97.6 | 2.4 |
| III. Jute (284)* | 0.5 | - | 95.1 | - | 95.6 | 4.4 |
| Hemp (265.5) | 4.8 | - | 92.6 | - | 97.3 | 2.7 |
| Rubber (231.1)* | 1.0 | 7.8 | 88.6 | 0.3 | 97.7 | 2.3 |
| Copra (221.2) | 0.7 | 6.6 | 74.4 | 17.7 | 99.4 | 0.6 |
| Olive oil (422.2) | 0.4 | 20.0 | 71.8 | 0.1 | 92.3 | 7.7 |
| Coconut oil (422.3) | 0.9 | 2.5 | 71.6 | 8.0 | 83.0 | 17.0 |
| Tea (074.1)* | 2.1 | 13.4 | 67.1 | 0.2 | 82.8 | 17.2 |
| Tin (283.6-687.1)* | 16.2 | 8.3 | 61.1 | - | 85.5 | 14.5 |
| IV. Cotton (263.1)* | 17.4 | 29.4 | 11.1 | - | 57.9 | 42.1 |
| Linseed oil (422.1) | 57.7 | - | - | - | 57.7 | 42.3 |
| Manganese ore (283.7) | 18.4 | 29.9 | 7.8 | - | 56.1 | 43.9 |
| Copper (283.17-682.1)* | 21.2 | 27.9 | 4.5 | 0.9 | 54.5 | 45.5 |
| V. Iron ore (281)* | 18.7 | 12.1 | 7.1 | - | 37.9 | 62.1 |
| Rice (042)* | 3.3 | 5.8 | 26.7 | - | 35.8 | 64.2 |
| Hides and skins (211) | 16.7 | 7.7 | 6.2 | - | 30.7 | 69.3 |
| Beff (011.1) | 29.0 | 1.4 | - | - | 30.5 | 69.5 |
| Tobacco (121) | 8.2 | 7.8 | 10.8 | - | 26.8 | 73.2 |
| Wood (241/2/3) | 3.1 | 5.9 | 15.4 | 0.2 | 24.6 | 75.4 |
| Maize (044)* | 16.6 | 1.1 | 5.3 | - | 23.1 | 76.9 |
| Zinc (283.5-686.1)* | 15.6 | 6.4 | - | - | 22.0 | 78.0 |
| Lead (283.4-685.1)* | 13.1 | 7.6 | 0.4 | - | 21.1 | 78.9 |
| Wool (262.2)* | 9.3 | 0.2 | 2.4 | - | 11.9 | 88.1 |
| Wheat (041)* | 2.9 | 0.2 | 0.6 | - | 3.6 | 96.4 |

Source: Data obtained from International Bank for Reconstruction and Development (IBRD), Commodity Trade and Price Trends (1975 edition).

a/ The numbers in brackets indicate the appropriate group or sub-group of the Standard Internacional Trade Classification (SITC).

* Commodities which can be stocked (see document TD/B/C.1/166), 9 December 1974.

/It will

It will be noted that in the case of only 9 of these 18 commodities (coffee, bauxite, sugar, cocoa, sisal, jute, rubber, tea and tin) the major proportion of world exports come from developing countries; in that of two other commodities (cotton and copper), the developing countries account for a little over 50 per cent of world exports, while in that of another seven (iron ore, rice, maize, zinc, lead, wool and wheat), the developing countries' share is less than one-third of the total.

At a later stage of its study, the secretariat of UNCTAD prepared estimates of the order of magnitude of the financial resources that would be required to set up commodity stocks, taking as a basis a smaller list of commodities divided into two groups, one requiring immediate financing, and the other requiring only government commitments to provide the funds when necessary 1/ (see table 2).

Some facts should be taken into account in examining this table. The list includes tin, a commodity which is regulated by an international agreement envisaging a buffer stock financed by the producer countries (all developing countries) and voluntary contributions from two importing countries. It also includes coffee, on which a new international agreement not envisaging the setting up of buffer stocks was recently signed. Furthermore, the state of the coffee market which was relatively critical up to mid-1975, changed radically as a result of serious damage to Brazil's production. Therefore, it will probably be unnecessary and perharps even impossible to set up coffee stocks in the near future. The list also includes copper, the world prices of which dropped sharply in 1975 on account of the recession in the developed countries, a trend which the measures for regulating supply did nothing to counteract. Since some developed countries export copper on a considerable scale,

1/ The secretariat finally proposed the establishment of a common fund of 3,000 million dollars, of which 1,000 million would be subscribed by the governments and 2,000 million would be obtained on the international capital markets.

/Table 2

Table 2

GROUP OF BASIC COMMODITIES FOR THE SETTING UP OF BUFFER STOCKS

| | Millions of dollars |
|---|---|
| Group requiring immediate financing | |
| (1) Raw coffee | 1 100 |
| (2) Natural rubber | 210 |
| (3) Copper | 1 100 |
| (4) Tin | 270 |
| (5) Tea | 90 |
| Total | 2 770 |
| Group requiring finance commitments | |
| (1) Sugar | 1 200 |
| (2) Cotton | 600 |
| (3) Cocoa beans | 330 |
| (4) Hard fibres | 60 |
| (5) Jute and jute manufactures | 160 |
| Total | 2 350 |

Source: An Integrated Programme for Commodities. A common fund for the financing of commodity stocks, Report by the Secretary-General of UNCTAD (TD/B/C.1/184).

/they may

they may be expected to be directly interested in the stabilization of this market.1/ Lastly, the cocoa bean, included among those commodities requiring only finance commitments, is also regulated by an international agreement envisaging the operation of a buffer stock, which has not yet had to enter into operation but for which funds are being collected in accordance with the procedure laid down in the agreement.

Among other commodities of export interest to the Latin American countries are sugar and cotton. No international buffer stock was included in the international sugar agreements existing in earlier years, but the agreement in force up to 1973 included detailed provisions concerning the minimum stocks which the exporting member countries should maintain, defined as a percentage of the basic tonnage assigned to each exporting country, and established an undertaking by exporting countries to adjust their production so that the stocks held at the end of each trading year should not exceed a certain percentage in relation to total production, or to the basic export tonnage and domestic consumption requirements. There was no equivalent undertaking by importers, however. In any case, in view of the fragmentation of the international sugar market, the strong protection accorded to sugar production in most developed countries and the special arrangements regulating large areas of this trade (Lomé Convention, agreements between Cuba and socialist countries), the operation of an international buffer stock would probably require different objectives and regulations from those obtained for other commodities. Lastly, cotton is another commodity presenting special characteristics, both because the developed countries supply a large proportion of world exports, and, even more important, because this fibre is severely affected by

1/ At the end of March 1976, a meeting was convened by UNCTAD with the participation of copper producers and consumers at which it was decided to set up an International Study Group on Copper (on the lines of the Study Group on Lead and Zinc), which is to meet for the first time in June next.

/competition from

competition from synthetic fibres. It has always been recognized that, in the case of commodities facing a situation of this kind, the stabilization of prices cannot be achieved by means of regulating supply, since in all probability there will be further advances in the process of substitution. It is true that with the higher cost of inputs for the manufacture of synthetic materials, the problem of the replacement of natural products must be re-examined in the light of the new structure of costs and the price relationship between natural and synthetic products. In any case, the International Cotton Advisory Committee has for the first time considered it desirable that an international agreement should be negotiated on this commodity, so that the operation of a buffer stock may be included in that agreement.

The list of commodities proposed by the secretariat of UNCTAD for the setting up of buffer stocks may vary owing to important changes in the market situation of the various commodities (as noted earlier in the case of coffee), and the scale of the finance requirements and the scope of the objectives assigned to each stock would vary accordingly. For this reason, it is important to emphasize that the list of commodities proposed by the UNCTAD secretariat is merely intended for illustrative purposes. Moreover, it does not seem advisable that a list should be drawn up at the fourth session of UNCTAD itself, because the result would probably be that each of the developing regions would wish to include as many as possible of their own export commodities, so that the list might be too long for practical purposes. Accordingly, the best course would seem to be the adoption of a policy decision to establish a small but sufficiently representative intergovernmental group with a broad mandate to prepare the list of commodities of which stocks would be set up, together with the general rules for their operation.

/The common

The common fund for the financing of buffer stocks, and the establishment of such stocks for a certain number of commodities of export interest to developing countries, are essential elements of the new approach to the treatment of commodity trade problems which the UNCTAD secretariat has wished to adopt. Certain objectives in connexion with commodity prices cannot be attained unless adequate machinery is set up for the purpose. A buffer stock's intervention in a commodity market, where appropriate, is the most direct machinery for reducing or attenuating excessive price fluctuations and short-term instability, while at the same time providing the necessary interval for the effects of other complementary measures (export quotas, production adjustment, etc.) to make themselves felt. Any buffer stock would obviously exhaust its financial resources, however considerable, if it tried to defend the price of a commodity which was affected by a persistent imbalance between supply and demand.

> "(c) Harmonization of stocking policies and the setting up of co-ordinated national stocks financed, in the case of developing countries by the common fund referred to in sub-paragraph (a) above, or by international financial agencies through a broader and more liberal financing scheme for buffer stocks."

An alternative to the establishment of international buffer stocks is the establishment and maintenance of national stocks, particularly in the case of those products which are exported mainly by developed countries but which are also of some significance in a certain number of developing countries. In the exploratory consultations about international arrangements on cereals, for example, some of the main world exporting countries showed a preference for the establishment of national stocks instead of an international stock. A similar situation could occur in respect of wool, since some of the most important developed countries which export wool have domestic stabilization machinery for this product. Some non-ferrous metals could also form part of this group.

/When considering

When considering the possibility and desirability of setting up national stocks of certain products, it must be borne in mind that their administration and functioning must nevertheless be in keeping with a set of internationally agreed principles and objectives, so that the co-ordinated action of the different countries can achieve the desired objectives. It is perfectly conceivable that a number of national stocks can function just as efficiently as one international stock, provided that all of them are governed by the same set of rules, that those rules are not subject to arbitrary interpretations or judgements, and that all the member countries of the network of stocks scrupulously adhere to the commitments they have entered into as regards the objectives set out for national stocks. So much for the operational side of the stocks. As regards the financing, two different situations must be taken into account: national stocks set up by developed countries, which would be financed by each of the countries in question, and national stocks set up by developing countries, which would be financed, depending on the circumstances, either partly or wholly from the common fund for the financing of international stocks and/or from the funds of international financial organizations. The first alternative should be established as one of the regular practices of the common fund from its inception. The second requires the preparation of a set of principles and recommendations which could be approved by UNCTAD IV for submission to the study and consideration of the relevant international financial agencies so that the governing bodies of the latter can decide how to carry out or participate in such financing operations. Some background information needs to be considered in connexion with this point.

In accordance with a decision taken in mid-1969, the International Monetary Fund set up a credit facility for member governments for the financing of buffer stocks, as a necessary complement to the compensatory financing facility set up some years ago. Credits for this purpose are granted directly to member countries

/which have

which have difficulties in their balance of payments, so that they can participate in buffer stock agreements concluded under the basic commodity agreement and in line with the principles of intergovernmental relations approved by the United Nations. In an annex to the decision mentioned above the Executive Directors of IMF laid down the criteria which would be applied in granting credits for the financing of buffer stocks. First come the general principles for intergovernmental relations in commodity agreements. These principles are articles 60, 63 and 65 of the Havana Charter, referring to participation, system of voting, equitable treatment and duration of commodity agreements. It is a little surprising that in this matter it was decided to make use of the principles of such an old document as the Havana Charter, which moreover was not ratified by the governments, instead of referring to the principles and rules contained in recommendation A.II.1 of the Final Act of UNCTAD I, which were adopted without dissent by all governments. These obviously have a broader and more liberal conception of the functions and objectives of international product agreements than the corresponding provisions of the Havana Charter.

As already noted, in order to gain access to credit for the financing of buffer stocks applicant countries must be having difficulties with their balance of payments; moreover, the amortization period, as in all drawings on IMF resources, is from 3 to 5 years, with the special provision that the country concerned undertakes to make amortization payments in advance if the buffer fund makes cash payments to its members.1/

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1/ The first transactions under this new credit facility took place in mid-1971 and were by countries which had to make contributions to the international tin reserve set up under the International Tin Agreement. In April 1973 the IMF decided that the members of the International Cocoa Agreement could obtain loans from the buffer stocks financing facility only for the purpose of building up the buffer stock and not in respect of purchases aimed at non-traditional uses for cocoa. The evolution of the cocoa market has been such, however, that the intervention of this buffer stock has not so far been necessary. See International Monetary Fund, Annual Report 1975, p. 52.

"(d) Negotiation of other measures necessary for the attainment of the objectives of the programme within the framework of international commodity arrangements through, inter alia, appropriate international production policies, supply management measures, and bilateral and multilateral long-term supply and purchase commitments, taking into account the characteristics of each product."

The measures considered so far are connected with the establishment and financing of buffer stocks at the international or national level. Obviously, the operation of buffer stocks is not necessary for all products, nor is it even possible in some cases, so that the objective of the stabilization of commodity prices within a general trend of expansion of the total export income of the developing countries must also be pursued through the adoption of other measures taken within the framework of agreements of traditional character or through other more limited arrangements negotiated or agreed by the developing countries which export each of the products in question. With regard to the traditional type of international commodity agreement, it may be noted that during 1975 the agreements on three commodities which are of interest in Latin American exports were renegotiated: the tin agreement, which has been renegotiated with modifications every five years since 1956; the cocoa agreement, which came into force for the first time on 30 June 1973 and has now been renewed for a further three-year period, and the coffee agreement, whose economic provisions have been suspended since October 1973 but which is to be extended for six years from October 1976 if it is ratified by a sufficient number of exporting and importing member countries. Conferences on the renegotiation of the sugar and wheat agreements are to be held during the present year, and if these are successful it will mean that by the end of 1976 the situation existing at the begining of the present decade will have been restored as regards international commodity agreements.

/The results

The results obtained in the last twenty years in the negotiation of international commodity agreements involving the participation of a significant majority of the importing or consuming countries have not been very encouraging, to judge by the very small number of commodities in respect of which it has been possible to negotiate such agreements. The discussions at the Seventh Special Session of the General Assembly last September and the consensus reached on resolution 3362 (S-VII) adopted at the same session seemed to indicate that there had been a fundamental change in the negative attitude or outright opposition of some developed countries (particularly the United States) to international commodity agreements. Some subsequent events suggest that the change has not been as fundamental as it seemed, however. Thus, for example, the Executive Branch of the United States Government has proposed to Congress that the agreements on coffee and tin should be ratified, but it has stated that the United States will not participate in the cocoa agreement. Furthermore, there has been continuing duality of opinions and public statements between the Department of State and the Department of the Treasury of the United States regarding the question of whether or not that country is to participate in international commodity agreements,1/ and moreover the United States representative has indicated, in official statements regarding the proposals made by his country at the Seventh Special Session in connexion with the liberalization of the compensatory financing facility and the modifications which the Executive Directors of IMF agreed to make in that facility at the end of last December, that the liberalization of compensatory financing had been proposed as an alternative to the negotiation of international commodity agreements, which, in his opinion, had other undesirable consequences.2/

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1/ See "Washington Post", 15 February 1976, p. 4.

2/ See "Statement by Ambassador Daniel P. Moynihan, United States representative to the United Nations before the 21st Session of the Governing Council of the United Nations Development Programme", United States Mission to the United Nations, Press Release USUN-12 (1976), 27 January 1976.

All this does not mean, of course, that the developing countries should give up or reduce their efforts to induce the developed and socialist countries to participate in international consultations and conferences which could eventually lead to the negotiation of international commodity agreements involving either market regulation machinery such as the operation of buffer stocks, export quotas or other mechanisms for achieving specific levels of prices in real terms, or incorporating in accordance with the particular characteristics of each commodity, other types of international arrangements which could be made operative with the concerted action of the developing countries. The specific characteristics which these other types of arrangements may have for particular products could be identified by taking as the starting point the organization of producers' associations, the promotion and operation of which was recommended in the Programme of Action for the Establishment of a New International Economic Order in resolution 3202 (S-VI) adopted at the Sixth Special Session of the General Assembly. The organization of producers' associations is not a recent invention, but the success of the Organization of Petroleum Exporting Countries (OPEC) in fixing prices for oil has enabled the developed countries to use this example to condemn any attempt at organization of the developing exporting countries. It is obvious, however, that it is not possible to make generalizations in this respect. The information available shows that producers' associations have operated in different forms and have achieved different degrees fo success in pursuing their objectives. Thus, for example, before the present International Cocoa Agreement there was the "Alliance of Cocoa Producers" (an association of developing cocoa producing and exporting countries), which failed to achieve positive results in in its attempts to stabilize the international cocoa market in the

/middle of

middle of the past decade because among other reasons, it had no buffer stock and lacked financial resources. The Intergovernmental Council of Copper Exporting Countries (CIPEC), which is also an association of developing producer countries and was set up in 1967, has served as a mechanism for permenent consultations so that its member countries can take decisions on, inter alia, the volume of production and exports of copper in accordance with the general trends of the international merket for that product. It did not succeed in preventing the sharp drop in copper prices in 1975, but it must be acknowledged that conditions were extremely difficult at that time owing to the world recession. Since then, other associations have been set up, including the International Bauxite Association, the Association of Iron Ore Exporting Countries, the Association of Tungsten Producers, and, in the agricultural field, the Union of Banana Exporting Countries (UPEB) and the Economic Group of Latin American and Caribbean Sugar Exporting Countries (GEPLACEA). Each of these producers' associations, made up completely or largely of developing exporting countries, has the basic character of a multilateral consultation and co-operation body, but they can also set themselves other objectives according to the characteristics of each product and the specific market conditions, including the formulation and application of a price policy,1/ the establishment

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1/ Paragraph 73 of the "Chaguaramas Appraisal - Second Regional Appraisal of the International Development Strategy and Establishment of a New International Economic Order", which was adopted in ECLA resolution 347 (XVI), says: "The Latin American countries propose to explore, primarily with the participation of developing countries in other regions, every possibility of establishing producers' associations, and affirm their decision to convert them into useful instruments for the formulation and implementation of a basic commodity price policy in line with the principles of fair prices for producers and the necessary increase in the income of exporting countries". See "The regional evaluations of the International Development Strategy", ECLA Cuaderno Nº 2, Santiago, Chile, 1975.

/of arrangements

of arrangements to control supply, the adoption of arrangements for arriving at suitable production policies, and the formulation and adoption of measures to enable them to secure a bigger share of the final price (the price paid by the consumer) of the products they export.

"(e) Effective application of appropriate measures and procedures for indexing the price of commodities exported by developing countries to the prices of manufactures imported from developed countries."

In the domestic policies of the developed countries, the maintenance of remunerative prices for producers has always been a fundamental objective, achieved through the fixing of guaranteed minimum prices for producers or through the granting of direct subsidies. At the international level, however, it has proved very difficult to apply any of the principles or policies commonly used for managing domestic markets. In the few commodity agreements negotiated in past years, one of the most difficult aspects in the negotiations was always that of establishing the price margins within which an attempt was to be made to stabilize the market for the products in question by putting into action the various types of regulatory machinery laid down in the agreement. Generally, in order to prevent a persistent decline in prices, the developing producer countries had to apply export restrictions, with the result that the economic and social cost of restoring relative balance to the market fell entirely on the exporting countries themselves, even though the causes of the imbalance in the market may have lain in measures adopted by the importing countries.

Commodity price policy has another aspect, however, which has even greater repercussions: namely, that of the price in real terms (i.e., taking into account its purchasing power). In the recommendations of the Final Act of UNCTAD I it was recognized that one of the objectives of international commodity agreements should be that of guaranteeing stable, just and remunerative prices for basic commodities - especially those exported by the developing countries - taking due account of the purchasing power of the commodities exported in terms of imports.

