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NOTE

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For the recommendations adopted by the United Nations Conference on Trade and Development at its first session, see *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. 64.II.B.11), pp. 17-65. For the resolutions, declarations and other decisions adopted by the Conference at its second session, see *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), pp. 27-58.

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ABBREVIATIONS

ACC	Administrative Committee on Co-ordination
AfDB	African Development Bank
ADC	Andean Development Corporation
AID	Agency for International Development (United States of America)
AsDB	Asian Development Bank
ASEAN	Association of South-East Asian Nations
BTN	Brussels Tariff Nomenclature
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CARIBANK	Caribbean Development Bank
CARIFTA	Caribbean Free Trade Association
CCC	Customs Co-operation Council
CCP	Committee on Commodity Problems (of FAO)
CIAP	Inter-American Committee of the Alliance for Progress
c.i.f.	Cost, insurance, freight
CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee (of OECD)
EAC	East African Community
EADB	East African Development Bank
ECA	Economic Commission for Africa
ECAFE	Economic Commission for Asia and the Far East
ECE	Economic Commission for Europe
ECLA	Economic Commission for Latin America
ECSC	European Coal and Steel Community
EEC	European Economic Community
EFTA	European Free Trade Association
FAO	Food and Agriculture Organization of the United Nations
f.a.s.	Free alongside ship
f.o.b.	Free on board
GATT	General Agreement on Tariffs and Trade (also the Contracting Parties and the secretariat)
GDP	Gross domestic product
GNP	Gross national product
GSP	Generalized system of preferences
IATA	International Air Transport Association
IBEC	International Bank for Economic Co-operation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IGC	Intergovernmental Committee of the World Food Programme
IIB	International Investment Bank
IIC	International Institute for Cotton

ILO	International Labour Organisation
IMF	International Monetary Fund
IMCO	Inter-Governmental Maritime Consultative Organization
INTAL	Institute for Latin American Integration
IRSG	International Rubber Study Group
IUOTO	International Union of Official Travel Organizations
IWS	International Wool Secretariat
LAFTA	Latin American Free Trade Association
LAS	League of Arab States
LTA	Long-term Arrangement on International Trade in Cotton Textiles
m.f.n.	Most favoured nation
n.e.s.	Not elsewhere specified
OCAMM	African, Malagasy and Mauritian Common Organization
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OERS	Organization of Senegal Riparian States
OPEC	Organization of Petroleum Exporting Countries
OTC	Office of Technical Co-operation
RCD	Regional Co-operation for Development
SDRs	Special drawing rights
SIECA	Permanent Secretariat of the Central American Treaty of Economic Integration
SITC	Standard International Trade Classification (Revised)
TARS	Technical Assistance Recruitment Services
UDEAC	Customs and Economic Union of Central Africa
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESOB	United Nations Economic and Social Office in Beirut
UNIDO	United Nations Industrial Development Organization
WFP	World Food Programme
WIPO	World Intellectual Property Organization
WTO	World Tourism Organization

EXPLANATORY NOTES

References to "dollars" ($) are to United States dollars, unless otherwise indicated.

References to "tons" are to metric tons, unless otherwise indicated.

The term "billion" signifies 1,000 million.

Annual rates of growth and change refer to compound rates.

Details and percentages in tables do not necessarily add up to totals, because of rounding.

Figures in parentheses in tables, e.g. (15), are estimates.

One dot (.) indicates that data are not applicable.

Two dots (..) indicate that no information is available.

A dash (—) indicates that the amount is nil or negligible.

A plus sign (+) before a figure indicates an increase.

A minus sign (—) before a figure indicates a decrease.

An oblique stroke between years, e.g., 1965/66, indicates a financial year, or a season or crop year.

A hyphen between years, e.g., 1966-1968, signifies the full period involved, including the beginning and end years.

MAJOR POLICY DEVELOPMENTS SINCE THE SECOND SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report by the UNCTAD secretariat *

[*Original text: English*]

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* The text of this report was circulated to the Conference as document TD/101/1, dated 17 March 1972, with the title "Review of international trade and development, 1971: major policy developments since the second Conference—report by the UNCTAD secretariat".

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Introduction and highlights

A. Scope of the review

1. This review is intended to provide basic information on the main policy developments and international measures since the second session of the United Nations Conference on Trade and Development in 1968, in all areas within the competence of UNCTAD.[1] The activities carried out and progress achieved by the Trade and Development Board and its subsidiary bodies, and by governments and other institutions, in implementing the recommendations of the Conference and of its continuing machinery relating to UNCTAD's role in achieving the goals and objectives of the International Development Strategy for the Second United Nations Development Decade, are the subject of the following chapters.

[1] The review generally covers developments up to December 1971 and, where they are particularly relevant, reference is made to developments since the first session of the Conference. In the preparation of this report material from published sources has been supplemented by information given in the replies received to the *note verbale* of the Secretary-General of UNCTAD sent to Governments, international institutions and other relevant organizations in August and early September 1971.

B. The over-all situation

2. The economic situation of the developing countries has been seriously affected by inflation in the major developed market-economy countries and by disturbances to the international monetary system, which culminated in the crisis of August 1971. Inflation and monetary instability

have also been accompanied by a much reduced rate of growth of output in developed market-economy countries in 1971 (the beginning of the Second United Nations Development Decade), which poses a serious threat to the growth of exports from developing countries and to their terms of trade. Although the tariff reductions scheduled in the Kennedy Round negotiations have continued to be implemented, strong protectionist tendencies have made themselves felt in some major trading countries, and the array of quotas and other non-tariff barriers facing developing countries still constitutes a serious obstacle to many of their exports. At the same time, the outlook for official development assistance remains uncertain; the total net flow has virtually stagnated for the past four years, and its purchasing power has continued to erode as a result of the inflation in developed countries. Notwithstanding the improvement in the performance of certain donor countries, official development assistance of the DAC member countries, expressed as a percentage of their combined GNP, even declined slightly in the past four years. It represented in 1970 only 0.34 per cent of GNP against the target of 0.7 per cent set in the International Development Strategy. Moreover, the external debt situation of developing countries, already very difficult, gives every indication of becoming even more serious during the 1970s.[2]

3. On the brighter side, the International Development Strategy has been adopted, the generalized system of preferences has begun to be implemented, some progress has been made in the field of commodity agreements, and there is at least the possibility that both the fundamental changes being contemplated in the international monetary system and the movement towards economic integration in Europe will take proper account of the interests of developing countries.

C. International monetary issues [3]

4. The 1960s were marked by recurring disruptions and crises in the international monetary system. Different degrees of pressure on domestic resources among the industrial countries, combined with divergent movements of costs and prices, created a need for exchange rate realignments which Governments strenuously resisted. Various measures to ameliorate these conditions were undertaken prior to August 1971, such as adjustment of the parities of some Western European currencies in 1969 and early 1971 and the allocation through IMF of SDRs for an initial basic (three-year) period, beginning in January 1970, in an amount of $9.5 billion. However, the effect of many of these measures was to postpone the process of adjustment rather than to eliminate the need for it, and the magnitude of the underlying problems tended to increase despite the measures taken.

5. Moreover, by the 1960s, the system was no longer reconciling the trade and payments objectives of the major industrial countries as it had succeeded in doing during the earlier post-war period. By the end of the decade the United States was no longer content to continue losing ground in world export markets and to absorb a growing volume of imports, even if other countries were prepared to finance the resulting deficit by adding indefinitely to their holdings of dollars. Thus, the crisis of 1971, in its most fundamental aspect, reflected a conflict between the major industrial countries as to their respective shares in world markets and the rate at which changes should be made in those shares.

6. On 15 August 1971 the President of the United States of America announced a new economic policy, including the following measures in the field of international trade and payments: the temporary suspension of convertibility of the dollar into gold or other reserve assets; the temporary imposition of a surcharge of 10 per cent on dutiable imports not subject to mandatory quantitative restrictions; a 10 per cent reduction in foreign economic aid; and the suspension of United States participation in discussions aiming at agreement on a scheme of multilateral untying of aid.

7. The Administration also announced plans to submit to Congress legislation providing for domestic international sales corporations which would afford United States exporters "tax treatment more comparable to that provided by many of their competitors abroad in the expectation that it will contribute to a more vigorous export effort" and to establish a "Job Development Credit" which would have the effect of raising the cost of imported capital goods relative to those produced in the United States. In addition, the Government of the United States considered that the realignment of currencies should be accompanied by "trading arrangements that assure fair access to world markets for United States' products" and "a more balanced sharing of responsibilities for the security of the free world".[4]

8. The suspension of the convertibility of the dollar into gold initiated a period in which most major currencies "floated" upward against the dollar, creating conditions of uncertainty in foreign exchange markets. In an effort to bring this situation to an end, intensive discussions and negotiations took place in a variety of forums. Finally, at the meeting of the Group of Ten held in Washington on 17 and 18 December 1971, agreement was reached on the substantial depreciation of the dollar against the other major currencies. Urgent negotiations were initiated "between the United States and the Commission of the European Economic Community, Japan and Canada to resolve pending short-term issues at the earliest possible date, and with the European Economic Community to establish an appropriate agenda for considering more basic issues ..... in the course of 1972 and beyond". The United States Government "agreed to propose to Congress a suitable means for devaluing the dollar in terms of gold to $38.00 per ounce", that is, by 8.6 per cent, "as soon as the related set of short-term measures is available for Congressional scrutiny". [5] The United States also agreed

[2] See chapter V, sections B and C below.

[3] See chapter V, section E below and *The international monetary situation: impact on world trade and development* (United Nations publication, Sales No. E.72.II.D.18).

[4] Statement by the Secretary of the Treasury, Hon. John B. Connally, before the Boards of Governors of IBRD and IMF (Press release No. 66, 30 September 1971).

[5] Press communiqué of the Ministerial Meeting of the Group of Ten, reproduced in *International Financial News Survey*, vol. XXIII, No. 50, 22-30 December 1971.

to the immediate suppression of the 10 per cent import surcharge and of those provisions of the Job Development Credit that discriminated against imports. It was further agreed that, pending agreement on longer-term monetary reforms, provision would be made for 2.25 per cent margins of exchange rate fluctuation above and below the new exchange rates.[6]

9. An increase in the dollar price of gold by 8.6 per cent implies an increase in the dollar value of gold reserves of developed market-economy countries by about $3.8 billion, while it would increase the value of reserves of the developing countries by only $460 million—increases respectively of 4.4 per cent and 2.2 per cent. Moreover, developing countries have suffered a substantial net loss in the purchasing power of their reserves as a result of the currency realignment.

10. Though their interests are heavily involved in the outcome, developing countries have thus far been left aside in negotiations on monetary matters and there is much cause for concern that they may be similarly bypassed in the trade negotiations among the principal developed market-economy countries which are being launched as part of the agreement announced by the Group of Ten.

11. The monetary crisis has brought the issue of a link between the creation of SDRs and additional development finance into sharp focus. The Trade and Development Board at its eleventh session considered a secretariat report on this subject [7] and the issue was further examined by the Committee on Invisibles and Financing related to Trade at its fifth session in December 1971, when the Group of 77 developing countries, in a joint declaration,[8] called on IMF to expedite its study of this potentially powerful development tool (see chapter V, section E, below).

D. Regional groupings among developed countries

12. The forthcoming enlargement of EEC (through the accession to membership of Denmark, Ireland, Norway and the United Kingdom of Great Britain and Northern Ireland) will be an event of great importance which cannot fail to have profound consequences for developing countries. As a result of the anticipated enlargement, arrangements are under consideration for certain developing countries which have special trading relations with the United Kingdom. The original six members of EEC completed on 1 January 1971 the transitional stage of the Community and embarked on a move towards economic union. Their network of association agreements and special trade and economic agreements and arrangements—in particular with the African and Mediterranean countries—has been enlarged and strengthened (see chapter I, sections A and B, below).

13. The socialist countries of Eastern Europe and Mongolia, members of CMEA, adopted at the twenty-fifth session of that body (Bucharest, July 1971) a Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA member countries. The Programme lays down principles, aims and methods for guiding the harmonization efforts among CMEA countries over the next 15-20 years in all basic spheres of their development, in particular economic policy and planning, research and technology, foreign trade, industrial and agricultural production, financial and monetary measures, and institutional arrangements. It constitutes an important framework for decisions on basic structural changes to the economies of those countries which are intended to result in an intensified division of labour among the member countries (see chapter I, section C, below).

E. Generalized system of preferences

14. On 13 October 1970, the Trade and Development Board, by its decision 75 (S-IV), adopted the agreed conclusions of the Special Committee on Preferences, elaborated pursuant to Conference resolution 21 (II), regarding the establishment of a generalized system of non-discriminatory and non-reciprocal preferences for exports of developing countries. This decision brought to fruition six years of effort on the subject of preferences for developing countries. A number of developed countries have already implemented their schemes—EEC (with effect from 1 July 1971), Japan (1 August 1971), Norway (1 October 1971), Czechoslovakia, Denmark, Hungary, Sweden, New Zealand and the United Kingdom (1 January 1972), and Switzerland (1 March 1972). The Governments of several other preference-giving countries have introduced, or are about to introduce, legislation for the implementation of their respective schemes. The rapid introduction of schemes by those countries not yet having legislated for, or adopted, them is highly desirable—more particularly in the case of the United States of America, on account of its large market.

F. Remaining barriers to trade liberalization

15. While some developed market-economy countries have removed or relaxed quantitative import restrictions on a number of products of export interest to developing countries, existing *non-tariff barriers,* including quantitative and other import restrictions, affect a substantial proportion of exports from developing countries. These barriers are particularly harsh for such items as agricultural products, textiles and clothing, and leather and leather goods, among others—products in which developing countries enjoy, or have the potential to enjoy, a strong comparative advantage. Given a more rational international division of labour, developing countries could greatly expand their export earnings from these products. During the period under review, the introduction of new import restrictions did much to cancel out the benefits of those liberalization measures which did take place (see chapter III, sections C and D, below).

16. The important question of *adjustment assistance* measures which could be adopted by developed market-economy countries to facilitate trade liberalization is now

[6] It will be recalled that narrower bands, of 1 per cent, were established at Bretton Woods in 1946.

[7] *Official Records of the Trade and Development Board, Eleventh Session, Annexes,* agenda item 7, document TD/B/356.

[8] *Ibid., Twelfth Session, Supplement No. 2* (TD/B/395), annex V, B.

receiving increasing attention in UNCTAD (see paragraphs 285-288 below). UNCTAD is also engaged in a study in depth of actual or suspected *restrictive business practices* adopted by enterprises in developed countries which might affect the export interests of developing countries (see chapter III, section E, below).

G. COMMODITIES

17. Since the second session of the Conference, a new International Sugar Agreement was concluded, in 1968, and came into operation on 1 January 1969. The International Grains Agreement of 1967 was replaced by the International Wheat Agreement, which came into force on 1 July 1971 but is much more limited in scope than its predecessor. The International Olive Oil Agreement has been extended until the end of 1973 and a fourth International Tin Agreement came into force in July 1971. As a result of negotiations held during the latter part of 1971 and in January 1972, the Secretary-General of UNCTAD has convened a United Nations Cocoa Conference in Geneva, beginning on 6 March 1972, with a view to the establishment of a Negotiating Committee to prepare a draft agreement for consideration at a resumed session in mid-1972. Progress has also been made toward the establishment of a long-term agreement on tea (see chapter II, section B and sections C, 1 and C, 3, below).

18. In February 1971 six members of OPEC (Iran, Iraq, Saudi Arabia, Kuwait, Abu Dhabi and Qatar) signed a five-year agreement with a group of 23 of the world's largest oil companies, resulting in an average increase in export prices of petroleum of about 20 per cent. (Similar agreements covering shipments from Mediterranean countries, Nigeria, and Venezuela, were also concluded in 1971.) Negotiations were also concluded in January 1972 providing for an increase in oil prices to compensate for the devaluation of the dollar.

19. The table below gives an indication of the complex network of arrangements under which international commodity schemes are operated or study groups or other bodies are established to deal with specific commodities. It covers in particular all the commodities mentioned in Conference resolution 16 (II) as requiring international action; in addition, it lists other commodities for which institutional arrangements exist. (For details, see chapter II, sections B-D, below.)

International commodity arrangements and specialized bodies

International commodity agreements	*FAO intergovernmental commodity groups* [a]	*Other international bodies*	*Commodities for which there is no specialized body*
Sugar	Grains	Rubber [b]	Tobacco
Olive Oil	Rice [d]	Cotton [c]	Shellac
Wheat	Cocoa [d]	Wool [e]	Iron-ore [f]
Tin *	Oilseeds, oils, and fats	Lead and zinc [g]	Manganese ore [f]
Coffee *	Citrus fruits	Tungsten [h]	Mica
	Bananas	Pepper [i]	Phosphates [f]
	Wine and vine products	Coconut [j]	
	Jute, kenaf and allied fibres [k]		
	Hard fibres [k]		
	Tea [l]		
	Meat		

* Not mentioned in Conference resolution 16 (II).

[a] FAO decided in November 1971 to re-name all the commodity study groups "intergovernmental commodity groups"

[b] International Rubber Study Group.

[c] International Institute for Cotton and International Cotton Advisory Committee.

[d] International agreement under negotiation under UNCTAD auspices.

[e] International Wool Secretariat.

[f] Consultations have been held under UNCTAD auspices.

[g] International Lead and Zinc Study Group.

[h] UNCTAD Committee on Tungsten.

[i] A Pepper Community *open to all producing countries* was established in July 1970.

[j] The Asian Coconut Community was formed in 1968.

[k] Informal arrangement in operation.

[l] Interim export quota arrangements were agreed for tea for the year 1970 and the year ending March 1972, and a long-term agreement is also under consideration ,under the auspices of FAO in close association with UNCTAD.

H. SOME NEW FOCAL POINTS OF UNCTAD'S ACTIVITIES SINCE THE SECOND SESSION OF THE CONFERENCE

20. UNCTAD's contribution to the *International Development Strategy for the Second United Nations Development Decade* was formulated in extensive discussions, consultations and negotiations, and a text defining this contribution was adopted at the third part of the ninth session of the Trade and Development Board in February 1970. The Strategy, as finally adopted at the twenty-fifth session of the General Assembly (resolution 2626 (XXV)), includes a wide range of policies in the field of trade and development and stresses the importance of review and appraisal efforts during the Decade (see chapter I, section I, below).

21. By its resolution 2401 (XXIII) of 13 December 1968, the General Assembly, acting on the recommendation

of the Board at its seventh session (resolution 44 (VII)), decided to confer on UNCTAD the status of a participating organization of UNDP. This action by the Assembly has given UNCTAD *an operational technical assistance role,* bringing a new and growing dimension to its activities, supplementing its functions of negotiation and policy harmonization in the field of trade and development. This role is performed by the substantive divisions of UNCTAD, and by the UNCTAD/GATT International Trade Centre in respect of export promotion, which is the largest single sector of UNCTAD's technical assistance activity. The UNCTAD programme as of 30 June 1971 included projects to a value of $2.5 million in 1971, plus $4.5 million for 1972 and onwards (see chapter I, section E, below).

22. Concerted declaration 23 (II) on *trade expansion, economic co-operation and regional integration among developing countries,* which was adopted without dissent at the second session of the Conference, provides the foundation for UNCTAD's work in this field. (For details, see chapter IV below.) An important development was the finalization on 8 December 1971 of the Protocol relating to Trade Negotiations among developing countries agreed by the 16 countries actively participating in the Trade Negotiations Committee of Developing Countries; the Committee is serviced by the GATT secretariat, with the assistance of the UNCTAD secretariat (see paragraphs 324-328, below.)

23. The competence of UNCTAD in the field of the *transfer of technology,* confirmed by the General Assembly in its resolution 2726 (XXV) of 16 December 1970, opens up another area of great potential for UNCTAD. In June 1971 the Intergovernmental Group on Transfer of Technology held its organizational (first) session and adopted a comprehensive work programme to be carried out on a continuing basis. (For details, see chapter VI, section C, below.)

24. A new and important development in the field of shipping concerns the preparation of an *international code of conduct for liner conferences* (see paragraphs 394-396 below). Developments in the field of invisibles, including shipping, ports, insurance and tourism, are reviewed in chapter VI.

25. Following the unanimous adoption by the Conference at its second session of resolution 24 (II), the special situation of *the least developed among the developing countries* and the problems confronting them have come to the fore, not only in UNCTAD and its subsidiary bodies but also in other organs of the United Nations. Many resolutions have since been adopted by the Board and by its committees, and three groups of experts have considered special measures to be taken in favour of these countries, as well as the problem of identifying them. Recent agreement in the Board and in the General Assembly on a list of 25 countries which should be regarded as the hard-core least developed countries has made it possible to consider a detailed and comprehensive action programme in favour of the least developed countries at the third session of the Conference. An action programme for *land-locked developing countries,* based in part on the work of an UNCTAD expert group which considered their special problems, is also before the Conference (see chapter VII below).

Chapter I

General policy developments

26. The present chapter considers policy developments in areas not covered by subsequent chapters of the report. It deals in particular with economic integration among developed countries, trade relations among countries having different economic and social systems, technical assistance within UNCTAD's field of competence, principles governing international trade, issues relating to the environment and to disarmament, and the role of UNCTAD in the International Development Strategy for the Second United Nations Development Decade.

A. Western European economic integration

27. By far the most important development in recent years in European economic integration was the agreement reached in 1971 on the accession of Denmark, Ireland, Norway and the United Kingdom of Great Britain and Northern Ireland to EEC. The Final Act of the Conference of Negotiation, incorporating the treaty of accession and related matters, was signed at Brussels on 22 January 1972. Accession on the negotiated terms was approved by the United Kingdom Parliament in October 1971, but enabling legislation has still to be completed.[9] In Denmark, Ireland and Norway the question of accession is to be put to a referendum.[10] This enlargement of the Community will have far-reaching implications for world trade and for the exports of developing countries.[11]

28. With the exception of Ireland, the acceding States are at present members of EFTA. The remaining members of EFTA (Austria, Finland, Iceland, Portugal, Sweden and Switzerland) have all been engaged in talks with the European Economic Communities, seeking either full membership or other forms of co-operation.

29. Despite considerable disagreement among members of the Community over such issues as enlargement of membership and the strains arising from currency

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[9] Following the conclusion of its negotiations, the Government of the United Kingdom issued a White Paper in July 1971 (*The United Kingdom and the European Communities,* Cmnd. 4715 (London, H.M. Stationery Office, 1971)), in which it recommended accession to the Communities, set out the terms agreed in the negotiations and stated its intention to "seek the approval of Parliament in the autumn for a decision of principle to take up full membership of the Communities on the basis of the arrangements which have been negotiated with them".

[10] In Ireland, accession necessitates an amendment to the Constitution. Agreement on the terms of admission for all three of these countries was reached in January 1972, after intensive negotiations concerning such matters as the long-term fishing rights in Norway's territorial waters of other EEC members and the economic and regional development of Ireland. For details see Commission of the European Communities, "The Enlarged Community. Outcome of the negotiations with the applicant States", issued as Supplement No. 1, 1972 to the *Bulletin of the European Economic Communities* (Brussels, 22 January 1972).

[11] See the report by the UNCTAD secretariat, "Impact of regional economic groupings of the developed countries on international trade, including the trade of developing countries" (TD/131 and Add 1-2) (p. 193 below).

realignments, the period under review has witnessed substantial progress in the integration of the economies of the six existing members of EEC. The Community reached the stage of a full customs union for industrial products on 1 July 1968, having completely eliminated the remaining customs duties on trade among member countries and introduced the Common Customs Tariff on imports of these products from third countries. In addition, restrictions on labour movements inside the Community were relaxed. Furthermore, the Common Agricultural Policy was completed by the introduction of a common market organization, including common prices and uniform levies, for the most important remaining agricultural products, in particular sugar, milk and dairy products, fruit and vegetables and bovine meat. In the case of the most important agricultural products, the Common Agricultural Policy involves the imposition of variable import levies and other restrictions. Under the common commercial policy, the Commission of the European Communities participated on matters within its competence in the negotiations for the renewal of the International Tin Agreement, and negotiated on behalf of the member States the renewal in 1970 of the Long-Term Arrangement on International Trade in Cotton Textiles, as well as bilateral agreements with India, Pakistan and Yugoslavia.

30. Other significant developments in Western European economic integration during the period under review include the accession of Iceland to the Stockholm Convention establishing EFTA; since 1 March 1970 Iceland's industrial exports have been admitted freely into the other EFTA countries, and Iceland has begun a gradual elimination of its trade restrictions on industrial products from other EFTA countries.

B. Special preferential arrangements of EEC with non-member countries

31. EEC has reinforced and expanded its network of special relations with particular developing countries or groups of countries.

32. The second Yaoundé Convention with the 18 Associated African States and Madagascar came into effect on 1 January 1971.[12] Modelled on the first Yaoundé Convention (1963), it contains provisions for a free-trade area between the Community and the Associated States, both parties reserving the right to introduce exceptions. Only a few changes differentiate the two Conventions—the provision made by the Community for suspension of the Common External Tariff applicable to several secondary tropical products and three major ones (green coffee, cocoa beans and crude palm oil). The provisions concerning the conditions under which the Associated African States and Madagascar are authorized to reimpose duties and quantitative restrictions and even to suspend imports of certain products originating in the EEC member countries on the basis of a "development needs" concept are made more explicit. In addition, the Associated States may maintain or set up customs unions or free-trade areas and conclude economic co-operation agreements with one another or with non-associated African countries at a comparable level of development, or even with non-African countries.

33. The new Convention calls for an increased appropriation for economic and technical assistance to the Associated States through the European Development Fund ($918 million for a five-year period). The main characteristic of the new statute of the Fund is that for certain products exports to the Community will not necessarily be made at prices above world market prices, as has been the case hitherto. Moreover, the Fund will be mainly concerned with industrialization projects in the Associated States. Aid for marketing and sales promotion will also be provided.

34. An agreement between EEC and Kenya, Uganda and the United Republic of Tanzania was signed at Arusha on 24 September 1969 and came into force on 1 January 1971. The three East African countries have thus become Associate Members of the EEC while retaining their status as members of the Commonwealth. This Agreement will expire simultaneously with the new Yaoundé Convention. Under it, rights similar to those accorded to the 18 African Associated States and Madagascar are granted in respect of entry into the Community of the products originating in the East African countries. However, quantitative ceilings are retained for some tropical products (coffee, cloves and tinned pineapple). On the other hand, reverse preferences are granted to about 60 products exported from EEC, the corresponding tariff advantages over third countries ranging from 2 per cent to 9 per cent. A similar arrangement had been agreed to earlier with Nigeria but never came into force because two member States of EEC failed to ratify it.

35. A five-year association agreement between EEC and Tunisia and Morocco came into force on 1 September 1969, whereby virtually all industrial exports from the two North African countries enter the Community duty-free, while a substantial margin of preference is given to many of their agricultural exports. In return, both countries grant tariff reductions and tariff quotas for certain imports from EEC countries. A five-year association agreement, allowing for a preferential trading arrangement, was also concluded with Malta and came into force on 1 April 1971. Negotiations with Algeria, Cyprus, Egypt, Lebanon and Mauritius are in progress or envisaged.

36. In June 1970 the Community concluded a five-year preferential trading agreement with Israel, which came into force on 1 October 1970, involving substantial tariff concessions by both parties. Under this agreement, EEC granted tariff reductions of 45 per cent on a wide range of industrial and agricultural products, as well as a 40 per cent tariff cut for citrus fruits, dates, pineapples, bananas and avocados. In return, Israel granted tariff preferences ranging from 10 per cent to 30 per cent, as well as an exemption from the import deposit scheme.

37. An agreement with Spain, signed in June 1970, and entering into force in October 1970, provides for a six-year minimum transitional period during which both parties will reduce tariffs. After the transitional period a second stage is envisaged, the terms of which are subject to negotiation.

[12] Convention of Association between the European Economic Community and the African and Malagasy States associated with that Community, signed on 29 July 1969.

38. In March 1970, Yugoslavia and EEC signed a three-year trade agreement based on most-favoured-nation treatment. The agreement establishes a co-operation régime for imports of baby beef into EEC and provides that in specific periods of the year the EEC levies will be reduced. It also establishes a joint commission to examine possibilities for the further promotion of mutual trade and economic co-operation.

39. With respect to the associated countries in Europe, there has been no change in the EEC attitude toward Greece as regards the implementation of the Association Agreement, namely that the Commission will apply "the provisions of the Athens Agreement and those adopted by the Association Council where they involve precise obligations, particularly with regard to the system of trade".[13] On the other hand, the relationship with Turkey has moved into the transitional phase of association.

C. Economic co-operation among the CMEA countries [14]

40. During the first half of the 1960s, while economic co-operation between the socialist countries members of CMEA had been gaining momentum, it became evident that forms and methods of economic management which prevailed during the earlier stages of economic development in the socialist countries of Eastern Europe had become far less effective for the solution of the economic and social tasks confronting these countries. Certain difficulties ensued, such as the slowing down of the growth of production and of labour productivity and delays in commissioning of new plants. In an effort to tackle these problems, the 1966-1970 plans of these countries put emphasis on the improvement, in particular, of productivity and economic management. Economic reforms and further intensification of economic co-operation inside the CMEA region have contributed towards a further increase in national income, industrial production and trade of the member countries.

41. By far the most important landmark during the period under review was the twenty-third Special Session of the Council (Moscow, April 1969), attended by the leaders of the Communist and Workers' parties and Heads of Government of member countries. Its main result was a decision to elaborate a comprehensive programme of socialist economic integration.

42. Much attention is now being devoted to the co-ordination of national plans in promoting the member countries' economic progress. Bilateral consultations between the national planning agencies were undertaken in 1969-1970 to co-ordinate economic plans for 1971-1975 and beyond. As distinct from the co-ordination mainly of foreign trade in previous planning periods, special attention is now being given to the co-ordination of production.

43. The economic co-operation of CMEA countries will be facilitated by the activities of IIB which was established as a result of the decision of the twenty-fourth session of CMEA in 1970. The authorized stock has been fixed at 1 billion transferable roubles (see paragraph 45 below), 30 per cent of which is in convertible currencies and gold—indicating IIB's possible role in the financing of imports from outside the CMEA area.

44. IIB started operations in January 1971, with the task of granting medium- and long-term credits for CMEA joint ventures contributing to the international division of labour within the area. Among the first recipients was the Hungarian "Icarus" automobile works, which received a nine-year credit for 12.7 million transferable roubles, designed to cover 40 per cent of the cost of the projected expansion and reconstruction of the plant. IIB also envisages setting up a special fund, from resources contributed by the member countries, to finance economic and technical assistance to developing countries.

45. In recent years the bulk of payments in intra-CMEA trade has been effected through the transferable rouble system operated by IBEC. However, member countries' subscriptions in gold and convertible currencies have been increased, thus enlarging IBEC's capacity to extend credits in convertible currency also.

46. A Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member Countries was adopted at the twenty-fifth session of CMEA in July 1971.[15] This Programme lays down the principles to be applied in production, trade and payments, price formation, administrative and institutional matters. Closer co-ordination of investment policies, research and technological development are envisaged to avoid duplication and ensure specialization. The Programme is to be implemented in stages over a period of 15-20 years.

47. The aims of the Comprehensive Programme are to be achieved through a series of agreed measures, on a bilateral and multilateral basis, including the conclusion of intergovernmental economic agreements, consultations on basic problems of economic policy, co-operation in planning activities including long-term projections, co-ordination of five-year plans and long-term plans for the most important branches of the national economies and types of production, joint planning for certain agreed branches of industry, exchange of information on methods of improving systems of planning and management, and expansion of existing international economic organizations of the socialist countries and creation of new ones.

48. Special attention will be paid to the need to assist and promote a more rapid and effective economic, scientific and technological development of the less industrialized CMEA countries. Importance is also attached to the problem of ensuring the rapid economic growth of the Mongolian People's Republic.[16]

49. Another aim is to strengthen and extend the role of the transferable rouble to cover all mutual foreign trade

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[13] Commission of the European Communities, *Fourth General Report on the Activities of the Communities, 1970* (Brussels-Luxembourg, February 1971), p. 273.

[14] See also the reports by the UNCTAD secretariat, "Review and analysis of trends and policies in trade between countries having different economic and social systems" (TD/112 and Corr.1) and "Impact of regional economic groupings of the developed countries on international trade, including the trade of developing countries (TD/131 and Add. 1-2, part three) (see p. 220, below).

[15] For the text, see *Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member Countries* (Moscow, CMEA Secretariat, 1971).

[16] *Ibid.*, chap. I, section 2.

transactions and, in the long run, convert it into an international currency to be used in trade accounts and multilateral settlements with third countries.[17]

50. The member countries of CMEA re-stated in the Comprehensive Programme that the international socialist division of labour should be developed "with due account taken of the world division of labour".[18] A special provision enables a country which is not a member of the CMEA to participate fully or partly, under certain conditions, in the implementation of the measures envisaged in the Comprehensive Programme.[19]

D. Trade relations between countries having different economic and social systems [20]

1. *Relations between the socialist countries of Eastern Europe and developing countries*

51. The developing countries and the socialist countries of Eastern Europe have continued to base their economic relations on various bilateral agreements. There has been a tendency towards longer-term agreements, with the aim of securing stable conditions for the development of both production and trade of the countries concerned and of introducing elements of a new international division of labour.

52. The network of trade agreements has spread considerably, with the result that the number of developing countries trading with the socialist countries of Eastern Europe has been constantly growing. Although the form of the trade agreements remains basically the same, some elements of flexibility have been introduced, more particularly regarding the possibilities for the partners to trade in goods not specified in the lists or in quantities over and above those specified.

53. The system of payments varies. Some agreements retain the system of bilateral clearing, while others provide for payments in convertible currencies; countries which have recently established trade and economic relations have tended to prefer the latter type of arrangement. However, the biggest among the developing countries conduct their payments transactions on the basis of bilateral clearing procedures. During the period under review, there were also cases where elements of multilateralism, such as the possibility of transferring credit balances to third countries or of introducing triangular payments arrangements, were introduced into the bilateral clearing payments.

54. The Group of Experts on Multilateral Payments Arrangements, convened by the Secretary-General of UNCTAD in 1969 under Conference resolution 15 (II), examined the suitability of different forms of multilateral payments arrangements between developing and socialist countries. The Group concluded that since no single, uniform or universal payments scheme existed between the developing countries and the socialist countries of Eastern Europe, it was for the interested countries to select the most appropriate forms of settlement. The experts generally agreed that bilateral payments arrangements continued to make positive contributions to the expansion of trade between those two groups of countries, but also pointed out that in some cases such agreements had hampered the further growth of trade. They also noted that multilateral and bilateral payments arrangements could be used in combination, when circumstances were suitable.[21]

55. Economic and technical co-operation is of rapidly growing importance for the promotion of economic and trade relations between the developing countries and the socialist countries of Eastern Europe. Such co-operation usually involves technical and financial assistance and has taken place mainly in the field of developing natural resources, the provision of infrastructure, medical care (in the case of the least developed countries), and industrialization, including the establishment of modern industrial complexes in the more developed countries. Growing attention is being paid to export-oriented industries with outlets in the markets of both the socialist countries of Eastern Europe and other developing countries.

56. In addition to efforts made at the intergovernmental level in recent years, co-operation has been intensified at the enterprise level between the developing countries and the socialist countries of Eastern Europe. Joint economic commissions and similar bodies, composed of representatives not only of Governments but also of business circles, have been especially helpful in intensifying contacts between the countries concerned.

2. *Relations between the socialist countries of Eastern Europe and the developed market-economy countries*

57. Trade has continued to be conducted on the basis of bilateral trade agreements between these two groups of countries, mainly for a period of 3-5 years. As a rule, there is now greater flexibility in trade and economic relations between the partner countries. Some of the new agreements have established targets in value terms only and set out principles to be applied by the contracting parties. A tendency can be observed to discontinue clearing arrangements and revert to payments in convertible currencies. In some cases trade agreements stipulate that mutual deliveries within the framework of industrial co-operation should be exempt from quantitative restrictions and the products concerned granted maximum privileges and facilities.

58. The activities of joint trade commissions have increased. In addition to governmental representatives, the commissions now also include representatives from industry, trade and banks.

59. The barriers to trade between the socialist countries of Eastern Europe and the developed market-economy countries, while still considerable, have in some cases been gradually removed. The new long-term trade agreements, or the annual protocols implementing them, contain provisions for the further liberalization of trade. Some developed market-economy countries (e.g. Denmark, the Federal Republic of Germany, Norway) have liberalized

[17] *Ibid.*, chap. II, section 7.

[18] *Ibid.*, chap. I, section 1.

[19] *Ibid.*, chap. IV, section 7.

[20] See also the report by the UNCTAD secretariat, "Review and analysis of trends and policies in trade between countries having different economic and social systems" (TD/112 and Corr.1).

[21] For the report of the Group of Experts, see *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes,* agenda item 8, document TD/B/284.

as much as 80-95 per cent of their imports from the socialist countries. Others have progressively increased the existing bilateral import quotas or stipulated sizable quotas for new items. The liberalization lists applied to the socialist countries of Eastern Europe by EEC have been enlarged, and in some cases (such as imports of cast-iron and steel) more flexible approaches have been adopted. Several new trade agreements between individual socialist countries of Eastern Europe and individual developed market-economy countries have provided for the introduction of the most-favoured-nation clause, thus lowering customs duties. Some socialist countries of Eastern Europe have fixed minimum prices for exports of certain agricultural products to EEC, thus enabling the latter to avoid applying the "additional amounts" ("*montants supplémentaires*") to agricultural imports from these sources. The United States of America has slightly relaxed its controls on exports to the socialist countries of Eastern Europe.[22] Although almost all developed market-economy countries have demonstrated a willingness to pursue the liberalization of imports from the socialist countries of Eastern Europe, there seems to be little prospect of eliminating in the near future the remaining "hard-core" quantitative restrictions.

60. Economic relations between the socialist countries of Eastern Europe and the developed market-economy countries are clearly reflected in the growth of agreements on economic, technical and industrial co-operation. These agreements provide for a variety of forms of co-operation, ranging from simple subcontracting to more sophisticated sharing of production. They are intended to diminish market risk and provide stable markets and the transfer of technology in both directions.

61. In recent years some socialist countries have made provision for enterprises from the developed market-economy countries to enter into joint ventures with domestic producers. Usually, the national interest is safeguarded by a formula providing for the application of national laws and institutions to the joint enterprise.

62. Industrial co-operation in trade and production has been facilitated by, and given rise to, intensified direct business contacts. In the socialist countries of Eastern Europe new companies have been formed to explore possibilities of co-operation with foreign companies or to act as agents on behalf of the partners. There has also been a move towards mutual adjustments and standardization of norms and standards for the purpose of facilitating trade.

63. There has been an increased volume of credit and financing in support of trade between the socialist countries of Eastern Europe and the developed market-economy countries. Many of the latter, and more particularly the United States of America, have simplified formalities for export credits in trade with the socialist countries. Banking links between these two groups of countries have also been strengthened.

[22] Late in 1971, the United States Secretary of Commerce made an 11-day visit to the Soviet Union, and a shorter visit to Poland, to explore the opportunities for expanded commercial relations, including trade and investment, possibly in the form of joint ventures.

3. *Arrangements for trade consultations*

64. In keeping with the unanimous agreement reached in Conference resolution 15 (II) and in accordance with the decision of the Trade and Development Board at its eighth session,[23] a mechanism of bilateral trade consultations during sessions of the Board, held on a confidential, voluntary and non-committal basis, has been created, in order to "provide opportunities for mutually agreed consultations on more specific trade matters... organized as not to encroach on the multilateral work" of the Board's sessional committee on the expansion of trade between countries having different economic and social systems. 132 separate consultations took place during the sessions of the Board held in 1969 and 1970, involving 55 countries (of which 38 were developing, 11 developed market-economy, and 6 socialist countries). These bilateral consultations have proved useful both to those countries which previously had no bilateral agreements with the socialist countries of Eastern Europe and for traditional partners looking for additional opportunities to promote and diversify their economic relations.

E. Technical assistance within UNCTAD's field of competence

65. At the second session of the Conference Chile and India submitted a draft resolution transmitting to the Secretary-General of UNCTAD a working paper which included a proposal that the General Assembly be requested to consider whether UNCTAD should be made a participating agency in UNDP for the purpose of carrying out technical assistance programmes in the field of trade in relation to development financed by UNDP.[24]

66. The draft resolution, together with one on the same subject by Sweden, was referred by the Conference to the Trade and Development Board. In September 1968, the Board adopted resolution 44 (VII), in which it took note of the particular need of the developing countries for technical assistance to promote their exports and raise their incomes from invisible transactions, and of the wish expressed by these countries to take full advantage of the assistance of UNDP. It considered that this wish could be more efficiently met if UNCTAD were more closely associated in its technical assistance work with activities relating to the formulation and preparation of projects and with their negotiation and implementation, and recommended that the General Assembly give UNCTAD the status of a participating organization of UNDP.

67. In resolution 2401 (XXIII), adopted on 13 December 1968, the General Assembly endorsed the above recommendation and decided to confer on UNCTAD the status of a participating organization of UNDP in conformity with General Assembly resolution 2029 (XX) of 22 November 1965.

68. UNCTAD thus assumed an operational role alongside its primary functions of negotiation and policy

[23] See *Official Records of the General Assembly, Twenty-fourth Session, Supplement No. 16* (A/7616), part one, paras. 106-109.

[24] See *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), pp. 407-408.

harmonization in the field of trade and development. Within this field, UNCTAD's technical assistance activities have been directed towards five main areas: export promotion and marketing; trade policy, planning and projections; trade expansion and economic integration (including assistance in the establishment of common markets and free-trade areas among developing countries); shipping and ports (including assistance in the development of shipping services and the economic, technical and administrative aspects of the operation of ports); and insurance and reinsurance (where assistance is rendered in regard to economic, operational and institutional aspects).

69. The above areas of technical assistance are those in which UNCTAD has developed projects during the first three years of its activity as a participating organization of UNDP. The possibility of the extension of its operational role to new areas is not excluded, in particular since the adoption of the work programme of the Intergovernmental Group on Transfer of Technology [25] and in the light of the growing concern for the needs of the least developed among the developing countries and the recognition that special measures are required to meet these needs.[26]

70. In all five areas, technical assistance projects have taken the form, *inter alia*, of the rendering, through experts, of advisory services to Governments, granting fellowships for study or observation abroad, and organization of training courses and seminars. Mention should also be made of market surveys for specific products of developing countries in respect of their export prospects either in developed or in other developing countries and of symposia on export promotion and trade policy for senior government officials (with participants from the private sector also in the case of symposia on export promotion).

71. One of the more recent large-scale (Special Fund) projects of special interest is that approved by the UNDP Governing Council at its twelfth session, in June 1971, for training and advisory services to assist developing countries to take advantage of, and maximize the benefits to be derived from, the generalized system of preferences. This project, for which UNDP has earmarked the sum of $1,114,900 over a period of three years, is expected to provide such training for approximately 250 officials from developing countries in all regions (see also paras. 250 and 252 below).

72. Another special feature of UNCTAD's technical assistance programme is the service provided by the interregional advisers in export promotion, trade expansion and economic integration and in shipping and ports—experts who, at the request of interested Governments, visit the countries concerned to advise on specific problems within their field of competence. In addition, there is an Interregional Adviser on Trade Documentation, for whose services requests or other indications of interest have been received from more than 50 Governments on matters related to the simplification and standardization of international trade documents and procedures.

[25] *Official Records of the Trade and Development Board, Eleventh Session, Annexes,* agenda item 7, document TD/B/365, annex I, appendix.

[26] See chapter VI, section C, and chapter VII, section A, below.

73. In carrying out its technical assistance activities, UNCTAD has had to establish a complex network of relationships with Governments, UNDP (both headquarters and field offices), OTC, TARS and the regional economic commissions, as well as with other participating and executing agencies and other organizations of the Unied Nations family. A Technical Assistance Co-ordination Unit has been established in the UNCTAD secretariat, forming part of the Office of the Secretary-General, and assumes over-all responsibility for UNCTAD's technical assistance activities. Substantive backstopping of projects is provided by the competent divisions of UNCTAD and by the UNCTAD/GATT International Trade Centre in respect of export promotion, which is the largest single sector of activity of UNCTAD in its capacity as a participating organization of UNDP.

74. UNCTAD's technical assistance activities are financed essentially from extra-budgetary resources and to a modest extent by resources from the United Nations Regular Programme of Technical Co-operation (part V of the United Nations budget). The extra-budgetary resources are derived from its participation in UNDP. The UNCTAD programme, as at 30 June 1971, included projects to a value of $2,546,800 in 1971 and $4,540,700 in 1972 and onwards (of which $1,012,200 and $2,758,000 respectively were for export promotion). The year 1971 in particular showed a considerable increase in the total volume of technical assistance projects in UNCTAD's field of competence, including the virtual doubling of the amount placed at the disposal of UNCTAD by UNDP for regional and interregional projects, i.e. from $650,000 in 1970 to $1.2 million in 1971. It should be noted, however, that in spite of the considerable growth of UNCTAD's technical assistance programme, in terms of the over-all programme of UNDP the field of international trade remained a modest one, projects in this field entrusted to UNCTAD accounting for approximately only 1.1 per cent of the resources earmarked for the UNDP field programme.

75. During the three years in which UNCTAD has developed its technical assistance programme, two reports on its activities have been submitted to the Trade and Development Board, and were considered respectively at the Board's tenth and eleventh sessions.[27] Comments by members of the Board on these activities as outlined in the above-mentioned reports have been on the whole extremely positive. Representatives of all groups—developed market-economy countries, developing countries and socialist countries of Eastern Europe—supported the programme and welcomed its growth, expressing the desire to see a further expansion of activities in this field.[28]

76. The dynamic growth of UNCTAD's technical assistance programme, since its recent inception, has been in keeping with the growing awareness of developing

[27] See *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes,* agenda item 14 (*e*), document TD/B/315 and *ibid, Eleventh Session, Annexes,* agenda item 12 (*a*), document TD/B/360.

[28] For a summary of the discussions at the Board's tenth and eleventh sessions, see *Official Records of the General Assembly, Twenty-fifth Session, Supplement No. 15* (A/8015/Rev.1), part two, paras. 211-228, and *ibid., Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), part three, paras. 405-415.

countries themselves of the importance of the foreign trade sector in their development process. UNCTAD's operational role, while necessarily remaining modest when compared to the organization's main policy functions, has been recognized as adding, at the country level, a new dimension of a practical nature in pursuance of UNCTAD's goals and objectives.

F. Principles governing international trade relations and trade policies conducive to development

1. *The first session of the Conference*

77. At its first session the Conference adopted 15 General Principles and 13 Special Principles governing international trade relations and trade policies and eight Principles relating to the transit trade of land-locked countries, with varying degrees of support by member States (see annexes A.I.1 and A.I.2 to the Final Act of the Conference).

78. No action was taken on Special Principle Three, concerning preferences, pending further elaboration of General Principle Eight on the same subject.

79. Special Principle Six, on the effects of substitution of commodities produced in developing countries, was adopted without dissent, whereas the vote on all the other Principles was taken by a roll-call. The results of the voting, distinguishing separately those Principles which were adopted unanimously, those which were adopted without dissent and those against which some votes were cast, are shown in the table below:

Results of roll-call votes on Principles

Principle	*Subject* [a]	*For*	*Against*	*Abstentions*
General Principle Thirteen	Land-locked countries [b]	108	none	none
Special Principle Two	Industrialization, modernization of agriculture and assistance from developed countries	116	none	none
Special Principle Ten	Transfer of technology	116	none	none
General Principle Five	The international division of labour in harmony with development needs	97	none	19
General Principle Nine	Prevention of possible adverse impact of the regional economic groupings of developed countries on imports from third countries	106	none	10
General Principle Ten	Regional economic co-operation among developing countries	115	none	1
General Principle Fifteen	Special attention to be paid to the less developed among developing countries	101	none	12
Special Principle Four	Protection of infant industries in developing countries	115	none	1
Special Principle Five	Domestic support policies for primary products in developed countries and their effects on exports of developing countries	91	none	25
Special Principle Nine	Refraining from dumping	107	none	9
Special Principle Eleven	Terms of multilateral and bilateral economic assistance	93	none	23
Special Principle Thirteen	Trade and payments arrangements among developing countries	111	none	5
General Principle One	Economic relations to be based on sovereign equality and non-interference	113	1	2
General Principle Two	Banning discrimination based on differences in socio-economic systems	96	3	16
General Principle Three	The right to trade freely and to dispose freely of natural resources	94	4	18
General Principle Four	Economic development as the common concern of the international community	98	1	17
General Principle Six	Creating conditions conducive to the expansion of trade of all countries	114	1	1
General Principle Seven	Access to markets; commodity arrangements and prices	87	8	19

Results of roll-call votes on Principles *(concluded)*

Principle	*Subject* [a]	*For*	*Against*	*Abstentions*
General Principle Eight	Preferential tariff and non-tariff concessions to developing countries	78	11	23
General Principle Eleven	Volume and terms of financial assistance	92	5	19
General Principle Twelve	Resources released by disarmament	83	1	30
General Principle Fourteen	Complete decolonization	90	2	22
Special Principle One	Targets for the expansion of trade of developing countries	99	2	15
Special Principle Seven	Compensatory financing	85	13	18
Special Principle Twelve	Earnings of developing countries from shipping, insurance and tourism	92	7	17

[a] The brief description of a given principle cannot, of course, do justice to the full significance of the principle in question, for which purpose it is necessary to refer to the complete text in annexes A.I.1 and A.I.2 to the Final Act of the Conference.

[b] In addition, eight principles on the transit trade of land-locked countries were adopted (see para. 77 above).

80. Negative votes were cast mainly by the representatives of some developed market-economy countries, who also accounted for the majority of abstentions. However, the representatives of some developing countries abstained in the vote on General Principles Two, Three, Seven, Eight and Fifteen, and the representatives of the socialist countries of Eastern Europe abstained on General Principle Twelve and Special Principle Seven.

81. The Conference also adopted without dissent the recommendation in annex A.I.3, recognizing "the necessity of achieving the broadest possible measure of agreement at the earliest possible moment on a set of Principles" and recommending "that the institutional machinery proposed by the Conference should continue efforts to that end".

2. *Discussion in the Trade and Development Board prior to the second session of the Conference*

82. Pursuant to this recommendation, the Board discussed Principles at its second, third, fourth and fifth sessions without, however, taking any concrete action. Discussion revealed that there had been little or no change from the basic positions taken at the Conference.

3. *The second session of the Conference*

83. At its second session the Conference discussed "Steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development" (agenda item 9 (*b*), [29]. Representatives of the developing countries strongly supported the provision of the Charter of Algiers that the principles should not be open to re-examination and that the second session of the Conference might add new principles to them.

84. The representatives of socialist countries held that "The main purposes of the principles adopted by the first session of the Conference were to provide an over-all policy framework and to serve as a basis and incentive for working out further practical measures", and that, in order to have practical significance, the principles should command "universal and comprehensive application". They could not agree to the re-examination of the Principles, and together with representatives of the developing countries they expressed the view that "the pressing task before the Conference on the question of principles was to secure their implementation".

85. Representatives of the developed market-economy countries, while generally attaching importance to the Principles, "expressed the opinion that the principles had limitations from the point of view of their individual content, mutual relationship, collective coverage and acceptability to governments...". They were unable "to support the position that the principles were unalterable, nor were they able to see how it would be possible to add new principles to those in recommendation A.I.1 if it were held that those principles constituted an unalterable and comprehensive entity. They were prepared to join in an examination of the substance and formulation of principles with a view to their revision...".

86. In these circumstances the Conference in plenary meeting adopted resolution 22 (II) by a roll-call vote of 68 in favour, 17 against, and 6 abstentions. Developed market-economy countries either voted against the resolution or abstained. In that resolution, the Conference requested the Trade and Development Board "to examine the desirability of elaborating on fundamental issues which may be raised additional principles consistent with the set of principles already adopted and to report thereon to the United Nations Conference on Trade and Development at its third session". It further requested the Board "to establish appropriate machinery for consultation on, and settlement of, problems pertaining to the implementation or non-

[29] Item 9 (*b*) was allocated to the Fifth Committee of the Conference. For an account of the debates on the item in that Committee, on which the summary given in the present report is based, see *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), annex VII, E, chap. I.

implementation of any of the existing principles and of new principles that may be adopted hereafter...".

4. *The tenth and eleventh sessions of the Trade and Development Board* [30]

87. At the tenth session of the Board, the representatives of some developing countries emphasized the importance of the Principles, their contribution toward the implementation of other recommendations of UNCTAD and the International Development Strategy, the desirability of developed countries indicating their current position on Principles which they had voted against or on which they had abstained from voting and the desirability of framing new principles that might be incorporated in the set of Principles already approved.

88. The representatives of the socialist countries of Eastern Europe insisted that the Principles should be accepted and applied by all countries, pointing out that they themselves applied those Principles in their economic relations with other countries. One of them suggested that the Principles should be one of the primary topics considered at the third session of the Conference, while another doubted the utility of adding to the Principles, since that would imply their revision.

89. Representatives of several developed market-economy countries considered that there was no need to add to the Principles, and one of them thought that further consideration of them "would clearly only hamper UNCTAD's efforts to apply viable, pragmatic and universally acceptable policies... The negotiations in UNCTAD had shown the difficulty of reaching agreement on complex general policy measures requiring the harmonization of vital national interests".

90. The Board decided to defer consideration of this agenda item to its eleventh session, in the context of the general debate on the implementation of the recommendations of the Conference.

91. At the eleventh session of the Board, the representatives of some developing countries re-emphasized the importance of the Principles and suggested that they should be discussed at the third session of the Conference.

92. The representatives of the socialist countries of Eastern Europe stressed that a broader implementation of the Principles governing international trade and international trade policies should be one of the main tasks of UNCTAD and suggested that the UNCTAD secretariat should prepare a review of the implementation of the Principles for the third session of the Conference.

93. No representatives of the developed market-economy countries spoke on this subject during the Board's discussion.

94. The Board took no specific action on the matter of principles. However, in drawing up the provisional agenda for the third session of the Conference, it included a sub-item 8 (*b*) entitled "Steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development".

5. *Implementation of the Principles*

95. The question of implementing the Principles adopted by the Conference at its first session can be viewed from two angles: (*a*) the extent of implementation by Governments; and (*b*) problems connected with implementation of the Principles.

96. As regards (*a*), whereas developing countries, as mentioned above, attach great importance to implementation of the Principles, they have provided the UNCTAD secretariat with no specific written information on action taken by them in this regard. Nor has such information been provided by the developed market-economy countries. The socialist countries of Eastern Europe have indicated at various sessions of the Board, as well as in written communications to the secretariat, that they apply the Principles in their external economic relations and refer specifically to them in a number of their trade and economic agreements, in particular with developing countries.

97. As to (*b*), it must be remembered that the Principles were elaborated at a time when universal efforts to promote trade and other international economic relations conducive to development were at an early and formative stage. In this respect the Principles have been one of the elements significantly influencing thinking and action within UNCTAD.[31]

98. For example, the generalized system of preferences reflects General Principle Eight, and UNCTAD's contribution to the International Development Strategy for the Second United Nations Development Decade is not entirely unconnected with the Principles established at the first session of the Conference.

99. In a number of paragraphs of the Strategy—in particular those contributed by UNCTAD—certain features of the postulates and problems treated by the Principles appear, although in different wording. Examples are: development as a common concern of the international community (General Principle Four), the international division of labour, diversification, and adjustment measures (General Principle Five), prices and exports of primary products (General Principle Seven), regional economic cooperation among developing countries (General Principle Ten). These and other problems, such as trade between countries having different social and economic systems (General Principle Two) and the volume and terms of financial and technical assistance and international monetary policies (General Principle Eleven), have also been the subject of UNCTAD's efforts and action.

100. General Principle Thirteen and the associated Principles relating to the transit trade of land-locked

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[30] For a fuller account of the discussion on this subject at the Board's tenth and eleventh sessions, see *Official Records of the General Assembly, Twenty-fifth Session, Supplement No. 15* (A/8015/Rev.1), part two, chap. IV, and *ibid., Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), part three, paras. 12-13.

[31] At the second session of the Conference the representatives of several developing and socialist countries noted with satisfaction that some of the Principles had become recognized and generally accepted in the course of further elaboration of various concrete measures and that there had been attempts at the national and international levels to implement them; but they felt that such measures fell far short of the comprehensive new development policy postulated in the Principles as a whole (see *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I ..., annex VII, E, para. 20).

countries served as a basis for the Convention on Transit Trade of Land-Locked States adopted in 1965 (see para. 483 below).

101. Certain problems and ideas contained in some of the Special Principles are reflected in varying degrees in the efforts and actions undertaken by UNCTAD and also in the International Development Strategy, such as Special Principles Two (industrialization and modernization of agriculture in developing countries), Six (counter-balancing the effects of substitution of commodities produced by developing countries), Ten (transfer of technology), Eleven (expansion and terms of bilateral and multilateral economic assistance), Twelve (shipping and other invisibles) and Thirteen (bilateral and multilateral trade and payments arrangements among developing countries).

G. Impact of environment policies on trade and development [32]

102. One of the issues which in recent years has acquired rapidly growing significance is the protection of the environment, and UNCTAD is becoming increasingly involved in the study of the trade and aid implications of this subject.

103. Measures taken or contemplated in the field of environment protection may well have a serious impact on the structure and pattern of world trade; in many cases new non-tariff barriers have come into existence as a result (for example, restrictions on the use of fuel with a high sulphur content, on the import of products with a high content of DDT and other pesticides, on the use of lead in petrol, etc.). Environmental measures are leading to the adoption of new technologies (e.g. the more widespread use of recycling) which will have an increasing impact on the volume of raw materials and fuels, etc., consumed and imported. Given the protectionist tendencies in trade in many developed countries, there is a real danger that the safeguarding of the environment may be used as an excuse to justify additional measures of protection in some fields. The need therefore arises to establish criteria for distinguishing restrictive foreign trade measures which reflect *bona fide* environmental needs from those which are simply of a protectionist nature.

104. Another aspect of the problem is that the protection of the environment will lead to a sizable increase in investment and production costs. In such branches as metal processing, chemicals, and paper pulp, the resultant increases in production costs will inevitably bring about shifts in the pattern of world trade. In the initial stages countries or producers which are in the forefront of environmental protection are likely to face serious handicaps in world markets. In the long term, growing costs of production in developed countries due to environmental measures may lead to a worsening of the terms of trade of the developing countries. An additional element in this problem is the fact that countries at different levels of economic development have very different types of environmental problem and assign different priorities in solving them.

105. Environmental measures may exert a growing influence on the prospects for development aid. If fully applied, the measures envisaged in developed countries might absorb 1 to 1.5 per cent of GNP and there is a risk that requirements of this magnitude will compete for resources that are otherwise available for development assistance. Furthermore, the application to developing countries of criteria relating to the environment that are used in developed countries could in some instances hinder the approval of aid projects.

106. On the other hand, the opportunity of invoking considerations of the environment to improve the position of natural products exported by developing countries should not be overlooked. It appears that in some cases biodegradable products might be preferred to some synthetic products lacking these qualities. Another possibility that might be explored is that of transferring some industries to developing countries, where the environment's "carrying capacity" for pollutants is often greater than in the developed countries, and may remain so for a considerable time.

107. Most of the problems referred to above are relatively new and their detailed study in international organizations is just beginning. UNCTAD has actively participated in the preparation of the United Nations Conference on the Human Environment (Stockholm, June 1972, which was devoted to a complex analysis of the different aspects of environmental issues. In June 1971, as part of the preparatory work for that Conference, a panel of experts on development and the environment met at Founex, Switzerland, and examined the interaction between environment and development; a large part of the meeting's discussion was devoted to the impact of environmental issues on international trade and capital flows. Special attention was devoted to the danger that environmental measures might encourage the growth of non-tariff barriers or lead to the adoption by international lending agencies of new criteria which might curtail the flow of aid to developing countries.[33]

108. The General Assembly in its resolution 2849 (XXVI) of 20 December 1971 requested the Secretary-General of UNCTAD

"to prepare a comprehensive study, to be submitted to the Conference at its third session, on the effects of environmental policies of developed countries which might adversely affect the present or future development possibilities of developing countries, by means of, *inter alia:*

(*a*) A decrease in the flow of international development assistance and a deterioration of its terms and conditions;

(*b*) A further deterioration in the trading prospects of developing countries, by the creation of additional obsta-

[32] For a more detailed discussion of the problem, see the report by the UNCTAD secretariat, "Impact of environment policies on trade and development, in particular of the developing countries" (TD/130) (see p. 183 below).

[33] See "Report of a panel of experts convened by the Secretary-General of the United Nations Conference on the Human Environment (Founex, Switzerland, 4-12 June 1971)" ("Development and environment (subject area V): report by the Secretary-General" (A/CONF.48/10), annex I).

cles, such as the new non-tariff measures, which might lead to a new type of protectionism".[34]

H. Trade and economic aspects of disarmament

109. By General Assembly resolution 2667 (XXV) the Secretary-General of the United Nations was requested "to prepare, with the assistance of qualified consultant experts appointed by him, a report on the economic and social consequences of the arms race and of military expenditures". The report,[35] which was submitted to the General Assembly at its twenty-sixth session, noted that world military expenditures exceeded $200 billion in 1970 and that if annual military expenditures continued to absorb their present percentage of world output they could well reach the level of $300-$350 billion (at 1970 prices) by the end of the decade. The report also concluded that a halt in the arms race not only would contribute effectively to the improvement of international relations and the maintenance of world peace and security, but also would make it possible to release resources for peaceful uses, including aid. It expressed the view that such a re-allocation of resources would enhance further the growth of world income and trade and lead to a more rational network of international trade and capital flows. However, a more equitable distribution of the economic gains would call for transfer to developing countries, in the form of additional assistance, of part of the resources thus released. In this respect, the report expressed "both the conviction and the hope that increased aid to developing countries would be a natural consequence of substantially reduced military expenditures".[36]

110. The report was discussed in the First Committee of the General Assembly; the Committee submitted to the General Assembly a draft resolution on "Economic and social consequences of the armaments race and its extremely harmful effects on world peace and security", which was adopted on 16 December 1971 (resolution 2831 (XXVI)). In that resolution, the General Assembly welcomed the report with satisfaction, requested that it be given the widest possible publicity and distribution, and decided to keep the item under constant review; it considered that "a halt in the arms race and a significant reduction in military expenditures would promote the social and economic development of all countries and would increase the possibilities of providing additional resources to developing countries". On 21 December 1971 the General Assembly adopted resolution 2880 (XXVI) on "Implementation of the Declaration on the Strengthening of International Security". In paragraph 8 of this resolution the Assembly declares, that "the United Nations should evolve a concept of collective economic security designed to promote the sustained development and expansion of national economies" and that "a substantial portion of the savings derived from measures in the field of disarmament should be devoted to promoting economic and social development, *particularly in the developing countries*".

I. The role of UNCTAD in the International Development Strategy for the Second United Nations Development Decade: preparation, implementation, review and appraisal

111. Since the second session of the Conference, one of UNCTAD's central preoccupations has been the elaboration of its contribution to the Second United Nations Development Decade, including the relevant provisions of the International Development Strategy that is to help guide the economic and social activities of the United Nations system of organizations during the 1970s. Although UNCTAD is one of the newest members of the system, it has been widely recognized that it has contributed significantly to the efforts of the United Nations to formulate a comprehensive and reasonably specific programme of action—a feature which was lacking in the First United Nations Development Decade. Indeed, the Strategy, as proclaimed by the General Assembly on the twenty-fifth anniversary of the United Nations on 24 October 1970, clearly reflects, both in its general goals and objectives and in its rather extensive section on policy measures and targets related to trade and development, the results of long and often arduous discussions, consultations and negotiations held within UNCTAD.

112. Moreover, the Assembly, in its resolution 2820 (XXVI), adopted unanimously on 16 December 1971, has reaffirmed "the essential role" of UNCTAD "to review and appraise the progress achieved in the implementation of the International Development Strategy within its field of competence and seek new areas of agreement and the widening of existing ones as well as to evolve new concepts and seek agreement on additional measures as envisaged in the Strategy". In so doing, UNCTAD under resolution 2641 (XXV) of the Assembly, was requested, as were also UNIDO, the specialized agencies, the regional economic commissions, UNESOB and other organizations of the United Nations system, "to continue to review progress in their respective sectors according to the procedures already established and to be adapted as necessary".

1. *Initial review and assessment procedures in UNCTAD*

113. During the discussions in the Trade and Development Board on the contribution UNCTAD was called upon to make to the Second United Nations Development Decade, it was generally recognized that UNCTAD was the focal point of United Nations activities concerned with trade and development, and that its basic role and responsibilities derived from the principal functions entrusted to it in General Assembly resolution 1995 (XIX) establishing UNCTAD as an organ of the General Assembly. These responsibilities, as well as those stemming from subsequent Assembly resolutions and from resolutions and decisions

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[34] The study carried out in accordance with this resolution was circulated to the Conference as document TD/130 (see foot-note 32 above).

[35] A/8469 (subsequently issued as a United Nations publication, Sales No. E.72.IX.16 (A/8469/Rev.1)) and A/8469/Add.1. The addendum contains the replies of Governments to a *note verbale* of the Secretary-General dated 1 March 1971, and the texts of communications from specialized agencies and other international organizations, including a submission by the Secretary-General of UNCTAD, which is also reproduced in the note by the UNCTAD secretariat, "Trade and economic aspects of disarmament" (TD/133).

[36] See *Economic and social consequences of the arms race and of military expenditures: report by the Secretary-General* (United Nations publication, Sales No. E.72.IX.16), para. 118.

adopted within UNCTAD itself, have included, since 1965, reviewing, assessing and taking appropriate action within the Board's competence to ensure implementation of the recommendations of the Conference and the continuity of its work.

114. As the permanent organ of UNCTAD carrying out the functions falling within the competence of the Conference when it is not in session, the Trade and Development Board performs these tasks mentioned above, with the assistance as necessary of its Committees, in conformity with Board resolution 19 (II) of 15 September 1965. In that resolution the Board requested the Secretary-General of UNCTAD to prepare annually an appropriate report to serve as a background document for the Board's review and assessment of the implementation of the recommendations of the Conference. In its resolution 2085 (XX), adopted on 20 December 1965, the General Assembly endorsed the Board's decision "to review annually the progress achieved in the implementation of the recommendations of the Conference and the fulfilment of its programme of work".

115. Accordingly, such reports have been prepared regularly for the Board's use since 1966, and include information supplied by Governments of member States in response to the periodic requests addressed to them by the secretariat in conformity with the practice approved by the Board at its third session.[37]

116. The Board's first review of the implementation of the recommendations of the Conference took place at its fourth session, when it also discussed possible follow-up action.[38]

117. During its consideration of the objectives, provisional agenda and preparatory work and other arrangements for the second session of the Conference, the Board, at its fifth session, also reviewed the implementation of Conference recommendations and explored action to be taken in this respect at the second Conference. In that connexion, the Secretary-General of UNCTAD made a statement [39] stressing the need for a global strategy for development involving concerted action by both industrialized and developing countries. At the close of the ensuing discussion, the President of the Board summed up his personal evaluation of the salient points, or "points of crystallization", which had emerged with respect to tasks on which the Conference should concentrate at its second session.[40]

118. Having considered the Board's report on its fifth session, the Assembly, in resolution 2296 (XXII) of 12 December 1967, concerning the second session of the Conference, recognized the "urgent need for improving the economic situation of the developing countries through the adoption of appropriate measures on the part of both developed and developing countries, thus contributing to the elaboration of an international development strategy". It drew the attention of the Conference to the statement made by the President of the Board referred to above and invited "the Governments of the States members of the Conference to give serious consideration, in their preparations for the second session of the Conference, to the Charter of Algiers. . . ".[41]

119. In a separate resolution 2305 (XXII), concerning the United Nations Development Decade, adopted on 13 December 1967, the General Assembly requested the Secretary-General of the United Nations, in consultation with the Committee for Development Planning and the organizations in the United Nations system, and "on the basis of the results of the second session of the United Nations Conference on Trade and Development", to put forward suggestions on the "appropriate means of harmonizing measures that could be considered by international organizations, on the one hand, and by developing and developed countries, on the other, in the preliminary framework of an international development strategy. . . ".

120. The need for such a strategy and its significance, and an outline of the convergent measures that would have to be taken co-operatively for its successful implementation, formed the subject matter of a report entitled *Towards a Global Strategy for Development*, submitted by the Secretary-General of UNCTAD to the Conference at its second session.[42]

2. *From the second to the third session of the Conference*

121. In the opening paragraphs of the introduction to his report to the Secretary-General of the United Nations, entitled *The significance of the second session of the United Nations Conference on Trade and Development*,[43] the Secre-

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[37] See *Official Records of the General Assembly, Twenty-first Session, Supplement No. 15* (A/6315/Rev.1), part one, paras. 1-3. Previous reviews prepared for the Board (or in 1968, like the present document, for the Conference), were as follows: "Review of international trade and development, 1966" (*Official Records of the Trade and Development Board, Fourth Session, Annexes*, agenda item 3, document TD/B/82 and Add.1-4); *Review of international trade and development, 1967* (United Nations publication, Sales No. E.68.II.D.4); *Review of recent trends in trade and development, 1968* (United Nations publication, Sales No. E.69.II.D.4) and *Review of International Trade and Development, 1970* (United Nations publication, Sales No. E.71.II.D.5). In addition, a brief review of developments in 1970 and the early part of 1971 (TD/B/369 and Add.1), of which the present report is an expanded version, was prepared for the eleventh session of the Board.

[38] For an account of the Board's deliberations, see *Official Records of the General Assembly, Twenty-first Session, Supplement No. 15* (A/6315/Rev.1), part two, chap. I.

[39] See *Official Records of the Trade and Development Board, Fifth Session*, 122nd meeting.

[40] For the text of the President's statement, see paragraph 31 of the Board's report on its fifth session (*Official Records of the General Assembly, Twenty-second Session, Supplement No. 14* (A/6714), part one).

[41] Section III of part one of the Charter of Algiers stated, *inter alia*, that "Traditional approaches, isolated measures and limited concessions are not enough. The gravity of the problem calls for the urgent adoption of a global strategy for development requiring convergent measures on the part of both developed and developing countries". (See *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), p. 432).

[42] United Nations publication, Sales No. E.68.II.D.6. A similar approach to the need for concerted international action had also been postulated in the last part of the report submitted to the Conference in 1964 by the Secretary-General of UNCTAD, under the title "Towards a new trade policy for development" (*Proceedings of the United Nations Conference on Trade and Development*, vol. II, *Policy Statements* (United Nations publication, Sales No. 64.II.B.12), pp. 3-64).

[43] United Nations publication, Sales No. E.69.II.D.3.

tary-General of UNCTAD, summarizing the results of the session, emphasized that the First United Nations Development Decade had been "a Development Decade without a development policy" and that that state of affairs could not be repeated in the Second Development Decade without very serious consequences. He added that the second session of the Conference "could have contributed to the formulation of this development policy by approving a series of concrete measures to accelerate the rate of economic and social growth of developing countries and by inserting these measures into the basic framework of a broad strategy for development, as envisaged by the General Assembly. This great objective was not achieved. The second session of the Conference was able to obtain only very limited positive results that are not commensurate with the dimensions and urgency of the development problem".

122. At the Board's sixth session, held on 6 and 7 May 1968, the outgoing as well as the new President, in assessing the results of the Conference and the follow-up work entrusted by it to the Board, stressed the need to move forward towards the establishment of a global development strategy.

123. Certain aspects relating to the problem of decision-making, including some which have a bearing on UNCTAD's role in the Second Development Decade, were touched upon in a separate report submitted to the Board at its seventh session, concerning the improvement of UNCTAD's institutional machinery and methods of work.[44] The report concluded that although there had been notable advances in thinking since the first Conference in Geneva, institutional weaknesses might have accounted for the limited results at the second Conference. The most important reason, however, appeared to be "the lack of willingness on the part of Governments to take positive action ... as part of an organized collective effort."[45] UNCTAD's deliberating functions were "vital ones", but its operational and negotiating potential was still largely untapped and it was along these lines that UNCTAD should move forward. "What should be negotiated in UNCTAD is above all a trade and development strategy, a series of convergent measures, a common policy in the application of which all groups of countries—developed market economies, socialist countries and developing countries—are to participate and from which they will benefit".[46]

124. After considerable discussion on these and related matters at its seventh session, the Board adopted decision 45 (VII), in which it "recognized that the task of negotiation, including exploration, consultation and agreement on solutions, is a single process", and set forth a series of provisions designed to improve the institutional machinery and methods of work of UNCTAD. Some of these provisions, particularly inter-group consultations assisted by the President of the Board and/or the Secretary-General of UNCTAD, have increasingly been resorted to, as was the case with the elaboration of UNCTAD's contribution to the International Development Strategy.

125. The Board also adopted resolution 47 (VII), in which it reaffirmed the "important role UNCTAD has to play within its competence in the combination of efforts within the United Nations family for the preparation of the second Development Decade in view of the vital significance of the matters of trade and development in the context of an international strategy for development"; invited the Secretary-General of UNCTAD to continue preparatory work for the second Development Decade, formulating suggestions and proposals and reporting thereon to the Board, and also to convene a group "composed of representatives of Governments of any country member of UNCTAD wishing to participate in its work to assist him" in the preparatory work for the Decade, which was to be given the highest priority.

126. For its part, the General Assembly, in resolution 2411 (XXIII), adopted on 17 December 1968, took note of Board resolution 47 (VII) and requested the Board "to continue its efforts to reach the maximum degree of agreement on issues which were remitted to it by the United Nations Conference on Trade and Development at its second session and which are of basic importance for the elaboration of the international development strategy for the 1970s".

127. The Board again took up this question at its eighth session, on the basis of a report prepared by the secretariat and comments by Governments on an earlier report.[47] It also had before it the report of the Intergovernmental Group,[48] which had been convened under resolution 47 (VII).

128. A further report [49] was prepared at the request of the Board and considered at its resumed eighth session (May 1969). It took into account the relevant discussions, including the various draft resolutions, working papers and memoranda, which had been presented by member countries or groups of countries at the first part of the session. Additional drafts were put forward in the course of the resumed session, at the conclusion of which agreement was reached on the text to be proposed to the General Assembly on three subjects: (*a*) trade expansion, economic co-operation and regional integration among developing countries; (*b*) special measures in favour of the least developed among the developing countries; and (*c*) special measures in favour of the land-locked countries.

129. The Board also adopted, at its 200th meeting, on 17 May 1969, a statement [50] concerning the contribution

[44] See *Official Records of the Trade and Development Board, Seventh Session, Annexes*, agenda item 3, document TD/B/173.

[45] *Ibid.*, para. 6.

[46] *Ibid.*, para. 15.

[47] "The contribution of UNCTAD to the Second Development Decade: report by the Secretary-General of UNCTAD" (*Official Records of the Trade and Development Board, Eighth Session, Annexes*, agenda item 4, document TD/B/127) and "Comments by Governments on the report by the Secretary-General of UNCTAD entitled 'The role of UNCTAD in the Second Development Decade' (TD/B/186)" (*ibid.*, document TD/B/219 and Add.1-2).

[48] *Official Records of the General Assembly, Twenty-fourth Session, Supplement No. 16* (A/7616), part one, annex II.

[49] "UNCTAD and the Second United Nations Development Decade: report by the Secretary-General of UNCTAD" (TD/B/235 and Add.1).

[50] For this statement, and the agreed texts mentioned in paragraph 128, see *Official Records of the General Assembly, Twenty-fourth Session, Supplement No. 16* (A/7616), part two, annex I and appendix.

of UNCTAD to the Second United Nations Development Decade, paragraph 2 of which reads:

The United Nations Conference on Trade and Development will continue with its task of accelerating economic development for all countries by formulating and carrying into effect new development-oriented trade policies. Such policies call for the urgent adoption of an international strategy for development requiring convergent measures on the part of both developed and developing countries in a spirit of partnership. The aim is to promote sustained economic growth especially in developing countries leading to 'higher standards of living, full employment and conditions of economic and social progress and development' so as to facilitate the process of narrowing the gap in living standards between developed and developing countries. To achieve these objectives, UNCTAD will use its established machinery, namely the Conference, the Board and the standing committees. Each organ will continue with its programme of work, which would be adjusted as appropriate, in order to implement the objectives and targets, including sectoral targets, established by the General Assembly for the Decade. At its first session after the launching of the Decade, the Conference will take further practical steps within its competence as established by General Assembly resolution 1995 (XIX) in the light of the objectives and targets of the Decade, and will seek new areas of agreement and the widening of existing ones. It will also consider the rapid implementation of agreed measures.

130. Further work on UNCTAD's contribution to the International Development Strategy was carried out by the Board during the second and third parts of its ninth session (15 to 23 September 1969 and 2 to 16 February 1970). At the third part of the session, it adopted decision 64 (IX) covering measures to be taken in the various fields within UNCTAD's competence, with the important exceptions of the volume of financial aid target dates in the field of trade and measures relating to shipping and ports.[51]

131. In the introduction to this decision it was again emphasized that the contribution of UNCTAD to the Second United Nations Development Decade

must be regarded as a continuing effort designed to accelerate the growth of developing countries through the adoption and implementation of appropriate trade and aid policies. It should therefore be seen in a dynamic context, that is, one which requires continuing review within the machinery of UNCTAD with the aim of tackling effectively the major problems within its competence that the international community will face during the Decade, taking into account the developments which may occur in the implementation of the policy measures within UNCTAD's competence, and seeking at all times new areas of agreement and the widening of existing ones. To attain these objectives, UNCTAD will use its established machinery, namely, the United Nations Conference on Trade and Development, the Trade and Development Board and the standing committees, in accordance with the statement adopted by the Board on 17 May 1969.

132. At the first part of the tenth session, held from 26 August to 24 September 1970, the Board adopted decision 67 (X), containing a text on shipping and ports, requesting the Secretary-General of UNCTAD to transmit it as soon as possible to the appropriate organs of the United Nations. Unable to reach agreement on draft texts relating to target dates in the field of trade and to the question of adjustment assistance, the Board requested the Secretary-General of UNCTAD to transmit to the Secretary-General of the United Nations the draft texts which he had submitted, in which he had incorporated "constructive suggestions made by delegations... so that they might become promptly available for reference purposes in connexion with the consideration by the General Assembly at its twenty-fifth session of the international development strategy for the 1970s".

133. At its fourth special session (12-13 October 1970) the Board adopted the report of the Special Committee on Preferences on its fourth session,[52] containing the arrangements agreed upon in connexion with the establishment of a generalized system of preferences in favour of the developing countries, including a procedure for a periodic review of the functioning of the system. In its decision 75 (S-IV) on this subject, it requested the Secretary-General of UNCTAD

to transmit to the appropriate body the following text to replace paragraph 30 of the draft of an international development strategy for the Second United Nations Development Decade:

"Arrangements concerning the establishment of generalized, non-discriminatory, non-reciprocal preferential treatment to exports of developing countries in the markets of developed countries have been drawn up in UNCTAD and considered mutually acceptable to developed and developing countries. Preference-giving countries are determined to seek as rapidly as possible the necessary legislative or other sanction with the aim of implementing the preferential arrangements as early as possible in 1971. Efforts for further improvements of these preferential arrangements will be pursued in a dynamic context in the light of the objectives of resolution 21 (II) of the United Nations Conference on Trade and Development."

134. The inclusion of this text in the Strategy thus completed the substantial contribution made by the Board during previous sessions to the preparatory work for the Second United Nations Development Decade. It also represented the fruition of several years' efforts devoted by UNCTAD to working out, in a pragmatic way, this unprecedented initiative that departs from the traditional principles of reciprocity and of most-favoured-nation treatment that has governed much of international trade in recent times. This development was widely welcomed in the General Assembly as an auspicious sign for the launching of the Second Development Decade.

135. In paragraph 82 of the International Development Strategy for the Second United Nations Development Decade, adopted by the General Assembly in resolution 2626 (XXV), there is a special provision whereby UNCTAD, UNIDO and the specialized agencies of the United Nations "will continue to review progress in their respective sectors according to the procedures already established and to be adapted as necessary".[53]

136. In paragraph 4 of resolution 2725 (XXV) on the third session of the United Nations Conference on Trade and Development, the General Assembly invited the Trade and Development Board:

to draw the attention of the United Nations Conference on Trade and Development at its third session, in pursuing the functions falling within its competence, and its role in the implementation of the

[51] For the texts agreed to, a summary of the discussion and documentary references, see *Official Records of the General Assembly, Twenty-fifth Session, Supplement No. 15* (A/8015/Rev.1), part one, chap. I and annex I.

[52] *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6* (TD/B/300/Rev.1) and *Supplement No. 6A* (TD/B/329/Rev.1). See also chap. III, section A below.

[53] The same provision appears in paragraph 3 of General Assembly resolution 2641 (XXV) on review and appraisal of the objectives and policies of the International Development Strategy.

International Development Strategy for the Second United Nations Development Decade in a dynamic context, to the importance of:

(*a*) Reviewing the progress made in and seeking further implementation of the policy measures as agreed upon within the context of the International Development Strategy;

(*b*) Reaching agreement in more specific terms on issues which have not been fully resolved in the International Development Strategy and which have an important bearing on its implementation;

(*c*) Seeking new areas of agreement and widening existing ones;

(*d*) Evolving new concepts and seeking agreement on additional measures.

Moreover, in paragraph 5 of that resolution, it recommended that:

"the institutional machinery of the United Nations Conference on Trade and Development should be fully oriented towards the implementation of the relevant provisions of the International Development Strategy, particularly for enabling those countries which are having difficulty in accepting certain specific provisions in the policy measures of the Strategy to make a fuller and more effective contribution to the achievement of the goals and objectives of the Second United Nations Development Decade".

137. In resolution 2726 (XXV) on the transfer of technology, including know-how and patents, the Assembly recognized that the "adoption of concerted measures and the implementation, by developed and developing countries and competent international organizations, of a programme for promoting the transfer of technology to developing countries constitute an important element of the International Development Strategy...," and reaffirmed, in connexion with the establishment by UNCTAD of the Intergovernmental Group on Transfer of Technology, the need for the Conference to pursue its work in this field on a continuing basis.

138. Taking account of the relevant decisions of the Assembly, as well as those of the Board, and following consultations with leaders of the various geographical groups, the Secretary-General of UNCTAD, during the second part of the tenth session of the Board, held from 1 to 9 March 1971, made a statement on the provisional agenda for the eleventh session of the Board and tentative organization of work,[54] in which he touched on the procedure to be followed for reviewing and assessing the implementation of the recommendations of the Conference at the eleventh session of the Board and at the third session of the Conference. He indicated that:

In the light of the consensus that already appears to exist that the third session of the Conference should review and appraise the implementation of the recommendations that have emanated from the Conference and its continuing machinery, the secretariat will prepare full documentation for the implementation discussion at the third session of the Conference... In connexion both with the Conference and with the eleventh session, the secretariat will continue its contacts with member Governments with a view to gathering the information required on implementation.

He went on to say that:

At its eleventh session, the Board will also wish to consider the contribution it may make, within its area of competence, to the process of review and appraisal in connexion with the International Development Strategy for the Second United Nations Development Decade as required under General Assembly resolution 2641 (XXV), bearing in mind the provision made in the Strategy for biennial appraisals. Moreover, the Board is invited by General Assembly resolution 2725 (XXV) to draw the attention of the Conference at its third session in pursuance of its role in the implementation of the International Development Strategy in a dynamic context and, in particular, to the importance of the four points spelt out in paragraph 4 of that resolution.

At its 275th meeting, on 8 March 1971, the Board took note of and endorsed the statement by the Secretary-General of UNCTAD.[55]

139. On 27 August 1971 the Secretary-General of UNCTAD addressed a *note verbale* to Governments of States members of UNCTAD, recalling the consensus reached at the second part of the tenth session of the Board to the effect that at its third session the Conference should be in possession of full documentation relating to the implementation of Conference recommendations and to UNCTAD's role in achieving the purposes of the International Development Strategy as called for in the pertinent General Assembly and Board decisions. Accordingly, he invited Governments of States members of UNCTAD to provide such information as, in their opinion, would assist the secretariat in the preparation of its report to the Conference. To facilitate this task, an outline of the information needed was annexed to the *note verbale*, indicating the areas in which action was called for under various resolutions, decisions and texts approved by the Conference at its first and second sessions, and the Board and its subsidiary bodies at various sessions, and referring also to the pertinent parts of the International Development Strategy.[56] The annex was subdivided to show the major actions called for on the part of various countries and institutions, and the Secretary-General of UNCTAD expressed the hope that each recipient would give attention to those particular recommendations which concerned it. He recognized that, since the Second Development Decade had begun only recently, indications of progress in conformity with the Strategy would "at this time largely involve indications of future action envisaged or planned". He also stated that it would be most helpful if, in addition to indications of progress under the various relevant items, Governments could also indicate "difficulties and obstacles (if any) which impede progress".[57]

140. At its eleventh session the Trade and Development Board adopted resolution 81 (XI) on "Review of the implementation of the recommendations of the United Nations Conference on Trade and Development", whereby the Board:

1. *Reaffirms* UNCTAD's responsibility, in the context of the Second United Nations Development Decade, within its field of competence for (*a*) reviewing the progress made in implementation of the measures contained in the International Development Strategy, (*b*) reaching agreement in more specific terms on issues which have

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[54] *Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), part one, annex IV.

[55] *Ibid.*, part one, para. 211.

[56] A revised outline, taking into account the deliberations of the General Assembly, the Trade and Development Board and its subsidiary bodies since 27 August 1971, was available for reference purposes to participants at the third session of the Conference.

[57] At the time of writing the present report, the replies received from Governments, while not covering the entire membership of UNCTAD, have been fairly comprehensive. However, many of them were received after the time-limit suggested and therefore it was not possible to draw upon them as fully as their contents warranted for the purpose of the report and of other documents prepared for the third session of the Conference.

not been fully resolved, (*c*) seeking new areas of agreement and widening existing ones, and (*d*) evolving new concepts and seeking agreement on additional measures;

2. *Requests* the Conference, at its third session, to consider adequate procedures and mechanisms necessary for the review and appraisal of the objectives and measures of the International Development Strategy, falling within its competence, in the discharge of its responsibility mentioned in paragraph 1 above.

141. In addition, it included as item 8 (*a*) of the provisional agenda for the third session of the Conference the following:

Review of the implementation of the policy measures within UNCTAD's competence, as agreed upon within the context of the International Development Strategy; implementation of the recommendations, resolutions and other decisions of UNCTAD; guidelines for UNCTAD's work programme.

3. *The International Development Strategy and the third session of the Conference: action taken by the General Assembly at its twenty-sixth session*

142. At its twenty-sixth session, the General Assembly adopted various resolutions which have a bearing on UNCTAD's role in the implementation, review and appraisal of the International Development Strategy in its field of competence. Resolutions 2801 (XXVI) on review and appraisal of the objectives and policies of the International Development Strategy for the Second United Nations Development Decade and 2820 (XXVI) on the third session of the United Nations Conference on Trade and Development are particularly relevant to the consideration by the Conference of item 8 (*a*) of the provisional agenda.

143. In resolution 2801 (XXVI), adopted on 14 December 1971, the General Assembly reaffirmed its responsibility "for carrying out, through the Economic and Social Council, the over-all review and appraisal of the progress in implementing the policy measures and the realization of the goals and objectives" of the Strategy and, in so doing, laid down comprehensive guidelines for this purpose, including the assistance to be given to the Council by the Committee for Development Planning at the expert level, while requesting "competent secretariats at the sectoral and regional levels" to co-operate in this task. The Assembly then invited UNCTAD, UNIDO, the specialized agencies, the regional economic commissions and UNESOB "to integrate their review activities with the preparatory work for the over-all review and appraisal so as to avoid unnecessary duplication in this field". The Assembly also called upon Governments "to extend their co-operation for the success of this important international endeavour" and decided that "at the sessions of the General Assembly at which the biennial over-all appraisal takes place, the work of the Second Committee shall be organized in such a manner as to ensure sufficient time for in-depth consideration of the Economic and Social Council's report on over-all review and appraisal together with the reports of the main bodies of the United Nations having responsibilities for sectoral review and appraisal".

144. By its resolution 2820 (XXVI), concerning the third session of the Conference, adopted on 16 December 1971, particularly section II dealing with UNCTAD's role in review and appraisal, the General Assembly:

. . .

2. *Reaffirms* the essential role of the United Nations Conference on Trade and Development to review and appraise the progress achieved in the implementation of the International Development Strategy within its field of competence and to seek new areas of agreement and the widening of existing ones as well as to evolve new concepts and seek agreement on additional measures as envisaged in the Strategy; and

3. *Invites* the United Nations Conference on Trade and Development at its third session:

(*a*) To provide general guidelines for the establishment by the Trade and Development Board of adequate procedures and mechanisms for defining and keeping under constant review the indicators and other data necessary for assessing the progress in the implementation of the policy measures within the field of competence of the Conference;

(*b*) To make the institutional machinery of the Conference fully oriented towards the implementation of the relevant provisions of the International Development Strategy, and particularly to this end to promote consultations aimed at enabling member States to make a fuller and more effective contribution to the achievement of the goals and objectives thereof;

(*c*) To give consideration to such reforms of the fundamental provisions of General Assembly resolution 1995 (XIX) so as to promote further evolution in the continuing machinery and in the method of work of the Conference designed to increase its effectiveness.

145. In addition, the General Assembly, taking into account the need for mobilizing public opinion to promote and ensure the implementation of the goals and measures in the International Development Strategy, adopted on 16 December 1971 resolution 2800 (XXVI), on dissemination of information and mobilization of public opinion relative to the review and appraisal of progress in the implementation of the International Development Strategy for the United Nations Development Decade, which also has a bearing on UNCTAD's role. Paragraph 2 of the resolution reads:

Urges Governments and the organizations concerned within the United Nations system to conduct, in co-ordination with the Secretary-General, such campaigns as they may deem appropriate for the dissemination of information relative to the objectives and policy measures, as well as to the progress achieved and the shortfalls, within the framework of the International Development Strategy for the Second United Nations Development Decade, and also for the promotion of those objectives and measures.

Chapter II

Primary commodities

A. Introduction

146. The fundamental common objective of the recommendations, decisions or resolutions adopted by the Conference at its first and second sessions (which covered a very broad range of commodity problems) was to stimulate the growth of the real export income of the developing countries.

147. The main recommendation at the second session (resolution 16 (II)) took the form of a programme of international action to deal, in accordance with agreed procedures, with the problems affecting a number of specified agricultural and mineral commodities. In addition, resolution 19 (II) dealt with the possible contribution

by the international financial institutions to the solution of commodity problems, especially those related to the financing of buffer stocks and to diversification.

148. Certain proposals submitted to the Conference at its second session, on access to markets, pricing policy, synthetics and substitutes, diversification and the international commodity trade network, were referred to the permanent machinery of UNCTAD for consideration. Texts on these subjects were later agreed upon by the Committee on Commodities and the Board.

149. In resolution 16 (II) the Conference called specifically for the conclusion of international agreements in respect of sugar and cocoa. In addition, it recommended that the Secretary-General of UNCTAD and the Director-General of FAO should "consider the necessity of setting up, at the earliest possible date... an Inter-Governmental Consultative Committee on Oilseeds, Oils and Fats" which would submit practical proposals on long-term measures for intergovernmental arrangements for these commodities, as well as suggest short-term measures for improving the market situation. The Conference also requested the Secretary-General of UNCTAD, in consultation with the Director-General of FAO, to consider further steps for achieving the objectives of the informal understandings reached on hard fibres, including the possibility of a formal agreement, and recommended that the FAO Study Group on Jute, Kenaf and Allied Fibres should, in consultation with the UNCTAD secretariat, urgently explore the possibility of setting up an appropriate buffer-stock scheme for jute. In the same resolution, the Conference recommended that, for a number of other commodities, studies should be made, intergovernmental consultations held and remedial action taken, as appropriate, with a view to identifying and solving the problems confronting these commodities, in particular natural rubber, bananas, citrus fruit, cotton, tungsten, tea, wine, iron-ore, tobacco, manganese-ore, mica, pepper, shellac and phosphates. The Conference also recommended that the Secretary-General of UNCTAD should exchange information with other international agencies with a view to making a comprehensive and continuing evaluation of the problems of temperate-zone products not specifically mentioned in the resolution and of measures to be adopted for their solution.

150. Progress in the implementation of resolution 16 (II) is dealt with in sections B and C below. (See also the summary table on international commodity arrangements in paragraph 19 above). Subsequent sections deal with other developments in the field of commodity policy.[58]

B. Operative intergovernmental commodity agreements

151. At the time of the second session of the Conference, formal international commodity agreements were in operation in respect of coffee, tin and olive oil. Although the International Sugar Agreement, 1958 and the International Wheat Agreement, 1962 continued in being, their operational provisions had lapsed. However, the International Grains Arrangement 1967—incorporating a Wheat Trade Convention and a Food Aid Convention—had recently been negotiated and was due to come into force. International arrangements of an informal character were in operation for hard fibres and jute.[59]

1. *The International Sugar Agreement*

152. The International Sugar Agreement, 1968, the conclusion of which represented a major international achievement in the commodity field, came into operation on 1 January 1969. This new Agreement was intended, primarily, to deal with the situation of over-production and low prices which had persisted since 1964, by means of a system of export quotas and national stockpiles. Since the Agreement was concluded, there has been a significant increase in the world free market price of sugar. The International Sugar Organization has kept close watch over developments in the market with a view to taking appropriate action as provided for in the Agreement. Export quotas in 1969 and 1970 were maintained at 90 per cent of the basic export tonnage specified in the Agreement, and raised to 95 per cent, and subsequently 100 per cent, in 1971. For 1972 the initial quota has been set at 105 per cent.

2. *The International Coffee Agreement*

153. The International Coffee Agreement was first concluded in 1962, essentially to deal with the problem of disastrously low prices associated with excess production. Since then, the emphasis has shifted to the problem of maintaining a long-term balance between production and consumption. For this purpose provision was made in the 1968 International Coffee Agreement for a Diversification Fund, designed to assist the diversification of the economies of coffee-producing countries. Countries must submit specific project proposals for approval by the Assembly of the Fund before its resources are made available. A number of national coffee plans were approved at the third, fourth, fifth, and sixth sessions of the Assembly, held from May 1970 to December 1970. The most important decision taken at the sixth session was the approval of a standard form of loan contract, which could serve as a model for the preparation of all contracts between the Fund and borrowing members.

154. The International Coffee Council met in August 1970 to decide on quotas and price ranges for the 1970/71 coffee year. There was a wide divergence of views and Brazil abstained on the decision finally adopted. The initial quota was set at 54 million bags (3.24 million tons), which was 2 million bags more than the final effective quota for 1969/70.

155. In February 1971, a new sales policy announced by Brazil, involving a reduction of 12 cents per pound in its minimum registration prices, was reflected in a rapid decline in the indicator price for unwashed arabicas (which fell swiftly below its floor level) and in the composite indicator price. As a result, quotas for all three types of arabica were reduced successively in March and April. At the end of April 1971, the over-all quota stood at 49.5 million bags, which was 4.5 million less than the initial quota. However,

[58] For a more detailed description of developments with respect to commodities since the second session of the Conference and prior to June 1970, see *Review of International Trade and Development, 1970* (United Nations publication, Sales No. E.71.II.D.5), part two, paras. 61-119.

[59] See paragraphs 174-181 below.

in September (the last month of the season), the indicator prices for all three types of arabica were still below their floors, although quotas had been reduced as much as possible. By contrast, the indicator price for robustas remained close to its ceiling. In August 1971, the International Coffee Council set new indicator prices for the 1971/72 season, which were in each case lower than those for the preceding season. The initial quota was set at 47 million bags.

3. *The International Grains Arrangement*

156. After the International Grains Arrangement, of which the Wheat Trade Convention formed a part, entered into force in July 1968, it was subjected to serious strains. In 1970/71 the world wheat economy moved closer to equilibrium and prices generally recovered as a result of measures taken to reduce output in the main exporting countries, of the relatively short supplies and high prices of coarse grains, of the larger import demand for milling and feed wheat, and of a substantial reduction of surplus wheat stocks.

4. *United Nations Wheat Conference*

157. A United Nations Wheat Conference was held in Geneva in January-February 1971, under the auspices of UNCTAD. It was able to agree only on an instrument of limited scope—the International Wheat Agreement, 1971—which entered into force on 15 July 1971 and consisted of a Wheat Trade Convention and a Food Aid Convention. The 1971 Wheat Trade Convention, unlike the preceding one, does not contain any provisions for price ranges or purchase and sale obligations for members. The 1971 Food Aid Convention continues a food aid programme for the benefit of developing countries, of the type established in the 1967 Food Aid Convention. Under it, donor countries have undertaken to contribute annually cereals to a total amount of almost 4 million tons, which is about 500,000 tons less than under the 1967 Convention.

5. *United Nations Conference on Olive Oil*

158. In accordance with a protocol adopted on 30 March 1969 by the United Nations Conference on Olive Oil, the provisions of the International Oil Agreement, 1963, which were due to expire on 30 September 1969, have been extended until 31 December 1973. The objective of the agreement is to secure the long-term stabilization of the olive-oil market by means of suitable measures designed to encourage international trade in olive oil.

6. *The International Tin Agreement*

159. The Third International Tin Agreement expired on 30 June 1971 and was succeeded by a Fourth Agreement, negotiated at the United Nations Tin Conference held in April-May 1970. The objectives and provisions of the new Agreement remain basically the same as those of its predecessor: maintaining a balance between world production and consumption of tin, preventing excessive fluctuations in the market price and increasing export earnings of producing countries. It includes provisions on the use of a buffer stock and export controls. Greater flexibility has been introduced into buffer stock operations, especially at the upper and lower limits of the price range, where the buffer stock is particularly vulnerable to speculation.

160. The size of the buffer stock remains unchanged, at 20,000 tons or the equivalent in cash, and compulsory contributions will continue to be made by producer countries only. Voluntary contributions to the buffer stock may be made by any country and one consuming member, the Netherlands, has announced that it intends to make a voluntary contribution.

161. The International Tin Council, at its first meeting under the Fourth Agreement, in July 1971, decided to retain for the time being the price range in force at the end of the Third Agreement. The Council may revise the range at any time. There are provisions in the Fourth Agreement designed to take account of the general criteria of IMF for assistance in connexion with international buffer stocks.

162. IMF announced in November 1970 that it had decided that producer members of the Fourth International Tin Agreement could use the buffer stock financing facility of the Fund in connexion with the financing of contributions they were required to make to the international tin buffer stock established under the Agreement. It has already provided such assistance to Bolivia, Indonesia and Malaysia. Consumer participation in the Fourth Agreement has been considerably strengthened, in comparison with previous agreements, notably by the accession of the USSR and the Federal Republic of Germany. Australia, which was a consuming member of previous Agreements, has joined the Fourth Agreement as a producing member.

C. Other or actions consultations concerning individual commodities

1. *Cocoa*

163. Strenuous efforts were continued during the period covered by this report to achieve an international cocoa agreement. A technical preparatory meeting on cocoa was held in June 1969. In December 1969 the Secretary-General of UNCTAD met representatives of some of the major producing and consuming countries and submitted a report on his consultations in January 1970. A meeting of the Cocoa Consultative Group was held in Geneva from 1 to 11 June 1970 to consider this report.

164. Following the 1970 Cocoa Consultations, the UNCTAD secretariat has undertaken studies both on the technical and operational problems of different quota systems and on the possible simplification of the complex proposed draft Agreement. The resulting two documents were circulated to Governments members of the Cocoa Consultative Group as a basis for informal discussions which the Secretary-General of UNCTAD held separately with individual consuming and producing countries in May-June 1971 in Geneva.

165. In the light of these discussions, and bearing in mind the positions expressed at previous meetings, as well as the articles which had already been agreed upon, the secretariat prepared further texts, which were considered at consultations held in September 1971 and January 1972.

166. In view of the short time between the close of the January 1972 consultations and the third session of the Conference, and of the desirability expressed in Board resolution 85 (XI) that a negotiationg conference on cocoa

be convened before the third session, the Secretary-General of UNCTAD informed member States in December 1971 that he had provisionally set aside a period for the United Nations Cocoa Conference, 1972. His decision on whether or not to convene a Conference prior to the third session would be taken in the light of the outcome of the January consultations. He also drew attention to General Assembly resolution 2820 (XXVI), of 16 December 1971, concerning the third session of the United Nations Conference on Trade and Development, which, *inter alia*, expressed the view that "the conclusion of an international cocoa agreement as soon as possible would be of great importance and would contribute to the success of the third session of the Conference".

167. On the conclusion of his consultations, the Secretary-General of UNCTAD decided to convene a Cocoa Conference in Geneva on 6 March 1972. The Conference was expected to establish a Negotiating Committee to prepare a draft agreement for consideration at a resumed session in mid-1972.

2. *Oilseeds, oils and fats*

168. A special session of the FAO Study Group on Oilseeds, Oils and Fats, jointly convened and serviced by the secretariats of UNCTAD and FAO, was held in London from 26 January to 6 February 1970 and considered the possibility of establishing an Intergovernmental Consultative Committee, in accordance with Conference resolution 16 (II).[60]

169. The FAO Committee on Commodity Problems, which met in October 1970, decided to continue the Study Group under the auspices of FAO and to broaden its terms of reference.

170. At its fifth session, held in December 1970, the Study Group invited the UNCTAD secretariat to submit to the Study Group at its next session a report on the results of its work on lauric oils, covering both the construction of its econometric model of the lauric oils market (see paragraph 171 below) and an assessment of the impact that possible buffer stock schemes were likely to have on the market. The Statistical Sub-Committee of the Study Group has also started an annual short-term evaluation of the market for lauric oils and other vegetable oils to assist both producing and consuming countries. In November 1971 the Study Group was re-named the Intergovernmental Group on Oilseeds and Fats.

171. The UNCTAD secretariat has undertaken a feasibility study of a supply stabilization scheme for the lauric oils market. The basis for the study is an econometric model of the lauric oils market which has been used to determine the impact that possible supply stabilization schemes would have on prices in that market.

172. In 1968 the major lauric oil producing countries formed, under the auspices of ECAFE, the Asian Coconut Community, to co-ordinate and harmonize activities of the coconut industry with a view to achieving the maximum economic development of the industry. The Community has been particularly concerned with production problems in the longer term but is also active in a number of other fields.

3. *Tea*

173. In view of the persistent decline in tea prices and the likelihood of this trend continuing in the absence of international action, a series of meetings have been held since 1969 within the framework of the FAO Consultative Committee on Tea and its subsidiary bodies, the Working Party on Long-Term Measures and the Standing Exporters' Group, to discuss possible long-term arrangements to regulate the market for tea. In 1969, producing countries negotiated an interim arrangement, based on export quotas, to stabilize the market in 1970, pending the possible future negotiation of a formal international agreement. Subsequently, by decisions taken in 1970 and 1971, exporting countries extended the interim arrangement until 31 March 1972. Progress has also been made towards establishing a long-term agreement on tea. On the recommendation of the first session of the Working Party on Long-Term Measures in 1970, two senior officials, one from FAO and one from UNCTAD, were appointed as conciliators to help to promote agreement among exporting countries on the principles on which a long-term agreement should be based. An interim report of the conciliators was considered at the fourth session of the Standing Exporters' Group, in September 1971. No agreement was reached and the Group requested the conciliators to continue their efforts.

4. *Jute, Kenaf and Allied Fibres*

174. Informal arrangements, established under the auspices of the FAO Consultative Committee on Jute, Kenaf and Allied Fibres, for stabilizing the world market have been operating since 1965. After three rounds of negotiations a new indicative price range for Thai kenaf was finally agreed upon in September 1970, and the indicative price ranges for both Pakistan jute and Thai kenaf were reconfirmed in February and September 1971.

175. Little progress has proved possible on jute buffer stock schemes. The Consultative Committee decided to convene the second session of the Advisory Working Party on Jute Stabilization Reserves in late September 1970 to examine proposals submitted by India and by Pakistan for the establishment of national buffer stocks. There was no general acceptance of these proposals, nor was any wish expressed by any other country to contribute to the proposed scheme.

176. Meanwhile the UNDP feasibility study for the establishment of an International Centre for research and promotion of jute and kenaf, jointly requested by India, Pakistan and Thailand, was initiated late in 1970.

177. The twelfth session of the Consultative Committee (September 1971) reviewed the market situation, and again decided to retain (for 1971/72) the existing indicative price range. The Committee recognized that jute was becoming increasingly vulnerable to competition from synthetics at ruling price levels and emphasized the need for a rapid implementation of measures for research and promotion.

[60] See paragraph 149 above. See also *Review of International Trade and Development, 1970* (United Nations publication, Sales No. E.71.II.D.5), part two, paras. 76-77 and the report by the UNCTAD secretariat "Problems and international action concerning commodities covered by Conference resolution 16 (II)" (TD/113/Supp.1) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. II, *Merchandise Trade* (United Nations publication, Sales No. E.73.II.D.5).

The Committee also concluded that no further progress was possible for the time being on the setting up of a national buffer stock scheme for jute. However, it decided to retain this item on its agenda for future meetings so that governments would be able to raise the matter again at any time when further progress appeared possible.

5. *Hard fibres*

178. Problems have been encountered in the operation of the informal arrangement for sisal and henequen which came into force under FAO auspices in January 1968. In June 1968 producing countries introduced a system of minimum prices for basic grades of sisal and henequen below which sales would not be made. Price differentials were also introduced for other grades. Although the target price of £84.5 per ton for the basic grade of sisal was not attained, the minimum price arrangements raised the price from £60 to £72 between May and September 1968 and held it at the higher level until January 1970. During this period, however, some conflicting interests became apparent. Some producing countries were not satisfied with the price differentials provided for in the informal arrangement, while others were dissatisfied with their basic quotas. In addition, at the sixth session of the Consultative Sub-Committee on Hard Fibres, in January 1970, complaints were expressed by some producing countries that some exports had been made at prices below the minimum levels agreed. At that session, the producing countries could not agree either on individual quotas or on minimum prices and price differentials, though a form of wording continuing the informal arrangement was adopted. Prices of sisal on the world market dropped drastically to a new post-war nadir shortly afterwards, and no corrective action could be agreed upon at the seventh session of the Consultative Sub-Committee, held in June 1970.

179. At the Sub-Committee's eighth session (October 1970) no substantive discussion on a new arrangement could take place owing to the absence of the United Republic of Tanzania, the largest sisal producer. In February 1971, however, producing countries agreed on a global export quota for 1971 and on a temporary distribution of this quota among exporting countries, to be applied up to May 1971 only. Finally, agreement on quotas for 1971 was reached by the Sub-Committee in May 1971 and the informal arrangement was thus fully reactivated, though without any minimum price provisions.

180. The recommended indicative price for abaca, agreed upon at the first session of the Consultative Sub-Committee on Hard Fibres in January 1968, has remained in force since then, but since early 1969 market prices have stood at about 35 per cent above the recommended prices, because of a shortage of supply. In May 1971 the Sub-Committee, following a detailed review of abaca problems, decided not to renew its indicative price recommendations, as they had fulfilled the original purpose of raising abaca prices for which they had been designed.

181. In May 1971 the Sub-Committee also decided to establish an *Ad Hoc* Working Party on coir to maintain closer contacts between producing and consuming countries. This is to be supported by studies of the competitive situation of coir, with a view to identifying the main problems in this market.

6. *Rice*

182. At its fourteenth session, held in Rome from 25 to 29 May 1970, the FAO Study Group on Rice reviewed the world rice situation and considered further the question of possible lines of action to stabilize world trade in rice. The Study Group decided to set up an *Ad Hoc* Working Party to examine these questions in greater depth and to prepare recommendations for consideration at its next session.

183. The Intergovernmental *Ad Hoc* Working Party on International Action on Rice met in November 1970 and agreed on a set of guidelines for action in the field of production and trade, as well as on food aid policies, to mitigate current rice trade problems. These recommendations were adopted by the fifteenth session of the Study Group on Rice in May 1971. As requested by the Study Group, the Director-General of FAO has formally transmitted these guidelines to the governments of member States of FAO with the request that they be taken into account in the formulation of national rice policies. The UNCTAD Committee on Commodities at its sixth session in July 1971, invited member Governments concerned to take into account so far as possible the recommendations of the Study Group in formulating their national rice policies.[61] The FAO Committee on Commodity Problems, held in October 1971, approved the report of the Study Group on its fifteenth session.

184. The ECAFE/FAO Expert Group on Stabilization and Expansion of Intra-regional Trade in Rice met at Bangkok, Thailand, in October 1969. The Group made a number of recommendations for consideration by Governments. These included increases in the proportions of rice and cereals obtained by importing countries from within the region, medium-term arrangements between exporting and importing countries within the region, and diversification to make economies less dependent on rice production.

185. Intergovernmental consultations on regional co-operation in the matter of rice in Asia were held in the framework of ECAFE from 26 February to 9 March 1970. Their objectives were to review the current rice situation and prospects, to explore the possibilities of regional co-operation with respect to rice, to discuss the technical problems involved in any schemes of joint action and to suggest practical solutions to the problems. The meeting identified the problems as being the decline in trade resulting from increased rice production in importing countries caused by technological advances, fluctuations in supply and prices and difficulties in financing imports. The meeting considered, among other matters, the use of trade and payments arrangements in intra-regional trade, buffer stocks, stimulation of consumption and export promotion.

186. An expert group on Intra-Regional Trade in Rice and Cereals convened by ECAFE in co-operation with UNCTAD, FAO and UNDP, met at Bangkok from 7 to 17 September 1971. The most important item discussed was a draft proposal for a Special Asian Rice Grade

[61] *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 4* (TD/B/370), para. 135.

Scheme. No consensus was reached by the Group on this matter.

7. *Meat*

187. An FAO *Ad Hoc* Consultation on Meat and Poultry was held in June-July 1969 and drew attention to major problems concerning market outlets, market stability, the increase of foreign exchange earnings, agricultural diversification and veterinary regulations. A second *Ad Hoc* Consultation was held in Buenos Aires in August 1970. On the basis of its report,[62] the FAO Committee on Commodity Problems, at its forty-fifth session, held in October 1970, established a Study Group on Meat, the terms of reference of which included the study of national meat policies, the analysis of programmes related to the expansion of production and their effects on imports and exports, and the identification of problems affecting international trade arising from health and sanitary measures.

188. The first session of the Study Group (Rome, 22-26 June 1971) agreed that the identification of the problems involved in trade barriers and, if appropriate, recommendations for the solution of problems, fell within its terms of reference. The Group established an organizational framework for its future activities, agreed on priorities within its terms of reference and drew up plans for a concrete programme of work. It agreed to concentrate on the improvement of market intelligence, the examination of problems relating to livestock development programmes, the completion of a series of studies on specific trade problems, and policy issues.

8. *Wine and vine products*

189. The first session of the FAO Study Group on Wine and Vine Products was held in September 1969 and discussed the need to improve quality, promote wine consumption, remove trade barriers and take diversification measures.

190. The Study Group's report was considered by the FAO Committee on Commodity Problems in September-October 1969.[63] The Committee noted the problems set out by the Study Group and endorsed its request to the Director-General of FAO for assistance to countries in difficulties, as well as the proposed programme of work.

191. UNDP has provided funds for studies on export markets and the possibilities of promoting exports in particular markets; the UNCTAD/GATT International Trade Centre is studying the possibilities in three markets: Denmark, the United Kingdom and United States of America. Subject to the receipt of assistance from UNDP, FAO intends to organize a Training Seminar for participants from Tunisia, Morocco and Algeria, aiming at improving the quality of wine in those countries. It is envisaged that a second session of the Study Group on Wine and Vine Products will be held in 1972.

9. *Bananas*

192. The third session of the FAO Study Group on Bananas took place in May 1969 in Panama, followed by a meeting of its Committee on Statistics in April 1970. With regard to Conference resolution 16 (II), the Study Group concluded that formal arrangements were not feasible at present but that consultations in the Group between producing and consuming countries were a useful technique which could lead if necessary to a measure of co-ordination of marketing activities. It considered that additional international machinery was neither necessary nor desirable for international consultation on bananas. The Committee on Statistics has started publication of an annual statistical bulletin on bananas.

193. The fourth session of the Study Group (Guadeloupe, 3 and 4 May 1971), reviewed the problems of trade in and distribution of bananas and the work programme for its Committee on Statistics. It concluded that there was a danger of over-production in the world banana market and efforts should be made to expand consumption in those areas, including the centrally-planned-economy countries, where there was a high potential for banana consumption but present per capita imports were low. The Group also established a Standing Committee of Exporters.

194. The FAO Committee on Commodity Problems at its forty-sixth session endorsed the report of the Study Group and its recommended programme of work. It agreed that the Study Group was the appropriate forum in which international consultations on bananas should be concentrated. The Committee also approved the establishment by the Group of the Standing Committee of Exporters, which it was hoped would assist exporting countries members of the Study Group in formulating their national production policies and which could lead, if necessary, to a co-ordinated and balanced expansion of banana production.[64]

10. *Citrus Fruit*

195. The fourth session of the FAO Study Group on Citrus Fruit met in May 1969 to consider both the short- and longer-term outlook and to identify the problems faced by the citrus industry as a preliminary step to determining the techniques appropriate to deal with them and to agreeing on remedial measures as requested in Conference resolution 16 G (II). The Study Group noted that an international agreement of an export-restricting type was not needed for the time being and recommended that regular consultations be held under the aegis of the Group. The fifth session of the Study Group is expected to be held in the spring of 1972.

11. *Pepper*

196. At its meeting in September 1969, the CCP considered that the FAO secretariat should continue its studies on stabilization of the pepper market and increasing trade in pepper and should assist producing countries in improving statistics. In July 1970, under the auspices of ECAFE, three major producing countries, i.e. India, Indonesia and Malaysia, held informal talks in Djakarta, with the participation of the FAO secretariat. These three countries decided to establish a Pepper Community, with a membership open to all producing countries. They also

[62] FAO document CCP 70/10.

[63] See the report of the CCP on its forty-fourth session (FAO document CL 53/4), paras. 55-57.

[64] See the report of the CCP on its forty-sixth session (FAO document CL 57/2), paras. 46-50.

invited the CCP to establish a Study Group on Pepper so that both importing and exporting countries could co-operate in the search for solutions to the problems of pepper. At its forty-fifth session the CCP examined this suggestion but decided that the time was not ripe for setting up a study group. It requested that studies be made of the underlying causes of fluctuations in pepper prices and of possible ways of reducing excessive fluctuations, with their implications for individual countries.[65]

197. At the forty-sixth session of the CCP two FAO secretariat papers, dealing with the marketing of pepper and the factors affecting the world pepper economy,[66] were considered. The Committee agreed that in view of the importance of pepper to a number of developing countries the secretariat should prepare further studies in depth on the long-term outlook for pepper production and consumption and on the trading patterns of exporting and consuming countries, the factors leading to speculative activities, and ways to improve unit value realization. It also agreed that a meeting on pepper be organized at the time of the next session of the CCP, in 1972, to which all member countries interested in the commodity should be invited, to consider the prospects for the pepper economy and to make recommendations to the CCP as to the need for further international action, including the possible establishment of a study group on pepper.[67]

12. *Tobacco*

198. At the third session of the UNCTAD Committee on Commodities (October-November 1968), a study by FAO on the world tobacco economy [68] was circulated. At the Committee's fourth session two developing tobacco-producing countries requested the UNCTAD secretariat to prepare a study on a possible international arrangement for the preferential procurement of tobacco by developed countries from developing countries. In the light of this request, and of Conference resolution 16 G (II), the UNCTAD secretariat prepared for the fifth session of the Committee on Commodities a note entitled "Principal problems of international trade in tobacco and guidelines for possible action".[69] A revised version of this paper [70] was considered by the Committee at its sixth session.

199. FAO has done much work on the long-term outlook, and the CCP has reviewed developments in the world tobacco economy annually since 1968. At its 1971 session, the CCP considered a proposal for the establishment of a study group or of *ad hoc* consultations on tobacco to provide a forum for the consideration of the many problems faced by the world tobacco economy. No agreement could be reached on action to be taken, but it was understood that the FAO secretariat would continue its work and report to the CCP at its next session.

13. *Iron ore*

200. In pursuance of Conference resolution 16 G (II), an *Ad hoc* Meeting on Iron Ore was held in Geneva in January 1970 for the purpose of identifying problems of the iron ore market, without any prejudgement as to the future course of action. This was the first consultation on a mineral commodity held on the initiative of UNCTAD.

201. The Committee on Commodities considered the report of the *Ad hoc* Meeting at its fifth session. A further report by the UNCTAD secretariat on problems of the world market for iron ore was discussed at the Committee's sixth session.[71] The Secretary-General of UNCTAD, following discussions with representatives of Governments concerned, has arranged for intergovernmental consultations on iron ore to take place in Geneva in February 1972.

14. *Tungsten*

202. The Committee on Tungsten held its sixth session at Geneva in October 1969. The session was preceded by meetings of the Committee's Working Group and Statistical Working Party.

203. The Working Group of the Committee on Tungsten held its seventh session from 9 to 11 November 1970. As well as reviewing developments in the tungsten market, the Working Group further considered the representativeness of price quotations for tungsten concentrates and statistical and bibliographical questions. It agreed that its past and present activities, and those of the Committee on Tungsten, represented a practical approach to the tasks envisaged in Conference resolution 16 G (II), in relation to tungsten.

15. *Manganese ore*

204. Pursuant to Conference resolution 16 (II), the UNCTAD secretariat submitted to the fifth session of the Committee on Commodities a preliminary report on problems of the world market for manganese ore. A further, more comprehensive, report on these problems was considered by the Committee at its sixth session.[72] Following discussions with representatives of Governments concerned, the Secretary-General of UNCTAD arranged for intergovernmental consultations on manganese ore to be held in February 1972.

16. *Phosphates*

205. The UNCTAD secretariat submitted a report on problems of the world market for phosphates for consideration at the fifth session of the Committee on Commodities. A revised and updated version of this report [73] was considered by the Committee at its sixth session. On the basis of a draft submitted by the representatives of developing countries, the Committee adopted resolution 6 (VI), requesting the Secretary-General of UNCTAD "to

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[65] See the report of the CCP on its forty-fifth session (FAO document CL 55/7), para. 108.

[66] FAO documents CCP 71/9/1 and CCP 71/9/2.

[67] See FAO document CL 57/2, para. 67.

[68] TD/B/C.1/51/Add.2.

[69] TD/B/C.1/91.

[70] TD/B/C.1/106 and Corr.1.

[71] See report of the *Ad hoc* Meeting on Iron Ore (TD/B/C.1/75) and "Problems of the world market for iron ore: report by the UNCTAD secretariat" (TD/B/C.1/104 and Corr.1).

[72] The two reports were issued respectively as TD/B/C.1/87 and TD/B/C.1/105 and Corr.1.

[73] See "Problems of the world market for phosphates: report by the UNCTAD secretariat" (TD/B/C.1/88) and "Problems of the world market for phosphates: revised report by the UNCTAD secretariat" (TD/B/C.1/88/Rev.1).

accelerate the discussions he is already undertaking with Governments with a view to reaching an early decision on holding, before the end of 1971, formal intergovernmental consultations on phosphates in conformity with the provisions of Conference resolution 16 (II)".[74] Intergovernmental consultations on phosphates, arranged by the Secretary-General of UNCTAD after appropriate consultations with Governments, took place in Geneva from 24 to 27 January 1972.[75]

17. *Other commodities covered by Conference resolution 16 (II)*

206. No specific proposals for international arrangements in respect of the other commodities covered by the action programme set out in Conference resolution 16 (II) are as yet under intergovernmental consideration, but various possibilities are being examined in the study groups concerned, and in the UNCTAD and FAO secretariats; further proposals may, therefore, emerge in due course.

D. Problems of synthetics and other substitutes

207. The problems of natural products facing competition from synthetics and other substitutes have continued to be studied during the period under review by the Permanent Group on Synthetics and Substitutes of the UNCTAD Committee on Commodities and by various specialized commodity bodies. At the second session of the Conference, there was wide agreement that the Permanent Group should, in co-operation with the international bodies concerned, play a greater role in analysing these problems and recommending appropriate remedial action.

1. *Natural rubber*

208. The Permanent Group was specifically made responsible by Conference resolution 16 D (II) for accelerating, in co-operation with IRSG and other appropriate agencies, the implementation of the remedial measures for natural rubber which had been suggested by the UNCTAD Exploratory Meeting on Rubber (held in December 1967). Progress in implementing these measures was reviewed by the Permanent Group at its second session, held from 22 to 30 October 1968.[76] At the third session of the Permanent Group, held in October 1969, recommendations concerning rubber, covering marketing, production and supply, and international, financial and technical assistance, were adopted.[77] The Permanent Group recommended that rubber be included in the list of products for which a factual survey of existing research and development efforts should be carried out.[78]

209. At its twenty-first Assembly, held at Singapore from 5 to 9 October 1970, IRSG considered the Comprehensive Survey of the Rubber Position prepared by its secretariat and the report by the UNCTAD secretariat, *The maritime transportation of natural rubber*.[79] It agreed to a proposal by the Freight Committee of the Rubber Industry of Malaysia and Singapore that an effective and representative body should be formed to open a dialogue with shipping lines. It also welcomed the establishment of the International Rubber Association to handle all commercial matters relating to rubber.

210. Rubber problems were extensively discussed at the fifth session of the Permanent Group on Synthetics and Substitutes (Geneva, 28 June-3 July 1971). Its report[80] was considered by the Committee on Commodities at its sixth session, when it was decided that the secretariat's report on international action on rubber[81] should be revised in the light of the comments made at the fifth session of the Permanent Group or received by the secretariat thereafter. In accordance with the recommendation of the Committee that an Expert Working Party be convened in the autumn of 1971, the Secretary-General of UNCTAD, in co-operation with the Secretary-General of IRSG, convened an Expert Working Party on Rubber from 15 to 19 November 1971 at Geneva, at which all interested intergovernmental bodies, including FAO, were represented. As recommended by the Committee, the terms of reference of the Working Party were to examine and improve the UNCTAD secretariat's report on international action on this commodity.

211. The Committee decided that, depending on the outcome of the Working Party's review and other factors, the Secretary-General of UNCTAD should remit the report to the first appropriate meeting of UNCTAD for further consideration and that IRSG should be requested to consider the report at its first regular meeting in 1972.[82]

212. The Working Party had before it a revised version of the secretariat report. It agreed that with the incorporation of agreed changes suggested by individual participants, the revised report provided a broadly correct picture of developments in the world rubber market and the type of action that might usefully be taken to assist rubber producers. It was noted that in the revised form the report would be circulated by the UNCTAD secretariat as a general document for consideration by Governments at appropriate meetings of UNCTAD bodies and IRSG, in conformity with the recommendation of the Committee on Commodities at its sixth session.[83]

2. *Other natural products facing competition from synthetics and substitutes*

213. At the third, fourth and fifth sessions of the Permanent Group further attention was also given to the problems of cotton, shellac, mica, jute, kenaf and allied fibres, hard fibres, oilseeds, oils and fats and hides, skins and leather

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[74] *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 4* (TD/B/370), annex I.

[75] For the report on the consultations, see document TD/B/C.1/123.

[76] See *Review of International Trade and Development 1969* (United Nations publication, Sales No. E.70.II.D.4), part two, para. 110.

[77] See *Official Records of the Trade and Development Board, Ninth Session, Supplement No. 3A* (TD/B/287/Rev.1), annex I.

[78] *Ibid.*, annex IV.

[79] United Nations publication, Sales No. E.70.II.D.11.

[80] *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 4A* (TD/B/366).

[81] TD/B/C.1/SYN/56.

[82] For the decisions taken by the Committee on Commodities on this matter, see *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 4* (TD/B/370), para. 127.

[83] See paragraph 6 of the report of the Working Party (TD/B/C.1/120), which is to be considered by the Committee on Commodities at its seventh session.

in relation to the competition with synthetics and substitutes.

214. In accordance with the recommendations of the Permanent Group at its third session (see para. 208 above) the UNCTAD secretariat has arranged for factual surveys to be carried out of research and development efforts for natural products facing competition from synthetic materials. It has itself undertaken a survey concerning hides, skins and leather, while surveys concerning cotton, rubber, jute and hard fibres have been undertaken by the intergovernmental bodies concerned with those commodities.

215. At its fourth session, the Permanent Group recommended that the two major exporting countries (India and Thailand) consider closer co-ordination of their policies on shellac in relation to production, marketing, research and promotion. It also recommended that the competent international organizations, including the UNCTAD secretariat, should consider providing assistance to producing developing countries in preparing projects for financial and technical assistance with a view to, *inter alia*, developing new end-uses for shellac.[84]

216. The UNCTAD secretariat's report on its survey of research and development efforts for hides, skins and leather was considered by the Permanent Group at its fifth session. The Group requested the Secretary-General of UNCTAD to convene an *ad hoc* advisory working party to give further consideration to the secretariat's survey with a view to reaching a consensus on the nature and extent of the need for additional research and development efforts.[85] The Working Party was convened in Geneva from 22 to 24 November 1971.[86]

217. The Permanent Group also considered at its fifth session a report on research and development needs in cotton processing, prepared by the International Institute for Cotton. It agreed that comprehensive programmes of international action aimed at the expansion of research and development efforts for natural products facing competition from synthetics were urgently required. In this connexion, the Group noted with satisfaction the prospect that "the UNCTAD secretariat and the specialized commodity bodies concerned would be able to complete, by early 1972, the surveys at present under way on current research and development efforts and on the need for additional efforts".[87]

218. At the Conference of the International Wool Textile Organization (Paris, June 1969), IWS submitted a report on its recent activities. Wool secretariats have been established recently in Uruguay and Argentina, and Uruguay became the fourth member of IWS in July 1970.

219. Possible action to deal with the threat of competition to sugar from synthetic sweeteners has been provided for in the International Sugar Agreement 1968.

[84] See *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 3B* (TD/B/314), para. 63.

[85] *Ibid., Eleventh Session, Supplement No. 4A* (TD/B/366), paras. 30-31.

[86] For a summary of the Working Party's report (TD/B/C.1/SYN/63), see "The competitiveness of natural products: research and development efforts—report by the UNCTAD secretariat" (TD/117/Supp.1).

[87] *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 4A* (TD/B/366), para. 32.

E. Sea-bed minerals

220. In accordance with General Assembly resolution 2750A (XXV), of 17 December 1970[88] the UNCTAD secretariat has co-operated with the Department of Economic and Social Affairs of the United Nations Secretariat in the preparation of reports on the problems arising from the production of minerals from the area of the sea-bed beyond the limits of national jurisdiction. A first report was submitted to the Committee on the Peaceful Uses of the Sea-bed and the Ocean Floor beyond the Limits of National Jurisdiction at its session held in July-August 1971.[89] The UNCTAD Committee on Commodities briefly discussed the subject at its sixth session, when representatives of developing countries expressed the view that the Committee should be informed of, and discuss, developments in this field on a continuing basis.[90]

F. Liberalization of trade and pricing policy

221. The proposals on trade liberalization and pricing policy, on which no agreement was reached at the second session of the Conference, were referred to the continuing machinery of UNCTAD and a text on these matters (resolution 73 (X)) was adopted by the Trade and Development Board during the first part of its tenth session, in August-September 1970. In part B, paragraphs 1 and 2 of the resolution, the Board states that "one of the aims of trade liberalization in primary commodities should be to ensure improved access to world markets" and that in pursuit of that objective "due account should ... be taken of the need to avoid internal economic and social disequilibria in both importing and exporting countries". In paragraph 1 of part A of the resolution it is stated that "One of the aims of any pricing policy for primary commodities of particular export interest to developing countries should be to obtain stable prices at levels remunerative to producers and equitable to consumers, with a view to improving the rate of growth of foreign exchange earnings derived from these products...". With regard to both liberalization of trade and pricing policy, the Board calls in paragraph 3 (*e*) of this resolution for the continuation and intensification of intergovernmental consultations "with the aim of reaching concrete and significant results . . . early in the 1970s". The Secretary-General of UNCTAD was requested to submit to the Conference at

[88] In this resolution, the Assembly requested the Secretary-General of the United Nations to co-operate with UNCTAD in order to: (*a*) Identify the problems arising from the production of certain minerals from the area beyond the limits of national jurisdiction and examine the impact they will have on the economic well-being of the developing countries, in particular on prices of mineral exports on the world market; (*b*) Study these problems in the light of the scale of possible exploitation of the sea-bed, taking into account the world demand for raw materials and the evolution of costs and prices; (*c*) Propose effective solutions for dealing with these problems."

[89] "Possible impact of sea-bed mineral production in the area beyond national jurisdiction on world markets, with special reference to the problems of developing countries: a preliminary assessment—report of the Secretary-General" (A/AC.138/36).

[90] See *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 4* (TD/B/370), para. 235.

its third session proposals for future work relating to commodities.[91]

222. At the request of the Contracting Parties to GATT, at their twenty-fourth session (November 1967), the GATT Agriculture Committee has been examining the problems affecting agricultural production and trade, with a view to devising mutually acceptable solutions. The Committee has assembled a wide spectrum of suggestions or proposals as to how the principal problems might be dealt with, but none of these has commanded support wide enough for any solution to be qualified as mutually acceptable. Further progress may very well depend on appropriate decisions to be taken by the Contracting Parties.

223. The GATT Group of Three, in its report issued in November 1971, put forward a number of general recommendations on products of interest to developing countries. These included the possibility of limited action on temperate zone products pending multilateral negotiations, the elimination of restrictions on non-tropical fruit and vegetables, the removal of duties and charges on certain tropical products, support for the negotiation of an International Cocoa Agreement, and the elimination or reduction of duties on vegetable oils within the context of the Generalized System of Preferences.

224. The GATT Special Group on Trade in Tropical Products examines problems affecting trade in tropical products and reports on ways of overcoming these problems. At its last two meetings (July 1970 and October 1971) the Group examined problems of import duties on new and improved forms of natural rubber and quantitative restrictions, import duties and internal taxes on a selected list of tropical products.

225. The GATT Expert Group on Adjustment Assistance Measures has been examining and reporting on measures taken by developed countries which permit an expansion of international trade in products of interest to developing countries.

G. Diversification

226. At its third session, in its decision 2 (III),[92] the Committee on Commodities requested the Secretary-General of UNCTAD, in co-operation with the appropriate specialized bodies, including regional development banks, to make detailed proposals to the Committee for studies on the diversification problems relevant to a certain number of commodities facing excess supply in the world market or competition from synthetics and substitutes.

227. The sixth session of the Advisory Committee to the Board and to the Committee on Commodities (March 1971) was devoted entirely to the important question of diversification. The Advisory Committee stressed the need for each developing country to adopt a diversification strategy appropriate to its circumstances. It considered that important opportunities existed in many countries for "horizontal" diversification into commodities experiencing relatively dynamic demand conditions on the world market, such as meat, fisheries products, fruits and vegetables, tropical timber, coal, petroleum and non-ferrous metals. It felt, nevertheless, that "vertical" diversification into commodity processing and manufacturing was a *sine qua non* of economic growth and development. The Committee also stressed the crucial role played by government policies in successful diversification, including action by developed countries to improve access to their markets. It considered that diversification in developing countries could be greatly assisted by harmonization of national diversification programmes and intensified research and development for natural products, action in which the international agencies could play a particularly important role. The Advisory Committee suggested that intergovernmental consultations on the adjustment problems arising from trade liberalization should be held under the auspices of UNCTAD or another international agency in which both developed and developing countries were represented.[93]

228. Following a detailed consideration of the Advisory Committee's report, the Committee on Commodities, at its sixth session, adopted decision 5 (VI), in which it requested the UNCTAD secretariat to pursue its work on diversification as rapidly as possible on the basis of selected commodities and countries. The secretariat was also requested to prepare reports, in consultation with the international organizations concerned, on technical assistance for diversification, on facilities available for harmonizing national commodity diversification programmes and on existing arrangements for collecting and disseminating information relevant to decision-making in diversification.[94]

H. Marketing and distribution systems

229. In pursuance of Conference resolution 20 (II), concerning agricultural incomes, and in accordance with the text relating to studies of the trade network approved by the Committee on Commodities at its fourth session,[95] the UNCTAD secretariat has undertaken a study of marketing and distribution systems for primary commodities. In a preliminary report[96] submitted to the Committee at its sixth session, the secretariat presented illustrative statistical data relating to the marketing of

[91] For the reports on this subject before the Conference at its third session, see "Access to markets: report by the UNCTAD secretariat" (TD/115) and "Pricing policy, including international price stabilization measures and mechanisms: report by the UNCTAD secretariat" (TD/127) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. II, *Merchandise trade* (United Nations publication, Sales No. E.73.II.D.5).

[92] *Official Records of the Trade and Development Board, Eighth Session, Supplement No. 3* (TD/B/202/Rev.1), annex I.

[93] See the report of the Advisory Committee to the Board and to the Committee on Commodities on its sixth session (*Official Records of the Trade and Development Board, Eleventh Session, Annexes*, agenda item 7 (*a*), document TD/B/348).

[94] *Ibid., Eleventh Session, Supplement No. 4* (TD/B/370), annex I. For the reports on this subject before the Conference at its third session, see "International action relating to commodity diversification: report by the UNCTAD secretariat" (TD/109) and "Problems of commodity diversification in developing countries: report by the UNCTAD secretariat" (TD/119 and Corr.1) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. II, *Merchandise trade*...

[95] *Official Records of the Trade and Development Board, Ninth Session, Supplement No. 5* (TD/B/248/Rev.1), annex IV.

[96] TD/B/C.1/110 and Add.1.

cocoa and outlined proposals for studies in depth of marketing systems for individual commodities. The Committee decided that the secretariat should carry out a pilot study in depth for cocoa and submit a progress report on the work in this whole field at the third session of the Conference.[97]

I. Action by international financial institutions

230. On the basis of a joint study completed in 1969 by the staffs of IBRD and IMF on problems of price stabilization,[98] the Executive Directors announced decisions on actions which their respective institutions would take to help to solve problems of price stabilization and other problems concerning primary products. The IMF decision establishes a facility for assistance to members in connexion with the financing of international buffer stocks of primary products; drawings under this new facility are generally additional to members' existing access to IMF resources. IBRD stated that it would intensify efforts toward diversification of production, help in strengthening the competitiveness of primary products, broaden the scope of its lending related to commodity stocks required under international arrangements and of its assistance in the administration of international commodity arrangements, and co-operate with commodity diversification funds.[99]

J. Multilateral food aid [100]

231. Following consideration of the preliminary report submitted by the Director-General of FAO in response to General Assembly resolution 2462 (XXIII) on multilateral food aid,[101] the FAO Conference referred certain suggestions to the CCP for further consideration—in particular, the suggestion in the report of the Secretary-General of the United Nations [102] that there might be some earmarking of normal stocks held by developed countries for use in emergencies.

232. At its forty-fifth session (Rome, 1970), the CCP pointed out several technical problems which would need to be solved before this proposal could be implemented, but it did not favour any immediate further studies in view of the discussions in the Economic and Social Council on the role of international organizations in emergencies, of the intergovernmental discussions which were to take place in 1971 on the renewal of the Food Aid Convention of the International Grains Arrangement, 1967, and of the proposal of the Netherlands Government to the Intergovernmental Committee of the World Food Programme concerning the establishment of an emergency food supply scheme.

233. Since then, the General Assembly, acting on the recommendation of the Economic and Social Council, has called upon the Secretary-General of the United Nations, in resolution 2816 (XXVI), to appoint a Disaster Relief Co-ordinator to mobilize, direct and co-ordinate the relief activities of the various organizations of the United Nations system for disaster assistance. In the same resolution the Assembly also endorses the Secretary-General's proposals for an adequate permanent office in the United Nations which should be the focal point in the United Nations system for disaster relief matters and recommended that it should be headed by the Disaster Relief Co-ordinator and located in Geneva. Pursuant to this resolution the Secretary-General has, as a first step, appointed a Disaster Relief Co-ordinator.

234. The Food Aid Convention has been renewed for a period of three years, with effect from July 1971, under the International Wheat Agreement 1971.[103] Furthermore, the proposal by the Netherlands Government for an emergency food supply scheme to speed help to disaster zones was accepted in principle by the Intergovernmental Committee of the World Food Programme at its twentieth session (Rome, October 1971). One of the aims of the scheme is to exchange information with bilateral and voluntary agencies before, during and after emergency operations on the need for food aid in disaster stricken areas and to co-ordinate food relief. The Intergovernmental Committee has under consideration a proposal from the Government of Argentina for the establishment of a world food fund and a proposal from the Government of Uruguay for the establishment of a world food bank.

235. In the light of the views expressed by the FAO governing bodies and of the recommendations of the Economic and Social Council, the Director-General of FAO has not proposed any new machinery in his report on multilateral food aid which is to be considered by the Economic and Social Council at its fifty-third session.[104] In a comprehensive account of the activities already undertaken by FAO and other organizations, as well as of the action taken to strengthen these activities since the adoption of General Assembly resolution 2462 (XXIII), the report points out that one way of assessing the prospective "food needs" of developing countries is already provided by the FAO's annual reviews of the medium-term food outlook and that, with extension of coverage, these reviews could give a firmer basis for the medium-term planning of food aid policies and programmes. It states that the project approach of WFP and a commodity-by-commodity approach (as illustrated by FAO's International Scheme for the Co-ordination of Dairy Development) are other means of identifying specific food aid needs. Furthermore, in so far as an important problem of assessing aggregate food aid needs in the short run is one of judging the capacity of a country to meet its requirements on a commercial basis, the recent agreement reached in FAO on criteria for the establishment of "usual marketing requirements" in certain food-aid transactions provides a useful tool in this respect. The Director-General has stressed in his report that the assessment of aggregate food

[97] *Ibid., Eleventh Session, Supplement No. 4* (TD/B/370), para. 204.

[98] See documents TD/B/273 and TD/B/274, submitted to the Trade and Development Board at its ninth session.

[99] For further particulars, see *Review of International Trade and Development, 1970*, part two, paras. 113-116.

[100] This section has been prepared by the FAO secretariat.

[101] "Multilateral Food Aid: General Assembly resolution 2462 (XXIII), paragraph 5" (FAO document CL 52/7).

[102] E/4538.

[103] See paras. 156-157 above.

[104] "International food aid: procedures for assessing requirements and assuring availability of supplies—report by the Director-General of FAO in response to resolution 2462 (XXIII) of the General Assembly" (E/5050).

aid needs over the long run would involve wide-ranging economic and financial issues which would fall within the context of the inter-agency Country Programming reviews, and that UNDP could be requested to take this aspect into account in developing this programming technique.

236. In January 1970, FAO set up a Central Food Aid Information Service which, together with the Early Warning System for Food Shortages, assembles and disseminates to all interested Governments and organizations information on food aid transactions and programmes as well as data on food and crop conditions in individual developing countries.

Chapter III

Manufactures and semi-manufactures

A. Preferences

1. *The generalized system of preferences* [105]

(*a*) *Background to the introduction of the system*

237. At its second session, the Conference adopted resolution 21 (II) on preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries. It agreed that the objectives of such preferential treatment should be to increase the export earnings of those countries, to promote their industrialization and to accelerate their rates of economic growth. To this end it established a Special Committee on Preferences to enable all the countries concerned to participate in the necessary consultations.

238. The Special Committee held four sessions, from November 1968 to October 1970. At the first part of its fourth session (31 March-17 April 1970) detailed and intensive consultations were held between the prospective preference-giving and preference-receiving countries, on the basis of preliminary submissions by the former. (The principal features of the preferential treatment, as envisaged in these preliminary submissions, have been summarized in an earlier report by the UNCTAD secretariat.[106] A substantive examination also took place of questions related to the contribution of the socialist countries of Eastern Europe in the light of Conference resolution 21 (II).

239. At the second part of its fourth session (21 September-12 October 1970) the Special Committee had before it the revised submissions of the developed market-economy countries,[107] which took into account suggestions and requests made by developing countries during the first part of the session for improvement of the preliminary offers. A joint declaration was made by five socialist countries of Eastern Europe concerning the measures they intended to take to favour an increase in exports of manufactures and semi-manufactures from developing countries.[108] The Special Committee decided that the reports on the first and second parts of its fourth session,[109] together with the substantive documentation submitted by the developed market-economy countries, should constitute its final report to the Trade and Development Board, in accordance with Conference resolution 21 (II).

240. The Special Committee adopted agreed conclusions on certain aspects of the GSP: reverse and special preferences, safeguard mechanisms, beneficiaries, special measures in favour of the least developed among the developing countries, duration, rules of origin, institutional arrangements and legal status.

241. At its fourth special session (12-13 October 1970) the Trade and Development Board, by its decision 75 (S-IV), adopted the report of the Special Committee on Preferences on its fourth session, took note of the agreed conclusions, the text of which was annexed to the decision, and requested the Secretary-General of UNCTAD to transmit to the appropriate body the following text for inclusion in the International Development Strategy for the Second United Nations Development Decade:

> Arrangements concerning the establishment of generalized, non-discriminatory, non-reciprocal preferential treatment to exports of developing countries in the markets of developed countries have been drawn up in UNCTAD and considered mutually acceptable to developed and developing countries. Preference-giving countries are determined to seek as rapidly as possible the necessary legislative or other sanction with the aim of implementing the preferential arrangements as early as possible in 1971. Efforts for further improvements of these preferential arrangements will be pursued in a dynamic context in the light of the objectives of resolution 21 (II) of the United Nations Conference on Trade and Development.

242. In proclaiming the Second United Nations Development Decade, the General Assembly, at its twenty-fifth session, included the above text as paragraph 32 of the International Development Strategy.

(*b*) *Implementation*

243. In line with section I, paragraph 10 of the agreed conclusions, the prospective preference-giving countries concerned submitted a formal application to the Contracting Parties of GATT for a waiver, in accordance with article XXV, paragraph 5, from their obligations under article I of the General Agreement so as to permit the implementation of a generalized system of preferences. By their decision of 25 June 1971, the Contracting Parties decided to waive the provisions of article I of the General Agreement for a period of ten years to the extent necessary to permit developed contracting parties to accord preferential tariff treatment to products originating in developing countries and territories.[110]

244. EEC, Japan and Norway implemented their schemes of generalized tariff preferences on 1 July, 1 August and 1 October 1971 respectively.[111] On 31 De-

[105] See also "The generalized system of preferences: report by the UNCTAD secretariat" (TD/124 and Corr.1 and Add.1) in *Proceedings of the United Nations Conference on Trade and Development, Third Session,* vol. II, *Merchandise trade...*

[106] *Review of International Trade and Development, 1970...,* part two, paras. 120-157.

[107] TD/B/AC.5/34 and Add.1-3, Add.4 and 4(A), Add.5 and Rev.1 and Rev.1/Corr.1, Add.6, Add.7 and Corr.2-3, Add.8, Add.9 and Rev.1, and Add.10.

[108] *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6A* (TD/B/329/Rev.1), part two, para. 192.

[109] *Ibid., Supplement No. 6* (TD/B/300/Rev.1) and *Supplement No. 6A* (TD/B/329/Rev.1).

[110] See GATT document L/3545.

[111] The schemes of generalized preferences granted by the developed market-economy countries were circulated to members of the Trade and Development Board as document TD/B/373 and

cember 1971 the EEC adopted new regulations and decisions concerning the operation of its scheme for 1972.[112] Czechoslovakia, Denmark, Finland, Hungary, New Zealand, Sweden and the United Kingdom implemented their respective schemes with effect from 1 January 1972. The scheme of Switzerland will enter into force on 1 March 1972.[113] The Austrian legislature will consider legislation on the Austrian scheme in January-February 1972, and it is expected that the scheme will enter into force some time in the spring of 1972.[114] The report on the GSP submitted by the secretariat to the third session of the Conference describes the main features of the preferential arrangements and schemes referred to above, reviews the steps taken by UNCTAD in this respect and presents specific trade data related to the GSP.

(c) *Actions stemming from the agreed conclusions*

(i) *Reverse preferences*

245. With regard to reverse preferences, the Special Committee recommended that consultations be pursued as a matter of urgency between the parties directly concerned with a view to finding solutions before the implementation of the schemes, and requested the Secretary-General of UNCTAD to assist in these consultations. The Secretary-General has accordingly assisted in consultations on this subject.

(ii) *Rules of origin*

246. In view of the special character of the rules of origin to be applied in the GSP, the Special Committee, at its second session, established a Working Group on Rules of Origin to undertake examination of the technical aspects of these rules. The Working Group, at its third session, held from 7 to 15 December 1970, worked out agreed texts on several aspects of rules of origin and designed appropriate forms for this purpose.[115]

247. In compliance with the agreement reached in the Working Group on Rules of Origin, the Secretary-General of UNCTAD, in a *note verbale* dated 14 January 1971, requested the preference-giving countries to notify him of the rules of origin which they would introduce for the GSP before putting them into effect and the preference-receiving countries to notify him of the arrangements, in particular those concerning documentation, certification, verification and legal sanctions, required for application of the rules of origin.

248. Following the implementation of the GSP by a number of preference-giving countries, the Secretary-General of UNCTAD sent, in two subsequent *notes verbales,* dated 13 August and 30 December 1971 respectively, specimens in English and in French of the combined declaration and certificate of origin (Form A) designed by the Working Group and drew attention to relevant provisions of the rules of origin contained in the schemes of preferences already in force. He also urged the preference-receiving countries to notify him of their arrangements, called for in paragraph 55 of the working Group's report, concerning documentation, certification, verification and legal sanctions for the application of the rules of origin.[116]

(iii) *Institutional arrangements*

249. The Special Committee recommended that the Trade and Development Board approve the institutional arrangements proposed in section VIII of its agreed conclusions and take a decision on the appropriate body within UNCTAD to deal with the questions relating to the implementation of the GSP. The Board, by decision 75 (S-IV), postponed until its eleventh session the decision on this subject and in the meantime extended the existence of the Special Committee on Preferences. At its eleventh session, by resolution 80 (XI), the Board extended further the life of the Special Committee on Preferences, with the terms of reference described in section VIII of the agreed conclusions, and deferred its decision on the appropriate body to not later than its thirteenth session.

(d) *Technical assistance in connexion with implementation of the GSP*

(i) *Training and advisory services*

250. As it is essential that, in order to obtain maximum advantage from the GSP, developing countries should understand as fully as possible the exact nature of the preferential treatment envisaged, the UNCTAD secretariat has prepared a technical assistance project to ensure the widest possible dissemination of technical information about the GSP among the developing countries. The Governing Council of UNDP approved this project in June 1971 (see also para. 71 above).

251. The project will extend over three years and involves the holding of a series of regional and subregional seminars, in co-operation with the regional economic commissions, UNIDO and the UNCTAD/GATT International Trade Centre, in order to furnish competent government officials and professional organizations and associations in the production and export sectors with the fullest possible information on the various technical, economic and administrative aspects of the GSP. The project also provides for advisory services on the spot or through correspondence on the manner in which specific problems encountered in the application of the GSP may be solved, and on possible measures for promoting exports and industrialization, in order to derive maximum benefit from the system.

(ii) *Joint country missions*

252. A joint programme of action has also been formulated by UNCTAD, UNIDO and the UNCTAD/GATT International Trade Centre to assist developing countries, at their request, in assessing the new export opportunities resulting from the GSP and to advise them on measures which they would need to undertake in order

addenda and corrigenda. The texts describing the measures taken by the socialist countries of Eastern Europe were circulated as document TD/B/378 and addenda and corrigenda.

112 See "Generalized system of preferences: scheme of European Economic Community for 1972" (TD/B/396).

113 See foot-note 111 above.

114 See foot-note 105 above.

115 See the report of the Working Group on Rules of Origin on its third session (TD/B/AC.5/38).

116 For the notifications received from beneficiary countries, see TD/B/AC.5/39 and addenda.

to take full advantage of the system. A joint mission from these three organizations visited Morocco, at the request of the Government, in February-March 1971. Requests for similar missions have also been received from other interested Governments.

2. *The Australian scheme of preferences*

253. The Government of Australia has extended the scope and application of its scheme of tariff preferences for developing countries, in existence since 1966, by progressively increasing the number of manufactured products and the value of preferential tariff quotas as well as the number of handicraft products covered by the system. For the fiscal year 1970-1971 the value of the quotas stood at $A 47 million, compared with the initial total value of $A 13.3 million.[117]

254. Australia participated in the work of the Special Committee on Preferences, at the fourth session of which, in connexion with the requests by the developing countries regarding products of special interest to them, the representative of Australia stated that his country's scheme "was not rigid as there would always be opportunities in future for discussions with developing countries on the possibility of giving consideration to any specific request that they might make".[118]

B. Liberalization of tariff barriers

1. *Tariff reclassification*

255. At the second session of the Conference, the representatives of developing countries in the Second Committee supported the recommendation in the Charter of Algiers that

> pending the introduction of a general scheme of preferences, the developed countries should take appropriate action to carry out reclassifications of their tariff nomenclatures to facilitate the granting of duty-free entry on products exported by developing countries. Attention was drawn to the studies being carried out by UNCTAD in collaboration with the Customs Co-operation Council.[119]

256. In its decision 2 (III) the Committee on Manufactures requested the UNCTAD secretariat

> To study, in close co-operation with the Customs Co-operation Council, the possibilities for separate classification in tariffs for products of export interest to the developing countries and to make proposals for such reclassifications; and to examine in the first instance the technical and administrative problems involved in the separate classification of hand-made products, the solution of which might facilitate reductions or the abolition of duties in developed countries for such products.

257. The Committee also adopted resolution 1 (III), establishing an Intergovernmental Group of Experts on Tariff Reclassification.[120] The Intergovernmental Group held its first session from 21 to 25 July 1969. Its report[121] was considered by the Committee on Manufactures at its fourth session, when CCC was requested to expedite the technical examination of hand-made/handicraft products with a view to their distinction from machine-made products.[122]

258. In compliance with that request, the CCC secretariat deemed it useful to distinguish four categories of hand-made/handicraft products:

(*a*) *Products which do not appear to present any problem from the point of view of identification for tariff purposes*, such as hand-made knotted carpets, hand-made paper, etc., which traditionally appear as separate tariff items.

(*b*) *Products for which any identification problems could be resolved without much difficulty*, i.e. articles with a high labour content which generally overrides the importance of the constituent materials (e.g. articles made by carving, chiselling, chasing, inlaying, etc.).

(*c*) *Articles for which, on the basis of the available information, doubt arises about their potential place in trade between developing and industrialized countries*, comprising, essentially, articles for use such as hand-made needles, razor blades, scissors, etc.

(*d*) *Articles for which it is, at present, impossible to express an opinion as regards identification, in the absence of adequate information on their types and characteristics.*

259. At its fifth session, the Committee on Manufactures considered the note by the UNCTAD secretariat on the work being done in the field of tariff reclassification, prepared in collaboration with CCC.[123] This report, which included an analysis of the submissions by preference-giving countries, with a view to determining which hand-made/handicraft products contained in the list drawn up by the Intergovernmental Group of Experts on Tariff Reclassification were not included in those submissions, showed that a large number of hand-made products, particularly cotton and other textiles, were among the goods so excluded in the case of many preference-giving countries. Some of those countries provided only for a partial reduction of duties on certain hand-made/handicraft products. Furthermore, those products which appeared not to be included in the GSP were grouped into four categories, as described in paragraph 258 above.

260. The Committee reiterated its request to CCC to expedite the technical study of hand-made products, giving highest priority to those products which were not included in the generalized system of preferences. In this connexion, it urged the developing countries to assist the secretariats of UNCTAD and CCC in their technical study by supplying the necessary technical information and samples.[124]

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117 "Australian tariff preferences for developing countries: fourth annual report by the Government of Australia under the decision of 28 March 1966" (GATT document L/3453).

118 *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6A* (TD/B/329/Rev.1), part two, para. 185.

119 *Proceedings of the United Nations Conference on Trade and Development, Second Session,* vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), annex VII, B, para. 89.

120 For the text of resolutions 1 (III) and 2 (III) of the Committee on Manufactures, see *Official Records of the Trade and Development Board, Eighth Session, Supplement No. 2* (TD/B/199/Rev.1), annex I.

121 TD/B/C.2/76.

122 *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 2* (TD/B/295), para. 78.

123 TD/B/C.2/103 and Corr.1 and Add.1, Add.1/Corr.1-2 and Add.2.

124 *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 2* (TD/B/352), para. 66.

2. *Other aspects of the liberalization of tariff barriers*

261. At its third session, held in October 1968, the Committee on Manufactures adopted decision 2 (III), which, *inter alia*, requested the UNCTAD secretariat to carry out a programme of work on the liberalization of tariff barriers under three headings: non-application of most-favoured-nation treatment to developing countries not members of GATT; advance implementation of the Kennedy Round concessions; and increases in tariff differentials between products at different stages of production resulting from the Kennedy Round.[125]

(a) *Non-application of MFN treatment to developing countries not members of GATT*

262. At its fifth session the Committee on Manufactures noted with satisfaction that Austria had applied MFN tariff treatment as from 1 January 1971 on a world-wide basis (i.e. to all developing countries) and that Japan had extended such treatment to some developing countries not members of GATT. It urged that the other developed countries concerned take similar action and requested the UNCTAD secretariat to keep the matter of non-application of MFN tariff treatment under review.[126]

(b) *Advance implementation of Kennedy Round concessions*

263. Four countries have implemented fully the tariff concessions agreed to in the Kennedy Round, in advance of the schedule: Iceland in 1968, Canada and Ireland in 1969 and Switzerland in 1970. The other developed countries had fully implemented their concessions by 1 January 1972.

C. Liberalization of non-tariff barriers [127]

1. *Programme for the progressive elimination of non-tariff barriers*

264. At the second session of the Conference a draft resolution on a programme for the liberalization and expansion of trade in manufactures and semi-manufactures (including processed and semi-processed primary products) of interest to the developing countries was submitted by those countries. This draft resolution included suggestions for a programme for the progressive elimination of non-tariff barriers affecting their exports of such products.[128] The Conference referred the draft resolution to the Trade and Development Board. At its third session, which preceded the eighth session of the Board, the Committee on Manufactures unanimously adopted decision 2 (III) on the liberalization of tariff and non-tariff barriers, which developing countries accepted "as a practical way of carrying forward their aspirations of promoting greater access to markets for their exports, through the progressive liberalization of non-tariff barriers currently in existence in those markets". They stressed, however, that "in accepting this agreement ... they have not laid aside the draft resolution submitted ... at the second session of the Conference; they look forward to its implementation; and they consequently reserve their right to return to it at subsequent sessions of the Board or the Committee on Manufactures."[129, 130]

265. Pursuant to decision 2 (III), the UNCTAD secretariat prepared a number of [131] studies for consideration by the Committee on Manufactures at its fourth session, providing a general analysis of existing quantitative and other non-tariff barriers in selected developed market-economy countries on products of export interest to developing countries.

266. In section A of decision 1 (IV) of the Committee it was recognized that UNCTAD had particular responsibilities in respect of non-tariff barriers affecting the trade of the developing countries and that this question deserved priority attention. The Committee requested the UNCTAD secretariat to assist developing countries, where necessary, to identify non-tariff barriers of concern to them, particularly those countries which may have special difficulties in identifying such barriers, such as the least developed among the developing countries."[132]

267. At its fifth session, the Committee reviewed the progress made and examined the non-tariff measures applied to certain product groups on the basis of reports provided by the UNCTAD secretariat.[133] It adopted decision 1 (V), in which it requested the secretariat to continue its work on non-tariff barriers and prepare a document containing "an up-to-date, more precise and detailed inventory of non-tariff barriers affecting trade in manufactures and semi-manufactures of interest to developing countries with a view to identifying particular non-tariff barriers, including quantitative restrictions, which are of serious concern to developing countries". The secretariat was also asked to draw up, in relation to a limited number of additional product groups "an analysis of the trade effects of these barriers, taking into account comments and information obtained from Governments of member States, in particular those of developing countries." [134]

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125 For the consideration of these questions at the Committee's fourth session, see *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 2* (TD/B/295), chap. III, section A and *Review of International Trade and Development, 1970...*, part two, paras. 158-161.

126 *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 2* (TD/B/352), paras. 43-45 and 52.

127 In this connexion, see also the report by the UNCTAD secretariat "Programme for the liberalization of quantitative restrictions and other non-tariff barriers in developed countries on products of export interest to developing countries" (TD/120 and Corr.1) and the more detailed report on the same subject (TD/120/Supp.1 and Corr.1-2) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. II, *Merchandise trade...*

128 For the text of the draft resolution, see *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes...*, pp. 400-402.

129 *Official Records of the Trade and Development Board, Eighth Session, Supplement No. 2* (TD/199/Rev.1), para. 23.

130 At the first part of its eighth session, the Board decided to remit the draft resolution to the Committee on Manufactures at its fourth session (see *Official Records of the General Assembly, Twenty-fourth Session, Supplement No. 16* (A/7616), part one, paras. 80-83).

131 TD/B/C.2/83 and Corr.1 and Add.1 and Add.1/Corr.1, and TD/B/C.2/R.1 and Add.1.

132 *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 2* (TD/B/295), annex I.

133 TD/B/C.2/R.2 and TD/B/C.2/R.3 and Corr.1 and Add.1-4.

134 *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 2* (TD/B/352), annex I.

268. Regarding the question of the appropriate institutional machinery within UNCTAD to deal with the liberalization of non-tariff barriers, the developing countries submitted a draft resolution at the fifth session of the Committee; the developed market-economy countries also submitted a draft resolution concerning UNCTAD'S further programme of work in this field. The Committee was not able to reach a decision on the substance of either of the drafts and referred them to the Trade and Development Board at its eleventh session for appropriate action.[135] At that session the Board expressed the hope that efforts would be made by all to reach acceptable decisions at the third session of the Conference on the matters contained in the draft resolutions.[136]

269. The Committee requested the UNCTAD secretariat to take into account the information already available in GATT and emphasized the importance of close co-operation between the secretariats of UNCTAD and GATT in this respect. Details of the activities in this field by GATT and other international organizations are contained in paragraphs 71-87 of the detailed report "Programme for the liberalization of quantitative restrictions and other non-tariff barriers in developed countries on products of export interest to developing countries."[137]

270. Paragraphs 33-35 of the International Development Strategy for the Second United Nations Development Decade deal with tariff and non-tariff barriers, as well as with adjustment assistance to facilitate the removal of these barriers. With regard to non-tariff barriers, it states that

> Developed countries will not, ordinarily, raise existing non-tariff barriers to exports from developing countries, nor establish new tariff or non-tariff barriers or any discriminatory measures, where such action has the effect of rendering less favourable the conditions of access to the markets of manufactured and semi-manufactured products of export interest to developing countries (paragraph 33)

and that

> Intergovernmental consultations will be continued and intensified with a view to giving effect early in the Decade to measures for the relaxation and progressive elimination of non-tariff barriers affecting trade in manufactures and semi-manufactures of interest to developing countries. Efforts will be made with a view to implementing such measures before 31 December 1972. These consultations will take into account all groups of processed and semi-processed products of export interest to developing countries (paragraph 34).

Certain developed market-economy countries expressed reservations on these texts.[138]

2. *Progress in liberalization at the national level*

271. During the period under review certain developed market-economy countries removed or relaxed quantitative import restrictions on a number of products of export interest to the developing countries.

[135] *Ibid.*, paras. 142-143 and 146.

[136] See *Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15* (A/8145/Rev.1), part three, paras. 228-232.

[137] See foot-note 127 above.

[138] See paragraph 4 of the statement made by the representative of Belgium on behalf of Group B at the fifth session of the Committee on Manufactures, reproduced in annex III, A of the Committee's report (*Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 2* (TD/B/352)) and also paragraph 90 of that report.

272. In *Denmark*, in addition to the liberalization of certain agricultural commodities, quantitative restrictions were lifted with respect to some vegetable and fruit juice preparations, wine and vermouth. *Sweden* abolished the special tax on fur skins on 1 January 1972 and the sales tax on carpets, pearls and precious stones is to be abolished on 1 July 1972. *Finland* liberalized virtually all non-agricultural goods and the remaining global quotas were significantly increased. *Switzerland* has liberalized imports of handmade cotton fabrics. In the *United Kingdom*, the Jute Control ceased to operate and restrictions were eased on imports of such jute goods as were not liberalized.

273. Import quotas for industrial goods in the *Federal Republic of Germany* were increased in 1969 by one fifth to one third. To comply with EEC decisions, *France* has liberalized imports from all sources of certain products of particular interest to developing countries in the sector of vegetable oils, revised its negative list applying to 49 developing countries, and liberalized imports of additional commodities, including silk fabrics and some under-garments. *Italy* has liberalized import restrictions on certain products such as molasses, sublimed sulphur and citric acid. Imports of certain medicaments have been liberalized in *Belgium-Luxembourg* and the *Netherlands*. In December 1968, the EEC adopted regulations with a view to establishing a common trading policy toward third countries: a common import liberalization list applying to all six EEC countries was established, covering two thirds of the items listed in the Common Customs Tariff.

274. Under a new import policy *Japan* has liberalized a number of products, including vermouths and other wines of fresh grapes, brandy, liqueurs, woven fabrics of sheep or lambs' wool, certain sewing machines, motor vehicles, certain kinds of sugar confectionery, chocolate and other food preparations containing cocoa, certain kinds of flour and meal of roots and tubers, etc., and certain medicaments. It was envisaged that by the end of 1971 half of the products formerly under the import quota system would have been liberalized, bringing the number of restrictions to one third of those existing in 1969. The Government of Japan formally approved the liberalization of 20 additional items, with effect from 1 October 1971, including molasses, other kinds of sugar confectionery, steam turbines, electronic telephonic and telegraphic switchboards, switch units of digital type, electronic computers. Japan is also planning to free the imports of sulphur, heavy oil and gas oil, light aeroplanes, radar for aircraft and remote control devices for radio communication by the end of March 1972. Moreover by that time there would be no restriction on imports of cotton textiles.

275. In 1968, *New Zealand* brought the value of liberalized imports to more than 50 per cent of total imports, a percentage which was subsequently further increased.

276. Quantitative and other import restrictions still maintained by developed market-economy countries, while varying in range and type from country to country, affect a substantial proportion of exports from the developing countries. The sectors in which these restrictions are largely operative are processed agricultural products, petroleum

products, cotton textiles and other textile products, jute products, woollen goods, leather and leather goods, ferro-alloys and ceramic products. Because of the importance of these sectors to the developing countries, import restrictions bear more heavily on the trade of these countries than on the trade of the developed market-economy countries, particularly since, in some cases, they apply only to certain developing countries. At the fifth session of the Committee on Manufactures, it was recognized that with the introduction of the generalized system of preferences non-tariff barriers would assume increasing importance for the developing countries. Those countries suggested that they should be given special or preferential consideration as regards the relaxation and elimination of quantitative restrictions and other non-tariff barriers. Representatives of some of the importing countries concerned referred to "the difference between non-tariff barriers falling essentially into the category of commercial policy measures, and other non-tariff barriers. While the first type of measures were in general the expression of internal social and economic problems of a residual nature ... and often difficult to solve," the other non-tariff barriers had various different motivations, "ranging from public health to consumer protection and security...".[139]

3. *Introduction of new import restrictions*[140]

277. The introduction of new import restrictions has done much to cancel out the benefits of the liberalization measures referred to above.

278. Since the second session of the Conference, certain developed market-economy countries have introduced new, though often temporary, non-tariff barriers. The emergency measures introduced in 1968 by *France* on imports from all sources of selected industrial products, including certain textiles of concern to developing countries, were revoked early in 1969. An advance deposit of 50 per cent of the value of goods imported was imposed by the *United Kingdom* in November 1968: it applied to 40 per cent of total imports and was abolished by stages, with complete abolition achieved by December 1970. In July 1968 an *EEC* common market organization came into force for the sugar sector, and virtually all the major agricultural products and products processed from them are thus now covered by the Common Agricultural Policy. In August 1971, EEC introduced temporary emergency measures for tomato concentrates.

279. In August 1971, the *United States of America* imposed, for balance of payments and other reasons, a temporary 10 per cent surcharge on all dutiable imports not subject to quantitative restrictions or not subject to trade concessions by the United States. The surcharge was abolished on 20 December 1971, following negotiations among certain developed market-economy countries on the realignment of exchange rates. In October 1971 it had been reported that the United States would be prepared to abolish the import surcharge, on a non-discriminatory basis, for man-made fibres, woollen textiles and apparel on the conclusion of new agreements with certain countries on voluntary quotas (for example, with Japan, the Republic of Korea and Hong Kong). Similarly, in return for restraints on exports of certain steel products by Japan and the EEC countries, and on shoes by Italy and Spain, it would consider abolishing the surcharge on those products also.[141]

280. The effect which would have taken place on the growth of trade of the developing countries and on the diversification of their exports is perhaps the most serious aspect of the surcharge. It is generally agreed that the developing countries must achieve such growth and diversification if the goals of the Second United Nations Development Decade are to be met.

281. The Working Party which was set up by GATT to examine the surcharge generally agreed that, in spite of the exemption of many raw materials and primary products normally exported by developing countries, it significantly affected their export interests. Furthermore, the GATT Group of Three, in its final report, had recommended that, if the Government of the United States intended to maintain the surcharge beyond 1 January 1972, it should take steps to exempt imports from the developing countries.[142]

282. At the eleventh session of the Trade and Development Board the representatives of developing countries stated that, as a general principle, balance of payments difficulties among developed countries should not be used as a justification for imposing restrictions on the trade of developing countries, or for delaying liberalization of trade by developed countries.[143]

283. In October 1971, the Government of Denmark imposed an import surcharge, also for balance of payments reasons, which would be progressively phased out by March 1973. From an initial rate of 10 per cent, the surcharge is to be reduced to 7 per cent in June 1972 and 4 per cent in November 1972. Raw materials, food, medical goods and other items which are exempt from the surcharge amount in all to 50 per cent of total imports into Denmark. As in the case of the United States import surcharge, the trade implications for developing countries are difficult to assess without more specific information on the products or items exempted.

284. The Government of Denmark, announcing its intention to implement its scheme of preferences under the generalized system on 1 January 1972, indicated that it would exempt from the surcharge those products originating from preference-receiving countries.

4. *Adjustment assistance measures*[144]

285. The draft resolution submitted to the second session of the Conference by developing countries and

[139] *Ibid.*, para. 88.

[140] Further details are given in document TD/120/Supp.1 and Corr.1-2, paras. 101-110 (see foot-note 127 above).

[141] Japan has recently concluded a new agreement, for three years, with the United States, limiting the annual growth of exports of certain types of steel products to 2.5 per cent annually. The agreement includes specific quotas for stainless steels, tool steels and other alloy steels (see *International Herald Tribune*, 19 January 1972).

[142] See GATT document L/3610, para. 17 ii).

[143] See *Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), part three, annex II, para.9

[144] See also the report by the UNCTAD secretariat on adjustment assistance measures (TD/121/Supp.1) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. II, *Merchandise trade*...

referred to in paragraph 264 above was also concerned with adjustment assistance measures which could be adopted by developed countries to facilitate the fulfilment of the proposed liberalization programme. Subsequently, by decision 2 (III), the Committee on Manufactures requested the UNCTAD secretariat "to report upon and bring up to date, if necessary, the existing studies on adjustment assistance measures in force" (paragraph 7 of the decision).

286. In accordance with this decision and with a similar request contained in decision 1 (IV), the UNCTAD secretariat prepared two reports on adjustment assistance measures in force,[145] in which it was concluded that there had been no major developments in the field of adjustment assistance measures in developed market-economy countries since the second session of the Conference. The United Kingdom Cotton Industries Act of 1959, the United States Trade Expansion Act of 1952, the United States-Canada Automotive Products Agreement of 1965 and the programmes for adjustment assistance adopted in the framework of ECSC and EEC, which were reviewed in those reports, had been introduced long before the second session of the Conference. A special programme of adjustment assistance has recently been introduced by Canada for cases of dislocation arising from imports of textiles and clothing.

287. No adjustment assistance measures have been introduced specifically to facilitate increased imports from developing countries. Certain developed market-economy countries have, however, implemented measures to promote changes in their industrial structure through rationalization and reorganization of industry, plant relocation and industrial research. These countries consider that, although the measures are not directly related to any problems that may have arisen from increased imports from developing countries, they have nevertheless served to facilitate greater imports from those countries.

288. Paragraph 35 of the International Development Strategy provides that

> Developed countries, having in mind the importance of facilitating the expansion of their imports from developing countries, will consider adopting measures and where possible evolving a programme early in the Decade for assisting the adaptation and adjustment of industries and workers in situations where they are adversely affected or may be threatened to be adversely affected by increased imports of manufactures and semi-manufactures from developing countries.

At the fifth session of the Committee on Manufactures, representatives of certain developed market-economy countries drew attention to the reservations expressed by their delegations on this paragraph when it had been adopted by the General Assembly.[146]

D. The Long-term Arrangement on International Trade in Cotton Textiles (LTA) [147]

289. The LTA has been twice extended—once in 1967 and again in 1970. It continues in force until 30 September 1973, but on this latest extension the GATT Cotton Textiles Committee reaffirmed that the Arrangement was to be regarded as an exceptional and transitional measure. The original Arrangement had 30 signatories, including almost all the main countries trading in cotton textiles.[148] As of December 1971 only Israel had not acceded to the 1970 Protocol extending the Arrangement.

290. The GATT Cotton Textiles Committee periodically reviews the operation of the LTA, and did so most recently in October 1969. While it was then generally felt that the LTA had been implemented to the letter, the opinion was expressed that efforts should be made to bring its operation more into line with its spirit and general objectives. The developing countries focused their attention on the insufficient results in terms of an accelerated liberalization of trade in cotton textiles in many developed market-economy countries and on the administration of restrictive import systems which had led to some quotas being unused. A developed market-economy country stated that there seemed to have been at least two reasons why the LTA had not achieved the expectations which were held out to the developing countries in 1962. In the first place, importing countries had no uniform or harmonized standards relating to the concept of market disruption and, in general, had very different views about their obligations under the LTA. In the second place, there appeared to be little prospect of any equalization in the performance of importing countries. Furthermore, on account of the substantial decline in the demand for cotton goods, it was obvious that the difficulties of the domestic industries in importing countries could not be solved by the regulation of imports.[149]

291. The participating importing countries applying quota restrictions on many items of cotton textiles have fulfilled their undertakings to increase these quotas by fixed percentages, and trade in some products subject to import restrictions has been liberalized. The higher import ceilings were mainly the result of the negotiations preceding the last two extensions of the LTA. Some importing countries which maintained quantitative restrictions under the relevant provisions of the LTA have concluded bilateral agreements providing for fixed import ceilings. These agreements include an undertaking by the importing country not to invoke the safeguard clause of the LTA. EEC has concluded such bilateral agreements with five developing countries.

292. The safeguard provisions of the LTA, which provide for export restraints in the supplying countries, have been invoked by a number of participating importing countries. Countries which do not apply formal import restrictions have frequently resorted to these safeguard

[145] TD/B/C.2/86 and Corr.1, prepared for the fourth session of the Committee, and TD/B/C.2/106 for the fifth session.

[146] See *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 2* (TD/B/352), para. 158 and annex III, A, para. 4.

[147] See TD/120, paras. 44-52 and TD/120/Supp.1, chap. V (see foot-note 127 above).

[148] Of the socialist countries of Eastern Europe, however, only Poland was a signatory.

[149] See the report of the Cotton Textiles Committee on its seventh review of the Arrangement (GATT document L/3288, paras. 94-95).

provisions in order to limit imports of cotton textile items from a large number of developing countries. Particularly noteworthy in this respect is the conclusion by the United States of America of comprehensive bilateral agreements with a number of exporting countries to replace short-term measures of restraint applied to specific items. These bilateral agreements usually cover all trade in cotton textiles and are concluded for a period of several years. Some expire as late as 1975 or even 1976, although the LTA itself has been extended only up to September 1973. These bilateral agreements also provide for a certain growth of imports, generally of about 5 per cent per annum.

293. When the future of the LTA was considered in the GATT Cotton Textiles Committee in December 1969, and again in May 1970, some developing countries pointed out that the LTA had been intended to be a temporary and exceptional measure and stressed that repeated extensions would involve the danger of its perpetuation. They also pointed to the disadvantages arising from the distortion to the growth and diversification of the cotton textile industries in the developing countries, which seemed to be caused by the LTA itself and which had long since begun to outweigh the short-term advantages. They believed serious consideration should be given to phasing out the LTA.[150]

294. During the last two reviews (1968 and 1969) of the operation of the LTA, several references were made to fibres other than cotton. One major importing country referred to rising imports of wool, man-made fibre textiles, and blends with cotton, which involved the same serious problems of market disruption as did cotton textile products at the time the LTA was negotiated. It considered that the problems of other fibres, most of which were competitive with cotton, required international action, which might be sought in the framework of an overall solution. Several representatives, of both developing and developed market-economy countries, expressed the view that the problems of non-cotton textiles were not on a scale to warrant restrictive action and feared that restraints negotiated bilaterally would inevitably produce important side effects and might lead to adverse developments in the field of trade liberalization. The hope was expressed that the LTA kind of restrictive arrangement would not be extended to other products and other fields, and particularly to products exported from developing countries.

E. Restrictive business practices [151]

295. The Conference at its second session, in resolution 25 (II), decided that a study should be carried out on the question of restrictive business practices adopted by private enterprises of developed countries, with special reference to the effects of such practices on the export interests of the developing countries, especially on the relatively least developed.

296. The Trade and Development Board, at the first part of its eighth session, in February 1969, adopted resolution 51 (VIII), in which it decided that the initial work of the secretariat, in connexion with the outline contained in its report [152] "should consist of studies of particular problem areas based upon suggestions put forward by developing countries, especially the relatively least developed of them, of actual or suspected restrictive business practices adopted by enterprises in developed countries, which may be affecting their export interests". The Board also requested developed and developing countries to collaborate in this work "by making available to the secretariat all relevant information on this subject that they are able to furnish".

297. In carrying out this mandate, and in particular in seeking the co-operation of developed and developing countries, the UNCTAD secretariat sent to States members of UNCTAD, in June 1969, a *note verbale* questionnaire, which enumerated in a comprehensive manner the various restrictive business practices which could affect the export interests of the developing countries.

298. When the fourth session of the Committee on Manufactures was held in January 1970, the secretariat had received replies from 36 countries, extracts from which were circulated as part of the report by the secretariat on this subject.[153] The report stated that, on the basis of the replies received from the developing countries, it would appear that inspection by those countries of contracts with foreign firms in the process of authorizing licensing agreements, and in particular commitments involving the transmission of funds to foreign countries, had found that such contracts often included various restrictions on exports by firms in their countries. Such restrictions ranged from a complete prohibition of exports to provisions permitting exports only to certain countries or only of certain types of commodities, and to provisions that either limited the total value of exports or required that exports be made only through designated agents or channels, or required that they be authorized by the foreign firm. Such restrictions were cited in particular by Colombia, El Salvador, India, Iran, Mexico and the Philippines.

299. The UNCTAD secretariat submitted to the fifth session of the Committee on Manufactures (3-14 May 1971) a substantive preliminary report on the question of restrictive business practices.[154] Chapter I of that report described practices that could affect the exports of the developing countries through firms in developed market-economy countries adopting practices to control imports. Chapter II dealt with the restrictive business practices that could affect firms in the developing countries and their ability to export. Chapter III provided information on the legal and factual situation with regard to export cartels in developed market-economy countries. It was pointed out that the activities of such cartels could affect the export potential of the developing countries.

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[150] GATT document L/3420, paras. 8 and 21.

[151] See also the reports by the UNCTAD secretariat, "Restrictive business practices" (TD/122 and Corr.1 and Supp.1) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. II, *Merchandise trade...*

[152] *Official Records of the Trade and Development Board, Eighth Session, Annexes*, agenda item 6, document TD/B/C.2/54. See also documents TD/B/C.2/54/Add.1-2 (mimeographed).

[153] TD/B/C.2/93 and Add.1.

[154] United Nations publication, Sales No. E.72.II.D.10.

300. Following its consideration of the secretariat's report, the Committee on Manufactures reached conclusion 2 (V),[155] in which the secretariat was requested to pursue its work in conformity with previous resolutions of the Committee and of the Conference and in the light, *inter alia*, of the views expressed during the fifth session of the Committee with regard to future work. The Committee also requested the secretariat to ensure co-ordination of its work for the Intergovernmental Group on the Transfer of Technology and the Committee on Manufactures and to submit a progress report to the eleventh session of the Trade and Development Board, in order, *inter alia*, to facilitate the preparation of the agenda of the Conference.

301. At its eleventh session the Board had before it the progress report requested by the Committee[156] and decided to include restrictive business practices on the provisional agenda of the Conference. Accordingly, the secretariat has prepared a further report, for consideration by the Conference.[157]

F. Export incentives [158]

302. Section B, paragraph II.4 of the recommendation contained in annex A.III.3 to the Final Act adopted by the Conference at its first session deals with financial, monetary, fiscal and other aids and incentives for expanding and diversifying the exports of manufactures from the developing countries. In it, the Conference recommends that the Governments of developing countries should assist investment in industries with an export potential, *inter alia*, "by ensuring adequate provision of long and short-term credit at reasonable or concessional rates of interest and equity capital through appropriate agencies such as the commercial banks, refinance corporations ... and development banks and corporations, fiscal incentives, drawbacks of customs duties, sales or purchase taxes, concessional internal freight rates, supply of scarce raw material and other measures".

303. Incentives for industrial exports were considered by a joint UNIDO/UNCTAD Expert Group Meeting in 1968[159] and a report on this subject was submitted by the UNCTAD secretariat to the Committee on Manufactures at its fourth session.[160] The Committee recognized that some types of export incentives were appropriate and necessary for the expansion and diversification of exports of the developing countries.

[155] For the text of the conclusion, see annex I to the Committee's report on its fifth session (*Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 2* (TD/B/352)). In this connexion, see also the account of the Committee's deliberations on the subject (*ibid.*, chap. IV), the text of a draft resolution submitted by developing countries (*ibid.*, annex II, B) and the statement by the representative of the Secretary-General of UNCTAD in connexion with conclusion 2 (V) (*ibid.*, annex V).

[156] TD/B/368.

[157] See foot-note 151 above.

[158] See also *Review of International Trade and Development, 1970...*, part two, paras. 200-205.

[159] See "Incentives for industrial exports: report by the Joint UNIDO/UNCTAD Export Group Meeting, in Rome, November 1968" (TD/B/C.2/74 and Corr.1).

[160] *Incentives for industrial exports: study by the secretariat of UNCTAD* (United Nations publication, Sales No. E.70.II.D.8).

304. Following the Committee's discussion of this subject and enquiries addressed to the secretariat of GATT regarding the application of the subsidy provisions of GATT to the developing countries, the GATT secretariat issued a note on "Incentives for industrial exports from developing countries"[161] in which it stated: "Thus paragraph 4 of Article XVI is inoperative for most contracting parties, including all those in the 'less-developed' category. The Contracting Parties have refrained in recent discussion of the matter from urging less-developed contracting parties to accept either the Declaration Giving Effect to Article XVI:4 or an extension to the standstill. The approach appears to be related to the objectives set out in Article XXVI and, in particular, to the recognition in paragraph 5 of that Article of the 'need (of less-developed contracting parties) for increased access to the largest possible measure to markets ... for processed and manufactured products currently or potentially of particular export interest'."

Chapter IV

Economic integration and co-operation among developing countries

A. Policy developments at and since the second session of the Conference

305. Concerted declaration 23 (II) on trade expansion, economic co-operation and regional integration among developing countries, adopted without dissent at the second session of the Conference, constitutes the essential basis for UNCTAD's activities in this general field. It sets out the considerations that make trade expansion, economic co-operation and regional integration important elements of an international development strategy and the general principles to be followed and methods applied in working towards the agreed objectives.

306. In the concerted declaration the Conference recognizes the responsibilities borne by the developing countries on the one hand and by the developed countries and international institutions on the other. It states that the responsibility for instituting schemes for trade expansion and regional integration among developing countries rests in the first instance with those countries themselves, but also recognizes (paragraph 7) that the availability of appropriate external finance and technical assistance from developed countries and international institutions would enable developing countries to overcome more easily difficulties encountered. The declaration of support by the developed market-economy countries contained in the concerted declaration (paragraphs 17-20) covers action in the field of commercial policy as well as of technical and financial assistance. The allocation of such assistance depends on "the merits of each proposition ... as well as the priority which the developing countries themselves attach to it" (paragraph 20). In a corresponding declaration by the socialist countries of Eastern Europe those countries stated that, "following the appropriate

[161] GATT, document COM. TD/72.

principles by which the socialist countries are guided in that respect", they were ready to extend their support to the developing countries (paragraph 21).

307. The Conference recognized the role of UNCTAD in "providing support and encouragement" and "undertaking periodic reviews of the progress achieved" (paragraph 22) and agreed that appropriate institutional arrangements should be made for continuing work on this subject on a permanent basis within the UNCTAD framework (paragraph 23).

308. After a Special Programme on Trade Expansion and Economic Integration among Developing Countries was initiated within the UNCTAD secretariat in July 1968, the Trade and Development Board, at its eighth session (February 1969), unanimously adopted resolution 53 (VIII) on "trade expansion, economic co-operation and regional integration among developing countries: institutional arrangements", outlining a work programme to be pursued at both the intergovernmental and the secretariat level. It decided to convene an intergovernmental group to be attended by all interested countries "with a view to examining the outstanding questions in this field, including those which were raised by developing countries but not disposed of at the second session of the Conference, in order to examine, consider and recommend the ways and means for facilitating the implementation of the Concerted Declaration."

309. In paragraph 6 of the same resolution the Board requested the Secretary-General of UNCTAD "in cases where particular concrete schemes in the field of trade expansion, economic co-operation and regional integration are submitted to him by groups of developing countries, to consult developed countries on the desirability of convening meetings to examine such schemes with a view to considering national or international support action in accordance with the Declaration of Support by developed countries (Conference declaration 23 (II), paras. 17-20). If during such consultations a substantial number of the developed countries concerned express interest in arranging such a meeting to consider any particular scheme or schemes, the Secretary-General of UNCTAD may convene a working party which will be open to all interested member countries. The Secretary-General of UNCTAD will report to the Board, for its endorsement, on any working parties set up under this paragraph."

310. Under section C (Secretariat) of resolution 53 (VIII), the UNCTAD secretariat initiated its research programme and undertook a number of technical assistance activities at the request of interested governments and of regional and subregional groupings with the support of UNDP.

311. Also under the Board's resolution, an Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries met in Geneva in November 1970 and was attended by representatives of 68 countries, together with observers from many regional and subregional groupings and development banks. The main conclusions of the Group, as set forth in chapter V of its report,[162] may be summarized as follows:

312. In the *field of trade and integration policies* it was recognized, *inter alia*, that:

(*a*) The acceptance of preferential tariff and non-tariff reductions, in particular within regional and subregional groupings, constituted in many instances a useful method of accelerating the economic growth of developing countries;

(*b*) The basic authority for the adoption of specific policies and for devising the methods of integration rested with the countries members of regional integration schemes of the developing countries concerned;

(*c*) Subregional groupings could be an effective response to the diversity of conditions existing among developing countries in a given region;

(*d*) Binding commitments in liberalizing trade among developing countries would stimulate investment decisions;

(*e*) Traditional vertical links, such as those persisting between some former colonies and their former administering Powers, constituted barriers to integration efforts;

(*f*) Joint efforts towards the promotion of exports to third countries and the development of productive capacities should supplement efforts to expand trade among members of the groupings;

(*g*) Cumulative treatment of developing countries, for purposes of determining eligibility under the rules of origin governing the implementation of the GSP, had a bearing on integration efforts.

313. In the field of *financial policies in general and of aid untying in particular:*

(*a*) It was widely agreed that the untying of aid would help efforts at trade expansion and regional economic integration, but differences among the main donor countries on this subject came to light;

(*b*) It was agreed that the proposal by developing countries for extending procurement of aid-financed goods to all developing countries should be taken into account by developed market-economy countries; in this context the provision of technical assistance was recommended in the fields of bidding procedures, export promotion and marketing, so as to facilitate the effective participation by developing countries in aid-financed transactions;

(*c*) The representatives of the socialist countries of Eastern Europe considered, however, that the recommendations in the field of aid untying were inapplicable to their countries, owing to the entirely different system of their economic relations with developing countries.

314. The proposal made by the UNCTAD secretariat in its report[163] for the institution by IMF of a special drawing facility designed to offset reserve losses arising out of liberalization commitments, which was supported by the developing countries, did not secure general agreement either in the Intergovernmental Group or in the Trade and Development Board at the second part of

[162] *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes,* agenda item 11, document TD/B/333.

[163] TD/B/AC.10/4.

its tenth session, when the report of the Intergovernmental Group was considered and those countries submitted a draft resolution in support of the proposal.

315. Paragraphs 39 and 40 of the International Development Strategy lay down goals and objectives with respect to trade expansion, economic co-operation and regional integration among developing countries. Developing countries pledged their determination to "continue their efforts to negotiate and put into effect further commitments for instituting the schemes for regional and subregional integration or measures of trade expansion among themselves ... to elaborate mutually beneficial and preferential trade arrangements which foster the rational and outward-looking expansion of production and trade, and avoid undue injury to the trading interests of third parties, including third developing countries". The developed market-economy countries, for their part, committed themselves "through the extension of financial and technical assistance or through action in the field of commercial policy," to "support initiatives in regional and subregional co-operation of developing countries. In this connexion, they will specifically consider what help can be given to any concrete proposals that may be put forward by developing countries". The socialist countries of Eastern Europe pledged "their full support within the framework of the socio-economic system".

B. Action by the developing countries in favour of regional integration and co-operation [164]

316. In spite of the difficult economic problems facing most developing countries, and notwithstanding frequently diverging political, social and economic points of view guiding the policies of countries of the same region or subregion, there is in all the major developing regions evidence of continuing progress towards economic co-operation among groups of countries. This progress has both taken place within existing groupings and, as a result of new initiatives, given rise to co-operation in new areas also. The following examples illustrate some of the principal developments in this regard:

317. In Africa, co-operation among the countries members of the Council of the Entente States has entered a phase of operational activities under the impulse of the administrative secretariat of the Mutual Aid and Loan Guarantee Fund. The most noteworthy of these is the Economic Community for Livestock and Meat set up in 1970. The secretariat has progressively developed to become the Council's permanent executive organ. This fact, and the establishment of a Ministerial Council in 1970, seem to indicate a gradual transformation of the Council of the Entente States into a permanent economic integration body. Closer co-operation between the Entente countries and Ghana is at present being considered under the auspices of ADB. The four States which had been co-operating since 1962 in the development of the Senegal River Basin established in 1968 OERS with a view to achieving greater economic integration. Political and other difficulties, however, have retarded the furtherance of this experiment. In UDEAC, customs, fiscal and legal unification is well advanced but economic integration has not kept pace. Everything possible is now being done to further such integration in the industrial, transport and social fields. The Central Bank of the West African States and the Central Bank of Equatorial Africa and Cameroon have continued to operate normally, assuring convertibility of transfers between countries members of the Franc Zone. After having provided the framework for the negotiations for the renewal, in 1969, of the Convention of Association between the European Economic Community and the Associated African and Malagasy States, OCAMM is seeking to ensure the adoption by all the member States of a standard accounting plan and is considering a programme for the harmonization of industrial development. It is also concerning itself with the training of cadres.

318. The Treaty of East African Co-operation, linking Kenya, Uganda and the United Republic of Tanzania, permitted the continued growth of intra-trade and the consolidation of co-operative institutions dating from the colonial era. The East African Development Bank began operations in mid-1968 with an authorized capital of $56 million, 60 per cent of which was subscribed by the Governments of the three member countries. By the end of 1970, the Bank had approved 17 projects, raising total commitments to 76 million East African shillings ($10.7 million), thereby contributing to the realization of projects valued at 545 million East African shillings ($76.5 million). The countries members of the Permanent Consultative Committee of the Maghreb still have under consideration draft agreements in such fields as industrial co-operation, across-the-board trade liberalization among themselves, harmonization of commercial policies with regard to third countries, agricultural trade and the establishment of joint financial institutions. Action on these matters has been delayed by differences of opinion concerning implementation of certain provisions of the draft agreements.

319. In Latin America, five countries members of LAFTA, constituting themselves into the "Andean Group" by the Cartagena Agreement of May 1969, agreed to intensify and accelerate their mutual co-operation on a subregional basis. Together with Venezuela, these countries had previously (in 1968) established an Andean Development Corporation. Latin American co-operation in the payments field has also been strengthened, within the framework both of LAFTA (through the Santo Domingo Agreement of 1969) and of the Central American Common Market (through the establishment in the same year of the Central American Monetary Stabilization Fund). Central American economic co-operation has received considerable support from CABEI, the oldest of the subregional development banks, whose commitments to infrastructural and industrial projects of the subregion are approaching $300 million. Funds are derived in large part from sources external to the subregion. Recently, the CABEI has started to finance agricultural projects also.

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[164] A list of organizations for economic co-operation among developing countries and of their members appears in an annex to the present chapter.

CABEI's Fund for Central American Economic Integration has as its main objective the complete financing of infrastructural projects in the relatively less-developed areas of the subregion. In the Caribbean area notable progress has been made through CARIFTA, established in 1968, which encompasses four independent countries as well as the seven British associated States or dependent territories which formed the East Caribbean Common Market in the same year. More recently British Honduras (Belize) also joined CARIFTA. Caribbean co-operation will receive further support from the Caribbean Development Bank, which started operations early in 1970.

320. In Asia, work is proceeding on an Asian Clearing Union, under the auspices of ECAFE, following the agreement to this effect incorporated in the Kabul Declaration on Asian Economic Co-operation and Development adopted by the Council of Ministers for Asian Economic Development in December 1970. The Intergovernmental Committee on an Asian Trade Expansion Programme, established by virtue of the Kabul Declaration, met in November 1971 and unanimously adopted its report embodying the "Framework for an Asian Trade Expansion Programme". Within the "framework" negotiations will cover a wide range of trade expansion measures, not only the reduction and removal of tariff and non-tariff barriers but also the conclusion of commodity agreements, bulk purchases, state trading, government purchases and trade-cum-investment.[165] Countries members of RCD and of ASEAN have been actively considering proposals submitted by experts from UNCTAD and from other United Nations bodies designed to promote their mutual trade and foster other avenues of economic co-operation.

321. In the Middle East, the countries members of the Arab Common Market have continued reducing mutual tariff barriers according to the pre-agreed schedules. A draft agreement for an Arab Payments Union was approved in principle by the Council of Arab Economic Unity in 1968 and so far three countries have agreed to participate; administrative arrangements for the Union are being handled on a provisional basis by the Central Bank of Jordan. At the initiative of Kuwait, an agreement was signed in 1971 on the protection of Arab investments in the Arab countries.

322. However, developing countries have suffered reverses in striving towards their objectives in this field. Of particular concern are certain trends running counter to the process of economic co-operation and regional integration, which must be tackled as a matter of urgency. For example, the hitherto successful experiments in integration in Central America, Equatorial Africa and East Africa have been confronted with the re-imposition of trade barriers, the formal withdrawal of some of the members of the groupings and the paralysis of regional institutions, including their technical bodies. In East Africa exchange controls between certain member countries were imposed for both trade and financial transactions. In North Africa and the Middle East a number of initiatives have been thwarted by countries leaving one grouping and joining another as well as by the rapid succession of groupings that overlap each other in membership. In LAFTA over-all progress has been slowed down pending the completion of studies and negotiations agreed upon by virtue of a protocol to the Montevideo Treaty, signed at Caracas in December 1969 (Caracas Protocol). In Asia most co-operative efforts have yet to progress from the planning stage to that of implementation.

C. Interregional co-operation

323. In the field of interregional co-operation among developing countries progress has been most noteworthy in relations between India, Egypt and Yugoslavia, which are linked by the Tripartite Agreement signed in 1968. In the course of two rounds of negotiations, held during 1968 and 1969, the three countries agreed to halve tariffs imposed on each other's exports on a total of 134 headings and subheadings.

324. The 16 countries actively participating in the Trade Negotiations Committee of Developing Countries[166] have succeeded in exchanging concessions on about 500 tariff sub-positions and positions which range over almost 200 headings of the BTN (at the four-digit level). About 30 per cent of the headings relate to agricultural products and the rest to semi-manufactures and manufactures. According to preliminary estimates, imports into the 16 countries from all sources of products covered by concessions amounted to over $500 million, of which almost $50 million constituted trade among these countries. The same analysis suggested that the trade interests of other developing countries would scarcely be affected by the concessions on the items in question.

325. The results of the negotiations were submitted to the Trade Negotiations Committee and the Protocol relating to Trade Negotiations among developing countries, which is open for accession to other developing countries, was finalized on 8 December 1971. The countries participating in the negotiations have undertaken "to facilitate the accession of all developing countries on terms consistent with the latters' individual development, financial and trade needs".[167]

326. The group of actively participating countries agreed that the signing of the Protocol should in no way hinder the implementation of commitments among developing countries within the framework of customs unions and free-trade areas. Countries participating in such arrangements will endeavour to ensure, for their

[165] See "Most recent developments in regional co-operation and trade expansion among developing countries: note by the ECAFE secretariat" (TD/CONTR.1).

[166] The Trade Negotiations Committee of Developing Countries (which is serviced jointly by the UNCTAD and GATT secretariats) consisted originally of about 35 members, but only 16 finally concluded bilateral agreements. The regional distribution of these 16 countries is as follows: *Mediterranean:* Egypt, Greece, Israel, Spain, Tunisia, Turkey, Yugoslavia; *Asia:* India, Pakistan, Philippines, Republic of Korea; *Latin America:* Brazil, Chile, Mexico, Peru, Uruguay. Mexico and the Philippines are not contracting parties to GATT. A few countries are still continuing negotiations with a view towards eventual participation in the Committee: Argentina, Ceylon, Gabon and Ghana. None of the present participants is among the least developed among the developing countries, or from any part of Africa south of the Sahara.

[167] GATT document L/3643 and Add.1.

part, that provisions relating to the treatment of third countries will not prevent the implementation of the Protocol.

327. The 16 countries concerned have provided for the establishment of a committee of participating countries which will, *inter alia*, facilitate the accession of new participating countries and the extension of the scope of concessions.

328. Meeting at Geneva on 26 November 1971, the Contracting Parties to GATT waived the MFN clause to allow the countries which participated in this first series of trade negotiations among developing countries to implement the concessions exchanged. The United States of America, however, was unable to support the decision.[168] Thus, the first efforts by developing countries to expand their mutual trade within an agreed international framework have achieved concrete results.

D. Support provided by the developed countries and international institutions

329. In the field of commercial policy, EEC has liberalized the provisions of the second Yaoundé Convention, enhancing the scope for the preferential treatment of trade among the African Associated States as well as between those States and other African States at the same level of development. Similarly, the developed countries of the Commonwealth have not objected to developing countries of the Commonwealth granting to each other, as well as to developing countries outside the Commonwealth, more favourable treatment than that accorded to the developed Commonwealth countries.[169]

330. With regard to the untying of aid, the United States of America and the Federal Republic of Germany have untied their aid in cases of procurement in one developing or low-income country for aid given to another. Moreover, at the Ninth Annual High Level Meeting of the DAC, held at Tokyo in September 1970, a large majority of members declared themselves prepared in principle to adhere to an agreement to untie their bilateral financial development loans. At the OECD Ministerial Meeting, held in June 1971, it was unanimously agreed that contributions to multilateral financial institutions should be untied in principle, and most Ministers also favoured the untying of bilateral loans. The Ministers further agreed that work on aid untying should be actively pursued in the DAC and expressed the hope that co-ordinated action with respect to untying would be taken at an early date.[170]

331. A number of multinational infrastructural projects have benefited from financial and technical assistance provided bilaterally and multilaterally—for example, the Mekong development project, the Pan American and Asian Highways, the Inter-American Telecommunication Network, and the projects for the development of the Senegal and Niger rivers and the Lake Chad basin. With regard to the Mekong development project, IBRD has carried out a review of the water resources of the basin, which has led to the identification of a group of pioneer projects. These projects are to be financed jointly by UNDP and four donor Governments, with IRBD acting as executing agency.

332. External support has also been given to payments arrangements among developing countries. Thus, AID has contributed to the Central American Stabilization Fund, which was created in 1969 under the sponsorship of IMF.

333. Support from regional development banks (in conjunction with contributions by developing countries themselves) has been instrumental in financing projects designed to foster economic co-operation, such as the Southeast Asia Regional Transport Survey (supported by AsDB), the programme for the financing of intra-Latin American exports of capital goods by IDB, and an East African transport project financed by ADB. These three regional development banks have also given support to several subregional development banks.

334. The United Nations system, and in particular UNDP, has given high priority to the support of regional and interregional projects tending to foster economic co-operation and regional integration among developing countries. This policy is reflected in the following sentence of paragraph 26 of the Consensus reached by the Governing Council of UNDP at its tenth session and approved by the General Assembly in resolution 2688 (XXV), to which the Consensus is annexed: "Subregional, regional and interregional projects, particularly those designed by interested countries to accelerate the process of economic and social integration and to promote other forms of regional and subregional co-operation will have the first claim on the resources for inter-country programming."

ANNEX TO CHAPTER IV

List of organizations for economic co-operation among developing countries (in addition to the UNITED NATIONS regional economic commissions and the various regional development banks) showing membership

Africa

African, Malagasy and Mauritian Common Organization: Cameroon, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, Zaire.

Central Bank of Equatorial Africa and Cameroon: Central African Republic, Cameroon, Chad, Congo, Gabon.

Central Bank of the West African States: Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, Upper Volta.

Chad Basin Commission: Cameroon, Chad, Niger, Nigeria.

Council of the Entente: Dahomey, Ivory Coast, Niger, Togo and Upper Volta.

Customs and Economic Union of Central Africa: Cameroon, Central African Republic, Congo, Gabon.

East African Community: Kenya, United Republic of Tanzania, Uganda.

Niger River Commission: Cameroon, Chad, Dahomey, Guinea, Ivory Coast, Mali, Niger, Nigeria, Upper Volta.

[168] *Ibid.*

[169] It should be remembered that, for their part, the developing Commonwealth countries accepted the consequences of the establishment of a free-trade area between the United Kingdom and its EFTA partners.

[170] See also paragraphs 361 and 362.

Organization of the Senegal Riparian States: Guinea, Mali, Mauritania, Senegal.

Permanent Consultative Committee of the Maghreb: Algeria, Morocco, Tunisia.

Union of Central African States: Chad, Zaire.

West African Economic Community: Ivory Coast, Dahomey, Mali, Mauritania, Niger, Senegal, Upper Volta.

MIDDLE EAST: LEAGUE OF ARAB STATES [a]

Agreement for the Payment of Current Transactions and the Transfer of Capital: Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syrian Arab Republic.

Agreement on Trade Facilitation and Transit Organization: Egypt, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia, Syrian Arab Republic.

Arab Common Market: Egypt, Iraq, Jordan, Syrian Arab Republic, Sudan.

Arab Payments Union — Council of Arab Economic Unity: Egypt, Iraq, Jordan, Kuwait, Syrian Arab Republic, Sudan, Yemen.

AMERICAS

Caribbean Free Trade Association: Barbados, Guyana, Jamaica, Trinidad and Tobago, British Honduras (Belize), Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent.

Cartagena Agreement (Andean Group): Bolivia, Chile, Colombia, Ecuador, Peru.

East Caribbean Common Market: Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent.

Latin American Free Trade Association: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Permanent Secretariat of the General Treaty on Central American Economic Integration: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.

River Plate Basin Treaty: Argentina, Bolivia, Brazil, Paraguay, Uruguay.

Urupabol: Joint Permanent Commission of Uruguay, Paraguay and Bolivia.

ASIA

Asian Coconut Community: Ceylon, India, Indonesia, Malaysia, Philippines, Thailand.

Association of South-East Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand.

Regional Co-operation for Development: Iran, Pakistan, Turkey.

INTERREGIONAL ARRANGEMENTS

GATT Trade Negotiations Committee of Developing Countries: The 16 countries actively participating in the Committee are: Brazil, Chile, Egypt, Greece, India, Israel, Republic of Korea, Mexico, Pakistan, Peru, Philippines, Spain, Tunisia, Turkey, Uruguay and Yugoslavia.

Intergovernmental Council of Copper Exporting Countries: Chile, Peru, Zaire, Zambia.

Tripartite Agreement on Trade Expansion and Economic Co-operation: Egypt, India, Yugoslavia.

[a] At the time of writing, the members of the League are: Algeria, Egypt, Iraq, Jordan, Kuwait, Libya, Lebanon, Morocco, People's Democratic Republic of Yemen, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, Yemen.

Chapter V

Financing of trade and development

A. MOBILIZATION OF DOMESTIC RESOURCES

335. A study prepared by the UNCTAD secretariat for the third session of the Conference [171] reveals that on the whole developing countries have succeeded in improving their growth performance and their efficiency in the use of resources for development. According to available estimates for 58 developing countries, the unweighted average rate of growth of GDP of these countries was 5.3 per cent per annum during the 1960s. While three quarters of the countries examined had growth rates ranging from 3.3 per cent to 7.5 per cent, only one quarter had rates of 6.5 per cent or more. If seven countries affected by abnormal conditions are excluded, a comparison between the first and second halves of the decade reveals an acceleration in the average annual rate of growth of 0.3 percentage points.

336. Increases in the rate of growth of GDP appear to be highly correlated with increases in the rate of growth of exports. The average rate of growth of exports of developing countries during the 1960s (in 1960 prices) was 6.6 per cent per annum (excluding the seven countries mentioned above), and in the second half of the decade it was 0.4 percentage points faster than in the first half.

337. On the whole, changes in the rate of growth of GDP between the first and second halves of the period were positively correlated with changes in the ratio of gross domestic investment to GDP and negatively with changes in the marginal capital-output ratio. For the period 1960-1970 as a whole the average investment ratio of the 58 developing countries studied was 17.1 per cent. Furthermore, in 51 of these countries there was a rise of 1.6 percentage points in the investment ratio between the first half and the second half of the period. In addition, the widespread tendency for the incremental capital-output ratio to decline during the second half of the 1960s suggests that the acceleration in the rate of growth of output may have been partly due to a more intensive and efficient utilization of the capital stock.

338. Developing countries appear to have made considerable efforts to increase their savings rates during the 1960s. For the 58 countries studied, the average ratio of domestic savings to GDP increased from 15.9 per cent in the period 1960-1965 to 18.1 per cent in 1965-1970.

339. The UNCTAD secretariat's study also indicates that on the whole developing countries succeeded in raising the ratio of tax revenue to GDP. For the 37 developing countries for which data are available, the ratio average 14.7 per cent during the 1960s and it was 1.6 percentage points higher in the second half of the period than in the first half. Although the share of direct taxes in total tax revenue is still low in most developing countries,

[171] See "Mobilization of resources for development: report by the UNCTAD secretariat" (TD/118/Supp.1 and Corr.1) *in Proceedings of the United Nations Conference on Trade and Development, Third Session,* vol. III, *Financing and invisibles* (United Nations publication, Sales No. E.73.II.D.6).

the ratio of direct taxes to GDP rose over the decade in 31 of the 37 countries.

340. Most developing countries appear to have made impressive advances in irrigation, the use of commercial fertilizer and the introduction of new high-yielding varieties of seed in their agriculture. For the period 1953-1968, the unweighted average rate of growth of agricultural production was 3.2 per cent per annum. For two thirds of the 39 developing countries examined, growth ranged from 2.0 per cent to 5.0 per cent per annum. In 14 out of 27 countries for which data were available the contribution to growth of higher yields outstripped that of increases in the cultivated area. Despite these impressive results, agricultural output in one third of the countries considered did not keep pace with the increase in population.

341. Available data for 33 developing countries show that, during the period 1960-1969, manufacturing output increased at an unweighted average annual rate of 7.7 per cent. On the other hand, industrial employment increased by (an unweighted) 3.8 per cent per annum, a rate that was probably no higher than the growth of the urban labour force.

B. Flow of financial resources

342. The Conference recommended in its decision 27 (II), paragraph 2, that

> each economically advanced country should endeavour to provide annually to developing countries financial resource transfers of a minimum net amount of 1 per cent of its gross national product (GNP) at market prices in terms of actual disbursements, having regard to the special position of those countries which are net importers of capital.

343. The decision further stated in paragraph 6 that

> in the view of developing countries and some donor countries this target should be achieved by 1972; some other donor countries stated that they were prepared to meet this target either by this date or at the latest by 1975; all the other donor countries do not feel able to accept a precise date.

344. Paragraph 42 of the International Development Strategy for the Second United Nations Development Decade incorporates the wording of Conference decision 27 (II) cited in paragraph 342 above, and the paragraph continues:

> Those developed countries which have already met this target will endeavour to ensure that their net resource transfers are maintained and envisage, if possible, an increase in them. Those developed countries which are unable to achieve this target by 1972 will endeavour to attain it not later than 1975.

345. While all DAC member countries have accepted the 1 per cent target, several countries have entered reservations with respect to the specified dates.[172] Belgium, France and the Netherlands have already achieved the target and agreed to continue to maintain and improve the performance. Sweden expressed its intention of achieving the target by 1972, and Norway by 1974, while Japan and the United Kingdom set 1975 as the target date. The Federal Republic of Germany attained the target in 1968 and 1969 and the Government has stated that it intends to try to maintain that performance.[173]

346. As may be seen from table 1, the total net flow of financial resources to developing countries increased from $12 billion in 1968 to $12.6 billion in 1969 (an increase of 4.8 per cent) and to $14 billion in 1970 (an increase of 11.3 per cent). During the decade 1960-1970 the average annual increase was 7.2 per cent.

347. The ratio of total net flows from all DAC member countries to their combined GNP declined from 0.73 per cent in 1968 to 0.70 per cent in 1969 and then rose to 0.71 per cent in 1970.[174] In 1961, it had stood at 0.86 per cent. Five DAC member countries (Australia, Belgium, France, Netherlands and Portugal) attained the 1 per cent target in 1970 (see table 2).

Table 1

Total net flow of financial resources to developing countries in Africa, Asia and Latin America, 1968-1970

(Net disbursements: millions of dollars)

	Total[a]	*From developed market-economy countries*	*From multilateral institutions*
1968	11 980	10 941	789
1969	12 557	11 246	1 081
1970	13 979	12 326	1 403

Sources: UNCTAD secretariat, based on data supplied by the United Nations Department of Economic and Social Affairs, OECD, *Development Assistance, 1971 Review* (Paris, 1971) and data supplied by the OECD secretariat.

[a] Includes rough estimates of net disbursements from socialist countries to developing countries other than Cuba.

348. Paragraph 43 of the International Development Strategy states that "each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade".

349. Among the DAC member countries, Belgium, the Netherlands, Norway, Portugal and Sweden are the only ones which have accepted this commitment. In addition, Canada and the Federal Republic of Germany have accepted the target for official development assistance without accepting the date for its attainment. France has stated its intention of maintaining the ratio between 0.6 and 0.7 per cent. Among countries not members of DAC, New Zealand accepted the target in principle but did not specify a date for its attainment.

350. By 1970, only Australia, France and the Netherlands were even within a short distance of the target (see table 3). For DAC member countries as a whole, official development assistance expressed as a percentage of

[172] The socialist countries of Eastern Europe considered the above target as not applicable to them.

[173] See the statement by the representative of the Federal Republic of Germany at the fourth session of the Committee on Invisibles and Financing related to Trade (TD/B/C.3/SR.77, para. 8).

[174] See "External development finance: report by the UNCTAD secretariat" (TD/118/Supp.2 and Corr.1), in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. III, *Financing and invisibles...*

TABLE 2

DAC member countries' performance in relation to the 1 per cent target, 1961-1970 [a]

(percentage of GNP)

	Annual average 1961-1965	*1968*	*1969*	*1970*
Australia	0.51	0.88	0.82	1.14
Austria	0.19	0.52	0.55	0.48
Belgium	1.09	1.07	1.03	1.13
Canada	0.30	0.49	0.50	0.69
Denmark	0.16	0.74	0.87	0.63
France	1.64	1.27	1.19	1.22
Germany, Federal Republic of	0.67	1.11	1.00	0.62
Italy	0.51	0.64	0.99	0.80
Japan	0.42	0.64	0.73	0.90
Netherlands	1.05	1.01	1.25	1.43
Norway	0.23	0.67	0.80	0.62
Portugal	1.40	0.78	1.61	1.04
Sweden	0.27	0.46	0.72	0.58
Switzerland	1.31	1.10	0.55	0.54
United Kingdom	0.92	0.68	0.97	0.91
United States of America	0.72	0.62	0.49	0.54
DAC total	0.75	0.73	0.70	0.71

Sources: Based on IMF, *International Financial Statistics* (various issues), United Nations, *Monthly Bulletin of Statistics*, October 1968, and *Yearbook of National Accounts Statistics* (various issues), and sources cited in table 1.

[a] Net flow of financial resources to developing countries in Africa, Asia and Latin America, and to multilateral institutions, as a percentage of GNP at market prices.

GNP was only 0.35 per cent in 1969 and 0.34 per cent in 1970. The ratio in fact decreased in 1970 in ten of the DAC member countries, including all of the large donors, and rose in the six remaining countries.[175]

351. The prospects for an expansion of official development assistance in the near future remain uncertain. The largest DAC contributor, the United States of America, recently announced a 10 per cent cutback in its foreign aid programme.

352. Net disbursements [176] from multilateral institutions rose significantly from $789 million in 1968 to $1.1 billion in 1969 and to $1.4 billion in 1970. IBRD and IDB were largely responsible for these increases.

353. Arrangements for the third replenishment of IDA have been completed.[177] Upon replenishment, IDA will be in a position to double its level of lending during the (fiscal) years 1971-1974, compared to its lending during the second replenishment period 1968-1971.

TABLE 3

DAC member countries' performance in relation to the official development assistance target ratios, 1969 and 1970

(percentages of GNP)

	1969	*1970*
Australia	0.56	0.59
Austria	0.11	0.13
Belgium	0.50	0.47
Canada	0.34	0.43
Denmark	0.39	0.38
France	0.66	0.63
Germany, Federal Republic of	0.33	0.30
Italy	0.10	0.17
Japan	0.26	0.23
Netherlands	0.49	0.62
Norway	0.30	0.32
Portugal	1.04	0.46
Sweden	0.43	0.37
Switzerland	0.16	0.14
United Kingdom	0.38	0.34
United States of America	0.32	0.31
DAC total	0.35	0.34

Sources: See table 1.

354. The commitments of socialist countries of Eastern Europe and Asia changed little from 1968 ($758 million) to 1969 ($776 million), but more than doubled in 1970, reaching $1,694 million. This was largely due to the increased lending by China to the United Republic of Tanzania and to Zambia. Increases in commitments during 1969-1970 were also recorded by Bulgaria, the German Democratic Republic, Hungary and the Soviet Union.

C. Terms and conditions of the flow of financial resources

355. In its decision 29 (II), paragraph 2, the Conference recognized that further efforts were required to soften the terms of development assistance. Developing countries and some developed countries considered that either of the following alternative norms, to be achieved by the end of 1970, should be specified for each donor country:

Either

(*a*) developed countries might provide 80 per cent or more of their official aid in the form of grants;

Or

(*b*) they might:

(i) provide 90 per cent of their official aid commitments as grants or loans at 2.5 per cent or less, with a repayment period of thirty years or more;

(ii) attain a minimum grace period of eight years.

356. Recommendations along the same lines were made by the Commission on International Development (Pearson Commission).[178]

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[175] Data for official development assistance disbursements on the United Nations basis are not available for years earlier than 1969. However, DAC estimates including flows to European countries show a decline in the ratio from 0.54 per cent in 1961 to 0.34 per cent in 1970.

[176] Grants and loans less subscriptions and contributions (regardless of whether they have been made in the currency of the recipient country or in other currencies), and participation and repayments where relevant.

[177] Authorization for the United States contribution is, however, still pending before Congress.

[178] "The terms of all official development assistance loans should henceforth provide for interest of no more than 2 per cent, a maturity of between 25 and 40 years and a grace period of 7 and 10 years." (*Partners in Development: report of the Commission on International Development* (London, Pall Mall Press, 1969) p. 167, recommendation No. 4.)

357. In 1969, DAC members revised their own terms targets which are now embodied in the Supplement to the 1965 Recommendation on Financial Terms and Conditions.[179] The International Development Strategy states (paragraph 44) that the developed countries members of the DAC "will exert their best efforts to reach as soon as possible, and in any case before 31 December 1971" the norms set out in the 1969 Supplement.

358. In 1970, according to the preliminary data, the average maturity and the average grace period of new loan commitments were longer than in 1969, while the average interest rate declined, so that on all three counts there was a slight improvement in the terms of lending. However, the proportion of grants in total official development assistance declined from 65 per cent in 1969 to 63 per cent in 1970.[180]

359. In either or both of the years 1969 and 1970 a large number of DAC member countries met the norms laid down in the 1969 Supplementary Recommendation.[181] In comparison with the norms set forth in Conference decision 29 (II) and the recommendations of the Pearson Commission the DAC terms are still relatively hard. In this connexion, attention is drawn to paragraph 44 of the International Development Strategy, the last sentence of which reads:

> Developed countries will consider, in the further evolution of their assistance policy and with a view to attaining concrete and substantive results by the end of the Decade, the specific suggestions contained in decision 29 (II) of 28 March 1968 adopted by the United Nations Conference on Trade and Development at its second session, and made in other international forums for further softening of the terms and conditions of aid.

360. The terms of borrowing from multilateral lending institutions have been hardening in recent years. The rate of interest charged by IBRD was raised from 7 per cent to 7.25 per cent early in 1971, and the lending rates of the other multilateral institutions currently stand at between 7.5 per cent and 8 per cent. It will be recalled that the establishment of a multilateral interest equalization fund is envisaged as a means of ensuring an increasing flow of resources to developing countries at concessional terms. The proposal was the subject of a study by the staff of IBRD and by a group of experts appointed under the auspices of UNCTAD.[182] A study prepared by a consultant and submitted to the Trade and Development Board at its eleventh session,[183] examined the institutional problems involved in setting up such a fund and described in some detail the manner in which such problems had been overcome in the programmes of various developed market-economy countries involving interest subsidization. The study found that no insurmountable problems had been encountered by governments in using interest subsidization techniques and in assuming multi-year budgetary commitments in respect of interest subsidies involved. At its eleventh session, the Trade and Development Board discussed the question of establishing a multilateral interest equalization fund and the matter was further pursued by the Committee on Invisibles and Financing related to Trade at its fifth session (1-14 December 1971).

361. Among the conditions of aid, the tying of aid has been the subject of much deliberation, and the International Development Strategy reaffirmed the decision of the Conference at its second session that financial assistance would, in principle, be untied. It also stated (paragraph 45) that developed countries would do what they could "both to reduce the extent of tying of assistance and to mitigate any harmful effects".

362. Some DAC member countries, notably Canada, Japan, the United Kingdom and the United States of America, have recently taken certain steps to reduce the extent of aid-tying. However, a satisfactory solution to the problem must await a generalized agreement among the contributing countries to untie their aid. At a recent meeting of the Ministerial Council of OECD it was noted that "substantial progress had been made in drawing up a draft agreement on aid untying to be proposed to Governments who would be invited to indicate whether they wish to participate". The Ministers also "agreed that work on aid untying should be actively pursued in the DAC and expressed the hope that co-ordinated action with respect to untying could be taken at an early date".[184] The United States, in the context of a series of measures to deal with economic problems taken in August 1971, has postponed participation in the agreement.

363. The question of continuity in the provision of financial resources for development was discussed by the Committee on Invisibles and Financing related to Trade at its fourth session. The Committee adopted resolution 3 (IV), which called upon the Governments of all member States of UNCTAD and on multilateral organizations to use their best endeavours to ensure that flows of official development assistance were not subject to short-term and unforeseen fluctuations and that projects requiring more than one financial year for their execution could be undertaken with reasonable assurance that the required financial resources would be forthcoming.[185]

364. Improvements in the terms and conditions of assistance assume additional importance in the light of recent trends in the outflow of resources. In another study before the Conference the UNCTAD secretariat has estimated that the outflows on account of interest and amortization payments and profits from developing countries amounted to approximately $11 billion in 1969.[186]

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179 OECD, *Development Assistance, 1969 Review* (Paris, 1969), annex III. For a comparison of the two sets of terms, see the report "The terms of financial flows, including an analysis of the 1969 DAC Supplement" (TD/B/C.3/72 and Corr.1-2) prepared by the UNCTAD secretariat for the Committee on Invisibles and Financing related to Trade at its fourth session.

180 Data refer to flows on a DAC basis. Comparable data for earlier years are not available.

181 See "External development finance: report by the UNCTAD secretariat" (TD/118/Supp.2 and Corr.1). (See foot-note 174 above.)

182 See IBRD, *The Horowitz Proposal – a Staff Report* (Washington, D.C., 1965) and "The Horowitz Proposal: report of the Group of Experts" (TD/B/C.3/23 and Corr.2).

183 Harry H. Bell, "Some institutional aspects of a multilateral interest equalization fund" (TD/B/361/Add.1).

184 *The OECD Observer*, No. 52, June 1971, p. 39.

185 *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 4* (TD/B/318), annex I.

186 See paragraph 4 of "The outflow of financial resources from developing countries: note by the UNCTAD secretariat" (TD/118/Supp.5) in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. III, *Financing and invisibles...*

Payments on account of interest and amortization increased at an average rate of 9 per cent per annum during the 1960s. As a result, and in spite of an increase in disbursements of official grants and loans (including publicly guaranteed loans) from $8.8 billion in 1965 to $10.2 billion in 1969, net resource transfers to developing countries between these years declined from $5.4 billion to $5.2 billion. Moreover, this estimate makes no allowance for increases either in the prices of goods purchased out of aid funds or in the cost of providing technical assistance. If allowance were made for such increases, it would probably be found that the real purchasing power of net resource transfers had declined by something like 15-20 per cent between 1965 and 1969.

365. A study of the debt problems of developing countries prepared by the UNCTAD secretariat, also before the Conference, concluded that "In the light of the targets set for the Second United Nations Development Decade, and on cautious assumptions regarding the means of attaining them, it appears that the pressure of the debt problem may increase during the 1970s and that a larger number of countries may be faced with difficult situations than in the 1960s".[187]

366. It will be recalled that the Pearson Commission made the following recommendations with respect to debt relief operations:

1. Debt relief operations should avoid the need for repeated reschedulings and seek to re-establish a realistic basis for development finance.

2. When it is necessary to set limits on new export credits equal attention should be given, where there is a sound development programme, to the possible need for concessional external assistance.

3. Aid-giving countries should consider debt relief a legitimate form of aid and permit the use of new loans to refinance debt payments, in order to reduce the need for full-scale debt negotiations".[188]

367. Similarly, paragraph 48 of the International Development Strategy calls for an improvement in the arrangements for forecasting and forestalling debt crises, adding that "Developed countries will help in preventing such crises by providing assistance on appropriate terms and conditions, and developing countries by undertaking sound policies of debt management".

D. Supplementary financial measures

368. The supplementary financing scheme elaborated by the IBRD staff[189] and examined by the Intergovernmental Group on Supplementary Financing, convened by UNCTAD from 30 October to 13 November 1967[190] is intended as a measure for providing additional development assistance to developing countries which might experience disruptive shortfalls in their export earnings.

369. In resolution 60 (IX) the Trade and Development Board expressed its agreement with the conclusions of the Intergovernmental Group on Supplementary Financing contained in the report on its fifth session (July 1969)[191] and invited the competent organs of IBRD to consider working out arrangements for supplementary financing on the basis of the conclusions of the Intergovernmental Group, and if appropriate, introducing them. In response to this invitation, the President of IBRD informed the Board, at its tenth and eleventh sessions, on developments in this field. In a written communication to the Secretary-General of UNCTAD, dated 4 May 1971,[192] he stated "... The lack of any reasonable prospect of such additional funds has led the management and some of the Executive Directors to consider that we should defer further detailed studies within the Bank of such a scheme. Other Directors, on the other hand, would wish further detailed studies to be undertaken immediately. As there is no consensus, we shall keep the matter under review".

370. At its eleventh session the Board decided to refer the matter to the Committee on Invisibles and Financing related to Trade at its fifth session. At that session, held in December 1971, the developing countries members of the Group of 77 made a joint statement in which they reaffirmed their view that a system of supplementary financing should be adopted, repeated the invitation to the President of IBRD to consider working out arrangements for such a scheme, and requested that a report on this matter should be submitted to the Conference at its third session.[193]

E. International monetary issues

371. At its eleventh session, the Trade and Development Board discussed the current international monetary situation and adopted resolution 84 (XI) in paragraph 2 (*b*) of which, *inter alia*, it requested the Secretary-General of UNCTAD to "engage in urgent consultations with the Managing Director of the International Monetary Fund, and in such other consultations as may be necessary with a view to ensuring that the interests of all, especially of the developing, countries are taken fully into account in any further evolution of the international monetary system". The Secretary-General of UNCTAD was also requested, in paragraph 2 (*c*), to carry out studies concerning:

(i) The impact of the current international monetary situation on world trade and development, especially of the developing countries;

(ii) The elements which should contribute to the necessary reform of the international monetary system for the purpose of ensuring

[187] *Debt problems of developing countries: report by the UNCTAD secretariat* (United Nations publication, Sales No. E.72.II.D.12), para. 3.

[188] *Partners in Development: report of the Commission on International Development...*, pp. 166-167.

[189] IBRD, *Supplementary Financial Measures—a study requested by the United Nations Conference on Trade and Development, 1964* (Washington, D.C., 1965).

[190] See *Supplementary Financial Measures: Final report of the Intergovernmental Group on Supplementary Financing as adopted by the Group at its third session, held at Geneva from 30 October to 13 November 1967* (United Nations publication, Sales No. E.68.II.D.3).

[191] *Official Records of the Trade and Development Board, Ninth Session, Supplement No. 6* (TD/B/260/Rev.1).

[192] Transmitted to the Trade and Development Board at its eleventh session by a note of the Secretary-General of UNCTAD (*Official Records of the Trade and Development Board, Eleventh Session, Annexes*, agenda item 7, document TD/B/353).

[193] For the full text of the joint statement, see *Official Records of the Trade and Development Board, Twelfth Session, Supplement No. 2* (TD/B/395), annex II.

that it provides an adequate framework for the maintenance of monetary, exchange and financial stability so as to promote world trade and development, especially of the developing countries.

372. The Board had before it a report by the UNCTAD secretariat [194] dealing with the question of providing a "link" between the creation of Special Drawing Rights and additional development finance. It was decided that this issue would be examined further at the fifth session of the Committee on Invisibles and Financing related to Trade.

373. Pursuant to resolution 84 (XI) a preliminary report, entitled "The international monetary situation: impact on world trade and development" [195] was prepared by the UNCTAD secretariat for consideration by the Committee on Invisibles and Financing related to Trade at its fifth session. The study contained an examination of: the background to the monetary crisis; the measures taken; the impact of the measures on developing countries; the outlook for the future and the stake of developing countries in monetary reform; and the process of decision-making on international monetary questions. The Committee also had before it a note on the Consultation between the Managing Director of IMF and the Secretary-General of UNCTAD under Board resolution 84 (XI).[196]

374. During the Committee's fifth session the Group of 77 made two joint declarations on monetary issues, one of which urged the IMF to expedite its study of the link and the other described action which the Group of 77 were considering in order to enhance the participation of developing countries in decisions on international monetary questions.[197]

Chapter VI

Invisibles (including shipping, ports, insurance, transfer of technology and tourism)

A. Shipping and ports

1. *General review*

375. At its fifth session (22 March-3 April 1971) the Committee on Shipping considered current and long-term trends of shipping problems in the light of the decisions and resolutions taken at earlier sessions of the Committee and at the second session of the Conference. It is appropriate in a report to the Conference on the implementation of such decisions and recommendations to look at the question of implementation very broadly, in addition to maintaining the continuity of the annual record. Hence, in the present report, the question of implementation is viewed in both general terms and the particular context of discussion in the Committee.

376. The starting point for UNCTAD's work on shipping and ports was provided by the Common Measure of Understanding, which was adopted without dissent at the first session of the Conference (see annex A.IV.22 to the Final Act). The area of agreement which this represented has been extended continuously by resolutions adopted at subsequent sessions of the Committee on Shipping and by the Conference at its second session. Taken together, these resolutions represent a considerable advance towards the attainment of general agreement on the objectives of developing countries in the field of shipping and ports.

377. This progress towards agreement has been extremely important, since it reflects a growing understanding of the specific problems of developing countries. At the government level, the ideas expressed at the first session of the Conference, only some of which could be incorporated into the Common Measure of Understanding, have since secured a wide measure of acceptance. The remaining area of disagreement in which the aspirations of developing countries have not yet been fulfilled has narrowed, and on fundamental questions is now limited to only a few points.

378. This heartening progress in the Committee on Shipping has not, however, been matched by progress in implementing agreed decisions and recommendations, even though in some fields there has been substantive progress on the part of developed countries in giving effect to unanimously agreed resolutions. For example, it is most unlikely today that a national shipping line would ever be denied access to the liner conference covering its own trade. However, it would probably be admitted as a second-class member of the conference without participation in the total of the way-port trades on which the economic operation of the other lines depends. Again, within the field of consultation, the maritime countries have emphasized their willingness to enter into consultation with properly constituted representatives of shippers; however, liner companies are not disposed to discuss matters related to the general pattern of freight rates, will not generally empower their representatives to take decisions, and do not like discussing with representatives of Governments unless the latter are participating in their capacity as shippers. In other areas, even this limited degree of progress has not been achieved.

379. As a further example, the consideration which is currently given to the needs of developing countries when freight rates are increased seems no greater than before the first session of the Conference. In many trades liner freight rates were repeatedly raised in the last two years and particularly in 1971. It is probable that the number of liner freight rate increases made in 1971 has no precedent, at least since 1957.[198] In addition, notifications of further increases, to come into effect in 1972, have been made in several instances. To give one example, in July 1971 one liner conference (covering the trade of certain

194 *Official Records of the Trade and Development Board, Eleventh Session, Annexes*, agenda item 7, document TD/B/356.

195 TD/B/C.3/98 and Corr.3-4. A revised version of this report (TD/140) was before the Conference at its third session (for the final text, see *The international monetary situation: impact on world trade and development—report by the secretariat of UNCTAD* (United Nations publication, Sales No. E.72.II.D.18).

196 TD/B/C.3/98/Add.1, circulated to the Conference as document TD/140/Add.1.

197 For the full text of these declarations, see *Official Records of the Trade and Development Board, Twelfth Session, Supplement No. 2* (TD/B/395), annex V.

198 See *Review of Maritime Transport 1970* (United Nations publication, Sales No. E.71.II.D.8) and *Review of Maritime Transport 1971* (United Nations publication, Sales No. E.73.II.D.2).

developing countries known to be in difficulty with regard both to their balance of payments and the continuing marketability of their exports) announced a freight rate increase of 15 per cent with effect from October 1971, following an increase of 10 per cent which had taken place as recently as June 1971, and announced the likelihood of another freight rate increase in 1972. This is perhaps an extreme example, but it illustrates the point that when the conference lines believe they need a freight rate increase or the time is ripe to secure one, the special needs of developing countries appear to be given little more than lip service.

380. Where the initiative for implementation has lain with developing countries, progress in some respects has also been slow. The failure to achieve more widespread consultation between shippers and shipowners is a failure on the part of the developing countries concerned to take the initiative in setting up shippers' councils. To a certain extent this failure is understandable in the light of the knowledge which such countries have of the limited success of consultation machinery in those countries where it has started to operate. Nevertheless, it is only possible to eliminate the weaknesses which have emerged in the consultation process if the consultation bodies are themselves active. So long as no new consultation bodies are established the problem of strengthening and improving procedures will remain difficult to solve.

2. *Consultation machinery*

381. The clearest expression of this problem was in a draft resolution submitted to the Committee on Shipping at the first part of its fifth session by the developing countries, but subsequently withdrawn because of failure to secure unanimity.[199] That session of the Committee had before it a report by the UNCTAD secretariat entitled "Consultation in shipping" [200] which gave details of the progress achieved in the establishment of consultation machinery in developing countries.

382. Representatives of developing countries expressed some disappointment with the progress made in improving or establishing consultation machinery, as experience had not been encouraging. They drew attention to the recent widespread increases in freight rates, which showed that the consultation arrangements were inadequate and ineffective in protecting their countries' interests. They also pointed out that shipping conferences had failed to consult shippers before taking major decisions on freight rate increases.

383. Two major drawbacks to the consultation system were mentioned by developing countries. The first was that "shippers were not provided with data and other information relating to costs and revenues of the conference lines and were not, therefore, able to consult or negotiate with the conferences in a meaningful way".[201] The second was that local representatives of the liner conferences did not have the power to negotiate and take decisions, but had to refer back to conference headquarters.

384. The points of contention in the draft resolution were the treatment of representatives of Governments as guardians of national interests, and of interests not otherwise protected by the consultation procedures in consultations between shippers and shipowners, and the question of the power to be given to local representatives of conferences to take decisions without reference back to head office.

3. *Freight rates*

385. Much of the discussion on long-term trends in shipping at the fifth session of the Committee was related to the above-mentioned increases in freight rates, which had affected the trades of developing countries, despite resolutions adopted previously in UNCTAD calling upon liner conferences to give special consideration to the problems of the developing countries when increasing freight rates. The representatives of developing countries regretted in particular that increases in costs in developed countries, particularly port costs and cargo handling expenses, had been passed on in the form of increases in freight rates to the detriment of their countries, whereas the freight rates took no account of the effect of improvements in the ports of developing countries in lowering the costs of ocean transport. Furthermore, they were not convinced that the freight rate increases of the size which had occurred during the past five years were fully justified by the increases in costs.

4. *Development of merchant marines*

386. In 1964 developing countries, excluding Liberia and Panama, owned 8.1 per cent of the world merchant fleet. This figure was even then regarded as unsatisfactory by developing countries in view of their share of world trade—63.3 per cent of goods loaded and 19.1 per cent of goods unloaded in 1965. By 1970 the share of tonnage owned by the developing countries had fallen to 7.6 per cent, while their share of goods loaded had risen to 64.7 per cent, although for goods unloaded it had fallen to 18.1 per cent.[202] These figures show clearly that the aspirations of developing countries in this respect, fully accepted by all other countries, have not been realized. At its fifth session the Committee on Shipping drew particular attention to the position, as set out in the *Review of Maritime Transport 1970*, which noted the absence of improvement in this regard despite the resolutions of the Committee.

387. The position seems bound to worsen. In 1968, 7.7 per cent of world tonnage on order was for the account of developing countries and by 1970 the proportion had fallen to only 4.5 per cent—a very sharp fall in such a short space of time. The precise reasons for this fall are not known; however, the hardening of credit terms, especially the OECD Understanding on export credits for ships, which came into effect on 1 July 1969, clearly has made it more difficult for developing countries to expand their fleets.

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[199] For the text of the draft resolution, see *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 3* (TD/B/347), annex II (*b*).

[200] TD/B/C.4/78 and Corr.1-2 and Add.1-2.

[201] See *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 3* (TD/B/347), para. 41.

[202] *Review of Maritime Transport 1970...*, tables 3 and 5. The shares of goods loaded and unloaded relate to 1969.

388. Particular attention was paid at the fifth session of the Committee on Shipping to the financing of the purchase of ships. This was because the OECD countries signatories to the 1969 Understanding on export credits for ships had not revised the Understanding in favour of developing countries and indeed announced an increase in the minimum interest rate for shipbuilding credits.

389. It was explained on behalf of the signatories to the OECD Understanding that "the OECD Working Party on Shipbuilding had been earnestly deliberating upon the question. In view of the fact that the definition of 'genuine aid' had to be drawn up in connexion with the broad objectives of the Development Assistance Committee of the OECD, they had found that the problem was a complex one and had encountered a number of difficulties to which no commonly acceptable solution had yet been found. Continuing efforts were being made in OECD to reach such a solution".[203] Representatives of several developed market-economy countries stated that developing countries could apply for aid, but not for the liberalization of commercial credits, on a bilateral basis in respect of ship purchases. Dissatisfied with the answers received from OECD, the developing countries members of the Committee submitted a memorandum on financial assistance for the acquisition of new and second-hand ships by developing countries,[204] which called for generally more favourable credit terms, and for at least 10 per cent of the shipbuilding capacity of developed market-economy countries to be earmarked for the sale of ships to developing countries on a preferential basis.

390. Subsequently, responding to the invitation to signatories of the Understanding contained in resolution 9 (IV) of the Committee on Shipping,[205] the OECD Working Party on Shipbuilding defined more precisely the conditions of implementation of the Understanding in respect of the sale of ships to developing countries. A procedure has been drawn up, the object of which is

to enable the Working Party, in the absence—due to the differences which exist between countries' development assistance financing practices—of an internationally agreed definition of 'genuine aid' which would be adequate for the purpose, to examine expeditiously transactions concerning which advance notice is given . . . (This procedure) in no way prejudges or constitutes a precedent for any recommendations which the Development Assistance Committee may make regarding development assistance policies, in particular concerning the definition of the flow of resources and of official development assistance, or for any decisions taken by intergovernmental bodies affecting the economic relations between developed and developing countries. The procedure may, on the contrary, have to be modified in order to adapt it to any such decisions or recommendations, but pending this, its provisions are as follows:

1. The decision to support, on the grounds of Clause 6, terms more favourable in any way than those laid down in Clause 1, will be considered consistent with the Understanding if an export transaction with a developing country has been, or will be, reported to the Development Assistance Committee as Official Development Assistance (ODA). In this case, it is sufficient for the advance notice given in compliance with Clause 6 to include, in addition to the usual information, the name of the financing organization (or department of organization) in question and the grant element conveyed.

2. More favourable terms than those laid down in Clause 1 may also be supported for transactions with a developing country financed wholly or in part from funds other than ODA. The provisions for advance notice are the same as in paragraph 1. Confirmation should also be provided that the credit is supplied pursuant to an intergovernmental arrangement (to be identified), and that appropriate assurances have been obtained that the ultimate owner resides in the receiving country, is not a non-operational subsidiary of a foreign interest and has undertaken not to sell the ship without his government's approval.

3. The transactions cited in the two paragraphs above will be examined by the Working Party as regards their compatibility with the Understanding, with particular reference to their development purpose and the degree of concessionality of the more favourable terms proposed in each case.[206]

391. After a long period in which no loans for shipping were made, IBRD has established, for 1972, a programme of lending for the purchase of ships which is expected to reach $90 million. The importance of this programme may be judged by comparing with IBRD's programme of lending for port development—a traditional activity—which is expected to reach $140 million in 1972.

392. The Conference, in resolution 12 (II), on the development of merchant marines of developing countries, recommended that the Secretary-General of the United Nations and the Administrator of UNDP should "take appropriate steps to consider the provision of the needed training in the economics and management of shipping". It was recognized that without trained managerial personnel, the economic operation of national merchant marines in developing countries is made more difficult and the expansion of such fleets hindered. The Secretary-General of UNCTAD accordingly raised with the Administrator of UNDP the question of instituting such a course.

393. The Training Course in Shipping Economics and Management, financed by UNDP, opened in Geneva in May 1971 with participants from 30 developing countries, drawn from different regions as follows: Asia (11), Latin America (7), Africa (9), Middle East (2) and Southern Europe (1). The demand for the course far exceeded the available places; in fact, 106 applications were received by the closing date, despite the limitation that the course was to be conducted in English only. It is hoped that it will be possible to repeat the course with modifications as appropriate, based on experience, and for any subsequent courses to make provision for instruction in other official languages of the United Nations.

5. *Conference practices*

394. The subject of Conference practices has been a controversial one from the beginning of the work of the Committee on Shipping. At its fourth session, the Committee had before it a report by the UNCTAD

[203] See *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 3* (TD/B/347), para. 104.

[204] *Ibid.*, annex IV. See in particular paragraphs 8 and 9 of the memorandum.

[205] *Ibid., Tenth Session, Supplement No. 5* (TD/B/301), annex I.

[206] The information required, communicated to the Secretary-General of UNCTAD by the Secretary-General of OECD by letter of 29 July 1971, modifies the Understanding, the text of which was published in appendix III of the UNCTAD secretariat's report "Financing of the purchase of new and second-hand ships by developing countries" (TD/B/C.4/58 and Corr.1 and Add.1), submitted to the Committee on Shipping at its fourth session, in 1970.

secretariat on the liner conference system,[207] which represented the culmination of three years' work on this subject. The Committee unanimously agreed, in resolution 12 (IV), section II, that "further improvements in the liner conference system are necessary and would be in the common interests of shippers and shipowners" and decided, in view of its importance, to transmit the secretariat's report to the UNCTAD Working Group on International Shipping Legislation for its consideration.[208] That Working Group, in a resolution adopted at its second session (February 1971) decided "to consider the subject of liner conference practices at its third session" and expressed the hope that "its work on conference practices will lead to the formulation of internationally acceptable appropriate rules of conduct for liner conferences, which will take full account of the needs of international trade and economic development, in particular of developing countries". [209] The third session of the Working Group was held in January 1972.[210]

395. At its fifth session, the Committee on Shipping took note of the resolution on liner conference practices adopted by the Working Group at its second session. The Committee also had before it a secretariat note [211] concerning the decisions taken in Tokyo, in February 1971, by the Ministers responsible for shipping of the member countries of the Consultative Shipping Group.[212] One of these decisions related to the establishment of a code of conduct for liner conferences to be elaborated jointly by their shipowners. While this recognition by the shipowning countries of the need to regulate the behaviour of conferences must be regarded as a welcome consequence of the activities of the UNCTAD Committee on Shipping over the past years, nevertheless, the matter cannot be left to shipowners' interests for two reasons. First, any agreement affecting the operation of international shipping should properly be the subject of discussion and decision in an international forum and not be left to a group of shipowners to determine. Second, the implementation and policing of such a code of conduct cannot be left to the shipping lines themselves but need to be dealt with in a wider forum.

396. The Committee recommended, in resolution 19 (V),[213] that the Trade and Development Board, at its eleventh session, in its preparation of the provisional agenda for the third session of the Conference, "give due and sympathetic consideration to the inclusion in that agenda of the report of the Working Group on International Shipping Legislation on its third session".

6. *Development of ports*

397. At its fifth session, the Committee on Shipping also discussed the manual prepared by the UNCTAD secretariat on selection, collection and presentation of port information and statistics.[214] The Committee, in resolution 18 (V) stated that it considered that "adequate statistical and other information on port operations is essential for the efficient working of ports and for the formulation of policies concerning improvements and investments in ports and concerning port charges and dues".

398. In the same resolution the Committee took note with appreciation of the manual and commended it to the attention of States members of UNCTAD for transmission to port administrations. It also recommended that the regional economic commissions and UNESOB be invited to support requests for assistance through UNDP for the implementation within their regions of the proposals in the manual.

399. Within the UNCTAD secretariat, work is continuing on studies related to the development of ports, for which the Governments of Denmark, Finland, Netherlands, Norway and Sweden have provided generous financial assistance covering a period of three years. It is expected that two major reports will be presented to the Committee on Shipping at its sixth session. The first will be a study of the factors determining the throughput of cargo at a berth, since the throughput at each berth is a major factor in determining the capacity of a port. The second will be a study of port pricing. This is an important topic because the pricing system adopted is not only a critical element in determining the revenue of the port authority but is also an important determinant of the efficiency of the use of the assets of the port.

400. In respect of ports, implementation action by developing countries has been reasonably satisfactory. There is no doubt that in general the efficiency of ports has increased as a result of efforts made by the developing countries themselves, with the aid of United Nations technical assistance and of loans from IBRD. However, the number of requests received by UNCTAD for technical assistance to improve administrative and other port procedures has been small. This is a disappointing result, because performance in ports could be significantly improved without substantial investments, through administrative and organizational changes made with some technical assistance.

7. *Technological progress in shipping*

401. At the fifth session of the Committee on Shipping preliminary consideration was given to the UNCTAD secretariat's report entitled *Unitization of cargo* [215] when

[207] See *The liner conference system: report by the UNCTAD secretariat* (United Nations publication, Sales No. E.70.II.D.9).

[208] *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 5* (TD/B/301), annex I.

[209] *Ibid., Eleventh Session, Supplement No. 3* (TD/B/347), annex VI, appendix I, B.

[210] The report of the Working Group on its third session (TD/B/C.4/93) was transmitted to the Conference by a note by the UNCTAD secretariat (TD/139). Annex I to the report contains two preliminary drafts of a code of conduct for liner conferences which the Working Group decided to transmit to the Conference.

[211] TD/B/C.4/69.

[212] The members of the Consultative Shipping Group represented at Tokyo were Belgium, Denmark, Finland, France, Federal Republic of Germany, Greece, Italy, Japan, Netherlands, Norway, Sweden and the United Kingdom of Great Britain and Northern Ireland. Since then Spain has joined the Group.

[213] For the text of the resolutions adopted by the Committee on Shipping at its fifth session, see *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 3* (TD/B/347), annex I.

[214] *Port statistics: selection, collection and presentation of port information and statistics—manual prepared by the UNCTAD secretariat* (United Nations publication, Sales No. E.72.II.D.1).

[215] United Nations publication, Sales No. E.71.II.D.2.

it was agreed that the spread of unitization presented serious and complex problems for all countries, particularly developing countries, to which there were no clear-cut and general answers. The potential for securing reductions in freight rates through the unitization of cargo was illustrated in the secretariat's report by the experience in some trades where unitization had been in operation for a number of years. However, in world trade generally the correct pattern of unitization to adopt and its ultimate effects are not yet clear.

402. Noting that there had been insufficient time for policy conclusions to have been developed by Governments in the light of the UNCTAD secretariat's report, the Committee requested the Secretary-General of UNCTAD "to bring its discussion on the subject of unitization of cargo to the attention of the Trade and Development Board at its eleventh session under the item relating to the provisional agenda for the third session of the United Nations Conference on Trade and Development".[216] It also took note of a preliminary statement on unitization of cargo in developing countries prepared by the delegations of developing countries members of the Committee, incorporating amendments of delegations of some other countries members of the Committee.[217] It hoped that this statement, together with the UNCTAD secretariat's report, would facilitate consideration of the subject in the appropriate bodies of UNCTAD.

403. The Committee also considered the possible impact on developing countries of the draft Convention on the International Combined Transport of Goods (TCM Convention). Believing that a thorough study should be made of the specific economic implications of the draft Convention, in particular for developing countries, it recommended, in resolution 17 (V), that "the Economic and Social Council be invited to consider undertaking a study on the economic implications, in particular for developing countries, of the proposed TCM Convention".

404. The Economic and Social Council considered the question at its fiftieth session, when it adopted resolution 1568 (L), requesting that the Secretary-General of the United Nations, "in close co-operation with the United Nations Conference on Trade and Development, the regional economic commissions and the United Nations Economic and Social Office at Beirut, and in consultation with the Inter-Governmental Maritime Consultative Organization, prepare a study on the economic implications, in particular for developing countries, of the proposed Convention on the International Combined Transport of Goods, such study to be conducted with the assistance of experts, after ascertaining the views of Governments of member States on those aspects and questions which in their view require clarification". The resolution also invited the appropriate bodies, including the Committee on Shipping, "to review the matter in the light of the results of the study in order to consider whether the draft Convention on the International Combined Transport of Goods or alternative proposals are ready for international consideration".

8. *International shipping legislation* [218]

405. At its second session, the Committee's Working Group on International Shipping Legislation considered the report on *Bills of lading* prepared by the UNCTAD secretariat.[219] It reviewed the existing rules and practices concerning bills of lading and their effects on cargo interests and considered that some of these rules and practices created uncertainties in the application of laws and the interpretation of terms. It therefore recommended that UNCITRAL be invited to undertake an examination of the rules and practices concerning bills of lading with a view to revising and amplifying the rules as appropriate, so that a new international convention might, if appropriate, be prepared for adoption under the auspices of the United Nations.[220] The UNCITRAL Working Group on International Shipping Legislation, at its second session, endorsed the UNCTAD Working Group's recommendations, and decided to adopt bills of lading as its first subject of study. The UNCITRAL Working Group met in January 1972 to begin substantive work on the subject.

9. *Other matters*

406. In the field of technical assistance, the demands for the services of the first interregional adviser on shipping and ports, appointed on 1 July 1970, have been so heavy that a request was made to, and approved by, UNDP for the services of a second interregional adviser, who took up his duties in May 1971. Both advisers have a full programme, visiting Governments and assisting in formulating requests for technical assistance, for consideration by UNDP. The UNCTAD secretariat has provided substantive support for on-going projects by briefing experts and commenting upon their reports.

407. Despite these demands for the services of the interregional advisers, the amount of technical assistance which has been requested in the field of shipping and ports has been disappointing in relation to the well-known needs of developing countries. There are many countries where shippers' councils have not been created, or where they have been created but are not operating effectively, although their efficiency could be increased with some technical assistance. In other cases countries establishing or expanding their merchant marines have failed to seek expert advice which might have prevented uneconomic purchases. The integration of the knowledge gained through research with the substantive support given to technical assistance projects is an essential feature of the organization of the UNCTAD secretariat's activities in the field of shipping and ports, and it is a matter for regret that more extensive use has not been made of the facilities available.

408. In another area also, namely the terms of shipment, nothing has been done to implement resolution 1 (III) adopted unanimously by the Committee on Shipping.

216 *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 3* (TD/B/347), annex I, "Other decisions taken by the Committee during its fifth session: unitization of cargo in developing countries".

217 *Ibid.*, annex III.

218 See also paras. 394-396 above, on the subject of conference practices.

219 United Nations publication, Sales No. E.72.II.D.2.

220 See *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 3* (TD/B/347), annex VI, appendix I, A.

It was recognized in that resolution that terms of shipment in use were frequently detrimental to the interests of developing countries and the Committee recommended that such countries might seek technical assistance on how best to secure more favourable terms and that the UNCTAD secretariat should provide substantive support for such assistance.[221] No such requests for technical assistance have been received.

409. It is particularly unfortunate that only one request has been received for assistance in a project which would lead to the formulation of an appropriate shipping policy for a group of countries. There are a number of cases in Asia, Africa and Latin America where the trade volume of each individual country is relatively small or the inward and outward flows so unbalanced that action by one country alone would never produce a satisfactory solution to the existing serious problems regarding freight rates and the adequacy of shipping services. In such cases a co-ordinated approach, involving a single project and covering several countries, is much more likely to lead to a successful outcome than approaches by each country individually.

410. Another question in this connexion is that of the establishment within a single country of a co-ordinated shipping policy embracing national shipping lines, the shippers' councils and a freight study unit. No requests for technical assistance to formulate such a co-ordinated policy have been received, whereas there are many countries in need of one. It is only in this way that fundamental questions about the nature of the shipping services required can be asked and answered and that shippers' councils can negotiate with conferences on the basis of sound knowledge both of the present situation and of possible future developments.

10. *Conclusion*

411. Despite the somewhat gloomy picture which has been painted concerning implementation of the decisions and resolutions adopted at the two sessions of the Conference and the five sessions of the Committee on Shipping, the extent of progress achieved in reaching agreement as reflected by the differences between the Common Measure of Understanding arrived at in 1964 and the text on shipping and ports included in the International Development Strategy for the Second United Nations Development Decade, is impressive. At its fifth session the Committee took note with satisfaction of this text and, in resolution 16 (V), expressed the hope that additional measures to attain the objective of the International Development Strategy in the field of shipping and ports would be considered within the work programme of the permanent machinery of UNCTAD. In the same resolution it requested the UNCTAD secretariat "to prepare a background paper indicating possible approaches to put into effect the objectives and policy measures adopted on shipping and ports in the International Development Strategy for the Second United Nations Development Decade, in order to assist, as appropriate, consideration of the subject in UNCTAD bodies".[222]

412. The signposts for the future are clear. What is required is a determination on the part of all countries to see that the course charted is followed with increasing momentum, so that full implementation of the resolutions adopted since the establishment of UNCTAD can be achieved.

B. Insurance and reinsurance

1. *General review*

413. The programme of work of UNCTAD in the field of insurance and reinsurance was formulated on the basis of the recommendations and decisions adopted at the first and second sessions of the Conference and in the light of the discussions on these subjects at the Committee on Invisibles and Financing related to Trade. In addition, work on marine insurance is being carried out partly at the request of the Committee on Shipping and its Working Group on International Shipping Legislation. The ideas embodied in the recommendation contained in annex A.IV.23 to the Final Act adopted at the first session of the Conference and resolution 13 (II) reflect an important advance in the understanding of the specific problems of developing countries in the field of insurance and reinsurance.

414. Discussions and recommendations in UNCTAD bodies have led to a greater consciousness on the part of developing countries of the role of the national insurance industry and of the contribution it can make to the process of economic development. As a result, Governments of those countries have become increasingly aware of the need to regulate insurance operations, develop national insurance markets, establish national insurance and reinsurance institutions and limit foreign exchange outflows arising from insurance transactions.

415. It has become clear that in order to achieve their goals in the field of insurance, Governments of developing countries must, *inter alia,* take the appropriate legislative and administrative actions to ensure more effective supervision of the insurance industry and to regulate the operations transacted on their territories by both national and foreign insurers. Such actions generally include establishing adequate insurance legislation and supervision, and requirements for the collection of statistics from insurance concerns, as well as drawing up precise regulations regarding the evaluation and investment of technical reserves and other insurance guarantees. Some developing countries have already taken such action during the period under consideration and it appears that many others will do so in the near future.

416. Since the second session of the Conference, the UNCTAD secretariat has completed a considerable amount of basic research in these legislative, administrative and statistical fields. As a result, several substantive reports were prepared for consideration by the Committee on Invisibles and Financing related to Trade at its fifth session

[221] *Ibid., Ninth Session, Supplement No. 3* (TD/B/240), annex I.

[222] In response to this request the UNCTAD secretariat prepared two closely interrelated reports which were before the Conference: "Perspectives and problems in world shipping" (TD/102 and Corr.1) and "Implementation of the International Development Strategy in shipping and ports" (TD/103 and Corr.1) (for the final texts of these two reports, see *Shipping in the seventies: report by the secretariat of UNCTAD* (United Nations publication, Sales No. E.72.II.D.15), parts one and two).

(December 1971). These studies covered insurance legislation and supervision in developing countries,[223] insurance statistics [224] and the investment of technical reserves of insurance concerns in the country where the premium income arises.[225, 226]

2. *Insurance legislation and supervision in developing countries*

417. In accordance with a request of the Committee on Invisibles and Financing related to Trade at its first session,[227] the UNCTAD secretariat prepared a study on insurance legislation and supervision in developing countries which contains a comparative analysis of the legislative and supervisory systems of insurance and reinsurance in over 60 developing countries.[228] Besides dealing with the basic aspects of insurance legislation, the study covered comprehensively all the practical and technical aspects of the supervision of insurance operations. These include: (*a*) prior authorization for commencing insurance business, (*b*) legal requirements for carrying on insurance business, (*c*) financial requirements with regard to the share capital, free reserves and technical reserves of insurance concerns, (*d*) investment of funds of insurance concerns, (*e*) technical, commercial and financial management of insurance concerns, (*f*) regulations regarding incoming reinsurance business (acceptances), and (*g*) laws and regulations on the nationalization of the insurance industry. Comparative tables that followed the analytical part of the study gave a concise illustration of some specific insurance problems of the countries concerned. The study also provided examples of typical laws and regulations on insurance and reinsurance, drawn from 18 developing countries. It should be emphasized that the information needed for the study had been obtained by the UNCTAD secretariat directly from Governments of the developing countries and that no similar study had ever been undertaken before.

418. As requested by the Committee in the resolution adopted at its second session,[229] this study by the UNCTAD secretariat was submitted for review and comment to a group of experts, which was convened in Geneva from 19 to 30 July 1971. The report of the Group of Experts [230] was transmitted to the Secretary-General of UNCTAD and was considered, together with the secretariat study, by the Committee on Invisibles and Financing related to Trade at its fifth session. An account of the Committee's deliberations on this subject is contained in its report.[231]

3. *Establishment of a unified international system of insurance statistics*

419. A preliminary study on a system of insurance statistics prepared by the UNCTAD secretariat was submitted for comment to a group of experts convened by the Secretary-General of UNCTAD in Geneva from 7 to 15 October 1970. The resulting revised report, entitled *Establishment of a unified international system of insurance statistics*,[232] was submitted to the Committee on Invisibles and Financing related to Trade at its fifth session, where there was general consensus that the system proposed in the report constituted in principle a sound objective and was comprehensive enough to cover all essential statistical needs of national insurance markets. The Committee therefore expressed the opinion that it should be introduced in all countries which considered that they were in need of a good basic system of insurance statistics.

420. The fact that it has been possible to work out a unified system of insurance statistics reflects a greater realization on the part of all groups of countries of the importance, stressed by the Committee, of "gathering more comprehensive, meaningful and internationally comparable data" in the field of invisible transactions.[233] The Group of Experts on Insurance Statistics expressed similar feelings in its letter dated 15 October 1970 addressed to the Secretary-General of UNCTAD:[234] "The great importance of statistics in insurance can hardly be doubted. More than any other economic activity, insurance depends on the quality of statistics, since statistics are both a method of retrospective computation and the raw material basic to any operation. While this observation is of prime importance so far as each insurance undertaking is concerned, it is no less so with respect to an insurance market as a whole . . ."

4. *Investment of technical reserves of insurance concerns*

421. Following the recommendation contained in annex A.IV.23 to the Final Act of the first session of the Conference that "the technical reserves and guarantee deposits of insurance and reinsurance companies or institutions should be invested in the country where the premium income arises", the Committee on Invisibles and Financing related to Trade, at its second session, took note of the recommendations made by the Expert Group on Reinsurance in its report on reinsurance policy and

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[223] TD/B/C.3/84 and Corr.1 and Add.1-2 (for final text, see *Insurance legislation and supervision in developing countries* (United Nations publication, Sales No. E.72.II.D.4), part two).

[224] *Establishment of a unified international system of insurance statistics: report by the UNCTAD secretariat* (United Nations publication, Sales No. E.72.II.D.9).

[225] TD/B/C.3/87 and Corr.1.

[226] See also "Review of developments in the field of insurance in developing countries during the period 1968-1970: report by the UNCTAD secretariat" (TD/B/C.3/99). This report confirms that, as indicated in the present report, many of the developments have been in accordance with UNCTAD recommendations.

[227] See *Official Records of the Trade and Development Board, Third Session, Supplement No. 3* (TD/B/42/Rev.1), annex I (*b*).

[228] See foot-note 223 above.

[229] See *Official Records of the Trade and Development Board, Fifth Session, Supplement No. 3* (TD/B/118/Rev.1), annex I, section A, paragraph 4.

[230] "Insurance legislation and supervision in developing countries: report of the Group of Experts" (TD/B/C.3/90) (for final text, see *Insurance legislation and supervision in developing countries...*, part one).

[231] See *Official Records of the Trade and Development Board, Twelfth Session, Supplement No. 2* (TD/B/395), chap. I, paras. 1-38.

[232] See foot-note 224 above.

[233] *Official Records of the Trade and Development Board, Third Session, Supplement No. 3* (TD/B/42/Rev.1), annex I (*b*), "Programme of work in the field of invisibles—statistics of international services transactions".

[234] *Establishment of a unified international system of insurance statistics: report by the UNCTAD secretariat...*, annex I.

operations in developing countries,[235] and commended them to the attention of Governments of member States and of the insurance industry with a view to their considering the possibility of implementing them.[236] In a report entitled "Investment of technical reserves of insurance concerns in the country where the premium income arises" prepared for the fifth session of the Committee, the UNCTAD secretariat stated that "the developing countries as a whole appear still to be a long way from achievement of the objective set in the recommendation of the first session of UNCTAD (1964) that the technical reserves of their insurance concerns should be invested locally" and that the existing situation was "to be deplored".[237] The report also dealt with the problems arising in the implementation of this very important recommendation of UNCTAD and made several suggestions which were received favourably by the Committee and most of which were the subject of a general consensus.