This recommendation was not applied in any of the commodity agreements negotiated in previous years, and it was strongly opposed by some developed countries when the exporting member countries of the International Coffee Agreement tried to make a small adjustment in the reference price of coffee to compensate for the devaluation of the dollar with respect to other currencies. The increased severity of inflation in the developed countries in the last three years, however, and the changes which have taken place in the monetary parities of the main trading centres have placed this problem of fixing commodity prices in real terms in the foreground of the developing countries' concerns.

In order to illustrate the foregoing, table 3 shows the losses suffered by the purchasing power of the dollar in terms of three different price indexes: that of the unit value of exports of manufactures from the developed countries as a whole; that of the unit value of total exports of the United States, and that of retail price movements in that country. It will be noted from this table that the annual variations in these indexes were relatively small between 1953 and 1969, but from 1970 onwards, the annual rises were very large, and in 1973 and 1974 they reached unprecendented levels. In line with the practice of international organizations, this table takes the index of the unit value of exports of manufactures of the developed countries as an index of international inflation in order to deflate the current prices of Latin American commodity exports so as to obtain series of prices in real terms for them. This has also been done in table 4 for the products of greatest interest in Latin American imports.

/Table 3

Table 3

PURCHASING POWER OF THE DOLLAR, MEASURED BY VARIOUS INDEXES

(1953-1955 = 100)

| Year | Index of: Unit value of exports of manufactures of the developed countries A | Unit value of total exports of the United States B | Consumer price index of United States C | Purchasing power of dollar: Measure by A | Measure by B | Measure by C |
|---|---|---|---|---|---|---|
| 1953 | 100.3 | 100.5 | 99.7 | 0.997 | 0.995 | 1.003 |
| 1954 | 99.1 | 99.2 | 100.2 | 1.009 | 1.008 | 0.998 |
| 1955 | 100.3 | 100.2 | 99.1 | 0.997 | 0.998 | 1.009 |
| 1956 | 104.1 | 103.9 | 101.4 | 0.961 | 0.962 | 0.986 |
| 1957 | 106.7 | 107.4 | 105.0 | 0.937 | 0.931 | 0.952 |
| 1958 | 105.4 | 106.2 | 107.8 | 0.949 | 0.942 | 0.928 |
| 1959 | 104.1 | 106.4 | 108.7 | 0.961 | 0.940 | 0.920 |
| 1960 | 106.7 | 107.2 | 110.5 | 0.937 | 0.933 | 0.905 |
| 1961 | 108.0 | 109.3 | 111.6 | 0.926 | 0.915 | 0.896 |
| 1962 | 108.0 | 108.5 | 112.8 | 0.926 | 0.922 | 0.886 |
| 1963 | 109.2 | 108.3 | 114.2 | 0.916 | 0.923 | 0.876 |
| 1964 | 110.4 | 109.4 | 115.7 | 0.906 | 0.914 | 0.864 |
| 1965 | 113.0 | 112.9 | 117.7 | 0.885 | 0.886 | 0.850 |
| 1966 | 114.3 | 116.4 | 121.0 | 0.875 | 0.859 | 0.826 |
| 1967 | 115.6 | 118.6 | 124.5 | 0.865 | 0.843 | 0.803 |
| 1968 | 115.6 | 120.3 | 129.8 | 0.865 | 0.831 | 0.770 |
| 1969 | 116.8 | 124.2 | 136.7 | 0.856 | 0.805 | 0.731 |
| 1970 | 127.0 | 131.3 | 144.8 | 0.787 | 0.762 | 0.691 |
| 1971 | 133.4 | 135.5 | 151.1 | 0.750 | 0.738 | 0.662 |
| 1972 | 144.8 | 139.5 | 156.0 | 0.691 | 0.717 | 0.641 |
| 1973 | 168.9 | 163.1 | 165.8 | 0.592 | 0.613 | 0.603 |
| 1974 | 205.8 | 208.2 | 183.9 | 0.486 | 0.480 | 0.544 |
| 1975 | 231.3 | 232.4 | 200.7 | 0.432 | 0.430 | 0.498 |
| 1974 | | | | | | |
| 1st quarter | 184.2 | 192.9 | 176.1 | 0.543 | 0.518 | 0.568 |
| 2nd quarter | 204.6 | 200.2 | 181.1 | 0.489 | 0.499 | 0.552 |
| 3rd quarter | 212.2 | 213.5 | 186.7 | 0.471 | 0.468 | 0.536 |
| 4th quarter | 222.4 | 226.7 | 192.0 | 0.450 | 0.441 | 0.521 |
| 1975 | | | | | | |
| 1st quarter | 237.6 | 234.4 | 195.5 | 0.421 | 0.427 | 0.512 |
| 2nd quarter | 238.9 | 232.7 | 198.5 | 0.419 | 0.430 | 0.504 |
| 3rd quarter | 226.6* | 231.1 | 202.8 | 0.441 | 0.433 | 0.493 |
| 4th quarter | 223.6* | 232.7 | 206.1 | 0.447 | 0.430 | 0.485 |

Source: United Nations, Monthly Statistical Bulletin for the index of unit value of the exports of manufactures of the developed countries, United States Department of Commerce, "Business Statistic 1971" and "Survey of Current Business" for the other two indexes.

a/ The purchasing power of the dollar is expressed in constant dollars and cents of the period 1953-1955.

* Preliminary figures.

/Table 4

Table 4

PRICES OF LATIN AMERICA'S MAIN COMMODITY EXPORTS, IN CURRENT DOLLARS AND IN CONSTANT 1953-1955 DOLLARS a/

| Year | Sugar b/ | | Sugar c/ | | Coffee d/ | | Coffee e/ | | Cocoa f/ | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| 1952 | 4.17 | 3.97 | 6.26 | 6.02 | 54.0 | 51.4 | 57.0 | 54.3 | 35.8 | 34.1 |
| 1953 | 3.41 | 3.41 | 6.29 | 6.29 | 57.9 | 57.9 | 59.8 | 59.8 | 34.9 | 34.9 |
| 1954 | 3.26 | 3.29 | 6.09 | 6.15 | 78.7 | 79.4 | 80.0 | 80.8 | 55.7 | 56.3 |
| 1955 | 3.24 | 3.24 | 5.95 | 5.95 | 57.1 | 57.1 | 64.6 | 64.6 | 36.2 | 36.2 |
| 1956 | 3.47 | 3.30 | 6.09 | 5.86 | 58.1 | 55.3 | 74.0 | 70.4 | 25.5 | 24.3 |
| 1957 | 5.16 | 4.82 | 6.24 | 5.83 | 56.9 | 53.2 | 63.9 | 59.7 | 30.5 | 28.5 |
| 1958 | 3.50 | 3.30 | 6.27 | 5.97 | 48.4 | 45.7 | 52.3 | 49.3 | 43.3 | 40.8 |
| 1959 | 2.97 | 2.83 | 6.24 | 6.00 | 37.0 | 35.2 | 45.2 | 43.0 | 35.4 | 33.7 |
| 1960 | 3.14 | 2.93 | 6.30 | 5.89 | 36.6 | 34.2 | 44.9 | 42.0 | 26.8 | 25.0 |
| 1961 | 2.70 | 2.50 | 6.30 | 5.83 | 36.0 | 33.3 | 43.6 | 40.4 | 22.4 | 20.7 |
| 1962 | 2.80 | 2.59 | 6.45 | 5.97 | 34.0 | 31.4 | 40.8 | 37.8 | 21.3 | 19.7 |
| 1963 | 8.31 | 7.62 | 8.18 | 7.50 | 34.1 | 31.3 | 39.6 | 36.3 | 26.5 | 24.3 |
| 1964 | 5.73 | 5.21 | 6.90 | 6.27 | 46.7 | 42.4 | 48.8 | 44.4 | 23.2 | 21.1 |
| 1965 | 2.02 | 1.79 | 6.75 | 5.97 | 44.7 | 39.6 | 48.5 | 42.9 | 16.9 | 15.0 |
| 1966 | 1.81 | 1.59 | 6.99 | 6.13 | 40.8 | 35.8 | 47.4 | 41.6 | 23.0 | 20.2 |
| 1967 | 1.92 | 1.67 | 7.28 | 6.28 | 37.8 | 32.9 | 41.9 | 36.4 | 26.4 | 23.0 |
| 1968 | 1.90 | 1.65 | 7.52 | 6.48 | 37.4 | 32.5 | 42.6 | 37.0 | 32.9 | 28.6 |
| 1969 | 3.20 | 2.78 | 7.83 | 6.69 | 40.8 | 35.4 | 45.0 | 39.1 | 43.5 | 37.8 |
| 1970 | 3.69 | 2.91 | 8.07 | 6.35 | 54.6 | 43.0 | 56.4 | 44.4 | 32.3 | 25.4 |
| 1971 | 4.50 | 3.38 | 8.52 | 6.41 | 44.8 | 33.7 | 49.3 | 37.1 | 25.8 | 19.4 |
| 1972 | 7.27 | 5.01 | 9.07 | 6.26 | 51.0 | 35.2 | 56.7 | 39.1 | 31.1 | 21.4 |
| 1973 | 9.45 | 5.59 | 10.29 | 6.09 | 66.9 | 39.6 | 72.7 | 43.0 | 61.1 | 36.2 |
| 1974 | 29.70 | 14.42 | 29.50 | 14.32 | 68.1 | 33.1 | 77.8 | 37.8 | 88.4 | 42.9 |
| 1975 | 20.43 | 8.83 | 22.46 | 9.70 | 77.9 | 33.7 | 81.7 | 35.3 | 64.2 | 27.7 |
| 1974 1st quart. | 19.12 | 10.38 | 15.95 | 8.67 | 72.0 | 39.1 | 77.9 | 42.3 | 70.6 | 38.4 |
| 2nd quart. | 22.91 | 11.20 | 22.90 | 11.17 | 73.1 | 35.7 | 81.7 | 39.8 | 101.6 | 49.6 |
| 3rd quart. | 29.94 | 14.12 | 31.54 | 14.38 | 63.0 | 29.7 | 74.9 | 35.3 | 92.4 | 43.6 |
| 4th quart. | 46.84 | 21.10 | 47.59 | 21.44 | 64.1 | 28.9 | 76.8 | 34.6 | 88.9 | 40.0 |
| 1975 1st quart. | 32.90 | 13.85 | 34.94 | 14.70 | 71.5 | 30.0 | 75.6 | 31.8 | 78.1 | 32.9 |
| 2nd quart. | 18.32 | 7.68 | 20.38 | 8.54 | 70.9 | 29.7 | 68.4 | 28.6 | 57.0 | 23.4 |
| 3rd quart. | 16.93 | 7.46 | 19.39 | 8.55 | 91.3 | 40.3 | 91.6 | 40.4 | 60.9 | 26.9 |
| 4rd quart. | 13.58 | 6.07 | 15.12 | 6.76 | No quotation | | 91.1 | 40.7 | 60.6* | 27.1 |

| Year | Bananas g/ | | Beef h/ | | Wheat i/ | | Maize j/ | | Cotton k/ | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| 1952 | 7.4 | 7.0 | 56.0 | 53.8 | 74.3 | 70.8 | 105.0 | 101.0 | 54.8 | 52.2 |
| 1953 | 7.4 | 7.4 | 62.7 | 62.7 | 76.6 | 76.6 | 78.5 | 78.5 | 41.4 | 41.4 |
| 1954 | 7.6 | 7.7 | 51.8 | 52.3 | 69.6 | 70.3 | 73.3 | 74.0 | 36.9 | 37.3 |
| 1955 | 7.5 | 7.5 | 60.8 | 60.8 | 64.3 | 64.3 | 81.6 | 81.6 | 35.4 | 35.4 |
| 1956 | 7.6 | 7.2 | 47.0 | 45.2 | 62.3 | 59.3 | 80.7 | 77.6 | 30.9 | 29.4 |
| 1957 | 8.0 | 7.4 | 49.0 | 45.8 | 62.1 | 58.0 | 73.0 | 68.2 | 30.2 | 28.2 |
| 1958 | 7.4 | 7.0 | 57.4 | 54.7 | 62.1 | 58.6 | 58.4 | 55.6 | 27.3 | 25.8 |
| 1959 | 6.6 | 6.3 | 61.3 | 58.9 | 61.4 | 58.4 | 58.4 | 56.2 | 25.1 | 23.9 |
| 1960 | 6.5 | 6.1 | 75.0 | 70.1 | 61.4 | 57.4 | 59.5 | 55.6 | 26.3 | 24.6 |
| 1961 | 6.3 | 5.8 | 70.6 | 65.4 | 62.1 | 57.5 | 59.1 | 54.7 | 28.0 | 25.9 |
| 1962 | 6.0 | 5.6 | 73.6 | 68.1 | 63.3 | 58.6 | 57.3 | 53.1 | 26.7 | 24.7 |
| 1963 | 7.6 | 7.0 | 68.3 | 62.7 | 64.6 | 59.3 | 64.8 | 59.4 | 26.5 | 24.3 |
| 1964 | 7.7 | 7.0 | 86.8 | 78.7 | 67.4 | 61.3 | 66.6 | 60.5 | 26.1 | 23.7 |
| 1965 | 7.2 | 6.4 | 92.7 | 82.0 | 59.5 | 52.7 | 72.8 | 64.4 | 26.2 | 23.2 |
| 1966 | 7.0 | 6.1 | 86.5 | 75.9 | 62.8 | 55.1 | 72.0 | 63.2 | 24.4 | 21.4 |
| 1967 | 7.2 | 6.3 | 84.4 | 72.7 | 65.8 | 57.2 | 58.1 | 50.1 | 26.4 | 23.0 |
| 1968 | 6.9 | 6.0 | No quotation | | 62.8 | 54.6 | 60.9 | 52.5 | 27.1 | 23.6 |
| 1969 | 7.2 | 6.3 | 86.6 l/ | 74.0 | 58.4 | 50.8 | 66.1 | 56.4 | 23.4 | 20.3 |
| 1970 | 7.5 | 5.9 | 185.8 | 146.3 | 54.7 | 43.1 | 68.9 | 54.3 | 26.6 | 20.9 |
| 1971 | 6.4 | 4.8 | 223.3 | 167.9 | 61.7 | 46.4 | 66.7 | 50.2 | 32.3 | 24.3 |
| 1972 | 7.3 | 5.0 | 249.6 | 172.1 | 69.8 | 48.1 | 71.6 | 49.4 | 33.6 | 23.2 |
| 1973 | 7.5m/ | 4.4 | 317.6 | 187.9 | 137.8 | 81.5 | 118.8 | 70.3 | 51.9 | 30.7 |
| 1974 | 7.8 | 3.8 | 346.4 | 168.2 | 180.9 | 87.8 | 158.9 | 78.6 | 65.9 | 32.0 |
| 1975 | 9.9 | 4.3 | - | - | 151.0 | 65.2 | 149.7 | 64.7 | 51.0 | 22.0 |
| 1974 1st quart. | 7.3 | 4.0 | 302.8 | 164.4 | 211.8 | 115.1 | 155.0 | 84.2 | 76.4 | 41.5 |
| 2nd quart. | 8.3 | 4.0 | 386.2 | 188.4 | 151.3 | 73.8 | 140.6 | 68.6 | 74.1 | 36.1 |
| 3rd quart. | 7.9 | 3.7 | 350.1 | 165.1 | 170.4 | 80.4 | 163.5 | 80.7 | 60.8 | 28.7 |
| 4th quart. | 7.7 | 3.4 | No quotation | | 190.0 | 85.6 | 173.9 | 81.0 | 52.2 | 23.5 |
| 1975 1st quart. | 10.7 | 4.4 | No quotation | | 158.0 | 66.5 | 145.9 | 61.4 | 50.5 | 21.1 |
| 2nd quart. | 11.1 | 4.6 | No quotation | | 135.6 | 56.8 | 142.8 | 59.8 | 48.7 | 20.4 |
| 3rd quart. | 8.8 | 3.9 | No quotation | | 156.9 | 69.2 | 164.3 | 72.4 | 50.1 | 22.1 |
| 4th quart. | 8.9 | 4.0 | No quotation | | 153.9 | 68.8 | 145.6 | 65.1 | 54.6 | 24.4 |

/Table 4 (conclusion)

Table 4 (conclusion)

| Year | Wool n/ | | Linseed oil o/ | | Copper p/ | | Tin q/ | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| 1952 | 76 | 72 | 381.9 | 363.7 | 715 | 681 | 2 658 | 2 531 |
| 1953 | 74 | 74 | 237.0 | 237.0 | 664 | 664 | 2 014 | 2 014 |
| 1954 | 79 | 80 | 180.2 | 182.0 | 685 | 692 | 1 981 | 2 001 |
| 1955 | 82 | 82 | 246.6 | 246.6 | 968 | 968 | 2 040 | 2 040 |
| 1956 | 83 | 79 | 328.8 | 313.1 | 906 | 863 | 2 171 | 2 068 |
| 1957 | 90 | 84 | 270.6 | 252.9 | 605 | 565 | 2 080 | 1 944 |
| 1958 | 66 | 62 | 266.2 | 251.1 | 544 | 513 | 2 026 | 1 911 |
| 1959 | 75 | 71 | 245.5 | 233.8 | 655 | 624 | 2 164 | 2 061 |
| 1960 | 80 | 75 | 257.7 | 240.8 | 678 | 634 | 2 195 | 2 051 |
| 1961 | 77 | 71 | 280.5 | 259.7 | 633 | 586 | 2 447 | 2 266 |
| 1962 | 66 | 61 | 253.8 | 235.0 | 645 | 597 | 2 471 | 2 288 |
| 1963 | 81 | 74 | 212.7 | 195.1 | 646 | 593 | 2 507 | 2 300 |
| 1964 | 89 | 81 | 237.0 | 215.4 | 968 | 880 | 3 409 | 3 099 |
| 1965 | 73 | 65 | 213.6 | 189.0 | 1 290 | 1 142 | 3 893 | 3 445 |
| 1966 | 68 | 60 | 191.5 | 168.0 | 1 530 | 1 342 | 3 574 | 3 135 |
| 1967 | 45 | 39 | 204.2 | 177.6 | 1 138 | 990 | 3 330 | 2 896 |
| 1968 | 44 | 38 | 234.8 | 204.2 | 1 241 | 1 079 | 3 127 | 2 719 |
| 1969 | 48 | 42 | 237.4 | 206.4 | 1 466 | 1 275 | 3 428 | 2 981 |
| 1970 | 48 | 38 | 226.5 | 178.3 | 1 413 | 1 113 | 3 674 | 2 893 |
| 1971 | 50 | 38 | 194.1 | 145.9 | 1 081 | 813 | 3 500 | 2 632 |
| 1972 | 83 | 57 | 206.4 | 142.3 | 1 071 | 739 | 3 765 | 2 596 |
| 1973 | 145 | 86 | 562.4 | 332.8 | 1 784 | 1 056 | 4 826 | 2 856 |
| 1974 | 125 | 61 | 1 127.0 | 547.1 | 2 060 | 1 000 | 8 190 | 3 976 |
| 1975 | - | - | 743.0 | 321.0 | 1 234 | 533 | 6 863 | 2 965 |
| 1974 1st quarter | 150 | 82 | 1 134.8 | 616.7 | 2 357 | 1 281 | 7 435 | 4 041 |
| 2nd quarter | 150 | 73 | 1 076.8 | 525.3 | 2 785 | 1 358 | 9 169 | 4 473 |
| 3rd quarter | 101 | 48 | 1 114.2 | 525.6 | 1 728 | 815 | 8 823 | 4 162 |
| 4th quarter | 101 | 45 | 1 183.1 | 532.9 | 1 368 | 616 | 7 333 | 3 303 |
| 1975 1st quarter | 101 | 42 | 846.0 | 356.1 | 1 273 | 536 | 7 527 | 3 169 |
| 2nd quarter | No quotation | | 811.0 | 339.8 | 1 258 | 527 | 6 981 | 2 925 |
| 3rd quarter | No quotation | | 709.0 | 312.7 | 1 236 | 545 | 6 604 | 2 948 |
| 4th quarter | No quotation | | 607.0 | 271.3 | 1 169 | 523 | 6 259 | 2 798 |

Note: Column A: International price in current dollars.
Column B: Adjusted price: international price deflated by the index of unit value of the exports of manufactures of the developed countries (1953-1955 = 100).

a/ Current prices deflated by the index of unit value of the exports of manufactures of the developed countries (1953-1955 = 100).

b/ Raw sugar, US cents per pound FOB Caribbean ports, for export to the free market.

c/ Raw sugar, US cents per pound in New York, including import duty.

d/ Santos Nº 4 Brazilian coffee beans, US cents per pound in New York.

e/ Colombian Manizales coffee, US cents per pound in New York.

f/ Bahia cocoa, US cents per pound in New York.

g/ Central American Bananas, importer-to-distributor price FOB United States port of entry.

h/ Argentine beef, US cents per kilo; up to 1969, chilled hindquarters wholesale on the London Market.

i/ Nº 2 Hard Red Winter wheat, United States export price FOB Gulf ports, in US dollars per ton.

j/ Yellow La Plata maize: up to 1969, CIF Liverpool and London, thereafter CIF Rotterdam, in US dollars per ton.

k/ Sao Paulo Nº 5 cotton, import price CIF Liverpool in US cents per pound.

l/ From 1970 onwards, boned meat.

m/ From 1973 onwards, price CIF Hamburg.

n/ Argentine wool, type Buenos Aires 40-36, import price in warehouse, Boston, in US cents per pound.

o/ From 1952 to May 1957, Argentine and Uruguayan linseed oil; from June 1957 to 1970, Argentine oil only, and from 1971 onwards, Argentine and any other linseed oil, in dollars per ton.

p/ Electrolytic copper, Chilean producers' price in dollars per ton.

q/ Tin: spot prices on the London Metals Exchange in dollars per ton.

/It seems

Gráfico 1

PRECIOS EN DOLARES CONSTANTES DE 1953-1955 DE LOS PRINCIPALES PRODUCTOS BASICOS EXPORTADOS POR AMERICA LATINA a/

Escala semilogarítmica

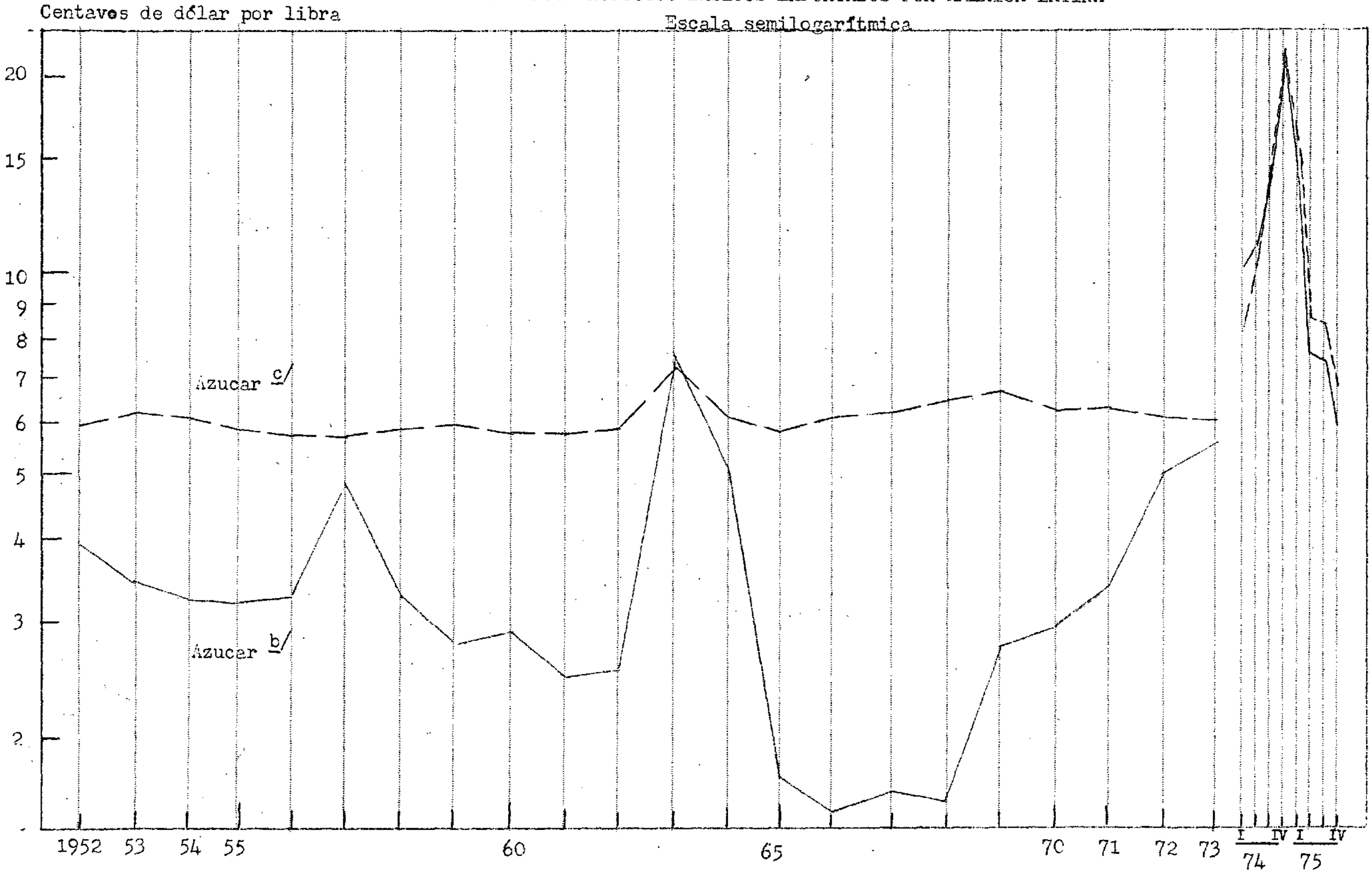


Gráfico 1 (continuación)

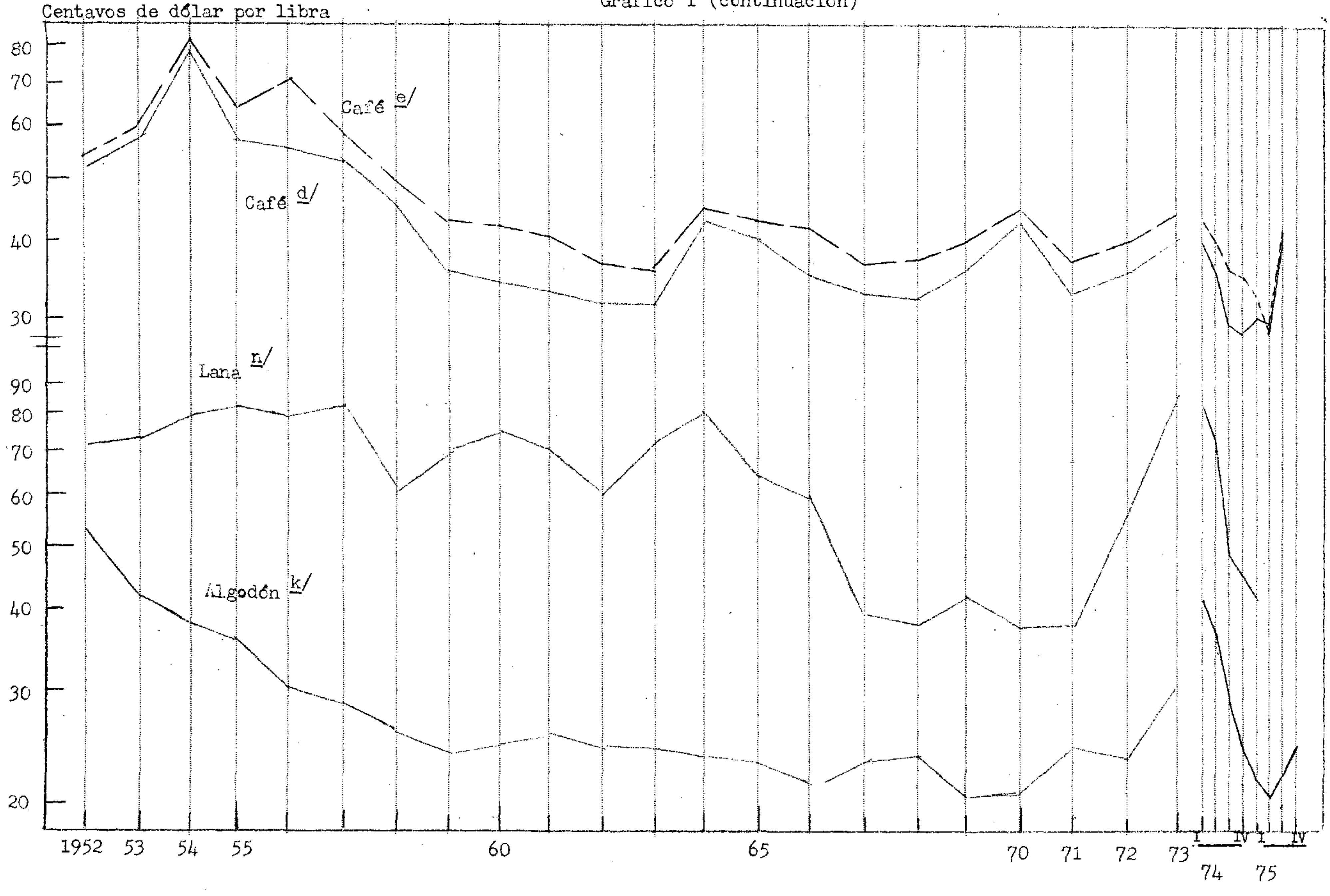


Gráfico 1 (continuación)

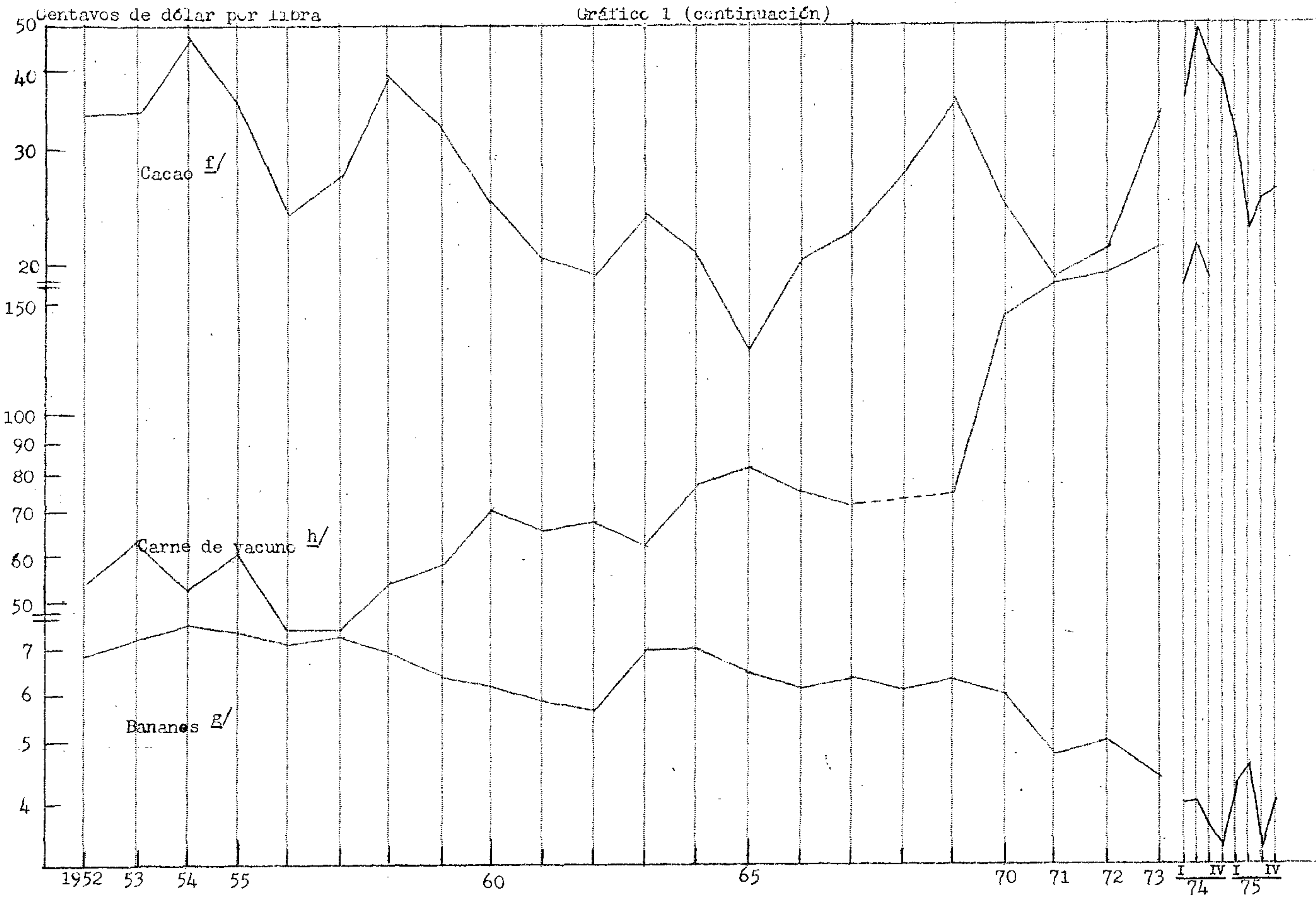


Gráfico 1 (continuación)

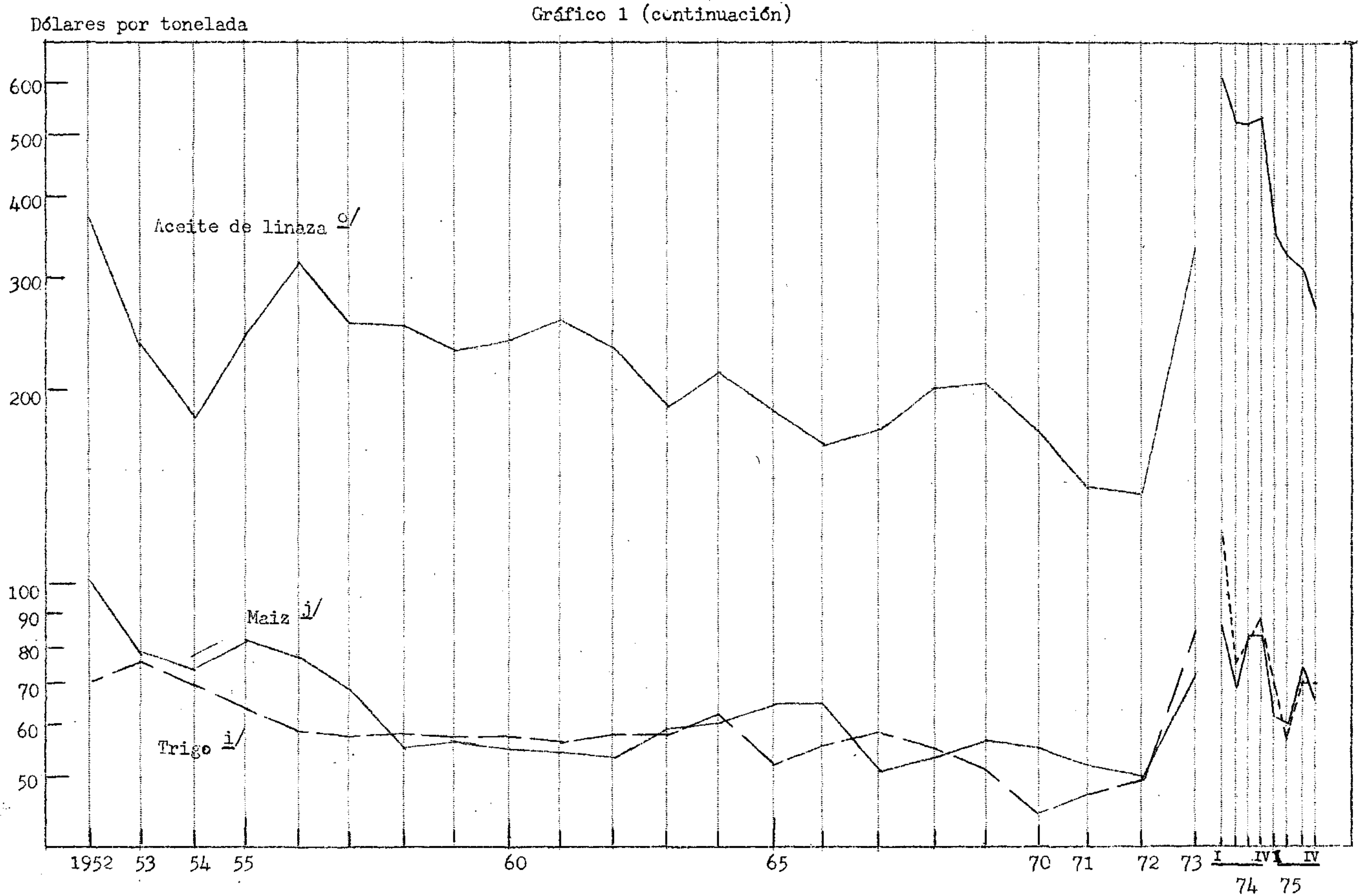
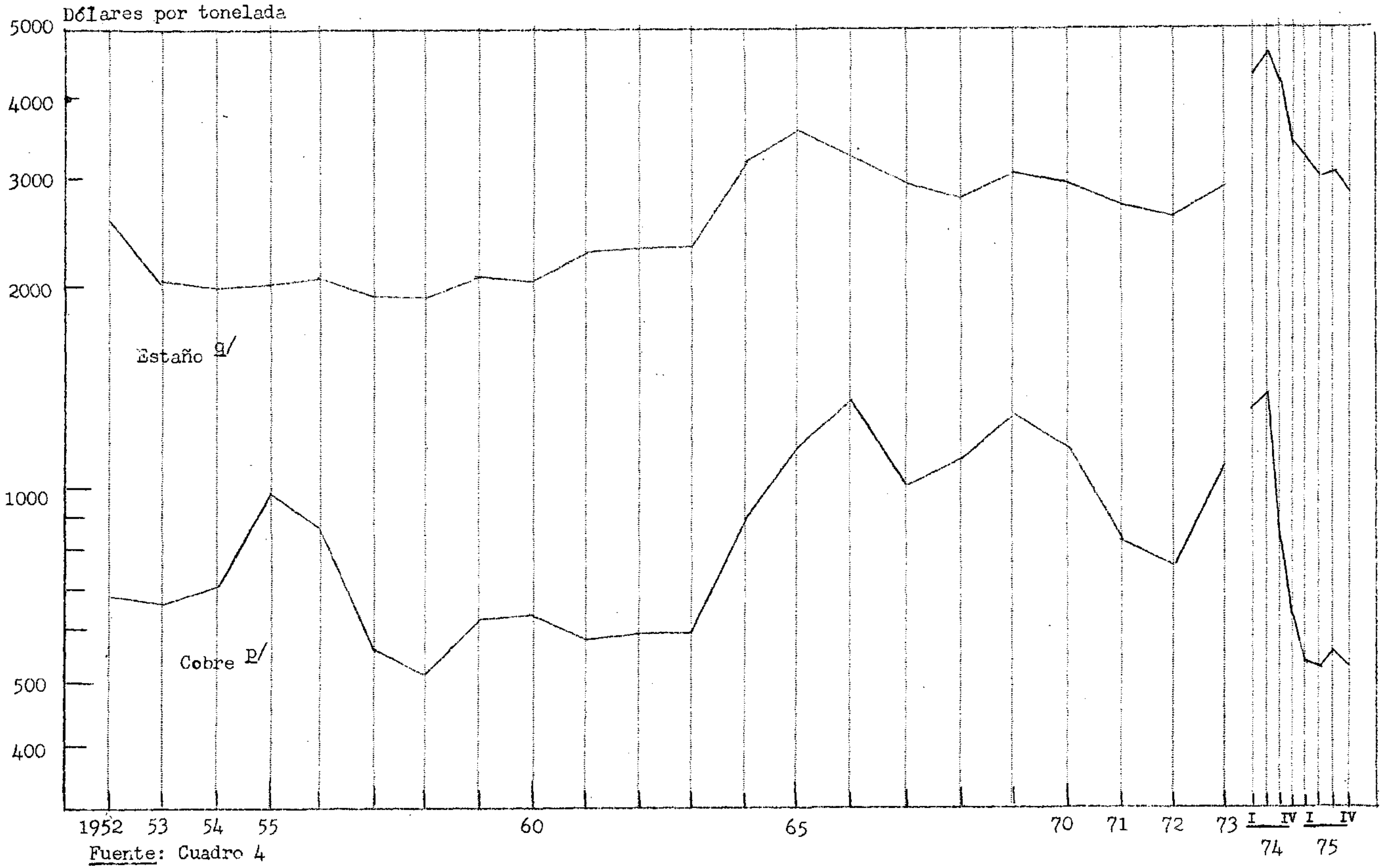


Gráfico 1 (conclusión)




Fuente: Cuadro 4

It seems unnecessary to comment on the results revealed by these two tables. In the period between 1955 and 1974 the dollar lost a little over half its purchasing power, and it continued to go down rapidly during 1975. Consequently, during the 1960s the prices in real terms of the majority of Latin American commodity exports were below those of the previous decade. In the period 1973-1974, a set of circumstantial factors (production shortfalls in some cases, speculative pressures encouraged by exchange instability in others) gave rise to a spectacular increase in the current prices of many commodities, so that in some cases they recovered the levels of real prices reached in previous periods and in others even exceeded them. This situation was very transient, however, and it began to change again for a number of commodities from the middle of 1974 onwards, so that already by the end of 1975 the real prices of many of these had declined to the depressed levels of the previous decade. It should also be borne in mind that in calculating these prices in real terms we have taken the index of unit value of exports of manufactures of the developed countries on an f.o.b basis, that is to say, not including freight charges, insurance, commissions and other charges which affect the cost of the developing countries' imports.