5. *Other fields of activity*

(a) *Studies and research*

422. In accordance with its programme of work, the UNCTAD secretariat is expanding its research activities to include other aspects of insurance that are of particular importance to developing countries and hopes to complete soon two further basic studies, one of which will deal with marine insurance and the other with reinsurance problems in developing countries. At its fourth session, the Committee on Invisibles and Financing related to Trade decided that the UNCTAD secretariat should undertake a study on marine insurance, with special reference to its impact on the balance of payments of developing countries, to serve the requirements both of the Committee and of the Working Group on International Shipping Legislation established by the Committee on Shipping.[238] As to the study on reinsurance problems of developing countries, the Committee at its second session had expressed its appreciation for the recommendations of the Expert Group on Reinsurance, including the suggestion that the UNCTAD secretariat undertake such a study, with a view to exploring the possibilities of effecting a reduction in the cost of reinsurance and improvement in terms of treaties.[239]

(b) *Technical assistance*

423. Technical assistance in insurance by UNCTAD generally aims at implementing UNCTAD recommendations in this field. Since UNCTAD became a participating organization of UNDP the developing countries have increasingly realized the advantages of new arrangements for technical assistance in the fields of insurance and reinsurance within the United Nations system. UNCTAD is presently providing support for several projects in developing countries which are aimed at the establishment or strengthening of national insurance markets either through the creation of national insurance and reinsurance institutions or through the organization of insurance supervisory services. In a number of cases, the UNCTAD secretariat is participating in feasibility studies for the setting up of regional projects among developing countries. In this connexion an Interregional Seminar on Insurance and Reinsurance was held in Prague from 20 to 30 October 1969, in co-operation with UNDP and the Government of Czechoslovakia. It was attended by 56 participants from 53 developing countries—mainly senior government officials concerned with insurance and executives from the insurance industry—and provided a wide forum for discussions on many important problems of insurance and reinsurance in the context of the objectives of economic development and of building and strengthening national insurance markets in developing countries. A report by the UNCTAD secretariat on the seminar, containing a succinct account of the main points of the discussion, was submitted to the Committee on Invisibles and Financing related to Trade at its fifth session.[240]

424. It is planned that, in pursuit of UNCTAD objectives in insurance and reinsurance, regional meetings of insurance and reinsurance supervisors (or commissioners) will be organized in the coming years. The first such meeting, for Asia and the Far East, will be convened in July 1972 under the joint auspices of UNCTAD and ECAFE.

C. Transfer of technology

425. A comprehensive work programme in the field of transfer of technology, to be carried out on a continuing basis by the UNCTAD secretariat, was adopted only as recently as June 1971, when the Intergovernmental Group on Transfer of Technology held its organizational (first) session.[241] For this reason, the present report concentrates mainly on the steps taken to determine the nature and scope of UNCTAD's responsibilities in this field.

426. Problems connected with transfer of technology have been of concern to UNCTAD since the first session of the Conference.[242] Institutional machinery, however, was not established until the tenth session of the Trade and Development Board, when agreement was reached, in resolution 74 (X), that the Board should establish an Intergovernmental Group on Transfer of Technology with four main functions: to make a comprehensive identification of the obstacles and problems limiting the transfer of operative technology to developing countries; to consider possibilities for the development of national and international action to overcome these obstacles; to

[235] TD/B/C.3/29.

[236] See *Official Records of the Trade and Development Board, Fifth Session, Supplement No. 3* (TD/B/118/Rev.1), annex I. The recommendations of the Expert Group appear in the appendix to that annex.

[237] TD/B/C.3/87, para. 39.

[238] *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 4* (TD/B/318), paras. 91-92.

[239] *Ibid., Fifth Session, Supplement No. 3* (TD/B/118/Rev.1), annex I, A, para. 1 and appendix para. 29.

[240] See "Interregional seminar on insurance and reinsurance: report by the UNCTAD secretariat" (TD/B/C.3/83).

[241] For details of the work programme, see the report of the Intergovernmental Group (*Official Records of the Trade and Development Board, Eleventh Session, Annexes*, agenda item 7, document TD/B/365), annex I, appendix.

[242] For an account of UNCTAD's activities up to and including the ninth session of the Trade and Development Board, see *Official Records of the Trade and Development Board, Tenth Session, first, second and third parts, Annexes*, agenda item 14 (*d*), document TD/B/315, paras. 8-18.

prepare a programme of work taking into account, *inter alia,* documentation submitted by the UNCTAD secretariat; and to make suggestions regarding the performance of UNCTAD's functions (set out in paragraph 1 of the resolution) within the limits of its competence. The Board also decided, in paragraph 6 of the resolution, that the work done by the Group would be the subject of a major review after two substantive sessions, in the light of which it would decide on further work in this field.

427. The resolution provides for a membership of 45 States in the Intergovernmental Group. During elections held at the third part of the Board's tenth session, on 24 May 1971, 42 States were elected. Three seats remain to be filled by countries in list B of the annex to General Assembly resolution 1995 (XIX).

428. Under paragraph 7 (*b*) of resolution 74 (X), in which the Board requested the Secretary-General of UNCTAD "to seek from the Governments of States members of UNCTAD information about specific problems encountered in the transfer of technology to developing countries and steps taken to overcome them", the secretariat had begun to collect relevant information prior to the first session of the Intergovernmental Group. Questionnaires were despatched to Governments of all States members of UNCTAD. The questionnaire addressed to the developing countries included questions on access to technology, the 'technology package' problem, foreign exchange costs of imported technology, limitations on competition, appropriateness of the technology which is transferred, and many issues concerning the enforcement and control of contracts relating to the transfer of technology as well as the policies and institutions adopted to deal with such contracts. The corresponding questionnaires to the technology-supplying countries requested mainly information regarding institutions and policies in such countries concerning the transfer of technology.[243]

429. The organizational (first) session of the Intergovernmental Group was held from 14 to 21 June 1971. It took place in an atmosphere of excellent co-operation among all members and led to the adoption of a programme of work (see para. 425 above). The programme described four main areas for UNCTAD's activities: channels and mechanisms for the transfer; costs of the transfer; access to the technology; and trade and the transfer of technology. It also specified two subsidiary areas in which UNCTAD should endeavour to co-operate with, and supplement the work of, other institutions: substitution of domestic for imported technology and choice of technology.

430. The Group stressed the importance of a methodological note, to be prepared by the UNCTAD secretariat, which would draw attention to the benefits, as well as the costs, of technology transfer and would pay due regard to obstacles on the sides of both demand and supply. The note should provide a basis for a series of country studies to be undertaken by the secretariat, in which attention would also be paid to the particular problems of absorptive capacity in the developing countries, and especially in the least developed among them.

[243] The text of the questionnaires, and the accompanying *note verbale* of the Secretary-General of UNCTAD dated 29 April 1972, were transmitted to the Intergovernmental Group on Transfer of Technology by a note by the UNCTAD secretariat (TD/B/AC.11/4).

431. The Group was assured that every effort would be made by the secretariat to avoid unnecessary duplication of work with that done in other bodies of the United Nations system and within UNCTAD and that its work would be action-oriented.[244]

432. At its eleventh session, the Trade and Development Board took note of the report of the Intergovernmental Group. In decision 83 (XI), it included transfer of technology as a separate item on the provisional agenda for the third session of the Conference.

D. Tourism

433. Of all the items entering into world trade, on merchandise or invisible account, world receipts from international tourism have experienced one of the fastest rates of growth during the 1960s. From the beginning, the Conference has recognized the importance for many developing countries of the contribution that receipts from tourism can make to their balances of payments and in general to their economies. At both its first and second sessions it adopted a series of recommendations, addressed to both developed and developing countries and to international agencies, designed to promote the development of tourism and covering in particular financial and technical assistance, air fares, vocational training and the integration of tourism into economic planning.[245] The Committee on Invisibles and Financing related to Trade at its first session adopted a programme of work in tourism which emphasized the need for research into the economic aspects of tourism and the formulation of appropriate policies. At its fifth session it considered a report by the UNCTAD secretariat which, together with a series of four country studies on the development of tourism (in Greece, Israel, Mexico and Yugoslavia), attempted to throw some light on the economic significance of tourism, especially for developing countries, and discussed some of the principal elements to be taken into account in the planning and development of tourism.[246] The Committee transmitted to the Conference a draft resolution on tourism submitted by developing countries.[247]

434. Even in its economic aspects tourism is of concern to several other organizations inside and outside the United Nations system. Of particular relevance are the activities of the ILO and UNESCO, and more recently, of ICAO, as well as those of IBRD and the regional development banks. In addition, ECA and ECAFE have made

[244] Paragraph 49 of the Intergovernmental Group's report (see foot-note 241 above).

[245] Recommendation contained in annex A.IV.24 to the Final Act adopted by the Conference at its first session, and resolution 8 (II).

[246] TD/B/C.3/89 and Corr.1-2. (For the final text, see *Elements of tourism policy in developing countries: report by the UNCTAD secretariat* United Nations publication—Sales No. E.73.II.D.3). The country studies were circulated to the Committee as documents TD/B/C.3/89/Add.1-4. The studies, together with the UNCTAD secretariat's *Guidelines for tourism statistics* (United Nations publication, Sales No. E.71.II.D.9) are summarized in "Tourism and developing countries: report by the UNCTAD secretariat" (TD/142 and Corr.1) in *Proceedings of the United Nations Conference on Trade and Development, Third Session,* vol. III, *Financing and Invisibles...*

[247] *Official Records of the Trade and Development Board, Twelfth Session, Supplement No. 2* (TD/B/395), annex I, B.

studies and carried out other activities within their respective regions. In Latin America, OAS has a Division for Tourism Development, and, in co-operation with ECLA, is the intergovernmental body responsible for tourism in the Latin American region.[248] The Governments of the Latin American countries, supported by those of North America and acting through OAS and in co-operation with IUOTO, have launched a campaign to promote tourism to the region and have declared 1972 "Tourism Year of the Americas". (Similarly, 1970 was declared African Tourism Year and the General Assembly declared 1967 International Tourist Year). With the support of UNDP, the ILO is establishing institutes in various developing countries for the training of executive, managerial and other local personnel that is badly needed by the rapidly expanding tourist industry, and UNESCO is responsible for projects relating to sites of cultural and archaeological interest in the broader context of tourism. Besides its technical assistance for airports, ICAO has undertaken regional studies of air passenger travel and recently decided to investigate the possibility of carrying out studies of the factors determining air transport fares and rates and the machinery for establishing them.

435. A relatively new feature of the lending policy of the World Bank Group, and also of the regional development banks, is that loans for purposes related to tourism are no longer restricted to the infrastructure component of projects or to participation in development finance companies or tourism development corporations, but extend to participation in particular hotel projects and (more recently) in development programmes for a specific region or locality (tourist resorts or complexes).

436. Developed countries have continued their programmes of financial and technical assistance related to tourism, including hotel and airport construction.[249]

437. IUOTO, a non-governmental body whose members are national tourist organizations, is in the process of transforming itself into the intergovernmental World Tourism Organization (WTO). The General Assembly, in resolution 2802 (XXVI) recommends that steps should be taken "as appropriate and with due regard to procedures of the United Nations Development Programme, to enable the designation of the World Tourism Organization as a participating and executing agency of the Programme in order to assist that organization in carrying out its functions related to the development of tourism". In the view of the Assembly, the fundamental aim of WTO "shall be the promotion and development of tourism and particular attention shall be paid to the interests of the developing countries in this regard" and WTO should have "the decisive and central role in the field of world tourism in co-operation with the existing machinery within the United Nations". The prospective transformation of IUOTO will thus add a new dimension to international efforts, supported by the United Nations, to promote tourism in developing countries.

Chapter VII

The least developed and land-locked developing countries

A. The least developed among the developing countries[250]

1. *Action within UNCTAD up to the end of 1970*

438. From the very beginning of UNCTAD it has been recognized that among the developing countries there are some which, being at a very early stage of economic development, are not in a position to derive full benefit from measures taken in favour of developing countries as a whole. These least developed among the developing countries are therefore in need of special measures to accelerate their rate of development and to enable them to derive equitable benefits from the implementation of UNCTAD recommendations and resolutions.

439. In recognition of the special problems of these countries, the Conference adopted, at its first session (Geneva, 1964), General Principle Fifteen, which reads as follows:

> The adoption of international policies and measures for the economic development of the developing countries shall take into account the individual characteristics and different stages of development of the developing countries, special attention being paid to the less developed among them, as an effective means of ensuring sustained growth with equitable opportunity for each developing country.

440. It was, however, at the second session of the Conference, at New Delhi in 1968, that the problem of the least developed countries received more detailed consideration. The Conference adopted unanimously resolution 24 (II) recognizing the special problems that confront the least developed among the developing countries in their efforts to accelerate their economic and social improvement, and the need to provide effective and concrete measures that could ensure their sustained economic growth and enhance their ability to benefit fully from the general measures in favour of all developing countries. At the same time it was agreed that:

> . . . it should not be the objective of any special measures taken in favour of the least advanced developing countries to create discrimination among the developing countries but to ensure due benefits for the least developed among them so that all developing countries can gain equitable benefits.

441. In the operative part of resolution 24 (II) it was recommended, *inter alia*, that special measures in favour of those countries should be devised in all fields within the competence of UNCTAD, in particular commodity

248 For a detailed account of the activities of United Nations bodies in the field of tourism, see the reports of the Secretary-General of the United Nations on the review of the activities and programmes of the United Nations system of organizations for the development of tourism (E/4653 and Add.1-4) and on co-operation and relationships between the United Nations and IUOTO (E/4861 and Add.1). The Secretary-General of the United Nations is submitting to the Economic and Social Council at its fifty-third session a further report, including, as requested in General Assembly resolution 2802 (XXVI), a revision of the second of the reports mentioned above.

249 For further detail on the financing of investment in facilities for tourism, including finance from multilateral agencies, see chapter V, section C, 2 of *Elements of tourism policy in developing countries: report by the UNCTAD secretariat...*

250 See also the action programme presented by the Secretary-General of UNCTAD in connexion with item 11 (*a*) of the agenda for the third session of the Conference (TD/135 and Supp.1). (See p. 227 below.)

policy, manufactures and semi-manufactures, development finance, regional economic integration, invisibles and shipping, trade promotion and special technical and financial assistance. The Secretary-General of UNCTAD was requested to undertake studies of different aspects of the special problems of least developed countries with a view to devising effective measures in their favour. He was further requested to continue studies relative to the identification of the least developed countries and to examine the various approaches to this problem with the object of suggesting practical guidelines to be followed in the process of identification. The international bodies responsible for particular measures designed to benefit developing countries generally were invited to design the form of, and elaborate on, the special measures which might be taken in favour of the least developed countries and to identify such countries in the context of each measure concerned, taking fully into account the identifying criteria relevant to the policy measure in question.

442. Under this resolution the Trade and Development Board considered, at its ninth session, the question of the least developed countries. After examining a study prepared by the secretariat on the identification of the least developed countries,[251] the Board, during the second part of its ninth session (15-23 September 1969), adopted resolution 63 (IX) inviting the Secretary-General of UNCTAD:

> ... to submit at the third part of the ninth session of the Trade and Development Board the studies requested in paragraph 3 (*b*) of Conference resolution 24 (II) with a view to devising effective measures that would enable the least developed among the developing countries to benefit from the Second United Nations Development Decade; to this end the Secretary-General may appoint a small group of experts serving in their personal capacity and selected in consultation with the Executive Secretaries of the regional economic commissions and the Director of the United Nations Economic and Social Office in Beirut.

443. Under resolution 63 (IX), the Secretary-General of UNCTAD convened a small Group of Experts which met from 24 November to 5 December 1969 at Geneva and prepared a report on special measures in favour of the least developed among the developing countries.[252]

444. Broadly speaking, the experts concerned themselves with the kind of measures that could be taken in favour of the least developed countries in all areas within the competence of UNCTAD, following closely the guidelines laid down in Conference resolution 24 (II). The report of the Group of Experts was considered by the Trade and Development Board during the third part of its ninth session, held from 2-16 February 1970. On the basis of this report, the Board adopted resolution 65 (IX), requesting that:

> ... each of the main committees and the other relevant subsidiary bodies of UNCTAD consider the problems of the least developed among the developing countries and, taking into account the report of the group of experts, submit concrete proposals to the Board on what effective measures might be taken within their fields of competence.

445 In the light of this resolution the problem of the least developed countries was taken up by UNCTAD's main committees and other organs during 1970. Thus, the Committee on Shipping, at its fourth session (20 April-4 May 1970), adopted resolution 13 (IV) on special measures in favour of the least developed among the developing countries.[253] In that resolution, the Committee recommended that special efforts should be made to establish promotional freight rates for the export products of the least developed among the developing countries and that all possible technical and financial assistance be provided expeditiously by developed countries, international financial institutions, and United Nations bodies and specialized agencies so as to enable these countries to undertake projects for reducing the costs of their maritime transport, taking into account the special problems of the land-locked countries.

446. A draft resolution on special measures for the least developed countries was submitted by a number of developing countries to the Committee on Commodities at its fifth session (7-18 July 1970). As there was not sufficient time for the necessary consultations, this draft resolution could not be considered and was withdrawn.[254]

447. Similarly, the Committee on Invisibles and Financing related to Trade adopted, at its fourth session (20-31 July 1970), resolution 4 (IV), recommending that, within the framework of their aid policies and programmes, the developed countries members of UNCTAD, and competent international institutions, in extending financial and technical assistance to the least developed among the developing countries, give urgent consideration to the needs of these countries for development finance on particularly concessional terms, to affording them priority access to funds available on grant-like terms for technical assistance, and also to the difficulties experienced by these countries in meeting the local counterpart requirements in multilateral and bilateral technical assistance and when necessary, modifying and, if possible, waiving certain of these requirements.

448. The Special Committee on Preferences, during the second part of its fourth session (21 September-12 October 1970), adopted agreed conclusions which included a section on special measures in favour of the least developed among the developing countries.[255] Among other things, it is stated that the preference-giving countries "will consider, as far as possible, on a case-by-case basis, the inclusion in the generalized system of preferences of products of export interest mainly to the least developed among the developing countries and, as appropriate, greater tariff reductions on such products. "The preference-giving countries declare that escape-clause measures would remain exceptional and would be decided on only after due account has been taken, in so far as their legal provisions permit, of the interests of the least developed among the developing countries." Other measures

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[251] "Identification of the least developed among the developing countries: report by the UNCTAD secretariat" (*Official Records of the Trade and Development Board, Ninth Session, first and second parts, Annexes,* agenda item 15, document TD/B/269).

[252] "Report of the Group of Experts on special measures in favour of the least developed among the developing countries" (*Official Records of the Trade and Development Board, Ninth Session, third part, Annexes,* agenda item 15, document TD/B/288).

[253] *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 5* (TD/B/301), annex I.

[254] *Ibid., Supplement No. 3* (TD/B/317), para. 75.

[255] *Ibid., Supplement No. 6A* (TD/B/329/Rev.1), part one, section V.

were also agreed with a view to enabling these countries to derive additional benefits from the generalized system of preferences. These include the identification of products for which the generalized system of preferences opens up new or improved export possibilities for the least developed countries, market studies for such products and assistance in the establishment or improvement of export promotion services.[256]

449. Pursuant to Board decision 75 (S-IV), to which the text of the Special Committee's agreed conclusions is annexed, the Secretary-General of UNCTAD sent a *note verbale* on 14 April 1971 to all specialized agencies and other intergovernmental bodies participating in the work of UNCTAD and to a number of other intergovernmental organizations concerned with trade expansion, economic co-operation and regional integration among developing countries, requesting information on the measures which these organizations might have taken, or might have under consideration, with a view to contributing to the achievement of the objectives of the GSP, as set out in Conference resolution 21 (II), in particular with regard to special measures in favour of the least developed among the developing countries. The text of the *note verbale*, a summary of the replies and relevant extracts from them are to be found in the report by the UNCTAD secretariat on special measures in favour of the least developed among the developing countries in relation to the generalized system of preferences, submitted to the Board at its eleventh session.[257]

450. The Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries, which met at Geneva from 2-19 November 1970, adopted conclusions which include references to the least developed countries.[258] It is therein stated that the least developed countries in an economic integration grouping may require special treatment designed to allow them to receive a satisfactory share in the benefits of trade expansion and economic integration. Consequently, members of such economic groupings may grant such special treatment to their least developed members. Developed countries and international agencies should, upon request, consider the support they could give to concrete proposals to this end. It is further stated that within the framework of the aid programmes of developed market-economy countries and socialist countries, special assistance could be directed, *inter alia*, to projects located in, or likely to be of special benefit to, the least developed countries.

451. During the first part of its tenth session (26 August-24 September 1970), the Trade and Development Board considered once more the question of the least developed countries. Reviewing the progress made by the main Committees and other subsidiary organs, the Board adopted resolution 68 (X), in paragraph 3 of which it decided:

> ... to establish within UNCTAD an *Ad hoc* Group of Experts, designated in their personal capacity, to assist the Board and its permanent organs until the eleventh session of the Board in all matters concerning the special measures in favour of the least developed among the developing countries.

The report of this *Ad hoc* expert group[259] was submitted to the Trade and Development Board at its eleventh session. (See paras. 462-467 below.)

2. *Action by the General Assembly at its twenty-fourth and twenty-fifth sessions and by the Committee for Development Planning*

452. The problem of the least developed countries has also been considered by the General Assembly of the United Nations, largely in response to resolutions adopted by the Trade and Development Board. Thus, in resolution 63 (IX) the Board called for the appointment of the first Group of Experts and invited the General Assembly:

> ... to consider urgently how other organs of the United Nations system could, within their respective fields of competence, carry out a comprehensive examination of the problems of the least developed among developing countries and contribute to a solution of these problems by devising effective measures to enable these countries to benefit from the Second United Nations Development Decade; to this end a course of action similar to that which UNCTAD proposes to undertake ... could be appropriate.

453. In the light of this resolution, the General Assembly, at its twenty-fourth session, adopted on 13 December 1969 resolution 2564 (XXIV) in which it:

> *Affirms* the need to alleviate the problems of the least developed among the developing countries with a view to enabling them to draw full benefits from the Second United Nations Development Decade;
>
> *Requests* the Secretary-General, in consultation with the heads of the specialized agencies and the regional economic commissions, the Committee for Development Planning, the group of experts appointed under resolution 63 (IX) of the Trade and Development Board and any other appropriate consultants, to carry out a comprehensive examination of the special problems of the least developed among the developing countries and to recommend special measures, within the framework of the Second United Nations Development Decade, for dealing with those problems.

454. Under this resolution, the Secretary-General of the United Nations invited the Committee for Development Planning to give consideration to the problems of the least developed among the developing countries. The Committee took up this matter at its sixth session (5-15 January 1970) and decided to establish a working group consisting of five of its members. The Working Group met at Geneva from 23 to 26 March 1970; representatives of the United Nations organizations and specialized agencies were also present at that meeting. At the conclusion of the meeting, the Working Group adopted a report, for consideration by the Committee for Development Planning, which dealt with the problem of the identification of the least developed countries and also with special measures to be taken in favour of those countries.[260]

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[256] *Ibid.*, loc. cit., paras. 2, 3 and 6.

[257] TD/B/372 and Corr.1 and Add.1.

[258] *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes*, agenda item 11, document TD/B/333, chap. V.

[259] *Report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries* (United Nations publication, Sales No. E.71.II.D.11).

[260] "Special measures to be taken in favour of the least developed among developing countries: report of a Working Group of the Committee for Development Planning" (E/AC.54/L.36 and Corr.1).

455. In accordance with the request of the Working Group to examine the data cited in its report with a view to removing errors, if any, to bringing the data up to date and to adding, to the extent possible, data for additional countries, the Centre for Development Planning, Projections and Policies, of the Department of Economic and Social Affairs of the United Nations Secretariat prepared a note with supplementary information regarding identification of the least developed among developing countries.[261] Another note, drawing upon the ideas contained in the report of the Working Group, was prepared by the Centre for consideration by the Committee for Development Planning.[262] This note examined more recent information on certain key variables that might be of use to the Committee for Development Planning in connexion with its discussion on identification of these countries and for making relevant recommendations to the Economic and Social Council.

456. The Committee for Development Planning, at its seventh session, held at Geneva from 22 March to 1 April 1971, examined, *inter alia*, the special problems of the least developed among the developing countries with a view to recommending criteria for identifying these countries as well as special measures for dealing with their problems.[263] Although this examination was carried out in response to General Assembly resolution 2564 (XXIV), account was also taken of General Assembly resolutions 2626 (XXV) and 2724 (XXV), in which the importance of these questions was re-emphasized.

457. The Committee, having considered the report of the Working Group and the two notes submitted by the United Nations Secretariat, drew up a list of 25 countries which it suggested "could be classified among the least developed among developing countries." [264] These countries were identified as least developed on the basis of three main criteria: *per capita* GDP of $100 or less; share of manufacturing in total GDP of 10 per cent or less; and a maximum of 20 per cent of literate persons in the age group of 15 years and more. In addition, certain countries constituting borderline cases were also considered as eligible for inclusion. Moreover, certain countries for which relevant data were not available (Bhutan, Maldives, Sikkim and Western Samoa) were also judged by the Committee to merit inclusion, the absence of data for such countries being, in fact, a reflection of their low level of development.

458. The Committee recommended that, whatever the list of least developed countries adopted for the Second United Nations Development Decade, it should be reviewed and, if necessary, revised on the occasion of the mid-Decade review in 1975. It also reiterated that "the existence of a general list of least developed countries for the Decade would not rule out the use of different classifications for special purposes. ... In specific areas, the competent organizations of the United Nations system and other intergovernmental bodies should elaborate their own criteria and procedures for identification and the appropriate measures needed within their respective fields of competence".[265]

459. As for special measures in favour of the least developed countries, the Committee recommended that these should be supplementary to the general measures addressed to all developing countries, if the least developed countries were to benefit significantly from the Strategy for the Second Development Decade. The Committee recommended specific measures in the fields of technical co-operation, financial assistance and international trade and regional co-operation.

460. At its twenty-fifth session, the General Assembly considered once more the question of the least developed countries, and adopted on 15 December 1970 resolution 2724 (XXV) on identification of the least developed among the developing countries. In this resolution, the Assembly affirmed the urgency of identifying the least developed among the developing countries, invited the Economic and Social Council, the Trade and Development Board and other appropriate international bodies to accord high priority to the question of identification, and requested the Secretary-General to report to the General Assembly at its twenty-sixth session on the progress made towards the identification of these countries.

461. At the same session, on 24 October 1970, the General Assembly adopted resolution 2626 (XXV) on the International Development Strategy for the Second United Nations Development Decade. Sub-section 5 of Section C of the Strategy ("Policy measures"), is devoted to special measures in favour of the least developed among the developing countries and consists of the text prepared by the Trade and Development Board as part of the contribution of UNCTAD to the drafting of the Strategy.[266] It states (in paragraph 56) that "Every possible effort will be made to ensure the sustained economic and social progress of these countries and to enhance their capacity to benefit fully and equitably from the policy measures for the Decade" and that (paragraph 57) "Concerted efforts will be made early in the Decade by developed countries and international organizations through their programmes of technical assistance and through financial aid, including grants and/or exceptionally soft loans, to meet the needs of the least developed countries and designed to enhance their absorptive capacity." Reference is also made to measures

[261] E/AC.54/L.36/Add.1 and Corr.1-2.

[262] "Questions relating to the least developed among developing countries: identification of the least developed among developing countries—note submitted by the Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat" (E/AC.54/L.40 and Corr.1).

[263] See the report of the Committee for Development Planning on its seventh session (*Official Records of the Economic and Social Council, Fifty-first session, Supplement No. 7* (E/4990)), chap. II.

[264] *Ibid.*, para. 66. The list comprises the following countries:

Africa: Botswana, Burundi, Chad, Dahomey, Ethiopia, Guinea, Lesotho, Malawi, Mali, Niger, Rwanda, Somalia, Sudan, Uganda, United Republic of Tanzania and Upper Volta.

Asia and Oceania: Afghanistan, Bhutan, Laos, Maldives, Nepal, Sikkim, Western Samoa and Yemen.

Latin America: Haiti.

The Committee considered only "States Members of the United Nations and the self-governing countries associated with them".

[265] *Ibid.*, para. 70.

[266] Decision 64 (IX), section B, VIII.

to be taken in their favour in the field of primary commodities, manufactures and semi-manufactures, the GSP and regional co-operation.

3. *Further UNCTAD action: the second Expert Group, the eleventh session of the Board and the third Expert Group*

462. The UNCTAD *Ad hoc* Group of Experts on special measures in favour of the least developed among the developing countries met at Geneva from 26 April to 5 May 1971 (see para. 451 above). The Group considered the report of the Committee for Development Planning referred to above and the relevant resolutions adopted by the General Assembly, UNCTAD and the regional economic commissions.

463. The Group expressed its belief that discussion of special measures for the least developed countries could be clarified by reference to the following three separate categories:

(*a*) The special measures needed for the "*hard-core*" *least developed* countries;

(*b*) The special measures which may be needed to assist countries which are *relatively disadvantaged* in the context of a specific policy measure or sector; and

(*c*) The special measures needed for the *relatively less developed* countries within a particular geographical region or regional grouping of countries.[267]

464. The Group concluded that the tentative list of 25 countries proposed by the Committee for Development Planning could provide useful guidance to UNCTAD and could serve the purpose of a rough definition of the hard core least developed countries and as a starting point for special international action in their favour. However, the Group felt that the list must be interpreted "in a flexible way, and in accordance with the specific circumstances surrounding its use at any given time". [268]

465. In the formulation and execution of special measures for the hard core least developed countries the Group felt that several general principles should apply: (*a*) such measures should be *additional* to those required to fulfil the general objectives of the International Development Strategy for all developing countries; (*b*) the measures should not harm the development efforts of other developing countries; and (*c*) the new attention called for regarding the problems of the least developed countries should not divert attention from other major development problems.[269]

466. In chapter III of its report, the Expert Group reviewed basic policy issues facing hard core least developed countries in improving their absorptive capacity, modernizing agriculture, establishing basic development institutions and infrastructure, and developing human resources, and in their transition from a subsistence to an exchange economy. The Group also emphasized the need for a country-by-country approach, and the beneficial effects that could be derived from regional integration and economic co-operation.

467. In chapter IV of its report, the Expert Group presented a "framework for action", covering a wide variety of possible actions on behalf of least developed countries. It recommended that consideration be given to the establishment by the Trade and Development Board of an intergovernmental working group to deal with the formulation of an action programme at the country level for the least developed countries within the framework of arrangements to be made for the review and appraisal of progress in the Second United Nations Development Decade. This intergovernmental group might be assisted by a group of experts, appointed in their personal capacity, entrusted with the formulation, development and review of policies and projects in favour of the least developed countries. The Group recommended that other agencies in the United Nations system should consider adopting a similar course of action. It also suggested that particular attention be given to the establishment of a special fund in favour of the least developed countries, probably along the lines of existing trust funds.

468. The Trade and Development Board considered the report of the Group at its eleventh session (August-September 1971), and adopted resolution 82 (XI), in which, *inter alia*, it requested the Secretary-General of UNCTAD "to work out a detailed and comprehensive action-oriented programme, within UNCTAD's competence, for the implementation of the relevant provisions of the International Development Strategy for the Second United Nations Development Decade in favour of the least developed among the developing countries" and to present this programme to the Conference at its third session "together with his suggestions on institutional arrangements within UNCTAD for further work on special measures for the least developed among the developing countries". In paragraph 2 of the resolution the Board approved, without prejudice to future consideration, the initial list of countries identified as the hard-core least developed countries, stating that it might provide "useful guidance for action by governments and interested international organizations" and that this initial list should be reviewed in the light of future work on the matter. It invited the Secretary-General of UNCTAD (in paragraph 3) to appoint a group of experts to assist him in the preparation of the above-mentioned action-oriented programme, *inter alia*, reviewing and evaluating existing policies and projects in favour of the least developed countries and to assist him in the preparation of a progress report to be presented to the Conference at its third session "on the review of criteria now being used for the identification of the least developed countries and on work on criteria for the identification of the relatively disadvantaged countries in the context of a geographic region, also taking into account the existence of critical major economic sectors". The Board invited the General Assembly to draw the attention of other organs of the United Nations system to the course of action taken in UNCTAD with a view to initiating similar activities in their respective areas of competence (paragraph 5). International organizations concerned, notably the UNDP and multilateral financial institutions, were invited "to consider increasing their support for the least developed countries, especially from the increments to their resources"

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[267] *Report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries...*, para. 21.

[268] *Ibid.*, para. 23.

[269] *Ibid.*, para. 26.

and developed countries, or groups of developed countries, were invited "to keep this important purpose in mind when providing these organizations with additional support" (paragraph 7).

469. The action-oriented programme for the least developed countries, called for in Board resolution 82 (XI), has been submitted to the Conference at its third session, together with relevant data on these countries.[270]

470. The group of experts called for in the Board resolution was convened in Geneva from 13 to 21 December 1971. It reviewed proposals for action programmes on least developed countries and on land-locked developing countries, as well as the question of criteria for identifying least developed countries. The report of the Group is annexed to the action programme referred to in paragraph 469 and the progress report on identification criteria was also before the Conference.[271]

471. At the eleventh session of the Board, the special importance of the problems confronting the least developed among the developing countries was recognized in the negotiations concerning the provisional agenda for the third session of the Conference. In the light of these negotiations and of subsequent consultations by the Secretary-General of UNCTAD, arrangements were made for the subject to be taken up by the Sixth Committee of the Conference.

4. *Action by the General Assembly at its twenty-sixth session*

472. On 18 November 1971 the General Assembly adopted unanimously resolution 2768 (XXVI), "Identification of the least developed among the developing countries", in paragraph 4 of which it "*Approves* the list of hard core least developed countries contained in paragraph 66 of the report of the Committee for Development Planning on its seventh session". Paragraph 5 of the resolution requests the Economic and Social Council "to instruct the Committee for Development Planning to continue, in close collaboration with the United Nations Conference on Trade and Development, the review of criteria now being used, as well as any other criteria which may in due course be deemed appropriate for the identification of the least developed countries, keeping in view the possibility of modifications in the list of those countries as early as possible".

473. In addition, the Assembly (in paragraph 6) commends the Trade and Development Board for its resolution 82 (XI), which called on the Secretary-General of UNCTAD to work out "a detailed and comprehensive action-oriented programme" in favour of the least developed countries, and invited the General Assembly to draw the attention of other organs of the United Nations system "to the course of action taken in UNCTAD with a view to initiating similar activities in their respective areas of competence".

[270] See "Action programme submitted by the Secretary-General of UNCTAD" (TD/135 and Supp.1) (p. 227 below).

[271] "Progress report on identification criteria by the Secretary-General of UNCTAD" (TD/137) (see p. 261 below).

5. *Action by the United Nations Development Programme*

474. In the Consensus on the United Nations Development Co-operation Cycle approved by the Governing Council of the United Nations Development Programme at its tenth session,[272] held at Geneva from 9 to 26 June 1970, the Council decided that the Administrator would scrutinize the indicative planning figures for each country "in the light of existing criteria for the allocation of resources and adjust them where necessary to avoid arbitrarily projecting any exceptional present country situations, to correct any inequities due to historical circumstances and, in particular, to ensure that special consideration is given to the situation of the least developed countries and of newly independent countries whose lack of an adequate administrative infrastructure has prevented them from taking proper advantage of programme assistance".[273]

475. The Governing Council, at the same session, also decided to make a provision to meet unforeseen needs, to cover the special needs of the least developed of the developing countries, and to finance unanticipated projects or phases of projects.

476. In pursuance of this decision, the Governing Council decided, at its eleventh session, to establish a Programme Reserve, annually as from 1 January 1972, at a figure of $9 million, and to review at its twelfth session "the criteria to be followed in calculating the indicative planning figures, taking as the overriding consideration the needs of the least developed countries . . ." [274]

477. At the thirteenth session of the Governing Council, held at New York in January 1972, the Administrator of UNDP submitted a note, in which he addressed himself to the question of additional funds for the hard core least least developed countries as follows:

> As regards the indicative planning figures, the Administrator considers that the fact must be faced that, unless a new set of criteria is adopted, according any special attention to the least developed countries—whether on the present 'hard core' list or not—by means of a significant increase in their planning figures depends essentially on a substantial increase in the total resources of the programmes. The importance of the resources situation can hardly be overemphasized. The political will for a special effort for the least developed countries has not yet been matched by a willingness to provide the financial means—not only through UNDP but also through other channels of external aid, both technical and financial. It should be added, moreover, that for these countries more than for any other group, long-term commitment to the support of development programmes, once established, appears to be of paramount importance.
>
> In preparing the proposals for the revised indicative planning figures for 1973-1976 . . . the Administrator has in fact found no possibility of any over-all relative improvement of the figures for the least developed countries.

[272] For the report of the Governing Council on its tenth session see *Official Records of the Economic and Social Council, Forty-ninth Session, Supplement No. 6A* (E/4884/Rev.1). The General Assembly, in resolution 2688 (XXV), approved the Consensus, the text of which is reproduced as an annex to the resolution.

[273] Paragraph 16 of the Consensus.

[274] *Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 6* (E/4954), para. 71 (part. II, sub-paragraphs *e* and *h* of the decision).

As far as the use of the Programme Reserve is concerned, resources left over . . . give no scope for the design of significant additional programme assistance for the least developed countries without discriminating in favour of only a few of them.[275]

478. Given these financial constraints, the Administrator further noted:

The most feasible point of departure seems to be to concentrate all available diagnostic resources on identifying the really critical impediments to development in the countries concerned, to concentrate all available resources of assistance on those impediments, and to use the utmost innovation, flexibility and efficiency in the implementation of that assistance. Successful breakthroughs, even of a partial nature, could moreover have a persuasive effect in attracting additional external resources and thus translating into further realistic action the wish of the international community to give special attention to those countries.[276]

479. New guidelines were introduced in 1969 for the United Nations regular programme of technical co-operation "with regard to fields of activity, types of assistance and countries to be assisted, whereby special preference was to be given to a selected group of the least developed among the developing countries". In the 1970 programme, the number of countries assisted under the regular programme was reduced to 83, and from 1972 onwards technical co-operation activities under the regular programme are to be limited to about 35 countries.[277]

6. *Action by the regional economic commissions and regional economic groupings of developing countries*

480. At its ninth session, ECA adopted on 14 February 1969 resolution 210 (IX) recommending the establishment of a special United Nations programme in favour of the least developed among developing countries and requesting the Executive Secretary, in collaboration with OAU, to study and promote the implementation of special and efficient measures to overcome bottlenecks which impede development in strategic sectors and of international measures in fields where the priority needs of these countries might find recognition.[278] At its tenth session, the Commission adopted three resolutions relating to the least developed among the developing countries: "Africa's strategy for development in the 1970s" (218 (X)); "International and intra-African trade" (222 (X)) and "The least developed among the developing countries" (232 (X)).[279] The ECA/OAU joint meetings on trade and development, and in particular the sixth meeting (August 1971) have made important contributions to the formulation of specific measures in favour of the least developed countries in the African region.[280]

481. Other regional economic commissions and UNESOB have devoted special attention to the least developed countries in connexion with specific problems or sectors. ECLA has done pioneering work in devising special measures in favour of the relatively less developed members of its region. The Kabul Declaration on Asian Economic Co-operation and Development,[281] adopted by the Council of Ministers for Asian Economic Co-operation emphasized, with reference to the trade liberalization programme within the ECAFE region, the need to accord specially favourable treatment to imports from the least developed among the developing countries.

482. Other regional organizations have also recognized the importance of the problem of the relatively less developed among their member countries. Reference may be made to LAFTA, the CACM, the Andean Group, CARIFTA, the East African Community, and some of the regional integration schemes in West and Central Africa.[282]

B. Land-locked countries [283]

1. *Action within UNCTAD*

483. The United Nations Conference on Trade and Development at its first session adopted without dissent eight Principles relating to transit trade of land-locked countries, which were included in annex A.I.2 to the Final Act of the Conference. In accordance with the recommendation contained in annex A.VI.1 to the Final Act, the General Assembly at its 1328th plenary meeting on 10 February 1965 decided to convene a conference for the purpose of preparing in 1965 a new convention relating to the transit trade of land-locked countries. At that Conference the Convention on Transit Trade of Land-locked States [284] was adopted. The preamble to this 1965 Convention recalls articles 2 and 3 of the Convention on the High Seas and sets out and reaffirms the eight principles relating to transit trade of land-locked countries which were adopted by the Conference at its first session. The main provisions of the Convention cover matters such as freedom of transit and non-discrimination and facilities to be provided to the land-locked States and administrative measures to be applied in their favour. The Conference on Transit Trade of Land-locked Countries also adopted two other resolutions related to the facilitation of maritime trade of those countries and to the provision of assistance through the technical co-operation organs of the United Nations and through the regional economic commissions in furthering transit trade.[285] The Convention entered into force on 9 June 1967. By the end of December 1971, there were 26 parties to the Convention, but only four transit States having a sea-coast (Belgium, Netherlands, Nigeria and Yugoslavia) had ratified or acceded to it.

484. In Conference resolution 11 A (II) on special problems of the land-locked countries, States which were

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[275] "Special measures in favour of the least developed among the developing countries: note by the Administrator" (DP/L.210), paras. 7-9.

[276] *Ibid.*, para. 12.

[277] See the report of the Governing Council of the United Nations Development Programme on its twelfth session (*Official Records of the Economic and Social Council, Fifty-first session, Supplement No. 6A* (E/5043/Rev.1), para. 240.

[278] See *Official Records of the Economic and Social Council, Forty-seventh Session, Supplement No. 5* (E/4651 and Add.1), part III.

[279] For the texts of the resolutions, see *Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 5*, vol. I (E/4997), part III.

[280] The report of the Sixth ECA/OAU Joint Meeting on Trade and Development (E/CN.14/WP.1/45) was transmitted to the Trade and Development Board at its eleventh session by a note by the UNCTAD secretariat (TD/B/L.267).

[281] See para. 320 above.

[282] See also chapter IV above.

[283] In this connexion, see also the action programme for other special measures related to the particular needs of the land-locked developing countries, submitted by the Secretary-General of UNCTAD (TD/136) (p. 257 below).

[284] United Nations, *Treaty Series*, vol. 597, No. 8641.

[285] *Ibid.*

invited to become parties to the 1965 Convention were urged to investigate the possibilities of ratifying or acceding to it and to make it effective at the earliest possible date. Resolution 11 B (II) contains a series of recommendations for dealing with the trade and development problems of land-locked countries, and in paragraph 10 the Conference requested the Secretary-General of UNCTAD to establish a group of experts to carry out a comprehensive examination of the special problems involved in the promotion of the trade and economic development of the land-locked developing countries.

485. The Trade and Development Board, at its eighth session, adopted resolution 50 (VIII) in which it invited the Secretary-General of UNCTAD to convene such a group of experts, directing the Group to submit its report to the Board at its tenth session. The Group met twice (19-22 May 1969 and 11 May-4 June 1970) and submitted a report containing three chapters: I. "The nature and significance of the problems confronting land-locked countries"; II. "Policy areas and measures in relation to the problems of land-locked developing countries"; and III. "Specific policy measures for land-locked developing countries".[286]

486. In chapter III of its report, the Group recommended that agreements should be concluded between land-locked developing countries and their transit neighbours in order to facilitate the transport and trade of the former by removing administrative and procedural obstacles.

487. With respect to transport infrastructure, the Group pointed to the need for financial and technical assistance to be provided bilaterally or multilaterally to both the land-locked developing countries and their transit neighbours, urging that financial assistance should be on the softest possible terms and should not be tied. It also drew attention to the need for assistance in the training of manpower to operate transport facilities. The Group further recommended that in general technical and financial assistance should be provided to the land-locked developing countries for feasibility studies and investment with a view to helping them reduce significantly their vulnerability to difficulties arising from their land-locked situation.

488. The Group stressed that, in all the policy measures suggested, particular emphasis should be placed on regional co-operation and integration, and emphasized the need for regular machinery for approaching the problems of the land-locked developing countries on a regional or subregional basis.

489. At the first part of its tenth session, the Trade and Development Board considered the report of the Expert Group, and adopted resolution 69 (X) on special problems of the land-locked countries. The Board recommended that the Governments of both the land-locked developing countries and their transit neighbours should continue their joint efforts to facilitate the flow of transit trade and the trade between them, and should co-operate in the elaboration and promotion of agreed projects for the improvement of transport systems for their mutual benefit. Governments of land-locked developing countries were urged to bear in mind the possible advantages of air transport for the carriage of their external trade; UNDP, the specialized agencies, international financial institutions and the Governments of developed countries were invited to give favourable consideration to requests from the land-locked developing countries and their transit neighbours for financial and technical assistance, including, where appropriate, financial assistance on soft terms (paragraphs 3, 4 and 7 of the resolution).

490. The Board (paragraph 8) instructed the Committee on Shipping to study and make concrete proposals on the basis of Committee resolution 13 (IV) (see para. 445 above) and the Committee on Invisibles and Financing related to Trade to study and suggest to the Board measures designed to assist land-locked developing countries to increase their revenue from invisibles, including tourism, and to facilitate access to international sources of finance and technical assistance in order to reduce their balance-of-payments burden in respect of transit trade and insurance costs.

491. In the same resolution (paragraph 10) the Board invited the Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries to include in its agenda a review and analyses of the special problems of the land-locked developing countries, with a view to giving special consideration to the need for their greater participation in regional and international trade. In its conclusions,[287] the Intergovernmental Group recommended that the land-locked members of an economic integration grouping of developing countries should receive special treatment from other members of the grouping similar to that recommended for the least developed members of the grouping.

492. At the first part of its fifth session, the Committee on Shipping adopted resolution 16 (V), which urged Governments of States members of UNCTAD "to continue their efforts to give effect to UNCTAD resolutions by inviting their shipowners to pursue their efforts to reduce maritime transport costs and freight rates, taking account of the special needs of the least developed among the developing countries, including the land-locked developing countries".[288]

493. In addition to action within UNCTAD dealing specifically with the special problems of the land-locked developing countries, there has been action in the wider context of the problems of the least developed among developing countries. In resolution 11 B (II) the Conference recommends (in paragraph 1) that "the land-locked situation should be considered as a factor in determining the criteria for the identification of the least developed among the developing countries". Moreover, many of the special measures in favour of these countries in general recommended by the Board and its subsidiary bodies include a reference to the land-locked developing countries in particular. The first two expert groups convened by

[286] For the report of the Group, see *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes,* agenda item 13, document TD/B/308.

[287] See *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes,* agenda item 11, document TD/B/333, chap. V.

[288] *Ibid., Eleventh Session, Supplement No. 3* (TD/B/347), annex I.

UNCTAD on special measures in favour of the least developed among the developing countries and the expert group on the special problems of the land-locked countries have all stressed this relationship. For instance, the *Ad hoc* Group of Experts suggested that, where appropriate, it might be necessary to add to the list of hard core least developed countries, as tentatively classified by the Committee for Development Planning, "certain other land-locked developing countries, particularly in cases where such countries lack the transport and communications facilities necessary to overcome their isolation from world markets".[289] It also stressed the vital role of transport and communications and the need, particularly in land-locked developing countries, for "massive investment ... to establish transport and communications networks, as well as transit facilities to provide adequate access to world markets". [290]

494. The question of the land-locked developing countries has also been examined within UNCTAD in connexion with the rules of origin related to the implementation of the Generalized System of Preferences, and in particular with the problems faced by these countries as a result of direct consignment requirements and their use of warehousing facilities in transit countries. The Working Group on Rules of Origin of the Special Committee on Preferences, at its third session (Geneva 7-15 December 1970) agreed that:

> Taking into account the special geographical position of certain preference-receiving countries (in particular, land-locked countries), preference-giving countries will make appropriate provisions for relaxing the requirements (for the determination of direct consignment) to recognize that in many cases the exporters concerned decide the place of destination, and transportation to that place, after the goods have arrived at a suitable port in a neighbouring country.[291]

495. At the eleventh session of the Trade and Development Board it was agreed that "Other special measures related to the particular needs of the land-locked developing countries" should be a sub-item of the provisional agenda of the third session of the Conference. The Board also requested the Secretary-General of UNCTAD "to prepare a comprehensive action programme, within the competence of UNCTAD, and within the context of the International Development Strategy for the Second Development Decade and of the relevant provisions of Board resolution 69 (X) in favour of the land-locked developing countries, and present it to the third session of the Conference".[292]

2. *Action by the regional economic commissions and other intergovernmental bodies*

496. Following its consideration of the report of the Trade and Development Board for the period 24 September 1968-23 September 1969,[293] the General Assembly adopted resolution 2569 (XXIV) on special measures in favour of the land-locked developing countries, requesting the Board "to consider, on the basis, *inter alia,* of the report to be submitted by the group of experts, the adoption of practical measures for the implementation of all the provisions of resolution 11 (II) of the United Nations Conference on Trade and Development" and urging all eligible States which had not yet done so to become parties to the Convention on the Transit Trade of Land-locked States.

497. Part C of the International Development Strategy ("Policy measures") includes a section on special measures in favour of the land-locked developing countries which reaffirms some of the recommendations contained in Conference resolution 11 (II).

498. The General Assembly in its resolution 2750 (XXV), concerning the reservation exclusively for peaceful purposes of the sea-bed and the ocean floor, emphasizes the need to promote international co-operation in the exploration and use of the sea-bed and the ocean floor, and the subsoil thereof, beyond the limits of national jurisdiction, and to ensure the exploitation of their resources for the benefit of mankind, irrespective of the geographical location of States, taking into account the special interests and needs of the developing countries, whether land-locked or coastal.

499. ECA has adopted two resolutions relating to the problems of the land-locked countries. In resolution 167 (VIII),[294] the Commission invited the Executive Secretary to take the necessary steps with a view to the signature of the Convention on Transit Trade of Land-locked States by all member States and the effective implementation of its recommendations by the Governments of African States.

500. Resolution 218 (X) contains the text of Africa's Strategy for Development in the 1970s. Paragraphs 42 and 43 of the Strategy deal with the special problems of land-locked developing countries and call for detailed studies identifying their most serious bottlenecks to rapid economic development; effective recognition of their right to, and facilitation of, free access to the sea; (iii) priority attention to their financial and technical assistance needs, including the granting of soft-term loans and the provision of funds designed to subsidize their additional transport costs; and application of special measures in their favour along the lines of those accorded to the least developed among the developing countries.[295]

501. The Kabul Declaration on Asian Economic Co-operation and Development adopted by the Council of Ministers for Asian Economic Co-operation at its fourth session (see para. 481 above) recognizes the need for adequate transit facilities for the land-locked countries and the difficulties encountered in promoting the economic

[289] *Special measures in favour of the least developed among the developing countries: report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries...*, para. 23.

[290] *Ibid.*, para. 40.

[291] TD/B/AC.5/38, appendix I, agreed text on "Direct consignment", para. 4. See also paras. 246-248 above.

[292] *Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), part three, para. 400. See also the action programme submitted by the Secretary-General of UNCTAD on other special measures in relation to the particular needs of the land-locked developing countries (TD/136) (p. 257 below).

[293] *Official Records of the General Assembly, Twenty-fourth Session, Supplement No. 16* (A/7616).

[294] See *Official Records of the Economic and Social Council, Forty-seventh Session, Supplement No. 5* (E/4651 and Add.1), part III.

[295] *Ibid., Fifty-first Session, Supplement No. 5* (E/4997), vol. I, part III, p. 98.

development of the least developed among developing countries of the region and urges the member and associate member countries in the ECAFE region, in co-operation with the ECAFE secretariat, "to render every possible assistance to land-locked countries of the region to enjoy the right of free access to the sea and to provide port and transport facilities, minimum and simple customs formalities, reasonable transport charges, and transit by air and overland routes".[296]

502. The Executive Secretary of ECAFE has sent an interdisciplinary team on mission to Afghanistan, Laos and Nepal, with the following aims: (*a*) to survey their special problems; (*b*) to consult with the Governments in order to strengthen technical assistance programmes; (*c*) to identify the areas of co-operation between land-locked and transit countries, as well as between ECAFE and other international bodies in assisting these land-locked countries. The team was composed of experts in the fields of international trade, development of light industries, railways and road transport, economic planning, fiscal and financial policies, and social development planning. They included consultants, regional advisers and staff members of the ECAFE and UNCTAD secretariats. The mission to Afghanistan was from 22 to 30 November 1971, Laos from 5 to 14 December 1971 and to Nepal from 5 to 15 January 1972.

503. The reports of the missions will be considered by the Special Body created, under Commission resolution 114 (XXVII),[297] to make recommendations for the implementation of the provisions of the Kabul Declaration relating to the special problems of land-locked countries. The first meeting of this body is being held at Bangkok in February 1972.

504. In June 1971, CCC approved the text of a new Customs Convention on the International Transit of Goods (ITI Convention). The Convention will be open for signature until 30 June 1972 by any State which is a member of the Customs Co-operation Council or of the United Nations or its specialized agencies. After this date it will be open for accession. This Convention will facilitate the orderly control of transport operations and considerably reduce the need for controls en route, minimizing delays at ports and frontier points. Emphasis is laid on customs controls at the beginning and the end of shipment.

[296] "Report of the Meeting of the Council of Ministers for Asian Economic Co-operation (fourth session)" (E/CN.11/961 and Corr.1), annex II, section II, para. 5 (iii).

[297] See *Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 2* (E/5020), part III.

LONG-TERM CHANGES IN THE TERMS OF TRADE, 1954-1971

Report by the UNCTAD secretariat *

[Original text: English]

The attached report is essentially an interim study submitted in response to a request by the Trade and Development Board, at its eleventh session, that the Secretary-General of UNCTAD should prepare a factual study, to be submitted to the third session of the Conference, "reporting on developments in the terms of trade over the longer term, paying particular attention to the situation of the developing countries, and especially of the least developed among them, concentrating especially on recent developments in the terms of trade and indicating where possible deterioration in the terms of trade has taken place". †

The results of this study are also relevant, in particular, to items 7, 11, 13 and 14 of the provisional agenda.

CONTENTS

* The text of this report was circulated to the Conference as document TD/138, dated 21 March 1972, and TD/138/Supp.1, dated 24 March 1972. It will also be issued separately as a United Nations publication.

† *Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), p. 213.

CONTENTS (*continued*)

PART ONE

Recent developments in the terms of trade

Introduction

1. Published statistical series relating to prices of exports and imports and to the terms of trade are not adequate for a study on the lines requested by the Trade and Development Board. Such series are currently available only for 44 developing countries, and only for seven of those were data available, at the time of writing, for the year 1970.[1] Moreover, national series for export and import prices are not readily comparable between countries because of differences in methods of construction and in commodity coverage.

2. For this reason, the UNCTAD secretariat has compiled new series of annual index numbers of export and import prices, which are comparable between countries and over time. These new series have been computed separately for 87 developing countries, from 1954 to 1970 inclusive.[2]

3. Though this report is concerned mainly with changes in the terms of trade of developing countries, a brief description of movements in the terms of trade of developed market-economy countries—based on national price indices—has been included, covering the same period, 1954-1970 (see chapter II below). In the time available, it has not proved possible to derive corresponding series for the foreign trade of the socialist countries, but the preparation of such series could be envisaged in future work on this subject.[3]

4. The "terms of trade" of any country, in its merchandise transactions with other countries, usually refer to the "net barter" terms, defined as the ratio of the export price index to the import price index.[4] Changes in the net barter terms of trade measure changes in the volume of imports which are obtainable, through foreign trade, for a unit of exports. The salient features of changes in developing countries' net barter terms of trade since 1954 are summarized in section A below. Changes in foreign trade prices cannot, however, be considered in isolation, since they both reflect and, in turn, influence the volume and pattern of demand for imports and the supply of exports. A decline in export prices, for example, may reflect a bumper crop; alternatively, if prices fall because of a contraction in world demand, developing countries may strive to export a greater quantity of the commodity concerned to prevent a decline in their export earnings.

5. A broader interpretation of changes in the terms of trade is thus needed to supplement the net barter concept. The most convenient supplementary concept, and one used in the present report, is the "income terms of trade", more commonly known as the "purchasing power of exports". This is defined as the volume of imports which can be purchased by the export earnings of a country taking into account export and import price changes as from a base period.[5] This concept takes account of the volume changes in exports associated with changes in export prices (see section B below).

6. Finally, it is useful to have some assessment of the effects of changes in export and import prices on the trade position of individual developing countries. Such an assessment is made, in section C below, by comparing the actual import volume in a particular period with what that volume would have been had prices been the same as in an earlier period.

7. Though the new price series end in 1970, the report makes use of published information relating to the prices of certain commodities in 1971, in an effort to make the factual analysis as up-to-date as possible.

Chapter I

Changes in the terms of trade of developing countries

A. NET BARTER TERMS OF TRADE

1. *Trends over the longer term*

8. The new annual series of indices of developing countries' export and import prices, and of their net barter terms of trade, are depicted in chart I.1. Whereas import prices have been on a generally upward trend over the whole period since the mid-1960s, there has been a marked cycle in prices of exports, a fairly sharp decline from the mid-1950s to the early 1960s being followed by a recovery at roughly the same rate as for imports. As a result, the net barter terms of trade of developing countries deteriorated over the first part of the period, up to the early 1960s, by about one-sixth, but the subsequent recovery, up to the late 1960s, was little more than marginal. Over the whole period covered, there was a deterioration in developing countries' net barter terms of trade of the order of 12 per cent.

9. It is of some importance to put these movements in a longer-term perspective, particularly as the initial years of the new series (1954 and 1955) were relatively good ones for primary commodity prices. In the immediate post-war period, a wide range of primary commodities was in short supply. This was particularly the case for commodities originating wholly or mainly in South-East Asia, where recovery from wartime destruction and disruption was

[1] See, for example, the series in Statistical Office of the United Nations, *Monthly Bulletin of Statistics*, February 1972.

[2] A technical explanation of the methods used in compiling the new series can be found in part two below. The complete series are published in the UNCTAD *Handbook of International Trade and Development Statistics, 1972* (United Nations publication, Sales No. E/F.72.II.D.III), part VII, table 7.2.

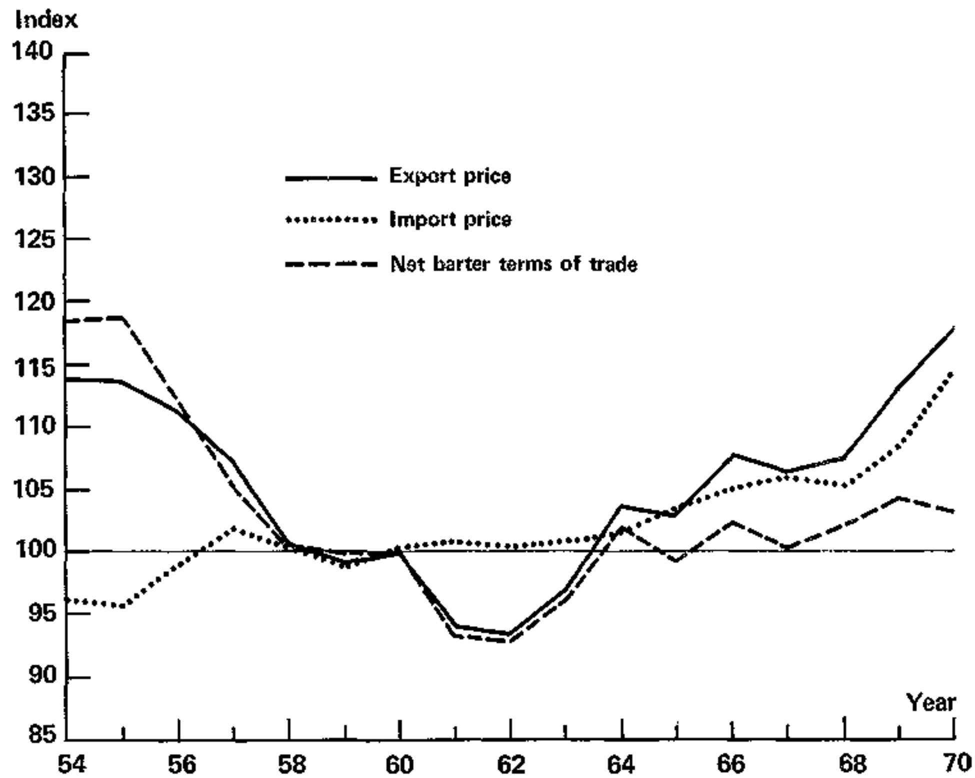
[3] The data shown in this report on the terms of trade for each developing country cover both the total volume and the commodity structure of its trade, including trade with the socialist countries; because of lack of data on price movements in trade between the developing countries and the socialist countries, data on price movements for similar commodities in the foreign trade of developed market-economy countries and developing countries were used to cover these flows.

[4] For developing countries, the price series for both imports and exports are on an f.o.b. basis, so that movements in freight rates, insurance charges, etc., are not taken into account. (For further details, see part two below.)

[5] In other terms, the "purchasing power of exports" can be defined as the net barter terms of trade multiplied by the volume of exports.

CHART I.1

Index numbers of terms of trade: all developing countries, excluding the petroleum-exporting countries (1958-1960 = 100)



Source: UNCTAD secretariat estimates (see part two below).

retarded by continuing transport and other difficulties. The impact of these underlying supply difficulties on commodity prices was accentuated—particularly for those commodities exported in substantial volume from the area —by the advent of the Korean conflict and its immediate aftermath.

10. By the early 1950s, prices of commodities exported by the primary-exporting countries [6] were 2½-3 times above the depressed levels of the late 1930s, but only some 15 per cent higher than the average for the period 1924-1928, before the onset of the Great Depression.[7] From the post-Korean peak, commodity prices were on a declining trend for the following decade, reflecting a rapid recovery in production and trade as normal conditions of operation were restored in many countries affected by war, and as agricultural productivity showed a notable rise, particularly in North America. Superimposed on this declining trend, however, were sharp rises in prices of coffee and cocoa in 1954—mainly because of short crops in that year—and of non-ferrous metals in 1954, due largely to a marked rise in the price of copper as industrial demand expanded in a situation of inadequate supplies. Because of the substantial share of these commodities in the total value of exports from developing countries, the new index of export prices begins at a level somewhat above the trend value for the mid-1950s.

11. Prices of many important foods and agricultural raw materials had reached relatively low levels by the early 1960s. The emergence of excess supplies of sugar and of the tropical beverage crops resulted in substantial price declines for those products, while prices of many raw materials, both agricultural and mineral, had also fallen as demand for them contracted with a deceleration in the pace of industrial growth in a number of developed importing countries. There was a marked recovery in 1963 and 1964, with a general resurgence of demand in importing countries, the upward trend accelerating towards the end of the decade.

12. Comparisons of trends in prices, and in the terms of trade, are thus likely to be significantly affected by the particular years or periods chosen. In order to minimize the influence of temporary factors affecting prices in particular years, the analysis in this report is based on changes between three periods, the figures for each period being calculated as a three-year average. The three periods, 1954-1956, 1958-1960 and 1968-1970, were selected so as to avoid the abnormally low prices of the early 1960s, while minimizing the influence of the relatively high prices obtaining in 1954. The use of these three periods also allows the analysis to focus to some extent on

[6] Developing countries plus Australia, New Zealand and South Africa.

[7] See the related discussion in Department of Economic and Social Affairs, *World Economic Survey, 1962: Part I. The Developing Countries in World Trade* (United Nations publication, Sales No. 63.II.C.1), pp. 16-17.

TABLE I.1

Changes in the net barter terms of trade of selected groups [a] of developing countries, 1954 to 1970

(per cent)

	All developing countries [b]				*Major petroleum-exporting countries*	*Hard core least developed countries* [c]
	Total	*Africa*	*Asia*	*Latin America*		
1954-1956 to 1958-1960						
Terms of trade	*−15*	*−16*	*−6*	*−21*	*−4*	*−19*
Export prices	−12	−15	−3	−17	−1	−16
Import prices	+3	+2	+3	+4	+3	+3
1958-1960 to 1968-1970						
Terms of trade	*+3*	*+6*	*−1*	*+3*	*−3*	*+2*
Export prices	+13	+16	+6	+15	+8	+12
Import prices	+9	+10	+6	+12	+11	+10
1954-1956 to 1968-1970						
Terms of trade	*−12*	*−11*	*−6*	*−19*	*−6*	*−17*
Export prices	0	−1	+3	−5	+7	−6
Import prices	+13	+12	+9	+17	+14	+14
1969 to 1970						
Terms of trade	*−1*	*−5*	*−3*	*+3*	*−3*	*+5*
Export prices	+4	0	+2	+8	+3	+10
Import prices	+5	+5	+5	+5	+6	+6

Source: UNCTAD secretariat estimates (see part two below).

[a] For countries and territories in each group, see table A-1.

[b] Excluding the major petroleum-exporting countries.

[c] Data in this report cover 13 of the 25 "hard core" countries identified by the Committee for Development Planning and approved as such by the General Assembly and the Trade and Development Board (see TD/135 and Supp.1, p. 227 below). Those countries are denoted by an asterisk in table A-1.

trends in the terms of trade during the course of the First United Nations Development Decade.[8]

13. The cyclical downswing in export prices in the latter part of the 1950s can be observed for all three developing regions (see table I.1). Latin America experienced the most drastic decline in export prices over this period—reflecting mainly the movement in the coffee market—but there was also a substantial decline in the prices of exports from developing countries in Africa. The latter also resulted, at least in part, from the fall in coffee prices, reinforced by price declines for cocoa, cotton, copper and groundnut oil. Prices of exports from the least developed of the developing countries, most of which are in Africa, declined by a similar extent.

14. The upswing in export prices, in the course of the 1960s, was also largely confined to Latin America and Africa. The price rise was, to a large extent, due to copper and other non-ferrous ores and metals and, to a lesser extent, wood and wood products. Cocoa, coffee and vegetable oils prices also rose substantially over the decade, but prices of tea and of most agricultural raw materials declined.

15. These various trends in the prices of particular commodities were the principal determinants of changes in the export prices of individual developing countries.[9] The rise in import prices of developing countries in the latter part of the 1950s was relatively small, so that the commodity pattern of exports played a major role in the movement of the terms of trade in this period. As already mentioned, prices of exports and of imports rose roughly in similar proportions during the 1960s, but the less favourable rise in export prices of developing countries in Asia, compared with those in other regions, was again essentially the result of differences in commodity export specialization.

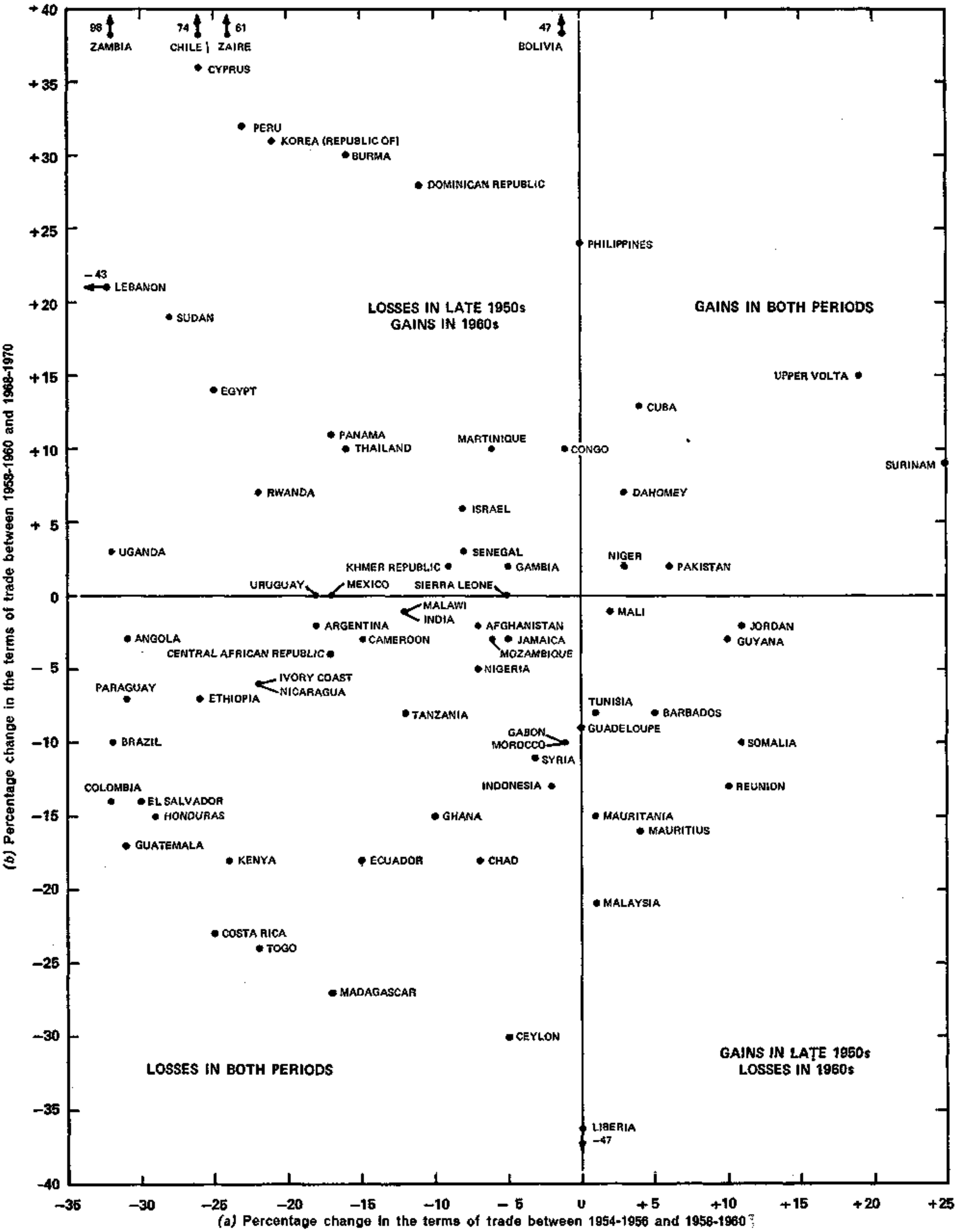
16. The relationship between changes in the net barter terms of trade in the two periods is depicted in chart I.2 for all the developing countries, other than the major petroleum-exporting countries, covered by the new price series. There has evidently been great diversity of experience. The countries in the lower left-hand quadrant suffered most, since they experienced a deterioration in their terms of trade in both periods (1954-1956 to 1958-1960 and 1958-1960 to 1968-1970); Colombia, Costa Rica, Guatemala, Honduras, Madagascar and Togo experienced

[8] In interpreting the percentage changes between the three periods it should be noted that the change between 1954-1956 and 1958-1960 represents essentially a four-year comparison while that between 1958-1960 and 1968-1970 represents a ten-year comparison. Thus, equal percentage changes in the late 1950s and in the 1960s represent quite different annual rates of change. This caveat should be borne in mind in using many of the tables and charts in the present report.

[9] See table A-2, which shows the relationship, for each developing country, of changes in its export prices in total to changes in the prices of its leading export commodities. (The data in that table show export price changes between the single years 1954 and 1960 and 1960 and 1970 instead of between the three-year periods used elsewhere in the report.)

CHART I.2

Comparison of changes in the terms of trade of developing countries and territories * during two periods:
(a) 1954-1956 to 1958-1960
(b) 1958-1960 to 1968-1970



* Excluding the major petroleum-exporting countries.

the largest deterioration—40 per cent or more—taking the two periods as a whole.

17. In the upper right-hand quadrant of chart I.2 are a small number of countries and territories whose terms of trade improved in each of the two periods. Of these, substantial improvements were achieved only by two countries: Upper Volta and Surinam. For another small group of countries, shown in the lower right-hand quadrant, an improvement in the terms of trade in the later 1950s was followed by a deterioration during the 1960s. For three of these countries—Malaysia, Mauritania and Mauritius—the deterioration in the 1960s greatly exceeded the earlier improvement, so that the deterioration in the two periods taken together amounted to one-fifth for Malaysia and one-seventh for the other two countries. For Jordan and Guyana, however, there was an over-all improvement, for the entire period, of almost one-tenth, while for Tunisia there was a deterioration of the same extent. In addition, in Liberia, where there was no change in the late 1950s, the terms of trade declined by one-half in the 1960s.

18. The last group distinguished in chart I.2, in the upper left-hand quadrant, consists of over 20 countries whose terms of trade deteriorated in the late 1950s but improved during the 1960s. For four of these countries—Bolivia, Chile, Zaire and Zambia—the improvement, reflecting rising prices for copper and also (in the case of Bolivia) tin, far outweighed the earlier deterioration. The over-all improvement for the two periods taken together was nearly one-half for Bolivia, about one-third for Chile and Zambia, and one-fifth for Zaire. At the other extreme in this group were two countries for which there was an over-all deterioration from 1954-1956 to 1968-1970 of about one-third—Lebanon (fruit and vegetables) and Uganda (coffee and cotton).

19. Of the 77 developing countries and territories included in table I.2 (i.e. excluding the major petroleum-exporting countries), only 15 benefited from a significant improvement in the terms of trade over the whole of the period from 1954-1956 to 1968-1970.[10] They accounted for only one-sixth of the total population of the 77 deloping countries and territories in 1969. A further 48 countries and territories, accounting for over three-quarters of the total population involved, suffered from a significant deterioration in the terms of trade over this period (see table I.2). During the 1960s (i.e. from 1958-1960 to 1968-1970), 24 countries and territories (with one-sixth of the population involved) showed significant gains in the terms of trade, while 31 (with one-fourth of the population) showed a significant deterioration; the remaining 22 (with over half the total population) showed no significant change.

20. For the major petroleum-exporting countries, the calculation of export prices was based on changes in the "revenue" (including royalties and taxes) per barrel of crude petroleum exported. Significantly different results would be obtained if "posted" price per barrel were used to measure changes in export prices. The 7-8 per cent rise in the export price index shown in table I.1 would give place to a drop of 9 per cent, implying a serious deterioration in the apparent terms of trade of the major petroleum-exporting countries.[11] The "posted" price of crude petroleum has remained depressed throughout the last decade, following the cuts introduced in the period 1959-1961. Since February 1971, however, agreements concluded between the international petroleum companies, on the one hand, and their host governments, on the other, have produced considerable increases in "posted" prices, ranging from 20 per cent to 25 per cent. In some countries the increase was achieved by raising the "reference" prices. These changes in "posted" and "reference" prices have

[10] For this purpose, a "significant" improvement, or deterioration, is taken to mean one of more than 5 per cent.

[11] See also part two, paras. 8-9 and table II.1.

TABLE I.2

Distribution of developing countries [a] according to changes in the net barter terms of trade

Change in terms of trade	1954-1956 to 1958-1960		1958-1960 to 1968-1970		1954-1956 to 1968-1970	
	No. of countries	Proportion of total population in 1969	No. of countries	Proportion of total population in 1969	No. of countries	Proportion of total population in 1969
		(per cent)		(per cent)		(per cent)
+26 and above	—	—	9	7.3	5	1.6
+16 to +25	2	0.4	4	4.5	3	4.1
+6 to +15	5	8.7	11	6.1	7	10.8
±5	22	15.4	22	57.1	14	5.3
−6 to −15	15	44.1	20	21.1	19	56.2
−16 to −25	19	18.4	8	2.6	10	8.0
−26 to −35	13	12.8	2	1.2	8	4.3
−36 and below	1	0.2	1	0.1	11	9.7
TOTAL	77	100.0 [b]	77	100.0 [b]	77	100.0 [b]

Source: Table A-1.

[a] Excluding the major petroleum-exporting countries.

[b] Total population of the 77 countries and territories in 1969: 1,524 million.

been accompanied by changes of roughly the same order of magnitude in "revenue" per barrel.[12]

2. *Recent price movements* [13]

21. As explained above, it has not yet been possible to extend the new price series into 1971, in view of the general lack of data for that year relating to the quantities and values of goods traded by individual countries. However, the available statistics of changes in world prices of primary commodities can be used as a guide to the probable movements in export prices in 1971 of various groups of developing countries. After rising by some 20 per cent between the middle of 1968 and the first half of 1970, the prices of primary commodities exported by developing countries fell in the latter part of 1970 and declined further in 1971 (see table I.3). For 1971 as a whole, the price index is provisionally estimated at some 8 per cent below that for 1970, when prices were about 8 per cent above the average for the preceding year—thus cancelling the gains achieved in 1970.

TABLE I.3

Changes in prices of selected primary commodities, 1969 to 1971 [a]

(per cent)

Commodity groups	*1969 to 1970*	*1970 to 1971*
Tropical foods and beverages	+17	−13
Temperate-zone foods	+5	+16
Vegetable oilseeds and oils:		
Soft oils	+12	+12
Lauric oils	+11	−11
Agricultural raw materials	+6	+2
Non-ferrous metals	0	−17
TOTAL [b]	+8	−8

Source: UNCTAD, *Monthly Commodity Price Bulletin.*

[a] Free market prices (excluding sales under long-term contracts or at preferential prices).

[b] Weighted according to relative importance in exports of developing countries.

22. There was a substantial decline between 1970 and 1971 in prices of coffee (apart from the *robusta* variety), with adverse implications for the export earnings of a number of Latin American countries. An equally large fall occurred in cocoa prices, affecting mainly West African producing countries and Brazil. Tea prices also declined, following the temporary recovery in 1970. African countries exporting groundnuts and groundnut oil have benefited from a rise in prices during 1971, but countries (mainly in Asia) exporting lauric oils were affected by price declines. Underlying the increase in prices of temperate-zone foods as a whole in 1971 was a rise of about 23 per cent in the average free market price of sugar, a rise of about 21 per cent in the average price of beef and declines in the average prices of maize and rice of about 2 per cent and 10 per cent respectively.

23. Among agricultural raw materials, the downward trend in natural rubber prices continued into 1971, whereas prices of the main varieties of cotton showed a significant recovery, except for Egyptian cotton, prices of which were marginally lower than in 1970. There was a small improvement in jute prices in 1971, while sisal prices were one-seventh above the 1970 average; abaca prices, on the other hand, fell somewhat. Among the non-ferrous metals, the major change in 1971 was a further fall, of almost 25 per cent, in copper prices, reflecting a slackening of industrial demand, which had led to stock accumulation. Lead prices also fell—by nearly 20 per cent—but zinc was an exception to the general downward trend, the price of that metal having been raised by some 9 per cent through voluntary restrictions on output imposed by the major producers outside North America.

24. The currency realignments towards the end of 1971 have resulted, in effect, in an additional rise in import prices for a number of developing countries, particularly for those for which Western European countries and Japan are important sources of supply.[14] Some of these developing countries may well be faced with a sudden and substantial worsening in their terms of trade if, in addition, they are heavily dependent for their export earnings on those primary commodities for which prices are on a downward trend.

25. Partly as the result of currency realignments, the unit value of exports of industrial countries, expressed in dollars, was about 5.5 per cent higher in 1971 than in 1970.[15] Thus, the terms of trade of developing countries, as a whole, excluding the major petroleum-exporting countries (see paragraph 20 above), seem likely to have deteriorated quite substantially in 1971.

B. PURCHASING POWER OF EXPORTS

26. As already indicated, changes in prices cannot be considered in isolation from the associated changes in the volume of trade. The extent to which a decline in export prices, and a consequent deterioration in the terms of trade, have been offset by an expansion in export volume is necessarily an important element in any assessment of the impact of price changes on the foreign trade position of developing countries.

27. Over the period from 1954-1956 to 1958-1960 the expansion in the volume of exports from developing countries as a whole (excluding the major petroleum-exporting countries) just offset the deterioration in their terms of trade, so that there was no net increase in the purchasing power of their export earnings. This also held true for developing countries in Asia, but for African

[12] There is a good case for treating other products besides petroleum on the basis of revenue actually received by the exporting country rather than of export prices; this might be desirable for all foreign investments involving extractive industries, where export prices often have little economic meaning (and represent intra-company accounting prices). However, obtaining the correct data on net receipts from the foreign investment in a consistent and comparable way for all developing countries would be difficult.

[13] Data on changes in the terms of trade and related price series for 1969 and 1970 for individual developing countries and territories are shown in part two, table B-1.

[14] For an assessment of the probable effects of the recent exchange rate realignments on the trade position of developing countries, see *The international monetary situation: Impact on world trade and development—report by the secretariat of UNCTAD* (United Nations publication, Sales No. E.72.II.D.18), paras. 61-66.

[15] See GATT Press Release No. 1104, 15 February 1972.

countries the expansion in export volume more than offset the deterioration in the terms of trade and their purchasing power of exports rose by 10 per cent. Over the same period, there was a small rise in the purchasing power of exports from the least developed countries and a small fall in that of Latin American countries. By contrast, there was a substantial rise (one-quarter) in the purchasing power of exports from the major petroleum-exporting countries, reflecting a rather greater rise in the volume of shipments of crude petroleum (see table I.4).

28. During the 1960s there was a substantial increase in the purchasing power of exports from all the developing regions. This reflected almost entirely an expansion in export volume, since changes in the terms of trade over the decade were relatively small. The growth in the purchasing power of exports from the least developed countries lagged behind that of other developing countries, as a result of a relatively low rate of growth in the volume of their exports.

29. The acceleration towards the end of the 1960s, noted earlier, in the rate of increase in export prices of developing countries was combined with an increased rate of growth in export volume. Consequently, the value of developing countries' exports rose at a faster rate in both 1969 and 1970 than in the decade as a whole. The same was also true for the purchasing power of exports, which rose by 10 per cent in 1969 and by 6 per cent in 1970. Among the different regions, the growth in purchasing power of Latin America's exports also accelerated, rising by 9 per cent in 1970, double the rate (4.7 per cent a year) for the 1960s as a whole. For developing countries in Africa, the increase in export purchasing power in 1970 was also higher than for the decade as a whole (6 per cent against an annual 5 per cent) but for Asian countries it was lower (4 per cent and 5½ per cent respectively). The major deceleration, however, occurred for the petroleum-exporting countries, for which there was only a marginal rise in export purchasing power in 1970, as against one of almost 6 per cent a year for the whole decade.

30. The relationship between changes in export prices and export volume has varied considerably among the different developing countries. Over the first period considered, from 1954-1956 to 1958-1960, about half the developing countries or territories considered, including the major petroleum-exporting countries (44 out of 87) offset, or more than offset, declines in export prices by increases in export volume.[16] Only six countries benefited from increases in both price and volume, while a further 11 countries experienced declines in export volume (see table I.5). Thus, over this period, a considerable number of developing countries suffered from relatively stagnant or slowly growing export earnings and, allowing for the general rise in import prices, from declines or sluggish growth in the purchasing power of their export earnings.

31. Over the decade of the 1960s, however, most developing countries managed to achieve a substantial expansion in export volume. Out of the 87 countries and territories, 69 achieved an expansion of 25 per cent or more in export volume between 1958-1960 and 1968-1970 and, of these, 38 also benefited from a price rise exceeding 5 per cent (table I.5). The nine which benefited from increases exceeding 25 per cent in both prices and volume included several heavily dependent on non-ferrous ores

[16] In this context a "decline" or an "increase" is taken as a movement exceeding 5 per cent.

TABLE I.4

Changes in the purchasing power of exports of selected groups[a] of developing countries, 1954 to 1970

(per cent)

	All developing countries[b]				*Major petroleum exporters*	*Hard core least developed*
	Total	*Africa*	*Asia*	*Latin America*		
1954-1956 to 1958-1960						
Purchasing power	*0*	*+10*	*+1*	*−7*	*+23*	*+8*
Export value	+3	+11	+4	−3	+27	+11
Export volume	+16	+30	+6	+16	+28	+32
1958-1960 to 1968-1970						
Purchasing power	*+65*	*+66*	*+69*	*+59*	*+76*	*+50*
Export value	+80	+83	+79	+79	+96	+66
Export volume	+60	+58	+70	+55	+81	+48
1954-1956 to 1968-1970						
Purchasing power	*+65*	*+82*	*+70*	*+48*	*+116*	*+62*
Export value	+86	+104	+86	+73	+147	+84
Export volume	+86	+105	+81	+81	+131	+95
1969 to 1970						
Purchasing power	*+6*	*+6*	*+4*	*+9*	*+1*	*+5*
Export value	+12	+11	+10	+14	+6	+11
Export volume	+8	+12	+8	+5	+4	+1

Source: UNCTAD secretariat estimates (see part two below).

[a] For country groupings, see table A-1.

[b] Excluding the major petroleum-exporting countries.

TABLE I.5

Distribution of developing countries [a] according to changes in export prices and export volume

Change in export prices (per cent)	Change in export volume (per cent): +25 and over	+15 to +25	+5 to +15	+5 to −5	−5 and below	Total
			(No. of countries)			
I. *1954-1956 to 1958-1960*						
+ 5 and over	2	—	4	1	5	12
+5 to −5	9	3	6	3	5	26
−5 to −15	7	5	5	1	1	19
−15 to −25	13	2	1	3	—	19
−25 and below	8	2	1	—	—	11
TOTAL	39	12	17	8	11	87
II. *1958-1960 to 1968-1970*						
+25 and over	9	1	2	—	3	15
+15 to +25	8	—	—	1	1	10
+5 to +15	21	1	2	1	2	27
+5 to −5	19	1	1	—	—	21
−5 and below	12	1	—	1	—	14
TOTAL	69	4	5	3	6	87

Source: As for table I.4.

NOTE: The percentage classes shown in the table include the lower but not the upper limit of the class.

[a] Including the major petroleum-exporting countries.

and metals (Bolivia, Peru and Zambia), as well as countries exporting fresh fruit (Cyprus and Lebanon) and petroleum (Libya). At the other extreme, there was a small group of countries and territories whose exports declined over the 1960s by more than 5 per cent; this group included Zaire and Burma, both of which encountered special internal difficulties in this period, and Brunei and the Netherlands Antilles, exporting crude and refined petroleum respectively.

32. Leaving aside the petroleum-exporting countries as a special category, 25 out of the remaining 77 developing countries or territories considered managed to increase the purchasing power of their exports by more than 100 per cent during the 1960s (see table I.6). A further 15 increased their purchasing power by 61-100 per cent over the decade. Both groups, however, accounted together for only one-third of the total population of the 77 countries or territories. Just over one-half the total population was ac-

TABLE I.6

Distribution of developing countries [a] according to changes in the purchasing power of exports

Change in purchasing power of exports (per cent)	1954-1956 to 1958-1960: No. of countries	Proportion of total population in 1969	1958-1960 to 1968-1970: No. of countries	Proportion of total population in 1969	1954-1956 to 1968-1970: No. of countries	Proportion of total population in 1969
		(per cent)		(per cent)		(per cent)
+121 and over	—	—	21	6.8	23	7.6
+101 to +120	—	—	4	0.8	11	10.3
+81 to +100	3	0.6	6	15.5	1	0.0
+61 to +80	3	0.3	9	10.0	8	10.4
+41 to +60	3	1.1	12	9.2	9	10.9
+21 to +40	7	4.7	12	43.5	18	48.9
+20 to −20	58	91.5	12	12.4	5	2.4
−21 and below	3	1.8	1	1.8	2	9.5
TOTAL	77	100.0 [b]	77	100.0 [b]	77	100.0 [b]

Source: Table A-1.

[a] Excluding the major petroleum-exporting countries.

[b] Total population of the 77 countries and territories in 1969: 1,524 million.

counted for by a further 24 countries or territories whose purchasing power rose modestly, within the range of 21-60 per cent over the decade, or at an annual rate of between 2 and 5 per cent.

33. The expansion in export volume during the 1960s reflected, in part, a rise in productivity in the producing countries. For a number of developing countries—depending largely on their commodity specialization—this productivity gain was lost through a decline in export prices or in their terms of trade. As mentioned earlier, the import prices of all developing regions rose steadily over the decade, even though productivity was also rising in the industrialized supplying countries. It seems clear that the impressive gains in the purchasing power of exports achieved by some developing countries over the decade may have been achieved at a greater cost in terms of real resources employed.

C. Gains or losses resulting from changes in export and import prices

34. It is interesting to measure the gains or losses that have resulted from changes in export and import prices during the 1960s. Comparisons are made below for the entire decade of the 1960s (1961-1970) and for the three-year period 1968-1970 using in both cases the 1958-1960 average prices as a base.

35. The loss or gain resulting from changes in a country's export and import prices has been calculated in two parts. First, there is the additional cost of imports resulting from their being purchased at prices which have risen since the base period. (Of course, if import prices have fallen, there will have been a gain rather than a loss). Second, there are the additional export receipts resulting from exports being sold at higher prices than in the base period. (Here, if export prices have fallen since the base period there will have been a loss rather than a gain). Thus, the total loss or gain is the additional cost of imports less the additional receipts on exports resulting from changes of import and export prices since the base period.

36. This measure is affected by the volumes of exports and of imports as well as by the extent of the movements of export and import prices.[17] For example, in a situation where import prices are generally rising, the larger the volume of imports the greater will be the loss under this measure. Furthermore, a country which may have achieved a large volume of exports as a result of having cut export prices will also be recorded as suffering a loss under this measure. Conversely, if price movements, on balance, have been favourable, the size of the gains will also be a function of the actual volumes of exports and of imports. Despite such biases, the measure of gains and losses used here remains a useful statistical indicator of the impact of all export and import price changes on individual countries.

37. The various changes in import and export prices described in the preceding sections have affected the actual volume (quantum) of imports, as well as the purchasing power of exports. The losses, measured as described above, can be thought of as representing losses in potential imports (in other words, the actual import volume is less than the potential import volume calculated by using base period prices). On the other hand, gains can be thought of as reflecting a situation where the actual import volume is higher than the potential import volume, assuming base period prices had remained unchanged. In other words, the actual volume of exports and the actual value of other receipts used to finance imports together would have been able to finance a volume of imports different from that which actually occurred, if export and import prices had remained unchanged since the base period.

38. It is important to note that the calculation of losses and gains, defined as above, may differ from the changes in the terms of trade. For example, if a developing country is in deficit on current trading account (i.e. imports exceed exports), an equal percentage rise in the prices of both imports and exports—i.e. no change in the terms of trade—would result in a relative loss in potential imports to the developing country as a result of price changes—despite the fact that the terms of trade remain unchanged. (Most developing countries do in fact have current account trading deficits). Furthermore, losses, as measured here, can occur even with a favourable movement in the terms of trade. Conversely, gains can occur even with a deterioration in the terms of trade.

39. The loss or gain to the total volume of imports arising from changes in import and export prices has been calculated for each of the 87 developing countries and territories considered here, for the period 1961-1970 inclusive and for the last three years of the decade (1968-1970). The statistical results given for each country in table A-3, are also depicted in chart I.3.[18]

40. Chart I.3 shows the actual annual average import volume (quantum) for each of 77 developing countries and territories (excluding the major petroleum-exporting countries) for the period 1961-1970 (expressed as an index number, using the three-year period 1958-1960 as a base). Thus, in a sense, it summarizes an important aspect of foreign trade throughout the First Development Decade. The vertical axis of chart I.3 depicts the losses or gains resulting from price changes between the two periods 1958-1960 and 1961-1970. The losses may be interpreted as losses in potential imports, i.e. of imports which would have been possible if there had been no change in export or import prices since the base period. On the other hand, the gains may be interpreted as the volume of additional imports resulting from a favourable price relationship between exports and imports, compared with the base period.

41. Table I.7 summarizes the results of the analysis of gains and losses for these 77 developing countries and territories. Thus, for the 1960s as a whole, 32 developing

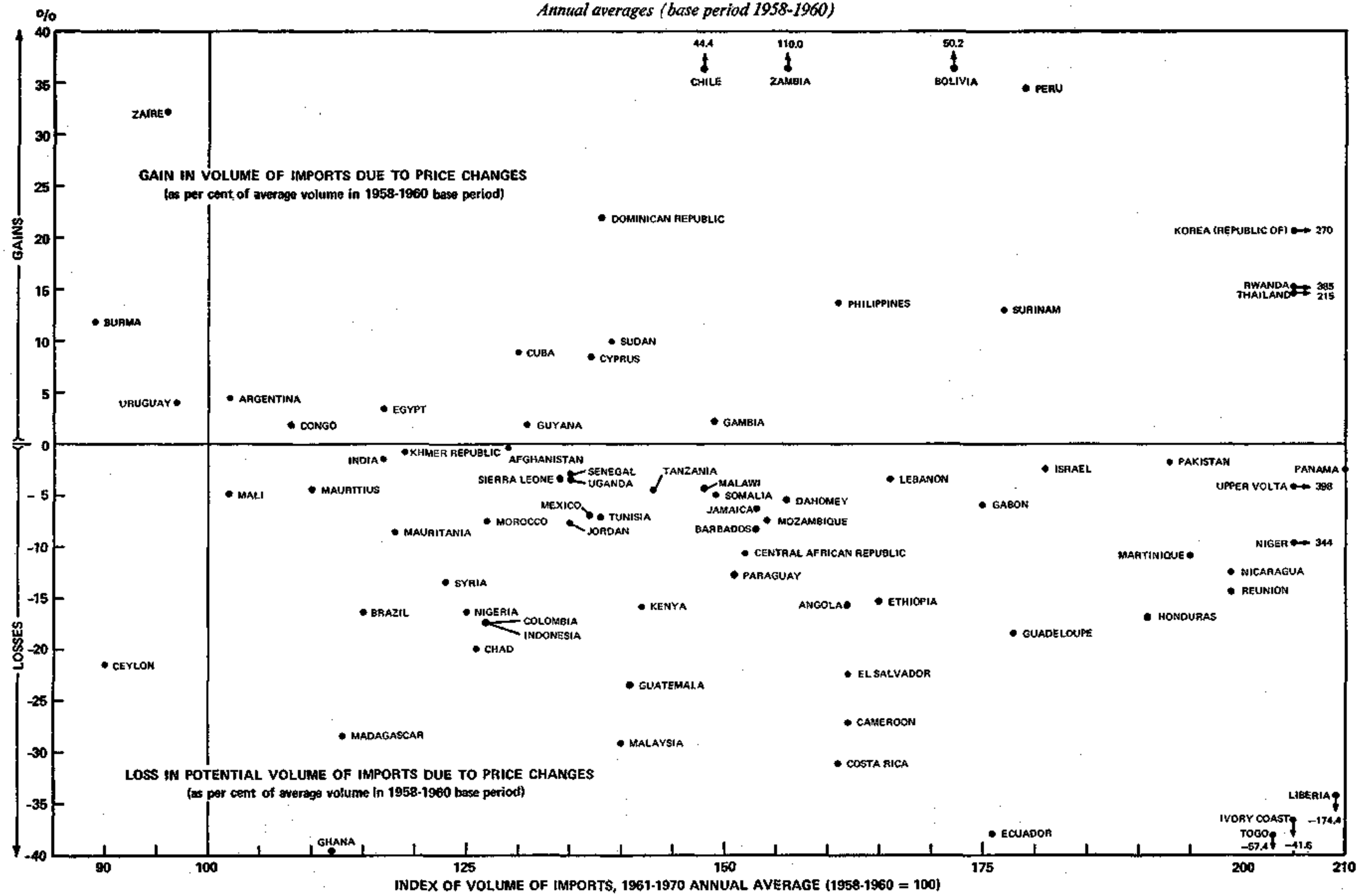
[17] Indeed, the volume and price effects are inter-related and the size of the gains and losses is a function of both.

[18] The calculated gains and losses are related to actual import volumes, so as to convey an idea of their relative magnitude, but this does not imply that all gains were necessarily devoted to purchases of additional imports or that all losses were accompanied by equal reductions of imports. Gains may in fact be devoted to a variety of purposes (including reserve accumulation) and losses may affect not imports but other items of the balance of payments—or else be offset, for example, by foreign borrowing.

CHART I.3

Gains or losses in import volume due to changes in export and import prices, as compared with actual growth in import volume: individual developing countries and territories *

Annual averages (base period 1958-1960)



* For explanatory text relating to this chart see paragraphs 34-42.

TABLE I.7

Distribution of developing countries [a] according to gains or losses in import volume due to changes in export and import prices

(Base period: 1958-1960)

Gains (+) or losses (−) in import volume as per cent of actual import volume in period distinguished	Annual average 1961-1970: Number of countries	Annual average 1961-1970: Proportion of total population in 1969	Annual average 1968-1970: Number of countries	Annual average 1968-1970: Proportion of total population in 1969
		(per cent)		(per cent)
+26 and above	4	2.6	5	3.4
+16 to +25	3	2.0	3	3.0
+6 to +15	8	10.1	8	8.7
+5 to −5	30	57.2	23	55.2
−6 to −15	20	23.8	22	23.4
−16 to −25	9	3.5	10	4.1
−26 to −35	2	0.7	4	1.3
−36 and below	1	0.1	2	0.9
TOTAL	77	100.0 [b]	77	100.0 [b]

Source: As for table I.4.

[a] Excluding the major petroleum-exporting countries.

[b] Total population in 1969 of the 77 countries and territories: 1,524 million.

TABLE I.8

Total gains or losses in import volume due to changes in export and import prices for selected groups [a] of developing countries, 1961 to 1970

(Base period: 1958-1960)

	All developing countries [b]: Total	Africa	Asia	Latin America	Major petroleum-exporting countries	Hard core least developed countries
I. *Countries with gains*						
Number of countries	22	7	6	9	2	2
Population, as percentage of group total (1969)	19	26	15	26	13	17
Gain [c] ($ million)	1 215	354	360	501	336	175
Actual import volume [c] ($ million)	9 578	1 711	3 852	4 015	816	256
Gain, as percentage of actual import volume	12.7	20.7	9.3	12.5	41.2	68.4
II. *Countries with losses*						
Number of countries	55	29	11	15	8	11
Population, as percentage of group total (1969)	81	74	85	74	87	83
Loss [c] ($ million)	1 580	563	453	563	417	33
Actual import volume [c] ($ million)	16 699	4 206	7 030	5 464	4 737	770
Loss, as percentage of actual import volume	9.5	13.7	64.5	10.3	8.8	42.9
III. *All countries*						
Net gain (+) or loss (−) [c] ($ million)	−365	−209	−94	−62	−80	−15
Actual import volume [c] ($ million)	26 277	5 917	10 882	9 479	5 553	1 026
Net gain (+) or loss (−), as percentage of actual import volume	−1.4	−3.5	−0.9	−0.7	−0.1	−1.5

Sources: As for table I.4.

[a] For country groupings, see table A-1.

[b] Excluding the major petroleum-exporting countries.

[c] Annual average.

countries and territories (representing 28 per cent of the population involved) showed significant losses—i.e. of more than 5 per cent of the actual import volume during the decade. At the same time, 15 (with 15 per cent of the population) showed significant gains.

42. Table I.8 summarizes the results for the 1960s by region and in total. For the period 1961-1970, losses were recorded for 63 out of the 87 developing countries and territories (including major petroleum exporters). With 81 per cent of the total population concerned, they had losses averaging $2 billion per year for the decade—or 9.3 per cent of their actual annual average volume of imports during the 1960s. On the other hand, the 24 with gains had gains of $1.6 billion per year during the decade—or 14.9 per cent of their actual annual average import volume during the 1960s.

Chapter II

Terms of trade of developed market-economy countries

43. Movements in the net barter terms of trade[19] of 24 developed market-economy countries—including Yugoslavia and other countries of southern Europe—are shown in table A-4.[20] An inspection of that table and of the underlying data suggests that the countries listed can be classified into three groups. The six members of the European Economic Community, the United States, the United Kingdom, Japan, and a few other countries can be described as mainly "industrial product exporters". The external trade of these countries is dominated by their exchanges with one another. As they all export similar—though not identical—products, competition ensures that their export and import prices do not normally move far out of line with each other. As a result their net barter terms of trade have shown remarkable stability, especially during the 1960s, when intra-industry specialization among these countries was growing rapidly. Nevertheless, over both the late 1950s and the 1960s a substantial improvement can be observed in the terms of trade of those industrialized countries which drew a relatively large proportion of their food and/or material supplies from abroad rather than from their domestic production; the greater part of this improvement occurred in the 1950s and mirrored the sharp decline in the terms of trade of the developing countries in that period. Between 1968 and 1970 the net barter terms of trade of the majority of the industrial exporters rose by 1 to 3 percentage points.

44. The next group of developed countries, which might be described as "mixed industrial and primary product exporters" (for example Canada, Austria, Finland and Denmark), have a significant volume of exports of manufactures similar in nature to those of the first group, but primary products and natural resource-based standardized manufactures (for example, processed food, timber products and non-ferrous metals) make up a large proportion of their total exports. As the prices of such products tend to fluctuate, the net barter terms of trade of this group of countries has shown greater variability than those of the industrial exporters. However, behind these short-term variations no long-term trend can be discerned.

45. The third group consists of countries whose exports are predominantly primary products and natural resource-based standardized manufactures. The net barter terms of trade of these "primary product exporters" tend to exhibit a marked degree of instability. Long-term experience among these countries varied: whereas the terms of trade of some of them generally rose, both in the late 1950s and in the 1960s, those of Australia and, especially, New Zealand declined substantially. The main exports of these two countries are exposed to the impact of agricultural protection in the other developed countries and to substitution by synthetics, and movements in their terms of trade closely paralleled the experience of Argentina and Uruguay —two developing countries with a similar trade structure.

46. With some exceptions, the purchasing power of the exporters of industrial products expanded appreciably faster than that of the primary product exporters. The extreme cases for the period 1954-1956 to 1968-1970 are, on the one hand, Japan, the purchasing power of whose exports grew at an average annual rate of 16.9 per cent, and on the other hand, New Zealand, with a growth rate of only 2.9 per cent.

[19] The component price indices relate to official published national series; they are on an f.o.b. basis for exports and c.i.f. basis for imports.

[20] The definition of "developed market-economy countries" used here corresponds to "Economic Class I", as defined by the United Nations Statistical Office.

STATISTICAL ANNEX

TABLE A-1

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

A. 1954-1956 to 1958-1960
B. 1958-1960 to 1968-1970
C. 1954-1956 to 1968-1970

Country or territory	*Net barter terms of trade (1)*	*Price index*		*Purchasing power of exports*[a] *(4)*	*Quantum index*	
		Exports (2)	*Imports (3)*		*Exports*[a] *(5)*	*Imports (6)*
All developing countries or territories						
A	−15	−12	3	0	16	9
B	3	13	9	65	60	66
C	−12	0	13	65	86	81

TABLE A-1 *(continued)*

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports[a] (4)	Quantum index: Exports[a] (5)	Quantum index: Imports (6)
Africa[a]						
A	−16	−15	2	10	30	9
B	6	16	10	66	58	51
C	−11	−1	12	82	105	65
Angola						
A	−31	−29	3	16	69	27
B	−3	6	10	147	155	133
C	−33	−25	12	188	329	196
Central African Republic						
A	−17	−17	−1	−16	1	9
B	−4	9	13	103	111	66
C	−20	−10	12	71	113	81
Cameroon						
A	−15	−15	−1	25	47	−6
B	−3	8	11	80	85	108
C	−17	−9	11	125	173	96
Chad *						
A	−7	−8	−1	−8	−2	11
B	−18	−8	11	42	73	53
C	−23	−16	10	30	70	71
Congo						
A	−1	−2	−1	61	61	37
B	10	24	12	140	118	6
C	10	22	11	286	251	45
Dahomey *						
A	3	2	−2	9	5	5
B	7	18	10	51	41	106
C	11	20	8	64	48	116
Egypt						
A	−25	−24	1	20	61	27
B	14	26	11	28	12	−5
C	−14	−4	12	54	79	20
Ethiopia *						
A	−26	−24	3	5	43	22
B	−7	3	11	51	62	90
C	−31	−22	14	59	132	132
Gabon						
A	−1	−2	−1	72	75	64
B	−10	1	13	161	191	107
C	−11	−1	11	350	408	238
Gambia						
A	−5	−3	2	19	25	4
B	2	9	7	71	68	107
C	−3	6	9	103	110	117
Ghana						
A	−10	−8	2	9	20	28
B	−15	−6	10	12	32	6
C	−23	−13	13	22	59	36
Ivory Coast						
A	−22	−23	−1	−2	27	8
B	−6	5	12	175	194	170
C	−27	−20	10	169	271	190
Kenya						
A	−24	−21	4	28	67	−9
B	−18	−9	10	70	106	76
C	−37	−28	16	115	244	61
Liberia						
A	0	8	8	49	49	85
B	−47	−40	15	145	365	107
C	−47	−35	23	266	594	280

TABLE A-1 (*continued*)

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports [a] (4)	Quantum index: Exports [a] (5)	Quantum index: Imports (6)
Africa (continued)						
Madagascar						
A	−17	−18	−1	−7	14	−7
B	−27	−18	12	35	84	31
C	−40	−33	11	26	109	21
Malawi *						
A	−12	−7	6	2	15	25
B	−1	10	11	115	118	97
C	−13	2	18	119	152	145
Mali *						
A	2	1	−1	15	12	−4
B	−1	12	13	13	13	−2
C	1	13	12	29	28	−6
Mauritius						
A	4	5	1	−7	−11	32
B	−16	−11	6	16	38	7
C	−13	−6	7	8	23	41
Mauritania						
A	1	1	0	0	−1	−5
B	−15	−3	14	3 449	4 077	51
C	−14	−3	13	3 466	4 044	44
Morocco						
A	−1	−2	−1	9	9	−22
B	−10	−1	10	27	40	48
C	−11	−3	9	37	53	16
Mozambique						
A	−6	−4	3	27	35	30
B	−3	5	9	98	104	108
C	−9	2	12	151	176	172
Niger *						
A	3	1	−2	−12	−15	18
B	2	15	12	97	93	328
C	5	16	10	73	64	401
Nigeria						
A	−7	−6	2	10	19	37
B	−5	4	9	91	100	34
C	−12	−2	11	111	139	83
Reunion						
A	10	8	−2	−6	−14	19
B	−13	−2	12	30	49	169
C	−4	5	9	23	28	219
Rwanda *						
A	−22	−21	1	82	133	96
B	7	18	10	344	316	466
C	−17	−7	12	704	871	1 017
Senegal						
A	−8	−10	−3	14	23	−2
B	3	14	10	21	18	46
C	−5	2	7	37	45	43
Sierra Leone						
A	−5	−3	2	92	102	37
B	0	9	9	45	45	41
C	−5	6	12	178	193	92
Somalia *						
A	11	14	2	69	54	32
B	−10	−2	9	26	39	55
C	0	11	11	114	114	103
Sudan *						
A	−28	−25	4	6	47	22
B	19	30	10	41	19	47
C	−14	−2	14	50	74	79

TABLE A-1 *(continued)*

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports[a] (4)	Quantum index: Exports[a] (5)	Quantum index: Imports (6)
Africa (concluded)						
Tanzania *						
A	−12	−8	4	12	28	−9
B	−8	1	10	42	54	82
C	−19	−7	15	60	97	66
Togo						
A	−22	−21	1	−20	2	19
B	−24	−16	11	155	237	157
C	−41	−33	13	104	245	206
Tunisia						
A	1	1	0	21	19	−8
B	−8	2	11	10	19	43
C	−7	3	10	33	43	31
Uganda *						
A	−32	−29	4	2	49	−14
B	3	12	9	55	51	54
C	−30	−20	14	58	125	33
Upper Volta *						
A	19	16	−2	−5	−20	10
B	15	29	12	294	243	357
C	36	51	11	274	174	401
Zaire						
A	−24	−22	3	−3	28	−20
B	61	79	11	25	−22	19
C	22	39	14	22	0	−4
Zambia						
A	−32	−26	8	−11	32	30
B	98	120	11	184	43	116
C	35	61	19	155	88	181
Asia[b]						
A	−6	−3	3	1	6	19
B	−1	6	6	69	70	79
C	−6	3	9	70	81	112
Afghanistan *						
A	−7	−5	2	4	12	35
B	−2	8	10	37	40	21
C	−10	2	12	43	57	63
Burma						
A	−16	−15	1	−12	4	16
B	30	32	1	−47	−59	−29
C	10	12	3	−53	−58	−17
Ceylon						
A	−5	−4	1	−4	1	25
B	−30	−25	7	−16	21	−8
C	−33	−28	8	−19	21	16
Cyprus						
A	−26	−24	2	−7	27	23
B	36	48	9	75	29	74
C	0	12	11	64	63	114
India						
A	−12	−7	4	−3	10	32
B	−1	9	10	32	33	−2
C	−12	1	15	29	46	29
Indonesia						
A	−2	0	2	−8	−7	−26
B	−13	−9	5	−15	−2	42
C	−15	−9	7	−22	−8	5
Israel						
A	−8	−6	3	82	98	30
B	6	19	13	241	221	148
C	−3	13	16	517	535	224

TABLE A-1 *(continued)*

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports[a] (4)	Quantum index: Exports[a] (5)	Quantum index: Imports (6)
Asia (continued)						
Jordan						
A	11	14	2	1	−9	54
B	−2	10	12	233	238	46
C	9	24	14	237	209	124
Khmer Republic						
A	−9	−7	1	28	41	54
B	2	8	6	0	−1	5
C	−7	−1	7	29	40	61
Korea, Republic of						
A	−21	−21	1	4	32	5
B	31	32	1	2 616	1 967	410
C	3	4	1	2 721	2 637	437
Lebanon						
A	−43	−41	3	9	89	22
B	21	34	11	316	245	90
C	−31	−21	15	354	557	131
Malaysia						
A	1	5	4	12	11	16
B	−21	−17	6	49	89	52
C	−21	−13	10	67	110	76
Pakistan						
A	6	12	5	−12	−18	28
B	2	12	10	91	87	106
C	9	26	15	67	53	165
Philippines						
A	0	3	3	22	22	0
B	24	33	7	75	41	100
C	24	38	11	114	72	100
Syria						
A	−3	−1	1	−14	−12	15
B	−11	−4	8	55	75	52
C	−13	−5	9	34	55	74
Taiwan						
A	−21	−21	0	43	80	25
B	22	21	−1	591	467	386
C	−3	−4	−1	888	923	507
Thailand						
A	−16	−15	2	11	32	23
B	10	13	3	87	70	183
C	−8	−3	5	107	124	249
America[b]						
A	−21	−17	4	−7	16	3
B	3	15	12	59	55	60
C	−19	−5	17	48	81	65
Argentina						
A	−18	−12	7	−1	20	−1
B	−2	10	13	37	40	13
C	−20	−3	21	36	69	12
Barbados						
A	5	7	2	11	5	39
B	−8	3	11	37	48	99
C	−3	11	14	51	56	176
Bolivia						
A	−1	2	3	−32	−31	−12
B	47	61	9	218	116	107
C	46	64	12	118	49	81
Brazil						
A	−32	−29	4	−18	19	−3
B	−10	1	12	64	81	55
C	−38	−28	16	34	116	50

TABLE A-1 *(continued)*

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports[a] (4)	Quantum index: Exports[b] (5)	Quantum index: Imports (6)
America (continued)						
Chile						
A	−26	−22	5	−8	25	18
B	74	101	15	96	13	75
C	28	56	21	80	40	105
Colombia						
A	−32	−29	5	−28	6	−36
B	−14	−2	14	16	35	48
C	−42	−30	19	−16	44	−6
Costa Rica						
A	−25	−22	4	4	41	15
B	−23	−12	13	106	166	120
C	−42	−32	18	115	273	154
Cuba						
A	4	2	−1	10	5	25
B	13	18	5	11	−1	56
C	17	21	3	22	4	94
Dominican Republic						
A	−11	−7	3	16	30	12
B	28	43	12	16	−9	79
C	14	33	16	34	18	101
Ecuador						
A	−15	−12	3	14	33	−5
B	−18	−8	12	30	59	140
C	−30	−19	16	48	111	128
El Salvador						
A	−30	−28	3	3	47	14
B	−14	−5	9	69	95	76
C	−39	−32	13	75	189	98
Guadeloupe						
A	0	−1	−1	9	9	28
B	−9	2	13	−2	8	126
C	−9	1	11	7	18	190
Guatemala						
A	−31	−28	4	−5	39	23
B	−17	−7	12	111	153	66
C	−43	−33	16	102	251	104
Guyana						
A	10	14	3	16	6	33
B	−3	9	12	71	76	48
C	7	23	15	99	87	96
Honduras						
A	−29	−25	6	7	52	15
B	−15	−3	14	126	166	158
C	−40	−27	21	142	302	195
Jamaica						
A	−5	−2	4	41	49	43
B	−3	10	14	80	85	101
C	−8	9	18	155	177	189
Martinique						
A	−6	−8	−3	19	27	20
B	10	24	12	3	−7	158
C	4	13	9	23	18	212
Mexico						
A	−17	−12	6	−9	9	14
B	0	14	15	57	58	71
C	−17	1	22	42	72	94
Nicaragua						
A	−22	−18	4	−4	22	0
B	−6	2	9	134	150	124
C	−27	−16	14	124	206	124

TABLE A-1 *(continued)*

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports [b] (4)	Quantum index: Exports [a] (5)	Quantum index: Imports (6)
America (concluded)						
Panama						
A	−17	−13	5	−7	12	23
B	11	24	11	212	182	177
C	−8	8	17	191	217	241
Paraguay						
A	−31	−27	5	−17	19	0
B	−7	4	12	59	71	93
C	−36	−24	18	31	103	92
Peru						
A	−23	−19	5	19	56	5
B	32	48	12	141	82	65
C	1	19	18	187	183	73
Surinam						
A	25	30	3	33	6	49
B	9	22	12	199	176	116
C	36	58	16	297	192	225
Uruguay						
A	−18	−14	5	−46	−34	−26
B	0	9	9	54	53	−3
C	−18	−6	14	−17	1	−28
Major petroleum-exporting countries						
A	−4	−1	3	23	28	37
B	−3	8	11	76	81	35
C	−6	7	14	116	131	84
Algeria						
A	9	6	−3	12	3	75
B	−11	−2	10	78	100	−27
C	−3	4	7	100	106	28
Brunei						
A	−12	−2	10	−11	0	−42
B	−2	5	7	−18	−16	221
C	−13	3	18	−27	−16	87
Iran						
A	−3	0	3	96	100	108
B	−13	−3	12	147	184	115
C	−15	−3	15	384	472	347
Iraq						
A	−12	−7	5	18	32	23
B	0	11	10	58	57	20
C	−11	3	16	85	108	47
Kuwait						
A	−1	3	4	41	43	133
B	−6	4	11	45	55	139
C	−7	6	15	105	121	459
Libyan Arab Republic						
A	−7	−3	4	−1	5	209
B	34	50	12	15 365	11 412	341
C	25	46	17	15 153	12 058	1 261
Netherlands Antilles						
A	−6	−2	3	−13	−8	−10
B	−4	5	10	−22	−18	−20
C	−9	3	14	−32	−25	−28
Saudi Arabia						
A	−10	−7	4	15	28	2
B	2	13	11	134	131	143
C	−9	6	16	169	194	148

TABLE A-1 *(concluded)*

Changes in the net barter terms of trade and in the purchasing power of exports: individual developing countries and territories

Country or territory	Net barter terms of trade (1)	Price index: Exports (2)	Price index: Imports (3)	Purchasing power of exports [a] (4)	Quantum index: Exports [a] (5)	Quantum index: Imports (6)
Major petroleum-exporting countries (continued)						
Trinidad and Tobago						
A	−4	−1	3	52	59	56
B	−7	4	12	59	71	62
C	−11	3	15	141	170	154
Venezuela						
A	−5	−1	4	20	27	25
B	−7	5	14	4	12	9
C	−12	4	18	25	42	37

* Denoting a "hard core" least developed country. (See foot-note c to table I.1.)

a The very large numbers appearing in a few cases in columns (4) and (5) (e.g., in the case of Mauritania, Republic of Korea and Libya) represent increases as from very small initial levels; in the case of Mauritania and Libya they reflect the exploitation of natural resources not as yet in exportation in the base period.

b Excluding the major petroleum-exporting countries.

TABLE A-2

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(per cent)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share [a] 1962 (6)	Share [a] 1968 (7)	SITC group (8)
Africa								
Angola	−55		+51					
		−64		+92	Coffee	44	45	071
		−8		+37	Diamonds, rough	16	19	667
		−24		−20	Iron ore	3	9	281
Central African Republic	−31		+18					
		−8		+37	Diamonds, rough	30	50	667
		+2		−23	Cotton, raw	34	24	263
		−64		+92	Coffee	23	17	071
Cameroon	−43		+30					
		−51		+20	Cocoa	31	36	072
		−64		+92	Coffee	21	27	071
		+19		+20	Aluminium	20	12	684
Chad	+2		−21					
		+2		−23	Cotton, raw	78	87	263
Congo	+2		+21					
		+13		+13	Wood, rough	38	44	242
		−8		+37	Diamonds, rough	34	29	667
		+24		+16	Plywood	1	11	631
Dahomey	−8		+38					
		+4		+21	Palm oil and palm kernel oil .	17	51	422
Egypt	−15		+14					
		−16		+3	Cotton, raw	61	46	263
		−38		−4	Rice	4	17	042
		−2		+29	Textiles	7	11	651
Ethiopia	−39		+31					
		−52		+52	Coffee	54	62	071
		−14		−17	Hides and skins	13	10	211
		+80		−8	Potatoes and pulses	10	9	054
Gabon	−3		−2					
		−6		+10	Crude petroleum	20	34	331
		−7		+10	Wood, rough	59	28	242
		0		−36	Manganese ore	0	21	283

TABLE A-2 (*continued*)

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(per cent)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share * 1962 (6)	Share * 1968 (7)	SITC group (8)
Africa (continued)								
Gambia	+23		+14					
		+25		+16	Groundnuts and palm kernels	95	45 [a]	221
		−12		+16	Groundnut oil	4	36 [a]	421
Ghana	−43		+6					
		−51		+20	Cocoa	71	68	072
		+19		+20	Aluminium	0	9	684
Ivory Coast	−53		+37					
		−64		+92	Coffee	46	31	071
		−51		+20	Cocoa	23	24	072
		+13		+13	Wood, rough	18	22	242
Kenya	−25		0					
		−42		+26	Coffee	32	27	071
		−13		−23	Tea	16	18	074
		−6		+10	Petroleum products	0	11	332
Liberia	+40		−46					
		+29		−45	Iron ore	53	74	281
Madagascar	−40		−4					
		−64		+92	Coffee	28	31	071
		+19		−45	Pepper, vanilla, cloves	15	19	075
		−8		−19	Rice	10	11	042
Malawi	+5		+12					
		+13		+72	Tobacco, unmanufactured	37 [b]	33	121
		−13		−23	Tea	30 [b]	30	074
		+26		+16	Groundnuts	10	14	221
Mali	+17		+13					
		+2		−23	Cotton	12	37	263
		+26		+44	Groundnuts and cottonseed	47	20	221
		+14		+68	Live cattle and sheep	12	20	001
Mauritania	+1		+1					
		0		−1	Iron ore	83 [c]	92	281
Mauritius	+11		−11					
		+11		−11	Sugar, raw	98	97	061
Morocco	−1		−2					
		−2		−12	Phosphate rock	28 [d]	26	271
		+7		−24	Oranges	13	18	051
		+13		+44	Potatoes, tomatoes, pulses	13	16	054
Mozambique	+1		+1					
		+48		+60	Oranges, grapefruit, bananas, cashew nuts	8	18	051
		+2		−23	Cotton	31	18	263
		+3		+24	Sugar, raw	3	11	061
Niger	+23		+22					
		+26		+16	Groundnuts	63	68	221
		+16		+65	Live cattle and sheep	17	13	001
Nigeria	−19		+13					
		+16		+16	Groundnuts, palm kernels, cottonseed, soya beans	33	25	221
		−51		+20	Cocoa	20	27	072
		−6		+10	Crude petroleum	10	19	331
Reunion	+11		−5					
		+11		−5	Sugar, raw	86	81	061
Rwanda	−30		+40					
		−47		+25	Coffee	43 [e]	54	071
		+11		+67	Tin concentrates	46 [e]	39	283

TABLE A-2 *(continued)*

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(per cent)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share [a] 1962 (6)	Share [a] 1968 (7)	SITC group (8)
Africa (concluded)								
Senegal	−3		+17					
		−12		+16	Groundnut oil	37	36	421
		+26		+16	Groundnuts, palm kernels . .	37	20	221
		−37		+55	Animal feedstuff	8	16	081
Sierra Leone	−15		+20					
		−8		+37	Diamonds, rough	59	63	667
		−13		−30	Iron ore	22	14	281
Somalia	+14		0					
		+33		+44	Live cattle, sheep and goats . .	35	51	001
		+9		−37	Bananas	50	31	051
Sudan	−13		+21					
		−15		+21	Cotton, raw	60 [f]	58	263
		+5		+16	Groundnuts, cottonseed, sesame, castorseed	28 [f]	18	221
Tanzania	−4		−2					
		+2		−23	Cotton, raw	17	19 [g]	263
		−42		+26	Coffee	14	18 [g]	071
		−6		+10	Petroleum products	0	11	332
Togo	−52		+4					
		0		−25	Phosphate rock	0	35	271
		−51		+20	Cocoa	34	32	072
		−64		+92	Coffee	40	18	071
Tunisia	+3		+9					
		−6		+10	Crude petroleum	0	17	331
		+3		−2	Phosphate rock	14	15	271
		−3		+19	Olive oil	27	15	421
Uganda	−49		+45					
		−64		+92	Coffee	48	56	071
		−11		−17	Cotton, raw	31	22	263
Upper Volta	+11		+39					
		+17		+64	Live cattle and sheep	63	47	001
		+2		−23	Cotton	3	19	263
		−19		+51	Groundnuts, cottonseed, sesame, karite almonds	8	18	221
Zaire	−9		+83					
		−1		+109	Copper	55	63	682
		−32		+28	Cobalt	0	6	689
		−8		+37	Diamonds, rough	3	6	667
Zambia	−1		+109					
		−1		+109	Copper metal	92 [h]	96	682
Asia								
Afghanistan	−1		+4					
		+13		+58	Grapes	16	21	051
		−3		+33	Raisins	10	15	052
		−1		−8	Karakul skins	23	14	212
Burma	−28		+15					
		−36		+19	Rice	64	51 [i]	042
		+4		+10	Wood, rough	5	17 [i]	242
		+4		+10	Wood, shaped	7	9	243
Ceylon	0		−25					
		+60		−48	Tea	65	59	074
		−13		−23	Rubber, crude	17	17	231

TABLE A-2 *(continued)*

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(per cent)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share [a] 1962 (6)	Share [a] 1968 (7)	SITC group (8)
Asia (continued)								
Cyprus	−17		+55					
		+7		−3	Oranges, grapefruit, lemons, grapes	20	25	051
		−33		+127	Potatoes	19	21	054
		−1		+109	Copper (pyrites and cement)	27	17	283
India	−3		+11					
		−2		+29	Woven textiles	16	13	653
		+60		−48	Tea	19	13	074
		+12		−1	Iron ore	3	7	281
Indonesia	+19		−11					
		−6		+10	Crude petroleum	18	42 [j]	331
		+60		−48	Rubber, crude	43	19 [j]	231
		+13		+63	Tin ore, bauxite	0	8	283
Israel	−7		+21					
		−8		+37	Diamonds, cut and polished	33	36	667
		+9		−21	Oranges, grapefruit, lemons, bananas	19	15	051
Jordan	+44		+9					
		+248		−6	Phosphate rock	34	35	271
		+10		+62	Potatoes, onions, tomatoes, pulses	33	28 [k]	054
		+76		+4	Oranges, lemons, bananas, grapes, water melons	16	9	051
Khmer Republic	+7		+6					
		−19		+103	Rice	41	34	042
		+60		−48	Rubber, crude	30	27	231
		−17		+24	Maize, unmilled	11	5	044
Korea, Republic of	−1		+24					
		−2		+29	Clothing	8 [l]	25	841
		+9		+6	Veneers and plywood	0	15	631
Lebanon	−43		+33					
		−52		+63	Apples	23	16	051
Malaysia	+42		−23					
		+60		−48	Rubber, crude	53 [f]	47	231
		+11		+67	Tin	24 [f]	27	687
		+5		+21	Coconut oil, palm oil	3	5	422
Pakistan	+35		−9					
		+81		−35	Jute	42	23	264
		−27		+1	Cotton, raw	11	15	263
Philippines	+1		+36					
		+13		+13	Wood, rough	17 [m]	24	242
		+11		+70	Sugar, raw	26	16	061
		+3		+10	Copra	21	15	221
Syria	+11		−10					
		+2		−23	Cotton, raw	47	44	263
		+28		+49	Live cattle and sheep	3	17	001
		+76		+22	Onions, tomatoes, pulses	3	6	054
Taiwan	−27		+43					
		−2		+29	Clothing	5	12	841
		+9		+6	Plywood	5	7	631
Thailand	−31		+19					
		−32		+17	Rice	37	29	042
		+60		−48	Rubber, crude	22	16	231
		−17		+24	Maize, unmilled	6	12	044

TABLE A-2 *(continued)*

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(per cent)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share * 1962 (6)	Share * 1968 (7)	SITC group (8)
America								
Argentina	−10		+5					
		+3		+16	Beef, lamb, bacon	14	15	011
		−17		+24	Maize, unmilled	10	10	044
		−7		+1	Wheat	14	10	041
Barbados	+12		+3					
		+11		−5	Sugar, raw	91	69	061
		+10		+47	Fish, fresh	0	13	031
Bolivia	+10		+66					
		+8		+72	Copper, lead, zinc, tin ores, tungsten concentrates	81	76	283
Brazil	−45		+31					
		−52		+52	Coffee	55	43	071
		−6		−17	Cotton, raw	9	7	263
		−2		+52	Sugar, raw	3	6	061
Chile	+3		+92					
		−1		+109	Copper metal	66	76	682
Colombia	−37		+20					
		−42		+26	Coffee	71	62 [a]	071
		−6		+10	Crude petroleum	14	7	331
		+2		−23	Cotton, raw	4	5	263
Costa Rica	−35		+5					
		−47		+25	Coffee	56	36	071
		−1		−19	Bananas	30	28	051
		+10		+27	Beef	3	8	011
Cuba	−8		+31					
		−10		+24	Sugar (raw and refined)	86 [1]	82 [1]	061
Dominican Republic	−20		+52					
		+11		+70	Sugar, raw	58	60	061
		−47		+25	Coffee	13	11	071
		−1		+15	Bauxite	0	8	283
Ecuador	−27		−3					
		−4		−23	Bananas	61	55	051
		−47		+25	Coffee	15	19	071
		−52		+20	Cocoa	12	16	072
El Salvador	−36		+11					
		−47		+25	Coffee	58	47	071
		+2		−23	Cotton, raw	23	9	263
		+27		−14	Sugar, raw	2	5	061
Guadeloupe	−5		+19					
		−7		+15	Sugar, raw	58	54	061
Guatemala	−39		+11					
		−47		+25	Coffee	65	40	071
		+2		−23	Cotton, raw	14	17	263
		−19		−19	Bananas	9	6	051
Guyana	+13		+14					
		+29		+22	Bauxite	36	47	283
		+10		+7	Sugar, raw	44	33	061
Honduras	−37		+7					
		−37		+4	Bananas	48	49	051
		−47		+25	Coffee	15	13	071
		+11		−7	Wood, shaped	7	8	243
Jamaica	+10		+14					
		+13		+24	Bauxite, alumina	48	57	283
		+8		+12	Sugar, raw	27	20	061

TABLE A-2 *(continued)*

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(per cent)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share * 1962 (6)	Share * 1968 (7)	SITC group (8)
America (continued)								
Martinique	+11		+43					
		+21		+43	Rum	10	13	112
Mexico	−12		+11					
		+1		−27	Cotton, raw	22	14	263
		+22		+33	Sugar, raw	6	8	061
		+9		+76	Silver	3	6	681
Nicaragua	−19		+3					
		+2		−23	Cotton, raw	38	40	263
		−47		+25	Coffee	26	16	071
		+10		+27	Beef	8	12	011
Panama	−20		+28					
		−11		+34	Bananas	48	61	051
		−6		+10	Petroleum products	28	23	332
Paraguay	−37		+23					
		−54		+77	Meat, tinned, etc.	22	26	013
		+13		+13	Wood, rough	17	15	242
		+3		+29	Palm oil, palm kernel oil, tung oil	6	8	422
Peru	−11		+54					
		−1		+109	Copper metal	17	24 [1]	682
		−15		+65	Fish meal	16	23 [1]	081
		−10		+58	Copper, lead and zinc ores	9	10	283
Surinam	+29		+24					
		+16		+21	Bauxite, alumina	80	82	283
Uruguay	−15		+4					
		−24		−23	Wool, raw	45	33	262
		+9		+27	Beef and lamb	13	31	011
		−2		+29	Textiles	16	18	651
Major petroleum-exporting countries								
Algeria	0		+6					
		−6		+10	Crude petroleum	64 [c]	73 [k]	331
Brunei	−6		+10					
		−6		+10	Crude petroleum	98	99	331
Iran	−5		+1					
		−5		+1	Crude petroleum	64	79	331
Iraq	−12		+20					
		−12		+20	Crude petroleum	93	96	331
Kuweit	0		+9					
		0		+9	Crude petroleum	90	90	331
Libya	+26		+46					
		0		+74	Crude petroleum	0	100	331
Netherlands Antilles	−6		+10					
		−6		+10	Petroleum products	95	95	332
Saudi Arabia	−10		+18					
		−10		+18	Crude petroleum	84	86	331

TABLE A-2 (*concluded*)

Changes in total export prices and in prices of leading export commodities: individual developing countries and territories

(*per cent*)

Country or territory	1954 to 1960 Change: Total (1)	1954 to 1960 Change: Leading export commodities (2)	1960 to 1970 Change: Total (3)	1960 to 1970 Change: Leading export commodities (4)	Leading export commodities (5)	Corresponding 3-digit SITC product group: Share [a] 1962 (6)	Share [a] 1968 (7)	SITC group (8)
Major petroleum-exporting countries (continued)								
Trinidad	−5		+9					
		−6		+10	Petroleum products	80	71	332
Venezuela	−4		+10					
		−6		+10	Crude petroleum	68	68	331

NOTES. The leading commodity export price series given here are specific to the particular items exported by the country in question, and hence pertain to more specific products than do the corresponding 3-digit SITC product groups for which percentage shares of exports are given. In column (5) the particular product for which export price data are given is described, rather than the usually more comprehensive 3-digit SITC code. Differences between countries in export price movements of the same leading product result from the price series being specific to the particular product variety exported by each country. For example, "Coffee" export price movements vary among producers because of differences in the mix of coffee varieties exported. The price data shown here for textiles and clothing manufactures do not represent specific price series but rather the trend for all developing countries of the unit value index for exports of manufactures (see part two, paras. 4 and 7).