The discussions regarding indexing show that there is likely to be great difficulty in reaching agreement on this matter. On the other hand, there can be no doubt that the developing countries have suffered severe erosion of their purchasing power, because the prices of their commodity exports have undergone frequent and prolonged declines, whereas the rise in the price of the manufactures and other goods imported by them has been continual and uninterrupted. This unequal state of affairs did not constitute a very serious problem in the last two decades, because the increase in the prices of imported products was generally not more than 2 per cent per year. In recent years, however, inflation in the developed countries has reached unprecendentedly high levels, and even though it is hoped to bring these down the projections made suggest that this inflation will remain between 8 and 10 per cent per year for the

/next few

next few years. In these circumstances, it is essential to work out measures or procedures to safeguard the prices in real terms of the commodities exported by the developing countries. In the case of the commodities for which there is a buffer stock, this could be done by reviewing the range of prices in current terms which governs the intervention or non-intervention of the buffer stock in the market at three-monthly or six-monthly intervals or whenever considered appropriate in view of the particular characteristics of the market for the commodity in question. In other cases, the exporting countries could arrive at understandings on minimum export prices or could impose certain charges on exports, taking into account in each case the index of international inflation.

Only through measures of this or a similar kind would it be possible to think seriously of reaching some of the objectives set forth in the Manily Programme of Action, such as the improvement of the terms of trade and the maintenance of commodity prices at levels which in terms of real value are remunerative and just for producers and consumers.

It is interesting to note in this respect that in the international commodity agreements renegotiated in the course of 1975 (cocoa, coffee and tin, as mentioned above) the provisions relating to prices are broader and give the administrative Council of each agreement the authority to revise the scale or range of prices, with the aim that this periodical revision should take into consideration not only factors relating to the levels of production and consumption and the volume of stocks in the importing and exporting countries, but also the influence on prices of the changes in exchange rates, world inflationary or deflationary trends or the changes which may occur in the world monetary system.

It may be useful to review the relevant text of the agreements inasmuch as they represent a positive innovation with regard to the previous agreements.

Article 38, paragraph 3, of the new International Coffee Agreement states that in establishing and adjusting any price range, the Council shall take into consideration the prevailing level and trend of coffee prices including the influence thereon of: the levels and trends of consumption and production as well as stocks in importing and exporting countries; changes in the world monetary systems; the trend of world inflation or deflation and any other factors which might affect the achievement of the objectives set out in the Agreement.1/

In the new International Cocoa Agreement, renegotiated for a period of three years, the relevant provisions are contained in article 29, paragraph 4:

"4. In conducting the review of prices referred to in paragraphs 2 and 3 the Council shall take into consideration the trend of cocoa prices, consumption, production, stocks, the influence on cocoa prices of changes in the world economic situation or monetary system and any other factors which might affect the achievement of the objectives set out in this Agreement".2/

In the Fifth International Tin Agreement, which will enter into force in July 1976 when the Fourth Agreement, currently in force, expires, the provisions on prices are contained in articles 27 and 31. Article 27 (d) provides:

"The Council shall at its first ordinary session after the entry into force of this Agreement and, based on continuing studies, at any time thereafter or in accordance with the provisions of article 31, consider whether the floor and ceiling prices are appropriate for the attainment of the objectives of this Agreement and may revise either or both of them ...".

"In so doing, the Council shall take into account the short-term developments and medium-term trends of tin production, the production cost of tin and the level of tin production and consumption, the existing capacity for mine production, the adequacy

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1/ International Coffee Agreement 1976.

2/ International Cocoa Agreement 1975. Text established at the final plenary meeting of the Conference, held on 20 October 1975. Document TD/COCOA.4/8.

/of the

of the current price to maintain sufficient future mine production capacity and other relevant factors affecting movements in the price of tin."

Article 31 provides:

"(a) the Executive Chairman may convene or any participating country may request him to convene, a session of the Council immediately to review the floor and ceiling prices if the Executive Chairman or the participating country, as the case may be, considers that changes in exchange rates make such a review necessary. Sessions may be convened under this paragraph at less than seven days notice".1/

The indexation of commodity prices (i.e. the maintenance of prices in real terms) has also raised some anxiety in developing countries as big importers of certain products, particularly food. Tables 5, 6 and 7 have been prepared in order to examine the relative position of each of the Latin American countries as an exporter or importer of a selected group of commodities.

Table 5 shows that for 16 of the 25 countries of the area, some of these products represented over 50 per cent (on average) of the total exports of goods in 1970-1972, and for another 3 countries this percentage was over 35 per cent. The most notable exceptions are Venezuela and Trinidad and Tobago, oil-exporting countries, and the Bahamas, a centre for the refining of petroleum products. From the import standpoint, Chile has the highest percentage of and greatest dependence on imports of various products, but for the rest of the countries the impact of imports is relatively moderate.

1/ Text of the Fifth International Tin Agreement as established by the Conference at its final plenary meeting on 21 June 1975. Document TD/TIN.5/10.

/Table 5

Table 5

PERCENTAGE SHARE OF MAIN COMMODITY EXPORTS IN TOTAL VALUE
OF EXPORTS OF EACH COUNTRY AND OF THE REGION

(Average for period 1970-1972)

| | Sugar (061.1-061.2)a/ | Cocoa (072.1) | Coffee (071.1) | Tea (074.1) | Rubber (231.1) | Cotton (263.1) | Sisal (265.4) | Jute (264) | Copper (283.1 682.1) | Tin (283.6) 687.1) | Sub-total (10 products) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | 0.9 | - | - | 0.6 | - | 0.5 | - | - | - | 0.2 | 2.2 |
| Bolivia | 0.4 | - | 1.8 | - | 0.4 | 0.9 | - | - | 3.1 | 50.1 | 56.8 |
| Brazil | 7.1 | 2.1 | 28.0 | 0.1 | 0.1 | 5.0 | 0.6 | - | - | 0.1 | 43.1 |
| Colombia | 2.9 | - | 59.4 | - | - | 4.2 | - | - | - | - | 66.7 |
| Costa Rica | 4.9 | 0.9 | 28.6 | - | - | 0.1 | - | - | - | - | 34.4 |
| Cuba | 71.8 | - | 0.2 | - | - | - | - | - | - | - | 72.0 |
| Chile | - | - | - | - | - | - | - | - | 71.6 | 0.4 | 72.0 |
| Ecuador | 5.2 | 9.2 | 16.8 | 0.1 | - | - | - | - | - | - | 31.4 |
| El Salvador | 4.7 | - | 42.1 | - | - | 12.0 | - | - | - | - | 58.8 |
| Guatemala | 3.8 | 0.1 | 33.0 | - | - | 10.0 | - | - | - | - | 46.8 |
| Haiti | 6.8 | 1.4 | 44.0 | - | - | - | 2.3 | - | - | - | 54.6 |
| Honduras | 0.9 | - | 14.7 | - | 0.1 | 0.4 | - | - | - | - | 16.1 |
| Mexico | 6.0 | 0.3 | 5.7 | - | 0.2 | 8.3 | 0.6 | - | 1.1 | - | 22.3 |
| Nicaragua | 6.2 | 0.1 | 15.8 | - | - | 23.2 | - | - | - | - | 45.3 |
| Panama | 4.9 | 0.1 | 1.6 | - | - | - | - | - | - | - | 6.5 |
| Paraguay | 1.0 | - | 2.4 | - | - | 4.0 | - | - | - | - | 7.4 |
| Peru | 7.4 | - | 4.4 | - | - | 5.0 | - | - | 21.7 | 0.4 | 38.9 |
| Dominican Republic | 48.9 | 5.9 | 10.2 | - | - | - | - | - | - | - | 65.0 |
| Uruguay | - | - | - | - | - | - | - | - | - | - | - |
| Venezuela | 0.4 | 0.2 | 0.5 | - | - | - | - | - | - | - | 1.1 |
| Total 20 countries | 8.2 | 0.8 | 12.1 | 0.1 | 0.1 | 3.1 | 0.2 | - | 6.1 | 0.8 | 31.4 |
| Bahamas | 0.4 | - | - | - | - | - | - | - | - | - | 0.4 |
| Barbados | 35.6 | - | - | - | - | - | - | - | - | - | 35.6 |
| Guyana | 30.7 | - | 0.1 | - | 0.3 | - | - | - | - | - | 31.1 |
| Jamaica | 11.0 | 0.3 | 0.4 | - | - | - | - | - | - | - | 11.6 |
| Trinidad and Tobago | 4.7 | 0.7 | 0.4 | - | - | - | - | - | - | - | 5.7 |
| Total Latin America | 8.3 | 0.7 | 11.2 | 0.1 | 0.1 | 2.9 | 0.2 | - | 5.7 | 0.7 | 29.8 |

/Table 5 (concluded)

Table 5 (concluded)

| | Bananas (051.3) | Wheat (041) | Rice (042) | Beef (011.1) | Wool (262.2) | Iron ore (281) | Bauxite (283.3) | Total (17 products) |
|---|---|---|---|---|---|---|---|---|
| Argentina | - | 5.2 | 0.4 | 17.4 | 9.8 | - | - | 29.0 |
| Bolivia | - | - | 0.1 | - | - | - | - | 56.9 |
| Brazil | 0.3 | - | 0.2 | 3.5 | 0.3 | 7.0 | - | 54.4 |
| Colombia | 2.1 | - | - | 2.3 | - | - | - | 71.1 |
| Costa Rica | 29.3 | - | - | 9.1 | - | - | - | 72.8 |
| Cuba | - | - | - | - | - | - | - | 72.0 |
| Chile | - | - | - | - | 0.4 | 6.3 | - | 78.7 |
| Ecuador | 39.6 | - | - | - | - | - | - | 71.0 |
| El Salvador | - | - | 0.1 | 0.8 | - | - | - | 59.7 |
| Guatemala | 4.7 | - | 0.1 | 5.2 | - | - | - | 56.8 |
| Haiti | - | - | - | 1.6 | - | - | 15.2 | 71.4 |
| Honduras | 45.1 | - | - | 6.9 | - | - | - | 68.1 |
| Mexico | - | 0.4 | - | 3.0 | - | - | - | 25.7 |
| Nicaragua | 0.6 | - | 0.8 | 15.7 | - | - | - | 62.4 |
| Panama | 53.9 | - | - | 2.0 | - | 0.1 | - | 62.5 |
| Paraguay | - | - | - | 12.8 | - | - | - | 20.2 |
| Peru | - | - | - | - | - | 6.7 | - | 45.6 |
| Dominican Republic | 0.3 | - | - | 1.6 | - | - | 5.7 | 72.6 |
| Uruguay | - | 0.9 | 2.7 | 34.7 | 18.3 | - | - | 56.6 |
| Venezuela | - | - | 0.1 | - | - | 4.5 | - | 5.7 |
| <u>Total 20 countries</u> | <u>2.3</u> | <u>0.6</u> | <u>0.2</u> | <u>4.2</u> | <u>0.8</u> | <u>3.2</u> | <u>0.1</u> | <u>42.8</u> |
| Bahamas | - | - | - | - | - | - | - | 0.4 |
| Barbados | - | - | - | 0.2 | - | - | - | 35.8 |
| Guyana | - | 0.2 | 7.4 | - | - | 0.1 | 27.6 | 66.4 |
| Jamaica | 4.1 | - | - | - | - | - | 25.4 | 41.1 |
| Trinidad and Tobago | - | - | - | - | - | - | 0.1 | 5.8 |
| <u>Total Latin America</u> | <u>2.2</u> | <u>0.6</u> | <u>0.2</u> | <u>3.9</u> | <u>0.7</u> | <u>2.9</u> | <u>0.9</u> | <u>41.2</u> |

<u>Source</u>: Data taken from IBRD, <u>Commodity Trade and Price Trends</u> (1975 edition), <u>op. cit.</u>

<u>a</u>/ Se note <u>a</u>/ of table 1.

/Table 6

Table 6

PERCENTAGE SHARE OF MAIN COMMODITY IMPORTS IN TOTAL VALUE OF IMPORTS OF EACH COUNTRY AND OF THE REGION

(Average for period 1970-1972)

| | Sugar (061.1-061.2)a/ | Cocoa (072.1) | Coffee (071.1) | Tea (074.1) | Rubber (231.1) | Cotton (263.1) | Sisal and other fibres of the agave family (265.4) | Jute and others n.e.s (264-265.8) | Copper (283.1 682.1) | Tin (687.1) | Sub-total (10 products) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | - | 0.3 | 1.9 | - | 0.6 | 0.8 | - | 0.1 | 2.2 | 0.3 | 6.2 |
| Bolivia | - | - | - | 0.2 | - | - | - | - | - | - | 0.2 |
| Brazil | - | - | - | - | 0.3 | - | - | - | 2.3 | - | 2.6 |
| Colombia | - | 0.9 | - | - | 0.4 | 0.1 | - | - | 0.2 | 0.1 | 1.7 |
| Costa Rica | - | - | - | 0.1 | 0.1 | 0.2 | - | - | - | - | 0.4 |
| Cuba | - | - | - | - | 0.1 | 1.0 | - | - | - | - | 1.1 |
| Chile | 1.4 | 0.1 | 1.2 | 0.9 | 0.4 | 2.2 | - | - | - | 0.3 | 6.5 |
| Ecuador | - | - | - | - | 0.1 | 0.5 | - | - | - | - | 0.6 |
| El Salvador | - | - | - | - | 0.2 | 0.3 | - | - | - | - | 0.5 |
| Guatemala | - | - | - | - | 0.1 | - | - | 0.2 | - | - | 0.3 |
| Haiti | - | - | - | - | - | - | - | - | - | - | - |
| Honduras | - | - | - | - | - | - | - | - | - | - | - |
| Mexico | - | - | - | - | 0.5 | - | - | - | - | - | 0.5 |
| Nicaragua | - | - | - | - | - | - | - | - | - | - | - |
| Panama | - | - | - | 0.1 | - | - | - | - | - | - | 0.1 |
| Paraguay | - | - | - | - | - | - | - | - | - | - | - |
| Peru | - | 0.2 | - | - | 0.3 | - | - | - | - | 0.1 | 0.6 |
| Dominican Republic | - | - | - | - | - | - | - | - | - | - | - |
| Uruguay | 2.4 | 0.3 | 1.1 | 0.3 | 0.4 | 1.7 | - | 0.1 | - | - | 6.3 |
| Venezuela | - | - | - | - | 0.2 | 0.2 | - | - | - | - | 0.4 |
| Total 20 countries | 0.1 | 0.1 | 0.3 | 0.1 | 0.3 | 0.4 | - | - | 0.8 | 0.1 | 2.2 |
| Bahamas | 0.2 | - | 0.1 | - | - | - | - | - | - | - | 0.3 |
| Barbados | 0.3 | - | 0.2 | 0.2 | - | - | - | - | - | - | 0.7 |
| Guyana | - | - | 0.1 | 0.2 | - | - | - | - | - | - | 0.3 |
| Jamaica | 0.2 | - | 0.1 | - | - | - | - | - | - | - | 0.3 |
| Trinidad and Tobago | - | - | - | 0.1 | - | - | - | - | - | - | 0.1 |
| Total Latin America | 0.1 | 0.1 | 0.3 | 0.1 | 0.3 | 0.3 | - | - | 0.7 | 0.1 | 2.0 |

/Table 6 (concluded)

Table 6 (concluded)

| | Bananas (051.3) | Wheat (041) | Rice (042) | Beef (011.1) | Wool (262.1-262.2) | Iron ore (281.3) | Bauxite and alumina (283.3) | Total (17 products) |
|---|---|---|---|---|---|---|---|---|
| Argentina | 0.5 | - | - | - | - | 1.2 | 0.1 | 8.0 |
| Bolivia | - | 1.2 | - | - | 0.1 | - | - | 1.5 |
| Brazil | - | 3.4 | - | - | - | - | - | 6.0 |
| Colombia | - | 2.4 | - | - | 0.9 | - | - | 5.0 |
| Costa Rica | - | 1.6 | 0.3 | - | - | - | - | 2.3 |
| Cuba | - | 2.4 | 2.7 | - | - | - | - | 6.2 |
| Chile | 0.8 | 2.4 | 0.9 | 3.0 | 0.1 | - | - | 13.7 |
| Ecuador | - | 2.4 | - | - | 0.1 | - | - | 3.1 |
| El Salvador | - | 1.7 | 0.1 | - | - | - | - | 2.3 |
| Guatemala | - | 1.6 | 0.1 | - | - | - | - | 2.0 |
| Haiti | - | 8.1 | - | - | - | - | - | 8.1 |
| Honduras | - | 1.8 | 0.5 | - | - | - | - | 2.3 |
| Mexico | - | 0.7 | - | - | 0.4 | 0.1 | - | 1.7 |
| Nicaragua | - | 1.4 | - | - | - | - | - | 1.4 |
| Panama | - | 0.8 | 0.4 | - | - | - | - | 1.3 |
| Paraguay | - | 5.6 | - | - | - | - | - | 5.6 |
| Peru | - | 6.3 | - | 0.9 | - | - | - | 7.8 |
| Dominican Republic | - | 1.9 | 0.2 | - | - | - | - | 2.1 |
| Uruguay | 0.8 | 2.4 | - | - | - | - | - | 9.5 |
| Venezuela | - | 2.3 | - | - | - | - | - | 2.7 |
| Total 20 countries | 0.1 | 2.2 | 0.3 | 0.2 | 0.1 | 0.1 | - | 5.2 |
| Bahamas | - | - | 0.3 | 1.8 | - | - | - | 2.4 |
| Barbados | - | - | 1.0 | 1.6 | - | - | - | 3.3 |
| Guyana | - | 2.5 | - | - | - | - | - | 2.8 |
| Jamaica | - | 0.9 | 1.6 | 0.7 | - | - | - | 3.5 |
| Trinidad and Tobago | - | 0.6 | 0.8 | 0.6 | - | - | - | 2.1 |
| Total Latin America | 0.1 | 2.0 | 0.4 | 0.3 | 0.1 | 0.1 | - | 5.0 |

Sources: FAO, Trade Yearbook, 1973, and United Nations, International Trade Statistics, 1974.

a/ See note a/of table 1.

/Table 7

Table 7

VALUES, IN MILLIONS OF DOLLARS, OF EXPORTS AND IMPORTS OF THE COMMODITIES LISTED BELOW BY THE 25 COUNTRIES OF THE REGION

(Average 1970-1972)

| | Exports FOB | Imports CIF |
|---|---|---|
| 1. Sugar | 1 418.4 | 21.4 |
| 2. Cocoa | 124.0 | 16.1 |
| 3. Coffee | 1 912.1 | 49.7 |
| 4. Tea | 14.5 | 12.3 |
| 5. Natural rubber | 9.7 | 55.1 |
| 6. Cotton | 487.9 | 64.0 |
| 7. Sisal | 29.1 | 0.6 |
| 8. Jute | 1.1 | 4.0 |
| 9. Copper | 963.3 | 127.0 |
| 10. Tin | 122.1 | 11.2 |
| 11. Rice | 34.8 | 68.7 |
| 12. Wheat | 102.5 | 382.9 |
| 13. Beef | 668.1 | 55.0 |
| 14. Wool | 124.3 | 22.3 |
| 15. Alumina and bauxite | 306.3 | 3.0 |
| 16. Iron ore | 497.8 | 23.0 |
| 17. Bananas | 376.6 | 18.6 |
| Total | 7 192.6 | 934.9 |
| Total value of trade | 17 047.7 | 18 711.8 |
| Percentage of total trade accounted for by the 17 products | 42.2 | 5.0 |

Sources: Data taken from IBRD, Commodity Trade and Price Trends, 1975, and FAO, Trade Yearbook, 1974.

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For the majority of the countries it is the wheat imports which are of some importance. It may therefore be concluded that the cost-benefit ratio (higher cost of some imported products and higher incomes from export products) would seem to operate in favour of the majority of the countries of the region and that the exceptions could be approached through special arrangements, particularly in the case of imports of food.

"(f) Improvement and enlargement of compensatory financing facilities for the stabilization in real terms around a growing trend of export earnings of developing countries"

The developing countries have repeated here the position they have held for many years to the effect that it is necessary to liberalize and broaden the compensatory financing facility provided by the IMF. This repetition, made shortly after the Executive Directors of the Fund introduced some changes in the rules under which compensatory credits were granted, would seem to indicate that the developing countries find these changes inadequate and insufficient and are therefore inclined to see to it that UNCTAD IV should adopt a series of principles and recommendations on the subject to be submitted to the IMF for consideration.

The changes introduced are the following:

- To raise the ceiling of the drawings for this reason: up to 50 per cent of the member country's quota in any twelve-month period (previously 25 per cent), but without exceeding a total of 75 per cent of the quota (previously 50 per cent);

- Modification of the formula used to calculate the size of the export shortfall. The shortfall will continue to be calculated in relation to the average of the Member's export earnings for the five-year period centred on the shortfall year, but whereas in the previous formula the average earnings projected for the two years following the shortfall year could not be higher than 10 per cent of average earnings in the two years preceding the shortfall year, the new formula provides that: "in computing the five-year average, earnings in the two post shortfall years would be deemed to be equal

/to earnings

to earnings in the two pre-shortfall years multiplied by the ratio of the sum of earnings in the most recent three years to that in the three preceding years. If the Fund considers that the result of the computation under the previous sentence is not reasonable, the Fund, in conjunction with the Member, will use an estimate based on a judgmental forecast".1/ The Fund proposes to review the formula not later than 31 March 1977, and the decision as a whole when experience and developing circumstances make this desirable, but in any event the Fund will review the decision whenever (i) drawings under this decision in any twelve-month period exceed SDR 1.5 billion or (ii) outstanding drawings under this decision exceed SDR 3.0 billion.

The above changes certainly introduce greater flexibility in IMF policy with regard to compensatory financing, but do not appear to be sufficient to constitute a substantive change with respect to earlier practice in the field. The Group of 24 stated in this connexion:

"Ministers noted that the liberalization of the compensatory financing facility agreed to by the Executive Board feel far short of the expectations of the developing countries, and suggested that there should be an early review of the facility to:

(a) provide for shortfalls to be calculated in real terms;

(b) expand the facility and extend the repayment period."2/

In addition to the two aspects mentioned in the communiqué of the Group of 24, others should also be mentioned. Since by definition the compensatory financing facility is designed to aid the countries when their export earnings fall for reasons beyond their control, it seems unnecessary that they should in addition meet the requirement

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1/ Compensatory financing of exports fluctuations, Executive Board decision, 24 December 1975, IMF Survey, 12 January 1976, page 5.

2/ Press comuniqué issued in Kingston (Jamaica) on 7 January 1976 following the meeting of the Group of 24. IMF Survey, 26 January 1976, page 29.

of facing payments difficulties. In addition, this requirement of facing payments difficulties seems inconsistent with the other requirement that they should amortize the credits received in a relatively short period, whatever the balance-of-payments situation may be. It is also not very clear what the connexion is between the fact that the shortfall was produced by causes beyond the member's control and the fact that the country in question is subject to an increasing amount of conditionality in the use of the credits, conditionality which is manifested in the degree of acceptance by the country of the policies which the Fund suggests and solutions to its balance-of-payments difficulties.

It is possible that some of the changes in the IMF compensatory financing facility which have been discussed in recent years call for an amendment to the Fund's Articles of Agreement. This is particularly important if it is considered that the compensatory financing facility was fundamentally conceived to tackle the short-term fluctuations in the export earnings of the developing countries. During the deliberations of UNCTAD I, however, more emphasis was placed on the problems arising from adverse movements in export earnings, whose nature and duration could only be properly counteracted by long-term measures to support the balance of payments. The report of the Secretary-General to that Conference and its Final Declaration focused attention in particular on the need to provide long-term assistance through a supplementary financing mechanism which would enable the developing countries to avoid disruptions in their long-term development plans. To this end, recommendation A-IV-18 was adopted, which invited the World Bank to study the possibility of establishing a supplementary financing mechanism. Almost since the middle of the past decade until the beginning of the present one, both the World Bank and the Intergovernmental Group on Supplementary Financing of the UNCTAD were continuously involved in the discussion of proposals on this subject. At the beginning of the 1970s, however, it became clear that the proposals on supplementary financing did not have the support of important developed countries, and that the World Bank did not consider it relevant to continue to study this subject.

/II. THE

## II. THE UNITED STATES GENERALIZED SYSTEM OF PREFERENCES

The United States Generalized System of Preferences went into effect on 1 January 1976, as authorized in Title V of the Trade Act of 1974 and implemented through Executive Order 11888 of 24 November 1975.1/ This order designates beneficiary countries and articles eligible for GSP treatment. Three Latin American countries have been omitted from the list of beneficiaries: Cuba, Ecuador and Venezuela, the first owing to the long-standing interruption of trade relations between that country and the United States, and the latter two because of their participation in OPEP agreements and practices.

The main lines of the United States Generalized System of of Preferences, as included in the Trade Act of 1974, have been described in the Commission's study "Latin American Development and the International Economic Situation".2/ However, over the course of 1975 and the beginning of 1976 the lists of items proposed for inclusion in the scheme have undergone substantial modification and one of the purposes of including the subject of the preferences in the present document is to take these changes into account. A further motive for the inclusion is to emphasize the potential importance of the United States scheme for the Latin American countries - not only for their exports of manufactured goods but of primary products as well. It may be observed that since the Latin American area has already achieved a more sophisticated level of output than other developing regions, the preferences for manufactured products will be specially important to these countries.

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1/ Published in Federal Register, Volume 40, Nº 229 of 26 November 1975 (Amended by Executive Order 11906 of 25 February 1976).

2/ United Nations Economic Commission for Latin America, Latin American Development and the International Economic Situation, Second Regional Appraisal of the International Development Strategy, Part Two, pp. 87-93.

In general the United States system shows the result of efforts to make it a positive and meaningful one which does not repeat certain shortcomings to be found in similar schemes of other developed countries, such as the imposition of tariff quotas in the EEC's scheme. While recognizing that there are, from the developing countries' viewpoint, certain imperfections in its own scheme, the United States has recommended that these countries adopt a positive attitude and attempt to take maximum advantage of the opportunities it affords. From Latin America's viewpoint, the main flaws are fourfold, having to do with: (a) country coverage; (b) product coverage; (c) the nature of the rules of origin and (d) the operation of the competitive need formula. The problems arising from all four of these aspects have been under attack in the OAS and UNCTAD. The OAS has been pressing for the inclusion in the United States scheme of Ecuador and Venezuela, and, with respect to product coverage, has, in co-operation with governments prepared and pressed for inclusion of, an additional list of products of interest to the Latin American countries. Both organizations have been making detailed studies of the nature and probable effects of the other two limitations mentioned. In UNCTAD's analysis of the rules of origin they examine the practical significance of the 35 per cent and 50 per cent stipulations for indigenous production and point out that discrimination according to direct or indirect costs can effectively exclude important products which could otherwise be eligible for preferences.1/ In view of the greater complexity and somewhat amorphous character of the fourth type of limitation of the scheme, it has been deemed advisable to devote some rather scarce space in this document to an examination of its possible effects for Latin America.

1/ The analysis will not be repeated here but may be found in UNCTAD document TD/B/C.5/38 of 6 November 1975. "Review of the Schemes of Generalized Preferences of Developed Market-Economy Countries. Scheme of Generalized Preferences of the United States of America. Study by the UNCTAD Secretariat", pp. 28-33.

/With respect

With respect to eligible articles, Executive Order 11888 distinguishes between those listed in Annex II in respect of which all beneficiary countries and territories are eligible for preferential treatment, and a shorter list of items which are denied GSP treatment when imported from a specified country falling under the "competitive need" formula. According to this formula preferential treatment is denied to an individual beneficiary country when United States imports in a previous year of a product from it exceeded 25 million dollars or made up more than 50 per cent of total United States imports of the product. Of the beneficiaries affected for one or more product, sixteen are Latin American (Argentina, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, El Salvador and Trinidad and Tobago). Several Latin American countries are among those which have the highest percentage of exports covered by the scheme affected by the competitive need formula.1/ This subject will be dealt with in more detail at a later point in the text.

According to official United States information 2/ 67 per cent of Latin American exports to the United States in 1974 entered duty-free. It has been calculated that had the United States GSP been in effect in that year the figure would have been 75 per cent, corresponding, in absolute terms, to approximately one billion dollars. In other words, if the United States GSP had been in effect in 1974, an additional 107 million dollars of Latin America's export to the United States would have entered duty-free.

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1/ It should be noted that on 25 February 1976 the United States revised its list of competitive need exclusions, now that 1975 import data have become available; moreover this type of revision will be repeated every year as new information on imports becomes available. The 25 million dollars limit will likewise be increased in future years in proportion to the growth of United States gross national product. The preceeding list of countries is based on the 25 February revision.

2/ United States Department of State, United States Embassy in Santiago, Chile, <u>Noticias económicas</u>, Nº 81.

/The total

The total value of United States imports that would have been subject to GSP in 1974 is 25,000 million dollars, or about one quarter of the total value of United States imports from the world in the same year. 2,720 items are now eligible for preferences, including agricultural, primary, semi-manufactured and manufactured goods. As time goes by, additional items can be added to the list.

However, the fact that total United States imports in 1974 of products eligible for preferences as of 1 January 1976 corresponds to about one quarter of all United States imports and that this quarter was valued at 25 billion dollars cannot be evaluated in isolation from other very relevant data. In the first place, imports of eligible articles from beneficiary countries accounted for only 2.6 per cent of total United States imports in 1974.1/ This means that the bulk of the United States GSP-favoured products have until now been traded between developed countries and in the case of those products where United States customs duties have been high enough to present the main barrier to imports from developing countries, the new system will of course be a positive stimulus to the latter's exports. In which cases these duties have been the main barrier cannot be clear without detailed case by case study; competitive conditions in the world market and other factors can sometimes mean that a low duty of 5 or 6 per cent is enough to keep a developing country's product from being imported whereas in other cases barriers of 10 per cent or more can be overcome. Moreover, as has been pointed out elsewhere, the advantage that will be taken of the GSP will depend, at least in part, on the ability of developing countries to produce with adequate quality control and to market products skillfully.

In the second place, the operation of the competitive need formula means a sizeable reduction of the benefits that the United States GSP could otherwise have for Latin America and other

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1/ United States Department of State, Bureau of Public Affairs, Gist., February 1976.

/developing countries.

developing countries. Table 1 shows United States imports in 1973 from designated beneficiary Latin American countries of products now included as eligible for the GSP. Column 1 provides these data as they would stand if the competitive need formula (described earlier) would not be applied, whereas column 2 shows the erosion of the preferences after application of the formula.

It will be noted that two sets of figures have been provided in column 2, showing value of United States imports from Latin American countries covered by the GSP after application of the competitive need formula. The first set is based on data appearing in United States Executive Order 11844 of 24 March 1975 whereas the second set is based on Executive Order 11888 of 24 November 1975 which incorporated changes resulting from public hearings to investigate anticipated repercussions of the United States GSP on the United States economy. The analysis of the hypothetical coverage of the system with respect to 1973 imports from Latin America was made by UNCTAD for all developing countries. In view of the data shifts occurring for many countries as a result of the hearings it has been considered of interest to present both sets of figures. As mentioned in a footnote to Table 1, a further revision made by the United States Government in Executive Order 11906 of 25 February 1976 has been received too late to permit additional revision of the tables. This new order adds 37 new exclusions in the case of Latin America and removes 26. These changes have to be examined of course in the light of trade values for the countries and products concerned in order to determine their real economic significance.

According to this latest list of exclusions, only seven Latin American countries, out of a possible twenty-five, are at present eligible for GSP for all 2,720 items included in the United States scheme. These are the Bahamas, Barbados, Bolivia, Guatemala, Paraguay, El Salvador and Uruguay. According to UNCTAD's analysis of the November list, in the case of sixteen out of twenty-two so-called "eligible" countries, less than half of 1973 imports of dutiable products are covered by GSP after the application of the formula.

/Table 1

Table 1

UNITED STATES IMPORTS IN 1973 FROM DESIGNATED BENEFICIARY LATIN AMERICAN COUNTRIES

(Values in US$ 000 000)

| | Products included in the GSP | | | | Shares | |
|---|---|---|---|---|---|---|
| | 1<br>Before applying competitive need formula a/ | | 2<br>After applying competitive need formula a/ | | Column 2 / Column 1 (percentages) | |
| | 24 March List | 24 Nov. List | 24 March List | 24 Nov. List | 24 March List | 24 Nov. List |
| Argentina | 121.1 | 60.5 | 53.8 | 38.4 | 44.4 | 63.5 |
| Bahamas | 17.9 | 17.5 | 17.9 | 17.5 | 100.0 | 100.0 |
| Barbados | 7.3 | 5.8 | 7.3 | 5.7 | 100.0 | 100.0 |
| Bolivia | 1.9 | 1.9 | 1.9 | 1.9 | 100.0 | 100.0 |
| Brazil | 337.9 | 269.2 | 193.1 | 223.3 | 57.2 | 83.0 |
| Colombia | 32.4 | 25.8 | 32.4 b/ | 25.8 b/ | b/ | b/ |
| Costa Rica | 21.8 | 19.8 | 21.8 | 3.2 | 99.7 | 16.2 |
| Chile | 77.7 | 77.5 | 2.6 | 41.6 | 3.3 | 53.7 |
| El Salvador | 11.6 | 11.2 | 11.6 | 11.2 | 100.0 | 100.0 |
| Guatemala | 15.7 | 15.3 | 15.7 b/ | 15.3 b/ | 100.0 b/ | 100.0 b/ |
| Guyana | 7.3 | 7.3 | 7.3 | 7.3 | 100.0 | 100.0 |
| Haiti | 25.3 | 20.8 | 16.1 | 11.6 | 63.5 | 56.0 |
| Honduras | 10.4 | 10.4 | 9.6 | 9.7 | 92.6 | 93.1 |
| Jamaica | 13.7 | 4.0 | 13.6 | 3.9 | 99.1 | 97.6 |
| Mexico | 1 076.5 | 660.5 | 429.7 | 462.4 | 39.9 | 70.0 |
| Nicaragua | 14.3 | 13.8 | 14.3 | 13.8 | 99.8 | 99.7 |
| Panama | 11.5 | 11.3 | 11.5 | 11.3 | 100.0 | 100.0 |
| Paraguay | 13.9 | 7.6 | 13.6 | 7.6 | 97.5 | 100.0 |
| Peru | 188.2 | 188.0 | 30.3 | 188.0 | 16.1 | 100.0 |
| Dominican Republic | 161.8 | 158.2 | 23.0 | 151.5 | 14.2 | 96.0 |
| Trinidad and Tobago | 6.9 | 6.4 | 6.2 | 5.7 | 90.2 | 89.4 |
| Uruguay | 7.4 | 5.8 | 7.4 | 5.8 | 100.0 | 100.0 |
| Total c/ | 2 182.5 | 1 598.6 | 940.7 b/ | 1 262.7 b/ | 43.1 b/ | 79.0 b/ |

Sources: UNCTAD derived from: Annex VI, TD/B/C.5/38 of November 1975 "Review of the schemes of generalized preferences of developed market-economy countries. Schemes of generalized preferences of the United States of America"; and TD/B/C.5/38/Add.1 of 6 January 1976, Annex II.

a/ These figures presented in two separate columns, were arrived at on the basis of two different Executive Orders of the United States. The first is Executive Order 11844 of March 24, 1975, and the second, which superseded the first, is Order 11888 of November 24, 1975. The differences between one column and another reflect the results of the Public Hearings in the United States to determine the anticipated effects on the United States economy of implementation of the proposals of 24 March.

b/ As shown in UNCTAD documents cited above. However, Executive Order 11888 implementing the GSP shows Colombia excluded in the cases of TSUS 155.20 and 365.05 and Guatemala in the case of 155.20. The 25 February revision of the Order circulated by UNCTAD in their document TD/B/373/Add.5/Amend.1, dated 15 March 1976, does not, however, exclude Guatemala. This revision was received too late to permit a complete modification of tables 1 and 2.

c/ Discrepancies in addition are due to rounding.

/In the

In the third place, if account is taken of the fact that three Latin American countries (Cuba, Ecuador and Venezuela), are for the present at least, excluded from preferences on all 2,720 TSUS items, then the erosion of the scheme through the application of the competitive need formula is even more significant for the region as a whole.

Table 2 has been prepared to show the relationship between dutiable imports and total imports of the United States from the Latin American countries as well as the portion of all dutiable imports made up by those effectively covered by the GSP. In the case of only ten countries did dutiable imports covered by effective preferences make up more than 32 per cent of all dutiable imports. In the case of only seven countries was the ratio of dutiable imports to total imports less than 41 per cent. Without going into the question of levels of duties in the present analysis, the table, based on UNCTAD's figures, would indicate that a very significant portion of Latin America's exports to the United States is still subject to customs duties.

The Secretariat of the Organization of American States has published a list 1/ of additional products of interest to Latin American countries for inclusion under the United States GSP, and has indicated those whose exclusion is not mandatory under the terms of The Trade Reform Act of 1974. Inclusion of such items in the scheme would mean considerable progress in extending the coverage of its benefits for Latin America, but this inclusion would not be a satisfactory substitute for benefits eroded through the competitive need formula.

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1/ OAS/Ser.H/XIII, CIES/CECON-COMERCIO/95, 16 January 1976, "Lista adicional de productos de América Latina: identificación de las partidas arancelarias de acuerdo a disposiciones de la Ley de Comercio Exterior de Estados Unidos sobre productos elegibles para el SGP".