Data in this table refer to movements between single years only, unlike the other tables in this study, which compare three-year averages; time did not permit the preparation of three-year averages, but the use of single-year data here reveals more clearly the very sharp fluctuations which occur in commodity prices.

[*] 1961-1963 and 1967-1969 averages where the percentage share is greater than 20 1962 and 1968 annual figures otherwise, except as noted below.

[a] 1966-1968.

[b] 1964.

[c] 1963.

[d] 1960-1961.

[e] 1963-1964.

[f] 1962-1963.

[g] 1967-1968.

[h] 1964.

[i] 1966-1968.

[j] Average for 1967 and 1969.

[k] 1967.

[l] 1962-1964.

[m] 1961-1962.

TABLE A-3

Gains or losses in import volume due to changes in export and import prices, as compared with actual growth in import volume: individual developing countries and territories

(*Base period: 1958-1960*)

Country or territory	Annual average 1961-1970: Import loss (−) or gain (+): In $ million	As a percentage of actual import volume	As a percentage of base period imports	Actual import volume index (1958-1960 = 100)	Annual average 1968-1970: Import loss (−) or gain (+): In $ million	As a percentage of actual import volume	As a percentage of base period imports	Actual import volume index (1958-1960 = 100)
Developing countries and territories (excluding the major petroleum-exporting countries)								
Africa								
Angola	−20	−10	−16	162	−7	−2	−5	233
Central African Republic	−2	−7	−11	152	−1	−4	−7	166
Cameroon	−25	−17	−27	162	−6	−3	−7	208
Chad	−5	−16	−20	126	−7	−18	−28	153
Congo	+1	+2	+2	108	0	0	0	107
Dahomey	−1	−4	−6	156	−1	−2	−4	206
Egypt	+22	+3	+3	117	+79	+13	+12	95
Ethiopia	−12	−9	−15	165	−14	−9	−18	190
Gabon	−2	−3	−6	175	−7	−11	−23	207
Gambia	+0.2	+1	+2	149	0	0	0	206
Ghana	−121	−35	−40	112	−63	−19	−21	106
Ivory Coast	−48	−20	−42	205	−18	−6	−16	270
Kenya	−28	−11	−16	142	−52	−17	−29	176
Liberia	−87	−83	−174	209	−141	−136	−281	207
Madagascar	−34	−25	−28	113	−46	−29	−39	131
Malawi	−2	−3	−4	148	−4	−6	−11	195
Mali	−2	−5	−5	102	−2	−7	−7	98
Mauritania	−2	−7	−9	118	−8	−21	−32	152

TABLE A-3 (*continued*)

Gains or losses in import volume due to changes in export and import prices, as compared with actual growth in import volume: individual developing countries and territories

Country or territory	Annual average 1961-1970: Import loss (−) or gain (+): In $ million	As a percentage of actual import volume	As a percentage of base period imports	Actual import volume index (1958-1960 = 100)	Annual average 1968-1970: Import loss (−) or gain (+): In $ million	As a percentage of actual import volume	As a percentage of base period imports	Actual import volume index (1958-1960 = 100)
Africa (continued)								
Mauritius	−3	−4	−4	110	−12	−18	−19	107
Morocco	−28	−6	−8	127	−61	−11	−16	147
Mozambique	−9	−5	−8	154	−15	−6	−13	207
Niger	−1	−3	−10	344	−2	−5	−23	430
Nigeria	−85	−13	−16	125	−28	−4	−5	132
Reunion	−7	−7	−14	199	−17	−13	−35	268
Rwanda	+1	+4	+15	385	+1	+3	+17	567
Senegal	−4	−2	−3	135	−2	−1	−1	146
Sierra Leone	−2	−3	−4	134	−1	−1	−1	141
Somalia	−1	−3	−5	149	−4	−10	−15	154
Sudan	+17	+7	+10	139	+35	+14	+21	147
Tanzania	−5	−3	−5	143	−19	−9	−16	182
Togo	−11	−28	−57	203	−14	−29	−73	255
Tunisia	−12	−5	−7	138	−23	−10	−14	142
Uganda	−3	−3	−3	135	+14	+12	+19	154
Upper Volta	−0.4	−1	−4	398	−1	−2	−7	459
Zaire	+10	+34	+32	96	+238	+64	+76	119
Zambia	+213	+71	+110	156	+471	+113	+243	216
Asia								
Afghanistan	−0.3	—	—	129	−4	−5	−5	120
Burma	+27	+13	+12	89	+26	+16	+11	71
Ceylon	−85	−24	−21	90	−139	−37	−35	93
Cyprus	+9	+6	+8	137	+15	+8	+14	173
India	−33	−1	−2	117	−38	−2	−2	98
Indonesia	−93	−14	−17	127	−112	−15	−21	142
Israel	−12	−1	−3	181	−32	−3	−7	247
Jordan	−8	−6	−8	135	−15	−9	−14	146
Khmer Republic	−1	−1	−1	119	−1	−1	−1	106
Korea, Republic of	+70	+8	+21	270	+143	+8	+42	509
Lebanon	−9	−2	−3	166	−13	−3	−5	190
Malaysia	−175	−21	−29	140	−305	−33	−50	152
Pakistan	−8	−1	−2	193	−19	−2	−4	206
Philippines	+79	+8	+14	161	+163	+14	+28	200
Syrian Arab Republic	−28	−11	−14	123	−34	−11	−16	152
Taiwan	+113	+16	+45	288	+199	+16	+79	483
Thailand	+6	+7	+14	215	+47	+4	+11	283
America								
Argentina	+51	+4	+4	102	−21	−2	−2	113
Barbados	−4	−6	−8	153	−10	−11	−21	199
Bolivia	+36	+29	+50	172	+57	+39	+80	207
Brazil	−228	−14	−16	115	−234	−11	−17	155
Chile	+197	+30	+44	148	+400	+52	+90	174
Colombia	−77	−14	−17	127	−110	−17	−25	148
Costa Rica	−32	−19	−31	161	−58	−26	−56	219
Cuba	+64	+7	+9	130	+68	+6	+9	156
Dominican Republic	+24	+16	+22	138	+32	+16	+28	178
Ecuador	−35	−22	−38	176	−46	−21	−49	241
El Salvador	−25	−14	−22	162	−31	−16	−29	176
Guadeloupe	−9	−10	−19	178	−13	−13	−28	225
Guatemala	−33	−17	−24	141	−47	−20	−33	165
Guyana	+1	+1	+2	131	−3	−3	−5	147
Honduras	−11	−9	−17	191	−30	−17	−45	258
Jamaica	−12	−4	−6	153	−27	−7	−14	200

TABLE A-3 *(concluded)*

Gains or losses in import volume due to changes in export and import prices, as compared with actual growth in import volume: individual developing countries and territories

Country or territory	Annual average 1961-1970: Import loss (−) or gain (+): In $ million	As a percentage of actual import volume	As a percentage of base period imports	Actual import volume index (1958-1960 = 100)	Annual average 1968-1970: Import loss (−) or gain (+): In $ million	As a percentage of actual import volume	As a percentage of base period imports	Actual import volume index (1958-1960 = 100)
America (concluded)								
Martinique	−5	−6	−11	195	−8	−7	−18	258
Mexico	−77	−5	−7	137	−114	−6	−10	170
Nicaragua	−9	−6	−13	198	−11	−7	−16	225
Panama	−3	−1	−3	210	−11	−4	−11	276
Paraguay	−4	−9	−13	151	−5	−8	−15	194
Peru	+115	+19	+35	179	+234	+42	+70	165
Surinam	+6	+7	+13	177	+12	+12	+26	216
Uruguay	+7	+4	+4	97	0	0	0	97
Major petroleum-exporting countries								
Algeria	−85	−11	−7	64	−108	−13	−9	73
Brunei	−1	−3	−7	198	−1	−1	−3	322
Iran	−136	−15	−22	144	−224	−17	−36	215
Iraq	−14	−3	−4	117	+58	+14	+17	120
Kuwait	−30	−7	−13	178	−8	−1	−3	239
Libya	+251	+69	+198	289	+653	+117	+516	442
Netherlands Antilles	−33	−5	−4	83	−33	−5	−4	80
Saudi Arabia	+85	+19	+34	180	+182	+30	+73	242
Trinidad and Tobago	−30	−7	−11	151	−35	−8	−13	162
Venezuela	−88	−8	−7	90	−54	−4	−4	109

TABLE A-4

Changes in the net barter terms of trade of the developed market-economy countries, 1954 to 1970

(per cent)

Group	*1954-1956 to 1958-1960*			*1958-1960 to 1968-1970*			*1954-1956 to 1968-1970*			*1969 to 1970*		
	Net barter terms	*Export price*	*Import price*	*Net barter terms*	*Export price*	*Import price*	*Net barter terms*	*Export price*	*Import price*	*Net barter terms*	*Export price*	*Import price*
All developed market-economy countries												
All developed market-economy countries	+4	+1	−3	+5	+12	+7	+9	+13	+4	—	+6	+6
North America												
Canada	0	+4	+4	+1	+11	+10	+1	+16	+15	+1	+5	+4
United States	+9	+5	−3	+6	+18	+11	+15	+24	+8	−2	+5	+7
EEC												
Belgium-Luxembourg	+1	−2	−3	+4	+7	+3	+5	+5	0	+1	+5	+4
France	+3	−2	−5	+8	+10	+2	+11	+8	−3	0	+3	+3
Germany, Federal Republic of	+8	+2	−7	+9	+13	+4	+19	+15	−3	+4	+9	+5
Italy	+2	−8	−10	−1	+4	+5	+1	−4	−5	+1	+6	+5
Netherlands	+1	+1	0	+3	+9	+6	+4	+10	+6	−3	+4	+7
EFTA												
Austria	+7	0	−6	+7	+1	−6	+15	+1	−12	−3	+8	+11
Denmark	+2	−2	−4	+2	+6	+4	+4	+4	0	0	+6	+6
Norway	+2	+1	−1	+3	+4	+1	+5	+5	0	+2	+9	+7
Portugal	−3	−3	+1	−7 [a]	+13 [a]	+21	−10 [a]	+10 [a]	+22	..	..	−1
Sweden	0	0	−1	−4	+8	+13	−4	+8	+12	+2	+9	+7
Switzerland	+2	0	−2	+12	+30	+16	+14	+30	+14	−4	+4	+8
United Kingdom	+7	+6	−3	+9	+11	+2	+17	+18	−1	+2	+7	+5
Europe, other												
Finland	+4	−8	−11	−1	+7	+8	+3	−1	−4	−1	+13	+14
Greece	0	−4	−4	+7	+9	+2	+7	+5	−2	−1	+3	+4
Iceland	+5	+1	−3	+25 [a]	+19 [a]	−5 [a]	+31 [b]	+20 [b]	−8 [b]	..	..	..
Ireland	+2	+4	+2	+5	+8	+3	+7	+12	+5	0	+7	+7
Spain	0	−6	−6	+8	+5	−3	+8	−1	−8	+1	+8	+7
Yugoslavia	+3	+5	+2	+6 [a]	+28 [a]	+21 [a]	+9 [a]	+34 [a]	+23 [a]	..	..	..
Other developed market-economy countries												
Australia	−21	−17	+6	−2	+7	+9	−23	−11	+16	−5	−1	+4
Japan	+7	−7	−13	+2	+3	+1	+9	−4	−12	+1	+5	+3
New Zealand	−14	−14	+4	−7	−6	+1	−20	−16	+5	−7	0	+7
South Africa	−7	−5	+3	−6	+2	+8	−13	−3	+11	−4	0	+4

Sources: Iceland and Yugoslavia: United Nations, *Yearbook of International Trade Statistics, 1969* (United Nations publication, Sales No. E.71.XVII.5). Other countries: IMF, *International Financial Statistics*, vol. XXV, No. 1, January 1972, and earlier issues.

[a] Changes to 1967-1969.

[b] Changes to 1966-1968.

PART TWO

Notes on methodology and supplementary tables

Chapter I

Notes on methodology [1]

DEFINITIONS AND CONCEPTS

1. The following definitions and concepts have been used in the present study:

(*a*) The term "price index" has been used throughout as being a convenient standard reference term, though in many cases the underlying data represent "unit values".

(*b*) Quantity or volume indices have been calculated by dividing the current value index by the corresponding price index; consequently, the volume and price indices are interdependent.

(*c*) The net barter or commodity terms of trade are defined as the ratio of the price index of exports to the price index of imports. Both series are calculated from f.o.b. prices [2] and consequently do not incorporate the effect of changes in the cost of transport, insurance, etc.

(*d*) The purchasing power of exports, or income terms of trade, is defined as the ratio of the value index of exports to the price index of imports.

(*e*) Gains or losses from trade are defined as the difference between actual exports valued at current and at base-period prices plus the difference between actual imports value at base-period and at current prices.

GEOGRAPHICAL COVERAGE

2. The indicators of the terms of trade calculated by the UNCTAD secretariat and presented in the study refer to the developing countries and territories of Africa, Asia and the Americas. The major petroleum-exporting countries are treated as a separate group. Some countries or areas were excluded because of non-availability of data (e.g., Haiti, Sikkim, Yemen) and others because of the high share of entrepot trade (e.g., Hong Kong, Singapore) or because over 90 per cent of imports are financed by grants or similar financial flows (e.g., Republic of Viet-Nam). The number of developing countries and territories thus covered was 87. (See the tables in the statistical annex to part one.) In each case the country or customs territory relates to the situation in 1970, though adjustments for territorial changes, etc., throughout the period covered have been made wherever possible.[3]

3. The coverage in terms of developing countries taken as a whole is as follows:

Parameter	Year	Coverage (per cent)
Value of exports	1954	90
	1969	86
Value of imports	1954	84
	1969	82
Population	1969	93

Sources: United Nations, *Monthly Bulletin of Statistics* and *Demographic Yearbook*.

THE EXPORT PRICE INDEX (EXCLUDING THE PETROLEUM-EXPORTING COUNTRIES)

4. The export price index for individual developing countries and territories is constructed from market price quotations for the leading commodities exported by developing countries and from other price data. The data were supplemented by unit value series with respect to commodities for which prices were not available (such as fresh fruit, fish, etc.), or where market prices were not considered accurate indicators of actual export price changes (e.g. sugar). Manufactured and semi-manufactured products were also represented by unit values, and the general unit value index of manufactures exported by the developing countries [4] was used to represent all items for which there was not a specific unit value index. All prices and unit values have been adjusted as appropriate for parity changes with respect to the dollar.

5. In many instances price movements for a commodity vary, depending on the quality or variety to which the price indicator is related. In such cases several price series for the same commodity were compiled and one, or a weighted average of several of them, was used to represent the price changes for a particular country.

6. For the purpose of calculating national export price indices the individual commodity price series were combined, using the value of exports in 1962 and 1968, specified by the SITC three-digit commodity breakdown, as weights. However, in order to avoid bias in the weighting, arising from chance variations in exports of the leading export

[1] The principal results of the present study of the terms of trade are presented in part one above. In addition, the complete annual data series for each developing country and territory are shown in the UNCTAD *Handbook of International Trade and Development Statistics, 1972* (United Nations publication, Sales No. E/F.72.II.D.III), table 7.2.

[2] Except for the data on the terms of trade of the developed market-economy countries, presented in part one, chapter II, which are derived from official published national series for which in general exports are calculated from f.o.b. and imports from c.i.f. prices.

[3] The designations of countries and areas are those recommended in the *United Nations Standard Country Code (Statistical Papers, Series M, No. 49,* United Nations publication, Sales No. E.70.XVII.13).

[4] Published annually in the November issue of the United Nations *Monthly Bulletin of Statistics* and in the United Nations *Yearbook of International Trade Statistics.*

commodities, the 1962 values for exports of these leading commodities were replaced by the 1961-1963 averages, and the 1968 values by the 1967-1969 averages, wherever possible.[5]

[5] For this purpose, data in the United Nations *Yearbook of International Trade Statistics* were used. Averages for 1967 and 1968 were calculated wherever the 1969 information was missing.

7. Altogether, 256 commodity price series were compiled.[6] The commodities covered accounted for 84 per cent of the value of exports of developing countries in 1962 and 85 per cent in 1968. The distribution of countries and territories according to the share of commodity exports covered by the price series is as follows:

[6] See table B-2 below for data on 106 of these price series.

Year	*Number of countries for which the price series cover a percentage of exports (value) of:* 50 and below	51-60	61-70	71-80	81-90	90 and above	Total number of countries and territories
1962	6	2	7	14	27	31	87
1968	2	4	7	16	24	34	87

As shown above, the coverage is over 80 per cent for more than two-thirds of the countries and territories.

The export price index for the petroleum-exporting countries

8. In publications of the United Nations and IMF[7] "posted prices" are used to indicate the price per unit of petroleum exports. The "posted" price, or in some cases the "reference" price, constitutes the basis for tax assessment in the producing country. On the other hand, the concept of "revenue" per barrel, which is used in this study, takes into account both the level of "posted" or "reference" prices and the terms of agreements governing the exploitation of petroleum resources. "Revenue" thus corresponds more closely to "net receipts" than does the simple concept of "price" in the usual sense of the latter term. Moreover, a sizable portion of recorded export earnings of petroleum-exporting countries accrues to non-residents in the form of dividend and other payments related to the investment of the petroleum companies. Hence the changes in "posted" prices could be a misleading yardstick by which to measure the impact of price increases on net export earnings of the petroleum-exporting countries.

[7] IMF, *International Financial Statistics.*

9. In the light of the above, the terms of trade of the petroleum-exporting countries have been estimated on the basis of "revenue".[8] Since price movements in terms of "posted" or "reference" prices and in terms of revenue per barrel diverge, the estimates of the UNCTAD secretariat differ from those obtainable from data published elsewhere. In order to provide a comparison of the terms of trade based on posted prices with those based on revenue, both series are given in table II.1. (See also part one, paragraph 20.)

[8] Data for revenue per barrel were taken from *Petroleum Press Service* (London).

Table II.1

Comparison of changes in the net barter terms of trade of major petroleum, exporting countries based on "posted" prices and on unit return

(percentage change)

	1954-1956 to 1958-1960 Based on unit return[a]	Based on "posted" prices	*1958-1960 to 1968-1970* Based on unit return[a]	Based on "posted" prices	*1954-1956 to 1968-1970* Based on unit return[a]	Based on "posted" prices
Terms of trade	—3	—1	—3	—19	—6	—20
Export price	—1	0	+8	—9	+7	—9
Import price	+3	+3	+11	+11	+14	+14

Sources: UNCTAD secretariat estimates, based on national sources, United Nations, *Monthly Bulletin of Statistics*, and other international sources.

[a] UNCTAD secretariat estimates based on "revenue" per barrel of petroleum exported.

The import price index

10. Estimates of import price indices for developing countries and territories have been derived from partner country data. As a first step the export price (unit value) series of the principal trading partners were assembled for the period 1954-1970, distinguishing the following SITC sections:

0 + 1: Food, beverages, tobacco;
2 + 4: Raw materials;
3 : Fuel;
5 : Chemicals;
7 : Machinery;
6 + 8: Other manufactures.

11. Unit value series with this commodity breakdown were available for Belgium-Luxembourg, France, Federal Republic of Germany, Japan, Sweden, the United Kingdom and the United States of America, which accounted for about 60 per cent of world exports to developing countries both in 1962 and 1968. These national unit value series cover exports to both developed and developing countries—a source of possible bias if price trends of exports to developed countries differ from those of exports to developing countries. The unit value series were adjusted for parity changes with respect to the dollar. For imports from countries other than the seven listed above, a series of unit values of exports to developing countries from developed market-economy and developing countries was applied, the data being similarly classified by SITC groups.[9]

12. It was not possible to obtain reliable price series for the imports of developing countries from socialist countries.[10] Whereas the absence of such data does not affect the results seriously for most of the developing countries, it can be a source of bias for a small number among them (e.g. Cuba and Egypt), in so far as price movements for this trade flow diverge from the average. The estimates are admittedly weak, therefore, for developing countries whose principal trading partners are socialist countries.

13. In order to estimate the average import price index for a particular developing country, the above-mentioned unit-value indices have been weighted, for each of the eight SITC sections, by the individual values of exports to that country from its various trading partners. (This was done separately for 1962 and 1968.) In other words, the weighting is based on imports as recorded by the trading partners' exports to the country concerned on an f.o.b. basis.

Indicators of the terms of trade

14. All indicators of the terms of trade for individual developing countries and territories have been derived from the export and import price index numbers discussed above. Hence, the qualifications stated above are equally relevant to the indicators of the terms of trade. The well-known problems involved in using unit values as proxies for prices must also be borne in mind. For heterogeneous commodity classes, in particular, the average quality can vary considerably over time and hence changes in unit values may represent changes in quality composition rather than in prices. The inaccuracy resulting from using unit values for constructing price indices is especially important in the field of manufactures and semi-manufactures, but it can also affect estimates for primary commodities.

15. Regional and other average price index numbers have been computed from the country series described above. In accordance with the practice of the Statistical Office of the United Nations, these index numbers are of the Paasche type (current-price weights).[11] The original data, on base 1954 = 100, have been re-based on 1958-1960. Regional terms of trade series have been derived from the corresponding regional export and import price

[9] Source: United Nations, *Monthly Bulletin of Statistics*.

[10] The index numbers of unit value and quantum of external trade compiled by the Statistical Office of the United Nations exclude socialist countries.

[11] See *1967 Supplement to the Statistical Yearbook and the Monthly Bulletin of Statistics* (United Nations publication, Sales No. E.68. XVII.9), pp. 181-185.

Table II.2

Net barter terms of trade of developing countries and territories [a] adjusted for changes in the cost of transport

(Base: 1958-1960 = 100)

Year	*Price index of imports (f.o.b.)*	*Liner freight rate index*	*Adjusted price index of imports (c.i.f.)*	*Price index of exports*	*Net barter terms of trade*	
					Adjusted	*Original*
1954 . .	96.1	82.4	94.7	113.9	120.3	118.5
1955 . .	95.7	89.0	95.0	113.7	119.7	118.8
1956 . .	98.9	98.1	98.8	111.3	112.7	112.5
1957 . .	101.9	108.8	102.6	107.3	104.6	105.4
1958 . .	100.4	100.6	100.4	100.6	100.2	100.2
1959 . .	99.1	98.9	99.1	98.9	99.8	99.8
1960 . .	100.5	100.6	100.5	100.5	100.0	100.0
1961 . .	100.8	104.7	101.2	94.2	93.1	93.4
1962 . .	100.5	108.0	101.3	93.3	92.1	92.9
1963 . .	100.8	109.6	101.7	97.1	95.5	96.3
1964 . .	101.6	113.7	102.8	103.7	100.9	102.0
1965 . .	103.6	117.0	104.9	102.7	97.9	99.2
1966 . .	105.1	122.0	106.8	107.5	100.7	102.3
1967 . .	106.0	126.1	108.0	106.3	98.4	100.3
1968 . .	105.1	125.3	107.1	107.4	100.3	102.1
1969 . .	108.4	127.8	110.3	113.1	102.5	104.4
1970 . .	114.2	131.9	116.0	117.7	101.5	103.1

Sources: UNCTAD secretariat estimates and *Review of Maritime Transport, 1970: report by the secretariat of UNCTAD* (United Nations publication, Sales No. E.71.II.D.8), table 18.

Note. In order to adjust the import price indices it has been assumed that the cost of freight and insurance represents 10 per cent of the total c.i.f. value of imports. (See IMF-IBRD, *Direction of Trade, Annual 1966-70*, page (ii).)

[a] Excluding the major petroleum-exporting countries.

indices. Owing to the problems of linear aggregation, the resulting regional data are not in general equal to the results obtained by taking the weighted average of the terms of trade of the different countries.

TENTATIVE ADJUSTMENT OF THE TERMS OF TRADE TO TAKE ACCOUNT OF TRANSPORT COSTS

16. As pointed out above, the import price indices for developing countries are derived from export data of the principal trading partners, which are valued f.o.b. Consequently, the net barter terms of trade of developing countries presented in this study are pure merchandise terms of trade, which do not reflect the impact of the changing cost of transport and insurance. A precise adjustment of the import price series to a c.i.f. basis is not feasible, since there exists no index of freight rates or insurance which can be directly applied to the imports of developing countries. However, a rough adjustment has been made by using a general liner shipping freight index. The results of this approximate adjustment are presented in table II.2. The figures would appear to suggest that in recent years the adjusted index of the net barter terms of trade of developing countries was about 2 per cent below that of the pure merchandise terms of trade.

COMPARAISON OF THE UNCTAD SECRETARIAT ESTIMATES WITH OTHER ESTIMATES OF THE TERMS OF TRADE OF DEVELOPPING COUNTRIES

17. For reasons already stated [12] the UNCTAD secretariat has used a new method of estimation to compute the terms of trade indices presented in this study, with a view in particular to providing a more detailed country coverage than has hitherto been possible. The resulting estimates differ somewhat from official figures published elsewhere.

[12] See part one, paras. 1-2.

18. A comparison of the general index for developing countries compiled by the Statistical Office of the United Nations (UNSO) and the corresponding UNCTAD secretariat estimates is presented in table II.3 and also, pictorially, in chart II.1. The selection of the United Nations series has been limited to those which are based on methods conceptually closest to the method adopted in the present study. In each case (export prices, import prices, and the terms of trade) the general trend of the two series appears to be almost identical. Indeed, the two import price series are in very close agreement. On the export side, however, deviations of up to 5 percentage points occur, particularly at the beginning and at the end of the period covered.

19. Comparisons with export price index numbers compiled by individual developing countries and territories and adjusted for changes in exchange rates are given in table II.4 for 40 countries and territories for which data were available. In spite of the difference in the concepts and methods used, there is a remarkable degree of agreement for a large number of countries. On the other hand, there are also considerable deviations in a few cases.

20. The import price index numbers adopted in this study are not strictly comparable with national series (where available), since the estimates of the UNCTAD secretariat are built up from the export side (partner-country data), using six commodity categories, whereas

TABLE II.3

Comparison of index numbers of export and import prices and of the terms of trade of developing countries: [a] Statistical Office of the United Nations (UNSO) and UNCTAD secretariat

(Base: 1963 = 100)

	Export prices		*Import prices*		*Terms of trade*	
	UNSO [b]	*UNCTAD* [c]	*UNSO* [d]	*UNCTAD* [c]	*UNSO* [b]	*UNCTAD* [c]
Year	*(1)*	*(2)*	*(3)*	*(4)*	*(5) = (1) ÷ (3)*	*(6) = (2) ÷ (4)*
1954	112	117	97	95	115	123
1955	112	117	97	95	115	123
1956	110	115	98	98	112	117
1957	108	111	101	101	107	110
1958	103	104	100	100	103	104
1959	101	102	99	98	102	104
1960	103	103	100	100	103	103
1961	99	97	100	100	99	97
1962	96	96	99	100	97	96
1963	100	100	100	100	100	100
1964	105	107	102	101	103	106
1965	105	106	103	103	102	103
1966	107	111	104	104	103	107
1967	106	110	104	105	102	105
1968	105	111	103	104	102	107
1969	112	117	104	107	108	109
1970	116	121	108	113	107	107

Sources: UNSO, *Monthly Bulletin of Statistics*, January and November issues. UNCTAD, secretariat estimates.

[a] Excluding trade with socialist countries.

[b] Excluding fuel.

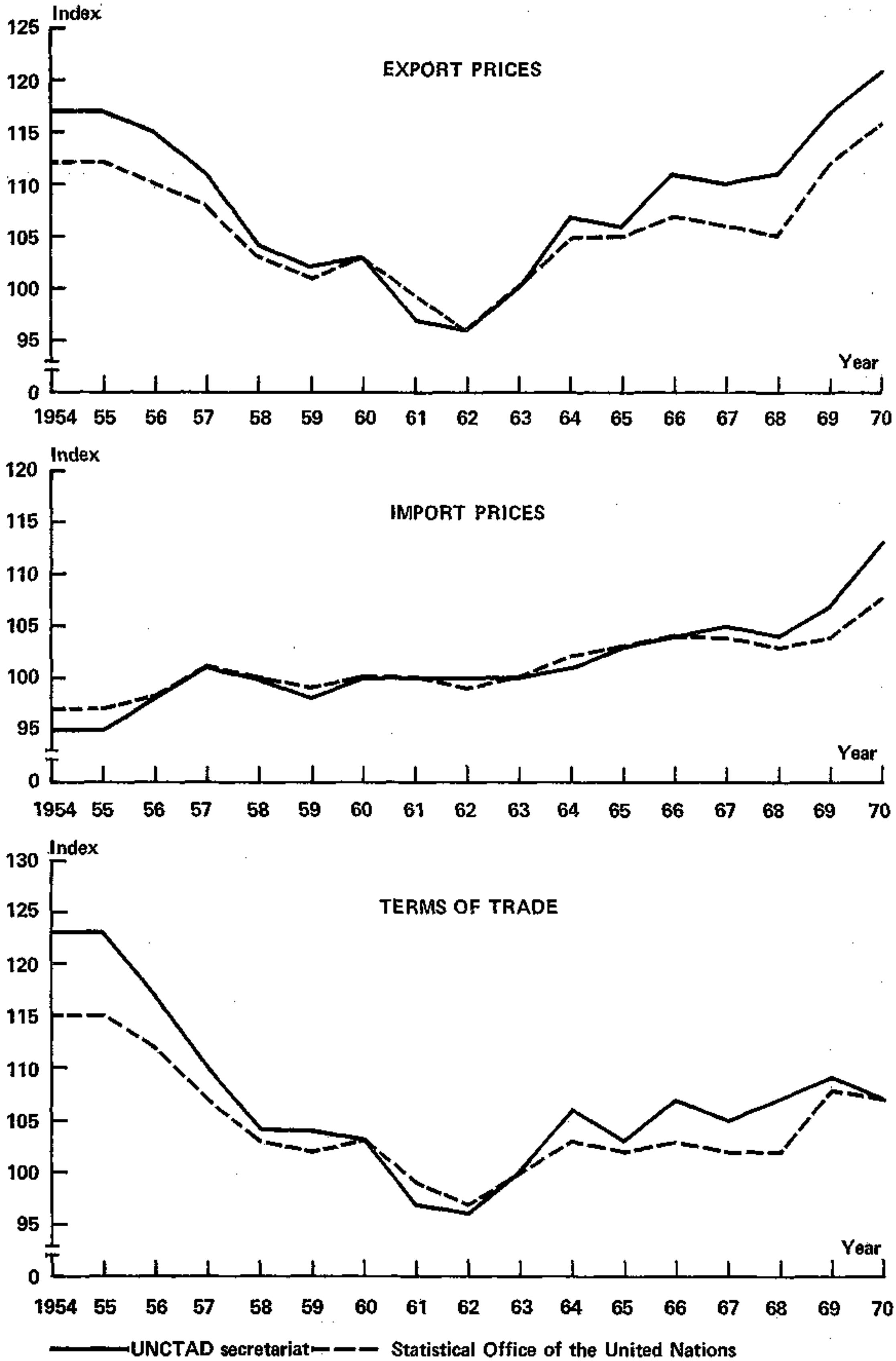
[c] Excluding the major petroleum-exporting countries.

[d] Exports of developed and developing areas to developing areas.

CHART II.1

Comparison of terms of trade index numbers for developing countries

(Base: 1963 = 100)



Sources and coverage: As for table II.3.

the national indices are often constructed from a more detailed breakdown of imports, as recorded by the national foreign trade statistics. The resulting differences are shown for a few countries and territories in table II.5. However, the range of variation is in general much smaller than in the case of the export price indices. Consequently, the difference in the series is relatively small as regards the general average for particular countries.

TABLE II.4

Comparison of UNCTAD secretariat estimates with national data: export price indices

Country or territory	1954 to 1970 or closest period			1960 to 1970 or closest period		
	Period [a]	UNCTAD	National [b]	Period [a]	UNCTAD	National [b]
Latin America						
Argentina	1954 to 1969	95	97	1960 to 1969	105	103
Bolivia	1954 to 1970	182	174	1960 to 1970	166	199
Brazil	1954 to 1970	72	80	1960 to 1970	131	133
Chile	1954 to 1969	204	156	1960 to 1969	199	156
Colombia	1954 to 1970	76	70	1960 to 1970	120	115
Costa Rica	1954 to 1970	68	70	1960 to 1970	105	105
Dominican Republic	1954 to 1970	122	116	1960 to 1970	152	147
Ecuador	1954 to 1970	71	89	1960 to 1970	97	118
El Salvador	1954 to 1969	57	55	1960 to 1969	89	93
Guatemala	1954 to 1964	65	67	1960 to 1964	105	102
Honduras	1954 to 1969	67	101	1960 to 1969	106	122
Mexico	..	..	..	1960 to 1968	107	122
Nicaragua	1954 to 1970	83	93	1960 to 1970	103	140
Panama	1954 to 1970	102	89	1960 to 1970	188	122
Peru	1954 to 1970	137	147	1960 to 1970	154	154
Uruguay	1954 to 1969	88	81	1960 to 1969	103	100
Venezuela	1954 to 1970	105	98	1960 to 1970	110	100
Africa						
Cameroon	..	..	..	1962 to 1970	151	147
Ethiopia	1954 to 1970	80	86	1960 to 1970	131	133
Ghana	1954 to 1969	74	51	1960 to 1969	131	73
Malawi	1957 to 1969	103	91	1960 to 1969	105	94
Morocco	1954 to 1969	96	99	1960 to 1969	97	110
Nigeria	1954 to 1969	95	90	1960 to 1969	118	99
Sudan	1954 to 1969	104	99	1960 to 1969	119	105
Togo	1957 to 1970	81	129	1960 to 1970	104	106
Zambia	1957 to 1970	234	267	1960 to 1970	209	251
Kenya	..	..	..	1960 to 1969	88	91
Tanzania	1954 to 1964	82	98	1960 to 1969	92	98
Uganda	..	..	..	1960 to 1969	125	112
West Asia						
Cyprus	1954 to 1970	129	122	1960 to 1970	155	131
Iraq	1954 to 1970	105	95	1960 to 1970	120	102
Israel	1954 to 1970	112	117	1960 to 1970	121	114
Other						
Ceylon	1954 to 1970	75	74	1960 to 1970	75	77
Taiwan	1954 to 1970	105	122	1960 to 1970	143	155
India	1954 to 1970	107	107	1960 to 1970	111	100
Korea, Republic of	1954 to 1970	123	..	1962 to 1970	130	123
Malaysia	1954 to 1969	118	116	1960 to 1969	84	80
Pakistan	1954 to 1970	123	102	1960 to 1970	91	99
Philippines	1954 to 1970	138	124	1960 to 1970	136	118
Thailand	1954 to 1970	182	101	1960 to 1970	119	97

Sources: IMF, *International Financial Statistics* and United Nations, *Monthly Bulletin of Statistics*.

[a] Figures relate to the index number in the final year of the period, with base the initial year of the period.

[b] Adjusted by the UNCTAD secretariat to take account of changes in dollar parities.

TABLE II.5

Comparison of UNCTAD secretariat estimates with national data: import price indices

Country	1954 to 1970 or closest period			1960 to 1970 or closest period		
	Period[a]	UNCTAD	National[b]	Period[a]	UNCTAD	National[b]
Latin America						
Argentina	1954 to 1965	115	91	1960 to 1965	105	97
Bolivia	..	..	..	1960 to 1968	104	109
Brazil	1956 to 1969	112	103	1960 to 1969	110	118
Colombia	1954 to 1968	117	93	1960 to 1968	108	91
Costa Rica	1954 to 1964	110	104	1960 to 1965	103	93
Ecuador	..	..	..	1960 to 1968	107	103
Guatemala	..	..	..	1960 to 1968	107	109
Mexico	..	..	..	1960 to 1968	109	126
Peru	1954 to 1968	115	127	1960 to 1968	107	113
Uruguay	..	..	..	1960 to 1968	105	110
West Asia						
Israel	1955 to 1969	116	102	1960 to 1969	111	105
Other						
Taiwan	1954 to 1970	102	97	1960 to 1970	104	105
Korea, Republic of	..	..	..	1963 to 1970	100	102
Thailand	1954 to 1969	110	135	1960 to 1969	106	120

Sources: As for table II.4.

[a] Figures relate to the index number in the final year of the period, with base the initial year of the period.

[b] Adjusted by the UNCTAD secretariat to take account of changes in dollar parities.

Chapter II

Notations and formulae

INDEX NUMBERS OF EXPORT PRICES

21. In the explanations which follow, the following symbols are used:

j = a subscript indicating developing country "j"

i = a subscript indicating commodity "i" [13]

t = a subscript indicating time (year) "t"

b = a subscript indicating the base period of an index number

p = price

P = price index

q = quantity

Q = quantum (volume) index

v = value

V = value index

Thus:

p_{jit} = price (or unit value) in country "j" of commodity "i" in year "t".

q_{jit} = physical quantity of exports associated with p_{jit}

v_{jit} = value of exports = $q_{jit}\, p_{jit}$

P_{jbt} = corresponding price index, based on period "b"

Q_{jbt} = corresponding quantity (volume) index, based on period "b"

V_{jbt} = corresponding value index based on period "b"

22. The period 1954-1970 was sub-divided into two over-lapping sub-periods: 1954-1962 and 1962-1970. Index numbers were computed with 1962 weights for the first sub-period and 1968 weights for the second.[14] The following formulae have been used in constructing the index numbers:

Price index for the first sub-period:

$$P_{jbt} = \frac{\sum_i v_{jib} \frac{p_{jit}}{p_{jib}}}{\sum_i v_{jib}} = \frac{\sum_i q_{jib}\, p_{jit}}{\sum_i q_{jib}\, p_{jib}}$$

(i = 1, 2, ..., n)

(t = 1954, 1955, ..., 1961)

As the base year is 1962 and the weights relate to the same year, P_{jbt} is a fixed weight, or Laspeyres-type, index number.

23. The formula given above is valid, *mutatis mutandis*, for the *second sub-period* also. The two sub-periods were then linked together by shifting the base of the second to 1962. The entire (1962-based) series was then recalculated on the base 1958-1960 = 100.

24. The value index is defined as

$$V_{jbt} = \frac{\sum_i v_{jit}}{\sum_i v_{jib}}$$

[13] A "commodity" is as a rule an SITC (three-digit) group, or a component (variety) of a three-digit group.

[14] As pointed out earlier, weights for the leading export commodities are averages of three years, centred on 1962 and 1968.

25. Quantity or volume index numbers are a function of the price indices and have been derived as follows:

$$Q_{jbt} = \frac{V_{jbt}}{P_{tjb}}$$

26. Regional or group average price indices of exports have been computed with weights in current prices (Paasche formula), using the weighted harmonic average:

$$P_{bt} = \frac{\sum_j v_{jt}}{\sum_j \left(v_{jt} \div P_{jbt}\right)}$$

The symbol v_{jt} stands for the total value of exports of country "j" in year "t".

27. The regional index of the value of exports is derived from the regional totals:

$$V_{bt} = \frac{\sum_j v_{jt}}{\sum_j v_{jb}}$$

28. The regional index of the volume of exports is defined as

$$Q_{bt} = \frac{V_{bt}}{P_{bt}}$$

Since it is a function of a price index of the Paasche type, this quantum index is of the Laspeyres type.

Index numbers of import prices

29. In the explanations which follow, the following symbols are used:

j = a subscript indicating developing country "j"
i = a subscript indicating commodity class "i" [15]
k = a subscript indicating developed country "k" [16]

The subscripts "t" and "b" are used in the same sense as for the export price index.

p_{kit} = export unit value index of developed country "k" for commodity "i" in year "t"

v_{jki} = exports of commodity "i" from developed country "k" to developing country "j"

30. The general formula for the import price index is:

$$P_{jt} = \frac{\sum_k \sum_i v_{jki}\, p_{kit}}{\sum_k \sum_i v_{jki}}$$

This formula has been applied separately for the two sub-periods 1954-1962 and 1962-1970. In line with the choice of the base period and the weighting system for the export price index, the weights v_{jki} represent respectively 1962 and 1968 values of exports to developing countries.[17] The linking of the two series on a common 1958-1960 base has been done in the manner described above for the export price indices.

31. The computation of value and volume indices, as well as the estimation of regional averages, also follow the procedure adopted for the export index numbers.

Purchasing power of exports and gains or losses from trade

32. In the explanations which follow, the following symbols are used:

x = a subscript representing exports
m = a subscript representing imports
j = a subscript representing developing country "j"
S_x and S_m = the dollar value of exports and imports respectively. The symbols P, Q and V have the same signification as for export and import prices.

33. (*a*) The net barter terms of trade for country "j" are thus:

$$\frac{P_{xj}}{P_{mj}}$$

(*b*) The purchasing power of exports (income terms of trade) is:

$$\frac{V_{xj}}{P_{mj}}$$

(*c*) Gains or losses from trade are:

$$\left(S_{xj} - \frac{S_{xj}}{P_{xj}}\right) + \left(\frac{S_{mj}}{P_{mj}} - S_{mj}\right)$$

(*d*) Regional or other aggregates have been computed from the corresponding regional price, value and volume index numbers.

Chapter III

Sources of data for export and import price indices

A. Export price indices

FAO, *Production Yearbook.*
United Nations, *Monthly Bulletin of Statistics.*
IMF, *International Financial Statistics.*
Commonwealth Secretariat, *Rice Bulletin.*
International Sugar Organization, *Statistical Bulletin.*
International Coffee Organization: average prices quoted in newspapers and trade journals.
New York Cocoa Exchange, Inc., *Daily Market Report.*
International Tea Committee, *Monthly Statistical Summary.*

[15] See commodity classes listed in para. 10, above.
[16] One of the seven countries listed in para. 11, above.
[17] No attempt was made to compute three-year averages, centred around 1962 and 1968, for the purpose of weighting the import price index.

Statistisches Bundesamt, Wiesbaden (Federal Republic of Germany), *Preise, Löhne, Wirstchaftsrechnungen, Reihe 1: Preise und Preisindices für Aussenhandelsgüter.*

The Liverpool Cotton Association Ltd., *Weekly Raw Cotton Report.*

New Zealand Wool Commission (London Branch): price information sheets.

Metal Bulletin (London).

American Metal Market (New York).

Petroleum Press Service (London.)

B. IMPORT PRICE INDICES

United Nations, *Yearbook of International Trade Statistics and Monthly Bulletin of Statistics.*

Belgium: Institut national de statistique, *Bulletin de statistique.*

France: Institut national de la statistique et des études économiques, *Bulletin mensuel de statistique* and *Annuaire Statistique de la France, 1966, Résumé retrospectif,* Paris 1966.

Federal Republic of Germany: Federal Statistical Office, *Foreign Trade, Series 5: Special Trade according to the classification for statistics and tariffs* (CST/SITC).

Japan: *Japan Statistical Yearbook.*

Sweden: National Institute of Economic Research, *The Swedish Economy.*

United Kingdom: *Annual abstract of statistics* and *Trade and Industry.*

United States of America: U.S. Department of Commerce, Bureau of International Commerce, *Overseas Business Reports* (formerly *World Trade Information Service*).

TABLE B-1

Terms of trade indicators for individual developing countries and territories, 1969 and 1970

(Base: 1968 = 100)

Country or territory	1969					1970				
	Export prices	Export volume	Import prices	Terms of trade: Net barter	Terms of trade: Purchasing power	Export prices	Export volume	Import prices	Terms of trade: Net barter	Terms of trade: Purchasing power
Africa										
Angola	103	117	102	100	118	118	132	108	109	145
Central African Republic	106	94	104	102	96	112	77	107	105	80
Cameroon	113	106	104	109	115	108	110	107	101	112
Chad	92	124	104	89	110	99	97	106	93	91
Congo	110	81	104	106	86	110	58	107	102	59
Dahomey	88	139	104	85	118	105	134	107	98	132
Egypt	98	122	104	95	116	97	127	109	89	113
Ethiopia	106	106	103	103	109	133	86	109	123	106
Gabon	95	119	104	92	109	95	103	107	89	91
Gambia	118	109	104	114	124	132	103	111	119	123
Ghana	124	79	103	120	95	100	141	110	91	128
Ivory Coast	110	96	104	106	103	109	101	107	102	103
Kenya	100	109	103	97	106	115	108	110	104	113
Liberia	110	103	103	107	111	103	124	108	95	118
Madagascar	99	97	104	96	93	109	115	107	102	117
Malawi	116	95	103	113	107	125	98	111	113	111
Mali	104	149	104	100	149	114	191	106	108	206
Mauritius	102	101	104	98	99	108	98	110	98	97
Mauritania	97	108	104	94	102	106	115	107	99	114
Morocco	91	117	103	89	104	93	116	107	87	101
Mozambique	97	95	103	94	90	104	97	108	96	94
Niger	120	55	104	115	63	133	63	107	124	79
Nigeria	117	131	103	113	149	112	188	110	102	191
Reunion	101	95	105	96	91	100	111	106	94	104
Rwanda	104	89	103	101	90	125	133	110	114	152
Senegal	114	73	104	110	80	124	81	107	116	94
Sierra Leone	110	102	104	106	109	111	94	110	101	95
Somalia	87	122	102	86	105	93	111	107	87	96
Sudan	103	103	103	100	103	105	120	110	95	115
Tanzania	103	101	103	100	101	110	95	110	100	96
Togo	110	105	104	106	111	101	131	108	94	123
Tunisia	98	107	103	95	102	97	118	107	91	107
Uganda	98	109	103	94	103	113	117	110	102	120
Upper Volta	104	96	104	100	96	113	85	106	106	89
Zaire	115	111	103	111	124	116	128	108	107	137
Zambia	118	120	103	114	136	114	116	110	103	119
Asia										
Afghanistan	103	105	103	99	104	104	99	110	94	93
Burma	99	120	103	96	115	78	121	109	72	87
Ceylon	98	96	103	95	92	104	96	109	95	91
Cyprus	111	99	103	108	107	116	106	109	106	112
India	100	104	103	98	102	107	108	108	99	107
Indonesia	107	109	103	104	113	106	111	108	98	109
Israel	106	107	103	103	110	105	115	109	96	111
Jordan	94	109	103	91	99	95	89	109	87	78

TABLE B-1 (*continued*)

Terms of trade indicators for individual developing countries and territories, 1969 and 1970

Country or territory	1969 Export prices	1969 Export volume	1969 Import prices	1969 Terms of trade: Net barter	1969 Terms of trade: Purchasing power	1970 Export prices	1970 Export volume	1970 Import prices	1970 Terms of trade: Net barter	1970 Terms of trade: Purchasing power
Asia (continued)										
Khmer Republic	112	65	104	108	70	95	47	108	88	42
Korea, Republic of	102	134	103	99	133	108	170	109	99	169
Lebanon	100	117	103	97	113	110	123	109	102	125
Malaysia	121	105	103	117	122	111	117	110	101	118
Pakistan	99	95	103	96	92	102	99	109	94	92
Philippines	100	102	104	97	99	104	108	110	95	103
Syria	94	128	103	92	117	106	111	108	98	109
Taiwan	104	127	103	101	128	113	160	109	104	166
Thailand	102	106	103	98	104	94	113	109	86	97
America										
Argentina	102	115	103	99	115	102	126	109	94	119
Barbados	104	96	103	101	97	106	102	108	98	100
Bolivia	107	111	103	103	115	114	126	109	104	132
Brazil	109	112	103	106	119	134	109	109	123	134
Chile	117	97	103	113	110	113	104	109	103	107
Colombia	103	105	103	100	106	128	95	109	117	111
Costa Rica	102	111	103	98	109	116	115	109	106	122
Cuba	103	94	103	100	94	103	160	106	98	156
Dominican Republic	105	107	103	102	109	105	124	109	97	120
Ecuador	109	81	103	106	85	99	106	109	91	96
El Salvador	100	96	103	97	92	124	87	109	113	99
Guadeloupe	97	95	105	93	88	118	94	107	110	103
Guatemala	99	117	103	95	112	119	111	109	108	120
Guyana	103	109	103	99	108	105	118	109	96	113
Honduras	97	95	104	94	89	98	95	109	90	85
Jamaica	102	113	103	99	112	107	127	109	98	124
Martinique	115	78	105	110	86	129	58	106	121	70
Mexico	98	116	103	94	110	103	106	109	94	100
Nicaragua	98	101	103	95	96	108	94	109	100	94
Panama	105	115	103	102	116	97	118	109	89	105
Paraguay	98	108	103	96	103	108	123	109	99	122
Peru	112	90	103	108	97	112	108	109	103	111
Surinam	99	114	103	97	110	106	122	109	98	119
Uruguay	97	116	102	94	109	97	134	107	90	121
Major petroleum-exporting countries										
Algeria	100	112	104	97	108	102	118	107	96	113
Brunei	99	93	104	95	89	101	86	110	91	79
Iran	97	115	103	94	108	97	130	110	88	114
Iraq	101	99	103	98	97	104	101	109	95	96
Kuwait	100	106	104	97	102	103	110	110	93	103
Libyan Arab Republic	99	116	103	97	113	108	117	108	100	116
Netherlands Antilles	99	105	103	96	101	101	108	108	93	100
Saudi Arabia	99	100	103	96	96	101	119	110	92	109
Trinidad and Tobago	100	100	103	96	96	101	100	110	93	93
Venezuela	99	102	103	96	98	101	91	109	93	85

TABLE B-2

Price indices of selected primary commodities
(1958-1960 = 100)

SITC group	Commodity and country of origin (or quality)	1954-1956	1964-1966	1969	1970	1971 [a]
011	Meat, fresh					
	(beef, United Kingdom from Argentina)	93	123	121	133	..
	(lamb, United Kingdom from New Zealand)	107	114	115	116	..
	(bacon, United Kingdom from Denmark)	99	114	112	119	..
031	Fish, fresh (Panama)	108	119	160	145	..
041	Wheat	111	107	106	102	111
042	Rice					
	(Thailand)	111	104	121	104	..
	(Egypt)	121	127	153	143	..
	(Burma)	121	115	164	111	..
	(Khmer Republic)	109	134	210	150	..
043	Barley (Syria)	85	93	78	142	169
044	Maize	133	119	113	125	122
045	Oats	107	96	88	94	90
045	Rye	98	108	100	89	89
051	Fruit, fresh					
	(Ecuador)	101	88	92	75	..
	(Israel)	123	98	89	78	..
	(India)	91	134	148	173	..
	(Honduras)	134	106	99	92	..
054	Vegetables, fresh					
	(Morocco, quality 1)	159	180	144	172	..
	(Morocco, quality 2)	171	106	132	137	..
	(Mexico)	93	124	108	111	..
	(Thailand)	100	94	110	54	..
061	Sugar					
	(Cuba)	98	136	116	111	..
	(Philippines)	96	116	125	127	..
	(Brazil)	111	130	143	155	..
	(Dominican Republic)	92	157	178	173	..
071	Coffee					
	(Colombia)	149	99	92	117	101
	(Other)	150	98	87	114	98
	(Mainland arabica)	153	104	97	132	106
	(Robustas)	153	108	107	134	137
072	Cocoa					
	(Ghana)	112	60	125	94	74
	(Bahia)	111	60	124	92	77
074	Tea	111	91	69	78	74
075	Spices					
	(black)	127	150	125	149	133
	(white)	101	86	77	86	78
	(Madagascar)	66	48	50	50	50
081	Animal feeding stuffs					
	(Peru)	132	136	158	166	..
	(Argentina)	102	116	113	106	..
	(India)	95	117	108	116	..
	(Senegal)	151	95	143	147	..
121	Tobacco, unmanufactured					
	(Malawi)	106	92	115	111	..
	(Dominican Republic)	92	138	163	165	..
221	Oil-seeds, oil nuts, and oil kernels					
	(groundnuts)	103	107	114	126	141
	(copra)	84	92	92	102	87
	(palm kernels)	89	99	93	103	89
	(linseed)	105	89	92	85	78
	(cottonseed)	111	112	99	115	119
	(sesame)	109	106	109	112	..
	(soyabeans)	215	144	157	163	..
	(castorseed)	67	145	121	151	..
	(Upper Volta)	118	72	178	171	..
231	Rubber	96	70	72	59	49

TABLE B-2 *(continued)*
Price indices of selected primary commodities

SITC group	*Commodity and country of origin (or quality)*	*1954-1956*	*1964-1966*	*1969*	*1970*	*1971* [a]
242	Wood, rough	102	117	131	127	..
243	Wood, shaped	105	102	104	103	..
261	Silk (Korea)	121	161	188	237	231
262	Wool					
	(merino)	129	111	95	82	75
	(crossbreed)	115	114	76	69	70
	(carpets)	117	111	67	63	63
263	Cotton					
	(Egyptian)	149	117	146	144	140
	(Uganda)	123	95	94	90	107
	(Mexican)	110	86	85	92	107
	(Pakistan)	126	93	93	103	113
264	Jute (Pakistan)	75	110	98	94	97
265	Vegetable fibres (sisal)	94	112	75	67	75
281	Iron ore					
	(Venezuela)	84	116	101	115	..
	(Liberia)	91	59	61	59	..
	(India)	94	92	100	97	..
	(Brazil)	107	69	59	64	..
283	Ores of non-ferrous base metals					
	(copper ore)	136	143	234	226	173
	(lead ore)	147	144	147	153	128
	(zinc ore)	112	139	131	140	157
	(tin ore)	97	170	161	173	164
	(tungsten)	193	181	324	489	344
	(manganese, Gabon)	100	87	66	64	..
	(bauxite, Dominican Republic)	100	98	106	114	110
	(nickel)	86	107	142	174	..
	(bauxite, Guyana)	80	146	106	113	109
	(bauxite, Surinam)	74	105	118	123	119
	(bauxite, Jamaica)	92	151	157	133	..
	(manganese, Ghana)	77	66	55	54	..
	(manganese, Morocco)	83	68	98	103	..
	(bauxite, Ghana)	79	98	83	86	83
	(alumina, Jamaica)	106	99	105	113	111
	(alumina, Guyana)	100	109	112	122	120
285	Silver and platinum ores (Bolivia)	96	143	206	194	180
421	Fixed vegetable oils, soft					
	(groundnut oils)	114	104	110	126	148
	(olive oil)	119	105	110	115	120
422	Other fixed vegetable oils					
	(coconut oil)	82	94	103	112	105
	(palm oil)	100	108	88	118	118
	(palm kernel oil)	85	96	98	118	108
	(tung oil)	140	138	102	145	85
551	Essential oils, perfume, etc.					
	(clove oil)	129	89	150	134	135
	(Madagascar)	156	105	98	91	88
	(Paraguay)	138	110	110	110	..
631	Veneers, plywood, etc.					
	(Taiwan)	91	89	92	99	106
	(Gabon)	89	114	108	122	130
	(Korea, Republic of)	100	89	103	98	105
	(Philippines)	61	91	109	96	102
667	Pearls and precious and semi-precious stones	102	114	137	135	..
681	Silver, platinum, etc.					
	(Mexico)	97	122	188	184	170
	(Peru)	97	136	201	197	182
682	Copper	136	143	234	226	173
683	Nickel	85	108	144	176	180
684	Aluminium	93	106	116	122	124
685	Lead	147	144	147	153	128
686	Zinc	112	139	131	140	157
687	Tin	97	170	161	173	164

Sources: See section III A above.

[a] Provisional figures.

CHART B-I

Index numbers of terms of trade of developing countries [a]

(1958-1960 = 100)

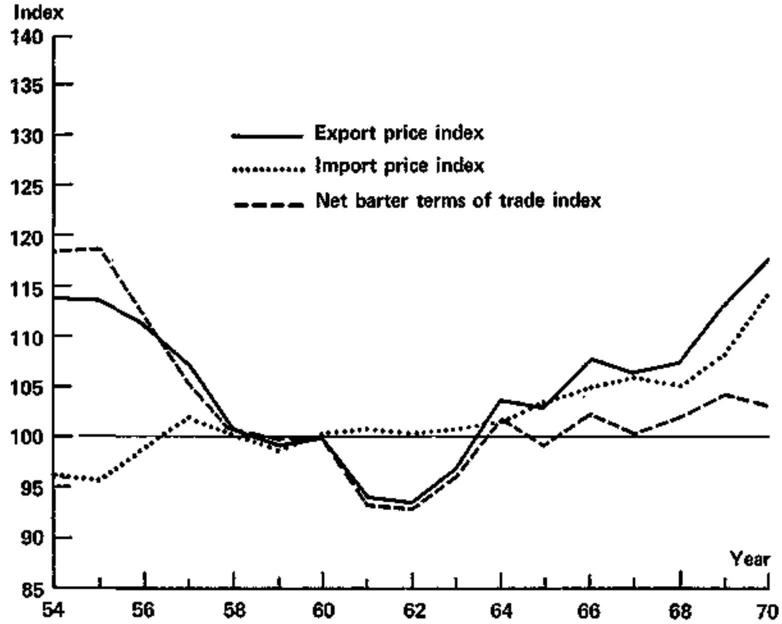
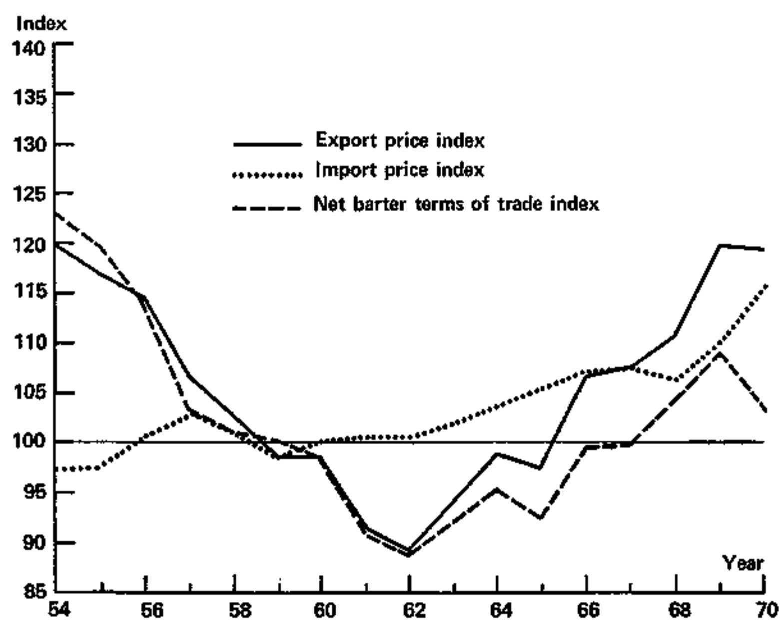


CHART B-II

Index numbers of terms of trade of African developing countries [a]

(1958-1960 = 100)



[a] Excluding the major petroleum-exporting countries.

CHART B-III

Index numbers of terms of trade of Asian developing countries [a]

(1958-1960 = 100)

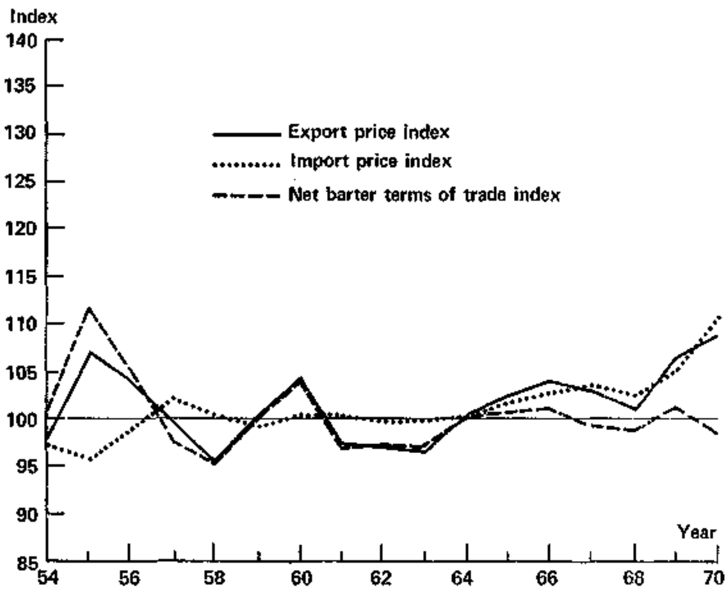
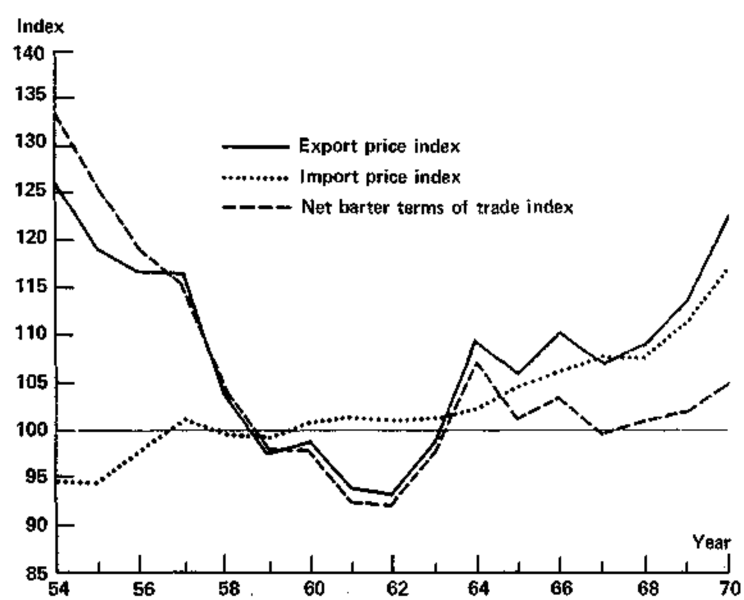


CHART B-IV

Index numbers of terms of trade of Latin American developing countries [a]

(1958-1960 = 100)

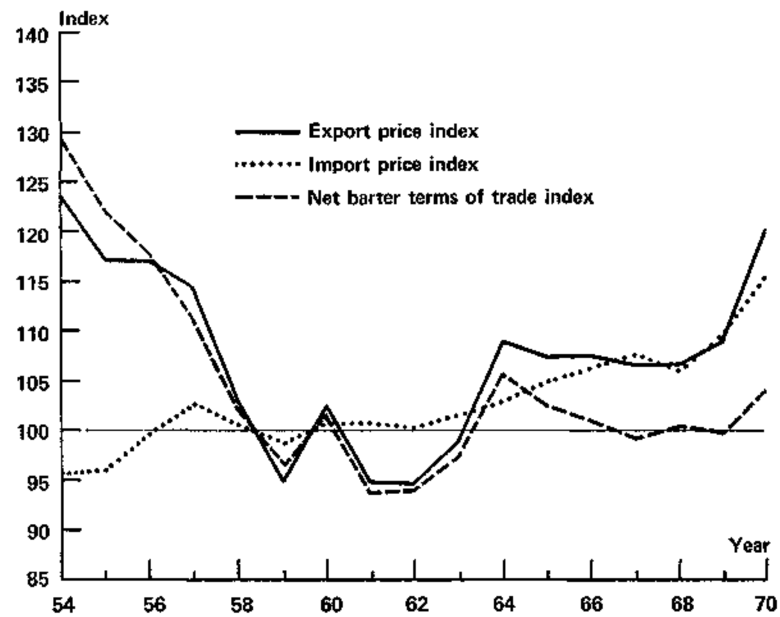


[a] Excluding the major petroleum-exporting countries.

CHART B-V

Index numbers of terms of trade of the least developed countries [a]

(1958-1960 = 100)

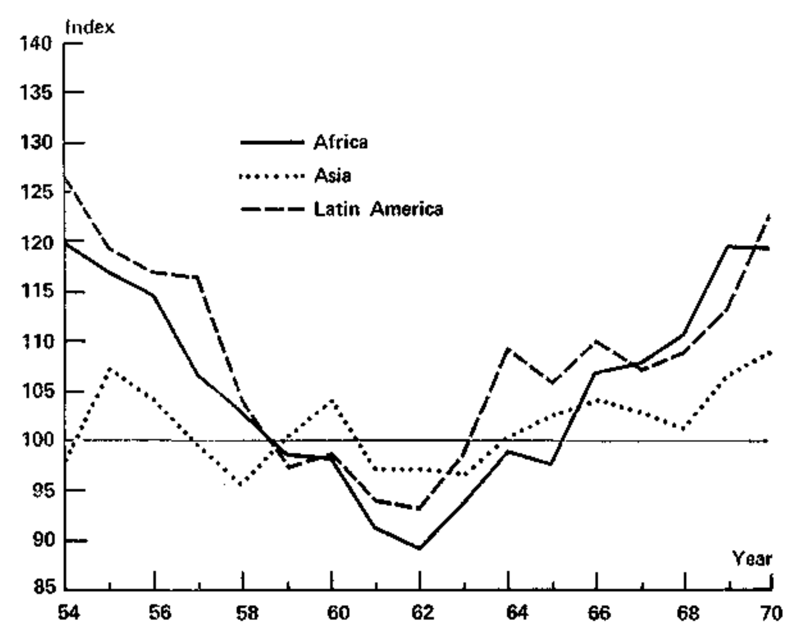


[a] Countries listed with an asterisk (*) in part one, table A-I.

CHART B-VI

Export price index numbers by region [b]

(1958-1960 = 100)



[b] Excluding the major petroleum-exporting countries.

CHART B-VII

Import price index numbers by region [a]

(1958-1960 = 100)

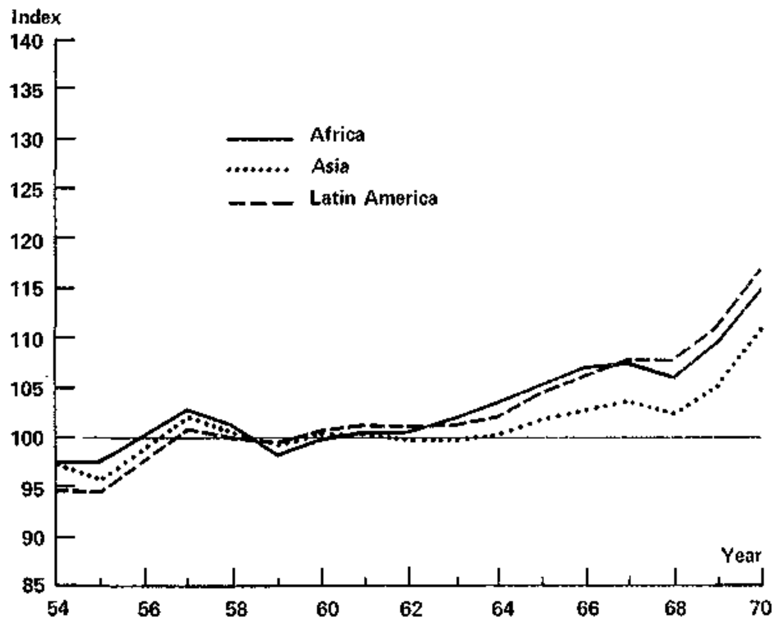
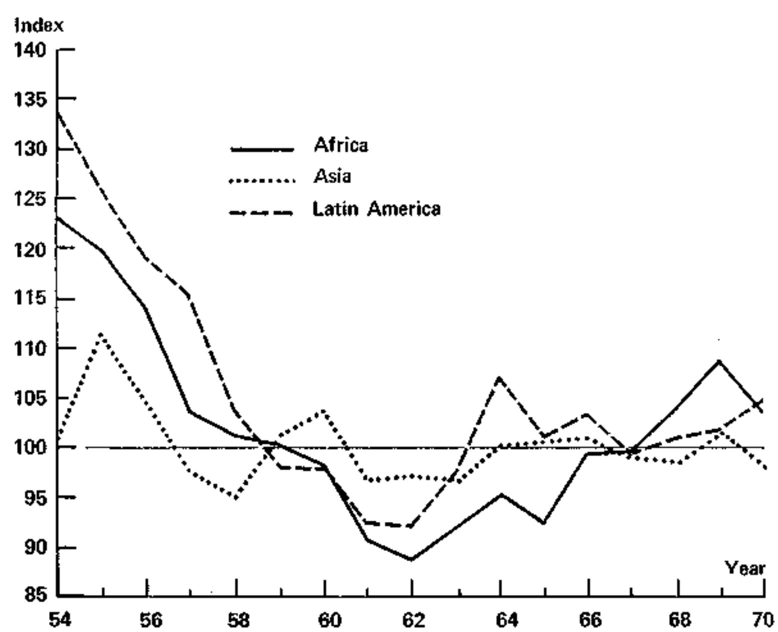


CHART B-VIII

Net barter terms of trade index numbers by region [a]

(1958-1960 = 100)



[a] Excluding the major petroleum-exporting countries.

EXPANSION OF TRADE AND ECONOMIC CO-OPERATION BETWEEN THE SOCIALIST COUNTRIES OF EASTERN EUROPE AND THE DEVELOPING COUNTRIES * (AN INTEGRATED APPROACH)

Report by the UNCTAD secretariat

[*Original text: English*]

CONTENTS

Introduction

1. It has been recognized that the solution of the difficulties faced by the developing countries in their efforts to secure favourable conditions for a sustained and accelerated economic and social progress requires radical changes in their participation in the international division of labour, or, as is stated in the International Development Strategy for the Second United Nations Development Decade (General Assembly resolution 2626 (XXV)), the creation of a better and more effective system of international co-operation. It has also been recognized that the complexity and the dimension of this task, involving numerous factors at the national and international levels, doom to failure any scattered, partial and sporadic measures limited to some of the spheres that have to undergo transformation, if the above objective is to be attained.

2. Consequently there has emerged the notion of a comprehensive approach to the problems of the economic and social development of the developing countries, presupposing concerted action in all major areas of concern

* The text of this report was circulated to the Conference as document TD/126, dated 8 February 1972. Will also be issued separately as a United Nations publication.

both at the national and international levels. While this notion has found resounding support in the International Development Strategy,[1] it has also been mentioned and discussed in a number of other documents within and outside the United Nations.

3. It is therefore evident that the idea of a "comprehensive" or "integrated" approach to the solution of the economic problems of the developing world has gained sufficient ground to become a firmly established concept in policy discussions. The problem at present is how to translate this general concept into effective action on a broad scale.

4. The purpose of this report is to assess the degree to which the concept discussed above can be applied to the general evolution of trade and economic relations among the socialist countries of eastern Europe and the developing countries, including practical steps to be taken to promote and diversify these relations. To arive at such an assessment, an over-all review is made below of various measures carried out by the socialist countries of eastern Europe and the developing countries in their trade and economic co-operation in the major fields of UNCTAD interest. This review is not an analytical one and does not pretend to be exhaustive. Its aim is rather to draw attention to certain important and commonly encountered practical approaches and institutional and legal means utilized by trading partners and to establish the extent of their interdependence. The review is therefore of necessity a concise generalized presentation of major trends based largely upon previous analytical work on problems of trade among countries having different economic and social systems which has been carried out by the secretariat of UNCTAD itself or at its request, and upon a number of case and country studies published by UNCTAD in recent years. Hence, as far as the detailed factual side of the picture is concerned, the present report should be considered in conjunction with these documents.[2]

5. Wherever warranted, the report goes beyond a simple presentation of existing facts and trends and endeavours to pinpoint problems or difficulties and indicate areas where further concerted action or intensification of measures at present being taken is clearly called for, or where more studies and intergovernmental consultations may be expected to yield practical results in the future.

6. The review of policies and practices in trade and economic co-operation among the socialist countries of eastern Europe and the developing countries is followed by an attempt to draw general conclusions about the over-all picture as it emerges from the factual presentation, with a view to providing fresh insight into the problems and prospects of this co-operation and thus to stimulate action on an integrated basis during the third session of the Conference. The present report could also serve as an additional contribution to the background information produced to facilitate the implementation review at the third session.

7. To be meaningful, any attempt to appraise in an integrated fashion developments in trade and economic relations among the socialist countries of eastern Europe and the developing countries will necessarily have to take into account three principal groups of factors which exercise a decisive impact both on the quantitative growth of foreign trade and external economic co-operation and on the institutional forms and policy measures used by the former for their promotion.

8. The first group of factors is related to the very nature of the economic and foreign trade organization in the socialist countries. Indeed, such inherent features of their system as the integrated planning of all important economic and social activities, the concentration of national resources and efforts on a number of central and integrated priorities, the predominant role played by the State in the over-all management of the national economy, the significance of macro-economic criteria in evaluating economic and foreign trade alternatives and prospects, to mention but a few, are reflected in the socialist countries' approaches and preferences as to forms and methods of trade and economic co-operation. As a result, there is a strong inclination on the part of the socialist countries in favour of an integrated approach to external economic co-operation.

9. Secondly, there seems to be a growing realization in the socialist countries of eastern Europe that contemporary progress in science and technology, the increasing role of international specialization and co-operation and other forms of direct links in the production sphere, the ever-closer interdependence of domestic and international economic, trade, technological and social problems and the very complexity of these problems represent a challenge to internal and external economic policy which could hardly be met through partial measures. Moreover, it is becoming increasingly clear that it is no longer possible to promote external trade by relying solely on those traditional methods and instruments which belong to the arsenal of trade policy proper, and that trade is becoming—more than at any other time in the history of international economic relations—an integral part of complex flows comprising material, financial, technological and human components.

10. There are also the changes in economic thinking and the resulting evolution of the system of economic management in the socialist countries of eastern Europe. Economic reforms are geared to enhance the over-all efficiency of national economies by promoting a more rapid introduction of modern technological achievements, introducing new relationships between central management and operative economic units, securing a more rational allocation of available resources, and improving both the concepts and the methods of national economic planning. This evolution not only involves a greater participation in the international division of labour and world trade but also presupposes simultaneous and co-ordinated action in all important fields of external economic co-operation at the macro- and micro-economic levels. The Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the Member Countries of the Council

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[1] It is stated in paragraph 7 of the International Development Strategy that the implementation of a global strategy for development requires "joint and concentrated action by developing and developed countries in all spheres of economic and social life: in industry and agriculture, in trade and finance, in employment and education, in health and housing, in science and technology".

[2] For a list of the documents in question, see the annex to the present document.

for Mutual Economic Assistance (CMEA) adopted in July 1971 [3] confirms that economic policies and thinking in the socialist countries of eastern Europe are at present increasingly inspired by such an integrated approach to external economic co-operation.

11. The natural inclination of the socialist countries of eastern Europe towards an integrated approach to problems arising in the course of external economic co-operation in general, and of that with the developing countries in particular, seems to meet with a converging attitude on the part of many developing countries, at least those of them which:

(*a*) seek an expansion of their ties with the socialist countries and take appropriate steps to this end;

(*b*) endeavour to introduce over-all national economic planning or to improve its efficiency and reliability; and

(*c*) in general, rely to a substantial degree on state participation, and consequently, on active governmental intervention, for the mobilization of national resources, the expansion of foreign trade and technological progress.

12. This brief assessment of some basic factors which influence attitudes and action on either side reveals the existence of favourable pre-conditions both in terms of policy preferences and in the matter of economic and institutional structures for the application by the socialist countries of eastern Europe and the developing countries of an integrated approach in their mutual economic and trade relations which would fit into the concept of a global and internally consistent programme of practical measures such as underlies the International Development Strategy for the Second United Nations Development Decade.

13. It is not the purpose of this report to consider problems arising in trade and economic relations between the socialist countries of eastern Europe and the developed market-economy countries. It has been stated, however, on numerous occasions that no approach to problems of trade relations among countries having different economic and social systems can be fully universal, and consequently fully successful, if serious problems existing in the other important sector of these relations, namely East-West trade, are neglected. These problems not only have a restrictive effect on short-term trading opportunities in the markets of the socialist countries, but also influence those countries' general policy intentions and their readiness to commit resources for the purpose of promoting long-term economic interdependence with countries outside the sphere of their mutual trade and economic integration. The third session of UNCTAD provides an opportunity to examine possibilities for promoting the normalization and the expansion of East-West trade and economic relations. Recent developments in the trade policy sphere as well as the general evolution of East-West relations could favour significant progress in this respect.

Chapter I

Review of policies and practices

14. What follows is a summary description of policy measures applied by the socialist countries of eastern Europe and their developing partners in mutual trade and economic co-operation, as well as of some existing problems and opportunities for further action in the respective fields.

A. Economic and industrial co-operation

1. *Economic assistance*

15. The economic assistance granted by the Governments of the socialist countries of eastern Europe to the developing countries within wider co-operation arrangements does not represent financial aid in the strict sense of the term. It is in essence material assistance and by definition cannot be mechanically compared with public financial aid in its different aspects, not to speak of such financial flows as private loans, commercial credits and overseas investment.

16. Among the more important characteristics of this economic assistance, the following deserve special attention: [4]

(*a*) Economic assistance granted is aimed at the execution of specific projects in such areas as the expansion of production, the exploitation of natural resources, the improvement of the infrastructure, the development of social and educational services, etc.

(*b*) This assistance is usually related to the implementation of economic plans and programmes in the respective developing countries and hence leads to the establishment of a link between these plans and programmes and the national economic plans in the socialist countries of eastern Europe in their financial, investment, production and foreign trade aspects. Through such a link, mutual adjustments in economic structures are encouraged and adaptation to local conditions, requirements and priorities is facilitated. Besides, this feature of economic assistance permits it to be channelled into key areas of national economic development—whether important single enterprises, economic sectors or whole national economic complexes.

(*c*) Generally, under economic assistance arrangements between the socialist countries of eastern Europe and the developing countries, the latter retain full control over their national resources and over newly created production capacities.

(*d*) In most cases, credits extended by the socialist countries constitute an integral part of economic assistance schemes. As a rule, repayment is effected in kind through deliveries of the traditional export products of the developing countries as well as of products manufactured by the units set up with the assistance provided.

(*e*) Economic assistance arrangements cover not only material transfers, but also technical assistance and the transfer of technology.

17. Economic assistance is evidently having a trade-generating impact both directly through the setting up of new industries and the "repayment in kind" provisions, as well as indirectly through the resulting diversification of

[3] See document TD/B/380.

[4] See also "Review and analysis of trends and policies in trade between countries having different economic and social systems: report by the UNCTAD secretariat (TD/112).

production and export structures and the multiplier effect on the economy and export production as a whole. This impact usually lasts beyond the repayment period of the credits and thus creates trade interdependence leading to a stable division of labour in specific sectors. The newly created trade interdependence is usually reflected and consolidated in long-term trade agreements and/or long-term commercial contracts.

18. One of the difficulties encountered in furthering this form of co-operation flows from the lack of sufficient knowledge and mutual information concerning (1) the concrete possibilities of a given socialist country to provide material and technological assistance in different areas and (2) the demand on the part of the developing countries for such a concretely defined assistance. As a result, loans have sometimes been negotiated without a detailed preliminary study of the possibilities for their utilization. This problem was sometimes referred to in connexion with the relatively modest share of disbursements in total assistance commitments prevailing at the beginning of the 1960s. A number of bilateral measures have been taken to overcome the difficulties described, including special consultations at the political and technical levels, the use of study groups and exploratory missions, promotional activities, the application of incentives to encourage operative economic units to avail themselves of the opportunities offered, etc. Economic assistance has been more closely integrated into national planning, both in the donor and in the recipient country. A closer relationship has been established between operation under the economic assistance agreements and the provisions of the long-term trade agreements and related annual protocols, through which commitments to supply equipment and know-how on credit are linked to commitments to deliver specified quantities of goods within specified time-limits by way of repayment of assistance received. Partners in economic co-operation might also encourage, whenever feasible, the association of third parties from socialist, developing or developed market-economy countries with the implementation of agreed projects under co-operation arrangements. The practicability of arranging for multilateral discussions on relevant issues involved in economic co-operation might also be examined.

19. It would seem that the socialist countries of eastern Europe, while continuing to apply concessional conditions of economic assistance and making efforts further to increase the total volume and to diversify the structure of this assistance, by, *inter alia,* including appropriate provisions in their plans, should endeavour to adapt their assistance policy still better to the planned objectives and requirements in the beneficiary developing countries. The latter should, on the other hand, determine with greater precision concrete areas and projects which could benefit from economic assistance, and improve and expand the means and channels through which information concerning their planned requirements is transmitted to the socialist countries of eastern Europe. Both groups of countries should strive to make fuller use of the trade incidence of economic assistance, *inter alia,* by integrating the closer two-way flows generated by this assistance into the over-all trade covered by their long-term trade agreements.

2. *Industrial co-operation*

20. Industrial co-operation represents another area offering evident potentialities for a further growth of trade and economic relations between the two groups of countries. It often starts from projects of economic assistance, but should not be confounded with the latter. Two main forms of industrial co-operation may be identified at present:

(*a*) Deliveries of components and semi-manufactures by the developing countries to enterprises in the socialist countries of eastern Europe on a sub-contracting basis;

(*b*) Deliveries of components by the socialist countries to enterprises in developing countries, in particular those set up under economic assistance arrangements.

It appears, however, that there has lately been an evolution towards more complex forms of industrial co-operation (especially with more advanced developing countries), involving specialization and co-operation on the basis of a long-term harmonization of the partners' investment, production and technological cycles. The development of industrial co-operation generates permanent exchanges of manufactured and semi-manufactured products between the respective countries.

21. Although industrial co-operation is primarily co-operation between enterprises, government intervention has played an important role in its development, both because of the generally significant role of governments in promoting trade and economic relations between the two groups of countries, and because of the degree of governmental engagement in the process of industrial development on either side. Governments have influenced and promoted industrial co-operation by the conclusion of agreements on economic and technical co-operation and long-term trade agreements which have created favourable conditions for further contacts between enterprises. In some cases, which are of special interest as precedents, they have also embarked upon direct intergovernmental consultations on matters of specialization and co-operation with an immediate impact on the development of industrial co-operation among State-owned enterprises.

22. It seems that the potentialities for industrial co-operation warrant an even greater involvement of Governments on both sides, with a view to achieving a substantial expansion of industrial co-operation ventures which for the time being play a rather modest part in total economic and trade exchanges. The steps that could be envisaged in this respect should include action in the field of general policy, incentives to enterprises and measures to improve mutual information.

23. As far as the first type of measure is concerned, Governments in the socialist countries of eastern Europe and the developing countries might seek to develop further and conclude, wherever such are lacking, intergovernmental agreements on trade and economic matters which create favourable conditions for the development of industrial co-operation. They might also conclude special agreements on industrial co-operation, which are an important innovation in relations among countries having different economic and social systems. Within the existing

bilateral consultation machinery, they might also pay greater attention to possibilities in the field of industrial co-operation. To the extent possible, and depending on the specific economic and institutional conditions in each developing country, intergovernmental consultations could be used for the elaboration and adoption of concrete arrangements aimed at specialization and co-operation in production. This new form of co-operation is especially promising where the developing countries concerned possess an efficient and reliable planning system and a sufficiently developed public industrial sector.

24. With respect to incentives, Governments could adopt economic, fiscal and also trade policy measures. Recent discussions have shown that in the trade policy sphere such measures as special tariff treatment for trade exchanges under industrial co-operation arrangements, the non-application of quantitative restrictions and other restrictive provisions in the case of imports relating to such arrangements and various administrative facilitation measures can be contemplated.

25. It appears that one of the serious handicaps to a rapid expansion of industrial co-operation is the relative scarcity of detailed information on specific possibilities for industrial co-operation on both sides. The situation could be improved by a more energetic use of bilateral and multilateral channels for the exchange of relevant information. UNCTAD's informal consultation procedures, the UNCTAD/GATT International Trade Centre and the services provided by the United Nations Industrial Development Organization (UNIDO) could play a valuable role in this respect.

26. Certain experience has been accumulated in the Economic Commission for Europe (ECE) as to ways and means of encouraging industrial co-operation between countries having different economic and social systems. A special meeting of experts to examine all relevant issues is being organized, practical approaches are being analysed with a view to their wider application, discussions are under way on the question of incentives relating to trade policy and other aspects that the Governments could introduce to promote such co-operation. This experience might also be taken into consideration within UNCTAD.

B. Trade

1. *Trade and over-all co-operation*

27. Trade among the socialist countries of eastern Europe and the developing countries cannot be discussed in isolation from other aspects of their co-operation as a whole. This trade in fact is increasingly becoming part of a whole system of relations covering economic and technical assistance, industrial ventures, the transfer of technology, etc. Although trade has begun from low levels and traditional structures—and this is still the case with regard to many developing countries—its development is fostered by a desire on both sides to create new trading opportunities and to promote a new structure of exchanges through a series of practical initiatives which exercise a direct impact on the economic bases of trade flows.

28. Economic and technical assistance is playing an increasing role in this respect, since it not only contributes directly to the creation of export resources in the primary commodity and manufacturing sectors, but also opens up markets for the new products through the repayment-in-kind provisions of the co-operation agreements. The trade-generating effect of economic and technical assistance is especially pronounced as far as exports of manufactures and semi-manufactures are concerned, since the majority of projects under economic and technical co-operation arrangements concentrate on industry and, consequently, the reverse flow of goods in repayment of credits consists to a considerable extent of manufactures and semi-manufactures. Indeed, this appears to be one of the major reasons behind the increase in the socialist countries' imports of manufactures and semi-manufactures from the developing countries in recent years.

29. Long-term agreements are used as one of the major instruments to facilitate trade between the socialist countries of eastern Europe and the developing countries. They perform multiple functions including the establishment of general trade policy conditions, the harmonization of export and import policies, trade promotion, and so on. They also make it possible to relate the expansion of trade to developments in other areas of mutual co-operation and to the economic plans and programmes in the partner countries. The quotas and lists of products attached to these agreements and to the related annual protocols usually serve as general guidelines reflecting the partners' possibilities and preferences and, as such, influence and stimulate structural changes. In certain cases, however, these quotas and lists have approached in nature the status of inter-governmental commitments; their formulation is usually preceded by thorough studies and detailed negotiations in which representatives of trade and industry from both sides take part. The implementation of quotas and product lists is thus placed on a secure foundation. Consequently, the trade partners enjoy an increased stability of market prospects which permits a more effective planning of investment, production and procurements. The same objective could be met to some extent by long-term commercial contracts.

30. As far as diversification is concerned, it should be noted that in general the socialist countries have favoured vertical diversification and have regarded horizontal diversification only as an intermediate step towards the main objective. While no special diversification funds have been set up by them, it appears that a large part of their economic and technical assistance has been earmarked for this purpose. This assistance has been aimed both at producing new commodities and at increasing the degree of processing of those already produced. In the sphere of trade, the diversification of the exports of the developing countries has been encouraged by the socialist countries through market research and economic studies concerning existing and future possibilities for meeting requirements by means of imports from the developing countries, through the inclusion of appropriate provisions in foreign trade plans and long-term trade agreements and through efforts by domestic trading organizations to introduce new products from the developing countries.

31. As far as prices are concerned, it seems that the interests both of the socialist countries with a planned

economy and of the developing countries (in their search for stable export revenues) would be served by increased price stability in trade exchanges. The question is even more important in the light of the role which trade is playing within over-all co-operation, since price instability complicates the introduction of long-term interdependence between the economic structures of the partners, especially when elements of planning are involved. Hence, it would be desirable to continue the examination of this problem, both in bilateral and in multilateral consultations. One of the ways to promote greater price stability could be the encouragement and facilitation by Governments of the conclusion of appropriate long-term contracts and arrangements.

32. With regard to imports of manufactured and semi-manufactured products, the inclusion of fixed percentage shares for imports of such products in total imports from a given developing country, under bilateral arrangements on the repayment of credits, deserves special mention. This approach might be examined further, although it is evident that it cannot be applied mechanically to all cases, since such a fixed percentage share can be meaningful only if it takes into account both the production structures and technical standards existing in the exporting developing countries and the structure and special characteristics of demand for manufactures and semi-manufactures in the importing socialist countries. These fixed percentage shares as a rule reflect concrete intentions based on a careful bilateral appraisal of requirements, supply availabilities, quality and technical specifications, etc. Since this appraisal is carried out within the general framework of bilateral co-operation, it is not limited to existing trading opportunities but takes into account trade flows that may be generated by co-operation in other areas.

33. As has been shown above, industrial co-operation can be instrumental in furthering the growth and the structural evolution of trade exchanges. Through various ventures in this field, permanent and stable inter-relations between the industrial bases of the partner countries can be established with significant implications for mutual trade, especially that in manufactures and semi-manufactures. The trade-creating effect of industrial co-operation seems to be increasingly appreciated by countries in both groups who seek to encourage a closer inter-dependence between such co-operation and bilateral trade flows.

34. As mentioned below (see paragraph 62) the measures of a bilateral nature described here are not a substitute for traditional export promotion. Some of them should be considered rather as a starting point for successful promotional initiatives.

35. In the light of the preceding comments, it appears that in relations between the socialist countries of eastern Europe and the developing countries, trade is being gradually integrated into a complex system of co-operation covering various fields. It is becoming to a significant degree a corollary of action related to the mutual adaptation of economic activity and to the harmonized development of material production in selected fields. This action is exercising a growing influence on the volume, dynamics and composition of trade exchanges between the two groups of countries. It seems, therefore, that the continuous expansion of trade would require the implementation of a system of measures whose scope should correspond to the place occupied by trade in over-all co-operation and to its numerous inter-connexions with other elements of this co-operation. From this point of view, some general trade policy measures which have traditionally been given higher prominence would appear in fact to be insufficient, while other measures, many of them outside the field of trade policy, may bring about significant results.

36. Consequently, discussions and consultations within UNCTAD on matters of trade between the socialist countries of eastern Europe and the developing countries would gain, as far as their impact on actual developments is concerned, if they were focused more than they have been in the past on measures and methods which have passed the test of practical experience and have been selected by trade partners on the basis of their proven trade-stimulating or trade-creating effects. Conference resolution 15 (II) was an important step in this direction.

2. *Preferential treatment*

37. Some socialist countries of eastern Europe stated in their joint declaration issued during the second part of the fourth session of the Special Committee on Preferences [5] that the preferential treatment applied by them in favour of the developing countries would be in the form either of preferential tariff concessions or of special preferential measures, or both.

38. Of the five signatories to the joint declaration, four have customs tariffs. Although the modalities of tariff policy and the practical application of tariffs vary in different socialist countries of eastern Europe, customs tariffs appear to have an impact on the decisions of importers in all of them. Preferential tariff concessions are therefore of effective value for interested exporters.

39. The principal features of the preferential tariff treatment extended by the socialist countries, in accordance with their joint declaration, might be summarized as follows:

(*a*) The preferential treatment covers both industrial goods and processed agricultural products, as well as unprocessed primary commodities where the tariff rates for the latter have not already been established at zero level;

(*b*) Few or no exceptions are applied in most cases;

(*c*) The depth of cut varies from country to country and depends on the level of development and the size of the respective economies; in the case of a major country in this area, zero tariff rates were introduced for all products coming from the developing countries;

(*d*) Generally, the tariff concessions are not accompanied by any special provisions restricting preferential access, such as ceilings and quotas;

(*e*) No special safeguard clauses have been reported;

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[5] See *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6A*, part two, para. 192.

(*f*) There is no discrimination on the basis of differences in social and economic systems in determining the beneficiary developing countries.

40. A number of special measures, also, were announced in the joint declaration, most of them of a preferential nature. Two basic types of special measures may be distinguished both under the joint declaration itself and also in actual practice.

41. The measures belonging to the first type are limited to the sphere of trade and are aimed at making use of trade policy instruments other than tariffs, in order to promote imports from the developing countries under specially favourable conditions. The main instruments of this type are the following:

(*a*) Special treatment may be ensured within the operation of long-term trade agreements, especially where the quotas and product lists attached to these agreements acquire the status of reliable commitments on the basis of bilateral negotiation and consultation; the same applies to the fixed percentages for imports of manufactures and semi-manufactures stipulated in some agreements, irrespective of whether mutual payments are effected in convertible currencies or through the clearing system;

(*b*) Bilateral clearing arrangements may also favour imports from the developing countries;

(*c*) In some cases the competent administrative bodies may seek to influence the decisions and choices of enterprises concerned in favour of imports from a developing country; naturally, such an influence will have to take duly into account commercial considerations and cannot go beyond the limits established by internal legislation as far as the intervention powers of the central authorities and the autonomy of the enterprises are concerned; it may also prove impossible to overcome resistance from enterprises when a developing country exporter offers conditions inferior to those offered by other exporters;

(*d*) Another way of promoting imports from developing countries is through the maximum simplification of internal procedures and administrative requirements (such as the granting of licences, or inter-ministerial co-ordination) when requests for imports from the developing countries are being examined.

42. The special measures of the second type are those within the field of co-operation. Many of them have been described above or are to be described in the next section (credits repayable in products, including manufactures and semi-manufactures; agreements on the partial division of labour or industrial ventures; special conditions for the transfer of technology and technical assistance, etc.). These measures may be considered actually as a major factor in creating favourable conditions for exports from the developing countries since, besides their direct trade-generating effect, they produce changes in the industrial structures and create the material prerequisites for increased and diversified exports.

3. *Payments arrangements*

43. Bilateral agreements play a basic role in payments relations between the socialist countries of eastern Europe and the developing countries. Although there are many cases in which payments are effected in convertible currencies, it appears that in terms of trade shares, clearing arrangements prevail.

44. It has been recognized that, at given stages of co-operation, clearing arrangements can cause some difficulties. It should be stressed, however, that these difficulties are not necessarily a product of developed bilateral relations. Experience shows that such difficulties have mainly appeared in the initial phase of co-operation, which is characterized by a low turnover and a limited range of products in trade exchanges. However, once co-operation has advanced both in volume and in diversity, difficulties have tended gradually to diminish. Moreover, it would seem that no uniform method of introducing multilateralism into payments relations between the developing countries and the socialist countries of eastern Europe is practical at the present time. This was in fact one of the main conclusions contained in the report of the Group of Experts on Multilateral Payments Arrangements convened under UNCTAD auspices in 1969.[6] On the other hand, it was also recognized, at that time, that bilateral and multilateral payments arrangements were not mutually exclusive and that both the socialist countries of eastern Europe and the developing countries should consider various means of introducing elements of multilateralism in combination with bilateral arrangements.

45. There already exist a number of possibilities for increasing flexibility and introducing elements of multilateral payment arrangements. If progress in this direction has not been sufficient, this has been due not so much to the lack of appropriate instruments, but to the fact that practical interest seems to lag behind the interest declared by both sides during multilateral discussions. Nevertheless, it is desirable to introduce greater flexibility, not only from the point of view of opening up new trading opportunities or mitigating the restrictive effects of bilateral balancing, but also with the aim of providing a more accurate yardstick for assessing the economic efficiency of bilateral trade and co-operation projects against the background of competitive conditions in the world as a whole.

46. With respect to further practical measures that might be adopted, three types of action deserve special consideration. In the first place, partners to bilateral arrangements could make more extensive use of such devices as swing (technical) credits and provisions for the transferability of balances. Secondly, the possibility could be examined of creating, under the auspices of UNCTAD, a special mechanism for the purpose of facilitating the multilateral transfer of balances. Thirdly, the facilities offered by multilateral institutions set up by the socialist countries of eastern Europe and the developing countries in the process of their sub-regional co-operation and integration might be utilized more actively than has been the case until now. The International Bank for Economic Co-operation (IBEC) announced, several years ago, the introduction of facilities for the multilateral compensation of balances. The Comprehensive Programme of the CMEA member countries contains provisions which appear to make it possible for a developing country to

[6] *Ibid., Tenth Session, First, second and third parts, Annexes,* agenda item 8, document TD/B/284, para. 27 (b).

become gradually associated with the evolving CMEA system of multilateral settlements based on the transferable rouble. It would seem also that such an approach might be practicable between the CMEA area as a whole and areas in the developing world covered by similar regional payments arrangements. More information should therefore be provided to the developing countries on the facilities existing in the socialist countries of eastern Europe, while the former should consider practical steps to avail themselves of these opportunities.

C. Transfer of technology and technical assistance

47. The major features of co-operation between the socialist countries of eastern Europe and the developing countries in this field might be summarized as follows:

(*a*) Inter-governmental agreements play an essential role in this co-operation and provide a framework for direct contacts at the operative level;

(*b*) Technical knowledge and information, patented and non-patented technology and know-how, constitute State property in the socialist countries of eastern Europe and their use is guided by the general policy of the State, including that applied vis-à-vis the developing countries;

(*c*) While research and development activities in the socialist countries are increasingly oriented in accordance with cost/benefit considerations, these activities are not, as a rule, governed by profit-making motivations. These general features must be taken into account in any evaluation of practical experience in the relations between these two groups of countries.

1. *Transfer of technology*

48. The identification of appropriate technology required by the developing countries is ensured mostly through bilateral channels; special bilateral bodies have proved to be efficient in establishing needs and availability and in the choice of concrete areas of co-operation in the light of the situation in a given developing country. Plans for co-operation in science and technology have been negotiated which reflect the priority requirements of the developing country concerned in the matter of imported technology and the readiness of the socialist partner to make available information, know-how or technological processes within its own possibilities.

49. As to the adaptation of technology, the bilateral organs mentioned above are guided in their choice of projects, *inter alia*, by the applicability or adaptability of existing technology to the special conditions and requirements of the developing partner country. Under bilateral agreements work has been carried out in research and development institutions of the socialist countries to adapt available technology to the conditions prevailing in the developing countries. As a rule, the latter are charged only with the expenses accruing from the administrative and technical services provided. In the process of economic assistance and industrial co-operation, the socialist country concerned usually undertakes to adapt to local needs and conditions the equipment and technological processes which it supplies. This work is normally executed in the socialist country itself, but there have been cases where it has been done in co-operation between institutions of the donor and the beneficiary countries.

50. The assistance rendered by the socialist countries of eastern Europe to the development of the research and development infrastructure in the developing countries has consisted of:

(*a*) Assistance in the setting-up of research institutes, educational centres, laboratories, etc.;

(*b*) Co-operation with, and assistance to, established research and development institutions;

(*c*) The sending of experts and scientists to work on the spot within the research and development system of the countries concerned;

(*d*) The setting-up (sometimes as joint ventures) of special organizations in the field of prospecting, research, design work, etc.; and

(*e*) Supplies of equipment and material needed in the course of research and development activities.

51. The terms and costs of the transfer of technology from the socialist countries reflects the major institutional features mentioned in paragraph 47 above. A significant part of this transfer comes practically free of charge under intergovernmental agreements and plans for scientific and technical co-operation or within the execution of specific projects. Another part—mainly that consisting of patents and licences—is transferred against reimbursement. The fact that price formation for patented technology in the socialist countries of eastern Europe is free from restrictive business practices tends to have a favourable influence on price levels for such technology.

52. An area which until now has not received enough attention in relations between these two groups of countries is that relating to the exchange of scientific and technological information. The socialist countries of eastern Europe have in recent years deployed massive efforts towards the creation of national information systems. Moreover, according to the Comprehensive Programme of the CMEA member countries, an international system linking the national systems will gradually be set up during the period 1972-1975 around the International Centre for Scientific and Technological Information which is already in existence. It seems likely that the developing countries could derive considerable benefits through an intensification and expansion of contacts between the national systems of scientific and technological information in the socialist countries of eastern Europe and corresponding institutions and bodies in their own countries. The socialist countries could also share with interested developing countries the vast experience they have accumulated in building up integrated national information systems and expand technical assistance to them in this particular area.

53. It could be concluded that with respect to all the principal aspects of the UNCTAD programme of work in the field of the transfer of technology, scientific and technological co-operation between the socialist countries of eastern Europe and many developing countries presents some particular features. This co-operation is carried out on the basis of special forms and conditions which might deserve examination within UNCTAD with a view to their wider application.

2. *Technical assistance*

54. Technical assistance has traditionally been one of the major fields of co-operation between the socialist countries of eastern Europe and the developing countries. Its importance, in the context of this co-operation, is explained by the fact that, while the former possess relatively limited financial and material resources, they can make available skilled technicians and experts on a large scale as a result of considerable efforts to develop their national educational systems, especially in the technical field.

55. Both individual experts and teams of experts have been sent by the socialist countries of eastern Europe to the developing countries. Their tasks have covered various major spheres of development including the prospecting and exploitation of natural resources, design work, construction, infrastructure projects, the setting-up of industrial units, social and educational services, and so on. Training of specialized personnel has been undertaken partly with the help of experts and expert teams working on the spot.

56. A significant part of technical assistance has been covered by agreements on economic and technical co-operation and, consequently, has been provided for within the credit facilities stipulated in those agreements.

57. Another area in which the socialist countries' potential for rendering technical assistance is high is that of education and training. Indeed, in recent years, the socialist countries of eastern Europe have been receiving, on favourable conditions, a significant share of the world total of students and trainees from developing countries.

58. A very promising field of technical assistance activity is the provision of technical advice and experts with a view to securing the output of products corresponding to the specifications and requirements of a particular socialist country market. This form of technical assistance has a direct trade-generating effect, especially with regard to exports of manufactures and semi-manufactures, and is being used with increasing frequency in trade relations between the socialist countries of eastern Europe and the developing countries.

59. With the expansion of economic and industrial co-operation, new requirements for technical assistance arise. For instance, in the case of some projects executed under appropriate arrangements between socialist countries of eastern Europe and the developing countries, the need has recently been felt for technical assistance in the post-commission stage in such fields as management and marketing.

D. Trade promotion

60. Trade promotion has no less importance in relations between the socialist countries of eastern Europe and the developing countries than in relations between the latter and the developed market-economy countries. Of course promotional activities have to be adapted to the specific characteristics of the countries concerned and to the requirements of their systems of economic and foreign trade management.

61. In the last ten to fifteen years, new forms of promotion and market information have gradually evolved in relations between the socialist countries of eastern Europe and the developing countries. The preceding sections have shown that the methods of economic and trade co-operation themselves can have a considerable, though indirect, promotional impact on trade exchanges. Indeed, donor and beneficiary countries alike are invited, under economic assistance and long-term trade arrangements, to look for viable export products corresponding to the needs and specifications of consumers in both groups of countries, in order to make the provisions of these arrangements fully operative. On the other hand, direct promotional activities can be undertaken through inter-governmental channels. Such activities may take place during the negotiation of long-term trade agreements and annual protocols, as well as other economic agreements, through intergovernmental bodies, commissions and working groups, through permanent governmental trade offices in the partner countries (promotion being one of their principal tasks), through the exchange of governmental or government-sponsored trade and exploratory missions and delegations, and so on. These methods of promotion correspond to the basic institutional features of trade and economic co-operation between the socialist countries of eastern Europe and the developing countries and can therefore make a particular contribution to the establishment of direct and stable trade and economic links between these countries.

62. However, it has become apparent by now that such new forms of direct or indirect promotion, however effective they may be, are not a substitute for traditional promotional instruments applied by exporters themselves. It could even be asserted that the insufficiency of traditional promotional activities in relations between the socialist countries of eastern Europe and the developing countries constitutes at present one of the difficulties in the way of the further rapid expansion of mutual trade. In this connexion, it would be erroneous to think that traditional promotional activities are unnecessary and out of place on the markets of the latter countries. On the contrary, such activities tend to become indispensable against the background of the increased autonomy of decision of operative economic units in the socialist countries of eastern Europe.

63. All marketing means and devices are entirely practicable in the socialist countries and, if properly handled, can be expected to yield results. These include advertising, the organization of exhibitions of different types, participation in fairs and market research. While objectives and means are basically the same in the socialist countries of eastern Europe as elsewhere, marketing activities in these countries give rise to some specific problems related to the modalities of their economic and foreign trade organization and administrative structures.

64. The developing countries should, therefore, in addition to a more active engagement in promotional activities at the governmental level, encourage exporters and producers in their countries to expand promotional efforts in the socialist countries of eastern Europe in such fields as advertising, participation in fairs, development of business contacts, market research, etc.

65. For their part, the socialist countries of eastern Europe should take the necessary measures to facilitate such efforts. In view of the existence of some special conditions for marketing activities, they might assist the

developing countries by providing them with the necessary information and advice, *inter alia*, through the organization of seminars, symposia, training courses, study tours, etc. International organizations, including UNCTAD and the UNCTAD/GATT International Trade Centre in particular, have already contributed—and should be encouraged to contribute further—to a better knowledge of trade opportunities and marketing conditions in the socialist countries of eastern Europe.

66. It appears that promotional activities and market information can produce optimal results only if they are also aimed at expanding export possibilities for the socialist countries of eastern Europe in the markets of their developing country partners. This is because, under present conditions, export opportunities for the developing countries are dependent largely upon an increase in their purchases from the socialist countries; for the latter possess no resources on a sufficient scale to cover further substantial increases of imports from the developing countries other than their export proceeds. The need for mutual information on market trends and opportunities could be met both through the inter-governmental channels for trade promotion mentioned above and through the establishment or activation of direct contacts and co-operation among economic research institutions and trade information centres in both groups of countries.

67. The expansion of exchanges of information on a reciprocal basis is important not only from the point of view of the more efficient marketing of individual products in the short run, but also as a means of providing the basic economic data for adjustments of economic structures within appropriate long-term co-operation arrangements. Such exchanges of information would also greatly facilitate the implementation of UNCTAD recommendations to the effect that the socialist countries of eastern Europe should take into account the production and export potential of the developing countries when drawing up their economic plans.

68. Economic and foreign trade forecasting is playing an increasingly important role in the planning process in the socialist countries of eastern Europe. According to the Comprehensive Programme of the CMEA member countries, common forecasting both of a general and of a sectoral nature will cover a period of up to twenty years and will serve as a point of departure for subsequent co-operation in planning and major policy decisions. Various attempts are also being made to forecast economic and foreign trade developments in the developing countries both at the level of international organizations, in particular that of the regional economic commissions, and at the national level. It might be of great interest to examine the possibilities for organizing consultations on forecasts relating to economic development and foreign trade between the socialist countries of eastern Europe and the developing countries. Such consultations may exercise a considerable long-term impact on economic planning and programming in both groups of countries and thus open up new opportunities for strengthening the division of labour between them on a stable basis. The question of the most appropriate institutional framework for these consultations might also be examined, taking into account the possibilities of UNCTAD in this respect.

E. Shipping and invisibles

69. It is not within the scope of this report to review action by the socialist countries of eastern Europe within the general framework of the existing UNCTAD recommendations in matters related to shipping and invisibles. What follows, therefore, is a summary description of some features of their co-operation with the developing countries in the areas of shipping, tourism and insurance.

1. *Shipping*

70. Co-operation between the socialist countries of eastern Europe and the developing countries in the field of shipping is influenced to a great extent by the fact that in both groups of countries the State exercises either a full or a very considerable control over shipping operations, which enables national authorities to participate in effective inter-governmental action. It appears also that in most cases the development of shipping services between the socialist countries of eastern Europe and the developing countries is regarded not simply as just another area of commercial activity, but as an essential part of a set of measures aimed at the expansion of mutual trade and economic co-operation in its various forms.

71. In this connexion, the role of intergovernmental agreements on shipping matters concluded between developing and socialist countries should be emphasized. Such agreements envisage, *inter alia*, that the contracting parties should encourage, by the means which are at their disposal, the carriage of goods generated in mutual trade by national flag vessels. Under these agreements, a special type of consultation machinery is frequently set up. This machinery is fairly comprehensive in nature since it is not limited to discussions between shippers and shipowners only, but covers various problems arising in the transportation of goods between the countries. Both government representatives and representatives of particular economic interests take part in the consultations.

72. The socialist countries have encouraged a larger participation of the developing countries in shipping operations generated by their foreign trade through the establishment of joint shipping lines independent of the existing liner conferences. Under such arrangements, joint servicing of certain routes has been envisaged and conditions have been ensured for the carriage of a considerable share of the goods exchanged in mutual trade by the national shipping companies of the developing countries concerned. The same objective has been pursued through assistance towards the creation and expansion of national merchant marines in the developing countries. Vessels have been supplied on the credit conditions set out in the preceding sections, and technical assistance has been extended in different forms, including the training of specialized personnel.

73. Economic and technical assistance is also granted for the improvement of ports and related facilities whenever a particular developing country has been interested in receiving such assistance, within the framework of appropriate bilateral arrangements. This assistance has been given in the form of deliveries of equipment on credit, the execution of entire projects, the improvement of inland

communications essential for the effective functioning of the maritime transportation system and technical services in such areas as port management, construction, and so on.

74. There are still many problems in the field of maritime transport in relations between the socialist countries of eastern Europe and the developing countries. One of them is the inadequacy of shipping services, which is a serious handicap to the expansion of some trade flows, especially when trade partners are separated by a considerable distance. Services are frequently irregular and slow, and this tends to make transactions less attractive. It would seem that the problem deserves closer examination both between interested pairs of countries and on an inter-regional basis. UNCTAD, including its informal consultation machinery, could be useful in this connexion.

2. *Tourism*

75. The volume of tourism between the socialist countries of eastern Europe and the developing countries is at present unreasonably low. Both groups of countries apparently attach a high priority to attracting foreign tourists, but for a number of substantial reasons do not attribute the same order of priority to the encouragement of the reverse flow. Nevertheless, since interest in the socialist countries in travel abroad is growing fast and is matched by rapidly increasing living standards, it would be safe to assume that the socialist countries represent an important potential tourist market for the developing countries, particularly those that are in geographical proximity to this market. On the other hand, under clearing payments arrangements, travel to the socialist countries does not involve expenditure of hard currency. The expansion of tourism may in the future play a positive role within over-all co-operation by supplementing proceeds from other operations and by facilitating the maintenance of a satisfactory balance in mutual payments which would permit the total exchanges of goods and services to reach a higher level than would otherwise be possible.

76. There is consequently both a need and a substantial scope for reciprocal action to promote tourism. It would seem that priority attention should be paid to organized travel which offers the best prospects for a rapid increase in tourism and permits broader social categories to participate in the travel exchanges at accessible prices. As in other areas of co-operation, some socialist and developing countries seek to promote tourism by the conclusion of special inter-governmental agreements. In addition, direct contacts between governmental bodies responsible for tourism and travel enterprises should be encouraged. The inadequacy of transportation facilities will also have to be overcome in order to permit a substantial increase in tourist traffic. Exchange questions should be discussed with a view to neutralizing any restrictive effects coming from the monetary sphere. In this connexion, interested countries might examine the possibility of establishing, on a reciprocal basis, promotional exchange rates under bilateral clearing arrangements to stimulate travel by their residents to the other contracting party.

77. The socialist countries of eastern Europe might expand their technical assistance to the developing countries in various areas of tourist development. There are some fields where they can render specially valuable technical services (governmental participation in the development of tourism, national planning for tourism and the setting up of large tourist complexes and resorts).

3. *Insurance*

78. At present, a considerable part of trade and other economic exchanges between the socialist countries of eastern Europe and the developing countries are serviced by foreign insurance companies of the developed market-economy countries. Both the socialist countries and the developing countries would benefit in terms of increased invisible revenues, as well as from the point of view of the over-all development of their co-operation, from a greater involvement of their national insurance institutions, with a view to gradually assuming a preponderant role in insurance operations connected with their economic relations. This objective could be promoted by agreements to facilitate operations of the national insurance institutions of the partner country, by encouraging direct contacts and reinsurance arrangements between these institutions and by technical assistance on the part of the socialist countries to competent bodies and institutions in the developing countries, etc.

F. Special problems

1. *Problems of the least developed among the developing countries*

79. Perhaps in no other area of international efforts to promote economic development is the need for comprehensive or integrated action so obvious and pressing as it is in that concerning measures in favour of the least developed among the developing countries. Indeed, the difficulties and special handicaps of these countries are so closely interlinked that only parallel and inter-related measures hold the promise of a real improvement in their situation.

80. It should be noted that co-operation between the socialist countries of eastern Europe and the developing countries, including the least developed of them, is based, not on a generalized and automatically applied set of practices and measures, but rather on bilateral negotiation and consultation aimed at adjusting various policy measures to the actual circumstances and possibilities of the partner countries. This particular feature might facilitate adaptation of the forms, contents and conditions of co-operation to the specific situation of the least developed among the developing countries.

81. It seems further that all the forms and methods of co-operation discussed above are applicable in the case of the least developed among the developing countries. Special reference might nevertheless be made to the following methods:[7]

(*a*) Economic assistance on the conditions described in part A of this chapter, with particular emphasis on projects related to the infrastructure, the development of natural resources, the training of qualified personnel, etc.;

[7] See also document TD/112.

(*b*) Repayment of credits in kind and clearing arrangements as effective instruments for the promotion and diversification of exports from the least developed among the developing countries;

(*c*) Long-term arrangements for the purchase of commodities, semi-manufactures and manufactures by the socialist countries of eastern Europe; and

(*d*) The transfer of technology and technical assistance on special terms, having due regard to the conditions prevailing in the least developed among the developing countries.

82. Of course, the least developed among the developing countries cannot make the same contribution to the expansion of mutual trade and economic co-operation as some more advanced developing countries. The specific handicaps the least developed countries are facing in this respect have to be taken into account by the socialist countries when they apply to them the principles and forms of co-operation they are applying generally in their relations with the developing countries. Hence modifications and corrective measures may be called for. As mentioned in paragraph 80, the bilateral negotiation and consultation machinery under trade and co-operation agreements appears to be a suitable means for introducing these modifications and corrective measures. Discussions in UNCTAD, including the informal consultation procedures, could also be helpful in this respect.

2. *Trade expansion, regional co-operation and economic integration among the developing countries*

83. The socialist countries of eastern Europe are themselves engaged in regional co-operation and integration efforts which in more than one way have represented a novel experience. Contrary to some other forms of regional co-operation and integration, co-operation in the CMEA has been centred mainly on direct inter-governmental action in the field of co-ordinated planning and industrial specialization, and not on general measures of trade policy type meant to provide only the broad framework within which economic forces are expected to ensure automatically the desired level of integration. On the other hand, there are as yet few cases of co-operation between the socialist countries of eastern Europe and the developing countries in areas covered by the latter's sub-regional integration schemes. It is therefore difficult at this stage to draw definite conclusions concerning the specific means through which the socialist countries of eastern Europe may give practical substance to the general expression of support for the sub-regional co-operation and integration efforts of the developing countries contained in the concerted declaration on this subject adopted by the Conference at its second session.[8]

84. It would seem, however, that, taking into account their own experience and their declaration of support, the socialist countries of eastern Europe could contribute within their economic and technical assistance programmes to the execution of specific projects in a given developing country which is expected to supply all participants of the sub-regional arrangements with a particular type of product or service. The possibility of extending participation in the implementation of such projects to several socialist countries could also be examined.

85. When a sub-regional grouping of developing countries has established a programme of co-operation containing specific projects, it would be feasible to arrange for discussions between the member developing countries and the interested socialist countries of eastern Europe, possibly within the framework of the UNCTAD informal consultation machinery, with a view to determining in which areas and for which projects the socialist countries concerned could contribute, individually or jointly, to the fulfilment of such a programme under economic and technical assistance agreements. Regional economic commissions, regional development banks and other regional and sub-regional institutions could be helpful in the identification of projects which lend themselves to such a contribution.

86. Trade between the socialist countries of eastern Europe and the developing countries members of sub-regional groupings could be encouraged by such measures as linking multilateral payments schemes of the CMEA and the respective groupings, improving transport facilities, encouraging contacts among national and regional market research institutions, in order to facilitate trade promotion and exchange of market information, etc.

87. It has been mentioned above that many aspects of sub-regional co-operation and integration among the socialist countries of eastern Europe are based on new approaches and methods. These countries are consequently in a position to offer interested developing countries and their groupings useful technical assistance, in particular in such matters as co-ordination of plans, specialization and co-operation in production, long-term trade arrangements, measures to overcome differences in the level of economic development of member countries, etc.

Chapter II

Institutional and legal aspects of co-operation

A. Institutional machinery

88. The institutional framework of relations between the socialist countries of eastern Europe and the developing countries has evolved over the years following the evolution and requirements of bilateral trade and economic co-operation. In the initial stages of this co-operation, no detailed institutional provisions were negotiated and inter-governmental contacts were limited to periodic consultations on questions directly connected with a given agreement. The growing complexity of relations, the necessity to supervise and stimulate the implementation of inter-related mutual commitments and the desire to promote co-operation beyond the specific provisions of existing agreements have made it imperative to establish a more sophisticated and stable institutional machinery.

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[8] See *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1-2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), p. 51.

89. The nucleus of this bilateral institutional machinery is represented by an inter-governmental commission (committee) for economic and technical co-operation. The contracting parties usually delegate high-level officials to this body. Frequently, the joint commissions have competence over the whole spectrum of bilateral relations —trade, economic assistance, scientific and technological co-operation, transport, tourism, etc. The main functions of the joint commissions are normally as follows:

(*a*) To supervise the implementation of agreements and to undertake, if necessary, concrete steps to this effect;

(*b*) To conduct consultations on problems of general economic policy and planning intentions;

(*c*) To exchange information on concrete opportunities for economic co-operation and trade expansion;

(*d*) To negotiate other measures not stipulated in existing agreements to further economic and trade relations; and

(*e*) To set up, whenever necessary, subsidiary bodies and working groups to discuss specific problems and projects and to suggest to the parent body appropriate practical measures.

90. In a number of cases, an elaborate system of subsidiary bodies has been created under the umbrella of the joint commissions. These subsidiary bodies cover either a whole area of co-operation or co-operation in specific branches and industrial sectors. The deliberations and recommendations of such subsidiary bodies have facilitated the adoption and implementation of integrated programmes of action for co-operation or the partial division of labour in the area covered by their activities.

91. The joint commissions facilitate the adaptation of trade and economic co-operation to the concrete conditions and requirements of the partner countries and make it possible to evolve tailor-made solutions and measures in each particular case. This feature is of special importance to the least developed among the developing countries, since the need for adaptation in their case is the most pronounced. The commissions and their subsidiary bodies in fact represent a type of the review and appraisal machinery the need for which was stressed in the International Development Strategy. Within this particular machinery, the review and appraisal function is carried out in a detailed and specific way. Moreover, the measures taken to ensure implementation, correct imbalances and overcome current difficulties are measures of an operative nature which have a direct and immediate impact on the state of co-operation. The review and appraisal activities of the joint commissions and their subsidiary bodies are characterized by a dynamic approach which is not limited to existing commitments and takes into account the need constantly to develop and put into effect new practical measures.

92. As a result of its level of representation and the comprehensive nature of its task, the bilateral intergovernmental machinery described above provides a link between the national planning and programming procedures of the partner countries and creates the institutional prerequisites for a harmonization of economic and trade policies. The extent and modalities of such a harmonization naturally depend on the desire of the partners and their ability to engage in such a process, but whatever form it takes it may certainly promote mutual adjustments and a new division of labour between the countries concerned.

93. The existence and strengthening of this bilateral machinery is in no way incompatible with an attempt to make more extensive use of multilateral methods and machinery with the aim of developing further trade and economic relations between the socialist countries of eastern Europe and the developing countries. Developments in the period since UNCTAD was established confirm that bilateral and multilateral machinery not only co-exist but usefully complement one another. A multilateral forum can, as UNCTAD has done, serve to permit a general evaluation and analysis of trends, policies, prospects and working methods, from which the partners in bilateral relations can draw the necessary practical conclusions. It can also promote the wider utilization of methods and approaches which have proved to be successful and effective in specific bilateral relations. Recently, UNCTAD has moved into a more operational stage by introducing the informal consultation procedures, with the aim of enabling interested countries to discuss practical questions relating to mutual trade and economic co-operation against the background of UNCTAD's objectives and general recommendations on relevant issues.

94. In the light of these considerations, it would be appropriate to examine how the contribution of UNCTAD could be made more active and effective in terms of its actual influence on trade and economic relations. Ways and means to improve the consultation procedures should be considered, without prejudice to their informality and flexibility. The possibility might be considered of devoting a periodic round of consultations, wholly or in part, to the discussion of one important problem area, say, preferential treatment or trade promotion. It would be useful to discuss the feasibility of organizing multilateral in addition to bilateral consultations on such issues as, for instance, co-operation relating to sub-regional integration schemes in the developing countries. It has also been suggested in the Trade and Development Board that the practical value of informal consultations could be enhanced if:

(*a*) Advance notification were given by interested countries both of their desire to engage in consultations and of the topics they would like to discuss;

(*b*) The countries so notified, provided that they are willing to accept consultations, undertake thorough preparations for them; and

(*c*) Comptetent experts are delegated to take part in the consultations, especially when advance preparations have been carried out, as envisaged in (*a*) and (*b*) above.

B. Legal framework

95. The evolution of the legal framework of relations between the socialist countries of eastern Europe and the developing countries has in many respects been similar to the evolution of the institutional machinery and, indeed, has been linked with it. The first bilateral agreements concluded in the 1950s as a rule related only to matters of trade

and were of limited duration. Their basic limitation consisted in the fact that they did not go beyond establishing general trade policy conditions for mutual exchanges of goods and contained no provisions which could have a direct trade-generating effect.

96. In the years since then, bilateral agreements have developed in the following main directions:

(*a*) Their duration has gradually been extended and a five-year term has now become the normal pattern; some agreements concluded recently have an even longer term and thus introduce growing long-term stability in mutual co-operation;

(*b*) A substantial diversification of types of agreements has taken place; the long-term trade agreements are supplemented in their central role by long-term agreements on economic and technical co-operation;

(*c*) The nature of the agreements themselves has changed significantly; while formal trade policy provisions still form a major part of bilateral contractual obligations, the emphasis is laid on measures having a direct trade-promoting and trade-generating effect.

97. The principal types of agreement now in existence include agreements on economic and technical co-operation, on trade, on payments, on scientific and technological co-operation, on industrial co-operation, on transport and communications, on the implementation of large projects of national importance, on tourism, etc. The basic agreements are supplemented by additional protocols or other specific inter-governmental arrangements of an operational nature which deal with the implementation of the principles contained in the long-term agreements and introduce flexibility and dynamism into the whole system of reciprocal legal obligations.

98. It appears that the evolution of the legal framework has culminated in many cases in a complex system of inter-related and inter-dependent legal commitments. The fulfilment of a particular commitment has become dependent upon the fulfilment of the other commitments, owing to the comprehensive nature of bilateral co-operation. The institutional machinery described above offers additional guarantees for the implementation of commitments already agreed upon and, at the same time, stimulates the constant evolution of the system of bilateral legal instruments.

99. The results achieved in the past suggest that both groups of countries should seek a further development and improvement of this system by enhancing the effectiveness of agreements, introducing methods which can guarantee the satisfactory implementation of mutual commitments and evolving new forms of agreements. In this connexion, the idea of a new type of general economic treaty or agreement between countries having different economic and social systems deserves consideration. Such a treaty or agreement could reflect the broad policy intentions of the partners and could establish the main objectives and methods of co-operation, with a view to providing a stable long-term foundation for the conclusion of more specific agreements covering particular fields of activity.

Chapter III

Basic conclusions

100. A careful study of the present state of trade and economic relations between the socialist countries of eastern Europe and many developing countries would suggest that a distinctive system of co-operation between these countries has emerged. This system is based on specific principles consistent with the principles of UNCTAD, a comprehensive array of policy measures, a specific institutional machinery and a set of legal instruments. It seems that this system could be effectively used to influence and transform, through complementary action, the material foundations of mutual economic exchanges, and thus bring about significant results along the road leading to the establishment of a new international division of labour as provided for in the International Development Strategy. In other words, this system relies, not upon the automatic interplay of free market forces and upon unilateral concessions, but rather on mutual co-operation.

101. At the same time, the need has been generally recognized for a further significant increase in the volume and a diversification of the structure and geographical scope of trade and economic co-operation between the socialist countries of eastern Europe and the developing countries. It appears that this need can be met and the efficiency of the system of co-operation described above can be enhanced by the introduction and consistent application of an integrated or comprehensive approach to trade and economic relations between countries. This integrated approach is still in its formative stages. However, practical experience can now already provide sufficient information for an attempt to outline in broad terms the rational and main features of this approach.

102. The following major factors underlie the need for an integrated approach to trade and economic co-operation between the socialist countries of eastern Europe and the developing countries and make such an approach possible:

(*a*) The increased volume and complexity of bilateral relations and the multiplication of mutual links in different spheres of economic activity tend to make any piecemeal approach unproductive;

(*b*) The growing interdependence of different elements of co-operation creates a situation where the existence of bottlenecks and lack of progress in one sphere might hamper the over-all development of relations;

(*c*) Awareness that the potential for the further expansion of co-operation is far from being utilized to the full also prompts thinking in terms of comprehensive and inter-related efforts;

(*d*) Priority is given in economic policies to the achievement of maximum efficiency in the national economies; this objective presupposes an over-all and centralized approach to the process of development in its internal and external aspects;

(*e*) The integrated approach is made both necessary and possible in the light of the important role of the State in economic life in the socialist and in many developing countries.

103. The integrated approach should comprise mutual action in such spheres as trade and payments, economic assistance, transfer of technology and technical co-operation, trade promotion, invisibles, etc. It should take into account the need to adapt the policy measures applied to the specific needs and circumstances of the least developed among the developing countries. Mutual efforts should be guided by the idea that the various elements of this approach are interlinked and interdependent, since successful action in one of the spheres mentioned is conditional upon and at the same time might stimulate progress in other spheres.

104. The concept of an integrated approach can be implemented at different levels—at the level of concrete projects, at the level of economic sectors or industrial branches, at that of the national economy as a whole, and sometimes at the level of regional groupings. It should also be reflected in the fact that comprehensive trade and economic co-operation is carried out through convergent efforts on both sides.

105. The policy measures in the different spheres can be supported by the establishment of appropriate institutional machinery and by a set of legal instruments. These institutional and legal provisions can guarantee the effectiveness of commitments, offer the possibility of introducing action-oriented review and appraisal procedures and secure a continuous positive evolution of the forms and methods of co-operation. Thus, policy measures on the one side and institutional and legal provisions on the other can form a coherent and internally consistent whole.

106. Practical experience suggests that, while such an integrated approach could be considered as the outcome and the culmination of a gradual development of trade and economic relations, it can in its turn provide new stimuli for their further expansion and diversification.

107. In this respect, it would seem that the next logical step in this development should be the improvement of the machinery for the harmonization of national economic and trade policies, with the gradual introduction of the co-ordination of plans and programmes as a realistic objective. Of course, for a number of obvious reasons, this objective cannot be immediately and universally realized. It seems, however, that the necessary prerequisites for introducing such co-ordination in relations with a significant number of developing countries are gradually emerging. This conclusion is confirmed by recent consultations between some socialist and some developing countries on the elaboration of long-term co-operation plans or programmes covering a decade or even more.

108. It seems that the importance of the subject would warrant further studies of the different aspects of the integrated approach. In this regard, it would be useful to analyse its economic effects for the developing country concerned in such areas as the mobilization and supplementing of national resources, industrialization, the opening-up of new markets, technological progress, the training of qualified national cadres, etc.

109. The concentration on co-operation rather than on unilateral concessions in relations between the socialist countries of eastern Europe and the developing countries requires reciprocal efforts for the further expansion of these relations. Co-operation, by definition, cannot be unilateral and can take place only when efforts are deployed on both sides. This reciprocity of effort can go hand-in-hand with the application of preferential or special measures in favour of the developing partners under appropriate co-operation arrangements.

110. UNCTAD has already contributed in a substantial manner to the conceptual and practical evolution which has created conditions for the application of an integrated approach to trade and economic co-operation between the socialist countries of eastern Europe and the developing countries. Indeed, Conference resolution 15 (II) can be regarded as a succinct outline of such an approach. Furthermore, many of the policy measures discussed above can be related to UNCTAD resolutions and recommendations. There appear, however, to be certain areas that have not as yet been sufficiently dealt with in UNCTAD deliberations. This applies, in particular, to such areas as institutional machinery, the long-term harmonization of economic and trade policies, trade promotion, the transfer of technology, invisibles, etc.