/Table 2

Table 2

UNITED STATES IMPORTS IN 1973 FROM DESIGNATED BENEFICIARY LATIN AMERICAN COUNTRIES

(Values in US$ 000 000)

| Beneficiary countries | 1<br>Total imports | 2<br>Dutiable imports | 3<br>Dutiable imports covered by preferences a/ b/<br>24 March List | <br><br>24 Nov. List | 4<br>Shares<br>Column 2 / Column 1 | 5<br><br>Column 3 / Column 2<br>24 March List | 6<br><br>Column 3 / Column 2<br>24 Nov. List |
|---|---|---|---|---|---|---|---|
| Argentina | 259.6 | 221.7 | 53.8 | 38.4 | 85.4 | 24.3 | 17.3 |
| Bahamas | 273.5 | 245.2 | 17.9 | 17.5 | 89.7 | 7.3 | 7.2 |
| Barbados | 11.3 | 10.6 | 7.3 | 5.8 | 94.1 | 69.2 | 54.2 |
| Bolivia | 33.9 | 6.7 | 1.9 | 1.9 | 19.8 | 29.0 | 28.5 |
| Brazil | 1 142.9 | 530.3 | 193.1 | 223.3 | 46.4 | 36.4 | 42.1 |
| Colombia | 393.7 | 88.3 | 32.4 c/ | 25.8 c/ | 22.4 | 36.7 c/ | 29.2 c/ |
| Costa Rica | 139.6 | 64.0 | 21.8 | 3.2 | 45.9 | 34.0 | 5.0 |
| Chile | 102.3 | 82.9 | 2.6 | 41.6 | 81.0 | 3.1 | 50.2 |
| El Salvador | 117.7 | 26.2 | 11.6 | 11.2 | 22.3 | 44.1 | 42.6 |
| Guatemala | 165.8 | 47.3 | 15.7 c/ | 15.3 c/ | 28.6 | 33.1 c/ | 32.3 c/ |
| Guyana | 44.6 | 7.5 | 7.3 | 7.3 | 16.9 | 96.5 | 96.4 |
| Haiti | 60.2 | 41.6 | 16.1 | 11.6 | 69.1 | 38.6 | 27.8 |
| Honduras | 144.2 | 41.5 | 9.6 | 9.7 | 28.8 | 23.8 | 23.3 |
| Jamaica | 171.1 | 24.2 | 13.6 | 3.9 | 14.1 | 56.2 | 16.3 |
| Mexico | 2 165.9 | 1 652.0 | 429.7 | 462.4 | 76.3 | 26.0 | 28.0 |
| Nicaragua | 105.4 | 66.1 | 14.3 | 13.7 | 62.7 | 21.6 | 20.8 |
| Panama | 59.1 | 24.4 | 11.5 | 11.3 | 41.3 | 47.2 | 46.3 |
| Paraguay | 19.9 | 15.6 | 13.6 | 7.6 | 78.4 | 86.8 | 49.1 |
| Peru | 310.2 | 222.2 | 30.3 | 188.0 | 71.6 | 13.7 | 84.6 |
| Dominican Republic | 304.5 | 184.6 | 23.0 | 151.5 | 60.6 | 12.5 | 82.1 |
| Trinidad and Tobago | 364.9 | 340.6 | 6.2 | 5.7 | 93.3 | 1.8 | 1.7 |
| Uruguay | 12.3 | 9.3 | 7.4 | 5.8 | 75.3 | 79.8 | 62.5 |
| Total d/ | 6 402.7 | 3 952.8 | 940.7 c/ | 1 262.7 c/ | 61.7 | 23.8 c/ | 31.9 c/ |

Sources: UNCTAD, derived from: (a) Annex VI, TD/B/C.5/38 of 6 November 1975 and (b) Annex II of TD/B/C.5/38/Add.1 of 6 January 1976.

a/ See Note a/ in table 1.

b/ After exclusions due to the operation of the competitive need formula.

c/ See Note b/ in table 1.

d/ Discrepancies in addition are due to rounding.

/At the

At the Sixth Ordinary Meeting of the Special Commission on Consultation and Negotiation of CIES, which took place in Washington D.C. in February 1976, the Latin American countries expressed their concern that as a result of the confidential nature of the objections presented at the Public Hearings of the United States International Trade Commission concerning the inclusion in the Generalized System of Preferences of certain products of special interest to the Latin American countries, it would not be possible to continue efficiently the consultations and negotiations between these countries and the United States and arrive at positive results. On the other hand, the Meeting received with interest the offer of the United States to provide technical assistance to the developing countries in order that they might take full advantage of the system once it would go into effect. Two subjects of considerable importance to the Latin American countries are reflected in formal declarations made at the meeting: In the first, the Latin American countries call on the Government of the United States to adopt measures leading to approval of draft amendments to the Trade Act of 1974 in order to permit the inclusion of Ecuador and Venezuela in the list of beneficiary countries.1/ The second declaration, which appeared in Annex II of the document just cited called on that country to take into account the interest shown by Latin America and indicated in the lists of products presented to the meetings of the *Ad Hoc* Trade Group in Guatemala and Washington D.C. and which was ratified in the declaration in its totality. (This is the list of additional products referred to earlier in the present text.)

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1/ OEA, CIES, OEA/Ser.H/XIII, CIES/CECON/229 Rev. 1 of 13 February 1976. Annex I. "Informe de Secretaría a la VI Reunión Ordinaria de la Comisión Especial de Consulta y Negociación".

/III. THE

## III. THE EXTERNAL DEBT OF LATIN AMERICA

### 1. Present situation and prospects of external financing

The external financing needs of Latin America have become more acute recently, as a result of a greater deficit in the current account of its balance of payments. In fact, during the biennium 1974-1975 the countries of the region experienced a marked deterioration in their current account, running an average annual deficit of 9,550 million dollars, compared with the period 1970-1973, in which the annual average was 4,000 million dollars; in other words, the situation in the current account worsened in the period under consideration, the deficit being almost two and a half times higher.

The situation of the non-oil-exporting Latin American countries was even worse, for their deficit rose from an average of 3,750 million dollars on current account, in the period 1970-1973, to one of 14,750 million dollars as an average for the biennium 1974-1975; in other words the deficit mentioned quadrupled.

The situation just described, with all that it implies, is due to the increase in import prices for capital and intermediate goods, the increase in oil prices, the effects of the recession in the industrial world which affected both the volume and the prices of important export products of the region, and the increase in the payment of the servicing of foreign capital.

It seems necessary to mention that the deficit mentioned above occurred in spite of the fact that in 1975 the majority of the non-oil-exporting countries of the region reduced their imports in real terms, and furthermore suffered a drop in the growth rate of the GDP which fell to 2.2 per cent, since the rate for the period 1970-1974 was 6.9 per cent.

/In addition

In addition to the foregoing, it ought to be pointed out that several non-oil-exporting countries borrowed large sums in 1974 and 1975 to cushion the effect of the deficit on imports and domestic growth. These loans were largely obtained in the market, and were characterized by periods of maturity which were shorter and costs which were much higher than those obtained for official bilateral and multilateral flows, which made their debt servicing particularly onerous for the immediate future.

For 1976, according to the estimates of the international financial institutions, it is expected that the non-oil-exporting Latin American countries will have a deficit on current account lower than that of 1975, by some 2,000 to 3,000 million dollars, in other words, a deficit in the region of 12,200 to 13,200 million dollars is expected. The smaller deficit expected for 1976 is mainly the result of the reactivation of exports (in volume and value) because of the anticipated cyclical recovery in the industrial countries. Moreover, it is felt that several countries of the region, either because of inflationary problems, the level of reserves, high external indebtedness and/or restricted capacity for obtaining loans will be handicapped in their attempts to increase their imports in an effort to recover and to accelerate their rate of economic growth.

It should not be forgotten that unless there is a substantial recovery in the value of exports, the drop in the deficit estimated for the Current Account of the non-oil-exporting countries of the region will depend on a lower volume of imports (as a result of exchange, income, fiscal, and monetary policies, or restrictions in the use of, or access to external finance and/or reserves) and as a result on a reduction in the level of economic activity and/or employment, with the resulting decline in the rate of economic growth. That is to say, that the deficit will increase if the countries try to maintain or accelerate their rate of development. Moreover, it seems important to mention that, in spite of the

/reduction planned,

reduction planned, the deficit on current account of the Latin American countries mentioned, is expected to be, as in 1974 and 1975, the highest of all the non-oil-producing developing regions (Africa, Asia, Latin America and the Caribbean, and the Middle East).

As a result, although prospects for 1976 point to a smaller deficit than that recorded in 1975, it should be borne in mind that such a result can be achieved to some extent at the cost of reduced economic growth and, in addition, that a deficit of the size mentioned, for the third consecutive year, requires a continued substantial net flow of resources, particularly in view of the growth of the external debt of the countries of the region, the change in its composition, the terms under which they were obtained and the drop in the level of international reserves. The external financing of Latin America at levels (and under terms) which are "necessary" (as a suitable complement for both the formation of regional capital and the efforts needed to solve balance-of-payments problem) is one of the most important and pressing problems facing the region.

## 2. The excessive external debt

The level and rate of growth of the publicly guaranteed external public and private debt of the countries of the region are very high and involve a high annual outlay of foreign exchange. In fact, as table 1 shows, at the end of 1973, the debt amounted to 25,900 million dollars and in recent year its rate of growth doubled that of the 1960s.

/Table 1

Table 1

LATIN AMERICA: PUBLICLY GUARANTEED PUBLIC AND PRIVATE EXTERNAL DEBT a/

(Millions of dollars)

| | 1960 | 1965 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|
| Total Latin America | 5 800 | 9 276 | 15 842 | 18 150 | 21 520 | 25 897 |
| Non-oil exporting countries | 5 295 | 8 649 | 14 382 | 16 323 | 19 165 | 23 400 |

| Rates of growth: | 1960-1965 | 1965-1970 | 1970-1971 | 1971-1972 | 1972-1973 |
|---|---|---|---|---|---|
| Total Latin America | 9.9 | 11.3 | 14.6 | 18.6 | 20.3 |
| Non-oil exporting countries | 10.3 | 10.7 | 13.5 | 17.4 | 22.1 |

Source: World Bank, World Debt Tables E.C. - 167/75, 31.X.75.

Note: Latin America including Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Trinidad and Tobago, Uruguay and Venezuela.

The oil-exporting countries of the region include Bolivia, Ecuador, Trinidad and Tobago, and Venezuela.

a/ Undisbursed.

/The balance-

The balance-of-payments situation for 1974 and 1975 suggests that these figures have been largely exceeded. Preliminary estimates for 1974 (on the basis of information on some non-oil exporting countries of the region, which since 1970 account for a more or less fixed percentage of the debt of all the non-oil-exporting countries of the region) show that these Latin American countries would have increased their net official and private publicly guaranteed debt by approximately 8,000 million dollars as a result of which the debit balance for this type of debt at that date would be approximately 32,000 million dollars. The rate of growth of the net debt of these countries of the region in 1974 is probably around 37 per cent, a figure almost 4 times higher than the average annual growth rate of the debt in the previous decade, and more than double that of the average growth rate in the period 1970-1973. It should be noted that the estimate just given did not include information on Brazil nor Argentina, countries (particularly the first) for which there are no preliminary figures for supporting these projections.

It is important to note that the external debt table is over simplified when speaking of Latin America as a whole, for the situation in the different countries is highly varied. Towards the end of 1973, the bulk of the official and publicly guaranteed debt of the region (75 per cent) was concentrated in five countries: Brazil, Mexico, Argentina, Chile and Colombia, all of them non-oil-exporting countries, but with marked differences as regards access to international capital markets, the flow of direct foreign investment, availability of international reserves, external trade possibilities, stability in economic policies, growth and diversification of the export sector, etc.

/In addition

In addition to the problems raised, it is important to point out that the evolution of the external debt structure of Latin America is unfavourable. In fact, as can be seen in table 2 the official bilateral debt has been falling (as a percentage) systematically in recent years, for in 1976 it amounted to 39 per cent of a total of the Latin American debt, whereas in 1973 it amounted to only 26 per cent. Similarly, whereas the total of the publicly guaranteed debt increased during that period by 140 per cent, that from the private sector (also publicly guaranteed) increased by 200 per cent, and bank loans increased at a rate of 570 per cent. The latter which represented 9 per cent of the total debt towards the end of 1967, exceeded 25 per cent in 1973.

It is interesting to note, in addition to the level, growth, and structure of the debt, the relative situation of its servicing. As can be seen in table 3, for the non-oil-exporting countries of the region the annual cost in the servicing of the external private public debt publicly guaranteed was in the region of 3,800 million dollars in 1973. There is a marked increase in payments in this connexion compared with figures for the years 1970-1972, for they are almost three times higher than the annual disbursement for the 1960s.

This debt servicing has been increasing systematically and rapidly showing a rate of 35 per cent between the years 1972-1973.

For 1974, debt service estimates, on the basis of preliminary figures for the countries mentioned previously, show an annual disbursement approximately 12 per cent higher than that for the year 1973.

The discrepancy between the high volume estimate and the increased growth of the debt and the possible decrease in its servicing seems to be due, in addition, to the scanty information which served as the basis of these projections, the fact that a substantial part of the debt in 1974 was short-term and/or compensatory in nature, as a result of which its servicing was not taken into account in the figures in table 3.

/Table 2

Table 2

LATIN AMERICA: EXTERNAL PUBLIC DEBT OUTSTANDING a/ BY TYPE OF CREDITOR AT THE END OF THE YEAR

(Millions of dollars)

| | 1967 | 1970 | 1973 |
|---|---|---|---|
| Bilateral official | 5 800 | 6 737 | 9 362 |
| Multilateral | 3 298 | 5 028 | 8 394 |
| Private | 5 963 | 9 091 | 17 649 |
| Suppliers | 2 574 | 3 938 | 4 708 |
| Banks | 1 378 | 2 460 | 9 167 |
| Others | 2 012 | 2 693 | 3 774 |
| Total | 15 061 | 20 856 | 35 404 |

Source: World Bank, Annual Report 1975, Table 4.

a/ Includes the undisbursed portion.

/Table 3

Table 3

LATIN AMERICA: SERVICING OF THE PUBLIC AND PRIVATE EXTERNAL DEBT PUBLICLY GUARANTEED a/

(Millions of dollars)

| | 1960 | 1965 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|
| Total Latin America | 1 398 | 1 771 | 2 491 | 2 702 | 3 051 | 4 116 |
| Non-oil exporting countries | 1 260 | 1 687 | 2 355 | 2 513 | 2 786 | 3 762 |

| Rates of growth: | 1960-1965 | 1965-1970 | 1970-1971 | 1971-1972 | 1972-1973 |
|---|---|---|---|---|---|
| Total Latin America | 4.9 | 7.1 | 8.4 | 13.0 | 34.9 |
| Non-oil exporting countries | 6.0 | 6.9 | 6.7 | 10.9 | 35.0 |

Source: World Bank, World Debt Tables. E.C. - 167/75, 31.X.75.

a/ Undisbursed.

/It should

It should be noted that the figures and projections considered so far do not include the private debt which was not publicly guaranteed (regardless of maturity dates), nor the compensatory debt, nor loans for less than one year. It appears worthwhile to provide some information which shows the degree to which the results are underestimated from taking account of only the public and private debt publicly guaranteed.

In table 4 it can be seen that in 1973 the non-oil-exporting countries of the region paid 6,900 million dollars in debt servicing, in other words 80 per cent more than the value of servicing the public debt officially guaranteed. Note that this table does not include either compensatory nor short-term debt retirement with the result that the "total" debt servicing in that year was at least double that indicated in table 3.

In studying trends in the debt servicing ratio as regards the balance-of-payments and restricting it to official servicing (or publicly guaranteed servicing), it can be seen that from 1970 to 1973 the margins by which the latter was underestimated were increasing. In fact, as table 4 shows, in 1970 the "effective" debt servicing of non-oil-exporting Latin American countries was 45 per cent higher than that under official commitments, a figure which has been increasing systematically, the difference being 82 per cent in 1973. In view of the greater indebtedness towards the private sector in 1974-1975, the International Monetary Fund, and the short-term debt in general incurred by these countries over the last two years, it does not seem exaggerated to argue that current debt servicing is more than double that which can be deduced from the publicly guaranteed debt only.

As a result, the situation of Latin American external debt and its future projections, particularly as a result of the change in sources of finance in recent times, is worse than appears from information based only on the external and public debt publicly guaranteed.

/Table 4

Table 4

LATIN AMERICA: EXTERNAL DEBT SERVICING ON THE BASIS OF BALANCE-OF-PAYMENTS DATA AND ANNUAL GROWTH RATES

(Millions of dollars)

| | 1960 | 1965 | 1970 | 1971 | 1972 | 1973 | 1974 |
|---|---|---|---|---|---|---|---|
| Total Latin America a/ | 1 264 | 1 950 | 3 569 | 4 100 | 5 075 | 7 213 | 8 643 |
| Non-oil exporting countries | 1 010 | 1 881 | 3 410 | 3 873 | 4 811 | 6 851 | 8 075 |

| Rates of growth: | 1960-1965 | 1965-1970 | 1970-1971 | 1971-1972 | 1972-1973 | 1973-1974 |
|---|---|---|---|---|---|---|
| Total Latin America | 9.1 | 12.8 | 14.9 | 23.8 | 42.1 | 19.8 |
| Non-oil exporting countries | 13.2 | 12.6 | 13.6 | 24.2 | 42.4 | 17.9 |

Source: ECLA on the basis of IMF data, Balance of Payments Yearbook.

a/ Includes Barbados and Haiti.

/3. Need

### 3. Need for additional external financing: new sources

In addition to the new debts contracted by the non-oil-exporting countries of the region and the burden of their servicing, there are other elements which tend to impair the access of Latin American countries to international financing, in the amount and under the terms needed if their prospects, both conjunctural and long-term, for sustained economic development are not to be seriously limited.

First, for the first time in recent years, the non-oil-exporting Latin American countries had to weaken their international reserves position in 1974 in order to finance the enormous deficit mentioned earlier. A similar situation occurred in 1975, though to a greater degree, with a drop in reserve holdings of approximately 2,000 million dollars, amounting to a total drop for the biennium of 2,800 million dollars. While the level of reserves was dropping, imports were increasing, and the reserves - value ratio of imports of goods dropped from a level of 60 per cent in 1973 to 33 per cent in 1974, and amounted to only 26 per cent in 1975.

Similarly, the non-oil-exporting countries of the region have been increasing their debt with the International Monetary Fund recently. In fact, the bulk of this type of debt was accumulated in 1974 and 1975; in particular, total net drawings with IMF amounted to 1,300 million dollars as at 31 January 1976; of the net drawings accumulated at January 1975 more than 50 per cent was transferred over the last twelve months.

Another factor which probably points towards the growing need for external finance by the non-oil-exporting countries of the region is the increase in loans contracted by Latin America in the Euromoney market. As can be seen from table 5, the credits in Eurodollars declared by the countries mentioned earlier increased from 428 million dollars in 1971 to 5,314 million dollars in 1975 a figure which represents more than 60 per cent of the total credits declared in Eurodollars granted to all the non-oil-exporting developing countries.

/Table 5

Table 5

LATIN AMERICA: CREDITS IN EURODOLLARS DECLARED BY COUNTRIES

(Millions of dollars)

| | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|
| Oil-exporting countries | 78 | 259 | 107 | 132 | 350 |
| Non-oil exporting countries | 428 | 1 607 | 3 708 | 4 421 | 5 313 |
| Argentina | 50 | 244 | 87 | 559 | 34 |
| Brazil | 212 | 577 | 718 | 1 668 | 2 069 |
| Colombia | - | 90 | 170 | 8 | 100 |
| Costa Rica | - | - | 11 | 10 | 46 |
| Mexico | 140 | 490 | 1 572 | 1 478 | 2 159 |
| Nicaragua | 10 | 15 | 92 | 51 | 55 |
| Panama | 16 | 40 | 251 | 101 | 125 |
| Peru | - | 147 | 734 | 366 | 423 |
| Dominican Republic | - | 4 | 15 | 20 | - |
| Uruguay | - | - | - | - | 130 |
| El Salvador | - | - | - | 50 | 45 |
| Guyana | - | - | 12 | 15 | 24 |
| Jamaica | - | - | 36 | 95 | 103 |
| Haiti | - | - | 10 | - | - |
| Total Latin America | 506 | 1 866 | 3 815 | 4 553 | 5 663 |
| Total non-oil exporting developing countries | 1 043 | 2 818 | 6 253 | 8 957 | 8 298 |

Source: OECD, Development Co-operation, Review 1975, p. 245. IMF, Survey, 23 February 1976.

/Furthermore, it

Furthermore, it was shown in the table mentioned, that the number of non-oil-exporting countries of the region which had contracted debts in Eurodollars in the private capital market increased from 5 in 1971 to 13 in 1975, although it ought to be pointed out that Brazil and Mexico received almost 3/4 of the total of credits granted to those countries of the region. Similarly, Argentina which appears with a relatively small debt, is the country which received most of the credits granted by IMF to those countries already mentioned.

Borrowings in the market in general, and in the Euromoney market in particular, are the most costly and risky components of the principal sources of capital of Latin American countries, and the maturity dates of the resulting debt are usually medium-term, compared with the longer maturity and grace periods characteristic of bilateral and multilateral official flows. In the case of credits in Eurodollars, for the developing countries the percentage of operations with maturity periods between 1 and 6 years increased from 18 per cent in 1974 to more than 75 per cent towards the end of 1975, whereas those contracted for more than 7 years dropped, in the same period, from 76 to only 20 per cent of the total of these operations in the last quarter of 1975.

Furthermore, these loans (market) not only have a shorter maturity period but also bear the highest costs of the funds obtained in international credit markets, since they have no concessional element. Moreover, during 1975 the interest rate margins increased on loans in Eurodollars in Latin American countries, compared with those in force towards the end of 1974.

As a result, although some of the countries of the region could resort to this relatively new form of financing, the maturity period and the cost of these funds are largely responsible for increasing the debt servicing burden.

/4. Latin

## 4. Latin America and international financing

It seems desirable to stress some considerations which tend to show a degree of discrimination as regards the Latin American countries in general, and the non-oil-exporting Latin American countries in particular, compared with the remaining developing countries.

As table 6 shows, the conditions under which loans have been granted to Latin America compared with those offered to other geographic regions have been deteriorating both in terms of maturity and grace periods as well as in terms of interest rates and, as a result, in terms of their concessional element.

From the point of view of the structure of external debt, Latin America in 1973, compared with other geographic regions, had an official bilateral debt which amounted to 26 per cent of its indebtedness, whereas for the rest of the world this percentage was 56 per cent. Similarly, the debt contracted in the foreign private sector by Latin America represented more than 50 per cent of its total debt, whereas for other regions this debt did not exceed 25 per cent.

As regards trends in Official Development Assistance (ODA) directed towards Latin America, neither did this show any favourable tendency. In fact, of the total of net flows from the member countries of the Development Assistance Committee (DAC), including both bilateral and multilateral direct investment, Latin American countries saw the ODA flows fall systematically from 17 per cent in 1971 to only 10 per cent in 1974. On the other hand, the other developing countries not only maintained the ODA ratio to the remainder of external net financing from the same source stable, but, in addition, ODA represents approximately 50 per cent of total resources from DAC member countries.

Most of the concessional credits and other official flows tend to be channelled towards the least developed countries, a category into which very few Latin American countries fall. The criterion

/Table 6

Table 6

AVERAGE CONDITIONS OF LOANS COMMITTED, BY REGIONS

| | Maturity period (years) | | Grace period (years) | | Interest (percentage) | | Grant element (percentage) | |
|---|---|---|---|---|---|---|---|---|
| | 1967 | 1973 | 1967 | 1973 | 1967 | 1973 | 1967 | 1973 |
| Latin America | 13.8 | 13.8 | 4.3 | 4.2 | 5.6 | 8.2 | 26 | 10 |
| Africa | 18.3 | 22.6 | 4.2 | 5.8 | 3.4 | 4.5 | 43 | 40 |
| East Asia | 14.4 | 23.2 | 3.9 | 6.1 | 4.4 | 5.1 | 33 | 36 |

Source: World Bank, Annual Report, 1975.

/applied is

applied is that of taking per capita income as an indicator of well-being and, as a result, its level represents, inversely, the need for external aid in the development effort. Although the foregoing seems valid, no less so is the criterion of balance-of-payments difficulties, which are more characteristic of the continent (particularly among the non-oil-exporting countries), and which requires in order to achieve equilibrium, a high sacrifice in terms of the level of economic activity. Moreover, of the information provided in the previous paragraphs concerning the geographical distribution of all the ODA loans, what has just been said aims at showing that Latin America and the Caribbean received, on average, 31.5 per cent of the loans of the World Bank Group between 1964 and 1968, 27.8 per cent between 1969 and 1973, and somewhat less than 21 per cent 1/ in 1975.

### 5. The effects of world inflation

There is an additional element which tends to strengthen the impression that difficult times lie ahead for the region's external sector. As a result of world inflation in recent years, nominal market interest rates rose during 1975, and particularly 1974, far above former levels. 2/ The debt from private sources and multilateral institutions which obtain funds in the international financial market has also been incurred at high interest rates, precisely in the years 1973 and 1974 (in which the rate of growth of the public and private external debt publicly guaranteed was 22 per cent - 1973 - and it is estimated at approximately 35 per cent for 1974) therefore, as the world economy becomes stabilized and the rates of interest return to "normal" levels, those international loans which were contracted at fixed nominal interest rates would make debt servicing over the years ahead particularly onerous. 3/

1/ Source: World Bank, Annual Report 1975, p. 13.

2/ In fact, the rate of interest of the London Eurodollar (three-month deposits), which during the period 1970-1972 on average 6.85 per cent, rose in 1973 to 9.24 per cent, and in 1974 to an average of approximately 11 per cent.

3/ In 1975 the rate of interest described in footnote 2/ dropped to 7 per cent, and already in January 1976 was, in the region, of 5.5 per cent.

An argument which is frequently used in international circles, and in particular in the industrialized countries is that owing to world inflation the real value of the external debt of the countries would fall, so that in fact they would be receiving greater aid through this subsidy than would have been granted by the creditor countries.

It seems important that some reservations should be made as regards the preceding argument, for, although it is true that the flow of resources from the debtor countries falls in real terms for the creditor, what is of genuine importance to the debtor is the cost in terms of the use of his own resources which debt servicing implies. In this respect, the trend in the terms of trade is of fundamental importance. If the export and import prices of the debtor country change in line with the world inflation rate, there is no doubt that such a country would benefit from having its debt fixed in nominal terms. If the terms of trade are favourable to that country, debt servicing would mean that a smaller portion of real resources than that required in the previous case would be used.

However, if the terms of trade deteriorate, this would have the opposite effect to that of world inflation on the debt, there being a "critical" deterioration in which the debtor country neither gains nor looses as a result of the effect of international inflation on the real value (in terms of its own resources which are used for paying the debt) of its indebtedness. If the terms of trade fall below the "critical" level, the net effect of world inflation (changes in price levels) and of the change in the terms of trade (changes in relative prices) becomes negative, with the result that the debtor country must use more ot its real resources to service the debt than those that would have been used if there had been no inflation nor any change in the relationship between export and import prices.

/As a

As a result, international inflation does not always favour the debtor countries, and it is necessary, in each particular case, to study the movement in the terms of trade, and to compare its evolution with that of the increases in international prices.1/ Thus for example, in 1975, the terms of trade for non-oil-exporting Latin American countries deteriorated, compared with 1974, by more than 10 per cent. Therefore, in real terms debt servicing does not seem to have decreased for these countries since world inflation showed a similar rate in that year.

It ought to be mentioned that even without considering the limitations to which attention has just been drawn, there is a tendency to over-estimate the subsidy that the creditor countries are granting to the debtor countries, owing to the fact that world inflation also affects the "real" value of the international reserves of the latter countries. Most of these assets are made up of financial documents issued by the principal creditor countries, practically without any cost to themselves, and which (although they give a positive nominal yield) do not provide a yield commensurate with the value of the real resources provided by the debtor countries in exchange for the accumulation of these reserves.

### 6. Some additional problems of external financing

It seems important to mention some of the shortcomings of the considerations which to some extent condition the capacity of access to international financing sources for developing countries and, particularly, as in the case of most Latin American countries, those countries which are predominantly mono-exporters, with the resulting instability in prices and fluctuations in exports.

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1/ Mention should also be made of the effect already mentioned of world inflation on market interest rates, and the effects of these on the servicing of the debt contracted during the inflationary period.

First, attention should be drawn to the possible magnifying effect of the current account balance and/or the situation of international reserves on the movement of private capital.

There seems to exist some evidence that when a country experiences a deficit on current account and/or a drop in the level of its reserves, because of the uncertainty, as regards its policy measures (particularly in respect of the exchange market), that these movements generate, this is magnified through the flight of capital, with the result that the situation of the country becomes worse, and there is even greater need to have recourse to external financing. However, such financing becomes much more difficult precisely because of the type of indicators traditionally used in the analysis of creditworthiness, which include the type and size of the balance on the current account of the balance of payments of the country and/or its movement of reserves.

This situation is particularly noticeable in a large number of Latin American countries, particularly those with undeveloped financial and exchange structures. As a result, it is necessary to reexamine the concept of creditworthiness and to link it with elements which genuinely determine the capacity of a country to pay, so that at least it is not associated inversely with financing needs.

Furthermore, it is of interest to note the evolution of the debt servicing coefficient as regards the exports of goods and non-factor services, which is one of the indicators usually used by international agencies and possible creditors to assess "debt servicing capacity" and to draw attention to its many limitations.

Table 7 gives this information with the two concepts of debt servicing mentioned above. It can be seen that this coefficient, if only the official servicing or publicly guaranteed servicing for non-oil-exporting countries of the region is taken, has remained very stable in recent years around 16-17 per cent. If both guaranteed and non-guaranteed debt servicing are taken into account, for the medium- and long-term (excluding both compensatory and short-term funds), this coefficient rises, substantially, to a level of 28 per cent in 1973, in other words, a figure 40 per cent higher than the indicator traditionally used.

/Table 7

Table 7

LATIN AMERICA: RATIO OF DEBT SERVICING TO EXPORTS OF GOODS AND SERVICES

(Percentages)

| | Coefficients on the basis of IBRD and IDB data a/ | | Coefficient resulting from balance-of-payments data b/ | |
|---|---|---|---|---|
| | Non-oil exporting | Total | Non-oil exporting | Total |
| 1965 | 17 | 13 | 19 | 15 |
| 1970 | 16 | 13 | 23 | 19 |
| 1971 | 17 | 14 | 26 | 21 |
| 1972 | 16 | 13 | 27 | 22 |
| 1973 | 16 | 13 | 28 | 23 |
| 1974c/ | - | - | 25 | 17 |

Source: World Bank, op.cit.; ECLA, on the basis of IMF data, Balance of Payments Yearbook.

a/ Debt servicing refers to the guaranteed debt.

b/ The servicing of the external debt of the balance of payments includes both the guaranteed and non-guaranteed debt for the use of non-compensatory foreign medium- and long-term funds (it does not include compensatory funds nor short-term funds).

c/ Preliminary figures.

/The main

The main advantages of this indicator lie in the facility it offers both for calculating and interpreting such calculations, for it reflects a fixed short-term element of the debtor country and the pressure to which it would be subject if there was a sharp decline in the value of its exports or an increase in the value of imports. In particular, the higher the debt servicing-export ratio, the greater the fluctuation in the net importing capacity as regards changes in the value of exports.

However, the coefficient mentioned has several limitations, particularly that of being considered an important element in the analysis of creditworthiness.

First, there is no critical limit for this indicator, on the basis of which it can be said that the debt cannot be serviced; in the past, countries with relatively low coefficient values were unable to service their debt, whereas others with very high levels had no problems in this respect.

A further limitation lies in the fact that the coefficient refers to a specific year and takes no account of the future evolution of the balance of payments; there may occur, in particular, a sharp accumulation of payments in the immediate future, or changes in exchange or monetary policy, for example, which could provoke sudden "jumps" in the value of the indicator. Consequently, the analysis of the debt problem in the long-term context serves little purpose.

Furthermore, the numerator of the coefficient includes both amortization and interest payments, and thus does not take into account the difference between the two, from the standpoint of the degree of implicit rigidity, in relation to the facility of refinancing or simply renewing credits.

From the point of view of a debtor country, if its exports have a high value, the indicator will probably not reveal the existence of "problems". Nevertheless, if the country in question

/is poor,

is poor, debt service may imply great restrictions to capital formation and/or impose limitations on the proper functioning of the fiscal sector.

One of the most important aspects to be borne in mind is that what is of real interest is the economy's possibility of adjusting to sharp and significant changes in its external situation, rather than the absolute level of the coefficient. The growth and dynamism of exports play a fundamental role in this respect. For example, if the non-oil-exporting countries of Latin America increase their (1973) exports by 10 per cent and devote 50 per cent of the increase to servicing the debt (official and officially guaranteed), the situation would be that debt service would increase by 32 per cent.

Finally, it seems necessary to point out that from the standpoint of the analysis of creditworthiness, given that what the creditor is most interested in is the future capacity to pay the debt, it is more important to centre attention on assessing projected economic policies (rather than on the coefficient) and particularly on the policies related to the dynamism of exports and the entry of capital flows from the exterior.

## 7. Final remarks

In view of the characteristics of the export sector of the majority of the countries of the region and the great change in the value of exports, both with regard to their regularity and their dynamism, it is necessary to stress the urgent need to implement the measures proposed by UNCTAD regarding the integrated programme for commodities, fundamentally aimed at a greater stabilization of prices and incomes from commodity exports. One of the most important elements of a solution to the problem of medium- and long-term financing is to adjust the domestic economic policies of the debtor countries so as to accelerate their rate of growth and particularly the growth and diversification of exports. To this end it is necessary to readjust policy instruments and use them differently than in the past. This is particularly true of foreign exchange, tariff, trade and international reserves policies, and of policies to subsidize non-traditional exports.

The economic situation in recent years, however, has been such that to handle more efficiently the various economic policies will not be enough to solve the problem of external financing for Latin America, due to the origin of the problem, the magnitudes involved, the drastic reduction in the "degrees of liberty" available and the high cost, in terms of the economic growth rate and changes in the structure and level of activity and employment, entailed by the exclusive use of this machinery. As a result, Latin America needs a degree of international financial co-operation which will complement its own efforts aimed, in the external sector, at revitalizing and diversifying its exports.

However, it is important to stress in connexion with the above that the demand situation is as important as the supply situation. The degree to which the industrialized economies are reactivated and the extent and form in which they are protected are of great importance to the realization of the export potential of the developing world in general and of Latin America in particular.

## External debt problems. Usual remedial machinery

When encountering difficulties in servicing their foreign debt, countries have tackled them in three main ways: multilateral renegotiation with the principal creditors, bilateral renegotiations and refinancing.

A fourth method, which has been used in times of serious and widespread difficulties, has been a unilateral moratorium. It should be recalled that a number of countries declared moratoria in the payment of certain external commitments during the world crisis of the thirties.

Both bilateral renegotiation and refinancing are mechanisms which tackle only part of the problem and therefore are not suitable for dealing with serious foreign debt problems. They may perhaps in such cases be a necessary complement to multilateral renegotiation, but they cannot replace it.

Thus only multilateral renegotiation, and not the other two mechanisms, will be studied here.

The most serious cases of difficulties in the servicing of external debt have been tackled in the postwar period by renegotiating some of the outstanding commitments with a group of important creditors formed specifically to deal with each case. There is no institution for such a purpose.

Creditors are organized for the purposes of renegotiation mainly through a club of the principal creditors, meeting in one of the member countries, generally with a representative of the host country in the chair. On occasion, representatives of the World Bank have also presided over the group, generally when its objectives go beyond the mere renegotiation of the debt and include larger-scale assistance programmes.

The formation of the club is brought about by the debtor country in question, with the support of an international organization (World Bank or International Monetary Fund), which normally serves as the technical secretariat, while it participates formally as an observer.

/The chairman

The chairman of the club convenes the meetings and at times acts as a mediator between debtor and creditors. For their part, the international organizations provide information to the club members on the debtor, its economic policies, the amount of the debt and service payments, and also undertake to supply regular information on the debtor's economic situation and the form in which it fulfills the undertakings it has contracted.

Creditor participation in the club is voluntary at the beginning, but once the club has been formed, there is normally an understanding that the debtor country will not give preferential treatment to any of the club members, even when one of them does not participate in a specific renegotiation. This means that the debtor country undertakes not to pay a creditor which is a member of the club on more favourable terms to the creditor than those granted by the club.

It has normally been understood that this provision does not apply to creditor developing countries.

In the course of the renegotiation, decisions are taken by consensus and a formal statement of the agreements adopted is drawn up.

Multilateral agreements provide a general framework within which subsequent bilateral negotiations take place. This general framework includes a definition of the rescheduled maturities; the grace period, if there is one; the down payment and the pay-back period for the balance. On occasion, the rate of interest may also be fixed in the multilateral agreement, although sometimes it is left to subsequent bilateral negotiations with each creditor. Exactly which maturities are to be rescheduled is also left to detailed bilateral discussions.

In a few cases there has been some flexibility for bilateral agreements between the debtor and its creditors on interest, grace period and pay-back period, but at the same time a concessionary minimum has been stipulated.1/

The debts which are renegotiated multilaterally range, according to the case, from all maturities of debts of over one year, to maturities of loans contracted before a given date granted by official institutions or guaranteed by them, for loans granted originally for periods of less than 40 years. In some cases maturities for debts which have previously been rescheduled are excluded from the renegotiations. In some cases, the original debt periods of loans whose maturity is renegotiated have been limited to medium-term ones, from 1 to 12 years. Often the most important maturities not included in the multilateral renegotiation are renegotiated bilaterally.

The agreements also contain a general definition of the economic policy intentions of the debtor, particularly in those fields which may affect its capacity to service its debt in the future. These intentions may include stand-by arrangements with the IMF, restrictions on fresh foreign borrowing, incentives to improve the foreign trade situation and the provision of information to creditors on its general economic situation and the progress made in carrying out its declared intentions. Normally the observer international institutions collaborate in the supply of information and the preparation of the debtor's economic policies. At the joint request of the debtor and the creditors, they carry out the necessary studies or collaborate with the debtor country to that end.

The participating international organizations are those which have acquired experience in cases of multilateral renegotiation. It is they who normally carry out the basic surveys for the rescheduling, prepare the projections of future debt payments and of their effect on the balance of payments and suggest solutions to the creditors.

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1/ Defined as the relation between the current value of the agreed future amortization and interest payments discounted at a previously agreed rate of interest, and the current value of the payments if they had not been renegotiated.

The renegotiation procedure described above may have a number of minor variations. In some cases, renegotiation has taken place within a broader framework of economic support to the country in difficulties. In such cases, the creditor countries, together with an international or regional financial body, form a consortium which not only carries out the renegotiation but also sees to the additional aid which may be necessary.

The result of multilateral renegotiations is strongly affected both by the seriousness of the problem for the debtor country and by the nature of the relations between the debtor country and its principal creditors. The fact that the process is not institutionalized results in a considerable degree of politicization.

## A possible new mechanism to deal with foreign debt emergencies

Current multilateral renegotiation procedures, which are not institutionalized, have been relatively efficient in dealing with foreign debt servicing problems which are not generalized. The size and widespread nature of the present problem, and the outlook for the near future, suggest that the multilateral renegotiation procedure will not work efficiently.