111. In the light of the preceding general comments and the specific considerations covered in the present report, the third session of UNCTAD might:

(*a*) Analyse the conditions, implications and prospects involved in the application of an integrated approach to the expansion of trade and economic relations between the socialist countries of eastern Europe and the developing countries, and be guided by a similar approach in its own deliberations and in the elaboration of practical proposals on the subject;

(*b*) Take into account the review of policy measures and the concrete considerations and suggestions contained in the present report, with a view to supplementing its existing body of recommendations; and

(*c*) Consider the desirability of continuing studies and action along these lines in the future, and formulate appropriate instructions to this effect for the permanent machinery.

ANNEX

List of UNCTAD documents on problems of trade relations among countries having different economic and social systems

Reviews and general policy reports

TD/B/19/Rev.1	Problems arising in trade relations between countries having different economic and social systems: note by the Secretary-General of UNCTAD (*Official Records of the Trade and Development Board, Second Session, Annexes*, agenda item 7)
TD/B/128 and Add.1-3	Review of trade relations among countries having different economic and social systems: report by the secretariat of UNCTAD (*Official Records of the Trade and Development Board, Fifth Session, Annexes*, agenda item 9)

TD/18	Review of trade relations among countries having different economic and social systems: report by the UNCTAD secretariat (*Proceedings of the United Nations Conference on Trade and Development, second session*, vol. V, *Special problems in world trade and development*,[1] p. 5)
TD/B/251	Review of trade relations among countries having different economic and social systems: report by the UNCTAD secretariat (*Official Records of the Trade and Development Board, Ninth Session, Annexes*, agenda item 9)
TD/B/307 and Corr.1 and Add.1	Review of trade relations among countries having different economic and social systems: report by the UNCTAD secretariat (*Ibid., Tenth Session, First, second and third parts, Annexes*, agenda item 8)
TD/B/359	Review of trade relations among countries having different economic and social systems: report by the UNCTAD secretariat
TD/112 and Corr.1	Review and analysis of trends and policies in trade between countries having different economic and social systems: report by the UNCTAD secretariat

STUDIES ON PARTICULAR PROBLEMS

TD/18/Supp.2	The use of long-term agreements as an instrument for promoting trade between socialist and developing countries: study prepared by the Hungarian Institute for Economic and Market Research
TD/B/238/Rev.1	Innovations in the practice of trade and economic co-operation between the socialist countries of eastern Europe and developing countries: study prepared by the Institute of Economics of the World Socialist System, Moscow
TD/B/247	Industrial co-operation in trade between socialist countries of eastern Europe and developed market economy countries (including trade policy implications for the developing countries): study prepared by the UNCTAD secretariat (*Ibid., Ninth Session, Annexes*, agenda item 9)
TD/B/AC.7/2	Considerations on the problems involved in the establishment of different forms of multilateral payments arrangements between developing and socialist countries: note by the UNCTAD secretariat
TD/B/AC.7/3	Approaches to multilateral settlements in trade between socialist and developing countries: study prepared by the Institute for Economic and Market Research, Budapest
TD/B/AC.7/4 and Corr.1	Means of introducing flexibility and multilateral elements into bilateral payments arrangements: a study presented by E. Matzner, School of Economic and Social Sciences, Linz, Austria
TD/B/284-TD/B/AC.7/9	Report of the Group of Experts on Multilateral Payments Arrangements on its session held at Geneva from 22 September to 2 October 1969 (*Ibid., Tenth Session, First, second and third parts, Annexes*, agenda item 8)
TD/B/341	The decision-making process in respect of imports in selected socialist countries of eastern Europe (the interdependence of central management and end-users): study prepared by the UNCTAD secretariat
TD/B/350	Indistrial co-operation in trade between socialist countries of eastern Europe and the developing countries: study prepared by the UNCTAD secretariat
TD/B/351	Ways and means of introducing new products from developing countries into the markets of selected socialist countries: study by the UNCTAD secretariat
TD/125	Expansion of trade through the promotion of complementary economic structures: report by the UNCTAD secretariat

COUNTRY AND CASE STUDIES

TD/B/129	Case study prepared by the secretariat of UNCTAD on trade and economic relations between India and the socialist countries of eastern Europe
TD/B/130	Case study prepared by the secretariat of UNCTAD on trade and economic relations between the United Arab Republic and the socialist countries
TD/B/234	Case study prepared by the UNCTAD secretariat on trade and economic co-operation between Ceylon and the socialist countries
TD/B/246 and Add.1	Trade prospects in socialist countries—Poland: conditions, policies, approaches—study prepared by Z. M. Rurarz
TD/B/253	Trade prospects in socialist countries—Bulgaria: conditions, policies, approaches—a study prepared by a team led by E. I. Keremidchiev
TD/B/303	Trade prospects in socialist countries—Union of Soviet Socialist Republics: conditions policies, approaches—a study prepared by L. L. Klochkovsky, Scientific Research Institute of the Ministry of Foreign Affairs of the USSR
TD/B/304	Trade prospects in socialist countries—Romania: conditions, policies, approaches—a study prepared by P. N. Popescu
TD/B/305	Trade prospects in socialist countries—Czechoslovakia: conditions, policies, approaches—a study prepared by a team composed of M. Pravda, V. Nováček, Z. Venera
TD/B/334	Trade and economic relations between Iran and the socialist countries of eastern Europe

[1] United Nations publication, sales No. E.68.II.D.18.

EXPANSION OF TRADE THROUGH THE PROMOTION OF COMPLEMENTARY ECONOMIC STRUCTURES

Report by the UNCTAD secretariat *

[*Original text: English*]

CONTENTS

Chapter I

Points of departure

1. The United Nations Conference on Trade and Development at its first session adopted a recommendation, contained in annex A.III.2 to the Final Act, concerning the conclusion of "Industrial branch agreements on partial division of labour between developing countries and developed countries ... for which this scheme is applicable". Notwithstanding the wording of the title, many of the paragraphs of the recommendation relate only to the socialist countries.

2. While it is modest and realistic in its objectives, the recommendation envisages the prospect of "promoting industrialization and establishing export industries in developing countries on the broad basis of world markets and within the framework of an international division of labour" (section I, sub-paragraph (*b*)) and "rapid restructuring of the trade between presently developing countries and the developed countries on the basis of, *inter alia*, the crossflows of sophisticated manufactures" (section I, sub-paragraph (*d*)). The aim of joint efforts by socialist and developing countries would be the creation of "complementarity of economies based on specialization and partial division of labour" (section II, paragraph 10).

3. In section II, the recommendation indicates some criteria for the choice of appropriate industries in developing countries and, as a significant innovation, suggests anticipatory adjustments in the development plans of the socialist countries "so as to import a stated proportion of the output of these industries" (paragraph 3). In addition, the recommendation envisages the setting up of an international framework for putting it into effect by means of multilevel consultations and subsequently by the establishment of mixed specific branch committees to deal with the implementation of the agreements (paragraph 11).

* The text of this report was circulated to the Conference as document TD/125 dated 29 February 1972.

4. At its second session the Conference, in its resolution 15 (II), section II, paragraph 11, recommended that the socialist countries of Eastern Europe "In the light of the recommendation in annex A.III.2 of the Final Act of the first session of the Conference, encourage the conclusion of industrial branch agreements on partial division of labour . . .".

5. Apart from that recommendation, no follow-up action by UNCTAD in this field has hitherto been recorded, although the absence of such action does not reflect the real state of affairs. On the contrary, needs are more obvious, conditions more propitious and experience more conclusive for projects resulting in specialization and partial division of labour.

6. The economies of the socialist countries have now reached that advanced stage of industrialization at which international specialization among themselves and in many fields with other countries has become one of the priorities of policy. Many developing countries are also laying growing emphasis on international specialization in industry; the more advanced among them have reached the limits of import substitution, while the less advanced wish to dispense with the traditional sequence of industrial stages and include in their development strategy from the very start essential elements of a multisectoral economy with dynamic sectors of industry based on modern technology as well as foreign trade-oriented industries which assure a regular inflow of foreign currency.

7. Another point of convergence of some socialist and developing countries is their common view that the required structural changes involve substantial active intervention in the market mechanism. National economic patterns and their international linkages have to meet the criteria of long-term economic rationality, which, in turn, means that intermediate accomodation has to be sought between the government's development strategy and the interests of enterprises. Hence, governments of developing countries have to apply selective policies in matters of investment, tax and credit, in order to promote certain

industries and, if necessary, undertake themselves the construction of key industries; in the socialist countries, the planning authorities will point out the priorities in the allocation of investment in their plans and tune the economic mechanism to their fulfilment.

8. In the socialist countries, the reappraisal of the role of foreign trade in national economies is gaining momentum and has already had some impact on investment policies. In order to make better use of available factors of production, comparative advantages of imports over domestic production should be an integral part of investment considerations, both at the government and at the enterprise levels. It is, however, recognized that the scope for year-to-year changes is small, and long-term concepts of international specialization have to arise from industrial sectors themselves. To the extent that economic reforms in socialist countries have given more power to industrial enterprises in determining their product mix and participating directly in foreign trade, a fresh flow of initiative has already been felt, leading to structural modifications of their output and to international specialization ventures.

9. Growing industrial co-operation among many socialist and developing countries has brought to light a number of elements which are relevant to the subject under consideration.[1] As distinct from the traditional pattern of trade based on an intersectoral division of labour, industrial co-operation has resulted in an intra-sectoral division of labour and has created conditions for promoting trade on this basis. It has been estimated that there are now more than 200 industrial co-operation agreements in force between countries in the two groups, most of them concluded with the more industrialized among the developing countries. In view of their growing importance, the new features of economic relations with developing countries and the advantages of the international division of labour with the latter have become the subject of high-level considerations in the socialist countries.[2]

10. Thus the wish of the developing countries to modify the international division of labour appears to coincide with the growing realization in the socialist countries that economic efficiency can be enhanced by progressive specialization and greater involvement in international trade. Consequently, it may be assumed that conditions for harmonizing efforts of both groups and gradually complementing their economic structures in selected fields through international specialization in production are improving. Such efforts should result in a systematic growth of trade and hasten the attainment of economic and social objectives by countries of both groups.

11. Nevertheless, the complementarity of industries in the socialist and in the developing countries is only in its initial stages. At present there are not yet any systematic considerations, or policies, specifically relating to such issues. The need is, however, increasingly felt in both groups (*a*) for the formulation of foreign trade policies based on a long-term conception of international specialization and (*b*) for the furthering of operational measures capable of translating existing opportunities into realities.

12. Experience in trade and industrial co-operation among socialist and developing countries has shown that a partial division of labour involving modifications of economic structures is feasible in cases where common interests are sufficiently strong. Simultaneously, however, it has become evident that more than trade policy measures are needed for the success of such undertakings, which involve comprehensive decision-making. Consequently, instead of being peripheral to various forms of co-operation, the expansion of trade through the promotion of economic complementarity might be systematically considered as a specific policy objective.

13. In the context of the present document, complementarity has a broader meaning than what is usually referred to as industrial co-operation, since it involves concerted action at the national as well as at the enterprise level with a view to achieving specialization within industrial branches. Complementarity, therefore, presumes convergent objectives and concerted action by the partners. In fact complementarity projects are designed to combine national and enterprise interests in two or more countries in effecting structural modifications conducive to the better allocation of resources, cost saving, technological advancement and increased competitiveness in world markets.

14. It is evident that opportunities for complementarity ventures are greater in developing countries which already possess differentiated industrial patterns. This does not mean, however, that opportunities for complementarity are excluded during the early stages of industrialization; rather the use of such opportunities would help to shorten the traditional path of development.

15. The approaches towards complementarity can take advantage of the experience already gained by some regional or subregional groupings in this field, both in the socialist countries of Eastern Europe and among the developing countries. It appears that intervention by the central authorities and planning have been the key elements in complementarity schemes with participants at widely differing levels of industrial development. Liberalization of trade has frequently been at variance with the objectives of complementarity in groupings of developing countries. Intra-branch complementarity has made better progress among countries having similar industrial patterns. The equal sharing of costs and benefits or, on the other hand, the elements of aid and preference for less developed partners, have been of crucial importance in all complementarity schemes.

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[1] See the study prepared by the UNCTAD secretariat, "Industrial co-operation in trade between socialist countries of Eastern Europe and the developing countries" (TD/B/350).

[2] Mr. A.N. Kosygin, Chairman of the Council of Ministers of the USSR, stated in a report dated 6 April 1971: "A further expansion of the Soviet Union's foreign economic ties with the developing countries of Asia, Africa and Latin America is envisaged in the coming five years. In the case of many of them ... our trade and economic co-operation are entering a stage where we may already speak of firmly established mutually advantageous economic ties. Our co-operation with them, based on principles of equality and respect for mutual interests, is acquiring the nature of a stable division of labour..." (*Directives of the 24th Congress of the Communist Party of the Soviet Union for the Five-Year Economic Development Plan of the USSR for 1971-1975* (Moscow, Novosti Press Agency Publishing House, 1971), pp. 73-74).

16. Intra-branch specialization among the countries members of CMEA is of particular interest in this respect. Its striking achievement is the important place held by the formerly less-developed or semi-agrarian member countries among exporters of modern machinery. This reflects the fact that the planning of complementary industrial structures has often involved considerable assistance for the weaker partners, while the principle of mutual advantage has been understood as having long-term implications.

17. Horizontal specialization in the leading science and technology-based industries has been typical for the CMEA area. For example, each country has been assigned its part in the production of computers, electronic equipment and electro-engineering. This practice has led to an accelerated technological equalization throughout the area.

18. Concerted action at various stages appears to be the main necessity for the smooth execution of specialization programmes. In some cases, action is concerted already at the stage of the co-ordination of research; then, the planning of production is harmonized, and marketing and after-sales servicing are carried out jointly. Most of the specialization in CMEA industries resulted from bilateral arrangements, although there are several examples which show the feasibility of multilateral specialization arrangements, such as the production of industrial automatic control instruments, nuclear engineering and others.

19. The Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA member Countries (1971) draws attention to the need for intensifying international specialization at all levels of decision-making and, more particularly, among industries themselves which, being best aware of their needs and interests, are capable of being the most efficient promoters of intra-industrial complementarity.

Chapter II

Areas of converging interests

20. If one accepts the growing convergence of interests of many developing and socialist countries in structural adjustments along the lines of international specialization, the key issue is the determination of industrial branches or product groups in the case of which harmonized measures of co-operating countries would result in economic complementarity. Consequently, opportunities for complementarity should be viewed against the broad trends of industrialization in the developing countries as reflected in their patterns of industrial output and exports of manufactures. On the other hand, the main economic trends in socialist countries have to be appraised on the basis of their five-year plans, in order to ascertain areas in which countries of the two groups could seek concrete opportunities for complementarity.

A. Trends in exports of manufactures from the developing countries [3]

21. Exports of manufactures from the developing countries have reached a level at which it is possible to determine what industries already measure up to international standards and would, therefore, be more immediately eligible for complementarity ventures.

22. There is a marked trend towards an increase in, and diversification of, such exports to the socialist countries: the share of manufactures in total exports of the developing countries reached 29 per cent in 1969, as compared with 24 per cent in 1965 and 10 per cent in 1960. According to current trade agreements, this trend will continue. In the case of some developing countries, such as India, Pakistan and Egypt, the share of manufactures in their exports to socialist countries should rise to more than 50 per cent. Quotas provided for in these agreements cover a wide range of industries in the developing countries, such as:

Chemical industry (petrochemicals including plastics, detergents, synthetic rubber, paints, varnishes, tyres and tubes, linoleum);

Iron and steel industry (cables, wires, ropes, rolled steel);

Transport and automotive industries (motor cars, trucks, buses, car accessories, tractor parts and components, tyres and tubes, railway carriages);

Electrical industry (transformers, electrometers, dry-cell batteries);

Household electric appliances (refrigerators, air-conditioning equipment);

Paper industry (pulp, paperboard);

Metal-working and light engineering industries (tools, optical and surgical instruments, water and gas fittings, equipment for hospitals);

Heavy engineering industry (lathes, hydraulic presses, textile machinery);

Light consumer goods industries (textiles, clothing, footwear leather goods, coir products, gramophone records).

23. Not all imports of manufactures from the developing countries can, of course, be regarded as indicative of an emerging economic complementarity. A number of imports have resulted from temporary needs or short-term trade policy considerations or have been purely experimental. On the other hand, many imports prove that room exists or can be created for industrial goods from the developing countries and may, therefore, constitute the first stage in integrating these products into the socialist countries' strategy of economic growth. Subsequently, such products may become the subject of measures leading to an appropriate specialization in production which results in economic complementarity as defined in the present report.

[3] SITC groups 5, 6, 7, 8; imports from Yugoslavia included.

B. Economic plans of developing countries: opportunities for complementarity

24. Some 260 industries under 35 economic plans of the developing countries have been screened in order to determine which industrial branches would qualify as potential for international specialization and, consequently, for initiating complementarity ventures.

25. Chemical industries have a prominent place in economic plans; most of the projects are, however, designed for the production of a limited range of goods which do not require a complicated technology. Only those few countries which plan to create a petrochemical industry might at some stage offer opportunities for specialization in this widely differentiated sector.

26. Iron and steel are second to the chemical industries among the industrial priorities. In setting-up their iron and steel industries, countries like India, Algeria and Morocco wish to make the best use of their domestic natural resources, while developing countries with no or few raw materials plan iron and steel manufacturing based on imported raw materials or intermediate products. In most developing countries, the iron and steel industry is to be built up as a vertical complex embracing progressively higher degrees of metal transformation. Elements of complementarity among some socialist and developing countries can already be discerned in this branch, and prospects seem promising in the near future.

27. The production of metal manufactures, transport equipment, tractors, electrical engineering goods and machinery also has an important place in many plans. Depending on the level of industrialization achieved, such branches differ from country to country. Some products have already reached satisfactory technological standards and could be considered for complementarity ventures with socialist countries. In other developing countries, these industries are still in their infancy, and the plans aim at strengthening and diversifying their product mix. They cover mostly domestic demand for simple metal goods (barrels, corrugated steel, simple tools and accessories). Nevertheless, some such products, for instance simple tools, appeared to be of interest to the socialist countries and could qualify for a permanent coupling with their production patterns.

28. The textile industry is the leader among the consumer goods industries covered by the plans. In some cases, it is already oriented not only towards taking over markets for common textiles in industrialized countries, but towards supplying more specialized textiles as well. Policies on these lines seem to match recent trends in some socialist countries towards specialization in textiles, confirmed also by the changing composition of their textile imports. Accordingly, the ground seems to be already prepared for further action in this branch.

29. Among other branches appearing in the plans, the wood-working industry should be mentioned, since many of its semi-manufactured products are of potential interest to the socialist countries, as well as the food-processing and leatherworking industry.

C. Economic plans of socialist countries: opportunities for complementarity

30. Economic plans of the socialist countries of eastern Europe for 1971-1975 are marked by a growing interest in using the advantages of an international division of labour among the factors of economic development. The improvement in standards of living has raised the cost of labour, and owing to the limited investment resources growing importance attaches to choices between domestic production and imports. Most of the plans bear out the conclusion that socialist countries are going to undertake structural changes in their industries along the lines of progressive international specialization. Circumstances seem to be favourable for some developing countries to engage actively in establishing new links with socialist economies in all categories of manufactures, from consumer goods to intermediate products, machines, accessories and industrial equipment. In some broad sectors covered by the plans many developing countries may seek opportunities for promoting complementarity projects.

31. The petrochemical industry is a privileged one in a number of socialist countries of eastern Europe. In view of the concentration of financial and material resources in a few projects, there will probably be a wide range of opportunities for specialization in a wide assortment of both industrial and consumer products.

32. Metallurgy holds a prominent place in the plans, though the rates of growth are slower than in previous years. Considerable emphasis is being put on supplying industries with high quality steel products, special steel alloys and a sufficient assortment of profiles, sizes and standards. Specialization will be pushed further both within and outside the CMEA area. Positive experience regarding imports of rolled steel, rails and railway rolling stock from India indicates the possibilities in this branch.

33. Plans of the most highly industrialized among the socialist countries call for a substantial reduction of the engineering assortment and for concentration in those branches where top technological parameters can be achieved. Research has also been oriented towards this aim. Imports of engineering products from other socialist countries, as well as from the rest of the world, are to replace certain indigenous production, the latter being phased out. Past experience indicates that there are opportunities for the developing countries to become suppliers. Economic co-operation and more particularly complementarity ventures can be instrumental in establishing such a position.

34. Large-scale housing programmes have been undertaken in most socialist countries under the new plans, and the production of construction materials is to grow proportionately. There is, however, evidence that many industries supplying the interior installations, heating and air-conditioning equipment, floor and wall coverings, decorative wooden panels, metal fittings, tools, insulation materials, special paints and varnishes may not always be able to keep pace with the demand and would often be very interested in entering into co-operation arrangements with foreign enterprises. Many developing countries have

both artisan traditions and industrial capacities in these branches and might be able to participate in such ventures.

35. The drive to modernization is particularly noticeable in the textile industry of some socialist countries. Hungary concentrates on sophisticated textiles and higher-priced goods; production of some kinds will be gradually replaced by imports. The German Democratic Republic and the USSR have already entered into arrangements with some developing countries on specialization and co-operation in the production of textiles. Similar possibilities exist in the leather and rubber industries.

36. The production of foodstuffs in the socialist countries is being stepped up and simultaneously greater imports are envisaged in order to satisfy rising purchasing power by offering a greater variety of goods. Hungary, Poland and the USSR have explicitly provided for an increase in imports of food and products of the food-processing industry from the developing countries. Accordingly, opportunities for stable production links seem to exist in this sector, too.

Chapter III

Scope for mutual adaptation

37. Chronologically, interbranch specialization occurs first as a result of differences in economic structures and technical levels, and scope for intrabranch specialization appears only at later stages. Economically, the absence or scarcity of certain production factors is at the basis of the interbranch international division of labour and, in this sense, this division is sometimes called the "extensive" form of the international division of labour. A certain complexity in the economic structures of a country or region may have to be reached before intrabranch international specialization can occur. This is concerned principally with achieving an additional increase of profitability by specialization and concentration and, as such, would be the "intensive" form of international division of labour.

38. The interest in intrabranch complementarity can arise for several reasons. As mentioned above, the more industrialized countries often wish to increase the competitiveness of their output mix by improving a few products and discontinuing production of the rest. This improvement may be achieved through technological changes making it possible to organize large-scale production of certain products from among a wide range of types and sizes. If focused on narrow production programmes, specialization itself is capable of accelerating technical progress, since for such progress the factory is as important a source and stimulant as are scientific laboratories. For the least industrialized countries complementarity ventures with a more advanced partner should, as a rule, result in technical improvements through the transfer of technological skills and know-how, thus enabling them to meet certain categories of demand. Specialization may concern final products or, on the other hand, intermediate products or components. In the latter case, complementarity would often be accompanied by co-operation in assembling and marketing.

39. Co-operation established by complementarity tends to produce interenterprise flows of goods with a stabilizing trade effect. Logically, the closer the interdependence in production, the more detailed co-ordination is required. In a more complex production, questions of standardization, normalization and typification arise. Close ties in production often have prolongations in co-operation in third markets. Unlike such comprehensive arrangements and association of interests, complementarity may take a simple form, e.g., the delimitation of production programmes and expression of interest in imports and exports without, however, any further formal commitment on mutual deliveries. On the whole, the concept of complementarity arrangements is in its infancy and has, therefore, to remain flexible and open to all propositions and modalities.

40. Anticipatory adjustment is the key point in policies of international industrial specialization and by definition raises the complex problem of anticipating the direction of change. To the extent that forecasting has achieved some degree of reliability, it can become the subject of co-ordination and harmonization of planning in certain fields among some socialist and developing countries, for which some precedents already exist and which can certainly play a significant role in the promotion of industrial specialization among the two groups of countries. However, since the respective systems of planning frequently have widely different points of departure, objectives, economic and social environments and institutional constraints, it cannot be expected that action at the planning stage alone will suffice. In addition to continuous endeavours to co-ordinate planning, conditions should therefore be created for industries to take the initiative and multiply their mutual contacts in order to determine where their interests coincide in specific areas and establish among themselves the scope and cost of mutual adjustment.

41. Owing to the predominance of social objectives and central management in their economic systems, the socialist countries should be able to undertake timely adaptations in their industrial structures in order to accelerate economic growth. An essential precondition for such measures is an analytical evaluation to indicate the need for modifications in the plan.

42. Developing countries for their part would be expected to take measures in keeping with the character of their economic systems, which combine in varying proportions the liberal concepts of a market economy with different forms of State intervention or guidance. In a number of countries, efficient planning and a strong State industrial sector might facilitate measures to bring about the adjustments required by complementarity projects.

43. The initiative for the modification of existing lines of production in socialist countries and the substitution of imports for domestic production may be taken at different points of the economic mechanism:

(*a*) The initiative may be taken by the central authority by means of the plan in order to implement the government strategy for achieving higher efficiency, the absorption of technological progress and greater involvement in international trade;

(*b*) The periodic assessment of the profitability of foreign trade may result in the elimination of obsolete goods from the export and production programmes;

(*c*) The scrutiny of certain lines of production may disclose greatly below-average returns owing to factors which do not lend themselves to substantial improvement, in which case the production has to be phased out and diverted to another programme;

(*d*) An analysis of an investment project may show that important economies of time and cost may be achieved by imports instead of commissioning new production;

(*e*) A continuing large credit position with respect to a developing country may prompt the search for new products exportable from the latter; subsequent diversion of domestic production to other goods is then to be provided for in the plan, in order to absorb additional imports; this adaptation may finally acquire a permanent character.

44. As mentioned above, governments have means at their disposal, which vary according to the nature of their economic and social systems, for creating conditions favouring a progressive establishment of complementary structures. Governments can directly further industrial complementarity projects by giving them priority in investment allocations or credit policies, allocating credits under the budget to research in certain projects and subsidies to non-profitable projects of social interest. Incentives to industrial complementarity might be provided indirectly through import and export regulations, credit facilities for exports, tax exemption, promotional measures, etc.

45. On the other hand, the participation of industries in complementarity ventures has to be justified by returns in terms of (*a*) expansion of outlets for exports, (*b*) increased stability and long-term outlook for exports, (*c*) improvement in the application of research and development, and (*d*) improvement of the cost-benefit ratio.

46. Each project of structural change is subjected to technical and economic scrutiny in order to assess whether the change is going to result in an advancement of technical parameters, improvement of quality, diminution of cost and increase of profit. As a rule, these criteria are considered in a long-term perspective, and a certain grace period might be allowed for arriving at the expected maximum. Of necessity, the requirements of structural changes are contingent on the financial and material resources for their realization. The balance-of-payments implications weigh heavily in the deliberations if additional import claims arise or some export capacities are curtailed without being compensated by other products. Obviously, the time schedule is of key importance in harmonizing all factors and interests. Even perfectly rational projects cannot often be carried out overnight in view of their impact on the over-all economic situation.

47. Technical or commercial problems connected with structural changes are usually best solved through direct contacts at the enterprise level. It may occur that the goods do not meet the technical or market standards or the commercial considerations of the importer; provision for technical assistance and the organization of joint marketing programmes usually prove to be sufficient expedients. The records of abandoned propositions indicate that the lack of interest in entering into complementarity projects is very often attributable to the absence of reliable data and, consequently, to the inability to form a reliable estimate of the rationality of proposed modifications. It is to be hoped that the availability of data will improve in the developing countries and, on the other hand, that in the socialist countries the alignment of price relations closer to world patterns will provide a more accurate tool for an evaluation of complementarity ventures.

48. At the same time the expansion of trade by means of intra-industrial complementarity raises a number of issues which governments may wish to keep under supervision. For this purpose, they may need an adequate mechanism of co-operation which would enable them:

(*a*) To determine opportunities for international intra-industrial specialization;

(*b*) To assess the long-term rationality of projects involving structural modifications in industries;

(*c*) To ascertain modalities of harmonized adaptations in order to safeguard "sensitive" national and local interests and resolve problems arising from such adjustments;

(*d*) To take adequate measures in accordance with each country's economic and foreign trade regulations and practices; such measures should normally concern both the technological as well as the commercial aspects of mutual adjustment;

(*e*) To promote, whenever necessary, multilateral solutions with a view to assuring that partial agreements will not damage other countries' interests. Accordingly, particular attention should be given to integration policies in groupings of the developing countries.

Chapter IV

Conclusions

49. One of the reasons for the limited volume of trade among the socialist and the developing countries is the inadequate complementarity of their production patterns. On the other hand, during recent years, the attention of both governments and enterprises has been drawn to the possibilities for increasing exports of manufactures from the developing countries by means of an accelerated international specialization within certain industries and branches.

50. UNCTAD might usefully further the formulation of policies in this respect and facilitate the initiation of complementarity projects in the specific conditions characterizing economic relations between the socialist and the developing countries by reason of the differences in their economic and social systems. For this purpose UNCTAD might:

(*a*) Review trends of intra-industrial specialization in trade among the socialist and the developing countries;

(*b*) Investigate new areas for promoting trade by means of intra-industrial specialization, and co-operate, whenever appropriate, with UNIDO or the UNCTAD/GATT International Trade Centre in such work;

(*c*) More particularly examine the possibilities for intra-industrial complementarity among the groupings of developing countries and the socialist countries;

(*d*) Analyse the different conditions for expanding trade by means of intra-industrial complementarity at different stages of industrialization in the developing countries;

(*e*) Use the consultative procedures provided under Conference resolution 15 (II) for identifying areas of mutual interest in exploring opportunities for expanding trade by means of intra-industrial complementarity among the socialist and the developing countries;

(*f*) Provide technical assistance for the developing countries in the preparation of projects aiming at the expansion of trade by means of intra-industrial complementarity and, more particularly, in the preparation of trade promotion programmes connected with such projects; the International Trade Centre would be expected to play a major role in this respect.

MAIN PROBLEMS OF TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES

Report by the UNCTAD secretariat *

[Original text: English and French]

CONTENTS

Summary and conclusions

I. Among the multiple problems obstructing developing countries' efforts for economic co-operation and integration, the greatest difficulties arise in connexion with the devising of policies that will bring about an equitable distribution of the costs and benefits of integration.

II. This problem is closely linked with that of the differing levels of development within the various groupings. Experience has shown that in the absence of special preferential measures in favour of the less developed countries of a grouping, the benefits of integration are likely to be concentrated in the more advanced countries, while a disproportionate share of the costs will be borne by the less advanced ones.

III. The special measures required to solve this problem must be diverse, and require joint action in the fields of commercial, balance-of-payments and fiscal

* The text of this report was circulated to the Conference as document TD/110, dated 29 February 1972. It will also be issued separately as a United Nations publication.

policies, in which the symptoms of inequality will make themselves felt soonest.

IV. In the field of commercial policy, asymmetrical measures for intragroup trade liberalization are required, in order to grant the less developed members longer transition periods for reducing tariff and non-tariff barriers and for adjusting their national tariffs to the mutually-agreed common external tariff. Conversely, the more advanced members must stand ready to open up their markets to products from the less advanced partners before the deadlines set with respect to the more advanced partners' mutual trade. In those cases where free trade within the group is already an accomplished fact, rules of origin can be devised that will ease the criteria governing eligibility for more liberal treatment in the case of goods exported by the less developed partners.

V. With respect to balance-of-payments measures, preferential treatment can be accorded to the less advanced partners by means of joint payment arrangements requiring relatively smaller credit-line extensions on their part while giving them preferential access to drawings, both with respect to amounts and repayment conditions. The desirability of monetary and balance-of-payments co-operation has been recognized by the Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries in its report,[1] and developing countries have in recent years taken numerous initiatives in that direction with respect to both intraregional and global payments problems. However, the magnitudes of the credit lines available under these arrangements are very small compared with the potential payments deficits. External support in this area could come in at least three manners: (*a*) direct bilateral support to existing and projected payments arrangements; (*b*) special drawing facilities at IMF for members of groupings whose intragroup trade liberalization commitments may create or aggravate balance-of-payments problems;[2] and (*c*) action by socialist countries that give aid to, or are parties to bilateral payments arrangements with, members of groupings of developing countries, with a view to the multilateralization of credit balances resulting therefrom, at least within economic groupings.[3]

VI. Since tariffs represent a relatively large portion of the less developed countries' fiscal incomes, the losses resulting from intragroup tariff reductions may produce serious problems for them, particularly if they are also land-locked and require transit facilities in the territories of the more advanced partners. The recovery of these losses should be viewed as a responsibility of the grouping as a whole and may require direct budgetary transfers from the more advanced partners.

VII. Agreements for the harmonization of fiscal incentives for foreign capital might also permit the less developed members to grant more liberal treatment in order to compensate prospective investors for the higher production costs in these countries.

VIII. While action in these fields is necessary to limit some of the costs of integration for the less advanced members, the root causes of these countries' inability to take full advantage of trade liberalization and economic integration efforts must be attacked by concerted programmes of development planning on the part of the group as a whole.

IX. These joint planning efforts would ideally cover all main economic sectors, including agriculture, but emphasis should be placed on those sectors that lag the most, i.e. the industrial and the infrastructural sectors, including the human infrastructure. Such group planning efforts should also include projects of a purely national scope, if they are located in the territories of the less developed members. For these must be treated as part and parcel of the common regional development plan, since their neglect would ultimately lead to a severe crisis within the grouping, the centrifugal effects of which would also be felt by the more advanced partners.

X. Industrial and infrastructural planning must be supported by joint financial efforts. However, even the more advanced countries within most groupings of developing countries are not in a position to afford major financial transfers to their less developed partners, regardless of whether such transfers are effected directly or through subregional development banks or similar institutions.[4] While they are in principle ready to concede unequal contributions to, and allocations of resources by, their subregional financial institutions, the more advanced partner countries may not be willing to participate in such institutions unless they can also derive some net benefits from them. External contributions provide the best way to overcome this bottle-neck, permitting the grouping's development bank to fulfil its subregional responsibilities towards the less developed partners while retaining the indispensable support and co-operation of the more advanced partners. The role of the large regional banks in providing and co-ordinating this external support is especially important, since (*a*) these institutions are themselves committed in principle to a multinational development approach, and (*b*) some groupings of developing countries are wary of over-dependence on any bilateral donor, lest such ties cause some specific extra-regional political coloration to be attached to their endeavour. The World Bank Group for its part could draw on its long experience with respect to co-ordination of bilateral aid for national recipients by encouraging the establishment of consortia and consultative groups for regional groupings along the lines of the consultative group that functioned for EAC.

XI. The agricultural sector often tends to be neglected in the process of harmonizing development plans, although

[1] See *Official Records of the Trade and Development Board, Tenth Session, First, second and third parts, Annexes*, agenda item 11, document TD/B/333, paras. 153-154.

[2] See "International policies on payments arrangements among developing countries: report by the UNCTAD secretariat" (TD/B/AC.10/4), para. 98.

[3] See "Support by the socialist countries of Eastern Europe for trade expansion, economic co-operation and regional integration among developing countries: report by the UNCTAD secretariat" (TD/116) (p. 177 below).

[4] The principal qualification to this statement concerns the oil-exporting countries, some of which belong to incipient free-trade areas.

it usually leads all others in terms of the number of persons employed. Water control and irrigation systems can often be executed only on a joint basis. The planning of agricultural exports is not possible, for the smaller countries in particular, without the concurrence of their neighbours, with whom they often compete on the markets of third countries. However, in other cases where agricultural systems are complementary, both in terms of product structure and seasonal distribution, co-operation can extend to an expansion of mutual trade.

XII. The difficulties in harmonizing regional development plans are particularly great in the industrial sector, which in most developing countries belonging to groupings is largely in private hands and often foreign-owned. In helping to overcome the technical difficulties involved in agreeing on a harmonized industrial plan, technical assistance from the socialist countries and their own multilateral institutions could play an important role. With respect to the entrepreneurial and financial shortcomings which prevent agreed plans from being implemented, subregional financial institutions should be enabled actively to seek out projects, carry out the relevant feasibility studies and, when necessary, take up, at least initially, equity participation in enterprises forming part of the grouping's subregional industrial programme, especially when they are located in one of the less developed member countries.

XIII. While the harmonization of infrastructural planning is relatively easier than in the industrial sector, the capital requirements to be met by public resources are infinitely greater. External support through regional and subregional development banks in the form of soft loans is therefore required. Statutes of these institutions preventing their operation in this sector might be re-examined. In the meanwhile, external support can be mobilized through the mechanism available under resolution 53 (VIII), paragraph 6, of the Trade and Development Board.

XIV. Some groupings comprise countries with different economic and social systems. Experience has shown that such differences do not prevent co-operation, but special problems arise which require study in depth. While some of these problems in the field of State trading are already being studied, others remain, such as (*a*) the special aspects of harmonizing governmentally-executed plans on the one hand with indicative plans on the other, and (*b*) the role of private capital in regional projects operating in such groupings.

Introduction

1. The purpose of this document is to provide the United Nations Conference on Trade and Development with a basis for discussing the main problems that developing countries have faced during the latter part of the 1960s in their efforts to expand their mutual trade, to strengthen their economic co-operation and to integrate their economies.

2. The document is organized on a problem-by-problem rather than on a grouping-by-grouping basis. After a brief description of the problem in its general setting,[5] the problem is discussed in the context of specific groupings of developing countries. No attempt is made to cover all groupings systematically in connexion with each problem. Groupings are rather selected for illustration, either because the problem in question has arisen with particular sharpness, or because original solutions have been attempted with or without success.

3. Given the solemn declarations of external support contained in paragraphs 17-21 of Conference decision 23 (II), supplemented by Board resolution 53 (VIII) and by the unanimously adopted conclusions of the Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries in chapter V of its report, problems are not selected with a view to finding areas calling for external support action. Nevertheless, the need for such action will frequently be seen as an indispensable element in the solutions to the problems discussed, particularly with respect to the problem of securing an equitable distribution of costs and benefits for the less developed members of economic groupings.

4. The selection of the problems discussed was dictated by the UNCTAD secretariat's assessment of what are the most important obstacles impeding developing countries' efforts towards economic co-operation and, as such, are intended to stimulate discussion and new initiatives by these countries in their collective self-help efforts.

5. The emphasis placed on problems facing developing countries in this field should not be construed as belittling the very real achievements registered during the 1960s. Trade expansion is often taken as the most tangible and easily quantifiable evidence of success in economic co-operation efforts. Figures for developing countries' intratrade (see annex I) show that intratrade within most groupings committed to preferential trade liberalization among their members has grown as a share of these countries' total trade. For all of these groupings taken together, intragroup trade represented 8.1 per cent of total exports in 1969, as compared with only 6.9 per cent in 1960. But for intratrade among developing countries as a whole, the trend seems to have moved in the opposite direction: its share in developing countries' total exports declined from 20.6 per cent in 1960 to 19.7 per cent in 1969, while the provisional 1970 figure is even lower. Apart from the relatively wide margin of error attaching to these figures as compared with other world trade flows, great care must be taken in interpreting them.[6]

[5] For a comprehensive treatment of some of these problems see, in the UNCTAD series *Current problems of economic integration;* Peter Robson, *Fiscal compensation and the distribution of benefits in economic groupings of developing countries* (United Nations publication, Sales No. E.71.II.D.6), and J. Mario Ponce, "Expansion of agricultural trade in groupings of developing countries" and Havelock Brewster, "Industrial integration systems" both in *Agricultural and industrial co-operation among developing countries* (United Nations publication, Sales No. E.72.II.D.6).

[6] For example: (*a*) Singapore's trade with other developing countries amounted to over $1.3 billion in 1960, accounting for nearly one quarter of developing countries' total recorded intratrade. Since it consisted to a very large extent of entrepôt trade, a great part of which was subsequently rerouted or escaped statistical recording, these particular trade flows show very small growth rates, thereby

(Continued on next page.)

6. While it is true that certain countries not members of any developing country grouping (particularly in south and east Asia) have directed the bulk of their incremental manufactured exports to developed countries (partly as the result of import substitution policies in other developing countries), it should not be overlooked that in Latin America, the region with the longest experience of autonomous economic integration movements, intraregional trade grew at an annual rate of about 10 per cent between 1960 and 1970, which was well above the 5 per cent rate for all exports. In the manufactured-goods sector the achievement was even more impressive, with an annual growth rate of over 25 per cent between 1960 and 1969 in the case of intraregional trade as against 17 per cent for trade to the world at large.[7]

Chapter I

Distribution of costs and benefits of economic co-operation

7. The experience of the last few years has shown that the problem of finding a mutually acceptable distribution of costs and benefits among the various members of regional co-operation and integration groupings of developing countries has been at the heart of the obstacles that have obstructed the way to the realization of the objectives which these groupings had set for themselves.

8. The problem is inherent in any multi-sector economic compact entered into by sovereign States, since the effects are well-nigh impossible to quantify with precision, particularly when viewed in a long-run dynamic context.[8] This has proved to be true even in the case of groupings of developed countries which do not differ too much as to their level of development, but in which particular sectors have to make greater adjustments than others (e.g. agriculture in EEC). The problem is compounded, however, when levels of development differ significantly, a situation which is characteristic of groupings of developing countries.

9. The less developed partners in such groupings, which have sometimes not even reached the take-off phase of economic development,[9] have greater doubts as to potential benefits to be gained from the integration process than the more advanced countries, which are likely to become the poles of attraction for new investments by virtue of their better infrastructure. The latter must be viewed not only in terms of physical facilities, such as transport and communication, and not even only in marketing terms, such as larger existing urban agglomerations, *per capita* purchasing power and market growth potential, but also in terms of the greater availability of technically qualified personnel, more efficient administrative procedures and more sophisticated banking services.

10. In CACM, the crisis that reached its climax with the conflict between two of its member States in 1969, and led to the suspension of free trade between Honduras and the other four members in 1971, can be traced in good part to the firm conviction held by Honduras, the least advanced partner, that it was not receiving its due share of the benefits derived from the Central American integration process. In the UDEAC, the crisis of 1968, which led to the temporary withdrawal of the Central African Republic and to the continuing withdrawal of Chad from the Union, could also be traced to the problem of an equitable distribution of benefits between these two less developed and land-locked members on the one hand, and the three more advanced coastal States on the other. While the crisis that paralysed progress in the East African Community (EAC) in 1971 contained a strong politico-ideological element, the exchange control and import licensing measures now encumbering interterritorial trade were initially instituted by the two less advanced members (Uganda and the United Republic of Tanzania). They were motivated by these countries' deteriorating balance of payments vis-à-vis Kenya, the more advanced partner, which began to attract growing amounts of flight capital from the other two partners in addition to its traditional surplus on the trade account.

11. The tensions engendered by dissatisfaction with the distribution of costs and benefits tend to exacerbate latent political or ideological differences. While such differences may have been deliberately kept dormant during the early phases of the integration process, they tend to reappear with exaggerated sharpness when results are felt to have fallen short of expectations, which is likely to be noticed soonest by the less advanced partners. Unless the integration process has moved far enough to have created interests favouring integration in each partner country (e.g. commercial or industrial enterprises relying heavily on the regional market, common economic institutions employing significant numbers of civil servants, technicians and workers, common development banks capable of attracting external resources to the region, or common political institutions having close ties to, and influence with, the top national policy-makers), such political controversies will tend to block, and in fact have blocked, all progress towards integration. In practice, such a crisis is followed either by (*a*) the formal or effective withdrawal of the least developed country or countries (e.g. Chad from UDEAC, and Honduras from CACM); or (*b*) a painful restructuring process (e.g. EAC in 1967, CACM at present), or (*c*) a proliferation of unilateral national measures which actually tend to undo whatever progress had previously been achieved (e.g. the reintroduction of customs barriers

(Continued)

depressing the total for developing countries as a whole; (*b*) exports from west Asia to developing countries have grown more slowly than this region's total exports, but this situation is essentially due to petroleum exports, for in the manufactured-goods sector the rates were virtually identical.

[7] See the report by the UNCTAD secretariat entitled "Review of trade in manufactures of the developing countries, 1960-1970" (TD/111), table 10.

[8] See *Trade expansion and economic integration among developing countries* (United Nations publication, Sales No. 67.II.D.20), chap. IV; and "Trade expansion, economic co-operation and regional integration among developing countries—part two: Problems encountered and measures intended to overcome them" (TD/B/AC.10/2/Add.1), chap. VII. See also Peter Robson, op. cit., chaps. II, III and IV; and Eduardo Lizano, *Current economic problems: The distribution of benefits and costs in economic integration among developing countries*, a study requested by the UNCTAD secretariat (TD/B/394 (United Nations publication, Sales No. E.73.II.D.12), annex II).

[9] Of the 25 hard-core countries identified as least developed by the Committee for Development Planning, eight are members of a grouping of developing countries (see *Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 7* (E/4990), para. 66).

in Honduras in 1971, the end of mutual convertibility of the three East African currencies).

12. Even groupings whose field of co-operation is limited to a single sector or to a limited number of sectors, and whose long-term objectives fall clearly short of full economic integration, have experienced crises or deadlocks blocking further progress as a result of disagreements on the equitable distribution of benefits.

13. An example of such problems with respect to the first type of co-operative effort is found in the Sugar Agreement signed in 1966 by most members of OCAMM for the purpose of guaranteeing to the sugar-surplus countries priority access to the markets of the sugar-deficit members at stable prices. The operation of this agreement led to dissatisfaction and to the ultimate withdrawal of one of the consumer countries when world sugar prices dropped below the mutually-agreed level.

14. Examples of cost and benefit problems abound in groupings co-operating only in a limited number of sectors, whose more modest objectives and weaker bonds of cohesion favour a stricter interpretation of national as against regional interests and in which the weaker commitment to group co-operation increases the tolerance for lack of progress. Thus, LAFTA in fact agreed on a four-year "study" period beginning in 1969 during which its trade liberalization programme will be sharply curtailed. This slow-down decision originated in disagreements between the relatively more advanced countries, which wished to assign priority to joint action on trade liberalization, and the less developed countries, which advocated a true common market, in which costs and benefits could be more equitably distributed than in a mere free trade area.

15. The Maghreb countries have not been able to sign a two-year-old draft agreement on economic co-operation involving only limited trade liberalization measures, because of disagreements that are essentially functions of their differing levels of industrialization.

A. Commercial policy aspects

16. The less advanced country in a grouping quite understandably sets off potential benefits that it may derive from the integration process against the increased cost of diverting (usually manufactured) imports from competitive non-regional sources to less-than-competitive suppliers within the grouping, in return for which the less developed country will continue selling primary staples with only minimal external protection, resulting in a net deterioration of its terms of trade.

17. The simultaneous elimination or reduction of trade barriers by all countries in a grouping without regard to their relative levels of development tends to stimulate exports from the country having the greatest and most diversified supply potential, while for the less developed members export growth tends to be more modest and to be concentrated in traditional product lines. Apart from the undoubted economic problems that a deteriorating regional trade balance may cause, the negative psychological effects of such a tendency would not be overlooked, especially during the early stages of a mutual trade liberalization process. Since the trade balance is all too often regarded in the public mind—and by some policy-makers—as the touchstone for measuring the benefits that a country has derived from a free trade or an integration scheme, insufficient attention paid to this aspect of the problem may easily lead to a process of erosion of pre-existing political support for the integration scheme as a whole.

18. Apart from these balance-of-trade and terms-of-trade effects of the new relationship, the less developed country is anxious lest the lower technological content of its product range in general and of its exports in particular (primary goods or secondary goods with a low value-added content) be frozen by the impossibility to protect its own nascent industry from the more advanced regional competitors. Above all, such an outcome might endanger its own development process, the furtherance of which must be the ultimate criterion for judging the value of an integration scheme.

19. A more acute awareness on the part of many groupings of developing countries of the need to adjust commercial policy measures to these legitimate concerns of their less advanced members has led to a number of corrective measures in some of the older groupings, and resulted in the introduction of appropriate clauses into the charters of newer groupings.

20. In East Africa, the 1967 Treaty for East African Co-operation, which replaced the defunct Kampala Agreement of 1964, provided for a system of asymmetrical transfer taxes, under which member countries (Uganda and the United Republic of Tanzania) could impose taxes within specified limits on industrial goods imported from partner countries in respect of which deficits have been incurred. So far, this system has not fulfilled the expectations placed on it.

21. Among the newer groupings, the countries which signed the Cartagena Agreement (Andean Group) in 1969 agreed to accord to their less developed partners (Bolivia and Ecuador) a five-year delay in the implementation of the general trade liberalization commitments under which free trade among the three more advanced member countries (Chile, Peru and Colombia) is to be effective by the end of 1980. Safeguard measures in the form of exceptions lists may be maintained by the two less developed partners for five more years beyond the 1985 deadline set for their elimination on the part of the three more advanced members. For goods originating in the two less developed member countries, the time-table for tariff reductions is to be accelerated so that the latter are to enjoy free access to the markets of the others by the end of 1973. In addition, a schedule was approved in December 1970 listing the goods already being produced in the region for which the three more advanced member countries eliminated tariffs entirely vis-à-vis the two less advanced countries as from the beginning of 1971. Apart from the above concessions, special lists of goods [10] the production of which is to be reserved exclusively to the two less advanced members were agreed upon, and free entry for these goods into the three more advanced countries was guaranteed as from 28 February 1971. Under the terms of this decision, the entire Andean market for these products is to remain

[10] The lists contain 34 and 37 tariff positions for Bolivia and Ecuador respectively.

reserved until 1980 to exports from these two countries, provided that certain deadlines for the completion of feasibility studies and initiation of production are respected.

22. The agreement establishing CARIFTA, which was signed in May 1968, lays down in article 2 that one of its objectives is "to ensure that the benefits of free trade are to be equally distributed among the member territories." The Agreement recognized the less advanced status of eight out of its twelve members [11] and granted them a transitional period twice as long as that for the more advanced members for the implementation of complete trade liberalization *inter se* (ten years instead of five). Similarly, the less developed members are to have more time than the others for the elimination of the protective element in their internal taxes. Furthermore they will be entitled to establish tariff quotas in adapting their tariffs towards third countries to that of the common external tariff, a provisional version of which was to enter into effect in 1972.[12]

23. LAFTA recognized the less developed status of four among its members (Bolivia, Ecuador, Paraguay and —transitionally—Uruguay) and permitted the negotiation of non-extensive trade concessions to them, i.e. concessions that would not automatically apply to the more advanced partners. As many as 7,196 such concessions have in fact been negotiated, but their practical usefulness in stimulating exports from these countries has been disappointing. More recently, negotiations with the less developed members have therefore concentrated on a smaller number of items with a genuine short-term export potential. Concessions negotiated within the framework of LAFTA's industrial complementarity agreements [13] are normally applicable only to countries participating in the agreement in question (in practice, this has meant mostly the three most industrialized members—Argentina, Brazil and Mexico), but they have been extended to the less developed members as well. It should be noted, however, that the industrial complementarity agreements are initiated by firms desiring better to exploit specific existing or planned capacities. The extension of such concessions to the less developed member countries is therefore likely to be devoid of real significance, unless corresponding production facilities are established there either by local entrepreneurs or else in the form of branch plants of the enterprises which initiated the agreements.

B. Balance-of-payments aspects

24. While a country's trade balance with its partners is often used as the crude instrument for measuring costs and benefits derived from trade liberalization and even from economic integration, the practical consequences to be drawn will ultimately depend on (*a*) the country's entire balance of payments with its partners, of which the trade balance is only one element, albeit generally the most important; and (*b*) the country's global balance of payments and the relative importance of the regional balance therein.

25. In a situation where a country experiences a growing trade deficit vis-à-vis its partners, but compensates this to a substantial degree by an increase of earnings on service and capital accounts greater than would have accrued in the absence of the integration scheme, its concern with the trade balance should not be expected to lead to any dramatic action on its part. However, cases where compensation along such lines is possible are the exception rather than the rule. Similarly, whenever a country's global balance of payments is strong and the regional payments deficit is equivalent to no more than a small proportion of over-all foreign exchange receipts, it can afford to wait for equilibrating forces (e.g. potential export industries, further trade liberalization measures on the part of partners) to work themselves out. But apart from the oil-exporting countries, it is a rare developing country (particularly if it is one of the least advanced category) whose balance of payments can be described as strong. In the typical case, where the global balance of payments imposes severe constraints on a country's freedom of action, any prolonged deterioration in a country's traditional balance of trade with its partners will require remedial action by the group as a whole, and failing that, by the deficit country concerned. This will be so particularly in the case of a less advanced partner, where the deterioration will have been accompanied and indeed partly caused by deteriorating terms of trade, and where a reversal is likely to be only a remote prospect.

26. Fortunately—from this viewpoint—the share of intragroup trade has been modest in most groupings (see annex table). In CACM, however, where the very success of the trade liberalization efforts of the early 1960s has raised this share above the 20 per cent mark, global balance-of-payments difficulties for the subregion as a whole coincided with growing intragroup deficits for certain countries (Honduras and Costa Rica). When the wider Central American crisis came to a head in 1969, no effective mechanism existed to deal with this aspect of the problem.[14] Even the Central American Currency Stabilization Fund, established under the auspices of IMF in October 1969 [15] was not designed to meet the problem of intragroup imbalance, but rather that of global balance-of-payments disequilibria. On the other hand, the regional fund that had been planned in 1970 as part of a new *modus operandi* was to have been directly linked to the intraregional trade balance. Unter the proposed scheme, contributions were to be based on intraregional exports, while the distribution was to have been based on the intra-

[11] The less advanced members are the seven members of the East Caribbean Common Market (Antigua, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent, St. Kitts-Nevis-Anguilla) plus British Honduras (Belize), all of which, except Antigua, are politically associated with the United Kingdom.

[12] In contrast to the practice adopted by the Andean Group, where the first step towards the proposed common external tariff consisted of the raising of national tariffs to a common minimum level, the adaptation of national tariffs to the common external CARIFTA tariff involves both increases and decreases of existing rates.

[13] Sixteen such agreements have already been concluded, while another sixteen are still in the negotiating phase.

[14] The Central American Clearing House is not designed to overcome balance-of-payments difficulties and only provides for minimal technical credit lines.

[15] The Stabilization Fund's resources totalled $35 million by the end of 1971, of which $20 million were immediately disposable.

regional trade balance.[16] Thus the least advanced country (Honduras) would have become the principal net beneficiary of the Fund. However, because of the assurance of important external contributions, even the country with the largest intraregional surplus would have become a net beneficiary of the Fund, a feature particularly worthy of note. Although the Fund was still-born owing to wider disagreements among the partners about other elements of the *modus operandi,* particularly the regional industrial policy, its guiding principles may well be worth further consideration both in the CACM and in other groupings.

27. An important first step in the direction of mutual support for the interim financing of deteriorations in intra-regional trade balances was taken by the members of LAFTA and the Dominican Republic with the signing of the Santo Domingo Agreement in September 1969, which provides for credit lines of up to eighteen month's duration, adding up to $30 million.[17] Each signatory may draw as much as three times its own potential contribution. The Agreement went into effect early in 1970, but no drawings have been made so far. Although the Agreement is not specifically designed to correct imbalances in the distribution of benefits resulting from trade liberalization, the stipulation requiring surplus countries to extend credits to deficit countries constitutes a built-in incentive for the automatic correction of growing intra-group trade imbalances.

C. Compensation of fiscal losses

28. The full or partial liberalization of intratrade within the context of economic integration efforts will cause revenue losses for the Government of the importing country to the extent that goods formerly imported from third countries are replaced by imports from regional partners. Fiscal losses may also occur, particularly for land-locked countries, as the result of errors in the reimbursement of customs duties collected on behalf of the consuming country by the customs authorities of the transit country. Similar losses may occur when land-locked countries are constrained to buy urgently needed goods on the markets of the transit countries in order to avoid the inordinately long delays involved in ordering what are often small consignments from suppliers with which transport links are irregular and infrequent.

29. The impact of these losses is relatively stronger in the less developed country because:

(*a*) Customs revenues tend to constitute a larger share of total governmental revenues in the less developed countries than in the more advanced ones;

(*b*) The more advanced country can compensate customs losses with

(i) Additional excise and income taxes generated by those of its industries serving the new regional market;

(ii) Additional customs revenues on the larger imported inputs required to feed the expanded output of these industries; [18]

(*c*) Transit countries are generally more advanced than the land-locked countries which they serve.

30. Several fiscal compensation measures have been instituted to overcome this problem, particularly in Africa,[19] some of which have aimed at compensating not only for fiscal losses *per se,* but also for an inequitable distribution of costs and benefits in a wider sense.

31. In EAC, the Fiscal Income Redistribution Fund, which functioned from 1961/62 onwards, was designed to compensate Uganda and the United Republic of Tanzania for fiscal losses and for losses due to worsened terms of trade. It was considered insufficient by the beneficiaries and was replaced by the transfer tax system and EADB under the 1967 Treaty for East African Co-operation. While both the Bank and the transfer tax system are geared to favour the two less developed members, neither is specifically designed to overcome the problem of fiscal loss. The transfer tax system for its part, while having the effect of recouping some of the customs revenue lost by the two countries running trade deficits in manufactured goods, is primarily designed for protectionist rather than fiscal reasons and is deliberately limited in scope and time.

32. The system most directly aimed at solving the problem of fiscal loss is the single tax (*taxe unique*) applied in UDEAC, under which firms subjected to this system are exempt from all import duties normally applicable to their imported inputs, and from all internal taxes that would normally be charged on these firms' inputs and their manufactured output. These firms are then liable to the single tax, which varies from product to product, and may vary for the same product according to the country where it is produced. The proceeds of this tax are then distributed pro rata according to the share of each member country in the consumption of the product. Although the economic costs of import substitution are still borne jointly by the consumers of all member countries, the single tax could theoretically be fixed at a level sufficiently high so as to recoup the fiscal losses resulting from the shift from third-country to regional sources of supply. In fact, the single tax is set at a level below the combined burden of the taxes which it replaces; it does not therefore fully compensate for the fiscal losses incurred by the importing country. The case is less clear in the producing country, which enjoys the additional advantage of larger income taxes paid by the enterprise and its employees as well as "spin-off" effects via the income generated in preceding production stages as well as in subsequent rounds of expenditure.

33. The Solidarity Fund of UDE, the forerunner of the UDEAC Solidarity Fund, had as one of its objectives the

[16] In contrast to the practice of CABEI, which only allocates funds in response to formal project submissions, this Fund was to play an active role in the investment of resources in pursuance of the directives of a mutually agreed programme of industrial and agricultural development.

[17] The previously created network of bilateral clearing agreements for which the Central Reserve Bank of Peru acts as central clearing house provides only small technical credits of three months' duration.

[18] Such compensation is reduced, of course, to the extent that these new industries are given transitional customs exemptions on raw material and semi-manufactured imports.

[19] For a comprehensive review of these, see Peter Robson, *op. cit.,* chap. V.

compensation of fiscal loss to inland consuming States arising out of errors in the attribution of import duties collected by the coastal transit States. As such it was fed by a fixed percentage of all customs receipts levied by the Union's common customs services. But with the coming into force of the UDEAC Treaty (involving accession of Cameroon to the Union) in 1966, the contributions and receipts were determined annually on a flat sum basis and were no longer linked to customs receipts. After the withdrawal of Chad, the Fund simply became a vehicle for direct budgetary transfers from the three coastal States to the sole remaining inland member, the Central African Republic. It is seen today more as an instrument for compensating the latter, the least developed member of the Union, for the costs of integration in a broader sense rather than only for customs receipts forgone.

D. Fiscal harmonization

34. While the less developed member of a grouping requires fiscal compensation for revenue forgone in consequence of integration, it might consider offering to prospective investors fiscal advantages clearly superior to those offered by its more advanced partners, so as to compensate investors for the higher costs of production, which are in turn due to these countries' relatively poorer infrastructure in the broader sense of the word. To this effect it is necessary (*a*) to establish mutually-agreed fiscal incentives so as to avoid injurious competitive bidding between members of an economic grouping, and (*b*) to permit less developed members to make their incentives relatively more attractive.

35. In this area, most progress has been made in Latin America. In the CACM, the Central American Agreement on Fiscal Incentives for Industrial Development, which entered into effect in 1969, contains a preferential protocol in favour of Honduras, giving that country the possibility of granting somewhat more liberal tariff reductions for imported inputs of plants established within that country for a period of ten years from the Protocol's entry into force than similar reductions in the other CACM member countries. However, owing to the CACM crisis, uniform implementing regulations have not been worked out, and the Convention remains inoperative. Even if the Protocol had been implemented, doubts have been expressed as to its practical usefulness in the absence of complementary measures to encourage industrial investments in Honduras.

36. LAFTA incorporated the principle of fiscal harmonization into the group's planned industrial policy, which in turn forms part of the so-called Action Plan adopted in 1969 and which found legal embodiment in the Caracas Protocol. However, the fiscal harmonization plans remain in the blueprint stage awaiting the implementation of the industrial policy package as a whole, which is to start only in 1974.

37. In December 1970, the Andean Group adopted a common régime for the treatment of foreign capital, which entered into effect in June 1971 and which has as its objective the gradual increase of domestic ownership and management of foreign-owned enterprises. Less stringent conditions and longer implementation periods are permitted in the case of the less developed members (Bolivia and Ecuador).

38. In the case of UDEAC, the single tax system provides a means for making location in the less developed members of the Union more attractive by setting the tax at a lower level than the one applying for the same product in a more advanced member country.

39. In East Africa, the 1948 Industrial Licensing Ordinance provided for fiscal harmonization by granting virtual monopoly powers throughout the Community to any firm so licensed, but it did not contain any provisions favouring Uganda and Tanzania. Under the 1967 Treaty governing the EAC today, reliance is placed on the East African Development Bank and the transfer tax system to provide these two countries with the attraction they require to compete with Kenya for new industrial investments.

40. The East African practice reflects a more widespread disenchantment with the real effectiveness of preferential fiscal measures, which are essentially passive in nature. Greater faith is placed in the effectiveness of active measures in the financial field, such as preferential access to subsidized sources of capital. This trend is reflected by the creation of development banks or similar institutions in connexion with several newer as well as existing groupings.

E. Regional development planning

41. The discussion of the commercial, balance-of-payments, fiscal revenue and fiscal harmonization aspects of the costs and benefits problem has tended to emphasize the need for reducing or eliminating potential costs which less developed members of a regional grouping might bear as the result of integration efforts. In a wider sense, these costs are mere symptoms of the underlying inability of these countries to utilize the potential benefits of a larger market and the external economies inherent in forming part of a more viable economic unit. To cure the basic causes of this inability, collective action is indispensable in the field of development planning. Indeed, the key for securing equitable benefits from integration for the less advanced members of an economic grouping lies in (*a*) the assurance that at least a minimum number of industrial projects designed to serve the region as a whole will be located within their territories, and (*b*) aid for the development of their deficient infrastructure (from their more advanced partners and/or from external sources) stimulated by a reassessment of the economic prospects which these countries may be thought to have acquired by virtue of their membership in a larger economic grouping.

1. *Regional industrial planning*

42. In this key area of economic co-operation, effective commitments for industrial locations in favour of the less advanced members of economic groupings have been conspicuous by their rarity. In view of the basic difficulties which exist even in industrially homogeneous groupings (i.e. countries at approximately the same level of industrialization) in the harmonization of industrial plans,[20] it is

[20] See chap. IV below.

not surprising that not more has been achieved by way of allocation of industries to less developed members of heterogeneous groupings. To ensure equitable distribution, decisions on project locations would ideally take into account the value added and the foreign-exchange earnings potential of the industry as well as its effects on employment, income and savings.[21] Another factor to be taken into account in assessing the distribution of costs and benefits is the current structure of national tariffs as compared with the common external tariff that would be required to enable an agreed regional industry to meet third-country competition. To the extent that the common external tariff for a particular industry exceeds the pre-existing national rate, the users of the importing country are bearing the cost of integration. To the extent that an economic grouping is willing to make efforts on behalf of its less developed partners, it should stand ready to accept a relatively high common external tariff to protect regional industries located in the latter, whereas more stringent rules might apply to common external tariffs protecting industries located in the more advanced countries, e.g. they might be limited by the weighted or unweighted average of the corresponding national tariffs.[22]

43. Ever since 1958, CACM has had a system of "integration industries" under which firms so designated were to enjoy advance assurance of protection from third-country supplies and free trade within CACM.[23]

44. The licensing system adopted in East Africa in 1948 was primarily designed to attract foreign investment without regard to its placement within the Community. It thus had the effect of further concentrating industry in Kenya, the most advanced member country. The Kampala Agreement of 1964 (revised at Mbale in 1965) attempted to correct this situation by supplementing the licensing system with the institution of "East African industries" to be assigned on the basis of economic feasibility as well as equitable distribution criteria. The Agreement itself already included a certain number of industry allocations. As revised, it assigned one industry to Kenya, two to Uganda and three to Tanzania. This allocation was essentially the result of political bargaining without any substantial technical or economic basis. Dissatisfaction with this outcome prevented the Agreement from securing ratification by all member countries. Moreover, the Agreement provided neither financial incentives nor an appropriate institutional framework. The current Treaty makes no direct attempt to divert industries to the less developed members, relying on the East African Development Bank to provide the necessary incentives in that direction.

45. The "joint purpose enterprise" system developed by RCD, while avoiding the rigidities inherent in the other systems, does not contain any mechanism that would give preferential treatment to a less developed member of an economic grouping, a problem that RCD does not have to face.

46. Within the framework of LAFTA's system of complementarity agreements, the Andean Group, constituting, as it were, a less industrialized subregion of LAFTA, has signed one major agreement in the petrochemical sector, which provides for preferential participation by the subregion's two less developed members, and from which the larger and more industrialized LAFTA members agreed to abstain so as not to disrupt the Andean subregion's budding co-operation efforts. Otherwise LAFTA's system of complementarity agreements has evoked the greatest interest in the larger and more industrialized member countries. Even though the less advanced LAFTA members automatically enjoy the advantages of the concessions agreed upon on a non-reciprocal basis, the system has not, in fact, served to stimulate industrial development in these countries because they have no unutilized industrial capacities to export and normally have not even the nuclei of such industries upon which to build.

2. *Regional infrastructural planning*

47. As far as the less developed members of an economic grouping are concerned, the long-term success of any regional development plan and indeed of the integration effort in its widest sense depends on a complementary programme for the development of these countries' infrastructure. For it is the very deficiency of transport, communications, energy and, above all, human resources that prevents the less developed members (as well as the less developed regions of the more advanced members) from utilizing the opportunities offered by the integration movement. Given the higher cost of capital in these countries (see section, "Financial aspects" below), if their main advantage—cheap sources of unskilled manpower—is to make its weight felt in the economic scales, it must not be outweighed by the high cost of transport, energy and technically qualified personnel.

48. It is therefore incumbent on any economic grouping bent on securing equitable benefits for its less developed members to devote special efforts to the co-ordinated development of (*a*) road, railway and river transport;[24] (*b*) common water basins for the purpose of providing the less developed regions with cheap sources of energy as well as irrigation possibilities to support their generally inefficient agricultural sectors; and (*c*) specialized schools, training institutions and health services serving the entire region. Most of such projects are indivisible by their very nature. Consequently they are particularly unsuited for implementation on a purely national basis by the least developed countries, whose small economic dimensions would not permit full capacity utilization of such major investments. The realization of such infrastructural

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[21] For a further elaboration of these ideas, see the draft report of the UNIDO Expert Group Meeting on Regional Industrial Co-operation (Vienna, 6-10 December 1971), section entitled "Summary of principal conclusions and suggestions". (This section of the report was circulated as document ID/WG.111/2.)

[22] The dangers of excessively high common external tariffs are especially relevant in the smaller groupings where even regional industries must still seek export markets in third countries to function efficiently. In one recent case a regional tariff lower than the average of the national tariffs was agreed upon for this very reason.

[23] Although the first of these privileges can now also be enjoyed by other industries not so designated, the latter privilege has been retained.

[24] Liberal transit rights when the less developed country is also land-locked are an obvious concomitant of such a policy.

projects on a multinational basis will, therefore, automatically bring special benefits to the least developed countries. However, apart from projects that must be implemented on a multinational basis by virtue of their technical characteristics (e.g. highways, telecommunications, irrigation projects) or by virtue of economic indivisibility (e.g. specialized schools, research institutions, health services), other infrastructural projects in the less developed countries which could theoretically be carried out within a purely national framework deserve to be included within the grouping's joint infrastructural plans, since it may be the only way by which the less developed countries will be technically and financially enabled to do so. Examples of such projects are (*a*) internal roads construction programmes, (*b*) urban improvement projects including low-cost housing estates, (*c*) power transmission systems, and (*d*) internal telecommunication systems.

49. In Latin America, the virtual completion of the most important elements of the Central American highway construction programme and the completion of the Central American Telecommunication Network (all with the financial support of CABEI) have given Honduras and other less developed areas within the CACM direct transport and communication links to the subregion's more dynamic economic centres.[25] Similarly, the Carretera Bolivariana Marginal de la Selva (Bolivar Jungle Edge Highway), built with the financial support of IDB, links Ecuador, Bolivia and the less developed areas of Peru with the relatively more advanced countries of Colombia and Venezuela. The Trans-Chaco Highway will fulfil a similar function further south by linking Argentina and Peru with Bolivia and Paraguay, their less developed, land-locked neighbours.

50. The deficiencies in inter-island transport in CARIFTA subregion are particularly onerous for the less developed islands of the East Caribbean Common Market, for whose economies these links are relatively more important than for the four larger and more developed member States. The decision of the subregion's Governments to reorganize the West Indies Maritime Shipping Service and improve postal facilities may therefore be especially useful from the viewpoint of the least developed partners.

51. In Africa, the common services in EAC provide a very ingenious way of resolving the problem of infrastructural disequilibrium. The intrinsic need to offset losses in one service by gains in another (a feature typical of all public utilities such as railroads, airlines, postal services and energy supplies) has resulted in net transfers from the more advanced to the less developed areas served. However under the 1967 Treaty of East African Co-operation, a limit has been placed on such transfers, inasmuch as requests for new services must henceforth be subsidized by the requesting country if losses are incurred in their operation. The less developed members have complained that the losses being incurred by the common services in their countries are due to inordinately high costs, which, in turn, are said to be traceable to the inequitable investment policies of the common services. The latter are allegedly neglecting the capital stock located in these countries in favour of that located in Kenya, where profits can be made. The decision taken in 1967 to decentralize the administrative headquarters of the common services, which were formerly concentrated in Kenya, has undoubtedly been economically and psychologically useful from the viewpoint of the less developed user countries.

52. Work on the Trans-Saharan Highway linking Algeria, Mali, Morocco, Niger and Tunisia, which had been under study by ECA since 1964, began in September 1971. Although outside the framework of any established grouping this project will help improve access to the sea for Niger and Mali, two land-locked, less developed countries. The Trans-African Highway also planned by ECA and expected to link the port of Mombasa on the East Coast with Lagos on the West Coast, is still in the blueprint phase. When completed, it will open up new access roads for two other land-locked, less developed countries: Uganda and the Central African Republic.

53. The Niger River Commission, established in 1965 by Cameroon, Nigeria, Dahomey, Ivory Coast, Guinea and four land-locked countries, Niger, Upper Volta, Mali and Chad, seeks to co-ordinate activities for the joint development of the River Niger, in particular extending the navigability of the Niger, and therefore helping to ensure cheap and year-round access to those countries. The Lake Chad Basin Commission, formed by Nigeria, Cameroon, Chad and Niger, has as its purpose the social and economic development of the basin, with special priority accorded to increased transport facilities for the two land-locked, relatively less developed countries members of the Commission.

54. In Asia, the Mekong River development project stands out as a major multinational infrastructural enterprise, which may in time enable the war-ravaged Republic of Viet-Nam, Laos and the Khmer Republic as well as Thailand jointly to develop their water and energy resources.

F. Financial aspects[26]

55. The financing of such projects as are described in the previous section requires access to substantial sources of capital, a large portion of which will have to be mobilized outside the region. A financial institution exclusively serving the area covered by a particular grouping and committed to the principle of integration, and its corollary, an equitable distribution of benefits resulting therefrom, represent the most suitable instrument for channelling resources from both inside and outside the region towards those projects which deserve priority treatment.

56. The multinational composition of these institutions' staff, their built-in regional outlook and their relative independence of the day-to-day political pressures affecting their national Governments permit technical and long-

[25] In 1970, the Central American Highway Programme accounted for over 93 per cent of Honduras's paved highways and for over 12 per cent of its all-weather roads, as compared with 54 per cent of the other countries' paved highways and 2 per cent of their all-weather roads (see SIECA, *Carta Informativa*, June 1971).

[26] For a fuller treatment of these aspects, see the report by the UNCTAD secretariat "The role of multinational development institutions in the promotion and financing of economic integration among developing countries" (TD/114), (p. 165 below).

term economic considerations to play a larger role in the ultimate allocation of the institution's financial resources than would be possible in the case of *ad hoc* intergovernmental bodies composed of national officials, whose basic responsibilities consist of defending their respective countries' national interests vis-à-vis those of their partners. In contrast to the more distant regional and world-wide development financing institutions, the subregional ones are not only committed but are better equipped to make the time-consuming but necessary effort to deal with several Governments not necessarily pursuing the same policies at a time.

57. In order that subregional development banks or similar institutions may fulfil their role of helping the less developed partners in economic groupings to share the benefits of integration, they must take an active role in seeking out and preparing valid projects in these countries, rather than await project submissions from such countries. Experience has shown that, on account of their lower level of development, these countries generally find it difficult to muster the private and governmental initiative as well as the technical know-how required to prepare a fully substantiated project of major proportions. Moreover, the infrastructural needs of these countries are especially large, while returns on such investments cannot usually be commercially recouped, but are rather reflected in external economies spread throughout the economy in the medium and the long term. Subregional development banks or similar institutions must, therefore, be in a position to channel low-interest or interest-free loans to the less developed members of groupings for these purposes. Only to a slightly lesser degree, similar considerations apply to loans in the industrial and agricultural sectors in these countries, where the very infrastructural deficiencies (including the social and human infrastructure) discussed in the previous section make it virtually impossible to achieve yields equivalent to those obtainable from similar investments made in the more advanced members of the same economic groupings. Since subsidized supplies of capital ("soft-loan funds") in magnitudes commensurate with the task cannot easily be mobilized even in the more advanced developing countries, external support is indispensable if these financial institutions are to fulfil their primary responsibilities to the subregion they serve, and if they are not to limit their role to that of simple financial intermediaries between the bilateral and major multilateral purveyors of capital on the one hand and "bankable" national projects on the other.

58. Among subregional development banks or similar institutions specifically established to promote subregional integration, CABEI is the oldest (1960) and by far the most important in terms of resources disbursed. With total resources of $317 million (of which $279 million from external sources, mostly from the United States Government and IDB), CABEI had approved loans worth $271 million by the end of 1971, of which 27 per cent were allocated to projects in Honduras, the subregion's least developed country. CABEI's principal arm for infrastructural investments is the Fund for Central American Economic Integration, established in 1965, whose stated objective consists of "meeting those additional investment needs of the public sector which tend to promote and strengthen economic integration and equilibrated development in Central America". By June 1971 this Fund had resources approaching $150 million, which permitted it to channel 45 per cent of CABEI's total approved loans to infrastructural projects,[27] mostly in the field of transport and communications. In May 1970, CABEI began to organize an Agricultural Department with the appropriate technical resources, thereby taking a first step towards the closing of the major gap in its operational activities.

59. ADC, an institution akin to a subregional development bank, officially began operations in June 1970 with the participation of all signatories of the Cartagena Agreement plus Venezuela. Of its subscribed capital of $25 million, the two least developed participants contributed only $1.5 million each. For the sake of an equitable distribution of its resources, ADC is not obliged always to observe strict banking principles and may "favour projects of lesser priority or place these at non-optimal locations".[28] In pursuance of this policy, ADC's Executive Committee contributed $2.8 million to pre-investment studies and projects in Bolovia and Ecuador during its first full year of operations, as against less than $0.5 million for wider subregional studies.

60. The Caribbean Development Bank (Caribank) was established early in 1970 by the countries members of CARIFTA and some smaller British dependencies in the area, as well as Canada and the United Kingdom of Great Britain and Northern Ireland. Article 1 of the Agreement establishing the Bank states that one of its purposes shall be "... to promote economic co-operation and integration among them, having special and urgent regard to the needs of the less developed members of the region". Apart from its authorized capital of $50 million (of which 40 per cent has been subscribed by the United Kingdom and Canada), Caribank has organized a Special Fund initially reserved exclusively for investments in the less developed territories (defined as consisting of all members except Jamaica, Barbados, Guyana, and Trinidad and Tobago), which has received contributions of $20 million from the United States of America, the United Kingdom and Canada.[29] This amount has proved insufficient to meet the loan requests from the less developed areas, even though the Bank is not permitted under its statutes to finance infrastructural projects not directly linked to projects in the industrial, agricultural or tourism sectors. Exceptionally, the Bank is studying a port development project in the less developed East Caribbean area. In contrast to its practice in the more advanced islands, where all loans are channelled through the Governments, Caribank may assist private firms directly in the less developed areas and is planning to carry out industrial research with a view to encouraging local consortia there.

[27] If loans from CABEI's Ordinary Fund (made at harder terms than those from the Integration Fund) are included, 57 per cent of CABEI's total loan approvals went to infrastructural projects.

[28] Andean Development Corporation, *El Financiamiento del Desarrollo Industrial en el marco de la Integración Andina*, January-June 1971, p. 10.

[29] The Governments of the United Kingdom and Canada recently untied these contributions for procurement in Canada and the United Kingdom, respectively, and within CARIFTA as well as for the financing of local costs.

61. In Africa, EADB was created by EAC as part of its restructuring in 1967. The Bank is expected to carry a major share of the burden of promoting balanced industrial development within the Community. The two less developed members of the Community are to be favoured by the distribution key, according to which they will be entitled to 38.75 per cent each of the Bank's loan commitments, while Kenya will receive only 22.5 per cent. The Bank suffers, however, from (*a*) severe restrictions placed upon its lending operations, which virtually preclude loans outside the industrial sector (notably for infrastructural projects); (*b*) the meagreness of its resources,[30] and (*c*) the absence of a soft-loan window, which is particularly detrimental for the less developed countries.

62. The Mutual Aid and Loan Guaranty Fund of the Council of the Entente, which replaced the Solidarity Fund in 1966, has set as its purpose the guaranteeing of loans contracted abroad by private and public bodies in member countries.[31] Contributions to the Fund, whose total resources amounted to 2.7 billion CFA francs (about $10 million) in 1970, take into account the greater financial resources of the Ivory Coast, which has contributed almost 80 per cent of the total. On the other hand, the Ivory Coast committed itself not to request guarantees from the Fund during the initial five years of its operation, leaving the Fund's services to the exclusive use of the less advanced members of the Council. Although the Fund's own resources are invested outside the region, yields from these investments are available to finance minor operational activities, or spark larger ones. Moreover, the Fund provides a vehicle for channelling external resources towards investments benefiting its less developed members. Thus the United States Government helped the Fund in the financing of a regional road maintenance centre. Recently, financial support for a subregional transport programme was obtained from IBRD and the Canadian Government.

63. The role of the three large regional development banks (IDB, AfDB and AsDB) and of the World Bank Group in ensuring an equitable distribution of benefits to the less advanced members of regional groupings has made itself felt in various ways. The following policies are particularly noteworthy in this regard:

(*a*) The less developed among the developing countries have enjoyed priority access to the banks' soft-loan windows;

(*b*) These institutions have given priority to infrastructural projects which coincides with the order of priorities attached to such projects by the less developed countries themselves;

(*c*) Support for the subregional banks has permitted them to fulfil more effectively their function vis-à-vis the less developed members, as outlined above; [32] and

(*d*) A certain portion of these banks' technical assistance and feasibility studies have been multinational in scope and have covered less developed members of groupings.

64. While these particular policies tended to favour a more equitable distribution of benefits from integration, they cannot be said to form part of a deliberate policy in this direction. In fact, even the broader concept of integration was not the object of a comprehensive policy on the part of some of these institutions, even though the principle of harmonious regional development forms part of all the regional institutions' basic charters.

65. One step in the direction of a more deliberate integration policy would be to use the secretariats and specialized bodies of subregional groupings for the active identification of integration projects that cannot be financed through subregional development banks, with a priority attached to those located in the territories of less developed members of groupings. In this way, the World Bank Group and the large regional development banks would also help to bolster the technical expertise, and consequently the standing, of these subregional institutions within their own area.

66. The World Bank Group, with its long experience in the organization of consortia and consultative groups for the co-ordination of bilateral aid to individual recipient countries, might consider setting up similar consortia or consultative groups for groupings of developing countries along the lines of the consultative group for EAC that has operated under World Bank auspices.[33] Such consultative groups which could also be established by regional development banks would stimulate a regional approach to development both on the side of the donors and the side of the recipients. From the viewpoint of the less developed members of groupings, such consultative groups would provide a forum not now available for the joint consideration of their special needs within their economic grouping.

Chapter II

Harmonization of agricultural development

67. In the economic groupings of developing countries, the predominance of agriculture and the special characteristics of this sector give rise to different problems from those encountered in other sectors. These problems concern: (*a*) production; (*b*) trade liberalization and intraregional distribution and trade promotion; and (*c*) joint action vis-à-vis third countries.

A. Co-operation in production

68. Regional co-operation in production, whether for domestic consumption or for export markets, could lead not only to agricultural specialization but also to a more profitable use of technical facilities for production, research

[30] Out of the authorized capital of $56 million, member countries subscribed $33.6 million, of which only one half is paid in ($16.8 million). Of the latter amount only one-half is paid in convertible currencies ($8.4 million). Some external support ($3 million) has been received from AfDB, Yugoslavia and private sources elsewhere.

[31] Ivory Coast, Dahomey, Upper Volta, Niger and Togo.

[32] In the case of the World Bank, no commitments have been made yet in this direction, but general lines of credit for several subregional development banks are now under active consideration.

[33] A similar initiative was taken by the United States of America in connexion with its post Second World War European Recovery Programme, which led to the co-ordination of the recipient countries' economic policies within the framework of the Organisation for European Economic Co-operation, especially created for the purpose.

training and planning. Action at the regional level is, however, often limited by the desire to protect national products which provide employment for a large proportion of the population. Moreover, without previous or simultaneous efforts to harmonize basic agricultural conditions among the members of regional groupings, little if any progress will be made in intraregional trade.

69. In CACM, despite the new possibilities for specialization and the expansion of intraregional trade in agricultural products which have been opened up for the member countries, the lack of co-ordination in the preparation and execution of development programmes has resulted in duplication of effort. The region is also still importing from third countries large quantities of agricultural and livestock products which it could produce itself, given a suitable regional agricultural policy. Financially, CACM does not yet have the necessary resources to speed up the development of the agricultural sector at the regional level.[84] What is even more serious, the lack of a co-ordinated agricultural labour policy has led to uncontrolled migration, which was one of the sources of the tension that sparked off the crisis between Honduras and El Salvador in 1969.

70. In December 1971, the countries of the Andean Group adopted the broad lines of an agricultural integration programme, providing for the establishment of (*a*) joint development programmes for various products (including oils and fats, dairy products, meat and grains); (*b*) programmes of technical and financial assistance; and (*c*) co-ordination of national agricultural plans.

71. In LAFTA, the solution of short-term national problems seems to take precedence over the execution of programmes in which regional co-operation would be useful, if not indispensable, for long-term development. Moreover, the development of many marginal types of production despite the absence of favourable natural factors is restricting the possibilities of complementary production afforded by differences in climatic and ecological conditions.

72. Possibilities of complementary production among the member countries of CARIFTA are more limited because, generally speaking (*a*) the seasons vary very little in most of the islands and (*b*) the majority of the agricultural products can be grown throughout the subregion, although there are considerable differences in yield. Consequently, the unco-ordinated encouragement of domestic production might lead to the contraction or even to the elimination of trade within the subregion. In order to solve this problem, efforts are being made to plan the production of foodstuffs which can be cultivated in the region, thus making it possible to take advantage of the opportunities offered by the CARIFTA market and to substitute regional products for some extraregional imports which still account for a large proportion of the agricultural products consumed in the region. Attempts are also being made to develop the agricultural sector in the islands which do not have the necessary resources for diversification in other economic sectors.

73. The possibilities of exploiting economies of scale in the processing of agricultural products depend on the availability of a sufficiently large market, modern production and processing techniques, and qualified agricultural advisers. The achievement of economies of scale also calls for joint research to improve production methods through the development of new irrigation techniques, control of plant and animal diseases, and structural reforms. This kind of programme is difficult to carry out on a national basis, since many small countries, particularly the less advanced among them, lack the necessary technical and financial resources. The EAC has large joint organizations for agricultural, veterinary and forestry research as well as research institutes on fisheries and pesticides. These bodies have now reached a sufficiently high technical standard for (UNDP) to entrust them with the execution of some research projects in animal husbandry, fisheries and veterinary medicine. In CACM, too, regional research programmes in agriculture and animal husbandry have yielded useful results. Agricultural schools have given valuable assistance to the Central American and other Latin American countries in training and research. These examples show that regional action can help to solve the problem of the shortage of technical and managerial personnel in the agricultural sector, which, in most of the developing countries, is probably more seriously affected than other sectors. The establishment of institutions of the kind mentioned above would be particularly beneficial to the less advanced countries, since they would not be in a position to set them up themselves. They might also benefit even more directly as a result of the siting of such institutions in their territory.

74. Scientific and technical research is equally necessary for the production of export goods. The need for a continuous reduction in production costs and the development of new techniques for putting natural products facing competition from synthetics to different uses involve a heavy outlay of human and physical resources, which is beyond the capacity of a single country. Thus, the national cotton research institutes which exist in such countries as Egypt and India might co-ordinate their activities and give other countries an opportunity of taking part in them.

B. Co-operation in trade liberalization and in intraregional distribution and trade promotion

75. The liberalization of trade in agricultural products within regional groupings of developing countries is hampered by the importance of the agricultural sector to employment. By allowing prices to fluctuate in accordance with supply and demand, the establishment of free trade may lead to social upheavals in some countries and have adverse effects on traditional agriculture, thereby accelerating urbanization—already regarded as excessive in a number of countries—and shifting unemployment from the countryside to the cities.

76. Except in the case of some major traditional export products, the marketing difficulties most commonly encountered are due to the general inadequacy of the infrastructure. Access to regional, international and even national markets is often hampered by the lack of transport networks. Facilities for the conservation and storage of

[84] The operations of CABEI are currently confined to the financing of industrial, infrastructural and housing projects.

agricultural products are also generally inadequate. Furthermore, the various countries within the same region are poorly informed about the conditions prevailing in the different markets. Joint action could, however, enable the countries concerned to meet these problems.

77. Although the regional transport network in CACM has improved in the last few years, some joint measures have been taken to organize the markets for staple grains such as maize, rice and beans. Among other things, quality standards have been established, a market research service has been set up and dealings between national agencies have been encouraged. Storage centres have been or are being built in a number of countries in accordance with a plan for the regional distribution of such centres. A special protocol has been signed on grain marketing for the purpose of co-ordinating national pricing policies among the CACM countries. However, the progress of co-ordination has been slowed down by national problems of organization, financing and management, which limit the scope of the decisions taken by the regional market co-ordination and price stabilization body. Moreover, without control of production or at least the harmonization of production plans, no guaranteed price policy can achieve its objectives.

78. Almost 90 per cent of agricultural products are covered by the free-trade régime in CACM. Some products are subject to restrictions, either because the State wishes to protect the income of certain farmers or because the products concerned are traditional exports such as coffee, in respect of which each country is bound by an international agreement to adhere to a quota and refrain from placing additional quantities on the market. Liberalization of the trade in agricultural products has not caused any major difficulties in the member countries, no doubt because their level of agricultural development is fairly uniform and there is thus little difference in productivity and production costs.

79. In CARIFTA, a protocol on the marketing of agricultural products regulates trade in a large number of such products, most of which are perishable and some seasonal. Its operation has however, been hampered by inadequate transport facilities, a shortage of accurate market information, and supply difficulties resulting from the failure of production plans, coupled with seasonal fluctuations in production. Very few products are still subject to restrictions as between member countries, and such products will come under the free-trade system within a relatively brief period. However, as a result of the limitations inherent in the protocol, the volume of trade is still small.

80. In LAFTA and EAC, the discrepancies between domestic and foreign marketing practices make it very difficult to undertake the harmonization that is a prerequisite for any process of integration. In LAFTA, the liberalization of trade through commodity-by-commodity negotiations on "national schedules" and a "common schedule" has been too slow, and, as in the industrial sector, the number of concessions has decreased as the list of products on which preferences could be granted fairly easily has grown shorter. In addition, differences in productivity levels and agrarian systems, the lack of a common agricultural policy and the existence of marginal types of production have all played their part in slowing down the liberalization of trade in agricultural products. In order to increase that trade, the agricultural integration programme of the Andean Group countries provides for the establishment of a joint marketing system, the conclusion of supply agreements between State agencies and the promotion of exports.

81. In EAC, the member countries apply protectionist measures to various products of importance to their economies. Because of differences in their marketing policies, the member countries have to draw up lists of products (confinement goods) which can be traded only by State marketing boards or agencies. Despite these restrictions, trade in agricultural products has increased without detriment to the interests of the member countries, but these arrangements have compelled the States to extend the time-limits fixed for implementation of the provisions relating to the establishment of the common market. These provisions include, among other things, trade agreements between national marketing boards or agencies, a single price system, and the establishment of a common network of marketing services and facilities.

82. UDEAC seems to be the only grouping to have fully liberalized trade in all agricultural products. The Treaty of Brazzaville signed on 8 December 1964, contains only one safeguard clause which is designed to protect the consumer and the producer, but this clause, under which quotas may be fixed for trade in the event of a serious crisis and particularly of a shortage, has never been applied. Trade is, however, still very limited, mainly owing to the inadequacy of the transport and communications infrastructure.

83. In OCAMM, the African and Malagasy Sugar Agreement was signed in 1966 [35] following the denunciation by France of the arrangement under which the African sugar industries benefited from the French sugar plan and, in particular, from a guaranteed producers' price. The operation of the Agreement is based on an undertaking by the exporting members (Congo and Madagascar) to satisfy, at a guaranteed price and within the limits of export quotas, the demand of the importing members which, in their turn, undertake to give priority in their purchases to the exporting members, but the reluctance of some importing members to pay a fixed price above the world market price and the desire of a number of States to establish national sugar industries have impeded the application of the Agreement and even led to the withdrawal of Senegal at the end of 1970.

84. There is also a draft OCAMM meat agreement, the purpose of which is to ensure beef supplies for the importing countries and market outlets at stable prices for the exporting countries. The implementation of the project has, however, been postponed, as the agreement might threaten the supplies of countries like Senegal and the Ivory Coast, whose requirements are partly met by Mali and Mauritania, which are not members of OCAMM. It would therefore be desirable to make the agreement more flexible so that non-member countries of OCAMM

[35] Mauritius and Zaire are not parties to the Agreement.

could accede to it. However, in the Council of the Entente, whose members also belong to OCAMM, an economic livestock and meat community was set up in 1970 to improve the production, transport and marketing of livestock products. The relevant agreement gives non-member countries of the Council of the Entente the opportunity of participating in the community as associate members, thus overcoming the difficulty mentioned above which is hampering the efficient operation of the OCAMM meat agreement. Another possibility of increasing regional co-operation would be to conclude a meat agreement under the auspices of a reorganized Organization of the Senegal Riparian States,[36] and to provide for participation by its members, on either an individual or a collective basis, in the economic livestock and meat community of the Council of the Entente.

C. Joint action vis-à-vis third countries

85. Where sales in the developed countries' markets are concerned, joint action might help to reduce the often fierce competition among the developing countries themselves in those markets. Similarly, regional co-operation might facilitate the setting up of common distribution networks, the joint execution of market studies and the joint organization of permanent trade promotion activities in the developed countries' markets, all tasks which, because of their increasing cost and complexity, are beyond the capacity of a single country.

86. Various organizations have already been set up to deal with these difficulties on a co-operative basis, for instance, the Cocoa Producers' Alliance,[37] the Afro-Malagasy Coffee Organization[38] and the Maghreb Alfa Marketing Board.[39] The purpose of these organizations is to harmonize sales policies in the different markets, especially with regard to prices, to promote sales of their products and to establish common negotiating positions under international agreements where a single country may sometimes carry little weight vis-à-vis other producers and the major consumers in particular. Even if these organizations have been unable to attain all their objectives, the results do not seem to be negligible. In CACM, the Federation of Central American Sugar Associations has been made responsible for safeguarding the mutual interests of the national associations and for helping them to adopt a uniform approach in their negotiations with the United States Government. Thus far, however, the joint measures have been applied only to the extent that each producer has considered this to be in his own interests.

87. The member countries of ASEAN, in addition to participating in the Asian Coconut Community,[40] are co-operating closely with Ceylon and the Republic of Viet-Nam in the establishment of a joint rubber marketing system. Indonesia and Malaysia have also recently come to an agreement with India on the formation of a Pepper Community with similar objectives to those of the Asian Coconut Community.

Chapter III

Harmonization of industrial development

88. The harmonization of industrial development policies within the regional economic groupings of developing countries is generally hampered by problems in four areas: (*a*) the establishment of regional industrialization plans; (*b*) the selection and location of integration industries; (*c*) participation in regional industrial agreements; and (*d*) the procedures for negotiating and harmonizing other industrial policy measures.

A. Establishment of regional industrialization plans

89. Little significant progress has so far been made in regional industrial planning. This lack of success has its roots in the great difficulty that even a single country experiences in deciding on a long-term industrial plan involving both political and technical judgments on the feasibility and desirability of any given schedule of priorities and locations for regional industries.[41] The dovetailing of national industrial plans, which are themselves the product of complex internal compromises at the national level, into a coherent regional plan has so far eluded the planning bodies of the regional groupings, composed as they are of representatives of sovereign States, each with a veto right concerning decisions affecting its own industrial development. Moreover, the absence in most regions of sufficient entrepreneurial and financial resources to ensure the implementation of a hypothetical regional industrial plan reduces the incentive for striking a compromise, since countries are understandably unwilling to forgo the option of establishing given industries for which external financial and technical resources might become available in exchange for the right to establish other industries for which no such support is assured.

90. The method which has in fact been followed in almost all the regional groupings has therefore been to proceed project by project, or at most by series of projects. In this connexion, a group of experts has recently expressed the view that the technical difficulties encountered in formulating a regional industrialization strategy seem to point to the need to adopt a step-by-step approach instead of drawing up long-term strategies.[42] However, in practice, decision-making is not normally based on economic and technical criteria, but takes the form of *ad hoc* top-level political decisions. The viability of agreements of this kind is clearly doubtful, for the absence of such criteria can only lead to the failure of any attempt at longer-term industrial harmonization. The countries members of a grouping

[36] OERS was founded in 1968 by Guinea, Mali, Mauritania and Senegal. Following disputes between some of these countries, Senegal decided to withdraw from OERS in November 1971 in order to form a new grouping with Mali and Mauritania.

[37] Brazil, Cameroon, Ghana, Ivory Coast, Nigeria and Togo.

[38] Cameroon, Central African Republic, Dahomey, Gabon, Ivory Coast, Madagascar, Congo and Togo.

[39] Algeria, Morocco and Tunisia.

[40] For list of members, see annex II below.

[41] See Havelock Brewster, *op. cit.* (see foot-note 1) and *Trade expansion and economic integration among developing countries*... chap. V.

[42] See foot-note 21 above.

must therefore be in a position to formulate a regional industrial policy based on genuine economic principles and embodying clearly defined choices as regards participation and the selection and location of regional industries.

B. Selection and location of regional industries

91. The problem here is to determine which industries should be the subject of harmonization and what means should be used to avoid an over-concentration of industrial activities in certain zones of the economic grouping, particularly where there are economic imbalances among the different partners. Although it is relatively easy to identify integration industries by relating the size of national markets to the minimum capacities needed to guarantee effective operation, this cannot constitute the only basis for establishing a regional industrial policy or for determining the priorities of such a policy. As has been stressed,[43] co-operation should not be limited to establishing industries which will make it possible to achieve large economies of scale. In the case of a number of industries, even though the economies of scale may not be very significant, the possibilities of regional co-operation and specialization should also be taken into consideration before they are established, since this might lead to the exploitation of unutilized resources in one or more countries.

92. Each Government may have its own opinion on the most appropriate location for a specific project, an opinion not necessarily based solely on economic considerations, and this often leads Governments to adopt unilateral incentives to attract an industry. As has been pointed out on several occasions,[44] a Government's consent to the selection and location of a series of integration industries will therefore partly depend on how far a given industry might enable its country to exploit under-utilized factors of production (particularly labour). No country would be willing to commit itself in the long term if that meant that it had to forgo the possibility of carrying out a project at the national level, particularly if financing is available from foreign investors. Moreover, it would be difficult to accept the location of an integration industry elsewhere if that involved the elimination of an existing activity (or of the possibility of protecting it).

93. The experience of certain regional groupings of developing countries shows that it is difficult to reach agreements on the selection and location of integration industries. The industrial allocation system instituted in EAC by the Kampala Agreement of 1964, under which a specified country has the exclusive right to manufacture certain articles specified in a schedule approved by the legislative organs of the three member countries, proved to be fairly rigid as regards the choice and distribution of integration industries. With the passage of time, these questions have become a matter of political bargaining rather than of economic decisions. The main disadvantages of this type of agreement based on political bargaining are, firstly, that while it may be easy to arrive at an agreement by drawing up a schedule of industries, it is equally easy to contravene it as soon as an opportunity arises, since the absence of an economic rationale removes the danger of any effective constraints, and secondly, that the absence of economic criteria may lead to a lack of interest on the part of industrialists and potential investors. Even if the system of schedules were based on economic criteria, there would have to be enough real opportunities for investment to satisfy all the member countries during the initial period of co-operation or application of the integration agreement.[45]

94. In CACM, "integration industries" are defined as those comprising one or more plants which require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity. The procedure for allocating integration industries is fairly rigid. The system of allocating industries through rounds of negotiations also provides for legislative ratification of any decision taken on this subject. The rate of progress in the choice and distribution of integration industries thus depends on the speed with which the negotiations are concluded, and this in turn depends on the ability of each of the countries to submit valid projects. In view of the fact that the scope of the projects submitted often exceeds the technical means of the least developed countries in the grouping, these negotiations have made relatively slow progress and have resulted in the selection of only three integration industries, of which only two are at present in existence.

95. Within the UDEAC, the Treaty of Brazzaville provided for the classification of industries in five categories, depending on whether they were intended mainly for export or to serve the market of two, more than two, or only one State. Procedures for consultation and approval, which varied according to the categories, were established. But the discussion of the proposals submitted in 1968 for a general industrialization plan ended in deadlock. The member States were unable to reach agreement on the distribution among themselves of the projects studied by a mission of the European Development Fund. However, in December 1970, the Council of Heads of State instructed the secretariat to work out a new approach, the "Joint Industrialization Policy of the Union", which would be free of the formalism of the Treaty and should therefore be adapted to the actual conditions of development. A specific programme will be submitted to the Joint Industrialization Committee of the Union in May 1972.

96. The system governing the selection and location of integration industries in RCD appears to be more flexible than in CACM or EAC, in so far as it does not require legislative ratification of the choice made or the establishment of a list of integration industries. The Government or the private sector in one country may propose a project which concerns all three countries or two of them. The regional feasibility of the project is studied by one of the member countries and, after certain discussions in the competent RCD committee and the Regional Planning

[43] *Ibid.*

[44] See Havelock Brewster, *op. cit.*, chap. III, and *Trade expansion and economic integration among developing countries...*, chap. V.

[45] Since 1955, no industry has been added to the list and only a very minor portion of the industrial capacity created in EAC has made use of the licensing system (see Havelock Brewster, *op. cit.*, para. 75).

Council, the project and the results of the study are submitted to the Ministerial Council for approval. Under this system, about fifty joint-purpose enterprises have been approved. Apart from the flexibility of the system, the success of its operation is generally attributed to the willingness of the countries to co-operate.

97. The system of industrial co-operation in LAFTA also seems to be fairly flexible, in that no attempt is made to determine in advance which industries should be selected or to draw up a list of them. The initiative for proposing specific projects is mainly left to the private sector.

98. The most ambitious attempt at regional industrial planning at the present time is perhaps taking place in the Andean Group. In December 1970, the members of this grouping agreed on a list of products to be the subject of sectoral industrial development programmes at the subregional level which are to be approved at the end of 1973. This list includes a number of products which will permit import substitution in such sectors as iron and steel, industrial and agricultural equipment, pulp and paper, and optical and photographical appliances. In 1971, the Ministers of Trade and Industry decided to give priority to the development of the iron and steel, chemical, automobile, pesticide and fertilizer sectors.

C. Participation in regional industrial agreements

99. Apart from the difficulties of identifying and locating integration industries, certain problems may arise regarding the participation of the different countries members of a grouping in regional industrialization agreements. Some industrial integration agreements contain fairly rigid conditions, which must be respected by all the countries, and this often discourages co-operation in this field. The following questions therefore arise: to what extent should all the members of a grouping participate in industrial agreements; in what form should they participate in the financing of integration projects; what should be the period of these agreements; and what advantages should integration industries enjoy? Obviously, where regional markets are already fairly restricted, the establishment of some industries may not be possible unless all the countries participate in the project, but this is yet another reason for ensuring that the conditions applicable to integration industries are flexible.

100. In the LAFTA system, participation by all countries presents a problem, because some countries still lack a developed spirit of enterprise and, above all, because countries not participating in a project do not automatically enjoy the tariff concessions negotiated among the participants.[46] Consequently, most of the "complementarity" agreements have been signed only among the few large countries members of the Association.

101. The experience of CACM and EAC seems to indicate that it is difficult to require all the countries members of a grouping to participate in industrial agreements. The larger the number of countries, the greater the difficulty of arriving at an agreement. In contrast, the system of joint-purpose enterprises in RCD seems to be more flexible, in that agreements can be concluded either between the three countries, or between two of them. Thus it has been suggested that, in order to overcome the difficulties of multinational participation in regional industrial projects, the principle might be accepted that such participation should be the subject of *ad hoc* agreements for each project.[47]

102. Countries seem to be more prepared to participate in regional projects where the duration of the agreements is limited. Limited commitments might enable national development plans to be modified to an extent compatible with each country's attitude to regional development. They might also help to improve the quality and distribution of the products, since a producing country would make greater efforts in that direction in order to retain its regional market. In RCD, the commitments are generally for a period of five years, after which the countries participating in the agreement may re-negotiate it if necessary. In LAFTA, for example, the complementarity agreements generally have a duration of three years and may be denounced by any participating Government on the expiry of this period. However, this duration, which is much shorter than the period normally accepted for the amortization of equipment, seems to be sufficient to guarantee a return on the investments made on the basis of these agreements.

103. The deterioration in the terms of trade is one of the main sources of tension in the economic groupings of developing countries. To avoid this, it is explicitly provided in the RCD system of joint-purpose enterprises that the goods have to be supplied at internationally competitive prices and quality. However, given the heterogeneity of manufactured or processed goods, it is difficult to calculate a world price. Moreover, a country's capacity to supply goods at internationally competitive prices also depends, *inter alia*, on the size of the regional grouping, which, in the case of existing regional groupings, is generally small. The RCD system has the further disadvantage of not providing for regional tariff preferences, and this may mean that many possibilities of regional import substitution will remain unexplored. In the absence of preferences, it is also possible that private investors will be deterred if they have no assurance of the producers' ability to compete in the international market.

D. Procedures for negotiating and harmonizing other industrial policy measures

104. The process of regional industrial development requires effective negotiating procedures and instruments in view of the limited resources available and the importance of achieving satisfactory short-term results. Governments also have technical and financial difficulties which prevent them from making a detailed assessment of regional industrialization possibilities. Moreover, industrial policy measures, whether in the trade, customs, monetary or fiscal field, must be harmonized in order to ensure that the terms of competition between the enterprises of the various countries in the grouping are not distorted. Effective operation of integration industries also

[46] It should be noted, however, that the less developed LAFTA countries automatically enjoy the tariff concessions provided for under these agreements.

[47] See foot-note 21 above.

largely depends on the application of measures taken jointly by the countries members of a grouping. This means that there must be a consensus of opinion regarding national priorities and the interests of the region.

105. In EAC, for example, each country individually has adopted incentives to attract industry, and this complicates the problem caused by the fact that the national development programmes all have different durations and starting dates, thus making it difficult to harmonize priorities and national investment policies. In CACM, it is only fairly recently that the countries have approved common fiscal measures to encourage industry. In UDEAC, in order to avoid competition between the States in respect of fiscal or customs incentives for attracting new enterprises, a Common Convention on investments in the States of the Union was adopted in 1965. Within the framework of this Convention, the member States were to establish new national investment codes, but not all of them have yet done so.

106. The initiative is frequently left to Governments or to private bodies, which do not always take account of all the parties concerned. This is, for example, the case in EAC, CACM, and UDEAC, where private sector initiatives play a less important role in regional industrialization than in LAFTA. In RCD, too, the private sector takes little part in industrial initiatives because of the conditions imposed on industries of regional interest. In LAFTA, on the other hand, in which the private sector is the prime mover, the public sector, which includes a number of important basic industries, does not participate fully in sectoral meetings.

Chapter IV

Development of a regional infrastructure

107. Trade expansion and economies of scale can be achieved in the economic groupings of developing countries only if there is a transport and communications network which enables goods to be moved throughout the regional market. Similarly, the availability of energy and the establishment of telecommunications for linking producers and consumers in the regional market as a whole are decisive if the abolition of trade barriers is to have an effect on the rate of development of intraregional trade and community economic activities. So far, however, the inadequacy of the economic infrastructure has restricted co-operation efforts in many regional groupings of developing countries.

108. The joint carrying out of infrastructural projects may give the countries concerned an opportunity to intensify their co-operation in other fields. Examples of this are provided by OERS, the Committee for the Coordination of Investigations of the Lower Mekong Basin,[48] the Chad Basin Commission, the Niger River Commission and the River Plate Basin Treaty.[49]

[48] Khmer Republic, Laos, Republic of Viet-Nam, Thailand.

[49] For the list of the members of these three organizations, see annex II below.

109. The main problems occur in (*a*) planning; (*b*) management; and (*c*) the financing of infrastructural projects designed to strengthen regional links.

A. Planning problems

110. These problems quite frequently arise because of differences of views among the countries members of a regional grouping regarding the priorities to be established. Some countries are not willing to participate in large regional projects unless they are certain of securing immediate benefits at the national level, and this often delays the carrying out of such projects. For example, two countries will be more willing to co-operate in linking two important centres of economic activity by road or by rail than in establishing an economic infrastructure in common areas which are less developed.

111. When CACM was first established, Honduras was faced with a problem of this kind in connexion with a proposal to build a road link between its main port and a neighbouring country, while communications between that same port and the capital, the economic centre of the country, were still inadequately developed. The problem was only solved with the establishment of a regional plan for building 14 roads and with the provision of assistance by CABEI through the Fund for Central American Economic Integration, which made it possible to finance all the projects included in the plan. The two road links were, in fact, built because they were considered to be of regional interest, the construction of a communication link between the capital of Honduras and its main port also being in the interest of the other members of CACM.

112. While they by no means reject the principle of regional co-operation, countries are unwilling to embark on a regional infrastructural project because they consider that the volume of trade does not justify the investment and that the small national resources available should go to projects with a high national priority. At the same time, however, they experience difficulties in increasing their intraregional trade because of the inadequacy of the transport and communications network. This kind of difficulty occurs, for example, in RCD, where the small volume of trade did not seem to justify the investment of large national resources in the construction of a road and rail network; its construction only proved possible with extensive assistance from abroad. Similarly, a direct air link between the capitals of the three member countries of RCD was established only in 1969, as a result of a regional initiative. In the countries members of CARIFTA, the shortage of shipping is at present an obstacle to continued expansion of intraregional trade. But the carrying out of regional projects is still limited by the fact that most infrastructural projects are conceived in terms of national needs and financed by national bodies, often with bilateral external assistance. In ASEAN, greater co-operation between the Governments of the member countries in the field of shipping would be useful in order to achieve more advantageous freight rates within the sub-region, and to improve shipping services between the countries of the sub-region.

113. In addition to the difficulties encountered in establishing priorities for infrastructural projects, technical

problems also arise, firstly, in carrying out a detailed joint study of a regional project and assessing its possibilities and advantages and, secondly, in harmonizing the project with national plans, which are normally drawn up independently of regional projects.

114. Although such technical problems can be overcome through international assistance, the countries members of a grouping must still be able to establish a number of common criteria to serve as a basis for formulating regional infrastructural plans, carrying out infrastructural projects and making the necessary changes in the national plans already drawn up. The establishment of an economic infrastructure in the economic groupings of developing countries thus entails planning at the regional level, the success of which depends on agreement between the different countries on the aims to be pursued, the methods to be employed and the priorities to be established. Within the framework of the River Plate Basin Treaty, for example, the Salto Grande hydroelectric project was delayed, not because of major technical problems, but because of a divergence of views among the countries participating in the project with regard to the priorities to be established.

115. In some cases, too, inadequate co-ordination between regional and national studies during the preparation of infrastructural projects may have the effect of invalidating the regional studies. Co-operation in the exploitation of hydraulic resources in CACM was slowed down because, among other reasons, the national electrification bodies did not participate fully in preparing the projects, and this led to incompatibilities between the national and the regional projects.

116. Agreements on the economic infrastructure are also extremely important for land-locked countries. In Africa, for example, most of the transit facilities available to the 13 land-locked countries are granted under special bilateral agreements concluded with the coastal States; as a result of integration plans, a number of these countries now have easier access to regional or extra-regional markets. Thus the East African Community includes the East African Railway Corporation, which is jointly owned by the three member countries; this railway company links Uganda with the seaports of Mombasa (Kenya) and Dar-es-Salaam (United Republic of Tanzania) at preferential rates. The East African Airways Corporation also belongs to the three countries and is jointly managed.

B. Management problems

117. Difficulties may arise in a regional grouping when the management of certain common services—often legacies of the colonial era—is neglected in favour of national services. Problems of this kind arose in UDEAC, where the difficulties of transport and telecommunication between the main centres of the region constitute a major obstacle to industrial development. Originally, this grouping, which replaced UDE, was established around the "Trans-Equatorial Route", which consists of the following links: Pointe Noire-Brazzaville by rail ("Congo-Océan"), Brazzaville-Bangui by river and Bangui-Fort-Lamy by road. When they acceded to independence, the member States preserved the joint management of this communications network by establishing the Trans-equatorial Communications Agency, in which the profits from "Congo-Océan" were used to maintain the roads channelling the traffic of the four countries to that railway. However, during the first years of the Union's operation the member States concentrated their efforts on national problems and somewhat neglected inter-State links. Consequently, ATEC was dissolved in 1969.

118. Crises have arisen in air transport because one or several member countries have been dissatisfied with the management of joint enterprises. Such crises have occurred, for example, in Air Afrique, which is a striking example of co-operation among African countries in a specific field.[50] In 1971 Cameroon, dissatisfied with the company's administrative structure, decided to withdraw and to set up its own air transport company, with all that that implies in terms of new investment. The Central African Republic has also announced its withdrawal from Air Afrique. Various management problems have arisen in the East African Airways Corporation, whose growing deficits can only be covered by contributions from the member countries of EAC and in particular from the most developed countries of the sub-region.

C. Financing problems

119. Investment in the infrastructure also requires considerable financial resources, which the developing countries do not always have at their disposal. Thus, a regional solution to most of these infrastructural problems would often clearly be more effective, at least as far as the provision of energy, telecommunications and vocational training are concerned, since it would make it possible to avoid a duplication of projects. Moreover, the co-ordination of national efforts would make it possible to overcome certain technical limitations which could not easily be surmounted at the national level, in particular the shortage of qualified personnel. Similarly, regional co-ordination would make it easier to secure foreign financial assistance, which is hard to obtain for strictly national projects often ineffective.

120. For example, in carrying out a number of technical studies, the administrative secretariats of the Chad Basin Commission and the Niger River Commission received bilateral assistance (mainly from France, the Netherlands and the United States of America) and multilateral assistance (from UNDP, EDF and ECA). Similarly, substantial external financial and technical assistance has been provided for the Mekong project for the development of the lower basin of the Mekong river. In CACM, the Central American road plan and the regional telecommunications network were financed by means of contributions from CABEI through the Fund for Central

[50] Its capital was subscribed by the 12 founding States of OCAMM in the proportion of 6 per cent per country, the remaining 28 per cent having been put up by a French air transport development company. The company, whose headquarters is at Abidjan, operates international lines from the member countries and lines linking those countries. In ten years it has greatly expanded its operations and, in terms of its network and turnover, has become one of the leading African air companies. In 1970 Air Afrique, with the participation of the member countries, set up HOTAFRIC, a hotel company for the development of tourism in West Africa.

American Integration. The Fund, which was established in the Bank on the basis of equal contributions from the member countries and a fairly large contribution from abroad, finances 100 per cent of the expenditure relating to infrastructural projects.

Chapter V

Coexistence of different economic systems

121. The coexistence of countries with different economic systems within the framework of a single economic co-operation agreement (e.g. where a regional economic grouping of developing countries is made up of both market-economy countries and countries with centrally planned economies) raises a number of special problems, which will be more or less difficult to solve depending on the degree of incompatibility which may exist between the various means to be employed for attaining the desired common goal. These problems are additional to those which affect groupings of countries with more homogeneous economic systems and which have already been discussed in the preceding chapters.

122. It is true that, in varying degrees, most developing countries belonging to a regional grouping have introduced measures of public intervention in the economy, particularly as regards the import system or industrial investment policy. This applies to groupings of developed countries as well as to groupings of developing countries. In fact, there are no clear-cut differences in the economic approach characterizing the member countries of regional groupings which would make it possible to place some of them in the category of market-economy countries *stricto sensu* and others in the category of centrally-planned-economy countries.

123. This being said, there are regional groupings of developing countries in which some members have economic systems tending towards centralization while others, on the contrary, largely base their economic policies on the free play of market forces. In the case of EAC, for example, the United Republic of Tanzania is moving steadily towards the establishment of a centrally planned economy, whereas Kenya may be generally described as a market-economy country. Similarly, in the Arab Common Market,[51] Egypt, the Syrian Arab Republic and Iraq have, to a greater or lesser extent, incorporated elements of a centrally planned economy in their economic systems, whereas the economic system of Jordan is essentially based on its private sector. The economic systems in the Andean Group are fairly homogeneous, but Chile is tending to introduce elements of centralization.

124. In such cases, it will obviously be necessary to adopt a different approach from that used for regional integration programmes covering countries with more homogeneous economic systems so as to meet the problems which might result from the use of incompatible mechanisms and measures. With regard to industrial co-operation, for example, countries with centrally planned economies might be reluctant to accept private enterprises as partners in regional industries. On the other hand, market-economy countries might consider it to their disadvantage to use tariff policy (in terms both of the removal of customs duties within the region and the determination of the common external tariff) for the purpose of increasing intra-regional trade, since the effectiveness of tariff measures for this purpose would be limited because of the intervention in foreign purchases and sales by the public authorities that is standard practice in countries with centrally planned economies; it would therefore be necessary for these countries to grant their market-economy partners compensatory advantages equivalent in effect to those arising from tariff preferences. Difficulties might also be encountered in connexion with the role which external financial resources should play within the enlarged market. The countries with centrally planned economies might insist that the participation of private foreign capital should be subjected to very strict regulations, whereas the market-economy countries would try to offer more flexible conditions in order to attract such resources.

125. Reconciliation of these frequently contradictory conditions is not an easy task. There are situations in which trade liberalization cannot be achieved by market mechanisms either because the State directly controls trade or because countries have payments difficulties. It should, however, be noted that, in such cases, State trading may be a useful instrument for increasing the volume of trade. Certain techniques have already been used within the framework of GATT in order to find solutions to these problems. Although to a lesser extent, obstacles may also be encountered in other fields, such as the harmonization of regional industrial investment policies. Detailed studies of these matters are therefore required so that the problems encountered may be examined and appropriate practical solutions found.

126. It will thus be necessary to work out measures which are mutually acceptable within the context of the general economic policy of each country member of the grouping and which are capable of facilitating the integration of the region while having equivalent effects for all members, due allowance being made for their degree of development.

[51] For the list of members of this organization, see annex II below.

ANNEXES

ANNEX I

Table showing intratrade of developing countries,[a] 1960-1970

Exports to: / *Exports from:*	*Value (million dollars)*				*Share in total exports (per cent)*				*Annual growth rate (per cent)*		
	1960	*1968*	*1969*	*1970*	*1960*	*1968*	*1969*	*1970*	*1960-1968*	*1969*	*1970*
					In own region or grouping						
Latin America[b] . . .	680	1440	1600	1700	8.6	12.2	12.5	12.2	9.7	11.1	6.2
of which:											
LAFTA [b]	564	999	1206	1254	8.5	10.7	11.7	10.6	7.4	20.7	3.9
(Andean Group) .	(40)	(60)	(84)	(109)	(2.5)	(2.2)	(2.9)	(3.3)	(5.2)	(40.0)	(29.8)
CACM	33	247	250	286	7.5	26.0	25.7	26.1	28.8	1.2	14.4
Africa	413	706	782	872	7.7	7.2	6.8	6.8	6.9	10.7	11.5
of which:											
UDEAC [c] . . .	3 *	16 *	21 *	. .	1.7 *	4.0 *	4.6 *	. .	23.2 *	31.2 *	. .
EAC	63	116	122	142	14.6	17.1	16.8	17.3	7.9	5.2	16.4
Maghreb	39	33	43	. .	4.4	1.0	1.1	. .	−1.8	30.3	. .
South and East Asia	2100	2530	3080	3080	27.5	22.6	23.8	21.7	2.3	21.7	0.0
West Asia	355	610	660	620	8.3	6.9	7.0	6.2	7.0	8.2	−6.1
Rest of world . . .	95	165	185	190	6.0	7.3	7.4	7.3	7.2	12.1	2.7
of which:											
CARIFTA . . .	27	52	66	. .	5.0	5.9	7.2	. .	8.6	26.9	. .
Interregional arrangements:											
RCD	36	63	70 *	. .	2.3	2.0 *	2.0 *	. .	7.2	11.1 *	. .
Tripartite Group .	141	159	206	. .	5.7	4.4	5.1	. .	1.5	29.5	. .
All developing countries	3643	5451	6307	6462	13.6	12.4	12.8	12.1	5.2	15.7	2.5
of which:											
All groupings shown above. .	906	1685	1984	. .	6.9	7.6	8.1	. .	8.1	17.7	. .
					With all developing countries						
Latin America [b] . .	882	1992	2092	2211	11.2	16.9	16.3	15.8	10.7	5.0	5.7
of which:											
LAFTA [b]	755	1352	1710	. .	11.4	14.5	16.6	. .	7.5	26.5	. .
(Andean Group) .	(149)	(248)	(304)	(. .)	(9.4)	(9.1)	(10.4)	. .	(6.5)	(22.6)	. .
CACM	44	309	305	339	10.0	32.5	31.4	30.9	27.3	1.3	11.1
Africa	743	1166	1292	1432	13.8	11.8	11.3	11.2	5.8	10.8	10.8
of which:											
UDEAC [c] . . .	15 *	69 *	82 *	. .	7.9 *	17.4 *	17.9 *	. .	21.0 *	18.8 *	. .
EAC	150	266	274	314	34.8	39.2	37.7	38.2	7.4	3.0	14.6
Maghreb	93	114	145	. .	10.6	3.4	3.8	. .	2.6	27.1	. .
South and East Asia	2630	3330	4020	4060	34.5	29.7	31.1	28.6	3.0	20.7	1.0
West Asia	930	1710	1920	1900	21.8	19.5	20.5	19.0	7.9	12.3	−1.1
Rest of world . . .	315	320	360	365	19.9	14.2	14.5	14.1	0.1	12.5	1.4
of which:											
CARIFTA . . .	69	176	184	. .	12.7	20.0	20.0	. .	12.3	4.5	. .
Interregional arrangements:											
RCD	364	726	783 *	. .	23.4	23.5	22.8 *	. .	8.9	7.8 *	. .
Tripartite Group .	692	676	771	. .	28.3	18.6	19.0	. .	−2.2	14.0	. .
All developing countries	5500	8518	9664	9968	20.6	19.4	19.7	18.6	5.6	13.4	3.1
of which:											
All groupings shown above. .	2182	3688	4254	. .	16.7	16.6	17.3	. .	6.8	15.3	. .

Source: UNCTAD secretariat, based on: United Nations, *Monthly Bulletin of Statistics*, June 1971; *Yearbook of International Trade Statistics, 1968* (United Nations publication, Sales No. E.70.XVII.11); IMF-IBRD, *Direction of Trade*, various issues; ECLA, "The process of integration among the CARIFTA countries" (E/CN.12/886); Office statistique des communautés européennes, *Commerce extérieur, 1970*, vol. II. United Arab Republic, *Foreign Trade* (Cairo, July 1970); Statistical Service of Barbados, *Overseas Trade 1969* (Barbados, 1970).

NOTE. The following symbols are used in the above table:
Two dots (. .) indicate that information is not available;
An asterisk (*) indicates that estimations are based on imports reported by partner countries.

[a] The definition of "Developing countries" corresponds to the one adopted by the Statistical Office of the United Nations for Economic Class II.

[b] Exports of Venezuela to Netherlands Antilles and Trinidad and Tobago are excluded, since they consist essentially of crude petroleum to be refined for subsequent re-export.

[c] Figures for 1960 are not directly comparable with those of 1968-1970, owing to improved reporting procedures.

ANNEX II

List of organizations for economic co-operation among developing countries (in addition to the United Nations regional economic commissions and the various regional development banks) showing membership

Latin America

Latin American Free Trade Association (LAFTA)
Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

Permanent Secretariat of the General Treaty on Central American Economic Integration (Central American Common Market—CACM)
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

Central American Bank for Economic Integration (CABEI)
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

Cartagena Agreement (Andean Group)
Bolivia, Chile, Colombia, Ecuador, Peru

Andean Development Corporation (ADC)
Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela

Caribbean Free Trade Association (CARIFTA)
Barbados, Guyana, Jamaica, Trinidad and Tobago, Antigua, British Honduras (Belize), Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent

East Caribbean Common Market (ECCM)
Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent

Caribbean Development Bank
Members from the Caribbean subregion are: Antigua, Barbados, Bahamas, British Honduras (Belize), British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Trinidad and Tobago and Turks and Caicos Islands

River Plate Basin Treaty
Argentina, Bolivia, Brazil, Paraguay, Uruguay

Africa, south of the Sahara

African, Malagasy and Mauritian Common Organization (OCAMM)
Cameroon, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, Zaire

Customs and Economic Union of Central Africa (UDEAC)
Cameroon, Central African Republic, Congo, Gabon

Council of the Entente
Dahomey, Ivory Coast, Niger, Togo, Upper Volta

Organization of the Senegal Riparian States (OERS)
Guinea, Mali, Mauritania, Senegal

East African Community
Kenya, Uganda, United Republic of Tanzania

East African Development Bank
Kenya, Uganda, United Republic of Tanzania

Chad Basin Commission
Cameroon, Chad, Niger, Nigeria

Niger River Commission
Cameroon, Chad, Dahomey, Guinea, Ivory Coast, Mali, Niger, Nigeria, Upper Volta

North Africa and West Asia

Council of Arab Economic Unity
Egypt, Iraq, Jordan, Kuwait, Syria, Sudan, Yemen

Arab Common Market
Egypt, Iraq, Jordan, Syrian Arab Republic

Permanent Consultative Committee of the Maghreb
Algeria, Morocco, Tunisia

Regional Co-operation for Development (RCD)
Iran, Pakistan, Turkey

South and East Asia

Association of South-East Asian Nations (ASEAN)
Indonesia, Malaysia, Philippines, Singapore, Thailand

Asian Coconut Community
Ceylon, India, Indonesia, Malaysia, Philippines, Thailand

THE ROLE OF MULTINATIONAL DEVELOPMENT INSTITUTIONS IN THE PROMOTION AND FINANCING OF ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES

Report by the UNCTAD secretariat *

[*Original text: Spanish*]

CONTENTS

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Introduction

1. The Concerted Declaration on trade expansion, economic co-operation and regional integration among developing countries (declaration 23 (II)) adopted by the United Nations Conference on Trade and Development at its second session, embodied the consensus of the international community on the potential of economic co-operation among developing countries as a growth strategy to unite their action and expand consumer markets to a size more in consonance with the requirements of modern technology, thus facilitating progress through rationalization and specialization of production. In that instrument the developed market-economy countries declared that "they are prepared to support, in the allocation of their financial and technical assistance, initiatives in regional co-operation instituted by the developing countries".[1] The socialist countries of Eastern Europe declared that "following the appropriate principles by which the socialist countries are guided in that respect, they are ready to extend their support to the developing countries". Similar commitments are to be found in the International Development Strategy for the Second United Nations Development Decade.[2]

2. The present study seeks to analyse the experience of the principal multilateral agencies which have been used to channel financial and technical resources in support of regional and subregional programmes of trade expansion, economic co-operation and regional integration among developing countries with a view to identifying appropriate methods of co-operation and policy in order that those agencies may play a more active part in that area than they have in the past.

3. In examining this experience it should be borne in mind that the financing of regional programmes and projects has complex features which are not present in conventional financial operations based on national investment projects, since regional projects, whether they are situated in a single country or in several, require the express or tacit consent and in many cases the co-operation of the countries involved in them.

* This report was circulated to the Conference as document TD/114 dated 8 March 1972 and TD/114/Corr. 1 dated 30 March 1972.

[1] This declaration is followed by a broad list of possible fields for action including assistance to regional and subregional banks and bilateral aid to countries members of groupings which have embarked upon a process of integration.

[2] See paras. 39 and 40 of the International Development Strategy for the Second United Nations Development Decade.

4. It should be noted that the definition of "regional" projects is still a matter of considerable controversy. For the purposes of this study and in order to restrict the discussion to a uniform conceptual framework, regional projects will be deemed to be projects which not merely contribute to the attainment of certain national objectives in the country in which the investment is made but also contribute to the complementarity or the economic interdependence, or both, of that country with one or more other countries with which it shares a common objective, regardless of its scope (it may be a free trade area, a customs union, a common market or some agreement between two or more countries at the project or sector level). Regional projects will therefore be deemed to mean projects: (*a*) whose viability requires the co-operation of two or more countries in a region or subregion, whether in terms (i) of market, (ii) of production factors, or (iii) of financing research and training services; or (*b*) whose execution depends on the use of material resources situated in two or more countries or which strengthens communication links between the countries of a region or subregion; or (*c*) which contribute to co-ordination of the economic policies of two or more countries in a region or subregion, or (*d*) enable a relatively less economically developed country to make greater use of the opportunities proffered by the system of co-operation to which it belongs.[3]

5. Furthermore, the attitude of a particular country with regard to regional projects will depend to a large degree on the existing and potential relative extent of its economic relations with the grouping to which it belongs, and, among other factors, on the degree of development and the size of the national market in relation to the regional market, the state of the country's balance of payments, and the competitivity of its domestic production and exports in relation to the grouping and to third countries.

6. These factors also affect the weighting of the objectives of the relevant scheme of economic co-operation for a particular country; and again, they reflect the priority assigned to them by the country as objectives of national policy. In other words, the priorities of regional development do not necessarily coincide with national priorities. Consequently the execution of a given regional project —which by definition benefits all the countries involved as a whole—may be regarded with indifference by some of the countries in the group, even though it may be a high priority for one or more of the group's members.

7. Hence national priorities must be brought into line with the priorities of the grouping as a whole as characterized by the financing of regional projects, which therefore in each case requires express or tacit accords or agreements between the countries involved. This characteristic likewise determines the need to adopt special methods of financing—which include the direct promotion of projects—and the adaptation of conventional practices to these circumstances.

[3] In order to contribute to the regional balance, ADC treats as regional projects national projects of Bolivia and Ecuador which may have an important effect on the economic development of those countries. Likewise, the Board of Governors of CABEI has declared projects situated in Honduras and regarded by the Government of that country as warranting priority eligible for financing.

8. For various reasons, emphasis has been placed in the past on the desirability of channelling a larger proportion of development financing through multinational bodies.[4] There is even more justification for this type of financing when it relates to regional projects which require for their preparation arduous consultations, careful studies and complex preliminary promotion work, preferably on the basis of non-reimbursable technical assistance, while their execution in many cases requires concessionary type financing.

9. An examination of credit activities by the developed countries shows that they made a large contribution to the expansion of trade, economic co-operation and regional integration of the developing countries, mainly through the multilateral financing agencies. The present document presents a brief comparative study of these agencies with the object of identifying areas for possible action by the international community in support of economic co-operation among the developing countries and seeing how these agencies can devise more flexible and more effective policies.

Chapter I

Multilateral financing of economic co-operation

10. The following table summarizes the financing supplied by the principal multilateral development agencies for regional projects.

[4] See especially *Partners in Development: report of the Commission on International Development* (London, Pall Mall Press, 1969), chap. II.

TABLE 1

Accumulated commitments for regional projects

(Million dollars) [a]

Institution	*Resources committed for regional projects*	*Regional financing as percentage of total*	*Start of operation*
World Bank Group [b]	260.0	1.7	
of which:			
IBRD/IDA	245.9	1.5	1946-1949
IFC	14.1	2.4	1956
AfDB	13.75	34.4	1966
AsDB	—	—	1966
IDB	682.0	14.5	1961
CABEI	255.73 [c]	91.5	1961
ADC [d]	6.11	100.0	1970
CARIBANK [e]	4.7 [f]	100.0	1970
EADB	9.2 [g]	85.0	1968
Kuwait Fund	108.4	47.5	1964

Sources: Annual reports (December 1970) of AsDB and EADB; IDB, Annual statistical report *El BID y la Integración*, 31 December 1971; CABEI and AfDB reports of 30 June 1971; information supplied directly by IBRD, CARIBANK, ADC and the Kuwait Fund.

[a] The exchange for the U.S. dollar on 1 December 1971 has been used.

[b] Compared from 1955 (the year of the first integration loan) to October 1971.

[c] Excluding housing projects amounting to $23.7 million.

[d] To October 1971.

[e] To November 1971.

[f] Loans to less economically developed countries members of CARIFTA.

[g] Excluding agricultural projects.

TABLE 2

Accumulated commitments for regional projects in Latin America

(Million dollars)

Financial institution	*World Bank Group*	*CABEI*	*IDB*	*ADC*	*CARIBANK*	*Total*
Subregion						
LAFTA	23.3	—	579.89	6.11	—	609.30
of which:						
Andean Group	23.3 [a]	—	146.89 [a]	6.11	—	176.30 [a]
CARIFTA	—	—	— [b]	—	4.70	4.70
CACM	—	255.73 [c]	102.01	—	—	357.74 [c]
TOTALS	23.3	255.73 [c]	682.0	6.11	4.70	971.74

Sources: See table 1.

NOTE. The figures in this table do not include bilateral financing by developed countries.

[a] The financing granted to the Andean Group is included in the calculation for LAFTA as well, since the former is a subregion of the latter. This duplication is eliminated, however, in the totals.

[b] IDB technical assistance to CARIFTA has not been broken down, in view of the small amount involved.

[c] This figure includes the use of part of the loans amounting to $62.2 million channelled by IDB through CABEI.

Chapter II

The operational scope of the multilateral financing agencies

11. A factor determining the volume of the regional and subregional financing committed by the multilateral development institutions is the degree of development of the economic integration processes in the regions which the institutions serve.

12. As can be seen from table 2, Latin America, whose economic integration process began more than ten years ago, is the area where the largest volume of regional project financing has been carried out. Parallel to LAFTA and CACM, which together cover more than 90 per cent of the whole Latin American region, CABEI and IDB were established, both of them agencies which have played a cardinal role in this field. This process has grown more intensive in recent years, with the establishment of the Andean Group and CARIFTA, which coincided with the establishment of ADC and CARIBANK, set up for the precise purpose of financing and furnishing technical assistance to these subregional groups.

13. In Africa South of the Sahara, where the process of European decolonization came to a head some ten years ago, the emergence of integration groupings is a relatively new development, except for EAC and UDEAC, which inherited their integration from the colonial period and have maintained it. It is easy to see why the bulk of financing for regional projects in this region has been concentrated precisely in these two subregions, followed by the countries members of the Council of the Entente and OERS, of more recent formation. It should also be noted that so far only two regional or subregional development banks are contributing to the financing of projects of this type in the African region: EADB and AfDB, both established in 1967. The main development work of the Mutual

TABLE 3

Accumulated commitments for regional projects in Africa and the Middle East

(Million dollars)

Financial institution	*World Bank Group*	*ADB*	*EADB*	*Kuwait Fund*	*Total*
Subregion					
EAC	166.4	8.3	9.2	—	183.9
Countries of the Council of the Entente	0.5	0.45	—	—	0.95
LAS	—	—	—	108.36	108.36
OERS	24.8	—	—	—	24.8
UDEAC	35.0	—	—	—	35.0
TOTALS	226.7	8.75	9.2	108.36	353.01

Sources: See table 1.

NOTE. The figures in this table do not include bilateral financing by developed countries.

Aid and Loan Guaranty Fund used by the countries of the Council of the Entente, because of its limited purposes (chiefly to guarantee loans obtained by the participating countries) is confined to studies of regional interest. The regional projects of the Arab countries have been financed mainly by the Kuwait Fund, which has committed almost 50 per cent of its loans for this purpose, thus contributing to the financing of projects which in turn contribute to several co-operation programmes involving countries of North Africa and the Middle East.

14. Asia, although its population is larger than that of Latin America and Africa combined, has only two subregional economic co-operation schemes, ASEAN and RCD;[5] while AsDB, the sole regional financing institution in the area, has granted no financing for regional projects so far, though in the course of its technical assistance activities it does manage actively to contribute to the formulation of regional and subregional multinational projects, especially in South-East Asia.[6]

15. The World Bank, too, with its membership of 115 countries from all regions, has devoted funds to the financing of regional projects, although those operations were not based on an explicit policy of promoting integration. Such was the case, for example, of the credits totalling $162.3 granted to EAC for the financing of the latter's common infrastructural services, and the financing of infrastructure projects in UDEAC and OERS. On the basis of the experience obtained in financing regional infrastructure projects, the World Bank and its affiliates might well extend their operations to other sectors in the same field and intensify their efforts in the sectors already financed.

16. It may be deduced from the foregoing that there is a close correlation between the absorption of external financial resources by regional projects and the progress of the process of regional or subregional co-operation involved. Thus, it may be noted that the subregional banks established for the precise purpose of financing integration groupings have committed a large proportion of their loans to projects of this kind. Among the regional banks, IDB, which serves a region in which almost all the countries are associated with one or another economic grouping, has financed projects of this kind to an amount in excess of $500 million. AfDB, another institution operating at the regional level, has provided notable financing for this type of project amounting to more than 30 per cent of its total loans, in particular by making use of EAC and other programmes for co-operation among its member countries. On the other hand, AsDB, operating in a region which so far has only economic co-operation programmes of limited scope, has devoted its resources almost wholly to the financing of national projects.

Chapter III

The resources of the multilateral financing agencies

17. Another determining factor in the operational capacity of the multilateral development institutions is the amount of their resources and this, in turn, depends on the number and nature of the member countries, the region served by the institution and the purposes for which it was established.

18. As can be seen in table 4, the institutions examined differ greatly with regard to the volume of the funds they handle and the rules under which they operate.

[5] There are also bilateral co-operation agreements between Indonesia and Pakistan and between India and Ceylon.

[6] It is hoped that through IBRD AsDB may play an important part as the executing agency for 15 agricultural projects in the Lower Mekong Basin to be financed by a fund of $2 million contributed by UNDP and various bilateral sources.

TABLE 4
Number of members and composition of funds
(Million dollars)

Institution	*Number of members*	*Authorized capital*	*Paid up capital and transfers*	*Other regular resources*	*Special funds*
IBRD[a]	115	27,000.0	23,207.0	5,424.2	
IDA[a]	107				3,564.9
IFC[c]	95	110.0	107.0	442.2	
AfDB[b]	34	250.0	218.8	—	—
AsDB[c]	35	1,100.0	1,004.0	38.1	127.5
IDB[c]	23	5,150.0[e]	4,702.0[e]	915.1	4,437.9[e]
CABEI[a]	5	60.0	40.0	143.4	160.0
EADB[c]	3	56.0	36.6	—	—
CAF[b]	6	100.0	25.0	—	—
CARIBANK[b]	18	50.0	50.0	—	20.0
ASEAN Fund[c]	5	—	—	—	5.0
Entente Fund[c]	5	—	—	—	11.0
Kuwait Fund[d]	1	560.0	—	—	—

Sources: See table 1.
[a] At 30 June 1971. [b] At 31 October 1971. [c] At 31 December 1970. [d] At 31 March 1971.
[e] Including the increase in the regular capital and the *Fondo de Operaciones Especiales* approved on 31 December 1970, payable from 1971.

19. Among the agencies operating at the world level, one with a particularly large volume of resources is the World Bank Group. Most of its resources, however, are lent at conventional rates of interest and on conventional terms. IFC, whose available resources amounted to almost $550 million at the end of 1970, also carries out transactions of this kind, while IDA, which has made soft loans totalling more than $3,500 million, generally finances projects in countries at a low level of economic development or projects which are not profitable in the short term. The bulk of the capital of the World Bank Group has been provided by the developed member countries, so that the latter also hold the majority of the votes.[7] Nevertheless, the fact cannot be ignored that since the developed countries retain the right to dispose of the use of their funds, this has made it easier for this agency to attract resources and that this has brought it increasing inputs of capital and transfers, and its bond issues have had first call on the capital markets of the developed countries.

20. Among the regional bodies, IDB had authorized resources amounting to $5,150 million and special funds amounting to almost $4,500 million at the beginning of 1971. AfDB, on the other hand, has an authorized capital of $250 million and has not succeeded so far in setting up a special fund for providing financial assistance on concessionary terms. The United States of America is a member of IDB. There are various reasons for this institution's success in collecting the large resources it handles; its establishment coincided with the emergence of the Latin American regional and subregional co-operation movement and with the start of a programme of massive assistance to Latin America by the United States. Its policy of not issuing bonds in excess of the capital which the United States can be called upon to pay on demand has ensured for its bond issues a prime rating. Another contributing factor has been the adoption of a policy under which only those non-member countries which have contributed directly or indirectly to the financing channelled through IDB may tender for the supply to projects of goods and services to be acquired with IDB funds. This is how the European, Japanese and Canadian financing handled by the institution has been guaranteed and therefore attracted.

21. The experience of AsDB, whose membership includes developed countries in the Asian region, North America and Europe, has been similar to that of IDB. This bank has authorized resources amounting to $1,100 million and special funds amounting to $127.5 million.[8] This bank differs from IDB, the developed countries which are members of AsDB contributing a majority of the institution's paid up capital and ultimately controlling the majority of votes.

22. The case of AfDB is different, since its membership is confined to developing African countries. The volume and quality of the resources available to this institution are obviously inadequate, but this problem may be partly resolved if the current negotiations with the developed countries members of DAC for the establishment of a special fund, which is expected to amount to some $75 million, prove successful. It should be stressed that, so far as is known, the developed countries will agree to contribute to this fund only if it is managed by a board composed of an equal number of governors appointed by the developed countries and by the Bank, which means that it will have an independent structure within the institution itself.

23. Among the subregional banks CABEI, the oldest of them, was set up as a financial organ of CACM. This agency's success in attracting external resources deserves to be mentioned. At the end of the first decade of the Bank's operations, these resources totalled $279 million as compared with only $38 million of the Bank's own resources.[9] The external resources derive mainly from global loans from AID and from IDB, as well as other financial arrangements with Japan, Canada, Mexico and some European countries. The five Central American countries forming CACM are the only members who put up capital and are entitled to vote. It should be mentioned that as a result of CABEI's success in attracting these external funds, its supply of local currencies is inadequate to ensure the financing of acquisitions of goods and services in the borrowing countries.

24. EADB, which was established simultaneously with EAC, has a paid up capital of $33.6 million,[10] in which foreign banks and consortia participate with a share of less than 10 per cent,[11] alongside the three Governments of the Community. Since the treaty under which EADB was established provides that the countries members of the Community must provide a minimum of 51 per cent of the paid up capital, there is a considerable margin for participation by foreign corporations and governments in the Bank's capital. Although authorized to do so, EADB has not so far succeeded in establishing a special fund with the participation of countries from outside the subregion, and its financing operations are therefore carried out at conventional rates of interest.

25. CARIBANK was established in 1969 and includes the countries members of CARIFTA, the Bahamas, the British Virgin Isles, the Turks and Caicos Islands and the Cayman Islands, as well as the United Kingdom and Canada. The two last-named countries each contribute $10 million to the paid up capital of $50 million,[12] which means that they control 40 per cent of the total votes. In addition to these regular resources, a Special Fund has been established for the financing of investment in the least developed countries. This Fund amounts at present to $30 million contributed by the United States of America, the United Kingdom and Canada. CARIBANK, therefore, manages a volume of diversified and partly untied resources to meet investment requirements within a

[7] Since this group is recognized as the principal multilateral source for financing projects in the developing countries, it is only natural that the developed countries should have channelled the bulk of their non-bilateral public aid through it.

[8] As of 31 December 1970.

[9] CABEI's authorized capital amounts to $60 million; it has been agreed that an additional $40 million shall be authorized solely for guaranty purposes.

[10] As of 31 December 1970.

[11] Including AfDB.

[12] As of 31 October 1971.

relatively small area with somewhat over 6 million inhabitants.

26. The authorized capital of ADC is $100 million, $25 million of which has already been paid up by the six participating countries (the five members of the Andean Group and Venezuela).[13] The Corporation may obtain resources from within and outside the subregion by issuing shares and forming special funds under trustee administration. Negotiations with developed market-economy countries and with socialist countries have already begun and it appears that a favourable atmosphere has developed for obtaining public and private resources to be managed by the institution. A $10 million line of credit has been successfully negotiated with Argentina, and it is hoped to negotiate global loans for an equal or larger amount with IDB and IBRD, as well as with other Latin American countries. However, ADC does not as yet have any concessionary type resources.

27. The Mutual Aid and Loan Guaranty Fund established in 1966 by the countries members of the Council of the Entente, which now amounts to $11 million, is financed to the extent of 80 per cent by a contribution from the Ivory Coast, the remainder coming from the other member countries.

28. There is a fund established by the five countries members of ASEAN, each of which has contributed $1 million. These sums are deposited with the relevant central banks. The Conference of Foreign Ministers decides upon the use of these funds, which have been employed to finance a number of joint projects for promotion of tourism, fairs, cultural and sports programmes and the like.

29. The Kuwait Fund for Arab economic development established by the Government of Kuwait has an authorized capital of 200 million Kuwait dinars ($560 million). The lending countries are not represented on the institution's board of directors or management.[14]

30. The establishment of the Financial Fund for the Development of the River Plate Basin was decided in June 1971 at the fourth meeting of Chancellors of the five countries members of this grouping; but its constituent treaty has not yet been signed. The intention is to use the Fund's resources for pre-investment studies for projects of interest to the subregion.

31. On the basis of the experience of the above-mentioned institutions, a number of additional comments may be made.

32. It would seem that the multilateral development banks which have developed countries as members (IBRD, AsDB, IDB and CARIBANK) have had a larger influx of regular and concessionary funds and that some of them have access to the capital markets of those countries. On the other hand, those which do not have developed countries as members or those in which the participation of such countries is very small (AfDB and EADB) have encountered serious difficulties in expanding their resources.[15] An exception of this rule is the experience of CABEI, which, although it has no developed countries among its members, has been very successful in attracting external resources both from bilateral and from multilateral sources.

33. Although AfDB has committed a large proportion of its resources to the financing of regional projects, it can do so only at conventional rates of interest, and the funds which it has at present are still insufficient to satisfy the growing number of requests for loans of this kind which are being made on the African continent.

34. EADB is apparently in a somewhat similar position, though it is by no means critical, since the Bank services only one sector, the industrial sector, for the financing of which concessionary type resources are not usually needed. It is worth noting that a large part of EAC's infrastructure financing requirements has been met by IBRD, mainly because of the presence of multinational corporations in this integration scheme. IBRD co-operation has also extended to the co-ordination of bilateral aid to EAC, including the leadership of an advisory group which last met in 1968.

35. All the indications are that CAF has been successful in its initial steps to obtain external resources, especially those of the conventional type. Since, however, under its constituent treaty CAF must give preference to the financing of integration projects in both the industrial sector and other sectors of production and services, the preparation and promotion of which presents the difficulties already mentioned, it seems evident that this institution must obtain concessionary type untied external resources as soon as possible.

Chapter IV

The operational policies of the multilateral financing agencies

36. The possibility of contributing to the financing of integration projects and activities is provided for explicitly or implicitly in the constituent agreements of all the regional and subregional banks. The Bretton Woods Agreement, which antedates the formation of economic co-operation groupings among the developing countries, does not, of course, include any such provision. However, this has not constituted any obstacle, because the World Bank, which has neither special funds nor any defined policy in this respect, has granted loans to finance regional projects, mainly in Africa, and is contemplating granting global lines of credit to sub-regional banks.

[13] As of 31 October 1971.

[14] The first meeting of the Assembly of Governors of the Arab Economic and Social Development Fund, established by a decision of the Economic Council of LAS, was held early in 1972 and approved its statutes. Thirteen Arab countries participate in this Fund. Its authorized capital is 100 million Kuwait dinars ($280 million) and its paid up capital 81 million Kuwait dinars ($226.8 million). Another recent creation is the Arab Development Fund, established by the Government of Abu-Dhabi, with a capital equivalent to $140 million, which will begin to operate during 1972 with purposes and procedures similar to those of the Kuwait Fund.

[15] This conclusion, which may perhaps be premature so far as EADB is concerned, seems better based with regard to AfDB, especially in view of its unsuccessful efforts to obtain concessionary resources for the establishment of its special fund. It is worth remembering that agreement was reached only when the Bank agreed to admit voting directors from the donor countries to the board to be established within the institution for this purpose.

37. The constituent agreements of IDB and AsDB implicitly empower those agencies to finance projects having an integration content. Moreover, successive resolutions of the Board of Governors and the Board of Directors of IDB have extended the Bank's terms of reference to enable it to finance this type of project, as witness the establishment of INTAL, and of the Investment Fund for Latin American Integration. The constituent agreement of AfDB specifically recognizes that priority should be given to directing the Bank's financing towards the encouragement of economic integration among the countries of Africa.

38. However, it is the subregional development bodies that have received the most explicit mandate from their member Governments to take systematic measures to encourage economic co-operation. This is true for EADB, established at the same time as EAC, which is required to contribute, *inter alia,* to the subregional aim of reducing the imbalances in industrial development among the three countries members of the Community. Similar aims of balanced growth guide the operations of CABEI, CARIBANK and ADC and the use of the resources of the Fund of the Council of the Entente. An important point to note concerning CABEI and ADC is that they are authorized to finance only projects of regional interest. In other words, the financing of integration has become an essential element in the operational policy of these subregional bodies.

39. With regard to the amount and sectoral distribution of the financing provided by the multilateral development agencies, the following table shows that there is a marked difference between the operations carried out by the banks operating at the world, regional and subregional levels.

40. Table 5 shows the great preponderance of the physical infrastructure sector in the total for regional financing. All the loans from the World Bank, for example, are for this sector.[16] Of the $682 million invested by IDB in the financing of integration in Latin America, over 60 per cent was for infrastructure projects.[17] A certain percentage has been allocated for this purpose by AfDB.[18] About 90 per cent of the financing provided by the Kuwait Fund for regional projects was used for infrastructure. It should be noted that IBRD and IDB follow a policy that involves giving preference to local suppliers in the country where the project is undertaken if the costs of execution are not more than 15 per cent higher than those in the lowest bid made by a foreign supplier.[19] These and other multilateral agencies may study the possibility of extending the application of this margin of preference to suppliers in the countries members of the regional grouping to which the recipient country belongs.

41. The operations of the subregional banks generally include a more diversified portfolio of regional loans. CABEI, for example, has committed through its three funds, a total of $255.7 million, of which $156 million was

[16] In addition to financing infrastructure projects, the World Bank Group, through IFC, has begun financing multinational corporations operating in developing countries (Tourism Promotion Services in Africa and Adela Investment Co. in Latin America), and is able to encourage the establishment and expansion, within integration groupings, of multinational enterprises of a genuinely regional character.

[17] The Bank also has a programme for financing exports of capital goods among its members, and this may be extended in the near future to include other products for export both within and outside the region. The possibility is being studied of establishing under this programme some machinery that would act as a corporation and buy or finance the purchase of shares in the capital of public and private enterprises. This would also help to promote multinational Latin American enterprises.

[18] It is interesting to note that ADB participates in the capital of EADB. This is a type of operation in which IDB cannot yet engage.

[19] Furthermore, IDB has obtained the untying of most of the funds it administers, which facilitates trade expansion between its developing member countries.

TABLE 5

Sectoral distribution of the financing of regional projects

(Million dollars)

Institution	*Infrastructure*	*Agriculture*	*Industry*	*Other*	*Total*
World Bank Group	245.9	—	10.5	3.6	260.0
of which:					
IBRD/IDA	245.9	—	—	—	
IFC			10.5	3.6	
AfDB	10.3	—	2.45	1.0	13.75
AsDB					
IDB	422.5	54.9	24.2	180.4	682.0
CABEI	156.2 [a]	—	99.53	—	255.73 [b]
ADC	1.81	—	4.3	—	6.11
CARIBANK	1.5	1.4	0.6	1.2	4.7
EADB	—	—	9.2	—	9.2
Kuwait Fund	98.56	—	9.80		108.36
TOTAL	937.77	56.30	160.58	186.20	1,339.85

Sources: See table 1.

[a] This figure includes loans for education.

[b] This total excludes housing projects amounting to $23.7 million.

for infrastructure and $100 million for industry.[20] CARIBANK has given more priority to other sectors. Of the total of $5 million which it had committed as of 31 October 1971, only 30 per cent was for infrastructure, while tourism, agriculture and industry, in that order, absorbed the remainder. The only exception is EADB, which finances only industrial projects. Its loans amount to $9.2 million.

42. The reason for the preponderance of infrastructure projects in the fields of transport, communications and energy in particular may be that in developing regions there is an imperative need to expand communication links between countries, as an essential prerequisite for economic complementarity. Trade preferences often provide insufficient incentive to bring about trade expansion among developing countries, because they are offset by the high cost of intraregional transport. This situation is found even more in the less developed countries, since their exports have a low value/weight ratio, and are thus more affected by the incidence of transport costs in their exports to other countries in the region.[21]

43. A considerable number of hydroelectric dams have required the participation of two or more countries (in those cases where the project is sited on an international river), or, to be viable, have required undertakings by other countries to purchase excess power. As such projects generally call for heavy investment, it is the volume of the loans, rather than their number, which determines their large share in the sectoral distribution of regional loans.

44. Lastly, the reason for the preponderance of these projects in the loan portfolios of development banks, mainly the regional and world banks, is generally that these projects can be regarded as politically "neutral". Their purpose is to facilitate increased traffic or raise the energy output of the participating countries, aims which do not conflict with the national desire for self-sufficient development. Although such projects have a considerable impact on national economies, they are usually not detrimental to the interests of the productive sectors. Others in the same category are tourism projects of interest to two or more countries, and projects to establish multinational centres for scientific and technological development, an activity in which development institutions at the regional and world levels can play a very important role.

45. The same is not true of regional projects in industry and, especially, in agriculture, for in these sectors special account must be taken of such aspects as the effect on rural and urban employment, the competitive capacity of the enterprises concerned, effects on the balance of payments, etc. In these sectors equitable sharing in the benefits of the project is much more difficult to achieve. As a result serious difficulties arise in financing this type of investment, because there are really no regional strategies for industrial and agricultural development in which all the countries concerned participate jointly. An exception, however, is the case of the Andean Group, where an industrial programming scheme is being worked out.[22] However, the establishment of new multinational development foci, in frontier areas, on the basis of natural resources shared by two or more countries in a region, can be achieved with the support of multilateral development institutions operating at the world or regional level, since, in addition to ensuring better use of such resources, the participation of the countries concerned in the benefits of the project is relatively easier to ensure, especially in the case of less developed areas or countries.

46. The World Bank and the subregional banks, whose loan strategies are determined by development aims at the world and regional levels, find it difficult to finance multinational projects of an industrial or agricultural character that also call for a strategy of co-operation in these sectors at the subregional level. However, it has been noted that the regional development bodies can operate more independently vis-à-vis their member countries when the technical staff have a larger role in the establishment of priorities and the evaluation of projects, and when they have a substantial amount of external financial support.

47. On the other hand, recent experience shows the difficulties that the subregional banks have had in achieving their objectives.

48. A careful analysis of the operations of EADB, whose field of action is confined to the financing of industrial projects, shows that up to the end of 1970 about 60 per cent of the loans approved by that Bank went to the two less developed countries;[23] however, Kenya, the most highly developed country, had received over half of the funds paid out by that date. Again, the industries financed by this institution appear to operate mainly at the national level, and export only small surpluses to the subregion.

49. The financial operations of ADC are subordinated to the industrial programming being carried out in the Andean Group by most of the more dynamic industrial sectors, and this requires a long and complex process of preparation and consultation. For these purposes the Corporation is authorized not only to grant loans, but also to provide sureties, endorsements and other guarantees, including the underwriting of shares, and possible participation in the enterprises issuing them.

50. CABEI is autonomous, and has fairly large funds, proved technical capacity, and a broad mandate to operate in support of the Central American integration programme. Despite the institutional problems currently besetting CACM, CABEI operations have not been affected. The Bank is empowered to purchase or finance the purchase of shares in enterprises, and to contribute to the financing not only of industrial projects, but also of social projects, such as those concerned with housing and education, that the countries concerned consider to be of regional interest. The Bank has also begun to grant loans to finance extra-regional operations and operations in the tourism sector. The lack of concessionary, local-currency resources has so

[20] CABEI, in co-operation with the secretariat of CACM, has established a programme for the promotion and diversification of sub-regional exports to third countries (PROMECA). The bank has also acted as an intermediary in the granting of loans to Central American universities.

[21] CACM provides the case of Honduras, where the lack of adequate means of transport has prevented the country from benefiting more from the opportunities offered by the regional market.

[22] In this connexion mention should be made of the LAFTA complementarity agreements, which have the same general aim but are limited in scope.

[23] The Bank's constituent agreement provides that 77.5 per cent of EADB's resources shall be allocated to these two countries.

far prevented it from operating in the agricultural sector.[24] A more detailed study of the Bank's operations shows that the loans granted in the industrial sector have not been governed by a strategy of balanced and integrated development for the subregion, mainly because such a strategy has never been adopted under the Central American integration scheme.[25] In general it can be stated that the Bank has perfomed a rather passive role in this field, confining itself to processing requests for loans in the industrial sector.[26]

51. CABEI has played a more active part in promoting infrastructure studies and projects of regional interest, and its financing of infrastructure has followed the lines of a subregional type of programming, which has meant treating as regional some purely national projects sited in Honduras, which is regarded as one of the less developed countries in the subregion.

52. Furthermore, as a result of efforts made to restructure CACM in 1970, it was suggested that a fund for industrial and agricultural development should be established, which in addition to helping to distribute the benefits of integration, would (*a*) finance investment programmes in industry and agriculture approved under the regional scheme, and (*b*) prepare and execute regional projects included in those programmes. Had this fund been approved, it would have strengthened CABEI's position as a dynamic instrument to further integration, since in order to distribute the funds allocated annually to each country, the Bank would have had to increase its activities of promoting and preparing projects.

53. The above review indicates that despite the inherent complexities in the financing of regional projects, the subregional bodies have shown ability to distribute the financial aid intended for this purpose. There are many reasons for this, but the following are worth mentioning:

(*a*) All the economic groupings, with the exception of LAFTA, which is on a regional scale and has limited aims, include a small number of countries, and this tends to reduce the degree of heterogeneity and facilitate the solution of differences; consequently the financing has to be adjusted to this subregional scale of co-operation in order to be effective;

(*b*) The subregional banks themselves represent a great effort at self-help at the multilateral level by the developing countries that make up their membership. They are part of, and supplement, the broader activities undertaken to increase their economic complementarity, and are a catalytic element in the integration process. They can serve as instruments to correct imbalances arising from that process, and they have shown their capacity to administer the resources entrusted to them;

(*c*) The Governments of the developing countries are generally reluctant to transfer broad powers for the conduct of their economic policy to international bodies acting at the world or even the regional level, especially in regions where there are marked differences of culture or economic policy, or both. It is much easier for the subregional banks to win the necessary confidence of the participating countries, and for their management to be given broader powers;

(*d*) The closer the link between a bank and the economic grouping, the greater the bank's interest in defining its loan strategy in terms of the aims set by the grouping, as has been shown in the case of the Andean Group and CACM. The close co-ordination between the subregional banks and the governing bodies of the economic groupings forms the basis of the great potential for action of these banks, which are called on not only to contribute to the promotion and financing of the infrastructure and production sectors, but also, once these processes are well established, to contribute to the social development of the member countries.[27]

54. In order to increase this potential for action, it would seem desirable for the sub-regional development agencies to have greater technical capacity to promote, evaluate and supervise projects—on the same lines as IBRD and IDB—in order to distribute efficiently the multilateral resources intended for financing various projects under the economic co-operation programmes.

55. As for the agencies operating at the world and regional levels, the difficulties encountered in financing regional projects outside the infrastructure field have led them to consider the use of intermediate financial bodies. These would have the advantage of channelling substantial lines of credit to sectors that generally require only small loans, and that consequently cannot attract the interest or administrative capacity of the large financial institutions.

56. IDB, for example, has granted various general loans to CABEI for the industrial sector and for pre-investment purposes.[28] AfDB has granted a line of credit to EADB for financing small and medium industry in EAC, and CABEI, and also CAF and EADB, are exploring the possibility of negotiating this type of loan with the World Bank. It should be noted here that in their policies for industrial sector financing, both the world and regional banks and the subregional banks, accept the need to distribute funds for industrial reconversion projects, especially in the less developed countries of a grouping, where there are usually some industries that cannot compete at the regional level because they lack appropriate production facilities.

57. Thus far IBRD has not granted any loans to subregional banks, mainly because its operational policy requires the member Governments individually and collectively to guarantee its loans. However, there is every indication that this policy is being reviewed, and that a new precedent may be established by granting loans to subregional financial institutions with the guarantee of the Bank alone. Although this method of channelling,

[24] An Agriculture Department was established recently and steps are being taken to obtain external funds for this purpose.

[25] Recently there has also been organized a technical group on industrial programming which, in close co-operation with other regional institutions, will be able to establish the necessary principles for adopting policy criteria that the Bank can take into account in its financial planning.

[26] Recently, however, a non-reimbursable fund was established to finance promotional activities.

[27] Here it should be noted that CARIBANK might have difficulty in carrying out this type of programme, since its agreement limits its financing of multinational projects to 20 per cent of its operations.

[28] IDB has also granted lines of credit to CABEI to finance the regional highway programme, as well as a loan for the construction of the regional telecommunication network. It has also channelled through CABEI various loans for the Central American universities.

resources would lead to higher administrative costs of projects, this rise would be justified by the eminently integrational character of the programmes of action of the subregional banks. The possibility might also be considered of such loans being granted by IBRD on more favourable terms than those granted to direct borrowers. The additional costs of such a policy could be absorbed by the Bank so that the subregional banks could continue to act as intermediaries on a competitive footing.

58. IDB's experience suggests some of the areas where the regional financing agencies could act in support of economic co-operation. In addition to the general loans channelled through the subregional banks, this bank has played a considerable role in preinvestment and technical assistance activities, financing on a non-reimbursable or contingent basis sectoral and multinational studies and programmes to identify and promote projects.[29] Under its loan policy, IDB has drawn up programmes and established goals for technical and financial assistance for this purpose.

59. It also seems appropriate to mention the existence, within the Inter-American System, of consultation machinery, in the form of CIAP, which although it has a broader field of action, permits identification of priority areas for investment at the country level, thus taking into account the financing requirements for integration. The principal multilateral and bilateral financial institutions serving the region participate in this machinery, together with the economic groupings and representatives of several developed countries.

60. In brief, analysis of the evolution of the operational policy of the multilateral financing agencies, as illustrated by experience, indicates that each agency, at its particular level, is called on to play, and has played, a distinct and complementary role, and that the success of the programmes of economic co-operation among the developing countries depends in large measure on the joint efforts of all those agencies.

61. There is also a clear need to increase and improve the resources they administer, and to make major changes in their operational policies in order to meet the growing requirements arising from schemes of economic co-operation.

62. The following chapter summarizes certain conclusions based on the analysis made here and may perhaps contribute to the achievement of this objective.

Chapter V

Conclusions

A. General

63. The experience of the agencies reviewed suggests that there are considerable possibilities for increased promotion, by multilateral financing agencies operating at the world, regional and subregional levels, of economic co-operation among developing countries.

64. It is a fundamental requirement that these agencies should formulate a policy for integration activities and give high priority to the financing of regional projects. The incorporation into their loan strategies of quantitative targets for the use of their financial and technical resources might be attempted on the basis of sectoral investment programmes of regional or subregional scope. Project evaluation techniques which make it possible to quantify the potential regional impact of investments might also be sought.

65. The boards of the banks include representatives of member countries and obviously serve in a consultative capacity in connexion with operational policies and the formulation of the loan policies of those institutions. Nevertheless, where regional programmes and projects are concerned, it might be highly useful for the banks to set up special consultation arrangements and also take into consideration the subregional integration aims established by the governing bodies of the groupings concerned.

66. Financing agencies should earmark adequate resources, preferably non-reimbursable, for technical assistance in the conduct of preinvestment studies and the promotion of regional projects, and for the preparation of regional and subregional multinational investment programmes.[30]

67. Multinational banks might usefully be allowed to participate promotionally in the capital of private or semi-state enterprises. Where this is not possible directly, subsidiary or associated corporations might be set up for the purpose.[31]

68. Preinvestment funds should be seen as a form of solidarity between the participating countries concerned which may lead to more ambitious arrangements for economic co-operation. The importance of these funds should not be underestimated, since they are a means of financing the studies required for proper assessment of the co-operation potential of member countries and for identification of investment projects of common interest.

69. In view of the considerable experience of the activities of multilateral development banks, some degree of co-ordination should be established between them and steps should be taken to exchange experience and introduce joint promotion and investment programmes among developing countries for multinational projects, both regional and subregional.

B. Agencies operating at the world level

70. During its periodical consultations to determine the credit capacity and finance requirements of borrowing countries, the World Bank might take account of, or

[29] The investment loans for integration projects have benefited from more favourable terms. According to estimates made in 1969 relating to lending during the period 1961-1968, the average interest rate for integration projects financed by IDB was 3.87 per cent, as compared with 4.04 per cent for all loans, while the repayment and grace period was 22.63 years for the former and 20.45 years for the latter.

[30] The Preinvestment Fund for Latin American Integration, which consists of soft and non-reimbursable funds, has enabled IDB to play an important role in this field and demonstrates the value of such mechanisms.

[31] The intervention of a multinational agency can be catalytic or decisive in determining the success of steps to establish an integration industry at a jointly planned and agreed site.

attribute greater weight to, economic groupings; this would be in conformity with the recommendations made on this point by the Commission on International Development (Pearson Commission).[32]

71. By utilizing subregional financing agencies, the World Bank could extend its sphere of action to productive services, especially the financing of industrial and agricultural projects and also of regional social programmes.

72. The additional expenditure arising from this kind of policy might be absorbed by the Bank, to enable the subregional banks to remain competitive.

73. World financing agencies could play a more active part in promoting integration projects if their operational policies included the financing of preinvestment studies for regional programmes or projects on concessionary terms.[33]

74. IFC, which supports the establishment and expansion of enterprises operating at the national level, might extend its sphere of action to enterprises operating at the regional or subregional levels.

75. IDA, which renders financial assistance on concessionary terms to the least developed among the developing countries or for projects showing no short-term return, might adopt the policy of giving priority to the financing of projects in countries of that category which are members of integration groupings, so as to strengthen their competitiveness within the region to which they belong.

C. Regional and sub-regional financing agencies

76. These agencies undoubtedly bear the main responsibility for the promotion and financing of regional projects. In discharging this responsibility, regional and subregional banks might not only give priority to financing such projects but also help to identify them and establish financial and technical assistance targets for this purpose within their loan programmes.

77. The particular suitability of subregional banks for processing and administering loans to medium and small-scale enterprises makes them the most appropriate channel for the global loans, sectoral development funds, etc., which world and regional agencies, and bilateral aid sources, are prepared to entrust to them. The value of these banks as intermediaries is even clearer in the case of groupings of countries which have no national development agencies capable of administering external finance and in which the subregional bank can exercise such functions.

78. The volume and quality of the resources of the regional and subregional agencies directly affect their capacity to promote and finance regional projects, which often call for concessionary financing. It is therefore highly necessary to increase their resources: by contributions to their capital, where their constituent agreements permit, by granting them loans and lines of credit on appropriate terms, or by facilitating their access to world capital markets and contributing to the establishment and strengthening of special funds consisting of soft resources.

79. It is urgently necessary to untie the resources earmarked for these purposes, particularly in order to make them available for the purchase of local goods and services. This measure would especially help subregional development agencies, which frequently have difficulty in mobilizing internal counterpart resources, particularly for medium- and small-scale projects.[34]

80. With regard to the action which countries members of these subregional agencies can take to support them, internal sources of funds should be mobilized with a view to substantially increasing the capital of the agencies concerned.[35] In addition, a balance should be preserved in the composition of the resources administered by an agency, so that its loan activities are not hampered by a lack of local currency, as in the case of CABEL. Difficulties of this kind can arise when external resources are tied or when development banks, in order to avoid inflationary trends, restrict the conversion of external resources into local currency. Local resources can be procured not only through increases in capital subscriptions but also through purchases by either the public or private sector of member countries, of bonds issued by the banks concerned.[36]

81. The possibility should be considered of adapting to other regions the consultation system used by Latin America, which provides IDB, for the formulation of its loan programmes, with guidance concerning government priorities at the national, regional and subregional levels.[37]

82. Regional and subregional financing agencies should maintain the fullest possible contact with the governing bodies of economic groupings, so as to stimulate the formation of sectoral and multinational regional development programmes and ensure the compatibility of those programmes with the agencies' lending programmes.

83. Because of their close links with economic co-operation programmes, subregional agencies are well placed to undertake preinvestment activities; they have easier and immediate access to information sources and, being on the spot, are more aware of the problems and opportunities facing their member countries.

84. Since studies undertaken by subregional agencies may sometimes lead to large-scale projects which exceed the agencies' financial capabilities, regional and world institutions should be prepared to finance projects of that

[32] See *Partners in Development: report of the Commission on International Development*..., p. 131.

[33] The World Bank, as an executing agency for UNDP, has already assisted AfDB and CARIBANK in this way.

[34] The success of CARIBANK in securing the partial untying of resources obtained from the United States of America, Canada and the United Kingdom would suggest that this policy might be extended to other financial institutions.

[35] This should include the adoption of automatic systems, for example the allocation of a percentage of certain tax receipts for that purpose.

[36] The strengthening of subregional banks to cater for the financing of local costs would prevent them from becoming mere "import financiers", a charge previously levelled against the world and regional agencies.

[37] The consultation machinery of the Inter-American system involves the participation of the major multilateral and bilateral financial institutions serving the region.

kind, using for that purpose, where appropriate, the technical and administrative facilities of the subregional banks.

85. More than any other institution, subregional banks should take the initiative in creating and developing public and private multinational enterprises in the subregion. These banks automatically enjoy special privileges and immunities, such as the right to transfer resources and issue bonds, tax exemptions, and the like, which places them in a favoured position for effective action in operations of that kind.

SUPPORT BY THE SOCIALIST COUNTRIES OF EASTERN EUROPE FOR TRADE EXPANSION, ECONOMIC CO-OPERATION AND REGIONAL INTEGRATION AMONG DEVELOPING COUNTRIES

Report by the UNCTAD secretariat *

[*Original text: Spanish*]

CONTENTS

Introduction

1. In concerted declaration 23 (II),[1] adopted without dissent by the United Nations Conference on Trade and Development at its second session, the socialist countries of eastern Europe declared their support for trade expansion, economic co-operation and regional integration among developing countries. As stated in the relevant paragraph of the declaration:

> 21. The socialist countries view with understanding and sympathy the efforts of the developing countries with regard to the expansion of trade and economic co-operation among themselves and, following the appropriate principles by which the socialist countries are guided in that respect, they are ready to extend their support to the developing countries.

This expression of support was subsequently confirmed and strengthened in resolution 2626 (XXV) of the United Nations General Assembly, in which the General Assembly adopted the International Development Strategy for the Second United Nations Development Decade.

2. The Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries, which met at Geneva in November 1970, enumerated in its conclusions various areas towards which the socialist countries, along with the developed market economy countries, could direct their financial and technical assistance in support of the efforts of the developing countries to promote trade expansion, economic co-operation and regional integration among themselves.[2] For its part, the Second Ministerial Meeting of the Group of Seventy-Seven Developing Countries, held at Lima in November 1971, included the following among the measures which it considered should be adopted by the socialist countries of eastern Europe in connexion with trade expansion, economic co-operation and regional integration among developing countries: (1) raising the priority accorded within their individual aid policies and programmes of bilateral and multilateral financial and technical assistance in those fields; (2) taking steps to multilateralize their payment arrangements so as to permit balances in their trade with developing countries to be used for financing of trade with any of the socialist countries and with regional and sub-regional groupings of developing countries, as well as developing facilities for the payments associated with this to be effected through internationally acceptable banking practices in mutually acceptable currencies; and (3) giving direct assistance to economic co-operation groupings among developing countries.[3] The document adopted by that meeting was submitted to the General Assembly at its twenty-sixth session. In its resolution 2820 (XXVI), whose adoption was unanimous, the General Assembly urged Member States to give serious consideration to the proposals contained in the Lima Declaration.

3. Pending further studies, in which the specific procedures and mechanisms suggested in the present document for implementing the above-mentioned statements and recommendations may be examined in greater detail, this report constitutes a preliminary attempt to formulate some general guidelines on measures which the socialist countries might adopt in support of trade expansion, economic co-operation and regional integration among developing countries.

4. Although many of these measures are often complementary or closely related, and so cannot always be clearly distinguished, they are classifiable under two main headings:

* The text of this report was circulated to the Conference as document TD/116, dated 6 March 1972.

[1] See *Proceedings of the United Nations Conference on Trade and Development, Second Session,* vol. I (and Corr.1 and 3 and Add.1-2), *Report and Annexes* (United Nations publication, Sales No. E.68.II. D.14), p. 51.

[2] See report of the Intergovernmental Group in *Official Records of the Trade and Development Board, Tenth Session (First, second and third parts), Annexes,* agenda item 11, document TD/B/333, chapter V.

[3] See *Proceedings of the United Nations Conference on Trade and Development, Third Session,* vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex VIII.F.

(*a*) measures connected with trade and systems of payment; and

(*b*) financial and technical assistance measures.

5. Some of these measures—those in the first group—although not aimed directly at strengthening economic relations between developing countries, can nevertheless exert a decisive and favourable influence in that direction, as will be seen below. Those in the second group, on the other hand, would be aimed primarily at direct support for the reinforcement of economic links between developing countries.

6. Certain measures recommended in this report are already being applied in bilateral economic relations between the socialist countries and the developing countries, and what is now suggested is simply their extension to regional groupings of developing countries. Others, however, are in little more than rudimentary form and will not be effective without really flexible mechanisms. Finally, some measures proposed in this report, although contemplated in the recommendations and resolutions mentioned above, have not yet been put into practice.

Chapter I

Measures connected with trade and payments systems

7. The expansion of trade between socialist and developing countries is undoubtedly a self-contained goal of interest to both groups of countries. This interest is reflected in the substantial increase in trade between the two groups in recent years[4] and also in a number of economic policy measures recently adopted by members of each group. However, there are certain restrictive elements in the payments agreements used by the socialist countries which often curb the expansion not only of trade between the latter and developing countries but also of trade among the developing countries themselves. The obstacles arise because the bilateral trade agreements stipulate a total volume of trade which is related to the supply and demand potential of the two contracting parties. Since the value of the trade is generally calculated in such a way that the reciprocal payments made during the life of the agreement cancel each other out, the balance depends on the potential of whichever of the two countries has the lesser capacity for offering exportable products of interest to the other country. Consequently, and also because in most cases there is no provision for the trade balances to be settled in convertible currency, expansion of trade between socialist countries and developing countries and among developing countries themselves is restricted.[5]

8. A possible means of introducing multilateral features into bilateral payments arrangements between socialist countries and developing countries would be to convert the bilateral agreements into triangular or multilateral payment agreements. For example, if among three countries (two developing and one socialist) three bilateral agreements have been concluded (between A and B, A and C, and B and C), and persistent imbalances with different signs occur in the trade between each pair of countries, the agreements in question could be replaced by a triangular agreement advantageous for all three countries.[6] Thus, if country A is structurally indebted to country B and at the same time is a creditor to country C, while C is permanently a creditor to B, a triangular settlement will enable A to continue exporting to C, B to A and C to B, thus averting the stagnation of trade which occurs at present.[7] Such a triangular or multilateral agreement procedure would obviously be applicable not only in the case of certain bilateral agreements between socialist countries and developing countries under which some countries have acquired permanent creditor balances that could be settled with the balances of other countries, but also in cases where that kind of situation may be anticipated. Hence agreements might be concluded between a number of countries under which the credit and debit balances existing between those countries would be set off all round. From the accounting point of view, the initial number of pairs of clearing balances (equal to the number of participating countries) would thus be reduced to a number representing those countries which had not balanced their payments with the remainder. This procedure is employed by Iran, Pakistan and Turkey, under Regional Co-operation for Development, and on a wider basis by the Latin American Free Trade Association (LAFTA).

9. Some recent examples involving three or more countries confirm the possibility of partially multilateralizing payments. Bulgaria, India and Tunisia, for instance, have concluded a tripartite trade agreement based on compensated payments. A similar case, but involving several socialist countries and one developing country, is that of the transfer of rupee balances by Bulgaria and Czechoslovakia to Hungary and the German Democratic Republic respectively, with Indian consent, early in 1969; here, the agreement provided that the recipient countries should supply goods to Bulgaria and Czechoslovakia in return. Mention may also be made of the triangular agreement concluded by the Soviet Union, the German Democratic Republic and Cuba in 1966, which enabled Cuba to use part of a loan, granted to it the previous year by the Soviet Union, to purchase from the German Democratic Republic machinery for a sugar refinery.

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[4] Between 1966 and 1970, the value of total trade (exports and imports) between the socialist and developing countries rose by 44 per cent. See "Trade relations among countries having different economic and social systems: review and analysis of trends and policies in trade between countries having different economic and social systems", report by the UNCTAD secretariat (TD/112 and Corr.1), table 4, p. 20.

[5] Although the lists of goods included in these trade agreements are constructed so as to prevent any major imbalance in payments, provisions exist allowing a credit balance to either partner to the agreement; this is covered by a renewable technical credit which is valid for the entire life of the agreement. In addition, there is generally a stipulation that if either partner's balance exceeds the credit, the amount involved becomes payable immediately, which means that it must be settled by the debtor country in convertible currency. In practice, however, this stipulation is not enforced.

[6] In accordance with Conference resolution 15 (II), the transactions concerned would naturally exclude re-exports of goods purchased by socialist countries from developing countries unless consented to by the latter.

[7] See "Approaches to multilateral settlements in trade between socialist and developing countries", study prepared by the Institute for Economic and Market Research, Budapest (TD/B/AC.7/3), p. 27.

Although each of the last two cases involves only one developing country, such procedures could obviously be extended to a larger number of countries.

10. An even more interesting example, which offers substantial prospects for multilateralization, is the agreement concluded in March 1971 between the German Democratic Republic and Ceylon. These countries agreed that, subject to each other's consent, any clearing balances could be used by either of them for settling their debts with third countries. This kind of agreement could in particular be applied to developing countries members of regional groupings with a view to stimulating trade among the countries concerned. Thus countries in those groupings with both a trade deficit in terms of the region and a surplus with respect to one or more socialist countries could settle their debts with any member countries in the opposite position by setting them off against the creditor balances of their trade with socialist countries. The outcome of such agreements would be beneficial to all the participating countries, since it would both increase trade between socialist countries and developing countries members of regional groupings and expand trade among the developing countries themselves.

11. The existence in various of these groupings of particular multilateral payments mechanisms (LAFTA, the Central American Common Market, Regional Co-operation for Development) would certainly facilitate the operation of such a system. It might be hoped that, at a later stage, these mechanisms would be linked up with the multilateral payments arrangements in force between the countries of the Council for Mutual Economic Assistance (CMEA), as suggested in the study cited above.[8]

12. Another multilateral compensation procedure is the one operated since 1957 by the Economic Commission for Europe (ECE), in which the developing countries participate, although not to any great extent, together with the socialist countries of eastern Europe and the developed market economy countries.[9]

13. For some years, a more comprehensive system than the above for multilateralizing payments between socialist countries and developing countries has been offered by the International Bank for Economic Co-operation (IBEC). Unlike the procedure of ECE, under which balances between two countries are settled by transferring them to other countries, the IBEC form of settling balances can be by payment. The Bank is the instrument for multilateral payments transactions between countries members of CMEA. The Bank's Statutes nevertheless provide that the facilities afforded to those countries for settling balances in convertible roubles may also be used by countries which are not members of CMEA, a prerequisite being the existence of a trade agreement between the countries concerned. Any transactions between countries members of the Bank and developing countries must appear in special accounts in IBEC's books, so as to distinguish those transactions from the general settlements which take place among the member countries themselves. These accounts may be used not only to settle bilateral balances but also to carry out transactions extraneous to bilateral clearing agreements, including triangular and multilateral inter-State agreements. However, the procedure operated by the Bank needs to be rid of unnecessary formalities and made more automatic.[10] These considerations probably explain why no developing country has yet adopted the system.

14. Some recent facts regarding trade between the socialist countries of eastern Europe and developing countries would suggest favourable prospects not only for an increase in this trade but also for the introduction of more flexible mechanisms in the associated systems of payment, which would ultimately help to increase trade among developing countries. These facts include the greater geographical scope of the trade flows concerned, because of the increase in the number of countries in one group which trade with countries in the other, and the greater diversification of exports from the developing countries, as a result of the rise in the share of manufactures and semi-manufactures.[11]

15. Both the increase in trade between socialist and developing countries and its geographical expansion will obviously lead to a greater number of active or passive bilateral balances in the trade between the two groups of countries. This trend will afford greater opportunities for adoption of multilateral methods of settlement and will thus help to increase trade flows between developing countries.

16. Although the application and generalization of the methods and procedures mentioned above would not entirely eliminate the built-in rigidity of the payment system used in trade between socialist countries and developing countries, it would at least be the first step towards reducing this rigidity and, among other things, would help to promote trade among developing countries.

Chapter II

Technical and financial assistance measures

17. The kind of support in the matter of technical and financial assistance which the socialist countries could give to trade expansion, economic co-operation and regional integration among developing countries differs little from

[8] *Ibid.*, p. 25.

[9] For a detailed explanation of this procedure, see "Means of introducing flexibility and multilateral elements into bilateral payments arrangements" (TD/B/AC.7/4).

[10] The inclusion of countries that are not members of the Bank in the multilateral system of payments in transferable roubles and settlement conditions and questions relating to the financing of these countries' purchases out of IBEC funds are together the subject of an agreement between the Bank and the countries concerned in each particular case.

[11] The share of manufactures and semi-manufactures (SITC 5-8) in the total exports of developing countries to the socialist countries of eastern Europe increased from 23.8 per cent in 1965 to 28.8 per cent in 1969 (see "Trade relations among countries having different economic and social systems", *op. cit.*, table 6, p. 22). Bearing in mind that the bilateral trade agreements recently concluded between countries in one group and countries in the other provide for a greater share of manufactures in the exports from developing countries, and taking into account the preferential tariff treatment accorded to those countries by Czechoslovakia and Hungary as from 1 January 1972 with regard to certain manufactures and semi-manufactures, there is hope for an increase in the share of manufactures and semi-manufactures in sales from developing countries to socialist countries.

what is asked of the developed countries. The Intergovernmental Group referred to above accordingly linked the two groups of countries (developed market economy countries and socialist countries of eastern Europe) when indicating in its conclusions the various activities to which the assistance to be given to developing countries might be directed in strengthening their economic relations.[12] The socialist countries, however, because of the particular characteristics of their economic systems, have certain difficulties in providing particular kinds of financial assistance, owing to the non-convertibility of their currencies; on the other hand, they have a greater potential for providing technical assistance in certain fields, especially those connected with economic planning. The latter fact was recognized by the Second Ministerial Meeting of the Group of Seventy-Seven Developing Countries, which specified the measures which the socialist countries of eastern Europe should adopt, within their policies and programmes of financial and technical assistance, to support closer economic links between developing countries. The Ministerial Meeting urged the socialist countries to direct particular attention to:

(*a*) Multinational infrastructure and industrial projects; and

(*b*) Technical assistance in areas related to trade expansion and co-ordinated development activities, such as co-ordination of planning, location of industries and use of State trading agencies in support of trade expansion commitments.[13]

18. As far as financial assistance is concerned, the socialist countries could help to swell the resources available to regional and subregional development banks. A particularly interesting step would be the participation of those countries in the establishment of special funds from which the banks concerned could grant loans on particularly favourable terms for regional infrastructure and agricultural projects.

19. In addition, the bilateral credit lines at present granted to developing countries by socialist countries could be extended to regional groupings of developing countries. Recently, as a result of a reconnaissance mission to various eastern European countries by senior representatives of the Andean Development Corporation, both sides expressed interest in putting that idea into practice.[14] As regards maturity dates, repayment, interest rate and so forth, the terms on which the loans concerned are granted should be geared to the capabilities of the regional groupings. Care should also be taken that the loans cover a substantial proportion of local costs and that they can be repaid through sales of manufactures and semi-manufactures by countries members of the groupings to the socialist countries granting the credit. Furthermore, the members of these groupings should be able to use a large portion of the loans to purchase raw materials, equipment, machinery and services within the region or subregion; also, provision should be made for the loans to be repayable through deliveries of goods from countries which, although not loan beneficiaries, are partners of the beneficiaries in a programme of regional integration. This would make it possible to use the partial multilateral payments procedures described above for settling liabilities which the countries members of a regional grouping incur vis-à-vis each other and vis-à-vis socialist countries.

20. Many instances exist, within the framework of economic and technical co-operation agreements, of co-operation between a socialist country and a developing country in the establishment of joint ventures in that developing country and also in other developing countries. Some of these agreements cover the external marketing of the products manufactured by the joint concern.[15] The extension of this kind of co-operation to regional undertakings or undertakings designed to cover the multinational market of a grouping of developing countries would help to strengthen the process of regional integration. For example, socialist countries might contribute to the establishment of joint ventures in which the partners were two or more developing countries and one or more socialist countries. The enterprises concerned would export their products both to the markets of the socialist countries (as payment for assistance from those countries in the form of machinery and equipment, industrial patents and licences, and also financial participation) and to other developing countries.

21. In addition, the International Investment Bank of CMEA, whose capital exceeds 1,000 million roubles, could play a decisive role in granting loans for the purchase of capital goods by developing countries members of a regional grouping. This kind of assistance is provided for in the programme adopted at the twenty-fifth session of CMEA, held at Bucharest in July 1971.[16]

22. These measures of industrial and technical co-operation might be supplemented by other trade measures designed to promote trade not only between socialist countries and developing countries members of a regional grouping but also among the latter themselves. Mention should be made, among other possibilities, of the organization of joint stands by members of regional groupings at trade fairs held in socialist countries; the establishment of joint committees, composed on the one hand of representatives of a socialist country and on the other of representatives of regional groupings; the recording of inputs originating in countries members of a regional group, for the purpose of determination of origin of goods exported by individual countries; the establishment of a guaranteed

[12] See note 2 above.

[13] See note 3 above.

[14] According to a member of the mission, the competent authorities of the USSR have offered the Andean Development Corporation a credit line of 20 million roubles to be used by the Corporation for specific projects within its area of competence (Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela). See *Bolsa Review*, vol. 5, No. 60, London, December 1971.

[15] See "Trade relations among countries having different economic and social systems: industrial co-operation in trade between socialist countries of eastern Europe and the developing countries", study prepared by the UNCTAD secretariat (TD/B/350).

[16] It was decided at that session that special funds could be created in the Bank from the resources of the interested countries, including a special fund for granting loans for economic and technical assistance measures in favour of developing countries. See *Comprehensive programme for the further extension and improvement of co-operation and the development of socialist economic integration by the CMEA member countries*, CMEA Secretariat, Moscow, 1971, p. 52.

and sufficiently wide market in the socialist countries for specified manufactures from countries members of regional groupings, to enable these manufactures to be produced on a large scale and thus penetrate other markets, including the regional market, on competitive terms, and so on.

23. In the sphere of technical assistance, the socialist countries might extend to regional groupings the measures they already adopt in their bilateral programmes. Their action might include technical assistance measures in the following areas:

(*a*) The identification, preparation and evaluation of specific investment projects for implementation within the region;

(*b*) The exploration, inventory and exploitation of the region's mineral and marine resources;

(*c*) The establishment of regional enterprises;

(*d*) The technical management of these enterprises, particularly with regard to the introduction and use of patents, licences and trademarks supplied by the socialist countries and to production processes and product marketing;

(*e*) Vocational training for the staff of such enterprises;

(*f*) The administration of public-sector enterprises of developing countries members of regional groupings;

(*g*) The identification and marketing of regional products with favourable sales prospects for foreign markets, particularly those of socialist countries;

(*h*) External trade policy planning for developing countries members of regional groupings in which State trading plays an important role;

(*i*) Co-ordination at the regional level of the investment, production and external trade programmes of developing countries members of regional groupings; and

(*i*) Support for regional bodies and institutions.

24. In accordance with the procedures contemplated in Trade and Development Board resolution 53 (VIII), consultations and meetings between representatives of the socialist countries and of developing countries members of regional groupings might be organized under the auspices of the UNCTAD secretariat with a view to the preparation, programming and provision of the kind of technical and financial assistance which the socialist countries could give to specific projects connected with trade expansion, economic co-operation and regional integration among developing countries.

IMPACT OF ENVIRONMENT POLICIES ON TRADE AND DEVELOPMENT, IN PARTICULAR OF THE DEVELOPING COUNTRIES

Report by the UNCTAD secretariat *

[*Original text: English*]

CONTENTS

Introduction

1. At its eleventh session, by its decision 83 (XI) of 18 September 1971, the Trade and Development Board decided to include the topic "Impact of environment policies on trade and development, in particular of the developing countries" as sub-item 8 (*e*) of the provisional agenda for the third session of the United Nations Conference on Trade and Development.

2. On 20 December 1971, the General Assembly adopted resolution 2849 (XXVI), which in paragraph 10 requested the Secretary-General of the United Nations Conference on Trade and Development "to prepare a comprehensive study, to be submitted to the Conference at its third session, on the effects of environmental policies of developed countries which might adversely affect the present or future development possibilities of developing countries, by means of, *inter alia*:

(*a*) A decrease in the flow of international development assistance and a deterioration of its terms and conditions;

(*b*) A further deterioration in the trading prospects of developing countries by the creation of additional obstacles, such as the new non-tariff measures, which might lead to a new type of protectionism".

3. In the short time available and in view of the scarcity of data and detailed studies in this field, it has not been possible to prepare a fully comprehensive report on these problems. In the present document the attempt is made to identify the major fields in which actions in developed countries to safeguard the environment may have an impact on world trade, on international economic relations and on the Second United Nations Development Decade. The attempt is also made to select the issues having major repercussions on international trade and on the advancement of developing countries which deserve special attention in the formulation by developed countries of their environmental policies and the choice of instruments for putting the policies into effect.

4. The impact of environmental measures on international trade and economic relations will to a very large degree be determined by the shifts and changes that will take place in the economies of developed countries as a result of these measures. In most countries, actions concerned with the environment are at present in an early stage, and a complex debate is still proceeding on the standards and policy instruments that should be employed. In most cases, it is as yet far from clear how producers are going to respond to the measures that will be adopted, what new techniques will be introduced, and what shifts will ensue in production patterns. The very first steps in what will in the future be far-reaching changes are now being taken. Inevitably, therefore, most of the present study has to be of a speculative, deductive, character.

Scope and essence of the problems

5. At present, there is no universally accepted definition of the meaning of the term "environment". In some contexts, the issues involved are narrowed down to specific problems of pollution control or resource management, but the general trend is towards a broader study of the complex interaction of man and his environment, of the numerous aspects of the ecological cycle, of the cycles created by the exploitation of mineral resources, of food chains, etc. Viewed in this way, many problems concerning pollution, resource management, urbanization, etc., reflect specific disharmonies in what should be a continuous cycle of use and re-use.

6. The environment is not a new subject of discussion. But the rapid advances made in the last decades by science, technology and industry, in the specific forms that they have taken, the rapid growth of population (especially in urban areas) and the increase in *per capita* incomes in

* The text of this report was circulated to the Conference as document TD/130, dated 13 March 1972.

certain regions have given rise to pollution and waste disposal problems on an unprecedented scale and demonstrated that the earth's resources are limited. In regions of intensified industrial development, environmental problems are acquiring a tangible economic significance; in certain areas of the world the continued expansion of industry may be threatened. Many vital ecological and mineral cycles are becoming distorted. According to one study, the amount of oxygen produced within the United States is only about 60 per cent of the amount consumed.[1] Increasing amounts of minerals and non-renewable resources are being exploited; large quantities of non-degradable substances are being produced. It has been estimated that in the world as a whole 500 million hectares of arable lands have already been lost through erosion and salination and that two thirds of the world's forest area has been lost to production; 150 types of birds and animals have become extinct through human agency and another 1,000 species are considered to be rare or endangered.[2]

7. The acuteness of the problems caused by ecology and resource imbalances is often dulled by the fact that up to now they have tended to be concentrated and to manifest themselves in limited though growing areas and regions. Accordingly, these problems have tended to be dealt with or obscured by an international movement of resources to and from areas where the problems have not been so acute.

8. Partially, the movement to rectify ecology and resource imbalances is the result of the action of the forces of nature (e.g., the movement of oxygen in the atmosphere), but to a large extent it is a man-made phenomenon brought about through the medium of foreign trade. In consequence of economic development and industrialization in new areas (and in so far as they proceed along established lines), hitherto untapped resources will diminish and the possibility of solving environmental problems through movements of resources to and from "virgin" areas will, therefore, decrease.

9. The growing seriousness of environmental problems is already leading to major reappraisals and to studies on new lines in many fields of science and technology. Short-term solutions are being sought through the utilization of new raw materials and of new energy sources, through progressively stricter pollution standards, etc. At the same time, increasing thought is being given to over-all long-term solutions, primarily by means of a more general use of recycling, both at the enterprise and at the national economy levels (e.g., the regeneration of scrap and waste products, recycling of water, heat, etc.).[3] Growing attention is being given also to different aspects of waste disposal, including the very serious question of the rapid growth of non-degradable materials. Some experts suppose that the reintroduction of resources into the ecological cycle or into the natural environment may necessitate the creation of new industries which could be comparable, in size and scope of activity, to the extractive branches of industry.

10. Concern with the environment is stimulating a serious reappraisal of some fundamental economic concepts, such as the relationship between production and development, between private rates of return and social rates of return, between product consumption and the quality of life. New methods of measuring GNP, taking into account the quality of life, are being put forward. The need for a profound study not only of external economies but also of external diseconomies is being stressed. The capability of the market mechanism to cope with environmental problems is being questioned, and the need to attach a price to water, air and other resources (previously considered as "unlimited" and "free") is very broadly recognized.

11. It is not the object of this report to discuss the impact of environmental issues on socio-economic thinking in general,[4] but one problem deserves special mention. Many environmentalists are claiming that certain natural resources are seriously undervalued and underpriced. Studies aimed at correcting the present undervaluation of natural resources (possibly through the imposition of higher rents or levies by Governments in all producing countries) are being initiated, though practical results cannot be expected soon. Some of these studies are motivated primarily by the idea that a higher price for primary commodities would stimulate a broader extraction and use of secondary materials from waste. The results of such studies, when available, would require careful examination since a revaluation of natural resources will have a direct bearing on the development of countries producing and exporting primary commodities.

12. Studies aimed at accumulating the necessary data defining and appraising the complex interaction of interconnected processes and formulating a comprehensive programme of action and policy relating to the environment will inevitably take years. In the meantime, different countries are approaching, from various angles, the most pressing of their environmental problems. The result at present is a very heterogeneous pattern of piecemeal measures dealing with pollution control, natural resource management, urbanization, etc.[5] These measures differ very much from one country to another and from one branch of industry to another. There is still no uniformity as to the main objectives. Some support the idea that the adoption of and adherence to minimum standards will guarantee a sufficient quality of the environment at a smaller cost to the economy. Others consider that the objective should be to prevent as much pollution as possible, thus going

[1] L. C. Cole, "A race for survival", in *Dialogue* (Washington, D.C.), vol. 3 (1970), No. 3, p. 8.

[2] "Problems of the human environment", in *Development Digest* (Washington, D.C.), vol. IX, No. 1, January 1971, p. 6.

[3] See in this connexion OEEC, *Air and Water pollution (The position in Europe and the United States)* (Paris, June 1957); ECE, *Economic Aspects of Treatment and Disposal of Certain Industrial Effluents*, vol. I-III (United Nations publication, Sales No. 67.II.E./Mim.56); and *Problems of air and water pollution arising in the iron and steel industry* (United Nations publication, Sales No. E.70.II.E.6). See also "Turning junk and trash into a resource", in *Business Week* (New York), 10 October 1970, pp. 66-75.

[4] An interesting attempt in this field has been carried out by ECE in its report on the Symposium held at Prague from 2 to 15 May 1971 (ECE *Symposium on problems relating to environment* (United Nations publication, Sales No. E.71.II.E.6)), part II, section F.1 (An introductory review of attempt to incorporate environmental issues into socio-economic thinking as presented in recent literature).

[5] See ECE, *ECE Symposium on problems relating to environment, op. cit.;* also the country reports to the United Nations Conference on the Human Environment (listed in the Conference document entitled "Bibliography" (A/CONF.48/13/Rev.1) (offset).

beyond the minimum standards approach; the achievement of this objective presupposes the devotion of larger resources to the preservation of the environment. The crux of the problem is that the costs of eliminating pollution from water and air rise exponentially with the degree of cleanliness sought. The elimination of the last 1 per cent of pollutants costs nearly as much as the elimination of the whole previous 99 per cent.

13. Another much-debated question is to what extent and in what form economic considerations should be taken into account in fixing environmental standards. At first it was generally assumed that these standards should be worked out on a case-by-case basis, in the light of the specific conditions of each situation, but experience has shown that this approach leads to great delays and evasions. For this reason, the idea has lately been gaining ground that it is necessary to impose very strict standards on those responsible for the discharge of effluents and to make it the task of the polluter to apply for exemptions and rebates, if he can prove that compliance with the standards will involve prohibitive costs.

14. Opinions are deeply divided also on the question of who should pay for the safeguarding of the environment. As regard problems arising from urbanization, public services and related activities, there is less controversy; it is generally recognized that the State should defray the expenses involved in safeguarding the environment against deterioration from these causes. But in relation to pollution and other environmental problems caused by the process of production, there is no unanimity of views.

15. Many parties, including most of the representatives of industry, consider that Governments and municipalities should absorb as much as possible of the cost of protecting the environment; this approach presupposes a broad use of government investments and subsidies to industry, thus spreading the cost burden of environmental measures. Others support the idea that it is the polluting industries, which have previously benefited most from the free use of natural resources, that should now pay for cleaning the environment; according to this view, the quality of the environment should be safeguarded by a system of strict standards, restrictions and taxes, and subsidies and government investments should be avoided as far as possible. At present, a mixture of both approaches is being applied in varying proportions in all countries.[6] More comprehensive environmental policies are now in the process of being worked out.

General impact of environmental measures on world trade

16. Environmental measures deal with a very broad and heterogeneous group of problems and involve policy decisions of very diverse kinds. Some of them have a direct impact on world trade and international economic relations, since they envisage the adoption of special commercial policy measures or of internal standards which lead to changes in the demand for certain imported products. In this respect, air pollution control measures and safety and health standards are the most prominent. On the other hand, such measures as water and noise pollution control, town planning regulations, reafforestation and the creation of game parks do not as yet seem to have an immediate or direct influence on international trade. But, in the long run, nearly all environmental actions, since they lead to large budget expenditures, to a reallocation of national resources and to changes in the processes and patterns of production, will bring about shifts in costs, competitiveness and comparative advantages, and thus have an indirect but tangible impact on world trade and economic relations.

17. A major direct effect of environmental measures on international trade can be seen in the growth of trade in pollution control equipment. According to existing estimates, the United States market for equipment to control water and air pollution is more than 500 million dollars and is growing at a rate of 15-20 per cent per year.[7] The market for anti-pollution software (maintenance costs) is at least of the same size. In Europe, the market for anti-pollution equipment, by all reports, exceeds $500 million and is growing at a rate comparable to the United States market.[8] Increasing specialization among European producers is creating a growing international trade flow both in anti-pollution hardware and software. In so far as action to safeguard the environment is taken by developing countries, they will have to import new equipment for this purpose.

18. International trade in an increasing group of commodities is directly affected by such measures as import regulations and standards and health control regulations imposed for the purpose of protecting the environment, which directly or indirectly act as non-tariff barriers.[9] Many countries have introduced elaborate safety regulations and exhaust emission control standards which influence at present, and will to a greater extent influence in the future, the international trade in vehicles. More and more countries are laying down new conditions (such as minimum percentages of biodegradability, etc.) governing detergents and some other synthetic products. Growing attention is being devoted to the regulation of the use and of imports of hazardous products and substances (such as preservatives in foodstuffs, dangerous dyes, paints with a high lead content, etc.). Registration and labelling regulations are becoming more elaborate. Since most of these regulations and standards differ from one country to another, this diversity may lead to a fragmentation of the international markets.

19. In the long term, however, environmental measures will exert their greatest influence on international trade

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[6] In the United States of America, annual expenditures on pollution control total $9.5 billion, of which $7.5 billion is paid by the Federal Government, States and municipalities, and $2 billion by industry. In Sweden, during the next five years, the State and municipalities will be making more than 80 per cent of the investments in the protection of the environment.

[7] See J. Davenport, "Industry starts the big clean-up" in *Fortune*, February 1970, p. 178; also *Environmental Science and Technology* (New York), November 1970, p. 884.

[8] According to various country reports submitted to the ECE Symposium on problems relating to environment (see ECE, *ECE Symposium on problems relating to environment, op. cit.*); see also "Trade collides with ecology", in *Business Week* (New York), 23 January 1971, p. 76.

[9] See GATT, *Studies in international trade, No. 1—Industrial pollution control and international trade* (Geneva, July 1971).

and on the execution of the International Development Strategy for the Second United Nations Development Decade not so much directly through commercial policies and trade regulations, as indirectly through the financial implications of such measures, through structural changes, and large-scale reallocations of resources, and through profound changes in production processes, production costs, location of industries, etc. For example, anti-pollution and natural resource management considerations may substantially accelerate shifts in the use of energy and fuel resources, such as the growth of the share of imported fuels in total energy consumption, a decrease in the use of coal combined with a growth in the use of oil, natural gas and, later, of nuclear energy, shifts away from high-sulphur Near East petroleum towards low-sulphur North African oil, etc.

20. At present, a detailed study of structural shifts and changes in techniques and production costs provoked by environmental measures is practically impossible, not only because the actual scope of such measures and the character of the standards to be applied are still being debated, but also because the existing data on possible new techniques and on cost and price implications are very contradictory. In a recent study, an attempt was made to assemble available data on the investment and operating cost that will be incurred by copper companies in the United States of America to achieve compliance with air pollution standards for sulphur dioxide emissions.[10] Some estimates put the capital costs at $87 million, others at $607 million. According to different studies, estimates of the incremental cost range from 16.6 to 2.8 cents per pound of copper produced (i.e., from 5 to 30 per cent of current prices). Such wide discrepancies are only partially attributable to unequal conditions in different enterprises and regions; to a much greater extent they reflect the absence of a uniform approach and methodology of appraisal, and the existence of divergent vested interests. In these circumstances it is possible only to indicate general orders of magnitude and attempt a survey of over-all trends.

21. Existing data tend to show that environmental measures are going to consume a tangible and increasing share of resources in developed countries. In the United States, for instance, during the late 1960s, it was considered that compliance with adopted and pending environmental standards would mean a two- or threefold increase in expenditures on the protection of the environment, and the allocation to this purpose of $10-20 billion a year (i.e., 1-2 per cent of the GNP) during five or ten years.[11] Lately, figures of between $20-30 billion (i.e., 2-3 per cent of the GNP) are being cited.[12] In Sweden, it is envisaged that spending on environmental protection measures during 1971-1975 will amount to about 8-9 billion Swedish crowns, or 1.6-1.8 billion Swedish crowns a year, equal to a yearly expenditure of 1.4-1.6 per cent of GNP.[13] Estimates for other countries are of a similar order of magnitude.[14] In the Netherlands, a country with a very high population density, a high concentration of industry and complex water problems, the expected expenditures on the environment might be larger (according to some estimates up to 4-5 per cent of GNP).[15]

22. These estimates are obviously very tentative. On the one hand, they are based on current costs of anti-pollution measures, which can be expected to fall with the advance of science and technology. On the other hand, they do not take into account new problems and new expenditures which inevitably will arise. It can, therefore, be considered that a figure of 1.5-2 per cent of GNP is a very rough minimal indicator of the size of the expenditures to be incurred by the industrialized nations in protecting the environment. The real expenditures envisaged for the next few years by different countries vary greatly and in many cases fall short of these estimates.

23. Additional expenditures on the environment will in varying degrees lead to price increases in different industries. As yet, it is very hard to take into account the interaction of various measures, and most of the existing estimates relate to the effects of a specific measure. One of the most elaborate estimates has been calculated by Leontief and Ford on the basis of input-output data for the United States of America;[16] they tried to evaluate what the price increases would be if some major polluting industries were to comply with the standards of the United States Clean Air Act of 1967 and if they were to substitute low-sulphur fuels for high-sulphur fuels. The estimated percentage price increases quoted by Leontief and Ford for some industries are given in the table below: [17]

Industries	*Percentage price increases necessitated by compliance with the Clean Air Act, 1967*	*Percentage price increases necessitated by the substitution of low-sulphur fuels for high-sulphur fuels*
Electric utilities	7.3	2.9
Iron and steel foundries	3.5	2.9
Coal mining	0.5	6.1
Primary non-ferrous metals	16.8	3.4
Secondary non-ferrous metals	3.0	1.9
Petroleum refining	0.2	8.3
Industrial chemicals	0.6	10.3
Plastics and synthetics	0.4	6.2
Fertilizers	0.8	4.7

On the average, it is estimated that compliance with adopted and pending environmental standards would

[10] See United States Department of the Interior, *Bureau of Mines Information Circular/1971, No. 8527, Control of Sulphur Oxide Emissions in Copper, Lead and Zinc Smelting* (Washington, D.C.), pp. 49-53.

[11] See "$300 billion for clean air and water", in *US News and World Report* (Washington, D.C.), 3 April 1967, pp. 42-45; also *Fortune* (Chicago, Ill.), February 1970.

[12] Ferrier Lullin et Cie, *Possibilités de placement dans le secteur de la lutte contre la pollution aux Etats-Unis* (Geneva, 17 January 1972), p. 1.

[13] According to a report submitted by Sweden to the United Nations Conference on the Human Environment.

[14] *European Business* (Paris), No. 32 (winter, 1972), pp. 70-73.

[15] *De Nederlandse Onderneming* (The Hague), 7 January 1972, pp. 5-8 and 22.

[16] W. Leontief and W. Ford, "Air pollution and the economic structure: empirical results of input-output computations" (mimeographed, referenced in the GATT study mentioned in foot-note 9 above).

[17] *Ibid.*, table 7.

mean a 5-10 per cent rise in costs of production and a 5-10 per cent growth of capital expenditures in major industries.[18]

24. Such a rise in internal prices would lead to a rise in export prices of 4 to 9 per cent.[19] Even if one takes the lower rate of cost increase, this would become a tangible factor in competition between developed countries. Unless environmental actions with such far-reaching consequences are harmonized internationally, their enforcement by one country might lead to serious shifts in production costs and competitive power, and consequently to efforts towards tariff and non-tariff protection of industries whose costs have risen because of compliance with regulations concerning the environment.

25. For developing countries, such a rise in the prices of their exports to developed countries would mean a serious deterioration in their terms of trade. In some cases, it might lead to a transfer of industries from countries with higher environmental standards to countries, including developing countries, where environmental standards were not so strict. However, since concern with the environment is growing in all countries, the scope of such capital outflows is evidently limited.

26. It is as yet too early to define the scope and character of future shifts in specific commodities and areas, but much will depend on the methods and policy instruments through which environmental actions will be carried out. In some cases, preference will be given to governmental or municipal action, to subsidies to producers, and to other instruments which spread the cost burden. In these cases, the major effect on the developing countries will be a general, though less marked, rise in their import prices of a wide range of goods and a corresponding deterioration in their terms of trade. In other cases, stress will be put on taxes, charges for effluent and other penalties levied directly on polluting industries, forcing them to make investments in pollution control. These methods increase the cost disadvantages of the industry concerned, raise its prices, give an incentive to a geographical redistribution of industry and to the export of capital by the industry to countries with less stringent environmental controls. (Such action may be supplemented by protectionist action, referred to in paragraph 32 below.)

27. Environmental measures will thus have a major impact on the pattern of international trade, on the location of industries and on foreign investments. The consequential prospective changes have a special significance for developing countries, since they can directly affect, for better or for worse, a tangible part of their foreign trade. Moreover, environmental measures involve, as has been shown, large expenditures. Many of these expenditures are incurred in connexion with measures (expansion of water sewage systems, solid waste disposal, etc.) which have primarily an internal significance for developed countries and are not directly related to the interests of developing countries. At the same time, concern with the environment is growing in a world which is becoming ever more conscious of the problems of the developing countries. Every effort should therefore be made to establish, as far as possible, a complementarity between the efforts made to better the human environment and the efforts to implement the International Development Strategy. Full complementarity cannot, of course, be achieved, but special care can and should be given to identifying all possible areas for such complementarity and at the same time to minimizing any possible conflict or contradiction between the two aims. It would be a major setback if the solution of environmental problems were to create fresh difficulties for developing countries.

Environmental measures in developed countries influencing the export possibilities of developing countries

28. Environmental measures already undertaken by developed countries have not as yet had a very far-reaching effect on international trade in general or on the export possibilities of developing countries in particular, but, with the broadening of the scope of these measures, their impact may become greater.

29. Environmental measures already adopted will directly or indirectly lead to a restriction of imports from developing countries, primarily imports of foods processed with certain chemicals. The importation of fruits and vegetables carrying traces of DDT and some other pesticides has, for example, already been banned in a number of Western European countries.

30. Anti-pollution measures undertaken in many countries, and related shifts in consumer preferences, create indirect import restrictions. For example, most countries are taking measures to limit the use of lead as an additive in automobile fuel, in paints, etc. In Sweden, a reduction of about 20 per cent in the mean lead content of motor fuel has taken place between 1968 and 1971 as a result of new regulations. Such restrictions are undoubtedly depressing lead consumption and contributing to the present stagnation of lead exports from developing countries, the volume of which has now been stable for three years. The restriction on sulphur emissions and on sulphur content in fuel is leading to certain shifts in favour of such countries as Libya in the geographical pattern of oil imports into developed countries. Preoccupation with non-degradable detergents might lead to a diminution of imports of related raw materials. However, as yet the size of these shifts is small.

31. Fundamentally, such measures cannot be regarded as restrictive trade practices in the conventional sense; in many cases, they are closer to health control regulations. On the other hand, environmental considerations can be and sometimes are invoked as a pretext for protectionist measures. It is very important, therefore, to work out a set of criteria to distinguish between cases where trade restrictions are an inevitable part of genuine environmental action and those where environmental considerations are used to disguise protectionism. The latter measures should be opposed, like other restrictive trade practices. As to the former, it would not be realistic or appropriate to try to

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[18] See, in this connexion, A. V. Kneese, "The Economics of Environmental Pollution in the United States", in A. V. Kneese, S. E. Rolfe and J. W. Harned, *Managing the Environment: International Economic Co-operation for Pollution Control* (New York, Praeger, 1971), pp. 28-30; also *Fortune* (Chicago, Ill.), February 1970, p. 123.

[19] A. V. Kneese, *op. cit.*

abolish such restrictions, but because of their potentially disruptive effect on world trade and on developing countries' exports, action should be taken to cushion their unfavourable consequences through a system of prior consultations and advance notification by developed countries of contemplated environmental measures. In certain cases, it might be possible to consider devoting part of current aid efforts to adapting export industries in developing countries to the new requirements in developed countries or to a restructuring of their economy and a diversification of exports.

32. In certain cases, it is suggested that import restrictions (tariff and/or non-tariff barriers) might be applied to products originating in countries which do not adequately protect their environment; the avowed object is to protect those industries in developed countries whose production costs are noticeably increasing under the impact of environmental measures. Such import restrictions would have a protectionist character and could constitute a serious obstacle to the export potential of developing countries.

33. Environmental damage, in most cases, is a by-product of the processes which enabled industrialized countries to achieve a high level of competitiveness for their products. To demand that countries which are just beginning to industrialize should adopt rigid environmental standards not only deprives them of the possibility of defining their own development strategy, and their own priorities in relation to development and environment, but also might deal a severe blow to their attempts to participate in world trade and expand their exports. Their export potential would suffer, since their initial capital costs would increase and they would lose a potential comparative advantage, in that in many cases the carrying capacity of their environment has not been used up. Every possibility should be studied for minimizing such an unfavourable impact by exempting developing countries from the scope of import restrictions related to production processes, or by introducing special time-lags before such restrictions are enforced against developing countries. Whenever import policies begin to be concerned less with the quality of a product and more with the environment in which it was produced, there is a major danger that environmental arguments might be invoked as a pretext for increasing protection.

34. The preoccupation with the environment has tended to give a new dimension to the relationship between natural and synthetic products. Attention has been concentrated on two aspects of synthetic products, on the one hand the properties of synthetic products, and on the other, the role of chemical industries as major polluters; consideration of the latter aspect necessitates a reappraisal of the role and the economic and social benefits of those industries.[20]

35. Though many synthetic products have new and desirable qualities which can give them a great competitive advantage, the growing preoccupation with the environment is disclosing many of their qualities (e.g. non-degradability) which are undesirable and which, in the future, may tend to diminish markets for them. Both government regulations and consumer preferences have tended to create difficulties and unease concerning many chemical pesticides and have reactivated markets for pyrethrum and other natural pesticides. There are signs of analogous trends towards the use of natural products in detergents and fats. Similar trends might ensue from studies of the effect of synthetic fibres on human health.

36. At the same time, chemical industries are major polluters of both air and water. In response to environmental measures, these industries are at present making large-scale investments (up to 10-20 per cent of their total new capital outlays) in anti-pollution equipment and installations. Such expenditures will inevitably raise the costs of many chemical products. As already noted in paragraph 23 above, compliance with the United States Clean Air Act of 1967 would raise the cost of industrial chemicals and synthetics by 0.4-0.6 per cent, and the substitution of low-sulphur for high-sulphur fuels would further increase these costs by 6-10 per cent.[21] Of course, this does not automatically mean that synthetics will be priced out of the market by natural products.

37. The chemical industry is actively searching for ways to diminish the damaging effect of environmental measures on its competitive position. Serious attention is being devoted to new recycling techniques and to the use of by-products. Because the effluents of chemical industries contain more valuable products than do those of the metallurgical industries or public utilities, recycling efforts in the chemical industries are yielding certain results. Some companies expect, through such efforts, to recover more than half, if not all, of their anti-pollution expenditures.[22] But these calculations are based on present standards and prices, which are far below the levels which will prevail if all environmental considerations are taken fully into account. If environmental measures deemed necessary are effectively enforced (e.g. if substitution of low-sulphur for high-sulphur fuel should become mandatory and the price of fuel should reflect more fully environmental and resource-scarcity considerations), the chemical industry will be faced with much larger capital costs and price rises.

38. In the light of the foregoing, it is worth while to re-examine the relationships between natural and synthetic products. Such a re-examination might disclose areas in which, instead of additional expenditure being incurred to secure a standard of quality in the production of

[20] An ECE paper, discussing the adverse effects of certain chemical industries on human health and environment, states: "Such effects have recently given rise to serious doubts as to whether positive net benefits are yielded at all by the production and use of certain chemicals. While efforts are being made to render such chemicals less persistent and noxious, a thorough re-examination of the benefits and drawbacks of the contribution of this industry to economic growth and human welfare would seem advisable, taking into account postulates for environmental safety" (ECE, *ECE Symposium on problems relating to environment, op. cit.*, part II, section A.4 (Environmental issues of critical importance relating to the subjects of the Symposium), p. 42).

[21] See also *Vision* (New York), December 1971, p. 30.

[22] United States of America, *The Economics of Clean Air: report of the Administrator of the Environmental Protection Agency to the Congress of the United States in compliance with Public Law 90-148*, 92nd Congress, 1st session, Senate document No. 92-6 (U.S. Government Printing Office, Washington, D.C., March 1971), p. 136; also *Business Week* (New York), 1 January 1972, pp. 32 and 33, and G. Bylinsky, "The mounting bill for pollution control", in *Fortune* (Chicago, Ill.), July 1971, pp. 86-88.

chemical synthetics which will obviate any harmful effects on the environment, funds could be more advantageously devoted to promoting and bettering the production of natural products, so as to protect the environment of developed countries and at the same time contribute to the solution of problems of developing countries. This could be a very fruitful area in which complementarity between efforts to improve the human environment and efforts to implement the International Development Strategy might be sought.

39. In the long run, one of the most formidable problems facing the primary producing developing countries arises from the growing trend towards the extensive recycling and re-use of secondary raw materials, which will be one of the major methods of protecting the environment. This trend is at present coming up against numerous technological and economic difficulties and cannot be expected to gain a very great momentum soon, but it will grow slowly, especially if the prices of primary commodities should rise. Increased recycling will restrict the growth of primary export markets, but as a rule this should not lead to serious market distortions in the short run. But in cases of profound technological breakthroughs, market disruptions might follow, and it seems necessary to safeguard the interests of primary producing countries in such cases, both through a system of prior warning and consultation and through compensatory financing. In the long run, the recycling of raw materials and natural resources will have a depressive effect on the volume of exports from developing countries. Its impact on prices and export earnings will be more controversial and more difficult to predict, since large-scale recycling might in some cases begin only in a situation of excess of demand over supply. In general, the introduction of recycling at an enterprise or a national economic level will have a major impact on primary producing countries and will have to be seriously taken into account in future development strategies.

Some cost aspects of environmental measures for developing countries

40. At present, environmental problems primarily concern developed countries; however, many of those problems (resource management, pollution control, etc.) will, in the near future, have to be faced by the developing countries in the process of their modernization, industrialization and urbanization. This fact has not yet been fully realized. Moreover, many developing countries tend to postpone environmental action, for they assume that the environment can be protected only or primarily at the cost of economic development. Such an assumption is not valid in many cases, and it seems worth while to make a more detailed case-by-case analysis of different environmental questions and their relation to economic development, given the specific problems and the factor endowment of developing countries.

41. First, it should be stressed that most of the contemplated international action to control marine pollution, weather monitoring measures, and the dissemination of information can be of direct benefit to the economic growth of developing countries (for example, by preserving a resource basis for their fisheries, by providing warning against natural disasters, by adding to the available know-how), without any large-scale investments on their part.

42. Secondly, the most costly item in the environmental programmes of many developed countries is the separation of storm and sanitary sewers. (This item accounts for up to 40 per cent of forecast increases in expenditures on the environment during the next five years in the United States, Sweden and some other developed countries.) In many older towns, at least a portion of the sewage is carried in the same conduits as the rain water. During periods of heavy rainfall, treatment plants cannot accommodate the large volume of water, and part of the sewage must be discharged together with the rain water, without treatment. The situation is comparable in many developing countries that experience regular tropical rainstorms. In those places where old-fashioned sewage systems exist, there will be an increasing need for their reconstruction. But, given the surplus of unskilled labour and the large potentialities and low costs of the construction industries in most developing countries, such a reconstruction should not be as costly as it is in developed countries. In many cases, however, a new sewage system has to be created for the first time; in such cases, the environmental experience of developed countries can be fruitfully used with very little additional cost.

43. Thirdly, major environmental problems are those concerning soil conservation and the proper use of land, fertilizers, pesticides, etc. In developed countries, the solution of these problems is often hampered by a shortage of unskilled manpower for large-scale earthworks and for more labour-intensive agricultural techniques. In developing countries, a broad programme in these fields could help to solve two problems at one time—a vital environmental problem and the problem of employment for unskilled labour.

44. A major item of expenditure on the environment in developed countries is the group of measures aimed at eliminating previously accumulated wastes. Except for some small highly-industrialized areas (e.g. that of São Paulo) the need for such measures in developing countries is far smaller than in developed countries. Developing countries evidently have an advantage here, since in many cases they have not reached the threshold above which pollution ceases to be offset by natural processes. The scope of this advantage is hard to assess, since the level of pollution in developing countries is in most cases unknown, and the criteria for defining such a threshold have not been elaborated. Work in this field deserves high priority; in any case, the existence of such an advantage in developing countries can be postulated.

45. From the foregoing discussion, it follows that developing countries have a marked advantage over developed countries in the above-mentioned fields of environmental action and the dilemma of development *versus* environment is, practically, not as acute as it may at first seem. Stress on environmental aspects of economic development in these fields could be very advantageous to

developing countries, and would focus attention on the prevention of environmental problems for the future, with little to face in the way of additional costs at present.

46. It should not be inferred that the developing countries are not faced with a dilemma between economic growth and environmental quality in other respects. On the contrary, these countries are faced with such a dilemma in a number of fields. First of all, there is the whole set of problems connected with the elimination of mass poverty and hunger, particularly in urban areas, which constitute the most acute aspect of the environmental problems faced by developing countries. Moreover, these problems place an enormous strain on the national resources; they are, however, of a more general developmental character and cannot be seen as purely environmental. Secondly, there are the specific problems stemming from industrial development. The establishment of new industries is usually connected with a certain degree of environmental pollution, the elimination of which will necessitate additional capital expenditure. Most often, however, the installation of anti-pollution equipment for a new plant is cheaper than its installation in an existing plant. From this point of view, and also since they do not have a large number of factories needing re-equipment for the protection of the environment, the developing countries have a certain advantage.

47. The preceding comparison of expenditures on environmental measures in developed and developing countries makes it possible to draw some additional conclusions concerning the effects of such measures on trade between these two groups of countries. Anti-pollution regulations and resource management measures will, in the near future, be introduced on a much broader scale and will be costlier in developed than in developing countries, even if the latter adopt equal standards for the quality of the environment. Accordingly, the application of such measures will tend to increase production costs in developed countries to a larger extent than in developing countries. This statement, of course, needs qualification, according to the instruments of environmental policy employed, the degree of concentration of the cost burden in different sectors, and other factors. If subsidies are broadly applied, this rise in prices across the board will not be very large. If the expenditure is concentrated in specific industries, the effect will be more noticeable.

48. In some cases, higher expenditures on the environment in developed countries may, especially in the short term, favour the export promotion and import substitution efforts of developing countries in specific fields. Anti-pollution measures in developed countries might provide an incentive for the increased processing of raw materials (especially minerals) in developing countries before export to developed countries.[23] They may also lead to increased capital exports to developing countries and to shifts in the location of some manufacturing industries.

49. In this connexion, the whole issue of "capital exports with pollution" must be investigated. It is sometimes stated that some countries, especially developing countries, might on occasion be faced with a choice between stricter environmental control with a smaller inflow of foreign capital, and less stringent environmental control with a larger inflow of foreign capital. The thinking behind such an approach is that industries which would have to incur higher costs because of environmental measures may decide to establish enterprises in areas where such measures have not been adopted. In fact, such a movement, though on a small scale, is already taking place, especially from Japan to South-East Asian countries. In practice, such a possibility arises primarily in cases where special measures are taken in developed countries to curb the expansion of polluting industries or where not only are the additional costs of complying with regulations for protecting the environment high enough to justify a geographical movement of capital, but also the cost burden is placed fully or mainly on the producer. Such cases are most common in the metal extracting and processing industries, in the petroleum and chemical industries, and in the paper and pulp industries. On the whole, however, owing to the growing preoccupation with the environment, it can be expected that countries—including developing countries—that have not yet taken environmental action will do so in the near future; hence, the economies realized by foreign investors through not taking environment-protection measures may well be short-lived, and they may soon have to make additional investments in relation to their foreign factories to satisfy local control regulations, just as they would have to do at home. For this reason, environmental considerations may not prove to be as great an incentive to capital exports as might otherwise be expected.

50. In all cases where a dilemma between faster economic development and the protection of the environment arises, no single solution can be proposed, especially for developing countries. At best, at this stage one can enumerate the major factors and alternative possibilities to be taken into account. In many cases, efforts to reconcile as far as possible the two alternatives, to find solutions conducive to the achievement of both objectives, may give the best results. So far as possible, large-scale investments, which for reasons of economy do not at present include investment in modern methods for protecting the environment but will, in the fairly near future, to a large degree have to be replaced by new investments because of environmental considerations, should be avoided. Wherever possible, provision should be made for the later installation of adequate equipment for safeguarding the environment. But in the last resort, priorities in the development process, and specifically the relationship between economic development and the protection of the environment, will have to be determined by national policy decisions, with due regard to the situation in the country and its development strategy.

The environment and foreign aid

51. The growing concern with the environment in developed countries has as yet had little impact on development assistance policies, on the amount of aid given to

[23] It should be noted that the primary processing of metals is among those industrial activities causing the most pollution, and additional investments and costs necessitated by compliance with anti-pollution measures are estimated to be among the highest in all industries (see the study by Leontief and Ford referred to in paragraph 23 above).

developing countries, or on the terms and conditions of such aid. As to the future, it is very hard at present to assess the character and size of the possible impact in this connexion. There is, however, a growing apprehension among developing countries that it might not be favourable for existing development assistance objectives.

52. First and foremost, it is feared that environmental measures might become a formidable competitor for the resources of developed countries. Present estimates show that in the near future 1.5 to 2 per cent of GNP may have to be devoted to the protection of the environment. Moreover, there is a growing feeling in developed countries that large-scale investments in the protection of the environment, by diverting resources into non-productive activities and by slowing down the construction of new enterprises, might retard economic growth and so diminish the total GNP; one consequence, among others, will be a narrowing of the basis for foreign assistance programmes.

53. Since the allocation of major resources in developed countries usually depends on political decisions, it cannot be overstressed that the solution of environmental problems in one part of the world cannot be achieved at the cost of slower development or growing poverty in another part.

54. There is also a danger that aid priorities and project appraisal might be distorted under the influence of environmental considerations in developed countries. For example, too much stress might be placed on projects connected with the environment, or greater emphasis might be attached to environmental considerations in appraising projects than is justified by the reasonable priorities set out by the developing country itself. Hence, there is a risk that environmental considerations might be invoked as a reason for postponing or rejecting projects which could have made a valuable contribution to the economic development of a country.

55. On the other hand, aid for urban development and many other projects of environmental interest has been accorded to developing countries for several decades. The growing concern with the environment can only increase its scope.

56. The possibility of giving to developing countries, on especially favourable terms, technical assistance and know-how in the field of pollution control and resource management should be studied. In cases where the natural carrying capacity of the environment in developing countries is reaching its limits, consideration should be given to incorporating in industrial projects created with foreign aid the necessary anti-pollution facilities. A very difficult problem here would be to ensure that the extra costs involved were met through supplementary funds provided on favourable terms—funds that were really additional to the over-all flow of development assistance.

Conclusions

57. Concern with the environment will undoubtedly exert in future a growing influence on international economic relations. Measures for the protection of the environment are not only a formidable competitor for developed countries' resources (which in some instances might have been devoted to development assistance) but also a factor which, to an ever-increasing degree, will influence the pattern of world trade, the location of industry in various countries, the competitive position of different groups of countries, and their comparative costs of production. Environmental measures by developed countries may thus have a profound and multiple impact on the growth and external economic relations of developing countries.

58. Some environmental measures by developed countries (for example, restrictions on the use of imports of certain commodities, the imposition of regulations, standards and other non-tariff barriers on imports), as well as increased production costs reflected in higher export prices, may have a negative effect on developing countries' export potential and on their terms of trade. Every effort should be made to avoid, or to attenuate, the application to developing countries of tariff and non-tariff barriers which are designed to protect industries that incur higher costs by reason of environmental measures. Recycling, at an enterprise and at a national economic level, will also tend to diminish the volume of primary commodities consumed in and imported into developed countries. In the long term, recycling will greatly stimulate vertical diversification and industrialization in developing countries. In some fields, concern with the environment offers new opportunities for developing countries, because natural products might acquire certain advantages over synthetic products that could reopen certain markets to them. In some cases, developing countries may be able to increase the inflow of foreign capital and to establish new industries at the expense of greater pollution and destruction of their environment.

59. At present, however, it is very difficult to assess the precise magnitude and character of this complicated series of impacts. Many problems are just beginning to manifest themselves. Much will depend on how far and how fast environmental measures in developed countries are put into force, but much will also depend on the extent to which the policies relating to the environment and their execution take into account the specific problems and needs of developing countries, and on the extent to which they are complementary to the objectives of the International Development Strategy. Obviously, special care should be taken to avoid any disruption of markets or restriction of the export possibilities for developing countries, and when such disruption or restriction is unavoidable the international community should seek ways of minimizing its impact on those countries.

60. It will be important for the United Nations Conference on the Human Environment to be held at Stockholm in June 1972 to take fully into account the trade and development aspects of measures for the protection of the environment. An appraisal of the decisions taken at that Conference from the point of view of their impact on international trade, and particularly the trade of developing countries, should be prepared by the UNCTAD secretariat and submitted at an early session of the Trade and Development Board, so that guidelines for further UNCTAD work in this area may be established.

IMPACT OF REGIONAL ECONOMIC GROUPINGS OF THE DEVELOPED COUNTRIES ON INTERNATIONAL TRADE, INCLUDING THE TRADE OF DEVELOPING COUNTRIES

Report by the UNCTAD secretariat *

[Original text: English]

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* The text of this report was circulated to the Conference as document TD/131, dated 28 March 1972, and the addenda thereto, dated 29 March and 30 March 1972 respectively, together with TD/131/Add.1/Corr.1, dated 12 May 1972. The report will also be issued separately as a United Nations publication.

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Part two

PART ONE

Comparison of the major groupings

Introduction

1. One of the most striking developments on the international economic scene in the post-war period has been the emergence of regional economic groups in Europe: the EEC and EFTA in western Europe and the CMEA of the socialist States in eastern Europe. In view of the prominent share of the countries comprising these groupings in world trade, the integration processes in Europe could not fail to affect international trade flows in general, and the trade of the developing countries in particular.

EEC

2. Of the two west European groupings, the EEC is both the more important in terms of economic size, and has gone further towards the integration process. It is an economic union of Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands, and its "economic umbrella" contains the following elements: first, the Six form a customs union as regards trade in industrial products, which means that all trade restrictions among themselves have been eliminated, and a common and uniform tariff—known as the Common External Tariff—has been erected against imports from outsiders. Since Belgium, the Netherlands and Luxembourg formed a customs union ("Benelux") even before becoming parties to the Treaty of Rome (which established the EEC),[1] the EEC was actually composed of four independent customs areas. As regards most industrial products the level of the Common External Tariff is the unweighted average of the tariffs of the constituent countries. On the whole, the adjustment of member countries' tariffs to the Common External Tariff required the Federal Republic of Germany and Benelux to raise their national rates, while France and Italy had to lower their tariff rates to reach the common average. Secondly, there is free trade in agricultural products among the six countries. At the same time, in keeping with the practice of most industrial countries of protecting their agricultural sectors and supporting the income of their farmers, the Six introduced a common agricultural policy, which is accompanied by highly restrictive barriers to imports from the outside. Thirdly, the Six have instituted a wide array of common or joint policies concerning energy and transport, assistance to the development of backward regions within the EEC, mobility of capital and labour between the member States, and assistance to various groups of developing countries. In particular, the EEC has formed a tightly knit association with 18 former African colonies of France and Belgium, has extended similar association arrangements with three East African countries and contracted preferential trade agreements with several Mediterranean countries.[2] Fourthly, there is co-ordination of policies and consultation on fiscal and monetary matters among the EEC countries. The EEC also has a host of political institutions.

[1] Signed at Rome on 25 March 1957 (United Nations *Treaty Series*, vol. 298 (1958), No. 4300).

[2] For details, see part two below and TD/101, chapter I, paras. 31-39 (see p. 8 above).

EFTA

3. By contrast, EFTA is a much more modest enterprise. Comprising Austria, Denmark, Iceland, Norway, Portugal, Sweden, Switzerland and the United Kingdom (with Finland having associate status) it is in essence a free trade area for industrial products. As in the case of a customs union, all intra-area trade is free of restrictions. But by contrast with the situation in a customs union, each member State maintains its own tariff rate against imports from the outside. As a consequence a free trade area requires the maintenance of border check points to determine the origin of goods and to prevent "trade deflection" (i.e. the importation of goods from an outside source into a high tariff member State via a low tariff member). Under EFTA rules, a product qualifies for duty-free admission into a member State if at least half of its value is produced within another member State.

The enlargement of the EEC

4. On 22 January 1972 the EEC signed agreements with the United Kingdom, Denmark, Norway and Ireland, for the four countries' admission into the Community, scheduled to take place on 1 January 1973. The first three of these four countries are at present members of EFTA, while Ireland maintains a free trade area only with the United Kingdom. The accession agreement had been approved by the British Parliament in October 1971 and in January 1972, but requires further implementing legislation. Denmark, Norway and Ireland still face a parliamentary vote as well as a national referendum on their agreements. On 3 December 1971, the Commission of the European Communities also opened negotiations with the members of EFTA not seeking full membership in the Community (Austria, Finland, Iceland, Portugal, Sweden and Switzerland), with a view to establishing a free trade area in industrial products between the enlarged Community and the non-acceding members of EFTA. It is also likely that the British Commonwealth countries in Africa would obtain associate status with respect to the enlarged Community, leading to an association of the Community with a large part of the African continent (for details see part two below).

CMEA

5. The process of economic integration of the socialist countries began toward the end of the 1940s, with the creation of the CMEA. The Council now comprises the USSR, the German Democratic Republic, Poland, Hungary, Czechoslovakia, Romania, Bulgaria and Mongolia.[3] During the initial years major efforts were directed towards the expansion of trade among member countries and the organization of scientific and technical co-operation. Since the mid-1950s, growing emphasis has been placed on the co-ordination of national development plans, and on furthering the international division of labour and specialization of the production of the member States. Trade flows in the CMEA are to a very large degree the outcome of co-ordination of investment and production plans.

[3] In 1964, the CMEA and Yugoslavia concluded an agreement concerning the latter country's participation in the work of CMEA agencies.

Basic differences in West European and socialist integration

6. There exists a profound difference between the nature of economic integration in market-economy countries and that in socialist countries. In the former, the major technique of economic integration takes the form of influencing decisions of private economic units which make the final decisions in economic matters. It consists primarily of measures, such as the dismantling of internal trade barriers, which affect the behaviour of these units indirectly—i.e. through the price and income mechanism. In socialist countries, with their predominantly State-owned means of production and decisive national economic planning, the major technique of integration is the co-ordination of national investment and production plans, supplemented by long-term trade agreements. Likewise, the trade performance of the market-economy countries is governed by decisions of individual entrepreneurs which are only indirectly influenced by government policies, while in the case of the socialist States both intratrade and external trade are governed by the national plans.

Comparisons of output and trade

7. Table I.1 contains several key economic indicators by reference to which one can compare the three economic groupings with each other (as well as with the United States and Japan) in two selected years. In the eleven-year span between 1958 and 1969 the EEC expanded its real GNP by 80 per cent, while that of the CMEA doubled (up to 106 per cent), and that of EFTA grew by 69 per cent. In terms of size, the GNP in 1969 of the EEC and the CMEA were about equal—nearly half that of the United States of America and double that of EFTA. From the point of view of the value of international trade and considering the EEC, EFTA and the CMEA each as one unit (i.e. excluding intra-area trade), the EEC is the world's largest trader, followed by the United States and EFTA in that order. The expanded EEC will be by far the largest trading group in the world.

8. Another difference between the three groups concerns the economic size of the countries in the different groups (table I.2). In terms of the size of total GNP and the value of external imports, the EEC is made up of two relatively large countries (Federal Republic of Germany and France), one intermediate size country (Italy) and the three relatively small countries comprising the Benelux area. The expansion of the EEC would add to it one relatively large and three relatively small countries. In EFTA the United Kingdom occupies a predominant position, accounting for more than half of all EFTA's GNP and nearly half of its trade. In the CMEA the USSR accounts for 71 per cent of GNP and 40 per cent of total imports. By reason of its size, the USSR has a much higher degree of self-sufficiency than any of the European countries. In this respect it is more comparable with the United States of America.

9. Table I.1 shows the ratio to GNP of total, intra-regional and external imports of the different economic groupings. While the share of total imports and intra-area imports in GNP differs from one grouping to another, it

TABLE I.1

Key economic indicators [a]

	EEC		*Expanded EEC* [b]		*EFTA* [c]		*CMEA* [d]		*United States of America for purposes of comparison*		*Japan for purposes of comparison*	
	1958	*1969*	*1958*	*1969*	*1958*	*1969*	*1958*	*1969*	*1958*	*1969*	*1958*	*1969*
1. GNP (current, in billion dollars)	169.8	426.8	245.3	563.3	104.0	207.2	203.1	421.3	454.9	947.8	31.9	166.4
2. Growth rate of real GNP (per cent)	5.5		3.8		4.9		6.8		4.5		11.2	
3. Total imports (billion dollars) (c.i.f.)	22.9	75.6	36.5	103.1	19.4	43.4	10.1	25.9	13.3	35.9	2.6	12.5
4. Intra-area imports (billion dollars)	6.7	36.3	12.8	51.2	3.5	10.6	5.8	16.4	—	—	—	—
5. Extra-area imports (billion dollars)	16.2	39.3	23.7	51.9	15.9	32.8	4.3	9.5	13.3	35.9	2.6	12.5
Of which: Imports from developing countries (billion dollars)	6.9	14.7	11.0	20.6	4.9	7.5	0.8	2.6	5.8	9.2	1.1	6.2
6. Total exports (billion dollars) (f.o.b.)	22.7	75.7	34.3	98.7	16.7	37.7	10.3	27.4	17.7	37.4	2.9	16.0
7. Extra-area exports (billion dollars)	15.9	39.3	22.0	48.5	13.6	27.7	4.3	10.9	17.7	37.4	2.9	16.0
8. Exports to developing countries (billion dollars)	6.3	11.1	9.7	15.8	4.3	6.7	0.8	4.0	5.9	11.1	1.2	6.8
9. Total imports as share of GNP (per cent)	13.5	17.7	14.9	18.3	18.6	20.9	5.0	6.2	2.9	3.8	8.3	7.5
10. Intra-area imports as share of GNP (per cent)	4.0	8.5	5.2	9.1	3.3	5.1	2.9	3.9	—	—	—	—
11. Extra-area imports as share of GNP (per cent)	9.5	9.2	9.7	9.2	15.3	15.8	2.1	2.3	2.9	3.8	8.3	7.5
Of which: Imports from developing countries as share of GNP (per cent)	4.0	3.4	4.5	3.6	4.7	3.6	0.4	0.6	1.3	1.0	3.6	3.7
12. Total exports as share of GNP (per cent)	13.3	17.7	14.0	17.5	16.1	18.2	5.1	6.5	3.9	3.9	9.1	9.6
13. Extra-area exports as share of GNP (per cent)	9.4	9.2	9.0	8.6	13.1	13.4	2.1	2.6	3.9	3.9	9.1	9.6
14. Exports to developing countries as share of GNP (per cent)	3.7	2.6	3.9	2.8	4.1	3.2	0.4	0.9	1.3	1.2	3.8	4.1

[a] All data in current prices except for line 2.

[b] Combined data for the area comprising the proposed enlargement of the EEC to include ten countries.

[c] Data on EFTA include Finland (an associate member), but exclude Iceland (which joined EFTA effective in 1970).

[d] The GNP data for CMEA countries are based on estimates prepared by the ECE and are reproduced to show the general order of magnitudes. Owing to serious differences in the methodology of calculations they are not strictly comparable with the data for other groups of countries.

TABLE I.2

Role of major countries in their respective groupings, 1969

Economic grouping	*Country*	*Share of country in total GNP of grouping (per cent)*	*Share of country in total imports of groupings (per cent)*
EEC	Federal Republic of Germany	35.8	33.1
	France	32.7	22.5
	Italy	19.2	16.5
Expanded EEC .	Federal Republic of Germany	27.1	24.2
	France	24.8	16.5
	United Kingdom	19.4	18.8
	Italy	14.6	12.1
EFTA	United Kingdom	55.3	46.8
CMEA	USSR	70.7	39.9

has been increasing in all of them.[4] In 1969 the ratio of total imports to GNP was highest in EFTA (21 per cent) and only a little smaller in the EEC and the enlarged EEC (18 per cent). In the CMEA this ratio is significantly lower (6 per cent); however, if the USSR (which by virtue of its size relies less on foreign trade) is excluded, this ratio for the rest of the CMEA countries would have equalled 13 per cent. In all economic groupings there has also been a noticeable growth in the share of intra-area imports in GNP.

10. The data relating to extra-area imports and to imports from developing countries are of special interest, although account should be taken of the fact that the statistics for the developed market-economy countries and those for the socialist countries are not strictly comparable. The ratios given in Table I.1 reveal divergences between major economic groupings in respect both to levels and to trends. External imports and exports per cent of GNP declined somewhat in the EEC (original or expanded);[5] they increased in EFTA and the CMEA.[6] However, the absolute figures for 1969 show large divergences between groupings. Highest dependence on imports is shown for EFTA, followed by the EEC. For the CMEA, on the other hand, imports from external sources form a much smaller proportion of GNP; the reason is partly the difference in resource endowment between the areas.[7]

11. Similar differences are found in trade with developing countries. The higher foreign trade orientation of West European countries is reflected in a higher ratio of imports from and exports to developing countries to the GNP of the EEC and EFTA. For the CMEA countries imports from developing countries equalled 0.4 per cent in 1958 and 0.6 per cent in 1969 (if the USSR is excluded the proportions are, respectively, 0.5 per cent and 0.9 per cent). These import figures compare with figures in the 3.4 to 4.7 per cent range for the West European groupings. Thus, despite the growth in the developing countries' exports to the CMEA area between 1958 and 1969, there is still considerable potential for further expansion.

12. This potential is further underscored by the relatively high degree of concentration of the sources of supply to the socialist countries from among the developing countries. Table I.3 ranks the 24 developing countries (excluding Yugoslavia) which were the leading exporters to the EEC and to the CMEA in 1968. In each case the second column of figures shows the proportion of all developing countries' exports accounted for by the country on the left. The third column shows the cumulative percentages. In the case of the CMEA, the four largest exporters account for over one half of total imports from the developing countries, compared to 30 per cent for the EEC.[8] Likewise, seven exporters accounted for two-thirds, and the ten largest exporters for three-quarters of all CMEA imports from developing countries, compared to only 42 and 49 per cent respectively in the case of the EEC. The 24 exporters account for 92 per cent of the CMEA imports from developing countries, and for 70 per cent of the EEC imports from developing countries. Thus not only is there a comparatively large potential for the expansion of aggregate CMEA imports from developing countries, but—if realized—that expansion could be rather widespread.

13. The share of the EEC and the CMEA in the total exports of various developing countries and territories is shown in table I.4, which lists in ranking order the 35 countries with the largest concentration of their exports to each of these groups. The comparison reflects the larger role of the EEC in trade with developing countries. For example, 21 developing countries and territories ship more than half of their total exports to the EEC, while only one developing country (Cuba) ships more than half its exports to the CMEA. Furthermore, 29 countries ship one-third or more of their total exports to the EEC, as compared with four countries in the case of the CMEA.

14. The annex table, in five parts, provides further evidence of the trade performance of the developing countries in the markets of each of the economic groupings of the developed countries. Part A shows the exports of developing countries by dollar value to each of the economic groupings of developed countries and to the Unites States of America and Japan in five major commodity categories, as at the beginning and the end of the 1960s. Part B indicates the proportion of total exports from developing countries to the various groupings. As expected, the proportions are very low in the case of manufactured products but are reasonably high in the case of all other categories. However, for the CMEA, in addition to being low (but rising) in the case of manufactures, they are also low in the case of fuels as well as non-fuel minerals and metals. In the case of foodstuffs and agricultural raw materials the proportions have declined somewhat in the EEC and EFTA, and have risen in the CMEA.

15. Part C shows the importance of each of the groupings as an export market for the developing countries. As regards all commodities except manufactures, the EEC takes the largest share of the developing countries' exports,

[4] In Japan, which is shown for comparison purposes, the ratio of imports to GNP has fallen.

[5] As well as in Japan.

[6] And to an even larger degree in the United States of America.

[7] See the percentage distribution of exports from developing countries of fuel and of non-fuel minerals and metals by major trading areas, in the annex table, part C.

[8] In this connexion it should be noted that the three principal suppliers among the developing countries to the EEC are oil producers.

TABLE I.3

Exports of 24 leading exporters among the developing countries and territories [a] to the EEC and CMEA, 1968

Exports to EEC				*Exports to CMEA [b]*			
Exporting country	*In $ million*	*Per cent of exports from all developing countries*	*Cumulative percentages*	*Exporting country*	*In $ million*	*Per cent of exports from all developing countries*	*Cumulative percentages*
1. Libya	1,211	11.2	11.2	1. Cuba	403	20.8	20.8
2. Algeria	947	8.8	20.0	2. India	319	16.4	37.2
3. Iraq	616	5.7	25.7	3. Egypt	281	14.5	51.7
4. Argentina	505	4.7	30.4	4. Brazil	122	6.3	58.0
5. Brazil	480	4.5	34.9	5. Malaysia	81	4.2	62.2
6. Saudi Arabia	458	4.3	39.1	6. Iran	59	3.0	65.2
7. Chile	299	2.8	41.9	7. Singapore	52	2.7	67.9
8. Ivory Coast	268	2.5	44.4	8. Argentina	51	2.6	70.5
9. Zaire	248	2.3	46.7	9. Morocco	46	2.4	72.9
10. Zambia	244	2.3	49.0	10. Algeria	42	2.2	75.1
11. Morocco	238	2.2	51.2	11. Pakistan	34	1.8	76.9
12. Peru	232	2.2	53.3	12. Syria	32	1.6	78.5
13. Nigeria	213	2.0	55.3	13. Sudan	32	1.6	80.1
14. Venezuela	211	2.0	57.2	14. Tunisia	30	1.5	81.6
15. Israel	169	1.6	59.0	15. Afghanistan	28	1.4	83.0
16. Iran	188	1.7	60.6	16. Nigeria	27	1.4	84.4
17. India	142	1.3	61.9	17. Ceylon	26	1.3	85.7
18. Colombia	138	1.3	63.2	18. Peru	21	1.1	86.8
19. Hong Kong	137	1.3	64.4	19. Ghana	20	1.0	87.8
20. Cameroon	133	1.2	65.7	20. Colombia	17	0.9	88.7
21. Malaysia	127	1.2	66.8	21. Indonesia	14	0.7	89.4
22. Indonesia	121	1.1	68.0	22. El Salvador	12	0.6	90.0
23. Senegal	115	1.1	69.0	23. Cyprus	9	0.5	90.5
24. Pakistan	109	1.0	70.0	24. Zambia	8	0.5	91.0
Total, 24 countries	7,549	70.0	70.0	Total, 24 countries	1,766	91.0	91.0
Total, all developing countries	10,777			Total, all developing countries	1,940		

Source: UNCTAD secretariat calculations.

[a] Excluding Yugoslavia, whose exports to the EEC equalled $353 million and to the CMEA $435 million, in 1968.

[b] Including Albania.

followed by the United States of America and EFTA. The CMEA countries rank far below all Western groups in the proportion of developing countries' exports they absorb, except as regards manufactures.

16. Part D shows the percentage distribution of the increment in developing countries' exports between the early and the late 1960s. As regards most commodity groups, except manufactures (where it is outpaced by the United States of America), the EEC led the other market areas in the proportion taken of the incremental exports of developing countries.

17. Part E shows the change in the share of developing countries' exports to the major countries and groups as a percentage of the latter's total imports from all sources; the change is expressed as a ratio of the share in the late 1960s to the share in the early 1960s. Thus for the areas shown in the table, only the shares with respect to the CMEA and Japan showed increases, while the share in the EEC declined by 15 per cent and in EFTA by 18 per cent, with the share with respect to the United States showing the largest decrease (30 per cent).

18. It should be noted that the annex table contains descriptive statistics of past performance resulting from all economic factors. With respect to the Western European groupings in particular, they do not show separately the effect of regional integration *per se* on trade flows. Such a determination requires a more elaborate statistical and economic analysis.

19. During the period 1955-1969 world trade in manufactures grew at an average annual rate of 9 per cent, well above the growth rate of world manufacturing production during the same period (6 per cent). In the three groupings of developed countries—EEC, EFTA, CMEA—imports of manufactures from both member and non-member countries also tended to displace domestic output in satisfying the demand for manufactured products during this period. (See table I. 5.)

20. In the case of the EEC, the most rapid increase with respect to manufactures imports during 1955-1969 occurred in the EEC members' trade among themselves, resulting in an elasticity of intratrade in those products

TABLE I.4

Developing countries and territories ranked according to degree of concentration of exports to the EEC and CMEA, 1968

Exporting country or territory	*Exports to EEC as a percentage of total exports*	*Exporting country or territory*	*Exports to CMEA[a] as a percentage of total exports*
Martinique	93.4	Cuba	62.0
Reunion	90.1	Egypt	45.2
Togo	82.6	Afghanistan	38.9
Guadeloupe	80.3	Yugoslavia	34.4
Chad	76.9	Tunisia	19.0
Algeria	76.3	Syria	18.6
Senegal	75.6	India	18.2
Niger	74.9	Sudan	13.7
Congo, People's Republic of	72.0	Yemen	13.7[b]
		Morrocco	10.2
Zaire	71.1	Cyprus	10.1
Cameroon	70.5	Guinea	9.4
Dahomey	69.9	Malaysia, West	7.7
Mauritania	65.3	Ceylon	7.6
Libya	64.8	Khmer Republic	6.7
Ivory Coast	64.6	Brazil	6.5
Rwanda	62.1	Ghana	6.5
Republic of Viet-Nam	61.5	El Salvador	5.7
Liberia	59.4	Lebanon	5.5
Iraq	59.3	Algeria	5.1
Morocco	57.4	Pakistan	4.7
Gabon	52.3	Nigeria	4.6
Tunisia	46.3	Uruguay	4.5
Central African Republic	46.0	São Tomé and Principe	4.4
Madagascar	42.6	Singapore	4.1
Argentina	36.8	Argentina	3.7
Nigeria	36.3	Cameroon	3.2
Sudan	36.0	Iran	3.1
Saudi Arabia	34.7	Colombia	3.0
Cyprus	33.2	Ethiopia	2.8
Somalia	32.2	Burma	2.7
Zambia	32.0	Peru	2.4
Chile	31.9	Congo, People's Republic of	2.0
Honduras	28.6	Ecuador	1.9
Israel	27.5	Mali	1.8
Peru	26.9		

[a] Including also exports to Albania.
[b] 1969 data.

of 3.1 as compared with an elasticity of imports from the world of 2.4. In the case of the CMEA, on the other hand, the elasticity of intratrade in manufactures was only 1.5, which is slightly lower than the CMEA's elasticity of manufactures imports from outsiders. With respect to imports of primary products, the elasticity for EEC intratrade was 1.9 compared with an elasticity of 1.4 for imports from all sources; for the CMEA the two corresponding elasticities were each 0.6.[9]

21. It should be noted, however, that the above elasticity estimates are not necessarily representative of what future developments will bring, since they reflect the special forces at work during the 1950s and 1960s—particularly the liberalization of trade in the 1950s and the working out of the integration processes during the 1960s. In the case of the CMEA, the nature of intergovernmental decisions on its external trade has changed considerably over this period.

22. Economic groupings are formed in the first place for the benefit of their members, as perceived by the dominant political forces within the countries concerned. At the time of the creation of the EEC there were clear indications that political as well as economic motivations had led to its formation, and that the member countries hoped to exercise greater leverage in international affairs. Likewise, the CMEA, which was originally formed as a counterpart to OEEC, has political as well as economic aims; and the enlargement of the EEC carries with it economic and political implications for the member countries.

23. In economic terms, the formation or the expansion of a regional grouping offers to its members new trading opportunities which did not exist before (trade creation). At the same time, some of the trade between members and outsiders which existed before the establishment of the grouping is replaced by more attractive trade opportunities between members (trade diversion). In addition, the formation of a grouping such as the EEC, which involved the application externally of the average tariffs of the members, resulted in some external trade creation—since some member countries which formerly had higher tariffs effectively lowered their tariffs with respect to the outside world in the process of adopting the Common External Tariff. In the field of agricultural imports, it seems likely that the formation of the EEC has led to at least some trade diversion. In the field of manufactures,

[9] "Import elasticity" is defined as the ratio between the growth rate of imports and the growth rate of GDP. The figures cited above are taken from the *Economic Survey of Europe in 1971*, Part I, *The European Economy from the 1950s to the 1970s* (United Nations publication, Sales No. E.72.II.E.1), table 2.2.

TABLE I.5

Imports of manufactures as a percentage of consumption[a]

	Trade with world		*Intratrade*		*Trade with rest of Europe*		*Trade with rest of world*	
	1955	*1969*	*1955*	*1969*	*1955*	*1969*	*1955*	*1969*
CMEA	5.5	7.0	4.0	5.0	1.0	2.0	0.5	0.5
EEC	12.5	26.5	6.5	16.5	3.5	5.0	2.5	5.0
EFTA	15.0	28.0	3.5	7.5	7.5	14.0	4.0	6.5

[a] See United Nations, *Economic Survey of Europe in 1971*, Part I, *The European Economy from the 1950s to 1970s* (Unided Nations publication, Sales No. E.72.II.E.1), p. 32

the balance of professional judgement concerning the impact of the EEC since its formation tends to suggest that the net result of all trade diversion and trade creation forces with respect to the outside world is about zero—in other words, there appears to have been no net trade diversion in respect of manufactured products in the aggregate. In addition, of course, as part of the integration process, there has been substantial internal trade creation.

24. Preliminary studies suggest that an enlargement of the EEC from a membership of six to ten countries will generate at least some trade diversion from external to internal sources, in both agriculture and manufacturing; this will also affect the exports of developing countries, where it would erode, to an extent not now ascertainable, the benefits from preferences (see part two below).

25. In the East European socialist States the process of economic integration has not, up to now, prevented a rise in the share of developing countries in CMEA exports and imports, or a rise in the share of the CMEA in the foreign trade of developing countries. To what extent these trends will continue in the future depends, to a large degree, on the scope and content of the present economic reforms in CMEA member countries, and on the way in which the new CMEA comprehensive programme will be implemented (see part three below).

26. The major fields of integration between socialist countries are those of engineering and sophisticated manufactured goods; developments in these fields will not have a major impact on the exports of developing countries, though they might cut down costs and prices of some of their imports. Increasing attention is being given in socialist countries to forecasting needs for fuel and raw materials and to assessing alternative sources of supply. Though most solutions adopted will involve the growth in trade between CMEA countries, the increasing preoccupation with cost considerations may open up new possibilities for the exports of developing countries. The growing role of consumer preferences in consequence of the current economic reforms opens up some possibilities for an expansion of exports of tropical foodstuffs from developing countries.

27. Even if the comprehensive CMEA programmes and measures to stimulate the integration of socialist countries should reverse existing trends in respect to the share of developing countries in the over-all trade of the CMEA countries (due to a rapid intensification of intra-CMEA trade in fields of lesser importance to developing countries), this could be compatible with a further rapid growth in the absolute volume of trade and in the share of developing countries in CMEA trade in fields which are of special interest to developing countries.

28. The growing importance of regional groupings of developed countries is a key feature of contemporary trade. In 1970, the intratrade of such groupings accounted for about one quarter of total world trade.[10] If the wider network of special arrangements is included, the proportion of total world trade is even higher.

29. This development involves two dangers; the first is that the world may be split into several trading blocs built around the groupings and major developed countries; the second is that major trading areas may settle major issues among themselves. In 1970, three major trading areas—EEC, United States of America and Japan—accounted for 47 per cent of world trade. If the four countries which have signed Accession Agreements with the EEC are added, the proportion is 56 per cent.[11] These figures illustrate eloquently the weight of these three trading areas in world trade.

30. The decisions of policy makers in the regional groupings and in other large developed countries can have a major impact on the economies of the third world in many respects, e.g. the question of direct and indirect support to agriculture and weak industrial sectors, research and development expenditures, and policies regarding the relatively backward areas within the developed countries. It is therefore also of crucial importance to outside exporters in general and to the developing countries in particular whether the economic groupings pursue liberal or restrictive trade policies towards the outside world, and whether, in their broader internal policies, they take into account the impact, particularly on the third world. Hence the fundamental need is for outward-looking policies and truly multilateral decision making on questions which affect other countries—and particularly the developing countries.

[10] See the report by the secretariat of UNCTAD entitled "Review of international trade and development, 1971", part one (TD/B/369/Add.1), table II-4.

[11] If the intratrade of the EEC and the enlarged EEC is excluded. the proportions of world trade are 40 and 47 per cent, respectively,

Annex table

Part A

Exports from developing countries [a] to major countries and groups of countries, 1960-1962 and 1967-1969

(Annual average in $ million)

Commodity group \ Destination	EEC 1960-1962	EEC 1967-1969	EFTA 1960-1962	EFTA 1967-1969	CMEA 1960-1962	CMEA 1967-1969	USA 1960-1962	USA 1967-1969
Foodstuffs	2514	3205	1610	1645	523	1023	2350	2962
Agricultural raw materials	1142	1181	739	569	554	585	689	518
Non-fuel minerals and metals	942	1850	527	825	96	212	822	1140
Fuels	1752	4286	1173	1951	3	17	1460	1820
Manufactures	263	818	442	872	150	607	529	2023
Total	6613	11340	4491	5862	1326	2444	5850	8463

Commodity group \ Destination	Japan 1960-1962	Japan 1967-1969	Other countries 1960-1962	Other countries 1967-1969	World 1960-1962	World 1967-1969	Expanded EEC 1960-1962	Expanded EEC 1967-1969
Foodstuffs	268	619	2226	3231	9491	12685	3847	4382
Agricultural raw materials	514	773	1199	1464	4837	5090	1639	1542
Non-fuel minerals and metals	304	1044	400	759	3091	5830	1365	2435
Fuels	428	1800	3401	5006	8217	14880	2903	5920
Manufactures	25	210	1418	2891	2827	7421	599	1452
Total	1539	4446	8644	13351	28463	45906	10352	15731

[a] Including Yugoslavia.

Part B

Exports from developing countries [a] as a percentage of total exports into major countries and groups of countries,[b] 1960-1962 and 1967-1969

Commodity group \ Destination	EEC (1) 1960-1962	EEC (1) 1967-1969	EFTA (2) 1960-1962	EFTA (2) 1967-1969	CMEA (3) 1960-1962	CMEA (3) 1967-1969	Sub-total (1) + (2) + (3) (4) 1960-1962	Sub-total (1) + (2) + (3) (4) 1967-1969
Foodstuffs	38.49	29.15	29.90	25.78	23.24	32.18	32.81	28.57
Agricultural raw materials	30.05	25.62	29.88	23.22	32.21	34.35	30.46	26.56
Non-fuel minerals and metals	20.29	20.98	19.76	20.13	4.33	7.09	16.43	18.15
Fuels	54.75	66.55	54.81	58.59	0.29	1.24	46.02	56.16
Manufactures	2.20	2.73	4.86	4.71	2.24	4.60	3.08	3.72
Total	21.97	18.64	20.61	16.85	9.53	10.90	18.89	16.63

Commodity group \ Destination	United States of America (5) 1960-1962	United States of America (5) 1967-1969	Japan (6) 1960-1962	Japan (6) 1967-1969	Other countries 1960-1962	Other countries 1967-1969	World (8) 1960-1962	World (8) 1967-1969	Expanded EEC (9) 1960-1962	Expanded EEC (9) 1967-1969
Foodstuffs	65.33	58.56	33.50	29.93	30.49	30.10	36.70	33.00	33.16	27.31
Agricultural raw materials	39.90	27.66	43.67	39.50	44.19	40.93	35.54	31.48	28.65	23.61
Non-fuel minerals and metals	33.92	24.33	37.35	46.32	10.64	12.11	18.71	20.03	21.69	21.02
Fuels	85.73	71.37	65.54	78.60	70.15	72.28	60.57	64.97	60.37	66.72
Manufactures	9.51	12.11	2.80	8.76	4.92	5.74	4.48	5.66	3.65	3.59
Total	38.97	27.41	35.48	40.54	18.22	17.14	21.46	19.31	23.08	18.50

[a] Including Yugoslavia.