In the absence of machinery to act in an emergency, some countries might be forced to resort to the undesirable procedure of a unilateral moratorium. While such a procedure may solve the emergency, it does so at a high cost to the debtor country, in terms both of future capital flows and of interest rates. There is also a high cost to the creditor country, some of whose financial institutions may be affected if the unilateral moratorium is declared in a number of debtor countries at the same time.

Creditors and debtors should therefore look for a procedure to obviate the need for a moratorium in an emergency situation.

A procedure acceptable to both parties would have to include a suitable degree of conditionality in the external debt service relief. This conditionality would call for some type of international supervision.

At the same time, however, the mechanism would have to be sufficiently apolitical to be acceptable to the debtor countries. In addition, the latter would have to have the guarantee that the conditionality would be in conformity with the internationally accepted objectives of the transfer of real resources.

The conditionality would probably have to include at least three main aspects: reasonable limits for fresh borrowing; suitable domestic policies in the debtor country for it to be able to contribute to the international process of readjustment; and suitable policies in the creditor country to achieve the same end. In a situation of widespread payments difficulties it is inevitable that conditionality in respect of adjustment should affect both debtors and creditors.

It should be pointed out that when there is a generalized payments problem, a country's external economic creditworthiness depends on the loans it can obtain and not vice versa. In a normal situation it is the credits obtainable which depend on the country's creditworthiness.

The International Monetary Fund has proven experience as regards both conditionality and apoliticism and international supervision.

Given the size of the problem 1/ and the general characteristics of an acceptable solution, it seems appropriate to think of a special refinancing facility, institutionalized in whatever way is judged appropriate, to which the developing countries can resort. The refinancing terms could vary in the case of each agreement, judging on the debtor's situation.

The special refinancing facility could be financed from two main sources: special contributions in the form of loans by the creditor countries and resources stemming from an advance payment on the part of the industrialized countries. This advance payment would correspond to the resources which, in accordance with the agreement in the Interim Committee of the International Monetary Fund, the member countries of the Fund will receive as profits from the sale of part of the gold in the possession of the IMF; they will receive them only as the gold is sold, which might take some time. Naturally, this source of financing would require the participation of the International Monetary Fund.

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1/ It is not easy to estimate the needs of the developing countries. If it is assumed that the debt actually used grew by 18 per cent annually between 1973 and 1976, and if the service-debt ratio recorded between 1970 and 1973 remained constant, the total debt service of the developing countries would amount to a little less than US$ 14,000 million. If the new facility is used by countries representing half the debt service, and if fifty per cent of the latter are refinanced, some US$ 3,500 million would be needed to operate the new facility in relation to 1976 maturities.

/This proposal

This proposal would complement those currently under study, such as the development insurance facility and the improvement of the terms of the compensatory financing facility for loss of export earnings.

Besides solutions of a general nature such as that proposed, it seems worthwhile also to consider the possibility of regional collaboration to improve the creditworthiness of groups of countries. This collaboration could take the form of machinery for regional financial co-operation, including the possibility of mutual financial support and of guarantees for foreign borrowing. Naturally, in view of the size of the problem to be tackled, this will never be sufficient since the granting of collective guarantees also affects the creditworthiness of all the guarantors. Extra-regional collaboration in a scheme of this kind seems indispensable. The creation of a financial Safety Net in Latin America has been proposed, to facilitate consultations among the member countries as well as mutual support, while opening up a new path for extra-regional support.

/Table 8

Table 8

PROFITS FROM THE RESTITUTION AND SALE OF GOLD BY THE IMF

| | Restitution | | Sales | |
|---|---|---|---|---|
| | Millions of ounces | Profit a/ | Millions of ounces | Profit a/ |
| Developed countries and oil exporting countries | 17.5 | 1.4 | 17.5 | - |
| Non-oil exporting developing countries | 7.5 | 0.6 | 7.5 | 2.0b/ |
| Total IMF member countries | 25.0 | 2.0 | 25.0 | 2.0 |

a/ Assumes a profit of US$ 80 per ounce. Figures expressed in billions of dollars.

b/ The decision reached at the Interim Committee of the IMF in August 1975 provides that the profits from the sale of one-sixth of the Fund's gold (about 25 million ounces) will be for the benefit of the developing countries.

Table 9

NON-OIL EXPORTING DEVELOPING COUNTRIES: EXTERNAL DEBT AND DEBT SERVICE a/

(Millions of dollars)

| | 1973 | 1974b/ | 1975b/ | 1976b/ |
|---|---|---|---|---|
| External debt | 70 792 | 83 535 | 98 571 | 116 314 |
| Debt service | 8 995 | 9 878 | 11 656 | 13 754 |

Source: World Bank, World Debt Tables, op.cit.

a/ External public and private debt guaranteed by the State, disbursed.

b/ Projection based on 18 per cent annual growth of the debt and maintenance of the service-debt coefficient at the average level for 1970-1973.

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## IV. THE CHANGES IN THE ARTICLES OF AGREEMENT OF THE IMF AND THE JAMAICA MEETING AGREEMENTS

The agreements adopted at the meeting of the Interim Committee of the International Monetary Fund in Jamaica in January 1976 gave their final support to a series of new provisions which modified the constitution of the IMF. These changes affect five basic aspects of the monetary system: the function of gold, the currency exchange system, the Special Drawing Rights, the operations and transactions of the Fund and its institutional structure.

### 1. Gold in the reformed monetary system

The new provisions signified the abolition of the official price of gold and of the set of rules designed to implement the official price, including the elimination of the limitations on the Central Banks or monetary authorities to operate freely in the gold market. Without an official price, gold ceases to be the centre of the monetary system since any pre-established link between gold and currencies is removed. Gold will thus play the same role in the monetary system as any other non-perishable product, with the sole difference that it is very widely accepted.

In general, the Fund is authorized to sell gold at a price linked to the market price, in exchange for a currency, with certain limitations and after consulting the country whose currency is to be acquired in exchange for gold. It is also authorized to sell gold to the countries which were members on 31 August 1975 in proportion to their quotas on that date, in exchange for their own currency and at the official price.

Whenever the Fund sells gold at the market price it will pay into its General Account the amount corresponding to the official price and the surplus shall be paid into a special account both for ordinary operations and to finance special operations not considered in the agreement; these include, *inter alia*, direct distribution to the developing countries in proportion to their quotas. Such special operations must be approved by an 85 per cent majority of the voting power.

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With the elimination of the official price of gold, the system of parities based on it disappears not only de facto but also de jure with the result that a new exchange system is needed.

## 2. The exchange system

The changes relating to the exchange system are aimed at allowing each country to use the system of its choice: floating rates, gradual and frequent adjustments, joint floating with other currencies, a fixed exchange rate with respect to the intervention currency or the special drawing rights or a group of currencies, or other systems of the Central Banks' choice. It is specified that whatever the system applied, the Fund shall exercise general surveillance over the operation of the systems in use to ensure the collaboration of its members in solving the problems which may arise.

In other words, the new Articles of the Fund do not establish an exchange system but rather sanction the existing situation,1/ although it also authorizes the Fund to re-establish a system of parities whose basis is only specified in general terms. The draft article states that the Fund may determine, by an 85 per cent majority of the total voting power, that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values, which may be established in terms of special drawing rights or of another common denominator which is neither gold nor a currency. It is also established that the maximum and the minimum rates for spot exchange transactions between the currency of one country and the currencies of other members that maintain par values shall not differ from parity by more than 4 per cent, a margin which the Fund may change by an 85 per cent majority

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1/ It is proposed to change the title of Article IV of the Articles of Agreement of the Fund. The title was "Par Values of Currencies" and the proposal is to replace this by "Obligations Regarding Exchange Arrangements".

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of the total voting power. If the par values are expressed in terms of a base other than currencies, the margin applies in the same way to all of them.1/

In order to re-establish the system of par values, in addition to the 85 per cent majority requirements, the Fund must reach a judgement on the world economic situation, with particular regard to sources of liquidity and the adjustment process. With regard to the former, it was hoped that there would be good control of the growth of national liquidity.

As for the second, it was hoped that arrangements would exist to ensure that the countries in surplus and also those in deficit in their balances of payments would take prompt, effective and symmetrical action to achieve adjustment. In addition, the Fund shall base its judgement on the stability of the world economy taking into account price movements and growth rates in the economies of the member countries.

### 3. The Special Drawing Rights

The purpose of the changes relating to the characteristics and use of the special drawing rights is that they should become the main reserve asset of the International Monetary System. The link between the special drawing rights and gold is ended, and the Fund is authorized to determine, by a 70 per cent majority of the total voting power, the method by which to value them; substantial changes in the valuation systems can only be made by a majority of 85 per cent. In general terms the provisions are maintained which limit the use of the special drawing rights to the existence of a "need" to use them and not merely a country's desire to change the composition of its reserves. The principle of "designation" is maintained by virtue of which the Fund may designate a country to provide currency in exchange

1/ If the par values are expressed in terms of a currency, the possible margin of variation of that currency shall be half the margin of variation of the others.

for special drawing rights so long as the position of its reserves is strong enough. On the other hand, the majority of the total voting power required to modify or eliminate the reconstitution obligation is reduced from 85 to 70 per cent.1/

The restrictions on the rate of interest paid on special drawing rights are lifted and the use of gold as a means of payment for obtaining special drawing rights for the purpose of paying such charges is eliminated. The countries participating in the special drawing rights' account have undertaken to collaborate in converting the latter into the principal asset of the International Monetary System. Moreover, it is established that the countries will be able to pay to the Fund currencies of other member countries instead of special drawing rights, provided that the issuing countries of the currencies in question agree to the operation.

### 4. The operations of the Monetary Fund and its institutional structure

The new provisions also provide for the modernization of the operations and transactions of the Fund and an expansion of its categories, including greater flexibility in the use of the Fund's resources for financing international buffer stocks of commodities; similarly it is expected that IMF will use its holdings of all the currencies in its operations, and not only those of a few countries, as is the case at present. In this connexion, the concept of a "*de facto* convertible currency" is replaced by the "freely usable currency".

As regards the institutional structure of the agency the new statutes authorize the Board of Governors of the Fund to establish, as a new organ of this Board, a Council of Governors to serve as a

1/ According to the current rules the participants must maintain, at the end of each calendar quarter, average daily holdings of special drawing rights over the most recent five-year period which is not less than 30 per cent of the average of its daily cumulative allocation of special drawing rights over the same period. If the average is below the minimum, there is an obligation to "reconstitute", i.e., to acquire special drawing rights to fulfil the obligation.

forum for analysis and discussions at a more active and efficient political level than that of the Board. The members of the Council will be the same in number as the Executive Directors of the Fund, and these members will be elected by the countries themselves or by the groups of countries which elect executive directors.

5. Other decisions of the Interim Committee

In addition to the modifications to the Articles of Agreement of the IMF, the meeting of the Interim Committee in Jamaica ratified the decision to sell one-sixth of the Monetary Fund's holdings of gold (some 25 million ounces) by public auction over a period of four years, and to set aside any profits accruing for the developing countries, both through the direct distribution to those countries of a portion of the profits on the basis of their quotas, and by setting up a special assistance fund for developing countries in difficult circumstances. In the latter case, account will be taken of the per capita income level of the member country in question.1/

The decision to restitute to each member country in exchange for its currency, the proportion corresponding to its quota of a total of 25 million addition ounces, valued at the official price of 0.888671 grammes of fine gold per special drawing right was ratified.

At the meeting in Jamaica, the Interim Committee endorsed the agreements reached by the Directors of the Monetary Fund in respect of the increase in the quotas of the member countries in the Fund. This agreement consists in an overall increase in quotas of 32.5 per cent.2/ This increase is shared in such a way that the proportion

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1/ This means that special preference would be given to countries with a per capita income lower than SDR 300 (US$360); thereby excluding most of Latin America.

2/ The increase in quotas has been already approved at a vote taken by the Governors, but it will not come into effect until the legal requirements are met in each country, and until the reforms in the Constitutive Agreement of the Monetary Fund are approved. The whole process may take more than a year.

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of the oil-producing countries is doubled (increasing from 5 to 10 per cent of the total); the share of the other developing countries remains the same and that of the industrial countries is reduced. At the same time, the Committee decided to support the proposal to increase each one of the credit tranches of the Fund by 45 per cent, as a temporary measure until the increase in quotas comes into effect.

Moreover, the Committee welcomed the decision of the Directors of the Fund to modify the machinery of compensatory financing for temporary shortfalls in export income. These modifications liberalize the system, and allows account to be taken of events of the moment, including prices prevailing in international trade.

### 6. Effects on the developing countries

The most important among these decisions, as regards their effect on the developing countries, are those related to the abolition of the official price of gold, the use of all currencies in operations and transactions, the acceptance of the existence of multiple exchange systems, the changes introduced in the compensatory financing facility, the temporary increase in the credit tranches of the Fund and the setting up of the Trust Fund.

This range of measures has diverse effects for the developing countries, and for Latin American countries in particular.

First, the abolition of the official price of gold - as long as its widespread acceptance continues - means in practice an increase in the price of gold. Although market prices already influence the decisions of the Central Banks, the freedom to deal in gold at market prices legitimises its consideration at prices higher than the official 1 SDR per 0.888761 grammes of fine gold, the equivalent of 42 dollars per ounce. In fact, the Fund had already reached agreement with at least one member country that this country could raise the value of the gold of its reserves, for domestic purposes, to a price higher than the market price.

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A higher price for gold signifies an increase in liquidity expressed in terms of currency, in proportion to holdings in gold. But, because of uncertainty as to the market price, it is likely that the measurement of liquidity thus created will be based on a specific discount factor due to such uncertainty.

Assuming that there is a difference in price of 80 dollars per ounce between the official price and the market price, the ligitimization of the latter for official operations, should the modification proposed to the Constitutive Agreement be approved, will affect the behaviour of official holders of gold. If in view of uncertainty as to market price the profit which determines the behaviour of official holders of gold is reduced to 50 dollars, the resulting increase in liquidity would be in the region of 50,000 million dollars. Of this total not more than 2,600 million dollars would correspond to the non-oil-exporting developing countries.1/

Furthermore, the provisions relating to the use of all the currencies in the Fund for its operations imply that the currencies of the developing countries, which in general are not considered reserve currencies will also be used, will, therefore, be converted into such currencies. This means that the reserves of the developing countries would be compromised, though to what extent it is difficult to specify.

There are other probable long-term effects, but perhaps more important ones, of the new agreements on the developing countries. The confirmation of floating as a system could give rise to the need for diversifying the holdings of currencies in the reserves of the countries, reducing instead of increasing the importance of the special drawing rights. For the developing countries, whose currencies will not, generally, be held as reserves by other countries, this trend could signify a cost in terms of resources given in exchange for the

1/ Estimates on the basis of the holdings of gold by member countries of IMF of 1,000 million ounces, of which 5 per cent corresponds to holdings by the non-oil-exporting developing countries.

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currencies of other countries which are so held. This cost is also difficult to evaluate in advance, and measurement of it will have to wait for events to run their course.

For its part, floating in itself implies an additional cost for most of the developing countries which, owing to the lack of exchange markets for their currency transactions, or the small scale of such markets, find it necessary to peg their currencies to one of a country or group of countries with which they trade. This fact implies that the currency of the developing countries in question will float together with the principal currency. It can be expected that the movements of the latter will be in response to the adjustment needs of the issuing country, and may have a stabilizing effect for this country. But there could be, and there probably will be, destabilizing effects for the currency of the developing country, involving higher adjustment costs for this country. Of course, if floating succeeds in reducing fluctuations in the international trade of the developed countries, it will, because of this, have a positive effect on the developing countries; however, available evidence does not seem to point in that direction.

The changes introduced in the compensatory financing facility make for easier use of this facility by the developing countries,1/ and IMF estimates appear to indicate that the developing countries will be able to obtain about 1,000 million dollars through this channel in 1976.2/ If it is assumed that there will continue to be net increases of 1,000 million dollars a year until the figure of an additional 5,000 million is reached, the current value of this greater access to credit, at a rate of 7 per cent annually, would be less than 4,400 million dollars.

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1/ It is not yet possible to measure in concrete terms the implications of the easier use of the compensatory financing facility, since these will depend not only on the new operational rules, but also on the specific policies which the Fund may putinto practice.

2/ Statement by the Managing Director of IMF at a press conference on 8 January 1976, IMF Bulletin, 26 January 1976, pp. 24 and 25.

The temporary rise of 45 per cent in the Fund's credit tranche also places increased resources at the disposal of all the member countries. Through this channel the developing countries could obtain about 500 million dollars in 1976.1/ If it is assumed that these countries will receive net increases of 500 million dollars annually until the sum of 2,000 million is reached, the current value of these resources, also at 2 per cent annually, would be around 1,800 million dollars.

Lastly, the Trust Fund could mean an additional contribution of 400 to 500 million dollars for the benefit of the poorest developing countries.1/

Therefore, the liberalization of the compensatory financing facility and the temporary increase in the credit tranches mean about 5,200 million dollars for the non-oil-exporting developing countries, measured in terms of current value. The valuation of gold at its free market price and the Trust Fund, for their part, mean about 3,000 million dollars.

At the same time, however, the termination of the oil facility means the loss of the right to draw resources amounting to about 2,800 million dollars, which corresponds to the current value of the developing countries' drawings effected or approved in 1974, 1975 and 1976.

In addition, the developing countries are affected by the greater necessity of making adjustments in their economies vis-à-vis the fluctuations of the principal currencies, and by the need to accumulate additional currencies in their reserves. For the developed countries, in contrast, floating would appear to solve some problems of capital movements which are difficult to handle through other channels, while the accumulation of currencies by them is compensated for by each one accumulating the currencies of the rest. In net terms, the accumulation of currencies by the developing countries means that they absorb currencies issued by the developed countries.

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1/ See footnote 2/ on page 83.

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Furthermore, the developed countries and oil-exporting countries will receive an increase in their liquidity, measured in currency terms, of some 48,000 million dollars, and will also have the possibility of using the expanded credit tranches of the Fund, which may mean a current value of some 5,600 million dollars more, thus bringing the total to around 53,600 million dollars. In addition, these countries will cease to contribute to the financing of the oil facility, which involved granting financing (net of drawings by developed countries) to a current value of some 2,800 million dollars, thus bringing the total to around 56,400 million dollars.

As will be seen from the appended table, the quantifiable effects of the Jamaica agreements and of the other measures adopted by the International Monetary Fund represent resources amounting to nearly 64,000 million dollars, of which only 10 per cent are destined for the non-oil-exporting developing countries. It should be remembered that these countries represent 22 per cent of the quotas in the Fund and at least 15 per cent of the total national product of the Fund members.

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MEASURABLE EFFECTS OF THE REFORM OF THE MONETARY SYSTEM AND OTHER AGREEMENTS BY THE FUND ON THE DEVELOPING COUNTRIES AND ON THE OTHER MEMBERS OF IMF

(Thousands of millions of dollars)

| | Non-oil-exporting developing countries | Other members |
|---|---|---|
| Compensatory financing | 4 387 a/ | - |
| Credit tranches | 1 812 b/ | 5 616 c/ |
| Gold d/ | 3 000 | 48 000 |
| Oil e/ | -2 757 | +2 757 |
| Total | 6 442 | 56 373 |

a/ Calculated on the assumption that only non-oil-exporting developing countries make use of this service. The calculation also assumes that there will be a net increase in drawings of 1,000 million dollars annually for five years, and that thenceforward there will be no new net increases. A discount rate of 7 per cent annually was used to determine the current value.

b/ Calculated on the assumption that there will be a net increase in drawings by developing countries of 500 million dollars annually, up to a total of 2,000 million dollars.

c/ Calculated on the assumption that there will be a net increase in the drawings of the other member countries of 2 billion dollars per year, until the figure of 6 billion dollars is reached.

d/ Calculated on the assumption of a gain of 50 dollars per ounce on the gold kept as reserves.

e/ Conversion of the actual figures at a discount rate of 7 per cent annually.