[b] Including intratrade.

Part C

Exports from developing countries [a] into major countries and groups of countries as a percentage of total exports of developing countries, 1960-1962 and 1967-1969

Commodity group / Destination	EEC (1) 1960-1962	EEC (1) 1967-1969	EFTA (2) 1960-1962	EFTA (2) 1967-1969	CMEA (3) 1960-1962	CMEA (3) 1967-1969	Sub-total (1) + (2) + (3) (4) 1960-1962	Sub-total (1) + (2) + (3) (4) 1967-1969
Foodstuffs	26.49	25.27	16.96	12.97	5.51	8.06	48.96	46.30
Agricultural raw materials	23.61	23.20	15.28	11.18	11.45	11.49	50.34	45.87
Non-fuel minerals and metals	30.48	31.70	17.05	14.15	3.11	3.64	50.63	49.52
Fuels	21.32	28.80	14.28	13.11	0.04	0.11	35.63	42.03
Manufactures	9.30	11.02	15.63	11.75	5.31	8.18	30.24	30.95
TOTAL	23.23	24.70	15.78	12.77	4.66	5.32	43.67	42.80

Commodity group / Destination	United States of America (5) 1960-1962	United States of America (5) 1967-1969	Japan (6) 1960-1962	Japan (6) 1967-1969	Other countries (7) 1960-1962	Other countries (7) 1967-1969	World (8) 1960-1962	World (8) 1967-1969	Expanded EEC (9) 1960-1962	Expanded EEC (9) 1967-1969
Foodstuffs	24.76	23.35	2.82	4.88	23.45	25.47	100.0	100.0	40.53	34.54
Agricultural raw materials	14.24	10.18	10.63	15.19	24.79	28.76	100.0	100.0	33.88	30.29
Non-fuel minerals and metals	26.59	19.55	9.84	17.91	12.94	13.02	100.0	100.0	44.16	41.77
Fuels	17.77	12.23	5.21	12.10	41.38	33.64	100.0	100.0	35.33	39.78
Manufactures	18.71	27.26	0.88	2.83	50.16	38.96	100.0	100.0	21.19	19.57
TOTAL	20.55	18.44	5.41	9.68	30.37	29.08	100.0	100.0	36.37	34.27

[a] Including Yugoslavia.

Part D

Distribution of the increment in exports of developing countries [a] between 1960-1962 and 1967-1969 by major importing countries or groups of countries

(Per cent)

Commodity group / Destination	EEC (1)	EFTA (2)	CMEA (3)	Sub-total (1)+(2)+(3) (4)	United States of America (5)	Japan (6)	Other countries (7)	World (8)	Expanded EEC (9)
Foodstuffs	21.63	1.10	15.65	38.39	19.16	10.99	31.46	100.0	16.75
Agricultural raw materials	15.42	−67.19	12.25	−39.54	−67.59	102.37	104.74	100.0	−38.34
Non-fuel minerals and metals	33.15	10.88	4.24	48.25	11.61	27.02	13.11	100.0	39.07
Fuels	38.03	11.68	0.21	49.92	5.40	20.59	24.09	100.0	45.28
Manufactures	12.08	9.36	9.95	31.39	32.52	4.03	32.06	100.0	18.57
TOTAL	27.10	7.86	6.41	41.37	14.98	16.67	26.98	100.0	30.84

[a] Including Yugoslavia.

Part E

Exports from developing countries [a] as related to total exports to major countries and groups of countries; [b] share in 1967-1969 as a percentage of share in 1960-1962

EEC (1)	EFTA (2)	CMEA (3)	Sub-total (1) + (2) + (3) (4)	United States of America (5)	Japan (6)	Other countries (7)	World (8)	Expanded EEC (9)
85	82	114	88	70	114	94	90	80

[a] Including Yugoslavia. [b] Including intratrade.

Notes to the annex table

Sources: UNCTAD, *Handbook of International Trade and Development Statistics* (United Nations publication, Sales No. E/F.72.II.D.3) and United Nations, *Commodity Trade Statistics, Statistical Papers, Series D*, various issues.

Classification of commodity groups

Foodstuffs	SITC 0 + 1 + 22 + 4
Agricultural raw materials	SITC 2 less 22, 27, 28
Non-fuel minerals and metals	SITC 27, 28, 67, 68
Fuels	SITC 3
Manufactures	SITC 5 to 8 less 67, 68
Total	SITC 0 to 8

PART TWO

The West European Groupings

Chapter I

Policies affecting the developing countries

1. Regional economic groupings are established for the purpose of securing economic and political benefits for their members, and their policies are designed to enhance these benefits. Thus the policies of the EEC and EFTA (as well as of the expanded EEC) reflect the interplay of political forces within the integrating countries. Their impact on non-member States is relatively incidental to the policy-makers of the two groupings. To outside countries, however, it is of crucial importance whether the integrating areas take an "inward-looking" or an "outward-looking" posture. This section describes EEC and EFTA policies as they affect non-member countries in general and the developing countries in particular, although such effects may not have been paramount in the minds of policy-makers when these measures were constructed. With respect to the various policy measures of the regional groupings described below, it is important to note that all the other major developed market-economy countries have protective policies relating to agriculture and manufacturing, but these are outside the scope of the present study.

Tariff policies concerning manufactures [1]

2. Because each of the two economic groupings in Western Europe has removed the barriers to trade among its constituent countries, they discriminate against non-member States, including the developing countries, and in favour of member countries. In the case of EFTA, which covers only the industrial sector, the price discrimination against outsiders is constituted by tariff rates of each member country; for the EEC in the manufacturing sector, it is constituted by the Common External Tariff.

3. But it is not the nominal tariff—or the tariff rate published in the official schedule—that measures the obstacle which outside exporters must overcome, and therefore the degree of discrimination against them. Rather it is the effective tariff rate, or the protection accorded to the value added domestically. The distinction between the two concepts can be illustrated by the case of a Belgian desk manufacturer who uses wood imported from Africa. His final product (a desk) is worth $100, half of which consists of imported raw materials (wood) while the other half represents value added in Belgian domestic production. Suppose that the (nominal) Belgian duty on desks is 20 per cent, while wood enters duty-free. The desk manufacturer receives 20 per cent protection on the final value of his product (i.e. the equivalent of $20), but the effective protection is 40 per cent on that part of the desk (one half its value, or $50) which is produced domestically. Thus the effective rate of protection on final products measures the degree of protection accorded to the domestic economic activity: it rises with the increase in the nominal rate of duty on the final product, and with the decrease in the nominal rate on imported inputs (e.g. raw materials), and it also varies with the proportion of the imported inputs that make up the final value of the product.

4. It is in this context that the so-called escalation of tariff rates in the developed market-economy countries becomes important for the developing countries. For virtually all products of export interest to the developing countries, the tariff rates in the developed market-economy countries start from a level close to zero on raw materials, and rise (at times sharply), with the degree of processing or fabrication. Consequently, the effective rate on finished or semi-finished goods is much higher than the nominal rates,[2] constituting a powerful inducement for the developing countries to export their products in raw form, rather than process them at home.

5. To obtain an idea of the height of tariff protection one must aggregate tariff rates, since they are usually published in minute product detail. Yet there is no satisfactory way of aggregating tariffs into over-all averages or averages for broad commodity groups. For many purposes, each tariff rate should perhaps be weighted by what the volume of imports would have been under conditions of free trade. But because these imports are not known, other measures or weighting schemes must be used, all of which contain serious biases. An unweighted average of tariff rates carries with it the implicit but incorrect assumption that all products in the category being aggregated are of equal importance. On the other hand a weighted average, using the country's imports of each product as its weight, invariably biases the result downward—since high tariff items account for few imports (because of the protection) and therefore receive little weight. At the extreme end, a prohibitive tariff keeps out all imports and has a zero weight. The more the tariff rates

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[1] For a description of non-tariff barriers, see document TD/120 and Supp.1, with the corrigenda thereto. The detailed part of this report (TD/120/Supp.1 and Corr.1-2) appears in *Proceedings of the United Nations Conference On Trade and Development, Third Session*, vol. II, *Merchandise Trade* (United Nations publication, Sales No. E.73.II.D.5).

[2] Another implication of the distinction between the nominal and the effective rate is important for the developing countries. When a developing country, as part of a programme of import substitution, sets up a final assembly plant for a product under heavy protection but with the necessary components imported duty-free, it is actually according the product a far higher level of effective protection than the nominal rate indicates. When at a subsequent stage it moves to "deepen" its production process by producing some of the components at home, under a newly imposed tariff on the imported components, it actually lowers the effective protection accorded the final product.

vary from item to item, the more severe is the bias likely to be. Weighting each product by its domestic consumption may produce a similar bias, because consumption is also affected by the level of protection. In addition, it is often difficult to find consumption data broken down in the same way as the product classification in the tariff. To deal with this problem, researchers usually use not the country's but the total OECD imports of each item as weight. But with respect to imports from the developing countries even this procedure contains a downward bias, because the structure (not the level) of industrial protection in many OECD countries with respect to labour-intensive products is rather similar, and the averages therefore retain at least some of the above-mentioned bias.

6. Despite this shortcoming, this is the best available procedure. Table II.1 based essentially on the averaging technique discussed last, shows the effective tariff rates facing the developing countries in the most important industrial markets. Since all tariff rates were declining as a result of the Kennedy Round of negotiations, which was implemented in stages during the 1967-1971 period, the table shows the tariff rates prevailing both before (mid-1960s) and after (1972) the Kennedy Round.[3]

7. It is seen that the effective tariff on goods exported by the developing countries is higher than the tariffs on all goods, and that the EEC Common External Tariff is lower than that of most industrial countries, the Nordic countries being the exception to this rule. In particular the United Kingdom's effective rate on products of export interest to the developing countries is considerably above that of the EEC.

8. It is important to note, however, that table II.1 does not take account of the GSP for developing countries, which has been implemented by most of the developed market economy countries in the last half of 1971 or early in 1972. Under the GSP, the tariffs on many of the exports of manufactured products from developing countries have been reduced or eliminated.[4] In particular, it should be noted that where tariffs on finished manufactured products have been reduced to zero under a scheme, the escalation effects referred to above would disappear.

Agricultural protection

9. With respect to agriculture, only the EEC policies are described below; the EFTA countries do not integrate their agriculture sector. The EEC has set up a highly protective import régime applying to both processed and unprocessed foods. This régime applies to most competing temperate zone foods (e.g. livestock, meat, grains, cereals, most fruits and vegetables) and competing tropical foods (e.g. oils, sugar, tobacco). Non-competing tropical foods (e.g. bananas, coffee, cocoa, tea, spices) are subject only to the Common External Tariff.

10. Since the import régime is a corollary of the Common Agricultural Policy—which applies to most raw and processed foods—it must be discussed in the context of that policy. Grains can be used as a representative example. Each year the Commission of the European Communities determines the target price for grains, namely the price which the Commission wishes to prevail in the major consuming areas in the Community. Generally it is well above the world market price (or the world price governed by an international commodity agreement), because the major aim of the Common Agricultural Policy is to raise farm incomes above the market-determined level. Only small fluctuations are permitted around the target price. To non-member countries this implies reduced exports to the Community because consumers there would consume less and producers would produce more than under the lower free market prices. By subtracting about 7 per cent from the target price, one obtains the so-called intervention price, namely the price which, if reached, would induce the Commission to intervene on the buying side of the market, and to purchase the amounts necessary to maintain that "floor". The surpluses so accumulated may subsequently be sold abroad with the help of an export subsidy. From the intervention price the cost of overland shipment of grains from a major Community port of entry to the major consuming area is subtracted to obtain the threshold price. This is the minimum import price of grains which must be maintained, if the internal target price is to be approximated, without the Commission supporting the world-wide price of grains. The Community therefore imposes a variable levy,

Table II.1

Average effective tariffs on manufactured products before and after the Kennedy Round [a]

	Effective tariff averages on total imports of manufactures (percentage)	*Effective tariff averages on imports of manufactures from developing countries (percentage)*	*Exports (f.o.b.) of the developing countries to the area indicated, 1969 ($ million)*
United States of America			
Pre-Kennedy Round . .	20.0	35.4	9,700
Post-Kennedy Round .	11.6	23.9	
United Kingdom			
Pre-Kennedy Round . .	27.8	37.3	4,550
Post-Kennedy Round . .	16.0	27.6	
EEC			
Pre-Kennedy Round . .	18.6	27.7	12,100
Post-Kennedy Round .	11.1	16.9	
Sweden			
Pre-Kennedy Round . .	12.5	21.2	611
Post-Kennedy Round .	6.7	14.6	
Japan			
Pre-Kennedy Round . .	29.5	36.7	5,020
Post-Kennedy Round .	16.4	20.2	
Developed market-economy countries			
Pre-Kennedy Round . .	19.2	33.4	35,950
Post-Kennedy Round .	11.1	22.6	

[a] Excluding the effect of the GSP.

[3] The table is taken from UNCTAD, *The Kennedy Round: Estimated effects on tariff barriers* (United Nations publication, Sales No. E.68.II.D.12), where in pp. 209-213 the same tariff rates on individual commodities of export interest to the developing countries are shown, and in pp. 214-217 the 1964 imports of the same commodities from the developing countries are given.

[4] In some cases the schemes are subject to quota limitations. For a description of the EEC scheme, see paras. 22-25 below.

equal to the difference between the c.i.f. import price and the threshold price. Since both these elements vary in time, so does the variable levy. It is a characteristic of the highly protective nature of this device that a foreign exporter who wishes to maintain the volume of exports to the Community by absorbing the levy (through a price reduction) cannot do so as he could in the case of a fixed tariff, for under the variable levy system he will simply have to pay higher duty.[5]

11. The degree of protection afforded by this system to local producers can be assessed by observing the differential between the world price and the EEC price for each commodity. But unlike a fixed tariff, this differential is subject to annual change by administrative decision of the Community and by world market forces. In the second half of the 1960s, EEC prices for some major grain products were around 50 per cent higher than world prices.

12. A variable levy is also used in the case of fruits and vegetables, although there the target price concept is replaced by the so-called "reference price", which is the price charged by the most efficient producer inside the Community. The variable levy is the difference between the reference price and the c.i.f. import price. In the case of many products the variable levy is charged in addition to a fixed tariff, and the imports are also governed by a host of administrative regulations.

13. Most processed foods are subject to import levies consisting of two components: a fixed *ad valorem* element designed to protect the processing industry, and a variable element designed to offset the price differential between foreign and local inputs used in the production of the processed food (e.g. grains used for livestock production). The variable element depends on the differential between the internal and international prices of the input (which is itself a result of the protection accorded to these staple inputs) and on the proportion that the inputs comprise of the final product.[6]

14. Stated in a more general way, the effect of the system is that farm imports which are directly competitive with EEC products are effectively controlled in a way which insulates the domestic market from world price movements. For those products of which surpluses are generated under the protection of the target price, the Common Agricultural Policy provides for disposal of the excess, primarily through export subsidies, and such disposal can displace exports from developing countries in markets in other parts of the world.

Special arrangements with non-member States [7]

15. In addition to policies affecting all the developing countries, the EEC and EFTA have instituted special arrangements, mainly involving preferential treatment, with particular groups of developing countries. Since 1932 the United Kingdom has been granting duty-free (or low duty) admission to the exports of the Commonwealth countries. The establishment of EFTA diluted the competitive advantage gained from the Commonwealth system in the industrial category, since products of other EFTA members are also admitted duty free. This dilution is important in view of the fact that the developing Commonwealth countries accounted in 1969 for 64 per cent of the United Kingdom's imports from all the developing countries. But the preferential treatment remains in the case of non-industrial goods. In return, the United Kingdom receives preferences in respect of its exports to the developing members of the Commonwealth—exports which are quantitatively important to the United Kingdom. However, the preferential margin is very small, and as regards products in which it is sizeable, trade is practically non-existent.[8]

16. The EEC on the other hand maintains a wide range of special agreements (besides its association agreements with Turkey and Greece, which provide for full membership) with African and Mediterranean countries. The most comprehensive among these special agreements is the one with the eighteen Associated African and Malagasy States,[9] governed by the so-called Yaoundé Convention. The second Yaoundé Convention came into force on 1 January 1970. The eighteen African countries receive substantial economic aid from the EEC ($918 millions for five years), some of which is devoted to diversification. Equally important is the special trading relationship between them and the EEC, which has three aspects: preferential access for the exports of the African States to the EEC; the partial freeing of trade among the Associated States themselves; and the preferential access of EEC producers to the markets of the Associated States.

17. The eighteen Associated African and Malagasy States receive duty-free entry into the EEC for all products not covered by the Common Agricultural Policy. Before the establishment of the EEC such access was restricted to the market of Belgium in the case of Zaire, Rwanda and Burundi, and to the market of France in the case of the other fifteen countries. The duty-free admission into the EEC under the Yaoundé Convention covers industrial products as well as non-competitive tropical foods, all of which are subject to the Common External Tariff. In the

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[5] In recent years the changes in the exchange rates of the currencies of member countries produced a strain on the functioning of the Common Agricultural Policy. The reason is that the transactions of the agricultural fund are conducted in fixed units of account (i.e. dollars). The 1969 revaluation of the Deutsche mark meant that farmers in the Federal Republic of Germany would have received lower subsidies expressed in terms of marks, and special compensatory adjustments had to be introduced. When the mark was allowed to float in 1971, farm imports of the Federal Republic of Germany were taxed and exports subsidized in a manner designed to insulate the farm sector from the appreciation.

[6] For a detailed, product by product, discussion of the EEC import policy, see *Proceedings of the United Nations Conference on Trade and Development*, vol. VII, *Trade Expansion and Regional Groupings*, part two (United Nations publication, Sales No. 64.II.B.17), pp. 344-384; and the report by the UNCTAD secretariat entitled "Study of processed and semi-processed agricultural products" (TD/B/AC.5/5 and Corr.1 and Add.1-2).

[7] See also TD/101, chapter I, sections A and B (pp. 7 above).

[8] For details, see "The Economic Consequences of Reverse Preferences", UNCTAD, Research Division, Research Memorandum No. 28/Rev.1, November 1968.

[9] These are: Chad, Central African Republic, Gabon, Cameroon and Congo, which form the Central African (Customs) Union; Dahomey, Ivory Coast, Mali, Mauritania, Niger, Senegal and Upper Volta, which form the West African Union; and Togo, Somalia, Zaire, Madagascar, Rwanda and Burundi.

case of competitive farm products subject to the Common Agricultural Policy the treatment of the eighteen countries is as follows: on staple commodities they pay the variable levy minus a fixed abatement; on processed products where the import levy is made up of two components, they pay the equivalent of the variable element but are exempt from the fixed element. For some products even the variable element is partially or fully suspended. The main beneficiaries of this scheme are the Ivory Coast, Cameroon and Senegal, which are by far the major suppliers. Imports into the EEC from preferred sources include coffee, bananas, oilseeds, cocoa, sugar, citrus fruits, wine, tropical oils, base metals, fruit juices, veneer and plywood.[10]

18. In return, thirteen of the eighteen Associated States grant preferential treatment—known as reverse preferences—to exports from the EEC. In the 1950s when these countries were French territories, only France enjoyed such preferences. But the Rome Treaty specified that they be extended to the other members of the EEC as well, and between 1959 and 1964 the reverse preferences were gradually applied to all EEC countries. This extension was made explicit in the Yaoundé Convention of 1964, which came into force in 1965. However only in 1968 did the Associated States implement the extension with respect to (non-tariff) quantitative and exchange restrictions,[11] so that 1969 was the first full year of equal treatment of all six EEC countries in the Associated States. Unlike the case of the United Kingdom and the Commonwealth, the margin of preference in favour of the EEC is sizeable. It has been estimated to average 21 per cent of the price for the Central African Union; 13 per cent for the West African Union,[12] and 14 per cent for Madagascar.[13]

19. Two regional groupings also emerged among the Yaoundé countries themselves: the Central African and the West African Unions.[12] Members of each group enjoy in each other's market a margin of preference exceeding the one enjoyed by the EEC (however even members of the Union are not placed on an equal competitive footing with local producers). In particular EEC exports are exempt from customs duty, but are subject to revenue charges, so that the preferential margin enjoyed by the EEC is equal to the customs duties. Members of the Union, in turn, are exempt from part of the revenue charges, as well as from the customs duties. A somewhat similar agreement between the EEC and Kenya, Uganda, and the United Republic of Tanzania was signed at Arusha on 24 September 1969 and went into force at the beginning of 1971. The three East African countries thus became Associate members of the EEC while retaining their status as members of the British Commonwealth. A comparable arrangement with Nigeria had been contracted in June 1966, but never came into force because of two members of the EEC failing to ratify it.

20. A five-year association agreement between the EEC and Tunisia and Morocco came into force on 1 September 1970. Under the agreement virtually all industrial exports from the two North African countries enter the Community duty-free, and substantial preferences are given to many of their agricultural exports. In return, both countries grant tariff reductions and tariff quotas for certain imports from the community. A five-year association agreement was also concluded with Malta (starting 1 April 1971), allowing for a preferential trading arrangement. With Israel and Spain the Community concluded a five-year preferential trading agreement, involving substantial tariff concessions by both sides. Iran, Lebanon and Yugoslavia have non-preferential agreements with the Community. Still on the agenda are possible negotiations with Cyprus, Algeria and Egypt.

21. Finally, the EEC is attempting to establish links with Latin American countries, and a non-preferential agreement negotiated with Argentina was signed on 8 November 1971. The three-year agreement conforms to the most-favoured-nation clause of the GATT and is designed to promote trade relations between the two parties. General clauses of the agreement make provision for the reciprocal liberalization of trade regulations affecting imports and exports; for co-operation in the field of agriculture, consisting of a regular exchange of information and research, and co-operation on an international level; and for the establishment of a commission consisting of Community and Argentine representatives to study ways of promoting economic and commercial co-operation between the parties. Argentine beef accounts for about 38 per cent of EEC beef imports. The EEC has agreed to lower levies on imported frozen meat intended for processing and has stated that the variable levy on imported refrigerated meat would be fixed 30 days in advance, thus assuring greater cost stability to importers. In exchange, Argentina has agreed to eliminate gradually a system of import deposits for some products exported by the Community. Argentina has also agreed to participate in solutions to maritime transport problems and to give Community investors equal investment opportunities in Argentina. Other provisions include the gradual reduction of quantitative restrictions and increased consultation between the parties on customs duty evaluation problems in Argentina.

22. In the context of the GSP, the EEC began on 1 July 1971 to implement its scheme with respect to developing countries members of the Group of 77 at that time, and to dependent territories of third countries. Upon accession to the Community, Britain, Denmark, Ireland and Norway are to adopt the Community's scheme of general preferences and on the assumption that the scheme

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[10] For a detailed account supplemented by statistical tables, see *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. V, *Special Problems in World Trade and Development* (United Nations publication, Sales No. E.68.II.D.18), pp. 50-145.

[11] However, the Yaoundé Convention specifically permits protection of infant industries. Thus local production of textiles, clothing, footwear, wheat flour, beverages, wood and oil-seeds is protected in the coastal countries, notably Senegal and the Ivory Coast. Likewise Senegal protects its truck assembly plant, the Ivory Coast its petroleum products, paints and detergents, and Madagascar its production of television parts.

[12] The Central African Union comprises Chad, Central African Republic, Gabon, Cameroon and Congo; the West African Union, Dahomey, Ivory Coast, Mali, Mauritania, Niger, Senegal, and Upper Volta.

[13] See UNCTAD, Research Memorandum No. 28/Rev.1, November 1968.

will remain in its present form, it is of interest to review its main features.

23. The EEC scheme provides duty-free entry for practically all manufactured and semi-manufactured products falling within chapters 25-99 of the BTN. It also covers marginally processed and semi-processed agricultural products in chapters 1-24 of the BTN. Varying degrees of preferential tariff cuts are provided for these products. Preferential imports of agricultural products in chapters 1-24 are subject to safeguards of the escape-clause type without *a priori* limitations. Preferential duty-free imports of products in chapters 25-99 are subject to *a priori* limitation ceilings. Ceilings for each product are normally calculated according to the following formula:[14] the basic quota, i.e. the c.i.f. value of the EEC imports in a base year (1968) from beneficiaries (excluding beneficiaries already enjoying a special régime in the Community), plus the supplementary quota, i.e. 5 per cent of the c.i.f. value of the EEC imports in a recent year [15] from non-beneficiaries (including imports from beneficiaries enjoying special régimes). As a general rule, imports of a product from a single beneficiary cannot exceed a maximum amount, corresponding to 50 per cent of the ceiling. The maximum amount for a number of sensitive products has been fixed at 30 per cent or 20 per cent of the ceiling.[16]

24. All products in BTN chapters 25-99 covered by the scheme are divided into sensitive and non-sensitive categories. Preferential imports of the sensitive products are administered by means of Community tariff quotas which are allocated among the member States according to fixed shares. As soon as preferential imports of a sensitive product reach the ceiling (Community tariff quota) or the maximum amount or national share of the Community tariff quota, the normal common external tariff is restored until the end of the period for which ceilings (tariff quotas) were fixed. Preferential imports of sensitive iron and steel products are administered by means of member States' tariff quotas. Imports of non-sensitive products are subject to surveillance, and normal tariffs may be reintroduced at any moment until the end of the period for which ceilings were fixed, when preferential imports reach the ceiling or when preferential imports from a single beneficiary reach the maximum amount.

25. It can be seen that the EEC scheme is rather complex. However, to what extent it will provide for adequate expansion of preferential imports will depend, in the first place, on the level at which ceilings are fixed and whether these ceilings will be rigidly or liberally applied. Preliminary indications are that the tariff quotas under which preferential imports of sensitive products are rigidly administered are not likely to provide much scope for expansion of preferential imports. In this connexion it should be noted that sensitive products constitute about 60 per cent of the imports from beneficiaries into the EEC of manufactured and semi-manufactured products in chapters 25-99 covered by the EEC scheme.

[14] A number of sensitive products are notable exceptions. Ceilings for textile products are calculated in tons.

[15] The year 1968 has been taken by the EEC for the calculation of supplementary quotas in 1971, and the year 1969 or 1968 for calculation of supplementary quotas in the 1972 scheme.

[16] 10 per cent in the case of one product: basketwork, etc.

Estimating the effects of the creation of the EEC and EFTA on trade flows

26. The creation of an economic grouping such as the EEC or EFTA, results in a number of economic effects on non-member countries. A discussion of these effects and some quantitative estimates of the amount of trade creation and trade diversion associated with the establishment of the EEC are contained in annex I.

Chapter II

The enlargement of the EEC

A. The arrangements envisaged and their implications for developing countries

27. On 19 January 1972 the EEC signed agreements with the United Kingdom, Denmark, Norway and Ireland for the accession of those four countries into the Community on 1 January 1973. The accession of the United Kingdom had been approved by the British Parliament in October 1971 and January 1972. However, still to be debated and voted on in Parliament is a wide range of implementing legislation designed to align British law with the Treaty of Rome and with the regulations adopted by the EEC throughout the 1960s. First and foremost, the legislation will empower the Government to remove customs duties on goods imported from the Six and gradually adopt the Six's Common External Tariff. Second, the Government will be empowered to adopt the Common Agricultural Policy, including a whole maze of harmonized regulations governing food and foodstuffs (e.g. food contents, health standards, additives in food, etc.). Thirdly, the legislation will cover a host of technical directives applicable in industry, as well as regulations governing the service sector of the economy (e.g., insurance) aligning British practices with those of the Community. The other three countries still face parliamentary votes on the agreement, as well as national referenda. Key economic indicators of the expanded EEC, along with those of other economic groupings and major countries are shown in part one above (paragraph 7 and table I.1).

28. Of the four applicant countries the United Kingdom is by far the most important and therefore merits special attention. In the industrial sector the United Kingdom is to adopt the Common External Tariff of the EEC. For most products, this would mean a reduction in British tariff rates as shown in table II.1 above. This must be balanced against the fact that the present EEC members will gain free access to the British market, thus producing tariff discrimination against all outsiders with the exception of duty-free imports under the EEC preferential scheme in favour of developing countries (see paragraphs 22-25 above) and probably also with the exception of imports from all the other EFTA countries. Moreover, the developing members of the Commonwealth enjoying at present preferential access to the United Kingdom market would have to pay the common external tariff on products excluded from the EEC preferential scheme [17]

[17] However, various groups of Commonwealth countries will be offered special arrangements with the expanded EEC (see para. 31 below).

or share their preferences in that market with the present EEC members and other developing countries in respect of goods covered by the EEC preferential scheme.[18]

29. In the agricultural sector the United Kingdom will adopt the Common Agricultural Policy of the EEC, a step which may have serious implications for non-members. Unlike the EEC, the United Kingdom supports its agricultural sector through deficiency payments rather than price support (in addition British agriculture has been supported by input subsidies). Under this system, market prices for farm products are allowed to prevail; and the British Government pays farmers the difference between the prices they receive and some pre-determined price level announced by the Government for each unit sold. British food prices remain low, and indeed they are generally one-third lower than their EEC counterparts. However, through its system of deficiency payments and price guarantees, the United Kingdom succeeded in raising its self-sufficiency in farm products to an average of two-thirds of domestic consumption of temperate zone foods (by contrast, the EEC is roughly self-sufficient). On the other hand, the four applicant countries combined are self-sufficient.

30. The accession of the United Kingdom is likely to bring with it a host of special arrangements with groups of non-member countries. The non-applicant members of EFTA—Austria, Iceland, Portugal, Sweden and Switzerland, and the associate member, Finland, seem likely to negotiate some form of trade agreements with the EEC, perhaps a free-trade area in manufactured products.

31. A variety of special relations with the overseas members of the British Commonwealth are contemplated. The independent Commonwealth countries in Africa, the Caribbean, the Indian Ocean and the Pacific[19] will be able to choose among three options; association under a renewed Yaoundé Convention which will include aid and trade provisions for both the existing and new associates; some other form of association, such as a free trade area arrangement; or a commercial agreement. The three East African countries are already Associate Members of the EEC and members of the Commonwealth at one and the same time. Although it seems likely that the other African Commonwealth countries will also opt for the same status, they need not make their choice until the present Yaoundé Convention expires on 31 January 1975. The British dependent territories, with the exception of Gibraltar and Hong Kong, will be offered associate status.[20] Hong Kong will be included within the scope of the EEC generalized preference scheme. The other major developing members of the Commonwealth—India, Pakistan,[21] Ceylon, Malaysia and Singapore—will not be offered associate status; they will continue to benefit from the GSP, and India and Ceylon will enjoy continued suspension of the Community tariff on tea. Beyond that, their trade problems will be re-examined after the British accession. Malta has already secured an association agreement, and Cyprus is negotiating a similar one.[22]

B. Quantitative estimates of the impact of the enlargement of the EEC

32. The projected enlargement of the EEC may have far-reaching implications for world trade in general and for the exports of the developing countries in particular. In the case of agriculture, the possible effects of the enlargement have been studied by the Michigan State University and by the FAO.[23] The results of those studies are summarized below.

33. An attempt to estimate the effects on trade in manufactured goods has been made by the UNCTAD secretariat. Account has been taken not only of the enlargement of the EEC but also of the possible establishment of a free trade area in manufactured goods covering the enlarged EEC and the non-applicant EFTA countries. The results are summarized in the present section, while the detailed step-by-step calculations are set out in annex II.

Trade in agricultural products

34. When the United Kingdom adopts the EEC Common Agricultural Policy, food prices will rise gradually over the five-year transitional period allowed for agriculture, until they reach Continental levels. Similar increases in food prices are expected in Denmark and Ireland, because in both countries accession will lead to increases in the level of price support. For Norway, on the other hand, adoption of the Common Agricultural Policy would mean a considerable reduction in most farm prices, because Norwegian agriculture is more highly protected than that of the EEC.[24] The estimated changes in the prices received by producers and those paid by consumers

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[18] The other EFTA members will also have to share their preferences in the United Kingdom market with the present EEC members.

[19] These countries are:

Barbados	Kenya	United Republic of Tanzania
Botswana	Lesotho	Tonga
Fiji	Malawi	Trinidad and Tobago
Gambia	Mauritius	Uganda
Ghana	Nigeria	Western Samoa
Guyana	Sierra Leone	Zambia
Jamaica	Swaziland	

[20] The territories concerned are:

Bahamas	British Virgin Islands	Gilbert and Ellice Islands	Seychelles
Bermuda	Brunei	Montserrat	Turks and Caicos Islands
British Antarctic Territory	Cayman Islands	New Hebrides (Condominium with France)	West Indian Associated States (Antigua, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent)
British Honduras	Central and Southern Line Islands	Pitcairn Island	
British Indian Ocean Territory	Falkland Islands	St. Helena	
British Solomon Islands			

[21] Pakistan withdrew from the Commonwealth as from January 1972.

[22] Beyond the countries mentioned in the text, the accession agreement makes special provisions for New Zealand, and anticipates some special arrangement for the Channel Islands and the Isle of Man.

[23] J. N. Ferris and V. L. Sorenson, "The Impact on U.S. Agricultural Trade of the Accession of the United Kingdom, Ireland, Denmark and Norway to the European Economic Community", report to the U.S. Department of Agriculture (Michigan State University, East Lansing, 30 July 1971); FAO, "Implications of the Possible Enlargement of the EEC for Agricultural Commodity Projections, 1970-1980" (Projections Research Working Paper No. 6, September 1971).

[24] Ferris and Sorenson, *op. cit.*

in the four applicant countries are shown in tables II.2 and II.3 respectively.[25]

35. The price increases in Britain, Denmark and Ireland would tend to stimulate production and discourage consumption, thereby lowering the demand for at least some farm imports, and affecting adversely the non-member exporting countries. Non-members will be subject to the variable levies and other import restrictions, while the members of the expanded Community, including such agricultural exporters as Ireland, Denmark and the Netherlands, will have free access.

36. Estimating the quantitative magnitude of these changes requires the construction of an econometric model which would generate estimates of production, consumption, and trade in each commodity and in each of the four countries plus the EEC both with and without accession. The difference between the two situations reflects the impact of accession on the agricultural sector. Two such studies have been completed to date, and their results are reported below.

37. The study conducted by the Institute for International Agriculture of Michigan State University[26] concluded that the expansion of the EEC will have an adverse effect on outside suppliers of butter, beef and feed grains. This is indicated in table II.4. For example, the expanded EEC is projected to have an exportable surplus of 471,000 metric tons of milk products in 1980 instead of only 218,000 if no accession occurred. In the case of grains a projected deficit of 5 million metric tons will be reduced by accession to 1.8 million metric tons. However, the projected deficit (in grains) without accession is highly sensitive to the assumption concerning British policy in the absence of accession. If instead of deficiency payments an import levy policy is assumed (adopted in part by the United Kingdom in 1971), the "no accession" deficit declines from 5 to 2.4 million tons, and the impact of accession is to reduce the deficit by only 0.6 million tons. Other important conclusions of the study are:

> Danish and Irish dairy products along with existing EEC surpluses are more than adequate to displace existing United Kingdom Commonwealth imports. In the case of soft wheat, internal transfers from France can easily fill the United Kingdom deficit so that little if any will be imported from external sources. Imports of quality wheat for mixing purposes will continue. In feed grain specific deficits will exist in some countries and imports from third countries, particularly of corn, are likely to continue. Overall self-sufficiency and some export surpluses will exist for pork, poultry and eggs. A small deficit in beef is projected with entry, but the area likely will not be an expanding market for external suppliers.... Accession will reduce external requirements of livestock products and potentially sugar. Further, if remaining import requirements are granted preferentially, this can have a significant impact on exports by other countries, for example beef from Argentina.

[25] The calculations are based on the assumption of full application of the Common Agricultural Policy, without regard to any special arrangements concerning the extent and timing of the introduction of this Policy for particular applicant countries.

[26] Ferris and Sorenson, *op. cit.*

TABLE II.2

Changes in producer prices in the applicant countries after entry into the EEC

Commodity	*Change in average producer prices 1969-1970 to 1979-1980 (per cent)*			
	United Kingdom	*Ireland*	*Denmark*	*Norway*
Wheat	38.1	23.4	29.9	−40.3
Barley	35.9	36.2	35.0	−36.7
Oats	23.0	48.4	29.2	−33.5
Rye	85.4	..	31.1	−35.8
Potatoes	8.8	−9.5	−24.4	−29.9
Sugarbeet	−0.6	−18.2	−18.2	..
Milk	10.1	55.1	32.0	−27.9
Cattle	45.3	55.9	48.9	12.2
Pigmeat	50.8	43.8	24.5	6.5
Poultry (for meat production)	105.8	71.6	82.8	36.4
Eggs	3.7	−3.2	27.9	−22.1
Change in the index of producer prices [a]	25.6	26.5	18.4	−14.2
Rate of change per annum, 1969-1970 to 1979-1980	2.3	2.4	1.7	−1.5

Source: FAO, Projections Research Working Paper No. 6, p. 5. (See foot-note 23 above.)

[a] Weighted according to the information available from national sources.

TABLE II.3

Apparent changes in consumer prices in the applicant countries if equalized with EEC prices

(Per cent)

Commodity	*United Kingdom*			*Ireland*			*Denmark*			*Norway*		
	Alternative			*Alternative*			*Alternative*			*Alternative*		
	I	*II*	*III*	*I*	*II*	*III*	*I*	*II*	*III*	*I*	*II*	*III*
Wheat	29.7	20.8	74.1	11.5	8.2	23.4	−35.2	5.6	29.9	−33.2	−4.2	−14.4
Potatoes	4.7	4.7	8.8	16.3	−6.7	−9.5	−18.2	−14.6	−24.4	−17.8	−19.4	−29.9
Sugar	67.5	−0.4	−0.6	52.3	−11.3	−18.2	6.5	−8.2	−18.2	87.0	..	..
Milk	−3.7	4.7	10.1	14.4	21.6	55.1	10.7	14.2	32.0	6.3	−21.8	−27.9
Cheese	37.5	73.5	96.9	37.5	..	..	43.3	67.8	150.5	29.8	29.4	41.1
Butter	127.5	107.9	144.5	70.2	51.6	60.6	36.4	20.0	22.1	96.9	87.5	124.1
Eggs	12.4	3.0	3.7	10.4	−2.5	−3.2	−12.9	12.7	27.9	−23.9	−13.9	−22.1
Beef [a]	52.9	49.4	45.3	91.0	71.0	55.9	38.3	47.1	48.9	..	3.2	12.2
Pigmeat [a]	54.0	49.6	50.8	23.6	36.0	43.8	5.3	19.9	24.6	..	2.2	6.5
Sheepmeat [a]	22.0	..	..	84.1	..	..	4.6	..	..	3.6	..	..
Poultry meat [a]	18.1	33.5	39.6	2.6	14.5	16.4	30.0	36.7	39.3	..	−4.6	−7.5
Change in the index of retail prices [b]	42.3	31.6	39.6	38.4	28.3	34.2	13.6	19.5	29.5	1.1	−3.5	−4.0
Rate of change per annum, 1970 to 1980	3.6	2.7	3.3	3.3	2.5	3.0	1.3	1.8	2.6	0.1	−0.5	−0.7

Source: As for table I.3.

NOTE. For full definition or the alternatives, see FAO Projections Research Working Paper No. 6, paras 5-7. Briefly, the first assumes that retail prices change to EEC level; the second, that they change by the amount of the shift required for producer prices to equal EEC producer prices; thethird, that they change by the same percentage change as producer prices.

[a] Changes in meat prices have been compared on the basis of wholesale and not retail prices, except in the case of Norway (for alternative II) for which no data about wholesale meat prices are available.

[b] Weighted according to information available from national sources and based on the commodities shown here.

TABLE II.4

Net deficit (—) or surplus (+) of major grain and livestock products, 1968 and 1980 [a]

Item	*EEC-6* 1968	*EEC-6* 1980	*EEC-10* 1968	*EEC-10* 1980	*10 countries no accession 1980*
	(thousand metric tons)				
Milk in fat equivalent	+565	+848	+211	+471	+218
Beef in veal	−389	−948	−180	−109	−396
Pigmeat	+ 63	+138	+295	+708	+536
Poultry meat	− 18	+145	+ 4	+215	+202
Eggs	− 10	+148	+ 64	+212	+215
Grains	−2,872	−1,624	−10,883	−1,798	−5,028

Source: Ferris and Sorenson, *op. cit.*, table 2, pp. 10-11.

NOTE. The effect of EEC enlargement is ascertained by comparing the last two columns.

[a] A deficit means excess of domestic consumption over domestic production; a surplus means the reverse.

38. With the exception of grains, similar results were obtained in two related studies of the FAO [27] which projected a sharp reduction in the demand for milk and meat (table II.5) in the four applicant countries. On the basis of its projections the FAO concluded that enlargement of the EEC would lower Western European net import requirements from $3.4 to $2.2 billion by 1980. The main effect of this reduction will be felt by exporters of temperate zone products to Western Europe. Exports of developing countries are estimated to decline by $0.3 billion.[28]

39. Various regions of the developing world will be differently affected because of preferential arrangements. Thus a large part of sub-Sahara Africa will enjoy free or preferential access to the enlarged Community. This implies discrimination against Latin American exports of tropical foods as well as other products, and possibly discrimination against most Asian countries if special arrangements are not concluded with them. Even within Africa there will be changes. Commonwealth countries will give up exclusive preferences in the British market in exchange for preferential entry into all ten countries of the EEC. Conversely, the eighteen Associated African States will gain preferential access into a wider market (ten countries instead of six) but will have to share it with the Commonwealth countries. None of the existing econometric models is refined enough to project these effects quantitatively.

[27] FAO, Projections Research Working Paper, No. 6 (see foot-note 23 above), and No. 3, "A World Equilibrium Model" (11 October 1971).

[28] FAO, Projections Research Working Paper, No. 3, p. 21.

Trade in manufactured goods

40. The estimates given below are designed to show the differences between the actual trade flows in 1969 and the trade flows as calculated for that year on the assumption that the EEC comprised 10 countries which, in turn, formed a free trade area with the non-applicant members of EFTA.[29] The hypothetical trade flows have been calculated by reference to tariff changes only. Since tariff rates of raw materials in most industrial countries are either zero or very low, the estimates are confined to finished and semi-finished manufactures.[30]

[29] For the sake of brevity, these hypothetical developments are hereinafter referred to as the enlargement of the EEC.

[30] The products covered in these estimates (SITC numbers shown in parentheses) are:
Textiles (267, 65); Clothing, footwear and leather (61, 83, 84, 85); Wood, pulp paper printing (243, 25, 63, 64, 82, 892, 895); Rubber products (62); Chemicals 231.2, 266, 42, 43, 5); Petroleum and coa, products (332); Non-metallic mineral products (661, 662, 663, 664 665, 666); Basic metals (282, 284, 67, 68); Transport equipment (73) Engineering, etc. (69, 71, 72, 812, 86, 891, 893, 894, 896, 897, 899)

TABLE II.5

Aggregate effect of the enlargement of the EEC on 1980 projected production, demand and balances in the applicant countries

Commodities	*Net difference in production*	*Net difference in demand*	*Net difference in balance*	*Estimated world price (dollars per ton)*
Wheat	− 15	+398	+413	52
Coarse grains	+212	+305	+ 93	48
Sugar	−245	− 82	+163	113
Total milk	+996	−3,798	−4,794	67
Beef and veal	+ 98	−176	−274	801
Mutton and lamb	+112	− 37	−149	477
Pigmeat	+207	−210	−417	753
Poultry meat	+224	− 76	−300	309

Sources: FAO, Projections Research Working Paper, No. 7, p. 7, and No. 3, p. 23.

41. It should be emphasized that the estimates are confined to the static effects and that account is taken neither of the changes in exchange rates since 1969 nor of the introduction of preferential arrangements in favour of developing countries under the GSP. The aim of the estimates is to illustrate the impact of tariff changes; they do not pretend to indicate the probable changes in trade flows in the coming years.

42. Available figures for the various elasticities necessary for estimation dictate an aggregative approach to the problem.[31, 32] In all likelihood this approach does not affect the global results; but the distribution among groups of countries may be different under disaggregative calculations. Since the elasticity parameters used here are based on trade changes occurring over a three- to six-year period the resulting figures must be regarded as intermediate run estimates; i.e. the estimated annual changes in trade flows will be fully realized only several years after the changes in tariff that brought them about.

43. Throughout the estimation it was assumed that all tariff changes were fully reflected in import prices. This assumption implies infinitely elastic export supply curves on the part of the exporters—an assumption which is fairly realistic for periods of unused productive capacity, or for major supplying countries where the changes in exports constitute a small portion of total output, or when a long period is allowed to elapse before the full adjustment is anticipated. While the assumption may not be realistic for small developing countries, no estimates are constructed for such individual States. The estimated changes in trade flows would be smaller on the alternative assumption that only part of the tariff changes are reflected in price changes. The values of the parameters employed, i.e. the tariff rates and the price elasticities, are set out in table II.6 below along with their sources and explanatory notes. Columns (3) and (4) show average tariff rates for finished and semi-finished industrial products combined. These combined averages are used in the estimation process, as well as the import-demand elasticities (column (5)), and the elasticities of substitution (columns (6), (7) and (8)).[33]

44. Table II.7 presents the estimated effects of the enlargement of the EEC on the imports of the United Kingdom, Continental EFTA and Ireland and the EEC. The regional break-down of the sources of imports, shown on the left, reflects the arrangements made in the British accession treaty, and is therefore necessary to account for all the special relationships being established or anticipated. The step by step detail of the calculations, along with an expanded version of table II.7, is given in annex II.

45. In column (1) the effect of accession on British imports is summarized. The changes consist of the removal of previously existing preferential arrangements and the introduction of new ones. In all, British imports are estimated to rise by $0.67 billion, with the EEC being by far the major net gainer. EEC export gains are at "the expense" of British producers, as well as third country exporters including EFTA and the Commonwealth. The loss in exports to the developing countries (primarily the major Commonwealth countries in Asia) is estimated at $0.27 billion, while Continental EFTA is projected to sustain an export loss of $0.60 billion. The developed Commonwealth would lose $0.43 billion in exports to the United Kingdom, while for the United States of America the estimated reduction is over $0.16 billion. In a similar fashion the estimated changes in imports of Continental EFTA and Ireland and of the EEC are shown in columns (2) and (3).

46. In columns (4) and (5) the expected total change in exports of the country or grouping listed on the left, and that change as a percentage of the country's exports to all OECD countries respectively are shown. The two bottom rows show the estimated rise in imports of the United Kingdom, Continental EFTA, and the EEC as a percentage of their total imports, and the estimated change in their trade balances.

47. Large increases in exports are projected for the EEC ($4.16 billion), the United Kingdom ($1.37 billion) and Continental EFTA ($2.27 billion), indicating a sizeable measure of interpenetration that is likely to result from the expansion of the EEC. In all three areas imports will also rise considerably, but by somewhat less than exports, resulting in increased trade surpluses of $1.2 billion for EFTA and $1.9 billion for the EEC. The major losers of export markets will be the United States of America and the developed Commonwealth countries. Developing countries are projected to lose close to $0.5 billion in exports, most of it concentrated in the Asian members of the Commonwealth and "other developing" (e.g., Latin America) countries. The developing Commonwealth countries which may gain associate status with the expanded EEC will experience an expansion in exports. Finally, the $0.3 billion projected export loss estimated for the socialist States in Europe and Asia is a questionable figure, because the trade of these countries is governed by intergovernmental agreements, while the estimation process used here centres upon the response of private entrepreneurs to changes in relative prices.

48. It should be stressed that these are estimates of the static effects only, and in the case of the developing countries, omit the impact of the GSP. The dynamic effects of the enlargement cannot be predicted.

49. In total, if one views the EEC and EFTA and their respective Associated States as two regions merging into one in the sphere of industrial products, then trade creation (equalling the change in imports from internal and external sources combined, but ignoring the changes for the socialist countries), is estimated at $4.4 billion, while the trade diversion (equalling the change in external imports) is put at $3 billion. (Thus the impact of enlargement on the

[31] For a detailed industry study, ranking (without quantitative estimates) 230 British and EEC manufacturing industries by trade performance, as an indication of their performance after accession, see S. S. Han and H. H. Liesner, *Britain and the Common Market: The Effect of Entry on the Pattern of Manufacturing Production*, University of Cambridge, Department of Applied Economics, Occasional Papers: 27 (Cambridge University Press, 1971).

[32] The fact that only data on global elasticities are available also imparts a bias to the results; for elasticities of demand in developed countries are undoubtedly different from those pertaining to developing supplying countries.

[33] As indicated earlier, the calculations exclude the impact of the GSP on developing countries.

TABLE II.6

Selected tariff rates and elasticity estimates

Country	*Average tariff rates* — Semi-manufactures (1)	Finished manufactures (2)	Weighted average of finished and semi-finished manufactures (3)	Average for country groups [a] (4)	Import demand elasticities (5)	*Elasticities of substitution — finished and semi-finished manufactures* — United Kingdom (6)	Other EFTA (7)	EEC (8)
EEC	6.2	8.7	7.6		3.0	3.0 [b]	2.8	
United Kingdom, m.f.n.	8.3	10.4	9.5		2.6			3.0
United Kingdom, preferential			1.9					
Norway	4.8	7.5	6.7	5.4				
Denmark	2.5	5.5	4.5					
Ireland			12.5					
Sweden	3.8	6.3	5.5		2.2			2.3
Finland	4.2	8.3	7.0	6.4				
Switzerland	5.0	4.1	4.4					
Austria	8.1	13.8	12.3					
United States of America [c]	8.3	8.1	8.2		4.0			
Canada [c]	6.2	9.2	8.7		2.0			
Japan [c]	9.3	12.0	10.7		3.0			
World [c]	7.1	8.6	8.1					

Sources and Notes: Tariff averages were obtained from the GATT Basic Documentation for Tariff Study, Geneva, 1970. Averages were calculated by using industrial countries' trade in each product as weights (tariff average number 2 in the GATT Study). Specifically the tariff average was calculated as follows: a simple arithmetic average of tariff lines was calculated for each BTN heading; each of these arithmetic averages was then weighted by total combined import of the industrial countries to obtain the average for broad commodity categories; the preferential tariff for the United Kingdom was estimated on the basis of the UNCTAD tariff sample, which shows it to be around one fifth of the British m.f.n. tariff. The Irish tariff was obtained from: D. McAleese, *Effective Tariffs and the Structure of Industrial Protection in Ireland: The Economic and Social Research Institute*, Paper No. 62 (Dublin, June 1971), p. 45. The rate is a weighted average of the Irish m.f.n. tariff and the much lower tariff on British goods under the terms of the Anglo-Irish Free Trade Area Agreement. Although the bulk of the study is concerned with measuring protection in 1966, the nominal rate of 12.5 per cent is an estimate for 1971.

Import demand elasticities were taken from M. E. Kreinin, "Price Elasticities in International Trade", *The Review of Economics and Statistics*, November 1967, pp. 510-516. They were derived from import-demand functions where the volume of imports is regressed against real income and relative prices (all variables expressed in logarithm form), as well as from market share analysis. The estimates so obtained were adjusted downward somewhat to account for the non-finished manufactures included in the trade coverage, on the basis of the relationship between the elasticities for finished and non-finished goods estimated in the above article for the United States of America. Elasticities of substitution were obtained from H. B. Junz and R. R. Rhomberg, "Prices and Export Performance of Industrial Countries, 1953-63", *International Monetary Fund Staff Papers*, vol. XII, No. 2, July 1965, pp. 224-271. They were adjusted in the same manner as the import demand elasticities.

[a] Weighted averages computed from GATT data. The BTN coverage of semi-manufactures and finished manufactures is shown in annex I of the GATT study (see notes below).

[b] Junz and Rhomberg (see notes below) show a significant elasticity in the Italian market of 4.6 and a non-significant elasticity in the EEC of 2.4.

[c] For comparison purposes only.

economic welfare of the world taken as one entity will be highly beneficial; but there will be losers as a result of redistribution of trade among countries). Of the latter figure a loss of about $0.6 billion, as estimated here, will be sustained by the developing countries (half of that by the members of the Commonwealth which would not gain associate status with the expanded EEC).

50. As indicated earlier, the losses to the developing countries have been calculated without taking into account the inauguration of preferential arrangements under the GSP in most of the countries involved in the enlarged EEC during 1971 and 1972. Some of the benefits that would have been conferred by the GSP may be offset by trade diversion through the enlargement of the Community, but information is not available to assess the magnitude of this possible erosion of the benefits. In any case, with a view to preserving these benefits as far as possible, there would seem to be a strong case for liberalizing the preference scheme of the enlarged EEC and of the other industrialized countries which may be associated with the EEC in a free trade area.

ANNEXES

ANNEX I

The impact of the EEC and EFTA on non-member countries

Conceptual framework and some quantitative estimates

1. On *a priori* grounds the EEC or EFTA can be expected to have the effects shown below on member and non-member countries, the latter group including the developing countries.

Effects of a customs union or a free-trade area

A. *Static effects:* Changes in output and income resulting from re-allocations of a fixed amount of productive resources

Effects on member countries	*Effects on non-member countries*
Trade creation	Trade diversion
Improved terms of trade	Worsened terms of trade

B. *Dynamic effects:* Changes in growth rate resulting from expansion of size of the market and the attendant addition of productive resources

Effects on member countries	*Effects on non-member countries*
Scale economies and competitive effect	Spillover of faster growth rate in the union into exports of non-members to the EEC and EFTA

TABLE II.7

Estimated effects of the enlargement of the EEC on trade flows in semi-manufactures and finished products

(Billion dollars)

Exporting country	*Change in United Kingdom imports* (1)	*Change in imports of Continental EFTA and Ireland* (2)	*Change in EEC imports* (3)	*Total change* (1) + (2) + (3) (4)	*Total change as a percentage of total exports to OECD* (5)
World	+0.67	+1.76	+2.26	+4.68	+3.8
Developed countries	+0.97	+1.75	+2.74	+5.50	+5.0
United States of America	−0.16	−0.12	−1.12	−1.42	−7.2
EEC	+2.20	+1.96	—	+4.16	+20.9 [a]
United Kingdom	—	−0.10	+1.47	+1.37	+15.6
Continental EFTA	−0.60	+0.01	+2.86 [b]	+2.27	+23.9 [a]
Developed Commonwealth	−0.43	—	−0.14	−0.57	−5.4
Other	−0.04	—	−0.30	−0.34	−4.2
Developing countries	−0.27	+0.01	−0.21	−0.47	−4.2
United Kingdom Dependent Territories and Commonwealth in Africa and Caribbean	−0.05	+0.02	+0.20	+0.18	+11.9
Other developing Commonwealth	−0.21	—	0.10	−0.31	+11.5
EEC dependent territories of Member Countries; Yaoundé + North Africa	+0.02	—	—	+0.02	+1.6
Other	−0.03	—	−0.32	−0.36	−6.9
Socialist countries (Eastern Europe, China, Democratic Republic of Vietnam, Democratic People's Republic of Korea)	−0.03	−0.01	−0.27	−0.32	−10.7
Change in area imports as a percentage of its total 1969 imports	6.2	12.9 [a]	11.6 [a]		
Change in area trade balances	+0.70	+0.52	+1.91		

Source: Table A-2.

[a] Excluding intratrade from the base.

[b] Including a gain to Ireland.

Effects on member countries	*Effects on non-member countries*
Investment creation	Spillover into non-members' exports to the EEC and EFTA
	Direct unfavourable dynamic effects
	Investment diversion
Other policies of the union	Spillover effects

Not all these effects lend themselves to empirical measurement. In particular the size of the dynamic effects is still a subject of controversy, with rather meagre evidence on either side of the argument. This annex considers the meaning of each effect, and offers some suggestive evidence of its possible magnitude.

Trade creation and diversion

2. A customs union or free-trade area frees trade among its member States. As a result some inefficient production within the union is replaced by imports from another—more efficient—member of the union, and this diminution of relatively inefficient production is known as trade creation. But any customs union or free-trade area also introduces discrimination against outsiders and in favour of member States. As a consequence, imports from non-member countries are replaced by relatively less efficient sources from within the union. This shift in the sources of supply is known as trade diversion.

3. In terms of static analysis, the developing countries are expected to lose exports to the European integrating areas, which loss is a part of the over-all trade diversion effect. The magnitude of this loss depends on two factors: the degree of price discrimination against them and the quantitative response by European importers to the price differential created by the discrimination. In turn, the degree of price discrimination in industrial products can be measured by the Common External Tariff in the case of the EEC, and the tariff of individual members in the case of EFTA. For farm products in the EEC one must rely on an aggregate "implicit tariff rate" of the various non-tariff barriers—i.e. the differential between the internal and the world price of each farm product. But the measurement of the effect of the Common External Tariff of the EEC on the agricultural sector is very complex, because before the formation of the EEC each member country operated its own farm support and import control programme, under which imports were restricted by various non-tariff barriers. The effect of the EEC is the difference between trade flows under the two systems.

4. While the explicit or implicit tariff rate offers an idea of the degree of discrimination against outsiders, or a specific group of outsiders (such as the developing countries), the response to price change (price elasticity) indicates what quantity of imports may be

kept out by the discriminatory price differential. Specifically, the price elasticity is an absolute number, which gives the ratio between two percentages:

$$\text{Price elasticity} = \frac{\text{Percentage change in the quantity imported}}{\text{Percentage change in price}}$$

Since the law of demand dictates that the denominator and numerator move in opposite directions, the elasticity has a negative sign. Multiplying the elasticity by the price differential yields the percentage change in the volume of imports, which is the effect of the discrimination by the customs union.

5. Several statistical studies were conducted by academic scholars during the 1960s in an attempt to estimate the size of trade creation and diversion of the EEC and EFTA in the manufacturing sector. However, since none of the estimates refers to 1970, and because no study pays special attention to the impact on the developing countries, the UNCTAD secretariat undertook its own technical study to construct such estimates. As in all such investigations, the UNCTAD study is based on rather bold assumptions, and its results must be regarded as tentative and be treated with caution. However, the results are roughly in conformity with those obtained by other scholars utilizing a variety of approaches.

6. The following passages describe the main elements of the methodology employed by the UNCTAD secretariat, with respect to each of ten manufacturing industries. Changes in the ratios of total imports (external plus intra-area) to consumption in the EEC between the base period (average 1959-1960) and the two alternative terminal periods (average 1967-1968 and average 1969-1970) were taken as measures of trade creation. Changes in the ratios of external imports to consumption were taken as measures of trade diversion. These measures are rooted in the theory of economic integration, and were used by other students of the problem, such as the EFTA secretariat.

7. However, the import-consumption ratios in the EEC would have changed over time even in the absence of integration, because of the general tendency for imports to increase faster than consumption and because of price changes, shifts in buyers' preferences and other reasons. There are three possible ways of allowing for these changes in order to isolate the effect of the EEC, each having important drawbacks: (*a*) adjustment of the changes in the EEC ratios for the measurable changes induced by price and income movements, utilizing price and income elasticities obtained elsewhere; (*b*) projections of trends from the pre-integration period, on the assumption that these trends would have continued if it were not for regional integration; [1] and (*c*) utilization of the import-consumption ratios in a non-EEC country over the 1960s as a guide to what the changes in the EEC ratios would have been in the absence of integration. The first method suffers from the inaccuracy of the available price and income elasticities for the EEC in the post-war period, and from the inability to account for the non-measurable factors such as changes in buyers' preferences. The second method is handicapped by the fact that the pre-integration period was not a "normal" period in European trade, as it was dominated by the removal of quantitative restrictions. And the third method is handicapped by the need to assume that the factors affecting the income-consumption ratios changed in an identical fashion in the EEC and the non-EEC "control" country, or that the biases involved cancel each other out.

8. Although the third solution was chosen, [2] the results were checked against calculations based on the first method, and found to be roughly of the same order of magnitude (rough orders of magnitude is the best that can be expected of any of the methods). They also correspond roughly to the highly preliminary results obtained by the EFTA secretariat in their study of the EEC effects employing the second method. The results show trade creation of around $7 billion annually for 1967-1968 and of $11 billion for 1969-1970. Trade diversion is very low or non-existent (table A-1). However for some industries of export interest to the developing countries, such as chemicals and wood and paper, there was significant trade diversion, especially in 1967-1968. Trade creation was rather widespread over most industries, with engineering products leading the way.

TABLE A-1

Estimates of trade creation and diversion in industrial products of the EEC

(Annual average in billion dollars)

Trade creation 1967-1968	1969-1970	*Trade diversion* 1967-1968	1969-1970
7	11	0.4	–0.5[a]

[a] The minus sign indicates negative trade diversion, which is often referred to as "external trade creation". It arises from the fact that major member countries of the EEC lowered their national tariffs by substantial amounts to conform to the Common External Tariff of the EEC.

9. The aggregate results indicate that the formation of the EEC was highly beneficial to the welfare of the world viewed as one entity as far as the manufacturing sector is concerned. In the main the expansion of intra-EEC trade took the form of increased intra-industry rather than interindustry specialization. In other words, there were hardly any cases of industries or plants in member countries going out of existence, with their output being replaced by imports from other members. Instead, plants in each country became more highly specialized in specific variants of the products they were producing previously. A similar pattern was also evident in other industrial countries.

10. While it is next to impossible to construct estimates for agriculture, *a priori* reasoning would lead one to expect significant trade diversion in that sector, because the extremely restrictive import régime has raised internal prices considerably above their world level. Highly tentative and preliminary estimates suggest that the trade diversion in agriculture may be of the order of $1 to $1.5 billion annually at the end of the 1960s. This is, of course, concentrated mainly in temperate zone foods.

The terms of trade effect

11. A customs union or a free trade area may divert some of its imports from external to internal sources. [3] In doing so it lowers the demand for imports from non-member countries, thereby depressing their prices on world markets. In other words, export prices of non-members and import prices of member countries can be expected to decline.[4] This tendency is reflected in an improvement in the commodity terms of trade (i.e. the ratio of export prices to import prices) of the customs union, which has its counterpart in a deterioration of the terms of trade of non-members, including developing countries.

12. The magnitude of this effect would depend on the size of trade diversion relative to the total imports of the customs union;

[1] This is the approach now being followed by the EFTA secretariat in their study of the effects of the EEC and EFTA on trade flows.

[2] The United States of America was selected as the "control" country. Trade creation is in principle the difference over the period considered between the changes in the ratios of total imports to consumption in the EEC and the United States respectively. Trade diversion, on the other hand, is in principle the difference between the changes in the ratios of total imports to consumption in the United States and external imports to consumption in the EEC, respectively.

[3] Trade diversion would not normally mean an absolute decline in imports. Rather, it means a smaller increase in imports than would otherwise have occurred.

[4] See J. E. Meade, *The Theory of Customs Unions* (Amsterdam, North Holland Publishing Co., 1955).

on the price elasticity of import-demand of the union; and on the export-supply elasticities of non-member countries vis-à-vis the union. While the absence of data regarding supply elasticities makes it impossible to estimate this effect, *a priori* reasoning suggests that it is rather small in the case of industrial products, for two reasons: trade diversion in the case of manufactures and semi-manufactures is relatively small and external imports have continued to increase relatively fast. The changes are therefore unlikely to depress world prices to a significant degree. Secondly, the world's export supply elasticity with respect to the EEC or EFTA is probably very large, as EEC imports constitute a small part of non-members' output. However, in the case of farm products in the EEC, where trade diversion may be substantial, and the share of EEC consumption in world supply reasonably high, this effect could be significant. Thus the EEC may have generated some decline in the terms of trade of the developing countries whose farm exports to the Community are subject to discrimination. But the magnitude of this effect cannot be measured.

Dynamic growth effect within the integrating regions

13. Economy theory and empirical investigations suggest that the increase in the size of the market attendant upon integration would contribute to the growth rate of member States. An expansion of the market improves the efficiency of production through economies of scale in production and distribution, the introduction of greater competitive pressure on business enterprises, and an improved investment climate through greater certainty and expanded market opportunities. As the growth rate rises so do imports, because their value depends to a large extent on the level of income in the importing country. Thus the dynamic growth effect brings indirect (spillover) benefits to non-member countries by expanding their exports to the integrating areas.

14. Because the current state of knowledge does not permit measurement of this effect, it has been the subject of heated controversy, where both sides of the argument relied mainly on *a priori* considerations. In the context of the EEC, the debate revolved around the question whether the fast growth of the Community in the 1960s was generated by the integration process, or whether that growth would have occurred anyway and indeed that that growth made possible the relatively smoother transitional period. More recently, in the context of the EEC enlargement, the controversy shifted to the British scene, where the question revolved around the extent of the dynamic benefits that may accrue to the United Kingdom from accession to the Community. Thus a question which should be settled on empirical grounds still remains a matter of an unresolved theoretical discussion.

15. This paper cannot resolve the issue; the definitive word on the subject is still years away. What it can do is spell out the arguments advanced on either side of the debate.

16. On the positive side, the argument is straightforward. There is abundant empirical evidence that production costs per unit of output decline sharply—in the heavy as well as consumer goods industries—with the increase in size of plants and the lengthening of production runs. Likewise efficiency at the firm's level is increased as the fixed overhead costs are spread over a larger output. It also stands to reason that investments would increase as market opportunities expand, the investment climate improves, and uncertainty is eliminated through a permanent, non-reversible removal of trade restrictions. Finally, expanded markets not only make possible economies of scale, but permit many large firms to function in each industry, thereby introducing added competitive pressure on each firm.

17. This constellation of forces cannot but increase output, and with it income and imports. Indeed, it has generally been accepted that the dynamic effects of the EEC and their attendant "spillover" into imports from non-member countries have been large.

18. If the positive case for the dynamic growth effect is so cogent, what doubts can be raised to refute it? The negative argument, advanced by some professional economists, is more "roundabout" and requires greater elaboration.

19. The contribution of integration to economic growth depends on many factors, not the least of which is the size of the integrating countries prior to integration. At the extreme, there would be little gain if two countries of the size of the United States of America merged into a customs union, because the American market is large enough to support many plants in each industry each enjoying all the possible economies of scale. There can be in the United States both large-scale production and effective competition at one and the same time. The same can be said for most, though not all, industries in the large European countries. Small countries, such as the relatively small European countries, may benefit from additional economic growth as a result of integration but the magnitude of the benefit would depend on the degree of openness of the economy and its level of protection prior to integration. Even a small country can realize economies of scale and effective competition if it specializes in production according to its comparative advantage, and produces for the export market. But in all probability there were dynamic growth effects in these countries.

20. The contribution of an increased growth rate to the expansion of external imports depends upon the income elasticity of demand, i.e. the ratio of the percentage increase in imports to the percentage increase in income. This elasticity is positive, because imports rise as income increases. A reasonable estimate of this elasticity for manufacturing imports into most European countries is somewhere between 2 and 3. For agricultural products, which in any case are subject to more intense trade barriers in the EEC, it is less than 1. However, since no definitive judgement can be reached concerning the size of the dynamic effects, their impact on imports cannot be estimated.

Dynamic implications of trade diversion

21. The dynamic growth effect within the two West European groupings which is expected to stimulate imports from the developing countries has its unfavourable counterpart in a dynamic diversionary effect inside the developing countries themselves. Trade diversion, which retards exports by a given developing country to the EEC or EFTA, necessarily implies shrinkage of the size of the market for manufacturers in the said country. In any given product line this may mean a loss of economies scale, with the implied reduction in economic efficiency. But unlike the case of the integrating countries themselves, there are no *a priori* grounds on which to base general expectations, or even a general argument, in this case. In fact the effect may vary from one developing country to another.[5] It is possible to find relatively small countries, on the threshold of industrialization, heavily dependent on the European market for sales of several products, whose growth rate may be retarded by the dynamic diversionary effect. In some cases it may turn out to be more important than the static trade diversion on which it is superimposed. While there is no way of assessing the magnitude of this effect, it should be noted that despite this theoretical possibility, actual exports of manufactures to the EEC from the developing countries grew very rapidly.

Investment diversion

22. Both domestic and foreign investments may have been planned in a given developing country, with the EEC countries as major markets for the final products. The developing country could have been deemed an attractive location because of either the availability of cheap domestic labour (the planned investment being in a labour-intensive industry) or the proximity to raw materials.

[5] See M. E. Kreinin, "On the Dynamic Effects of a Customs Union", *The Journal of Political Economy*, vol. LXXII, February-December 1964.

Although tariff differentials are only one of the many factors determining investment decisions, investment projects may be cancelled or their location changed, with adverse effects on economic growth in developing countries, as a result of the discriminatory treatment of imports in EEC countries. It may also be that, as Western Europe becomes a more attractive location for investments, because of regional integration, some capital will be invested there that would otherwise have been invested in the developing countries. Again, the magnitude of this influence cannot be assessed, but it is probably marginal.

Other integration policies

23. EEC or EFTA policies in a wide range of other areas may have implications for the developing countries. Certainly this is true of anything that affects European growth rates even in a general way. But since this includes just about all government policies, we may point to one specific example. The EEC has a special fund which is used to promote the development of lagging regions within the Community. Among other things, it directly subsidizes the establishment of new industries in such areas. From the point of view of the developing countries it is important to know whether these are relatively labour-intensive, technologically unsophisticated industries, which are likely to be competitive with the developing countries in the long run, and therefore lobby for import restrictions.

24. All this underscores the fact that, while the main interest of this study is limited to the direct impact of economic groupings on trade flows, there are other interesting implications of regional integration which are not touched upon, and which could have indirect effects. For example, economic theory would lead us to expect a convergence of factor remunerations in the integrating areas as a result of the freeing of trade flows, and certainly as a result of introducing free factor mobility. Such effects on real income and on income distribution are outside the scope of this study.

ANNEX II

Quantitative estimates of the impact of the enlargement of the EEC: detailed calculations

1. This annex sets out the detailed, step-by-step, calculations necessary to estimate the effect of EEC enlargement on trade flows in industrial products (as defined in table A-1 above). It is to be read in conjunction with table A-2, below, where in columns (1)-(5) the 1969 imports used as a base for the calculations are shown.

2. In columns (6)-(9) of table A-2 the estimated changes in United Kingdom imports are shown, each column being concerned with the effect of one of four particular price changes, with the total effect (column (10)) being the sum of the four effects.

3. In the first place the British external tariff will be adjusted to the level of the Common External Tariff of the EEC (abbreviated in column (6) to CXT). For non-Commonwealth countries, both developed and developing, this means a reduction in duty of 1.8 percentage points (9.7−7.9, see table II.6, column (3)), and a price reduction of 1.6 per cent $\left(\frac{109.7-107.9}{107.9}\right)$. This would result in an increase in exports to the United Kingdom of 4.16 per cent (1.6 per cent by 2.6, the coefficient of 2.6 corresponding to British demand elasticity for imports, see table II.6, column (5)). For the Commonwealth countries of Asia, as well as the developed Commonwealth countries, this implies an increase in the duty facing their exports to the United Kingdom of 6.0 percentage points (7.9−1.9, see table II.6, column (3)) and an import price increase in the United Kingdom of 5.9 per cent $\left(\frac{107.9-101.9}{101.9}\right)$, with the attendant reduction in their exports to the United Kingdom of 15.34 per cent (5.9 per cent by 2.6). Finally, it is assumed that the United Kingdom Dependent Territories, as well as the Commonwealth countries in Africa and the Caribbean, will continue to receive free access to the British market and will not be affected by the increase in duty. A similar assumption is made with respect to the EFTA countries, because the six members that are not candidates for membership of the EEC will probably be granted free-trade area status in industrial products. For the EEC and its Associated States there will be a reduction in the British tariff from 9.7 per cent to zero, with an estimated increase in exports to the United Kingdom of 25.2 per cent. The effect of these changes on the exports of various regions is shown in table A-2, column (6).

4. Next, account is taken of the impact of the newly introduced discrimination (column (7)). The EEC will gain free access to the British market, while other countries, with the exception of EFTA, the Associated EEC States, and the African Commonwealth, will face the Common External Tariff. As a result, EEC exports to the United Kingdom would expand by 23.7 per cent—i.e. the Common External Tariff (7.9 per cent) times the elasticity of substitution between the EEC and other suppliers on the British market (3.0). The resulting EEC expansion of $699 million, was pro-rated among the suppliers suffering discrimination in proportion to their 1969 exports to the United Kingdom.[1]

5. It should be noted that the EEC export gain shown in column (6) is at the expense of United Kingdom suppliers, while that shown in column (7) is at the expense of third countries.

6. The third price change concerns the removal of discrimination in favour of those Commonwealth countries which do not stand to gain associate status with the enlarged EEC. The preferential margin so eliminated is 7.8 percentage points, involving a 7.6 per cent increase in price $\left(\frac{109.7-101.9}{101.9}\right)$. In this instance an elasticity of substitution of 1.9 was assumed because of the preponderance of semi-manufactures in this trade,[2] yielding a 14.44 per cent reduction in the exports of the developed and of the Asian developing Commonwealth countries. The resulting loss of exports of $209 million (column (8)), was pro-rated among the non-Commonwealth countries in proportion to their 1969 exports to the United Kingdom.[3]

7. The final price change on the British market is the removal of previously existing discrimination against the EEC and its Associated States and in favour of Continental EFTA and the members of the Commonwealth in Africa and the Caribbean, as well as the British Dependent Territories. For EFTA, where the elasticity of substitution is 3.0 and the previous preferential margin was 9.7 per cent, this yields a 29.1 per cent reduction in exports. For the Commonwealth, where the elasticity of substitution is 1.9, and the previous preferential margin was 7.8 per cent (9.7−1.9), or 7.6 per cent $\left(\frac{109.7-101.9}{101.9}\right)$ of price, it implies a 14.44 per cent reduction in exports. These effects are shown in column (9), with the loss pro-rated according to the EEC and Associated States' exports to the United Kingdom in 1969.

8. In column (10) the effect of accession on United Kingdom imports is summarized. The changes consist of the removal of previously existing preferential arrangements and the introduction of new ones. In all, United Kingdom imports are estimated to rise

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[1] As a matter of fact, this calculation should have been carried out directly on the exports of third-country suppliers. In other words, the margin of discrimination should have been multiplied by the substitution elasticity of those countries' exports to the United Kingdom and of British imports from them. This approach was not possible, since the necessary data on elasticities were not available. However, experiments with a few suppliers suggest that the final result would not be very different, the larger import figure being roughly offset by a considerably smaller elasticity of substitution.

[2] Junz and Rhomberg, *op. cit.*, show a Canadian elasticity of substitution of −1.9 in non-EEC industrial countries.

[3] Continental EFTA countries are assumed to benefit from this change. Although they were not discriminated against before, the change improves their competitive position in the United Kingdom market vis-à-vis the Commonwealth.

by \$670 million, with the EEC by far the major net gainer. EEC export gains are at "the expense" of British producers, as well as of third countries, including EFTA and the Commonwealth. The loss in exports of the developing countries (primarily the major Commonwealth countries in Asia) is estimated at \$270 million, and for Continental EFTA at \$600 million. The developed Commonwealth would lose \$400 million in exports to the United Kingdom, while for the United States of America the estimated reduction is \$160 million.

9. In the case of Ireland, a non-EFTA member, the tariff of 12.5 per cent will come down to the Common External Tariff—a reduction of 4.6 percentage points, implying a price reduction of 4.3 per cent $\left(\frac{112.5-107.9}{107.9}\right)$. This will raise exports of third countries to Ireland by \$34 million. The tariff facing the EEC and EFTA will decline by 12.5 per cent, raising their exports by \$242 million. In addition, both the EEC and EFTA will gain free access, at the expense of all third countries, who would suffer discrimination arising from the Common External Tariff.[4] The loss to third countries is estimated at \$60 million.

10. In Norway and Denmark, at present members of EFTA, the following price changes will take place. First, the level of their national tariffs will be brought up to the Common External Tariff of the EEC with respect to all imports except those originating in the EEC, EFTA and their Associated States and territories. The average tariff increase for both countries would be 2.5 percentage points, which implies a price increase of 2.4 per cent $\left(\frac{105.4-102.9}{102.9}\right)$, with an import demand elasticity of −2.2., there would be a reduction of imports of 5.28 per cent, or \$32 million. For the EEC this implies an average reduction of their tariffs from 5.4 to zero, leading to an increase in exports to the two countries of \$238 million (at the expense of domestic producers in the two countries), of which \$230 million would be a gain for the EEC and \$8 million for the developing States associated with the enlarged Community.

11. Next, the EEC will gain free access to the markets of the non-applicant members of EFTA (Sweden, Switzerland, Finland, Austria, Portugal and Iceland) as part of a prospective free-trade area arrangement in industrial products. This newly granted free access would raise EEC exports to these EFTA countries by \$937 million (6.8 per cent multiplied by 2.2 and by the value of imports in 1969).

12. For Continental EFTA countries combined there will be the additional effect of a 7.2 per cent [5] discrimination in favour of the EEC and against third-country suppliers, leading to a 14.2 per cent reduction in the latters' exports to Continental EFTA. Finally, the EEC will gain by reason of the removal of previous discrimination in favour of the United Kingdom. The loss of United Kingdom exports and the gain to the EEC would be \$344 million (6.4 per cent $\times$ 2.3 $\times$ \$2,340 million).

13. All the estimated changes in imports of Continental EFTA and Ireland are summarized in column (11). They show a large export gain by the EEC, with losses sustained by Continental EFTA and the United States of America.

14. Finally, there is the free access gained by EFTA (plus the Commonwealth countries in Africa and the Caribbean) to the EEC market and the free access gained by Ireland to both the EEC and EFTA. There are two price changes to be taken into account. First, EFTA will benefit from the removal of the Common External Tariff of the EEC, yielding a 23.7 per cent gain in its exports (7.9 per cent $\times$ 3). This is "at the expense" of domestic producers in the EEC. Secondly, EFTA benefits from newly created discrimination against third countries. With an elasticity of substitution of 2.9 of EFTA in the EEC, third-country suppliers would lose 22.9 per cent of their exports to the EEC, to the benefit of EFTA. These benefits were pro-rated in proportion to their 1969 exports to the EEC (column (12)).

15. Throughout the above estimation procedure, the EEC and Continental EFTA have been treated as if each were a single country. Consequently, their inter-penetration consisted of two elements: (*a*) displacement of domestic production in each grouping by imports from the other grouping, generated by the removal of import duties and the magnitude depending on the import-demand elasticities; and (*b*) displacement of imports from third countries, arising out of the newly created discrimination, with its size depending on the elasticities of substitution between third countries' exports and those of each acceding grouping in the market of the other grouping. Had the States in each grouping been treated as individual countries there would have been a third element in the inter-penetration: (*c*) displacement of exports of a partner country (say the Federal Republic of Germany) in the markets of the other countries in the grouping (EEC) by exports from the other grouping (acceding countries of EFTA). This arises from the elimination of previously existing discrimination in favour of intragroup trade and against exports of the other group. (Similarly, EEC exports would displace, say, some Danish exports to Norway). The only case where the third element has been incorporated in the estimates is that of the trade of the United Kingdom with Continental EFTA, since the United Kingdom was treated as a separate entity.

16. The reason for this exclusion is that the available import-demand elasticities, on which the estimates are based, pertain to the EEC and Continental EFTA, each taken as a group (and not to the individual member countries). Elasticities of import demand are considerably smaller for the individual countries members of the groupings than they are for each of the groupings as a whole. Indeed, mathematically, there is an inverse relationship between the elasticity coefficient and the ratio of imports (in the case of the grouping as a whole, external imports) to total consumption. This ratio is much higher for an individual country, and consequently the elasticity of import demand would be lower than that of the group as a whole. This higher elasticity compensates for the exclusion of the third element. Conceptually, therefore, both approaches (i.e. treating the EEC and Continental EFTA each as a single country and treating each country separately) should yield the same result.

[4] To be precise, the effect on the United Kingdom which would lose its exclusive free-trade position in Ireland, should be separately distinguished. However, the available average Irish tariff is an average of duties, charged on imports from the United Kingdom and other countries without distinction.

[5] Average of the Common External Tariff of EEC and of the national tariffs of the six non-applicants.

TABLE A-2

Estimated effects of the enlargement of the EEC on trade in manufactures and semi-manufactures

Exporting country	1969 imports ($ billion): All OECD countries (1)	United Kingdom (2)	Continental EFTA (3)	EEC (4)	Denmark Norway Ireland (5)	Changes in United Kingdom imports ($ million) due to: Change in the United Kingdom tariff to the CXT, plus removal of United Kingdom tariff vis-à-vis EEC (6)	Discrimination against non-members of EEC (7)	Removal of discrimination in favour of Commonwealth (8)	Removal of discrimination against EEC (and its associates) and in favour of EFTA (9)	Total Effect in the United Kingdom market (10)	Change in imports of continental EFTA and Ireland (11)	Change in EEC imports (12)	Total change in imports (10)+(11)+(12) (13)	Total change as a percentage of total exports to OECD (13)×(1) (14)
World	123.28	10.75	17.38 (13.56)[a]	48.36 (19.44)[a]	6.47	+669	0	0	0	+669	+1 756	+2 256	+4 681	+3.8
Developed countries	109.13	8.82	16.20 (12.38)[a]	43.76 (14.84)[a]	6.09	+695	+190	+37	+53	+975	+1 753	+2 745	+5 473	+5.0
United States of America	19.74	2.15	1.22	4.97	0.45	+89	−298	+48	—	−161	−122	−1 121	−1 421	−7.2
EEC	48.77 (19.85)[a]	2.95	8.22	28.92	2.10	+733	+699	+66	+699	+2 197	+1 965	—	+4 162	+20.9[a]
United Kingdom	8.78	—	2.34	2.88	1.47	—	—	—	—	—	−103	+1 469	1 366	+15.6
Continental EFTA	13.34 (9.52)[a]	2.22	3.82	5.05	1.83	—	—	+50	−646	−596	+13	2 858[b]	+2 275	+23.9[a]
Developed Commonwealth	10.47	0.97	0.11	0.63	0.04	−149	−137	−140	—	−426	—	−144	−570	−5.4
Other	8.03	0.53	0.49	1.31	0.19	+22	−74	+13	—	−39	—	−300	−339	−4.2
Developing countries	10.95	1.44	0.59	2.84	0.18	−44	−129	−47	−53	−273	+15	−214	−472	−4.3
United Kingdom dependent territories	0.10	0.03	—	0.03	—	—	—	+1	−4	−3	—	+9	+6	+6.0
Commonwealth countries in Africa and Caribbean	1.50	0.40	0.14	0.39	0.04	—	—	+9	−58	−49	+18	+200	+169	+11.3
Other developing Commonwealth	2.69	0.48	0.13	0.44	0.05	−74	−64	−69	—	−207	−1	−101	−309	−11.5
EEC: Dependent territories of member countries	0.58	0.02	0.02	0.11	0.02 }	+10	—	+1	+9	+20	+3 }	—	+23	+1.6
Yaoundé + North Africa	0.88	0.02	—	0.77	— }						— }			
Other	5.20	0.49	0.30	1.45	0.08	+20	−65	+11	—	−34	−5	−322	−361	−6.9
Socialist countries (Eastern Europe, China, Democratic Republic of Viet-Nam	2.73	0.41	0.53	1.19	0.15	+17	−56	+10	—	−29	−12	−272	−313	−11.5
and Democratic People's Republic of Korea)	0.26	0.03	0.04	0.10	0.01	+1	−5	—	—	−4	—	−3	−7	−2.7
Change in area imports as a percentage of its total 1969 imports										6.2	12.9[a]	11.6[a]		
Change in area trade balances										+697	+519	+1,906		

[a] Excluding intratrade.

[b] Including a gain to Ireland.

PART THREE

The Council for Mutual Economic Assistance

Chapter I

The activities of the CMEA since its establishment

1. Economic integration in Eastern Europe is an important feature of co-operation among socialist countries. It is based on a common economic system (public ownership of the means of production and planning of national economic development), a common political system and a common ideology. The avowed aims of this integration process are to promote (by pooling and co-ordinating the efforts of the member countries) the planned development of the national economies, acceleration of economic and technological progress, a relatively faster rise in the economic levels of the less industrialized countries of the group, a continuous growth of labour productivity and a steady advance in living standards.

2. Economic integration in Eastern Europe has primarily been based on the activities of the CMEA created in 1949. The Council is an intergovernmental body and possesses no supernational powers. On all questions of economic, scientific and technical co-operation the CMEA adopts recommendations; decisions are taken only on organizational and procedural matters. The recommendations and decisions of the Council bind only those member countries that have stated their consent to them; they do not apply to countries that have declared their disinterest in a given question. CMEA recommendations are implemented by Governments or other competent national bodies in those countries which have accepted them.

3. During the 20 years and more of its existence, the activities of the CMEA have grown and evolved. In the initial years the Council was chiefly concerned with the expansion of trade between member countries and also with the organization of scientific and technical co-operation. Since the middle of the 1950s, growing emphasis in its activities has been placed on the co-ordination of national development plans of member countries as well as on furthering the international division of labour and specialization in production between member States. CMEA plan co-ordination began with the co-ordination of current (one-year) plans. As plan co-ordination increased and as efforts at specialization between branches of industry became more numerous, it was necessary to work out common criteria for decision-making in those fields. In 1962, a CMEA programme (*Basic Principles of International Socialist Division of Labour*) [1] was adopted which put special stress on the co-ordination of long-term economic plans, having in mind, primarily, the five-year plans. During the 1960s such plan co-ordination was elaborated with the avowed aim of ensuring a combination of the international specialization of production with a diversified economic development of member countries. The objective of a more rational division of labour between CMEA countries was combined with that of transforming its less developed participants as quickly as possible into developed industrial economies.

4. The expansion of CMEA activities was reflected in its increasingly complex and elaborate structure. At present the Council comprises the following organs: Session, Executive Committee, Bureau of the Executive Committee on Generalized Problems of Economic Plans, standing commissions on all the key sectors of the economy of member States (e.g. geology, electric power, chemical industry, coal industry, steel industry, non-ferrous metal industry, engineering industry, radio engineering and electronics industry, light industry, food industry, agriculture, construction, transport), standing commissions on major problem areas (e.g. foreign trade, currency and finance, statistics, standardization, co-ordination of scientific and technological research), secretariat of the Council, and the CMEA Institute of Standardization. In the field of international finance the International Investment Bank and the International Bank for Economic Co-operation play very important roles.

5. During the second half of the 1960s far-reaching economic reforms were carried out, in individual CMEA countries. These reforms entailed a certain decentralization of decision-making, an increased concern with costing and pricing, a reshaping of planning procedures and a varying degree of extension of market relations. In all CMEA countries increased attention was paid to consumer needs and preferences.

6. These economic reforms have a profound impact on the whole sphere of external relations and specifically on foreign trade.[2] In varying degrees CMEA countries are becoming more conscious of the importance of an active participation in the international division of labour and of the important role of foreign trade in economic growth. The advantages of cost savings through the expansion of foreign trade are being taken more systematically into account in economic planning. Consumer needs and preferences are exerting a growing influence on the structure of imports.

7. With the growing significance of foreign trade and international co-operation, increased stress is being given to the need for stability in foreign economic and trade relations and to the role of complementarity of national economic structures. Accordingly, the need for far-reaching, profound and long-term changes in economic

[1] CMEA secretariat, Moscow, 1962.

[2] For a more detailed discussion of the problems involved see the report by the UNCTAD secretariat entitled "Review and analysis of trends and policies in trade between countries having different economic and social systems" (TD/112 and Corr.1).

structures is becoming evident, especially under the impact of modern developments in science and technology.

8. Against this background and taking into account the experience gained in the preceding years, a more elaborate programme of CMEA action was worked out in 1971 (*Comprehensive programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member-Countries*).[3] This programme covers a much longer time span (15-20 years) and aims at more far-reaching and ambitious structural changes in the participating countries than its predecessor. The expansion of mutual trade envisaged in this programme is not so much an aim in itself as a by-product of a comprehensive process of economic specialization and complementarity. The main aim of the programme is to achieve a more rational division of labour between socialist countries, taking into account the impact of modern developments in science and technology. Most of the measures envisaged tend to increase the role of external factors in the development of CMEA countries.

9. The comprehensive programme envisages the use of a variety of methods of economic integration. Much attention is devoted to systematic multilateral and bilateral consultations on questions concerning individual projects, branches of industry or economic development in general; the results of such consultations are taken into account by member countries in formulating national economic plans. Many new forms of co-operation in development planning are recommended and elaborated upon. In particular, it is envisaged to expand co-operation in economic and technical forecasting. Special emphasis is placed on the co-ordination of long-term plans and joint planning of the whole economy and of individual branches of industry and lines of production. Various measures are also envisaged for the exchange of experience on the improvement of the system of planning and the management of the national economy.

10. A broad group of measures is also envisaged for expanding co-operation in science and technology. The programme defines the areas of top priority and sets out the measures to be applied in order to train personnel, ensure specialization in production of scientific instruments and equipment, and establish joint research projects. Special stress is put in the programme on the legal principles of economic, scientific and technical co-operation, primarily through a wider use of the contractual system, which should create conditions for increasing the incentives and responsibility of the contracting parties.

11. Far-reaching changes are contemplated in the organization of external economic relations. The comprehensive programme envisages a broadening of direct ties among ministries, departments and other State agencies in the various CMEA countries as well as among national economic, research and development organizations.

12. A large part of the comprehensive programme is devoted to methods of increasing the effectiveness of trade between CMEA countries and of raising the absorptive capacity and increasing the stability of the socialist countries' market. The role of long-term trade agreements is to be increased and more work is to be done on forecasts of trade possibilities. Special attention is to be paid to the fixing of prices for goods delivered on a reciprocal basis and a comprehensive study of questions related to the improvement of the system of foreign trade prices is to be undertaken. The CMEA countries also intend to work out a procedure for the convertibility of their collective currency (transferable rouble) into national currencies of member countries and subsequently for the mutual convertibility of national currencies. Measures for the improvement of payments arrangements, including a system of mutual settlement are to be elaborated. The International Investment Bank is to take steps to promote a greater concentration of resources and to provide for medium and long-term lending for projects of mutual interest; special funds may be set up by the Bank for projects of economic and technical assistance to developing countries. The International Bank for Economic Co-operation is to provide credit and financial facilities for the expansion of mutual trade and its activities should help to extend the scope of currency convertibility.

[3] CMEA secretariat, Moscow, 1971.

Chapter II

Recent trends in trade between developing and CMEA countries

13. Trade between CMEA countries and developing countries, though still relatively small, has grown very rapidly in recent years.

14. The expansion of trade between socialist and developing countries was very marked in the first half of the 1960s. From 1966 to 1968 there was a relative stagnation in developing countries' exports to socialist countries, whereas imports from socialist countries continued to

TABLE III.1

Foreign trade turnover among and between major regions of the world

(Per cent)

	Annual growth, 1960 to 1970	*Share in total world turnover, 1970*
Trade among developed market-economy countries	11.1	66.3
Trade among developing countries	6.2	4.5
Trade among socialist countries [a]	6.4	7.8
Trade between developed market-economy countries and socialist countries [a]	11.0	3.0
Trade between developed market-economy countries and developing countries	7.3	16.6
Trade between socialist countries [a] and developing countries	12.1	1.8

Source: Calculated from data in UNCTAD, *Handbook of International Trade and Development Statistics, 1972* (United Nations publication, Sales No. E/F.72.II.D.3).

[a] Socialist countries of Eastern Europe and Asia.

TABLE III.2

Developing countries' exports to the major regions and economic groupings

(Per cent)

Region or grouping	*Average annual rate of growth, 1960-to 1970*		*Share in total exports of developing countries in 1970*	
Developing countries	6.4		20.8	
Developed market-economy countries	7.4		72.6	
EEC		8.5		25.6
EFTA		4.2		12.1
Socialist countries	10.2		6.6	
CMEA		11.2		5.8

Source: As for table III.1.

TABLE III.3

Share of ten major trading partners in total trade of CMEA countries with developing countries, 1970 [a]

(Per cent)

Country	*Turnover (imports plus exports)*	*CMEA imports*	*CMEA exports*
Cuba	17.9	19.8	16.5
Yugoslavia	16.2	16.6	15.8
Egypt	12.3	13.6	11.6
India	8.8	12.3	6.2
Iran	4.6	3.3	5.4
Brazil	2.2	2.8	1.6
Algeria	2.1	2.3	2.0
Malaysia	1.7	4.0	0.1
Pakistan	1.7	1.9	1.6
Iraq	1.6	0.2	2.5

[a] See also part one, tables I.3 and I.4.

increase, though at a slower rate. Between 1968 and 1970 trade turnover between socialist (primarily CMEA) and developing countries grew at a very high rate—11.2 per cent in 1969 and 19.0 per cent in 1970.

15. The CMEA countries have been the most rapidly expanding markets for the products of developing countries during the period 1960-1970.

16. Imports from CMEA countries into developing countries increased by 14.9 per cent per year from 1960 to 1970, i.e. more than twice as fast as imports into the latter countries from other areas and economic groupings.

17. This expansion of trade led to a slow but steady increase in the share of CMEA countries in both the export and import trade of developing countries. Between 1960-1962 and 1967-1969 the most marked increases in the share of CMEA countries in the developing countries' exports were in food (from 5.5 per cent to 8.1 per cent) and manufactures (from 5.3 per cent to 8.2 per cent).

18. Simultaneously, an increase in the share of developing countries in the total imports of CMEA countries took place, increasing from 8.8 per cent to 10.5 per cent in the period 1960-1969. The most marked increases were registered in those commodity groups in which the developing countries were faced with stagnating world markets: food (a rise from 17.2 per cent to 33.7 per cent) and agricultural raw materials. For manufactures the share of developing countries in CMEA imports rose from 3.4 per cent to 8.0 per cent.

19. During the 1960s, the CMEA was the only economic grouping for which the share of developing countries in total exports and imports increased.[4] Moreover, this performance must be assessed against the background of a share of trade between socialist and developing countries in world trade that is much smaller than the share of those two groups of countries in world output. From this point of view there is a large untapped potential for further expansion of trade between developing and CMEA countries.

[4] See part one, table I.1, above.

20. This potential is also brought out from a geographical analysis of trade between CMEA and developing countries. During the years under study the geographical scope of this trade has tangibly broadened; more than 20 developing countries which in 1960 had no trade with socialist countries of Eastern Europe now have a regular trade with them. However, the bulk of CMEA trade with developing countries is with a relatively small number of them.

21. The large share of Yugoslavia in this trade is attributable to its historic ties with socialist countries and also to its common borders with and proximity to several CMEA countries. Yugoslavia apart, the countries with the biggest share in the trade turnover with CMEA countries (Cuba, India and Egypt) are those where comprehensive forms of integrated economic co-operation have been worked out and institutionalized.

Chapter III

The impact of CMEA activities on trade with developing countries

22. CMEA efforts to promote economic co-operation among socialist countries have so far been consistent with a very rapid rate of growth in trade between socialist and developing countries. The new CMEA comprehensive programme introduces new features into the integration process of socialist countries and opens up many new possibilities of expanding trade and formulating new approaches to trade expansion. It is, however, too early to attempt a detailed appraisal of its effect on existing trends in the trade of socialist countries and in particular on their trade with developing countries. At most the available data permit only some preliminary observations.

23. The CMEA comprehensive programme is a vital and integral part of policy measures aimed at accelerating economic development in Eastern Europe. Inasmuch as

TABLE III.4

Foreign trade and national income targets under the economic plans of the CMEA countries, 1971–1975 [a]

(Percentage increase over the plan period)

Country	Foreign trade	National income
Bulgaria	60-65	47-50
Czechoslovakia	36-38	28
German Democratic Republic	75	26-28
Hungary	40-50	30-32
Poland	57	38-39
Romania	61-72	68-82
USSR	33-35	37-40

[a] For sources and other plan targets, see TD/112 and Corr.1, table 3.

this aim is achieved and *per capita* GNP grows, there will be an expansion of markets in these countries, including markets for imported products. Moreover, the CMEA comprehensive programme is specifically aimed at reinforcing the existing trend towards making the economies of member countries more outward-looking. Thus in the five-year plans for the first half of the 1970s, a more rapid rate of growth in foreign trade than of growth in national income is envisaged in most socialist countries of Eastern Europe.

24. The main emphasis in the CMEA comprehensive programme is on the utmost development of such measures as will lead to an expansion of intra-CMEA trade, and there is every reason to believe that the major part of the newly created import markets will be satisfied by products coming from other CMEA countries.[5] According to the plan figures for 1971-1975, intra-CMEA trade (exports plus imports) is expected to increase by 10.4 per cent a year, as compared with an expansion of just over 8 per cent a year in total CMEA trade. The implication is that trade with non-CMEA countries will expand at a slower rate than in 1966-1970.[6] However, the probability and extent of such a development is highly debatable, since plans for trade with non-CMEA countries are tentative;[7] past experience shows that the latter trade flow has in fact expanded substantially faster than envisaged under the plan. In contrast, the plans for foreign trade among the CMEA countries have a greater degree of certainty. Moreover, in the next two or three years the major effort envisaged in the comprehensive programme will be directed towards laying the groundwork for a future expansion in trade relations; by the time the programme results in a real expansion of intra-CMEA trade its impact will have to be assessed in the context of the foreign trade ratios to be envisaged under the plans for the second half of the 1970s.

25. The above-mentioned uncertainties should be viewed against the recently expressed strong desire of the Governments of the socialist countries of Eastern Europe to expand trade with non-CMEA countries. The CMEA programme envisages a broad range of possible forms of participation by third countries in the carrying out of the whole programme or of specific projects. The programme explicitly aims at taking due account of the world division of labour and at expanding economic, scientific and technological ties with other countries, irrespective of their social and political systems. It specifically stresses that CMEA member countries "shall attach special importance to further extending trade, economic, scientific and technological co-operation with the developing countries".[8]

26. An assessment of the impact the comprehensive programme will have on trade with developing countries necessitates an analysis of the different types of measures envisaged and of the specific fields involved, as well as of the decision-making process. In particular, it is necessary to note that the programme sets out two groups of measures. On the one hand there are a certain number of concrete projects whose execution is envisaged in the near future; these projects cover a relatively limited field. On the other hand, the comprehensive programme envisages the carrying out in the next few years of a whole series of comprehensive studies and forecasts as well as appraisals of possible alternatives and solutions which will lay the foundation for long-term policy measures in all major fields and will pinpoint concrete new projects and lines of development.

27. Many of the measures envisaged by the programme, though they will lead to a substantially increased integration of the economies of CMEA countries, will have little or no effect on their imports from developing countries but may significantly influence their exports to Asia, Africa, and Latin America. Thus, in the field of science and technology, the first priority problems are those of: the synthesis of new plastics and the development of new industrial catalysts; the development of methods for the protection of metals against corrosion; the creation of new semi-conducting materials and extremely pure metals; the creation of programme-controlled systems for machine tools; the creation of new computing facilities; the creation of instruments, means of automation and equipment for scientific research; research in the sphere of organization management, cybernetics and operational analysis; research in biological physics; improvement of nutritional values of existing foods and the creation of new high quality foods; the introduction of atomic energy into the CMEA countries' economies on a commercial scale. Of all these fields of scientific and technological co-operation, only the first and the last may have direct repercussions on CMEA countries' imports from developing countries. But most of these measures will lead to higher quality and

[5] Intra-trade in manufactured goods, expressed in terms of imports as a percentage of consumption, was much smaller in 1969 in the CMEA than in the EEC. Only part of this difference can be explained by reference to the economic size and the related low trade dependence of the USSR. (See United Nations, *Economic Survey of Europe in 1971*, Part I, *The European Economy from the 1950s to the 1970s* (United Nations publication, Sales No. E.72.II.E.1), p. 32.)

[6] See United Nations, *Economic Bulletin for Europe*, vol. 23, No. 2, (United Nations publication, Sales No. E.72.II.E.7), table 15.

[7] See in this connexion, TD/112 and Corr.1, paras. 24-27.

[8] *Comprehensive Programme ...*, p. 15.

lower cost for many products of CMEA countries, which might increasingly favour exports to developing countries.

28. In the case of engineering, chemicals, radiotechnology, and electronics, large-scale measures are to be undertaken to re-organize these industries, increase their specialization and complementarity, and raise productivity. In engineering, a rapid increase is envisaged in the production and trade of high quality machinery and equipment, including power, mining, oil-extracting, and metallurgical equipment for ferrous and non-ferrous metallurgy, programme-controlled metalworking machine tools, automated lines and complex machine systems, forging and pressing equipment, equipment for the chemical, food and light industries, farming machinery, etc. In the radiotechnical and electronics industry there is to be an extension of co-operation between the CMEA countries in designing and manufacturing modern electronic computers and in working out programme and information systems for management. During 1971-1975 work is to be carried out on improving a complex of apparatus within the system of colour television, its introduction in the CMEA countries and the mass production of colour kinescopes.

29. Such measures will lead to an increase in mutual trade between CMEA countries in the respective products. Their impact on the export possibilities of the developing countries will be small, if any, since these are generally not items which developing countries export on any scale. However, many of the measures may easily favour exports to developing countries, through economies of scale.

30. At the same time some of the measures envisaged in the comprehensive programme will undoubtedly have a direct impact on the export possibilities of developing countries. In this respect special mention should be made of the problem of raw materials and fuel supplies. This problem received high priority during the 1960s, when supply bottlenecks threatened that would slow down economic development. At the beginning of the 1960s a broad programme was worked out, and subsequently implemented, for expanding production and trade in certain raw materials and fuels in CMEA countries. Coal production and exports were rapidly increased, a large inter-State petroleum pipeline was built, several inter-State electricity grids were created, etc. In the fields of iron, steel and non-ferrous metals, production expansion was supplemented in many cases by long-term reciprocal delivery agreements, mutual credits and other forms of co-operation.

31. All these efforts did not exclude a rapid growth of imports from developing countries. From 1960 to 1969 imports from developing countries into the socialist countries of Eastern Europe of fuels increased from $3 million to $34 million and of non-ferrous metals from $39 million to $65 million. Accordingly, the share of developing countries in the total imports of CMEA countries of fuels and raw materials (though starting from and remaining at a low level) increased significantly.

32. The recently adopted CMEA comprehensive programme envisages a set of short-term measures aimed at ensuring an adequate and stable supply of fuel and raw materials through an increase in production and comprehensive efforts at their more rational use. To this end, and with a view to results in the near future, the CMEA countries are accelerating appropriate forms of co-operation. Projects for joint geological exploration are being carried out or are contemplated. A major form of co-operation is also the joint construction and exploitation of enterprises for the extraction of fuel and raw materials and the generation of electric power. Thus, consideration is being given to a proposal by Poland to create, through joint efforts, additional capacity in coal mining. In non-ferrous metallurgy the pooling of efforts is envisaged to increase production of copper in Poland and the USSR, of zinc in Poland, and of nickel in the USSR. A proposal for joint expansion projects in the field of oil and gas production in the Soviet Union is also under study. Consideration is being given to Mongolia's proposal concerning the joint exploitation of its coal, copper, tin, tungsten and molybdenum deposits. Another form of co-operation among the CMEA countries consists of joint efforts to introduce new techniques whereby the use of raw materials and fuels may be rationalized. Though these specific measures will bear fruit over different periods in the coming years, they will all, in their respective fields, contribute to absorbing a large part of increased demand in CMEA countries from within the region and thus set a limit to the expansion of exports from developing countries.

33. In relation to the long-term projects, the CMEA comprehensive programme envisages the undertaking in the next two or three years of elaborate studies of the future needs of CMEA countries in fuel and raw materials and of the alternative sources of their supply both inside and outside the region. Various alternative projects will be examined, feasibility studies carried out and appraisals made. Projects will be studied on the basis of different criteria, including costs, a factor which is increasingly being taken into account in socialist countries. It would be premature to anticipate the conclusions from those studies. Many new possibilities of co-operation between CMEA countries are likely to emerge, but there will probably also be many cases where the studies point to high initial investment outlays and high costs of production and transport (especially in relation to projects in the eastern regions of the USSR, where many newly discovered deposits are situated) that should lead to preference being given to imports from developing countries, as long as stable deliveries can be guaranteed.[9]

34. According to one expert, in the next 15-20 years the socialist countries may need to import annually from developing countries 60-90 million tons of crude petroleum, 40-50 billion cubic metres of gas, 10-20 million tons of iron ore, and large quantities of non-ferrous metals.[10]

35. An analogous situation may evolve in the light industries. The comprehensive programme does not spell out very elaborately the measures that are proposed in this field. Specific mention is made only of the glass, ceramics,

[9] As a result of such studies already carried out, a rapid increase in the imports of petroleum from developing countries into several CMEA countries has already taken place.

[10] L. Zevin, "New tendencies in the economic co-operation of socialist and developing countries" (in Russian), Moscow, 1970, p. 126.

wood-working, synthetic leather and printing industries. Forecasts of consumption requirements and alternative sources of supply are to be carried out in the next two years. Undoubtedly developing countries' products will in many cases have a big attraction. Even now several CMEA countries have expressed their intention of expanding their imports from developing countries of textiles, canned foodstuffs and other consumer goods.

36. The possibilities which are opening up for developing countries are broadened by the character of the economic reforms that are being carried out in CMEA countries. In different ways consumers are being given a greater latitude in influencing consumption patterns and sources of supply. With rising *per capita* income there will inevitably be an increased demand for tropical foods, coffee, cocoa, oranges, and bananas. It is, however, too early to assess the extent of this increase in demand, which will be better known when studies of consumer patterns and preferences, currently being undertaken in CMEA countries, are completed.

37. A prominent feature of the CMEA comprehensive programme and of the foreign economic policy of socialist countries is the emphasis put on stable long-term relations.[11] During the last few years, many long-term trade agreements, with a span of three to five years, have been concluded between socialist and developing countries. These have led to a certain stability of trade flows and in some cases to diversion of trade in favour of developing countries. As was recently brought out by an UNCTAD secretariat study,[12] planners in socialist countries tend to favour long-term agreements as a means of ensuring a certain stability in supplies and markets and therefore insist on their due implementation, *inter alia*, by modifications in import practices and switching to alternative sources, in favour of developing countries which have concluded such agreements.

38. Growing attention is also being given to different forms of co-operation in production.[13] A significant feature has also been the trend towards the partial co-ordination of development plans of developing countries (India, Iran, Egypt, etc.) with the economic plans of some socialist countries. This trend facilitates the evaluation of certain projects and creates a basis for more stable mutual trade flows.

39. To the extent that such institutional arrangements will grow and that a stable division of labour between socialist and developing countries evolves, planners in socialist countries, when assessing different alternatives, will give preference to projects which will lead to an expansion of trade between the two groups of countries, especially in fields of primary interest to developing countries.

40. Thus, even if the comprehensive CMEA programme should lead to a certain slowing down or even reversal of the existing trends in the total trade of CMEA countries (due to a rapid intensification of intra-CMEA trade in fields of lesser importance to developing countries) this could be compatible with a further rapid growth in the absolute volume of trade and in the share of developing countries in CMEA trade in fields which are of special interest to those countries.

[11] Speaking at the XXIV Communist Party Congress in Moscow concerning the directives for the ninth five-year plan of the USSR, Prime Minister A. Kosygin stressed the importance of a "stable division of labour" as between socialist and developing countries.

[12] United Nations, *The decision-making process in respect of imports in selected socialist countries of Eastern Europe* (United Nations publication, Sales No. E.72.II.D.14), para. 15.

[13] For a detailed discussion of some of the problems involved, see the report by the UNCTAD secretariat entitled "Expansion of trade and economic co-operation between the socialist countries of Eastern Europe and the developing countries" (TD/126), p. 119 above.

SPECIAL MEASURES IN FAVOUR OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

Action programme submitted by the Secretary-General of UNCTAD *

[*Original text: English*]

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TABLE

* This action programme was circulated to the Conference as document TD/135 dated 9 March 1972.

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ANNEXES

Introduction

1. International concern with the special problems of the least developed among the developing countries first received full expression in Conference resolution 24 (II), and since then efforts have been made in the Trade and Development Board and in its main committees, as well as in other international bodies, to take special measures in favour of these countries.[1] Pursuant to resolutions by the Trade and Development Board, the Secretary-General has convened three expert groups on the problems of the least developed countries.

2. The International Development Strategy for the Second United Nations Development Decade (General Assembly resolution 2626 (XXV) of 24 October 1970) makes special reference to the least developed among the developing countries, and stresses the need for special international action in their favour. In its paragraphs 56 and 58 it calls on organizations and bodies of the United Nations system to consider initiating, early in the Decade, special measures to alleviate the critical development problems of the least developed countries and to improve their capacity to benefit fully and equitably from the policy measures for the Decade, and the developed countries are urged to assist in the implementation of these measures.

3. The second UNCTAD Expert Group, which met in April/May 1971, expressed the view that "progress so far has largely been in the realm of thought and general recommendations".[2] It also noted that concrete action had been delayed as the result of the absence of a generally acceptable list of least developed countries. The Group therefore endorsed the list of 25 countries suggested by the Committee for Development Planning[3] and described these as the hard-core least developed countries. This list has since been approved by the Trade and Development Board (resolution 82 (XI)) and by the General Assembly (resolution 2768 (XXVI)). The Board approved the list "without prejudice to future consideration" and noted that it "may provide useful guidance for action by Governments and interested international organizations".

4. In paragraph 1 of resolution 82 (XI), the Board requested the Secretary-General of UNCTAD:

> to work out a detailed and comprehensive action-oriented programme, within UNCTAD's competence, for the implementation of the relevant provisions of the International Development Strategy for the Second United Nations Development Decade in favour of the least developed among the developing countries and to present this programme... to the United Nations Conference on Trade and Development at its third session;

5. The action programme prepared in response to this request is presented in this document. It is concerned primarily with the hard core of the least developed countries. A report on further work on criteria for the identification of least developed countries is presented in the Progress report on identification criteria by the Secretary-General of UNCTAD[4] which also considers other, categories of least developed countries than the hard core.[5]

* The note was circulated to the Conference as document TD/135/Supp.1 dated 14 March 1972.

[1] For a full description of the progress made in dealing with the issues concerning special measures in favour of the least developed among the developing countries since the establishment of UNCTAD, see Chapter VII of "Major policy developments since the second session of the United Nations Conference on Trade and Development: report by the UNCTAD secretariat" (TD/101) (p. 1 above).

[2] See *Special measures in favour of the least developed among the developing countries: report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries* (United Nations publication, Sales No. E.71.II.D.11), para. 12.

[3] See the report of the Committee for Development Planning on its seventh session (*Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 7* (E/4990)), para. 66.

[4] TD/137, submitted under Board resolution 82 (XI). (See p. 261 below.)

[5] In order to clarify discussions of special measures for least developed countries, the *Ad hoc* Group of Experts, in paragraph 21 of its report, distinguished between three separate categories:

(*a*) "hard-core" least developed countries;

(*b*) "relatively disadvantaged" countries in the context of a specific policy measure or sector;

(*c*) "relatively less developed" countries within a particular geographical region or a regional grouping of countries.

In addition, Board resolution 82 (XI) calls for further work on criteria for the identification of least developed countries, including work on the identification of "relatively disadvantaged countries in the context of a geographic region, and also taking into account the

6. In preparing this action programme, the Secretary-General of UNCTAD had taken into account valuable suggestions made by another Group of Experts, which he was invited to convene under paragraph 3 of Board resolution 82 (XI). The Expert Group met at Geneva from 13 to 21 December 1971, and its report is contained in annex I below.

7. In addition, as requested in paragraph 4 of Board resolution 82 (XI), the studies and recommendations of the regional economic commissions and of the Committee for Development Planning have been taken into consideration in preparing this action programme, and their secretariats have been consulted.

8. A statement of some of the broad policy issues involved is contained in the report by the Secretary-General of UNCTAD to the third session of the Conference entitled "The International Development Strategy in action: the role of UNCTAD" [6] chapter VII.

9. The present document is divided into three main chapters:

I. The hard-core least developed countries;

II. Some general considerations in the formulation of an action programme;

III. Action programme.

In addition, selected data on least developed countries are presented in the note by the UNCTAD secretariat entitled "Selected data" (see annex II below).

Chapter I

The hard-core least developed countries

A. Interpretation of the list

10. The list of the 25 hard-core least developed countries [7] provides the basis for the preparation and initiation of an action programme designed to assist these countries in overcoming their handicaps. It is generally recognized that the list should be reviewed in the light of future work on identification. In the meantime, it should be interpreted in a flexible way, keeping in mind the fact that there is a small "fringe" of countries very similar to those so far listed as "hard core". The second UNCTAD Expert Group stressed the need for a flexible interpretation of the list "in accordance with the specific circumstances surrounding its use at any given time". The Group also noted that it might be appropriate to consider "fringe" countries and that it might be necessary to add to the list "certain other land-locked developing countries, particularly in cases where such countries lack the transport and communications facilities necessary to overcome their isolation from world markets".[8]

11. The need for a specific list and the use to be made of it will vary with the type of measure being considered. In the area of commercial policy, beneficiaries of special measures will have to be identified in legislative or administrative texts. In the case of technical and financial assistance, multilateral agencies and governments will be expected to make special efforts in favour of the hard-core countries, but it has to be borne in mind that there is no sharp dividing line between the hard-core countries and a few other closely similar countries, identified by reference to the criteria of the Committee for Development Planning.[9] But the question of some reasonable flexibility in interpreting the list, and the question of further work to be done on refining the criteria of identification, should not in any way interfere with the immediate initiation of an action programme on behalf of the countries so far explicitly identified as "hard core".

B. Characteristics of the hard-core least developed countries

12. The basic characteristics of the hard-core countries were described in some detail by the first two UNCTAD Expert Groups. They were summarized, for example, as follows: "Some of these characteristics are extremely low levels of labour productivity, scarcity of skilled manpower, inadequate knowledge about the nature and extent of their natural resources, low level of physical and institutional infrastructure, the predominance of subsistence production, dependence on a very narrow range of primary commodities in their production and export structure, and lack of integrated and co-ordinated industrialization."[10] All these countries have very low *per capita* income, for the most part under $100; in all of them the share of manufacturing in GDP is low (though here there is some variation—from as little as 1 per cent to as much as 14 per cent); 12 of the countries have literacy rates of 10 per cent or less, while in four of the countries the rate is 20 per cent or somewhat more.[11]

13. A paramount characteristic of all of these countries is the predominance of the agricultural sector: agriculture accounts for half or more of the GDP in most of them, and the agricultural labour force constitutes three-quarters or more of the total labour force in each of them. Indeed, in at least 15 of these countries agriculture accounts for 85 per cent or more of the labour force. Furthermore, the overwhelming majority of these countries are largely

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existence of critical major economic sectors". General Assembly resolution 2768 (XXVI) also calls for further review of identification criteria by the Committee for Development Planning and UNCTAD.

[6] TD/99 and Corr.2.

[7] *Africa*—Botswana, Burundi, Chad, Dahomey, Ethiopia, Guinea, Lesotho, Mali, Malawi, Niger, Rwanda, Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta;
Asia and Oceania—Afghanistan, Bhutan, Laos, Maldives, Nepal, Sikkim, Western Samoa, Yemen;
Latin America—Haiti.

[8] Paragraph 23 of the report of the second *Ad hoc* Group of Experts (see foot-note 2 above). Of the 25 countries identified as hard-core least developed, 15 are land-locked.

[9] The establishment of a special fund providing technical and financial assistance to least developed countries (see para. 58 below) would probably involve the explicit identification of the eligible beneficiaries.

[10] Paragraph 31 of the report of the second *Ad hoc* Group of Experts (see foot-note 2 above). (In this connexion, see also the progress report on identification criteria by the Secretary-General of UNCTAD (TD/137) p. 261 below.)

[11] These common features reflect the criteria applied by the Committee for Development Planning in identifying the hard-core countries.

engaged in subsistence agriculture, often with extremely low yields per hectare. In addition, nomadic agriculture is an important factor in many of these economies.

14. While the hard-core countries share these basic characteristics, there is considerable diversity within the group. For example, although the list includes mostly relatively small countries, the 25 hard-core countries range in size from almost 25 million population in the case of Ethiopia to only 100,000 in the case of the Maldive Islands; five of the countries have populations above 10 million and six of the countries below 1 million. The countries also vary enormously in physical size: seven have less than 30,000 km² and five more than 1 million km² (the area of Sudan is 2.5 million km²). In terms of population density, too, the countries vary greatly: six have a density of less than 10 persons per square kilometre, and four have densities above 100 per km². For the most part, these countries are also characterized by a very low ratio of exports to GNP, though here again there is some variation among them—from as little as 2 per cent to as much as 28 per cent.

15. The 25 countries so far identified as hard-core least developed, with an estimated population of 148 million in 1970, constitute about 8.5 per cent of the total population of all developing countries. (The table below compares some key characteristics of the situation of the hard-core countries and of all other developing countries, with respect to population, GNP, and foreign exchange resources; other, more detailed, tables indicating the economic position of the individual hard-core countries and of the hard-core countries as a group are contained in the note by the UNCTAD secretariat entitled "Selected data" (see annex II below).)

16. In terms of the growth rate of real product, exports, and imports during the decade of the 1960s, the hard-core countries as a group performed considerably less well than the higher income developing countries. For example, the share of the hard-core countries in the total exports of the developing countries fell from 3.1 per cent in 1960 to 2.6 per cent in 1970. Between 1960 and 1970 the increment in exports for the hard-core countries was only $575 million, as compared with an increment of more than $27 billion for all other developing countries. While a few of the hard-core countries have achieved substantial export growth rates, these are increases from very low initial levels. During the 1960s, exports *per capita* increased by only $2.32 for hard-core countries as a group, the largest of these increases amounting to $7 *per capita* (Uganda), and at least two of these countries showed actual declines; in contrast, all other developing countries averaged gains of $13 in exports *per capita* during the same period, and if the three largest developing countries are excluded, gains *per capita* for all other developing countries averaged $22.

17. In 1969, only 8.9 per cent ($112 million) of the exports of the hard-core least developed countries were manufactured or semi-manufactured products (SITC 5 to 8). If exports of copper, precious stones and aluminium oxide are excluded, the remaining exports of manufactures amounted to about $30 million—only 2.4 per cent of total exports from the hard-core countries, and only 0.4 per cent of the total exports of manufactures of all developing countries.[12]

18. With respect to their imports the least developed countries are also at a disadvantage. These countries are for the most part relatively small isolated economic units and must often pay excessively high prices (both on an f.o.b basis and in transport costs), either because they buy small quantities or because of their weak bargaining position, dependence on single sources of supply, and lack of information about market opportunities.

19. The total flow of official bilateral and multilateral financial and technical assistance to the 25 hard-core least developed countries has stagnated since 1965—and in real terms the value of this assistance has undoubtedly deteriorated, given the recent inflation in developed countries. The share of the hard core countries in total official flows to developing countries[13] has declined from 7.8 per cent in 1965 (the highest point of the First United Nations Development Decade) to 6.3 per cent in 1970, and their share in total financial flows—official and private—from DAC countries and multilateral institutions declined from 6.1 per cent in 1965 to 4.2 per cent in 1970. The hard core countries as a group have thus fared less well than most other developing countries, given the fact that they have 8.5 per cent of the population of all developing countries.

20. In 1970, the hard-core countries received official and private financial flows of only $3.80 *per capita*—less than half the *per capita* flow to all other developing countries. In terms of official financial flows, the hard-core countries as a group received $3.24 *per capita* in 1970, but there are considerable variations among the 25 countries—from a high of $24 *per capita* for Laos and Botswana to less than $1 *per capita* in the case of Yemen and Bhutan, with 17 of the countries obtaining less than $5 *per capita*.

21. The structure of financial flows to the hard-core countries differs considerably from that of the flows to all other developing countries as a group. For example, the hard-core countries receive 11.1 per cent of total multilateral loans and grants to all developing countries, in contrast to 5.3 per cent of total bilateral official flows, and only 1.4 per cent of total net private flows. On the other hand, the hard-core countries receive about 13 per cent of the total flow of technical assistance to all developing countries. Indeed, technical assistance (both multilateral and bilateral) constitutes 52 per cent of total official flows to the hard-core countries, in contrast to 22 per cent in the case of all other developing countries as a group.

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[12] Defined as SITC 5-8, less 682 (copper), 667 (precious stones) and 513.6(5) (aluminium oxide).

[13] These data are based on net flows from DAC member countries and multinational financial institutions; disbursements on loan from socialist countries provided at least an additional $52 million in 1969, according to IBRD data, covering 17 of the 25 countries.

Population, GNP, and foreign exchange resources of the 25 hard-core countries compared with other developing countries

	25 hard-core countries	*All developing countries (excluding hard core)*	*25 hard-core countries as per cent of all developing countries*
1. *Population* (million) (1970)	148	1,583	8.5
2. *GNP* (1970) [a]			
(*a*) Total (billion dollars)	12.5	331.8	3.6
(*b*) *Per capita* (dollars)	*85*	*210*	
3. *Increment in real product* per capita, 1960-70 (dollars) [a]	*9*	*47*	
4. *Exports* (f.o.b.) (1970)			
(*a*) Total (billion dollars)	1.4	53.6	2.6
(*b*) *Per capita* (dollars)	*9.65*	*34.74* [c]	
5. *Increment in exports* per capita, 1960-70 (dollars)	*2.32*	*12.95* [c]	
6. *Official loans and grants, 1970* (net disbursements)			
(*a*) Total (million dollars)	478	7,106	6.3
(*b*) *Per capita* (dollars)	*3.24*	*4.49*	
7. *Net private flows, 1970* [b]			
(*a*) Total (million dollars)	83	5,823	1.4
(*b*) *Per capita* (dollars)	*0.56*	*3.68*	
8. *Total official and private flows (net), 1970*			
(*a*) Total (million dollars)	561	12,929	4.2
(*b*) *Per capita* (dollars)	*3.80*	*8.17*	
For reference: breakdown of official loans and grants, bilateral and multilateral			
9. *Bilateral official loans and grants* (net disbursements) (1970)			
(*a*) Total (million dollars)	329	5,915	5.3
(*b*) *Per capita* (dollars)	*2.23*	*3.74*	
10. *Multilateral loans and grants* (net disbursements) (1970)			
(*a*) Total (million dollars)	149	1,191	11.1
(*b*) *Per capita* (dollars)	*1.01*	*0.75*	
For reference: breakdown of net private flows			
11. *Guaranteed private export credits* (net disbursements) (1970)			
(*a*) Total (million dollars)	33	1,987	1.6
(*b*) *Per capita* (dollars)	*0.22*	*1.26*	
12. *Direct private investment and other private investment flows* (net) (1970)			
(*a*) Total (million dollars)	50	3,836	1.3
(*b*) *Per capita* (dollars)	*0.34*	*2.42*	

Sources: United Nations Statistical Office, UNCTAD secretariat estimates and statistics of the DAC.

[a] Real product in 1969 dollars.

[b] Guaranteed private export credits, direct private investment and other private investment flows; private flows to the hard core countries are partly estimated.

[c] If the three largest developing countries (India, Pakistan and Indonesia) are also excluded, the remaining developing countries had *per capita* exports of *$62.36* in 1970 and an increment in exports *per capita*, between 1960 and 1970, of *$22.00*.

Chapter II

Some general considerations in the formulation of an action programme

A. The scope of UNCTAD's action programme

22. The special problems of the least developed countries—and the special measures needed to resolve them—must be thought of in dynamic terms. The proposals for action set out below are intended to represent a first concrete stage in what should be a continuing integrated effort. In the longer run much more will need to be done, since these are the countries which are likely to have the longest road to travel to achieve their development goals. And here, particularly, fresh ideas are needed and new approaches will have to be devised, tested and altered, as circumstances require. The actions now to be agreed upon at the third session of the Conference will therefore

have to be kept under close and careful review to ensure their adequacy and to provide for the further steps in the future.

23. The Board, in its resolution 82 (XI) calls for the preparation of an action programme "within UNCTAD's competence". UNCTAD, as an international organization concerned with trade and related problems of development, is in a position to propose a broad programme for international action on these problems. At the same time, other international organizations are also deeply concerned, and the International Development Strategy calls on all such organizations to consider initiating special programmes in favour of the least developed countries. The Strategy also calls for supplementary measures to be taken at the "national, subregional, regional and international levels".

24. The present proposals for an action programme focus on detailed and concrete steps which can be taken within UNCTAD, while at the same time drawing attention to some of the key measures that ought to be taken elsewhere. However, even in respect of programmes and measures that can be initiated in UNCTAD, it will still be for governments to take the actions necessary to put the programme into actual effect. An action programme which can receive widespread international support is therefore of the utmost importance.

25. As far as possible, the action programme sets forth specific measures which may be considered and adopted within UNCTAD or in other international bodies. The programme pinpoints the areas where action is needed and indicates the various forms of supporting measures required to make it effective. Thus, it includes, where appropriate, suggestions for new institutional arrangements, for guidelines for action in specific areas, for specific forms of technical assistance within UNCTAD's field of competence and proposals for the review and evaluation of progress and obstacles to progress in the future. In view of the diversity noted in paragraph 14 above, it also includes proposals for specific studies designed to identify the particular problems of individual hard-core countries.

B. The meaning and purpose of special measures

26. Special measures in favour of the least developed countries should aim to help ensure that all developing countries will benefit as fully as possible from general international measures for development, and they should supplement such measures. Indeed, adequate and equitable benefits for the least developed countries require special measures in their favour as stated in the Strategy for the Second Development Decade. But, just as special measures are urgently needed for the least developed countries, the international community must fully meet its objectives with respect to all parts of the Strategy and with respect to all developing countries. Moreover, the special measures now to be undertaken for least developed countries should not harm the interests of other developing countries. In particular, the concern about the problems of the hard-core least developed countries should not divert attention from other major development problems, such as unemployment, overindebtedness, mass poverty, maldistribution of income and backward regions within particular developing countries. As stated by the *Ad hoc* Expert Group, these problems "are as acute in some of the more advanced developing countries as in the least developed and sometimes even more acute".[14]

27. In the Declaration and Principles of the Action Programme of Lima [15] the developing countries summarized the above considerations in the form of a general principle:

> Action or special measures taken in favour of the least developed countries must not result in injury or prejudice to the interests of other developing countries but should ensure due and equitable benefits in favour of the least developed among them.

1. *Commercial policy measures*

28. General commercial policy measures can hardly be expected to result in an equivalence of benefits or advantages to developing countries at significantly different levels of economic development and industrialization. Thus the more advanced countries, at a higher stage of industrialization, with a broader range of goods in their production structure, and with greater adaptability, will clearly tend to benefit more than the less advanced developing countries from measures covering a wide range of commodities, particularly if the latter fall in the category of manufactures (e.g. the GSP). This does not mean that it is not possible for the less advanced developing countries to benefit from general measures, but it emphasizes the need for special measures in order to assist them in diversifying their production and export structures. In elaborating such measures, particular attention should be given to the hard-core least developed countries, but without disregarding the needs of other countries which are relatively disadvantaged in the context of a general commercial policy measure.

29. Measures of a restricted coverage, on the other hand, such as a commodity agreement or the removal of quantitative restrictions on a commodity or group of commodities, may be of comparable benefit to countries at different levels of economic development, particularly if the supply capacity of the goods in question depends on resource endowments (e.g. minerals, tropical beverages, or tourism). Even here, however, the least developed countries are usually in a much less favourable position to take advantage of opportunities created by such measures, since they will often lack the capital, infrastructure, skills and know-how required, and special measures in their favour may thus be needed to enable them to exploit these opportunities.

30. In considering special measures in the commercial policy field in favour of the hard-core least developed countries, it is useful to distinguish between (*a*) measures which extend the range of products for which concessions are granted to all developing countries to include those of

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[14] See paragraph 26 of the report of the second *Ad hoc* Group of Experts (see foot-note 2 above).

[15] See *Proceedings of the United Nations Conference on Trade and Development, Third Session,* vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex VIII, F, part three, section H, para. 6.

special interest to the hard-core countries (or to increase the concessions on such products) and (*b*) the granting to the hard-core countries of special concessions not available to others. Work on the first kind of measure is proceeding within the UNCTAD secretariat. In the case of the GSP, studies of trade patterns and potentialities indicate that an extension of the coverage of the various preferential schemes to include additional processed and semi-processed products would increase the benefits which may be reaped by the hard-core as well as by the relatively dis-advantaged countries. With respect to measures of the second kind, to be worth while these should offer real opportunities for benefits to the least developed countries without adversely affecting other developing countries, and should in principle be applied uniformly by all the developed countries in favour of all the hard-core least developed countries. In this connexion consideration may, for example, be given to the accelerated removal of non-tariff barriers affecting exports from the least developed countries.

31. In view of the low level of output and exports in the least developed countries (see paras. 12 and 16 above), special commercial policy measures, in themselves, are unlikely to achieve significant results unless the relevant productive capacities can be created or expanded in the least developed countries to meet the new opportunities —and this will require substantially increased, and more intensive, technical and financial assistance efforts.

32. Some developing countries, including a number of the hard-core least developed, at present enjoy special preferences in the markets of particular developed countries or groups of countries (e.g. the Commonwealth countries or countries associated with EEC). While there is the broad aim of phasing out these special preferences in the interest of non-discrimination, it has generally been accepted that the removal of special preferences should be accompanied by equivalent benefits to the recipient countries concerned. There is therefore the need to ensure that equivalent advantages in fact materialize.

2. *Financial and technical assistance*

33. A programme of international action designed to enable the least developed countries to benefit fully and equitably from general measures in favour of all developing countries must include action designed to enable these least developed countries to overcome the particular obstacles facing each of them. This will require—as the major emphasis of an action programme—a larger, more intensive, and higher quality programme of financial and technical assistance. This is all the more true since the possibilities for providing special advantages directly to least developed countries in the field of commercial policy appear to be quite limited—and will, themselves, need to be supported by technical and financial assistance if they are to succeed at all. At the same time there is a clear need, especially in the case of these countries, for better co-ordination and a closer link between financial and technical assistance.

34. A major obstacle in the past to adequate flows of technical and financial assistance to the least developed countries has been their apparent lack of absorptive capacity. Whatever these difficulties may have been in the past—and studies are needed to evaluate them—a major immediate objective for international action is to find more effective ways of helping these countries. A fresh, more imaginative approach is plainly needed. Their fundamental needs and possibilities are far larger than past assistance flows would indicate. Indeed, the assurance of the availability of more adequate funds will go a long way toward enabling the officials involved to seek—and to find—effective development uses. As UNCTAD's third Expert Group on least developed countries stated in paragraph 6 of its report: [16]

> Planning for development undertaken in the past has implicitly been based on the available flow of resources. If the international community is willing to consider larger flows of resources—as the action programme for these countries must stress—then the capacity for development of these countries can be substantially increased.

35. Because the hard-core least developed countries now receive only a minor amount of private flows, the growth of official development assistance to the target level of 0.7 per cent of GNP [17]—and the expansion of the multilateral component—will be particularly important for these countries during the Second Development Decade. In the best of circumstances really large increases in private flows seem unlikely, and the terms of private credits are too hard for any serious expansion of such loans as a source of financing for the least developed countries.

36. It has been recognized that the application to the least developed countries of the same yardsticks, norms and principles for the provision of technical assistance as are applied to the more advanced developing countries may inhibit the former from requesting needed assistance, or lead to unworkable programmes and actual waste of resources. This is reflected in a recent UNDP policy statement, to the effect that "conventional approaches and the application of the traditional rules in the least developed countries may result in actual waste of resources".[18] The programme of technical assistance for the least developed countries requires not only a very substantial increase in such assistance, but most importantly, a major effort to design programmes specially suited to their needs.

3. *Action by developing countries*

37. Given the differences in levels of economic and social development among the developing countries, action in favour of the least developed among them may also be taken by the more advanced, which may be in a position to provide useful help. At present, such action is taken mainly in the context of regional groupings, i.e. by the more advanced members of such groupings in favour of the less advanced members. Consideration should also be given to the possibilities for action outside the framework of formal regional groupings, for example, in favour of the relatively less developed countries within a particular geographical area, under the auspices of the regional economic commission concerned, or generally in favour of all the hard-core least developed countries. Such action could

[16] See annex I below.

[17] Performance in this respect is still far short of the ultimate goal—only 0.34 per cent of the GNP of the DAC countries in 1970.

[18] UNDP, Policy Paper 171/1, para. 15.

take different forms, such as financial assistance, extension on a non-reciprocal basis of tariff benefits, and contributions in cash or in kind to technical assistance activities (many developing countries have ample supplies of useful types of skilled personnel, whose experience is often more relevant to hard-core countries than that of technicians from developed countries).

38. It should not be supposed, however, that action by the more advanced developing countries can serve as a substitute for broader international action in favour of the least developed countries. The developed countries and multilateral agencies must bear the major responsibility for international action towards these countries, and indeed in most cases the scope for action by the more advanced developing countries in favour of the least developed will itself depend on action by the developed countries and multilateral agencies. At the same time, action by the more advanced developing countries is most valuable as an expression of concern and solidarity and will also have a beneficial impact on public support for development measures in developed countries.

39. An important element in a programme for the least developed countries is the action which they themselves are able to take to achieve their development goals. The need for greater self-reliance and for the mobilization of their internal resources is a challenge for each of these countries. Indeed, one aim of technical assistance from developed countries and from the more advanced developing countries should be to strengthen the capabilities of the hard-core countries to achieve a higher degree of self-reliance. Admittedly, their very low income levels, lack of appropriate institutions, and the urgent need to provide effective incentives for modernizing their economic structures will make it difficult in the hard core countries to achieve substantial results in this respect for some time. But self-help efforts will be of great importance in these countries—despite their extremely limited means—as a necessary part of their own development process and as a symbol of their determination to succeed.

Chapter III

Action programme

A. Commercial policy measures

1. *The GSP*

40. The GSP should include all processed and semi-processed products of especial interest to the least developed among the developing countries. Wherever relevant, greater tariff reductions, including duty free treatment, should be accorded to these products. Furthermore, future expansion of the GSP to cover primary products would offer an opportunity to provide benefits to the least developed countries.[19]

41. As far as possible escape clause action under the GSP should not be applied to the exports of the hard-core least developed countries. Preference-giving countries have already declared with respect to all developing countries that escape clause measures would remain exceptional and would be decided on only after taking due account, in so far as their legal provisions permit, of the aims of the GSP and the general interests of the developing countries; with respect to the interests of the least developed among the developing countries, a similar declaration has been made.[20]

42. Because they are at a very early stage of industrialization, it is especially important to provide liberal treatment for the least developed countries with respect to rules of origin under the GSP, including the rules governing cumulative treatment and substantial transformation.

43. Special assistance should be given to the least developed countries in the identification of products likely to benefit from the GSP, in market surveys and promotion, and for the establishment and development of industries likely to further the exports of products included in the GSP. The UNDP project to be carried out in connexion with the GSP will give special and priority attention to their requirements; UNIDO and the UNCTAD/GATT International Trade Centre are closely associated with UNCTAD in this project.

44. In view of the limited benefits likely to accrue to the least developed countries during the initial period of ten years of the preference system, the duration of the GSP will have to be long enough to enable them to derive equitable benefits. While other developing countries also have a basic interest in the extension of the duration of the GSP beyond the initial period, the particular interests of the least developed among the developing countries should receive special attention in the comprehensive review of the question of duration which will be held in UNCTAD before the end of the initial ten-year period.

45. The UNCTAD institutional machinery which will be responsible for the review of the operation of the GSP should provide for the systematic examination of the extent to which the least developed countries benefit from generalized preferences and from the special measures specified above. It should also provide opportunities for the necessary consultations and negotiations concerning this important matter.

46. It is generally recognized that only a relatively small number of developing countries can be expected to obtain substantial benefits from the GSP in the initial years. A large number of countries, in addition to hard-core least developed countries, can therefore be said to be "relatively disadvantaged" in this connexion. UNCTAD/ will search for ways of maximizing benefits from the GSP to these countries.

2. *Action by the socialist countries of Eastern Europe*

47. The socialist countries of Eastern Europe should give special attention to the needs of the least

[19] A pragmatic approach has to be used here, so that countries now enjoying special advantages will not be adversely affected. See also section II of the agreed conclusions of the Special Committee on Preferences (Trade and Development Board decision 75 (S-IV), annex).

[20] *Ibid.*, section III, para. 1 and section V, para. 3.

developed countries—through special treatment of products of particular export interest to them—when implementing measures provided for in Conference resolution 15 (II), the joint declaration by five socialist countries on the GSP,[21] and other relevant recommendations and decisions of UNCTAD. Among these measures are preferential tariffs, where applicable, for imports of such goods into the socialist countries; special conditions in procurement policies applied by the socialist countries; and other favourable conditions for the import and consumption of such goods. Efforts should be made to facilitate first contacts for those least developed countries which have not yet held consultations with the socialist countries. Special consideration should also be given to the least developed countries in the context of industrial co-operation agreements involving one or more of these countries.

3. *Long-term supply guarantees*

48. Special consideration should be given, by both socialist countries and developed market-economy countries, to establishing guarantees of a reasonable level of sales or market share to each of the least developed countries with respect to products of particular export interest to them. Such guarantees might take the form of long-term supply contracts, with appropriate financial and technical assistance to help the least developed countries to fulfil them. UNCTAD should seek to establish guidelines for such guarantee arrangements.

4. *Non-tariff barriers*

49. Special consideration should be given to the immediate removal of quantitative restrictions and other non-tariff barriers on products of export interest to the least developed countries, both primary and manufactured, if necessary in advance of the removal of barriers on such products from all developing countries.

5. *Commodity agreements*

50. Special consideration should be given to the least developed among the developing countries with regard to the operation of commodity agreements, within their respective frameworks, in such matters as allocation of quotas and exemption from quota cuts and in the payment of dues and subscriptions, bearing in mind the characteristics of each commodity and taking into account the interests of the other parties concerned. The least developed countries should be exempted from participating in the pre-financing of buffer stocks, and their contributions should be provided by developed countries and/or international financial institutions on the basis of grants. Such special consideration could also include priority access to hardship funds or diversification funds.

51. The potential of some least developed countries to produce up to the quantities exempted from quotas under commodity agreements, and their potential to produce larger amounts if larger quotas could be made available, should also be studied by UNCTAD and/or the appropriate commodity councils, within the context of rational diversification policies and supply and demand conditions and prospects.

[21] See *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6A* (TD/B/329/Rev.1), part two, para. 192.

6. *Transport cost subsidies and other export subsidies*

52. An obstacle of some importance to the expansion of the foreign trade of the least developed countries is the high cost of transport, attributable to their isolated position in relation to world markets,[22] the small volume of their trade, and their inadequate physical and institutional infrastructure. In addition to the capital and technical assistance required to help them solve these problems, the feasibility of according subsidies to the least developed countries, in appropriate cases and during a transitional period, to reduce excessive transport charges, particularly on their exports, should be considered. The present volume of the total exports of the hard-core countries ($1.4 billion f.o.b. in 1970) is so small that the costs of any such subsidy, if selectively applied, need not be very high, but its potential effect in improving the competitiveness of the exports of these countries might be worth while. The methods and amounts of subsidy should be carefully studied to ensure that they promote development and avoid long-term distortions of the economies of these countries. It will be necessary also to ensure that the benefits are in fact spread widely and are not pre-empted by middlemen or traders in developed countries. The costs and benefits of other forms of selective export subsidies to the least developed countries, to be supported by the international community, should also be considered.

B. Financial and technical assistance

1. *Over-all requirements*

(a) *Evaluation of requirements and bottlenecks*

53. UNCTAD, in co-operation with other international institutions, should seek to establish the order of magnitude and the kind of financial and technical assistance needed to enable the least developed countries to overcome their particular disabilities and to achieve the objectives of the International Development Strategy. For this purpose, studies should be made of the least developed countries, with particular reference to (i) technical and financial assistance in the past, including the growth of such assistance, its sectoral allocation, its effectiveness and the problems and obstacles encountered; (ii) institutional and policy changes needed to remove bottlenecks; and (iii) particular needs for assistance in the selection and preparation of appropriate financial and technical assistance projects and, in general, for the rapid expansion of absorptive capacity.

(b) *Immediate goals for assistance flows*

54. Pending the completion of more detailed studies of the requirements of the least developed countries, their absorptive capacity, and of techniques for the more flexible and effective use of financial and technical assistance, the international community should seek, as an

[22] Of the 25 hard-core countries, 15 are land-locked.

immediate goal, to increase the total flow of resources to these countries by at least 50 per cent—from the present level of about $600 million to a total flow approaching $1 billion annually. Even with such an increase, the hard-core countries would receive only about 7 per cent of the total net flow of resources (official and private) to all developing countries—with the increment amounting to only 3 per cent of this flow. Given the small size of such an increment and its crucial importance to accelerating the development of the hard-core countries, this proposal should not raise problems about the over-all allocation of assistance flows. If efforts to expand the flow of resources to all developing countries in keeping with the objectives of the International Development Strategy are successful, the flow to the least developed countries could well be expected to rise to $1.5 billion or more per year.

(c) *New sources of assistance*

55. To help meet the expanding requirements of the least developed countries for both technical and financial assistance, it will be desirable to explore new sources of financing and sources which up to now have been negligible, in addition to increased attention from the present major sources of flows. In particular, it will be desirable to explore the possibilities of expanding the flow of private grants,[23] of increasing the flow of private foreign investment suited to the development needs of these countries, of increasing the flows from the more advanced developing countries, and of earmarking appropriate types of tax and tariff receipts in the developed countries for use in financing programmes for the least developed countries. As part of the study of these requirements and of the absorptive capacity of the least developed countries, UNCTAD, in co-operation with other international institutions, might explore the potential of these new sources and the technical problems that may arise, particularly in connexion with the transfer of revenues collected in developed countries.[24] Even with some success in expanding new, or previously little used, sources of finance, it will remain true that most of the growing resource requirements of the least developed countries will need to be filled by present bilateral and multilateral financing institutions; their increased support will be vital to the success of an action programme for least developed countries.

(d) *Co-ordination of assistance: consortia or consultative group arrangements*

56. The findings concerning the global requirements and the means of expanding the absorptive capacity of all hard-core countries should be reviewed in an appropriate forum, where all least developed countries and donor institutions are present (see para. 53 above).

57. Consortia or consultative groups will also be needed in which the requirements of each hard-core least developed country can be reviewed together with all of the interested bilateral and multilateral assistance agencies. Where existing consortia or consultative group arrangements are adequate, these should be continued. In other cases, developed countries, in co-operation with the proposed special fund (see below) and other appropriate multilateral agencies, should be invited to form consortia or consultative groups for co-ordinating assistance for individual least developed countries (or possibly groups of such countries). Alternatively, an individual hard-core country, with appropriate support from international financial institutions, might itself invite the participation of interested bilateral and multilateral agencies in a review of its requirements.

(e) *A special fund for least developed countries*

58. To give the needed international focus to the importance of the special problems of the least developed countries, and since most of their fundamental requirements can only be met with the help of additional financial and technical assistance resources, it is recommended that a special fund be created for least developed countries:

(i) The fund would receive special contributions, both financial and in kind, particularly from the developed countries, but also from multilateral financial institutions and from the more advanced developing countries, and private donations. Resources contributed to the fund should, in principle, be additional to flows to existing financial institutions.

(ii) It would be desirable that donors should provide resources to the fund for a period of several years, wherever feasible, so that the fund could have as strong a basis as possible for assuring the continuity of its efforts on behalf of least developed countries.

(iii) The fund would be expected to play an important innovating and promotional role, helping to stimulate co-operation among all agencies and institutions. It would be especially important for the fund to co-operate very closely with UNDP, in the technical assistance field, and with financial institutions such as IDA and the regional development banks, in regard to financial flows.

(iv) The fund would provide resources for both development finance and technical assistance and would aim, wherever appropriate, to ensure that technical assistance, capital projects, and other financial flows are closely co-ordinated.

(v) The fund would channel its resources primarily through existing financial and technical assistance institutions, regional and national development banks, development finance corporations, regional economic commissions, and other institutions which might be established to serve particular needs of the least developed countries. The size of the administration of the fund should thus remain small, since most of its operations would be carried out through other institutions.

(vi) An important objective of the fund would be to provide adequate support, along with other insti-

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[23] Indeed, the moral appeal of the special problems of the least developed countries should prove particularly attractive to many potential sources of private voluntary grants, such as church groups.

[24] A precedent for the latter type of arrangement already exists in Denmark, which now has a system covering coffee, under which half of the customs duty levied is paid into an Industrialization Fund, administered by the Danish Aid Authority, DANIDA, and is used to promote Danish investment in manufacturing in developing countries.

tutions, to national and subregional development banks and financing companies, to strengthen existing national and regional institutions serving the least developed countries and, where appropriate, to help create new institutions to serve these countries.

(vii) The specific role of the special fund will very much depend on the size of the resources placed at its disposal.[25] Within the limits of its resources, the fund would be expected to specialize in specific, high priority, fields where it could combine financial and technical assistance to least developed countries in such a way as to overcome the most serious obstacles to development which are not now receiving sufficient attention. Thus it might initially specialize in preinvestment surveys and in the promotion of investments, particularly through national and subregional development banks, where its funds could act as "seed money" in attracting important contributions from other donor institutions.

(viii) Subjects of particular interest to the fund would include efforts to promote basic structural changes in the economies of the least developed countries—particularly the shift from subsistence agriculture to commercial agriculture, the creation of local industries for processing agricultural products and other measures (such as research, training programmes, credit facilities, and other institutional and physical infrastructure) to diversify and improve the productivity of agriculture and industry and to promote the growth of existing and new exports—including new export opportunities created by the GSP.

(ix) The special fund should begin its work as soon as possible; hence, initially, its operations should take place for administrative purposes within some existing institution.

(x) The experience of the fund with respect to criteria, needs and priorities for the least developed countries (including minimum performance criteria) would help provide guidance to other donor institutions in their programmes for the least developed countries, and this might be especially helpful to some of the smaller bilateral donor assistance programmes.

2. *Financial assistance*

(a) *The need for more flexible use of financial assistance*

59. Guidelines should be developed for the more flexible use of financial assistance in the case of hard-core least developed countries, and of closely similar "fringe" countries. This could be done by UNCTAD in co-operation with the representatives of the major financial assistance institutions. The guidelines should deal with such questions as: What rate of return or cost/benefit criteria should be used? How should these differ from those used for the more advanced developing countries? Which sectors within a plan or a strategy for a least developed country should receive priority? In the absence of an adequate plan or strategy, how should priorities be chosen? To what extent and in what circumstances should local cost requirements be imposed?

60. The traditional standards as to the types of acceptable use of financial flows from developed countries and multilateral institutions need to be thoroughly re-examined in the case of the hard-core least developed countries. Traditional criteria concerning the rate of return may not be adequate to the actual situation in hard-core countries—where the longer term social rate of return, including related secondary effects, must be fully taken into account. The circumstances in which it will be desirable to provide assistance for consumption as a necessary step in the conversion of the structure of these countries from subsistence agriculture to market-oriented agriculture and to the initial stages of industrialization will need to be explored. The use of financial resources for budgetary support will be of especial importance also, since for many of the hard-core countries the government budget is in fact the main instrument for the financing of development. For example, it will be desirable to arrange explicitly for the financing of the recurrent costs associated with projects after their completion, including maintenance costs; in financing projects arrangements might normally be made for covering such costs, for example for a decade, with appropriate phasing out thereafter on an orderly time schedule. In addition, local costs of capital projects should be financed to a substantial extent as a normal part of the foreign assistance flow to these countries, particularly for major infrastructure projects, or whenever the lack of adequate local financial resources imposes an important constraint on the absorptive capacity of a least developed country.

61. One particular aspect of the requirements of the hard-core countries is assurance as to the continuity of assistance. This kind of assurance has been very difficult to obtain from international financing institutions or from bilateral donors in the past, but a special effort should be made to ensure greater continuity in the case of the hard-core countries now, for both financial and technical assistance.

(b) *Terms of financial assistance*

62. The low level of income in the least developed countries, the magnitude of the investment needed for their development and the long periods which elapse before investments in the basic physical and institutional infrastructure of these countries begin to bear fruit, emphasize the need for especially favourable terms on which financial assistance is made available to them. Bilateral official development assistance and multilateral flows to these countries should, in principle, take only the form of grants or loans on IDA terms, so as to forestall major debt servicing problems in these countries as the flow of assistance to them is expanded,[26] and in recognition of the

[25] UNCTAD's third Expert Group on least developed countries noted in paragraph 10 of its report (see annex I below) that "it is imperative that a special fund be created on their behalf, covering both technical and financial assistance, and sufficiently large to have significant impact".

[26] A number of the hard-core countries already bear substantial debt burdens.

fact that in most cases it will take a very long time before these countries will be able to earn sufficient foreign exchange to pay for the rapidly growing imports which successful development efforts will necessitate. Indeed, bilateral official development assistance should, wherever possible, be only in the form of grants.

(c) *National and subregional development banks*[27]

63. Since many projects needed in the least developed countries are much smaller than those normally financed by multilateral (international and regional) financial institutions, this handicap may be overcome through the establishment of appropriate financial institutions, either in these countries individually or on a subregional basis covering a group of them, through which grants and loans from multilateral institutions (and developed countries) could be channelled. Assistance in the establishment of such institutions, or in strengthening and making existing ones more effective, is called for.[28] A study should be undertaken of (i) the need for the establishment of such national and subregional institutions where they do not exist; (ii) the need for foreign assistance in staffing and operating new and existing institutions; (iii) the ways in which these institutions could best combine technical and financial assistance; (iv) their potential role in the identification and preparation of projects; and (v) methods by which they could effectively accept larger risks in their operations,[29] in order to achieve a wider range of development objectives now difficult to obtain through the use of ordinary commercial risk criteria (which, for example may require such heavy collateral as to be beyond the means of the ordinary farmer in a hard-core country).

(d) *Multilateral export promotion and finance corporations*

64. UNCTAD, in co-operation with other interested international organizations, should study the adequacy of existing institutional arrangements in the field of export promotion and financing and consider the feasibility of supplementing them, with the needs of the least developed countries especially in mind. Possible new arrangements might include the formation of multilateral promotion and finance corporations, specifically designed to promote the sale of products of the least developed countries in the markets of developed countries. An institution of this type, in addition to promoting the sale of new products from least developed countries, might also finance private investors or sub-contractors producing for the export market in developed countries.

3. *Technical assistance*

(a) *Needs, priorities and flexible adaptation to the special circumstances of the least developed countries*

65. UNDP, which has the major responsibility for technical assistance, is fully aware of the need for giving priority attention to the problems of the least developed countries, and in a recent note by the Administrator[30] has advanced proposals for action in this regard. It proposes that available diagnostic resources should be concentrated in each case on identifying the really critical impediments to development, that all available resources of assistance should be concentrated on those impediments, and that innovation, flexibility and efficiency should be used to the utmost in the granting of that assistance. The suggestion that UNDP and participating organizations should, with the concurrence of the governments concerned, select some of these countries for a particularly intensive and, as far as possible, innovative approach to both programming and programme implementation, attuned to their special problems, deserves serious consideration. The criteria for the indicative planning figures for the allocation of UNDP resources to least developed countries are to be reconsidered at the next session of the Governing Council in June 1972, and efforts will be made then to take into account the fact that past levels reflect the late start of many of the least developed countries in effective planning and programming for technical assistance.

66. Special measures to enable the least developed countries to benefit fully from technical assistance should, in any event, include: (i) exemption from counterpart requirements and local costs, and (ii) assistance, where appropriate, of an executive or operational character designed to strengthen the governmental and administrative machinery of these countries at different levels. There is also a need for the association of different sources of technical assistance in connexion with the same projects, and the establishment of adequate consultation machinery for the co-ordination of all external assistance. Technical assistance should perform an essential training function in the hard-core countries; it must therefore normally be associated with some sort of appropriate local component of personnel to be trained ultimately to replace the foreign technical assistance personnel. The assurance of continuity of technical assistance will be of especial importance to least developed countries.

(b) *Identifying the specific needs of least developed countries in the external sector*

67. The UNCTAD secretariat, in co-operation with other appropriate agencies, should undertake studies and

[27] The important role that development banks and corporations can play in the development process is well known. These institutions are able to promote enterprise, particularly in agriculture and industry. They can assist in the mobilization of capital by providing loan or equity finance, by underwriting security issues, by serving as financial intermediaries between local and foreign businessmen and by providing locally established companies with managerial and technical advice. Agricultural credit institutions are of particular importance in making credit available to farmers on terms which permit and encourage investment and growth. The need for such institutions is particularly acute in the least developed countries. The lack of adequate institutions of this kind limits their ability to absorb additional funds from abroad and to make the most effective use of whatever savings can be generated locally. Without neglecting the large national and multinational infrastructure projects which are also essential, there is a strong case for devoting a substantial part of the financial effort for the least developed countries to the promotion of relatively small scale projects in industry and especially in agriculture, and for this kind of task the large international financing institutions and the bilateral donors are not equipped.

[28] Attention may be drawn here to a UNIDO project for the exchange of information and experience among the world's development banks, scheduled to start in 1972.

[29] The relevant criterion for success is the contribution to development rather than the avoidance of any loss.

[30] "Special measures in favour of the least developed among the developing countries" (DP/L.210).

surveys of the foreign trade sector (including invisibles) of the least developed countries in order to determine the difficulties facing these countries and ways of overcoming them, including appropriate diversification measures, and should analyse in depth the situation in particular least developed countries. The objects of these studies should be:

(i) To explore the export potential and import substitution possibilities of particular least developed countries, and the specific technical, financial or other external assistance needed to realize these possibilities;

(ii) To evaluate the export promotion needs and facilities of particular least developed countries and to make specific proposals for improvements;[31]

(iii) To evaluate the over-all policies regarding the foreign trade sector and to make recommendations for possible improvements in the planning and programming of the external sector, including recommendations for specific technical assistance where needed to support external sector policies;

(iv) To evaluate the adequacy of government infrastructure in the foreign trade sector.[32]

(c) *Specific technical assistance through UNCTAD*

68. Without prejudice to the question of sectoral priorities for technical assistance to the least developed countries, UNCTAD should, on request, be prepared to provide assistance to particular least developed countries in the planning of the foreign trade sector, and should develop appropriate facilities for such assistance. This activity should include arranging seminars on the planning of the foreign trade sector intended primarily for participants from the least developed countries. As a practical step in the implementation of a programme of technical assistance along these lines, consideration should be given to the appointment of a team of inter-regional advisers on foreign trade planning and programming, available, on request, to assist particular least developed countries.

69. UNCTAD roving seminars may also be envisaged —to be organized on a sub-regional basis and to be held in particular least developed countries. The seminars would have three objectives: (i) to provide training for middle and high-ranking officials to deal with problems of the external sector in particular least developed countries; (ii) to exchange views on the key difficulties in this sector in the particular country; (iii) to obtain practical information which will be useful in considering future UNCTAD technical assistance in the particular country.

70. The training of officials from least developed countries to work in the foreign trade field is an important task in which the International Trade Centre is already engaged. This programme is being expanded to include on-the-job training for overseas trade representatives of least developed countries. The Centre is also seeking ways to encourage buying missions from developed countries to make visits to least developed countries, with appropriate financing of such missions from assistance programmes of developed countries. Such missions not only promote export sales but lead to valuable on-the-spot suggestions concerning necessary product adaptations to increase such sales.

71. In the field of invisibles (shipping and ports, insurance, and transfer of technology), UNCTAD is in a position to provide technical assistance support of interest to the least developed countries, and every effort should be made to gear these programmes to the particular needs of these countries. Such programmes of assistance include advice on the improvement of port facilities, on the establishment of shippers' councils and consultation machinery in shipping, exploration of possibilities for co-operation in multinational merchant marines, on the establishment of freight booking centres especially for groups of adjacent countries, and exploration of opportunities for bulk cargo combination (in the field of shipping and ports); on the introduction of adequate insurance legislation and supervision, establishment, where appropriate, of national insurance institutions; and exploration of the possibilities of regional or sub-regional co-operation in insurance.

72. In the field of transfer of technology, the need is for technical assistance by UNCTAD, as well as by other international organizations—and in particular UNIDO—in the formulation and evaluation of projects, in seeking various technological alternatives and choosing among them, and in the negotiation of specific contractual terms.

(d) *Procurement advisory services*

73. UNCTAD, in co-operation with other interested international organizations, should study the adequacy of existing institutional arrangements at the national, regional and global level, to ensure efficient procurement at minimum cost, and consider the feasibility of supplementing them, with special regard for the needs of the least developed countries.

C. Action by developing countries

74. In their negotiations within the framework of the Committee of Participating Countries, the more advanced developing countries may consider extending negotiated tariff concessions to the least developed countries on the basis of non-reciprocity. In these negotiations attention should also be given to the scope for extending further tariff cuts to products of particular interest to the least developed countries, including both primary commodities and manufactures. More advanced developing countries generally might also consider making non-reciprocal trade concessions to the least developed countries in respect of products of particular export interest to the latter, as is already done within regional groupings of developing countries.

75. The more advanced developing countries which are in a position to do so should provide technical and financial assistance, where appropriate, in kind or for use in purchasing the products of the donor developing country. Many of the more advanced developing countries have substantial capabilities for providing expert technical assistance personnel and a wide variety of goods and services. To encourage such flows, the international

[31] The UNCTAD/GATT International Trade Centre is already engaged in activities in this field.

[32] See foot-note 31 above.

community might, where appropriate, consider ways of offsetting the additional foreign exchange costs associated with expanded aid from the more advanced developing countries.

76. In the context of regional groupings, special measures in favour of the less developed members of such groupings may be called for. Such action may combine commercial policy measures (e.g. favourable access to the markets of the more advanced partners, slower reduction in trade barriers and slower alignment of tariffs, etc.) with special industrialization measures, fiscal measures, and supporting financial and technical assistance. Measures appropriate to each case may vary from one regional grouping to another and hence should be decided upon in the context of these groupings themselves. Developed countries and multilateral agencies should, where appropriate, take action in support of such special measures in favour of the less developed members of regional groupings. In addition, developed countries and multilateral agencies should take fully into account opportunities for action in favour of least developed countries (i.e. the hard-core as well as similar "fringe" countries) within the framework of regional groupings. They should be prepared to support the development of infrastructure, agriculture, and industry by reference to regional criteria, and to consult with the authorities and institutions of regional groupings.

77. The UNCTAD secretariat will continue to assist regional groupings and their members in formulating and implementing policies along the lines mentioned above. Particular attention will be given to new initiatives for regional integration involving hard-core least developed countries or similar "fringe" countries.

D. Institutional and co-ordinating machinery

78. If the problems of the least developed countries are to be effectively solved, necessary action will have to take place throughout the United Nations system. In its resolution 2768 (XXVI) of 18 November 1971 the General Assembly commends the request of the Trade and Development Board in resolution 82 (XI) for the present action programme, and requests other organs and programmes of the United Nations, including the UNDP and UNIDO, to initiate similar action-oriented programmes for the least developed countries. This resolution underscores the need for some over-all co-ordination of these efforts. Beyond this, the International Development Strategy emphasizes the importance of special action for least developed countries, and the review and appraisal of progress during the course of the Decade will require adequate co-ordinating machinery. The Secretary-General of the United Nations has an important concern to ensure this co-ordination, and a committee of the ACC might be envisaged to assist in this purpose.

79. Adequate institutional machinery within UNCTAD is also required to ensure the effective implementation of a comprehensive action programme. Such machinery is needed to review progress made in the formulation and execution of the action programme, to determine its impact and to review progress in the least developed countries, and to consider new measures, or possible improvements in existing measures, in favour of these countries. Machinery is also needed to keep under constant review the identification of countries to which special measures, including the various elements of the action programme, are to be applied.

80. The action programme described above will require the use of all the existing bodies of UNCTAD. There is also a need "in particular to have one focal point for action" for dealing with the problems of the least developed countries "in an integrated way".[33] Such a focal point could be provided in the form of an intergovernmental group for this purpose. Alternatively, a sessional committee at the Trade and Development Board itself might be appointed for this purpose.

[33] Paragraph 14 of the report of the third Expert Group (see annex I below).

ANNEXES

ANNEX I

Report of the third Expert Group on special measures in favour of the least developed among the developing countries, Geneva, 13 to 21 December 1971

Note of transmittal by the Secretary-General of UNCTAD

The Trade and Development Board at its eleventh session adopted resolution 82 (XI), which, in paragraph 1, requested the Secretary-General of UNCTAD:

"to work out a detailed and comprehensive action-oriented programme, within UNCTAD's competence, for the implementation of the relevant provisions of the International Development Strategy for the Second United Nations Development Decade in favour of the least developed among the developing countries and to present this programme, together with his suggestions on institutional arrangements within UNCTAD for further work on special measures in favour of the least developed among the developing countries, to the United Nations Conference on Trade and Development at its third session;".

By paragraph 3 of that resolution the Board invited the Secretary-General of UNCTAD to appoint a group of experts:

"to assist him in the preparation of the action-oriented programme, mentioned in operative paragraph 1 above, *inter alia* in reviewing and evaluating existing policies and projects in favour of the least developed countries, and in the preparation of a progress report, to be submitted to the Conference at its third session, on the review of criteria now being used for the identification of the least developed countries and on work on criteria for the identification of the relatively disadvantaged countries in the context of a geographic region, also taking into account the existence of critical major economic sectors;".

At the same session the Board decided to request the Secretary-General of UNCTAD:

"to prepare a comprehensive action programme within the competence of UNCTAD, ... in favour of the land-locked developing countries and present it to the Conference at its third session." [a]

In view of this decision, the Group of Experts convened under paragraph 3 of Board resolution 82 (XI) was also requested to give advice on proposals for an action programme in favour of land-locked developing countries.

[a] See the report of the Trade and Development Board on its eleventh session (*Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15* (A/8415/Rev.1), part three, para. 400.

After appropriate consultations, the following experts were selected in their personal capacity, on the basis of their knowledge and experience of economic and social development: Mr. Manuchehr Agah, Dean of the Faculty of Economics, University of Teheran (Iran); Mr. Mohamed Hashim Awad, University of Khartoum (Sudan); Mr. László Csapó (Hungary), Professor of Economics, Makerere University, Kampala, Uganda; Mr. Aldo Ferrer, Institute of Economic and Social Development, Buenos Aires (Argentina); Mr. Dixon-Fyle, Department of Economics, University of Sierra Leone (Sierra Leone); Mr. Hiroshi Kitamura, Professor of Economics, Aoyama Gakuin University, Tokyo (Japan); Mr. Eduardo Palomo (Guatemala); Mr. Pushkar Pant, Secretary of Industry and Commerce (Nepal); Mr. P. Selwyn, Institute of Development Studies, University of Sussex (United Kingdom); Mr. A. E. Thiemele (Ivory Coast); Mr. Michel-Henri Vloeberghs, Directeur, Banque Nationale de Belgique (Belgium).

In addition, representatives of various international bodies participated in the meeting of the Group as observers: Mr. E. K. Nypan, Chief, Trade, Fiscal and Monetary Affairs Division, ECA; Mr. Prok Amranand, Chief, International Trade Division, ECAFE; Mr. Alvaro de la Ossa, Chief, Trade Policy Division, Mexico Office, ECLA; Mr. I. Karmiloff, Chief, Trade Unit, UNESOB; Dr. E. Szczepanik, Economist, Economic Analysis Division, FAO; Mr. Hikmat Nabulsi, Senior Technical Adviser, Technical Advisory Services Division, UNDP; Mr. A. Ben-Amor, Survey Section, UNIDO; Mr. Fritz A. Steuber, IBRD (European Office); Mr. K. Lykke, Economist, IMF (Geneva Office); Mr. Ebong, Economist, ADB.

The Expert Group—which is the third such group to consider the problem of the least developed countries within UNCTAD—met in Geneva from 13 to 21 December 1971.

The Expert Group had before it a working paper prepared by the UNCTAD secretariat concerning possible lines of action in favour of least developed countries and of land-locked countries; the Group considered the available data concerning the situation of these countries. It also reviewed the state of work under way on criteria for the identification of least developed countries.

I wish to express my thanks for the work of this Group. I have found its advice very useful in designing the action programmes submitted to the Conference [b] and in preparing the progress report on identification criteria.[c]

I also wish to thank the representatives of the various international bodies who assisted in the work of the Group as observers and whose active participation in the discussions has proved to be of great value in formulating these action programmes, and an important step in the co-operation with other concerned organizations requested in paragraph 4 of Board resolution 82 (XI).

While I have taken fully into account the various suggestions made by participants in the Expert Group's meeting, the responsibility for the actual proposals made in the action programmes rests with the UNCTAD secretariat and does not commit any of the participants.

In addition to providing detailed advice on the various proposals for action, the Expert Group decided to present a brief report, which I hereby transmit to the Conference.

Manuel Pérez Guerrero
Secretary-General of UNCTAD

Letter of transmittal to the Secretary-General of UNCTAD

We have the honour to submit herewith a report based on our deliberations during meetings held at the United Nations Office at Geneva from 13 to 21 December 1971.

According to resolution 82 (XI) of the Trade and Development Board, the Group was invited to assist the Secretary-General of UNCTAD in the preparation of an action-oriented programme, within UNCTAD's competence, in favour of the least developed among the developing countries, including reviewing and evaluating existing policies and projects in their favour, and to assist in the preparation of a progress report on criteria for the identification of least developed and relatively disadvantaged countries. We were also asked to review suggestions for an action programme for land-locked developing countries.

Our role has thus mainly been to assist in the preparation of the two action programmes and the progress report on identification criteria. In addition, we have thought it useful to prepare a brief report summarizing our views on a number of basic issues on which we have reached a broad consensus. These issues cover an action programme for least developed countries (chap.I of our report), an action programme for land-locked developing countries (chap.II), and criteria for identification (chap.III).

The Group wishes particularly to thank the representatives of the regional economic commissions and UNESOB, as well as the representatives of IBRD, IMF, UNIDO, FAO, UNDP and ADB, for their very valuable and active assistance, as observers, throughout our discussions. The attached report represents, however, the views of the Group itself, and does not commit the observers.

We wish also to express our appreciation and gratitude for the valuable and efficient assistance rendered by the UNCTAD secretariat throughout our meeting.

Respectfully yours,

M. Agah	E. Palomo
M. H. Awad	P. Pant
L. Csapó	P. Selwyn
A. Ferrer	A. E. Thiemele
Dixon-Fyle	M. H. Vloeberghs
H. Kitamura	

Introduction

1. The Group has reviewed the draft proposals for action submitted by the secretariat of UNCTAD as well as other proposals suggested by members themselves and representatives of other international organizations present at the meeting, and the specific proposals made in the Declaration and Principles of the Action Programme of Lima.[d] The Group also had before it reports of the two previous Expert Groups on least developed countries [e] and the report of the Expert Group on land-locked countries.[f] In addition, it considered the other relevant documentation of UNCTAD, the Committee for Development Planning, and other United Nations bodies concerned with questions of least developed countries, of criteria for their identification, as well as similar documents concerning special measures for land-locked countries.

2. The main purpose of the Group was to assist the Secretary-General of UNCTAD in the preparation of three specific documents for the third session of the Conference (the action programme for least developed countries, the action programme for land-locked developing countries and a progress report on the criteria for identification). The Group hopes that its detailed discussion of specific

[b] TD/135 (see p. 227 below) and TD/136 (see p. 257 below).

[c] TD/137 (see p. 261 below).

[d] *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex VIII, F.

[e] *Official Records of the Trade and Development Board, Ninth Session, Third part, Annexes*, agenda item 15, document TD/B/288 and *Special measures in favour of the least developed among the developing countries: report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries* (United Nations publication, Sales No. E.71.II.D.11).

[f] *Official Records of the Trade and Development Board, Tenth Session, Annexes, first, second and third parts*, agenda item 13, document TD/B/308.

proposals has assisted the Secretary-General of UNCTAD in this work. The Group also reached a broad consensus on a number of basic issues and felt that it would be useful to prepare a brief report summarizing its views.

Chapter I

ACTION PROGRAMME FOR LEAST DEVELOPED COUNTRIES

3. With the acceptance by the Trade and Development Board and by the General Assembly of the list of hard-core least developed countries prepared by the Committee for Development Planning, an action programme for these countries can now be agreed.

4. Such countries face a number of special problems.[g] These include a very narrow productive base, extremely weak economic, social and administrative infrastructures, and a low short-run ability to absorb technical and financial assistance. Hence, under existing criteria for assistance and without special measures, they are unlikely to receive sufficient benefits from the growth of trade or from the flow of assistance to enable them to achieve the targets of the Second Development Decade. Thus, unless special measures are forthcoming, the gap in levels of income per head between them and the more advanced developing countries will continue to grow; still more will the gap between them and the developed countries. The Group believes therefore that it is essential that special measures be sought in all of the basic policy areas—both in the field of commercial policy and in that of technical and financial assistance.

5. There is a need to provide commercial policy benefits suited to the requirements of the least developed countries, and also taking into account the fact that many of these countries would be adversely affected by the removal of existing special preferences. Commercial policy benefits might include the extension of the GSP to cover processed and semi-processed primary commodities, exemption from quotas, liberal treatment in regard to rules of origin under the GSP, and advance application of further tariff concessions on products of particular interest to the least developed countries. Such measures, in themselves, are unlikely to lead to significant benefits—unless productive capacities are increased. This increase will require substantially larger financial and technical assistance flows.

6. In a programme for substantially increasing the flow of assistance to the least developed countries, priority must be given to increasing their ability to use such assistance effectively. If this is done, limits to absorptive capacity as such should no longer be considered as a bottleneck in the development of these countries. Planning for development undertaken in the past has implicity been based on the available flow of resources. If the international community is willing to consider larger flows of resources—as the action programme for these countries must stress—then the capacity for development of these countries can be substantially increased.

7. All financial aid to these countries should be provided on grant or extremely soft terms. Donors should recognize the long-term nature of the development problems of these countries and should adopt assistance criteria which are far more flexible than those traditionally used, and in particular should apply rate of return criteria especially suited to their needs. They should provide long-term assurances about the future flow of financial resources and be willing to meet local costs of projects, recurrent costs, maintenance costs and possibly other costs of a budgetary nature when necessary.

8. There is an especial need to increase the flow of technical assistance, to ensure its continuity, and to improve its quality—both in the choice of sectors and in the selection of personnel. Agencies providing capital or technical assistance should expand the help they are giving in the identification and formulation of development projects for these countries.

9. Since the total flow of resources to least developed countries will have to increase, this will call for contributions from bilateral sources—both developed market-economy countries and socialist countries—as well as from international financial and technical assistance institutions, and indeed from private voluntary agencies. The more advanced developing countries and the developing countries with substantial foreign exchange resources or with substantial resources of skilled personnel should do their utmost, themselves, to assist the hard-core countries on the road to effective development.

10. Given the need for a new priority of attention to the least developed countries, and the very limited short-run potential from special measures in the commercial policy field, and therefore the need to expand financial and technical assistance, it is imperative that a special fund be created on their behalf, covering both technical and financial assistance, and sufficiently large to have significant impact.

11. The new priority of attention for the least developed countries should not raise significant problems about the wider flow of benefits to all developing countries. It should be noted that the size of trade benefits in the past to the least developed countries has been extremely small. Furthermore, only a relatively small proportion of all assistance is now going to these countries and, even with relatively substantial increases, this flow will remain a small percentage of the total flow.

12. In-depth studies should be made on a country-by-country basis of the specific needs of each of the least developed countries and of the problems relating to commodities of special interest to them, taking into account existing studies. In particular, the agricultural sector is the predominant source of income in all of the least developed countries and, even with strong development efforts in other directions, is likely to remain so for a long time to come; high priority must therefore be given to modernizing this sector, transforming the subsistence economy, and promoting agricultural processing industries. Effective over-all planning is essential, but immediate action on obvious priority targets should not be held up while awaiting the development of longer term planning and development strategies.

13. Effective co-ordination will be needed among all of the members of the international community dealing with the least developed countries so as not to waste the scarce resources available for their development. The community should adopt a multidisciplinary approach to the problems of the least developed countries, but always in full co-operation with the beneficiary country itself.

14. The new priority of attention now needed for the least developed countries requires that the institutional machinery of UNCTAD be adjusted to give full recognition to the difficulties faced by these countries and in particular to have one focal point for action on their problems—and in an integrated way. Similar arrangements should be considered in other international organizations.

15. Given the small internal markets of the least developed countries one of the strongest hopes for their future growth is regional economic co-operation. However, it is essential to ensure that significant benefits accrue to least developed countries in such arrangements. The Group would welcome any initiatives which the Secretary-General of UNCTAD and other appropriate international officials might take, in full co-operation with the countries concerned and with other international agencies, to promote the growth of viable regional economic arrangements that will be of assistance to the least developed countries.

Chapter II

ACTION PROGRAMME FOR THE LAND-LOCKED DEVELOPING COUNTRIES

16. Special handicaps facing land-locked developing countries should be minimized with a view to facilitating their development. Adequate transit facilities at reasonable cost and with the simplest possible formalities are essential. The Group recommends action on the following lines:

(*a*) The right of land-locked countries to use the existing transport routes available in their transit neighbours, both to the sea and to other neighbouring countries;

[g] The Group felt that it was not necessary to describe further the characteristics of the hard-core countries in detail since that task has already been well performed by UNCTAD's first and second Groups of Experts and by the Committee for Development Planning.

(*b*) Development of a comprehensive strategy for transport and freight, including alternative routes and modes of transportation, types of carriers, the provision of adequate routes to the sea and overland routes to all neighbouring countries; through routes with a minimum of breaks in transport should be the objective;

(*c*) Provision of adequate warehousing and other facilities at break points and at transit ports, of entrepôt facilities, and the establishment of customs-free zones in the transit ports for land-locked countries;

(*d*) Simplification of transit procedures and formalities;

(*e*) Provision for facilitating the movement of rolling stock and vehicles across the frontiers of land-locked countries and their transit neighbours with a minimum of restrictions;

(*f*) Provision of adequate financial assistance on concessional terms to carry out the programme for the development of transport infrastructure. There should be full recognition of the need to finance the entire transit route system, both in the land-locked country and in the transit neighbours. Aid is also needed for the development of warehousing and other facilities at the transit ports and other points of exit and entry, as well as for defraying maintenance costs.

17. The land-locked condition makes it urgent that such countries should seek to emphasize exports of high value and low bulk, to develop import substitution industries for low-value, high-bulk commodities, and to explore fully the possibilities for air transport. Regional co-operation arrangements will be particularly important, provided that the reasonable interests of the land-locked countries are fully recognized. The Secretary-General of UNCTAD, in co-operation with other international organizations and in consultation with the developing countries concerned, should take steps to facilitate such co-operation.

Chapter III

CRITERIA FOR IDENTIFICATION

18. The Group wishes to stress the importance and usefulness of the wider view of the problem of "least developed countries" which the second Expert Group put forward.[h] This recognizes three levels of the problem:

(*a*) The special measures needed for the *hard-core least developed* countries;

(*b*) The special measures which may be needed to assist countries that are *relatively disadvantaged* in the context of a specific policy measure or sector;

(*c*) The special measures needed for the *relatively less developed* countries within a particular geographical region or regional grouping of countries.

The Group also noted the possibility, mentioned in paragraph 3 of Trade and Development Board resolution 82 (XI), of a somewhat different approach to the problem of categories (*b*) and (*c*) above, namely:

> "relatively disadvantaged countries in the context of a geographic region, also taking into account the existence of critical major economic sectors".

19. Action should commence as soon as possible in favour of the hard-core least developed countries as identified by the Committee for Development Planning and endorsed by the Trade and Development Board in its resolution 82 (XI) and by the General Assembly in resolution 2768 (XXVI). In administering a programme of special measures, international agencies and governments should be somewhat flexible, so that a small "fringe" of countries whose level of development is closely similar to that of the countries in the list of the Committee for Development Planning, should also receive appropriate benefits. But this flexibility should not in any way impede the start of effective and immediate action on behalf of the basic hard-core countries.

20. Work should continue on refining the criteria for the identification of the hard-core least developed countries. This work might include the use of additional dynamic indicators, and of others which reflect a country's need for special assistance.

21. Work should now commence on criteria for international action with respect to relatively disadvantaged countries and relatively less developed countries in the context of geographic regions. For example, one area now ripe for international action is that of special measures needed in favour of developing countries which may be relatively disadvantaged under the GSP. Action on these other dimensions of the problem of least developed countries should not delay the beginning of immediate action on behalf of the hard core.

[h] See paragraph 21 of the report of the *Ad hoc* Group of Experts on special measures in favour of the least developed among the developing countries (see foot-note [e] above).

ANNEX II

Selected data: note by the UNCTAD secretariat

[*Original text: English*]

LIST OF TABLES

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TABLE 1

Selected economic indicators and basic data for hard-core least developed countries, other land-locked developing countries and other developing countries with *per capita* GNP of $150 and below

(Latest available year)

Country	Per capita *GNP 1969 (dollars)*	*Literacy rate (per cent)*	*Percentage share of manufactures in total GDP 1969*	*Percentage share of agriculture in total GDP 1969*	*Agric. labour as percentage of total labour force, 1969*	*Population 1969 (millions)*	*Total GNP 1969 (million dollars)*	*Area (million km²)*	*Population density 1969 (inhab. per km²)*	*Agricultural area 1000 km²*	*Inhab. per km² of agricultural land*	*Imports 1970 (million dollars)*	*Exports 1970 (million dollars)*
A. *25 hard-core least developed countries*													
Afghanistan	85	8	11 [f]	53 [f]	(87)	16.5	1 400	0.6	26	138 [e]	119 [e]	119	78
Bhutan	60 [f]	..	..	..	..	0.8	..	0.05	17	..	..	..	..
Botswana	99	20	8 [e]	43 [e]	91 [i]	0.6	62	0.6	1	399 [f]	2 [f]	38	12
Burundi	54	10	(4)	..	95 [k]	3.5	188	0.03	125	16 [e]	204 [e]	22	24
Chad	68	5-10	(4)	..	(92)	3.6	240	1.3	3	520 [f]	7 [f]	61	30
Dahomey	80	20	5 [d]	40 [d]	84 [h]	2.6	211	0.1	23	20 [j]	112 [j]	54	31
Ethiopia	65	5	8 [e]	54 [e]	88 [h]	24.8	1 612	1.2	20	814 [h]	28 [h]	172	122
Guinea	100	5-10	(6)	..	(85)	3.8	389	0.2	16	..	..	(82)	(70)
Haiti	85	10	12 [c]	49 [c]	79 [h]	4.8	405	0.03	172	9 [m]	385 [m]	41	40
Laos	73	15	..	..	81 [h]	2.9	211	0.2	12	16 [i]	161 [i]	128	3
Lesotho	94	59	1 [e]	62 [e]	..	0.9	84	0.03	29	29 [c]	27 [c]	40	5
Malawi	62	15	8 [f]	33 [f]	81 [h]	4.4	272	0.1	37	35 [n]	125 [n]	99	59
Maldives	80 [f]	..	..	..	..	0.1	..	0.0003	362	..	..	..	..
Mali	90	5	8 [e]	50 [e]	(90)	4.9	439	1.2	439	420 [c]	10 [c]	39	24
Nepal	80	9	11 [d]	66 [d]	94 [l]	10.8	868	0.1	77	43 [d]	241 [d]	47	30
Niger	90	5	6 [d]	59 [d]	97 [k]	3.9	352	1.3	3	144 [e]	26 [e]	58	32
Rwanda	75	10	9 [d]	69 [d]	95 [k]	3.5	262	0.03	132	19 [j]	158 [j]	29	25
Sikkim	70 [f]	16	..	..	..	0.2	..	0.01	27	..	..	..	..
Somalia	64	5	..	..	89 [h]	2.7	175	0.6	4	215 [k]	10 [k]	45	31
Sudan	113	10-15	9 [f]	36 [f]	78 [h]	15.3	1 725	2.5	6	311 [b]	48 [f]	311	293
Tanzania	96	15-20	7	36	95 [h]	12.9	1 245	0.9	14	563 [d, g]	21 [d, g]	272	238
Uganda	118	20	6 [f]	66 [f]	89 [h]	8.4	1 122	0.2	35	99 [e]	80 [e]	121	246
Upper Volta	47	5-10	5 [d]	46 [d]	(87)	5.3	250	0.3	19	234 [f]	22 [f]	53	20
Western Samoa	120	..	..	..	74 [d]	0.1	17	0.003	49	1 [d]	130 [d]	14	5
Yemen	80	10	..	..	(89)	5.6	446	0.2	29	..	..	143	13
TOTAL	84	..	..	..	..	142.9	11 975 [b]	11.8	12	..	..	1988	1431
B. *Other land-locked developing countries*													
Bolivia	188	32	15	19	65 [h]	4.8	901	1.1	4	144 [m]	21 [m]	165	(220)
Cent. African Rep.	140	5-10	(11)	..	(90)	1.5	212	0.6	2	60 [f]	25 [f]	34	31
Paraguay	236	74	16	32	51 [h]	2.3	543	0.4	6	110 [e]	20 [e]	64 [o]	64
Swaziland	180	36	13 [e]	28 [e]	(31)	0.4	72	0.02	23	15 [e]	24 [e]	54	70
Zambia	400	15-20	8 [f]	7 [f]	29	4.2	1 667	0.8	6	386 [c]	9 [c]	502 [o]	1001
TOTAL	257	..	..	..	..	13.2	3 395	2.9	5	..	..	819	1386

TABLE 1 (*continued*)

Country	*Per capita GNP 1969 (dollars)*	*Literacy rate (per cent)*	*Percentage share of manufactures in total GDP 1969*	*Percentage share of agriculture in total GDP 1969*	*Agric. labour as percentage of total labour force, 1969*	*Population 1969 (millions)*	*Total GNP 1969 (million dollars)*	*Area (million km²)*	*Population density 1969 (inhab. per km²)*	*Agricultural area 1000 km²*	*Inhab. per km² of agric. land*	*Imports 1970 (million dollars)*	*Exports 1970 (million dollars)*
C. *Other developing countries with* per capita *GNP of $150 and below*													
Burma	74	60	9 [e]	34 [e]	(62)	27.0	1 990	0.7	40	164 [d]	154 [d]	162	106
Cameroon	150	10-15	..	50	(84)	5.7	860	0.5	12	126 [f]	45 [f]	242	226
Gambia	110	10	..	..	87 [h]	0.4	39	0.01	32	6 [e]	57 [e]	23	19
India	89	28	13 [e]	52 [e]	73 [i]	540.0	47 670	3.3	164	1778 [e]	287 [e]	2125	2026
Indonesia [a] . . .	104	43	9 [f]	52 [f]	67 [h]	117.6	12 070	1.5	79	128 [j]	785 [j]	883	810
Kenya.	136	20-25	11	32	88 [h]	10.5	1 431	0.6	18	56 [k]	145 [k]	397	217
Khmer Republic .	111	41	(10)	41 [d]	80 [c]	6.7	743	0.2	37	36 [e]	180 [e]	48	63
Madagascar . . .	114	39	(5)	..	(84)	6.6	755	0.6	11	369 [e]	17 [e]	170	145
Mauritania . . .	150	1-5	4 [f]	38 [f]	90 [h]	1.1	171	1.0	1	395 [i]	3 [i]	47	90
Nigeria	90	25	6 [d]	52 [d]	(80) [h]	53.7	4 830	0.9	58	476 [l]	93 [l]	1059	1240
Pakistan	129	(19)	10 [e]	44 [e]	68 [h]	126.7	16 510	0.9	134	..	..	1151	723
Togo	124	5-10	10 [d]	43 [d]	79 [e]	1.8	225	0.1	32	24 [h]	69 [h]	65	55
Yemen, People's Democratic Republic of . .	110	10	2	21	..	1.3	137	0.3	4	93 [d]	12 [d]	201	146
Zaire	98	35-40	20 [f]	21 [f]	(70) [h]	17.0	1 674	2.3	7	727 [c]	20 [c]	500	735
TOTAL	97	..	..	..	..	916.1	89 105	12.9	71	..	..	7073	6601

Source: UNCTAD secretariat, based on United Nations and other international and national sources.

[a] Excluding West Irian.
[b] 22 countries only, excluding Bhutan, Maldives and Sikkim, for which data are not available.
[c] 1962.
[d] 1966.
[e] 1967.
[f] 1968.
[g] Tanganyika only.
[h] 1965.
[i] 1964.
[j] 1963.
[k] 1960.
[l] 1961.
[m] 1950.
[n] 1959.
[o] Imports f.o.b.

TABLE 2

Growth rates and trade performance data for hard-core least developed countries, other land-locked developing countries and other developing countries with *per capita* GNP of $150 and below

Country	Per capita GNP 1969 (dollars)	Growth rate 1960-1970 [*]					Exports per capita 1970 (dollars)	Increment in exports per capita 1960-1970 (in dollars)	Imports per capita 1970 (dollars)	Increment in imports per capita 1960-1970 (dollars)	Exports as percentage of GNP 1969	Imports as percentage of GNP 1969
		Real product	Population	Per capita real product	Exports	Imports						
A. *25 hard-core least developed countries*												
Afghanistan	85	2.3	2.2	0.1	3.8	−1.8	4.56	0.94	6.95	0.65	6	9
Bhutan	60 [a]	. .	0.3	. .	. .	. .	. .	. .	. .	. .	. .	. .
Botswana	99	3.7 [b]	3.0	0.7 [b]	. .	10.4 [i]	18.52	−12.85	58.64	44.91	18	74
Burundi	54	2.4 [b]	2.0	0.4 [b]	10.7	9.6	6.67	4.26	6.11	2.33	6	11
Chad	68	0.9 [c]	1.9	−1.0 [c]	6.6	6.5	8.08	3.85	16.44	8.30	13	19
Dahomey	80	2.9 [c]	2.8	0.1	6.8	8.0	11.52	2.99	20.07	5.38	13	26
Ethiopia	65	4.6 [d]	2.0	2.5 [d]	5.1	7.6	4.87	1.34	6.87	2.81	7	10
Guinea	100	5.2 [e]	2.5	2.6 [e]	0.0	3.3	17.86	0.93	19.13	2.85	18	20
Haiti	85	1.6	2.0	−0.4	0.5	−0.4	8.22	−0.05	8.42	−0.60	9	10
Laos	73	2.6 [b]	2.4	0.2 [b]	19.8	22.3	1.01	0.58	43.21	38.08	2	30
Lesotho	94	4.2 [b]	2.3	1.9 [b]	. .	8.4 [i]	4.81	−10.38	38.46	14.98	6	46
Malawi	62	3.8	2.6	1.2	9.8	8.0 [i]	13.02	5.86	21.85	10.39	19	28
Maldives	80 [a]	. .	1.8	. .	. .	. .	. .	. .	. .	. .	. .	. .
Mali	90	2.8 [c]	2.1	0.7	3.6	0.4	4.78	1.60	7.77	−1.77	4	9
Nepal	80	2.2 [c]	1.8	0.4	. .	2.6 [i]	2.71	2.39	4.25	1.01	3	5
Niger	90	3.1 [b]	2.7	0.4 [b]	9.1	13.7	7.97	3.74	14.44	10.21	7	14
Rwanda	75	4.6 [b]	3.1	1.5 [b]	18.4	21.0	6.96	5.46	8.08	6.20	5	9
Sikkim	70 [a]	. .	2.0	. .	. .	. .	. .	. .	. .	. .	. .	. .
Somalia	64	4.2 [b]	2.0	2.2 [b]	2.4	3.9	11.11	0.80	16.13	2.68	18	30
Sudan	113	2.5 [b]	3.0	−0.5 [b]	3.4	2.1	18.67	3.31	19.82	4.38	14	15
Tanzania, United Republic of	96	4.3	2.5	1.8	4.8	8.1	17.93	1.37	20.49	8.77	19	16
Uganda	118	6.7	2.5	4.1	7.1	6.7	25.19	7.22	12.39	1.46	18	11
Upper Volta	47	2.7 [d]	2.0	0.7 [d]	20.3	10.1	3.71	2.80	9.84	7.34	8	20
Western Samoa	120	. .	2.6	. .	−4.1	4.3	34.97	−28.09	97.90	34.84	35	59
Yemen	80	4.0 [c]	2.6	1.4 [c]	. .	. .	. .	. .	. .	. .	. .	. .
TOTAL	84	3.5	2.4	1.1	5.1	6.4	10.07	2.54	13.10	4.01	11	14
B. *Other land-locked developing countries*												
Bolivia	188	5.6	2.6	2.9	16.3	9.8	44.62	31.29	33.46	15.42	20	18
Central African Republic	140	2.6 [b]	2.4	0.2 [f]	10.5	6.1	20.39	8.98	22.37	6.07	17	16
Paraguay	236	4.7	3.1	1.6	7.2	9.1	26.82	11.40	26.82 [j]	8.54	9	13
Swaziland	180	8.1 [b]	3.0	5.0 [b]	14.4	9.6 [i]	171.57	105.11	132.35	78.55	93	74
Zambia	400	7.9 [c]	3.0	4.8 [c]	13.4	10.3 [i]	232.79	120.02	116.74 [j]	51.32	64	26

TABLE 2 (*continued*)

Country	Per capita *GNP 1969 (dollars)*	*Growth rate 1960-1970* [*] *Real product*	*Population*	Per capita *real product*	*Exports*	*Imports*	*Exports* per capita *1970 (dollars)*	*Increment in exports* per capita *1960-1970 (in dollars)*	*Imports* per capita *1970 (dollars)*	*Increment in imports* per capita *1960-1970 (dollars)*	*Exports as percentage of GNP 1969*	*Imports as percentage of GNP 1969*
C. *Other developed countries with* per capita *GNP of $150 and below*												
Burma	74	3.7 [b]	2.1	1.6 [b]	−8.9	−5.1	3.84	−6.27	5.87	−5.76	7	8
Cameroon	150	3.6 [c]	2.2	1.4 [c]	9.3	10.5	38.73	18.09	41.47	23.60	26	24
Gambia	110	..	2.0	..	9.3	9.0	52.78	26.02	63.89	33.79	45	55
India	89	3.7	2.5	1.2	3.5	−0.5	3.68	0.58	3.86	−1.56	4	5
Indonesia	104	3.3	2.6	0.7	−0.2	2.3	6.68	−2.31	7.29	1.11	7	6
Kenya	136	5.1	2.9	2.1	6.3	7.8	19.91	6.11	36.42	12.27	13	22
Khmer Republic	111	3.8 [c]	2.3	1.5 [c]	−1.5	−2.4	9.20	−3.67	7.01	−10.45	9	14
Madagascar	114	2.2 [b]	2.3	0.1 [b]	5.5	5.4	21.48	7.57	25.19	4.61	15	24
Mauritania	150	7.9 [c]	1.9	5.9 [c]	58.6	5.2	76.92	74.81	40.17	14.91	46	26
Nigeria	90	2.3 [c]	2.5	−0.2 [c]	8.3	3.0	22.52	11.46	19.23	5.17	19	14
Pakistan	129	5.6	2.6	2.9	7.6	5.6	5.55	1.63	8.84	2.31	4	6
Togo	124	7.6 [g]	2.6	4.9 [g]	13.0	9.9	29.62	19.23	35.00	16.99	20	25
Yemen, People's Democratic Republic of,	110	−2.4 [c]	2.7	−5.0 [c]	−3.9	−1.7	114.06	−58.67	157.03	−62.16	94	159
Zaire	98	2.6 [b]	2.1	0.5 [h]	5.8	5.0	42.19	7.39	28.70	8.12	32	25

Source: UNCTAD secretariat, based on United Nations and other international and national sources.

[*] Based on exponential trend function for export and import growth rates; others are terminal year rates.

[a] 1968.

[b] 1960-1968.

[c] 1960-1969.

[d] 1961-1970.

[e] 1960-1970.

[f] 1961-1969.

[g] 1960-1966.

[h] 1959-1970.

[i] 1965-1970.

[j] Imports f.o.b.

TABLE 3

The export structure of 17 selected hard-core least developed countries, 1968

	Total exports (million dollars)	Major commodities [b] as percentage of total exports of each country, 1968							
		Live animals	*Fruits and nuts, fresh*	*Vegetables, fresh*	*Coffee*	*Tea and maté*	*Feeding-stuff for animals*	*Tobacco, unmanufactured*	*Hides and skins*
SITC	0-9	001	051	054	071	074	081	121	211
Country	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Afghanistan	72.4	—	11.1	0.2	—	—	—	—	2.8
Chad	27.0	1.7	—	—	—	—	0.6	—	1.5
Dahomey	9.7	—	0.2	—	4.5	—	4.0	4.1	—
Ethiopia	100.1	1.1	2.0	9.5	*61.1*	—	1.7	—	10.0
Malawi	39.4	—	—	6.8	0.3	29.5	1.0	*32.2*	0.5
Mali	9.8	*16.9*	—	0.7	—	—	—	—	1.9
Niger	32.2	10.6	—	2.8	—	—	1.4	—	1.2
Rwanda	14.6	—	—	0.2	*57.9*	3.2	—	—	0.9
Somalia	29.2	*54.1*	*28.6*	—	—	—	—	—	5.4
Sudan	231.3	2.6	—	0.2	—	—	5.6	—	1.9
Tanzania, United Republic of,	205.1	—	6.9	1.8	*18.1*	3.0	2.2	2.7	2.2
Uganda	180.7	—	—	—	*55.4*	5.8	3.0	0.2	1.6
Upper Volta	20.3	*50.3*	—	4.1	—	—	0.2	—	1.4
Western Samoa	4.7	—	7.9	—	—	—	—	—	—
Burundi	12.0	—	—	—	*82.8*	—	—	—	—
Botswana	10.0	*80.9*	—	—	—	—	—	—	8.4
Lesotho	5.0	*36.7*	—	—	—	—	—	—	2.3
Total value (million dollars) [a]	1003.5	48.7	33.0	18.2	217.4	28.8	25.9	19.0	26.8

	Major commodities [b] as percentage of total exports of each country, 1968				Total of columns 2-13	Other major commodities exported (percentages)
	Oilseeds, oil nuts etc.	*Cotton*	*Non-ferrous ores and concentrates*	*Crude vegetable materials*		
SITC	221	263	283	292		
Country	(10)	(11)	(12)	(13)		
Afghanistan	3.9	8.1	—	4.0	30.1	Dried fruit (*26.2*), natural gas (12.5), fur skins (11.8), wool (9.7), rugs, etc. (6.2)
Chad	—	*86.9*	—	1.7	92.4	Meat, fresh (6.0)
Dahomey	*20.7*	11.3	—	—	44.8	Vegetable oils (*43.5*)
Ethiopia	8.6	—	—	0.4	94.4	—
Malawi	14.3	3.9	—	0.3	88.8	Maize (9.2)
Mali	*20.0*	*43.4*	—	1.2	84.1	Fish, fresh (14.3)
Niger	72.4	4.5	0.2	—	93.1	Vegetable oils (6.7)
Rwanda	—	—	*34.8*	1.8	98.8	—
Somalia	—	—	—	0.5	88.6	Camels (5.6)
Sudan	*16.1*	*60.3*	—	9.9	96.6	—
Tanzania, United Republic of,	3.1	*19.3*	0.3	1.8	61.4	Petroleum products (11.1), sisal (10.8), diamonds (9.2) canned meat (2.4)
Uganda	0.6	*23.0*	0.5	—	90.1	Copper and alloys, unwrought (8.6)
Upper Volta	*17.3*	*18.2*	—	0.1	91.6	Meat, fresh (5.6)
Western Samoa	*55.4*	—	—	—	63.3	Cocoa (*36.7*)
Burundi	—	8.9	—	—	91.7	—
Botswana	—	—	—	—	89.3	—
Lesotho	—	—	—	—	39.0	Wool and mohair (*38.4*), diamonds (11.1)
Total value (million dollars) [a]	95.2	261.8	6.7	30.9	81.0 [c]	

Source: United Nations, *Yearbook of International Trade Statistics*, various issues.

[a] Total exports of the 17 countries shown.

[b] Commodities accounting for 15 per cent or more of a country's total exports are in italics.

[c] Total of column 2-13 as percentage of total exports, for the 17 countries shown.

TABLE 4

Commodities in respect of which hard-core least developed countries accounted for 5 per cent or more of total developing countries' exports, 1968 [a]

SITC	Commodity	Share (per cent) of hard core least developed countries in total exports of developing countries	Share (per cent) of each commodity in total exports of hard-core least developed countries	Value of exports from hard-core least developed countries (million dollars)	Main exporters among hard-core least developed countries (Figures in parentheses are shares in each country's total exports)
212	Fur skins, undressed . . .	48.2	0.9	8.6	Afghanistan (11.8), Somalia (0.3)
052	Dried fruit	41.0	1.9	19.0	Afghanistan (26.2)
941	Zoo animals, pets	30.9	0.2	2.0	Somalia (5.6), Chad (0.7), Ethiopia (0.1)
263	Cotton	19.9	26.8	261.8	Sudan (60.3), Uganda (22.9), Tanzania (19.3), Chad (86.9), Afghanistan (8.1), Mali (43.5), Upper Volta (18.2), Malawi (3.9), Niger (4.5), Dahomey (11.3)
001	Live animals	19.4	4.0	38.7	Somalia (54.1), Upper Volta (50.3), Sudan (2.6), Niger (10.6), Mali (16.9), Ethiopia (1.1), Chad (1.7)
024	Cheese and curd	17.6	0.1	1.1	Afghanistan (1.5)
292	Crude vegetable materials, n.e.s.	17.2	3.2	30.9	Sudan (9.9), Tanzania (1.8), Afghanistan (3.9), Chad (1.7), Ethiopia (0.4), Rwanda (1.8), Somalia (0.5), Malawi (0.3), Mali (1.2), Upper Volta (0.1)
221	Oilseeds, nuts and kernels .	16.3	9.8	95.3	Sudan (16.2), Niger (72.4), Ethiopia (8.6), Tanzania (3.1), Malawi (14.3), Upper Volta (17.3), Afghanistan (3.9), W. Samoa (55.4), Dahomey (20.7), Mali (19.9), Uganda (0.6)
265	Vegetable fibres, excluding cotton, jute	16.1	2.3	22.3	Tanzania (10.8), Malawi (0.1)
211	Hides, skins, undressed . .	13.8	2.7	26.8	Ethiopia (10.0), Tanzania (2.2), Sudan (1.9), Uganda (1.6), Afghanistan (2.8), Somalia (5.4), Chad (1.5), Niger (1.2), Upper Volta (1.4), Malawi (0.5), Mali (1.9), Rwanda (0.9)
341	Gas, natural and manufactured	13.8	0.9	9.0	Afghanistan (12.5)
241	Fuel wood and charcoal . .	13.3	0.1	0.7	Somalia (2.4)
655	Special textile products, etc.	9.8	0.3	3.4	Tanzania (1.7)
071	Coffee	8.8	21.2	207.4	Uganda (55.4), Ethiopia (61.1), Tanzania (18.1), Rwanda (57.9), Dahomey (4.5), Malawi (0.3)
121	Tobacco, unmanufactured .	8.0	1.9	19.0	Malawi (32.2), Tanzania (2.7), Dahomey (4.1), Uganda (0.2)
431	Processed animal and vegetable oils, etc. . . .	5.6	0.1	1.3	Ethiopia (0.9), Tanzania (0.2)
074	Tea and maté	5.4	2.9	28.8	Malawi (29.5), Uganda (5.8), Tanzania (3.1), Rwanda (3.2)
532	Dyes, n.e.s., tanning products	5.3	0.1	1.3	Tanzania (0.6)
054	Vegetables, etc., fresh, simply preserved	5.2	1.9	18.2	Ethiopia (9.5), Tanzania (1.8), Malawi (6.8), Niger (2.8), Upper Volta (4.1), Sudan (0.2), Afghanistan (0.2), Mali (0.7), Rwanda (0.2)

Source: United Nations, *Yearbook of International Trade Statistics*, various issues.

[a] Based on data for 14 hard-core least developed countries accounting for about 80 per cent of the population of the 25 hard-core least developed countries.

TABLE 5

Imports of manufactured goods from selected hard-core least developed countries into OECD countries, 1969

(Million dollars)

Country	Chemicals and miscellaneous manufactured articles	Machinery and transport equipment	Manufactured goods, excluding textiles and non-ferrous metals	Non-ferrous metals	Textile yarn, fabrics, made-up articles and related products	Total manufactured goods		Percentage share in total imports [a]	
SITC:	5 + 8	7	6 (less 65, 68)	68	65	5-8	5-8 (less 513.65, 667, 68)	5-8	5-8 (less 513.65, 667, 68)
Afghanistan	.83	.06	.82	—	6.91	8.62	8.62	18.8	18.8
Burundi-Rwanda	.11	.03	1.70 [c]	—	.011	1.86	.155	6.4	0.5
Dahomey	.054	.03	.015	—	.022	.12	.12	0.6	0.6
Ethiopia	.17	.54	1.13	.01	.025	1.88	1.88	2.0	2.0
Guinea	30.90 [b]	.02	.02 [c]	.005	.003	31.12	.028	72.8	0.1
Haiti	9.19	.42	.59	—	2.00	12.20	12.20	26.1	26.1
Laos	.007	.015	.004	—	.01	.036	.036	13.7	13.7
Lesotho/Botswana/ Swaziland [e]	.029	.057	.054	—	.007	.147	.147	0.3	0.3
Malawi	.03	.02	.09	—	.01	.15	.15	0.4	0.4
Mali	.013	.017	.10	—	.004	.134	.134	1.5	1.5
Niger	.006	.028	.05	—	.004	.087	.087	0.3	0.3
Somalia	.154	.156	.028	.086	.005	.429	.343	2.4	1.9
Sudan	.21	.26	.005	—	.07	.55	.55	3.5	3.5
Tanzania, United Republic of	.82	.12	24.64 [d]	3.18	3.22	31.98	4.33	22.1	3.0
Uganda	.21	.06	.08	21.44	.05	21.85	.41	15.8	0.3
Upper Volta	.003	.017	.026	—	.003	.049	.049	0.5	0.5
Yemen	.027	.003	.009	.002	—	.041	.030	1.5	1.1
Total above countries	42.76	1.86	29.54	24.73	12.36	111.26	29.27	12.5	3.3

Source: OECD, *Trade Statistics, 1969.*

[a] Share in total imports from each least developed country into the OECD countries.

[b] Alumina oxide (SITC 513.6(5)).

[c] Precious stones (SITC 667).

[d] Of which $24.47 million is precious stones (SITC 667).

[e] Swaziland is not included among the 25 hard-core countries.

TABLE 6

Bilateral and multilateral net flow of loan and grant assistance to 25 hard-core least developed countries, 1964 to 1970

(Net disbursements)

	1964	1965	1966	1967	1968	1969	1970
A. *Total (million dollars) 25 hard-core least developed countries*							
1. Bilateral flows	354	417	400	381	353	361	329
Grants	301	351	328	306	283	—	—
Loans	54	66	68	75	70	—	—
2. Multilateral flows	69	78	82	90	87	113	149
3 = 1 + 2 *Total official flows*	413	482	473	447	451	474	478
4. Guaranteed private export credits	44	31	36	18	22	44	33
5 = 3 + 4 *Total loans and grants*	457	513	509	465	473	518	511
B. *Percentage share of the 25 hard-core countries in total for all developing countries*							
1. Bilateral flows	7.0	7.7	7.2	6.4	5.8	6.1	5.3
Grants	8.2	9.4	8.7	8.4	8.3	..	..
Loans	3.9	3.9	3.7	3.3	2.6	..	..
2. Multilateral flows	8.1	8.1	9.4	6.9	12.7	10.6	11.1
3 = 1 + 2 *Total official flows*	7.1	7.8	7.4	6.5	6.6	6.8	6.3
4. Guaranteed private export credits	6.7	5.8	3.4	1.8	1.6	2.6	1.6
5 = 3 + 4 *Total loans and grants*	7.1	7.6	6.9	5.9	5.8	5.9	5.3

Source: OECD/DAC statistics.

TABLE 7

Net loan and grant receipts: hard-core least developed countries, other land-locked developing countries and other developing countries with *per capita* GNP of $150 and below, 1965 to 1970

	Per capita GNP 1969	Net loans and grants [a]: Total (million dollars) 1970	Total (million dollars) 1965-1970 (average)	Per capita (in dollars) 1970	Per capita (in dollars) 1965-1970 (average)	As percentage of GNP 1970 [c]	As percentage of imports 1970
A. *Hard-core least developed countries*							
Afghanistan	85	17	37	1.0	2.3	1.2	14.3
Bhutan	60 [b]	—	—	0.3	0.2	..	..
Botswana	99	11	15	17.2	24.3	17.9	29.3
Burundi	54	15	11	4.2	3.3	8.0	68.2
Chad	68	9	21	2.3	5.9	3.8	17.3
Dahomey	80	8	16	3.0	6.4	3.8	14.8
Ethiopia	65	47	45	1.9	1.9	2.8	27.3
Guinea	100	32	18	8.2	4.7	8.2	42.7
Haiti	85	7	5	1.4	1.1	1.7	17.1
Laos	73	69	68	23.4	24.3	32.7	53.9
Lesotho	94	8	12	7.5	13.3	9.5	20.0
Malawi	62	40	31	8.7	7.5	14.0	40.4
Maldives	80 [b]	—	—	2.1	2.1	..	..
Mali	90	12	19	2.5	4.0	2.7	30.8
Nepal	80	24	12	2.1	1.1	2.8	51.1
Niger	90	32	26	8.0	7.0	9.1	55.2
Rwanda	75	21	15	5.7	4.3	8.0	72.4
Sikkim	70 [b]	—	—	—	—	—	—
Somalia	64	29	25	10.6	9.4	16.6	64.4
Sudan	113	12	21	0.8	1.4	0.7	3.9
Tanzania	96	57	45	4.3	3.6	4.3	21.0
Uganda	118	39	31	4.0	3.7	3.4	32.2
Upper Volta	47	10	18	1.9	3.6	4.0	18.9
Western Samoa	120	1	—	9.0	4.1	..	9.1
Yemen	80	9	4	1.6	0.8	2.0	..
B. *Other land-locked developing countries*							
Bolivia	188	36	44	7.4	9.5	3.8	21.8
Central African Republic	140	5	17	3.2	11.5	2.4	14.7
Paraguay	236	20	21	8.5	9.5	3.5	31.3
Swaziland	180	—	—	—	—	—	—
Zambia	400	13	46	3.1	11.6	0.8	2.6
C. *Other developing countries with* per capita *GNP of $150 and below*							
Burma	74	32	25	1.1	1.0	1.6	21.3
Cameroon	150	60	43	10.2	7.8	7.0	24.8
Gambia	110	1	3	3.3	8.4	..	5.2
India	89	773	1134	1.4	2.2	1.5	36.9
Indonesia	104	472	249	3.9	2.2	3.7	53.5
Kenya	136	84	76	7.8	7.5	5.5	21.2
Khmer Republic	111	18	16	2.6	2.5	2.4	37.5
Madagascar	114	27	44	4.1	6.9	3.6	15.9
Mauritania	150	14	10	11.6	9.4	8.2	29.8
Nigeria	90	103	106	1.9	2.0	2.1	9.7
Pakistan	129	550	516	4.3	4.2	3.2	47.8
Togo	124	13	14	6.9	7.9	5.8	19.7
Yemen, People's Democratic Republic of	110	2	13	0.3	11.0	1.2	0.8
Zaire	98	127	113	7.3	6.9	7.1	24.4

Source: OECD/DAC statistics.

[a] Bilateral and multilateral official loan and grant receipts plus guaranteed private export credits (data on a net disbursement basis).

[b] 1968.

[c] In some cases 1969 GNP figures were used as the denominator.

TABLE 8

Technical assistance disbursements to hard-core least developed countries, 1962 to 1966 and 1969

(Bilateral contributions from DAC member countries plus contributions from multilateral agencies)

Country	Total (million dollars)						Per capita (dollars)	
	1962	1963	1964	1965	1966	1969	1965-1966 (average)	1969
Afghanistan	9.4	13.9	14.6	21.3	19.5	18.6	1.3	1.1
Bhutan	—	—	—	—	—	—	—	—
Botswana	—	—	—	0.9	1.3	3.4	1.9	5.4
Burundi	0.5	1.6	4.8	2.1	5.0	9.8	1.1	2.8
Chad	0.5	0.6	2.1	2.1	2.5	9.7	0.7	2.8
Dahomey	0.8	1.9	2.5	1.5	1.9	6.4	0.7	2.4
Ethiopia	7.3	6.9	6.7	13.1	16.5	22.8	0.6	0.9
Guinea	0.9	2.9	4.2	7.4	6.6	3.9	2.0	1.0
Haiti	1.0	1.6	0.9	2.1	3.9	3.0	0.8	0.6
Laos	1.2	5.6	8.5	35.8	40.0	39.0	14.2	13.5
Lesotho	—	—	—	1.3	1.4	1.4	1.6	1.6
Malawi	—	—	3.5	6.9	7.8	8.9	1.9	2.0
Maldives	—	—	—	—	—	—	—	—
Mali	3.1	0.9	2.8	3.9	3.8	6.1	0.8	1.3
Nepal	4.6	5.2	5.4	5.3	6.1	6.9	0.6	0.6
Niger	0.7	2.1	1.3	3.0	2.7	11.0	0.8	2.8
Rwanda	0.5	0.6	3.7	3.4	4.8	9.7	1.3	2.8
Sikkim	—	—	—	—	—	—	—	—
Somalia	8.2	9.0	9.7	10.3	7.9	11.5	3.6	4.2
Sudan	7.8	6.8	7.0	6.8	6.5	6.0	0.5	0.4
Tanzania	8.7	11.1	16.5	17.1	18.6	17.9	1.5	1.4
Uganda	6.1	7.6	8.8	10.5	13.7	13.4	1.6	1.4
Upper Volta	1.3	2.8	2.8	3.3	2.6	9.1	0.6	1.7
Western Samoa	—	—	—	0.2	0.3	0.4	1.9	2.9
Yemen	—	—	—	2.1	1.9	1.0	0.4	0.2
TOTAL: Hard-core	62.6	81.1	105.8	160.4	175.3	219.9	1.5	1.5
TOTAL: All developing countries	801.7	953.6	1050.1	1084.9	1385.9	1726.6	0.8	1.0

Source: OECD/DAC statistics.

TABLE 9

Hard-core least developed countries: technical assistance personnel financed by OECD member countries and by multilateral agencies, by major fields of activity, 1963 and 1969

(Number)

Country	Total OECD countries					Multilateral agencies			Total OECD and multilateral agencies	Total technical assistance personnel per 10,000 population
	Students and trainees	Educational personnel	Operational personnel advisors	Volunteers	Total	Fellowships	Experts	Total		
Afghanistan										
1963	243	76	356	35	710	..	..	..	..	..
1969	1,033	275	380	390	2,078	113	196	309	2,387	14
Bhutan										
1963	..	..	..	..	..	..	..	..	..	..
1969	16	..	2	1	19	..	..	..	19	2
Botswana										
1963	..	..	..	..	..	..	..	..	..	..
1969	61	45	288	132	526	27	29	56	582	93
Burundi										
1963	218	110	184	1	513	..	..	..	..	..
1969	371	224	225	72	892	206	125	331	1,223	35
Chad										
1963	144	179	414	1	738	..	..	..	..	..
1969	905	365	457	110	1,837	86	68	154	1,991	57
Dahomey										
1963	462	106	221	..	789	..	..	..	..	..
1969	862	130	165	191	1,348	188	92	280	1,628	62

TABLE 9 (*concluded*)

Country	*Total OECD countries*					*Multilateral agencies*			Total OECD and multilateral agencies	Total technical assistance personnel per 10,000 population
	Students and trainees	Educational personnel	Operational personnel advisors	Volunteers	Total	Fellowships	Experts	Total		
Ethiopia										
1963	452	64	206	418	1,140	..	..	..	..	..
1969	843	626	375	752	2,596	95	157	252	2,848	11
Guinea										
1963	102	186	69	57	414	..	..	..	..	..
1969	76	43	21	62	202	19	76	95	297	8
Haiti										
1963	138	10	13	..	110	..	..	..	..	..
1969	145	14	18	9	186	18	22	40	226	5
Laos										
1963	142	194	272	3	611	..	..	..	..	..
1969	915	395	625	124	2,059	37	44	81	2,140	74
Lesotho										
1963	..	..	..	..	..	..	..	..	..	..
1969	147	33	109	135	424	21	24	45	469	53
Malawi										
1963	76	84	732	65	957	..	..	..	..	..
1969	430	276	970	348	2,024	36	49	85	2,109	48
Maldives										
1963	..	..	..	..	..	..	..	..	..	..
1969	18	..	1	..	19	5	6	11	30	28
Mali										
1963	377	202	108	5	772	..	..	..	..	..
1969	368	298	202	23	891	139	141	280	1,171	24
Nepal										
1963	138	5	91	101	335	..	..	..	..	..
1969	790	37	115	359	1,301	79	98	177	1,478	14
Niger										
1963	198	128	325	17	668	..	..	..	..	..
1969	290	290	436	217	1,233	150	117	267	1,500	38
Rwanda										
1963	206	92	138	..	436	..	..	..	..	..
1969	376	226	253	172	1,027	175	136	311	1,338	38
Sikkim										
1963	..	..	..	..	..	..	..	..	..	..
1969	..	..	..	..	..	..	..	..	..	..
Somalia										
1963	374	39	243	30	686	..	..	..	..	..
1969	435	163	193	118	909	269	160	429	1,338	49
Sudan										
1963	299	22	70	2	393	..	..	..	..	..
1969	682	52	34	40	808	178	122	300	1,108	7
Tanzania, United Republic of										
1963	362	284	1,187	140	1,973	..	..	..	..	..
1969	606	426	607	601	2,240	102	116	218	2,458	19
Uganda										
1963	215	357	833	49	1,454	..	..	..	..	..
1969	912	1,051	682	416	3,061	158	82	240	3,301	35
Upper Volta										
1963	239	147	327	..	713	..	..	..	..	..
1969	518	268	323	163	1,272	181	105	286	1,558	30
Western Samoa										
1963	..	..	..	..	..	..	..	..	..	..
1969	15	7	8	151	181	15	21	36	217	155
Yemen										
1963	..	..	..	..	..	..	..	..	..	..
1969	130	..	25	..	155	58	51	109	264	5

Source: OECD/DAC statistics.

TABLE 10

External public debt outstanding and debt service payments of selected hard-core least developed countries, 1969

	Debt outstanding			*Service payments*	
	Million dollars		*Ratio to exports*	*Million dollars*	*Percentage of exports*
Country	*1965*	*1969*	*1969*	*1969*	*1969*
Afghanistan	524.8	649.4	7.9	16.4	20.0
Botswana	8.5	10.2	1.0	0.6	6.0
Burundi	..	8.5	0.7	0.6	5.0
Chad	..	50.0	1.6	3.6	11.2
Dahomey	..	43.6	1.6	1.4	5.2
Ethiopia	143.7	254.9	2.1	19.5	16.4
Guinea	..	308.6	5.3	..	..
Lesotho	..	7.5	1.5	0.2	4.0
Malawi	..	147.9	2.8	3.6	6.8
Mali	..	206.5	12.2	5.1	30.0
Niger	..	63.9	2.6	2.3	9.2
Rwanda	..	2.4	0.2	0.5	3.6
Somalia	57.8	97.2	3.0	..	..
Sudan	230.0	305.1	1.2	27.3	11.0
Tanzania, United Republic of	189.1	274.9	1.2	14.7	6.3
Uganda	120.2	173.1	0.9	18.5	9.3
Upper Volta	..	23.1	1.1	1.8	8.6

Source: IBRD.

TABLE 11

Selected economic indicators: hard-core least developed countries compared with other income categories of developing countries and with world totals

		Developing countries and territories					
			By income category (based on GNP per capita in 1969)				
						$150 and below: of which	
	World	*Total*	*Over $400*	*$251-$400*	*$151-$250*	*Total*	*Hard core*
A. *POPULATION AND GNP*							
1. Population, 1970 (millions)	2836 [a]	1731	131	275	227	1098	148
2. *Per capita* GNP, 1970 * (dollars)	990 [a]	202	798	340	212	98	85
3. Increment *per capita*, 1960-1970 * (dollars)	261 [a]	44	206	83	55	12	9
4. *Average annual growth, 1960-1970 (percentage per year):*							
(*a*) Population	2.0 [a]	2.6	2.8	3.0	2.7	2.5	2.4
(*b*) Total real product	5.2 [a]	5.2	5.9	5.9	5.9	3.9	3.5
(*c*) *Per capita* real product	3.1 [a]	2.5	3.0	2.8	3.1	1.4	1.1
5. *Share in world* [a] *total, 1970 (in per cent):*							
(*a*) Population	100.0	61.0	4.6	9.7	8.0	38.7	5.2
(*b*) GNP (in 1969 dollars)	100.0	12.4	3.6	3.3	1.7	3.8	0.5
B. *FOREIGN TRADE* [b]							
6. Exports (billion dollars)	312.3	55.0	20.0	18.8	7.6	8.1	1.4
7. Increment in exports, 1960-1970 (billion dollars)	184.3	27.7	10.0	10.4	3.9	2.9	0.6
8. Exports, growth rate, 1960-1970 (percentage per year)	9.2	7.2	7.5	8.3	7.5	4.2	5.1
9. Imports (billion dollars)	327.0	56.2	21.5	15.4	10.1	9.0	1.9
10. Increment in imports, 1960-1970 (billion dollars)	191.5	26.0	11.1	7.1	5.3	2.6	1.0
11. Imports, growth rate, 1960-1970 (percentage per year)	9.1	6.4	7.4	6.6	8.1	2.8	6.4
12. *Share in world total (in per cent):*							
(*a*) Exports, 1970	100.0	17.6	6.4	6.0	2.4	2.6	0.4
(*b*) Increment in exports, 1960-1970	100.0	15.0	5.4	5.6	2.1	1.6	0.3
13. *Share in world total (in per cent):*							
(*a*) Imports, 1970	100.0	17.2	6.6	4.7	3.1	2.8	0.6
(*b*) Increment in imports, 1960-1970	100.0	13.6	5.8	3.7	2.8	1.3	0.5

Source: Handbook of International Trade and Development Statistics, 1972 (United Nations publication, Sales No. E/F.72.II.D.3).

* Tentative estimates, in constant 1969 dollars.

[a] Excluding socialist countries of Asia, and Cuba.

[b] Exports (f.o.b.) and imports (c.i.f.).

OTHER SPECIAL MEASURES RELATED TO THE PARTICULAR NEEDS OF THE LAND-LOCKED DEVELOPING COUNTRIES

Action programme submitted by the Secretary-General of UNCTAD *

[*Original text: English*]

CONTENTS

Introduction [1]

1. The Trade and Development Board, at its eleventh session, requested the Secretary-General of UNCTAD:

> to prepare a comprehensive action programme within the competence of UNCTAD, within the context of the International Development Strategy for the Second United Nations Development Decade (General Assembly resolution 2626 (XXV) of 24 October 1970) and the relevant provisions of Board resolution 69 (X) in favour of the land-locked developing countries adopted by the Board on 16 September 1970 and to present is to the Conference at its third session. [2, 3]

2. Most of the land-locked countries also fall into the category of hard-core least developed countries.[4] This fact serves to emphasize that the condition of being land-locked is often a heavy economic handicap for developing countries. Most land-locked developing countries face formidable difficulties arising from their geographic isolation, and these call for other special measures—in addition to the special measures called for in the action programme for least developed countries.[5] These other special measures are particularly related to the transport and port needs of land-locked countries and the transport situation (policies, formalities, and facilities) in neighbouring countries through which their foreign trade must pass to reach the sea. Furthermore, in planning the direction for the expansion of their production and trade, these countries must (*a*) seek to expand particularly exports of those products that can bear the necessarily high cost of transportation, and (*b*) stress the possibilities for local production (import substitution) for high-bulk low-value products now imported. Finally as a general consideration, in the long run most of the land-locked countries will need to seek better economic co-operation with their neighbours if they are to take full advantage of their ultimate economic potentials. An action programme must help to fill these needs, and will involve special measures in the field of technical and financial assistance, as well as appropriate arrangements for consultations and co-ordination of policies between land-locked countries and their transit neighbours.

Chapter I

Transport infrastructure

3. The key problem for all land-locked developing countries is the lack of an adequate transport infrastructure, including adequate rail, road, inland water,

* This action programme was circulated to the Conference as document TD/136 dated 9 March 1972.

1 For a full description of the progress made in dealing with the issues concerning the land-locked countries since the establishment of UNCTAD, see chapter VII of "Major policy developments since the second session of the United Nations Conference on Trade and Development: report by the UNCTAD secretariat" (TD/101) (p. 1 above).

2 See *Official Records of the Trade and Development Board, Eleventh Session, Supplement No. 1* (TD/B/386), p. 9.

3 The Group of Experts convened under Board resolution 82 (XI) also considered the question of an action programme for land-locked developing countries, and the Group's views, as set out in chapter II of its report, have been taken into consideration in the preparation of the present action programme. (The report of the Group of Experts is reproduced in annex I to "Special measures in favour of the least developed among the developing countries: action programme submitted by the Secretary-General of UNCTAD" (TD/135 and Supp. 1), (p. 227 above).)

4 Of the 25 countries on the list of hard-core least developed countries suggested by the Committee for Development Planning, 15 are land-locked. The other 5 land-locked developing countries are the Central African Republic, Swaziland, Zambia, Bolivia and Paraguay.

5 TD/135 (see foot-note 3 above). A note by the UNCTAD secretariat containing background data on these countries appears in annex II to the programme.

air, pipeline and port facilities, as appropriate. The solution of this problem requires close co-ordination of actions in the land-locked country, in its transit neighbours, and by international financial and technical assistance institutions.

A. An over-all strategy for transport

4. Technical assistance is needed to establish the magnitude and special characteristics of the problem facing each land-locked country and to obtain agreement on a strategy for progress. With the concurrence of all parties concerned, it will be necessary to survey, in depth, the situation of each land-locked country vis-à-vis each of its transit neighbours. As part of this process, the appropriate specialists in each of the land-locked countries and in all of its transit neighbours should meet to exchange views with each other and also with experts from the international agencies and financial institutions concerned. The extent to which immediate and longer term strategies for transport development have been worked out will vary from one land-locked country to another. However, in some countries at least, there is an urgent need for a better understanding by all parties concerned of the extent of work already done in order to identify the missing links or to see what further steps are needed to agree on an over-all strategy. The initial consultations among all parties should be followed up in particular cases by more specific missions to determine the kind of technical assistance that may be most appropriate and to work towards the feasibility studies necessary before the over-all transport strategy can be put into effect.

5. The basic transport strategy will also call for technical and financial assistance for the improvement and maintenance of existing: (*a*) roads in both land-locked developing countries and their transit neighbours in order to provide, where feasible, all-weather transport routes for heavy vehicles; (*b*) railways and rolling stock; (*c*) inland waterways, to improve navigability; (*d*) air transport, to ensure that each land-locked developing country has at least one airport fully equipped to international standards, and (*e*) postal and telecommunications systems, to raise them to modern standards.

B. Regional co-ordination arrangements for the transport infrastructure

6. Further efforts should be made to promote regional co-operation and co-ordination of policies between land-locked countries and their transit neighbours, at least with respect to basic transport routes, from ports through transit neighbours to each land-locked country. In particular, consideration should be given to the establishment of multinational institutional arrangements to carry out further work on the planning, financing and execution of an integrated transit route system between each land-locked country and its transit neighbours. Such arrangements could take the form of a separate sub-regional institution which could act as the channel for finance provided by multinational and bilateral financing institutions. At an appropriate stage, each such authority, in concert with the governments concerned, might contact a variety of potential financial donors, possibly through an *ad hoc* consortium or consultative group, to obtain adequate financing for longer range plans. The key to this integrated approach is the establishment of a sufficiently high priority within the transit countries concerned for action that meets the needs of the land-locked countries. This approach will require that the transit strategy should provide adequate benefits to the transit country as well as to the land-locked country, and the aim of financing by multinational financial sources should be to ensure that the benefits from transit projects exceed the costs for both the land-locked country and the transit country. Indeed, well-conceived multinational transport projects could potentially be broadened into multipurpose projects, which could provide a substantial number of fringe benefits to all the areas adjacent to the basic transport routes, both in the land-locked country and in the transit neighbouring country—analogous to the kind of benefits obtained through the activities of institutions like the New York Port Authority or the one contemplated for the Mekong river basin development project.

C. Financing for basic transport infrastructure

7. In developing a transport infrastructure for land-locked countries, an important objective will be to reduce the effective costs, including especially the cost involved in delays and uncertainties in the movement of goods. It is not reasonable to expect that transport routes to land-locked countries can be subsidized indefinitely. However, full consideration should be given to the benefits that may accrue from the subsidization of the capital costs of the original installation of the major transport infrastructure. In other words, in feasibility studies of major new transport routes and in allocating the future charges for the use of these routes, full consideration should be given in the calculations of the rate of return to amortizing the capital cost at a very low rate of interest (if possible on IDA terms). In addition, it may be necessary to provide part of the maintenance costs for a limited phasing in period through international assistance.[6] Benefits from this type of subsidization would be far-reaching, affecting all imports and exports of the land-locked countries and providing similar benefits along the transport routes through neighbouring countries. Such subsidies would represent only a limited charge against the international flow of assistance. After the phasing-in period, the transport systems thus established would be expected to pay for themselves through charges for current use and maintenance (or, in the case of roads, through taxes on petrol and motor vehicles).

8. In their aid policies, developed countries and multilateral financial institutions should take fully into account the transport needs of the land-locked developing countries and the critical nature of transport investments for these countries. It is especially important that they should be based on an integrated approach, involving consideration of alternative routes within and in mutual

[6] See also the proposal in paragraph 52 of the action programme. Special measures in favour of the least developed among the developing countries (see foot-note 3 above).

accordance with the transit countries, and taking account of potential benefits to land-locked countries when transport projects in transit countries are considered.

D. Alternative routes

9. In the shorter run, the problem will often be how to make more effective use of existing routes. However, it is essential that the long-term development of the transport infrastructure should take account of all feasible methods and routes. The object of the strategy should be to establish a reasonable number of economically viable alternative routes and, where possible, to make these routes competitive with each other. In particular, there should in the longer term be a wide variety of routes for bulk products, moving both by road and by rail and where possible by barge. Financial and technical assistance should also aim at accelerating the progress of existing transcontinental highway programmes and at assuring adequate links of particular land-locked countries to the transcontinental system as well as the adequate provision of feeder routes.

E. Air transport

10. Special consideration should be given to the establishment of economic air routes which would enable the land-locked country to have direct access to many more destinations, in addition to its immediate transit neighbours. It is essential that the negotiation of air rights for the commerce of all land-locked countries be given the highest priority, since air transport provides the one means whereby land-locked countries can overcome their geographic handicap and can compete ultimately on equal terms with all their neighbours in the same general geographic area. Indeed, it is possible that many land-locked countries may find that their most promising future export possibilities lie in the specialization in goods that can be sent to the markets by air. Consideration should also be given to the establishment of economical air freight services serving land-locked countries on a subregional basis, which would offer efficient service at lowest possible costs.

Chapter II

Improved access to and use of existing transit and port facilities

11. While the multinational approach to a strategy for improving the basic transport infrastructure in which the land-locked country, its transit neighbours and international organizations and financial institutions are jointly concerned may well offer the greatest potential, in the medium- and long-term, for solving the complicated problem of political and economic relations between land-locked countries and their transit neighbours, it is essential that progress on improving existing arrangements should continue without waiting for the perfection of these more elaborate multinational solutions. There are many immediate possibilities for action which can go a long way towards reducing the effective transport costs of land-locked countries.

12. Because existing formalities facing many land-locked countries in the use of present transit routes are excessively costly, there are immediate opportunities for reducing costs by eliminating or reducing unnecessary complexities, delays and uncertainties in the foreign trade of land-locked countries. Cheaper and more efficient alternatives to present formalities should be the subject of bilateral negotiations between land-locked countries and their transit neighbours and should benefit from expert technical assistance to ensure that their objectives may be achieved without the very high inefficiencies that frequently now accompany such formalities. UNCTAD interregional advisers can play a useful role in facilitating such negotiations. Where possible, solutions to these problems should be sought in the light of existing international agreements that establish standards for the rules and regulations relating to road, rail, air and sea transport. In particular, land-locked countries and their transit neighbours should observe the provisions of the TIR Convention,[7] the international railway conventions, the standards of CCC (with respect to simplified standard formalities on documentation), and the 1965 Convention on Transit Trade of Land-locked States.[8] In particular, agreement should be sought between land-locked countries and their transit neighbours covering existing modes of transport, in order to facilitate the circulation of road vehicles of parties to the agreement, if necessary on a reciprocal basis, and to facilitate the movement of rolling stock between neighbouring countries with inter-connected railway systems.

13. The basic need is for adequate administrative arrangements to facilitate the movement of goods across the territory of transit neighbours. For this purpose it is necessary to simplify customs and other procedures and formalities in transit trade, to appoint representatives in transit ports, and to establish procedures for intergovernmental consultation to ensure that the needs and problems of both land-locked and transit countries are kept under review. Governments of land-locked developing countries and their transit neighbours should continue to make efforts to conclude agreements along these lines.

14. While all land-locked countries share many basic problems, the actual institutional arrangements with their transit neighbours vary greatly. UNCTAD, in consultation with the countries concerned, should prepare comparative studies of the situation of each land-locked country vis-à-vis each of its transit neighbours with respect to the whole range of policies affecting the transit of goods, including comparative costs, formalities, facilities, institutional arrangements, etc. These studies should enable land-locked and transit countries, in their further negotiations with each other, to be more fully aware of the existing situation in other areas and of some of the solutions that the practice of others may suggest.

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[7] Customs Convention on the International Transport of Goods under cover of TIR Carnets (United Nations, *Treaty Series*, vol. 348, No. 4996).

[8] *Ibid.*, vol. 597, No. 8641.

Chapter III

Economic structure, production and marketing

15. To realize fully their economic potential, land-locked developing countries should so orient their planning and development strategy as to help overcome the difficulties created by their geographical position. This will often mean the intensive development of export products which can bear the relatively high transport costs, the early stress on import substitution of high-bulk low-value goods, and the need to seek better economic co-operation with their neighbours.

16. Land-locked countries will require technical and financial assistance in the introduction of new or improved products which take fully into account their transit handicaps. Land-locked countries should recommend existing marketing institutions to explore the possibilities of marketing goods by air transport, and should also consider the desirability of establishing special institutions to seek ways of marketing new products through air transport deliveries. Such institutions should initially rely on low-cost chartered freight planes; in the longer run, the feasibility of establishing a nationally or multinationally owned air freight transport facility should be considered—perhaps by adjoining land-locked countries, but also by other developing countries in the same geographic region. The urgent need, however, is to keep air freight costs as low as possible.

17. Technical and financial assistance should also be provided by the developed countries and appropriate international organizations, on request, to the land-locked developing countries for the carrying out of feasibility studies and investment with a view to assisting them in orienting their planning and development by means of:

(*a*) Assistance in seeking out appropriate import substitution industries, supported by the necessary follow-up financial assistance in implementing feasible projects;

(*b*) Technical assistance in improving the quality and thereby increasing the value of traditional exports, by more careful grading, packing and presentation of products, and by increasing the degree of processing locally;

(*c*) Exploration to determine the resource endowment of minerals and other energy resources, together with measures, including the investigation of new forms of transport, needed for their exploitation;

(*d*) Investigation of possibilities for joint ventures for production to serve the market in a land-locked country and adjacent areas of neighbouring countries.

Chapter IV

Regional co-operation

18. While regional co-operation regarding the transport infrastructure should be started even in the absence of other regional co-operation arrangements, the larger benefits that can come from fuller integration of land-locked countries into broader economic groups—with appropriate safeguards for the interests and independence of each country involved—should continue to be the aim of enlightened policy. Regional co-operation and regional integration schemes can play an important role in all developing countries, but they will often be especially important in respect to the land-locked developing countries—provided that their interests are duly recognized—and should therefore be especially encouraged. The UNCTAD secretariat, in its programme relating to trade expansion and economic integration among developing countries, will continue to give the necessary high priority to such schemes, in co-operation with other international organizations and in consultation with the developing countries concerned. The Secretary-General of UNCTAD should take steps to facilitate such co-operation.

19. Neighbours of land-locked countries with access to the sea could in particular cases ease the problem of land-locked countries on a bilateral basis by a tariff and commercial policy that would enable the land-locked countries to sell their goods in the adjoining areas of their neighbours. In general, bilateral agreements could be entered into that would enable areas distant from the port to buy from their land-locked neighbours, thus saving transport costs in the land-locked country, and internal transport costs in the neighbouring country.

SPECIAL MEASURES IN FAVOUR OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

Progress report on identification criteria by the Secretary-General of UNCTAD *

[*Original text: English*]

CONTENTS

Introduction

1. The implementation of a programme of special measures in favour of the least developed countries requires the adoption of criteria for identifying them, and indeed ever since the need for such special measures was recognized the question of their identification has been a major preoccupation. The question is rendered difficult not only by the paucity of the data required for the formulation of objective criteria for identifying these countries, but also by the various relative senses in which the concept of "least developed" may be used in respect to the need for special measures.

2. Considerable progress has been made in the recent past on the question of identification, and has now reached the stage where a programme of special measures in favour of the least developed countries can proceed beyond generalities to concrete action. Nonetheless, much remains to be done in clarifying issues and refining criteria, and it was for this reason that in resolution 82 (XI) the Trade and Development Board invited the Secretary-General of UNCTAD to prepare a progress report to be submitted to the United Nations Conference on Trade and Development at its third session, on the review of criteria now being used for the identification of the least developed countries. The present report, prepared in response to that request, reviews progress and indicates directions for future work on identification.[1]

* This report was circulated to the Conference as document TD/137 dated 9 March 1972.

[1] The Expert Group convened under Board resolution 82 (XI) also reviewed the question of identification criteria and its views, as expressed in paragraphs 18 to 21 of its report (see "Special measures in favour of the least developed among the developing countries: action programme submitted by the Secretary-General of UNCTAD" (TD/135), annex I) (p. 240 above), have been taken into account in the preparation of the present report.

Chapter I

Review of recent progress [2]

3. Conference resolution 24 (II), in calling for a programme of special measures, stressed the need for identifying the least developed countries "in the context of each [special] measure concerned, taking fully into account the identifying criteria relevant to the policy measures in question".

4. The first UNCTAD Group of Experts on special measures in favour of the least developed among the developing countries, convened under resolution 63 (IX) of the Trade and Development Board, examined the question of identification and, while also stressing the need for relativity, suggested that there were countries which would qualify as least developed in the context of all measures, and referred to these as the hard core in contrast to other possible categories of "least developed" countries. At the same time, though the Group felt unable to identify least developed countries in precise terms, it proceeded to identify the basic characteristics of a "least developed" economy.[3]

5. The Committee for Development Planning considered the question of identification at its seventh session.[4]

[2] For a full description of progress on the issues of the least developed and land-locked countries, see chapter VII of the report by the UNCTAD secretariat, "Major policy developments since the second session of the United Nations Conference on Trade and Development" (TD/101) (p. 1 above). For relevant statistical data, see "Special measures in favour of the least developed countries: action programme submitted by the Secretary-General of UNCTAD", annex II, "Selected data: note by the UNCTAD secretariat" (TD/135 and Supp.1) (p. 227 above).

[3] See *Official Records of the Trade and Development Board, Ninth Session, Third part, Annexes*, agenda item 15, document TD/B/288.

[4] See the report of the Committee for Development Planning on its seventh session (*Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 7* (E/4990)).

The Committee identified a number of characteristics of the least developed countries, substantially the same as those identified by the first UNCTAD Group of Experts. These include low *per capita* income, predominance of subsistence agriculture, low level of industrialization, low level of education, shortage of skills, inadequate or rudimentary economic and social infrastructure, high transport costs, and the limited size of internal markets. While fully aware of the difficulties of formulating objective criteria for identifying the least developed countries in the face of the paucity of data, the Committee recognized the urgency of making progress on this question and felt that, as a first step, a simple method would be the most appropriate.

6. Following this reasoning, the Committee selected three criteria for identifying the least developed countries, namely (*a*) *per capita* GDP of $100 or less, (*b*) a share of manufacturing in total GDP of 10 per cent or less, and (*c*) literacy rate (i.e. the proportion of the population in the age group 15 years and above classified as literate) of 20 per cent or less. *Per capita* GDP was taken as a general indicator of the dimensions of poverty and over-all development, the share of manufacturing in total output as an indicator of the extent of structural transformation of the economy, and the literacy rate as a measure of the size of the base for enlarging trained and skilled human resources.

7. The Committee employed these criteria in a somewhat flexible manner and included in its list, in addition to those countries which satisfied all three criteria, those which satisfied two out of the three, provided that the figure for the third criterion exceeded the cut-off limit by only a small margin. In considering borderline cases the Committee also took into account the average rate of growth of the real GDP during the past few years, as well as special circumnstances which might have distorted the recent picture.

8. On this basis the Committee suggested that the following countries "could be classified among the least developed among the developing countries": [5]

Africa: Botswana, Burundi, Chad, Dahomey, Ethiopia, Guinea, Lesotho, Malawi, Mali, Niger, Rwanda, Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta;

Asia and Oceania: Afghanistan, Bhutan, Laos, Maldives, Nepal, Sikkim, Western Samoa, Yemen;

Latin America: Haiti.

9. In proposing this list the Committee was careful to note its tentative character, was aware of the limitations of the criteria on which it was based, and recognized the need for further study to refine the classification and the related criteria. It suggested that the list be reviewed, and if necessary revised, at the time of the mid-term review of the Second Development Decade. The Committee also pointed out that a general list of the kind it was proposing would not rule out the use of different classifications for special purposes, and suggested that in specific areas the competent inter-governmental organizations should elaborate their own criteria and procedures for identification, and that this might be especially appropriate in the regional context. The Committee stressed, however, its belief that the list was valid, and that "by any set of classification criteria the countries included in the list would surely be considered as least developed".[6]

10. The second UNCTAD Group of Experts on special measures in favour of the least developed among the developing countries, convened pursuant to resolution 68 (X) of the Trade and Development Board, while taking note of the relevant conclusions of the Committee for Development Planning, expressed the view that the discussion of special measures for the least developed countries could be clarrified by reference to the following three categories: (*a*) the hard-core least developed, (*b*) the "relatively disadvantaged" in the context of a specific policy measure or sector, and (*c*) the "relatively less developed" within a particular geographical region or regional grouping of countries.[7]

11. The Group concluded that the Committee for Development Planning had taken a major step forward by focusing attention on the hard-core least developed countries, and that the list of countries proposed by the Committee was illustrative of the basic kind of country which should be included among the "hard core", and thus could provide useful guidance to UNCTAD as a starting point for special international action in favour of these countries.[8] At the same time the Group also expressed the view that the list should be interpreted in a flexible way, and in accordance with the circumstances surrounding its use at any given time. Thus the Group observed that:

> ...For one thing, it may, where appropriate, be necessary to add to the Committee's list certain other land-locked developing countries, particularly in cases where such countries lack the transport and communications facilities necessary to overcome their isolation from world markets. For many problems it may also be appropriate to consider a fringe of developing countries which are closely similar to the 'hard-core' least developed and which, in the context of the particular problem, may be indistinguishable in their characteristics from those countries specifically listed as 'hard core'....[9]

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[5] *Ibid.*, para. 66.

[6] *Ibid.*, para. 69.

[7] See *Special measures in favour of the least developed among the developing countries: report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries* (United Nations publication, Sales No. E.71.II.D.11), para. 21.

[8] *Ibid.*, para. 22. In concluding that the Committee's list offered useful guidance as to the tentative definition of the hard-core countries, the Expert Group was impressed by the fact that these countries, or rather those for which relevant data were available, appeared invariably at the bottom of the list of developing countries in studies carried out by the UNCTAD secretariat, regardless of the nature of the methodologies used (*ibid.*, para. 25). This is true of a study using factor analysis on the basis of six development indicators (see the report by the UNCTAD secretariat entitled "The identification of the least developed among the developing countries" (*Official Records of the Trade and Development Board, Ninth Session, First and Second parts, Annexes*, agenda item 15, document TD/B/269), pp. 11 and 12) and of another using discriminant analysis on the basis of eleven indicators (see "*Problème de l'identification des pays les moins avancés parmi les pays en voie de développement*", UNCTAD, Research Memorandum No. 41, p. 94).

[9] Paragraph 23 of the report of the *Ad hoc* Group of Experts (see foot-note 7 above). The need for flexibility in interpreting the list adopted by the Committee for Development Planning is also stressed in "Special measures in favour of the least developed among the developing countries: action programme submitted by the Secretary-General of UNCTAD" (TD/135) (p. 227 above), paragraphs 10 and 11.

12. While the Group concluded that it was not useful, at that time to elaborate further on the conceptual, statistical and other difficulties connected with the Committee's definition, it drew attention to additional indicators, or improvements in indicators, which it believed could usefully be incorporated in future refinements of criteria. These included indicators of the extent and adequacy of the transport network and the size of the pool skilled manpower, *per capita* GNP rather than GDP (because of the varying amounts that are transferred abroad as factor payments), and data concerning GNP originating in the monetized part of the economy. The Group also urged the reconsideration of the list in the light of further work on the refinement of criteria.[10]

13. The third UNCTAD Group of Experts on special measures in favour of the least developed among the developing countries, convened pursuant to Board resolution 82 (XI), also considered the question of identification, and in this connexion stressed the usefulness of viewing the problem in terms of the three categories referred to by the second Group of Experts. The Group also stressed the need for an early start on work on criteria for international action in favour of the other categories of countries, in addition to the hard-core least developed.[11]

14. In resolution 82 (XI) the Trade and Development Board approved, without prejudice to future consideration, the list of twenty-five countries identified by the Committee for Development Planning and endorsed by the second UNCTAD Group of Experts and specified that the list should be reviewed in the light of future work. The same resolution also called for "work on criteria for the identification of the relatively disadvantaged countries in the context of a geographic region, and also taking into account the existence of critical major economic sectors".

15. The General Assembly in resolution 2768 (XXVI) also approved the list of hard-core least developed countries contained in the report of the Committee for Development Planning on its seventh session, and at the same time called for "the review of criteria now being used, as well as any other criteria which may in due course be deemed appropriate for the identification of the least developed countries, keeping in view the possibility of modifications in the list of those countries as early as possible".[12]

Chapter II

Directions of future work

16. The above account suggests that in the recent past a good deal of progress has been made on the question of identification. The international community now has before it a generally agreed list of hard-core least developed countries endorsed by both the Trade and Development Board and the General Assembly. It is true that the criteria on which the list is based are by no means perfect, having been selected largely on pragmatic grounds. Nonetheless, as the Committee for Development Planning has stressed, "by any set of classification criteria the countries included in the list would surely be considered as least developed".[13] The list can therefore serve as a starting point for special international action in favour of these countries, and there can be no reason for further delay in initiating an action programme of special measures on their behalf.

17. With this generally accepted list of hard-core least developed countries now before the international community, further work on criteria is called for along two main lines: refinement of the criteria for identifying the hard-core least developed, and research into criteria for clarifying the various supplementary contexts in which special measures may be needed. Both are important areas for future work.

A. The refinement of the criteria for identifying the hard-core least developed countries

18. As regards the need for a further refinement of criteria, it has already been stressed that the present list is a tentative one that may need to be revised in the light of further research. Such research is needed into various issues which arise in the selection of criteria for identifying these countries.

19. First, there is the question of the quality of data. Clearly, fully acceptable objective criteria can only be based on quantitative data, and confidence in the objectivity of the criteria can be no greater than the quality of the data permits. And unfortunately it happens that it is particularly for those countries that would come within the category of the hard-core least developed that quantitative social and economic data are most deficient, or, where they exist, are often weakest. Indeed, it was this widespread lack of a sufficiently wide range of quantitative data that led the Committee for Development Planning to base its identification criteria on three widely available indicators. And the Committee was aware that even in respect to these three indicators the figures for individual countries (especially for the least developed and other similar countries) were in many cases subject to considerable margins of error. In the future research into identification priority must, therefore, be given to the updating and extension of relevant social and economic indicators, as well as to efforts to improve the quality of such data. It is true that the bulk of the work required in this respect can hardly be done in the context of research into identification, but the important need for these data in this context is a further reason for assigning an appropriately high priority to this work, which will call for co-operation at both the national and the international level. It will in any event be necessary to keep the data situation under constant review, and as the data are extended or revised in the light of further work, it will be necessary to review, and if

[10] Paragraph 24 of the report of the *Ad hoc* Group of Experts (see foot-note 7 above).

[11] See the report of the Group (TD/135, annex I) (see foot-note 1 above).

[12] The preamble to General Assembly resolution 2768 (XXVI) contains two general reservations about identification criteria:

"*Considering* that the criteria used so far for the identification of the hard-core least developed among the developing countries need to be reviewed and refined,

"*Further considering* that there is a lack necessary comparative data in most developing countries".

[13] See *Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 7* (E/4990), para. 69.

appropriate revise, the present list on the basis of new data.

20. A second issue concerns the coverage of the countries taken into account by the Committee for Development Planning in drawing up its list. One aspect of this question, as is implied in the foregoing discussion, is the availability of data. In fact the Committee, in drawing up its list, included some countries (Bhutan, Maldives, Sikkim and Western Samoa) for which it did not possess the relevant data, the absence of data for these countries being taken as an indication of their low level of development. However, there was no presumption that with the inclusion of these countries the coverage was complete, and hence the question arises whether other countries may have been left out of consideration owing to lack of data.[14] Thus it becomes all the more important to accord a high priority to the continuous screening of the latest available data to ensure that full consideration will be given to all countries that may come within the category of hard-core least developed.

21. Thirdly, the Committee for Development Planning considered only "States Members of the United Nations and the self-governing countries associated with them".[15] The present list does not, therefore, include dependent territories, some of which are likely to become self-governing or independent in the near future. Hence this important issue should be borne in mind in future work on identification, and priority should be given to the early screening of newly self-governing or independent countries.

22. In the continuing work on the refinement of criteria, an important matter is the selection of the most appropriate indicators to be taken into account. As already pointed out, the choice of indicators made by the Committee for Development Planning was largely dictated by the availability of data (as well as the need for a pragmatic, easily understood approach) and consequently future advances in this connexion will be largely dependent on progress in the provision and quality of data. But notwithstanding the limitations of the data, the question of the most effective indicators to be used in establishing criteria for identifying the hard-core least developed countries remains an important and pressing one, and should certainly receive early attention. The reason is not only the obvious need for a thorough analytic framework for the examination of this important issue, but also the fact that better information will itself greatly help to establish appropriate priorities for the difficult and time-consuming task of gathering and processing data.

23. The hard-core least developed countries face special handicaps because of their peculiar characteristics, and hence the choice of indicators should be related to these characteristics. The UNCTAD Groups of Experts as well as the Committee for Development Planning have well enumerated and expounded the basic characteristics of the least developed countries[16] and there is no need to reiterate them here. While in principle a case could be made for selecting indicators reflecting characteristics capable of being linked to particular special measures, in practice this question should not create any great problem —first, because the state of "hard-core least developed" has to be viewed as a whole and approached as such in any meaningful action programme, and second, because (as is indicated in the action programme submitted by the Secretary-General of UNCTAD)[17] the major thrust of a programme of special measures will inevitably be in the area of financial and technical assistance, where an integrated approach to the problems of individual countries is clearly called for.

24. Moreover, the static indicators reflecting the present structural characteristics of least developed countries need to be supplemented by dynamic indicators reflecting developmental potential. The Committee for Development Planning was aware of this need when, in clarifying borderline cases, it took account of the rate of growth of real GDP in the recent past as a supplementary criterion. But in future refinements a more systematic attempt should be made to incorporate all relevant dynamic indicators of developmental potential.

25. Further work may also be needed on an appropriate methodology for combining a number of separate indicators into a single composite indicator. This poses difficulties of both a theoretical and a practical nature, since it involves the difficult problem of weighting. Recognition of these difficulties led the Committee to adopt a simple methodology, but in future refinements the problem of methodology must continue to be faced.

26. In addition to the specific suggestions regarding indicators made by the second UNCTAD Group of Experts (see para. 12 above) and that concerning the need for dynamic indicators (para. 24 above), the basic difficulties of international comparisons of national product per head of population need to be faced. These comparisons involve the use of some exchange rate in order to express the results in some single currency (e.g. in U.S. dollars); It is well known, however, that exchange rates may be overvalued (or undervalued), perhaps to greatly varying degrees. Indeed, the appropriateness of using exchange rates as the basis for international comparisons of real income levels is itself in question. Furthermore, the quality of estimates of national product, and particularly the evaluation of income in the subsistence sector (which predominates, in terms of the number of people involved, in hard-core countries) may vary widely from country to country. Even the quality of estimates of population may vary greatly. The search for improvements in comparative estimates of real income per head of population will,

[14] The Committee, recognized that its screening of countries may have been incomplete owing to lack of data for some countries (*ibid.*, para. 61 and foot-note 5).

[15] *Ibid.*, para. 66 and foot-note 7.

[16] See *Official Records of the Trade and Development Board, Ninth Session, Third part, Annexes*, agenda item 15, document TD/B/288, para. 5; *Special measures in favour of the least developed among the developing countries: report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries*..., para. 31 and the report of the Committee for Development Planning on its seventh session (*Official Records of the Economic and Social Council, Fifty-first Session, Supplement No. 7* (E/4990)), paras. 44-53.

[17] DT/135 (p. 227 above).

therefore, be of the highest importance. Nevertheless, the improvements called for will take a great deal of time and effort, and pending such improvements the best available data must serve as a starting point for international action on behalf of the hard-core countries.

B. Criteria for other contexts in which special measures may be needed

27. It has been recognized that, in addition to the hard-core least developed countries, there are other categories of countries with respect to which special measures may be called for. Thus the second Group of Experts drew attention to the needs in this respect of the "relatively disadvantaged" countries in the context of specific policy measures or sectors, as well as the relatively less-developed countries within a particular geographical region or regional grouping of countries.[18] Furthermore, Board resolution 82 (XI) called for "work on criteria for the identification of the relatively disadvantaged countries in the context of a geographic region, and also taking into account the existence of critical major economic sectors" Further work on such criteria should therefore give due attention to these categories of countries and lead to acceptable proposals for their identification.

28. With respect to the "relatively disadvantaged" countries in the context of specific policy measures or sectors, it is clear that the criteria for identification must be adapted to the needs of each particular case. The second Group of Experts made reference to some of the policy measures or sectors for which it may be appropriate to classify countries as relatively disadvantaged, and hence as deserving of special attention. These measures include the generalized system of preferences, international commodity agreements, and diversification measures. Doubtless there are other measures or sectors for which such identification could also appropriately be made. The important point is that, with respect to such measures, there are countries which because of their characteristics are unable to benefit significantly and which, while not in the category of the hard-core least developed, should nonetheless be able to count on special international action in the context of these measures.

[18] See *Special measures in favour of the least developed among the developing countries: report of the* Ad hoc *Group of Experts on special measures in favour of the least developed among the developing countries*..., paras. 21 and 27.

29. The GSP, where the scope for benefits depends on the potential for exporting manufactured goods, is a good case in point. Countries with little potential for exporting such goods could be identified as relatively disadvantaged in the context of this measure and be eligible for benefits under special international action in their favour. In such cases identifying criteria based on such characteristics as the level of industrialization or the share of manufactures in exports could be considered. The UNCTAD secretariat is already engaged in research into identification criteria for the purpose of this measure, and these efforts will need to be carried further and related to the kinds of special measures which may be contemplated.

30. The identification of the relatively less-developed countries within a particular region or regional grouping is the responsibility of the regional or subregional grouping concerned, where also decisions for action should be taken. Nonetheless, in some instances, at least, wider international support may be needed for action taken to assist these countries. Moreover, regional and subregional institutions are often an important channel for international financial assistance, and consequently the criteria adopted at the regional level are of interest to the international community. Global guidelines for the identification of these countries may also assist regional bodies in elaborating and implementing their policies. Continuing work on identification will therefore need to give appropriate attention to criteria to be used in this context.

31. Most regional and subregional groupings are aware of their responsibilities in this regard and have already taken steps to grant special treatment to the less developed among their members. This treatment includes a wide range of policy measures, such as commercial policy, fiscal and financial policy, and regional industrial and infrastructural planning.[19] So far the identification of the less-developed members has been carried out on pragmatic grounds, and has evolved from the process of the negotiations of the regional and subregional agreements in question. Accordingly, they take fully into account the realities of the situation in the particular region.

[19] For a review of special treatment granted to the less-developed members of regional and sub-regional groupings of developing countries, see the report by the UNCTAD secretariat entitled "Main problems of trade expansion and economic integration among developing countries" (TD/110) (p. 143 above).

PROCEEDINGS OF THE THIRD SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Contents of the series *

VOLUME I

Report and annexes

This volume contains the report of the United Nations Conference on Trade and Development on its third session.

The report provides an account of the setting and aims of the third session of the Conference as well as of the activities of UNCTAD's permanent machinery during the period between the second and third sessions of the Conference. It includes a summary of the general debate, the conclusions reached at the end of the session and guidelines for future work. The full texts of resolutions, other decisions adopted by the Conference, and of observations and reservations by delegations relating to these decisions, are contained in annex I. The texts of reports submitted by Committees and other sessional bodies of the Conference are reproduced in annex VI. The texts of proposals referred by the Conference to the Trade and Development Board are reproduced in annex VII.

Annex VIII reproduces "Other basic documents", including the texts of statements made at the inaugural ceremony, other selected statements, and messages received from Heads of State and Government. The same annex also reproduces the texts of certain declarations by groups of countries and delegations made before or during the session.

United Nations publication, Sales No. E.73.II.D.4.

VOLUME I A (mimeographed)

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VOLUME II

Merchandise trade

Part one of this volume contains selected studies submitted to the Conference dealing with commodity problems and policies. These studies provide an account of developments in international commodity policy, access to markets, pricing policy; commodity diversification, competitiveness of natural products; one study deals with questions raised by mineral production from the sea-bed.

Part two of Volume II contains studies submitted to the Conference dealing with trade in manufactures and semi-manufactures. One of the papers describes the main features of the preferential arrangements drawn up in UNCTAD and of the schemes implemented so far by certain preference-giving countries. Other studies selected for publication in this volume discuss a programme for the liberalization of quantitative restrictions and other non-tariff barriers in developed countries on products of export interest to developing countries. Papers on adjustment assistance measures, restrictive business practices and export promotion are also included in part two.

United Nations publication, Sales No. E.73.II.D.5.

VOLUME III

Financing and invisibles

Part one of this volume contains studies submitted to the Conference dealing with various aspects of the mobilization of financial resources for development.

The studies selected for publication in this volume provide a review of issues related to economic growth and development finance; mobilization of resources for development; external development finance; the "link" and the outflow of financial resources from developing countries. A report on private foreign investment in its relationship to development identifying the main problems in this field is also included in this volume.

Part two of this volume makes reference to three studies in the field of shipping, namely: *Shipping in the seventies, The regulation of liner conferences (a code of conduct for liner conferences)* and *Multinational shipping enterprises,* which were submitted to the Conference and are published separately.[1]

One section contains reports on insurance and developing countries and tourism and developing countries which are condensed versions of previous studies submitted to the Committee on Invisibles and Financing related to Trade at its fifth session.

Part two also includes a report on the specific role of the transfer of technology in stimulating economic development and access to advanced technology and a report on policies relating to the transfer of technology of the countries of the Andean Pact.

United Nations publication, Sales No. E.73.II.D.6.

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* Four printed volumes and one mimeographed volume.

[1] United Nations publications, Sales Numbers E.72.II.D.15, E.72.II.D.13 and corrigendum and E.72.II.D.17 respectively.

Volume IV

General review and special issues

This volume contains a review of international trade and development, providing basic information about the main policy developments and international measures since the second session of the United Nations Conference on Trade and Development. It also includes studies of long-term changes in terms of trade and main problems of trade expansion and economic integration among developing countries. Other studies selected for publication in this volume deal with a comparison of two major economic groupings: the Western European Groupings and the Council for Mutual Economic Assistance, and with expansion of trade and economic co-operation between the socialist countries of Eastern Europe and the developing countries.

The latter part of this volume includes three reports on special measures for the least developed among the developing countries and other special measures related to the particular needs of the land-locked developing countries.

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